



Press release

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Xilam reports its H1 2019 results

High margin rate maintained despite seasonal revenue effects, demonstrating the strength of the business model

2019 objectives restated

Xilam Animation (ISIN: FR0004034072, Ticker: XIL), an independent producer and distributor of animated programmes, is reporting its results for the first half of 2019, as approved by its Board of Directors on 24 September 2019 at a meeting chaired by Marc du Pontavice.

<i>(€ thousands)</i>	First-half 2019 ⁽¹⁾⁽⁴⁾ IFRS 16	First-half 2018
Revenue from new productions	2,962	3,963
Subsidies and other income ⁽²⁾	1,844	4,502
Total revenue from new productions	4,806	8,465
Catalogue revenue	3,055	5,385
Other revenue	25	16
Total revenue and other income⁽²⁾	7,886	13,866
Other recurring operating revenue (including audiovisual tax credits)	648	1,081
Total operating revenue	8,534	14,947
Operating expenses	(5,488)	(9,581)
Adjusted recurring operating income ⁽³⁾	3,046	5,366
<i>% of revenue</i>	38.6%	38.7%
Operating income	2,535	3,745
<i>% of revenue</i>	32.1%	27.0%
Net income	1,613	2,603
<i>% of revenue</i>	20.5%	18.8%

⁽¹⁾ The auditors' limited review of the interim financial reporting has been completed, and the interim financial report will be available on Xilam's website by 30 September 2019 at the latest

⁽²⁾ This amount does not include audiovisual tax credits

⁽³⁾ Adjusted recurring operating income is operating income restated for the impact of free share allotment plans and other non-recurring operating revenue

⁽⁴⁾ IFRS 16 - Leases has been adopted with effect from 1 January 2019, without comparative periods being restated



Strong growth in ongoing production volumes

Xilam was very active on the production front during the first half, with 6 series currently underway for a total of 182 half hours: *Moka*, *Coach Me If You Can*, *Zig and Sharko* season 3, *Chip 'n' Dale*, *Les Contes de Lupin* and *Oggy Oggy*. That represents a record volume indicative of the high activity levels and strength of future revenue streams.

The total revenue and other income recorded in the first half of 2019 (€7.9 million) does not reflect these trends however, because delivery volumes were low as a result of a combination of several factors:

- new productions (€4.8 million vs. €8.5 million):
 - the lion's share of revenue and subsidies from a series is recorded once delivery is completed. As a result, the level of revenue in a half-year period is contingent upon the delivery cycle. In this instance, H1 2019 revenue was affected by an unfavourable base of comparison since delivery of only one series (*Mr. Magoo*) was completed, with three series commencing delivery. Conversely, delivery of three series was completed in the first half of 2018.
 - this timing difference has grown larger with the entry into force of IFRS 15 because it requires revenues to be recognised when broadcasters gain the right to use content rather than when the programmes are delivered.
- catalogue revenue (€3.1 million vs. €5.4 million): major contract renewals are anticipated during the second half of 2019.

Given these factors, Xilam notes that performance in any half-year period taken individually may be affected by cut-off, seasonality and/or other effects arising from the introduction of new IFRS. This snapshot does not reflect the growth in Xilam's business. Annual or even multi-year figures are therefore required to capture its momentum.

High margins maintained, demonstrating the strength of the business model

The operating margin improved by +5 points to 32.1% (vs. 27.0%) even though revenue was held back by seasonal effects. This performance was attributable to:

- tight fixed cost control (expenses grew at a slower pace than production volumes)
- the improvement in gross production margin owing to an increase in prefinancing
- the reduction in payments to third-party right-holders
- the reduction in non-recurring operating expenses (free share allotments and relocation of head office).

Xilam's business model, which is founded on total integration of the value chain, is hereby delivering its full benefits.

After taking these factors into account, net income came to €1.6 million (vs. €2.6 million), with the net margin moving up 1.7 points to 20.5% (vs. 18.8%).

Solid financial state

With close to €14 million in cash and cash equivalents, Xilam now has the requisite financial resources to press ahead with its expansion and achieve its targets.



Highlights

- Since the beginning of the year, Xilam has made a significant breakthrough in the US market and especially on streaming platforms. Its main achievements include:
 - a global distribution agreement with **Netflix** covering *I lost my body*, which won the Grand Prize at the Critics week at the Cannes Film Festival. The highly attractive terms and conditions secured in this agreement speak volumes about the quality and innovative nature of a R&D development that has broadened Xilam's potential appeal to adult audiences.
 - An agreement with **Disney+** to produce *Chip 'n' Dale*, an animated series to be handled by Xilam's teams from start to finish (creation and production). This will be one of the very first original animation series to be broadcast on the forthcoming Disney+ platform and has been allocated a budget well above European standards.

Xilam has thus secured prime access to the global streaming platforms, leading to a substantial increase in its average price per half-hour sold.

- Xilam has also announced the acquisition of Cube Creative, a computer-generated-image specialist. Cube Creative, a well-known player at the high end of the market (working with leading brands and theme parks), is expanding very rapidly, and is shifting its business model towards original IP production, with a handful of successful series: *Athleticus* (broadcast on Arte), *Kaeloo* (on Canal+, Teletoon+, C8), *Tangranimo* (for France Télévisions) and *Pffirates* (for TF1). Xilam's editorial and commercial expertise should help lift Cube Creative's margins to levels on a par with its own margins.
- Lastly, Xilam has strengthened its finance department with the appointment of Fabrice Cantou as Chief Financial and Strategy Officer. His digital expertise and international experience, including a period in the United States, and his track record of acquisitions make him a perfect fit with the Company's development strategy.

Exciting prospects beyond 2020

Xilam is restating its targets of 80 half-hours to be delivered in 2019 and 100 half-hours to be delivered by 2020. Looking further ahead, the Company possesses genuine strengths enabling it to capitalise on a booming market.

Ideally placed to capitalise on the streaming war between US broadcasters. Xilam's relationships with the leading US content platforms are still in their very early days and are expected to ramp up substantially over the next few years. Existing streaming platforms (Netflix and Amazon Prime Video) will be joined by at least four new platforms (Disney+ and Apple TV+ in 2019, followed by HBO Max and NBC Universal in H1 2020), which is expected to provide a boost for both growth in new productions and in the catalogue.

Highly favourable regulatory trends in the short term. The regulatory framework governing audiovisual production will be highly favourable for independent producers and especially for those with a strong international footprint. The enactment into French law of the European directive on Audiovisual Media Services (AMS) introduces two major reforms that will apply with effect from 1 January 2021. The law will require all channels and audiovisual content distribution platforms i) to make sure that at least 30% of their content is of European origin, and ii) to comply fully and completely with the local regulations, where they



operate in France. These reforms should foster even greater catalogue-related demand from US platforms, which will also have to invest between 16% to 20% in French production, including 7% to 10% in independent production.

About Xilam

Xilam is one of Europe's leading animation companies, producing and distributing original children's and family entertainment content across TV, film and digital media platforms. Founded in 1999 by Marc du Pontavice, the award-winning Paris-based company owns a catalogue of more than 2,000 animated series episodes and 4 feature films, including such household brands as Oggy & the Cockroaches, Zig & Sharko, The Daltons and its first preschool series, Paprika. Broadcast in over 190 countries on all the major global children's TV networks, these series are also breaking records on all the major digital platforms, including YouTube with over 600 million views per month, ranking Xilam among the top global content providers in the realm of animation. Xilam employs over 400 people, including 300 artists, who work in its four studios, located in Paris, Lyon, Angouleme and Ho Chi Minh City in Vietnam. Xilam is listed on the Euronext Paris stock exchange, Compartment B – Eligible investment for French Deferred Settlement Service (SRD long) and Equity Savings Plans (PEA).

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