This Small-Cap Digital Media Company Just Spiked 22% on Earnings

Description

Canadian digital media company **DHX Media** (TSX:DHX)(NASDAQ:DHXM) is up by over 22% during the last two day's trading after the company reported its fourth-quarter and fiscal year 2018 earnings.

Heading into the close of the Tuesday session, DHX stock had managed to give back a significant chunk of those gains; however, shares have rebounded strongly in the Wednesday session, gaining another 16%.

There were several encouraging developments to come out of the company's press release and accompanying report on its recently completed strategic review; however, probably the most encouraging development of all was the tremendous growth that it continues to see from its online venture, WildBrain.

DHX is only a small company with a market capitalization of under $190 million, so for those who may not already be familiar with what exactly a "WildBrain" is, it pays to do a quick recap.

WildBrain was formerly an animation studio until it was acquired by DHX and today stands tall as an industry leader in preschool and children's entertainment content on platforms such as YouTube, Amazon Video Direct and others.

At the end of the fourth quarter, the WildBrain content library included over 110,000 videos in more than 22 different languages.

One thing that makes children's animated content so darn unique — not to mention valuable! — is that it doesn't age as quickly as other live-action film content and can be dubbed into foreign languages at minimal expense, allowing the company to easily expand into lucrative international markets.

Meanwhile, WildBrain also boasts an impressive following, including over 50 million online subscribers, which collectively generated over 129 billion minutes of watch time across 25 billion views between July 2017 and June 2018.

Those viewership figures for 2018 represented a 136% increase in watch time versus the prior year, which helped drive the businesses revenue growth from $34 million in 2017 to $57 million in the 2018 fiscal year ended June 30.

Growth in the WildBrain business, along with strength in the recently acquired *Peanuts* franchise helped to propel EBITDA (earnings before interest, taxes, depreciation, and amortization) from $87.3 million to $97.5 million, or an 11.6% double-digit year-over-year improvement.

And while both gross and EBITDA margins were down in 2018, the company is hoping its recently enacted cost-cutting program will help improve those fortunes in 2019.

Through the implementation of cost-rationalization incentives and acquisition synergies, management is hoping to trim up to $11 million from its operating costs, which, in addition to the suspension of its $0.02 quarterly dividend, will help to free up cash flow that can be used to reduce its outstanding debt obligations.

Positive outlook for 2019

In addition to continuing to drive what it hopes is double-digit top-line growth at WildBrain, management's plan for 2019 is to increase its investment in original short-form content and the development of premium kid's content in support of the franchises it already owns, including the aforementioned *Peanuts* brand along with *Strawberry Shortcake*, *Degrassi,* and others.

Bottom line

DHX stock is trading near its 52-week lows following a disappointing series of quarterly results, but if management is successful in executing its stated agenda, 2019 could be a very profitable year for investors in the company given the undeniable trend of audiences increasingly shifting their viewing patterns towards digital and online platforms.

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