

## Technicolor: Q3 2019 trading commentary

**Paris (France), 05 November 2019** – [Technicolor](#) (Euronext Paris: TCH; OTCQX: TCLRY) reports today its trading commentary for the third quarter of 2019.

**Technicolor recorded a solid quarter, marking an improved performance in Adjusted EBITDA and Free Cash Flow compared to last year despite slightly lower sales at constant exchange rates compared to the third quarter of 2018.**

**The Group maintains its focus on supporting organic growth in Production Services and delivering the transformation program in Connected Home.**

**DVD Services successfully negotiated a renewal agreement with one of its largest customers.**

**Based on third quarter performance, Technicolor confirms its business outlook.**

### Entertainment Services

Third quarter revenues achieved a strong revenue performance in Visual Effects and a stable performance in DVD Services.

- **Production Services:** double-digit revenue growth during the quarter, reflecting:
  - **Film & Episodic Visual Effects (“VFX”):** strong double-digit revenue growth driven by MPC Film and a solid contribution from Mill Film (launched end of 2018). The Film & Episodic VFX service line completed work during the quarter on 11 major projects, including *Ad Astra* (Fox), *In the Shadow of the Moon* (Netflix), *Lady and the Tramp* (Disney+), *Maleficent: Mistress of Evil* (Disney), *The Mandalorian* (Disney+), *Noelle* (Disney+), and *See* (Apple). The segment was also in production at the end of the quarter on 17 theatrical films and 6 non-theatrical (episodic, streaming) projects, including *Artemis Fowl* (Disney), *Call of the Wild* (Fox), *Cats* (Universal), *Dolittle* (Universal), *Halo* (Showtime/Amblin), and *The Old Guard* (Netflix);
  - **Advertising:** high single digit revenue growth year-on-year. During the third quarter, The Mill and MPC received numerous industry accolades including four Clio Awards, 6 Kinsale Shark Awards, and an Adweek Project Isaac Award, which celebrates inventors within marketing and advertising, for Mill Mascot;
  - **Animation & Games:** strong double-digit revenue growth compared to the prior year, primarily driven by higher volumes in episodic animation and in games. Mikros Animation



continues in production on *Paramount's The SpongeBob Movie: It's a Wonderful Sponge* and is in early stages of pre-production on two additional feature films. Technicolor Animation continues to deliver on several high-end episodic productions, including *ALVINNN!!!* and *The Chipmunks season 4* (Nickelodeon/M6), *Elena of Avalor season 3* (Disney), *Fast & Furious: Spy Racers* (DreamWorks Animation/Netflix), and *Mickey and the Roadster Racers season 3* (Disney). Technicolor Games completed production on AAA titles during the third quarter including *FIFA 20* (Electronic Arts), *NBA 2K20* (2K) and *NHL 20* (Electronic Arts);

- **Post Production:** revenues were down compared to the third quarter of 2018, reflecting the exit from underperforming businesses in North America since the prior period. On a continuing perimeter basis, Post Production grew moderately year-on-year thanks to a solid level of activity in Canada and the UK.
- **DVD Services:** overall disc replication volumes were up 7% year-on-year in the third quarter. Growth was achieved across all formats and was driven by several major new tentpole releases, ongoing resilience of catalog activity, as well as some phasing of volume into the third quarter that was originally expected in the fourth quarter. Year-to-date total combined volumes are down only 4% vs. 2018.
  - **Standard Definition** DVD volumes were up 7% in the third quarter year-on-year with particular strength in North America (up 19%) on the combined effect of stronger new release activity and continued resilience of catalog and promotional activity across multiple major studio clients;
  - **Blu-ray™** volumes were up 8% year-on-year on stronger new release activity, with additional positive impact of ongoing Ultra HD Blu-ray™ growth of 11% in the quarter;
  - **CD** volumes were up 4% year-on-year on selected new customer additions and incremental share gains in the North American market.

DVD Services division-wide initiatives to adapt distribution operations and related customer contract agreements in response to continued volume reductions and increasing operational complexity are moving forward as planned.

The company successfully renegotiated a renewal agreement with one of its largest customers incorporating materially improved terms. This agreement will become effective in early 2020. This follows the previously announced contract extension with another studio which took effect on July 1.

### Connected Home

For the quarter, revenues were down double-digit at constant rate compared to last year due to a demand slowdown in Latin America, and, to an exceptionally strong performance in Broadband at Comcast in the prior year.

The Division has continued to increase market share in Broadband access, gaining market share in DOCSIS3.1 solutions and Android based video solutions.

- **North America:** revenues with North American customers were down compared to the third quarter of 2018.



- North American cable operators showed continued strong Broadband demand from Comcast, Cox, Rogers, Videotron and Shaw not completely offsetting a significant year-on-year decline in the video segment;
- The continued sale of end of first half excess inventories was successfully executed during the quarter.
- **Europe, Middle East & Africa, Asia-Pacific and Latin America:** lower revenue compared to prior year primarily due to market conditions in Latin America, mainly Brazil and Mexico, and to the large broadband deployment in Australia which occurred in the third quarter 2018. Sales in Europe and Asia-Pacific experienced solid growth.

Connected Home is benefiting from the significant progress of the three-year transformation plan. The division continues to focus on investments and overall market share gains that will lead to improved margins over the next quarter:

- In Broadband, the investments are focused on Fiber and DOCSIS 3.1 products to position Technicolor as an innovative leader and trusted player in the Connected Home ecosystem. In the third quarter, the launch of a new Wi-Fi 6 platform has been successful with the first wins in the North America and European markets;
- For Video, AndroidTV-based solutions are gaining faster traction, in line with the objective of a higher win-rate and global leadership; during the quarter Connected Home won 5 additional awards in this growing segment.

The transformation plan is also improving productivity; more than 75% of the operational cost savings target has already been achieved (on a run rate basis) at the end of September. Moreover, memory prices continued the downward trend initiated at the beginning of the year.

## Outlook

- Based on third quarter performance, Technicolor maintains its business outlook:
  - The Group's profitability in the second half will improve significantly, supported by recurring positive second half seasonality and by a catch-up effect in both Production Services and Connected Home. Despite the negative impact on working capital of 2019 rating agencies downgrades, cash flow generation will also improve;
  - The Group will continue to pursue investments, through opex and capex, to support organic growth in Production Services. In addition, the Group expects to deliver its transformation program in Connected Home.



## Financial calendar

FY 2019 Results	27 February 2020
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### **Warning: Forward Looking Statements**

*This press release contains certain statements that constitute "forward-looking statements", including but not limited to statements that are predictions of or indicate future events, trends, plans or objectives, based on certain assumptions or which do not directly relate to historical or current facts. Such forward-looking statements are based on management's current expectations and beliefs and are subject to a number of risks and uncertainties that could cause actual results to differ materially from the future results expressed, forecasted or implied by such forward-looking statements. For a more complete list and description of such risks and uncertainties, refer to Technicolor's filings with the French Autorité des marchés financiers.*

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**About Technicolor:** [www.technicolor.com](http://www.technicolor.com)

Technicolor shares are on the NYSE Euronext Paris exchange (TCH) and traded in the USA on the OTCQX marketplace (OTCQX: TCLRY).

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