



Eros International Plc
Second Quarter Fiscal 2016 Earnings Call

Please note: this transcript is an unedited record of what was said at the Eros International Second Quarter Fiscal Year 2016 analyst and investor call on Tuesday 17th November. 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 Eros International's second quarter fiscal year 2016 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 we it will be making forward-looking statements under the Safe Harbor provisions of the federal securities laws. The Company's actual results might differ materially from those projected in the forward-looking statements. Additional information concerning factors that could cause actual results to materially differ 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 the 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

Okay. Apologies everyone, I understand that there was a technical error on the part of NASDAQ Europe so let's do Eros International Plc take two. Good morning, everyone. Thank you for taking the time to attend Eros International Plc's earnings call for the second quarter ended September 30, 2015. As you've seen in our press release, Eros has reported impressive results due to our strong business fundamentals, compelling content offerings and differentiated digital platform. It has been a challenging last four weeks for the Company, as we have been attacked by individuals who've been anonymously spreading malicious, baseless allegations in what appears to be a coordinated short selling campaign that resulted in unprecedented stock price volatility. While we have emphatically responded to the allegations in our previous press statements this month, we believe that our strong results for our second quarter serve as a testament to our market leadership in the Indian film and entertainment sector and the underlying strength of our company.

This has been one of the best years in performance for Eros so far; with the film slate performing exceedingly well at the global box office. I am proud to say 8 out of the 15 top 10 films on the Indian box office in the calendar year 2015 as of September 30, 2015 are Eros films and 3 out of the top 4 films. 'Bajrangi Bhaijaan', our quarter two release, remains a firm number 1 till date, followed by 'Tanu Weds Manu Returns', a quarter one release which is the number 2, and 'Welcome Back', again a quarter two release, is at number 4. Our 41% aggregate market share over the last four years in UK and USA is tracking at a staggering 70% this year as per Rentrak data. The box office reporting sources in India are websites, which is helpful data although not audited by any third-party sources, like Rentrak. With over 1,000 films releasing in India each year, these websites mainly focus on Hindi films and largely don't report the box office of regional language films, which is an integral part of

our strategy. We typically get 50% of the net box office revenue as our share of theatrical revenue on a sliding scale basis.

Importantly, in many cases, presale minimum guarantees protect us from underperformance of box office of films. So trying to reconcile our theatrical share purely based on reported Hindi box office of India may be misleading. For example, our high-profile Tamil film, Lingaa, which was released last year, our presales were significantly higher than the actual box office of the film.

Our theatrical, television and digital and ancillary revenues breakdown form part our financial statements and we stand by them. Our strategy of investing in high-quality film content and diversified revenue streams across platforms, along with further exploitation of our library, our crown jewels, is reflected in our performance this quarter.

Moving on to the results for the three months ended 30 September 2015, revenues increased by 97.9% to \$98.8 million. Currency comparable revenues increased by 129.6%. Adjusted EBITDA increased by 159.5% to \$36 million. And for the six months ended 30 September 2015, revenues increased by 56.2% to \$148.8 million. Currency comparable revenues increased by 81.5%. Adjusted EBITDA increased by 116.7% to \$47.6 million.

During Q2 FY 2016, we released a total of 20 films, of which 3 were high-budget films, 3 were medium-budget films and the rest of the 14 films were low-budget films. Talking about number of films, we have always maintained that some of the small-budget films will have limited theatrical appeal and mostly form part of a bundle for television or digital monetization worldwide. The fact that some of these films may have had a very limited theatrical release in some remote areas of India in some prior years does not preclude them from being new releases for television or other formats. These films make a very minimal contribution to the overall revenues and associated costs of our film slate in any given year but are a facet of the overall long-term strategy for scaling the business.

The second half awaits films such as the much-anticipated 'Bajirao Mastani', our high-profile Christmas release, Suriya's '24', Pawan Kalyan's Sardaar 'Gabbar Singh' and 'Dictator'. Our fiscal 2017 Slate is promising, with franchise films 'Housefull 3' and 'Rock On 2' as well as 'Dishoom', 'Baar Baar Deko', Ajay Devgn's 'Shivaay', Anand Rai's next, Leela Bhansali's next and many such exciting projects in Hindi along with a strong Tamil/Telegu and other regional films slate.

Trinity Pictures, our franchise production arm, is ready with several compelling film scripts in the universes of: kids and teens; action and adventure; gods and kings, etc., including two films being developed for a tailor-made Indo-China co-production. We think at least 3 to 4 of these films will be produced and released in fiscal 2017. With 100% intellectual property ownership, Trinity will be an important pillar of our content strategy moving forward.

We are excited about our Eros Now platform strategy and we have remained acutely focused on execution. Our new two-tier pricing is now live in India. We continue to grow our 30 million registered user base. A large proportion of this are mobile WAP users who we acquired leveraging synergies from our Techzone acquisition. We remain on target to launch originals in the New Year. We launched an original short graphic web series called 'Blazing Bajirao', based on our upcoming film 'Bajirao Mastani'. We also have an exciting Blazing Bajirao game ready to go live on 11 December across all platforms.

The prolific broadband, mobile and 4G growth in India provide strong tailwinds for the Eros Now opportunity. Our attractive consumer proposition is comprised of exclusive content ownership and disruptive pricing strategy with compelling product features such as high-definition viewing and Dolby sound, multi-language subtitles, portability across devices and importantly our offline download experience which goes live in December.

With its unique and broad entertainment offering across movies, music, television and originals at attractive price points, we believe Eros Now is advantageously placed to be a leading OTT player in Indian entertainment. We are confident in our business fundamentals and we believe we will continue to dominate the Indian film entertainment industry in the times to come. With that, let me hand over the call to Prem Parameswaran, our Group CFO, who will walk you through our financial performance in more detail. We will then open the call up to your questions. Thank you.

Prem Parameswaran

Terrific. Thank you, Jyoti. Good morning everyone, and thank you for joining us today. I am proud to announce our strong results for the second quarter ended September 30, 2015 which demonstrate that our fundamental business is strong and that Eros is resilient in the face of baseless allegations emerging from what appears to have been a coordinate short selling campaign in the recent weeks.

Again, revenues for the second quarter ended September 30, 2015 increased by 97.9% to \$98.8 million, with currency comparable revenue increase being even higher at 129.6%. This is due to our very strong film slate, with major hits such as 'Bajrangi Bhaijaan', which is grossing over \$77 million worldwide, smashing multiple records; and 'Welcome Back', which is grossing \$20 million worldwide, released this past quarter.

As is to be expected, these results have led to a surge in revenue from our theatrical business, increasing by 254.7% from \$17.2 million in September 2014 to \$61 million in September 2015, ultimately making up around 62% of our total revenue for the period, with television syndication and digital and ancillary making up 23% and 15% respectively. For the six months ended September 30, 2015, revenues increased by 56.1% to \$148.8 million, with currency comparable revenues increasing 81.5% as we had an excellent start in the June quarter with releases such as 'Tanu Weds Manu Returns', 'Uttama Villain', 'Mass' and 'Dil Dhadakne Do', the aggregate revenue stream for this period being \$94.7 million in theatrical, 64% of total; \$33.2 million in television syndication, 22% of total; and \$20.9 million in digital and auxiliary, 14% of total.

In line with this exceptional performance of our theatrical business, revenue from India increased to \$61.4 million in three months ended September 30, 2015, which made up 62% of the total revenue for that period. In regards to other regions, revenues from Europe increased from \$6.8 million for the three-month period to \$12.5 million in 2015, representing 13% of the total revenues. North America increased from \$1.5 million in the three months to September 2014 to \$6.7 million, representing 6% of total revenues. And the rest of the world region, including the UAE, increased from \$15.9 million in September 2014 to \$18.3 million in three months to September 30, 2015 accounting for 19% of the total revenues.

For six months ended September 30, 2015 revenue from India increased from \$54.1 million to \$94.6 million, representing 63% of total revenues. Europe increased from \$12.3 million in 2014 to \$16.6 million, representing 11% of total revenue. North America increased from \$2.9 million to \$9.9 million in 2015, representing 7% of total revenues and the rest of the world region, again which includes the UAE, went relatively unchanged from \$26 million in 2014 to \$27.9 million for the six months ended 2015 September 30, accounting for 19% of total revenues.

The increase in revenues as a result of net income has led to an increase in adjusted EBITDA across both reportable periods, increasing by 159% to \$36 million in the quarter, compared to \$13.9 million in the year ago period and increasing by 116.4% to \$47.6 million in six months ended September 30, 2015 from just \$22 million in 2014.

As a function of revenue, the adjusted EBITDA margins have improved in three months September 30 from

27.8% to 36.5% and also in the six months to date increasing from 23% in 2014 to 32% in 2015. 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.

Cost of sales for the second quarter has increased \$53.6 million compared to \$29.5 billion in the prior comparable period and for six months ended September 30, 2015 has increased to \$86.5 million from \$62.7 million in the prior comparable period. These increases are primarily due to an increase in amortization costs, reflecting the Company's new release slate for the period, as well as an increase in direct costs due to proportionally higher advertising and distribution costs and accrued overages in co-production of various hit films. The increase in amortization costs is largely due to the high five budget films released in the first half of the year to September 30, 2015 compared to two in the comparable period. As a reminder, I will direct you to the conventions used in our annual report, which states that high-budget films refer to Hindi films with direct production costs in excess of \$8.5 million and non-Hindi films with direct production costs in excess of \$7 million.

As a reminder, all of our high-budget releases are being amortized at 50% of all capitalized costs in the year of their release, with the balance being amortized over the lesser of the term of the rights held by us or nine years. We see this as a conservative approach, as many of the rights we hold are perpetual and at least annually we review film and content rights for indications of impairment in accordance with IAS 36 Impairment of Assets and international accounting standards.

Gross profit in the quarter totalled \$45.2 million, an increase from \$20.4 million in the prior comparable period, and also increased in the six months ended September 30, 2015 to \$62.3 million from \$32.5 million in 2014. This led to the Company's gross profit margin increasing from 40.9% in the quarter ended September 30, 2014 to 45.8% in the current quarter and from 34.2% in the half year ended September 30 to 41.9% in the current period. And while I note for the year ended March 31, 2015 the gross profit margin was 45.2%, any quarterly or annual changes in the margin should not on their own be taken as indications of future margins.

Looking at our balance sheet as of September 30, 2015 our debt stood at \$310 million as compared to \$314 million at March 31, 2015, with cash and cash equivalents for the periods totalling \$150.5 million and \$153.7 million respectively. We remain well-capitalized and believe our balance sheet is conservative. On a trailing 12-month basis, our net debt to adjusted EBITDA ratio is just at 1.26 times, which declined from 1.58 times in June 2015 and from 1.59 times in March 2015.

As of September 30, 2015, our net trade and other receivables had increased to \$211.3 million from \$197.8 million at March 31, 2015. While we note that this is an increase of \$13.5 million, during that same period we generated \$148.8 million of revenue. In addition, the portion of total receivables balance over 12 months old which are past due but not impaired was only \$6 million at the end of the period.

Furthermore, I would like to cover for everyone's benefit some high-level comments around our receivables and geographic location. Our library and new releases bundled together generate significant revenue opportunities for the Company. Our UAE subsidiary owns all of the international rights to the films we co-produce and acquire. As the demand for Indian film content increases in geographies outside of India, the Company has increased its revenues and markets and has done so in a profitable and consistent manner. Our target to bring the overall receivables balance down from \$211.3 million currently, to \$150 million to \$160 million by fiscal year end 2016 and bring the days sales outstanding to approximately 175 days over that same period.

Our statement of cash flows for six months ended September 30, 2015 shows net outflow of only \$2.9 million. We remain confident that we are on target to becoming free cash flow positive by fiscal year end 2016 through working capital efficiencies by collecting and reducing receivables and not exceeding our target spend of \$225 million on new content.

It is unfortunate, especially as this coincides with the Indian holiday of Diwali, that parties outside of our control are purposely positioning misinformation about Eros, our operations and our financial results in the marketplace. However, we believe our overwhelmingly positive results will underscore with our investors that our business is strong and the Eros is well-positioned for continued growth and profitability.

Thanks for listening and back to you, Jyoti.

Jyoti Deshpande

Thank you, Prem. We can now take questions.

Question 1: Tim Nolan, Macquarie

Hi. Thank you very much. A few things. On the costs, please, could you address if possible a breakout between your promotions and advertising budget on the box office in India versus anything that might have been accounted for as Eros Now? I don't know if that's a number that you've broken out in the past but if you could give that cost breakout for us, please. And I have a couple more.

Answer: Jyoti Deshpande

Okay so actually you're seeing slightly higher direct costs not because of Eros Now in there but because all of them were very, very successful so there's an element of overages to co-producers that is accrued in there and that's why you're seeing more than proportionate direct costs in there. It's not because of Eros Now.

Further question

Do you have any figures from former years which you could point us to where you had a very strong box office? I'm just trying to understand what an appropriate or what a historical margin level may have been, understanding that when you have a big box office quarter you have a lot of promotional and advertising costs.

Answer: Jyoti Deshpande

So the promotional and advertising costs remain the same. So for a typical A budget movie like 'Bajrangi Bhaijaan' or a Hindi A budget movie, you would typically spend between around \$3 million to \$3.5 million on entire worldwide marketing and distribution. So it doesn't matter whether the film is \$10 million or \$12 million or \$15 million. You will still spend between \$3 million and \$3.5 million for a high-budget Hindi movie.

Now, when it comes to regional movies, even if it's a high-budget movie, you will spend less than \$1 million. You will spend less than \$0.5 million on promotion and publicity. So quarter on quarter, if you see the slate mix whether the composition of Hindi and regional, that will vary the P&A budget. So the P&A budgets hasn't exceeded significantly. We can look at any quarter where there had been big blockbusters. And to calculate overages, basically we explain the co-production model. So once we take off our minimum guarantee or fee of the budget of the movie and we take off the P&A expense, which is the \$3.5 million, we will then keep a hurdle for ourselves depending on the contracts, 15% to 20%, whatever the contract permits as a distribution margin, and the balance profits are shared with our co-producer on a 50/50 basis. So based on -- this is for all revenue. I hope that answers.

Further question

Sure. Thanks. On Eros now, then, my understanding was you have been obviously incurring some costs building out content of the TV series and things; even building for that platform which I guess will not be released until later this year or early next year. Are you saying there were no such costs in the quarter that were incurred for there? If you can just explain what your cost investment has been recently in Eros now?

Answer: Jyoti Deshpande

So Eros Now, like any other content costs while it's under production, will be a balance sheet item in advances. It's not going to be going through the P&L. We seeded all those originals that we talked about earlier as well. So there's minimal costs in there in terms of content advances, which goes through the original series that we invested in. I explained in the past that a typical original series for a whole season is not costing us more than \$2 million. So we would have spent -- even if there were five or six original run in production, only a fraction of that would have been invested so far.

Further question

Okay. For what it's worth, your digital and ancillary revenue figure was quite a bit higher than the estimate that we had. I was just wondering if you can you say if there were any Eros Now revenues in Q2?

Answer: Jyoti Deshpande

No, just licensing, music, strong music revenues, licensing and Eros Now revenues were still negligible.

Further question

Okay so for the December quarter, since you now have the lower pricing tiers in place in India, I know you may not give any numbers yet when you report December results but is it fair to assume you will be having some noticeable Eros Now revenues in December?

Answer: Jyoti Deshpande

Too early because we want to wait till our off-line download facility product feature is launched before we do a big marketing push. This quarter there's already a lot of noise in the market with film promotions, etc. So we'll do our big marketing push post Jan, when that feature is also online, so I would say December is still premature.

Further question

Let me just ask one more if I can and then I'll turn it over to somebody else. Do you have a figure for your share of the India box office in the quarter?

Answer: Jyoti Deshpande

Broken up?

Further question

Yes. So you've given these figures, these very high percentages for US and UK box office, most recent year and most recent quarter, whatever it is. Do you have a similar figure for India?

Answer: Jyoti Deshpande

No, so that was what I was mentioning. So India is only websites and they mainly support Hindi and those are not -- while they are helpful in the absence of anything else, it's not Rentrak, which is why we try to relate India as 3 or 4 out of the top 10 films or 8 of the 15, you know, top 15 films. But we are not able to give you a market share for India, which is validated by any other third party and also because regional films are not measured. So it would be only reflective of part of our film releases and not all of our film releases. But hopefully Rentrak will get there. We are pushing for it. So we hope the exhibitors will open their ticket counters to Rentrak and we for one will benefit from that information being available in the market.

Tim Nolan

Good. Okay, thanks.

Question 2 - Eric Katz, Wells Fargo

Hi. Good morning. So considering the strong performance of films so far this year, can you give your outlook for TV syndication sales for the rest of the year?

Answer: Jyoti Deshpande

So TV syndication for the rest of year, the outlook remains the same. We think theatrical is performing above average. So you've seen in previous years theatrical has been as low as 45% to 50% of the revenues, whereas now it's tracking well over 60% of revenues. We think TV syndication will sit somewhere between 23% to 28% of total revenues. However, it's not to be taken as a decline because in absolute terms TV syndication will grow.

But as a percentage of revenue, theatrical is growing more than proportionate because we've hit it out of the park with all of the box office films that we've released.

Further question

Okay and how many high-budget films do you have in the next couple of quarters compared to the prior year? I'm wondering what both the revenue and amortisation comps look like in the back half of the fiscal year.

Answer: Jyoti Deshpande

So in terms of Hindi films, we have one major release in Q3 which is 'Bajirao Mastani' and this is a very important film for us. It's going to be a very wide release in India as well as we think we will be releasing this film in more international markets than a normal film. There's interest from China, for example. So we are very excited about this release. The fourth quarter is mainly pegged around regional language films for high-profile, so you have '24' and you have Pawan Kalyan's 'Gabbar Singh'. So low P&A. So the direct costs of the fourth quarter relative to a Hindi release quarter will be lower because more regional language films but more releases or more number of films in the fourth quarter and less number of films in the third quarter. So that is the release profile for the rest of the year and -- you have any further questions on that?

Eric Katz

No, that's perfect. Thank you very much.

Operator

As there are no further questions at this time I shall turn the call back over to Jyoti for additional comments.

Jyoti Deshpande

Thank you. First and foremost, I would like to thank all of you for your patience. I'd like to think some of our shareholders who have been brilliant through the last four weeks and we are very, very grateful for the unstinted support that we have enjoyed from them. We are very confident that we are going to turn the corner here and we are going to bounce back with strong fundamentals. We are not afraid to take your questions and we want to get back to business as soon as possible. Thank you very, very much.