



Eros International Plc
Fourth Quarter and Fiscal Year 2016 Earnings Call

Please note: this transcript is an unedited record of what was said at the Eros International Fourth Quarter and Fiscal Year 2016 analyst and investor call on Tuesday 28th June, 2016. 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 day, ladies and gentlemen, and welcome to the Eros International fourth-quarter and 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 an earnings press release on its website. The Company would like to remind everyone listening that during this call there will be made looking forward statements under the Safe Harbor provisions of the Federal Securities Law.

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 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 through the GAAP financial measures in the Company's press release. I will now turn the conference over to Jyoti Deshpande, CEO of Eros PLC. Please go ahead.

Jyoti Deshpande

Good morning, everyone. Thank you for taking the time to attend Eros International PLC's earnings call for the financial year ended 31 March, 2016. This year our focus was to reinforce our strong business fundamentals and leverage our market leadership position and strengthen our balance sheet further.

The year gone by proved our undisputed market leadership in Indian films with the number one, number three and number four films of the box office charts mainly *Bajrangi Bhaijaan*, *Bajirao Mastani* and *Tanu Weds Manu Returns* being Eros films, and 7 out of the top 15 films having an Eros association.

The films were not only commercial successes but also won over 150 awards, including the equivalent of the Indian Oscars and the prestigious national awards. This reinforces our strong greenlighting process, our ability to pick winners, our strong relationship with talent, and our portfolio strategy with Hindi and regional films and underpins our dominant market share.

At the end of Fiscal 2016 Eros Now, our OTT service, had crossed over 44 million registered users

across WAP, APP and web, a growth of 132% from the 19 million users at the end of Fiscal 2015.

While India continues to dominate in terms of numbers we now have registered users across 135 different countries. Last quarter we set a target for 1 million paid subscribers by the end of Fiscal 2017 and we are well on our way to cross it. Our strategy for Eros Now is comprehensive and compelling.

Our content ownership and deep library underpins the Eros Now competitive advantage. Eros Now has rights to over 5,000 films across Hindi and regional and over 250,000 music tracks. Eros Now premiered 26 new release films, which include Eros and non-Eros films since last March till date, out of 72 digital premieres.

There are several originals under development going through rigorous green lighting and market testing, all of them being new genres with four such originals under production.

In terms of product features, we now have off-line viewing or download function live, which will be a huge incentive for conversion to premium subscribers as users don't have to be connected to their Internet to enjoy the content. Especially in India this will be a big unique selling proposition. Apart from this, portability and video progression, high definition and multi-language subtitles are additional features we offer.

Moving on to distribution platforms and customer acquisition strategy. It is very important to understand that India is predominately a B2B market and not a B2C market like the West, especially when it comes to monetization. So tie-ups with telcos and OEMs is very integral to our distribution strategy. We have integration deals with Airtel, the number one telco in India with over 350 million subscribers; and Idea, the number three telco with over 170 million subscribers. We have entered the Malaysian market with similar partnerships with Maxis and U Mobile. We are in discussions with other 4G operators in India and internationally to replicate similar deals.

Moving to the OEM strategy, following our deal with Chinese company LeEco for preload of our Eros Now service on their newly launched smartphones in India, we have now also done a deal with Micromax, the second largest smartphone manufacturer in India. The Eros Now app will be preloaded on Micromax phones exclusively and Micromax anticipates potential sales of 1 million to 1.5 million phones per month.

In line with our platform agnostic strategy we are now integrated on three out of the four main streaming platforms in the world, mainly Apple, Android, Samsung; and the fourth, Roku, is in the pipeline.

In addition, we are integrated on Amazon Fire TV and Chromecast too. This along with smart TV integration means that users around the world can get a seamless experience with their televisions or any other Internet enabled device.

With mobile users slated to cross over 1.3 billion in India by 2020, there are already 300 million smartphones, mainly Android based, in India. And it is expected that by 2020 all mobile handsets being sold in India will be 4G ready smartphones. The future is digital.

Our outlook for FY17 slate is very strong with *Ki & Ka*, *Housefull 3*, *Dishoom*, *Baar Baar Dekho*,

Rock On 2, *Shivaay*, *Banjo*, *Happy Bhag Jayegi*, being some of that notable Hindi films, while *24* and *Singam 3* are the notable Tamil films with *Sardaar Gabbar Singh* leading the Telegu slate. We have a strong pre-sales visibility for the slate with attractive television deals already signed with Zee, Star, Viacom and Sony for some of these films and catalogs in line with our de-risking strategy.

The Company's tactical approach towards capitalizing on the high potential regional markets of Tamil, Telugu, Malayalam, Punjabi, Marathi and Bengali films has further reinforced our reach and scalability in these markets. This continues to be a focus area.

Now for updates on Trinity and the China opportunity. The first IndoChina film written and developed in-house by Trinity to be co-produced with the leading Chinese studio, China Film Group, will be directed by Kabir Khan, who also directed *Bajrangi Bhaijaan*, and will be shot simultaneously in both the languages. We can expect this film to release in FY18. Another IndoChina film, which we internally call the 'Wedding Film', is also in final green lighting process and we'll release this as well in FY18.

Additionally, Prabhu Solomon's Tamil/Hindi bilingual project, a live action elephant film targeting the kids and Jungle Book family audience, a buddy cop film by Krish and a children's action franchise will be going into production this year under the Trinity label. We will be creating comic book deals and games and merchandise for some of these films and unlocking the franchise value. *Bajirao Mastani* will release in China in September 2016 in over 6,000 screens, one the widest ever for an Indian film.

China is expected to cross the US box office next year at \$10.3 billion. With over 32,000 screens it is one of the most prolific film markets in the world.

Our balance sheet strength is evidenced by a decrease in net debt by almost 20%, and increase in cash flow from operations by almost 98.9% from \$118 million in fiscal 2015 to \$234.6 million in fiscal 2016. And free cash flow generation of \$21.8 million in fiscal 2016 compared to negative cash flow of \$159.6 million in fiscal 2015.

Our content library, our Hindi and regional portfolio, our global distribution network, our dominant market share, our OTT first mover advantage with Eros Now, our Trinity and China strategy and our solid balance sheet makes us one of the front runners to capitalize on the opportunities presented by the rapidly growing Indian entertainment sector.

Once again I thank all our stakeholders, analysts and our business associates, including the film industry, for their unwavering support. It keeps us positive, motivated and energized at all times.

With that let me turn the call over to Prem Parameswaran, our Group CFO, who will walk you through our financial performance in much more detail. We will then open the call up to your questions. Thank you.

Prem Parameswaran

Thank you, Jyoti. Good morning everyone and thank you for joining us today.

This year was about executing our long-term growth strategy, solidifying our financial profile and executing on our core business lines. During the last year we made several financial targets for our fiscal year end, and I'm pleased to say we have met each and every one. I will run through those targets and achievements later, but first let me run through the financial highlights for the year.

Revenues for the twelve months ended March 31, 2016 were \$274 million, which represents a modest decrease of 3% over the year-ago period. Revenues for the three month period ended March 31st were \$65 million which represents a decrease of 26% over the year-ago period. We faced a tough comp with last year's 4Q results given we had no high-budget film in this quarter vs. 1 high budget film in 4Q Fiscal '15. In addition, the deliberate sacrifice of short term catalogue revenues during 3Q and 4Q of FY 2016 had an impact on our sales and profit for those quarters. This has allowed us to focus on revenues with shorter collection profiles, increase cash collections and reduce our overall receivables balance.

Our primary revenue streams are derived from three channels: theatrical, television syndication and digital and ancillary. Over the twelve month period, we generated 50% of revenues from theatrical, 26% from TV syndication and 23% from digital and ancillary.

In line with the exceptional performance of our theatrical business, revenue from India increased to \$160m in the twelve months ended March 31, 2016, which made up 58% of the total revenue for that period.

Cost of sales for the year increased to \$173m, compared to \$156m in the prior year period. The increase is primarily due to a slightly higher amortization cost for films driven by mix and cumulative costs due to our growing film library.

The decrease in Adjusted EBITDA across the reported period reflects the changes in cost of sales and in particular the increased amortization charges, as well as higher contribution of theatrical revenue and lower catalogue sales as mentioned earlier.

Last year we set three important financial targets for our fiscal year end 2016: generation of free cash flow for the year, a meaningful reduction in receivables balance and a cap on investment spend of \$225m. We have met or exceeded each of those targets: we generated consolidated free cash flow of \$22m, we brought down our trade receivables balance to \$169m and spent only \$211m on content.

Looking at our balance sheet, gross debt at March 31, 2016 stood at \$312m which reflects a reduction from last year's balance of \$315. We finished the year with a cash balance of \$183m, which means we remain well capitalized and believe our balance sheet is conservative. On a net debt/Adj EBITDA basis our leverage is 1.8x.

Over the twelve month period ended March 31, 2016 we generated \$274 mil of revenue and our net trade receivables decreased by \$29 mil over the same period. Our trade receivables balance stood at \$169m mil as of March 31 2016. We have made good progress on managing receivables down as previously highlighted, currently less than 2% of our receivables are more than 1 year old and 34% are not even due yet.

Thanks for listening and now we can take questions.

Question 1 - Eric Katz, Wells Fargo

You mentioned some of the strategic partnerships earlier with the mobile players in India. Can you again summarize exactly who they are, how many subs they cover? And do you have any, I guess, initial data on conversion rates you are seeing from people who try out Eros Now and decide to sign up as a paid sub?

Answer: Jyoti Deshpande

Sure. So some of the partners I mentioned were Idea, Airtel -- Airtel was one of the first deals that we signed. And we are seeing attractive conversions from these platforms. And the OEM names I mentioned was Micromax, which is a brand-new tie-up, and LeEco, which we announced in the past.

So talking about the telco deals, what we want to do, hopefully in the next quarter onwards, is try and give -- indicate more clearly where we are with regards to the 1 million subs -- paying target subs that have indicated we will achieve by the end of Fiscal 2017.

But for now what I can say is that we are getting extremely encouraging conversions from the telcos. They are spending, for example, a good amount of budget marketing Eros Now on their platforms. Airtel -- if you traveled to India you will see Airtel promotions across the length and breadth of the country promoting Eros Now, *Bajirao Mastani* premier, or etc., on Eros Now on the Airtel platform.

So customer acquisition -- there is a much, very much efficient way of going about customer acquisition where the platforms promote the service. And we think -- we are in talks with other telecom operators as well other than Airtel and Idea and you can guess who they are.

So, we hope to conclude those deals also in the forthcoming months. So we think in terms of prescriber contribution that telecoms and OEMs will play the dominant role in customer acquisitions and then followed by the B2C which will be a smaller part.

Further question

Okay. And I believe you mentioned earlier there was 125 countries with users right now. Do you have an actual amount for the international users? I am not sure you have a sub number there that you can help with. And then also I am not sure, did you guys start the marketing campaign overseas yet or is that on the way?

Answer: Jyoti Deshpande

No, so we are still doing the digital marketing campaign. So it is not a blitz on -- we are doing television campaigns as well, but you'll probably not see them because they're on Zee TV or other Indian channels.

But the marketing has started and we were waiting for the off-line feature to go live which has now gone live and we are seeing good conversions from the off-line viewing as well because it is something that people like to have where they do not have to be connected and be streaming the content while they are watching it and they can actually download it and watch it. So this is a very important feature.

In terms of numbers that you asked, so India, verses overseas, is still dominant in India. Overseas is a much smaller number in terms of registered users. But in terms of paid conversions, we are seeing conversions from the overseas markets as well.

Further question

I guess one last question. You have done a pretty good job of working down the accounts receivable. Going forward do you plan on structuring some of the contracts differently so maybe you can collect cash quicker, maybe keep the accounts receivable down once you start booking new content sales?

Answer: Jyoti Deshpande

Yes. So, Prem alluded to that as well in his speech and that is exactly what we are doing. We will keep our smaller deals, more deals during the year and give shorter payment terms, even shorter than a year so that we can collect these and we won't have a situation where accounts receivables balloon again.

Closing remarks: Jyoti Deshpande

Thank you very much everyone for taking the time to attend this call. We value your support and look forward to talking to some of you again. Bye.