

Technicolor: Q3 2014 Revenue Performance

- **Full year 2014 objectives confirmed**
- **Q3 revenues¹ down 3.1% due to low DVD volumes in the quarter**

Paris (France), 22 October 2014 – [Technicolor](#) (Euronext Paris: TCH; OTCQX: TCLRY) announces today its revenues for the third quarter of 2014.

Frederic Rose, Chief Executive Officer of Technicolor, stated:

“While we saw a lower than expected activity in DVD Services in the third quarter, our performance continued to be fuelled by profitable growth in Connected Home and Production Services. We have also progressed in the quarter on our various short and mid-term key licensing initiatives. As a result we are able to confirm our 2014 guidance and I am particularly satisfied with our strong free cash flow generation for the first nine months of the year.”

Key points

- Q3 14 revenues¹ at €839 million, down 3.1% at current currency and down 4.9% at constant currency. The revenue decrease was almost entirely due to lower DVD volumes in Q3 14.
- Year-to-date revenues at €2.3 billion, down 2.9% at current currency and broadly stable at constant currency.
- Continued focus on execution and operating efficiencies, in particular in DVD Services to help mitigate the impact of lower volumes on profitability.
- Solid free cash flow generation in Q3 14, marked improvement compared to Q3 13. For the first nine months of 2014, free cash flow generation significantly above the same period last year.

2014 guidance confirmed

- Technicolor confirms its objective to reach an Adjusted EBITDA between €550 million and €575 million;
- Expects to generate a free cash flow of more than €200 million, despite the impact of higher cash restructuring charges compared with 2013;
- Expects a positive net income;
- Confirms its objective to reach a Net Debt to Adjusted EBITDA ratio well below 1.2x at end December 2014.

¹ Excluding legacy activities.



Innovation

- R&I continued to dedicate its work in enabling immersive media experiences through contribution to MPEG, BDA and ATSC standardization bodies, focusing on color gamut, high dynamic range and metadata based services.
- The Group unveiled partnerships that accelerate the development and adoption of some of its technologies:
 - With Sinclair Broadcast, deploying an ATSC 3.0 4K/UltraHD testbed platform with the objective to offer broadcasters the ability to deliver the highest quality content inclusive of 4K UltraHD live broadcast in a simultaneous transmission to consumers both at home and on-the-go.
 - The successful migration of Samsung's Media Hub customers to M-GO completed during the quarter.
- Connected Home introduced this quarter a large number of new and innovative products and solutions with a particular focus on immersive technologies, over-the-top services and advanced products for Ultra Broadband.

Segment review – Q3 2014 revenue highlights

Group revenues by segment

In € million	Third Quarter		Change YoY	
	2013	2014	Reported	At constant rate
Technology	123	116	(5.5)%	(11.7)%
Entertainment Services (excl. legacy activities)	383	355	(7.4)%	(8.4)%
Connected Home	361	369	+2.2%	+1.2%
Group revenues (excl. legacy activities)	866	839	(3.1)%	(4.9)%
Legacy activities	15	4	(72.9)%	(73.8)%
Group revenues	881	843	(4.3)%	(6.0)%

Technology revenues amounted to €116 million in the third quarter of 2014, down 5.5% on a reported basis compared to the third quarter of 2013. Licensing revenues were €113 million, down €9 million year-over-year. Revenues generated by MPEG LA benefited from an improving trend in the PC market driven by developed countries, following a difficult first half of the year. Other patent licensing programs recorded a solid performance. However overall revenues were impacted by a lower level of new contracts and contract renewals compared to the third quarter of 2013 which included a large video codec license.

Licensing teams signed during the third quarter an exclusive licensing agreement with Warner Bros. Entertainment to represent the studio as its patent licensing agent (apart from existing patent pool licensing programs) to capture the value of the studio's patent portfolio.

During the third quarter, Technicolor has progressed its dialogue with several other key holders of HEVC standard-essential patents ("SEP") to pursue a common licensing program to offer the industry an appropriately valued alternative pool that will license the industry on fair, reasonable and non-discriminatory ("FRAND") terms. Technicolor expects to continue to progress and converge on license terms to facilitate the licensing of HEVC SEPs. Licensing teams are also progressing their discussions on the expansion of the smartphone licensing program and on other new programs or renewals.

Entertainment Services revenues (excl. legacy activities) amounted to €355 million in the third quarter of 2014, down 7.4% at current currency compared to the third quarter of 2013, principally due to lower DVD volumes, driven by an exceptionally weak slate of customer new releases. As a result of the aforementioned decrease in DVD Services revenues, the division has taken cost optimization actions to maintain its profitability. Production Services revenues continued to grow significantly in the quarter and to improve its profitability.



Q3 2014 Divisional Highlights

- Production Services** revenues recorded double-digit year-on-year growth in the third quarter of 2014, reflecting strong performance across Visual Effects (“VFX”) and Animation activities and solid growth in Postproduction Services in the US. The Group also closed the acquisition of Mr. X in the quarter.

In the third quarter of 2014, VFX teams completed work on *Guardians of the Galaxy* (Disney/Marvel), which recorded the best US box office performance this year, while continuing work on *Night at the Museum: Secret of the Tomb* (Fox), *Cinderella* (Disney), *Monster Trucks* (Paramount), *Exodus: Gods and Kings* (Fox) and *Jungle Book* (Disney). Postproduction teams were also working on some of these projects during the quarter, and completed work on titles such as *Get on Up* (Universal), *Fury* (Sony) and *The Judge* (Warner) in Theatrical. Technicolor also continued to lead the market in premium TV Broadcast series, with Postproduction teams completing work on strong franchises such as *Vampire Diaries* (Warner), *Mad Men* (AMC), *Stalker* (CBS), *iZombie* (AMC) and *Daredevil* (Marvel). Animation teams started working on DreamWorks Animation projects for Netflix.

- DVD Services** revenues were affected in the third quarter of 2014 by significantly lower combined Standard Definition DVD and Blu-ray™ volumes, which fell by 21.3% compared to the third quarter of 2013. These lower volumes resulted from a limited slate of major new titles and a large year-on-year reduction in catalog and promotional activities by one customer. This compares to a very strong third quarter of 2013 during which total disc volumes grew around 3%. Technicolor’s main customers recorded a 29% year-on-year drop in 2014 summer box office revenues, and the Group DVD volumes were impacted by a particularly weak demand from some of these customers. The decline in Blu-ray™ volumes was limited to 6.3%, thanks to ongoing growth in Games products for the Xbox One platform.

Selected major titles produced in the third quarter of 2014 included *Captain America: The Winter Soldier* (Disney/Marvel), *Godzilla* (Warner), *Neighbors* (Universal) and *Transformers: Age of Extinction* (Paramount).

In the first nine months of 2014, combined Standard Definition DVD and Blu-ray™ volumes were down 12.3% compared to the first nine months of 2013, with Standard Definition DVD volumes declining by 15.2%, while Blu-ray™ volumes recorded positive growth of 2.2% in the period.

Volume Data for DVD Services

In million units		Third Quarter			Nine Months		
		2013	2014	Change	2013	2014	Change
Total Combined Volumes		419.2	329.7	(21.3)%	1,020.4	894.7	(12.3)%
By Format	Standard Definition DVD	350.0	264.8	(24.3)%	852.1	722.8	(15.2)%
	Blu-ray™	69.3	64.9	(6.3)%	168.3	171.9	+2.2%
By Segment	Studio / Video	383.6	299.1	(22.0)%	952.7	825.6	(13.3)%
	Games	27.6	20.1	(27.1)%	47.5	41.2	(13.4)%
	Software & Kiosk	8.0	10.6	+31.6%	20.2	28.0	+38.6%



- **Legacy activities** revenues were €4 million in the third quarter of 2014 compared to €15 million in the third quarter of 2013, a year-on-year decrease of more than 70%, as the Group is completing this year the exit of these activities.

Connected Home revenues totaled €369 million in the third quarter of 2014, growing by 2.2% at current currency compared to the third quarter of 2013. This performance mainly reflected good volume growth in both North America and Europe, Middle-East & Africa, with particular strength in customer demand for set top boxes. The Group also recorded a recovery in product shipments in Latin America after several straight quarters of declines, driven principally by stronger deliveries of Telecom broadband gateways, as well as a significant improvement in product mix in Asia-Pacific, supported by larger sales of high-end broadband devices.

Connected Home continued to reinforce its market leadership during the third quarter of 2014, particularly in developed territories, benefiting from a number of new awards and customer wins, notably for high-end devices. Gross margin and adjusted EBITDA improved significantly in the period, due to continued solid operational performance and further cost optimization, while free cash flow generation was also strong.

Q3 2014 Regional Highlights

- In **North America**, revenues experienced solid year-on-year growth in the third quarter of 2014, driven by a double-digit increase in unit shipments, mainly as a result of stronger deliveries of set top boxes, which almost doubled year-on-year, driven by healthy demand in Satellite, as well as increased deployments of Cable modems at some large customers, including new higher-end devices. Overall product mix was less favorable compared to the third quarter of 2013, which benefited from a larger proportion of broadband gateways in the sales mix due to the ramp-up of new Cable devices.
- In **Latin America**, revenues decreased in the third quarter of 2014, as a less favorable product mix has been only partially offset by a recovery in unit volumes after several straight quarters of declines. This growth in unit shipments was achieved despite continuing macroeconomic softness in the region and mainly reflected higher sales of set top boxes due to solid demand at some large Brazilian customers, and stronger shipments of Telecom broadband gateways.
- In **Europe, Middle East and Africa**, revenues increased in the third quarter of 2014, benefiting from solid year-on-year growth in unit volumes, mainly as a result of higher deliveries of set top boxes, combined with stronger shipments of Telecom broadband gateways, notably in Southern Europe. Overall product mix was less favorable compared to the third quarter of 2013, principally as a result of a change in customer mix in set top box.
- In **Asia-Pacific**, revenues fell slightly in the third quarter of 2014, with a decline in unit volumes that was almost fully offset by a solid improvement in product mix. This decrease in unit sales mainly resulted from the impact on set top box volumes of the phasing of new product introductions at Satellite customers in India, partially offset by increased deliveries of higher-end broadband devices.



Volume Data for Connected Home

In million units		Third Quarter			Nine Months		
		2013	2014	Change	2013	2014	Change
Total Combined Volumes*		8.4	8.8	+4.7%	24.2	25.4	+4.7%
By Region	North America	2.3	2.7	+14.8%	4.2	6.6	+56.1%
	Latin America	2.9	2.9	+1.9%	11.0	8.4	(23.5)%
	Europe, Middle-East and Africa	1.6	1.7	+7.8%	4.5	5.8	+28.1%
	Asia-Pacific	1.7	1.5	(7.6)%	4.4	4.5	+1.9%

* Including tablets and other connected devices.

Segment review – Year-to-date performance

In € million	Nine months		Change YoY	
	2013	2014	Reported	At constant Rate
Technology	349	331	(5.0)%	(7.1)%
Entertainment Services (excl. legacy activities)	1,063	979	(8.0)%	(5.9)%
Connected Home	990	1,024	+3.4%	+7.3%
Group revenues (excl. legacy activities)	2,404	2,334	(2.9)%	(0.7)%
Legacy activities	67	14	(79.1)%	(78.5)%
Group revenues	2,471	2,349	(4.9)%	(2.8)%

Technology revenues amounted to €331 million in the first nine months of 2014, down 5.0% as reported compared to the first nine months of 2013, mainly driven by decreased Licensing revenues, as a result of lower MPEG LA revenues in the first half and the absence of significant new agreement signed in the third quarter.

Entertainment Services revenues (excl. legacy activities) totaled €979 million in the first nine months of 2014, down 8.0% as reported compared to the first nine months of 2013, reflecting weaker DVD Services revenues, partially offset by double-digit growth in Production Services revenues.

Connected Home revenues amounted to €1,024 million in the first nine months of 2014, reporting above-market growth of 3.4% as reported compared to the first nine months of 2013. This performance was driven by sustained level of activity across most regions, with healthy product volumes of 25.4m units during the period (+4.7%), including a growing proportion of high-end devices, as well as ongoing market share gains across all geographies, in particular in North America and Europe, Middle-East & Africa.



An analyst conference call hosted by Frederic Rose, CEO, and Stéphane Rougeot, CFO, will be held on Wednesday, 22 October 2014 at 4:00pm CEST.

Financial Calendar

FY 2014 Results	19 February 2015
Q1 2015 Revenues	23 April 2015

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.

About Technicolor

Technicolor, a worldwide technology leader in the media and entertainment sector, is at the forefront of digital innovation. Our world class research and innovation laboratories enable us to lead the market in delivering advanced video services to content creators and distributors. We also benefit from an extensive intellectual property portfolio focused on imaging and sound technologies, based on a thriving licensing business. Our commitment: supporting the delivery of exciting new experiences for consumers in theaters, homes and on-the-go. www.technicolor.com

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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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