



FL/ENTERTAINMENT

FL Entertainment Q1 2023 results Conference call

30 May 2023

List of MAIN speakers	Company	Job title
Caroline Cohen	FL Entertainment	Head of Investor Relations
François Riahi	FL Entertainment	CEO
Sophie Kurinckx	FL Entertainment	CFO

Q1 2023 results – May 30th, 2023

Caroline Cohen

Head of Investor Relations

Good evening, everyone. This is Caroline Cohen, Head of Investor Relations, and welcome to FL Entertainment Q1 2023 results webcast.

DISCLAIMER

Before we start, let me draw your attention to the disclaimer on slide 2. I also want to remind you that this presentation is available on the company's website, and a replay of this call will be accessible in the coming days.

TODAY'S PRESENTERS

Your speakers today are François Riahi, CEO; and CFO, Sophie Kurinckx.

AGENDA

First, you will hear from François, who will talk through our key financial highlights for the period, followed by a quick business update. Sophie will then go through the financials in more detail, before François provides some concluding remarks. Over to you, François.

Q1 2023 KEY HIGHLIGHTS

François Riahi
CEO

Thank you, Caroline, and welcome and thank you, all, for joining us on this call.

I will start with the fact that FL entertainment has enjoyed a very good start to 2023.

CONTINUED MOMENTUM IN Q1 2023

This was built on a solid group financial performance, driven by both businesses. Sophie and I will both elaborate a little bit about the key trends during this presentation.

In content, production and distribution, we saw a strong level of activity globally and with some remarkable successes with streamers, demonstrating the appeal of our unrivalled multi-format geographic and language capabilities.

In 2022, Q1 and Q2 both benefited from higher levels of activity due to the post-COVID catch up; it's an important element of course when we look at the comparison between Q1 2023 and Q1 2022, because we have a high basis for comparison for our Q1 2023 results in our content, production and distribution. Usually in this business, Q1 is lower than the other quarters.

in Q1 2023, we saw the return, which was expected, of normal seasonality, and our performance is fully in line with expectation, and we are very satisfied with the underlying activity.

On the online sports betting and gaming side, the good performance was driven by the high level of unique active players, following the football World Cup that we mentioned last time.

In April, we successfully extended by three years an important component of benefit debt, while also securing new financing. Sophie will explain more, but this is an achievement of the year so far and a clear demonstration of our financial strength and flexibility as a highly cash-generative business, as well as investors' appetite for our business model.

CONTINUED MOMENTUM IN Q1 2023

Now, in terms of our figures, we saw a solid performance, powered by the two businesses. Revenues were up by 1.1%, a little bit more when you look at the fixed currency rates, and this reflects the growth in sports betting revenues and the effect of a return to normal seasonality in the content production industry. Again, we already mentioned that during the past quarter there was a catch-up effect in Q1 2022.

In 2023, we will see a return to normal seasonality in content production and distribution. This usually means higher revenue in H2 than in H1, and last year was different, due to COVID. Some productions had been delayed, and we had a lot of deliveries in Q1, which is not usual.

I will talk about some of the drivers of the online sports betting and gaming side shortly, but revenues were up almost 15%. Adjusted EBITDA was flat, while adjusted net income was up over 5%, and we maintained our high level of cash conversion, also with stable leverage.

Before Sophie takes you through the numbers, I want to talk through some key business highlights in the first quarter.

STRONG QUARTER WITH STREAMERS CONFIRMING STRUCTURAL TRENDS

Let's start with content production and distribution activities. Our linear broadcaster activity remains very strong, with major new scripted and premium factual series, as well as local relaunches for our super brands IP. We are an attractive partner to both linear broadcasters and streaming platforms, thanks to our diversified offer, our flexible approach to IP, our strong multi-market and language capabilities. It is very important for us in our business model that we are an independent player and agnostic to distribution channels.

Now, I want to focus a little bit more about streamers, because a key trend visible for Banijay in Q1 has been strong activity with streaming platforms; GLOBAL, like Netflix, Amazon or Disney + or Paramount +, or more regional or local, like videoland for example or ITV X.

If you remember from the full-year, revenues from streamers were up 60% compared to 2021. In this competitive landscape and in the current economic context, streamers, as you know, are looking more closely at their offer and spend, and this is creating opportunities for us, which come by two ways: one is that in this more constrained budget, there will be, we believe, a surge in demand for non-scripted, because non-scripted has a very good value for money, and we have strong arguments when it comes to unscripted.

The second element is that, in this context, it's easier to find agreements about IPs, and as you know, we are very cautious about retaining IP rights, and these discussions with streamers, some of them have been difficult in the past. And the context makes them, I would say, easier. So, for these two reasons, we see real opportunities in the context.

In Q1 2023, we delivered a number of new successful shows which demonstrate the breadth and flexibility of our offer I will name a few of them: Last One Laughing, or LOL, has become a real hit on Amazon Prime Video. The French version has become the best launch for an unscripted original on the Amazon Prime Video platform. And we are producing new seasons in France, and also producing Italian, Spanish, Mexican, and Australian versions, which is a good example of how our geographical reach is meaningful to these global clients.

On the premium scripted side, The Rig, also for Prime Video, was a popular show on the platform and will be returning for a second season, while in Italy, The Law according to Lidia Poet, which is inspired by the true story of Italy's first female lawyer, is now the best Netflix launch ever for an Italian series. So, clearly you must watch. Lidia Poet was also produced by Greenland, which is interesting as you may recall that it's one of our 2022 bolt-on acquisitions.

I could also mention some other programmes, but I think it's interesting to see how things evolve with streamers, and we will continue to improve and diversify our content offer as a valuable partner for both linear broadcasters and streaming platforms.

When it comes to bolt-on developments, you may have seen that we acquired during Q1 a majority stake in leading Brazilian studio, A Fábrica, well-known as a producer of many of the nation's top scripted series and films. Its content can currently be found on major networks and streaming platforms.

ONLINE SPORTS BETTING AND GAMING: SUSTAINED GROWTH IN Q1 DRIVEN BY UNIQUE ACTIVE PLAYERS

Now, turning to online sports betting and gaming now. At the full year, we talked about the positive impact of the football World Cup on our Unique Active Player levels, which is, in our view, the most important metric and the main driver of growth for this industry. This positive impact carried through into Q1 with new IDs up 42% year on year. This resulted in double-digit revenue growth across all activities, a performance that also reflected greater game mitigation as well as the positive effect of new exclusive games. Sports group growth was strong, and actually we had some unfavourable football results in February, like all the industry, and despite that, the growth in sports book has been very good.

Actually, every quarter, we mention that too, because to prepare the idea that there's some volatility that can come with sports results, and this was the case in February, where I would say, the statistical results in sports were very unusual and were felt across the entire industry. And again, despite this, we achieved an almost 15% growth of revenues, which shows the strength of our business.

As a business, we will continue to capitalise on these increased player numbers, which bring a greater diversity and create greater long-term sustainability.

The key focus for this business is also ensuring the highest standards for responsible gaming, and as you can see, the proportion of revenue generated in locally regulated markets was over 98% in Q1, 98% in Q1, so I think this is a clear strength of the betting business, almost 100% of regulated, which is really a top achievement in the industry, and 100% online revenues, and these two elements are key to ensure the highest standards for responsible gaming.

That's all from me for now. I'll be back at the end, but I leave the floor to Sophie. Over to you, Sophie.

REVENUE GROWTH IN Q1 2023

Sophie Kurinckx

CFO

Thank you, François. Let's start with the group revenue, up 1.1% in absolute terms, reflecting the return to normal seasonality, as expected, in content production and distribution, and strong activity in online sports betting and gaming. So, for business of content, as François mentioned earlier, normal seasonality here means higher H2 than H1.

As a reminder, in Banijay Q1 2023, revenues are lower than Q1 2022 revenues because of the strong post-COVID catch-up we saw in the early part of last year. We expect these higher 2022 comparables to continue in Q2.

ADJUSTED EBITDA PERFORMANCE IN Q1 2023

Looking at Adjusted EBITDA, external expenses rose by 4.7%, reflecting higher betting taxes on sports betting. Given the increased activity, personnel expenses were down almost 5%, demonstrated the flexible cost structure of content production and distribution that allowed them to adapt to a lower level of activity. On that basis, adjusted EBITDA is almost flat compared to 2020.

CONSOLIDATED P&L IN Q1 2023

Looking next at our consolidated P&L, LTIP and employment-related earn-out and option expenses are up as we implemented new LTIP in both businesses. The increase in other finance costs is mainly explained by the change in fair value of financial instruments. As a result of the above, adjusted net income rose by 5.3% to €70 million.

CONTENT PRODUCTION AND DISTRIBUTION REVENUE IN Q1 2023

Looking next at results by business, starting with content production and distribution. Revenue was down just over 3% in absolute terms, primarily reflecting the return to normal seasonality compared to Q1 2022, where higher activity reflected the catch-up after the COVID period, as reflected by the variation of production revenue.

Overall activity remains solid, driven by a continued comprehensive and well-adapted offering, with firm demand from both linear TV and streaming platforms, as François mentioned earlier. This was reflected in distribution revenues, up almost 19%. Overall the number of content hours at the end of March 2023 increased by a further 4% to around 167,000 hours, compared to 160,000 hours in December 2020.

CONTENT PRODUCTION AND DISTRIBUTION EARNINGS AND CASH FLOW

Looking at content production and distribution earnings next, where Adjusted EBITDA was down, reflecting the return to normal seasonality. The other key impact of the return of normal seasonality was the working cap, reflecting the high level of short deliveries in Q1 2022.

ONLINE SPORTS BETTING AND GAMING REVENUE

On slide 17, we show online sports betting and gaming revenues, which were up 14.5%, reflecting the trends outlined by François earlier, with double-digit growth across all activities. Bet-at-home revenues have stabilised. In February, the Bet-at-home group rolled out its new betting and gaming platforms in Austria, which is expected to benefit all countries from 2022 to 2023 onwards.

Adjusted EBITDA for online sports betting and gaming was up 8%, while the business delivered record adjusted free cash flow generation of 95%.

FL ENTERTAINMENT: FOCUS ON CASH FLOW GENERATION

Adjusted free cash flow reached €119 million in Q1 2023. This was driven by the business performance as well as tight control of cash expenses and capital expenditure. This resulted in a cash conversion rate, after CapEx and lease payments, of 83%. Adjusted for changes in working cap, which reflect the return to normal seasonality for content production and distribution and income tax paid, our adjusted operating free cash flow was €67 million in Q1 2023.

SOLID FINANCIAL POSITION AS AT 31 MARCH 2023

The group's net financial debt remained broadly stable versus 2022 year-end figures. The financial leverage ratio remained stable at 3.1x. We have a strong cash position, in addition to a significant undrawn secured credit line.

As mentioned by François, the key highlight was the successful refinancing of Banijay's two Term Loans B in euros and US dollars to extend the maturity of this part of the debt by three years to March 2028. The transaction was more than two times oversubscribed and placed with high-quality institutional lenders. Thanks to this owner subscription, Banijay also raised new financing in euros and in US dollars to finance its future growth. In total, Banijay has refinanced and raised an amount close to €1.1 billion, while also extending the maturity of its €170 million RCF by three years to September 2027 at Euribor plus 3.75%. This demonstrates the group's financial strength and flexibility as a highly cash-generative business.

That's all from me. I will now hand back to François for some concluding remarks.

OUTLOOK

Thank you, Sophie. Just a few words in conclusion.

DELIVERING CONTINUED PROFITABLE GROWTH IN 2023 AND BEYOND

We've seen a very satisfactory start to 2023. Our financial performance is in line with expectations, and we explain to maintain momentum across both businesses going into Q2.

For content production and distribution, we will continue to see strong activity with all our clients and notably with streaming platforms, we will see the continuation of normal seasonality, and we will benefit progressively from the growth of the bolt-on acquisition delivered in 2022.

For online sports betting and gaming, performance has been very positive, and the main driver of this is player numbers, which is very healthy. We will continue to focus on attracting and retaining the players, which will drive growth across all activities, and we are, as always, ready to capitalise on further external growth opportunities.

All in all, we are fully on track to continue to demonstrate our proven ability to deliver profitable growth at scale, and therefore I can confirm our 2023 guidance and mid-term objectives that we presented to you with the full-year 2022 results.

Thank you, and back to you, Caroline.

Caroline Cohen
Head of Investor Relations

Thank you, François. It's now time for any questions. Please, can I just ask you to state your name and company, thank you. And I now hand over to Roberto, the operator.

QUESTIONS AND ANSWERS

Operator: Ladies and gentlemen, we now begin the question-and-answer session. If you wish to ask a question, please press *11 on your telephone. We are now taking the first question. Please stand by.

The first question from Aaron Watts from Deutsche Bank. Please go ahead. Your line is open.

Aaron Watts (Deutsche Bank): Hi, everyone. Thanks for hosting the call today, and all the detail. Just two questions from me. It would be great to hear your latest thoughts on the ongoing writers' strike here in the US, how long that would need to drag on before it impacts you in a material way. And relatedly, as the stand-off continues, are you seeing any shifting of spend from scripted into non-scripted that may play in your favour?

And then, secondly, I would appreciate an update on the M&A pipeline at the moment, and whether the current macro and media sector backdrops are acting to suppress or stimulate activity there.

Sophie Kurinckx (FL Entertainment): Regarding the first question, on the writers' strike in the US, in fact Banijay is not producing any scripted shows in the US so we are not impacted at all by this strike. It's already even an opportunity as our customers will maybe have to switch to the non-scripted shows as long as there is this strike.

François Riahi (FL Entertainment): On your question about the shift, that's something that we think could happen, yes.

On the M&A, yes, we are always active in looking at what is going on and what could be actionable, and we consider that the current situation, the current context, is rather favourable. We expect to have some opportunities in the coming months. We are monitoring very closely how it goes, but yes, we believe that the macro context could lead to opportunities.

Aaron Watts (Deutsche Bank): OK, thank you very much.

Operator: Thank you for your question. We are now taking the next question. Please stand by. And the next question from Conor O'Shea from Kepler Cheuvreux. Please go ahead. Your line is open.

Conor O'Shea (Kepler Cheuvreux): Thank you. Good evening, everybody. A couple of questions from my side as well. François, you mentioned - and Sophie - the tough comps on the production side, on the content business, which we're seeing for other peers. I was just wondering, into the second half, do you see a risk from some of your clients cutting spend, the free-to-air TV companies, tactically in a weak advertising market? Have you seen much in terms of a pick-up in project cancellation or delays so far this year?

And the second question - and I may have missed a number - I think, François, you said about the growth in revenues from streaming platforms, particularly within distribution - if you can just repeat that number - and also whether the higher growth from distribution - if you can remind us - is that margin-positive in terms of the mix, are the margins of distribution higher than in production, and if that was a factor in the first quarter?

And then, the last question, just in terms of Betclit, you mentioned building a base and lots of new clients and users in the fourth quarter around the FIFA World Cup. Can you give us a sense of what degree of retention of those new clients you've been able to hold onto in the start of 2023?

François Riahi (FL Entertainment): On your first question, as you mentioned, within the industry, it's a question of tough comp. That's a good problem to have, because in 2022 we enjoyed a 16% growth of our revenues; it was a very strong year, and also benefiting from this impact of COVID on 2021. So, it has an impact on the comparison, but no, we are not worried for the rest of the year. That's why we are maintaining or reaffirming our guidance. We were expecting a slight decrease in our revenues in Banijay at this quarter because of this comparison base, and what we see, of course, we see we are fully in the market, and also the market is not different from what we were expecting in 2023.

On advertisement, *et cetera*, clearly, we don't have the type of discussions you were mentioning with our clients, in terms of cancellation and delays and so on. That's why we are confirming our guidance, because we are not worried for the rest of the year, and we see things that are evolving as we were expecting them to evolve on the production side.

On your second question, we are not giving evolution on the client base, quarter after quarter; we gave it as a full-year. The number I was mentioning was about the evolution between 2021 and 2022, and this was a 60% increase in our revenues. We don't expect to hold to this pace, but we expect as a business with streamers to fuel our growth.

And on the third question, yes, of course, the FIFA World Cup is a very important driver for the increasing number of players. When you look at Q1 2023 compared to 2022, I mentioned a 42% increase in the number of players; that's a very strong evolution. Of course, the FIFA World Cup has been important, but after that, it's a question of retaining the players, and on that, we really rely on the very good technology. Our application, Betclix, has the best ratings in the countries where it operates, so we are confident that, once people are using our platform, the level of retention is quite good.

Conor O'Shea (Kepler Cheuvreux): OK, thank you. Yes, please, Sophie? It was on the margin, on the distribution. If you could just confirm that, please, that would be great. Thank you.

Sophie Kurinckx (FL Entertainment): Yes, you're right, the margin on the distribution is higher than on production, and it has been factored into these Q1 results. What is important to note also is that, in production, the part of the scripted shows has been higher than last year, and as you know, the margin realised on the scripted shows is lower than on the non-scripted shows, so it comes to offset this increase of the margin done by the distribution. That's why you have an EBITDA margin stable.

Conor O'Shea (Kepler Cheuvreux): OK, understood. Thank you. Many thanks.

Operator: Thank you for your question. We are now taking the next question. And the next question from Lily Danson from Barings. Please go ahead. Your line is open.

Lily Danson (Barings): Hi, good afternoon. Thank you for taking my question. I just wondered, Sophie, whether you had any updated thoughts to share with us with regards to refinancing activity with the secured debt at Banijay, and whether that is likely to be at FL Entertainment level or at Banijay level, as in the case of the loans? Any updated comments on refinancings would be helpful.

Sophie Kurinckx (FL Entertainment): Of course, following the successful refinancing of part of this debt, we still have in mind that there is a remaining part that we need to refinance. We are currently looking at the different opportunities we have within the group. We are not excluding something at FL level, even if we think that it is maybe more relevant at Banijay level. We don't know yet when we're going to launch this process on the remaining part of the debt. But, of course, we are currently thinking about it.

Operator: Thank you for your question. We are now taking the next question. Please stand by. The next question for Ellyse Kostoglou from Wellington. Please go ahead. Your line is open.

Ela Kurtoglu (Wellington): Hi. Thanks for taking the question. I just wanted to clarify: you mentioned the normalisation in the Banijay business in the first quarter, which you expect will continue in the second quarter. You also confirmed the 2023 guidance, which is for mid-single-digit growth in revenues. Can you clarify: does it mean first-half revenues you expect will be down, but then, second half, you're going to more than make up for it? Is that the guidance you're confirming, basically? Thank you.

François Riahi (FL Entertainment): Thank you. The guidance we are confirming is the one we gave at the full-year results, which is mid-single-digit growth for content production and distribution activity, and double-digit growth for the sports betting and gaming, with an Adjusted EBITDA of around €710 million at FL Entertainment level. So, it's really all our guidance that we are reconfirming, also the mid-term outlook. What we expressed is the fact that we are coming to more normal seasonality for content production distribution, which means that you should expect the H2 revenues for this business to be higher than H1. Again, the guidance we gave is reconfirmed - mid-single-digit organic growth.

Ela Kurtoglu (Wellington): I understand, thank you. I was just trying to clarify the second half of this year, specifically on the Banijay level, the content production business, basically, not at the whole group level, but more of the content production. Thank you.

Operator: Thank you for your question. As a reminder, if you wish to ask a question please press *11 on your telephone. We are now taking the next question. And the next question from Jamie Boss from Redburn. Please go ahead. Your line is open.

Jamie Boss (Redburn): Evening, everyone. Just two questions from me, please. Firstly, going back to what you were saying on the Banijay margins and the unscripted versus scripted, are you saying that, as we move through into H2, that you'll see a higher proportion of unscripted shows and that's what's going to influence the margin uplift?

Second question: it's just whether you can give us a guide on what your visibility is at Banijay level, again, for 2023, at this point, whether you have a fear on how much of your revenue is already locked into the year. Thank you.

François Riahi (FL Entertainment): OK, maybe I'll take the last question; I'll leave the first for Sophie. Again, I just gave the guidance on the Banijay revenues for 2023. I don't have the figure of how much is locked today, but based on our experience and what we see in the different countries and with our different clients, we reconfirm our guidance, which is mid-single-digit growth in 2023.

Sophie Kurinckx (FL Entertainment): And just to remind you, we are quite confident in this guidance. And, as you know, around two thirds of our revenues are coming from returning shows. This is usually what we've seen in the past, and what we see also this year. So, we are confident with this guidance.

On the Banijay margin, I don't know if I understood properly your question, but the margins on the unscripted shows are usually higher than on the scripted shows. And in Q1 2023, the proportion of scripted shows has been higher than in Q1 2022. That explains the lower margin on the production side, but on the other side, the portion of the distribution revenue increased with the higher margin

rate, so it offsets this impact coming from the production revenue. That's why you have a stable EBITDA margin compared to last year.

Jamie Boss (Bredburn): OK, got it. Thank you.

Operator: Thank you for your question. There are no further questions at the moment. I will now hand back the conference over to Caroline for closing remarks.

Caroline Cohen (FL Entertainment): Thank you, Roberto. We are fine; we no longer have any questions, so I think that we can conclude. Thank you, everyone. Thank you for the call, and don't hesitate if you have any follow up questions to contact us. Thank you.

François Riahi (FL Entertainment): Thank you very much. Thank you.

Operator: That concludes the conference call today. Thank you for participating. You may now disconnect..