

# Full Year 2014 Results

February 19, 2015



# Forward Looking Statements



**HIS PRESENTATION** 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.




**UCH** 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.




**OR** a more complete list and description of such risks and uncertainties, refer to Technicolor's filings with the French Autorité des marchés financiers.

# Agenda




Slide 4 to 18

**FY 2014  
Financial  
Performance**




Slide 19 to 26

**Amplify 2015  
Key  
Takeaways**



Slide 27 to 31

**Drive 2020  
Vision &  
Strategy**



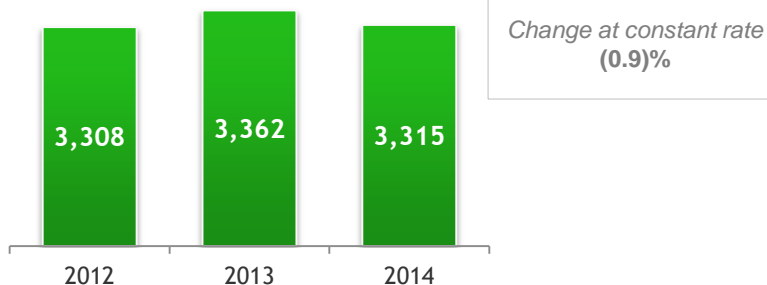
Slide 32 to 46

**Drive 2020  
Financial  
Implications &  
Objectives**

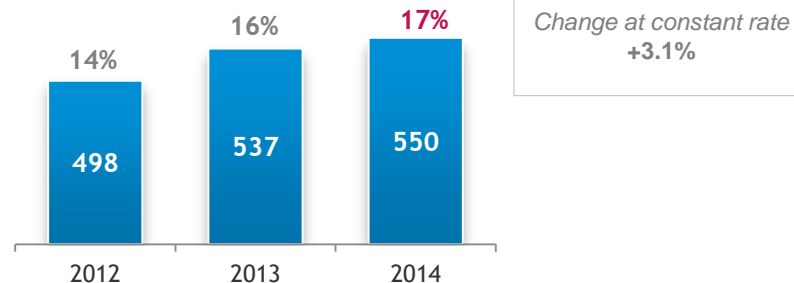
# **FY 2014 Financial Highlights**

# FY 2014 – Profitability improvement with broadly stable revenues

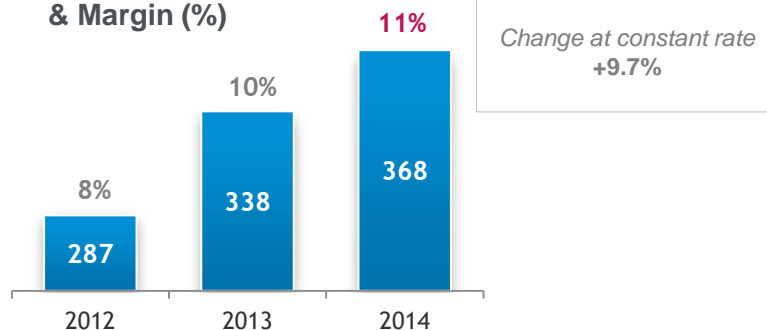
Revenues\* (€m)



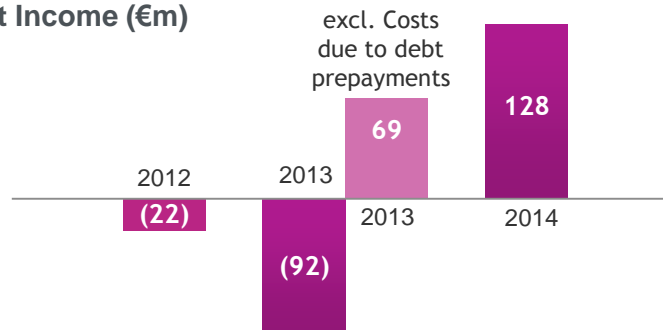
Adj. EBITDA\*\* (€m)  
& Margin (%)



Adj. EBIT\*\* (€m)  
& Margin (%)



Net Income (€m)

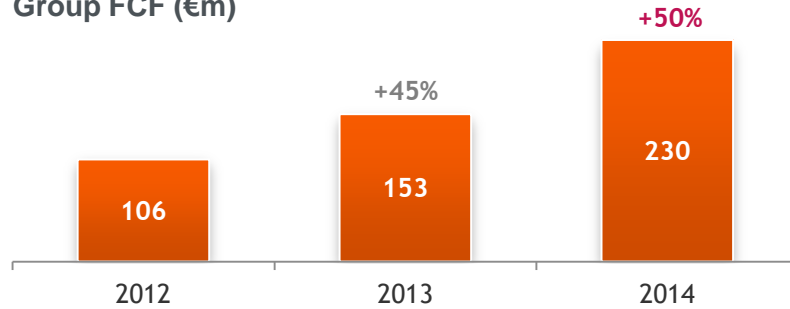


\*At constant scope excluding legacy activities

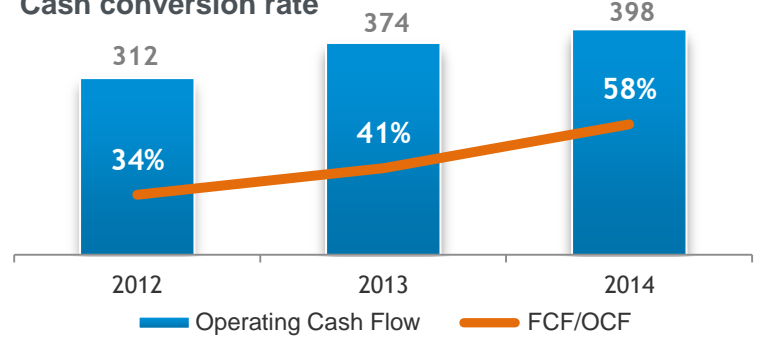
\*\*At constant scope

# Strong cash generation and rapid deleveraging

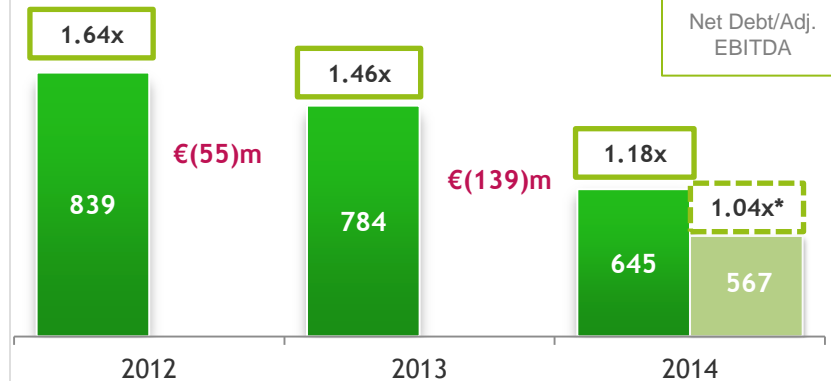
Group FCF (€m)



Cash conversion rate



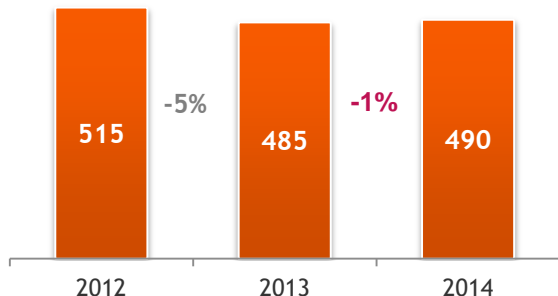
Nominal Net Debt (€m)



# Technology – FY 2014

## Revenues (€m)

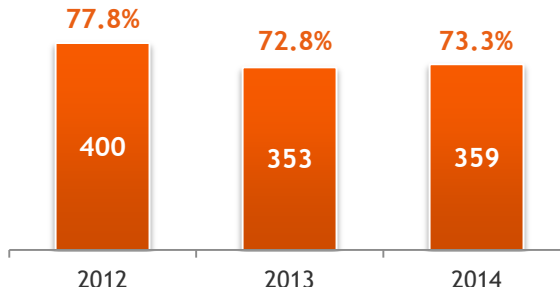
Change at constant rate



### Weaker contribution of MPEG LA (MPEG-2) resulting from:

- 45% of revenues vs. 53% in 2013
- A one-off adjustment in Q1 2014
- Persistent softness in the PC market during the year

## Adj. EBITDA (€m) & Margin (%)



**Adj. EBITDA improvement**, mainly reflecting solid Licensing revenues

**Adj. EBITDA margin increase** as Licensing performance compensated for increased investments in new business initiatives (Technology Licensing, Virdata...)

## Key Highlights

**Double-digit growth in direct licensing programs**, up 16.5%

**Significant new contracts, particularly in smartphone and Digital TV:**

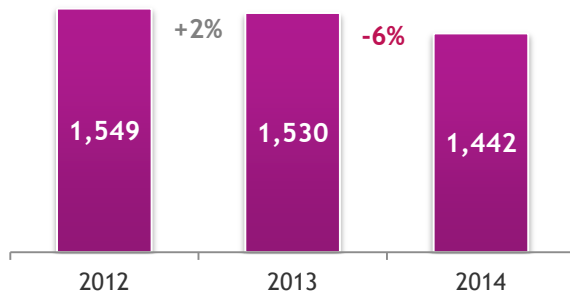
- A second smartphone licensing agreement with LG in Q1
- A Digital TV licensing agreement with a top tier Asian CE player in Q4

**Solid performance across other programs** and in Trademark Licensing with the renewal of most of its existing brand licensees

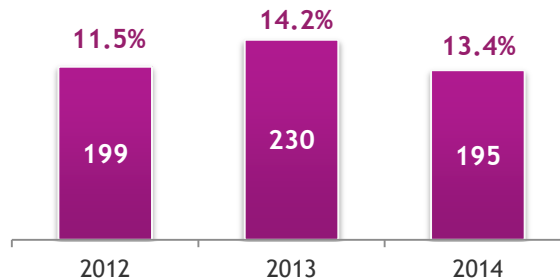
# Entertainment Services – FY 2014

## Revenues\* (€m)

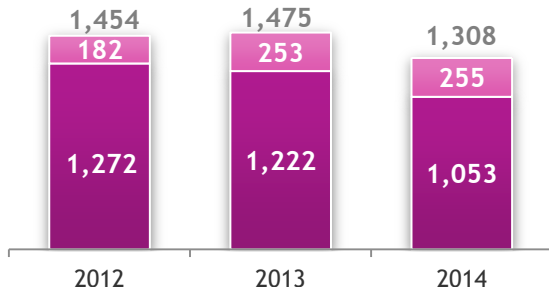
Change at constant rate



## Adj. EBITDA (€m) & Margin



## YoY volume change for SD and BD, million units



**YoY Adj. EBITDA decrease** due to the exit of legacy activities and lower contribution of DVD Services

**Adj. EBITDA margin decrease mitigated** by stronger weight of Production Services and cost reduction initiatives across businesses

## Key Highlights

### DVD Services

- Revenues impacted by weak 2014 box office
- Volume trends down particularly in North America

### Production Services

- Significant revenue increase YoY, driven by a **record level of activity in VFX**
- **Solid pipeline** in US Postproduction Services
- **Expansion through external growth** in Animation with OuiDo Productions and in VFX with Mr. X

■ SD (Standard Definition DVD) ■ BD (Blu-ray™ Disk)

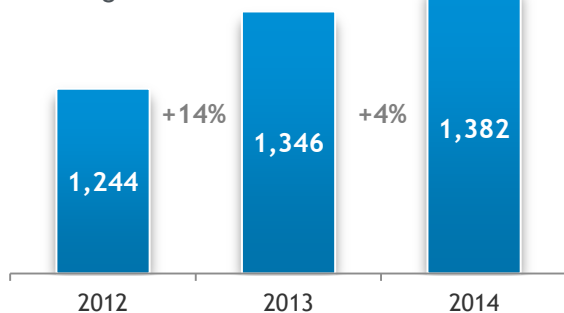
\* Excl. legacy



# Connected Home – FY 2014

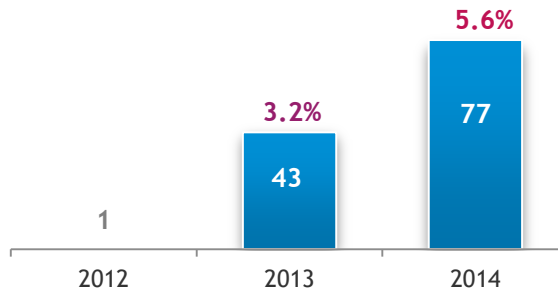
## Revenues (€m)

Change at constant rate



## Adj. EBITDA (€m)

& Margin



## Key Highlights

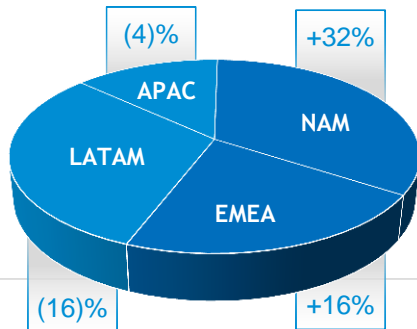
### Top-line growth

- **Revenue up 4.4%** at constant rate
- **Double-digit growth** across developed markets
- **Market share gains** across all regions

### Profitable growth

- **Adj. EBITDA margin up 2.4 points**
- **Significant free cash flow generation** resulting from material growth in operating cash flow and improved working capital

## Geographic breakdown & growth at constant rate

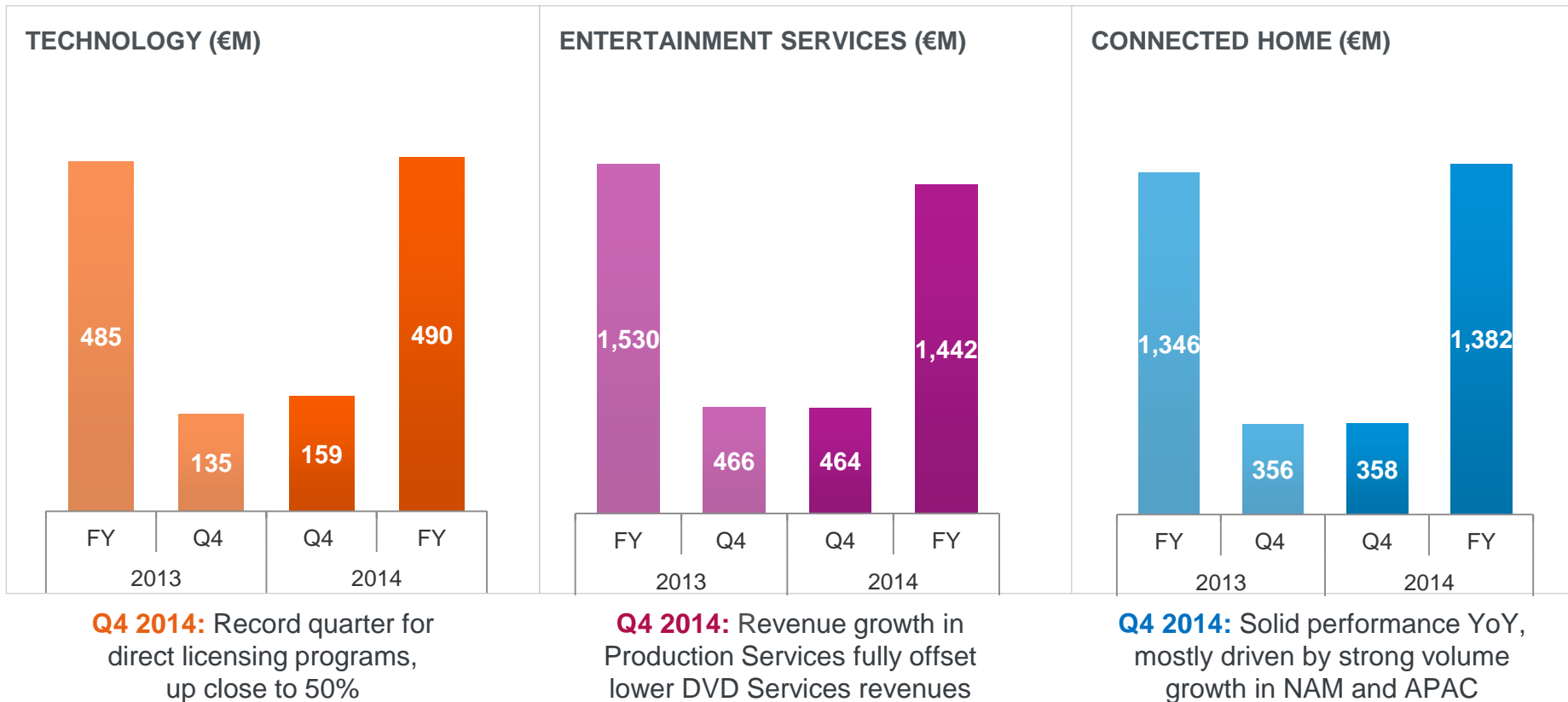


## Adj. EBITDA up 79% driven by:

- **Sustained revenue performance**, product mix growth improvement and increased gross margin
- **Solid operating execution**, supply chain efficiency and product cost improvement

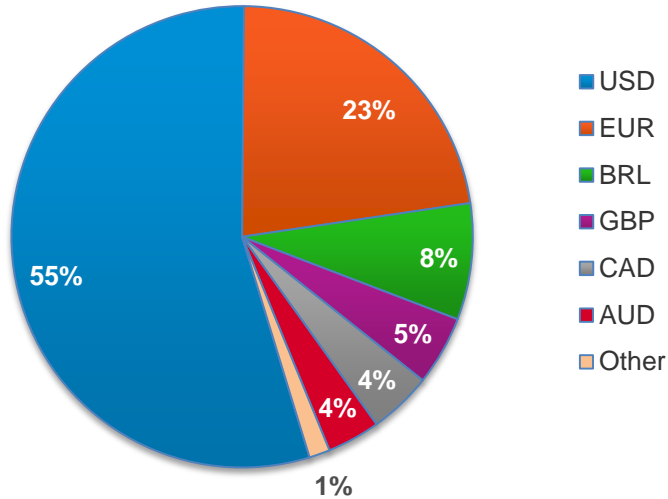
# **FY 2014 Financial Performance**

# Q4 2014 & FY 2014 – Revenues

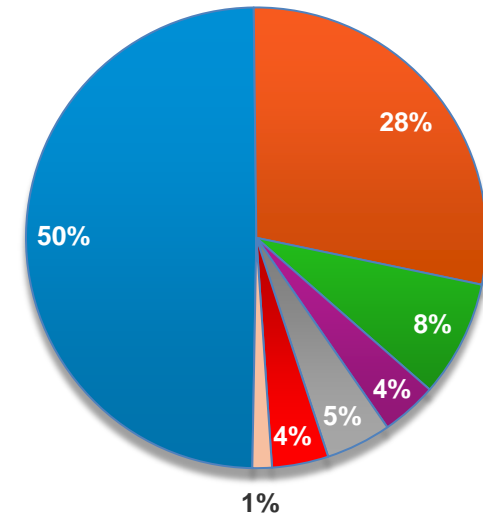


# Foreign exchange risk

REVENUE 2014 BY CURRENCY



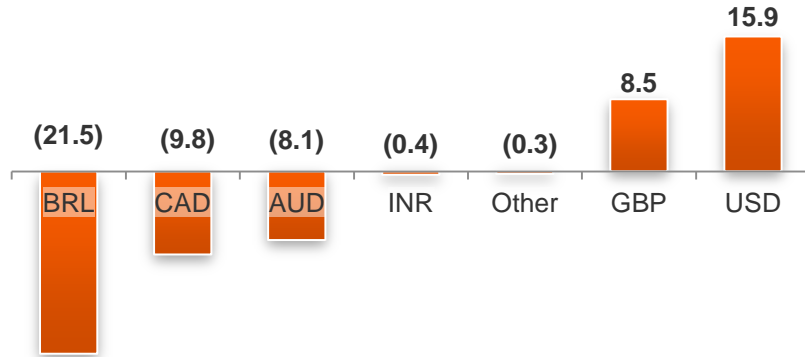
COST BASE 2014 BY CURRENCY



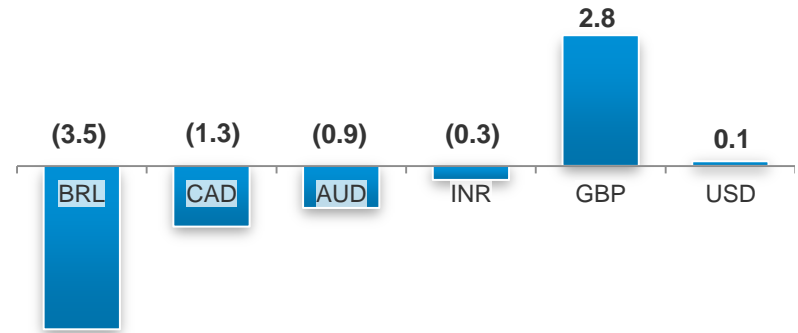
- Technicolor's highest exposures are to the USD and the BRL
- The cost base largely matched the revenue base, but there are some discrepancies with the USD and the BRL

# Foreign exchange impact on revenues and Adj. EBITDA

2014 FOREIGN EXCHANGE REVENUE IMPACT (€M)



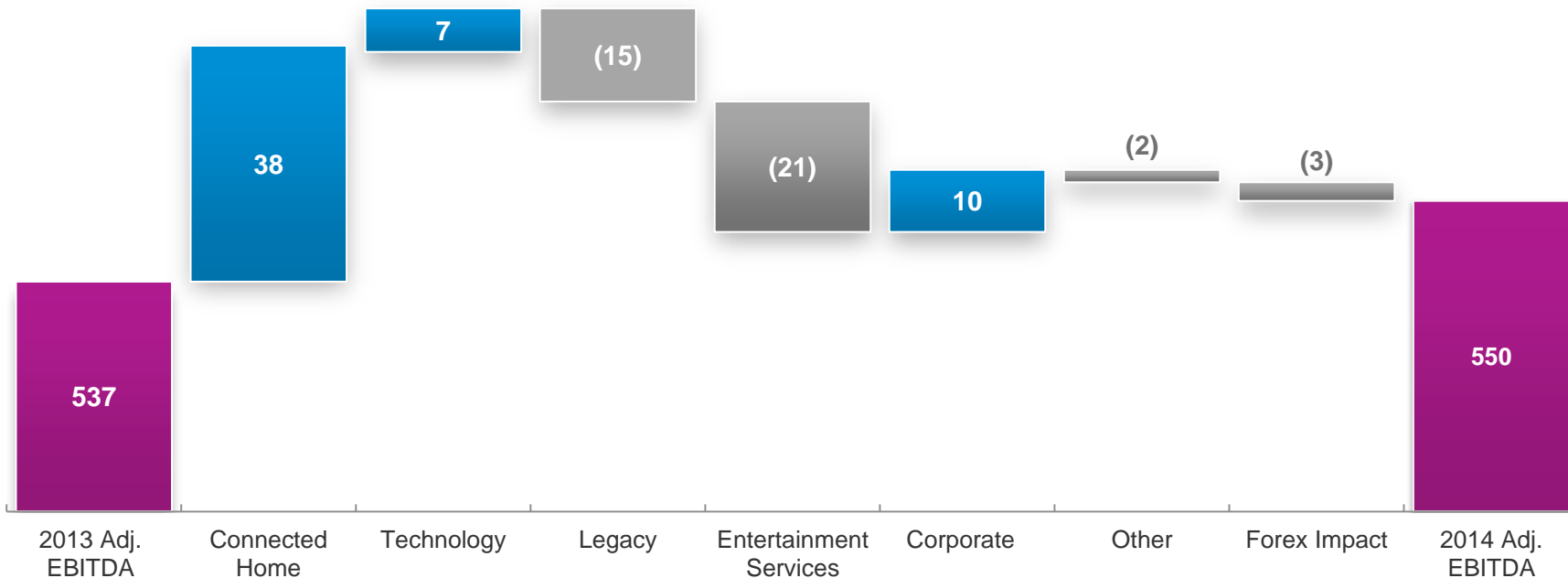
2014 FOREIGN EXCHANGE Adj. EBITDA IMPACT (€M)



- Average USD/EUR exchange rate was broadly stable in 2014 versus 2013, thus limiting the impact on FY 2014 results
- BRL fluctuations affected exclusively Connected Home revenues and profitability

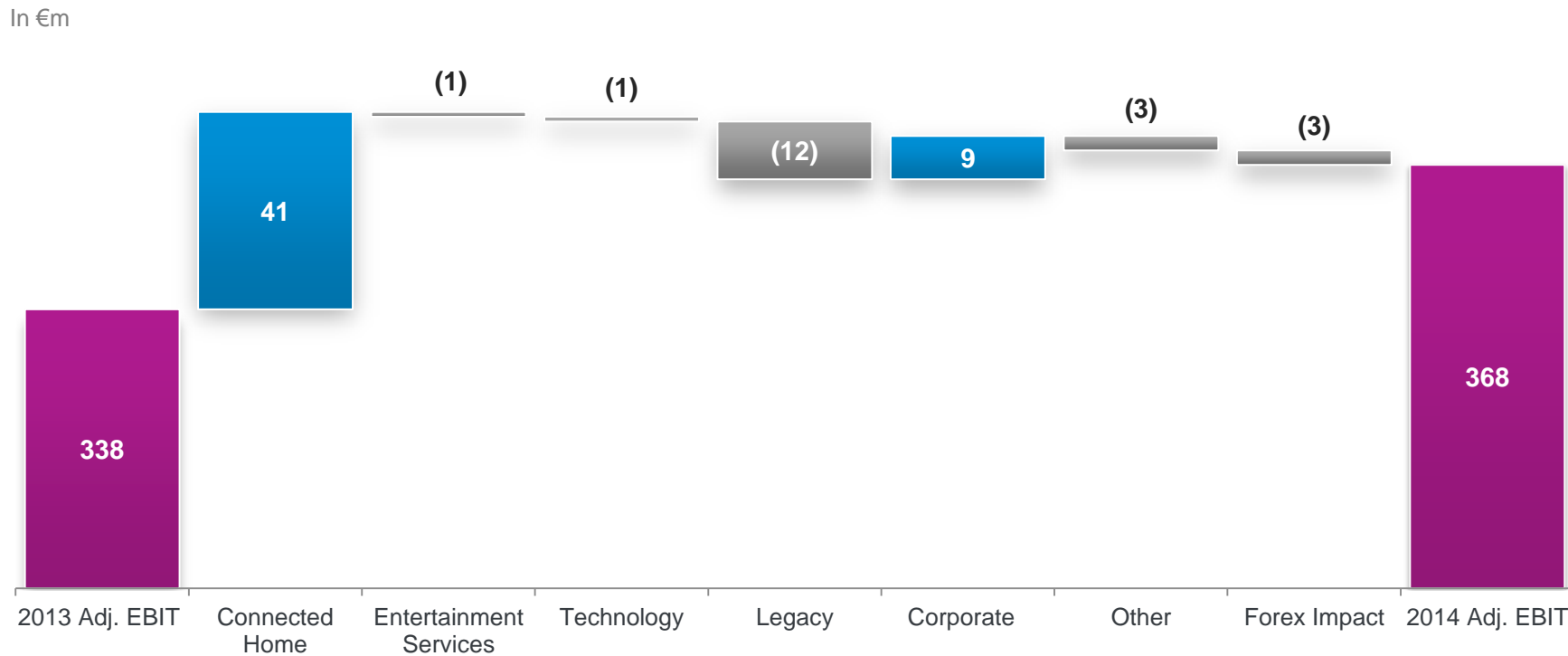
# FY 2014 – Adjusted EBITDA

In €m



- Business contributions affected by the exit of legacy and lower DVD Services performance
- Significant reduction in Corporate costs

# FY 2014 – Adjusted EBIT



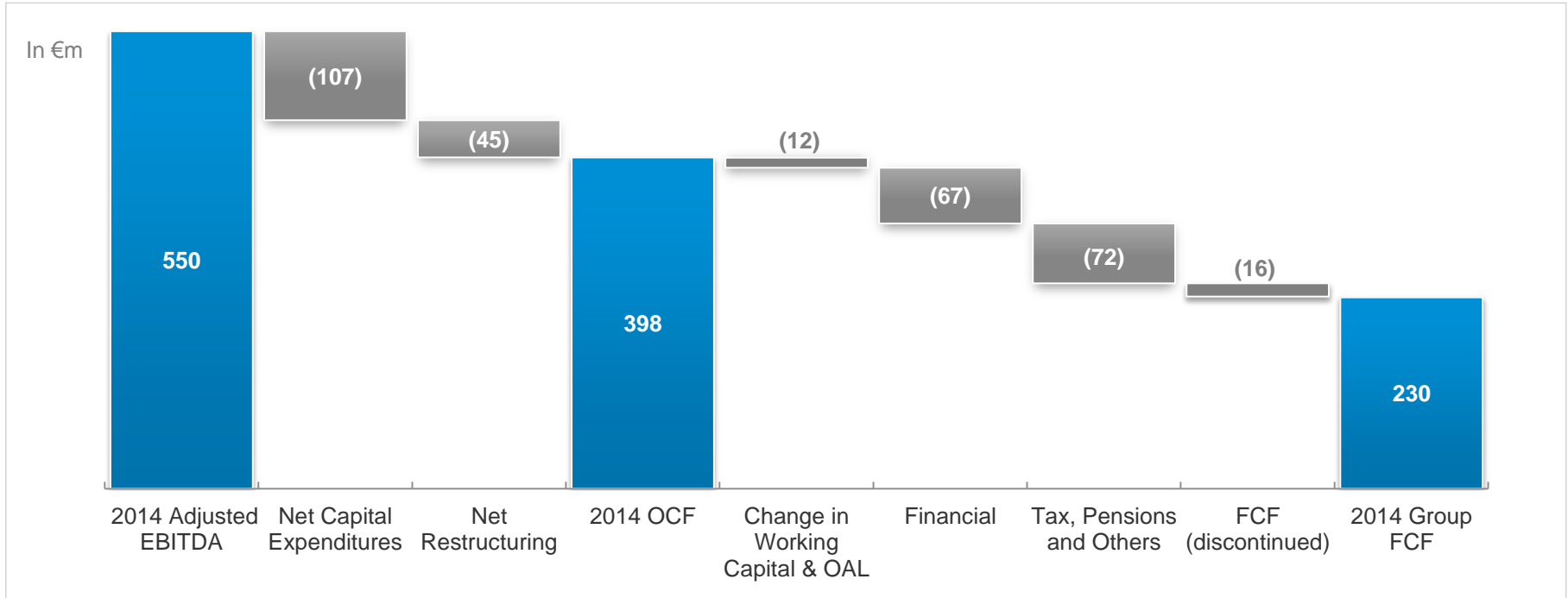
- Entertainment Services impacted positively with lower D&A expenses
- Increase in D&A in Technology related to development of new businesses, particularly Technology Licensing

# Positive net income

| (in € million)                                 | FY 2013      | FY 2014    | Change      |
|--|--------------|------------|-------------|
| <b>Adjusted EBIT</b>                           | <b>338</b>   | <b>368</b> | <b>+30</b>  |
| Restructuring costs                            | (68)         | (25)       | +43         |
| Net impairment losses                          | (31)         | (48)       | (17)        |
| <b>EBIT at constant scope</b>                  | <b>226</b>   | <b>302</b> | <b>+76</b>  |
| Financial costs                                | (127)        | (97)       | +30         |
| Costs due to debt prepayments                  | (161)        | (20)       | +141        |
| Share of profit/(loss) from associates         | (6)          | 0          | +6          |
| Income tax                                     | (41)         | (48)       | (7)         |
| <b>Profit/loss from continuing operations</b>  | <b>(111)</b> | <b>137</b> | <b>+248</b> |
| Discontinued Operations                        | 19           | (9)        | (28)        |
| <b>Net result</b>                              | <b>(92)</b>  | <b>128</b> | <b>+220</b> |
| Net result excl. costs due to debt prepayments | 69           | 148        | +79         |

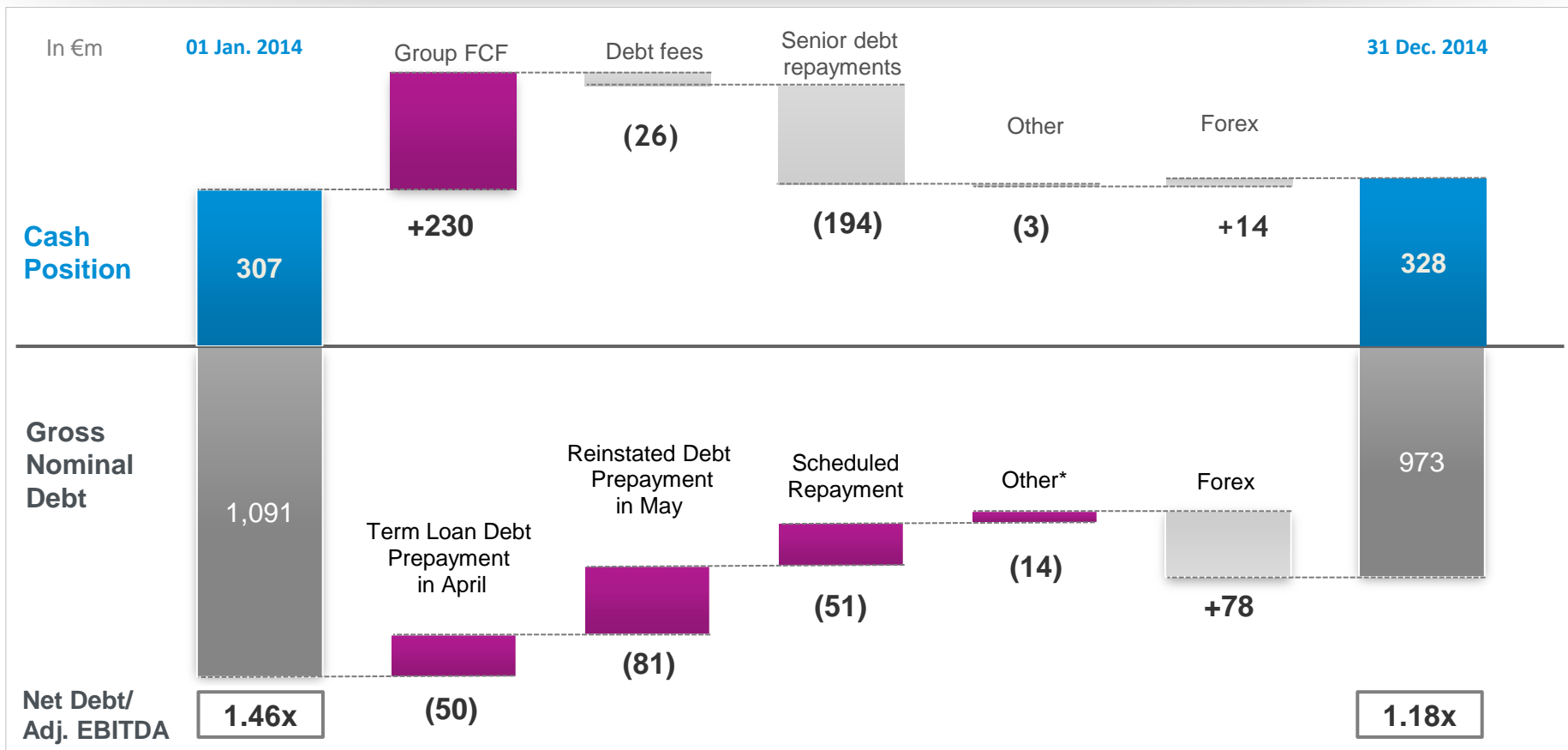


# Strong free cash flow generation of €230m, up €77m YoY



- Operating Cash Flow, up 6.4%
- Tight working capital management and decline in cash financial charges

# Net Debt evolution



\*Of which €12m of other debt



# **Amplify 2015 Key Takeaways**

# Technicolor at a glance

**#1**

in Media &  
Entertainment  
technology  
solutions

**5th**

largest Company  
in terms of licensing  
revenues



of innovation in  
Media and  
Entertainment  
technologies

**250**

world-class  
researchers

**3,700**

digital  
artists

**700**

R&D  
engineers

**40,000**

patents

**2,000**

patents  
granted/year

**€136m**

in  
R&D/year

**€3.3bn**

revenues

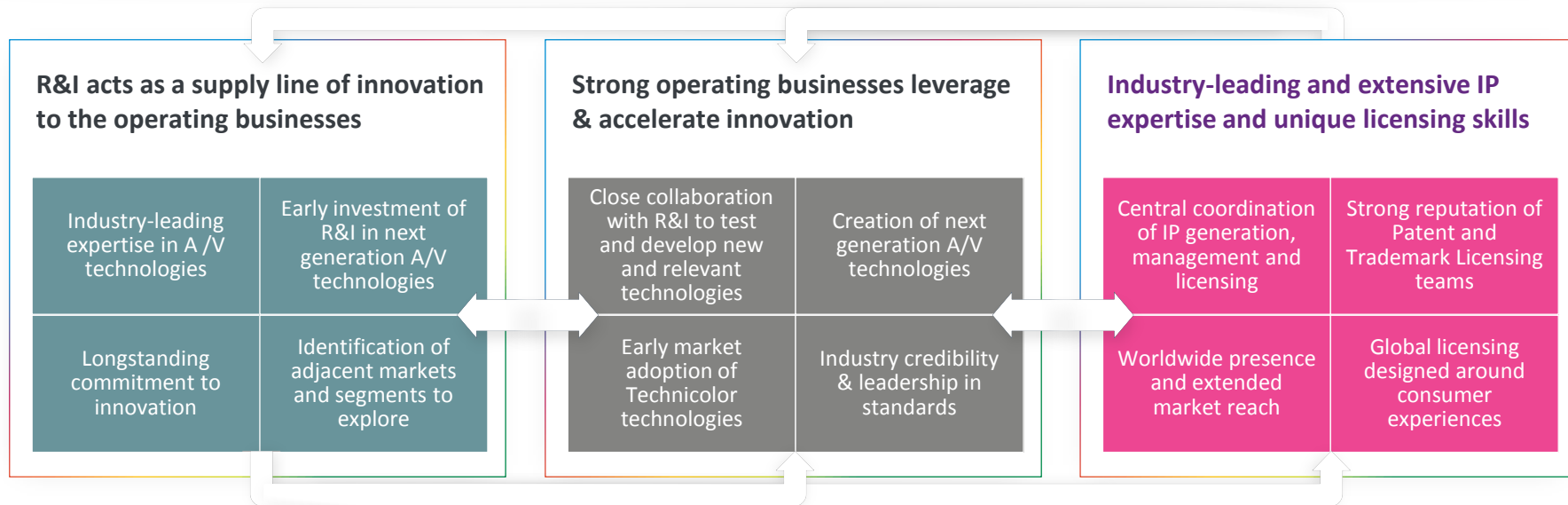
**€398m**

operating  
cash flow

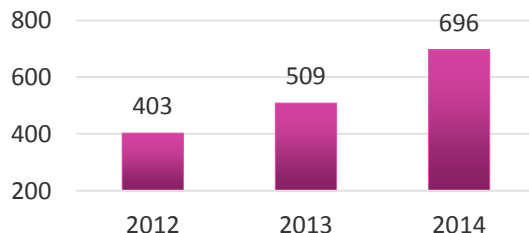
**14,000**

employees

# Powerful assets for strong IP generation



Strong video technology pipeline  
(# priority filings)



Increased positions in key standard organizations and industry alliances



# Amplify 2015 scorecard

Realigned and  
technology-centric  
activity portfolio

1

✓ DONE

Strong  
management  
team

2

✓ DONE

Leaner operational  
structure and well-  
managed exit of legacy  
activities

3

✓ DONE

Better quality of earnings  
with increased  
profitability

4

✓ DONE

Early investments in  
growth and innovation  
opportunities

5

✓ DONE

Completed debt  
restructuring and  
refinancing; Deleveraging  
objectives achieved  
earlier than  
planned

6

✓ DONE

Increased cash  
conversion and delivered  
significant free  
cash flow

7

✓ DONE



# Synergistic technology and business portfolio

**Technicolor's integrated technology and business model provides speed to market, competitive advantage and additional revenue streams**

- HDR technology and solutions across Production Services, Connected Home, Technology Licensing and M-GO\*
- Early go-to-market advantage for Connected Home products and M-GO\*'s technology solutions

**Close collaboration between Technicolor's Technology activities with operating businesses create a virtuous cycle of innovation**

- Development of technologies and related IP, necessary to empower new media and entertainment experiences: interoperability\*, communication networks\*, UI/UX\*
- Access to complementary market segments and adjacent markets



SYNERGISTIC  
TECHNOLOGY

# Strong management team



**FREDERIC ROSE** CEO

International  
and experienced  
management  
team

Strong mix of  
industry  
expertise

Focused on  
business  
execution and  
operational  
excellence

Cash and IP  
generation  
performance  
metrics

**STEPHANE ROUGEOT**  
DEPUTY CEO

Finance ,  
Technology



**BORIS TEKSLER**

Technology



**ESTHER GAIDE**

Deputy CFO



**TIM SARNOFF**  
DEPUTY CEO

Production Services,  
Entertainment  
Customers



**SANDRA CARVALHO**

Chief Marketing Officer



**VINCE PIZZICA**

CTO & Corporate  
Development



**MICHEL RAHIER**  
DEPUTY CEO

Connected Home,  
Operational  
Transformation



**QUENTIN LILLY**

DVD Services



**FABIENNE BRUNET**

Human Resources  
& CSR





# Better quality of earnings and early investments in growth & innovation

## A solid track record in operational excellence and managing transitions

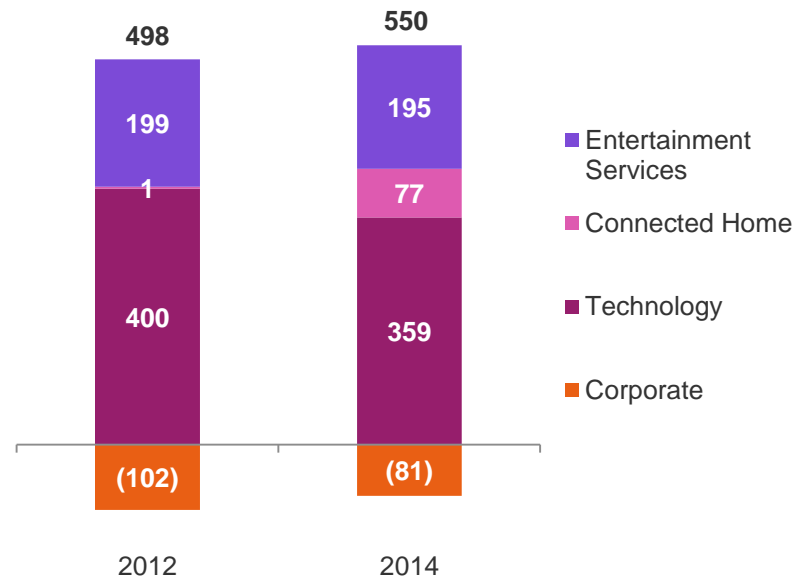
- Successful turnaround of Connected Home
- Best-in-class operational efficiency in DVD Services
- Profitable growth in VFX activity
- Legacy film business replaced by high growth VFX activity
- Lower cost structure and leaner organization

## Improved financials have allowed Technicolor to focus on innovation and growth

- Reinforced technology dissemination through development of new solutions and businesses
- Deepened engagement in standardization activities
- Increased assets and enhanced credibility in new technologies and industry trends
- Addition of new skills in key growth areas by hiring highly recognized executives, researchers and engineers

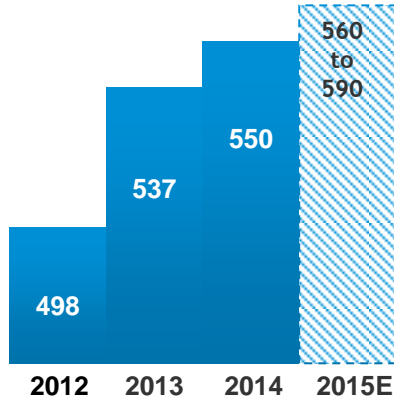
## BETTER QUALITY OF EARNINGS

Adj. EBITDA 2014 vs. 2012 (in €m)\*

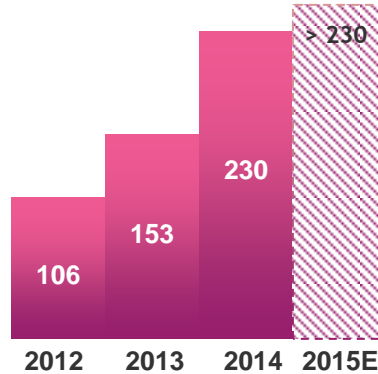


# Successful deleveraging and strong cash generation

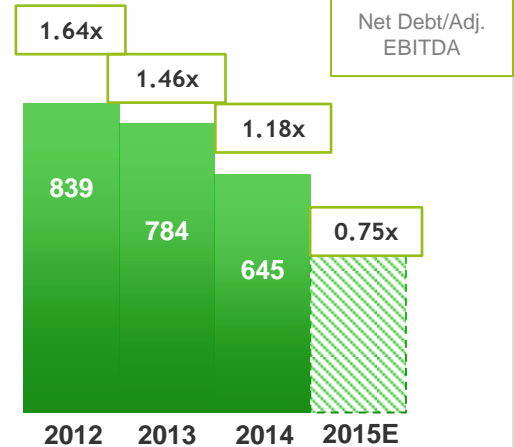
Adj. EBITDA (in €m)



CUMULATED FCF > €700M  
2014 FCF/OCF: **58%**



COMPLETED DEBT RESTRUCTURING  
AND REFINANCING



Solid Adj. EBITDA  
performance...

Sustained cash  
conversion rate...

Balance sheet  
clean up...

Sound financial  
structure



**Drive**  
2020

**Strategy**

## #TECHNOLOGY

Technicolor leads in Media and Entertainment services, deploying and monetizing next-generation video and audio technologies and experiences

## #CREATIVITY



Consumer experiences driven by next-generation video and audio technologies

OTT content and services are driving need for next generation video and audio technologies and services

# Prevailing market conditions

## **D**YNAMIC CHANGES IN CONSUMER EXPERIENCES

### Emergence of OTT

- OTT drive change in consumer experiences – more content on more screens – where and when you want it
- OTT impacts content delivery and creation
- Increased OTT competition drives more content, better quality, higher production values

## **N**EW MARKET EXPANSION

### Next-generation video and audio

- Core driver of new consumer experiences enable future growth paths
- Opportunity for Technology Licensing, Production Services, Connected Home, M-GO

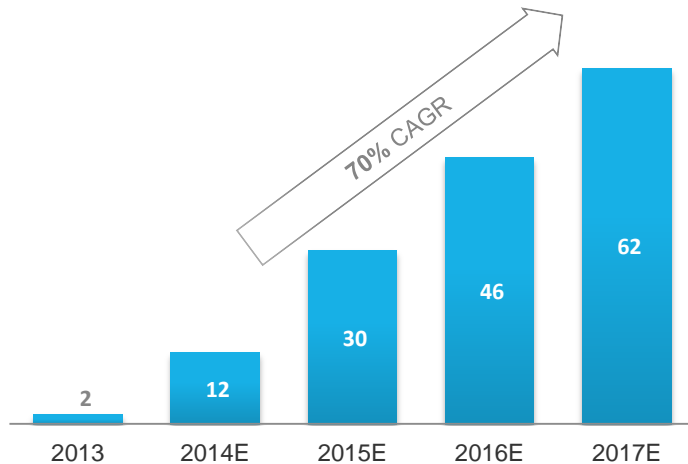
### Larger addressable markets

- OTT combined with IoT and analytics open new markets
- Games, Animation and Advertising markets are growing fast
- Asia fostering promising new markets and services



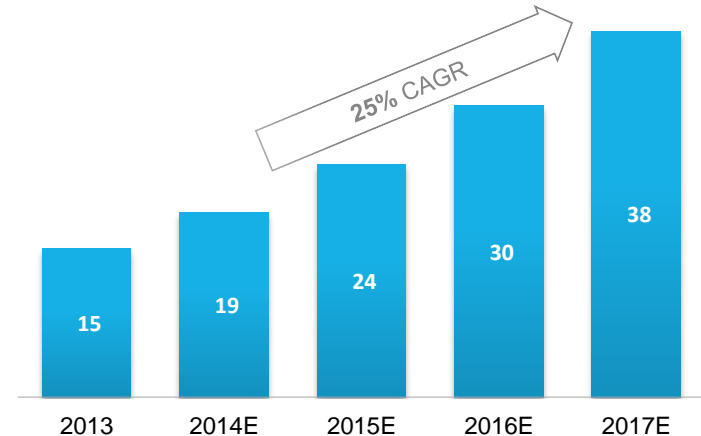
# Next generation video technology and OTT driving growth

Next-generation video technology being quickly adopted - Total global UHD TV shipments to reach 60 million units by 2017



Source: DisplaySearch

OTT services driving growth in global video consumption - Total global OTT revenue to double to \$38bn by 2017 (in \$ billion)



Source: PricewaterhouseCoopers, Strategy Analytics  
Includes transactional, subscription and advertising-supported over-the-top video revenue

# Drive 2020 Strategic and Financial objectives

## Strategic objectives

**Capture growth through sustained innovation** in next generation video and audio technologies and experiences

**Create valuable IP assets** in Media and Entertainment from our research and operating businesses

**Deepen the competitive advantages** of Technicolor's operating businesses, further fueling the Group's IP portfolio

## Financial objective

**Increase free cash flow generation** and maintain operational excellence





**Drive**  
2020

**Strategies by  
business division**



# Technology – An integrated licensing approach

**E**XPAND PATENT  
LICENSING  
PLATFORM'S  
COVERAGE AND  
PENETRATION

**L**AUNCH NEW  
LICENSING  
PROGRAMS AND  
MODELS INCLUDING  
THE DEVELOPMENT  
OF A MATERIAL  
TECHNOLOGY  
LICENSING BUSINESS

**D**RIVE  
DEPLOYMENT,  
ADOPTION AND  
MONETIZATION  
OF TECHNOLOGY  
AND RELATED IP

## ADDRESSABLE MARKET

**3.5 billion** consumer  
electronic devices\* by 2020

CAGR 2015-2020: **+4.1%**

**Growth** driven largely by  
tablets and smartphones

\* Smartphones, tablets, TVs, PCs, STBS, OTT devices, Blu-ray players – Sources: Park Associates, Gartner, IDC, Informa

DRIVE2020



# Technology – R&I, a major source of innovation in Media & Entertainment

## 4 PRIORITY INNOVATION DOMAINS TO FOSTER CROSS-BUSINESS DEVELOPMENT OF NEXT GEN A/V TECHNOLOGIES



### Augmented & Immersive Media

Context-aware entertainment with wearables, augmented reality experiences and multi-modal sensing in mobile devices to enhance AR/VR experiences



### Audio & Acoustics

Solutions for immersive 3D audio formats comprising acquisition, production workflows, compression and flexible rendering



### Compression & Color

High Dynamic Range, Wide Color Gamut, Video Compression and related video format standardization activities



### User Analytics

Breakthrough technologies in machine learning by synthesizing data from sensor and user behavior to personalize user experience

## TECHNICOLOR'S STANDARDIZATION AND INDUSTRY ALLIANCES ARE A COMPANY'S WIDE PRIORITY

- Develop new partnerships and industry alliances
- Participate actively in key standardization bodies

### Solid contribution to standardization in 2014

- 174 contributions to key standards
- Contribution to MPEG, SMPTE, BDA and ATSC standard bodies



**MPEG-H AUDIO ALLIANCE**

# Technology – Expanding patent Licensing

A MARKET LEADING PATENT LICENSING PLATFORM, MONETIZING PATENTS GENERATED BY R&I AND OPERATING BUSINESSES

**EXPAND** LICENSING PLATFORM  
MARKET COVERAGE AND  
PENETRATION

**DEVELOP** AND  
ACQUIRE RELEVANT  
IP ASSETS

**MAINTAIN** INTERNAL IP GENERATION  
BEST PRACTICES VIA R&I AND  
OPERATING BUSINESSES



## Competitive advantages

- Best-in-class IP licensing platform
- Industry-leading R&I team, engaged with the operating businesses
- Scale and relevance of patent portfolio

## First achievements

- Pool strategies
- IP agent model
- IP filings > 600

# Technology – Developing new licensing models

## A MARKET LEADER IN CREATING AND LICENSING NEXT GENERATION VIDEO AND AUDIO TECHNOLOGY SOLUTIONS FOR CONSUMER ELECTRONIC DEVICES, SERVICES AND APPLICATIONS



- Use HDR initiative as an entry point for organic activity and growth in Technology Licensing
- Build out Video program beyond HDR/WCG
- Create significant industrial partnerships to further drive Technology Licensing



### Competitive advantages

- Industry relationships via operating businesses
- Technology deployment opportunities into market via Connected Home, Production Services and M-GO

### First achievements

- HDR Metadata/M-GO
- HDR/WCG initiative with Production Services



**SAMSUNG**

**virdata**

# Production Services – Leading global services and technology solutions platform

THE GLOBAL MARKET LEADER IN ENABLING MEDIA AND ENTERTAINMENT COMPANIES AND CREATIVE TALENT TO ACHIEVE GROUND BREAKING VIDEO AND AUDIO EXPERIENCES

**EXPAND** CURRENT BUSINESS INTO OTT, ANIMATION & GAMES, AND SEEK OPPORTUNITIES IN BRANDS & ADVERTISING

**DIVE** DEPLOYMENT OF VIDEO AND AUDIO TECHNOLOGIES, WORKING WITH R&I AND TECHNOLOGY LICENSING

**ENHANCE** PRODUCTION SERVICES TECHNOLOGIES, PROCESSES, SKILL SET, AND TALENT RELATIONSHIPS



# Production Services – Business expansion to promote early adoption of Technicolor's technologies

## MARKET OPPORTUNITIES

### OTT CONTENT

Grow with North American OTT providers

### GAMES

Creative market for Games: **\$1.3bn**

Games engine market: **\$3bn**

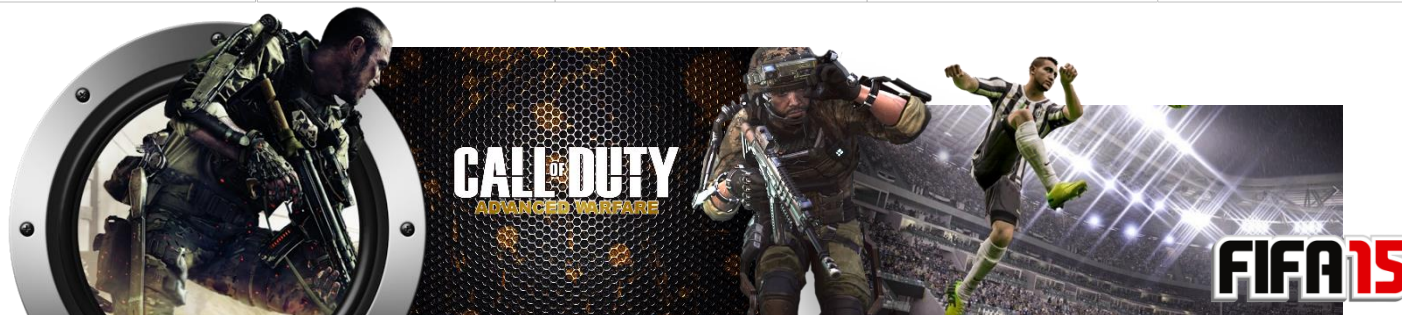
### ANIMATION

Extend current services

### BRANDS AND ADVERTISING

High growth internet/mobile creative market: **\$10bn**

### 1ST ACHIEVEMENTS



## COMPETITIVE ADVANTAGES

Global scale and talent relationships

Global technology platform

Extended customer leverage with DVD Services





# DVD Services – The global market leader



**Maintain lowest cost structure**

**Selectively seize consolidation opportunities**

**Optimize logistics/  
freight management  
business**



**Global scale, talent  
relationships and leverage**



**Customer leverage with  
Production Services**

**Experience in building/  
managing logistics business**

# Connected Home – Worldwide leader position



**DEPLOY** NEW  
TECHNOLOGIES IN  
THE MARKET

- HEVC/4K/UHD/HDR set top boxes with 1st deployments in 2015
- Leading innovation in WiFi, Ultra Broadband, OTT solutions
- Strong innovation pipeline in local networks, interoperability, UX/UI, smart applications



**DEVELOP** NEW MARKET  
SEGMENTS AND  
GEOGRAPHIES

- Leverage early OTT move and extend use of next generation video and audio technologies



**EXPAND** PRODUCT  
DIVERSIFICATION AND  
GAIN SCALE

- Value-creative consolidation opportunities



## OBJECTIVES

Further reinforce worldwide leadership while improving overall product mix

Capture fast growth segments and markets and broader technology dissemination





**Drive**  
2020

# **Financial Implications and Objectives**

# Cash generation and operational excellence to fund Technicolor's growth strategy



REACH BEST-IN-CLASS  
LEVEL IN ALL  
BUSINESSES

**Operational excellence** across businesses by maintaining or reaching industry-leading operational efficiency

**Further reinforce Connected Home** to reach an Adj. EBITDA at 8-9% in the mid-term

OPTIMIZE INNOVATION  
AND GROWTH SPENDING

**Development of core competencies** and critical mass in growth areas by higher mutualization and increased linkage between businesses

**Cash allocation optimization** in businesses in development through industrial partnerships and external fundings

COST STRUCTURE AND  
STRUCTURAL  
ENHANCEMENTS

**Increase automation** in  
Production Services

**Increase shared services** for  
common functions and trim Corporate  
costs

**Small-side divestments or  
deconsolidation**

# Drive 2020 financial objectives



2017

ADJUSTED  
EBITDA

c. €400m

2020

Over €500m

FREE  
CASH FLOW

€160m to €200m

At least €250m

All objectives are calculated at constant rate and perimeter.

# Technicolor's financial policy



## MAINTAIN AMPLE LIQUIDITY

Continued focus on  
free cash flow  
generation

Retention of  
adequate cash on  
hand to operate  
businesses

Credit lines to  
secure temporary  
liquidity needs and  
cushion

## VALUE-CREATION CASH ALLOCATION

**Mandatory debt  
repayments and  
debt optimization  
opportunities**

**Initiation of a yearly  
dividend policy  
in 2015  
5 cents/share**

**Selective M&A to  
accelerate  
execution of  
Drive 2020**

## SECURED FINANCIAL FLEXIBILITY

Support or improve  
S&P (B+) and  
Moody's (B2) rating

Dividend stability  
or growth based on  
balance sheet  
structure and  
economic outlook

M&A strict decision  
making,  
implementation  
and integration  
process

# Alignment of employee compensation with objectives

## ANNUAL VARIABLE COMPENSATION

36%

of Executives, Managers  
and Professionals

85%

on common Technicolor Objectives:  
Adj. EBITDA and Free Cash Flow



## LONG-TERM INCENTIVE PLAN

The Board retained an external advisor to  
design a new long term incentive program

Program with multi-year performance  
metrics and presence vesting conditions  
and aligned with objectives of Drive 2020

Resolution to be submitted at 2016 AGM

# Key takeaways

## **Amplify 2015: Strong business portfolio**

- Market leading and profitable operating businesses
- Effective and recognized research, innovation and licensing platform
- Positioning in growing market segments

## **Drive 2020: Capture Growth**

- Focus on next generation video and audio technologies
- Large growth opportunities across our businesses
- Create, disseminate and monetize innovations across the Media & Entertainment ecosystem

## **Amplify 2015: Sound financial structure**

- Deleveraging ahead of plan, optimized capital structure
- Successful track record in operational execution and FCF generation
- Delivered value creation

## **Drive 2020: Value creation**

- Dynamic management of Technicolor's business portfolio
- Operating within a secure financial policy
- Positioned to deliver ambitious financial objectives