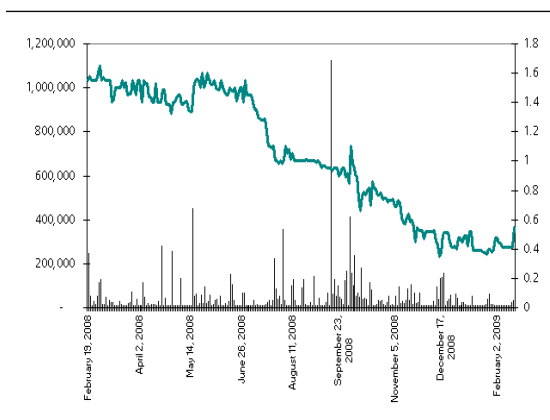


DHX Media (DHX - \$0.55) Earnings Update

Target Price: \$1.75
Outperform



Market Capitalization	\$23.6 million
Outstanding Number of Shares	42.8 million
Options and Warrants (as of Dec 31, 2008)	8.6 million

Estimates (\$ million except per share data)

	2009E	
Revenues	69.4	
EBITDA	6.1	
EPS	0.01	

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, 2009

Moving on with a good quarter

DHX Media announced its second quarter financials for its fiscal year of 2009. Revenues of the Company increased 131% to \$21.51 million q-o-q and 92% to \$38.38 million y-o-y. The increase was mainly due to increases in the Company's Production and Production service fee revenue categories. Out of the total deliveries of 80 half-hour for Q2, 52 half-hours was produced by Halifax Film.

The Company had \$16.84 million proprietary production revenues (\$6.28 million for Q2/2008) for the quarter including \$6.19 million related to the deliveries for *The Guard* Sessions I and II.

The overall gross margin of the Company for the first half of the year was 31% which was lower than 34% gross margin of the same period last year. This is mainly due to the lower margins of the Company's high growth business lines for the period.

The Company decided to dispose of its Bulldog subsidiary in December 2008 due to a slowdown in franchisee opportunities resulting from the global economic weakening. DHX Media wrote off \$1.02 million related to this subsidiary. The Company had acquired Bulldog in March 2008 for cash payment of \$625,000 and 99,333 shares in DHX Media Ltd.

Net Income was also affected by this write off. The net loss for the quarter was \$0.33 million. In addition, the Company had to write off expenses of \$1.1 million associated with the uncompleted transaction with Entertainment One. Despite these two non-recurring charges, DHX Media recorded a net income of \$0.20 million for the 1H of 2009.

As a result of changing market multiples, uncompleted deal with Entertainment One and the announcement of a good quarter, we have revised our valuation model and estimates. Our new target price for the Company is \$1.75 (replacing the deal price of \$1.59) and our recommendation is "Outperform".

Q2/2009 and 1H/2009 Financials

(\$ million)	Q2/2009	Q2/2008	1H/2009	1H/2008
Revenues	21.51	9.31	38.38	20.49
Proprietary Film and TV Rev.	16.84	6.28	30.95	15.06
Producer and Service Fee Rev.	2.29	1.83	3.31	2.16
Distribution Rev.	2.10	2.47	3.56	3.88
Other Rev.	0.28	0.26	0.56	0.73
Gross Profit	6.74	3.47	11.73	6.78
Net Income (from Cont'd Ops)	0.62	0.14	1.22	0.51
Net Income (Loss)	(0.33)	0.14	0.20	0.51
Basic EPS	(0.01)	0.00	0.00	0.01

Thanks to the Production and Production Service Fee Categories, the Company had a very good quarter in terms of sales growth. It was also very timely, since the proposed merger transaction with Entertainment One fell through recently. As we mentioned in our previous updates, this was our third Scenario where deal would not go through for other reasons than competing offers. We did not have any concern related to DHX Media's financial health or prospects. This is also confirmed by the Q2 financials of the Company. Although there were two non-recurring charges (\$1.02 million related to Bulldog and \$1.1 million related to the expenses for the uncompleted transaction), DHX Media posted a Net Income of \$0.20 million for the first half of the year.

Prospects - Valuation - Recommendation

The Company has \$11.9 million cash, \$7.6 million bank debt and \$59 million in equity. Due to the nature of its business, DHX Media also carries \$60.8 million interim production financing. The Company has a revolving production credit facility with the Royal Bank of Canada (RBC) with a maximum authorized amount of \$71.5 million. This facility matures at various dates twenty-four months following the first drawdown of funds in respect of each RBC Individual Approved Tranche. The Company is in negotiations with RBC for an expanded longer-term facility.

Following our review of the first half financials combining with the management guidance on the remainder of the year, we have revised our estimates for 2009 and we have added future projections. Therefore, our DCF valuation was also modified to reflect the new estimates. Also, considering the significant changes in market multiples in general, we have revised our market multiples valuation. The highlights from the revised estimates are presented in the following table.

(\$ million)	2009E	2010E
Revenues	69.44	80.69
EBITDA	6.10	8.02
Net Income	0.58	2.61
Basic EPS	0.01	0.06

Our target price for DHX Media for the next 12 months is \$1.75 per share. We keep our "Outperform" recommendation unchanged.

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