FL Entertainment - 9M 2022 Results

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

9M 2022 Results

Caroline Cohen
Head of Investor Relations

Good evening, everyone. This is Caroline Cohen, Head of Investor Relations, and welcome to the first nine months 2022 results webcast for FL Entertainment. 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 shortly.

Your speakers today are CEO François Riahi, and our CFO Sophie Kurinckx. First, you will hear from Francois, who will talk you through our key financial highlights, followed by a short operational update on our two business lines. Sophie will then go through the financials in more detail before Francois provides some concluding remarks. We'll then open up the line for your questions. So let's get started. Over to you, François.

9M 2022 Results

François Riahi
Group CEO

Thank you very much, Caroline, and welcome, everybody. I'm delighted to present our financial results for the nine months 2022. I hope you know us already as the largest independent content producer globally and the fastest growing sports betting platform in Europe. FL Entertainment is a leader in attractive and growing market segments. We are well positioned to seize opportunities and create value for all shareholders, and I believe that this set of results is a good demonstration of just that.

Key Highlights 9M 2022

Let's get started by looking at our key financial highlights.

Strong 9M 2022 performance

During the first nine months, we have delivered continued revenue growth as well as high profitability and cash generation. This was driven by a very strong performance of our two business lines. On content and production and distribution business, we saw a return to a normalised seasonality during the third quarter following Covid-related disruption in 2020 and 2021, and this can be seen also in some comparisons between quarters of 2021 and 2022.

I will take you through some of the key operational highlights shortly, including the exciting bolt-on acquisitions we completed in the period to further strengthen the business. On the online sports betting and gaming side, we saw continued growth in the number of Unique Active Players and double-digit revenue growth within Betclic. Betclic is well placed to capitalise on the football World Cup and other opportunities in this fast-growing space.

Sophie will go into more details on the numbers, but let me share with you the main ones.

Solid 9M 2022 financials

Revenues at the group level were up 15%, which means 12% at constant exchange rates. Adjusted EBITDA was up 18%, resulting in a 40 basis-point margin increase. Adjusted net income was up over 15% while adjusted free cash flow was up 22%. So this quarter again, all the traffic lights are green. This represented a cash-flow conversion rate of 83%, which is a clear demonstration of the strength of FL Entertainment's business model.

Our key leverage metric of net financial debt over adjusted EBITDA sit at 3.4x, which is fully in line with our 2022 guidance.

Global leader in entertainment

Before I hand over to Sophie to go into more detail into the figures, I want to provide you with a quick operational update on our business lines and starting with Banijay on the content production and distribution activity.

Content production & distribution: strong activity in 9M 2022

As you may know, September is a traditional start of the season and remains an important moment in the production and distribution calendar. And it has been a very busy period for us, thanks to a very dynamic production cycle.

First, we've seen the recommission of successful, well-known programmes. These include the return of Star Academy in France after a 14-year absence, as well as MasterChef, which had been off air for seven years. Star Academy has been a significant hit, especially with the youth demographic reaching over 50% market share on this category. I think we will see it again next year.

With both Big Brother and Survivor returning to UK screens in 2023, we have four of our leading formats back on screen in two important markets. I think this shows how valuable these strong brands are and we believe they are getting stronger and stronger. This is a business powered by a rich library of IP, our recognised brands and formats drive repeat business. And of course, it's not just about resting on our laurels; we have been adding some great new shows during the period.

Let's start on the unscripted side, which I remind you accounts for 70% of revenues and offers a highly profitable and de-risked cost-plus pricing model. New shows include Blow Up, a balloon artistry competition, first produced in the Netherlands and now deployed by our other production companies in Germany, Australia and New Zealand. That's how our network is functioning when a show is successful, a new show is successful in one country we can replicate in several geographies, which is creating revenue synergies. On the scripted side, the two big shows have been SAS Rogue Heroes for the BBC in the UK and Marie Antoinette for Canal+ in France.

SAS Rogue Heroes has been a major hit with particularly strong appeal with youth audiences and has been picked up by Canal+ actually for broadcast in late 2022, having already been pre-bought by HBO Max in Europe, Amazon Prime Video in Canada, and Australian Network SBS. And Marie Antoinette has already been picked up by the BBC in the UK. BBC First in Australia and PBS in the US, which is also a good demonstration of the power of our distribution capabilities.

The number of content hours in the Banijay catalogue has grown by 25% since September 2021. Of course, it's not just about volume; we have the right programming mix to meet the demand for quality content from broadcasters and streaming platforms whose share is increasing in our sales.

Content production & distribution: a natural home for leading independent production companies

In parallel, we have been very active on the acquisition front and have reinforced our status as a natural home for talent and IP. This quarter, year to date, we have realised 11 bolt-ons in the year, the majority of which were a non-competitive process thanks to strong industry relationships and attractiveness of our platform. As you know, it's an integral part of our strategy. We believe in the significant consolidation opportunity in the market and I think this trend of acquisition is a good signal that it is happening today.

The companies you can see on your screen are all well-known production companies across both non-scripted formats and scripted content. These great additions enrich our content, talent and geographical footprint. Companies acquired during the period strengthened Banijay’s exposure in eight different markets and actually add expertise across unscripted kids and family and premium scripted activities.

If I just do a focus on deals signed or completed post Q3 closing, I should mention Beyond. Beyond is a leading Australian producer of media content with more than 8,000 hours of scripted and unscripted English-language content across multiple territories and genres. This deal, which is signed but not closed, extends our catalogue and offers significant distribution synergies, which is a very important element of this deal.

Mam Tor is a high-end original drama producer from the UK for television, and that's of course a segment which is very attractive for us. And MoviePlus Production is an independent Israeli production company specialising in drama series, documentaries and feature-length films. As you see, we are a natural and attractive home for independent production companies and we will continue to target new opportunities and we have a robust pipeline.

Online sports betting and gaming: continued growth in player numbers

Let's move to the second business line, Betclic Everest Group. The power of Betclic as a leading online sports betting platform was demonstrated by the continued growth in Unique Active Players, up 11% year on year. It's a very important metric, of course. Sophie will go into the financials, but as you know, this is a business overwhelmingly focussed on highly regulated markets – 97% of revenues came from these core markets. And Sophie will detail, but Betclic revenues are up 15% over the first nine months of 2022, which is a strong performance.

Our platform is scalable, it's up to date, it's cash generative and offers clear opportunity to deploy in new territories. During the quarter, we also further demonstrated our deep commitment to the highest standards of responsible gaming by educating players via both the Betclic platform as well as large-scale campaigns. You can see some of them on the slide. Most recently, Betclic ran a major responsible gaming education campaign in France and has partnerships with two reference associations, E-Enfance, the first website for parents to help them prevent teenage gambling, and GamCare, a recognised expert in the prevention and treatment of gambling problems. This is not just a nice-to-do for us; it's a crucial focus for our business and we are fully committed to be sustainable and to have a sustainable practice of sports betting.

That's all from me for now. Let me now hand over to Sophie to go through the financials in more details.

9M 2022 Financial Results

Sophie Kurinckx
Group CFO

Thank you, François.

Strong 9M 2022 performance across both business lines

Consolidated revenue for the nine months increased by 15% in absolute terms – 12% at constant exchange rates. I will go into the nine-month performance by business very shortly. Here, we've also provided the Q3 revenue split for your reference on the left – up 8% year on year. The performance for the nine months reflects the distinct growth pattern between the first half in Q3 in the two business lines. And this is as expected, due to a return to normalised pre-Covid seasonality in Q3 2022 on the content production and distribution side, following the first Covid activity catchup that we knew in the last 12 months from September to June.

Solid adjusted EBITDA performance

Moving to profitability at an FL Entertainment level on slide 14. Here you can see that an increase in external and personnel expense that was mainly driven by content production and distribution in line with the increase in production activity and, in turn, revenue. Adjusted EBITDA amounted to €446.4

million, up 17.5% year on year. Overall, this led to a 40 basis-point improvement in adjusted EBITDA margin to 16.5% for the nine months 2022 with improved profitability across both business lines.

Consolidated P&L

Moving now to the consolidated P&L, which shows our EBITDA and net income both on a reported and normalised basis. Before explaining the P&L, let me remind you that the normalised P&L is a kind of pro-forma P&L which highlights the performance without the impact of the reorganisation and business combination that occurred in June and July 2022. As we already explained the full picture during our last call on the H1 results, you can find an updated version of this bridge in the appendix. We are also, of course, available to answer any questions you may have.

So here LTIP and employment-related earn-out and option expense of €71.7 million relate to the vesting of both LTIP implemented for employees of the group and incentive related to performance agreed in acquisition deals. The cost of net debt amounted to €106.4 million, compared to €99.5 million. The increase being due to new financing at the Betclic level in December 2021, as previously highlighted in our last call. Other financial income and expense come mainly from derivatives and the tax charge for the nine months 2022 totalled €40.3 million, compared to €16 million in 2021, representing an effective tax rate of 17.2% compared to 12.5% respectively. The change is mostly explained by the use of tax that was carried forward in 2021 in the online sports betting and gaming business.

Content production & distribution

Now let's move to the financial results by business line, starting with content production and distribution. After a strong post-Covid recovery in the first half of the year, the business has returned to normalised seasonality during the third quarter of 2022. Revenue grew 18% in absolute terms and 14% at constant currency over the first nine months. Content production revenue rose by 16%, driven, as highlighted by Francois, by a dynamic production cycle and to a lesser extent by the positive impact from bolt-on acquisitions.

On the other side, distribution revenue increased by 39%, driven by both broadcasters and streaming platforms for key non-scripted and scripted content.

Looking at EBITDA, the performance was very strong for three main reasons. First, the revenue growth as explained. Second, favourable product mix with Banijay Rights performing well on the content distribution side across both scripted and unscripted business. And third, ongoing efforts to optimise production costs.

Free cash flow rose by almost 32%, representing cash-flow generation of 77% in line with our guidance for 2022. Changing working capital seen here reflect the growth of the business and the return to normal production cycle seasonality, which means a peak of production in Q3 to deliver a large part of the shows, mainly in Q4. This is why you have this negative change in working capital for this business at the end of Q3.

The increase in tax paid reflects the increased activity seen in the period and a change in country mix. 2021 figures also reflect the fact that we recorded a reduced advance tax payment from a 2020 tax loss carried forward.

Online sports betting & gaming

Moving now to the online sports betting and gaming. Revenues were up close to 6% in absolute terms over the first nine months. These include a strong rebound in Q3 following the first half of the year that saw a less active sports calendar compared to the first half of the year in 2021. These figures also reflect the discontinued Bet-at-home activities. And excluding these discontinued operations, revenues were up 13% for the nine months after the + 4% in H1.

The other key metric is that, on a standalone basis, so without the Bet-at-home performance, Betclic's performance remained extremely robust, up 15%, illustrating the success of the platform. In terms of profitability, online sports betting and gaming, adjusted EBITDA was up over 8% thanks mainly to the revenue growth, as well as the lean cost structure. We also continue to invest in the platform, of course, to develop our service. This ensures that we continue to offer high added-value content powered by a cutting-edge digital platform. Cash generation remains strong with adjusted free cash flow up over 9%.

FL Entertainment: continued strong cash flow generation

On slide 18, we look at FL Entertainment's strong cash-flow generation. Adjusted free cash flow – which is adjusted EBITDA minus CapEx and lease payments – reached €369 million. This was driven by business performance as well as our tight cash expense and CapEx control. This resulted in a cash conversion rate of 83%, which is in line with our guidance. Adjusted for changes in working capital and long-term incentive plan paid, exceptional items and income tax paid, our adjusted operating free cash flow was €219 million.

Solid financial position and decrease in leverage

On slide 19, you can see that the group's net financial debt as of September 30 stood at €2.3 billion. The stability of net debt versus December 31st, 2021, reflects the seasonality of the content production and distribution business and the negative impact of the euro/US dollar exchange rate.

Our overall leverage decreased from 3.7x at year-end 2021 to 3.4x at the end of September. Net financial debt came from an increase in adjusted free cash flows over the period and cash proceeds received following the transaction, which are the orange bars in the chart. That was partly offset by LTIP paid and exceptionals, as well as acquisitions and interest recognised during the period – in light blue.

As a reminder, we have a fixed-rate debt with no maturities before 2025. We benefit from a strong cash position as well as a significant undrawn secured credit line and we have a healthy credit rating.

As highlighted at the half-year results, S&P upgraded the rating of Banijay debt to B+ in September. All of this puts us in a very strong position, and as our business continues to grow, we expect leverage to fall further.

Outlook

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

Solid momentum underpinned by resilient business model

François Riahi
Group CEO

Thank you very much, Sophie. Just a few words of conclusion. FL Entertainment is in a strong position to maintain continued sustainable growth across both businesses in line with our 2022 guidance and mid-term outlook. You saw our results; they are no surprise. Our strong business model in content production and distribution is delivering, I think, a very strong performance this year and the effectiveness of our bolt-on acquisition strategy will continue to fuel the growth for the next months and years.

While on the online sports betting and gaming side, with the national teams of free core markets active at the World Cup – France, Portugal, Poland; I'm not sure about Germany, and we miss Italy – we are confident about Betclic's ability to leverage on these events to attract players and then retain them thanks to the quality of our platform. So of course, the World Cup could create a little bit of volatility on the margin depending on the results. For example, if France becomes world champion, or Portugal. But France just lost against Tunisia, so it's maybe not a good sign. But in terms of volatility, this can play a role. But the most important in this event is to acquire as many players as possible, and we measure that at the end of the competition.

We are, of course, mindful of external macroeconomic factors which vary market to market, and given the inflationary environment present in some geographies, we are of course fully focussed on driving productivity gains to protect margins and our strong cash generation levels, especially in Banijay. As a group, we draw on leading positions in attractive and growing segments of the entertainment industry and we are well-placed to capitalise on this positive momentum.

Thank you very much for your attention, and back to you, Caroline.

QUESTIONS AND ANSWERS

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 your company. Thanks a lot. And I now hand over to Roberto for the Q&A session.

Operator: Ladies and gentlemen, we now begin the Q&A session. If you wish to ask a question, please press *11 on your telephone.

The first question is the line of Thomas Singlehurst from Citi.

François Riahi: We can't hear you, Thomas. A technical issue.

Operator: Mr. Singlehurst, your line is open.

Caroline Cohen (FL Entertainment): Roberto, can we try a bit later and we go to the next question?

Operator: Yes, we are now taking the next question from the line of Aaron Watts from Deutsche Bank.

Aaron Watts (Deutsche Bank): Hi, everyone. Can you hear me?

François Riahi (FL Entertainment): Yeah, very well, Aaron.

Aaron Watts (Deutsche Bank): Here I go to the front of the line, I guess. I had three questions for you. Thanks for having me on. First, can you just remind me what percent of your production business today is generated from streaming platforms or the like, and what percentage is still drawn from traditional broadcast or network buyers?

And then secondly, just given lingering concerns around the macro backdrop currently and in the months ahead, are you seeing any hesitation in decision making or commitments from your broadcast streaming partners or perhaps changes in the type of offerings they're looking to move forward on? And to the extent they are shifting to less expensive projects, how should we think about that impact on your P&L and margins?

And then finally, you've mentioned the opportunity for consolidation in the marketplace and the 11 bolt-ons you've actioned year to date. Can further bolt-ons continue to be financed with cash generated from the business and your available facilities? And there's been some headlines around larger groups potentially being on the market. What's your interest level in more scaled acquisitions and how do you think about funding that given current elevated borrowing costs? And how does leverage kind of play into the mix there as you think about larger scale M&A? Thank you.

François Riahi (FL Entertainment): Thank you, Aaron. Quite a lot in your questions. On your first question, the percentage of OTP in our business, we are around 19% so far, which is an increase compared to last year, which is not a big surprise, but that's the figure. On your second question: no, of course the situations are very different country by country; the inflation situation, the competitive environment, everything is different in the different geographies, but you heard me confirming our guidance, our outlook. So it means that we don't see, I would say, we don't see this macro-economic environment impacting our expectations on our P&L and margin.

On your third question, we fund the bolt-on acquisitions with our own cash, with the cash generated by the activity. As you know maybe, when we do bolt-on acquisitions we are talking about level of investment which is not huge amounts, and the idea is really that a company joining our platform will generate more revenues with us. So we are either buying talent or IPs or both and with the idea to leverage them. But really, bolt-on acquisitions are made to be funded by cash and are part of our cash management.

When it comes to larger mergers, it really can only be opportunistic. It's also based on industrial synergies, so it's not something that you can feel right or normalise should an opportunity occur. We'll see, but we think that for the right deal with the right level of synergies and the right industrial project, we would find financing. So of course, largescale M&A is always something we would be very happy to do. And in the past, it has been really a way for us to create a lot of value through acquisition of Zodiac, than [inaudible 00:31:49], but that's not something you can comment.

Aaron Watts (Deutsche Bank): Thank you very much for all the thoughts.

Operator: Thank you for your question. We are now taking the next question. The next question is from Jean-Yves Guibert from Blue Bay.

Jean-Yves Guibert (BlueBay Asset Management): [inaudible 00:32:19 – 00:32:29]

François Riahi (FL Entertainment): Sorry. The line is very bad; we couldn't understand your question.

Jean-Yves Guibert (BlueBay Asset Management): Okay. Let me try something else.

François Riahi (FL Entertainment): It's better.

Jean-Yves Guibert (BlueBay Asset Management): Can you hear me now? With respect to your 22 guidance, I understand that [inaudible 00:32:56] which for Banijay implied a material decrease, I suspect, versus a tough comp basis in Q4 last year on a very strong production delivery. But that implies still a 10%, roughly a 10% revenue decline and nearly 20% EBITDA decline in Q4, but you stick to your 22 guidance, or is your guidance too conservative and you might be able to exceed that?

Sophie Kurinckx (FL Entertainment): As you noted, yes, you're right. We had a very strong catch-up of the business in Q4 2021. So that's why we expect Q4/2022 to be lower. And we remain on our guidance that we gave during our last call, which means around what you mentioned in your question.

Jean-Yves Guibert (BlueBay Asset Management): Okay. Thank you very much. Thank you, Sophie.

François Riahi (FL Entertainment): Which means that we will not make less.

Operator: Thank you for your question. We are now taking the next question which is from [inaudible 00:34:26] from ODDO BHF.

Unidentified speaker: Hello and thank you for taking my questions. I've got a couple of questions concerning slide 18, which shows your strong free cash flow generation. First of all, do you have a guidance for CapEx for the full year? I think I remember something like 2% of sales. Is that correct to assume?

Sophie Kurinckx (FL Entertainment): Do you have any other questions?

Unidentified speaker: Yes. For example, dividends. You mentioned in your previous calls that you expect to pay at least a third of adjusted net income dividends. When will you actually start these payments? And again, on page 18, we see here a change in working capital -100, which I think is mostly due to the production segment which you mentioned. How much is that going to reverse in Q4? And the little asterisk mentioned that the free cash flow excludes LTIP and exceptional items. Guidance for those two would be nice. Thank you.

Sophie Kurinckx (FL Entertainment): Sorry I missed the last one. So on slide 18, regarding the CapEx, we expect to remain in line with what we had last year. We are quite stable compared to what we had last year on a full-year basis. Regarding the dividends, you're right. We said that we would pay at least one third of the adjusted net income, and we will start in 2023 based on the results of 2022, as the company didn't exist before.

François Riahi (FL Entertainment): It’s a minimum.

Sophie Kurinckx (FL Entertainment): At least, yes. And regarding the working capital, we expect, of course, this to be less negative at the very end of the year as we are firmly committed to cash conversion rate of 80%. This is our guidance that we keep for the end of the year.

François Riahi (FL Entertainment): And the last one. So of course, in terms of what we already gave a guidance of 10% of our adjusted EBITDA. As Sophie mentioned in our presentation, in terms of accountability, a part of what is accounted in LTIP also comes from acquisitions, so it's a little complexity. Of course, we don't have guidance for exceptionals because exceptionals by definition are exceptional. We don't have, I would say, a lot of exceptionals happening. We have sometimes some restructuring costs or things like that, but those are things we cannot predict, we cannot foresee. So we cannot have a guidance.

Unidentified speaker: What was the exceptional number – or what is – the exceptional number year to date?

Sophie Kurinckx (FL Entertainment): You mean that has been paid?

Unidentified speaker: Well in fact, in the line LTIP paid and exceptional items, we have an amount paid. We have an amount of €33 million that has been paid as exceptionals relating to the transaction that has occurred in June and July 2022. I mean the business combination and the reorganisation of the group. The remaining part of this is linked to the LTIP.

Unidentified speaker: Okay.

Operator: Thank you for your question. There are no further questions from the phone.

Caroline Cohen (FL Entertainment): We have a question from the website on content production and distribution: Is there any impact or any expected impact from having a higher activity from competitors in the US?

François Riahi (FL Entertainment): As we said, we reconfirm our guidance. Our business is really in line with our expectation this year and in our outlook. So no specific topic here.

Caroline Cohen (FL Entertainment): So we can now end the call, I hand over to you, Roberto.

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

François Riahi (FL Entertainment): Thank you. Bye bye.