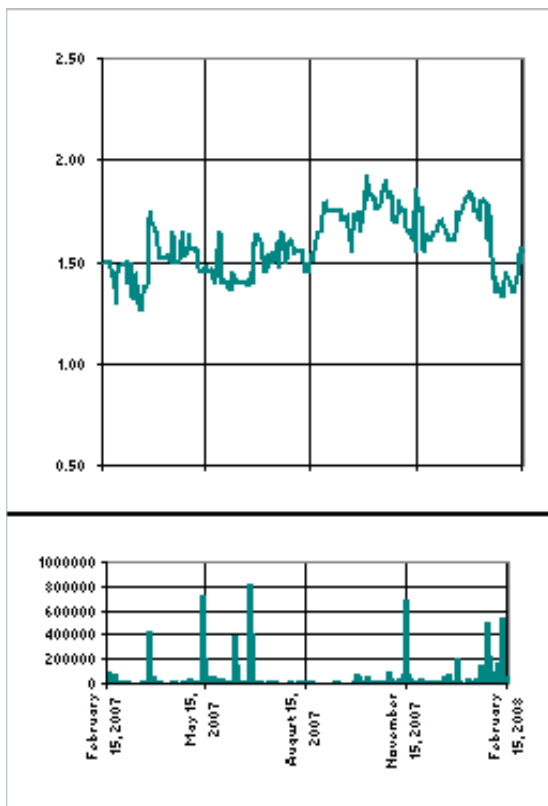


## DHX Media (DHX - \$1.55) Earnings Update

**Outperform**  
**Target Price: \$2.50**



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.

**February 18, 2008**

DHX Media announced its second quarter financials for its fiscal year of 2008. The Company's half year revenue increased by 107% to \$20.5 million (2007 1H: \$9.9 million), gross margin declined slightly to 33% and the Company posted \$0.511 million net income. The increase in revenue was mainly due to the growth in DHX Media's production and distribution revenue category.

DHX Media recently announced the acquisition of all of the outstanding shares in Studio B Productions Inc. (Studio B). Studio B had projected unaudited net income of approximately \$1.4 million for the Fiscal 2007 on unaudited assets of approximately \$15.3 million as at the Fiscal 2006. DHX paid \$8 million in cash against a total purchase price of 4.5X the average of Studio B's Fiscal 2007 and the year-ending October 31, 2008 (Fiscal 2008) EBITDA up to a maximum amount of \$20 million.

With this recent purchase, DHX currently maintains a library of over 2,150 half-hours of mostly children and youth-oriented television productions.

As a growing producer and distributor of television programming and interactive content, DHX Media is positioned to benefit from its strategic investments. We have revised our estimates and valuation for the Company while keeping our recommendation unchanged.

Market Capitalization	\$66.0 million
Outstanding Number of Shares	42.6 million
Options and Warrants (as of Dec 31, 2007)	8.3 million

**Estimates (\$ million except per share data)**

Revenues	2008E	41.6
EBITDA	2008E	5.8
EPS	2008E	0.06

## Half-Year Financials

DHX Media announced its 1H financials. Revenues increased by 107% as compared the same period last year. This increase was mainly due to the growth in the Company's production and distribution categories. Proprietary production revenues for 1H 2008 of \$15.2 million were up 226% over the \$4.6 million for 1H 2007. In the Proprietary Production category, not only Halifax Film and DECODE recorded significantly increased revenues, but also the Company's recent acquisition (Studio B) provided \$601,000 (approximately a month's revenue). For 1H 2008 distribution revenues were up 17% to \$3.9 million from \$3.3 million for 1H 2007. Gross margin was \$6.8 million (33%) versus \$3.4 million or 35% of revenue for the same period last year. Management expects it to be between 25-40% for the coming periods.

## Studio B Acquisition

The Company has been growing while increasing its content library organically and through acquisitions. Recently DHX Media purchased all of the outstanding shares in Studio B Productions Inc. (Studio B). Studio B is a privately owned producer of primarily children's programming. The company has a library of over 400 half-hours of children's programming content. The deal terms include an initial cash payment of \$8 million against a total purchase price of 4.5X the average of Studio B's Fiscal 2007 and the year-ending October 31, 2008 (Fiscal 2008) EBITDA up to a maximum amount of \$20 million. Any further potential consideration payable by DHX Media is subject to Studio B meeting certain financial performance benchmarks for Fiscal 2007 and Fiscal 2008 and would be paid 30% in cash and 70% in shares of DHX Media.

Headquartered in Vancouver, BC, Studio B is a leader in its field of kids' entertainment. The company is the producer of popular and award-winning properties such as Ricky Sprocket - Showbiz Boy, Being Ian (TM), The Amazing Adrenalini Brothers!, Class of the Titans (TM) and George of the Jungle, a co-production with Classic Media set to air on Cartoon Network U.S. In addition, Studio B will launch two new properties in 2008, Kid vs. Kat, an original series with YTV and Martha Speaks, a co-production with WGBH Boston. DHX Media already announced that it has an agreement in place to sell distribution rights to this animated series to Jetix Europe. Jetix has also the distribution rights of another DHX production, Urban Vermin.

Studio B had projected unaudited net income of approximately \$1.4 million for the Fiscal 2007 on unaudited assets of approximately \$15.3 million as at the Fiscal 2006.

## Other developments

Right after the Q1 financial announcement, the Company completed a strategic investment in privately held Tribal Nova Inc. by acquiring a 16.77% interest in the company for cash consideration of \$2 million. Based in Montreal, Tribal Nova is an established, on-line game developer and operator of gaming and video-on-demand (VOD) broadband channels for children 3 to 12. Tribal Nova commercializes these channels in partnership with major children's TV broadcasters and Internet Service Providers in North America and Europe, and shares significantly in subscription revenues. Tribal Nova recently launched its first channels in France and is planning to launch in the USA in early 2008, in partnership with a US TV children's broadcaster. Tribal Nova investment is a part of the strategic plan of DHX management to exploit its content library on a broader platform.

Late November last year, DHX completed a deal for its new live action series The Latest Buzz with SuperRTL of Germany. DHX also received a second season commission for The Latest Buzz from The Family Channel in Canada as previously announced last year.

Early this year, the Company announced the commissioning of a new preschool television series entitled Animal Mechanics. The series of 40, 15 minutes episodes is produced by DHX Media's Halifax Film unit, and distributed by DHX Media's DECODE Enterprises unit. The series has been commissioned by the CBC, which has been granted broadcast rights for Canada for six years, while DHX Media retains the rights to the series for all other jurisdictions.

## Private Placement

On November 13-14, 2007, the Company issued a combined 9,815,000 units from the treasury at a price of \$1.80 per unit for aggregate gross proceeds of \$17.7 million. Each unit consists of one common share and one-half of common share purchase warrant. (Exercise price:\$2.10 and Expiry: Nov 13, 2010)

## Estimates

We have changed our revenue estimates upward, due to the changes in the Company's revenue stream, i.e. recent acquisitions. Below is our estimate table:

\$million except per share data	2007	2008E	2009E
<b>Revenue</b>	26.0	41.6	49.9
<b>Gross Profit</b>	9.7	14.6	17.6
<b>EBITDA</b>	3.8	5.8	6.9
<b>Net Income</b>	1.2	2.4	3.0
<b>EPS</b>	0.04	0.06	0.07

Source: Citadel Securities Estimates

## Valuation

As a result of the change in our estimates and change in market multiples of the peer group, we revised our valuation and target price. Our new target price is \$2.50 for the stock over the next 12 months. We keep our recommendation unchanged.

## DISCLAIMER

Citadel Securities Inc. and its affiliates do not beneficially own more than 1% and do not exercise control and direction over greater than 10% of any class of the securities mentioned in this report as of the month end immediately preceding the date of the publication of this report.

The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research does not have any position (long/short) in the shares or derivatives or any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.

Citadel Securities Inc. has been in the selling group for the financing of the Company in the 12 months preceding the date of the publication of this report. The research analyst has not received compensation based upon revenues from Investment Banking Services in the 12 months preceding the date of the publication of this report.

No partner, director, or officer of Citadel Securities Inc. or research analyst involved in the preparation of this report provided services to the issuer for remuneration in the 12 months preceding the date of the publication of this report other than normal-course investment-advisory or trade-execution services.

John William Ritchie, a director of the Company, is a shareholder of Citadel Securities Inc.

Citadel Securities Inc. is not making a market in equity or equity-related security of the Company mentioned in this report.

The research analyst has visited the headquarters and operations of the Company.

All information contained in this report has been obtained from sources Citadel Securities Inc. believed to be reliable but is not guaranteed by us and may be incomplete. Any opinion expressed in this report is based upon our analysis and is subject to change. This report is prepared for purposes of providing information to investors who are expected to make their own investment decisions without undue reliance on this report. Therefore, no article or statement can be construed as a solicitation or offer to buy or sell the securities mentioned herein.

Citadel Securities Inc. may act as financial advisor, fiscal agent, or underwriter for the Company mentioned herein and may receive remuneration for its services. Citadel Securities Inc. or its officers, directors, representatives, and associates may have a position in the security mentioned herein. Because of the differences in laws regulating investments and trading in all countries, the securities mentioned in this report might not be eligible for sale in some jurisdictions.

### COPYRIGHT

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Citadel Securities Inc. None of the material or its content nor any copy of it may be altered in any way or transmitted to or distributed to any other party without the prior, express written permission of the entity named above.

### RATING

Citadel Securities Inc. utilizes a three-tiered rating system to identify the total expected return of a stock over the next 12 months.

Outperform: 15% or more

Market Perform: Between 15% and -15%

Underperform: -15% or less

Distribution of Ratings can be found on Citadel Securities Inc.'s website, [www.citadelsecurities.ca](http://www.citadelsecurities.ca).