**Eros International Plc**
**First Quarter Fiscal 2016 Earnings**

*Please note: this transcript is an unedited record of what was said at the Eros International First Quarter Fiscal Year 2016 analyst and investor call on Tuesday 18th August. It may be imprecise or capable of different interpretations, or may contain errors. As such, any information or opinion expressed in the transcript should be cross-referenced to other published, verified material before relying on it.*

**Operator**

Good morning, ladies and gentlemen, and welcome to Eros International's first-quarter fiscal year 2016 earnings conference call. 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 published 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 securities laws. The Company's 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 the Company will also discuss non-GAAP financial measures in 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 Ms. Jyoti Deshpande, CEO of Eros PLC. Please go ahead.

**Jyoti Deshpande**

Good morning, everyone. Thank you for taking the time to attend Eros International PLC's earnings call for the first quarter ended June 30, 2015.

Eros International is a leading global entertainment company that co-produces, acquires, and distributes Indian films across diversified distribution channels across 50 different countries and in over 25 different languages worldwide. Our dominant box office market share consistently each year, along with our significant library ownership of over 3,000 films, allows us to be front-runners in the space as new opportunities present themselves on the back of explosive structural growth in India.

Last year was all about delivering the 20 times growth in the last 10 years by crossing the $100 million EBITDA milestone and laying the foundation for the ErosNow strategy, our exciting and unique OTT platform that offers endless entertainment to the consumers with movies, music, television shows and originals.

What you will see starting this year is a systematic strategy which will continue for the next five years to firstly scale our film slate from 65 to 70 films currently to over 100 to 120 films across the next three to five years across Hindi as well as multiple regional languages. Secondly, we will fast-track our execution strategy for ErosNow customer acquisition worldwide through a 360 degree product, content, pricing, distribution, and marketing strategy. Thirdly, we will target new markets such as China, Japan, South Korea, South America through co-productions and other collaborations not only to tap into the box office potential and the television licensing market, but also to create consumer demand for a curated version of ErosNow by partnering with local synergy partners.

With that background, I am pleased to report a strong set of results for the first quarter ended June 30, 2015. Revenues increased by 10.1% to $50 million compared to $45.4 million in the prior-year period. Currency comparable revenues increased by 14.9%. Adjusted EBITDA increased by 43.2% to $11.6 million compared to $8.1 million in the prior-year period. During Q1 FY16 we released a total of 16 films, of which two were high budget, both Tamil, namely *Masss* and *Uttama Villain*, and three were medium budget, including the blockbuster hit *Tanu Weds Manu Returns* and *Dil Dhadakne Do* for overseas only, and the rest were low-budget films.
*Tanu Weds Manu Returns* had an extraordinary run at the box office and ended up grossing over $40 million worldwide, which is reflected in the theatrical skew to the revenues this quarter.

Now let me share some more progress on ErosNow. We did the official marketing launch of ErosNow in mid-July in India with the marketing peg of "TV Se Pahale", which means "before TV", and premiered *Tanu Weds Manu*, just eight weeks from its theatrical run, along with four other premier films. The 360 degree marketing burst included TV ads, print ads, digital advertising, social media campaigns on Twitter and Facebook, etc.

We are pleased to announce that as of end July ErosNow has 26.5 million registered users worldwide, which comprises of three transactional and premium users, a 38% growth to the numbers that we previously announced. Additionally, we announced the production of our four original programs to be aired exclusively on ErosNow later this year. By January 2016 we expect to launch at least one of the original series a month and by 2017 we expect to launch at least two series a month, including second seasons of the 2016 originals.

We have announced our disruptive pricing strategy for the premiums subscription model, which will be implemented through the next quarter. Our two-period premium subscription pricing will offer a user all content on a basic ad-free experience for INR50 per month, which is around $0.80 per month, and our second premium tier will offer access to all of the content as well as features such as high-definition, portability across devices,
offline caching, and other features for INR100 month, which is around $1.60 a month. We believe this pricing is geared towards strong customer acquisition in the future.

Our distribution strategy for ErosNow continues to be platform-agnostic. We have inked an important deal with Bharti Airtel, one of India's largest telecom operators that has launched 4G in over 286 cities, to integrate ErosNow on their 4G platform to combine data and content for a compelling consumer proposition. With over 860 million mobile subscribers in India slated to cross 1 billion by 2017 and 25% of them being smartphone users,
and with 4G launches on the way in over 300 cities, we're excited about the prospects this holds for ErosNow.

Our second quarter has had an extraordinary beginning with the new box office record set by Salman Khan's *Bajrangi Bhaijaan*, which has already grossed in the worldwide box office over $78 million and is the only Indian film to have crossed the prestigious $16 million mark in just three days. The film is gearing for a wide release in China later this year. Our high budget Telegu release, *Srimanthudu*, starring Mahesh Babu, has crossed the INR1 billion, or the $16 million mark, going on to becoming the second-highest Telegu grosser this year. Further releases in Q2 include *Welcome Back*, *Hero*, *Rajini Murugan*, and *Life of Josootty*. This year Q2 is likely to be our biggest quarter, driven by timing of the new releases, although library revenues tend to be more back ended as we get the benefit of the full slate from bundling deals

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Q3 is pegged around *Bajirao Mastani*, the big magnum opus, on Christmas. Other high-profile releases in the year include *Singh is Bling* for overseas; *Sardaar*, which is again a franchise film; *24*, *Dictator*; and a slate of other Indian regional language films. We have full visibility for our slate for FY16 and FY17. Since our near-term slate is substantially funded and the original shows pipeline for ErosNow is budgeted, we do not expect investment in content in fiscal 2016 to exceed the $225 million, which is lower than the $267.2 million we spent in fiscal 2015. Unless we opportunistically decide to spend an additional amount on furthering our slate, ErosNow libraries, we are on track to be free cash flow positive.

We are at an inflection point where we can combine our internal strengths of strong balance sheet, library, and globalist distribution network, and the ErosNow first-mover advantage with the prolific growth in the traditional and emerging distribution platforms within India to significantly increase our profitability as well as shareholder value in the times to come.

With that, let me turn the call over to Prem Parameswaran, our newly-appointed group CFO, to address his maiden earnings call and walk you through our financial performance in more detail. And we will then open the call up to your questions. Thank you.

**Prem Parameswaran**

Terrific. Thank you, Jyoti. Good morning, everyone, and thanks for joining us today. We are off to a strong start, as Jyoti pointed out, in fiscal year 2016 with solid year-over-year growth in our first quarter.

Revenue for the three months ended June 30 increased by 10.1% year-over-year to $50 million. Taking into account the effects of foreign exchange, our constant currency comparable revenue for the first quarter actually was a 14.9% increase. I should note that the average rate of exchange used to convert Indian rupees to US dollars in the quarter was INR63.4 to $1. The increase in revenue in the quarter was driven primarily by the mix from our film slate released during the quarter along with strong contribution from our valuable catalogue of films. In the first quarter we released 16 films: two of which were high budget films, three were medium, and the
remaining were low.

Looking at profitability, EBITDA increased an impressive 43.2% to $11.6 million. That's compared to $8.1 million in the year prior. The increase in adjusted EBITDA is primarily attributable to the successful execution of investing in high-quality Hindi and regional language films that we distribute globally and monetize across traditional and emerging distribution platforms. As Jyoti mentioned, during the first quarter we released *Tanu Weds Manu Returns*, which was a global box office success for us. This release was the first film of the year to gross INR1 billion crore or $16 million at the Indian box office only 11 days, ending with over $40 million in worldwide gross, a testament to the strength and popularity of our growing film slate.

Due to these strong film results, the aggregate revenue from our theatrical stream increased from $19.1 million in June -- the last quarter, to $33.7 million in June 2016. At this point I would like to draw your attention to the notes regarding the use of non-GAAP measures and their uses and limitations contained within our earnings release.

As you know, the Company's primary revenue streams are derived from three channels: theatrical, television syndication, and digital and auxiliary. For the three months ended June 30, aggregate revenues from theatrical, television syndication, and digital were $33.7 million, $10.0 million, and $6.3 million, respectively. The mix of the revenues were approximately 66% of the revenues were attributable to India, and 34% were attributed to the rest of the world.

Given the continued success of ErosNow, growing registered users over 89% from 14 million registered users in February 2015 to over 26.5 million today, we expect a shift in revenue mix over time. Even though the revenues increased, we were also able to decrease the cost of sales by 0.8% to $33 million in the first quarter compared to $33.2 million in the year-ago period. This marginal decrease of approximately 1% was related to a $2.3 million decrease in direct costs due to the mix of films as the two high-budget Tamil films had relatively low and print advertising costs and *Tanu Weds Manu Returns* was a medium budget film with lower direct costs than a high budget Hindi film. This reduction was modestly offset by an increase in amortization costs, reflecting the Company's new release slate as well as additions made to the film catalogue and prior released content.

Gross profit increased $5 million to $17.1 million in the quarter, primarily due to increased revenues in proportion to the cost generated by the new release slate, as well as the timing of contribution of revenues from catalogue sales. As a percentage of revenues, our gross margin was 34.1% in the first quarter compared to 26.8% in the year-ago period.

These strong results with net income increasing by $6.4 million, or 246.2%, have largely led to the increase in adjusted EBITDA of $11.6 million, but I draw your attention to the non-GAAP financial measures as the corresponding notes contained in our earnings release for this figure.

Turning to the balance sheet, net debt at June 30, 2015, totalled $320.9 million, with cash and cash equivalents totalling $155.6 million. Since our near-term slate is substantially funded and the original programming pipeline for ErosNow is budgeted, we do not expect investment in content in the fiscal 2016 to exceed $225 million, which is lower than the $267.2 million we spent in fiscal 2015. Unless we opportunistically decide to spend an additional amount on furthering our slate, ErosNow, or libraries, we are on track to be free cash flow positive by the end of fiscal 2016.

Overall, the business is off to a strong start to the fiscal year and we are excited for the opportunities that lay ahead for our business. We have an impressive slate of films on tap for this coming year and the recent official launch of ErosNow gives us great confidence in the strength of the business going forward.

With that I will turn it back to Jyoti for final comments and open it up for questions.

**<u>Question and answer session</u>**

**<u>Question 1: John Janedis, Jefferies</u>**

Thank you. Jyoti, the 26.5 million ErosNow subs I think puts you well on your way to your targets and so, from a subscriber acquisition perspective or a cost perspective, has it increased over the last quarter compared to a couple of quarters ago? And does the acceleration of the subs allow you to attempt to monetize the subs sooner?

**Answer: Jyoti Deshpande**

Yes, I think it's a combination of factors. You see we sort of give the update from three months ago during the last results, as of that date, and now we are giving you as of July. So we've had the benefit of a couple of weeks of post-marketing to see what the trend is and we can see a pronounced difference post-marketing as well. So we think we have tailwinds behind us, momentum behind us, to get the user base to a very large number. And then now we are going to implement the new pricing, which is much lower pricing than what the rate card is right now, so we think the pricing will be attractive once we launch it out over the next quarter for people to come in at Tier 1 basic and Tier 2 basic. It should encourage people to sign up to premium subscription as well. We'll have to monitor the progress across the next three to four quarters, but we are doing all the things -- we are doing all the right things. We are getting all the right content. We are pricing it right. We are marketing it. We haven't yet started marketing it internationally; that will start this quarter. So slowly we are platforming the marketing in India as well as internationally and we hope to reap the rewards in the coming years.

**Further question**

Okay. And maybe somewhat related: can you give us a little more colour on the original programming? The slate in 2017 sounds aggressive and I was wondering how that affects your programming spend. And can you help us with what it means in terms of maybe either episodes or hours of originals? And will you actually own that content?

**Answer: Jyoti Deshpande**

Yes, content ownership is at the heart of our strategy. That is what differentiates us from any other player out there, whether Indian or international, so all of the content that we create, including originals, will be owned by us. We have a cricket-based show. We have a woman-based show which is edgy and it's a thriller, so we have different genres of programs that we have greenlit. One is an international format that we have licensed for India, and we're going to remake it in India with popular movie stars.

We've mixed it up a little bit. We're targeting the youth, of course. Average age of Indian being under 29, so these are young, edgy shows and very different to what the programs on TV currently are, which are mainly targeting the housewife. And in terms of costs, unlike probably what our international peers have to spend on making a high-quality series, we could make a 13 episode season one for $2 million to $2.5 million. So investing in 12 shows a year would be $20 million or $25 million. It is not a lot and we are going to make that investment for sure, and we will scale it up in the years to come.

**Question 2 - Eric Y. Katz, Wells Fargo**

Thank you. What are your thoughts on conversion rates to monthly paying subs in India with the new pricing strategy? Why did you pick those rates and what month do you expect the new pricing to start? I'm just curious if this disrupts the marketing campaign at all since this is all happening after the campaign.

**Answer: Jyoti Deshpande**

The marketing campaign was all about the content. It was not about the pricing at all, so the marketing campaign was basically saying here is a disruptive strategy where you are getting content, “TV Se Pahale”, “before TV”. So the marketing peg for the content was here is a one-stop shop that provides you with endless entertainment and latest movies before TV. So that is what we want to encourage registered users and not really highlight the pricing right now. We want more and more people. *Tanu Weds Manu* was available free, so it's not like we blocked it. So anyone who came in and signed up could see *Tanu Weds Manu* free. But the idea in terms of the long term is that the current pricing is around INR299, which is 4 times, 5 times more we are contemplating. And if you compare it to television, if you look at other forms of entertainment you have -- you get a bouquet of basic channels on cable. Of course with that you will get 200 channels for that similar price of INR300, or $6 or $7 you will get 300 channels. So we decided that OTT platform we should price it attractive such that people don't think twice about spending it and then you will increase ARPU over time by adding new content verticals. You'll add kids, you'll add international, you will add lifestyle. So you'll add different genres of content and increase the ARPU over time, but right now what we want to try and do is convert a large percentage of the user base very quickly to premium subscriptions. Of course all of the things are not under our control alone. 4G growth has to happen. Broadband growth has to happen. So the user experience is not just a function of all the cool things that we do, it's also a function of broadband and bandwidth. So we think the two will converge in the next couple of years and premium subscriptions should take off at a decent momentum in the next couple of years. Meanwhile, we have kept it attractive to grab the low-hanging fruit at least.

**Further question**

I think the music piece of your business is underappreciated. Can you talk about your position here versus others in the space, how much of a role music plays? And was that something that was instrumental in your marketing campaign as well?

**Answer: Jyoti Deshpande**

Basically, music is something where there are other apps that also offer music, so I think the combined power of being a one-stop shop that offers movies and lots of them exclusively, music, our content exclusively, and some of the others that we aggregate, including South Indian labels which is a differentiator; and TV originals, TV catch-up shows, since we only have linear TV in India and there's no way to catch up on those shows again, having the shows on ErosNow 48 hours after they are shown on TV is quite compelling and people can binge watch them without ads; and then the originals. So I think it's the combined proposition. Yes, music, we have hundreds and thousands of tracks and music videos available, which is very, very popular especially for the mobile subscriber user, where short-form content is quite compelling as well. So they come when music is played exclusively and then they also watch other stuff and convert to becoming a registered user.

**Question 3: Tim W. Nollen, Macquarie**

Thank you. I don't look at your Eros India Media Limited India subsidiary all that closely, but I noticed that they had some different growth figures, at least for revenue. I believe a bit higher for EBITDA as well. I wonder if you could just -- just curious what the differences are between that and you, Eros PLC.

**Answer: Jyoti Deshpande**

So basically there was a one-off transfer of the digital rights from India to our international structure for PLC, which was done intercompany, which in consolidation gets knocked off. So the Indian revenue growth, if you look at that -- if you look without that transaction, was around 37% growth and not really 96% growth as is apparent on the face of it.

**Further question**

Okay. Can I ask you a couple of things as well? Could you address, please, the potential entrance of Netflix to India and how you see that panning out? And then, secondly and separately, or thirdly I guess and separately, I see you finally managed to close the Techzone transaction. That has been a long time coming. Just curious why that took so long to actually close. And then, I think I understand, but if you could just walk through the advantages of that are for the ErosNow platform, please.

**Answer: Jyoti Deshpande**

Okay, perfect. So sure, Netflix is welcome to come to India. Probably it will help market the category and increase the consumption through OTT platform. Netflix is likely to come in with just their original content because the English movies are already scattered and fragmented to other players already, like the existing television players and the like. English content, in terms of a box office benchmark for you, contributes about 8% to 11% of the total Indian box office. It's an attractive niche market for high-quality franchise films at the moment. If Netflix wants to offer Indian content and really attract the mass-market then probably they will get talking with players like us to see if there are any synergies. That is how we see their strategy playing out.

In terms of the other question that you asked about Exxon and the synergies, of course the deal took a long time to conclude because it involved a consideration in shares and FIPP approval because we are a foreign company. So regulatory approval was what took this long, so it was procedural, but it's integrated as a 100% subsidiary of ErosNow and we are actively marketing. Techzone has over 40 million to 50 million transactions going through its backend every month through its billing integration with all the major telcos in India. So we are leveraging the telco relationship; we are cross-marketing our ErosNow platform through

those subscribers that Techzone has and trying to convert some of them each month to monthly registered users of ErosNow.
So we see synergies. We are building enough purchasing capability using the Techzone billing integration and so on and so forth. So it's definitely a complementary to our ErosNow strategy.

**Question 3: Bryan Goldberg, Bank of America Merrill Lynch**

Thanks, I've got a couple. First on ErosNow. Aside from the premium subscription offerings, ad sales seems also like a meaningful part of the opportunity. Can you just update us where the Company stands with respect to assembling the manpower, either internally or working with external firms, to go out and take advantage of the advertising opportunity? And then what more needs to happen to drive real advertiser buy-in of the platform and what metrics do they need to see to really -- for us to really see the floodgates open up here?

**Answer: Jyoti Deshpande**

Okay, so in terms of recruitment, we've got a team on board and our head of revenue is a gentleman who used to work with Star TV, which is the number one TV channel in terms of ad sales. He comes from that background and has deep relationships with all the brands and he is building a bigger team around him. His name is (inaudible). So the team is in place. And for the launch we partnered with MindShare, who are the biggest media agency for ad sales in India, and in fact during the launch all of our
merchandising and posters and campaign was displayed all across the MindShare offices to increase their sales people to sell and things like that. So we got brands on board for the launch. We had a brand partner called Videocon who came in and sponsored our *Tanu Weds Manu* launch, but we think that this can be an exciting
opportunity. Goldman Sachs says in the next 10 years it would be a $2-billion-plus kind of an opportunity, which is not insignificant given that television advertising currently is just over $2 billion. So we're excited.

What we think we need to do to convert ad revenues a bit more is we have just only switched on the ad ability. We had switched it off until now. We've only just switched it on. But we need to invest more time in data analytics and share some more data with advertisers, which we are unwilling to do just yet. Just like all of you are curious for data and we aren't sharing anything beyond Tier 1 data. We are going to give it another six months of build and then we will have ad decks and we'll start monetizing on a serious nature. Right now we're taking brands on board who don't want too much data, but who just want the association.

**Further question**

With the scaling of the platform now and increased content availability, how has the rollout of this service impacted the dialogue that you are having with the traditional syndication buyers of your film content? Is it helping you with pricing power? Is it making discussions a little more contentious? Is it tougher to get the rate increases or no change at all? Just kind of curious what's going on there.

**Answer: Jyoti Deshpande**

So right now they are sitting up and taking notice, we definitely have their attention. But we did manage to secure a deal for *Tanu Weds Manu* and the other films that we bundled with it, including four or five other premiers, after the ErosNow carve out. So in terms of experience, it has not impacted us at all so far, but we will see. As we grow there may be a little bit of pushback in terms of licensing deals, television licensing deals, etc. But because we own the content and we sort of control the window in, we think that even if there is an impact it will not be -- minuscule. It will be more than compensated by the new revenues and new value creation from ErosNow.

**Further question**

Okay, great. And then I've got I guess it's more of a housekeeping question about some comments you made about the future film slate as you ramp towards 100, 120 films per year. And I apologize if you addressed this in your prepared remarks, but can you help bridge us, at least conceptually, from the current 60 to 70 film slate size? Will the incremental films be a balanced mix of what your slate looks like today, high and low budget? How many are going to come from Trinity Pictures or your Chinese co-production deal? Any kind of colour there you can provide would be helpful.

**Answer: Jyoti Deshpande**

Basically, right now we just tell you 60 films or 65 films a year and about eight films are high budget and 15 to 20 films are medium budget and the balance are low budget. We are only dividing up the films on budget and actually, if you look across the slate, the growth will come from the regional slate. So if you are doing 120 films, you may still end up doing 30 films in Hindi across high, medium, and low, and you may still do only eight films which are Hindi which are high budget or it may even be six, but you will do 10 films in Tamil, 10 films in Telegu, 10 films in Kannada, Malayalam, and so on and so forth. And a Malayalam high budget film is actually $1 million. A Tamil high budget film can be $8 million. So that differentiation in revenue model is what we will have to help you build, which we will as this strategy pans out a little bit more.

**Further question**

Thank you. And then, finally, just your ability to go out and source all this incremental film content, quality film content, I'm just curious are there--? What are the most significant challenges in your ability to actually scale to this size? Is there enough decent output out there or how should we think about that?

**Answer: Jyoti Deshpande**

We can see that the power of our brand has already populated across all the regional space. We confidently say this because as we speak we have three Bengali greenlit, about six or seven Malayalam greenlit, a couple of Marathi greenlit, so Telegu and Tamil we have always been strong anyway so it's just a question of taking back to the next level. We have been working on this for the last couple of years already and we are already at that point where we see visibility in our ability to scale this quite successfully. We have given ourselves three to five years, but it's a question of how much we want to spend. If we want to do it earlier, we are in a position to do so.

**Question 3: Justin Weil, Kalex Advisors**

Thank you. Two quick questions, if I may. First one, have you guys -- regarding the new pricing strategy for the subscription models, have you guys done any market research or surveys or anything to consumers over there in India as to who might be willing, accept paying this price in terms of percentages or any kind of feedback you have? Second question is regarding -- I haven't taken a look at your recent -- the balance sheet with this release, but where do you guys stand in terms of funding? Obviously, you are going to need to spend a lot more money on ErosNow going forward. What are your plans in that capacity? Thank you.

**Answer: Jyoti Deshpande**

Thanks for that question. So number one, we had the benefit of keeping it in soft launch for over 18 months, where we grew our registered user base to a fairly large number. We use that user base as a research base to collect data, find out price points, because it already had a $4.50 price point attached to it. So the premium service was available but we didn't convert a lot of people at a $4.50 price point. We used our large user base to learn more: what are they comparing it to and what are the price points that will excite them, and for what features are they willing to pay more? We also access other third-party researches, general consumer researchers, on what price points in which social economic and demographic groups. What do they spend on? How much do they spend on? They may not be related products, because there aren't similar -- too many similar services available, so you do have to rely on comparing a little bit of apples and oranges. Based on that over a two-year-period study, we have come up with this segment.

**Answer: Prem Parameswaran**

Just to add on your balance sheet question, we are actually lowering our Capex this year to $225 million from $267.2 million, which we talked about. So we are actually spending less, so hopefully that gives you comfort.

**Answer: Jyoti Deshpande**

And we are well-capitalized. If we needed to spend more, we wouldn't have to raise more capital necessarily.

**Jyoti Deshpande**

Well, thanks again for asking all these questions, being interested in our company. It's showing in the growth in the share price as well, so we want your continued support. We will want to concentrate on our strategy and execution, and we will continue to try and give you more and more information, especially about ErosNow, as we also learn more about the service. So thank you again and speak to you in three months' time.