Eros International Plc
Fourth Quarter and Fiscal 2015 Earnings

Please note: this transcript is an unedited record of what was said at the Eros International Fourth Quarter and Fiscal 2015 analyst and investor call on Wednesday 10th June. It may be imprecise or capable of different interpretations, or may contain errors. As such, any information or opinion expressed in the transcript should be cross-referenced to other published, verified material before relying on it.

Operator

Good morning, ladies and gentlemen, and welcome to the Eros International's Fourth Quarter and Full Year 2015 Earnings Conference Call. This call is being broadcast live on the Internet and a replay of the call will be made available on the company's website. This morning, the company published its earnings press release on its website, www.erosplc.com.

The company would like to remind everyone listening that during this call it will make forward-looking statements under the Safe Harbor provisions of the federal securities laws. The company's actual results may differ materially from those projected in the forward-looking statements.

Additional information concerning factors that could cause actual results to differ materially from those in these forward-looking statements is contained in today's press release. During the call, the company will also discuss non-GAAP financial measures in talking about its performance. You can find a reconciliation of these measures to GAAP financial measures in the company's press release.

I will now turn the call over to Jyoti Deshpande, CEO of Eros Plc. Please go ahead.

Jyoti Deshpande

Good morning ladies and gentlemen. Welcome to the earnings call for Eros International Plc for the fourth quarter and fiscal year ended 31st March 2015.

I am excited to start this call by announcing that we are finally proud to cross the $100 million Adjusted EBITDA milestone this year, which marks a 20 fold growth in EBITDA in the last 10 years.

Our vision for the last decade was all about pioneering the first Indian studio model spanning co-production to worldwide distribution across multiple formats and building a valuable content library and a dominant market share that has fortified our leadership position in the rapidly growing Indian media and entertainment sector. Our vision looking forward is our transformation from a pure content company into a digital company with ErosNow at the heart of our strategy.

Moving to financial and operational highlights for Fiscal Year Ended March 31, 2015, revenues increased by 20.7% to $284.2 million, compared to $235.5 million in fiscal 2014.

43.3% of our revenues or $123.1 million came from theatrical from a slate of 65 films of which 6 films were high budget, 12 films were medium budget and the rest were all low budget films. This demonstrates the strength of our portfolio strategy.

35.6% of our revenues or $101.2 million came from television that again shows the growing demand for premium content from television channels in India and around the world, the strength of library in generating strong cash flows and our bundling strategy when we license films.

21.1% of our revenues or $ 59.9 came from digital and ancillary revenue streams, which shows growing monetization of music, licensing to digital platforms worldwide, demand from cable operators within India on account of digitization, our YouTube platform and other publishing revenues.

Adjusted EBITDA increased by 26.0% to $101.2million, compared to $80.3 million in fiscal 2014. Net income increased by 32.5% to $49.3 million, compared to $37.2 million in fiscal 2014.

Our pre-launch phase of ErosNow has been very successful with 19 million registered users globally, up 35.7% from the 14 million users we announced in February 2015. Our official launch marketing campaign will kick off this July and use the latest exclusive movie premieres like *Tanu Weds Manu Returns* and our original shows as marketing pegs. We have an unparalleled content offering comprising of movies, music videos, catch up television and originals, sophisticated product features, strong distribution deals and along with our first mover advantage we believe we are well positioned to be the leading player to capture the growth within the Indian digital entertainment industry globally.

Given the unprecedented growth in ErosNow, we have decided to defer our pay television strategy for the foreseeable future and stay focused on strengthening our position in the vastly exciting OTT, or Over the Top, arena. Television licensing revenues continue to be strong on the back of digitization and constitute over 35% of our revenues. Our current strategy is to premiere films on ErosNow and continue to syndicate the films after that window closes to television channels around the world.

Hollywood makes two thirds of their revenues internationally and only a third comes domestically. Bollywood is exactly the reverse of that. While we are already taking advantage of the under-penetration of cinema screens and structural growth presented within India, we are really excited about the growing demand for our films in international non-diaspora markets.

One of our strongest potential markets, China, with a market size of $4.8 billion and over 23,600 screens, is projected to soon surpass Hollywood as the largest film market in the world. Our latest collaboration agreements with Chinese Film Corporation and Shanghai Film Group to co-produce and distribute Sino-Indian films are important steps in maximizing our opportunity in China. We will be co-producing new films, remaking films from each other’s libraries and also releasing our existing films localised for the Chinese market. We are also exploring with potential Chinese digital partners to launch a curated version of ErosNow in that market which can be ground-breaking for us.

This is an opportunity to not only expand the new release slate and mix but also unlock further value from our library of 2300+ films. Our library already contributes close to 25% of our total revenues. We want to try and replicate this model in South Korea, Japan, South America and other such emerging markets. The beauty of a shrinking world connected digitally through social media is that language is no long a barrier, the only thing that matters is the cultural relevance and appeal of the content.

We started our first quarter of fiscal 2016 with a bang with the runaway success of *Tanu Weds Manu Returns*, a medium budget content-driven franchise film that is expected to reach a lifetime box office of more than $40 million worldwide. We have a solid slate for the rest of fiscal year 2016, underpinned with tent-pole releases around the festive seasons of Eid, Diwali and Christmas. We have strategically pushed out a few of our releases into fiscal 2017 and have full visibility of the film slate for the next two years. We therefore don't expect our content capex in fiscal 2016 to exceed $225 million, which is lower than the $267.2 million we spent in fiscal 2015. We also will not spend an additional capex of $50 million previously earmarked for the pay television launch. This would indicate that we should be free cash flow positive by the end of fiscal 2016.

Our long term EBITDA growth will be contributed in three ways: one, systematic scaling of the film mix – Hindi, regional and international whether through co-productions, acquisitions or the Trinity Pictures initiative, and related monetization; second, meaningful contribution from large new international markets such as China and hopefully many more that we are actively seeking to be present in; and third, ErosNow leading from the front globally against the backdrop of digital explosion, prolific mobile subscriber growth within India, 4G roll-out and broadband penetration.

On that note I would like to hand over the call to Andrew Heffernan, our Group CFO, but before I do that I would like to thank him for his support in the laying the foundation for our growth during the last nine years he was with the Company. We wish Andrew all the best in his future endeavors as we welcome Prem Parameswaran to succeed Andrew as Group Chief Financial Officer and President of Eros International's U.S. operations and be a core member of our strategy team. Over to Andrew to take you through financial highlights one last time for the Company.

Andrew Heffernan
Thank you, Jyoti. Good morning, everyone, and thanks for joining us today. Our performance for the fiscal year ended March 31, 2015 was strong. Revenues for the 12 months ended March 31, 2015 increased by 20.7% to $284.2 million and currency comparable revenues increasing by 22.4%. For the three months ended March 31, 2015, revenues increased by 39.8% to $88.5 million from the prior year comparative period and currency comparable revenues increasing by 40.7%.

These increases reflect the mix of film slate released during the periods, along with the strong contribution from our valuable catalog of films. In the fourth quarter, we released 22 films, one of which was high budget, four were medium budget and 17 were lower budget releases, where in the quarter ended March 31, 2014, 29 films were released, two of which were high budget films, three medium budget films and 24 being low budget films.

In fiscal 2015, we released 65 films in total, six of which were high budget films, 11 were medium budget films and 48 were low budget film releases, while in fiscal 2014, 69 films were released, four of which were high budget films, 21 medium budget films and 44 being low budget films.

Adjusted EBITDA increased across both reportable periods, increasing by 129% to $30 million in the quarter compared to $13.1 million in the year ago period, increasing by 26.2% to $101.2 million in the 12 months ended March 31, 2015 from $80.2 million in fiscal 2014.

At this stage, I would draw your attention to the notes regarding the use of non-GAAP measures and their uses and limitations contained within our earnings release. Our primary revenue streams are derived from three channels; theatrical, television syndication and digital and ancillary. For the fourth quarter, the aggregate revenue from each segment were $44 million, $25.8 million and $18.7 million respectively. For the 12 months ended March 31, 2015, the aggregate revenues were $123.1 million for the theatrical segment, $101.2 million for the television segment and $59.9 million for the digital and ancillary.

Turning to the effect of foreign exchange, our constant currency comparable revenues for the three months and 12 months ended March 31, 2015 are $62.9 million and $232.2 million respectively, based on the average rates of exchange for the periods amended. On this basis, revenues for the three months and 12 months ended March 31, 2015 increased by 40.7% and 22.4% respectively compared to the prior year comparative period.
And note that the three months and 12 months ended March 31, 2014, the average rates of exchange used to convert Indian rupees to U.S. dollars were INR61.2 to $1 and INR60.5 to $1 respectively.

Cost of sales for the fourth quarter increased to $48 million compared to $41.6 million in the prior comparable period. For the 12 months ended March 31, 2015 increased to $155.8 million from $132.9 million in the prior comparable period. These increases are primarily due to an increase in amortization costs, reflecting the company's new release slate as well as additions made to the film catalog and prior-released content.

Gross profit in the quarter totalled $40.5 million, an increase from $21.7 million in the prior comparable period. Gross profit in the 12 months ended March 31, 2015 also increased to $128.4 million from $102.5 million in 2014. The company's gross profit margin was 45.8% in the fourth quarter compared to 34.3% in the year-ago period and 45.2% in the 12 months to March 31, 2015, increasing from 43.5% as of March 31, 2014. I would note at this stage that quarterly or annual changes in margins should not on their own be taken as an indication to future margins.

Looking at our balance sheet, debt at March 31, 2015 stood at $314.7 million as compared to $258.1 million at March 31, 2014, with cash and cash equivalents for the periods totalling $156 million and $145.4 million respectively. Net debt was increased by $46 million in the 12 months ended March 31, 2015 and totalled $158.7 million.

Our content CapEx at March 31, 2015 stood at $267.2 million as we have sought to use those funds from our New York Stock Exchange follow-on offering to expand catalog and invest in the following fiscal year's release slate. We expect to spend approximately $225 million on content CapEx in Fiscal 2016.

In summary, we believe our business is well positioned for continued growth and profitability, with managed expansion of our film slate for future years. Thank you for listening and now we're opening up to questions, please.

Question and answer session

Question 1: John Janedis, Jefferies

Hi. Thank you. And best of luck, Andrew. Maybe two questions, one is, Jyoti, you mentioned you pushed out a few releases into fiscal 2017, can you go through your current expectations on A films for fiscal 2016 and 2017 now that you have the visibility and do you expect that to ramp or scale in 2018?

Answer: Jyoti Deshpande

So this year we had six high budget releases in fiscal 2015; in fiscal 2017, we think it'll be six or seven. And we have a bunch of medium budget films as well. In fiscal 2018 as well, we think it'll be around the same level of seven or eight high budget films. So it'll be definitely more than six, but we will play with whether we need it to be seven or eight, because we always have the choice of pushing the last quarter release into the next fiscal.

Further question

Okay. And then maybe shifting to ErosNow then, I wanted to ask about marketing and churn, what marketing channels are you going to use? What is the cost going to be over the next few quarters? And would you expect churn looking like, say, an HBO or Netflix in the U.S. or something higher? And do you expect the price point of ErosNow Premium to change based on churn or feedback?

Answer: Jyoti Deshpande

So, as of now, I think we should set the objective. The objective is still land grab. So we've managed to get 19 million registered users organically, which is staggering, and it has surpassed our own internal expectations. And when we say marketing, we're not going to spend millions and millions of dollars. What it means is, we will take some of the marketing pegs like the *Tanu Weds Manu Returns*, which was a huge breakout success, will be premiering on ErosNow before the television window, so we will be running TV ads, we'll be running press campaigns, we'll be doing digital marketing. But all put, we are currently shooting a campaign with all the leading film stars who will be endorsing ErosNow.

So, in terms of marketing dollars, you know from our P&A budgets that it doesn't cost a lot to market in India. So within $10 million, we would be able to get through a full year's marketing campaign. But what it means is – what we've not done so far is, we've not gone out and mass marketing, we've been organically acquiring customers and done very well at that. But we will be creating a buzz around the brand and a buzz around original content programming that we're going to put out there.

Further question

Okay, and anything on churn or just too soon to talk about it?

Answer: Jyoti Deshpande

In terms of original programming?

Further question

No, in terms of longer-term, say, if you have – from a paying sub perspective, would you expect churn to be something like an HBO in the States or lower?

Answer - Jyoti Deshpande

No. So, look, we're not looking to just get premium subscribers. We want to convert a lot of these registered users to premium subscribers eventually, but right now, we just want to broaden this base and monetize through advertising, through transactional, like iTunes. So that's what the present market is in India. We will wait for it to transition to the premium sub. And currently, we're focused more on getting this 19 million number to a very big number.

Question 2 - Eric Y. Katz, Wells Fargo

Hi, thank you. So, also just on ErosNow, can you tell us when you expect some of the original content to hit and also will you be premiering all new films on ErosNow before TV syndication or just a select few?

Answer: Jyoti Deshpande

We want to premiere all new films on ErosNow, so that's the strategy moving forward. And we've successfully been able to establish that strategy, and *Tanu Weds Manu Returns* will be the big film with which we do that. And originals will start from July onwards. So we have a combination of drama series, reality shows, and the marketing idea is to introduce one show at a time and market the next show within the first show. So pretty much like Netflix does it or any other player does it. So July onwards, you'll see a slate of original shows.

Further question

Okay. And how does the pricing dynamic change for films that are syndicated after premiering on ErosNow and how long will films premiere on ErosNow before being syndicated?

Answer: Jyoti Deshpande

So the films will have a month window on ErosNow. And after that, they will have a blackout period, after which they will go to any of the television channel as normal. And I can confirm we've been able to successfully negotiate deals where it actually makes no difference to our syndication model.

Further question

Okay. And now that you've had ErosNow just for a couple of quarters, I know it's early, but have you learnt anything about the spending habits or content consumption?

Answer: Jyoti Deshpande

I wish I could share that information with you, but we are growing the sub-base so fast that literally I don't think I should be sharing that kind of information at this stage till we've had those subs for longer and we're able to get a more definitive pattern out of this. So definitely transactional revenues are coming in and mobile subs are spending money. And while monthly subscription is still a very tiny, tiny number in India than transactional revenues, it's still early days for me to start giving information to that level of granularity. So please, please bear with me for a couple of more quarters.

Further question

Sure. It's a good problem to have. Just one last question, now that the TV network is shelved, do you see any opportunities to potentially lever up and maybe acquire more content or make purchases such as Techzone? Thank you.

Answer: Jyoti Deshpande

So, Techzone was a great acquisition because it gave us a billing platform that we didn't have and we were able to get the transactional revenue stream that many of the other players do not have. So that was a great acquisition. We're now focused in just building the platform, adding cool new features, improving user experience and of course content, which is at the heart of our strategy. So we've aggregated virtually all of the captive television shows from all the players that are out there. And we've got a vast music library that we've aggregated, as well from our own films, which we are able to offer exclusively as well as third-party aggregated films. And then the focus is original. We want to focus on specific genres, maybe a reality show, a big drama series like Game of Thrones, but set in the Indian culture; we're doing something called Ponniyin Selvan, which is similar to Game of Thrones. We have comedy, we have sitcoms like Friends, et cetera. So a lot of these originals are being developed. But we will unleash them to the world one at a time, not all at the same time.

Question 3: Tim W. Nollen, Macquarie

Hi. A couple of questions also on ErosNow, clearly the most interesting topic here, I think, just some numbers questions first off. You mentioned 19 million registered users, is that a global figure, because I think I saw on your India subsidiary release you mentioned 14 million. So I wonder it was 14 million India and 19 million globally perhaps? Also, just want to be clear, you're launching a marketing campaign in July. I assume this means this is the kind of more formal effort to commercialize this product as you're talking about now. What does that mean in terms of what content becomes available on ErosNow under a paid subscription model, i.e. it seems to me we've had a lot of free content available as you're building awareness, will you sort of put up more of a wall, more content must be paid for to be accessed? And then lastly, I understand you're not going to reveal figures, but any idea on what the breakout of revenues may be between transactional versus advertising versus monthly subscriptions?

Answer: Jyoti Deshpande

I'll try to answer all of them. If I have forgotten something, feel free to remind me. So your first question was the difference between India and global. So 19 million subs is a global number. We had not actually updated the number during the India earnings call. We had stuck to the 14 million that we had said earlier. But out of this, around 15.5 million or just over 15 million subs are – not subs, registered users are India and just over 3.5 million are outside of India. So we're picking up a lot of registered users from India.

In terms of the marketing campaign and things like that, which will kick off in July, like I answered before, it's more to, yes, commercialize the launch, so you're letting people know that ErosNow is here, your branding the cool factor associated, you're playing on the celebrity association and the links we have with all the film stars will come out and endorse this product and position it as the coolest app to download. Our promise to the consumers is endless entertainment and that is what we will communicate with this marketing campaign.

Now in terms of breakup of transactional, advertising and subscription, we've not yet shared that information just yet. And the way we're thinking about the product and the content and the differentiation of what will a premium customer get and what will a free customer get, we're trying to not differentiate as much by content as we are to user experience. So we're saying if you want to watch *Tanu Weds Manu Returns*, even if you're a free registered user, you will be able to watch it, only you will see ads and we will ad monetize it and we have encouraging discussions with large groups like WPP who are confirming the shift of advertising revenues from television to digital. So we want to take a share of that and not really prevent free subs from new content.

We will be differentiating premium customers through product features. So they will not see any ads, they will have additional benefits like subtitles, they will have additional benefits like portability, so they could transfer their content across devices and things like that. So it's more a user experience related, the difference between premium and free. Does that answer all of your questions or did I forget something?

Further question

No, that's great. You did answer them, but you spoke to my other question which is I think you had said previously that something like only 1%, or less, of your current registered users are paid subscribers. Can you please – if I remember that correctly and then if you have any sort of target figure in mind, how should we think about paid penetration levels? And of course, the underlying question is, how do we handle the growth of this division?

Answer: Jyoti Deshpande

Okay. So, thanks for the opportunity to clarify that. I think what I meant to say then is that even if we convert 1% of this large target base to premium, that would be very, very good at this stage. We're not thinking about that number. We think that transition will happen, less to do with the company’s internal factors and more to do with how the Indian consumer changes their digital consumption habits, so they've already migrated to digital consumption. And as 4G becomes a reality and as broadband penetration becomes a reality, we have the opportunity that India doesn't have premium television. So television is also now just ad monetized. So we could take that spot very quickly with our OTT service, and India is known to skip stages in evolution of technology and we're right there, right place at the right time. So we're not thinking premium subs at the moment, but we think they will come in the medium to long term. These transactional subs themselves will transition to premium subs pretty much. If I remind you of the iTunes days to now the Netflix days, it was not so long ago when the international markets was transactional too and we used to put our credit card details and buy an album here or a single there and now we all sort of subscribe to Netflix. And it's a way of life.

So was I able to answer your question?

Tim W. Nollen

Yes, that's very helpful. Thanks very much.

Operator

At this time, there are no further questions. I will now return the call to Jyoti Deshpande for any additional or closing remarks.

Jyoti Deshpande

Thank you. So since our listing in NYSE in 2013, we have endeavoured to build a successful and consistent track record and demonstrate a strong leadership position in the Indian media entertainment and digital sector. As we leapfrog into the future as a digital company on the back of ErosNow and with the benefit of already owning our content, we look forward to your continued support in this exciting journey.

So before I let you go, maybe Prem wants to say a few words and introduce himself to this group here.

Prem Parameswaran

Jyoti, thank you and welcome everybody. This is Prem Parameswaran. I'm very excited to join Eros. I think it's one of the greatest opportunities that I've seen, given the fact that we've got the richest content library in the world, especially with 4G being built out in India. With ErosNow, we're poised to be the largest digital content subscription service in the world. And obviously the 19 million subs, the 3000 titles and 1 million songs is just the start and I think it's fantastic.

Like some people know, I was an investment banker for over 23 years, most recently running as Global Head of
Jefferies' media and telecom group, and you see a few opportunities in your lifetime or in your banking career, and this is really one of those times where I just saw a tremendous growth opportunity. And I'm looking forward to joining Jyoti and Kishore and the rest of the team as well as some of our esteemed board members, Rajeev Misra and David Maisel, and really helping to build this company out because I think it's a unique opportunity.

Thank you and I look forward to working with you all.

Jyoti Deshpande

Thanks, everyone.

Operator

Thank you for participating in the Eros International fourth quarter and full year 2015 earnings conference call. You may now disconnect.