

## Technicolor: Q1 2019 trading commentary

Paris (France), 25 April 2019 – [Technicolor](#) (Euronext Paris: TCH; OTCQX: TCLRY) reports its trading commentary for the first quarter of 2019.

**Market conditions in the first quarter were aligned with overall expectations and sales are broadly in line with last year at current rates.**

**Technicolor has continued its investments to support organic growth in Production Services and to deliver the transformation program in Connected Home.**

### Entertainment Services

In the first quarter, revenues are in line with last year at current rate with growth at Production Services continuing to offset DVD Services revenue decline.

- **Production Services:** solid single digit revenue growth during the quarter, reflecting:
  - **Film & TV Visual Effects (“VFX”):** strong double digit revenue growth driven by increased volume for both MPC Film and Mr. X, as well as the contribution of Mill Film which launched at the end of 2018. VFX teams completed eight major film/TV projects during the first quarter while continuing to work on an additional 20+ film/TV projects. Capacity expansion in key client markets with location-based production incentives continued, including near completion of Mill Film’s facility in Adelaide, Australia. Operational costs increased more than expected during the first quarter due to customers requesting scheduling changes which will impact also the second quarter before being recovered in the second half of 2019;
  - **Advertising VFX:** the Advertising service line worked on the same number of high-profile Super Bowl and Academy Awards commercials as in the prior year, but revenues were down as individual projects had lower budgets than those in the first quarter 2018. On the creative side, at The British Arrows 2019, MPC won four awards, including Gold for CGI for John Lewis & Partners ‘The Boy and the Piano’ and Gold for VFX for Apple ‘Unlock’. MPC also took home VES awards for Outstanding Visual Effects in a Commercial for John Lewis & Partners ‘The Boy and the Piano’ and Outstanding Animated Character in a Commercial for Volkswagen ‘Born Confident’;



- Animation & Games: lower Animation revenues compared to prior year, primarily due to the delay in signing new feature film projects partially offset by production continuing to ramp-up on Paramount's *The SpongeBob Movie: It's a Wonderful Sponge*. Production Services' CG Animation studio in Bangalore, India continues to operate at high utilization rates on multiple episodic series for clients such as Disney, DreamWorks Animation and Nickelodeon, while the Games team delivered assets in the first quarter for AAA titles such as BioWare's *Anthem* and Capcom's *Resident Evil 2 Remake*;
- Post Production: on a continuing perimeter basis, Post Production revenues in the first quarter were in line with prior year.
- **DVD Services**: overall disc replication volumes were down year-on-year in the first quarter, in line with the Group's expectations, but growth continued in Ultra HD and freight activity.
  - Blu-ray™ volumes down 15% reflected a weaker slate of releases compared to the first quarter of 2018 (in particular *Star Wars: Last Jedi* had an exceptionally large level of Blu-ray production in the first quarter 2018). Ultra HD Blu-ray™ grew 76% off a small base.
  - Standard Definition volumes down only 11%, an improvement over the prior year trend, due in part to better than expected catalog activity for selected North American studio customers.

## Connected Home

For the quarter, revenues were mid-single down at constant rate compared to last year, but in line with Group expectations as the Group benefited in the prior year from an exceptionally strong performance in video at Charter and from the consequences of the customer portfolio review.

- **North America**: revenues with North American customers were down compared to the first quarter of 2018:
  - North American cable saw continued strong Broadband demand from Comcast, Charter and Cox, not completely offsetting a significant year on year drop in video;
  - Outside the cable segment, North America is also down as a result of the previously announced customer simplification program;
  - Inventories increased due to timing delays in orders from North American cable operators, partially offset by an increase in payables during the first quarter. These delays could potentially have a negative impact on the second quarter free cash-flow.
- **Europe, Middle-East & Africa, Asia-Pacific and Latin America**: mid-single digit revenue growth driven by large orders from the 50+ customers that the Group is focusing on. Sales in Europe and Latin America experienced solid growth.



While Connected Home is benefiting from the significant progress of the transformation program and from the downward trend of memory components prices, the division is continuing to focus on investments in market share gains in Broadband access and Android based video solutions which are expected to lead to improved margins over the next several years.

### **Outlook**

The Group will continue to pursue investments, through opex and capex, to support organic growth in Production Services and to deliver its transformation program in Connected Home. The benefit of these initiatives are progressively expected over the next several years through improved profitability and cash generation.

The first half 2019 Free Cash Flow should be at a low point as it will be impacted by the timing impacts of slow inventory deliveries in Connected Home and delayed projects in Production Services.



## Financial calendar

Annual Shareholder's Meeting	14 June 2019
H1 2019 Results	24 July 2019

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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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