FINAL TRANSCRIPT

Corus Entertainment Inc.

Fiscal 2024 Fourth Quarter & Year End Earnings Conference Call

October 25, 2024 — 8:00 a.m. E.T.

Length: 52 minutes

CORPORATE PARTICIPANTS

John Gossling
Corus Entertainment Inc. — Co-Chief Executive Officer & Chief Financial Officer

Troy Reeb
Corus Entertainment Inc. — Co-Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

Adam Shine
National Bank Financial — Analyst

Vince Valentini
TD Cowen — Analyst

Aravinda Galappatthige
Canaccord Genuity — Analyst

David McFadgen
Cormark Securities — Analyst

Drew McReynolds
RBC Capital Markets — Analyst

Maher Yaghi
Scotiabank — Analyst

PRESENTATION

Operator

Good morning. My name is Eric and I will be your conference operator today. At this time, I would like to welcome everyone to the Corus Entertainment Q4 2024 and Year End 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 would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key. Thank you. As a reminder, this call is being recorded.

I will now turn the call over to John Gossling, Co-CEO and CFO of Corus Entertainment. Mr. Gossling, you may begin your conference.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Thanks very much, Eric. Good morning, everyone. Welcome to Corus' fiscal 2024 fourth quarter and year-end earnings call. With me today is Co-Chief Executive Officer, Troy Reeb. Now, before I read the cautionary statement, I would like to remind everyone that we have slides to accompany today's call and you will 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 two. We note that forward-looking statements may be made during this call. Actual results could differ materially from forecasts, projections, and conclusions in these statements. We would 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 will be referring to certain non-GAAP measures in our remarks. Additional information on these non-GAAP measures and the Company's financial results and factors and assumptions relating to forward-looking information can be found in the fourth quarter and year-end report to shareholders and the 2023 annual report, which is filed on SEDAR+ or in the Investor Relations-Financial Reports section of our website.

I'll start on slide three. This past year our industry experienced an accelerated pace of change with disruptions in the production and distribution of scripted content due to the US writers and actor strikes, impacting audience behaviour and advertising markets. We also saw greater competition for programming rights and the introduction of ad tiers on most streaming services, resulting in an oversupply of digital advertising inventory. We have risen to the challenge executing our plan to capture efficiencies and reduce costs to create a sustainable future for Corus.

We continue to focus on what matters: growing assets that have ongoing potential to drive attractive returns, retaining the talented teams that support them, and delivering engaging content to our audiences, which drives results for our advertisers. In fiscal 2024, our consolidated revenues were just under $1.3 billion. We achieved a 21% reduction in direct cost of sales, a 7% reduction in employee costs, and a 15% reduction in other general and administrative costs for the year. We have more cost reductions in sight for fiscal 2025, but we expect this will be offset by increased costs tied to the return of scripted programming this year versus the US strike impacted period in fiscal 2024. The discontinuation of certain legacy programming, closure of three AM radio stations and specialty television network, OWN, are examples of some difficult but necessary decisions we have made to lower our costs. We met the fiscal 2024 headcount savings target mentioned last quarter and we continue with similar cost reduction initiatives in fiscal 2025, given the ongoing headwinds faced by the industry.

Total consolidated segment profit was $283 million for the year. We delivered free cash flow of $114 million in fiscal 2024 and that's an increase of 7% over the prior year, reflecting the positive impact of our lower cost structure and ongoing careful management of our cash. We reduced bank debt by $39 million this year, which was more than offset by the lower segment profit, resulting in net debt to segment profit of 3.84x at August 31, 2024. And that's up from 3.62x at the end of 2023. This morning we announced an amendment to our bank credit facilities effective October 24, 2024 which provides us relief on certain covenants as we continue to pursue right-sizing initiatives and further reduce costs. We continue to have access to our revolving credit facility for working capital needs with excess cash used to repay outstanding balances. This represents an important step in our comprehensive plan, building on the prudent measures we are taking to strengthen our balance sheet and manage liabilities.

And at this point I will turn it over to Troy to provide an operational update.

Troy Reeb — Co-Chief Executive Officer, Corus Entertainment Inc.

Thank you, John, thank you, Eric, and good morning, everyone. I will start on slide four.

Since we last connected with you, our teams have been moving at record pace, making smart investments in programming and marketing to support the upcoming launch of our two all-new lifestyle networks, adding more unscripted programming to our Slice brand, and preparing for the launch of our incredible fall schedule. Our team has acquired some of the most sought-after titles in television and we could not be happier with their performance so far. Our new and returning shows have premiered over the last couple of weeks. Season to date we are thrilled to say that Global's core prime time ratings are up 16% over last fall in the most important demo of adults 25-54. This is by far the biggest gain of any Canadian conventional network and demonstrates that television audiences remain robust even in the face of more competition. Further, the majority of Global's fall schedule premiered just last week with preliminary data indicating that core prime time audiences were the highest we've seen on Global since early fall 2022 and a 44% increase over our spring 2024 average following the return of scripted content to our schedule. While still early in the season, Global has seen great momentum, with returning hits like *9-1-1*, *Survivor*, *Saturday Night Live*, and the popular new show, *Matlock*, all landing in the top 10 so far. Our top 20 performance is even more impressive on specialty where Corus networks account for an astounding 90% of the top 20 specialty entertainment programs in Canadian English television.

Over to slide five. Our longstanding expertise in understanding our Canadian audiences and delivering premium lifestyle content is evident in the bold reimagining of our specialty television portfolio. We are building fresher, younger-skewing networks with distinctively Canadian brands that will showcase the best in home and culinary content to our loyal and expanding fan bases across the country. In September we announced two new lifestyle brands, Flavour Network and Home Network, and the reception to them and their programming lineups has been overwhelmingly positive. The networks will launch on December 30th of this year with over 460 hours of premium original content premiering, ah, it'll be premiering every night of the week and with even more exclusive content than ever before. Our homegrown Canadian shows have always been the biggest driver of success across our lifestyle networks and we've commissioned over 110 hours of original Canadian programming to premiere in 2025-2026.

Our beloved Canadian stars will remain an integral part of these new networks. The launch of Flavour Network will feature the premiere of *Pamela's Cooking with Love* with Pamela Anderson, plus new seasons of *Great Chocolate Showdown*, *Carnival Eats*, and mega hit *Top Chef Canada*. Home Network will see new seasons of *Renovation Resort*, *Scott's Vacation House Rules*, and *Pamela's Garden of Eden*, plus new adventure, *Building Baeumler,* from Brian and Sarah Baeumler and new shows specifically geared to millennial and Gen Z audiences, *Rentovation* and *Beer Budget Reno*.

Moving to slide six, the success we are seeing with Slice is proof of Corus' expertise in lifestyle and women's television. Unbowed by the discontinuation of certain programming rights, our team embarked on a bold reimagining for Slice, pushing deeper into unscripted programming while remaining true to the DNA of our irreverent all-Canadian lifestyle and women's targeted brand. So far, the channel is exceeding all of our expectations, delivering a 5% increase in audience and joining the top 20 specialty networks in Canada. *The Daily Show* has been a great addition to the network and is Slice's top rated new program, even outranking some of the other late night talk shows on conventional television. And, just as with our new lifestyle brands, more of the programs on the new Slice schedule are exclusive to Corus in Canada. This means they will help to not just drive audiences on linear television but the acquisition of more subscribers to our STACKTV streaming service

Over to slide seven. We know what matters to our advertisers: being alongside great, exclusive content that drives audiences and engaging with a partner who takes a client-centric approach and provides audience insights they won't get anywhere else. With fall programming back on the schedule coming a bit later this year and many of our season premieres not until mid-October, we have not yet seen the advertising revenues return at the level we would like. We are certainly seeing an uptick on

Global and are monitoring the environment closely and adjusting our strategy accordingly. Similar to trends in the US, the growth of ad-supported digital video platforms has led to an oversupply of inventory, exerting pressure on digital advertising demand as advertisers now have more ways to reach consumers in the streaming and digital space. This creates challenges for our sales teams, yes, but also opportunities. For the fall season to date, monthly hours tuned to our ad-supported digital offerings, is up 24%. We also saw modest growth in STACKTV subscribers over the summer, reaching a new record high for STACKTV subscribers early this fall. Rest assured, we have a plan for fighting back against the continued encroachment of US tech giants into the Canadian advertising market. It is to focus on what matters, the value of our content, of our communities, and of our people. We continue to work with many content and distribution partners, including across the border, and no one in the market has the proven track record that Corus does for connecting and integrating brands with quality content. And we continue to hear from advertisers this is why they keep coming back to Corus.

Although we are not yet seeing the recovery we want in the ad market, we are very encouraged by the return in audiences and our shared growth on Global at the same time as we have effectively been reducing costs across the organization. This has positioned us well with a more efficient underlying structure and more available inventory, both on linear and digital, while we carefully monitor preliminary trends signaling return of advertiser confidence and demand. We are also encouraged to have heard the chair of the CRTC confirm this week plans to move forward with an important review of the structural relationships between broadcasters, distributors, and streamers. This is long overdue. There is already ample evidence of the power imbalance between broadcasters like Corus and the foreign platforms that dominate streaming, as well as certain distributors who have increasingly favoured their own services to the detriment of Canadian consumers. We look forward to a speedy conclusion from the CRTC and clear support for the ongoing role of independent Canadian broadcasters and programming in the larger media ecosystem. We would also note that, on July 23rd, the CRTC launched a consultation on the future structure of the Independent Local News Fund, including eligibility and allocation criteria. We hope to hear very soon on both our eligibility and the amount of this funding that would be due to Corus, as we remain an outlier, eligible for but without access to local expression funding.

I'll now turn things back to John.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Great. Thanks, Troy.

I'm on slide eight. Fourth quarter and year-end results, and indeed our outlook for the first quarter, reflect a continuation of trends we have been seeing in the advertising market. TV advertising revenue results were relatively in line with our fourth quarter outlook that we gave last quarter and this combined with lower subscription revenue, the expected decline in content revenue and the sale of Toon Boom in Q4 last year contributed to consolidated revenue of $269 million for the quarter. That was a 21% decrease from the prior year. We delivered $1.271 billion in consolidated revenue for the year and that was a decrease of 16% from the prior year.

Consolidated segment profit was $42 million for the quarter and $283 million for the year, reflecting the revenue decline partially offset by the benefits of our cost reduction initiatives. For the fourth quarter, these included a 25% decline in the amortization of TV programming rights, and that exceeded our outlook for Q4, as well as an 11% reduction in general and administrative expenses, which was in line with expectations. Combined, these helped to drive total expenses lower by $66 million or 22% in the quarter. On a pro forma basis, which removes the impact of the disposition of Toon Boom in Q4 last year, segment profit was virtually flat in the quarter compared to the prior year. The last time we saw this result was in Q1 of fiscal 2022 following the return of scripted content to our fall schedule after a pandemic-related programming hiatus. Consolidated segment profit margins were 16% for the quarter, and that's up from 14% last year, while segment profit margins for the full year remain consistent to the prior year at 22%.

We delivered free cash flow of $39 million in Q4 and $114 million for the year, an increase of 24% and 7%, respectively, from the prior year period. In the fourth quarter, this reflects the benefit of cost reduction initiatives and a higher contribution from working capital, partially offset by lower segment profit and higher restructuring costs. At the end of our fourth quarter, we are in compliance with all covenants and had $82 million of cash and cash equivalents and $30 million available to be drawn under our revolving credit facility. Pro forma net debt to segment profit, which reflects disposition of Toon Boom in Q4 of last year, decreased to 3.84x at the end of the fourth quarter compared to 3.91x at the end of last quarter and increased from 3.62x at the end of last year.

Looking ahead to the first quarter of fiscal 2025, we are seeing ongoing disruptions of advertising markets as well as the oversupply of digital advertising inventory, as Troy mentioned. The majority of our fall schedule on Global launched just last week and we are encouraged by preliminary viewing data. Compared to last year, television advertising revenue for Q1 of fiscal 2025 is expected to decline in a similar range to the fourth quarter of fiscal 2024. Amortization of TV programming rights is expected to increase by a mid-single-digit percentage compared to last year and that's due to the return of scripted programming to our fall schedule on Global. In addition, we anticipate another decline in consolidated general and administrative expenses in the range of 5% to 10% compared to last year and that's a result of the implementation of cost reduction initiatives over the last year and ongoing. So our continuing work to further offset the lower expected revenue will be balanced with delivering on our longer-term strategic objectives, including the launch of our two new lifestyle channel brands at the end of the calendar year, as Troy has taken you through

All right, let's turn to TV results now for the fourth quarter and the full year, and that is on slide nine. Overall, TV segment revenue was $248 million for the quarter and $1.177 billion for the year and that was down 21% and 16%, respectively, from last year. This was mainly driven by lower TV advertising revenue, which declined 16% in the quarter and 15% for the year. Subscriber revenue was lower by 7% in Q4 and 6% for the year, but when we normalize for retroactive adjustments following certain distribution renewals in Q4 of last year, subscriber revenue for the quarter was down 3% versus prior year and 4% for the full year. Distribution, production, and other revenue was lower for the quarter and year and that was driven by fewer episode deliveries, reduced service work, and of course the Toon Boom distribution, sorry, disposition last year. The reduction in Canadian program expenditures to normalized levels for the year was the main contributor to lower production levels and deliveries.

Compared to the prior year, expenses for the quarter were down 23% for the quarter and 17% for the year in TV. Direct cost of sales was substantially lower by 31% for the quarter and 21% for the year. In Q4, the lower costs were driven by a 25% decrease in amortization of program rights, and that includes lower amortization on Canadian titles, the impact of canceled programming such as *Entertainment Tonight Canada* and *The Zone*, and prior year US program cancelations. For the year, amortization of program rights decreased by 20%. The amortization of film investments decreased by $13 million for the quarter and $21 million for the year, as our investments in new programming were reduced. TV employee costs were down $4 million or 7% for the quarter and $19 million or 8% for the year as a direct result of headcount reduction initiatives. Other G&A expenses were down $7 million for the quarter and $25 million for the year, and again, as a result of cost efficiency measures for the year, which included the elimination of Part II CRTC fees.

Overall TV segment profit declined 8% in the fourth quarter, 13% for the year, and that reflects the lower revenue partially offset by the benefit of the cost savings. TV segment profit margins improved to 18% in Q4 and 25% for the year compared to 16% and 24% in the prior year. Pro forma for the disposal of Toon Boom, TV segment profit was essentially flat with margins increasing from 16% to 18%, similar to the consolidated segment profits. The last time we saw this virtually flat segment profit in the TV segment was in Q1 of fiscal 2022.

All right, let’s turn to our radio results briefly on slide 10. Radio results reflect lower advertising demand, with growth in the automotive category more than offset by declines in professional services, retail, telecom, and entertainment. Radio segment revenue of $21 million for the quarter and $94 million for the year decreased 13% and 9% from the prior year comparable periods due to lower advertising demand and soft ratings in certain markets, which we are working to address. Radio segment profit decreased to $1.4 million in the quarter and $9.4 million for the year with cost containment measures more than offset by lower advertising demand. Radio segment profit margin was 7% in Q4 and 10% for the year and that compares to 12% and 13%, respectively, last year.

All right, over to slide 11, and as I mentioned off the top, we continue to work on our comprehensive plan to strengthen our balance sheet and manage our liabilities. In addition to securing an amended and restated credit agreement that facilitates our aggressive pursuit of rightsizing initiatives and other cost reductions, we have once again delivered positive free cash flow for the year and continued to diligently reduce our debt. Our significant acceleration of cost reduction activity is evident in these results and remains a top priority given ongoing low forward visibility on evolving advertising trends. We have intensified our focus on the elements of our core business that contribute attractive margins and will remain part of our future while making the difficult but necessary decisions to discontinue less sustainable parts of our business. Our plan remains to emerge as a smaller but more profitable business with a sustainable future. As a reminder, our debt is comprised mainly of a term credit facility of $313 million along with senior unsecured notes of $500 million due in 2028 and $250 million due in 2030. We also have access to the revolving credit facility for working capital purposes.

Finally, over to slide 12. In addition to the excellent progress on cost reduction and our balance sheet, we have strengthened our network's portfolio with the announced upcoming launch of Flavour Network and Home Network and the addition of new unscripted programming on Slice. These are excellent examples of compelling near-term opportunities that build on Corus' success, not only linear television but also in digital and streaming. We remain committed to ongoing cost reduction initiatives while continuing to grow our most valuable assets. Having secured an amendment to our financial covenants and access to liquidity, we will also be very focused on our efforts to right-size the balance sheet and liability structure.

I'll conclude by saying that our teams have shown not only incredible resilience but an unmatched ability to perform and deliver even under extremely challenging conditions. Corus continues to deliver content that drives audiences and results and to provide Canadians with access to high-quality news and information every single day.

Troy and I will now take your questions. Over to you, Eric.

Q & A

Operator

At this time I would like to remind everyone, in order to ask a question, press star then the number one on your telephone keypad.

Your first question comes from the line of Adam Shine with National Bank Financial. Please go ahead.

Adam Shine — Analyst, National Bank Financial

Thanks a lot. Good morning. John, can you just give us an update on the headcount reduction? I think the goal was, at Q3, minus 800. I think at your last quarter you were at minus 500.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Thanks, Adam. We're essentially there. The mix is a little bit different than we had expected, but from a dollar savings perspective we are definitely hitting that target, which, of course, we were very focused on through the summer.

Adam Shine — Analyst, National Bank Financial

Okay. And just in terms of any early discussions with advertisers, let alone carriage providers, any quick preliminary comments in terms of how Home and Flavour are destined to be received?

Troy Reeb — Co-Chief Executive Officer, Corus Entertainment Inc.

We were very oversubscribed for our launch event, Adam. The atrium here at Corus Quay was packed and we actually had to turn some folks away. The feedback was very positive, I think particularly around the accessibility and continuation of all of our Canadian talent and Canadian shows, which really are the big drivers for advertisers. And we had a number of, I obviously won't speak to individual cases, but we did have a number of advertisers commit to being launch partners with us for the launch of those brands. So we have no concerns about our ability to get high sellout rates on those channels in the new year.

Adam Shine — Analyst, National Bank Financial

Obviously, an easy comp, given the Hollywood strikes of last year, which truly delayed the start of the fall season as, Troy, you alluded to, the fall season really didn't fully begin in September, it's more sort of halfway through your quarter. Are you seeing any early signs, a week after most of your schedule hit, that some advertising is indeed coming back and there is a slight improvement to trend perhaps in the back half of the quarter rather than how the first part of the quarter started?

Troy Reeb — Co-Chief Executive Officer, Corus Entertainment Inc.

Always hard to gauge. I mean you're right that we're getting a lot more of our inventory coming, because a lot more of the ratings are coming a little bit later in the quarter. I think that alone should lead to a bit more buoyancy in the back half of the quarter. And look, the preliminary indications in our ratings is we're going to take some share, so your basic share-based national advertising should see some positive shift in our way. Whether the overall market is going to have much lift in it, I think, is an ongoing question, because, yes, we'll take some more in the linear TV environments from our linear competitors, but there remains a glut of digital inventory that's going to take a while to work its way through the system.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

And I think, Adam, within the outlook that we gave, just to sort of build on Troy's last point there, so as you, I think, are alluding to or would expect, the conventional pacing is actually pretty good, so really what we're seeing is that pressure from digital and that oversupply of digital inventory is really hurting specialty at this point. So I know we don't break out conventional, especially in digital, but when we look at all the moving pieces it, conventional is performing quite well, you know, not just given the ratings, that's obviously great and that helps us going forward, but just generally. And again, as you mentioned, because of the strikes, that's what we would expect. But specialty is feeling the pressure and that's, we think, coming mainly from all this digital inventory in the market.

Troy Reeb — Co-Chief Executive Officer, Corus Entertainment Inc.

If there is one encouraging sign we're seeing, it's that pricing is starting to firm up a little bit, that kind of that discounting demand that has been very prevalent in the market for a while seems to be abating.

Adam Shine — Analyst, National Bank Financial

Okay. Just one last one for you, John. Obviously, there's a lot of blocking and tackling going on. Are there additional assets sales that are being explored and perhaps destined to be achieved over the course of, let's say, the next six-ish months as we reflect on your new credit facility and how the covenant may or may not evolve post March?

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Yeah, I think so. I mean we've been on this for a while and I talked about it on past calls. There are definitely some, I'd say, less material assets could potentially generate some proceeds for us. And of course, those would be used to repay term loans. So nothing that is in the zip code of Toon Boom, but certainly we're looking under every rock to see if there are things that might generate some cash proceeds.

Adam Shine — Analyst, National Bank Financial

Okay. Thanks a lot. I'll leave it there.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Thanks, Adam.

Operator

The next question comes from the line of Vince Valentini with TD Cowen. Please go ahead.

Vince Valentini — Analyst, TD Cowen

Thanks very much. A couple questions. First off, working capital, John, pretty big inflow of cash in the fourth quarter. Anything unusual there in terms of receivables or stretching out payables and should we expect that to sort of swing back in Q1 and Q2 or was that more permanent savings?

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

No, it's probably returning back to more normal levels, Vince. I'd say Q4 was mostly about the money coming in, not so much about the money going out. So, yeah, I mean look, we've done a good job getting our DSOs down in the receivables portfolio and, frankly, as the revenue shrinks, so too does the working capital on the balance sheet, so some of it's just a tailwind, unfortunately, of reduced revenue. So I think, yeah, in Q1 you're going to see it swing back the other way. We've got the largest advertising quarter and we've got a lot of programming costs obviously coming back at us as well. So it's not a permanent thing. It's going to start to follow, we think, the regular seasonality of, you know, Q1 and Q3 we'll build working capital and then Q2 and Q4 we'll release it.

Vince Valentini — Analyst, TD Cowen

Thank you. Second, on debt, I'll be honest, I haven't had time to dig through the balance sheet to follow the chain, but I think I saw in the release that it said you paid down like $2 million of debt in the fourth quarter. And if that's the case, what happened to the rest of, you know, even after you back out leases, I mean the free cash flow was materially higher than $2 million.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

It's all in cash, right? We've got $82 million of cash at the end of the year.

Vince Valentini — Analyst, TD Cowen

Oh, so you're not just paying down the term loan as soon as you get the money? You're holding the cash for—?

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

No. The repayment you saw was the standard amortization on the term loan and beyond that we're in cash.

Vince Valentini — Analyst, TD Cowen

Okay. And third, I mean, obviously, people have seen that the newspaper stories on potential acquirers for the business and any interest they might have. Can you give any sense of how management and the board deal with this situation at this point? Is it just no interest in any discussion until you've sort of figured out what you're doing with your balance sheet or are you open to alternatives at this point? If there's anything you can help us understand how the process might play out, it would be helpful.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Yeah, look, I think that the most important step to date has been what we announced this morning on getting the credit amendment and getting that base through the end of the first calendar quarter next year to then move to the next step. So, beyond that, it's all speculation. I think what we're expecting is there will be lots more news flow, lots more rumours, and we're not going to comment on any of them, because, of course, as you can imagine, there's probably certain things that aren't even remotely true in what you're reading. So I think we're just going to choose to not comment. But I think it's fair to say of course the board is very pleased with the issue and the leverage and the situation with balance sheet and that's what we're dealing with.

Vince Valentini — Analyst, TD Cowen

Thank you.

Operator

The next question comes from the line of Aravinda Galappatthige with Canaccord Genuity. Please go ahead.

Aravinda Galappatthige — Analyst, Canaccord Genuity

Good morning. Thanks for taking my questions. So, John, I just wanted to maybe kind of go back to your Q1 advertising guide. So something similar to Q4, which is sort of 16% decline. Obviously Q1 would still have the original Discovery channels. I don't know if you're kind of factoring in some degradation in that, you know, on the path to sort of that December 31st deadline. How should we, like when we kind of think about approaching forecasting for the rest of the year, is there any more visibility you have? Obviously, you've launched the new channels, the other ones come off; anything that you can help us with in terms of that shape would be helpful.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Yeah, sure. So, Aravinda, on Q1, within those additional comments I gave to Adam I would say, despite what I said about specialty feeling more pressure, more downward pressure, the existing networks that are being rebranded are certainly performing very well, so it's more a case of some of the smaller networks than those core networks. Beyond Q1, look, I mean not just because of the current situation in the advertising market, but we're pretty careful not to go beyond the next quarter, just because it's very difficult to read and what's going to happen beyond Q1 is still very much out there in terms of our ability to call it, so… If you look at last year, Q2 was a little better, I think, than people expected, and then Q3, Q4, and now Q1 are looking kind of similar. So it's just difficult to call it either way.

Troy Reeb — Co-Chief Executive Officer, Corus Entertainment Inc.

Aravinda, I would just add that, with respect to those particular services, we are seeing very strong advertising demand for the new brands and anticipation that they will deliver with quite robust schedules of lots of original content. So we're not really concerned around revenue degradation on those channels, even in the event that we saw some ratings erosion, which we're not anticipating significant ratings erosion, but even in the event that we saw that there's enough inventory space that we'll still be able to accommodate all the advertiser demands. So, from a revenue standpoint, I don't anticipate there's a big shift to happen.

Aravinda Galappatthige — Analyst, Canaccord Genuity

Okay. Thank you. And then with respect to the cost, obviously, you kind of provided a sense of we would go back to some inflation on the programming cost, but as you pointed out in your earlier answer, you got, in terms of headcount reduction, you're seeing employee cost and G&A in particular for double digits. Do you feel that's enough to sort of offset the programming amort? Is it fair to think about perhaps low-single-digit declines and in cost of sales for, sorry, OpEx for television?

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

I think that's a good way to look at it. I mean that the programming number could go where you described it go on the top line. The program numbers for the full year is still a little bit hard to call, just given with that delay of, in particular, CBS's prime time. How that plays to the rest of the year and into the back half is a little bit difficult to know right now. But certainly, you know, we've been talking about this, I think, for at least six months now, that we fully expected, and I wouldn't call it inflation necessarily, [inaudible] the numbers going up, there's definitely a lot more deliveries in this fiscal premium programming. So that's going to be a factor for sure, especially in Q1 and Q2, but yeah, we're going to drive the G&A as hard as we can to try to offset that. And then the question becomes what you asked, what your first question was, what's the advertising revenue going to be, and that's what we're watching, obviously, very carefully. So I think there's those you've hit the main moving pieces here and we'll continue to do what we can do on the cost side, but as well we'll do whatever we can, obviously, on the top line.

Troy Reeb — Co-Chief Executive Officer, Corus Entertainment Inc.

And if I can, maybe I can say, look, there's a couple of ways to build a program schedule. The one thing, whatever people call it, peak television, there's a heck of a lot of program supply out there around the world right now, and we still have the benefit of being large aggregators of content with big brands that are able to carry great programming to audiences in Canada and you can build schedules a couple of ways. You can go take kind of what some may see as the easier path and buy an output from a studio and put it on a service here, and sometimes that's a more expensive path, or you can do like we've now done with Slice and you build a schedule from scratch from a whole bunch of different suppliers. It's actually a less expensive schedule than the one we used to have and it's performing better. So we'll continue to look for opportunities to go at the programming costs at the same time as employee and G&A costs as well. There is ongoing inflationary pressure in the programming market, but it's a core area focus for us on that side of the ledger too.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

The other thing, Aravinda, that comes to mind is, when we're talking about employee costs, salaries and benefits and other things that track there, there's obviously a large portion of that runs through our G&A, but as well there's also some that goes through the studio and then ends up on the balance sheet as a film investment. And when you look at our cash flow statement, and this sort of goes back to Vince's question really, the amount of cash that we committed to film investments in the quarter was also for the year down quite a bit. So that's another place where the headcount reductions will benefit us, is the amount of cash we're spending on programming. In fact, it was a source of cash in the fourth quarter, the film investment line. I think that there's basically two places where those cash savings track and we'll, perhaps next quarter, come back and do a little bit better tracking just to sort of show where those savings are.

Aravinda Galappatthige — Analyst, Canaccord Genuity

Just one more for me with respect to the covenants. I just wanted to make sure there's no sort of definition changes as far as those covenants are concerned for the 5.75 and the 7.25. It's still the same net debt to EBITDA definition?

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

It's not net debt. It's gross debt.

Aravinda Galappatthige — Analyst, Canaccord Genuity

Oh, yeah. Of course. Okay.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Yeah, no change there.

Aravinda Galappatthige — Analyst, Canaccord Genuity

The numerator is same, right? The cash flow definition is unchanged?

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

It's essentially proportionate EBITDA. It's not exactly the way it's defined, but it's basically EBITDA less the minority and then, yes, gross debt.

Aravinda Galappatthige — Analyst, Canaccord Genuity

Thank you very much. I'll pass the line.

Operator

As a reminder, if you would like to ask a question, please press star followed by the one on your telephone keypad.

The next question comes from the line of David McFadgen with Cormark Securities. Please go ahead.

David McFadgen — Analyst, Cormark Securities

Okay. Thanks. A couple of questions. So I guess you're not really sure exactly where the TV program amortization is going to come out for the year, but what do you expect for the actual cash spend for the year relative to fiscal 2024?

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Well, Dave, that's basically the same question, because the variability that I mentioned on the last question is in really the Global schedule and that's essentially the amortization and the cash are same just because of the way that works. So all I can say that the relationship between the amortization and the cash will likely be similar to somewhat better for the year, but it's going to be higher, obviously, because we're taking more deliveries, especially in the first half. So I know there's a structural sort of difference where the cash is higher than the amortization. I think that gap, to the extent that's what you're looking at, is going to get compressed this year. It should go back to a more normal level. I mean typically it's been under $50 million and some years it's been closer to $25 million, so I think we're going to be more in that range.

Troy Reeb — Co-Chief Executive Officer, Corus Entertainment Inc.

I should say that any lack of clarity on what the final program amort is certainly isn't new to this year. It's common case every year, it's just a question of does a show get canceled, how many episodes does it deliver on, that kind of thing, and those things vary depending on audience tastes and where the studios are at.

David McFadgen — Analyst, Cormark Securities

Okay. So the other question is, you know, when those brands transition over to Rogers and the new channels start, do you have an idea on how much EBITDA you're going to lose? Because the increase in the debt covenant goes up quite a bit, so it seems to imply that you're going to lose a fair bit of EBITDA. I don't know if you could comment on that.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

No. I mean we haven't, other than pointing people to the historical information we haven't, and certainly we don't ever suggest that we're going to lose all the EBITDA on those channels. I think that Troy's commentary around how the demand for those channels and how they've been received, I think that's good. In terms of the cost of programming, we can build schedules at a lower cost than what we sometimes pay on output deals. And then there's the whole distribution side of the channels. So, yeah, we haven't gone there in terms of really guiding on that, but look, I think, again, the pressure that we're seeing is more on the smaller channels than it is on some of those sort of marquee channels.

David McFadgen — Analyst, Cormark Securities

Right. Okay. All right, thanks.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Thanks.

Troy Reeb — Co-Chief Executive Officer, Corus Entertainment Inc.

Yeah, I would add, I would only say on that one is there’s probably two dots getting connected there that don’t need to be.

Operator

The next question comes from the line of Drew McReynolds with RBC. Please go ahead.

Drew McReynolds — Analyst, RBC Capital Markets

Thanks very much. Good morning. Maybe just on regulatory for you, Troy, like obviously a big focus here, lots of questions on exactly what comes Corus’ way, and there seems to be a whole portfolio of things, whether it’s the Streaming Act, News Act, Broadcasting Act, now new review. Can you just remind us, at a high level, kind of what Corus has kind of received to date and, as you look forward in the next two to three years, like what kind of falls within that time frame, or maybe next year, in terms of getting actual, tangible regulatory relief?

Troy Reeb — Co-Chief Executive Officer, Corus Entertainment Inc.

Well, first, a reminder that we did receive, ah, we had an interim relief application that we had filed with the CRTC a year ago and we did receive preliminary indications on that that would be able to shift our dollars that were being mandated to put into the PNI category, which is generally a big money loser, into other genres of Canadian programming where the returns are better and the audience demand is better, and that alone is has been helpful to us.

I think the most significant file you're talking about is our inclusion in the Independent Local News Fund. We have certainly taken the position that we are eligible for local expression funding, as is every other operator of a conventional broadcaster that provides news in Canada. Every other local station that provides news in Canada receives local expression funding, whether through vertical integration pass-over from their distribution side, such as at Bell and Rogers and Videotron, or through the ILNF when you're talking about the small independents. Our status changed over a year ago and we have yet to receive [inaudible] funding and we've taken the position that we are eligible for it. The CRTC began a consultation with the acknowledgement that we are eligible for it and we're waiting to see what support may be granted out of that process, we are just hoping that it will speed up.

Drew McReynolds — Analyst, RBC Capital Markets

Okay. That's it for me. Thank you.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Thanks, Drew.

Operator

The next question comes from the line of Maher Yaghi with Scotiabank. Please go ahead.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

We had a bit of a drop out there, operator.

Troy Reeb — Co-Chief Executive Officer, Corus Entertainment Inc.

Maher.

Maher Yaghi — Analyst, Scotiabank

Okay, great. That's me. Thank you for taking my question.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Hi, Maher.

Maher Yaghi — Analyst, Scotiabank

So I wanted to ask you guys, ah, thanks for all the information you guys provided on the advertising revenues that you're hoping to achieve, but on the subscription side, could you help us understand where we could be landing here in Q1, but specifically in Q2, as you make that transition? Any assumptions or any guidance you could provide, that would be very helpful.

And on the transition, so you guys are switching on December 30th, as I understand. Why not switch before? Like I'm just trying to understand the technicalities, because if you… Why not do the transition beforehand so that you can potentially block any BDU from switching customers due to technicalities on the name of the channel? I just, I'm trying to understand why wait until December 30th to make the switch.

Troy Reeb — Co-Chief Executive Officer, Corus Entertainment Inc.

Yeah. So first off, there's a bit to unpack there, so I'll start with the carriage agreements themselves. Generally, I mean every carriage agreement is a snowflake, so they're all special, but generally carriage agreements are not for the brand on the channel, they are for the license, and in this case we expect all of our carriage agreements to continue. We expect our channel placement to continue and that our new brands will continue in the exact same place as our old brands or our current brands. So that's why, you know, we don't think there's going to be a significant change in the viewer experience on December 31st as there was on December 30th, because people will wake up, put on that channel the next morning, and find Home is now on the air in the place where HGTV Canada used to be.

Now, to the question of, you know, could we have switched the brands over earlier, certainly we could have. We are in deal and paying for and have the right to those trademarks until the end of this year; our intention is to fulfill our commitments with that agreement with Warner Bros. Discovery to utilize those trademarks in Canada. And we're also using those services to inform the viewers that new services are coming. So, if you watch Food Network Canada today, you will see promotional spots talking about the Flavour Network ready to be unveiled to Canadians. So there's no better marketing than to be able to speak to 100% of the people who you're targeting, so we're utilizing that.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Maher, on your question on sort of the trends on subscriber, it's been a bit noisy for the last several quarters just in terms of sort of one-time impacts, whether because of the prior year or some carriage changes that we had that are now reversing. So I'd say, look, if you track back through our commentary the last several quarters, I think the normalized kind of line on subscriber revenue has been somewhere minus 3%, minus 4%. And that's obviously a mix of cord cutting, cord shaving, and then digital filling in, and as Troy said, STACKTV continues to do pretty well. So I think it's hard to predict the future, there are a lot of things going on, but I think that trend is probably the good baseline ingredient think of.

Troy Reeb — Co-Chief Executive Officer, Corus Entertainment Inc.

And maybe I'll just close just where we began. If someone else is planning to launch a linear HGTV or Food Network in the market, it's up to them to go out and find new channel positions and new dial positions and negotiate new carriage agreements. We have our carriage agreements in place and our expectations that our channels will continue in the same spot. The same way when we rebranded Action to Adult Swim, you know, the consumers woke up the next day and found the channel was branded Adult Swim.

Maher Yaghi — Analyst, Scotiabank

Okay. Okay, great. Thank you for that. And now, just talking about your debt situation and the covenants, it's nice to see that you had these, you know, the next two quarters with the improved or easier covenants. Can we think about what will happen after March? What is it that you guys are trying to achieve, let's say, over the next two quarters to give enough visibility to your creditors to extend or keep, maybe change, you know, make the covenants a little bit easier for you to continue on beyond March? Or you think that the leverage ratios will by then decline enough for you to come in into the requirements?

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Yeah, Maher, I think it's, at this point, it's a bit unknown just in terms of what will happen between now and the end of March. So that's what we move on to now that we have the relief on the bank and some breathing room there to move to the next steps, but in terms of what that's going to look like, I don't think we can speculate at this point.

Maher Yaghi — Analyst, Scotiabank

Maybe I'll ask it another way, John. So what is it that you're trying to achieve from now until then in terms of your cost structure so that you can make the business sustainable long term?

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Well, look, I think the cost structure is obviously important and we're faced with a headwind on programming, obviously, after the strike, there's continued work we'll do on G&A, but as I said earlier, if the revenue continues on the path is on, then it's going to be very difficult. So again, it's hard to say exactly where this all goes, but the current shape of the balance sheet is likely not going to be sustainable, I think, is probably the most we can say.

Maher Yaghi — Analyst, Scotiabank

Right. So what are the potential options in order to reconfigure the balance sheet that you're looking at? Can you maybe help us understand maybe some of the options in front of you?

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

No, I don't think we can speculate there, I mean other than to say everything's going to have to be on the table in terms of how that's going to look.

Maher Yaghi — Analyst, Scotiabank

Okay. Fair enough. Thank you.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Thanks, Maher.

Operator

I will now turn the call back over to Troy Reeb for closing remarks. Please go ahead.

John Gossling — Co-Chief Executive Officer & Chief Financial Officer, Corus Entertainment Inc.

Thank you, operator. I don't really have any closing remarks other than to thank everyone for their ongoing interest and support through what has been a challenging year and also to acknowledge all of our teams across the country here at Corus, many of whom listen into this call. It has been a year of incredible change, incredible work, and some great results under some trying circumstances, so thank you to all of our teams here at the Company across the country and best of luck to everyone. Thank you.

Operator

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.