

Mossberg's Investor Digest

Best Idea Profile:

DHX Media Ltd. (TSX:DHX.TO)

DESCRIPTION:

DHX Media is a leading international family entertainment rights creation and management company, with 300 TV series on the air in more than 150 territories. DHX's primary focus is on children's, youth, and family productions because of the international sales potential and long-term and multiple revenue streams that this genre of programming provides. DHX owns the largest independent library of children's content in the world with more than 8,500 half-hours of programming and is the number one supplier of children's content to Netflix. DHX has created children's television shows including well-known brands, such as Yo Gabba Gabba!, Kid vs. Kat, Rastamouse, and Super WHY!. It is increasingly involved in the development, production, and distribution of interactive content in various digital platforms, including websites, online video interfaces, and online games. DHX was incorporated in 2004 and is based in Halifax, Canada.

KEY INVESTMENT CONSIDERATIONS:

Transformational Acquisition – In October 2012, DHX Media acquired Cookie Jar Entertainment creating the largest independent library of children's entertainment content in the world. It was a marriage of complementary strengths giving the Company greater diversification, enhanced merchandising opportunities, enhanced global distribution capabilities, and a complementary content portfolio. It also expanded digital capabilities, added to the Company's negotiating leverage with broadcasters and enabled the ability to leverage the licensing platform in Europe. The cost synergies are expected to add C\$8 million in EBITDA in 2013.

Expanding Digital Distribution – With increased scale and capability, DHX is better equipped to benefit from the exploding delivery of digital content. Video-on-demand traffic for the industry is expected to triple by 2016. DHX's digital dominance unlocks increased value of the Company's content library because of global appeal, infinite shelf space and the fact that digital content does not become stale. The acquisition broadened relationships with distributors including Amazon, Comcast, DISH, Hulu, Netflix, Samsung, Telmex and Vivendi.

Stock Likely to Achieve Greater Exposure – The Company is likely to pursue a listing in the U.S., which would increase awareness and visibility to the stock and possibly increase investment coverage.

Solid Financial Strength – Post-acquisition, DHX has improved revenue balance that results in a greater proportion of revenues coming from higher margin segments. The Company also improved its capital markets profile, and increased cash flow visibility and consistency. Trailing 12-month revenue is up 70% since fiscal 2010 and EBITDA has more than doubled in that period and is approximately C\$30 million proforma for the trailing twelve months.

Well-Established and Emerging Brands – DHX Media's content library includes some of the world's most recognizable series: Cailou, Inspector Gadget, Richard Scarry's Busytown Mysteries, Yo Gabba Gabba! and Johnny Test. The Canadian government gives tax breaks to companies that create shows in Canada, giving DHX an advantage over competitors. The Company has a lot of content that can be repurposed and resold at very low incremental costs and significant contribution margin.

VALUATION:

Recent Industry acquisitions of content media companies by major players were made at 9 to 10 times EBITDA. For example, HIT Entertainment was recently acquired by Mattel for 9.5x TTM EBITDA. With a post Cookie Jar EBITDA potential of approximately \$30 million or more, DHX Media shares could be worth 2x to 3x their current value based on a take out valuation

DHX Media Ltd. (TSX:DHX.TO)

Investment Data (as of 1/12/13)

Recent Price	\$1.86
52-Week Range	\$0.71 - \$1.98
Fiscal Year End	June
Dividend	NA
Yield	NA
Shares Outstanding	53.1 M
Average Trading Volume (3 mos)	146k
Market Capitalization	\$99 M
Cash	\$20 M
Long-term Debt	\$31 M
Enterprise Value (EV)	\$111 M
Book Value	\$1.49
TTM Revenue	\$69 M
P/ Revenue	1.5
TTM EPS	\$0.04
P/ EPS	46.8
TTM EBITDA	\$7.7 M
EV/ EBITDA	14.5

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.