FL Entertainment Half-year 2023 Results

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List of MAIN speakers	Company	Job title
François Riahi	FL Entertainment	CEO
Sophie Kurinckx	FL Entertainment	CFO

OPERATOR

Good day, and thank you for standing by. Welcome to the FL Entertainment Half-year 2023 Results Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press *11 on your telephone. You will then hear an automated message advising your hand is raised. To withdraw your question, please press *11. Alternatively, you may submit your question via the webcast. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Carolyn Cohen. Please go ahead.

H1 2023 RESULTS

Caroline Cohen
Head of Investor Relations

Thank you, Sandra. Good evening, everyone. This is Caroline Cohen, Head of Investor Relations. Welcome to FL Entertainment's H1 2023 Results Webcast. Before we start, let me draw your attention to the disclaimer on slide two. 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. Your speakers today are François Riahi, CEO; and CFO, Sophie Kurinckx.

AGENDA

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

H1 2023 RESULTS

François Riahi
CEO

Thank you, Caroline. Good evening, everyone, and thanks for joining us on the 2nd of August.

Strong business performance and strategic expansion in H1 2023

I'm very happy to present to you very strong first-half results that demonstrate once again the strength of our differentiated and complementary business model.

On the content production and distribution side, we enjoy a very positive momentum powered by our unmatched multi-format global content production and distribution offer. The period also saw some exciting corporate activity with strategic expansion of our entertainment offer into the highly complementary arena of live events production. On the online sports betting and gaming side, double-digit revenue growth across all segments was driven by our ability to capitalise on an increase in the number of unique active players.

Solid financial performance in H1 2023

So, when we move to the main figures of the first six months of the year, we are very pleased and proud of these strong financial results. Revenues were up 8% – a very positive outcome given the impact of the post-Covid recovery on H1 2022, which gave us higher comparative figures for the first half of 2023. Adjusted EBITDA was up 10%, while adjusted net income was up 24%. Importantly, we maintain our high level of cash conversion at 84%. Our financial leverage ratio was 3.3x as of 30 June 2023 due to the seasonality of cash payments primarily related to our dividend and in part the acquisitions we completed. It is expected to return to 3.1x at year end pro forma these acquisitions.

Q2 2023: outperforming the market on revenue growth

If we take a closer look at Q2, we see it was a particularly strong quarter with group revenue growing by over 14% versus the same quarter last year. Revenues grew by over 33% for online sports betting and gaming and 9.1% for content production and distribution. It seems clear to us that both businesses outperformed their market.

Content production & distribution:
Strong, diversified IP and global production capabilities set business apart

Let's zoom a little bit on content production and distribution in the context of tougher operating conditions for our clients in terms of advertising revenues or subscriber numbers. Our positioning, our unrivalled geographic footprint and IP catalogue allows us to be even more the premier partner for broadcasters and streamers. I'll focus on three areas to illustrate how our offer differentiates itself in this context.

The first element is our iconic superbrands. Our superbrands are always in demand from both broadcasters and audiences. Big Brother presents in over 30 territories and still breaking new ground with a new version in Chile in addition to a major return to UK screens. Lego Masters expands into two new territories, Survivor is returning to Argentina, Deal or No Deal in Spain, so you can see that in today's context, these superbrands are still performing and expanding. This is linked to the fact that they are, I would say, clear audience drivers and they are even more looked for when you need to secure audiences.

The second element is our ability to monetise our powerful IP by adapting successful formats for multiple markets. Here again, like for our superbrands, in tougher times, broadcasters are more risk adverse and are looking for guaranteed winners. So a partner with a global offer like Banijay that can bring hits from other markets, represents a compelling offer. We have a lot of examples here. I'll give a few of them. We are adapting Banijay Italia's game show 100% Italia in France for France 2. Star Academy, which has been a big success in France and of course will give place to a second season, has also been picked up by Reshet 13 in Israel. Good Luck Guys, another unscripted hit in France is now being produced for Amazon Prime in Norway, Denmark and Sweden and the Netherlands.

And on the scripted side, an example also, the powerful French drama, Serial Lover, has been acquired by Spanish broadcaster Atresmedia. So, the capacity to have a circulation of our IP is a strong differentiating factor in today's environment.

The first driver is the increased demand from streaming platforms for our high-quality programming. As you know, one or two years ago we were starting from a low base when it comes to business with streamers because it was not a perfect match between what they were requesting and what we could offer and what we didn't want to do. And what we see is a trend where we are doing more and more with streamers and it fuels our growth. There are different elements, different parts in this rising demand from streaming.

First, is the fact that streamers have more and more appetite for non-scripted programs. I'll give you two examples of very successful non-scripted shows we are delivering for streamers. One is for Amazon Prime. I mentioned already LOL last time, that we are producing with success in several countries for Amazon Prime. Now we will also produce Popstars, the world's first music reality competition, which was not on screen in France for more than two decades and is returning on Amazon Prime. I think it's telling of how things are changing for streamers.

Another example of an unscripted program that is very successful on Netflix is Deep Fake Love. But in addition to that, there's also a rising demand from streamers for non-English language scripted shows, and I'll mention two of them: Lidia Poët on Netflix, which has been a real success and is coming back, and Culpa Mia on Prime Video. Culpa Mia is the platform’s top travelling, non-English local original with more than 75% of its viewership coming from outside its country of origin. And as the number one producer of scripted content in Europe, the ongoing writers and actors strikes in the US creates further potential demand for our content.

Trusted partner to broadcaster and streamers

It is better said by our clients themselves. So, we collected in the recent public statements what they said to underline this evolution of the demand. Non-scripted content is now a key editorial pillar, both in terms of new and returning shows. It is recognised as cost-effective output that drives advertising sales and viewer retention, and as the leading creator of this content, we are their recognised partner. This is a great opportunity for us. It could also benefit from the strikes in the US.

Netflix has also confirmed the growing popularity of non-English language titles, even in the US, which has traditionally not been that receptive. We are totally agnostic when it comes to the content distribution channels. So, what counts most is the demand for content by the audience, and we want to be well recognised as a go-to partner both for broadcasters and streamers.

Online sports betting & gaming: very dynamic first semester 2023 driven by successful strategy execution across our core countries

Turning to online sports betting and gaming now where our strong performance was driven by the successful execution of the group's growth strategy. It was a very dynamic first half of the year, including new strategic partnerships and enhancements to the platform. Unique, active players is the most important metric for this industry and the main driver of sustainable growth. The football World Cup creates a peak in player numbers. The focus is then on retaining the players. Today's results show you that we were able to capitalise on the UAP, unique active players, we attracted during the World Cup with an increase by 36% in H2 2022 compared to H1. This cannot be achieved without a quality platform and this performance also reflects greater gamification as well as the implementation of new features such as instant payments in France.

These elements drove double-digit revenue growth across all activities: sports betting, casino, turf poker. This performance is achieved while we are even stricter on responsible gaming. The proportion of revenue generated in locally-regulated markets reached over 98%, actually 98.5% in H1, and we remain fully committed to ensuring the highest standards for responsible gaming everywhere we operate. This level of 98.5% is one of the highest in the industry.

In July, we also signed two strategic football partnerships. Betclic was named as the official title sponsor of Portugal's top flight football league, Liga Portugal, which will be renamed until 2027 as Liga Portugal Betclic. Betclic has also signed a partnership with the Ruch Chorzów SA Football Club – sorry for the accent – in Poland, one of the largest and most engaged fan communities in this key market. This illustrates the diversity of our geographies, which has been a key element in our success on the first half of 2023.

Strategic investments in live events production

I'd like to move now to our M&A activity in the first half. In June, we created Banijay Events, a new offering that delivers on our wider strategy to become an integrated global entertainment leader. The rationale of this new development is threefold. One, this sector has significant growth potential, having rapidly bounced back post-Covid to meet demand for in-person experiences. Two, the sector remains largely unconsolidated and aim to capitalise on our proven entrepreneurial approach. Three, live event production shares a lot of common DNA with Banijay: a decentralised model, a B2B focus in the creative space, a cost-plus pricing model, and high levels of cash generation.

For these reasons, we think we can replicate Banijay’s success in TV production in live events productions. That's why we have founded Banijay Events, which will be led by François de Brugada, who has been instrumental in building Banijay since inception. To achieve this goal of value creation, we are proud to have been chosen by two fantastic companies with a very good track record of growth and profitability that lead their respective segments. This gives us a very robust base to deliver growth and I'll say a few words on each of them.

Balich Wonder Studio: sector leader in iconic live events

Let's start with Balich Wonder Studio. Balich has delivered impressive organic growth over the past ten years to become a prestige live event creator and service provider tapping into a broad range of institutional ceremonies and brand experiences. Balich is the go-to for premium live entertainment events and organised Olympic Games opening and closing ceremonies in Rio in 2016, Tokyo in 2020, and of course, Paris in 2024. Same for last football World Cup, where they have delivered opening and closing ceremonies. It also delivers large-scale events for brands and organisations, including for top brands such as Louis Vuitton, Formula One, Ferrari, Dolce Gabbana and Bulgari. Balich is a global business with operating offices in 20 markets across Europe and the Middle East, which is one of the fastest growing and most important regions for the high-end event management industry. It is already a sizeable business with revenues around €315 million in 2022. We are acquiring a majority share alongside founder Marco Balich, and we have the option to progressively increase our holding.

The Independents: leading global marketing and communications group for luxury and lifestyle brands

The second development is the acquisition in June of a stake in The Independents, a global market leader in live events, branded content and influence management. This is a highly profitable business with globally-diversified revenues and strong cash flow generation. It is successfully integrating agencies all over the world that enrich their offer to luxury and fashion brands. These agencies such as K2, which is headquartered in China; Bureau Betak, headquartered in Paris; Project in the US and The Qode in the Middle East have an unparalleled reputation and recognised execution of quality and can deliver first-category shows to luxury and fashion brands, including, of course, LVMH, Kering, Richemont or Chanel. And The Independents enjoy a strong position at the crossroads of two worlds, enjoying sustained growth, live events and luxury markets.

We are investing alongside investment firm TowerBrook and together we will support The Independents ambition to more than double its size by 2025 via acquisitions and dynamic organic development. It comes with the option to become a majority shareholder in 2026. This investment further demonstrates our ability to source and capitalise on fast-growing segments of the global entertainment industry. That's all from me for now, and I'll leave the floor now to Sophie. Over to you.

H1 2023 FINANCIAL RESULTS

Sophie Kurinckx
CFO

Thank you, François.

Robust revenue growth in H1 2023 illustrating Group's differentiated model

So let's start with Group revenue. Up to 7.9% at constant FX rate and 6.8% at current FX rate. This reflects a positive contribution from content production and distribution business, up 3%, even with the higher comparables across the period, as mentioned in the last call we had on Q1, and a very strong online sports betting and gaming performance with revenue up 23%. As François mentioned earlier, this reflects higher unique active player numbers and our high-quality product offering. In Q2, group revenues were particularly strong, up 14.2% compared to last year.

Adjusted EBITDA performance in H1 2023

This positive performance was reflected in our adjusted EBITDA, which is up 10%. At a Group level, external expense rose by almost 15%. This primarily reflects an increase in betting tax paid in online sports betting and gaming in line with the increase in revenue in this business. Secondly, in content production and distribution business, we saw an increase in external expense due to a change in the allocation of costs related to external staff and freelancers. This reallocation is consequently reflected in the 6% decrease in personnel expense in this slide.

Consolidated P&L in H1 2023

Looking next at our consolidated P&L. LTIP and employment-related earnout and option expenses are up. Why? We added new beneficiaries to our long-term incentive plans during the first half. And as you already know, our LTIPs have an accelerated phase at the start. For example, content production and distribution long-term incentive plans last eight years but have an accelerated first phase lasting four years. That's why over the duration of each plan, this expense will average around 10% of annual adjusted EBITDA as previously indicated.

The increase in other finance costs is mainly explained by the change in fair value of financial instruments including hedging and put and earnout debt. Cost of net debt increased due to one-off costs related to debt refinancing in Banijay in April. As a result of the above, adjusted net income rose by 24% in the first half of the year compared to 2022.

Content production & distribution: solid revenue growth despite high 2022 comparables

Looking next at results by business, starting with content production and distribution. First-half revenue was up 3.5% at constant exchange rates. And as you can see, we saw a very strong performance in Q2 with revenue up over 9%, outperforming the wider market. Even in tougher market conditions for linear broadcasters, rising demand from streamers and our high-quality IP mean we can continue to take advantage of opportunities to gain market shares. Overall, the number of content catalogue hours increased by 8% to around 172,000 hours compared to December 2022.

Content production & distribution earnings and cash flow

In terms of content production and distribution earnings, we continue to see good levels of profitability. Adjusted EBITDA was up just over 1%, reflecting again the return to normal seasonality and the strong performance in Q2.

The negative change in working capital is explained by the return to normal seasonality, as we already mentioned in the previous call relating to Q1 results, which means we are full speed on production during the summer months, which explains this negative change in working capital. And as you can see, our free cash flow is consistent with previous years.

Online sports betting & gaming: double-digit revenue growth across all activities

Next, to online sports betting and gaming, where revenues were up over 23%. The performance reflected the successful execution of the Group's growth strategy across all geographies capitalising on higher player numbers and cross-selling strategies across product lines. All activities recorded double-digit growth in H1 2023, with sportsbook revenue up 21% and online casino, poker and turf up 35%. And as you can see, Q2 figures were even stronger.

Online sports betting & gaming: earnings and cash flow

Looking now at online sports Betting and gaming earnings. Adjusted EBITDA was up 26%, a strong performance, while the business delivered adjusted free cash flow conversion of 96%. This decrease in negative change in working capital is mainly explained by a better working capital management in 2023, as well as a negative impact on Bet-at-Home liquidation in 2022. The increase in income tax seen here is due to higher prepayments of betting-related taxes due to better results. This is due to the significant increase in unique active players at the end of 2022, which has been retained throughout the first half of the year.

FL Entertainment: focus on cash-flow generation

Adjusted free cash flow reached €274 million in H1 2023. This was driven by the earnings generated and supported by the tight control of cash expense and capital expenditure. This resulted in a cash conversion rate after CapEx and lease payments of 84%. Adjusted for changes in working capital, which reflects the return to normal seasonality for content production and distribution and income tax paid, our adjusted operating free cash flow was €151 million in H1 2023.

Net debt variation

The Group's net debt rose versus 2022 year-end figures to almost €2.3 billion. This was mainly due to accretive M&A and shareholder dividends balanced by solid cash generation. We have a strong cash position in addition to a significant undrawn secured credit line. As highlighted at Q1, Banijay has refinanced and raised almost €1.1 billion and extended the maturity of its €170 million RCF by three years to September 2027. This demonstrates the Group's financial strength and flexibility as a highly cash generative business. As mentioned by François, our leverage ratio increased to 3.3x due to the seasonality of cash payments, primarily related to our dividend, and in part, the acquisitions we carried out.

Pro forma of announced M&A – his is expected to return to 3.1x this year. That's all from me. I will now hand back to François for some concluding remarks.

OUTLOOK

François Riahi
CEO

Thank you, Sophie. In summary, it has been a strong first half of the year, with both businesses outperforming their markets.

2023 objectives re-confirmed and updated proforma of acquisitions
Mid-term outlook re-confirmed

For content production and distribution, we will continue to capitalise on the strength and diversity of our geographic and IP offer. In an environment where some clients are experiencing tougher operating conditions, our strength in unscripted content and growing activity with streamers are sources of opportunities.

Normal seasonality will continue in Q3, but for the first time in 2023, we will have comparative 2022 figures that are unaffected by the post-Covid catch up. For online sports betting and gaming, performance has been excellent and we will continue to focus on retaining our high unique active player levels and driving growth across all activities. All in all, we are on track to continue to deliver profitable growth at scale.

We therefore reconfirm our mid-term objectives as well as 2023 guidance which has been updated to reflect the impact of recent acquisitions. At our full-year results in March, we provided adjusted EBITDA guidance for 2023 in the region of €710 million. Proforma for the acquisition announced, and on a 12-month basis, we increase this guidance to €750 million. On the same basis, as mentioned already by Sophie, our leverage ratio is expected to drop to 3.1x back to the level where it was at the end of 2022.

ENTERTAIN THE WORLD AS A GLOBAL LEADER

To conclude, I want to reiterate our clear and ambitious vision of becoming the integrated global entertainment leader on growing and profitable segments of the industry, with leadership across content gaming and now also live events. We have a unique entrepreneurial culture which is a clear differentiating factor in an industry where you need to attract and retain talent. We have a bold and agile approach that enables us to capture opportunities in the most attractive segments of the global entertainment industry. The result is a high margin and cash-generative business with a proven track record of delivering growth and generating returns. We are excited to continue the strong momentum we have achieved so far.

Thank you, and back to you, Caroline.

QUESTIONS AND ANSWERS

Caroline Cohen: Thank you, François. So it's now time for questions. Please, can I just ask you to state your name and your company? Thank you. And I now hand over to Sandra, the operator, to open the line for questions.

Operator: Thank you. As a reminder to ask a question, please press *11 on your telephone and wait for your name to be announced. To withdraw your question, please press *11 again. We will now take the first question. One moment, please. It comes from the line of Annick Maas from Société Générale. Please go ahead.

Annick Maas (Société Générale): Hi, Good afternoon. My first question is, if you could just tell us a bit more about this actor strike in the US. Is it impacting you positively or negatively? Is an acceleration of the trends that you've seen in Banijay partially due to the fact that in the US there's less business going on and therefore you benefit of it in Europe? So that's my first question. And the second one, and I apologise, you might have said it in the start of the call – I was a little bit late – but can you tell us a bit more about the synergies that your new business line will be able to generate with the two existing business lines, please?

François Riahi: Thank you, Annick, for these questions. So first question. The strikes in the US, so far, we don't see an impact in our figures, but it cannot have a negative impact on us as we are not present on scripted in the US, which is a choice, because we are not comfortable with the financial metrics of this business, but we are present on the unscripted scope in the US. So, there have been other strikes before and when it's the case we have seen an increased demand for non-scripted, which makes sense because the broadcasters or streamers need to fill their grid, their program grid. So far, there's no impact. If there is an impact, we would expect it to be positive. I add to that, which is not something we can base on historical data, but which can be new, and I mentioned in the presentation, is that we believe that there could also be a rising demand for scripted made in Europe, because we see that, unlike what was the case before, some scripted shows made in Europe can be successful in the US. So, we expect that if there's an impact, it could be positive on unscripted and on scripted in Europe. We are a global leader on unscripted and a leader in Europe on scripted. So, if it benefits someone, it would benefit us, I think.

The second question, on the synergies between live events and Banijay TV production, we believe they are real. And actually, it's also why these companies have been joining us. It has not been a competitive process; they chose to join us because they think that it's the best place for them to develop their activities. What we can mention as synergies, for example, there are more and more live events, shows, which rely on existing IP. IP from, I would say, the audiovisual world. And actually, today we already have some of our IPs that are used by live event producers. And we are just today getting some license fees and we could internalise this and develop the usage of our IP in live events.

The second element is that we have 21 countries within Banijay with a strong footprint, strong teams on the ground and local teams with creative talents, and the companies that join us can leverage on these teams in countries where they are not present to help them get some new markets and some new activities. That's two examples. And actually, François de Brugada will have to multiply these synergies. But on both sides, on their side and on the Banijay side, we believe that there are good synergies to leverage on.

Annick Maas (Société Générale): Okay. Thank you very much.

Operator: Thank you. We will now take the next question from the line of Jamie Bass from Redburn. Please go ahead.

Jamie Bass (Redburn): Yes. Good evening, everyone. Three questions from me, please. First one, if we go back to Q1 on production revenue, which was down over 5%, you said that you expected the tough production comps to continue into Q2, but you've posted a very strong growth result there, but you've left your guidance unchanged. Does that imply that there's upside potential to your full-year guidance or that something has come down in H2?

Second question, does your reiteration of the midterm guidance post the integration of Balich, imply that your organic growth assumptions for Balich are the same as for the rest of the production distribution segment? And finally, probably one for Sophie, could you just clarify how you'll be reporting balance revenues once it's integrated? Will this be a separate line in the production and distribution segment? Thank you.

François Riahi: I'll take the first one and the two following for Sophie. Well, clearly our first-half results are very good, but we want to remain cautious in the context of today. We are a little bit conservative but we want to overdeliver rather than to not reach our guidance. Sophie.

Sophie Kurinckx: So on the reiteration of the mid-term guidance. For now, we consider that the growth of Balich, the organic growth of Balich, will be the same then for the content production and distribution business. As mentioned by François, this is a business that is currently consolidating so we expect of course to do some bolt-on acquisitions on this specific area as we did for Banijay. But as the guidance is only related to organic growth, we consider the same growth.

And then on Balich as a separate business unit. It will be reported into the content production and distribution business as this is really part of this business, very complementary and making synergies with this business.

Jamie Bass (Redburn): Yeah. Sorry, just to clarify on that third one. At the moment you have a production line and a distribution line. Would we expect another line between that and other revenues or would it just be integrated into them?

Sophie Kurinckx: In terms of revenue, we are currently working on it, but this is something that we could have in mind.

Jamie Bass (Redburn): Okay. Perfect. Thank you very much.

Operator: Thank you. We've got one more question on the phone, if that's okay. Sorry about that, it just popped up. One moment. The next question is from the line of Jean-Yves Guibert from BlueBay Asset Management. Please go ahead.

Jean-Yves Guibert (BlueBay Asset Management): Hello, and thank you very much. I've got a quick question with respect to the acquisition of Balich and The Independents. According to the press release, you indicate that Balich Wonder Studio, Banijay itself will acquire a 52% stake in Balich Wonder Studio. So, I suspect that will be integrated into the Banijay restricted group. And as far as The Independents are concerned, transaction of which has closed in Q2, you say that FL Entertainment has acquired a minority stake in The Independents. So just to understand, will The Independents be outside the Banijay restricted group, or unlike Balich Wonder Studio? And if you can also share with us in terms of the cash consideration paid in Q2 and the one to be paid by H2 for Balich, please. Thank you.

François Riahi: On the first element for, I would say, it was easier for us to have an acquisition at FL Entertainment rather than Banijay for The Independents, but both will be managed the same way into Banijay events. But yes, the investment in The Independents is not in the Banijay perimeter in terms of debt.

Jean-Yves Guibert (BlueBay Asset Management): Okay. So, this has been funded out of FL Entertainment for Banijay in Q2, but Balich will be funded out of Banijay resources?

Sophie Kurinckx: No, Balich is part of the restricted group, will be part of the restricted group, because we have not yet acquired Balich. It is planned to be closed in H2 2023 and it will be paid thanks to the cash that is currently in Banijay Group balance sheet.

Jean-Yves Guibert (BlueBay Asset Management): Yeah. So, it will be funded out of Banijay. And could you discuss the cash consideration to be paid by H2?

Sophie Kurinckx: No.

Jean-Yves Guibert (BlueBay Asset Management): Not yet. Okay. All right. Thank you very much.

Operator: There are no more questions on the telephone. Please continue.

Caroline Cohen: No, Sandra, I think it's fine. We had a question on the web regarding industry strikes, but François already answered this question, so I give you the floor to end the call, François.

François Riahi: Sure. Unless there are other questions. So again, thanks a lot for joining us on a challenging date in the agenda. And talking next time for the next results which will take place—

Caroline Cohen: In November.

François Riahi: So, thank you very much and have a good a good evening.

Sophie Kurinckx: Thank you. Bye.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.