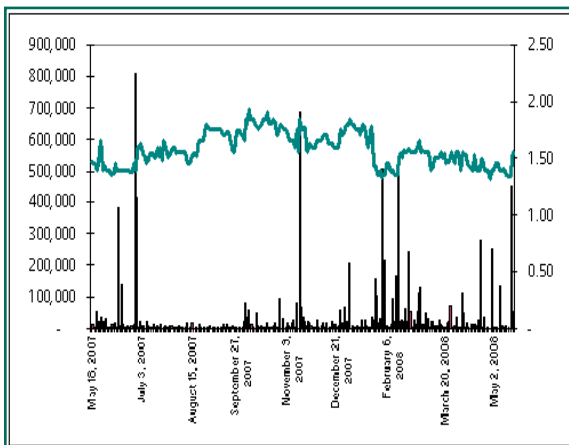


## DHX Media (DHX - \$1.60) Earnings Update

**May 21, 2008**

### Outperform Target Price: \$2.80



Market Capitalization	\$68.3 million
Outstanding Number of Shares	42.7 million
Options and Warrants (as of March 31, 2008)	8.4 million

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

Revenues	2008E	51.0
EBITDA	2008E	5.6
EPS	2008E	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.

DHX Media announced its third quarter financials for its fiscal year of 2008. The Company's revenue increased by 168% to \$40.9 million (2007 Q3 YTD: \$25.9 million), gross margin declined to 31% and the Company posted \$1.4 million net income for the first three quarters of 2008.

In March, DHX Media announced the acquisition of Bulldog Interactive Fitness Inc., a privately-owned developer of children's entertainment centres featuring fitness equipment which incorporates interactive gaming systems such as Nintendo's Wii stations and Sony's DDR dance machines. The Company made a cash payment of \$625,000 and 99,333 shares in DHX Media Ltd. which are subject to a one year lock-up. The Company expects to increase its producer and service fee revenues to a range between \$1.5 to \$3.5 million in Q4 2008 with this acquisition.

The announced revenue figure of DHX Media for Q3/2008 was significantly above our estimates due to the Company's superior operating performance in each category. As a result we have revised our estimates once more. In parallel with the announced results, we have revised estimated Revenues upward and adjusted our Net Income slightly downward.

We believe that as a growing producer and distributor of television programming and interactive content, DHX Media is positioned to benefit from its strategic investments. We upgrade our target price to \$2.80 and keep our recommendation unchanged.

### Q3 Financials

DHX Media announced its financial results for Q3/2008. Revenues increased by 168% as compared the same period last year. Thanks to all categories, the Company realized a record revenue this quarter. Among the categories, proprietary production revenues recorded the highest increase by 249% to \$8.2 million. Halifax Film Division contributed \$13.9 million, Decode Division contributed \$12.7 million and Studio B contributed \$1.9 million to this category. For Q3/2008 distribution revenues were up 78% to \$8.3 million from \$4.7 million for the same period last year. Gross margin was \$12.6 million (31%) versus \$5.6 million or 36% of revenue for the same period last year. Management expects it to be between 25-40% for the coming periods.

### Bulldog Interactive Fitness Inc. Acquisition

Based in Dartmouth, Nova Scotia, Bulldog Interactive has franchised eight locations across Canada to date, including several in the Toronto area. Within the last two months, three Bulldog Interactive locations have commenced operations, in Guelph, ON, Saskatoon, SK and St. John's, NF and another three are expected to open within the next two months in Richmond, BC, Calgary, AB and Boca Raton, FL. Bulldog Interactive locations provide supervised and guided play for children between three and 14, with customized exercise programs and group events in an environment that fosters good health, self-esteem, confidence, friendship and fun.

The Company expects to benefit from access to a fast growing network of kids' entertainment centres catering to the same target audience as do DHX Media's core entertainment content properties. This overlapping target market is expected to provide for cross promotion opportunities for the Company's properties.

### Other developments

In February, the Company has signed a licensing agreement with Cartoon Network Germany, which has acquired all German TV rights to Chop Socky Chooks. The series is a co-production by DHX Media's DECODE Entertainment and UK based Aardman Animations.

In March, DHX Media announced that two seasons of *Bo on the GO!* produced by Halifax Film were licenced by France 5. Also the Company announced a co-production deal with Spain's Neptuno Studios for 26 half-hours of *Poppets Town*.

In April, *The Guard*, a co-production between Halifax Film and Brightlight Pictures Inc., has been licensed for a second season by Global Television. Also, the Company announced that Decode Entertainment and The Foundation (RDF Media Group) would co-produce 100 20-minute episodes of *Way to Blue*, a landmark pre-school series featuring a mix of live action and animation. In the same month, Jetix U.S. acquired all 52 11-minute episodes of the animated series *Kid vs. Kat*. The new series is being produced by Studio B Productions Inc., in association with Jetix Europe, and Canadian kids' broadcaster, YTV. Also Decode Enterprises signed multiple international deals, including a deal with Nick Jr. (UK) for all 65 half-hours of the animated preschool show *Super Why!*

## Estimates

We have changed our revenue estimates upward, due to the changes in the Company's revenue stream and the Company's superior operating performance in the third quarter. Below is our estimate table:

\$million except per share data	2007	2008E	2009E
<b>Revenue</b>	26.0	51.0	61.1
<b>Gross Profit</b>	9.7	15.8	19.3
<b>EBITDA</b>	3.8	5.6	7.0
<b>Net Income</b>	1.2	1.5	2.2
<b>EPS</b>	0.04	0.04	0.05

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 \$2.80 for the stock over the next 12 months. We keep our recommendation unchanged.

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