EROS INTERNATIONAL – Q1 FY 2015

Moderator: Jyoti Deshpande
August 21, 2014
8:30 a.m. ET

Operator: Good day and welcome to the Eros International Conference Call to discuss the Company's First Quarter 2014 Earnings. This call is being broadcasted live on the Internet and a replay of the call will be made available on the Company's website.

This morning the Company furnished its earnings press release on its website, www.erosplc.com. The Company would like to remind everyone listening that during this call, they will be making forward-looking statements under the Safe Harbor provisions of the Federal Securities laws, and our 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 is contained in today's press release. During the call, we'll also discuss non-GAAP financial measures in talking about its performance. You can find the reconciliation of these measures, the GAAP financial measures in the Company's press release.

I will now turn the call over to Jyoti Deshpande, the CEO Of Eros PLC.

Jyoti Deshpande: Thank you. Good morning, ladies and gentlemen. I'm Jyoti Deshpande, the CEO and Managing Director of Eros International PLC. Thank you for taking the time to attend Eros International's earnings call for the first quarter ended June 30, 2014.

Eros International is a leading global company that co-produces, acquires and distributes Indian films across multiple distribution channels, such as theatrical television and digital platforms across 50 countries and in over 25 different languages worldwide.

In our three decades of market leadership we have built a valuable library of over 2300 films, which has given us a distinct competitive advantage and positioned us to extract further value from emerging digital distribution channels such as our premium television channels with HBO and our online and mobile content service calls, Eros Now.

We enjoy a market share of over 40 percent when measured in box office terms and although the Indian film business is not as hit driven as Hollywood can be, we have been very consistent in picking up winners with at least three out of the top ten films every year for the last several years being Eros films.

We seek to de-risk our investment through presales where we aim to recover a majority of our investments through contracts or commitments, even before the scheduled release of the films. We can recover between 45 percent to 70 percent of Hindi film costs through presales and over 100 percent of Tamil and other regional language film costs through presales.

Our market is highly underserved with just ten screens to a million people while the U.S. has over 120 screens per million people. A 100 percent of our screens are already digital, like in China. The high demand for films coupled with scarcity of screens gives a very high opening weekend skew to the box office and together with the low cost of marketing and distribution circa just 15 percent of the film’s budget makes this a relatively less risky business model compared to Hollywood.

Our revenue streams are diversified with approximately 45 percent coming from theatrical, 35 percent coming from television licensing and the balance 20 percent from digital and ancillary. We seek to invest around $180 million to $200 million in content CapEx each year so we can have visibility of our film release slate at least two years in advance.

Our quarterly results year-on-year are strictly not comparable as results may vary based on number of films as well as the mix of films released as well as quarterly contribution from catalogue income. Generally the third quarter between October and December tends to be an important one with the higher budget films tending to release around the festive season.

Moving on to our results for Q1 ended June, 30, 2014, I'm pleased to report strong growth in revenues by 10.7 percent from $41 million to $45.4 million with an increase of 15.2 percent on the basis of currency comparable revenues. Adjusted EBITDA is down marginally to $8 million from $8.4 million, mainly due to the mix of releases and the timing of catalogue revenue coming through during the year.

The main driver film for the quarter was a much-awaited Tamil film Rajnikanth starrer Kochadaiyaan which was India's first motion capture film in 3D and at least 6 different language versions of the film were released worldwide. The film was underpinned by strong theatrical, television as well as music presales. There were notable revenue from the medium budget international only Hindi releases Main Tera Hero and Ek Villian as well as valuable contributions from library monetization.

The Eros Now channels on YouTube have now crossed over 2 billion video views in aggregate and have over 2.3 million free subscribers. We're in the process of completing the acquisition of Techzone, a leading company in the mobile added services within India, having billing integration in place with some of the major telecom operators within India. Techzone currently processes over 25 million transactions per month through its platform and we will seek to promote the ErosNow service to that traffic and convert a portion of them into free as well as streamed subscribers for ErosNow.

As we look ahead we have at least six major releases planned for fiscal 2015, and we started with the release of Rajinikanth's Kochadaiyaan this May. We have Aagadu in September, we have Action Jackson, Happy Ending, Uttama Villian in the October to December quarter and Tevar in the fourth quarter. The future slate for FY 16 is also robust with a string of high budget releases already locked in such as Bajiao Mastani, Shivay, Rajinikanth's next, Saif Ali Khan's next, Gabbar 2 with Pawan Kalyan to name a few.

Becoming the first Indian media and entertainment company to list on the NYSE has positioned our Company even more advantageously within the industry as well as the Indian market in general. The recent follow on offering in July where we raised just over $90 million has further strengthened our balance sheet and given us more firepower.

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

Andrew Heffernan: Thank you Jyoti. Good morning and thank you for joining us today. Our performance for the three months ended June 30, 2014, our first quarter in fiscal year ended March 2015.

In line with our expectations, and also in line with our recent developments update provided in our follow on offering prospectus, revenues increased by 10.7 percent to $45.4 million in Q1 fiscal 2015, with currency comparable revenues increased by 15.2 percent.

Adjusted EBITDA stood at $8.1 million in Q1 fiscal 2015. For this stage, I draw your attention to the notes regarding the use of non-GAAP measures and their uses and limitations contained within our earnings release.

Our revenue stream is derived from three channels, television syndication, theatrical, and digital and ancillary. We released nine films in Q1 fiscal 2015 of which five were Hindi language films, and four were Tamil, as compared to 16 films in Q1 fiscal 2014 of which seven were Hindi films and 11 were Tamil and other regional languages. Of these films in Q1 fiscal 2015, one was a high budget film and three were medium budget films. This compared to no high budget films and six medium budget films in the year ago period.

Increase in revenues for the quarter affect mix in forms of the film slate released during the period, along with a strong contribution from our valuable catalogue of films. Constant currency comparable revenues for the three months ended June 30, 2013 are $39.4 million based on the average rates of exchange for the three months ended June 30, 2014.

I should note that in three months ended June 30, 2014, the average rates of exchange used to convert Indian rupee to U.S. dollar was on aver 59.9 to $1.00 compared to 55.7 to $1.00 in the year ago period.

Turning to our segmental performance for the Q1 fiscal 2015, the aggregate revenues from theatrical, television, syndication, and digital ancillary were $19.1 million, $15.5 million, and $10.8 million respectfully. For Q1 fiscal 2015, cost of sales has increased to $33.2 million compared to $28.4 million in Q1 fiscal 2014, which included $26.4 million of content amortization compared to $21.9 million in Q1 fiscal 2014. The increase in cost of sales is mainly due to this $4.5 million increased amortization reflecting accumulative additions to the film catalogue.

Gross profit in the quarter totaled $12.1 million compared to $12.6 million in the year ago period. The Company's gross profit margin was 26.8 percent in the quarter compared to 30.7 percent in the year ago period. The decrease in gross profit margin of course was primarily attributable to increased costs in proportion to revenues generated by the new release slate, as well as the timing of contribution from catalogue sales.

I would note that at this stage the quarterly or annual changes in margin should not (from around) be taken as indication of future margins.

Adjusted EBITDA was $8.1 million in the quarter compared to $8.5 million in the year ago period. This decline is primarily attributable to the change in gross profit margin.

Net income showed a loss of $2.6 million in the quarter compared to a profit of $8.8 million. The decline reflects that in the quarter there was a loss on interest rate mark to market derivatives in the quarter of $2.4 million compared to a $6 million profit for the year ago period.

Looking at our balance sheet, debt as of June 30, 2014, to $261.9 million as compared to $258.1 million as of March 31, 2014 with cash and cash equivalent totaling $134.8 million. Net debt was increased by $13.4 million in the quarter ended June 30, 2014 and totaled a $126.1 million. Changes to net debt in the quarter are principally driven from by cash from operations, working capital outflows related to content and receivables and investment in the future film slate.

In summary, concerning our recent follow on, we believe our business continues to be well positioned for strong growth and profitability and we will seek to capitalize on opportunities presented by directly growing Indian media and entertainment sector.

Thanks for taking the time to listen and now we will open it up for questions.

Operator: At this time, I would like to inform everyone if you would like to ask a question, please press star then the number one on your telephone keypad. Our first question comes from the line of John Janedis with Jefferies.

John Janedis: Hi, thank you. Jyoti, can you talk a little bit more about the implications of the Zee content in the context of Eros Now, meaning I guess number one, should we expect more deals for content to come. Number two, how does this impact the task of break even from a subscriber perspective? And three, at this point, are you seeing competition from other platforms bidding for that same content?

Jyoti Deshpande: A great question, John. I think we (evolve) so Zee is not the first piece of content that we've got. We announced that we got Viacom's content. We've got UTV's content. So it goes back to the objective of Eros Now wanting to be the one shop solution. Not only we will offer movies from us and other studios, but we will also offer TV shows. We will offer music videos. So this is just a little step in the right direction of offering that content base, that broad base content base, and offering new content so the premium shows and so it's valuable.

There is in… we've discussed there is in -- too many competing services out there. There may be music streaming services or there are maybe some sites offering a few movies but there isn't anything like Eros Now out there. So we are very keen to sort of capitalize on the lead and move this forward. And with the Techzone acquisition and the integration that's happening right now we hope to gain great momentum, one with the content capitalized on the distribution side with Eros Now.

John Janedis: OK. Maybe a side question, just on HBO, can you talk maybe about the evolution of the Indian paid for TV market. Are you seeing more of a willingness for consumers to pay for premium cable networks and how is the HBO offering being perceived?

Jyoti Deshpande: It's very positive. I think it's still early days in terms of premium television but it's, there is, the writing is on the wall in way, positive way. Star has received good responses their HBO channel as well. People are wanting to access content in high definition quality and I think more than high definition, what attracts them is the fact that these channels don't have any ads.

You know people have been use to watching content driven so it's a 20 minute; a 23-minute TV show takes 45 minutes to get through because of the ads. A two and a half movie takes four hours to get through because of the ads. So, an ad free environment or in high definition quality is very attractive. And slowly but surely we are hearing from other broadcasters that they will be launching their premium services soon and once that happens, I think we will see true momentum because each content offering will be slightly different from the other and the consumer will start to sort of converting to consuming content you know in a premium service manner rather than the ad monetized model. So I would say it's going in the right direction.

John Janedis: Thank you very much.

Operator: Once again if you would like to ask a question, please press star then the number one on your telephone keypad. Our next question comes from the line of Bryan Goldberg with Bank of America Merrill Lynch.

Bryan Goldberg: Hi, thanks. just a follow up on Eros Now, I was wondering what kind of updates you could provide us on your thoughts surrounding time to market for formal launch onto the Smart Phone platform through Techzone.

And any, do you have any kind of, what are your latest thoughts on retail pricing models, potential revenue shares that you might undertake with telecom operators. Anything there would be helpful. Thanks.

Jyoti Deshpande: OK. So we already live on mobile platforms. So you could download the Eros Now app today. And it's available on Android, iOS, all operating platforms. So whatever smart phone you use, where you are, you could access Eros Now today through your cell phones.

What the difference with the Techzone model we're hoping to do is we're hoping to have direct billing integration so that when customers are accessing our site to app or their mobile app, they don't have to put their credit card details and we can take a share of them by Wallet.

So that's I think a couple of months away. But we're ready to close and we will support it with marketing push through (exit) marketing, push, push as (Techzone) marketing does so that all the mobile traffic that Techzone enjoys right now gets the mobile this great new service and we hope to upsell to that traffic.

So I hope I answered the first part of your question. And turning to the second part, in terms of pricing and economics, there are different buckets of pricing. So you can access the whole service for a fee per month or you can also access different buckets of content for smaller fees per content.

So it can be as small, it can be a micro payment for just a song review or just for a film or just for a piece of music or it can be all you want for the whole month.

So it varies but similar pricing across our telecos and because it's, that's how it works. Does that answer your question?

Bryan Goldberg: Yes.

Jyoti Deshpande: And probably we can get into the details of similar links and send you some links to show all the different kind of pricing that's available across telecoms.

Bryan Goldberg: Yes. No, that would be very helpful and your answer was helpful as well. I guess just a follow on to that, and I assume this is a much smaller aspect but maybe I'm thinking about it wrong.

Could you talk about how your recent announcement with Hathway Cable sort of folds into the broader Eros Now strategy and what that offering is and is this something that can be deployed across other broad band platforms as well.

Jyoti Deshpande: Absolutely it can be deployed across other broadband platforms and one way thinking about is a consumer can access Eros Now directly just through the net. So what is the advantage of tying up with someone like Hathway?

Now these guys go door to door and you know to collect monies from people who are their subscribers. Even now the billing mechanism is going door to door and collecting money from the people.

So what, this is like a distribution tile, or a marketing type where they will go along with the broadband services, when they're pushing their cable service, they're trying to upsell people to their broadband service and no longer that they will try to upsell the Eros Now content service.

So they will take, it's a billing, it's a marketing and all their customers will be, you know Eros Now will be marketed through them actively and we hope that the conversion will come through those customers and we share more pieces of the revenue for what they do for us.

So we hope to replicate this across all the major cable networks as well as VHF operators who also offer some of our services. And so we target these guys. So all those platforms there are currently offering HBO services are potentially platform indicators for our Eros Now services as well.

Bryan Goldberg: OK. Just one final follow up, is it possible for you to bundle your Eros Now talks, negotiations with the broadband platforms with the HBO product as well. Or I mean is this sort of, are these to be complimentary services, or are they two very distinct products, business relationships in the eyes of the cable operators.

Jyoti Deshpande: So I think to begin with the whole product is different. Eros Now is all about the value of experience. It's all about India movies, Indian music and music videos and then TV shows, whereas the HBO, the product skews more towards Hollywood rather than Bollywood.

And then there is, so I think to begin with, we keep it simple. And we want to gain as much as momentum for Eros Now as possible. And HBO will, HBO channels will take its own course and they will gain subscription as people subscribe to premium channels.

And we don't plan to bundle them immediately but if any deal, if there was something attractive then we will make those happen.

Bryan Goldberg: Thank you very much.

Operator: It appears we have no further questions at this time. I would now like to turn the floor back over to Ms. Jyoti Deshpande for any additional or closing remarks.

Jyoti Deshpande: Well thank you all again for taking the time to listen to our earnings call. And thank you for your continued interest in the Company.

Operator: Thank you. This concludes today's conference call. You may now disconnect.

END