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PRESENTATION

Operator

Good morning. My name is Sharon (phon). I will be your conference Operator today. At this time, I would like to welcome everyone to the DHX Media Fourth Quarter and Full Year Results Conference Call. All lines are 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. Thank you.

I would now like to turn the call over to Nancy Chan-Palmateer, Director, Investor Relations. You may begin your conference.

Nancy Chan-Palmateer — Director, Investor Relations, DHX Media Ltd.

Thank you, Operator, and thank you, everyone, for joining us this morning. On the call with us today are Dana Landry, our Chief Executive Officer; Keith Abriel, our Chief Financial Officer; and David Regan, our Executive Vice President of Strategy and Corporate Development. Also joining us on the call will be Michael Donovan, our Executive Chairman.

Before we proceed, we have some standard cautionary statements. The matters discussed on this call include forward-looking statements under applicable securities laws with respect to DHX, including, but not limited to, statements regarding DHX's library; the goals of the Company, the business strategies and operational activities of DHX and timing thereof; the allocation of resources of the Company; the growth and financial and operating performance of DHX, its subsidiaries, and investments, including fiscal 2017 revenue outlook for the Company; and the markets and the industries in which the Company operates.

Such statements are based on information currently available and are subject to a number of risks and uncertainties. Actual results or events in the future could differ materially and adversely from those described in the forward-looking statements as a result of various important factors, including the risk factors set out in the Company's MD&A and the Company's Annual Information Form, which also form part of the Company's annual report on Form 40-F.

I would also like to add for the question-and-answer session that will follow we'd appreciate if each analyst could keep to one question with one follow-up so that everyone has a chance to ask a question; have the opportunity to do so. If you would like to ask additional questions, please rejoin the queue.

With that, I turn the call over to Dana Landry, our CEO.

Dana Landry — Chief Executive Officer, DHX Media Ltd.

Thank you, Nancy. First off, I wish to thank everyone for participating in the call this morning. And also I wish to congratulate the team for their hard work and the staff for achieving yet another solid year of growth, both top and bottom line.

Shortly you'll hear from Keith, who'll provide detail with respect to our 2016 results, as well as our plans for 2017.

For the last several years, growth in media has been driven by a transition of audiences from viewing content by way of the broadcast medium to viewing it on the new streaming platforms. In the next several years we expect growth in streaming worldwide will continue to increase audience engagement, both in SVOD—that's streaming video-on-demand—and AVOD—advertising video-on-demand.

And the latter is exactly what we're seeing at WildBrain, our AVOD multichannel network headquarters in the UK. WildBrain has demonstrated incredible growth since its start three years ago, both in terms of revenue, and most critically, in number of minutes watched. In fact, the network saw its best day ever in both metrics just this past weekend.

As the owner of the world's largest independent library of children's and family content, we are well-placed to leverage our library into this transformational new growth platform. There have been numerous studies that show that children love YouTube, and they love using mobile devices such as tablets and smartphones to consume YouTube content on. It is at the intersection of AdVOD and mobile where our young viewers live, and that is where we intend to focus much of our energies to unlock the value of AdVOD.

I'll dive a bit deeper into the WildBrain opportunity in a moment, but first I'd like to take a quick look at some of our achievements in Q4 and fiscal 2016.

First off, I wanted to report that we're very proud in Q4 that the Company had generated nearly $8 million in cash from operations, as some of our working capital we have been investing in content is beginning to repatriate, and Keith will have more of this later.

With this confidence, I'd also like to mention that in our recent Board meeting the Directors have approved an increase of 12.5 percent to the dividend for the quarter up to $0.018 on each common voting share and variable voting share outstanding for the shareholders of record at the close of business on October 11th to be paid on October 21st.

Lastly, I wanted to say that we are obviously continuing to see global demand for our much-loved children's content and brands, and the new paradigm of on-demand continues to propel our growth. For fiscal 2016, we posted solid results across many key metrics.

On a year-over-year basis, the Company delivered 15 percent revenue growth, 15 percent EBITDA growth, and 42 percent growth in net income.

As a content company, our mission is to create and leverage children's content that inspires, entertains, and connects the global on-demand generation. In fiscal 2016, we marked a number of achievements that resulted from our steadfast focus on this mission. I'd just like to remind everybody of the three key imperatives that drive our business and help us fulfil our mission.

First is creating engaging, high-quality content for kids and families; second is distributing our content worldwide to pursue growth across all media and platforms; and third is leveraging our content to create high-profile global brands with increased merchandise and licensing opportunities. I'll speak a bit about each of these three, starting with the content creation.

As you know, we own the world's largest independent library of children's content, which has grown this year from 11,500 half-hours to more than 11,800 half-hours. A big part of this library growth was the addition of 215 fresh new half-hours of proprietary content in fiscal 2016. This was up 20 percent from last year. As a result, we also saw a 14 percent rise in proprietary production revenue over fiscal 2015.

During the same year-over-year period we also added 150 hours of third-party titles with distribution rights, a 233 percent increase, and a direct result of synergies associated with owning studios, distribution, television channels, and merchandising and licensing businesses.

Next I'd like to talk about how our large library drives our distribution business. Each new episode of content added to our library, both in the proprietary and third-party rights category, represents a potential recurring revenue generator. We realize enormous benefits of scale from our library as reflected in our distribution revenues, which for fiscal 2016 rose 11 percent over fiscal 2015.

DHX Media has become a veritable one-stop shop for streaming services and broadcasters worldwide looking for children's content. We're able to provide outstanding shows for girls and boys across every demo from preschool to kids to tweens and teens.

On Monday of this week, for example, we announced a content deal that underscores our expanding relationship with Amazon Prime Video. That deal sees Amazon's SVOD services in the UK and Germany licensing more than three dozen of our shows. This deal includes a number of SVOD exclusives for Amazon in those territories; most notably season one of our new Teletubbies series for Amazon UK service.

I'll speak more about the Teletubbies in a moment, but I wanted to highlight this milestone for the brand, as it marks the first expansion into the SVOD territory for the hit series in the UK, which is a critical market for Teletubbies. As we've stated many times in the past, offering marquis children's content like Teletubbies has become essential for SVOD services.

Platforms are competing to attract and retain subscribers, and we are seeing that dynamic reflected in the value of deals we are signing. Like never before, the viewing appetite and habits of children are a major consideration in family households when deciding which content platforms they use.

Last July, the significance of children's content for Amazon was underscored when they became the exclusive premium streaming service in the US for most of the children's shows controlled by the PBS Kids' library. This major deal is indicative of Amazon's stated commitment to become a leader in the delivery of kids and family content.

We also announced a deal with Amazon Prime Video last July, which saw the SVOD lock in our terrific new animated series, Looped, on an exclusive basis in the US. This was in addition to multiple seasons of DHX Media library titles such as The Busy World of Richard Scarry and Madeline.

Our two recent Amazon Prime Video deals, one announced this week and one in July, highlight our expanding relationship with Amazon. Today those deals, taken alongside with other DHX titles that were already on the service, means that Amazon Prime members in Europe and the US have access to more than one-tenth of the titles in DHX Media's library.

The competition between SVODs to provide the best shows for kids and family has created a boom for content companies like DHX. But of course, SVOD is not the only space where demand for kids' content is high. AdVOD is the other space that we spoke about, which is highly popular with kids.

Last April, we unveiled the WildBrain Multi-Platform Kid's network, our branded network of more than 350 kids' channels on YouTube. For 2016, WildBrain's gross revenue was more than $18 million, representing a 53 percent increase over 2015. Management believes there is a tremendous potential with WildBrain and the evolving AdVOD space in general.

Earlier this year, the youth and family market research firm, Smarty Pants, surveyed more than 8,100 US households and found that YouTube, the world's leading AdVOD platform, was the most loved brand among kids 6 to 12. In the middle of all that goodwill sits WildBrain, one of the largest networks of children's content on the platform.

WildBrain's business is simple: we connect the owners of children's content with advertisers. That includes not only ourselves, but notable other brands such as Fireman Sam; Bob the Builder; Polly Pocket; Lazy Town; Strawberry Shortcake; and many others.

By leveraging DHX Media's large library on the WildBrain network and by contractually managing third-party content brought into the network and by producing and acquiring new content, WildBrain has almost tripled its revenue since 2014 at a compounded annual growth rate of 66 percent.

In fact, in fiscal 2016 WildBrain attracted more than 32 billion minutes of watch time on YouTube compared to over 20 billion in 2015 and over 11 billion in 2014 for a CAGR of 67 percent. Watch time is highly significant on YouTube because it points to consumer engagement. Watch time tells how long people actually stuck around and watched your content.

For WildBrain, the network's overall daily watch time for fiscal 2016 increased by almost 60 percent over fiscal 2015. The higher the watch time, the higher your consumer engagement and the more attractive your network is to advertisers.

We believe there's a huge amount of room for WildBrain to capture a much higher quantity of YouTube viewers for children's content and to deliver those eyeballs to advertisers. As a result, we have provided for the first time in our Outlook section revenue guidance on WildBrain, and that guidance is 24 million to 31 million for 2017.

Today's young viewers live at the intersection of AdVOD and mobile, and we intend to make WildBrain a significant focus of the Company. We'll do this by continuing to produce high-quality content and leverage it on WildBrain; building strong relationships with other content owners and brand marketeers; investing in people and infrastructure needed to grow the business—and to this end in Keith's notes you'll note that we've added more than $1 million in our SG&A line in Q4 2016 to pursue this growth—also aggressively pursuing acquisitions that leverage mobile platforms.

Through these metrics we believe we can cement and consolidate our position as the leader in the children's AdVOD space.

Moving on now, before I hand it over to Keith I would like to talk about merchandising and licensing and our growing business and specifically provide a brief update on Teletubbies.

As the flagship property in DHX Media's strategy to build global brands, Teletubbies continues to perform extremely well and is gaining global momentum. This morning we announced the appointment of a licensee called Fiery Light Productions to create and produce an international touring show for the new Teletubbies. We expect this live theatre production to begin in the UK and Ireland in 2017, and to eventually tour in North America, Australia, and Asia.

This comes on the heels of our announcement earlier this month of a licensee to design and build solutions for location-based Teletubbies attractions, such as theme parks and family entertainment centres for the UK, continental Europe, and the Middle East.

We are very excited about the launch of this new component of the Teletubbies merchandising and licensing program, which will allow fans to extend their love of the brand and enjoy a more immersive experience.

We're also proud that Teletubbies now boasts more than 85 consumer products deals, complementing the 23 broadcast deals for our new series and the Amazon SVOD deal I spoke about earlier. Licensees are reporting strong sell-through on the first wave of products in the UK, with some ahead of expectations.

The show continues to score strong rating on CBeebies, the BBC’s preschool channel, and the Teletubbies is the number one new preschool toy property by sales in the UK.

In the US, the consumer product rollout is set to begin in January 2017, and the show is off to a very positive start on Nick Jr. where it is broadcast in the coveted 8:00 a.m. primetime spot.

We expect to continue making tremendous strides with the Teletubbies brand for fiscal 2017 and beyond. We believe the future is very strong for DHX Media as we continue to execute on our strategy to create shows that kids love, distribute the content across all media platforms worldwide, and leverage our content for high-profile global merchandising and licensing programs.

With that, I’ll turn the call to Keith.

Keith Abriel — Chief FinancialOfficer, DHX Media Ltd.

Thanks, Dana, and thank you to everyone for dialling in today. Let’s discuss some of the high-level results for fiscal 2016 and for the fourth quarter of fiscal ’16.

Revenues for fiscal 2016 were 304.8 million, up 15 percent from 264 million in fiscal ’15. The increase was driven by higher revenues and distribution; proprietary production; merchandising and licensing; and producer and service fees. This was offset by a decrease in DHX Television revenues and a decrease in new media revenues.

Gross margin for fiscal ’16 was 173.3 million, an increase in absolute dollars of 28.3 million, or 19 percent compared to 145 million for fiscal ’15. For fiscal ’16, adjusted EBITDA was 103.7 million, up 13.5 million or 15 percent over fiscal ’15.

Net income for fiscal ’16 was 27.7 million, or $0.22 basic and diluted earnings per share, compared to net income of 19.5, or $0.16 basic and diluted earnings per share for fiscal ’15. This represents an increase of 8.1 million in absolute dollars.

Turning now to the Q4 numbers. Revenues for Q4 ’16 were 75.3 million, up 6 percent from 71.2 million in Q4 fiscal ’15. In absolute dollars this increase was due to strong growth in proprietary production revenues, significantly higher distribution revenues, and strong growth in both owned and represented merchandising and licensing revenues.

The increase was offset by an expected decline in DHX Television revenues, as well as declines in producer and service fee revenues and new media revenues.

Proprietary production revenues for Q4 ’16 were 6.4 million, an increase of 25 percent compared to 5.1 million for Q4 ’15. This was well ahead of management’s expected range for the quarter.

The Company added 37 proprietary half-hours to the library in the quarter, up 23 percent versus 30 proprietary half-hours in Q4 ’15.

For third-party produced titles with distribution rights, the Company added 30 half-hours, a decline of 33 percent from 45 half-hours in Q4 ’15.

For distribution, management is extremely pleased to report that in Q4 ’16 revenues were up 23 percent to 30 million from 24.4 million in Q4 ’15. The Company continues to see strong growth and continued strong demand from new digital customers, platforms, and territories. These results were at the top end of management’s expectations for the quarter.

The gross revenue for WildBrain for Q4 ’16 was 5.7 million, up 101 percent versus Q4 ’15’s total of 2.8 million.

M&L owned revenues for Q4 ’16 were 5.5 million, up 39 percent compared to 4 million for Q4 ’15. This included 1.2 million from The Next Step Wild Rhythm tour compared to Q4 2015 when the live tour revenues were negligible.

M&L owned revenues were slightly below the midpoint of management’s expected quarterly guidance. M&L represented revenues were up 2.7 million, or 57 percent to 7.5 million compared to Q4 2015 at 4.8 million and were at the high end of management’s expectations. This was driven mainly by the strong over-performance of our represented brands Despicable Me and Minions, and also significant growth in Sesame Street, Dora the Explorer, The Pink Panther, and Jurassic World.

Television revenues for Q4 ’16 were down 20 percent to 15.8 million from 19.9 million for Q4 ’15, and were within management’s expected range as set out in the Q3 2016 MD&A. Management is pleased to report that while DHX Television revenue declined for Q4, gross margins increased to 76 percent above the high end of management's expectations, or $12 million for Q4 '16 from 50 percent, or 9.9 million in Q4 '15 as a result of lower external content costs.

Producer and service fee revenues were 9.1 million for the quarter, a decrease of 18 percent versus 11.1 million for Q4 '15, which was near the low end of management's expected range, as a couple of service projects started a little later than expected during the quarter.

Gross margin for Q4 '16 was 44 million, an increase in absolute dollars of 6.3 million, or 17 percent compared to 38 million for Q4 '15. The overall gross margin for Q4 '16 at 58 percent of revenue was below the midpoint of management's quarterly guidance as reported in the Q3 MD&A.

For Q4 '16, adjusted EBITDA was 24.8 million, up 2 million, or 9 percent over 23 million for Q4 '15.

Net income for Q4 2016 was a net loss of 1.7 million compared to net income of 3.7 million for Q4 '15. The net loss in Q4 '16 was materially impacted by a net foreign exchange loss of 5.4 million for the quarter. The foreign exchange loss for Q4 '16 was primarily driven by the impact of exchange rate fluctuations on foreign currency denominated balances, a significant portion of which were comprised of intercompany balances.

Turning to operating expenses. SG&A costs for Q4 '16 increased 29 percent to 21 million compared to 16 million for Q4 '15. The increase in SG&A was attributable to a number of factors, including, as Dana mentioned, the continued ramp-up of WildBrain, a decision to take an aggressive marketing campaign for Teletubbies, and higher-than-forecast incentive compensation at CPLG, which reported 100 percent revenue growth on a year-over-year basis.

SG&A also included 1.5 million in noncash share-based compensation for the quarter. When adjusted, cash SG&A at 19.1 million was above management's quarterly expectations, as management continues to pursue growth opportunities for the Company.

Along with these results, management's very pleased to announce its outlook for fiscal '17, the highlights of which are as follows: production revenue, or proprietary production revenue, is targeted in the range of 51 million to 56 million for fiscal '17; producer and service fee revenues is also targeted at the range of 51 million to 56 million; distribution revenue, excluding the WildBrain piece of the business, is targeted in the range of 76 million to 80 million; and the WildBrain revenue for fiscal '17 is targeted at 24 million to 31 million; DHX Television revenue is targeted in the 63 million to $68 million range; and M&L-owned revenue: the target is 28 million to 34 million for fiscal '17, while the M&L-represented revenue is targeted at 18 million to 23 million for the year.

For further specifics on our fiscal 2016 full year and Q4 '16 results, as well as additional information on management's fiscal '17 outlook and various other information, including a reconciliation of GAAP and non-GAAP financial measures, I would refer you to the Company's fiscal 2016 MD&A, which was posted on SEDAR and EDGAR this morning.

With that, I'll turn it back to Dana.

Dana Landry

Thank you, Keith. To summarize, we're excited about the future and the opportunities we have for production, distribution, television, and M&L as we continue to build this great company. We will continue with our mission to deliver amazing shows and brands loved by kids worldwide.

With that, we'll turn the call over to the Operator for questions from analysts.

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question, press *, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your fist question comes from Aravinda Galappatthige from Canaccord Genuity. Your line is open.

Aravinda Galappatthige — Canaccord Genuity

Good morning. Thanks for taking my question. Recognizing sort of the growth as sort of the main impetus here at this point, I wanted to sort of flesh out the free cash flow matter up front. I know that free cash outflow this year was about 17 million. It was obviously quite strong last year, 34.5 million positive, and it seems a big part of that is the program rights for broadcasting up from 28 million to 58 million. I'm wondering, Dana or Keith, do you want maybe kind of discuss the working capital swing and the magnitude of that and what that created and also what that means for free cash flow going forward? Because if you're seeing a lot of prepayments this year, it should be a tailwind to you next year.

Dana Landry

Yeah. Thanks, Aravinda, and good morning. Thanks for that question. Maybe I'll start at the high-level, and then I'll turn to Keith on some of the specifics. So I mean essentially you're exactly right. For '16, we invested heavily in the content side of the business, and Keith can give you the specific numbers, but in general it was around in building the slate.

We also had to replace our output arrangement, which added to the cash drain. And remember, when we're adding those properties we own them now for a considerable period of time, so there was a considerable outflow in '16.

We also had a bit of double-dip payment there because we had—our outstanding output arrangement lasted through to December of last year, so we had six months related to that. So when you add that all up it was a fairly heavy invested year of cash flow. As we said throughout the period, we expected that to start to reverse. As I said earlier in my remarks, I'm happy to report that that has started to reversed.

We've generated more 8 million of free cash in Q4. This quarter looks very solid, and Keith had provided some further sort of guidance in the outlook section of, I believe, of the MD&A related to cash flow and what our expectations are for '17.

I don't know if you have anything further, Keith, to add?

Keith Abriel

I think one thing on the broadcasting piece for the business, Dana—and it's a good question, Aravinda—is we did have a significant outflow during the year as we transitioned output agreements. We expect that to level out going forward, and that cash outflow and amortization on the broadcasting business will be more or less level going forward.

Dana Landry

And what I would say, obviously, I mean this is what we do, invest in content. And so we're extremely excited about the content that we've created, and we're seeing growth related to that, both on the distribution side and on the M&L side, so that's part of what our core thesis here is. And we've made all those investments; we're expecting those to start to pay off.

Aravinda Galappatthige

Okay. Just to follow up on that, so on the broadcast side, the program rights went up from sort of 28 to 58, and I know that on the amortization level you're probably looking at something like 20, 25; I mean that's sort of the EBITDA hit to the broadcast side of the business. Is it fair to say that since you spent significantly more than your amortization this year, the actual cash outflow next year should be notably lower than amortization? Or is that going to be offset by the addition of this content that you're going to be licensing?

Dana Landry

Yeah. Great question. No, that's exactly right, Aravinda. There was a bit of a onetime amount there, and keeping it to the specifics, and yes we expect it to normalize. If you actually look at the individual sort of free cash flow profile of TV, this year on the surface you might look and say, well, it generated 25 million or 28 million, whatever the number was, of EBITDA, and that's the cash flow.

But when you look at the actual cash, to your point, it actually 58, so the vast majority of the drain in free cash flow this year was relating to those investments. And many of those will not repeat. And I would say going forward, should be more normalized to what the amort is.

Keith Abriel

Yeah. We expect, Aravinda, it will be more or less level going forward, possibly a small outflow in Q1, but levelling off the rest of the year, unlike fiscal '16 where we transitioned slates from essential a pay-as-you-go model to a pay up-front model.

And just for clarity, what you mean is levelling off at the amortization level?

Keith Abriel

At the amortization level, yes, exactly.

Aravinda Galappatthige

Okay. Okay. Understood. Thanks. And my follow-up before I hand over is on the free cash flow side itself. The Vancouver studio, my understanding was that was going to be built over '17 or '18. It sounds like from the MD&A that you're going to be building it entirely in '17, so the entire

CapEx hit is going to be in ’17. I was wondering if you can clarify that? And also maybe just touch on the benefits of that spend in terms of efficiencies and savings. Thanks.

Dana Landry

So I’ll turn to Keith on the actual CapEx, and then I’ll talk about the benefits.

Keith Abriel

Yeah. So the vast majority of that CapEx will hit in ’17. There may be some final amounts going through, but basically the full amount will be in ’17.

Dana Landry

Yeah. I mean this is one of our core strengths, capacity, owning capacity. We have almost 1,000 animators throughout the country and about 700 in Vancouver, so we’re really excited about bringing them all under one roof and seeing what they can create.

Our brand of DHX is highly coveted, not only from our proprietary slate, but also from our served slate, so capacity we saw this a while back when you looked at some of the acquisitions we did on Nerd Corps in the past and we saw that the demand for content was starting to swell. And when you own capacity of really talented animators like we do, it gives us tremendous advantage to execute on our strategic plan to invest in content that we own rights on that we can distribute throughout the globe, and ultimately build brands that have considerable products essentially.

Aravinda Galappatthige

Great. Thank you. I’ll pass the line.

Dana Landry

Thank you.

Operator

Next question comes from Deepak Kaushal from GMP Securities. Your line is open.

Deepak Kaushal — GMP Securities

Oh, hi. Good morning, guys. Can you hear me okay?

Dana Landry

Good morning, Deepak. Yes, fine.

Deepak Kaushal

Hi. Thanks. So I just had a quick couple questions on the free cash flow. I guess in the past typically you've been able to offset the working capital requirements with interim production financing, and in the past year that's not necessarily been the case. What's going on there? And I can ask the follow-up after that.

Dana Landry

Yeah. So that's exactly the point. I mean our core theses from the beginning is we off-load in terms of the ultimate investment the vast majority of the cost of our content. And so really what that means is a dollar that we spend on content we really can pay that off in three years with a combination of our talent, subsidies, us owning the studios, and also the presales that we do.

Last year the ability to access some of the interim production financing became more difficult and constrained, given that we were making quick decisions to invest quickly because we wanted to get—particularly on the Family Channel side of things—rolled up and ready to roll. And I'll give you an example. Like Degrassi, for instance, we had the great fortune of getting an exclusive original for Netflix, and they greenlit that on relatively short notice. And it took a while for the contract to actually come together.

And from a banking perspective, that's the critical piece of locking in interim production financing. But from our perspective, knowing Netflix as being a great customer of ours, we took that and moved forward with it and invested that capital. Now most of that is obviously starting to repatriate, and so that was always part of the plan, but it did create a bit of a burden on '16.

But going forward, we'll look to try to do things a little more in real-time and line up those interim production financing. But core always is that we know that that working capital will repatriate and those investments are paying off.

Deepak Kaushal

Okay. Pardon me. So should we read through that here—or are you seeing increased demands from guys like Netflix to use your balance sheet to help support their content growth? Are you seeing any—more of Netflix throwing their weight around in terms of pricing or financing requirements?

Dana Landry

Well, I think it's the opposite. I think it's that there's an opportunity right now for increased prices on the originals for those that step forward and move quickly and aren't bureaucratic. And that's really where we try to live in that world.

And so what we—what we're going to try to do, obviously, is better align some of our interim production financing things to be able to move those decisions quickly, but also be able to have the investment in those core brands that we can use to generate distribution revenue going forward.

I guess the other part that gives us what I would say reiterate my comments at the top, we're confident enough in those repatriations that we're increasing the dividend because obviously we know our model and we know what's to come.

Deepak Kaushal

Okay. Great. And then so if I'm just doing quick math in the midpoint of your guidance range for next year and your operating expenses, roughly I get adjusted EBITDA of about 120 million. How much of that do you expect to convert to cash from ops? Are you back to that 50 to 60 percent range that you would see in a normal market? Or are you still ramping up?

Dana Landry

I don't think we're quite back to the 50 to 60 percent range, but we're definitely considerably higher than we were last year. I'd say we're more in the 30 to 50 percent range, depending on some of the timing.

Deepak Kaushal

Okay. Great. Thanks. I'll pass the line; appreciate that.

Operator

Next question comes from Rob Goff from Echelon. Your line is open.

Rob Goff — Echelon

Thank you very much, and good morning.

Dana Landry

Good morning, Rob.

Rob Goff

Good morning. My question would be on the M&L-owned side; could you talk to whether the guidance of 28 million to 34 million would include or fully include the Teletubbies touring or other tours that you said might be in the pipeline for Twirlywoos and Into (sic) [In] the Night Garden?

Dana Landry

Yeah. So great question; I think the answer is not much that can be upside, and that may be where we get to the top end of the range. Obviously, that's a pretty late-breaking news story, and for us we're careful in putting things into our guidance.

The one thing that really it bears sort of stating on the Teletubbies in general, as everyone on the call hopefully knows, is that it's a build-out where M&L is a multiyear process. And we're sort of in year two of hopefully a 15-year cycle here when it comes to Teletubbies. And we've launched in the UK, and we're expecting great results this Christmas.

Next January we start in the US, and so we'll have some uptick in our 2017 results related to Teletubbies, but the future is very bright. We expect in addition this year two to five new territories that we'll add at least in terms of that sort of initial phase, and whether we get any MGs or minimum guarantees or revenues in in '17, it'll be probably tricky to get in '17, but for '18 and '19 we're just continuing to build.

Rob Goff

Okay. And I may go a little bit deeper into that. You give the guidance of on a quarterly basis 20, 20, 30, 30. What would the natural seasonality of that business be? And would the Q3 at 30 percent reflect you earning through minimums?

Dana Landry

Yeah. You could read through that, yeah, absolutely. I mean I think that the—there's probably some potential for upside in Q2, like there always is. I think the challenge on reporting 45 days after quarter-end, a lot of our reports will come in after that. So given our first year, it would be unwise for us to make too many aggressive accruals, and so we'll probably see a lot of that coming in in our Q3 and onwards.

Rob Goff

Okay. Thank you very much, and I'll pass it along.

Dana Landry

Thanks, Rob.

Operator

Your next question comes from Bentley Cross from TD Securities. Your line is open.

Bentley Cross — TD Securities

Good morning.

Dana Landry

Good morning, Bentley.

Bentley Cross

I wanted to ask about distribution margins. Obviously this quarter was a little bit of a surprise to myself and some others on the Street. A) what drove it? B) what gives you the confidence that it's going to turn around next year?

Dana Landry

Well, let's—I guess what I would say is clearly I mean turnaround is a strong statement. Even if—we're talking even on WildBrain now at 55 percent margins, so let's just be clear that these are solid margins.

So yeah, part of the thing that we've talked about in the past, Bentley, as you know, is you do have the quarter-by-quarter anomaly. Then WildBrain was such a strong quarter this quarter at a roughly 55 percent margin and it drove it down; probably it had it where we were wanting it to be.

Also on a lot of the properties you do your best to forecast what those would be on an individual quarter, and there is some lumpiness related to the individual titles that are sold. And so up on—I think that we tried to—we gave very specific attention to this for '17 in our guidance, and you'll notice that we had a bit broader range in the quarters to hopefully account for some of those anomalies.

But on the year-end, we gave pretty tight guidance on where we think the annual will settle in, and I think that if you do—if you stick to that, we think that we will achieve that.

Bentley Cross

And maybe I can just follow up with that. There's been some chatter recently that some of the SVOD services are taking less library content, but putting more of a premium price on new originals. Are you guys seeing the same? Or is the library still selling well?

Dana Landry

Yeah. I mean that's a normal thing that you would expect to happen. It hasn't really translated for us. We still had—we were only down maybe like, I'd say, 10 percent from '16 to '15 on library sales as far as the percentage of the overall. So we're not really seeing that.

And I think part of it might be because of our large library and our relationships with the Netflixes of the world, and as they expand in the new territories we're a natural place to go. As I said earlier, we're kind of a one-stop shop, so we're able to sort of feed those in.

And there are some—there is some signs of consolidation related to specific markets in obviously like Canada; we've seen some of this last week. But overall, there's still global growth, we're still seeing that, and we're still getting a large percentage of that.

Bentley Scott

If I may just squeeze one more quick one in here.

Dana Landry

Sure, Bentley.

Bentley Cross

I don't know if you'll have it on your fingertips, but could you maybe just put some numbers around it and tell us kind of what percentage of titles sold this year versus last or something along…

Dana Landry

Yeah. Maybe I'll just give a—I mean I think that last—I mean I would say two years ago we were probably 75 percent library, 25 percent current. I would say this year it's more like probably 40 percent current, 60 percent library. And going forward, I think if you assume the 50/50 that would probably be a normal split.

I don't know if, Keith, whether that's generally…

Keith Abriel

Yeah. That's about right, and certainly trend-wise that's where it is.

Bentley Cross

Okay. Great. Thanks, guys.

Dana Landry

Thanks, Bentley.

Operator

Once again, if you would like to ask a question, press *, then the number 1 on your telephone keypad.

And your next question comes from Rob Peters from Credit Suisse. Your line is open.

Robert Peters — Credit Suisse

Good morning.

Dana Landry

Good morning, Rob.

Keith Abriel

Good morning, Rob.

Robert Peters

So just had a question; when you look at the TV production, you added about 215 half-hours of proprietary production this year. I was just wondering to the extent you expect that to continue to grow, should we still see that be a draw on free cash flow as that business ramps up? And then maybe the—a second part of this is are you still targeting 100 to 200 half-hours? Or what do you think kind of a steady-state production would be for you?

Dana Landry

Yeah. So there's three pieces there. I'm just going to try to sort of target four (phon). So the first one on growth, we do think there's going to be growth with respect to the revenue line for sure, and I think that comes back to one of the earlier questions on pricing. We're still seeing prices expand as the competition heats up.

Two hundred and fifteen is a big number, and I think it's an aggressive one to target going forward. It's probably at the high end of the range. And if you look at that, it's probably sort of 15 to 16 productions, which would be right up there amongst the leaders. I don't even think Disney would do any more than that. If they did, it would be in that range. So we've produced a fair bit. So I think that where the revenue increase is going probably come on the per half-hours.

The second bit I think was on your draw question, and I would say that again we apologize for the late posting, but when you do get into the MD&A you'll see that we gave some pretty specific guidance on where we think the draw for investment in content will be. And I think, Keith, correct me if I'm wrong, the range we put forward was 15 million to 25 million?

Keith Abriel

Yeah. We think it's about 15 million to 25 million, and we expect the impact on working capital to be less than it would have been in fiscal '16.

Dana Landry

Yeah. So that's '17. And target…

Keith Abriel

Yeah…

Dana Landry

Yeah. So target going forward, you'll also note in the MD&A we have increased our target based on our success and our growth. I think we now have it in the range of 150 to 225, so that would be our sort of new seeded target; a little bit tighter range and still expecting sort of 1 to 2 percent growth on the library.

Robert Peters

Fantastic. That's great. And maybe just to follow up and kind of switch gears slightly, when we look at the M&L-represented guidance for next year, I was just wondering, I mean obviously you've had extremely strong performance from your properties this year. I assume part of that is just making it a difficult comp. But was there any FX in that guidance as well?

Dana Landry

Yeah. No, it's totally the first part. It's just I mean we just absolutely killed it on Minions and a couple of other properties, and it would be very difficult to repeat that. You'll notice that if you look at it compared to, say, '15, the guidance for '17 is up considerably, and so we do expect a bit of a spillover on some of those properties. But we need to have another sort of big hit that comes in there to kind of repeat the '16 numbers.

Robert Peters

Perfect. Thank you very much.

Dana Landry

Thanks, Rob.

Operator

Your next question comes from Aravinda Galappatthige from Canaccord Genuity. Your line is open.

Aravinda Galappatthige

Thanks. A quick follow-up; I know in the past you talked a little bit about the international SVOD side of things and sort of the traction you're getting in China. Can you just talk about—I know '15 was just about $1 million—can you just talk about how that sort of played out in '16?

Dana Landry

Sure. Yeah. We—I mean the growth is a ridiculous number, but if you look at the total dollar value, I think we were just under 5 million in '16, and we're expecting to grow that for sure. We're targeting somewhere in the 50 percent range for growth.

I mean that's one area that we could drastically overachieve. It's just very difficult to predict because it's obviously a highly regulated market. We want to make sure that our rights are protected. It's all incremental and upside to us, so we want to go carefully along that.

Our strategy there, as we've talked about in the past, has been to partner with locals. And we're having a lot of those key conversations, and in fact our head of sales, Josh Scherba, is in China right now as we speak in a series of meetings. So it's definitely a territory that we're focusing on and one that we expect to build over multiple years.

Aravinda Galappatthige

Okay. Great. Thank you.

Dana Landry

Thank you.

Operator

Your next question comes from Jeff Fan from Scotiabank. Your line is open.

Jeff Fan — Scotiabank

Hi. Good morning, everyone. I want to ask a question about your production slate. If you look at your total number of half-hours produced in 2015, a number of these titles, I guess, were not produced again in 2016. And then in 2016 you've got a number of new green-lit shows in your first season, which actually makes up a majority of the total hours—half-hours produced. So I guess my question is what—when you look ahead—I know this might be a tough question—what kind of—what's your hit rate? Or what's your percentage that you would expect that you see shows going into multiple seasons? Because I would think that this is—would be a good leading indicator into your ability to feed the library and to have successful distribution in M&L revenues flow-through. So I'm wondering if that's the right way of looking at it? And if you can talk a little about looking ahead on multiple seasons production?

Dana Landry

Yeah. I mean, I think, obviously this is where the art comes in—it's more art than science—but I think that one of the things that I would say is that in owning the channel it allows us to pilot a lot of things and test things out. And what's great about owning the Canadian channels is that's effectively kind of a US-like proxy over things that we think will work in the English-speaking territories. And so we try things out. If they work, we do them again. If they don't, we try something new.

I mean every time we use the capacity, whether that is to put a show on a channel or a show in a studio, it's to try to put our best foot forward. And what we're focusing on is really what we call sort of our number ones, and our number ones are the ones that we can generate revenue across all revenue streams. And so obviously on production we can fill our studios; we can put it on our channels and leverage there; we can grow for distribution for long term; and ultimately get consumer products potential.

At the end of the day, you've got a—it's a chicken and egg scenario—you've got to have a show that connects to kids in order to sell goods and services. So you'll probably see us a little bit—be a little bit more nimble on that.

I would say overall, though, based on the sales we're getting across the current slate and the new slate and the slate that's in development, is really quite exciting. And the other thing you've got to remember, Jeff, is that we're kind of two years in arrears to what the actual operating is because these revenues are delivered and booked over a two-year period, so we're starting green-lighting things that won't be delivered until in some cases '17 and '18.

And so we're sort of already getting to the place where we know we think what's working, what's moving, and so this is a nice look back as a touch point, but really those are the things that we're focusing on. And if you look at over time what has become hits, certainly animated shows have a better track record for doing things that sell toys and consumer products more so than live action, but having said that, you want to make sure that you have enough of a balance. So we'll look at both.

And of course, the beautiful thing about adding that content is being able to test it out on WildBrain. And what's great about WildBrain is we can start something on Monday, and if it works we know it works by Wednesday. And if it works, we do more by Wednesday. And we can leverage that back and forth. We're using that as a—effectively a pilot testing as well. And I think you'll see hopefully going forward us be—start to be on the forefront of creating properties both ways from the new digital world and then back into the TV world, and trying things like shows that have not necessarily half-hours, but things that are minutes or twos or for the new world.

Jeff Fan

Great. And then with respect to the new studio in Western Canada, does that increase your production capacity materially? Or is it just consolidation…

Dana Landry

Yeah. It probably increases it a little bit, but I think I would think about it more about just efficiencies. Right now we've got two studios in two different locations; not the best for efficiency purposes, so putting it all under one roof we think it's going to be much, much more efficient.

We could have a shared vision on the management side, shared vision on the product—the development side, which we can leverage that extreme talent that is in Canada, which is a huge asset that we have to help us create these new shows that are going to connect on the global scale, and allow us to distribute better and ultimately sell more products.

Jeff Fan

Okay. Thanks, Dana.

Dana Landry

Thank you, Jeff.

Operator

Your next question comes from Deepak Kaushal from GMP Securities. Your line is open.

Deepak Kaushal, your line is open.

Once again, if you'd like to ask a question, please press *, then the number 1 on your telephone keypad.

And your next question comes from Rob Goff from Echelon. Your line is open.

Rob Goff, your line is open.

Rob Goff

Can you hear me now?

Dana Landry

Yeah. We can hear you, Rob.

Rob Goff

Great. Thank you. You had expensed, I believe, it was 1.45 million related to acquisitions. Could you talk to what you are seeing in the pipeline and what types of things you're looking at? What valuations there may be in the marketplace?

Dana Landry

Yeah. So there are no surprises; really right back to our core strategy. There's sort of three types of opportunities we're looking at. Number one are global brands, or brands that are currently global brands or ones that we think can be global that we can put into our infrastructure and be able to leverage revenue and cost synergies.

Number two, and I would say I really something that we'll pay real significant attention to, is opportunities in the WildBrain space to acquire new channels and/or new viewership to ultimately leverage that in a new and interesting way. And as I said, perhaps use that to produce organically some fresh content related to those opportunities.

And then lastly, if there's areas around the globe where we think we can expand to allow us to have more boots on the ground, we'll look to that, things like China and/or perhaps even Latin America.

So those are the areas of focus for us. And it still is a huge area of focus and we haven't done one in a while, but I think we—you could say that that is for us it's showing our discipline, we believe, to find the right deals.

Rob Goff

Thank you, Dana.

Dana Landry

Thank you.

Operator

Once again, if you'd like to ask a question, press *, then the number 1 on your telephone keypad.

Your next question comes from Deepak Kaushal from GMP Securities. Your line is open.

Deepak Kaushal

Hi, guys. Can you hear me now?

Dana Landry

Yes, Deepak.

Keith Abriel

Yeah.

Dana Landry

We got you.

Deepak Kaushal

Hi. Sorry about that before. I know we're getting to the hour period here, but I wanted to be quick. I just had a question on the AdVOD business and the WildBrain business. It looks like good gross margin. I was wondering if you could talk about how the operating margin evolves for that business? Other AdVOD businesses I've looked at seem to have been challenged on the bottom line despite decent gross margins. How is it different for you guys?

Dana Landry

Well, it's different for us. If you think about it, I mean obviously we have our big partner on YouTube, which takes a good swath of that. But beyond that really there's very, very little incremental cost outside of our SG&A, which is still relatively modest compared to I think we might have added, what, maybe total 5 million over the last year annually.

Keith Abriel

Yeah.

Dana Landry

It's probably in that range, 4 to 5. So—and remember all those videos, most of them, the vast majority, are things that are already in our library, so there's no cost of production associated with them. So it's huge incremental margin to us, both on the operating and growth side.

But obviously, we're going to look to invest to grow that and grow our share.

Deepak Kaushal

Okay. So should we expect profitability over the next 12 months? A significant possibility?

Dana Landry

Absolutely. Yeah. Absolutely. I think that when you look at—and again a quick [unintelligible] P&L now and if we booked 18 million in revenue on the gross, the net is—help me out, Keith—10-ish.

Keith Abriel

Yeah…

Dana Landry

We probably had SG&A of 5. Yeah. That was definitely profitable.

Deepak Kaushal

Okay. Great. We don't have to wait for this thing to be profitable.

Dana Landry

No…

Deepak Kaushal

Fantastic. That's it for me. Thanks so much, guys.

Dana Landry

Thank you.

Operator

Once again, if you would like to ask a question, please press *, then the number 1 on your telephone keypad.

We do not have any questions at this time. I will turn the call over to the presenters.

Nancy Chan-Palmateer

Well, we want to thank you for joining us today, and we look forward to speaking with you next quarter.

Thank you, everyone.

Dana Landry

Okay. Bye. Thank you.

Operator

This concludes today's conference call. You may now disconnect.

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