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COMMUNICATIONS / MEDIA / ENTERTAINMENT

September 11, 2019

Thunderbird Entertainment Group Inc.

Riding The Content Demand Wave

Unless otherwise denoted, all figures shown in C$

Recommendation: **Buy**

Target Price: **$3.00**

Company Statistics:

Stock Symbol: TBRD - TSXV
Price: $1.17
Share Outstanding:
- Basic: 46.6 MM
- Fully Diluted: 47.8 MM
- Management/Directors: 23.5 MM

Market Cap: $55 MM
Market Float: $27 MM
Net Cash (F2019E): $20.7 MM
Average Daily Trading Volume: 25,000
High - Low (52-Week): $3.10 - $1.10

Company Description:

Thunderbird is a multi-platform media production and distribution company based in Vancouver, Canada with offices in Toronto, Los Angeles and London. Thunderbird has two primary operating subsidiaries; Great Pacific Media Inc. and Atomic Cartoons Inc.

Disclosure statements located on pages 24 – 25 of this report

Thunderbird is undergoing impressive growth and benefiting from the growing demand for content as more and more direct to consumer video services (SVOD, AVOD) launch. Thunderbird sells many of its productions to entities traditional video outlets such as the CBC, Disney, W Network and to digital services like Netflix, etc. Thunderbird is expected to grow organically and via acquisition.

Thunderbird's productions are a mix of proprietary (owned IP) and service work. We expect the business to transition to more and more IP work in the future.

Thunderbird produces highly popular shows such as Kim's Convenience (CBC), Highway Through Hell (Discovery Channel), Heavy Rescue 401 (Discovery Channel) and so on. Thunderbird beefed up its animation business with the acquisition of Atomic and it is growing its business and taking on more and more IP work.

We believe the stock is attractive given it is trading at EV/EBITDA multiples of 2.9x and 2.2x on F2019 and F2020, respectively.

We initiate coverage on Thunderbird with a Buy and target of $3.00.

Fiscal YE June	2018A	2019E	2020E	2021E
Revenue ($MM)	142.4	73.4	96.3	120.4
EBITDA ($MM)	9.0	12.8	15.7	18.2
EPS (ops)	0.08	0.12	0.14	0.17
EV/EBITDA		2.9x	2.2x	1.7x
P/E		9.9x	8.4x	6.9x

Investment Highlights

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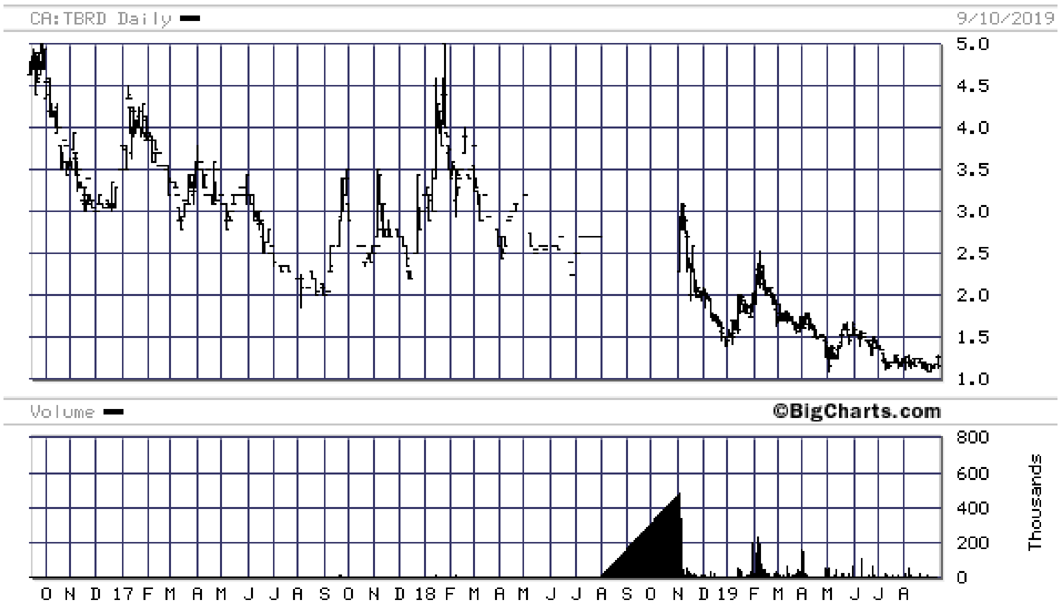
We rate Thunderbird a Buy with a target of $3.00.

Figure 1 **Price Chart**



Source: BigCharts.com, September 10, 2019

Thunderbird Corporate Profile & History

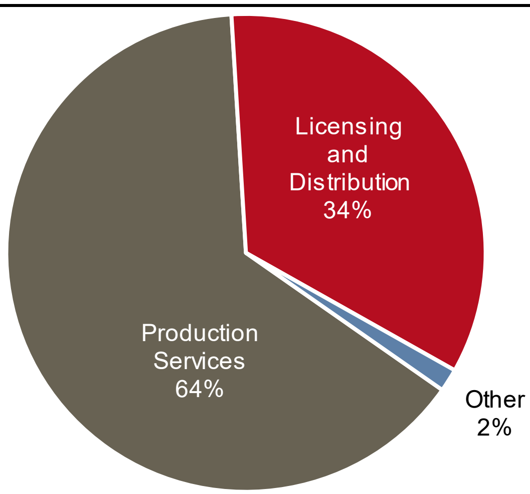
Canadian Entertainment Company With A Global Presence

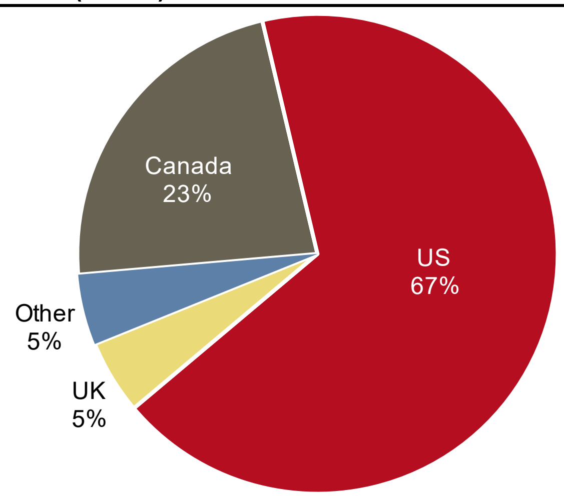
Thunderbird is a multi-platform media production and distribution company based in Vancouver, Canada, with offices in Toronto, Los Angeles and London. Thunderbird has two primary operating subsidiaries; Great Pacific Media Inc. and Atomic Cartoons Inc. The company's production and distribution slate consists of content in various genres with a strong focus on non-scripted, scripted comedy/drama and children's content. Despite the company's relatively small size and early stage of growth, the company has sold its shows globally with current programs being broadcast in over 180 countries on conventional linear and digital platforms. Thunderbird also licenses its shows to leading OTT platforms such as Netflix, Hulu, Amazon and iTunes which offer SVOD, TVOD and AVOD services.

Thunderbird was founded in 2003 and the company has achieved solid growth organically and through acquisitions since its inception. Thunderbird commenced trading on the TSX Venture exchange in November 2018, via an RTO transaction. Initially, the company focused primarily on acquisition and distribution of third-party content throughout North America. In 2005, the company began expanding its content library through creation and production of its own proprietary content with a focus on television series for domestic and international linear markets. Since then, the company has grown significantly in the Canadian media industry through content distribution to both linear and digital platforms across multiple genres. Thunderbird's other segment consists of ancillary revenue sources such as merchandising, music and video games. Recently, the company expanded its focus on children's programming through its acquisition of Atomic Cartoons Inc. in 2015.

The following is a revenue breakdown for its F2018 year with 64% of its revenue from Production Services and 34% from Licensing and Distribution and 2% from Other. In F2019, the relative contributions from Production Services and Licensing and Distribution are expected to largely reverse.

Figure 2 **Thunderbird Revenue Composition (F2018)**



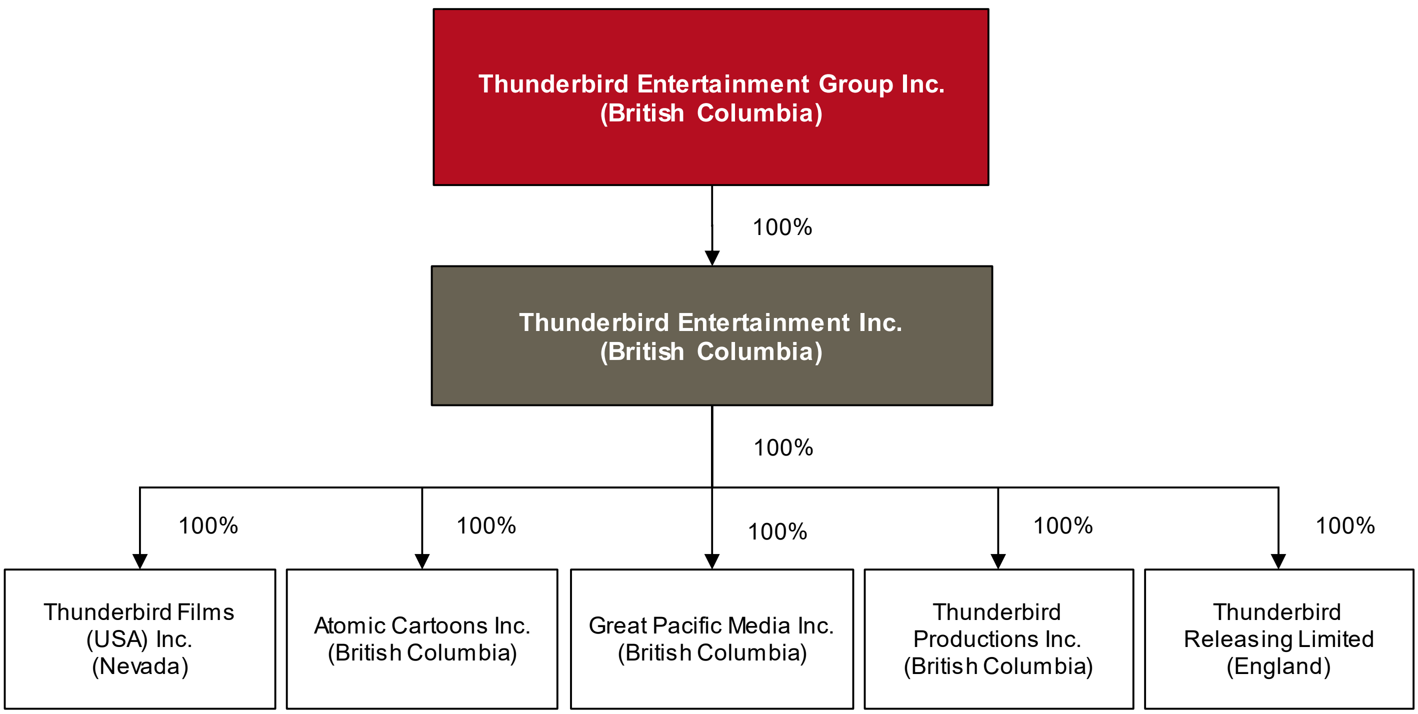


Source: Company Filings

High Quality Content Via Organic And Acquisitive Growth

Children's programming has been a key source of growth for Thunderbird's production slate and proprietary library for the past decade. In 2015, the company further advanced its market presence in the kids animation segment through its acquisition of Atomic Cartoons Inc. Atomic is a full-service animation studio founded in 1999, based in Vancouver, BC specializing in producing animation for commercials, music videos, and television series for clients such as Nickelodeon, Spin Master, Walt Disney, Mattel, Warner Bros., Marvel and NBC Universal. We believe that this genre in particular has a long shelf life with the ability to reach a diverse audience across many different cultures and geographies. Prior to Thunderbird's acquisition of Atomic, the company focused solely on providing 2D animation services for its clients. However, in the past three years under Thunderbird's leadership, Atomic significantly ramped up its 3D capabilities and produced Thunderbird's proprietary series *Beat Bugs*, which features music from the Beatles. Atomic Cartoons has achieved substantial organic growth since being acquired by Thunderbird and the company has grown from engaging approximately 200 to 500 animators. The company has also solidified its relationships with key OTT platforms such as Netflix and Amazon over this time horizon.

Figure 3 **Thunderbird's Corporate Structure Post RTO Transaction**



Source: Cormark Securities Inc., Company Filings

Due to the company's operations in multiple geographic locations, Thunderbird has five major operating subsidiaries in which it has a 100% controlling interest; 1) Thunderbird Films (USA), 2) Atomic Cartoons, 3) Great Pacific Media Inc., 4) Thunderbird Productions Inc. (BC) and 5) Thunderbird Releasing Limited (England).

Figure 4 **Thunderbird's Production Slate**

Project	Client/Partner	Service/ Proprietary	Format	Delivery Date
Children and Animation				
101 Dalmations	Disney	Service	52 x 11 mins	September 2019
Hello Ninja	Netflix	Service	40 x 11 mins	Q2/F20
Last Kids	Netflix	Proprietary	26 x 22 mins	September 2019
Lego Jurassic World	Lego/NBCU	Service	2 x 22 mins	September 2019
Lego Marvel Spiderman	Lego/Marvel	Service	1 x 22 mins	Jul-19
Molly of Denali	WGBH (PBS affiliate)	Service	40 x 22 mins	Q3/C20
The Legend of the Three Caballeros	Disney+	Service	13 x 22 mins	F2020
Factual, Lifestyle and Non-Scripted				
Highway Thru Hell	Discovery/Weather Channel US	Proprietary	17 x 60 mins (season 8)	F2020
Heavy Rescue 401	Discovery	Proprietary	14 x 60 mins (season 4)	F2020
High Arctic Haulers	CBC	Proprietary	10 x 60 (season 1)	F2020
Queen of the Oil Patch	APTN	Service	8 x 30 mins (season 2)	F2020
The Teenager and the Lost Mayan City	CBC	Proprietary	60 min documentary	F2020
Scripted				
Kim's Convenience	CBC	Proprietary	13 x 30 mins (season 4)	F2020

Source: Company Filings, Cormark Securities Inc. estimates

Thunderbird Has Built Strong Relationships With Traditional And Digital Broadcasters Around The Globe For Children Animation

We highlight Thunderbird's current production slate alongside its key client/partners for each project. On September 9, 2019, Thunderbird announced its largest ever fall lineup in its history that encompasses the shows highlighted in its production slate in Figure 4 and some shows that have been produced and delivered but will air in the fall 2019 or later. Some of Thunderbird's notable clients include *CBC, Rogers, Corus, Bell, ABC/Disney, NBC and Discovery.*

The company has established itself as a key supplier of premium children's content to some of the leading OTT platforms like Netflix, Hulu and Amazon. As highlighted earlier, a significant portion of Thunderbird's recent growth is attributable to the children's animation genre in which the company expanded through its acquisition of Atomic Cartoons. Atomic Cartoons is currently producing four series for Netflix alone, alongside other projects from various broadcasters mentioned above. Aggregate production budgets for its children's content slate are estimated to exceed $90 million.

Thunderbird Has A Diversified Content Library Through Its Acquisition of Great Pacific Media in 2015

Thunderbird also has a robust production slate for its factual, lifestyle and documentary genre. The company gained exposure to this category through its acquisition of Great Pacific Media Inc. (GPM) in 2015, which was formed by two veteran factual television producers, Blair Reekie and Mark Miller. GPM is a full-service production company with office, studio and post-production facilities in Vancouver. GPM's current production slate includes *Highway Thru Hell*, which is one of the most popular and successful factual programs in Canadian history. The company also produces a spin off series for Discovery Canada which brings the elements of *Highway Thru Hell* to Canada's busiest freeway, Ontario's notorious 401, via its *Heavy Rescue:401,* currently in production. Aggregate production budgets for its factual, lifestyle and documentary slate are estimated to exceed $55 million.

Strong Presence In The Scripted Category

Thunderbird has a track record of successfully producing some of the famous scripted series over the years for Canadian, American and International audiences. This category

Amongst Well-Known Broadcasters

includes genres like drama, science fiction, and half-hour comedy series in both single camera and multi-camera sitcoms. Single-camera comedy shows are typically half hour episodes and are filmed without a live audience; however, multi-camera sitcoms are typically filmed in front of a live audience (hence the background audience reaction). Past productions include the primetime drama *Somewhere Between* for ABC, *Package Deal* for City TV, *Endgame* and four seasons of the science fiction series *Continuum* for Showcase. Thunderbird has also produced the first three seasons of the hit series *Kim's Convenience*, that is based on the Korean-Canadian Kim family who run a convenience store in Toronto. The series was developed by Thunderbird alongside Toronto's Soulpepper Theatre Company and is broadcast on CBC in Canada. *Kim's Convenience* also won the award for top comedy series at the 2018 Canadian Screen Awards. In 2018, the show was licensed to Netflix for exclusive SVOD distribution and later the series became available to audiences outside of Canada through Netflix. *Kim's Convenience* is currently in production for the CBC. Aggregate production budgets for its scripted slate are estimated to exceed $30 million.

Short-Term & Long-Term Strategy

Growing International Distribution Presence Through OTT Platforms Is Relatively Inexpensive

Global/International OTT platforms provide an opportunity for content producers like Thunderbird to reach multiple international markets relatively inexpensively. This is primarily due to the geographic reach of the OTT platform. For example, Thunderbird can make one sale to Netflix covering its global footprint that encompasses many countries/territories. In this case, Thunderbird does not need to build an extensive distribution infrastructure to make sales of its shows in all the different countries/territories. This also eliminates the need for Thunderbird to rely on a third-party distributor that takes a 25-40% distribution fee of revenue.

Build A Strong Library Of Children's

Children's content specifically has a long shelf life due to its general cultural agnostic nature and the ability to dub it into many different languages. Thunderbird has been increasing its production of IP-owned children's content to grow and build a library of brand recognized content that can be monetized over the long term.

Create Long-Term Strategic Partnerships With Leading OTT Platforms To Drive First Window Sales

The increasing popularity of OTT platforms as a source of content for consumers bodes well for the near-term and long-term given Thunderbird's already established relationships with these entities. Thunderbird has strengthened its relationships with key OTT platforms such as Netflix, Amazon and Hulu by successfully delivering on key titles resulting in additional content orders from these platforms. For example, the successful delivery of *Beat Bugs* as a Netflix original has helped the company position itself as a preferred supplier of original content to Netflix resulting in new content orders of new children's series *(Hello Ninja, Last Kids on Earth).*

Well Positioned To Capture Organic And Acquisitive Growth

We believe Thunderbird is well positioned to capture organic growth through a robust production backlog and a growing distribution library of premium content. Many of Thunderbird's productions are repeat orders due to the popularity of its programs.

The company is also well positioned to take advantage of the ongoing consolidation in the media and entertainment industry through acquisitions. For example, Thunderbird acquired Atomic Cartoons in 2015. This acquisition created a new business opportunity as it allowed the company to grow in the animation sector while simultaneously leveraging its existing relationship with Netflix and securing a contract to produce 52 x 15-minute episodes of *Beat Bugs* as a Netflix original series.

Thunderbird's Economic Model

Thunderbird generates most of its revenue through the production and distribution of children's programming, factual television series and scripted series content. The company focuses on expanding its distribution library through its own proprietary production and the acquisition of premium content from various third-party producers. Thunderbird's focus has been towards higher budget and higher quality programs due to the relatively longer shelf-life of this type of premium content.

The economic model differs for production services, proprietary production and distribution. The least risk is typically associated with production services given a margin is reasonably assured for the production, assuming no significant cost over-runs. The production service revenue more than covers the expected cost of production and cash is collected over the production of the show ensuring positive cash flow.

Proprietary production encompasses more risk than production services given a positive margin on the show isn't always guaranteed. Typically, for Canadian production companies tax incentives and other subsidies plus 1-2 territorial pre-sales will add up to 80%+ of the production budget. Therefore, the production company will risk the remaining 20% of the production cost and expect to sell more territories in first or second window and later sales to result in a positive margin. Also, any tax incentives and other subsidies are collected in 12-18 months, after the production has been completed, requiring the production company to use the tax incentives and other subsidies as collateral for interim financing to finance the cost of production. Proprietary production can be a cash-intensive business if there is a significant amount of production activity.

The economic model for distribution typically requires cash advances to acquire the rights to shows/films to be later resold on a territory-by-territory basis in order to recoup the advance and generate a positive margin on the show/film. Also, media rights can be sold off within a certain territory to maximize revenue. For example, the terrestrial rights can be split from the digital rights, etc. The distributor also typically takes a distribution fee of 25-40% from the revenue before applying the balance of the revenue towards recouping its advance. Only after the entire advance is recouped will the producer see additional revenue or overages.

Thunderbird's economic model is relatively attractive due to the favorable Canadian tax credit regime for Canadian content producers. The current production funding model minimizes the company's capital risk, hence limiting downside risk. We highlight these external sources of funding below:

15% - CPTC (Canadian Production Tax Credit)

The Canadian Production Tax Credit was established to promote development of the domestic media and broadcasting sector. The current regime dictates a 25% credit of labor expenditure related to production to be recouped in the form of tax credits for producers of Canadian content. The labor costs should not exceed 60% of the total production costs, effectively resulting in a maximum offset of 15% of the total production costs.

25% - Broadcasting Fees Further Subsidized By CMF License Fee Top Up

Based on our prior analysis of similar Canadian media companies, we have seen broadcasters typically commit 25-30% of the total production costs in exchange for exclusive Canadian broadcast rights. In addition, the Canada Media Fund allocates funds, through its Performance Envelope Program, to eligible broadcasters in the form of monetary grants. The CMF can cover up to a maximum of 20% of a qualified project's eligible costs. Although the envelope allocations are assigned to Canadian Broadcasters initially, once the broadcaster and producer have solidified the details of the contract, the actual funding is deployed directly to the producer by the CMF. The envelope plus the broadcast licence fee typically amount to more than the broadcast licence fee excluding the envelope.

25% - Provincial Film and Television Tax Credit

Depending on the home province, the provincial governments in Canada also provide tax credits ranging from 25-35% of the labor costs of production. We estimate labor costs to be typically 70% of the overall costs, essentially allowing Canadian producers to offset 25% of their initial production costs.

15% - Co-Producers/Other Equity Funds

Thunderbird also takes advantage of the co-production treaties between Canada and various other countries. Moreover, co-productions also qualify as local content in the co-producer's local territory, hence providing further financing incentives within those territories.

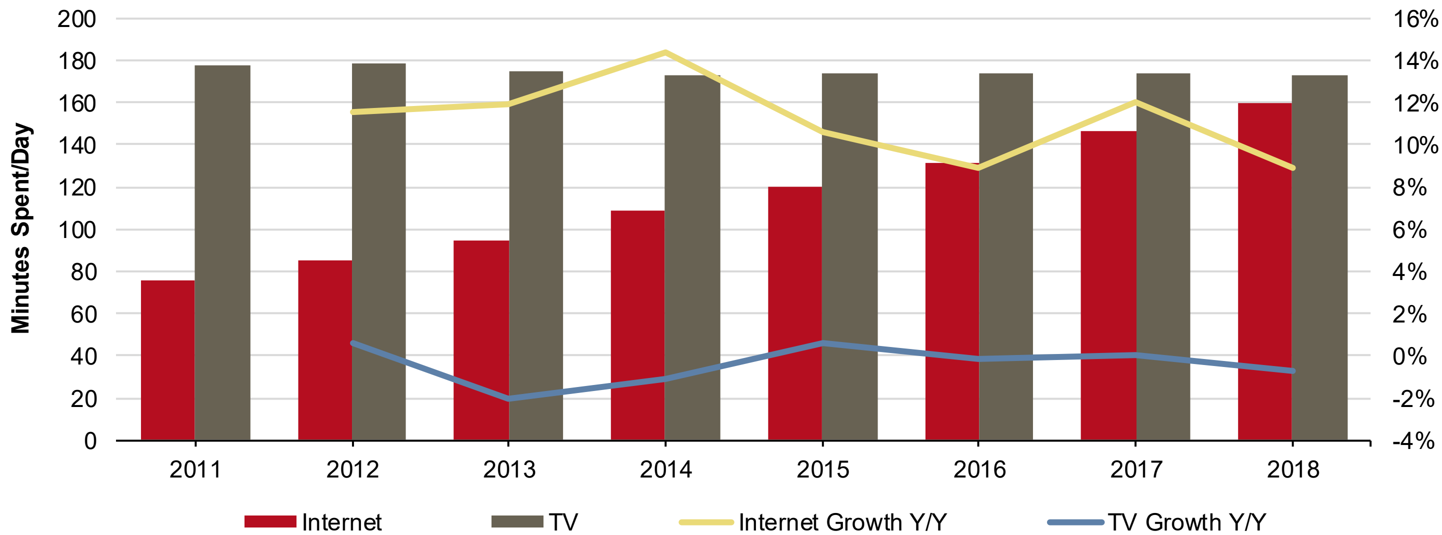
The incentives aforementioned plus possible pre-sales of the production allow Thunderbird to control its risk limiting it to 20%, or less, of the production budget. Given a limited amount of capital for production, these incentives allow Thunderbird to trigger more production than without the incentives.

Entertainment Industry

Overall Content Consumption Continues To Grow Steadily, Internet Consumption On Track To Surpass Linear TV

The platforms for content consumption are in flux as internet (including mobile) continues to grow. Linear TV has been the primary source of content consumption for the past 70 years. However, consumers have shifted towards internet as their primary source of content consumption primarily due to the desire for on-demand programming, the affordability of accessing content via the internet as well as the desire for limited to no advertisements. The total time spent on video consumption (traditional TV and internet) has grown at a CAGR of 4% between 2011 and 2018. Nevertheless, Figure 5 shows that the growth in consumption is attributable to internet content over the recent years. In 2019, internet is expected to surpass TV as the leading source of video consumption. We believe this bodes well for content producers that supply OTT providers, such as Thunderbird, as they look to expand their offerings of original and third-party content to meet the growing demand.

Figure 5 **Historical Worldwide Content Consumption By Channel**



Source: Zenith, Cormark Securities Inc.

Growing SVOD Penetration Levels Provides Thunderbird A Long Runway For Growth As It Supplies Them With Content

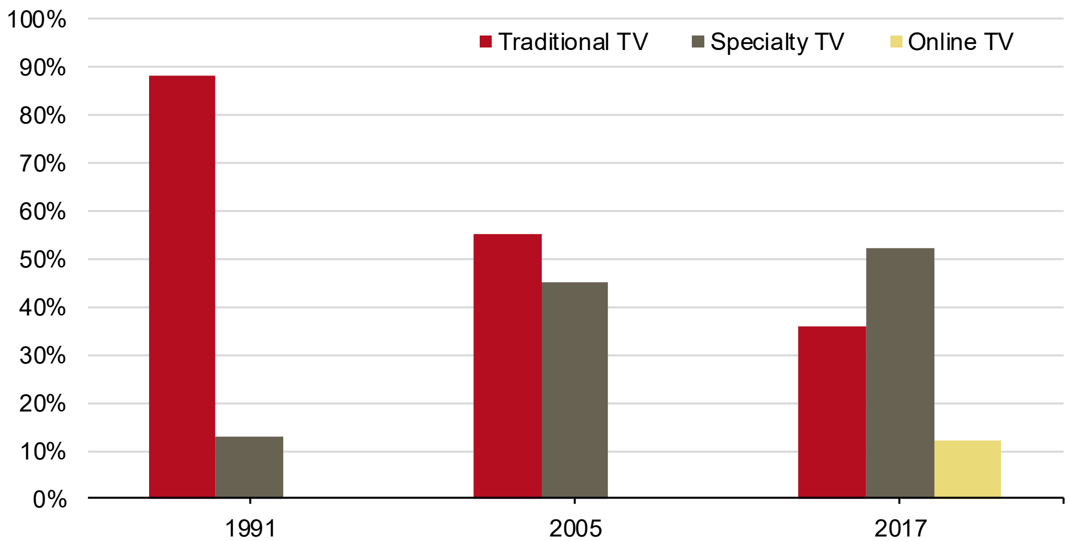
In recent years content consumption through Linear TV has been on a decline primarily due to competition from OTT and SVOD options available to the consumer. In a recent study conducted by Nielsen, 70% of the US households now have a subscription to an SVOD service versus 50% penetration in 2018. Average time spent consuming content across all forms of media rose by 21 minutes in Q2/19 versus Q2/18. It is notable that although there might be a shift in the platforms for viewing video content, overall video content consumption is far from plateauing in the near future. Given increasing popularity of OTT and SVOD platforms, having key partnerships with them is a key element of success for content producers and distributors in this environment. We believe Thunderbird is well positioned to capitalize on the growing presence of OTT platforms due to the company's partnership with key SVOD platforms like Netflix, Hulu and Amazon.

Canadians Are Consuming More Custom Content Than Ever Before

Content demand has evolved dramatically over the last decade from consumers tuning in to scheduled programming on conventional channels to embracing specialty channels focused on niches such as reality, food, cooking, history, sports, etc. This shift has allowed the consumer to derive more value from content consumption than a decade ago as it stimulates a more personalized experience for the viewer based on his/her preference. This personalized video experience has been taken one step further through the use of algorithm-driven recommendations primarily from OTT platforms like Netflix, Hulu and Amazon. These recommendations reflect an individual's preference based on past watched titles as well as selected genres on their specific profile within the platform. This is something that traditional video has not been able to replicate.

Traditional video's dependency on advertising revenue is likely to continue to benefit SVOD platforms. According to Deloitte Insights, consumers feel that eight minutes of ads per hour is the right amount and that consumers will stop watching video if there are more than 16 minutes of ads per hour. Traditional video typically consists of 12-20 minutes of ads per hour. In our opinion, given traditional video's dependency on advertising revenue it is highly unlikely for traditional video to cut advertising minutes significantly in order to satisfy viewers. This bodes well for SVOD platform's penetration as consumers continue to demand more personalized content with little to no advertising.

Figure 6 **Share Of TV Viewing By Platform In Canada**

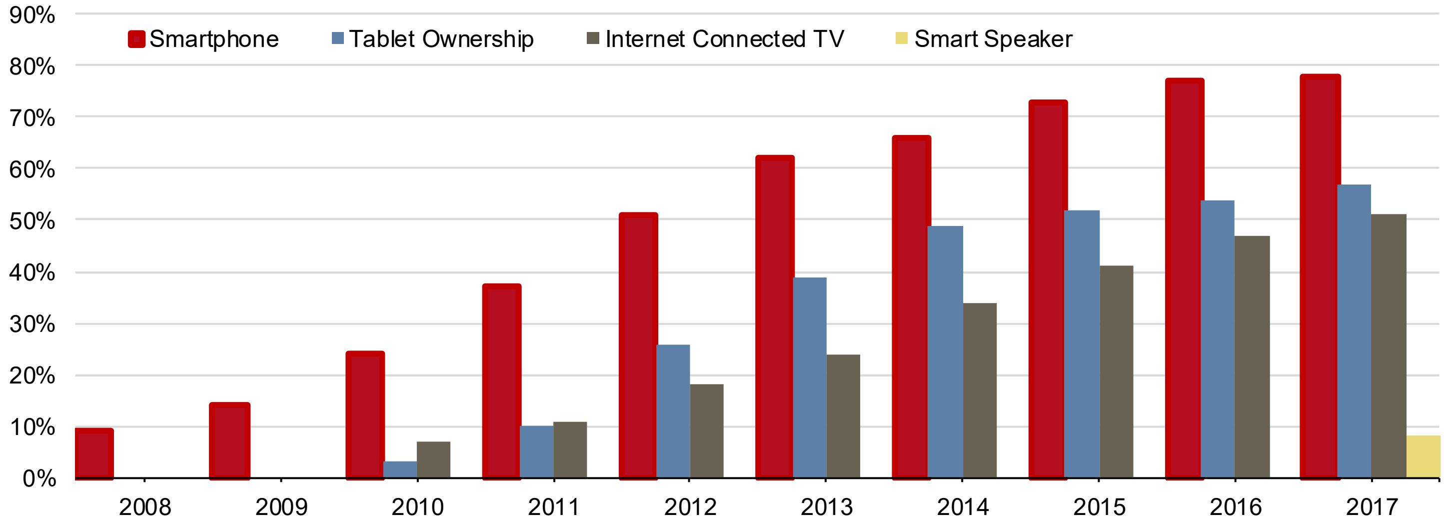


Source: CRTC, Cormark Securities Inc.

Smart Devices Penetration Growth Continues

Internet and smart devices have become the primary vehicles for video content consumption amongst Canadians. In Figure 7, we highlight the growth in penetration levels of connected devices over the last decade. We note the significant rise of smart TVs over the recent years due to the popularity of the internet, which has resulted in connected TV penetration levels rising from 7% in 2010 to 51% in 2017 within Canada. We believe this bodes well for OTT platform subscriber growth over the next few years given smart TVs have pre-installed OTT platform services like Netflix and Amazon making these platforms easily accessible for the consumer. Given the aforementioned, we believe that the OTT market still has room to grow in North America.

Figure 7 **Canadian Adoption Of Connected Devices**

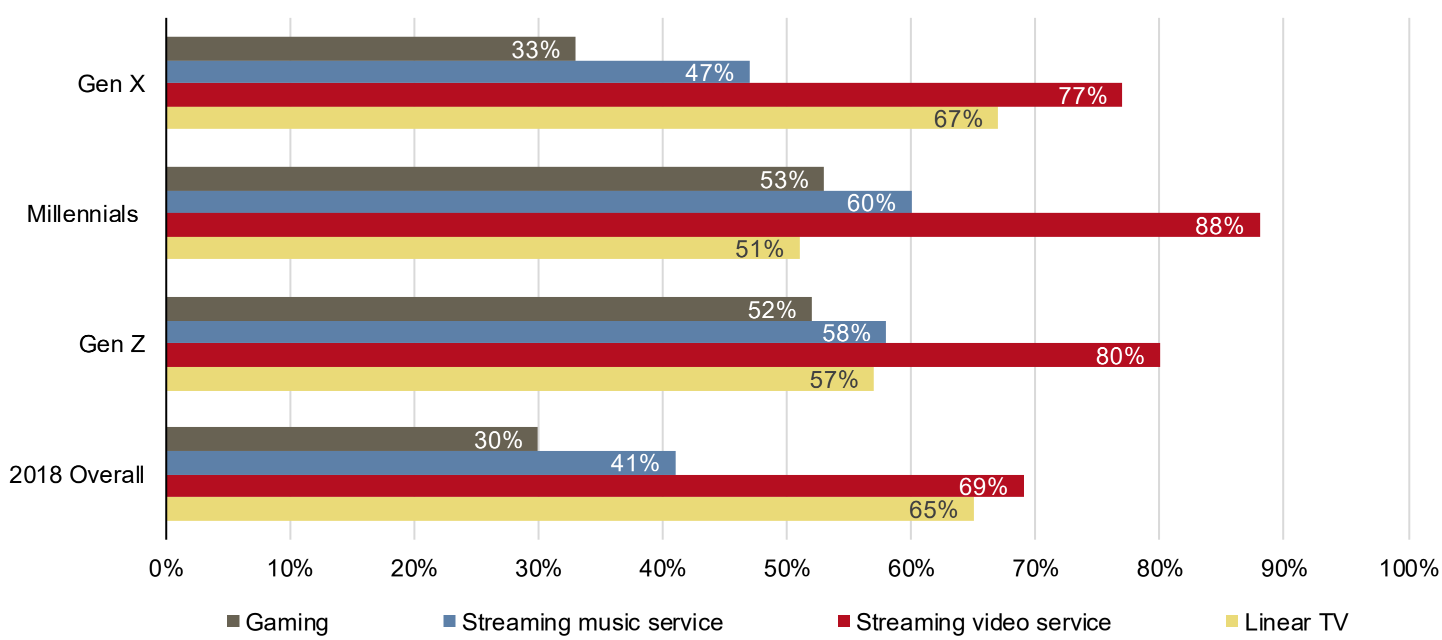


Source: CRTC, Cormark Securities Inc.

Pay TV And Linear TV Are Not Necessarily Mutually Exclusive

A recent survey conducted by Deloitte in the US indicated that traditional video and streaming services (i.e. OTT and SVOD) are not necessarily a substitute for each other. The survey noted that 43% of US households now subscribe to both traditional video and OTT services. Consumers still turn to traditional video (i.e. linear TV) for content related to live TV, news, sports and popular TV shows. However, live video streaming services are gaining traction. In general, millennials and generation Z cohorts prefer streaming video services over traditional video given their respective 88% and 80% penetration of streaming video services in the US. This bodes well for the sustainability of OTT platforms, given that millennials are expected to outpace baby boomers as the largest population group in North America.

Figure 8 **Share Of TV Viewing By Platform In Canada**

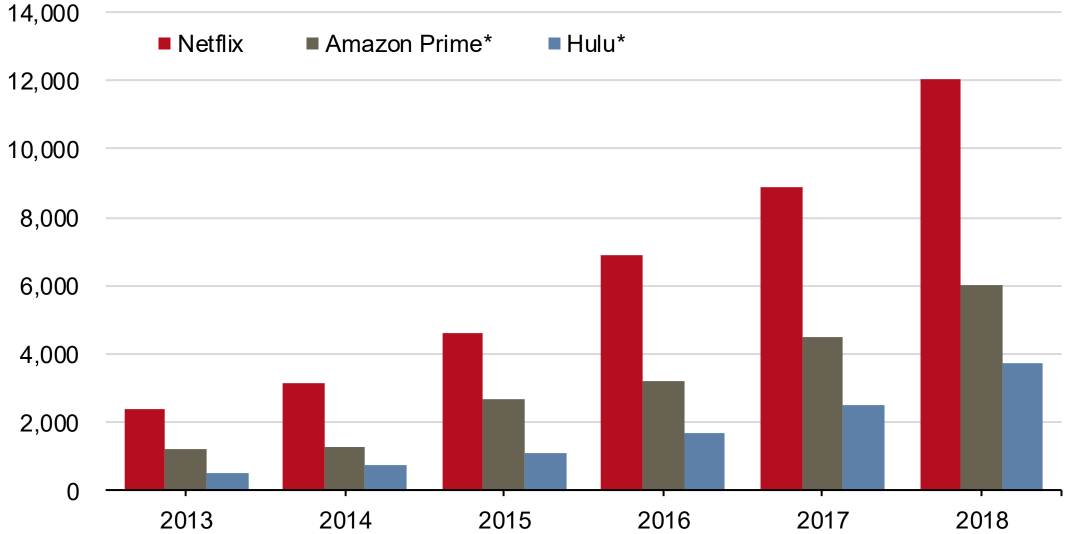


Source: Deloitte Insights, Cormark Securities Inc.

OTT Platforms Are Spending Record Levels On Content Acquisition

The streaming platforms are spending record levels on original and third-party content as competitive intensity in the sector increases. Netflix disclosed in its Q4/18 earnings report that it spent US$12 BB in cash on content in 2018, up 35% Y/Y from US$8.9 BB in 2017. In the latter half of 2019, media giants like Disney, Warner Media and NBC Universal are expected to release their own SVOD platforms. Apple is planning on launching Apple+ in November 2019 and it is reportedly committed to spend US$6 BB on originals, up from US$1 BB two years ago. We believe these new SVOD launches will increase industry competitive intensity and disrupt the OTT services industry in the short to medium term. This bodes well for content producers, like Thunderbird, to supply this growing appetite for content from SVODs.

Figure 9 **Annual Content Spending (US$MMs)**



* Hulu numbers for 2014, 2015, 2016 and 2018 are estimates based on CAGR between 2013-2017
* Amazon Prime 2018 numbers are estimates based on Q118 Content Spend
Source: Business Insider, Company Reports, Cormark Securities Inc.

Competitive Profile

Highly Competitive Industry; Space Dominated By Smaller Private Players

The market for producing, acquiring and distributing filmed entertainment is very competitive. The large integrated media companies such as Disney, Viacom, News Corp, Comcast/NBC Universal, and Sony own major studios that produce, acquire and distribute film and TV. There are also many smaller filmed entertainment companies operating in this industry with most of them privately held. The following is a table of the independent or "mini-major" filmed entertainment companies that are more comparable with Thunderbird versus the large integrated media companies.

We Believe The Best Comparables For Thunderbird Are Kew, DHX And Wow

In our opinion, Kew Media, DHX and Wow Unlimited are the best comparable companies for Thunderbird given their relative size, they are all Canadian TV production companies, and bearing in mind that Kew focuses on non-scripted and scripted programming, similar to Thunderbird's Great Pacific Media, and DHX and Wow focus on kids similar to Thunderbird's Atomic Cartoons. On a larger scale, eOne is likely the next best comparable given it is a Canadian and international production company focused on TV, similar to Thunderbird.

Figure 10 **Competitive Profile**

	Thunderbird Entertainment		Kew Media		WOW! Unlimited		DHX Media		Entertainment ONE		Lions Gate		ITV PLC	
	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E	2020E	2021E	2020E	2021E	2019E	2020E
	Jun 30	Jun 30	Dec 31	Dec 31	Dec 31	Dec 31	Jun 30	Jun 30	Mar 31	Mar 31	Mar 31	Mar 31	Dec 31	Dec 31
Fiscal YE	C$000s	C$000s	C$000s	C$000s	C$000s	C$000s	C$000s	C$000s	GBP£000s	GBP£000s	US$000s	US$000s	GBP£000s	GBP£000s
Revenue	73,421	96,268	283,484	291,958	84,503	71,682	435,404	429,765	1,142,222	1,222,125	3,827,929	4,097,400	3,238,857	3,327,857
Adj. EBITDA	12,811	15,684	40,412	43,411	3,187	614	79,512	82,903	234,667	256,500	516,667	608,500	712,467	733,133
Adj. EBITDA Margin	17%	16%	14%	15%	4%	1%	18%	19%	21%	21%	13%	15%	22%	22%
Diluted EPS (Adj.)	$0.12	$0.14	$0.41	$0.70	$(0.06)	$0.08	$0.00	$0.06	£0.27	£0.30	$0.97	$1.24	£0.13	£0.13
FCF	980	2,029	5,921	5,555	(6,423)	1,260	31,472	8,532	29,000	74,617	282,539	268,765	401,346	452,320
FCF/Share	$0.02	$0.04	$0.43	$0.41	$(0.20)	$0.04	$0.23	$0.06	£0.06	£0.15	$3.42	$3.25	£0.10	£0.11
FCF Yield	1.9%	3.7%	7.2%	6.8%	-31.3%	6.1%	13.6%	3.7%	0.0%	0.0%	36.1%	34.3%	0.1%	0.1%
Revenue Growth	-48.4%	31.1%	26.5%	3.0%	7.5%	-15.2%	0.2%	-1.3%	21.4%	7.0%	4.0%	7.0%	0.9%	2.7%
Share Price	$1.17	$1.17	$6.00	$6.00	$0.65	$0.65	$1.71	$1.71	£5.86	£5.86	$9.47	$9.47	£116.95	£116.95
Enterprise Value	36,579	34,550	230,296	225,941	48,590	47,330	678,473	660,642	3,227,780	3,214,095	5,129,337	4,611,867	5,558,020	5,707,352
Leverage	-1.3x	-1.2x	2.4x	2.1x	4.8x	2.3x	6.6x	6.3x	0.1x	0.1x	3.4x	3.3x	0.1x	0.1x
EV/EBITDA	2.9x	2.2x	5.8x	5.2x	15.2x	7.7x	8.5x	8.0x	14.7x	13.3x	8.9x	7.1x	8.0x	7.7x
P/E	9.9x	8.4x	14.7x	8.5x	NM	8.3x	NM	28.5x	22.1x	19.6x	9.8x	7.6x	9.1x	8.8x

Source: Cormark Securities Inc., Company Filings, Thomson Eikon

Financial Forecast

2019 Outlook

In 2019, we are forecasting revenue of $73.4 MM, adj EBITDA $12.8 MM, and EBITDA margin of 17.4% and EPS (ops) -$0.01. In 2018 revenue was $142.4 MM, adj EBITDA was $9.0 MM, adj EBITDA margin was 6.3% and EPS $0.08. We are forecasting the EBITDA margin to expand from 6.3% to 17.4% as Thunderbird is focusing more on proprietary production with higher margin versus production services. Thunderbird's production budget is the biggest driver of results, which we believe is strong currently.

We are forecasting FCF of $1.0 MM, which is small given Thunderbird is in its early phase of growth and reinvesting back into its business.

2020 Outlook

In 2020, we are forecasting revenue of $96.3 MM, up 31%, adj EBITDA of $15.7 MM, up 22%, adj EBITDA margin of 16.3% and EPS of $0.14. We are forecasting the EBITDA margin to be fairly similar to 2019 given we don't expect a big shift in the amount of production service versus proprietary production revenue. Growth in the business is expected based on a higher production budget.

We are forecasting minimal FCF of $2.0 MM given the early stage of growth and maturity of Thunderbird.

2021 Outlook

In 2021, we are forecasting revenue of $120.4 MM, up 25%, adj EBITDA of $18.2 MM, up 16%, adj EBITDA margin of 15.1% and EPS of $0.17.

We are forecasting FCF of $3.8 MM.

Valuation

Applying An EV/EBITDA Multiple of 6.5x On F2021E

We are valuing TBRD by applying an EV/EBITDA multiple of 6.5x to our F2021 forecast. We are using F2021 as our target year due to the company having a June fiscal end. We believe 6.5x to be a reasonable multiple, given that two of TBRD's closest competitors Kew Media Inc. and Wow Unlimited Media are trading at 5.8 and 15.2x on 2019E EBITDA and our target EBITDA multiples used to derive their target prices are higher than 6.5x.

Figure 11 **Thunderbird Entertainment Target Price Calculation**

Fiscal YE June 30	F2018A	F2019E	F2020E	F2021E
EBITDA	9,009	12,811	15,684	18,152
Multiple	6.5x	6.5x	6.5x	6.5x
EV	58,559	83,270	101,943	117,988
Debt	1,534	2,700	4,000	4,000
Cash	12,886	20,680	24,009	27,788
Option Proceeds		138	138	138
Equity Value	**69,911**	**101,387**	**122,089**	**141,913**
Shares Outstanding	29,753	46,631	46,631	46,631
Shares From Options	-	117	117	117
Diluted Shares Outstanding	29,753	46,749	46,749	46,749
Target Price	**$2.35**	**$2.17**	**$2.61**	**$3.04**

Source: Cormark Securities Inc.

CORMARK SECURITIES INC.

Risks To Forecast

Changes To The Canadian Regulatory Landscape

Thunderbird is highly dependent on the Canadian tax credit regime, which typically allows the company to only risk 20% of the initial capital investment required to produce content. Any material changes to any of the aforementioned tax credits available to content producers in Canada can have an adverse effect on Thunderbird and others, resulting in permanent or temporary deterioration of the company's economic model.

The CRTC imposes Canadian content requirements on broadcasters resulting in demand for Canadian content for Canadian producers such as Thunderbird. If these Canadian content requirements diminish, then this could result in less demand for Canadian content and therefore less demand for Thunderbird's and other productions.

Production Business Is Difficult To Forecast

The production and distribution business is inherently difficult to forecast, especially quarterly, and it can be quite lumpy. Also, the production business is prone to slippage or delays due to difficulties sometimes in acquiring talent. Consequently, our estimates may prove to be inaccurate.

Thunderbird's distribution business invests in film and TV content acquiring rights from independent producers on the basis of a forecast of future revenue. In the event that future revenue is less than expected, this may require Thunderbird to incur increased content costs negatively impacting EBITDA and therefore results. From a cash perspective Thunderbird doesn't typically greenlight a show or production until at least 80%+ of the production budget is covered via pre-sales, tax credits and other funding sources.

Highly Competitive Markets

It may prove to be difficult to place TV product with broadcasters given the limited space in the broadcast schedule and the number of competitors also attempting to sell TV shows to broadcasters. If there is a lack of broadcasters interested in picking up a TV production, then this could negatively impact the profitability of the TV production.

Success And Failures Of Individual Productions Are Difficult To Predict

Success and failures of individual productions are as difficult to predict as viewers' interests are mercurial. Despite more sophisticated best practices and developing technologies, productions are still greenlit based on the instinctual ability to read developments in the overall market for changing viewer interests. While some new format distributors, such as Netflix, are incorporating the use of data analytics in assisting with the content-buy process,[1] recent early cancellations of high profile original series such as *Marco Polo*, *Lillyhammer*, *Hemlock Grove*, and *Bloodlines* suggest that technological methods are still unpredictable.

Shift To Online Content Consumption May Pose A Threat To Canadian Video Content

The economics of video content production in Canada is highly dependent on the support systems created by the CRTC. Declines in consumption of traditional video negatively impact subscription and advertising revenues of the players in the traditional system. This could have a material impact on the policy and regulatory tools such as expenditure/exhibition requirements, contributions to funds and tax incentives become less effective.

[1] http://observer.com/2016/01/can-we-use-big-data-to-create-hit-tv-shows-as-addictive-as-breaking-bad/

These favorable tax credits are currently not available to international or global online services operating in Canada, implying that as Canadians turn to online services as their key source of content consumption, the burden of supporting video content production may fall more heavily on Canadian television services and producers that are less able to shoulder it. Moreover, if there are fewer opportunities in Canada, it could lead to a permanent loss of Canadian creative talent to other nations, particularly the US.

Potential For Budget Overruns And Other Production Risks

Production costs may exceed budget resulting in cost overruns resulting in negative margin. Thunderbird has historically completed productions well within in its budget, consequently we view this a low risk.

Financial Statements

Figure 12 **Thunderbird Entertainment – Income Statement**

Fiscal YE June 30 (C$000's, except per share data)	F2018A	F2019 Q1/F19A	Q2/F19A	Q3/F19A	Q4/F19E	F2019E	F2020E	F2021E
Production Services Revenue	91,578	6,332	7,019	7,813	10,000	31,164	43,630	61,081
Licensing & Distribution Revenue	48,618	8,022	4,559	14,036	15,000	41,617	47,438	54,083
Other Revenue	2,206	7	11	16	606	640	5,200	5,200
Total Revenue	142,402	14,361	11,589	21,865	25,606	73,421	96,268	120,364
Amortization Of Content	-	976	916	6,154	8,000	16,046	20,000	20,000
Direction Production And New Media Costs	-	4,138	4,285	4,873	7,000	20,296	28,359	33,595
Direct Operating	115,134	197	438	(90)	1,280	1,825	4,813	6,018
Distribution & Marketing	3,478	802	818	1,282	1,370	4,272	5,693	6,490
General And Administrative	17,348	4,097	3,834	4,933	5,777	18,641	21,719	36,109
Realized FX (Gain)/Loss	93	(40)	(128)	(302)	-	(470)	-	-
EBITDA	**9,009**	**4,191**	**1,426**	**5,015**	**2,179**	**12,811**	**15,684**	**18,152**
Share-Based Compensation	25	314	618	304	-	1,236	-	-
Depreciation & Amortization	2,660	757	783	773	773	3,086	3,092	3,092
Accretion Of Contingent Consideration	221	-	-	-	-	-	-	-
Unrealized FX Loss (Gain)	(158)	(103)	(83)	170	-	(16)	-	-
Interest And Bank Charges	1,522	399	381	203	420	1,403	1,680	1,680
Interest Income	(104)	(28)	(243)	(50)	-	(321)	-	-
EBT	**4,843**	**2,852**	**(30)**	**3,615**	**986**	**7,423**	**10,912**	**13,380**
Income Tax Expense (Recovery)	1,482	1,170	(502)	1,224	334	2,226	4,365	5,352
Loss (Income) From Discontinued Operations	46	-	-	-	-	-	-	-
Common Share Dividend	-	-	-	-	-	-	-	-
Preferred Share Dividend	-	-	-	-	-	-	-	-
FX Translation Adjustment	-	-	-	-	-	-	-	-
Net Income (ops)	**3,315**	**1,682**	**472**	**2,391**	**652**	**5,197**	**6,547**	**8,028**
Minority Interest	-	-	8	-	-	8	-	-
Net Income (ops) Attributable To Shareholders	**3,315**	**1,682**	**464**	**2,391**	**652**	**5,189**	**6,547**	**8,028**
Charge Related To Public Company Listing	-	-	5,316	-	-	5,316	-	-
One Time Costs	89	210	1,243	446	-	1,899	-	-
Net Income Attributable To Shareholders	**3,226**	**1,472**	**(6,095)**	**1,945**	**652**	**(2,026)**	**6,547**	**8,028**
Preferred Dividends	1,545	19	18	18	18	73	74	-
Earnings Attributable To Equity	**1,681**	**1,453**	**(6,113)**	**1,927**	**634**	**(2,099)**	**6,473**	**8,028**
Weighted Avg. Shares Outstanding								
Basic	29,753	28,964	31,448	46,580	46,631	38,406	44,575	46,117
Diluted	42,023	41,514	34,270	49,337	47,803	43,231	46,660	47,517
Outstanding End Of Period	29,753	24,953	46,530	46,631	46,631	46,631	46,631	46,631
Earning Per Share								
Basic (ops)	**$0.11**	**$0.06**	**$0.01**	**$0.05**	**$0.01**	**$0.13**	**$0.15**	**$0.17**
Full Diluted (ops)	**$0.08**	**$0.04**	**$0.01**	**$0.05**	**$0.01**	**$0.12**	**$0.14**	**$0.17**
Basic	**$0.06**	**$0.05**	**$(0.19)**	**$0.04**	**$0.01**	**$(0.05)**	**$0.15**	**$0.17**
Fully Diluted	**$0.04**	**$0.04**	**$(0.18)**	**$0.04**	**$0.01**	**$(0.05)**	**$0.14**	**$0.17**
EBITDA margin	6.3%	29.2%	12.3%	22.9%	8.5%	17.4%	16.3%	15.1%
Net Income (ops) margin	2.3%	11.7%	4.0%	10.9%	2.5%	7.1%	6.8%	6.7%
Tax rate	30.6%	41.0%	1673.3%	33.9%	33.9%	30.0%	40.0%	40.0%

Source: Cormark Securities Inc. Estimates,

Figure 13 **Thunderbird Entertainment Inc. – Balance Sheet**

Fiscal YE June 30 (C$000's, except per share data)	F2018A	F2019E	F2020E	F2021E
ASSETS				
Current Assets				
Cash And Cash Equivalents	12,886	20,680	24,009	27,788
Trade Receivables And Others	57,246	56,277	56,703	59,990
Income Taxes Recoverable	357	300	300	300
Other Current Assets	80	128	161	202
Total Current Assets	**70,569**	**77,385**	**81,173**	**88,279**
Non-Current Assets				
Long-Term Trade Receivables And Other	1,336	1,248	1,248	1,248
Investment In Content	17,965	24,061	30,061	36,061
Deferred Tax Assets	4,448	6,812	6,812	6,812
PP&E	3,873	5,980	5,520	5,060
Goodwill And Intangible Assets	14,525	13,889	13,257	12,625
Total Assets	**112,716**	**129,375**	**138,071**	**150,085**
LIABILITIES AND SHAREHOLDER'S EQUITY				
Current Liabilities				
Accounts Payable And Accrued Liabilities	10,525	10,172	11,021	15,007
Income Taxes Payable	2,523	1,651	1,651	1,651
Interim Production Financing	41,681	41,961	41,961	41,961
Deferred Revenue	9,367	15,000	15,000	15,000
Convertible Debentures	-	-	-	-
Current Portion of LT Debt	-	1,960	1,960	1,960
Current Obligations Under Finance Leases	1,390	1,909	1,909	1,909
Redeemable Preferred Shares	2,505	926	926	926
Total Current Liabilities	**67,991**	**73,579**	**74,428**	**78,414**
Non-Current Liabilities				
LT Debt	1,534	740	2,040	2,040
LT Obligations Under Finance Leases	1,421	1,024	1,024	1,024
Deferred Tax Liabilities	3,621	4,874	4,874	4,874
Total Liabilities	**74,567**	**80,217**	**82,366**	**86,352**
Shareholders' Equity				
Common Shares	29,799	62,552	62,552	62,552
Preferred Shares	19,526	132	132	132
Warrants Reserve	-	234	234	234
Accumulated OCI	269	168	168	168
Contributed Surplus	1,777	3,615	3,615	3,615
Deficit	(13,214)	(17,543)	(10,996)	(2,968)
Minority Interest	(8)	-	-	-
Total Shareholder's Equity	**38,149**	**49,158**	**55,705**	**63,733**
Total Liabilities and Shareholders' Equity	**112,716**	**129,375**	**138,071**	**150,085**

Source: Cormark Securities Inc. Estimates, Thunderbird Filings

Figure 14 Thunderbird Entertainment Inc. – Cash Flow Statement

Fiscal YE June 30 (C$000's, except per share data)	F2018A	F2019E	F2020E	F2021E
Net Income	**3,315**	**(2,081)**	**6,547**	**8,028**
Operating Activities:				
Amortization of Content	28,178	16,046	20,000	20,000
Amortization of PP&E	1,204	2,450	2,460	2,460
Amortization of Intangible Assets	1,456	636	632	632
Accretion on Contingent Consideration	221	-	-	-
Share-Based Compensation	25	1,236	-	-
Deferred Income Taxes Expense (Recovery)	(488)	162	-	-
Unrealized FX Gain	(89)	(136)	-	-
Loss on Disposal of Equipment	1	-	-	-
Charge related to public company listing	-	5,316	-	-
Disposal of Investment in Content Costs	260	-	-	-
Investment in Content	(13,711)	(21,084)	(26,000)	(26,000)
Minority Interest	-	8	-	-
Changes in non-cash working capital:	-	-	-	-
Accounts Receivable	210	462	(426)	(3,286)
Income Taxes Receivable	252	55	-	-
Other Current Assets	(80)	(48)	(33)	(41)
Accounts Payable and Accrued Liabilities	(4,149)	(654)	849	3,986
Income Taxes Payable	1,443	(1,014)	-	-
Settlement of Future Consideration Liability	(2,697)	-	-	-
Deferred Revenue	(18,732)	3,016	-	-
	(3,381)	**4,370**	**4,029**	**5,779**
Investing Activities:				
Proceeds On Sale Of PP&E	4	-	-	-
Disposal Of Subsidiary, Net Of Cash	(3,950)	-	-	-
Purchase of PP&E	(1,886)	(3,127)	(2,000)	(2,000)
	(5,832)	**(3,127)**	**(2,000)**	**(2,000)**
Financing Activities:				
Repayment of Interim Product Financing	(44,567)	(36,181)	-	-
Proceeds from Interim Production Financing	49,789	36,461	-	-
Repayment of Obligations Under Finance Leases	(1,015)	(1,335)	-	-
Proceeds from Obligations Under Finance Leases	1,442	27	-	-
Repayment of LT Debt	(620)	(5,108)	-	-
Proceeds from LT Debt	2,154	6,274	1,300	-
Repurchase of Preferred Shares	-	(1,110)	-	-
Repurchase of Common Shares	-	(6,000)	-	-
Proceeds From Issuance Of Shares In Private Placement	-	10,250	-	-
Proceeds from Issuance of Convertible Debentures	-	2,250	-	-
Share Issue Costs	-	(1,009)	-	-
Proceeds From Exercise Of Warrants/Share Options	-	188	-	-
Cash Acq. In Reverse Takeover, Net Of Transaction Costs	-	2,378	-	-
Dividends	(1,545)	(386)	-	-
	5,638	**6,699**	**1,300**	**-**
Effect of FX on Cash	(105)	115	-	-
Net Increase/Decrease In Cash	(3,680)	7,794	3,329	3,779
Cash, Beginning Of Period	16,566	12,886	20,680	24,009
Cash, End Of Period	**12,886**	**20,680**	**24,009**	**27,788**

Source: Cormark Securities Inc. Estimates, Thunderbird Filings

Recommendation Terminology

Cormark's recommendation terminology is as follows:

Top Pick	our best investment ideas, the greatest potential value appreciation
Buy	expected to outperform its peer group
Market Perform	expected to perform with its peer group
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Additionally, our target prices are based on a 12-month investment horizon.

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We, David McFadgen and Siddhant Dilawari, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company(ies) and its (their) securities. We also certify that we have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

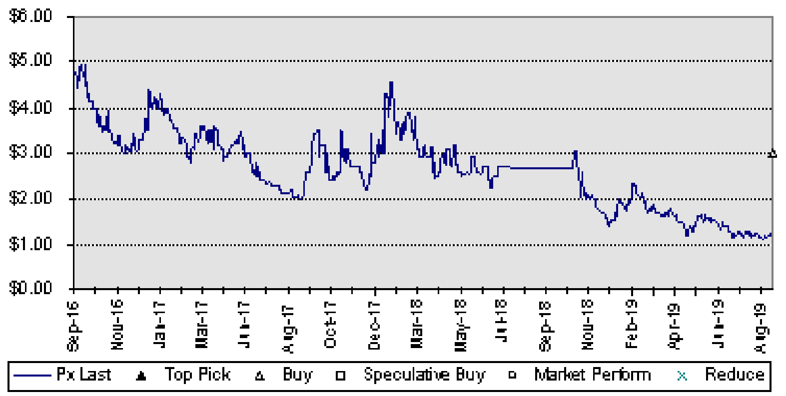
Figure 15 **Thunderbird Entertainment Group Inc. - Disclosure Chart**

Thunderbird Entertainment Group Inc.

Price Chart and Disclosure Statement

Updated September 10, 2019

*Information updated monthly on or about the 5th of each month.



*Cormark has this percentage of its universe assigned as the following:

Buy or Top Pick	68%
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Recommendation / Target Chg Date	C$
11-Sep-19	3.00 (B)

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