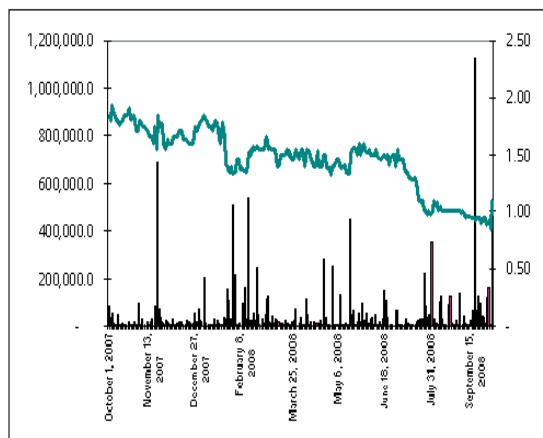


DHX Media (DHX - \$1.10) News Update

Deal Price: \$1.59
Outperform



Market Capitalization	\$47.1 million
Outstanding Number of Shares	42.8 million
Options and Warrants (as of June 30, 2008)	6.3 million

Estimates (\$ million except per share data)

	2009E	
Revenues	62.9	
EBITDA	6.3	
EPS	0.04	

DHX Media is one of Canada's leading independent suppliers of television and film productions. The Company produces, distributes and exploits ancillary rights from television and film programming that covers all genres with a significant focus on children, youth and family content.

September 30, 2008

DHX Media announced its year-end financials for its fiscal year of 2008. Eclipsing the financial news with a surprise, the Company announced that it entered into an agreement to merge with another company, Entertainment One (AIM:ETO) in a form of reverse takeover. Deal value (\$1.59) as compared to DHX's current market price seems favorable considering the tight market conditions.

The announced year-end financials are in line with our estimates with an exception. The Company wrote a significant impairment loss in the value of its film and tv productions with the largest share (\$2.2 million) belongs to its feature film "Shake Hands With The Devil". This non-cash non recurring item (approximately \$2.8 million) also caused the Company to record a net loss for the year.

Briefly, DHX increased its sales revenue by 102% from approximately \$26 million to \$52.4 million in 2008. Excluding the one time write off, the Company managed to increase its EBITDA from \$3.8 million to \$5.0 million. With the impact of the write off, DHX announced \$1.0 million net loss as compared to \$1.2 million net income of 2007.

Our valuation of DHX is based on the weighted average of our DCF model and market multiples. Although we have not changed our assumptions in our model, the peer group multiples have declined significantly due to unfavorable market conditions. As a result, we will revise our target price and/or issue another update upon realization of the scenarios explained in this report.

As a result of an existing offer of \$1.59 for the company, we are not assigning any other target value for the stock. Considering that the market value of the Company is still trading at 45% below this level, it falls into our "outperform" category. However, we encourage our investors to keep an eye on the developments related with the proposed transaction.

The Deal

DHX entered into an agreement to combine with Entertainment One (E1) for \$1.59 per DHX share. It is intended that the combined company will be listed on both AIM and the Toronto Stock Exchange. The proposed transaction is expected to be completed by the end of December 2008 and will be structured as a reverse takeover of E1 by DHX. Following closing of the proposed transaction, the combined company will be named Entertainment One.

Pursuant to the terms of the proposed transaction, E1 shareholders will receive one newly issued common share of DHX for each E1 share held. DHX shareholders will be offered the alternative of receiving either 0.9409 newly issued common shares for each existing DHX share held or \$0.3975 in cash and 0.7057 newly issued common shares of DHX for each existing DHX shares held. If all DHX shareholders elect the share and cash alternative, upon completion of the proposed transaction, DHX shareholders will own approximately 17% of the combined company. If all DHX shareholders elect the all share alternative, upon completion of the proposed transaction, DHX shareholders will own approximately 21% of the combined company.

The closing of the proposed transaction is subject to certain conditions including the receipt of interim and final orders in respect of the E1 Scheme of Arrangement in the Cayman Islands by the Grand Court of the Cayman Islands and the CBCA Plan by the Ontario Superior Court of Justice, receipt of approvals of the proposed transaction by the shareholders of both E1 and DHX at special meetings to be convened following receipt of the above mentioned interim orders, receipt by E1 and DHX of consents of their respective significant lenders, receipt of approval of the TSX to the proposed transaction and re-admission of the new common shares of the combined company to trading on AIM.

The CBCA Plan will require the approval of at least 66 2/3 per cent of the votes cast by DHX shareholders at the DHX meeting. A break fee equal to approximately 3.5% of the DHX value or \$2.38 million may be payable by either party in certain instances, including the event that DHX enters into an agreement in respect of a superior proposal to acquire DHX.

The Suitor

E1 (AIM:ETO) is a leading international entertainment content ownership and distribution company with operations in Canada, the US, the UK, Holland and Belgium. E1 focuses on the acquisition of film, television and music content and exploits these rights in all media across its international distribution network. E1 also owns Koch Entertainment, the largest independent record label in North America and a leading independent distributor of music and video in the United States.

E1's annual gross revenue for 2008 is GBP 264.4 million and underlying EBITDA is GBP 18.6 million. E1 stock had approximately GBP 100 million market capitalization during the preparation of this report. Approximately 60% of E1's gross revenue for 2008 is derived from its distribution business, 24% from filmed entertainment, 7% from music and 9% from other businesses. E1 completed 5 acquisitions last year and intends to grow both organically and through acquisitions. In mid September of this year, it has agreed a new four-year US\$150 million senior credit facility led by JP Morgan to replace its existing debt facilities and provide additional capital for future growth.

Possible Scenarios

This reverse takeover news was a surprise to us in two ways. First, DHX has been on a growth track itself to take advantage of acquisition opportunities. The company has \$8.8 million in its cash reserves to go through a difficult market patch and is in no immediate need of financing. The combination of these two facts made us think that DHX would be a suitor rather than a target. Secondly, the deal value in absolute terms is well below our previous target price. Although, there seems to be a premium over the market price of DHX of around 87% at pre-announcement and 45% at post-announcement, the deal price is only 4% over the company's book value.

Highlights:

- DHX will be a division of the combined company. Senior management with the exception of Michael Donovan will remain at the company.
- DHX integration will be almost immediately accretive to the combined company.

Our valuation:

Our valuation of DHX is based on the weighted average of our DCF model and market multiples. Although we have not changed our projections and assumptions for our model, the peer group multiples have declined significantly due to unfavorable market conditions. As a result, we will revise our target price and/or issue another update upon realization of the following scenarios.

Scenario I - Deal goes through

If necessary shareholder and regulatory approvals are received, the key for both companies is to run the integration as fast and efficient as possible in order to take advantage of leveraging the newly added library of DHX into E1's distribution potential. As we mentioned above, the deal price of \$68 million is slightly higher than the company's shareholder equity of \$59.7 million. In fact, the deal price equals to the sum of the book value and the cash reserves of the Company. Considering the obvious synergy between two companies, we believe that this price for DHX shares would be at the low end of any negotiation. On the other hand, regardless of market conditions, DHX will be a part of a larger and growing entity through which DHX shareholders might expect certain return for their investments. And adding market conditions into picture, shareholders are getting a boost to the market price of the stock.

Scenario II - Deal does not go through due to an existence of a "superior proposal"

As we stated in Scenario I, this deal price set the minimum price for any further negotiation. Although it is not an auction process, we believe that there may be other interested parties once the intention of the DHX board and management is clear. Considering a low break fee of \$2.38 million, this merger announcement may act as a sign of opportunity for other suitors. Naturally this would result in increase in the price and shareholder return.

Scenario III - Deal does not go through due to other reasons

In case of the deal falling through due to other reasons than another proposal, both parties will continue their business as usual. DHX will continue to pursue its growth strategy. Our estimations for 2009 and 2010 are presented below.

\$million except per share data	2008	2009E	2010E
Revenue	52.4	62.9	75.5
Gross Profit	17.3	21.1	25.7
EBITDA*	5.0	6.3	11.1
Net Income	(1.0)	1.7	4.4
EPS	(0.03)	0.04	0.10

Source: Citadel Securities Estimates

* EBITDA does not include the non-recurring write off of \$2.8 million

Recommendation

As a result of an existing offer of \$1.59 for the company, we are not assigning any target value for the stock. Considering that the market value of the Company is still trading at 45% below this level, it falls into our "out-perform" category. However, we encourage our investors to keep an eye on the developments related with the proposed transaction.

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