This Company Is Looking to Be Sold: Is it Time to Turn a Quick Profit?

Description

DHX MEDIA LTD CLASS B (TSX:DHX.B)(NASDAQ:DHXM) missed analyst's earnings estimates last Wednesday; frankly, the company missed badly — so badly, in fact, that the company may need to find a new owner that can take over and turn things around.

DHX Media is a pure-play children's content company which boasts the largest available library of "family-appropriate" video content anywhere in the world. The nice thing about DHX's amassed library of content is, within the entertainment industry, children's content is both a high-growth and low-risk sector of the market. That's at least partially because children's content is more malleable than other forms of entertainment directed at adults.

That means children's content from years gone by can be recycled for newer generations without much adaptation, and it's easier, relatively speaking, to "dub over" children's content for international audiences.

Not to mention that its increasingly becoming the norm for young parents to give their children a tablet or smart phone to keep them occupied while the parent stays busy.

All of this sounds great, except management has had difficulty executing the company's strategy and converting that content into profits for shareholders.

In May, management reaffirmed EBITDA guidance (earnings before interest, taxes, depreciation, and amortization — a proxy for cash flow) of between $110 and $115 million for 2017, yet when the company announced fourth-quarter results last week, DHX came in well short of that mark at $87 million.

Management was admittedly disappointed in the results, suggesting that focus may have been distracted by the Iconix acquisition, which closed at the end of June.

Yet the problem appears to stem deeper than that.

After seeing its share price soar from $0.70 at the start of 2012 to a high above $10 fewer than three years later, management appears to have run out of ideas.

Over the past three years, $648 million has been spent acquiring the Family Channel, *Peanuts*, and *Strawberry Shortcake*, which have, to date, failed to pay dividends.

The unfortunate result is that a once pristine balance sheet is now drowning in debt without much hope for a continuation of the “growth by acquisition strategy.”

One man’s trash is another man’s treasure

It’s worth pointing out that a lack of execution by current management does not mean that DHX and its library of content does not offer solid value.

In an encouraging sign, on Monday, the company’s board of directors announced that it was beginning to explore and evaluate potential strategic alternatives focused on maximizing shareholder value, which could include asset sales or potentially a merger or business combination with another company.

The same day, an analyst at investment bank **Canaccord Genuity** suggested that shares could fetch as much as $8.55 per share, citing the size of the company’s library, industry expertise, and a positive operating environment. Shares are currently trading at $5.08 as of Tuesday’s close.

If realized, a $8.55 deal price would equate to 68% upside from current levels.

Last month’s announcement by **Disney** that it will be pulling its content from the **Netflix** service by 2019, and recent moves by **Amazon** Prime and Hulu suggests that not only may there be a formidable suitor waiting in the wings for DHX, but that the environment may even be ripe for a bidding war.

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