Q4 SYSTEMS

Moderator: Jyoti Deshpande
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8:30 a.m. ET

Operator: Good morning. This call is being broadcast 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, it will be making forward-looking statements under the safe harbor provisions of the federal security laws.

The company's actual results might differ materially from those projected in forward-looking statements. Additional information concerning factors that could cause actual results to material differ from those in these forward-looking statements is contained in today's press release.

During the call, the company will also discuss non-GAAP financial measures and talking about its performance. You can find the reconciliation of these measures to GAAP financial measures in the company's press release.

I will now turn the call over to Jyoti Deshpande, CEO of Eros Plc. Please go ahead.

Jyoti Deshpande: Thank you. Good morning, ladies and gentlemen. Thank you for taking the time to attend Eros International's earnings call for the fourth quarter and fiscal year ended March 31, 2014.

Before we get into our operational and financial results, I would give those of you who are new to our story a bit of an overview of our business. 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 worldwide. We've built a valuable library of over 2,300 films, which we believe gives us a distinct competitive advantage.

Our target market is not only the 1 billion-plus population within India, but also those in over 50 different countries around the world where these films are dubbed or subtitled in over 25 different languages to localize the content. We've had a consistent track record in picking successful films, and at least two of our films have featured in the top 10 grossing Hindi language films in India in each of the last three years. We had "Ram-Leela," "R...Rajkumar," "Raanjhanaa," and "Grand Masti," all featuring among the top-grossing Hindi language films in India in calendar year 2013, as per source bollywoodhungama.com.

We seek to de-risk our investment through presales, where we aim to recover a majority of our investment through contractual commitments, even before the theatrical release of the film. We intend to invest around $180 million in comp and CAPEX in fiscal 2015.

Our quarterly results vary year to year based on the timing of the releases, although the third quarter between October to December tends to be an important one, with higher budget films that release around the festive season.

Moving on to our results for fiscal year 2014, I'm pleased to report strong growth in revenues by 9.4 percent from $215.3 million to $235.5 million, with an increase of 15.8 percent on the basis of currency comparable revenues. Adjusted EBITDA is up by an impressive 42.6 percent over the prior year period from $56.3 million to $80.3 million. The strong margins are a result of the strong performance of the film release slate for the year, which featured four of the top 10 grossing Hindi language films in India, as well as the relative low cost of the film release slate, resulting in lower amortization charge with result to those films.

Also, there were important revenue contributions from live release films, which tend to be high margin. We released 69 films in total in fiscal 2014, of which 37 were Hindi language films and the rest were Tamil and other regional language films. Out of our four high-budget films, three were Hindi language and one was our first Telegu language film called "One Nennokodine," which released in the fourth quarter. Some of our notable releases were "Jai Ho," "Goliyon Ki Rasleela-Ram-leela," "R...Rajkumar," "Grand Masti," "Raanjhanaa," and also "Krrish 3" and "Yeh Jawaani Hai Deewani," which were for the international market only.

We had strong television syndication sales in the year and signed agreements with Viacom, as well as Sony, for the telecast of some of our films on their channels. Theater revenues accounted for 45.7 percent, while television was 34.1 percent of our revenue, and the balance, 20.2 percent of our revenue, came from digital and ancillary.

We continue to nurture our new initiatives, such as our collaboration with HBO Asia, for premium advertising-free channels within India, and our Eros Now online service that offers movies, music and TV shows on a free, as well as subscription basis. The Eros Now channels on YouTube have crossed over 2 billion video views in aggregate and has over 2.3 million free subscribers.

We recently announced the execution of a term sheet to acquire majority control of TechZone, a leading company in the mobile value-added services within India that has billing integration in place with some of the major telecom operators within India. We plan to seek synergies by combining our content platform and their technological platform to give wider distribution to Eros Now over mobile networks within India.

As we look ahead, we have at least six high-budget releases planned for fiscal 2015, and we started with the release of "Rajinikanth's Kochadaiyaan" this May. We have "Action Jackson," "Happy Ending," "Tevar," "Aagadu," which is another Telugu film, and a Tamil film starring Ajith planned for the releases during the year, and with at least three of those films tentatively falling in the third quarter.

We've established our ability to capitalize on the macroeconomic trends within the growing Indian media and entertainment industry. Our NYSE listing has further strengthened our balance sheet and gives us access to global capital markets.

With that, let me turn the call over to Andrew Heffernan, our group CFO, who will walk you through our financial performance in more detail, after which we can open the call to your questions. Thank you.

Andrew Heffernan: Thank you, Jyoti.

Good morning. And thank you for joining us today. Our performance for the first quarter and fiscal year ended March 31, 2014, is encouraging. Revenues increased by 21.2 percent for $63.3 million in Q4, with currently comparable revenues increasing by 23.4 percent. For fiscal 2014, revenues increased by 9.4 percent to $135.5 million, with currency comparable revenues increasing by 15.8 percent.

Adjusted EBITDA increased by 45.6 percent to $13.1 million in Q4. For fiscal 2014, adjusted EBITDA increased by a solid 42.6 percent to $80.3 million. For reconciliation of non-GAAP financial measures to our IFRS net income, please review our press release that was issued earlier today.

Our current revenue streams are derived from three channels – television syndication, theatrical, and digital ancillary. We released 69 films in fiscal 2013, of which 37 were Hindi language films and the rest were Tamil and other regional languages. This is compared to 77 films in fiscal 2013, of which 30 were Hindi language films and the rest were Tamil and other regional languages.

Of these films, in fiscal 2014, four were high-budget films and 21 were medium-budget films, as compared to six high-budget films and 13 medium-budget films in fiscal 2013. The increase of revenues of both the fourth quarter and fiscal 2014 reflects a strong mix and performance of the film slate released during these periods, along with a strong contribution from our valuable catalog of films.

Constant currency comparable revenues for 3 and 12 months ended March 2013 are $51.3 million and $203.3 million, respectively, based on the average rates of exchange for the 3 and 12 months ended March 31, 2014. I should note that in the 3 and 12 months ended March 31, 2014, the average rate of exchange used to convert Indian rupee to U.S. dollar was INR 60.1 to $1.00 and INR 58.84 to $1.00, respectively.

Turning to our segment performance in fiscal 2014, the overall revenues from theatrical, television syndication, and digital ancillary were $107.5 million, $80.3 million, and $47.7 million, respectively. For fiscal 2014, cost of sales declined to $132.9 million compared to $134 million in fiscal 2013. The decline was mainly the result of a $2.3 million reduction in amortization, due in part to lower capitalized costs of the company's new release slate in the year, as compared to the release slate in the prior year.

Gross profit in the quarter totaled $21.7 million compared to $17.2 million in year-ago period. In fiscal 2014, the gross profit was $102.5 million compared to $81.3 million in fiscal 2013. The company's gross profit margin was 34.3 percent in the quarter compared to 33 percent in the year-ago period and 43.5 percent in the full fiscal year compared to 37.8 percent in fiscal '13.

The increase in gross profit margin in both the quarter and fiscal year is primarily attributable to revenues from the new release slate relative to their cost, as well as significant contribution on revenue and catalog sales, which tend to be a higher margin.

I would like to note that this stage the quarterly or annual changes in margins should not on their own be taken as indications of future margins. Adjusted EBITDA was $13.1 million in the quarter compared to $9 million in the year-ago period. The increase is primarily attributable to the increase in revenues combined with the gross margin changes. In fiscal 2014, adjusted EBITDA increased $24 million to $80.3 million compared to $56.3 million in fiscal '13.

Looking at our balance sheet, debt as at March 31, 2014, it's still at $258.1 million, as compared to $262.3 million, as of December 31, 2013. The cash and cash equivalents totaling $135.4 million. Net debt was reduced by $8.6 million in the quarter ended March 31st and totaled $112.7 million.

Changes to net debt in the quarter were principally driven by cash from operations. Working capital outflows related to certain TV syndication deals and continued investment in the future film slate.

In summary, we believe our business is well positioned for growth in profitability, and we intend to continue to capitalize on opportunities presented by the growing Indian media and entertainment sector.

Now, thanks for listening. Now we'll open it up to questions.

Operator: At this time, I would like to remind everyone, in order to ask a question, press star and number one on your telephone keypad. And, again, that's star, one on your telephone keypad. Our first question comes from Brian Goldberg from Bank of America Merrill Lynch. Your line is open.

Brian Goldberg: Hi, thanks. Just got a couple ones. I thought I would start with a broader macro question. Just curious to get your thoughts on the impact of the recent elections in India on your business or, I guess more broadly, on consumer sentiment and potential, you know, shifts in movie-going or television consumption that you might see coming down the pipe over the next few years.

Jyoti Deshpande: Hi, Brian. I think it's fair to say that the sentiment is very, very positive. The fact that there's a single majority government, the fact that there is a large expectation that the economy will boom under this government, the government is pro-infrastructure, pro-technology, so we think the digital rollouts, the 4G rollouts will all be accelerated. So consumer sentiment at the moment is very high.

You've seen immediate impact in the local stock market, as well. And we think consumer spending will increase and thrive under this government. Also, the government is pro-foreign direct investment within India, so it will attract dollars within India and have policies which invite companies to invest more money into India.

So while our industry is not terribly dependent on regulation, and we're thankful for that, we think consumer sentiment is very positive and it should benefit the already growing in the media and entertainment sector.

Brian Goldberg: Thanks, that's helpful. And I guess to look a little more closely at some of your growth strategies, I guess with HBO India, I was just hoping for an update, I guess, on terms of where you stand with carriage or distribution agreements, how many of – how many potential distributors are still left to go to carry the service. Where do you stand with marketing or where does HBO stand with marketing? And any kind of quantification of subscriber uptake for the service so far would be helpful.

Jyoti Deshpande: OK, I think the update that we gave in our Q3 earnings, which is basically with just (gone live on Tata Sky) which was a big one, because it's an important (DTH operator, and that just came online a few months ago, and we're seeing interesting momentum from being launched on Tata Sky.

However, what remains to say is that it's a new concept where we are asking people to pay a separate fee for two new channels that are advertising-free. And since that launch, we've seen STAR, who is one of the leading content players within the television broadcasting network within India, has come up with a single channel which is premium and HD and (inaudible)

So what we believe will help along the accelerated subscription take-up is if more content players come up with offering and help change the category or help change the consumer mindset where they're currently getting a bouquet of channels for a set price and where they have to set – pay a la carte for premium channels, like we do with international markets.

So still (inaudible) but the potential for (inaudible) in terms of the number of cable and satellite homes and their digitization. Timing is something that we're not able to call, in terms of how fast the conversion will happen.

Brian Goldberg: OK. Great. And then on Eros Now, I just want to make sure I heard you correctly. You said you had 2.3 million subscribers to the service or was that app downloads?

Jyoti Deshpande: 2.3 million free subscribers to our Eros Now YouTube channel.

Brian Goldberg: The YouTube channel, OK, I apologize. And then you had some comments on the TechZone acquisition. Can we go a little deeper on that, just logistically how that's going to help you accelerate the Eros Now strategy? What specifically is this going to enable you to do across, you know, how many telecom subscribers or mobile subscribers? And I guess the timing on when you could actually close and really hit the ground running.

Jyoti Deshpande: OK, sure. So TechZone is a mobile value-added services company, and there are very few of them in India. As you know, there are 12 or 13 mobile operators within India. And there are a few of these companies that (have building integrations done) with these telecom operators in India.

So not to mention – I mean, I don't want to (inaudible) but you have basically (inaudible) and SMS, which are three main areas of monetization of content through mobile platforms. And then you have something called (RBT), which is (ring back tones). Basically, if you ring anyone in India, if you ring their mobile phone, you get to hear a piece of music before they actually pick up the phone, and that piece of music typically is (from a phone), and the person whose phone it is actually pays the mobile telecom operator a monthly fee to be able to have that ring tone on his phone. And as a content owner, we get a share from that (ring back tone).

And what this company called TechZone does is it has building integration through which it does build all these customer transactions for (inaudible) and SMS, other than (ring back tone). The (ring back tone) (inaudible) is done directly by the telecom operator.

So to put it quite simply, they have a transaction traffic of around 25 million transactions per month through all these various means, and that is the kind of customer traffic that is passing through them now. And what we believe is that with the Eros Now content, how do we bring the synergies together to try and upsell Eros Now to that (traffic) or at least (inaudible) billing integration so that when customers want Eros Now, through mobile, we have the billing integration in place. So that is the strategy of the TechZone acquisition.

Brian Goldberg: OK. And then when – I'm sorry, expected close?

Jyoti Deshpande: We hope to get it done in the next two to three months, subject to, of course, you know, some condition (inaudible) and normal procedures, like diligence, et cetera, which we need, too.

Brian Goldberg: OK, thanks. And then I just have one more. Thanks for the color on the fiscal '15 film slate. You obviously called out the higher profile films, but I guess in aggregate, how many films should we be expecting you to release in '15? Is it, you know, 80-film range still a realistic assumption?

Jyoti Deshpande: I think a 70-film range might be realistic, because we're (inaudible) bottom (inaudible) of the films, you know, 77 films like a big number in the previous years, but this year is down to 69, but we've had a growth. So I think it's the quality of the slate, rather than the quantity.

So I think 70 films is a good number. And – but significantly, the major releases, which is the high-end medium films, whether it is Hindi language or regional languages, that is where the focus is going to be rather than the low regional language films.

Brian Goldberg: OK, great. Thank you very much.

Operator: And, again, if you'd like to ask a question, press star, one on your telephone keypad. Our next question comes from Randy Konik from Jefferies. Your line is open.

Randy Konik: Hey, guys, how are you?

Jyoti Deshpande: Hey, Randy?

Randy Konik: Great, great. So can you just give us some perspective on, you know, what's been going on with the distribution agreements outside India? How do you think about geographic revenue dispersion over the next five years? And how would the margin structure differ?

And then, you know, in terms of revenue generation from the existing library, what is that as a percent of total revenues today? And what's the profit margin look like on that relatively speaking? And then where do you think, you know, the library – where could it get to, in terms of the existing content, you know, generate, you know, in terms of your revenue base going forward? Just trying to get, you know, a base level of – base level of revenue generation from that library. How do you think that kind of plays out over the next five years? That's my first couple questions. Thanks.

Jyoti Deshpande: OK, so that was a bunch of questions, and I'll try to take some and pass them on to Andrew. I think, first of all, you ask about the geographical distribution. And I know that we report revenues by customer location in – as (inaudible) as we're required to do that. What I'd like to explain is that revenue by customer location is actually (inaudible) revenues by (inaudible) customers (contracting).

So, for example, if Sony (inaudible) were to contract for satellite rights for India, that revenue is accounted in rest of the world under this matter of allocation and not under India. So it's not – it does not necessarily represent the rights or the underlying rights for which region is being monetized. It's purely going by the customer location.

So to that extent, when you see India declining or the rest of the world going up, it's a trend that you have to look beyond the obvious numbers and see beyond the line trend. So the underlying trend in terms of markets, which markets are growing, India, of course, continues to be a significant market, and we're seeing growth, not just through all the revenue streams, whether – whether it's theatrical, whether it's television, whether it's digital, new media, so India continues to be a growing market for us. And it's the foundation of our business.

Apart from that, from the traditional distribution point of view, which is to (expatriate Indians), we see USA continues to be a strong market. We see that Dubai or UAE continues to be a strong market, followed by U.K. and then Australia.

And then comes the third bucket, which is all the top 10 (inaudible) markets, where you (inaudible) bundle (inaudible) films along with new films, and in this, we're seeing growth not only from Europe, but from Southeast Asia, which is why the rest of the world is quite significant. You're seeing Taiwan, you're seeing South Korea, you're seeing all these new markets which are taking our content and monetizing them locally (inaudible) subtitled versions.

So that is the distribution trend. Should I pass on to Andrew for some more granularity on margins and (inaudible) contributions?

Andrew Heffernan: Yeah. So in terms of margins, I said in the statement, we have large fluctuations in margin, in individual quarters, dependent on when there's major theatrical releases or if there's limited theatrical releases. You can see major variations.

Going to your question, (capital revenues) are very high-margin typically (inaudible) television or digital, you know, they can be in, excluding the amortization cost, above 90 percent, because there's very limited cost in delivery of that.

Where we see the existing business as it is now, the margins, looking forward, we don't see massive variations in them. We're not predicting large upward trends, but where margins will be impacted and will improve is if we add these additional services on.

So, for example, if HBO subscribers grow, then, you know, there is – you know, there's revenue coming in and very limited direct costs, so that will push margin. If Eros Now is able to reach out to an additional audience, you know, the content cost is effectively paid for by the existing business, and so we'll contribute to margin.

So, those are the fluctuations in margin. When we're looking at catalog, you know, I think I've said this before, where we look back to 2005-'06, when the company was very much outside of India, but (doing Indian) content outside of India, close to 50 percent of its revenues then were coming from catalog and the margins were higher.

You know, you're seeing increasing revenues in theatrical, television, and elsewhere. We're seeing increasing revenues of catalog, but over time, you know, currently we were around 25 percent, 30 percent coming from catalog.

You know, we're still trying to push that, and that's what the initiatives with HBO, looking at what we're going to do with TechZone, looking at what we're trying to do with Eros Now, is to continue to drive that.

And going back to one of the earlier questions about, you know, the changing government in India is, you know, trying to – you know, working with the government, if it's investing in infrastructure, if it's – if it's pushing technology, then that will give other opportunities in the cable space and other spaces to monetize. And, you know, that's what we're looking to try and do with the catalog.

So, you know, new release gets a lot of the applause and outlook, but effectively, you know, the (inaudible) catalog is what drives the company.

Randy Konik: Great, thanks. And then I guess a follow-up is, you noted in the press release the 2.3 million free subs on the Eros Now. So if we're just to think about the new businesses, Eros Now, and the HBO partnership over the next 12 to 18 months, which of the two businesses would you point investors to that you'd see more – we would see more revenue progressing? Which of the two businesses at this point do you feel like is going to show the greatest acceleration from this infant stage at this point? Thanks.

Jyoti Deshpande: That's a very hard question. You know, we've got two children, and you're asking us to say who's the apple of your eye. But the outlook is like this. The idea is (inaudible) sum of the parts is to be greater than the whole. We're a content company, and we're monetizing it across all these different channels, and we're seeing as new distribution channels come along, your sum of the parts is increasing the pie and you're not only starting off different businesses with the same piece of content. It's creating value-added services.

So specifically on HBO Asia, well, the potential market is there, in terms of number of cable and satellite homes. The digitization roadmap is there. And like I said before, I think it's a question of changing customer habits. The difficulty is not quite in content or pushing the distribution through, because that is done. The carriage deals are done and the channels are available. It is basically (staging) customer habits from watching (at monetized content) for very little money, so (a Saturday night premio) (inaudible) to get through on a normal cable network with the ads and stuff. And when is the consumer going to see the appeal of watching a piece of content completely advertising free? First (inaudible) theatrical, so it's the first (inaudible) theatrical for television and in HD quality.

So I think, if we give a different analogy, a few years ago people were not used to paying multiplex ticket prices. They were not used to paying for the parking that they have to pay in a multiplex mall. So now that has become a way of life, and I think premium television is in that stage. And literally we welcome competition in this space, because the more number of credible players that are out there offering premium television content, it will help us accelerate changing consumer behavior.

So I cannot say when it'll break out and the subscriber growth will happen, but what we're doing right now is grabbing that share of mind in terms of, OK, if you think premium television (inaudible) HBO, so the share of mind is what we're grabbing right now with very little investment on Eros' part, so we think that's valuable. Whether it takes two years, whether it takes three years, whether it takes five years for it to start really gaining momentum, we don't know.

Coming to Eros now, I think it's a combination of (freemium) and premium. We think there's a market for both. The Indian market itself is quite a large market in terms of volume and quite a complicated market, you have the top 5 percent who are (inaudible) who would have the latest technology, who can afford the bandwidth, et cetera, and then who would be the discerning customer. And then you have the very large middle class, and then you have the ones who are the lower middle class.

So I think the strategy is to have something for everyone, people who don't mind slightly bad quality (inaudible) streaming service, and we will (add monetize) that, and people who for the more discerning customer will have a subscription service, more premium.

And I think 4G rollout is key for (inaudible) already, we're seeing trends where a large majority of the Internet access is through mobile. Smartphone penetration is now about 25 percent of the total – I think it's 860 million mobile subscribers; about 25 percent of that are smartphone users.

So you're seeing the larger screen in the hand, the screen size is increasing, the interactivity is increasing, and we hope to benefit from these technological trends. But we're not able to (inaudible) number on it. At some point in the future, and not very far out in the future, we hope to start sharing more meaningful metrics in terms of class A core subscriber numbers, but right now, we believe, you know, we are (in well stage) and we want to build it a bit further, grow it a bit further before we start sharing actual numbers for these divisions.

Andrew Heffernan: One additional point on that. Obviously, when you compare, you know, outside of India, you know, the U.S. were charging subscription rates of, you know, $7 for Eros Now or five or six pounds in the U.K. Within India, once you get outside a very limited part of the population, actually getting cash payment is one of the difficulties. And with TechZone having (building integration), et cetera, you know, that's another opportunity.

Currently we're – you know, we're seeing vouchers in shops with codes and things like that for access, but as you get more technology developed, you know, actually monetizing it and being able to collect money through some transactional means is one of the things. It's not limited to India. You know, Spotify had similar issues in Brazil, et cetera, when they tried to push there. So, you know, that's one of the things that we're looking at, and that's also going to help the growth of Eros Now.

Randy Konik: Very helpful. Thank you.

Operator: And we have no further questions in queue. We'll turn the call back to the presenters.

Jyoti Deshpande: Thank you for time. Thank you for your interest in our company. And if you have any further questions, do reach out to the management. Thanks again.

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

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