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Canadian Equity Research
28 November 2018

Company	Rating	Price	Target
ETO-LSE	Buy	377p	440p
KEW-TSX	Buy	C$5.85	C$9.50
LGF.B-NYSE	Buy	US$17.62	US$24.00
TBRD-TSX	Buy	C$1.99	C$3.00
DHX-TSX	Hold	C$3.37	C$1.75

Priced as of close of business 26 November 2018

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Industry Update

Playing the content wave: Initiating on Kew Media and Thunderbird Entertainment

While the Media space at large has been battling multiple headwinds in many of its constituent segments due to cord-cutting/shaving, softening overall ratings and advertising outlook, one sub-segment – content production and licensing – has been enjoying a secular growth phase over the last several years. However, the frustration for investors has been the inability to invest in this space on a more pure-play basis, as many large content producers have even larger broadcast/cable network exposure. In this report, in addition to a discussion around industry level trends, we 1) reiterate our favourable views on our two coverage names – **Lions Gate Entertainment** (Lions Gate) and **Entertainment One** (eOne), which has expanded its scope significantly in recent years; and 2) initiate coverage of two smaller -cap stocks in this space – **Kew Media Group** and **Thunderbird Entertainment**. We also profile an emergent and impressive private company – BRON Studio – which could graduate to the public markets in the upcoming years as investors seek pure-play exposure to this space.

Growth wave has legs: While the growth wave in programming spend is several years old, we take the view that not only could it remain buoyant in the upcoming years, it may even pick up pace a bit in the near term. On one hand, SVOD programming spend inflation remains exponential. We know Netflix increased content spend from ~$5B to $6B from 2016 to 2017. Recent updates suggest the actual cash spend could hit a staggering $12-13B. Meanwhile, we estimate Amazon has grown spend by at least a 40% CAGR over the past 4 years. The advent of Direct to Consumer (DTC) opens up an additional front for even greater content demand. To top it off, we are starting to see the tech giants enter the space with Apple, Facebook and YouTube making initial bids.

Independent producers look attractive to us: We believe that independent producers are also benefitting from the fact that major studios are pulling content from SVOD platforms in favour of their own – leaving the independents better positioned than ever to achieve a larger slice of SVOD programme budgets. As a result, we are seeing commitments from Netflix, Amazon, etc., to the independent sector expand even further.

We are initiating coverage of Kew Media with a BUY rating and a $9.50TP: Kew is an independent content producer and distributor focused on factual entertainment. Our investment thesis is driven by the company's high-quality niche content assets, solid management team, attractive valuation (4.3x EV/ F20 EBITDA vs peers at 7-11x), and status as an M&A target. We believe that the company's two-pronged strategy of driving growth through organic means and by acquisition has the potential to create significant shareholder value given the target-rich nature of the content production industry.

Initiating coverage of Thunderbird Entertainment (TBRD) with a BUY rating and $3.00TP: This is an independent content producer and distributor based in Vancouver. It has punched well above its weight in producing high-profile shows (*Beat Bugs, Kim's Convenience, Highway thru Hell*) and in parallel gained traction with many of the major platforms including Netflix and Amazon. It also has a solid financial track record growing EBITDA over 4x through F2016-F2018.

For important information, please see the Important Disclosures beginning on page 48 of this document.

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Playing the content wave

In a Media landscape increasingly facing flattening (or declining) growth curves for many of its constituent segments due to cord-cutting/shaving and softening overall ratings and advertising outlook, the content production & licensing category has bucked the trend and enjoyed a secular growth phase over the last several years. This growth was triggered by the advent of subscription video on demand (SVOD) platforms led by Netflix, but has changed configuration, with a multitude of other factors coming into play. From an investor perspective, there has been frustration around the inability to invest in this space on a more pure-play basis, as many of the larger content producers have even larger broadcast/cable network exposure.

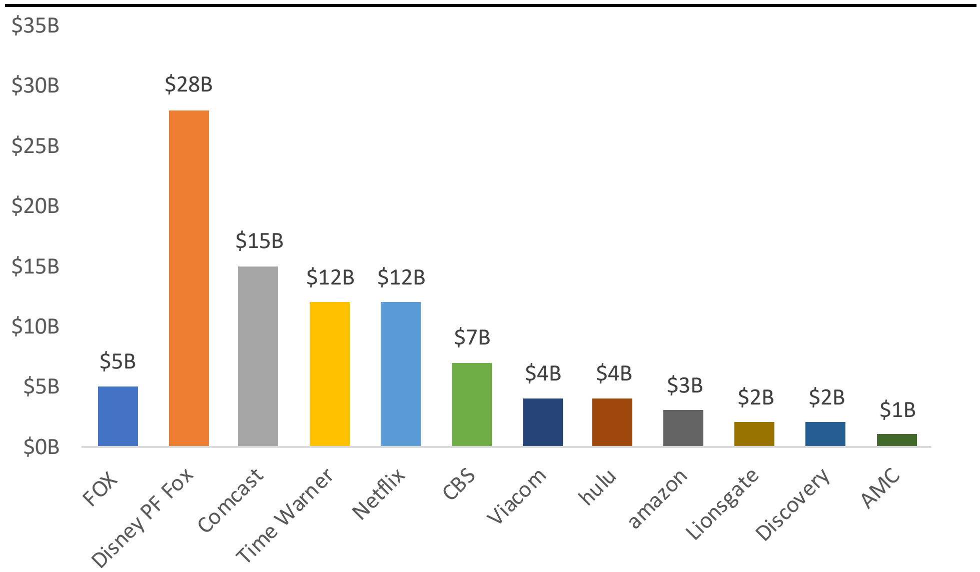
In this report, in addition to a discussion around industry level trends, we 1) reiterate our favourable views on our two content stocks – **Lions Gate Entertainment** (Lions Gate, LGF.B-NYSE: $17.62 | BUY, US$24.00 PT), and **Entertainment One** (eOne, ETO-LSE: 377p | BUY, 440p PT), which has expanded its scope significantly in recent years; and 2) initiate coverage of two smaller-cap plays in this space – **Kew Media** and **Thunderbird Entertainment**. We also profile an emergent private company in this space – BRON Studio – which we believe can graduate to the public markets in the upcoming years as investors seek greater pure-play exposure to this space.

We believe that our expanded coverage, while broadly offering pureplay exposure to content, also presents varying investment characteristics depending on investor preferences. Lions Gate for DTC upside, eOne for steady growth with a low risk profile, Kew for cash flow, M&A upside and highly attractive sub 5x valuations and Thunderbird for steep growth with quality content.

Growth wave still has many drivers

Even though content production and distribution has been in growth mode for approximately five years now, we see many reasons to feel confident that the current wave will remain intact for multiple years, potentially even picking up momentum in the near to medium term.

Figure 1: U.S. Content Spending ex. Apple, Google, and Facebook



Source: eOne

SVOD programming spend growth is actually accelerating: Despite the steep growth in content spend over the past few years, looking at the projected budget for Netflix suggests very little sign of a slowdown. In fact, there has been a marked acceleration. We know Netflix increased its content spend from ~$5B to $6B from 2016 to 2017. The company went on to project $8B for 2018, but recent updates suggest the actual cash spend could hit a staggering $12-13B. Looking ahead, we have seen projections that indicate $22B by 2022. With respect to Amazon video, the last official number we have was $1.3B in 2014 (Q4/14 conference call). Recent estimates place the current number at $5B, indicating a CAGR of at least 40%.

Considering that SVOD programme spend is now dwarfing the budgets of traditional players like CBS and Viacom, these increases are likely having a material impact on the global numbers (current total is $95B according to eOne).

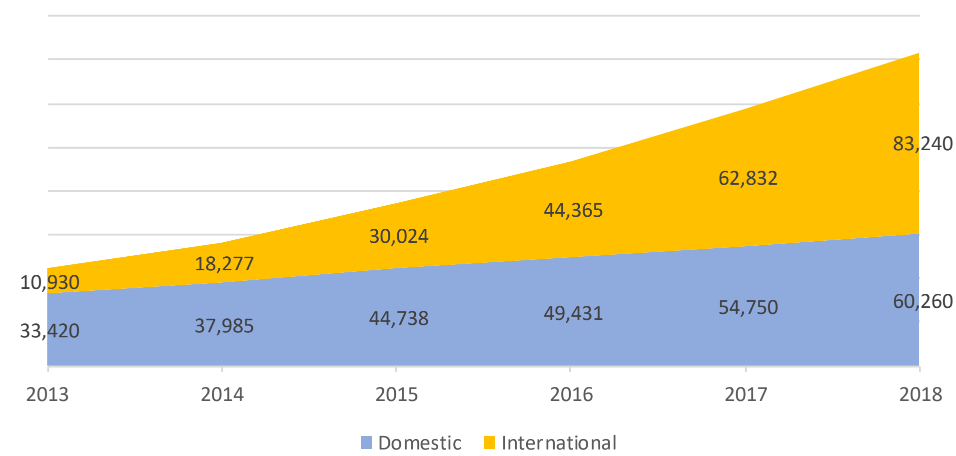
Entry of tech giants: The entry of YouTube Red (Google), Apple and Facebook into the video space adds another dimension to the outlook. While the initial bets from Apple and Facebook look like $1B each (per year), considering the size of these entities we can surmise that there is significant upside to their own programme budgets. In our view, the tech giants add another leg to the content growth stool, which gives us incremental confidence that we are unlikely to experience a pullback in global spend.

An important distinction between the traditional media companies and the new tech players (including Amazon and Netflix) is that the latter are far more focused on generating growth than margins and profitability. Their key success factors are subscribers and revenues, more so than EBITDA and EPS. This makes them more willing to make substantial investments in programming to achieve their growth goals.

Tailwinds from traditional players: Despite pressure on subscribers, revenues and margins, we continue to see the traditional players (broadcast and pay sectors) reflect robust growth in their own programming investments. Our interpretation is that the OTT players have forced a reaction from them. The historically low-single-digit growth rate for platforms like HBO has become high-single-digit growth of late (and is likely to rise further under AT&T). CBS is seeing double-digit growth (Q1/18 conference call).

International element coming into play: Both SVODs and traditional media platforms are turning to international as a source of incremental growth as the US market grows more competitive. We know that Netflix now derives ~79% of its sub growth from international, and Amazon Prime Video is now well on its way to expanding its footprint overseas. On the traditional side, last year saw the entrance of CBS All Access to Canada. For Media entities like Discovery/Scripps and Viacom, ex-US growth is a major focus. Lions Gate has announced it wants to expand into 15 international territories within three years. We believe this will further increase the demand for programming as the various platforms look to cater to local tastes.

Figure 2: Increasing international sub count for Netflix



Source: Company Reports, Canaccord Genuity estimates

Direct to Consumer (DTC) emerging as an overarching phenomenon

One of the dominant themes in the Media & Telecom sector over the last two years has been the push towards DTC. Anecdotally, we have noticed that in recent conference calls (e.g. CBS, Walt Disney) as much as two-thirds of the CEO prepared remarks are dedicated to DTC. While the DTC focus was initially led by Disney, we are now seeing smaller entities like AMC Networks and Lions Gate investing in building proprietary DTC platforms and making this a central component of their broader strategy. The massive subscriber bases being accumulated by Netflix, Amazon, Hulu, etc. have led the media companies to the realization that as content creators, owners and renters, there is no reason why they too cannot dip into this economic pool. With improvements in technology, even mid-sized entitles are able to set up their own online platforms with decent interfaces and functionality. Larger entitles such as Disney have opted for more substantial investments (e.g. acquiring BAMTech) to ensure a higher-quality experience.

DTC has also become one of the most dominant motivations for M&A in the sector. In fact, in its proposed acquisition of the 21st Century Fox assets, Disney touted the potential value of the programming from channels like FX (Fargo, Americans), National Geographic, Searchlight, etc., to its DTC platform. AT&T alluded to the potency of the combination of its extensive direct customer relationships with Time Warner's content (e.g. HBO).

It is apparent to us that the emergence of DTC could be another major driver of programming budgets as 1) these platforms require exclusive content to attract subscribers, and 2) there needs to be adequate volume of programming to build a good-sized sub base. We saw this with Disney when the company announced its ESPN and Disney Apps, where management talked about increased live events, new originals and made-for-streaming movies to boost demand for the new platform. The reality is that these media conglomerates cannot afford to replicate their core network content entirely on their DTC platforms, because of the danger of costly cannibalization of their cash-flowing broadcast/cable businesses. Hence the investment in DTC is likely to be largely incremental, at least in the near to medium term.

Focus has moved from volume to Premium and Targeted content

Although we take the position that the content growth curve is alive and strengthening, the configuration of the demand for programming has evolved in recent years and will likely continue to do so. SVOD platforms are far less interested in filling up their libraries with larger volumes of content to attract subscribers, and instead are far more specific in their needs. The main quest is for premium content and shows that attract certain key demographics. There are several factors at play here.

First, there are now multiple SVOD options in the market (even Canadians have five mainstream choices: Netflix, Amazon Prime Video, CBS All Access, CraveTV, Sportsnet Now), and the expansion in DTC offerings further exacerbates this condition. At the same time, it is far easier for consumers to jump into and out of subscriptions in the OTT ecosystem (unlike the cable bundle), which allows consumers to subscribe based on the slate or even a particular show and unsubscribe if the content is no longer appealing. This sharply increases the demand for premium shows that attract and keep these subscribers. Similarly, in a crowded field (particularly in the US) with a plethora of DTC options, it is imperative for the individual platforms to break through the noise and gain awareness and attention; and the primary way to do this is to have a standard-bearer show (e.g. *House of Cards* for Netflix several years ago, *Power* for Starz, *The Handmaid's Tale* for Hulu).

Third, data and analytics are now far more prevalent in constructing a programme slate. VOD platforms have access to intricate levels of data, allowing management to identify reasons for blips in signings and periods of higher churn. For instance, there may have been a wave of subs that came in primarily for one show, and in that case the programmers can profile these subs and bring in appropriate retention content based on the relevant demographics. The retention shows do not need to be premium but must have the right attributes to hold that specific cohort.

Meanwhile, traditional networks – which are faced with profitability objectives and stagnant revenue growth – are becoming more judicious in their spending and are pulling back on mid-tier content to finance the premium shows. This means a deeper dive analysis into what is working using a title-by-title ROI assessment. Kevin Beggs, Chairman of Lions Gate TV, has talked about the concept of 'the middle falling out', where platforms try to optimise programme spend on 1) high-end expensive shows (e.g. Game of Thrones, Orange is the New Black, etc.) and b) lower cost comedies and unscripted shows that produce higher relative financial returns on investment. We believe this will lead to a swathe of second tier shows losing demand and economics.

How does an indie position itself in this landscape? Given that our coverage is predominantly independent producers, with Lions Gate being the largest and somewhat differentiated due to its ownership of Starz, we want to focus on the indie sector. The current landscape, while providing huge opportunities to independent shops, also carries challenges and threats. Consequently, it is not a simple thesis of a rising tide lifting all boats. Independent production houses need to be tactical in identifying the opportunities in the market and building their strengths around those.

Independent sector can make premium shows…

First, we make the point that smaller independent shops have been responsible for some high-quality premium shows. Major Netflix hits such as *House of Cards* (Media Rights Capital) and *Stranger Things* (24 Lap Entertainment) were built out by this type of shop. We also note that Lions Gate (and not major studios) was responsible for landmark premium shows like *Mad Men, Orange is the New Black* and *Nurse Jackie*. eOne's Mark Gordon has been the producer (or co-producer) of key shows like *Grey's Anatomy, Ray Donavan* (consistently a top-6 premium networks show), *Criminal Minds, Quantico,* etc. Thus, with the right team and formula there is tremendous potential for the independent sector to continue to deliver top, standard-bearer shows to the main platforms.

Majors reducing content to SVOD: Second, with the major studios pulling their top shows from SVOD platforms, the independents are better positioned than ever to achieve a larger slice of SVOD programme budgets. Hence the production growth rate for the indies overall may well be greater than that of the overall market, as they ride the steeper SVOD component of the growth wave.

As early as 2015, as Netflix's impact (cord-cutting/shaving) was becoming evident, we started to hear rumblings (on public conference calls) from the larger Media conglomerates about the wisdom of nourishing the SVOD platforms with their content, when these platforms were cannibalising their sizable networks. Last year saw a more seismic step as Disney allowed its Pay 1 deal with Netflix for Disney and Pixar movies to expire, with Marvel and Lucas Films content to follow. In fact, we have heard that Disney is prepared to forego as much as $5B in licensing fees in order to bring its content back in house. Alongside this, we have heard from several larger media entities (Fox, CBS) that are reducing their commitments to Netflix. Today, we know that as much as 80% of CBS content is produced in-house.

Against this backdrop, establishing deeper relationships with SVOD buyers is critical for independents. To some extent this does require scale, but perhaps more importantly what is needed is one or more key shows with the platform that places them on the radar of the SVOD providers. This is true for Thunderbird Entertainment, which had success with Beat Bugs and is now placing Last Kids on Earth with Netflix. In the case of Kew Media, we understand that its "Dirty Money" was one of the highest-rated documentaries on Netflix. This then opens the door for greater transactions down the road.

Building genre specialty: Given our discussion regarding the increased use of data and deeper demographic and subscriber profile analysis, we take the view that genre specialty is a useful strategy for independent producers. We know that much of Lions Gate's (and Starz') success emanated from its dominance in catering to under-served demographics such as African American (Power), Latino (Vida, Sweet Bitter), women and LGBT.

Similarly, independents can be a meaningful supplier of retention shows. We believe that over time, as the space gets crowded, churn management will become a central strategic focus. Consequently, spending on key retention shows will likely rise. Identifying the most sought-after segments and genres and building on those areas can thus be a useful tactical approach for the indies.

International tilt: The focus on international subscribers and viewership by SVOD platforms and traditional media networks also presents an opportunity for our coverage stocks. As much as 52% of Netflix's upcoming scripted original releases are of international origin (source: Ampere Analytics). This makes the case for having solid international footholds and relationships. As an example, we know that Kew Media (in addition to its Canadian base) has a strong position in the UK – a rich market for quality content production – and recently made an Australian acquisition as well. Lions Gate (and Starz) has high-quality Latino content which would be highly valuable to platforms looking to break into South America territories.

…but indies are not without their own challenges

The predicament of talent: The major challenge for smaller producers is attracting and retaining top talent, in particular amidst the current bidding frenzy for accomplished showrunners. Presently, they are competing with deep-pocketed SVOD platforms like Netflix who are prepared to lock down top players (e.g. Ryan Murphy, Shonda Rhimes, etc.). Even larger entities like Lions Gate (Jenji Kohan, Orange is the New Black, and ABC (Shonda Rhimes) are not immune to poachers offering higher pay cheques. With

SVOD platforms starting to turn their attention to the unscripted space, this risk is further exacerbated. However, there are some mitigating factors as well:

Netflix and Amazon may not be a fit for a lot of creative talent: While the money may be exceptional, for showrunners and other creative talent, the conditions and opportunities at large SVOD platforms or even traditional media conglomerates may not be optimal. These individuals are primarily focused on seeing broad exposure for their productions, creative freedom and, perhaps most importantly, the opportunity to bring to market their content when available. Having to sit on the sidelines until they are utilised based on corporate timelines is too often a significant turn-off for these individuals.

More entrepreneurial talent is attracted to independents: A disadvantage in working for a large platform is the absence of attractive back-end economics (i.e. overages). We believe that showrunners/producers who believe in their content are generally more interested in attractive success-based economics, which indies are generally better equipped to offer.

Multi-hit showrunners are few and far between: Empirical evidence suggests there are very few showrunners who can have multiple premium hit shows. Hence, a business model that is better tuned to identifying and attracting exciting new producers, rather than buying out already established heavyweights, may be more valuable.

In dealing with the issue of talent, we believe that much depends on how the production house is structured, from an organisational and cultural standpoint. Organisations that offer creative and operational flexibility alongside financial incentives aligned with the success of productions, are likely to retain and attract key personnel even in the current conditions. Mark Gordon, who heads content development at eOne, referred to the simple formula of ‘fun and profits’ for attracting key players to the company.

Lack of DTC options: With the exception of Lions Gate (which has STARZ Go), other independent producers do not have direct-to-consumer platforms, and hence must rely entirely on licensing their content. This, however, is not a major handicap in the shorter run, as DTC platforms are likely to be EBITDA and cashflow negative for several years and require substantial investment in technology and marketing. In the longer run, we believe there can be solutions for independent firms, through collaboration (or JV), which we discuss later in this note.

Short-term volatility in financial performance due to lumpy deliveries: Lumpy financial results over shorter time horizons is a pervasive reality of the content production and licensing business. We have noticed that this is not just evident in smaller independent producers, but even in the content segments of large media entities like CBS and Walt Disney. Quite often we have seen these segments produce double-digit swings in growth/declines on a quarterly basis. Against a public markets backdrop, the pureplay stocks (which may not be understood as well) could thus see a fair degree of volatility in share price as investors and analysts overcorrect earnings estimates and outlook.

Achieving distribution: At a smaller scale (say sub $100M market cap), the ability to break through to larger buyers of content (Netflix, Amazon, CBS, ABC, etc.) is limited. Hence, these independent producers may face an under-monetization of their content and hence be limited in their ability to grow. In fact, the core thesis of Kew Media centers very much around this condition.

Figure 3: Recent Media Transactions

Acquirer	Target	Announced Date	Transaction Size
Lantern AM	The Weinstein Co.	3/19/2018	$416M USD
Comcast	Sky PLC	2/27/2018	$46.1B USD
AMC Networks	RLJ Entertainment	2/26/2018	$134M USD
Disney	21st Century Fox	12/14/2017	$83.4B USD
Cineworld	Regal Entertainment	11/28/2017	$5.8B USD
Discovery	Scripps	7/31/2017	$14.9B USD
AT&T	Time Warner	10/22/2016	$106B USD
Verizon	Yahoo!	7/25/2016	$4.5B USD
Comcast	Dreamworks	4/28/2016	$3.9B USD

Source: Company Reports, Canaccord Genuity estimates

More consolidation in the cards?

The investment case for independent content companies is enhanced by the potential for consolidation and acquisition in this space. Our coverage companies have been active acquirers of other independent content businesses, and on the flipside are constantly highlighted as potential targets for larger entities.

We know that Lions Gate and eOne have largely grown through acquisitions. Lions Gate was transformed by its acquisition of STARZ, and eOne by the acquisitions of Astley Baker Davis and The Mark Gordon Company. As recently as May this year, Lions Gate acquired 3 Arts Entertainment with a view to expanding its talent pool and genre strength, while eOne has been making several tuck-in acquisitions in various genres, including kids and unscripted (Whizz Kid Entertainment / Renegade 83). Much of the M&A activity is aimed at establishing strength or reinforcing the entity's position in a particular genre; thus, it is very much about expanding reach and being better positioned to offer a broader portfolio of content to the big platforms, be they SVOD or traditional networks.

In terms of being a target, Lions Gate has been rumoured to have had many suitors from Discovery Communications, CBS/Viacom to Verizon and even Amazon. More recently, press reports have been speculating of a Lions Gate / MGM / Sony combination. The same goes for Entertainment One which was pursued by ITV a couple of years ago and in turn spawned expectations of interest from Vivendi, ProSieben and even KKR.

Reaching for scale: While we are of the view that there are plenty of opportunities for independent producers to grow and take advantage of current industry conditions, there is the underlying reality that scale does ultimately matter. The proliferation of direct-to-consumer platforms which come with technological and marketing infrastructure requirements, the need to have strong international reach and sales strength, and the rising cost of talent all call for greater scale. Furthermore, with programming budgets of major players reaching for high single-digit to double-digit billions, the relatively smaller independents could be forced to bulk up at some point.

Two stages of consolidation

Our view is that most of our coverage (and private companies highlighted in this report) are likely to experience two distinct phases of M&A. We believe these phases could take several years to play out.

> **Enlargement of independents**: The first phase comprises tuck-ins to more sizable (even transformational) acquisitions, where we would see the enlargement of the existing independents. As described above, the industry is already very much

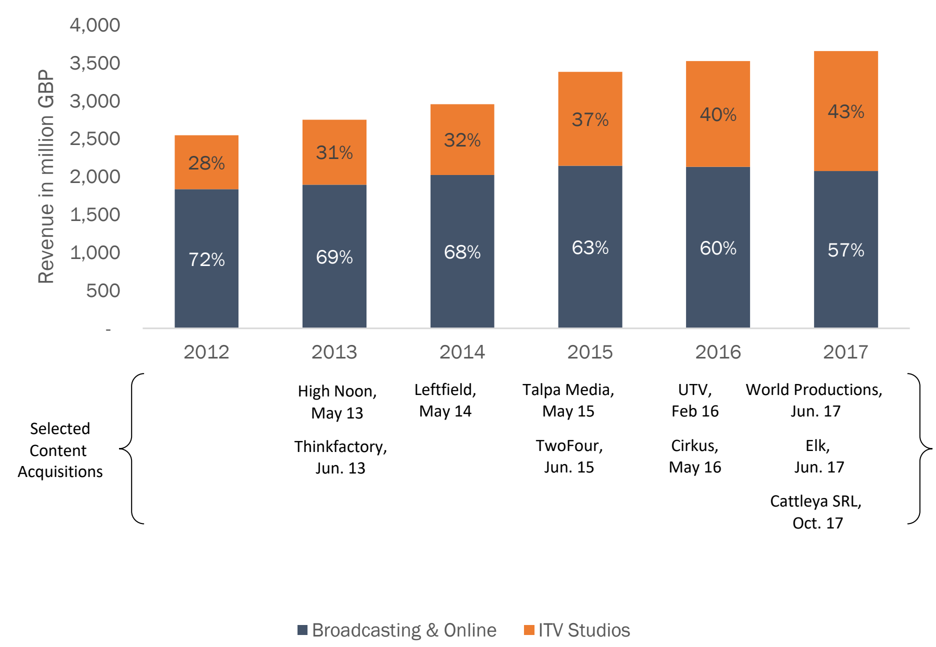
going through this process (Lions Gate – STARZ, ETO- Mark Gordon Company, Kew – CMC, Thunderbird – Atomic/GPM). The incentives for this enlargement could range from more established distribution relationships with the larger platforms, through genre diversification, to DTC. We still see an adequately fragmented independent landscape that is ripe for consolidation, particularly as the reliance of the Netflix's of the world on the independent sector increases.

We suspect that this phase could see a further extension if a number of 'fallen angels' in the space – which are believed to be up for sale due to various financial challenges, but which still possess valuable assets – are tacked on to existing independents. The first example is MGM, which is believed still to be a sizable business; we suspect it has $400-500M in EBITDA, and it boasts highly significant IP such as the *James Bond* franchise, *Rocky, Fargo* (FX), and the multi-award winning Hulu standard-bearer, *The Handmaid's Tale*; production company Endemol Shine, well known for shows like *MasterChef* and *Peaky Blinders*; and DHX Media which possess relevant assets like *Peanuts, Strawberry Shortcake, and Wildbrain,* among others. Even if entire companies are not acquired by the independent sector, there may well be assets that can be added on, as part of the process. These combinations could lead to a few, even more muscular independents, well positioned to serve the emerging needs of the new entrants – the tech giants as well as the expanding SVOD sector.

Potential takeover by Media conglomerates, Tech giants, SVOD: This second phase would involve the acquisition of some of the bigger independents, either by the large traditional media conglomerates like Disney, CBS, Viacom, Discovery, etc., or perhaps by the SVOD platforms or tech giants. We believe a key catalyst would be the broader proliferation of DTC platforms branded by many of the majors and even some independents. With the majority of large and even mid-size media entities developing DTC platforms, we suspect there will eventually be a case for consolidation. We expect that lack of scale, the marketing resources needed, and the burden of managing a high-churn subscriber business may lead to some uneconomic business models, which would eventually be forced to sell or close. Additionally, we expect that as the major DTC platforms develop, the case to control and own more content will become even more compelling, in turn incentivizing the larger media platforms to pursue the content-rich indies.

Diversification is another major incentive for traditional media companies to pursue independent content assets. As the headwinds of cord shaving and loss of ad share to digital media take their toll on these business models, many media entities have opted to shift the revenue/asset mix in favour of production and licensing. We have seen this with ITV in the UK and RTL in Europe, and we continue to advocate this strategy for Canada's Corus Entertainment.

Figure 4: ITV - Changing the Revenue Mix Through Acquisitions



Source: Company Reports, Canaccord Genuity estimates

Valuations are temperamental, but patient, knowledgeable investors can win

Our coverage of this space over the years has suggested to us two basic underlying truths. First, valuations in this subsector can be volatile, with the historical multiple ranges stretching from the mid-single digits (~7x EV/EBITDA) to as high as the mid-teens. Even over a relatively short period of time, there can be fairly steep fluctuations in valuation. Second, a combination of solid growth and reliable financial performance during a time of perceived industry expansion can drive valuations as high as 15-17x EV/EBITDA.

Our interpretation of this is that investors are genuinely open to embracing stocks in this space, particularly given the scarcity of names with which to gain pureplay exposure to content, even at higher valuations. The problem is that they are also quick to run away from these names en masse, when disappointed. Discontent can range from missed guidance and sharp variations in outlook, to elevated debt due to M&A, to – quite frankly – misinterpretation of corporate actions.

We believe that part of the reason for this volatility is that this space is still not as well understood as it might be on the buy side. Insightful and patient investors, therefore, can generate outsized returns in these stocks.

We highlight several empirical reference points to reinforce the above view.

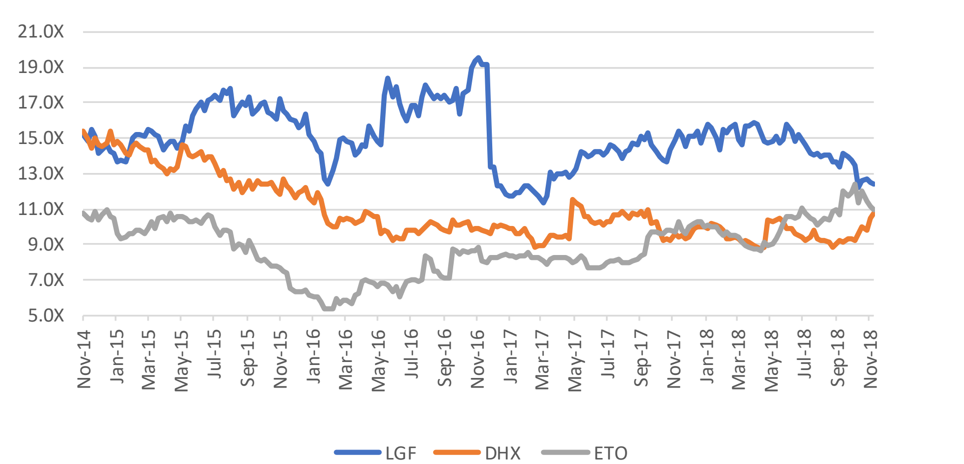
The dramatic rise of DHX Media (HOLD) over 2012-2014: DHX Media was a sub-$100M market cap company prior to 2012. However, the added scale and content from Cookie Jar combined with the advent of SVOD platforms (mainly Netflix) lifted the shares. Furthermore, DHX was the only pure-play content provider in Canada. The strengthening stock became an attractive currency for a series of acquisitions, which further fuelled the run-up in valuation. By the end of 2014, DHX's market cap stood at $1.2B, trading at 18x EV/EBITDA 2015E. This showed us that when there are industry tailwinds and a scarcity of ways to play the space, the market may well be ready to offer highly elevated valuations, so long as financial performance is meeting expectations and the balance sheet is manageable.

While a narrative of the eventual fall of DHX is outside the scope of this report, we believe it was very much a case of consistently missed expectations and high debt.

Downswing in ETO in H2/15: ETO's stock took a sharp dive starting in early July 2015 from 326p/sh to as low as 133p by February 2016, largely around the two sizable back-to-back acquisitions of the Mark Gordon Company and an additional larger stake in Astley Baker Davis (Peppa Pig). It appears the market had reservations around the financing structure as well as balance sheet leverage, rising interest payments and lack of FCF. This in our mind, is a case of severe misunderstanding by the market, as not only was ETO producing strong underlying financial results, but these two were highly attractive and transformational transactions. Moreover, leverage never even touched 2.5x, and the following year (F2017) saw substantial FCF generated.

Early 2018 downswing in LGF: More recently, we saw the steep decline in the share price of Lions Gate. The fall commenced on February 9, 2018, following the revision to guidance (the previous night) from a mid-teens rate of EBITDA growth through F2017-2020 to mid-to-high single digits. Moreover, F2019 was indicated to be a flat to down year, which stymied the growth credentials of the stock. This to us indicates the impact of underlying growth expectations on valuation multiples. Pre-Feb 2018, when street expectations indicated double-digit EBITDA growth, the valuation multiple rose as high as 14x EV/EBITDA (next year). We believe if not for the elevated balance sheet leverage, it could have been even higher. However, since then it has retreated to 10x as street estimates now indicate nearer to mid-single-digit growth. If not for the Starz base that LGF has today, we suspect valuations could have retreated to the aforementioned 7-8x levels.

Figure 5: Historical EV/EBITDA Multiples (LGF, DHX, ETO)



Source: Company Reports, Canaccord Genuity estimates

Figure 6: Comparable Valuations

11/26/2018	Price	Market Cap	DPS	DPS Yield	EV/EBITDA (x)				P/E (x)				P/FCF (x)			
Media Comps	**(Local)**	**(M)**	**Curr.**	**(%)**	**2017**	**2018E**	**2019E**	**2020E**	**2017**	**2018E**	**2019E**	**2020E**	**2017**	**2018E**	**2019E**	**2020E**
Kew Media	$5.85	83	$0.00	0.0%	6.4 x	6.6 x	4.9 x	4.3 x	N/A	N/A	9.2 x	7.5 x	N/A	N/A	10.7 x	4.9 x
Thunderbird	$1.99	307	$0.00	0.0%	13.0 x	7.1 x	8.1 x	5.9 x	N/A	40.8 x	24.4 x	15.1 x	N/A	N/A	N/A	N/A
DHX Media	$3.25	379	$0.00	0.0%	8.9 x	11.7 x	10.7 x	10.3 x	20.3 x	N/A	N/A	204.1 x	N/A	N/A	22.2 x	23.7 x
Entertainment One	£3.77	1,741	£0.01	0.4%	11.7 x	11.7 x	11.5 x	9.8 x	18.9 x	17.2 x	13.4 x	13.0 x	23.7 x	47.1 x	414.3 x	18.7 x
Corus Entertainment Inc.	$4.59	958	$0.24	5.2%	5.1x	4.9x	4.8x	4.6x	4.2x	4.0x	4.4x	4.8x	3.1x	2.9x	3.0x	3.0x
Lions Gate Entertainment	US$17.62	3,772	US$0.36	2.0%	12.2x	11.2x	12.5x	10.4x	18.6x	11.0x	14.7x	10.1x	14.8x	11.1x	26.2x	12.0x
Average					**9.5x**	**8.9x**	**8.8x**	**7.5x**	**15.5x**	**18.2x**	**13.2x**	**42.4x**	**13.9x**	**20.4x**	**95.3x**	**12.4x**
US Media Conglomerates:																
The Walt Disney Company	$112.55	168,825	$1.68	1.5%	12.1x	10.9x	10.8x	10.1x	19.7x	15.9x	15.7x	15.1x	20.4 x	17.3 x	16.7 x	15.4 x
CBS Corporation	$53.72	20,575	$0.72	1.3%	10.2x	9.0x	8.2x	7.3x	12.2x	10.3x	9.3x	8.0x	26.9 x	14.8 x	11.3 x	9.8 x
Viacom	$34.89	14,064	$0.80	2.3%	8.0x	7.7x	7.3x	7.0x	9.3x	8.5x	8.2x	7.8x	9.5 x	8.1 x	8.4 x	7.9 x
AMC Networks	$59.05	3,607	$0.00	0.0%	7.4x	7.3x	6.9x	6.7x	8.0x	7.1x	6.8x	6.6x	10.5 x	6.7 x	8.0 x	8.0 x
US media conglomerate average					**9.5x**	**8.7x**	**8.3x**	**7.8x**	**12.3x**	**10.4x**	**10.0x**	**9.4x**	**16.8x**	**11.7x**	**11.1x**	**10.3x**

Source: Company Reports, Canaccord Genuity estimates

CANACCORD Genuity

To us there are no foreign markets.™

Lions Gate Entertainment Corp.

Media

Canadian Equity Research
27 November 2018

BUY
unchanged

PRICE TARGET	US$24.00
unchanged	
Price (26-Nov)	US$17.62
Ticker	LGF.B-NYSE

52-Week Range (US$):	16.80 - 34.41
Avg Daily Vol (000s) :	681.2
Avg Daily Vol (M) :	484.9
Market Cap (US$M):	3,772
Shares Out. (M) :	214.1
Dividend /Shr (US$):	0.36
Dividend Yield (%) :	2.0

Note: F2017 Sales and Adj EBITDA are presented on a pro forma(Starz) basis.

FYE Mar	2017A	2018A	2019E	2020E
Sales (US$M)	4,217	4,129	3,815	4,116
EBITDA Adj (US$M)	542.8	608.0	565.6	662.4
EV/EBITDA (x)	12.2	11.2	12.5	10.4
EPS Adj (US$)	0.95	1.59	1.20	1.75
P/E (x)	18.6	11.0	14.7	10.1
FCF /Shr Adj (US$)	1.19	1.58	0.67	1.47
FCF Yield (%)	6.8	9.0	3.8	8.3

Source: FactSet

Priced as of close of business 26 November 2018

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Company Update

Laying the building blocks for major DTC platform

Lions Gate is the flagbearer for content production outside the US media conglomerates and major studios and has advanced in size, stature and strategic direction following its transformational acquisition of STARZ in December 2016. Apart from size, the company's efforts in DTC and appreciable progress thus far set it apart from the rest of the group highlighted in this space.

Subs on the uptrend: Following a period of some downward pressure, STARZ subs are back on the uptrend. As expected, Q2/19 was boosted by the return of its flagship *Power* series supported by a breadth of solid titles including *Outlander*, *Vida* and *Sweet Bitter*. Going forward, we expect an even more pronounced contribution from the OTT side as the new Amazon deals (UK, Germany, etc.) as well as the distribution arrangements with Hulu and YouTube TV begin to pay off. This we believe is a key near-term driver for the stock.

A keen eye on DTC progress: The DTC platform has already had a solid start with total OTT subs recently hitting 3M and, importantly, the core direct subs (non-wholesale) increasing in terms of its relative mix. We expect the market to keep a close eye on this number and at a certain point, we expect it will grow in significance with respect to the overall investment thesis. We believe there is a fairly comfortable run toward 5M subs and perhaps beyond simply on the recent Hulu placement as well the international expansion within Amazon Prime, going into UK, Germany, France, Italy and Spain, etc.

Achieving F2020 numbers is key: Considering the steep downturn in the stock which began in February 2018 as the market digested the indication from the company that F2019 would be flat to down, we believe achieving 2020 expectations becomes paramount for the stock to mount a full recovery. Recall management (alongside Q3/18 results) guided to mid-to-high single-digit adj. EBITDA CAGR (F2017-F2020E), revised down from previous guidance of low to mid-teens growth. This now suggests a sharp rebound in adj. EBITDA in F2020 of nearly $100M (or ~20% y/y). While the strengthened F2020 film slate certainly helps the cause on the motion picture side of the business, there are still other pieces that must fall into place in order for LGF to hit its numbers. We think a significant variable here is Media Network's programming spend inflation (specifically amortization). If the growth in this line item can be contained to mid-to-high single digits, we think the $640-670M adj EBITDA range starts to look achievable.

Risk is still the balance sheet: While the company is certainly making progress on this front, for some investors, the balance sheet leverage remains the main issue. Following the settlement of the dissenters' case, leverage is projected to rise to 5.6x.

Valuation: We continue to value the stock on a SOTP basis representing a blended EV/ EBITDA of 12.3x on 2020E. The TV division is offered 14x and Film 8.5x. Media Networks (Starz) is valued at 12x. LGF.B currently trades at 10x 2020E, very much near historic trough levels.

Transition from content licensor to platform

We believe that the developments taking place at Lions Gate as it attempts to build a robust DTC platform is, on one hand, emblematic of the shifts occurring in the broader media space, and on the other, potentially charts the course for the future direction of the independent sector. The eventual development of a sizable and profitable DTC platform with genuine international presence by Lions Gate could conceivably encourage other players in the space ranging from AMC Networks to eOne and others to participate in a more active phase of industry consolidation as they look to emulate a DTC model. However, even for Lions Gate, this is still very much the early innings of this endeavor.

The Lions Gate advantage: Despite being up against massive programming budgets and media conglomerates with superior infrastructure, Lions Gate does have the core ingredients to develop a successful OTT platform. Primarily, their 16,000-title library is the main differentiator. It provides a solid base that most other platforms would have greater difficulty accumulating both due to cost and availability. In particular, as some of Lions Gate's output commitments (HBO, EPIX) expire, there is an opportunity for LGF's film franchises to further nourish the emerging OTT service. Second, with a relatively limited budget, STARZ has demonstrated the ability to produce some impressive standard bearer titles (e.g. *Power, Outlander*) and in the process overtake CBS's Showtime in terms of domestic subs. When you combine that with Lions Gate's ability to produce some of the most iconic shows in the current age of TV (*OITNB, Mad Men, Nurse Jackie*) you have a potent combination, well positioned to support a standalone DTC model. Third, Lions Gate already has picked and is locking in its niche segments. Their business model of focusing on African American and Latino communities as well as Women, gives them a differentiation so as to avoid going up directly against a Netflix or Amazon Prime.

Rapid growth in OTT subs: The company revealed 2 months ago at an investor conference that the OTT sub counts has hit 3M. This is up from 2M in November 2017 and 1M a year prior to that. We consider this to be quite creditable not just due to the short timeframe, but also the fact that this compares with roughly 2.5M for Showtime OTT (as of early to mid-2018). HBO remains the leader of the pack with our best estimate at 7M OTT subs. Alongside the underlying growth trend for STARZ OTT, when one considers the potential boost to subs from the Hulu launch in October this year as well as from the recent addition in YouTube TV, we see a clear path to 5M subs in the near term.

Transitioning to more direct subs over wholesale: Importantly, we believe that 'direct subs' (i.e., excluding wholesale from Amazon, Apple, Roku, etc.) are approaching 1M based on recent comments from management. This is critical as STARZ is able to pull highly detailed data and analytics from these subscribers which would be critical insight in future programming decisions. Various analytics can be run to ascertain the success of new programming (e.g. sub adds driven by new shows, analyze periods of high churn, effective replacement of programming when a key show ends a season, etc.) and help management make better decisions on content overall. Importantly, this data allows a far more reliable assessment of return on programming investment, which over time would help optimize and potentially control content spend. It also helps with subscriber acquisition and profiling, better informing effective marketing and promotion.

International expansion: Lions Gate has recently put its international expansion efforts into overdrive. In May this year, the company announced the launch of STARZPLAY branded channels on Amazon Prime Video in the UK and Germany. This was further expanded to France, Italy and Spain a few months later. They also announced deal with Virgin Media in the UK. Recall that Lions Gate's first major incursion outside of the US has been with STARZ PLAY Arabia, which was based on a partnership model and appears to be successful. We note that STARZPLAY Arabia which boasts over 1M subs is not included in the corporate OTT tally, as LGF does not have a controlling interest. This, however, can change overtime with a potential consolidation transaction. Nevertheless, clearly, there is substantial upside to be exploited in the international markets going forward, be it under the partnership/OTT model, DTC or a licensing model similar to what was done in Canada with Bell Canada (where a new Starz branded channel was launched by Bell). Management has indicated its plan of expanding to 15 territories over a three-year period and there are 8 more to go.

Achieving profitability: While sub count and then revenues dominate investor focus in the near to medium term, overtime, the DTC model needs to demonstrate a path to meaningful margins and ROCE. On the face of it the DTC business model has a substantial advantage in that there is no distributor take – generally in the 50% of revenue vicinity when going through MVPDs. Under the wholesale models (Amazon, Apple, Roku) the take falls from 15-30% and then 0% for pure direct. However, the cost of distribution, subscriber management and technology can be quite substantial and during the initial stages would preclude positive EBITDA margins. Hence, ultimately scale comes into play. From this perspective, we believe Lions Gate has the breadth of content, track record, executive talent and library to hit the requisite scale, while many other niche DTCs platforms could run into difficulties.

Recent downturn offers compelling opportunity ahead of potentially positive catalysts

We believe that there is a strong case for LGF at these levels following a severe 44% downturn YTD. While we are clearly in a soft year from a financial performance perspective, this was telegraphed a while ago and now much depends on the F2020 outlook. We highlight the following reasons to buy.

Benefits of Starz merger playing out: The advent of Starz has facilitated a more robust business model which is offers a good blend of longer-term growth and lower-risk profile. Historically, LGF shares tended to swing sharply depending on film slate performances and the level of financial volatility likely limited the investor base. With Starz there is likely to be far greater stability. It also creates a ready home for Lions Gate's product. On the other hand, for Starz, legacy Lions Gate Entertainment has tools (production and library) that can meaningfully assist the elevation of Starz from a purely domestic MVPD-driven premium network to a genuine SVOD offering with deep domestic and international appeal.

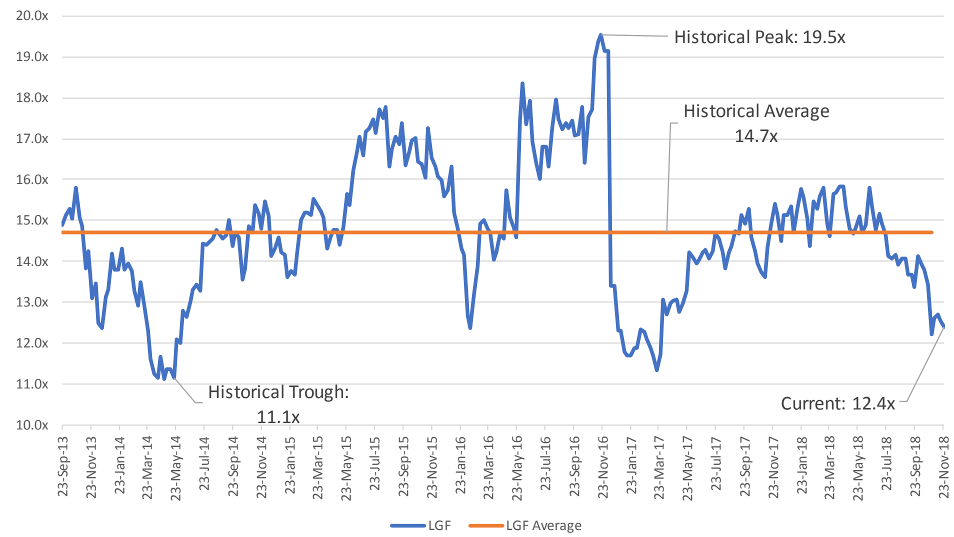
F2020 should see an upswing in profitability: F2020 is well positioned to deliver double-digit EBITDA growth led by Film and better operating metrics from Media Networks. We believe that the return to profitability growth would serve to swing sentiment back into positive territory.

DTC metrics likely to become relevant in the future: We believe that overtime, the market would start to appreciate the DTC business potential within the LGF story. With the OTT sub count now at 3M, meaningful upside going forward as the international expansion plays out, we expect that this would start to become catalytic as growth continues on to bigger numbers.

Trough valuations: LGF is near trough valuations from a historical perspective as shown in Figure 6. We believe the softer F2019 results (which was telegraphed earlier) and the broader sell off in the US Media sector over the past months has negatively impacted the stock. We believe that as visibility around F2020 improves and the ongoing strengthening of the overall STARZ sub base continues and shows greater sustainability, the stock is likely to start to rebound.

We believe the other element that should provide some sort of downside cushion and stability to LGF's stock price is the underlying FCF, which we believe would be robust in the $1.40-1.50/sh. range post F2019 even with the higher investment in programming. Particularly as leverage eases, we believe the attractive FCF yield would emerge as a stabilizing force on the stock.

Figure 7: Historical EV/EBITDA trading multiples for Lions Gate Entertainment Inc.



Source: FactSet

Deriving our target of $24, maintaining BUY: We have derived a target of $24 based on a SOTP valuation. For the legacy side of the LGF business, we apply 14x for the TV production business, 8.5x for Motion Picture, and then for Starz, we apply 12x- which in our view still only partly reflects the upside available from the DTC and international opportunities. Given we are already in F2019, we use our F2020 estimates. Given the 35% upside to our target, we maintain our BUY rating on the stock.

Figure 8: Target price derivation for Lions Gate Entertainment Inc.

(US$000s, except as noted)	F2018	F2019E	F2020E
Content			
Television - EBITDA (before SBC)	111,500	79,529	104,527
Multiple (x)	14.0x	14.0x	14.0x
TV - EV	1,561,000	1,113,406	1,463,372
Motion Pictures - EBITDA (before SBC)	179,400	121,236	163,665
Multiple (x)	8.5x	8.5x	8.5x
Film - EV	1,524,900	1,030,507	1,391,151
Distribution			
Media Networks - EBITDA (before SBC)	429,300	471,816	494,227
Multiple (x)	12.0x	12.0x	12.0x
Distribution - EV	5,151,600	5,661,788	5,930,726
Corporate Expenses, SBC and intersegment eliminations	(112,200)	(107,000)	(100,000)
Multiple (x)	11.0x	11.0x	11.0x
Corporate Expenses - EV	(1,234,200)	(1,177,000)	(1,100,000)
Enterprise Value	**$7,003,300**	**$6,628,702**	**$7,685,249**
Equity Investments - Other (at Book Value)	311,800	311,800	311,800
Equity Investments - EPIX	-	-	-
Tax assets	157,864	142,078	134,974
Total Enterprise Value	**$7,472,964**	**$7,082,579**	**$8,132,023**
Net Debt	2,179,300	3,191,673	2,956,970
Dissenting shareholders liability	869,300	-	-
Non-Controlling Interests	101,800	133,100	133,100
Equity Value	**$4,322,564**	**$3,757,806**	**$5,041,953**
Wt. avg. s/o (000s) - basic	208,400	213,400	214,100
Equity/sh. (US$)	**$20.74**	**$17.61**	**$23.55**

Source: Company Reports, Canaccord Genuity estimates

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Entertainment One

Media

Canadian Equity Research
27 November 2018

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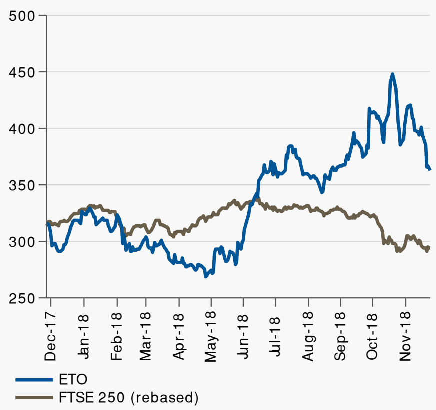
BUY
unchanged

PRICE TARGET 440p
unchanged
Price (26-Nov) 377p
Ticker ETO-LSE

52-Week Range (p):	264 - 450
Avg Daily Vol (000s) :	1,216.2
Market Cap (pM):	1,741
Shares Out. (M) :	461.7
Dividend /Shr (p):	1.4
Dividend Yield (%) :	0.4
Net Debt (Cash) (£M):	315

FYE Mar	2018A	2019E	2020E
Sales[1] (£M)	1,045	1,093	1,221
EBITDA Adj (£M)	177.3	198.5	225.3
EV/EBITDA (x)	11.7	11.5	9.8
EPS Adj&Dil (p)	21.9	28.1	29.0
P/E (x)	17.2	13.4	13.0
FCF /Shr Adj (p)	8.0	0.9	20.2
P/Adj. FCF (x) Adj	47.1	414.3	18.7

[1]F18 not adjusted for IFRS 15



Source: FactSet

Priced as of close of business 26 November 2018

Entertainment One is a global independent studio headquartered in Toronto, Canada. It specializes in the development, acquisition, production and distribution of primarily film and television content. It operates through three business segment: Television, Film and Family.

Company Update

The purest of the content pure plays

Entertainment One stands out as a genuine pureplay with no broadcast/cable ownership (LGF has Starz and DHX has Family Channel) and is further differentiated by its diversified mix of content, ranging from drama, unscripted to Film and Family content. It also has been the most consistent from a financial performance standpoint with double-digit EBITDA (organic) growth in F16, F17, F18 and a similar result projected for F2019. It is also the most conservative with respect to M&A and balance sheet management.

A growing profile: ETO's position in the content landscape has been advancing rapidly in recent years, particularly following the acquisition of The Mark Gordon Company. The company is successfully attracting high-quality talent, as evidenced by its latest procedural for ABC – *The Rookie* which stars Nathan Fillion, as well as shows like *Designated Survivor* (Kiefer Sutherland). Furthermore, it is attracting top executive talent which is helping further strengthen its overall TV operations. We see eOne gaining traction with the major platforms and studios in terms of partnerships. For instance, it recently licensed domestic rights for *Designated Survivor* to Netflix, licensed *Sharp Objects* (Amy Adams) to HBO, which went on to become the #2 drama on HBO, has a new series in development for Hulu (*Old City Blues*), and partnered with Walt Disney on a high-profile film title – *The Nutcracker and the Four Realms*. All this suggests to us that eOne's centrality and relevance in the entertainment eco-system is increasing.

Family division adds diversification and another growth driver: The Family division has dramatically augmented ETO's success. Not only has *Peppa Pig* continued to grow at near double-digit rates even into its 14th year, it has produced another title (*PJ Masks*) that is close on the heels of the mammoth success of *Peppa Pig* in terms of retail sales. Family division EBITDA grew 48% in F2018, having grown 28.4% in F2017 and is projected to grow 19.3% in F2019. Family now makes up 43% of corporate EBITDA.

A solid balance sheet and a strengthening currency is increasing M&A options: Unlike some of its peers who have pursued M&A that has raised balance sheet leverage closer to the 5x range, ETO has been far more careful about high debt. ETO's current balance sheet debt stands at 2x and with more meaningful FCF expected in F2020. We believe that with the recent strength in the share price and substantial room in the balance sheet, ETO is well positioned to participate actively in future M&A in this sector.

The key risks: As we see it, there are two items we need to look out for. The first is that ETO's Family division has heavy reliance on two brands – *Peppa* and *PJ*. While we are more comfortable on *Peppa* due to its track record of sustainability and early growth phase in China, we have a little less visibility on the longevity of *PJ Masks*. So, we would track its progress closely. Second, is the matter of talent. The company still relies heavily on Mark Gordon. While there are solid financial structures in place to incentivize a long commitment from him, we see expanding the pool of high-quality executives as an important objective. The additions of Brad Weston, Peter Micelli, etc., are positive steps.

Target and recommendation unchanged: We value ETO on a blended 11x EV / F2020 EBITDA.

Does ETO deserve a premium over comps?

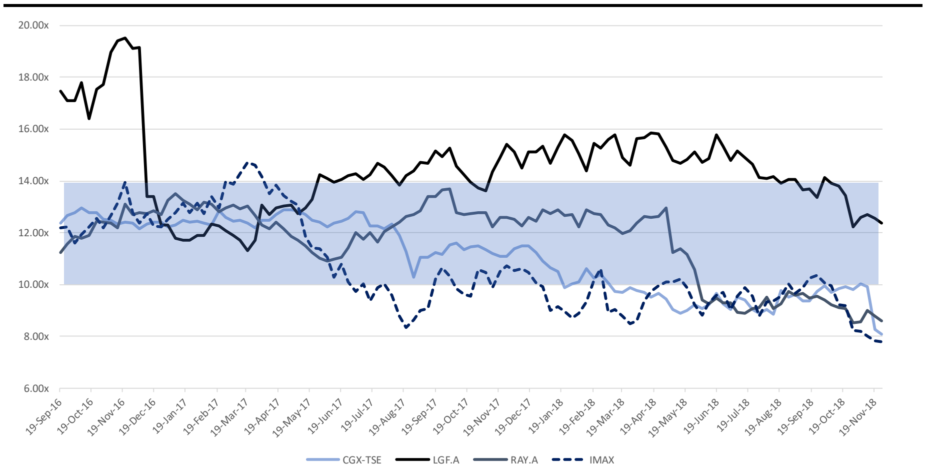
With increasing international investor exposure, specifically with the shareholder base shifting from the UK to North America, there has been a growing appreciation of the ETO story over the past year. This resulted in the share price essentially doubling from 220p in mid-2017 (June 30) to 440p in mid-October 2018. While the softer overall market conditions have pulled back the stock in recent weeks, we believe the current re-rating can continue to a point where ETO can arguably trade ahead of its peers. The stock currently trades at 9.8x EV/EBITDA 2020E, 0.5x lower than LGF and 0.5x lower than DHX Media. The discount to LGF historically used to be as high as 5x during certain periods (pre-2018). We believe that with an even more broad based North American shareholder base and a potential re-listing in US/Canada, ETO can trade north of 12x (which translates to 500p+) even in current market conditions. Our view is supported by the following;

- **ETO is a genuine double-digit EBITDA growth business**: ETO has delivered double-digit EBITDA growth organically over the past three years and is estimated to do so in F2019 and F2020. This profile, combined with a solid balance sheet has typically yielded a 12-14x multiple in Canada in the media space (e.g. Cineplex Inc, Stingray – see below). While these comps have fallen off for various company related factors (e.g. Stingray's proposed acquisition of NewCap) we believe the empirical evidence is still there.

- **Lions Gate the sole genuine comp**: Lions Gate remains the only real comp in the content space. However, following the acquisition of STARZ, this is now more of a network rather than a pureplay content creator/owner. Nonetheless LGF trades at 10.4x F20 EBITDA. While there are counter points, one can argue that consistent misses and downward revisions to 3-yr guidance calls for a slightly lower valuation for LGF vis-à-vis ETO.

  Alternatively, if one uses TOY-TSX (Spin Master) as a comp, we note that it traded closer to 13.5x prior to Toys R Us troubles.

Figure 9: Historical trading multiples of ETO peers



Source: Company Reports, Canaccord Genuity estimates

- **Decreasing film exposure**: ETO's exposure to the more volatile and thus lower multiple film segment has decreased dramatically from over 50% three years ago to a mere 18% currently.

- **Better balance sheet**: Both LGF and DHX Media have balance sheet leverage (net debt/LTM EBITDA) north of 5x, which introduces a degree of risk to the business and potentially makes the NAV more volatile to changes in financial expectations. ETO on the other hand has a far more conservative balance sheet with leverage forecasted to be 1.8x by F2019.

- **Take-out potential is real**: ETO is a genuine take-over candidate, and we believe it should be reflected in the valuations.

- **Ownership of resonating brands:** With *Peppa Pig* and *PJ Masks* helping to bolster its Family content assets, we believe the company has the correct assets to generate consistent and growing revenue with a substantial International opportunity.

Figure 10: Derivation of Target price

Valuation (£M)	F2017	F2018	F2019E	F2020E
Television and Film EBITDA	115.5	107.1	113.4	127.4
Valuation Multiple (x)	10.5x	10.5x	10.5x	10.5x
Television EV	£1,212.8	£1,124.6	£1,191.2	£1,338.1
Family EBITDA	55.6	82.3	98.2	112.8
Valuation Multiple (x)	11.5x	11.5x	11.5x	11.5x
Family EV	£639.4	£946.5	£1,129.4	£1,297.7
Group Costs	-10.9	-12.1	-13.2	-15.0
Valuation Multiple (x)	10.0x	10.0x	10.0x	10.0x
	-£109.0	-£121.0	-£132.0	-£150.0
Total target EV	**1,743.2**	**1,950.0**	**2,188.6**	**2,485.9**
Blended EV/EBITDA (x)	**10.9x**	**11.0x**	**11.0x**	**11.0x**
Cash	133.4	119.2	196.2	283.7
Debt	320.8	433.7	534.5	534.5
Net Debt	187.4	314.5	338.3	250.8
Minority Interest	81.5	120.7	144.0	165.5
Equity value	1474.2	1514.8	1706.3	2069.6
Shares outstanding (M)	425.7	436.3	476.3	476.3
Equity/sh. (£)	**£3.46**	**£3.47**	**£3.58**	**£4.35**

Source: Company Reports, Canaccord Genuity estimates

Figure 11: Comparable Valuations

11/26/2018	Price	Market Cap	DPS	DPS Yield	EV/EBITDA (x)				P/E (x)				P/FCF (x)			
Media Comps	(Local)	(M)	Curr.	(%)	2017	2018E	2019E	2020E	2017	2018E	2019E	2020E	2017	2018E	2019E	2020E
DHX Media	$3.25	379	$0.00	0.0%	8.9 x	11.7 x	10.7 x	10.3 x	20.3 x	N/A	N/A	204.1 x	N/A	N/A	22.2 x	23.7 x
Entertainment One	£3.77	1,741	£0.01	0.4%	11.7 x	11.7 x	11.5 x	9.8 x	18.9 x	17.2 x	13.4 x	13.0 x	23.7 x	47.1 x	414.3 x	18.7 x
Corus Entertainment Inc.	$4.59	958	$0.24	5.2%	5.1x	4.9x	4.8x	4.6x	4.2x	4.0x	4.4x	4.8x	3.1x	2.9x	3.0x	3.0x
Lions Gate Entertainment	US$17.62	3,772	US$0.36	2.0%	12.2x	11.2x	12.5x	10.4x	18.6x	11.0x	14.7x	10.1x	14.8x	11.1x	26.2x	12.0x
Average					**9.5x**	**9.9x**	**9.9x**	**8.8x**	**15.5x**	**10.7x**	**10.9x**	**58.0x**	**13.9x**	**20.4x**	**116.5x**	**14.3x**
US Media Conglomerates:																
The Walt Disney Company	$112.55	168,825	$1.68	1.5%	12.1x	10.9x	10.8x	10.1x	19.7x	15.9x	15.7x	15.1x	20.4 x	17.3 x	16.7 x	15.4 x
CBS Corporation	$53.72	20,575	$0.72	1.3%	10.2x	9.0x	8.2x	7.3x	12.2x	10.3x	9.3x	8.0x	26.9 x	14.8 x	11.3 x	9.8 x
Viacom	$34.89	14,064	$0.80	2.3%	8.0x	7.7x	7.3x	7.0x	9.3x	8.5x	8.2x	7.8x	9.5 x	8.1 x	8.4 x	7.9 x
AMC Networks	$59.05	3,607	$0.00	0.0%	7.4x	7.3x	6.9x	6.7x	8.0x	7.1x	6.8x	6.6x	10.5 x	6.7 x	8.0 x	8.0 x
US media conglomerate average					**9.5x**	**8.7x**	**8.3x**	**7.8x**	**12.3x**	**10.4x**	**10.0x**	**9.4x**	**16.8x**	**11.7x**	**11.1x**	**10.3x**

Source: Company Reports, Canaccord Genuity estimates

CANACCORD Genuity

Kew Media Group Inc.

To us there are no foreign markets.™

Media

Canadian Equity Research
29 November 2018

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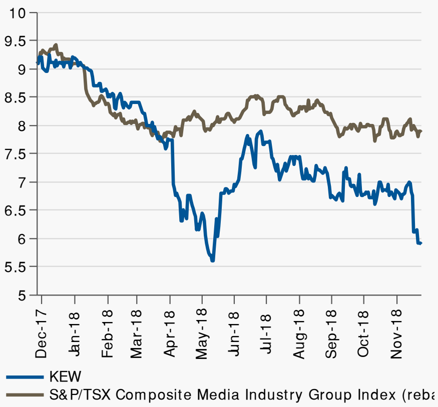
BUY

PRICE TARGET	C$9.50
Price (26-Nov)	C$5.85
Ticker	KEW-TSX

52-Week Range (C$):	5.51 - 9.70
Avg Daily Vol (000s) :	14.3
Market Cap (C$M):	80.8
Shares Out. (M) :	13.7
Dividend /Shr (C$):	0.00
Dividend Yield (%) :	0.0
Net Debt (Cash) (C$M):	83

FYE Dec	2018E	2019E	2020E
Sales (C$M)	241.3	282.3	296.5
EBITDA (C$M)	26.9	37.3	40.4
EPS Adj&Dil (C$)	(0.22)	0.63	0.78
EV/EBITDA (x)	6.4	4.9	4.3
P/E (x)	(26.5)	9.3	7.5



Source: FactSet

Priced as of close of business 26 November 2018

Initiation of Coverage

An acquirer and a target in the attractive content space

We are initiating coverage of Kew Media with a BUY rating and a $9.50 price target (60% implied return). Our investment thesis is based on the company's quality media assets, experienced management team, niche in the attractive content industry, and status as a potential M&A target. Kew has a solid position in the factual entertainment genre, producing shows such as *Hockey Wives*, *Dirty Money*, and *Texas Flip and Move*. We believe that the company's two-pronged strategy of driving growth through organic means (10% organic EBITDA growth) and by acquisition has the potential to create significant shareholder value. We believe Kew is primed to take advantage of the fragmented, target-rich nature of the independent content production industry.

Kew currently trades at 4.3x EVF20 EBITDA, which is substantially below its peers at 7x-12x. Our target of $9.50 is based on ascribing a very conservative 5x EV/ F20 EBITDA multiple to the production business and 6x for distribution assets. Furthermore, we have not included any acquisition-based growth in our model but highlight that the company's strategy of buying content assets has been a key value driver since its inception.

We believe Kew is effectively executing a roll-up strategy within the media segment, which has historically been relatively fragmented. The company is generally able to pay a relatively low multiple for the smaller media firms, given their limited access to buyers and suboptimal monetization of assets. Once acquired, Kew connects them to a larger buyer network and provide them with the infrastructure to grow revenue and profitability.

Kew is an attractive target for larger media players. We believe Kew represents a potential target for larger companies in the space. We know of a number of companies that are focused on acquiring content assets and developing their factual entertainment segments. Given Kew's modest valuation, we believe an acquisition would be an efficient way for an acquirer to bolster its capabilities in this genre.

One important differentiator for Kew vs. other independent media companies is management's strength in both the creative and finance sides of media. We believe that Kew's solid reputation allows it to attract high-quality talent while management's large network within the media industry allows it to reach potential buyers across a variety of geographies and media (broadcasters, OTT, etc.). Furthermore, Kew's extensive network in the television industry allows the company to be better informed and more effectively acquire production and distribution assets.

The demand for content continues to be robust, with viewers migrating towards the two ends of the spectrum. On the one hand, there has become an increased focus on big-budget, premium television shows such as *Westworld* and *Game of Thrones*. On the other, viewers have also become more homed in on niche-based unscripted TV shows and documentaries that appeal to their specific interests. We believe the trends in the content industry favor niche-focused companies like Kew and provide runway for the company to achieve organic growth.

A solid footing in niche content

Business overview

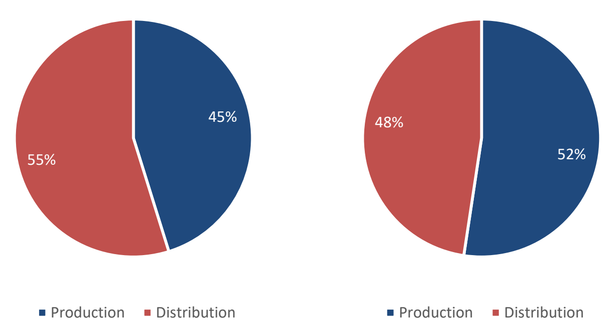
Kew is a leading independent content company led by two very experienced media veterans in Steven Silver (CEO and Director) and Peter Sussman (Chairman and Director), who provide Kew with a robust network within the industry and experience in creating, financing, and selling high-quality content. Through a series of acquisitions, Kew has built a portfolio including ten studios and two distribution companies, which have produced and sold well-known shows such as *Dirty Money, Hockey Wives, Dance Moms, and Texas Flip and Move.* We believe that Kew has developed a strong position within the unscripted home improvement and competition niches, which allows its shows to maintain a relatively devout base of viewers. The company has offices in all the major English-speaking content creation hubs including Los Angeles, London, New York, Sydney, and Toronto. While Kew's business has traditionally been focused on North America, its recent acquisition of Essential Media (which has operations in Australia) provides it with an expanded international footprint.

Fundamentally, Kew's business is split into two related but distinct segments: Production and Distribution.

Production: Kew's Production business focuses on the creation of content, with an emphasis on unscripted television programming. Through its ten distinct studios, Kew produces over 1,000 hours of content, which can then be sold through the distribution platform. We believe that there Kew has upside in its production margins as it increases its scale.

Distribution: Kew's Distribution segment purchases the rights to content from producers and subsequently sells geographical, time, and medium-specific rights to the use of the content to a variety of buyers (OTT platforms, TV channels, etc.). The Distribution segment operates under two brands, Kew Media Group and TCB Media Rights.

Figure 12: Kew EBITDA mix (F17 and F19 PF acquisitions)



Source: Company Reports, Canaccord Genuity estimates

In F17, Production represented 45% of Kew's EBITDA with Distribution representing 55% (before corporate costs). We expect this to shift to ~52% production in F18 pro-forma the acquisition of Essential Media, TCB, and Sienna. We believe the shift towards developing production, especially proprietary content, will allow for the creation of a robust library that can be further monetized over time. Currently, Kew owns over 13,000 hours of content in its library.

Crafting our investment thesis

We are initiating coverage of Kew Media (KEW-T) with a BUY rating and a $9.50 price target. Our investment thesis is based on the company's quality media assets, solid management team, niche position in the attractive content industry, and status as a potential M&A target. Furthermore, Kew has a two-pronged strategy of driving growth through organic means and by acquiring additional studios and distribution assets. Given the firm's strong management team, it can take advantage of the fragmented, target-rich nature of the independent content production industry to generate shareholder value from the consolidation of smaller studios. Kew currently has NDAs with 40 companies, highlighting the potential for future inorganic growth. Our target of $9.50 is based on ascribing a very conservative 5x EV/ F20 EBITDA multiple to the production business and 6x for distribution assets. Importantly, we have not included any acquisition-based growth in our model but highlight that the company's strategy of buying content assets has been a key value driver since its inception.

A rising tide provides tailwinds to the Kew story

As we've discussed in the industry outlook segment of this note, the demand for content continues to be robust, with viewers migrating towards the two ends of the spectrum. On the one hand, there has become an increased focus on big-budget, premium television shows such as *Westworld* and *Game of Thrones*. On the other hand, viewers have also become more homed-in on niche-based unscripted TV shows and documentaries that appeals to their specific interests. Kew fits solidly into the second category with TV shows like *Dirty Money, Texas Flip-and-Move, and Dance Moms* achieving solid traction with viewers and acting as "retention" shows. *Dirty Money*, for example, is currently one of the highest rated documentaries in Netflix history. To augment its portfolio, Kew owns content rights to a handful of scripted series that are seeing strong uptake amongst viewers, such as Baroness Von Sketch Show (CBC, Netflix) and Line of Duty (Netflix). Overall, we believe the trends in the content industry favor companies like Kew and provide runway for the company to achieve organic growth.

The management team is a major value driver

One important differentiator for Kew vs. other independent media companies is management's strength in both the creative and finance sides of media. The company's CEO, Steven Silver, co-founded the film producer Blue Ice Group and had previously been the Head of Factual Entertainment at eOne. Kew's other founder, Peter Sussman, has over 30 years in the financing, production, and distribution of content assets. He was a co-founder of Alliance Atlantis (that he then sold at peak valuations), which helped him develop the relationship network required to succeed in the media space. Notably, Mr. Sussman founded Aver Media Finance, which provided financing for media content and was eventually acquired by BMO. With their diverse backgrounds, we believe that Mr. Silver and Mr. Sussman have the expertise not only to determine what content and studios fit their portfolio but also to structure transactions, manage the inherent risk associated with the industry, and ensure that projects generate the appropriate shareholder returns.

Talent begets talent: Another benefit of having co-founders with a substantial profile in the media industry is that it allows Kew to acquire talent in both corporate positions and within its productions. A key example is the addition of Nancy Tellem, who is the former president of CBS Network's Television Group, to the Kew board. On the production front, we believe that management's reputation within industry circles helps its studios attract high-quality actors and directors to their projects, inherently improving the quality of the finished product.

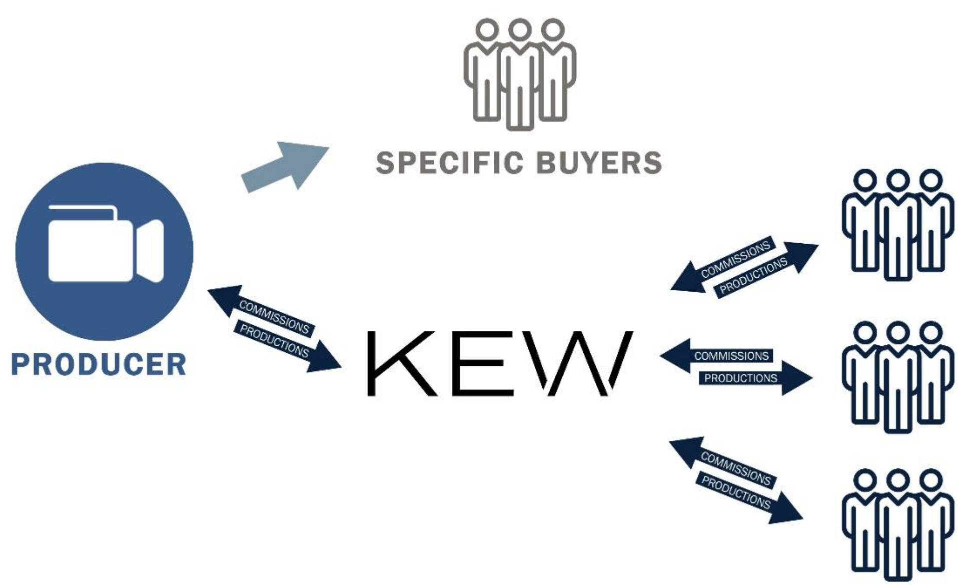
A roll-up play in the media space

We believe that Kew has effectively executed a roll-up strategy within the media segment, which has historically been relatively fragmented. The company is generally able to pay a relatively low multiple for the smaller media firms, given their limited access to buyers and suboptimal monetization of assets. Once acquired, Kew connects them to a larger buyer network, and provide them with the infrastructure to grow revenue and profitability. Importantly, Kew generally includes equity in transactions, which ensures that key talent within the acquired company remain aligned with Kew's overarching goals.

Relationships with M&A targets already in place: Peter Sussman's history as a studio financier and Steven Silver's experience in production provide them with pre-existing relationships with potential targets and background knowledge on the firms they are acquiring. This can be invaluable in the media industry, given the highly fragmented nature of independent studios and the opaque nature of small private companies.

Kew gives independent studios access to a wider range of buyers. Independently, production companies generally offer their content to a small number of buyers that they work with frequently. Using the Kew distribution platform, this content can instead be shopped to a larger number of potential buyers or packaged with other Kew content as a more holistic offering to broadcasters / OTT. Similarly, Kew can improve the monetization of the production companies' owned library, which offers another potential opportunity to maximize the value of the acquired assets.

Figure 13: Kew's production companies benefit from a vast buyer network



Source: Company Reports, Canaccord Genuity estimates

The company carefully selects its targets and structures its acquisition to mitigate key-man risk. Traditionally, companies that focus on the consolidation of fragmented industries face concerns around target companies' talent leaving, which inherently destroys value. This is especially true in media, where the creative strengths of the executive producers are often a key component for quality content. However, we believe that there are two major mitigating factors for Kew. Firstly, the company extensively vets target management to ensure that they are on-board with Kew's long-term vision. Secondly, Kew structures its transaction with shares, competition clauses, and contingent payments to ensure that acquired producers are aligned with the overarching goals of the company.

Kew creates an ecosystem of information sharing. Individual production companies often have trouble decoding the changing tastes of customers given their limited access to content buyers. Under the Kew umbrella, producers can leverage the knowledge of distributors, management, and other production firms to better understand the needs of their broadcaster/OTT clients. From our discussions with Kew-owned production companies, we have seen empirical evidence that access to this information has allowed studios to tweak and edit their productions to best cater to potential customers.

Longer-term, studios can reduce costs through shared overhead. On the cost front, Kew is also able to reap cost synergies from removing duplicative back office functions. We believe that through its original six acquisitions, it was able to reap $3M in cost savings ($1M after public company costs). Given that the company achieved EBITDA of $11M in the year, the $1M savings is meaningful. Going forward, we see the possibility for Kew to benefit from greater scale given the ability for equipment and support services to be shared between studios.

Kew is looking to grow but will do so judiciously. Management has highlighted that it will be looking to expand EBITDA from the ~$25M in F18 largely though inorganic means. We expect that the company will be very judicious with its purchases, focusing on attractively valued production and distribution companies. Importantly, management has highlighted that it is not interested in acquiring and investing in television broadcasting channels, which should help Kew avoid the challenges associated with cord-cutting in the television space.

The balance sheet has capacity to make acquisitions. The company currently has capacity for acquisitions with ~2.6x net debt/ F18 EBITDA pro-forma the Essential acquisition. Assuming that future deals are acquired at a blended 5x EV/EBITDA multiple, the company will be able to acquire another $20M of EBITDA while staying within the 4.0x net debt/EBITDA level. We currently have no acquisitions built into our forecast.

On the flipside, Kew may be an attractive target for larger media players

We believe that, while Kew is an attractive business on its own, it also represents a potential target for larger companies like Entertainment One and Corus.

For eOne, the transaction would help develop its factual entertainment business and would be a relatively inexpensive way to add valuable content and production capacity to its business. eOne currently trades at 9.6x EV/ F20 EBITDA and 12.6x P/E, which implies that the acquisition of Kew would be immediately accretive even before considering possible synergies.

For Corus, the company has highlighted its focus on developing proprietary content. Given that Corus already produces documentaries and unscripted television and owns channels like HGTV, W Network, and History, we believe the company could have an interest in buying additional production and distribution capabilities in this genre. We note, however, that Corus is currently focused on improving its balance sheet and may not have the capacity to acquire Kew in the near term. Once leverage drops below 3x in F20, we believe Corus could develop a more serious interest in Kew's assets.

Downswing in share price overdone

Kew's share price has faltered since its IPO in early 2017. The shares, which began trading at ~$10 have fallen ~40%. Aside from over-arching market decline, we believe Kew's challenges are largely related to three key factors. Firstly, KEW was born out of a SPAC, which leads to the existence of many warrants, which could dilute current holders. Secondly, certain content players within Canada have seen substantial challenges over the last two years, which may have dampened sentiment towards Kew. Lastly, we believe the small size of the company keeps it off the radar of many investors. While these concerns are legitimate, we believe the impact on the shares has been overdone.

SPAC origin should not deter investors

While investors often look unfavorably on SPACs, we expect that the effects of the Kew's SPAC origin is unlikely to have an impact in future. The only remaining potential overhang from the SPAC is the 7.5M warrants outstanding, which can be considered substantial given Kew's current 12.3M shares outstanding. However, we believe these warrants should not be a deterrent given that they are exercisable at $11.50, which is substantially higher than the current share price of $5.91.

Contagion may be impacting Kew's share performance

Recently, we have seen one of KEW's media peers face share pressure due to excessive leverage and consistent revisions to guidance. We believe the contagion effect has been a key factor for Kew, given the relatively similar business model. However, we believe that if Kew can achieve its F18 EBITDA guidance for the year, it will quell investors' concerns around its ability to achieve its financial targets, which should help differentiate it from some of its more troubled peers. To further help provide clarity, we expect that Kew will begin giving FCF guidance in F19, which should help assuage concerns around cash flow generation.

With Kew's rapid growth, investor interest will mount

While Kew remains relatively small, with market capitalization of ~$85M, we believe that solid EBITDA growth will help put it on more investors' radar. We expect Kew's current F18 EBITDA of $26M can jump to nearly $40M over the next two years before taking into consideration inorganic growth.

Incorporating dual-growth tenets into our forecasts

Mid-single-digit organic revenue growth

We expect that Kew has the potential to generate mid-single-digit organic revenue as it continues to expand production, use its distribution network to improve content sales, and leverage the content libraries it owns. On the production side, the biggest key for organic revenue is the ability of producers to use KEW's network to access larger buyers such as Netflix and Amazon that may be generally off-limits to smaller studios. We believe that the expanded market of buyers will help drive higher revenue-per-hour produced and allow for more commissioned projects to flow to Kew's studios. On distribution, we believe that Kew will drive growth through an increased content budget, improved monetization of its current library, and greater international sales through the newly-acquired Essential Media. We forecast that production will experience organic revenue growth of ~5% in each of F19 and F20. On the distribution side, we forecast a similar growth rate of ~5%

EBITDA margin expansion opportunity with scale

Part of Kew's strategy is the use of scale to help moderate costs. A large portion of its SG&A costs relate to back-office and support operations, which are relatively fixed. While Kew believes in maintaining the autonomy of its acquired studios, we believe that having greater scale can allow for improved negotiating power with the film guilds, equipment companies, and production staff. In F18, we expect Kew to grow EBITDA by 10%, largely due to improving margins associated with the shift in business (6% in F17 to 11% in F18). We currently forecast EBITDA margins growing to 12% in F19, helping to drive organic EBITDA growth of 9%.

Free cash flow should turn positive beyond 2018.

During F18 we forecast FCF to remain negative, largely due to the increase in Kew's distribution segment content spending, which has increased from $20M in F17 to $40M in F18. As the spending rate stabilizes and the associated revenue flows in, we believe cash flow will turn positive. Our F19 forecast includes ~$18M of working capital usage, and $8M of net content investment (additions to film/TV minus amortization of film and TV rights). Even with these assumptions, we forecast FCF of ~$8M in 2019 and $17M in F20. We believe that turning FCF positive will provide additional flexibility to Kew's already strong balance sheet and help fuel future acquisitions.

Figure 14: Summary of KEW estimates (CAD)

Dec 31st year-end 000s	2017	2018E	2019E	2020E
Revenues				
Production	135,218	151,335	187,902	197,297
Distribution	59,948	89,936	94,433	99,154
Other	0	17	0	0
Total Revenue	**195,166**	**241,288**	**282,334**	**296,451**
Cost of Sales				
Production	112,037	112,803	139,808	146,317
Distribution	39,077	58,600	60,437	63,459
Other	0	0	0	0
Total Cost of Sales	**151,114**	**171,402**	**200,244**	**209,776**
Gross Profit				
Production	23,181	38,532	48,094	50,980
Distribution	20,871	31,336	33,996	35,696
Other	0	17	0	0
Total Gross Profit	**44,052**	**69,886**	**82,090**	**86,676**
Total Operating Expenses	36,761	45,128	44,799	46,267
EBITDA after NCI	12,848	27,635	37,291	40,409
Growth		115.1%	34.9%	8.4%
Margin	6.6%	11.5%	13.2%	13.6%
Other Expenses				
Depreciation	8,047	12,228	14,984	14,984
Interest	2,957	6,141	7,395	7,395
Other	19,554	8,794	0	0
Tax	-468	2,051	4,026	4,868
Net Income	-17,242	-1,579	10,885	13,161
NCI	1,870	1,313	1,870	1,870
Net Income to Shareholders	-19,112	-2,892	9,015	11,291
EPS	($3.32)	($0.22)	$0.63	$0.78
CFO	-31,141	-22,995	8,921	18,564
FCF	-32,299	-24,196	7,721	17,364
Net Debt / EBITDA	2.0x	2.6x	2.4x	2.0x

Source: Company Reports, Canaccord Genuity estimates

Target achievable based on valuation

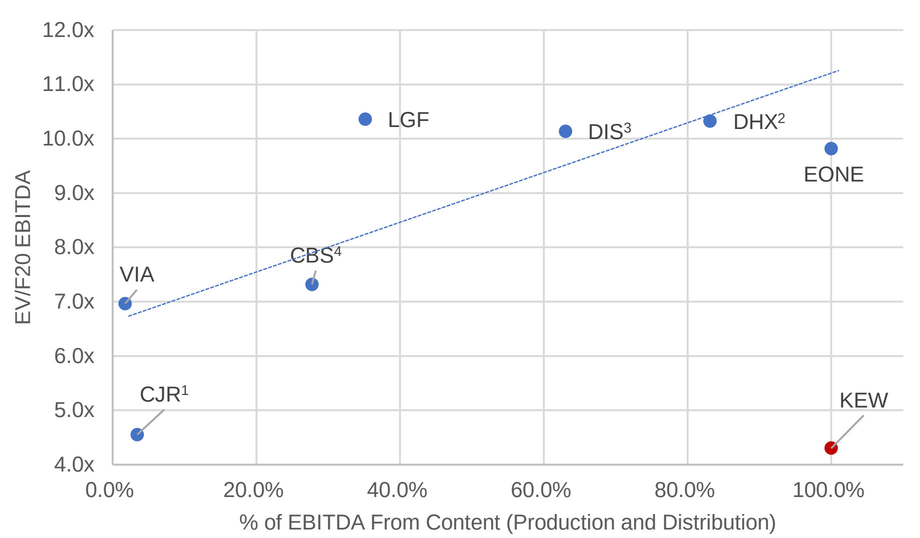
Kew trades at a substantial discount

Kew's stock has substantially underperformed in F18, with the shares down ~40% since the beginning of the year. At the current share price, Kew is currently trading at 4.3x EV/F20 EBITDA, which is lower than almost any of its peers and in line with Corus. Kew's peers that generate a larger proportion of their EBITDA from content (production and distribution) as opposed to broadcasting generally receive higher valuations (Figure 13). Under this light, we see very little reason for Kew to be valued at the low-end of the range, given that the entirety of its EBITDA is generated from production and distribution. We believe that given Kew's exposure to increasing demand for content, its current growth outlook, and the possibility for accretive M&A, the current valuation represents an attractive entry point for investors. As Kew increases its size and shows its ability to consistently meet expectations, we expect an upward re-rating in its valuation.

Target based on sum-of-the-parts analysis

We value KEW on a sum-of-the-parts basis with the production segment receiving a 5x EV/EBITDA multiple and the distribution segment being ascribed 6x. Kew's comparables trade at 7x-11x EV/EBITDA (Figure 13), with content producers and distributors earning a higher multiple than broadcasters. For both of Kew's segments, our target is below the very low-end of the range. Despite this, our target of $9.50 represents ~60% upside to current share price.

Figure 15: Percentage of EBITDA from content vs. valuation



Note: LGF remains an outlier because their non-content business (Starz) has limited exposure to cord cutting and has growth driven by a growing OTT platform.

[1] Assuming ~20% margin for Nelvana content business

[2] Includes service fee revenue but excludes EBITDA related to Family Channel

[3] Includes EBITDA from theme parks

[4] Assumes ~30% margin for content and distribution business

Source: Company Reports, Canaccord Genuity estimates

Figure 16: Kew SOTP analysis

Valuation	2017	2018E	2019E	2020E
($000s)				
Production segment				
Adj. EBITDA	7,320	17,578	23,633	25,051
Multiple (x)	5.0x	5.0x	5.0x	5.0x
EV	36,600	87,892	118,166	126,258
Distribution segment				
Adj. EBITDA	8,880	18,622	22,241	23,941
Multiple	6.0x	6.0x	6.0x	6.0x
EV	53,635	112,478	134,334	144,601
Corporate and Minority				
Adj. EBITDA	(3,352)	(9,265)	(8,583)	(8,583)
Multiple	5.5x	5.5x	5.5x	5.5x
EV	(18,302)	(50,587)	(46,863)	(46,863)
TEV	**71,933**	**149,783**	**205,636**	**223,995**
Net Debt	22,362	81,456	83,501	74,921
NCI	4,701	15,288	15,288	15,288
Equity Value	44,870	53,039	106,848	133,786
s/o ('000s)	9,401	13,819	14,183	14,420
Target price ($/sh.)	**$4.77**	**$3.84**	**$7.53**	**$9.28**

Current Trading Multiples	2017	2018E	2019E	2020E
Price	$5.85	$5.85	$5.85	$5.85
Yr-end s/o (000)	9,401	13,819	14,183	14,420
Market Cap	**54,996**	**80,840**	**82,970**	**84,359**
Net Debt	22,362	81,456	83,501	74,921
NCI	4,701	15,288	15,288	15,288
EV	**$82,059**	**$177,584**	**$181,758**	**$174,568**
EBITDA	12,848	26,936	37,291	40,409
EPS	($3.32)	($0.22)	$0.63	$0.78
FCFPS	($3.44)	($1.75)	$0.54	$1.20
EV/EBITDA	6.4x	6.6x	4.9x	4.3x
P/E	(1.8)x	(26.2)x	9.2x	7.5x
FCF Yield	(58.7%)	(29.9%)	9.3%	20.6%

Source: Company Reports, Canaccord Genuity estimates

Figure 17: Production, distribution, and broadcasting comps

11/26/2018	Price	Market Cap	DPS	DPS Yield	EV/EBITDA (x)				P/E (x)				P/FCF (x)			
Media Comps	**(Local)**	**(M)**	**Curr.**	**(%)**	**2017**	**2018E**	**2019E**	**2020E**	**2017**	**2018E**	**2019E**	**2020E**	**2017**	**2018E**	**2019E**	**2020E**
Kew Media	$5.85	83	$0.00	0.0%	6.4 x	6.6 x	4.9 x	4.3 x	N/A	N/A	9.2 x	7.5 x	N/A	N/A	10.7 x	4.9 x
Thunderbird	$1.99	307	$0.00	0.0%	13.0 x	7.1 x	8.1 x	5.9 x	N/A	40.8 x	24.4 x	15.1 x	N/A	N/A	N/A	N/A
DHX Media	$3.25	379	$0.00	0.0%	8.9 x	11.7 x	10.7 x	10.3 x	20.3 x	N/A	N/A	204.1 x	N/A	N/A	22.2 x	23.7 x
Entertainment One	£3.77	1,741	£0.01	0.4%	11.7 x	11.7 x	11.5 x	9.8 x	18.9 x	17.2 x	13.4 x	13.0 x	23.7 x	47.1 x	414.3 x	18.7 x
Corus Entertainment Inc.	$4.59	958	$0.24	5.2%	5.1x	4.9x	4.8x	4.6x	4.2x	4.0x	4.4x	4.8x	3.1x	2.9x	3.0x	3.0x
Lions Gate Entertainment	US$17.62	3,772	US$0.36	2.0%	12.2x	11.2x	12.5x	10.4x	18.6x	11.0x	14.7x	10.1x	14.8x	11.1x	26.2x	12.0x
Average					**9.5x**	**8.9x**	**8.8x**	**7.5x**	**15.5x**	**18.2x**	**13.2x**	**42.4x**	**13.9x**	**20.4x**	**95.3x**	**12.4x**
US Media Conglomerates:																
The Walt Disney Company	$112.55	168,825	$1.68	1.5%	12.1x	10.9x	10.8x	10.1x	19.7x	15.9x	15.7x	15.1x	20.4 x	17.3 x	16.7 x	15.4 x
CBS Corporation	$53.72	20,575	$0.72	1.3%	10.2x	9.0x	8.2x	7.3x	12.2x	10.3x	9.3x	8.0x	26.9 x	14.8 x	11.3 x	9.8 x
Viacom	$34.89	14,064	$0.80	2.3%	8.0x	7.7x	7.3x	7.0x	9.3x	8.5x	8.2x	7.8x	9.5 x	8.1 x	8.4 x	7.9 x
AMC Networks	$59.05	3,607	$0.00	0.0%	7.4x	7.3x	6.9x	6.7x	8.0x	7.1x	6.8x	6.6x	10.5 x	6.7 x	8.0 x	8.0 x
US media conglomerate average					**9.5x**	**8.7x**	**8.3x**	**7.8x**	**12.3x**	**10.4x**	**10.0x**	**9.4x**	**16.8x**	**11.7x**	**11.1x**	**10.3x**

Source: Company Reports, Canaccord Genuity estimates

CANACCORD Genuity

To us there are no foreign markets.™

Thunderbird Entertainment Inc.

Media

Canadian Equity Research
27 November 2018

BUY

PRICE TARGET	C$3.00
Price (26-Nov)	C$1.99
Ticker	TBRD-TSX

52-Week Range (C$):	1.95 - 3.40
Avg Daily Vol (000s) :	85.1
Market Cap (C$M):	103
Shares Out. (M) :	51.6
Dividend /Shr (C$):	0.00
Dividend Yield (%) :	0.0
Net Debt (Cash) (C$M):	(20)

FYE Jun	2018A	2019E	2020E
Sales (C$M)	142.4	82.3	104.3
EBITDA (C$M)	10.1	9.1	12.6
EPS Adj&Dil (C$)	0.05	0.08	0.13
EV/EBITDA (x)	7.1	8.1	5.9
P/E (x)	40.8	24.4	15.1

Priced as of close of business 26 November 2018

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Initiation of Coverage

An emergent content creator with the right building blocks

We are initiating coverage of Thunderbird Entertainment Inc (TBRD-TSX) with a BUY rating and C$3.00 price target. This is an independent media content producer and distributor based in Vancouver, British Columbia. The stock commenced trading at the beginning of November following a going-public RTO transaction. Despite its relatively earlier stage of growth, we see Thunderbird as a company with genuine potential to emerge as the next substantial publicly listed content creator in Canada. After two major acquisitions in 2015 of Great Pacific Media and Atomic Cartoons, the company is now a well-diversified content creator with productions in factual (unscripted), Animation/Kids and scripted genres.

A track record of producing high-quality shows for major platforms: Thunderbird has punched well above its weight in producing high-profile shows. On the Kids/Animation side we highlight *Beat Bugs* (produced for Netflix) – a 52-episode children's animated show featuring the music library of the *Beatles*. The company is in production for Max Brallier's *Last Kids on Earth,* also for Netflix. Thunderbird's subsidiary Great Pacific Media produced *Highway through Hell*, a highly successful series commissioned by Discovery Canada and distributed in 170 countries. On the scripted side, the well-known comedy series *Kim's Convenience* has been a major success, winning 'Top Comedy Series' at the Canadian Screen Awards in 2018 and recently licensed by Netflix.

Solid financial performance and outlook: Thunderbird has grown in EBITDA from $2.2M in F2016 to $5.1M in 2017 and $10.1M in F2018, largely on an organic basis, and has indicated confidence to grow EBITDA at double-digit rates going forward. The F2019/20 production budget of $170M and the quality of the slate give us incremental confidence in Thunderbird's financial outlook. We expect minimal FCF burn ($1-2M) through F2019 and F2020, but anticipate positive FCF in the outer years. We note Thunderbird carries a $20M+ net cash position in the balance sheet.

M&A – a key part of corporate strategy: Over the last several years, the company has prudently acquired production assets, including Great Pacific Media and Atomic Cartoons, which has given it access to high-quality content, talent, platforms and financial and reputational heft. With the enhanced currency that public markets could offer and its solid balance sheet, we expect the company to be focused on M&A as a central part of its strategy. We expect M&A would be targeted to infilling areas of relative weakness (scripted, distribution), acquiring high-quality talent, expanding internationally and making greater strides towards merchandising through high-quality brands.

Valuation: We value Thunderbird using 10x 2020E EV/EBITDA, generally in line with the comps. We believe that its strong financial track record, solid balance sheet, and substantial booked business comfortably supports this multiple. Given the earlier stage of the company's growth phase and traction with large platforms, there is proportionally greater upside to profitability than some of the more relatively mature comps.

Corporate Profile

Thunderbird is an independent content producer and distributor based in Vancouver, Canada. The company has three studios in Vancouver in addition to offices in Toronto, Los Angeles and London. The company was formed in 2003 and started off predominantly as a distributor of content. Over the years, it shifted its focus towards production and ownership of intellectual property (IP). It initially found success through productions such as *Mr Young* (for YTV), *Endgame* (Showcase), *Continuum* (Showcase) and its ownership of 50% of the rights to the *Blade Runner* franchise (outside the 1982 film). It made two transformational acquisitions in 2015 –Great Pacific Media and Atomic Cartoons – which gave it scale and expanded its breadth of content.

The company now has a solid footing in children's content, factual/non-scripted, and scripted. Some of its most well-known TV shows include *Kim's Convenience* (CBC), *Highway thru Hell*, *Heavy Rescue: 401* (Discovery), and *Beat Bugs* (Netflix). The company is solidly entrenched in the media space, having partnered with both OTT and linear platforms, and strategically maintaining ownership of key IP. Like other Canadian content producers, the company utilizes the advantageous Canadian tax credit model to reduce risk around its production, attract partners, and finance its projects. Management remains very focused on developing its library of content that can drive multiple revenue streams across a variety of geographies.

Children's programming: Through its acquisition of Atomic Cartoons, Thunderbird has garnered expertise in animated children's content. The benefit of this genre is that it is easily adaptable to reach multiple geographic audiences and can be dubbed to overcome the traditional language barrier. In addition, they have produced multi-camera live studio audience programming including *Mr. Young* (80 episodes) and *Some Assembly Required* (57 episodes). Going into F19, the producer has a robust slate with two new series being produced for NFLX and additional partnerships with Spin Master, NBC Universal, and Disney. The production budget for this segment is $90M over F19 and F20.

Unscripted: The acquisition of Great Pacific has given the company a robust factual business. The company has gained good traction with several high-profile partners and has developed many seasons of their top-selling franchises. *Highway Thru Hell*, for example, has completed six seasons with its 7th and 8th already ordered. *Heavy Rescue: 401*, a newer title, has just been renewed for season 3 and 4. Based on the current slate, Thunderbird estimates production commitments of $50M over the next two years for its unscripted division.

Scripted: Scripted programming (sitcoms, TV dramas, etc.) is Thunderbird's smallest segment, with a $30M slate over the next two years. Its current project, *Kim's Convenience*, has seen very strong traction and is currently airing on CBC and internationally on Netflix.

Management: Thunderbird is run by a solid management team, which includes Jennifer Twiner McCarron (CEO), who joined the company through Atomic Cartoons and has worked on several successful shows for the company, and Mark Miller, who was the founder of Great Pacific Media. Key board members include Ivan Fecan (Executive Chair), who helped build CTV (and eventually sell to BCE), and Tim Gamble (Vice Chair), who is a founding partner and has played a key role in the acquisition of important IP assets *(Blade Runner, Beat Bugs*).

Thunderbird's assets were augmented by its acquisition of Great Pacific Media and Atomic Cartoons.

- Thunderbird acquired Great Pacific Media on January 1, 2015 for a total consideration of $16M comprised of 4M common shares and $8M of cash paid over the last three years; $4.5M of these payments were contingent on Great Pacific achieving $5M in earnings per year, which it has done. Through the acquisition of Great Pacific, Thunderbird bolstered its library of unscripted programming including *Heavy Rescue: 401*, *Save My Reno*, and *Highway Thru Hell*. At this point Great Pacific remains the most profitable component of the business, making up well over 50% of corporate EBITDA.
- On July 1, 2015, the company acquired Atomic Cartoons for $7M, $4M of which was based on Atomic driving $1.5M of earnings per year, which was achieved. Atomic Cartoons has proven to be a key asset and has allowed the company to create animated content that lends itself well to merchandising and licensing. Key TV shows from Atomic include *Princesses Wear Pants*, *Beat Bugs*, and *Last Kids on Earth*.

Going-public transaction: In October 2018, Thunderbird closed a transaction to go public through an acquisition by Golden Secret Ventures. The transaction saw GSV acquire 100% of Thunderbird in a reverse takeover and change its name to "Thunderbird". As part of the transaction, former GSV shareholders acquired 7% of the combined entity. Thunderbird subsequently raised $10.25M through the sale of 5.125M subscription receipts at a price of $2 and an additional $2.25M by issuing 1.125M convertible debentures at $2.

Figure 18: Current Thunderbird Equity Structure

Common Shares	
Golden Secret Post Consolidation	3,329,925
Third Common (All pooled)	36,660,561
SR Financing & Debenture (Free Trading)	6,250,000
Finders Fee	188,777
Total Issued Shares	46,429,263
Preferred Shares	351,333
Agents Warrants - Financing	344,550
Golden Secret Warrants	100,000
All Options Outstanding	4,421,000
Fully Diluted Shares	51,646,146

Source: Company Reports, Canaccord Genuity estimates

Investment thesis: Checking a lot of boxes

Given the ebullient conditions in the industry, including the rising global demand for programming, we are always keen to spot businesses in this space that are in an earlier phase of development and are smaller cap, to better capture potential torque. However, on the other hand, it is a little bit harder to spot the potential winners early on, in particular due to the inherent financial volatility of these firms.

At a high level, the criteria we are looking for are a) established relationships with frontline platforms - be it linear or SVOD, b) multiple high-profile shows, c) a track record of progress in terms of delivering financial performance, d) strong and experienced management and board, and e) the ability and willingness to participate in the ongoing M&A in the space. As we discuss below, we believe that Thunderbird demonstrates these characteristics notwithstanding its relatively short history in its current make up, and its smaller size.

Initiating coverage with a BUY rating and $3 per share TP

We are initiating coverage of TBRD with a Buy rating and a $3 target price. Given the quality content and rapid growth, we ascribe a 10x EV/F20 EBITDA multiple to the company, which we believe adequately captures the positive industry backdrop, upside from M&A, double-digit EBITDA growth outlook and track record, alongside the risk associated with the early stage of its development. As we highlighted in our thematic section, successful content stocks can trade as high as the mid/high teens on an EV/EBITDA basis. Our target represents 50% upside from current share price.

A track record of producing high-quality shows

Thunderbird has punched well above its weight in producing high-profile shows. On the Kids/Animation side we highlight *Beat Bugs* (produced for Netflix) – a 52-episode children's animated show featuring the music library of the *Beatles*. The concept was unique in that each episode was created around a particular Beatles song. On the non-scripted side, Thunderbird's subsidiary Great Pacific Media is the producer of *Highway through Hell*, a highly successful series currently commissioned by Discovery Canada and distributed in over 170 countries, and on Netflix worldwide. On the scripted side, the well-known comedy series *Kim's Convenience* has been a major success, winning 'Top Comedy Series' at the Canadian Screen Awards in 2018. It is in its 3rd season currently with the 4th already ordered and was recently licensed to Netflix for exclusive SVOD distribution.

We believe that these and other shows provide evidence that Thunderbird has the people, relationships and infrastructure to continue to deliver quality content. In particular, it provides us more tangible evidence that the company is able to attract the right talent in the various genres for its projects. This is key in the current environment.

Well-established relationships with major platforms

This is another area where we feel we can apply the 'punching above its weight' accolade. A look at Thunderbird's slate demonstrates the high-quality buyers of its content, extending from Discovery and NBC Universal through Disney and Netflix, in addition to the Canadian networks – W, HGTV, CBC etc. We highlight the relationship with Netflix, which yielded as much as $55M in production commitments in 2017. This is a significant number given the size of the company and emulates Netflix's commitments to many of the larger production entities. From our perspective, it represents further validation of the quality of Thunderbird's production and its operational reliability. Additionally, at a time when Netflix (and other SVOD) platforms are looking past the major studios for content, this relationship can be invaluable and offer significant scale going forward. It also serves to perpetuate the virtuous cycle of high-quality shows attracting top platforms, in turn attracting top talent and so on.

Solid financial performance and outlook

Thunderbird has grown in EBITDA from $2.2M in F2016 to $5.1M in 2017 to $10.2M in F2018, largely on an organic basis, and has indicated confidence to grow EBITDA at double-digit rates going forward. The F2019/20 production budget of $170M and the quality of the slate give us incremental confidence in Thunderbird's financial outlook. Our projection (which does not factor in any M&A), calls for adj. EBITDA to grow to $12.6M (+39% y/y) in F2020. We do, however, expect revenues to decline in F2019 owing to the business not repeating certain low-margin (but very high-revenue) service work.

We believe Atomic Cartoons is Thunderbird's key differentiator

Atomic Cartoons has experienced substantial success in the animation business, with several recent hits including *Beat Bugs* and *Last Kids on Earth*. The studio, which is in Vancouver, prides itself on being proficient across several genres and animation styles. Thunderbird's focus on animation is reflected in its promotion of Jennifer Twiner McCarron, who previously ran the Atomic Cartoons business, to CEO. Furthermore, the company expanded its animation capacity in F18, which led to a 50% increase in production and service volume. We believe this reflects management's view that there remains a substantial opportunity in the animation space.

Atomic has the potential to rapidly add to the library.

Historically, Atomic has utilized a majority of its capacity to produce service projects (i.e. producing animation for other companies and not owning the underlying IP). While this work is generally high-margin upfront and cash flow generating, Atomic does not retain the economics of the asset. Since its acquisition by Thunderbird, the studio has become more focused on proprietary production.

Atomic can take advantage of a changing competitive landscape.

With other companies in the Children's segment downsizing operations, we expect that Atomic can take advantage of both the influx of demand for service revenue and the opportunity to add more talented animators to its team.

Participation in industry M&A

We believe that at Thunderbird's stage, active participation in the M&A process is vital to gain scale and fully exploit the expanding global programming budgets. We consider effective execution on the M&A front as being the main reason that the company is where it is today; noting in particular the acquisitions of Atomic Animation and Great Pacific Media. As discussed in the thematic section of this report, the independent sector remains fragmented and securing financing remains a struggle for many of these entities. Discussions with management have corroborated our confidence that Thunderbird could continue to exploit acquisition opportunities, with a view to expanding its IP, relationships with platforms, talent and the overall financial heft of the firm.

An experienced team

Thunderbird has a broad team of highly experienced executives, at both the management and board levels. From Executive Chair Ivan Fecan (former CEO and President of CTVglobemedia to Tim Gamble (founder and President of Peace Aerch Entertainment) to the current CEO Jennifer McCarron (who led Atomic Animation) and

President of Thunderbird Mark Miller (who founded Great Pacific Media), Thunderbird can boast an accomplished team of executives.

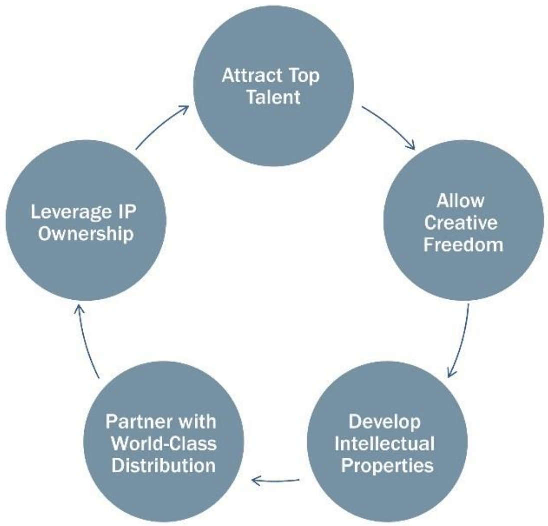
Key risk: Loss of earnings momentum

From the share price standpoint, the primary risk to the stock is a loss of underlying earnings momentum. While we expect the puts and takes in F2019 will be fairly well telegraphed over the next several months, investors would likely still be looking to track the underlying trends. Our experience with companies of this size which are new to the capital markets is that initial misses can be punished quite harshly in terms of stock performance. Hence, achieving expectations for F2019 and F2020 is critical. As mentioned, what does give us some comfort is the extent of booked business through to F2020/21, although this is not always a guarantee.

Strategy: Relationships, M&A, and monetization

We believe Thunderbird will be able to generate growth through a combination of solid studio production growth, improved asset monetization, and acquisitions.

Figure 19: Thunderbird's Cycle of Developing IP



Source: Company Reports, Canaccord Genuity estimates

Relationships and reputation in the industry give Thunderbird access to top talent. Thunderbird's extensive work with major OTT platforms like Netflix and Amazon and willingness to provide its artists with creative freedom have allowed it to attract quality talent within the industry. We note the relationship with Max Brallier on *Last Kids on Earth* as a key example. The show (produced by Thunderbird) is now in production for Netflix. We note that Max Brallier is a NYT and USA Today best-selling author with more than thirty books and games. Another example is the company's partnership with Drew Barrymore and Savannah Guthrie on the production of a TV series based on the successful books, *Princesses Wear Pants.* Despite significant interest in the series from other production companies, we believe Thunderbird's reputation for successfully developing content made it the optimal choice for its partners. We believe that as it continues to prove its ability to get content across the finish line, more creators will be looking to sell/partner with the company, thus creating a sustainably growing production model.

We expect a shift towards proprietary production. Thunderbird has focused heavily on service production in the past, which has allowed it to develop key relationships with talent and platforms. A perfect example of this is the service work the company did on *Man in the High Castle,* which gave the company a solid foothold with Amazon. Similarly, Thunderbird has developed shows for Netflix. With these relationships in place, we expect the company to begin shifting its focus towards developing proprietary series that allow it to retain the IP rights and expand the library. This, in tandem with additional distribution capabilities, will allow Thunderbird to take full advantage of its high-quality production studios and give the firm improved economics on the content it produces.

Management is prudent with its production slate. Thunderbird has been disciplined in its willingness to remove shows that are unprofitable from its slate to pursue opportunities that management believes will be more valuable. We have seen this occur several times with the company stepping away from its work on *Man in the High Castle* and *Beat Bugs* because the economics were no longer attractive. We believe that management will continue to mould its production slate to ensure value maximization either through IP or attractive service fees.

The M&A strategy. Over the last several years, the company has prudently acquired production assets including Great Pacific TV and Atomic Cartoons, which has given it access to high-quality content, talent, platforms and financial heft. Going forward with the enhanced currency that public markets could offer and its solid balance sheet, we expect the company to be focused on M&A as a central part of its strategy. We expect M&A would be targeted in several ways including shoring up areas of relative weakness (scripted, distribution), acquiring high-quality talent, expanding internationally, making greater strides towards merchandising and product based on top brands and further entrenching key relationships with linear and SVOD platforms.

- **International expansion**: As we highlighted in the thematic section of this report, international expansion is key in today's environment as the inflation in programme budgets spills over to international territories. We highlight that the UK in particular would be an area of interest given the attractive co-production treaties available to Canadian producers.

- **Scripted and distribution**: While Thunderbird has had some notable scripted titles in the past including *Endgame* and *Continuum* (Showcase), *Somewhere Between* (ABC), *Package Deal* (City TV) etc., the production slate of late has moderated to just *Kim's Convenience* at this point. Hence there is room for growth in this area, as Animation and Factual have clearly emerged as the stronger pillars for Thunderbird. From that perspective, targeting entities with stronger scripted talent, projects, etc. may be a consideration. Similarly, we believe the company is looking to bolster its distribution capabilities as well. It currently uses third-party sales agents as well as international distributors. We expect that as the firm's library grows, it will need to acquire a distributor to take advantage of the growing international demand for its content and capture maximum value from its assets. This has become even more important with the growing popularity of Thunderbird's children's content, which is traditionally one of the easiest genres to alter for multiple markets.
- **Talent acquisition**: As we have highlighted throughout this note, locking down quality talent – be it writers/authors, showrunners, executives – is critical in the present backdrop. We may well see M&A activity that is targeting key high-value personnel
- **Merchandising**: This remains the blue sky play for content producers, especially in the animation/kids genre, with the prime example being the success of the Family division of Entertainment One. While this is naturally a long process, we believe that Thunderbird is interested opening up this avenue of growth for itself and M&A may well be a facilitator in this respect. While not always a successful route, players like DHX have opted to identify brands that were former stars that have lost popularity and then work to revitalise them with new content. We believe this process, and other options, are available to Thunderbird through M&A.

Financial Forecasts: Strong underlying trends despite vacillations in F2019

We are of the view that Thunderbird can deliver a double-digit EBITDA CAGR on an organic basis through the F2018-F2020 timeline, which we expect could be further augmented with acquisitions and related synergies over the next several years. In the medium term (say F2019-F2021), our confidence in the financial outlook is anchored by the size and quality of the total production commitments of $170M earmarked for F2019/20, comprising $90M for children's production & animation, $50M for factual/non-scripted and $30M for scripted. While approximately half of the animation work would be service, the remainder is IP. We also note that much of the lucrative Netflix Animation commitments would hit the F2020 and F2021 financials. Hence there is expected to be an upward inflection in F2020.

Discontinuation of service work for *Man in The High Castle* impacts F2019

We expect F19 production revenue to decline sharply due to Thunderbird's decision not to continue service work for MITHC for Amazon. While this was a high-profile title for a flagship platform, we understand it was very low-margin revenue which exhausted a lot of TB's capacity. Nonetheless this was a sizable $70M revenue item (in F2018) which would sharply skew the F2019 revenue figures down on a YoY basis. Additionally, on the distribution side, revenues doubled in F2018 due to a sizable delivery to ABC Network which will not recur in F2019. This too will result in lower distribution revenues in F2019 on a year-over-year basis.

Nonetheless with the company having meaningful underlying (ex-MITHC) production growth, with better margins and more capacity, we expect adj. EBITDA to decline only by $1M. This is essentially equivalent to the incremental annual public company costs. We expect that F2019 will be well supported by the factual side of the business (Great Pacific Media) with ongoing deliveries of shows like *Highway Thru Hell* and *Heavy Rescue: 401*, as well as incremental service contracts related to Atomic Cartoons.

F2020 should benefit from enhanced production activity

We expect to see the upside from the aforementioned production commitments mainly in F2020 (and F2021). We are thus projecting 30% growth in production revenues and 25% growth in distribution. This we expect would drive adj. EBITDA up by 39% y/y in F2020. We note that as TB builds up its library of content both through proprietary production and acquisitions, its high-margin distribution revenue growth should gather even more momentum.

Conservatively projecting negative to neutral FCF in the near term

While management anticipates positive FCF, we have conservatively assumed a modest outflow in F2019 and generally neutral FCF in F2020 due to higher production spend (investment in content in excess of amortization). Our observation has been that content companies generally produce no or minimal cashflow during the ramp up years, due to timing around production costs as well as other M&A-related factors. We note, however, that as a private company TB paid a dividend of $2M/year in recent years.

Strong balance sheet and poised for M&A

Post the $10.25M equity raise and the $2.25M in convertible debentures (which were subsequently converted to common shares alongside the RTO), we expect Thunderbird's net cash position to swell to $20.2M (as of F2019). This we believe represents a nice war chest for Thunderbird as it remains active in M&A. It also offers the company some leeway in terms of accepting large production commitments, which may come with some initial cash burn but which may be lucrative overtime.

Figure 20: Summary of Financial Forecast ($000s)

June 30 year-end		F17	F18	F19E	F20E
Revenue					
Production		68,047	91,578	38,062	49,481
Distribution		24,115	48,618	42,056	52,570
Other		2,951	2,206	2,206	2,206
Total		**95,113**	**142,402**	**82,324**	**104,257**
Revenue y/y growth					
Production		(20.2%)	34.6%	(58.4%)	30.0%
Distribution		(12.1%)	101.6%	(13.5%)	25.0%
Other		103.5%	(25.2%)	0.0%	0.0%
Total		**(16.7%)**	**49.7%**	**(42.2%)**	**26.6%**
Gross profit		**18,023**	**27,268**	**26,682**	**32,740**
Gross profit margins		18.9%	19.1%	32.4%	31.4%
Gross profit y/y growth		27.1%	51.3%	(2.2%)	22.7%
EBITDA		**5,143**	**10,112**	**9,123**	**12,642**
EBITDA margins		5.4%	7.1%	11.1%	12.1%
EBITDA growth y/y		135.2%	96.6%	(9.8%)	38.6%
EPS		**-$0.08**	**$0.06**	**$0.09**	**$0.14**
Net investment in content		**-16,722**	**14,467**	**-11,018**	**-5,509**
Free cash flow		**-1,733**	**-5,267**	**-2,980**	**-1,099**
Net debt (net cash)		-16,566	-11,352	-20,155	-19,055
Adj EBITDA to FCF Reconciliation					
EBITDA		**5,143**	**10,112**	**9,123**	**12,642**
Net Investment in content		-16,722	14,467	-11,018	-5,509
Net working capital (production financing)		11,090	-18,531	2,747	-3,485
Capex		-1,045	-1,886	-1,886	-1,886
Taxes		-696	-1,970	-1,397	-2,312
Interest costs		-544	-1,574	-452	-452
	0	-2,774	618	-2,883	-1,002
Other one-time items		1,041	-5,885	-97	-97
Free cashflow		**-1,733**	**-5,267**	**-2,980**	**-1,099**

Source: Company Reports, Canaccord Genuity estimates

Note: Net Investment in content = Investment in content - programme amortization

Valuation currently below content peers despite robust growth

TBRD trades at 5.9x EV/F20 EBITDA, which is well below comparable companies ETO, DHX, and LGF. As we discussed in the thematic section of this report, generally, valuations for companies in this space can be as cheap as 7x in times of poor financial performance, heavy debt and investor indifference, and as high as 17-18x during periods of exuberant expectations.

For Thunderbird, we have opted to use 10x to reflect the following considerations;

- Strong production slate with $170M in commitments
- Solid track record of financial performance in recent years
- Expectation of double-digit CAGR in EBITDA F2018-F2020
- Quality brands – *Kim's Convenience, Blade Runner, Highway thru Hell*
- Comps have higher debt loads whereas Thunderbird has net cash
- We believe Thunderbird has greater M&A upside
- Our F2020 financial estimates are notably conservative against the backdrop of the booked business, and we believe our forecast is lower than management's internal expectations.

Target relatively conservative

Factoring in the above, we have opted to value the stock at 10x F2020E EV/EBITDA. As evident in the figure below, the net cash balance and cash from options represent a sizable component of the equity value of the company (26% of current market cap). This lowers the sensitivity of our NAV to movements in the target multiple.

Figure 21: Thunderbird Valuation ($000s)

Valuation	2017	2018	2019E	2020E
($000s)				
Adj. EBITDA	5,143	10,112	9,123	12,642
Multiple	10.0x	10.0x	10.0x	10.0x
EV	51,430	101,120	91,230	126,417
Net Debt	-16,566	-11,352	-20,155	-19,055
Cash from options			8,842	8,842
Equity Value	67,996	112,472	120,226	154,314
s/o ('000s)	42,023	42,023	51,646	51,646
Target price ($/sh.)	$1.62	$2.68	$2.33	$2.99

1-Year Target	$2.99
Return:	50.1%

Current Trading Multiples	2017	2018	2019E	2020E
Price	$1.99	$1.99	$1.99	$1.99
Yr-end s/o (000)	42,023	42,023	51,646	51,646
Market Cap	83,626	83,626	102,776	102,776
Net Debt	-16,566	-11,352	-20,155	-19,055
Cash from options			8,842	8,842
EV	67,060	72,274	73,779	74,878
EBITDA	5,143	10,112	9,123	12,642
EPS	($0.05)	$0.05	$0.08	$0.13
FCFPS	($0.06)	($0.18)	($0.06)	($0.02)
EV/EBITDA	13.0x	7.1x	8.1x	5.9x
P/E	(42.5)x	40.8x	24.4x	15.1x
FCF Yield		(2.9%)	(3.2%)	(1.2%)

Source: Company Reports, Canaccord Genuity estimates

Figure 22: Comparable Valuations

11/26/2018	Price	Market Cap	DPS	DPS Yield	EV/EBITDA (x)				P/E (x)				P/FCF (x)			
Media Comps	(Local)	(M)	Curr.	(%)	2017	2018E	2019E	2020E	2017	2018E	2019E	2020E	2017	2018E	2019E	2020E
Kew Media	$5.85	83	$0.00	0.0%	6.4 x	6.6 x	4.9 x	4.3 x	N/A	N/A	9.2 x	7.5 x	N/A	N/A	10.7 x	4.9 x
Thunderbird	$1.99	307	$0.00	0.0%	13.0 x	7.1 x	8.1 x	5.9 x	N/A	40.8 x	24.4 x	15.1 x	N/A	N/A	N/A	N/A
DHX Media	$3.25	379	$0.00	0.0%	8.9 x	11.7 x	10.7 x	10.3 x	20.3 x	N/A	N/A	204.1 x	N/A	N/A	22.2 x	23.7 x
Entertainment One	£3.77	1,741	£0.01	0.4%	11.7 x	11.7 x	11.5 x	9.8 x	18.9 x	17.2 x	13.4 x	13.0 x	23.7 x	47.1 x	414.3 x	18.7 x
Corus Entertainment Inc.	$4.59	958	$0.24	5.2%	5.1x	4.9x	4.8x	4.6x	4.2x	4.0x	4.4x	4.8x	3.1x	2.9x	3.0x	3.0x
Lions Gate Entertainment	US$17.62	3,772	US$0.36	2.0%	12.2x	11.2x	12.5x	10.4x	18.6x	11.0x	14.7x	10.1x	14.8x	11.1x	26.2x	12.0x
Average					**9.5x**	**8.9x**	**8.8x**	**7.5x**	**15.5x**	**18.2x**	**13.2x**	**42.4x**	**13.9x**	**20.4x**	**95.3x**	**12.4x**
US Media Conglomerates:																
The Walt Disney Company	$112.55	168,825	$1.68	1.5%	12.1x	10.9x	10.8x	10.1x	19.7x	15.9x	15.7x	15.1x	20.4 x	17.3 x	16.7 x	15.4 x
CBS Corporation	$53.72	20,575	$0.72	1.3%	10.2x	9.0x	8.2x	7.3x	12.2x	10.3x	9.3x	8.0x	26.9 x	14.8 x	11.3 x	9.8 x
Viacom	$34.89	14,064	$0.80	2.3%	8.0x	7.7x	7.3x	7.0x	9.3x	8.5x	8.2x	7.8x	9.5 x	8.1 x	8.4 x	7.9 x
AMC Networks	$59.05	3,607	$0.00	0.0%	7.4x	7.3x	6.9x	6.7x	8.0x	7.1x	6.8x	6.6x	10.5 x	6.7 x	8.0 x	8.0 x
US media conglomerate average					**9.5x**	**8.7x**	**8.3x**	**7.8x**	**12.3x**	**10.4x**	**10.0x**	**9.4x**	**16.8x**	**11.7x**	**11.1x**	**10.3x**

Source: Company Reports, Canaccord Genuity estimates

BRON Studios

Founded: 2010
Headquarters: Burnaby, BC

Key People:
Aaron L. Gilbert – CEO/Co-Founder
Brenda Gilbert – President/Co-Founder
Source: company website

Overview

BRON studios is an independent content creator involved in all aspects of the production process from creation and development all the way to financing. Given that the company remains private, we are not currently offering a rating or target for BRON studios. However, we believe it remains useful to profile this developing firm given its rise as a significant player in the space.

BRON has burst into prominence over the past several years as a significant player in Motion Picture and TV production and licensing and appears to be growing at an exponential pace. The company was founded in 2010 by Aaron L. Gilbert and his wife Brenda Gilbert.

Motion Picture

The company initially focused on the motion picture side, and experienced dramatic success with its focus on narratives that balance both commercial and artistic/cultural considerations. Thus far, it has been involved in 50 motion picture productions including a number of award-winning titles like *Fences* and *Beatrice at Dinner.* We find the quality and depth of the relationships they have struck in the industry over a short space of time to be genuinely impressive; be it with top quality film makers, talent, production partnerships and distributors. Its current slate (2018) which includes - *The Front Runner* (Hugh Jackman), *A Simple Favour* (Anna Kendrick), *Tully* (Charlize Theron), *The Spy Who Dumped Me* (Mila Kunis) and upcoming titles like The Mule, *Chaos Walking, and The Good Liar* speak to the quality of its Motion Picture division.

Television

BRON launched its TV Group in early 2017 and over a short timeframe has started to gain traction. Alongside the launch of the TV Group, BRON joined up with Former HBO executive Michael Ellenberg to form Media Res – in which BRON owns a 25% interest. Media Res has gained a lot of press of late for its high profile show currently in production– *The Morning Show* starring Jennifer Aniston, Reese Witherspoon and Steve Carrell, one of Apple's first scripted series and considered to be one of the most expensive TV productions in the industry.

Animation

BRON stepped into Animation in 2012. We understand it has two feature length films in production as well as several others in development. The Animation division has a 20,000 square foot studio in Burnaby, British Columbia, and a second facility in Duncan, BC, with over 125 visual and technical artists. Its key production is The Willoughbys (which recently sold to Netflix), directed by Kris Pearn and stars Ricky Gervais and Maya Rudolph.

The team

The Co-founder and CEO Aaron L. Gilbert has spent over 20 years involved in production, financing and global licensing of content. Brenda Gilbert Co-founder and Present, has been active in film and media for over 19 years. The Company's Chief Strategy Office Ashley Levinson was previously the Chief Operating Office of Megan Ellison's Annapurna Pictures. BRON also recently hired Fox Searchlight's Cassandra Butcher as Chief Marketing Officer. Also key to BRON's leadership are COO, Steven Thibault, a former Ernst & Young auditor; and Chief Legal Officer Joel Guralnick, formerly of Goodmans LLP.

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: November 28, 2018, 04:45 ET

Date and time of production: November 29, 2018, 09:14 ET

Target Price / Valuation Methodology:

Entertainment One - ETO

Our target price is based on a SOTP approach applying a blended 11.0x EV/EBITDA multiple on F2020 estimates.

Lions Gate Entertainment Corp. - LGF.B

Our sum-of-the-parts derived US$24/sh target price uses 14x EV/EBITDA for Television Production, 8.5x for the Motion Pictures and 12x for Media Networks (Starz). We base our target price on F2020 estimates.

DHX Media Ltd - DHX

For our TP derivation, we to use 4.5x EV/F2019E EBITDA for the Broadcasting segment and 9x EV/F2019E EBITDA for Content. We derive a $1.50/sh target price.

Risks to achieving Target Price / Valuation:

Entertainment One - ETO

Share prices can overreact to volatility in film results:

Notwithstanding the initiatives eOne is undertaking to strengthen and better manage Film results, film performance carries inherent volatility, leading to potentially sharp variances in revenue and profitability vs. expectations. Given the company's substantial weighting to the Film segment, particularly so with respect to FCF generation, these variances can have a significant impact on overall corporate results. We also believe that movement to higher budget titles alongside a decreasing film count could produce individual years where Film segment revenues fall well short of expectations if key titles underperform. There is substantial empirical evidence in the Media sector of stocks experiencing exaggerated downswings due to short-term film performance. eOne may be vulnerable to this, particularly against the backdrop of soft film results in F2015 and F2016.

Loss of altitude in *Peppa Pig:*

The *Peppa Pig* brand generates substantial profitability and cashflows with relatively modest investment at this stage. M&L revenue for *Peppa* was £45.7M in F2017. While we expect sustained growth in the brand led by the US and China markets, a loss of momentum in these markets combined with an easing in retail sales in the UK and other mature markets, either due to change in consumer preferences or the brand being usurped by newer pre-school hits, could have a significant negative impact on financial results. However, over time we believe this could be partially offset by emerging brands such as *PJ Masks*.

Greater competition to secure quality content:

While eOne has a well-established market profile together with numerous output relationships and partnerships to ensure an adequate flow of quality content, greater competition from major studios or emerging independents could negatively impact the quality of its content slates. This may particularly be the case in the Film segment as eOne gradually reduces its number of output commitments).

Increasing investments in Film production could produce poor initial returns:

As discussed earlier, eOne (through eOne Features) is expected to increase investment in film production, relative to acquired content. A sustained period of lower-than-expected returns on these investments, in addition to tempering financial results, may force a revision in strategy.

Challenges managing creative talent:

This is a business where much of the value of a company is dependent on attracting and retaining quality talent and personnel. In addition, alignment of the objectives and vision of key creative talent with corporate goals can at times be tricky. While eOne's partnership agreements are designed to deal with these considerations, there is always the risk of divergence of goals between management and creative talent, which could have negative repercussions on financial results.

Lions Gate Entertainment Corp. - LGF.B

Film slate performance can materially underperform expectations: Box office revenues, and, in turn, profitability could see sharp swings depending on the actual performance of individual films. Furthermore, there is a risk that the kind of historical success that Lionsgate enjoyed with break-out franchises such as *Twilight*, *Hunger Games* etc. could potentially not be replicated for extended periods of time.

Risk of declines in affiliate fees and subscribers: Lionsgate generates a significant amount of free cash flow from Starz which is largely an "affiliate fee" based pay-Television network. An accelerated decline in subscribers or affiliate fees (from MVPDs) could have a material impact on the overall business. While affiliate fees are long-term agreements (fixed or variable), there is always risk of a greater-than-expected decline in fees. This could also negatively impact the deleveraging cycle that lies ahead.

Creating standout content in a crowded marketplace is challenging: With so much content available for consumption, there is always the never-ending creative battle to keep producing relevant content. Consequently, the cost of creating content can spike quite materially.

Stock price volatility: Irrespective of fundamental strengths (and weaknesses) of Lionsgate, the stock may experience sharp fluctuations driven solely on box office openings and perceived film slate performance. This makes the investment volatile but also offers plenty of opportunities for entry and exit in and out of the investment.

Competitive environment shows little signs of abating: Content creation and distribution is a highly competitive industry. With several studios, TV networks and distribution platforms at play, there are little (or no) signs of a softer competitive environment in future. And then there is always the threat from tech giants such as Google, Facebook and Apple who, in our view, have the ability and financial resources to affect the media landscape meaningfully and consequently impact the various industry players.

Risk of M&A: There is risk of seeing additional M&A some of which might not resonate well with the wider investor community. More specifically, there is a concern that Discovery Communications (an ad-supported network) or other John Malone affiliate companies could take part in a roll-up strategy centred around Lionsgate which could potentially drag down the overall growth rate of the consolidated company. This is generally under the assumption that Lionsgate will be used as a roll-up vehicle (and not the other way around) given favorable tax advantages from a lower tax regime.

Higher than expected interest costs: Lionsgate has significant variable-rate debt underlined with a LIBOR curve which appears to be trending upwards. A greater-than-expected upward movement in rates could hike up interest costs which could be quite material, especially given the high leverage that Lionsgate currently has. A 25bp increase in interest rates could result in $10M increase in annual interest expense, all other factors remaining equal.

Execution Risks: There are always risks in business execution and there might be instances where ideas and strategies do not translate into monetary returns.

DHX Media Ltd - DHX

Execution risk -- Given DHX is at the starting point of a transformational acquisition and at the early phase of what is expected to be a steep upswing in earnings, execution is key. Greater competition to supply programming for OTT operators -- While DHX moved quickly and ahead of most other content producers and rights holders in identifying the digital opportunity, the other players would overtime catch up and increase supply. This can increase competition among content owners vying to supply the Netflix's and Amazon's of the world. Other risks include, but are not limited to, potential changes to the very favourable Canadian regulatory framework and the associated production incentive programmes, labour relations issues and continued access to interim production financing.

Distribution of Ratings:

Global Stock Ratings (as of 11/28/18)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	568	64.40%	46.30%
Hold	196	22.22%	31.12%
Sell	8	0.91%	25.00%
Speculative Buy	110	12.47%	66.36%
	882*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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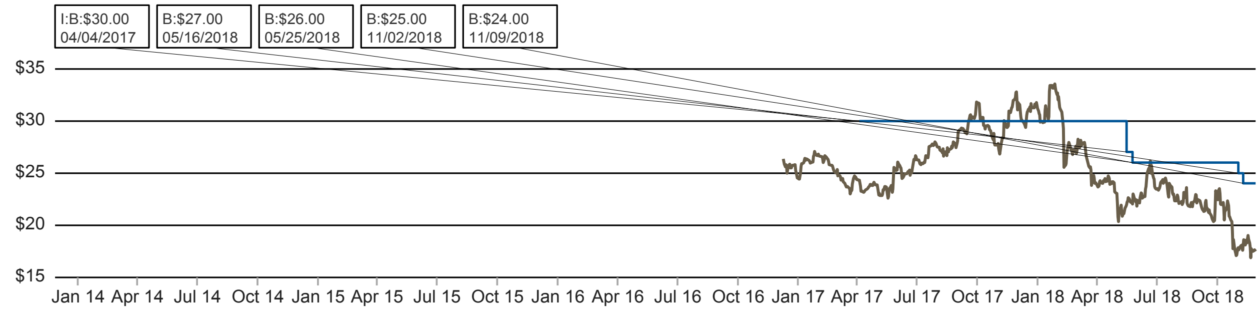
In the past 12 months, Canaccord Genuity or any of its affiliated companies have been lead manager, co-lead manager or co-manager of a public offering of securities of Thunderbird Entertainment Inc. or any publicly disclosed offer of securities of Thunderbird Entertainment Inc. or in any related derivatives.

Canaccord Genuity or one or more of its affiliated companies intend to seek or expect to receive compensation for Investment Banking services from Entertainment One, Lions Gate Entertainment Corp., Kew Media Group Inc., Thunderbird Entertainment Inc. and DHX Media Ltd in the next three months.

An analyst has visited the material operations of Kew Media Group Inc.. No payment was received for the related travel costs.

The equity securities of Lions Gate Entertainment Corp. are non-voting shares.

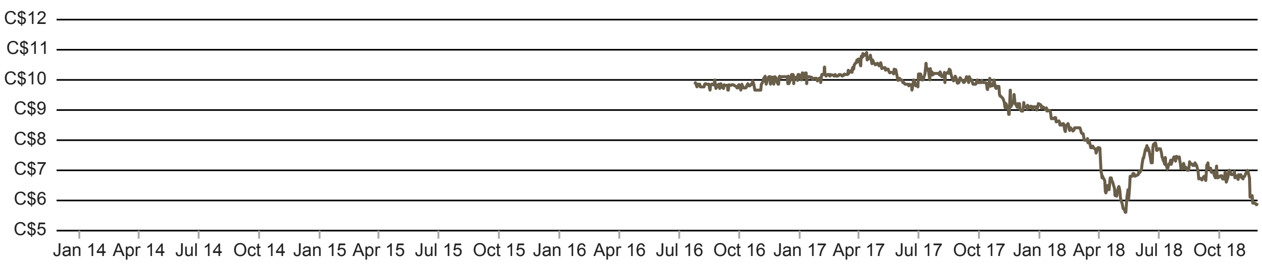
Lions Gate Entertainment Corp. Rating History as of 11/27/2018



Closing Price — Price Target

Buy (B); Speculative Buy (SB); Sell (S); Hold (H); Suspended (SU); Under Review (UR); Restricted (RE); Not Rated (NR)

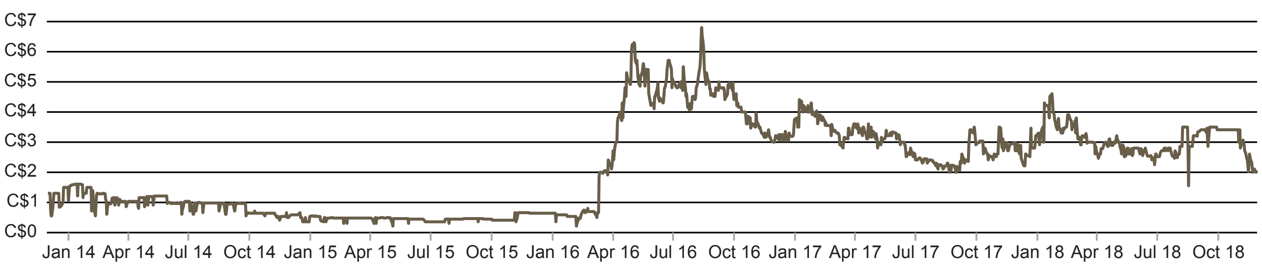
Kew Media Group Inc. Rating History as of 11/27/2018



Closing Price — Price Target

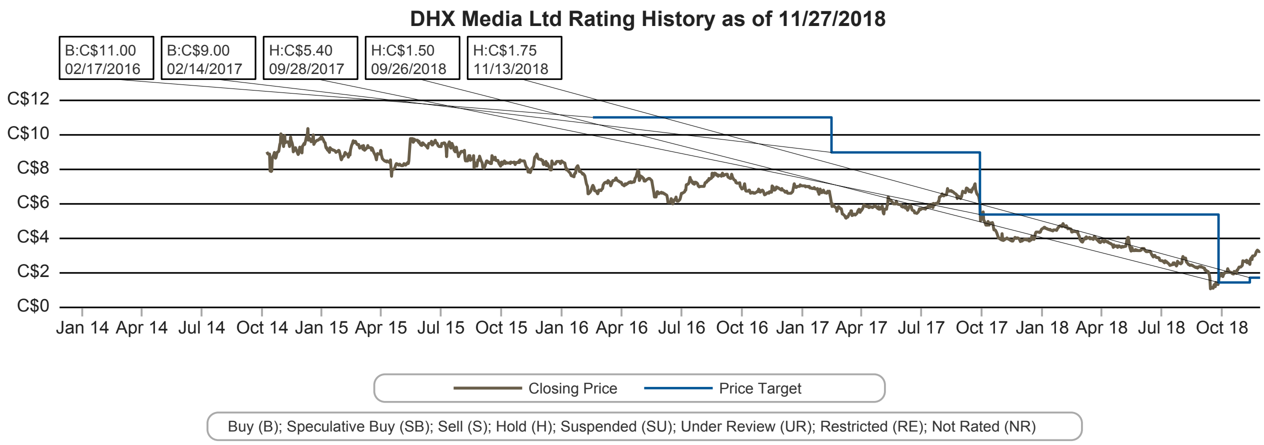
Buy (B); Speculative Buy (SB); Sell (S); Hold (H); Suspended (SU); Under Review (UR); Restricted (RE); Not Rated (NR)

Thunderbird Entertainment Inc. Rating History as of 11/27/2018



Closing Price — Price Target

Buy (B); Speculative Buy (SB); Sell (S); Hold (H); Suspended (SU); Under Review (UR); Restricted (RE); Not Rated (NR)



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