

# MEDIA & ENTERTAINMENT

A Research Publication by DZ BANK AG

## Splendid Medien<sup>6)</sup>

Reuters: SPME.DE

Bloomberg: SPM GY

Year *	Sales EUR m	Adj. IFRS- Earnings per sh. EUR	PER	Free cash flow per share EUR	Free cash flow yield %	Dividend flow yield per share EUR
2015	56.8 (56.8)	0.30 (0.30)	8.0	0.28 (0.28)	11.5	0.10
2016e	67.0 (67.5)	0.34 (0.34)	8.2	-0.35 (-0.27)	-12.8	0.15
2017e	76.5 (76.5)	0.40 (0.40)	6.8	0.02 (0.11)	0.9	0.20
2018e	85.0 (85.0)	0.49 (0.49)	5.6	0.26 (0.24)	9.6	0.25

\* Fiscal year end December – In brackets: Figures from the last publication

### Q1/16 weaker due to seasonal factors but as planned

» Not unexpectedly, consolidated revenues fell in Q1/16 by 22.3% to EUR 12.2m. High-revenue film titles such as "Sin City 2" and "The Expendables 3" were released at the Home Entertainment level in Q1/15, whereas there was no comparable product in Q1/16. The successful exploitation of the BBC Sherlock Special "The Abominable Bride" could not compensate for this. Five titles came up for theatre exploitation in Q1/16. The horror film "The Forest" was the most successful film with around 270.000 visitors. By contrast, the comedy "Rock the Kasbah" failed to meet expectations. Overall, revenue in the Content segment slipped by 21.9% to EUR 11.4m. Revenue also contracted in Services, slipping 27.3% to EUR 0.8m, also due to seasonal factors. Against this backdrop, consolidated EBT fell substantially by EUR 1.3m to EUR 0.1m. Despite an increase in investments in film assets, up 13.6% to EUR 5.0m, Splendid reported cash and cash equivalents in the amount of EUR 7.6m at the end of Q1/16 and equity of EUR 29.9m.

» **Management confirmed guidance for 2016.** Management continues to expect sales in the range from EUR 64m to EUR 69m and an EBIT in the range of between EUR 4.0m and EUR 5.0m. Splendid has purchased various interesting film titles in Q1/16, which will come up successively for exploitation from Q3/16. These include the drama "American Pastoral" with Ewan McGregor, Dakota Fanning and Jennifer Connelly. The war drama "Sand Castle", the thriller "Come and find me" with Aron Paul, as well as the film "Operation Chromite" with Liam Neeson. Revenue and earnings contributions will also come from the subsidiary Joker Productions as well as increased activities in Benelux.

**We have adjusted our medium-term revenue and earnings guidance only slightly so that our DCF-based Fair Value is unchanged at EUR 3.80. In our opinion, Splendid has the necessary earnings power in order to sustainably generate EPS of over EUR 0.30. We confirm our BUY recommendation.**

Selected Companies	Price on 12 May 2016	PER 16e 17e	EV / EBITDA 16e 17e	EV / Sales 16e	Re- com.
Splendid Medien	2.75 EUR	8.2 6.8	7.6 6.8	0.60	↑
Highlight Communications	5.83 EUR	14.6 13.3	10.7 10.2	0.78	↑
Constantin Medien	2.15 EUR	15.1 11.3	7.6 6.9	0.59	↑
EuropaCorp	4.42 EUR	6.1 10.5	2.3 12.9	0.59	–
Lions Gate Entert Corp	20.49 USD	21.6 15.2	14.4 10.3	1.73	–
<b>Median for all peer group companies</b>		<b>15.1 13.3</b>	<b>7.9 10.2</b>	<b>0.78</b>	<b>–</b>

↑ = Buy, → = Hold, ↓ = Sell, ● = not rated, n/a = not appropriate  
Source: DZ BANK, I/B/E/S, FactSet

## EQUITIES

Flash  
13 May 2016

Buy (prev. Buy)

Closing price 12 May 2016

(in EUR): 2.75  
Fair value: 3.80 (prev. 3.80)

### Financial ratios 2016e:

Book value per share (in EUR):	3.05
Equity ratio (in %):	40.5
Net margin (in %):	5.3
ROE (in %):	11.8
Dividend yield (in %):	5.5
Free cash flow (EUR m):	-3.5
Net debt (EUR m):	13.3

### Number of shares

(million units): 9.8

### Market cap

(in EUR m): 26.93

### Free float (in %):

35.0

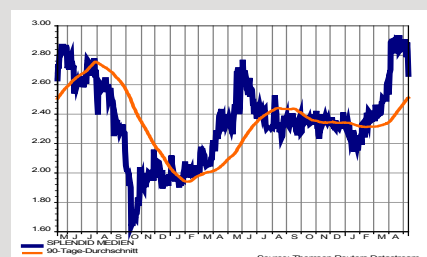
SIN: 727950

ISIN: DE0007279507

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### Next Newsflow:

Annual General Meeting 2016 09.06.2016



Author: Harald Heider, Analyst

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Bank on Germany

## AT A GLANCE

### Company profile

Splendid Medien is a medium-sized, integrated media group with global procurement activities in the area of audiovisual content and focuses its sales on the German-speaking area, as well as Belgium and the Netherlands. The group's activities cover the acquisition, production and processing of audiovisual content as well as its marketing, exploitation and distribution.

### Basis for investment recommendation

Splendid Medien is active on all the stages of the audio-visual added value chain with a focus on Germany and the Benelux. The company has a lot of experience in the exploitation of documentaries and feature films from the areas action, martial arts and horror. Following a profit warning the company managed to close the year 2014 at the top end of the reduced guidance. The company achieved a considerable turnaround in 2015. Despite a seasonally driven weaker Q1/16 the guidance has been confirmed. In our opinion Splendid has interesting earnings potential in the midterm.

### Price sensitive current issues

- » Number and Value of the movie distribution slate
- » Cash-Flow-situation against the backdrop of considerable investments in movie licenses with uncertain payback development
- » Development of electronic sales channels

### Opportunities and risks

Opportunities	Risks
Successful exploitation of the movie slate	High cash binding in the movie assets
Extension of the movie slate	Unsuccessful exploitation of movie rights
Additional sales potential through use of electronic channels	Possible tendency of foreign content owner to self exploitation in foreign markets

<sup>1) – 9)</sup> Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

## PROFIT AND LOSS ACCOUNT

Euro m	2015	2016e	2017e	2018e	2019e	2020e
<b>Sales</b>	<b>56.8</b>	<b>67.0</b>	<b>76.5</b>	<b>85.0</b>	<b>90.5</b>	<b>94.0</b>
% against prev. year	-14%	18%	14%	11%	6%	4%
Cost of goods sold	-38.7	-43.0	-49.1	-53.9	-56.7	-58.3
<b>Gross profit</b>	<b>18.1</b>	<b>24.0</b>	<b>27.4</b>	<b>31.1</b>	<b>33.8</b>	<b>35.7</b>
% against prev. year	-21%	33%	14%	14%	9%	5%
Sales costs	-9.6	-13.6	-15.6	-17.4	-19.0	-19.7
Administration costs	-6.8	-7.5	-8.4	-9.4	-10.0	-10.3
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	2.1	2.1	2.4	2.6	2.7	2.8
Other operating expenses	-0.1	-0.3	-0.3	-0.4	-0.4	-0.4
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating profit (EBIT)</b>	<b>3.7</b>	<b>4.7</b>	<b>5.5</b>	<b>6.5</b>	<b>7.2</b>	<b>8.0</b>
For information: EBIT adjusted	3.7	4.7	5.5	6.5	7.2	8.0
% against prev. year	86%	26%	18%	18%	10%	11%
Interest paid / received	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
<b>Profit before tax</b>	<b>3.1</b>	<b>4.1</b>	<b>4.9</b>	<b>5.9</b>	<b>6.6</b>	<b>7.4</b>
For information: EBT adjusted	3.1	4.1	4.9	5.9	6.6	7.4
% against prev. year	123%	30%	21%	20%	11%	13%
Income taxes from continuing operations	-0.2	-0.5	-0.7	-0.9	-1.0	-1.5
Tax rate	7%	13%	15%	15%	15%	20%
<b>Net profit from continuing operations</b>	<b>2.9</b>	<b>3.5</b>	<b>4.2</b>	<b>5.0</b>	<b>5.6</b>	<b>5.9</b>
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>2.9</b>	<b>3.5</b>	<b>4.2</b>	<b>5.0</b>	<b>5.6</b>	<b>5.9</b>
Profit or loss attributable to minority interest	0.0	-0.3	-0.3	-0.3	-0.3	-0.4
<b>Profit or loss attributable to shareholders</b>	<b>2.9</b>	<b>3.3</b>	<b>3.9</b>	<b>4.8</b>	<b>5.3</b>	<b>5.6</b>
thereof from continuing operations	2.9	3.3	3.9	4.8	5.3	5.6
thereof from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	9.789	9.789	9.789	9.789	9.789	9.789
IFRS earnings per share, diluted	0.30	0.34	0.40	0.49	0.54	0.57
Adjusted earnings per share, diluted (contin.)	0.30	0.34	0.40	0.49	0.54	0.57
<b>For information</b>						
Depreciation	0.5	0.7	0.7	0.8	0.9	1.0
EBITDA	4.2	5.4	6.2	7.3	8.0	8.9
EBITDA adjusted	4.2	5.4	6.2	7.3	8.0	8.9
Fiscal year end December						

Source: Splendid Medien and DZ BANK estimates

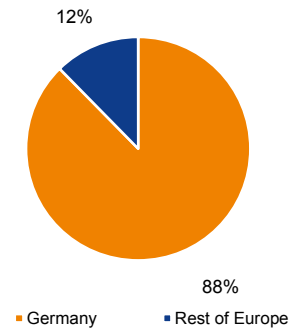
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## RATIOS

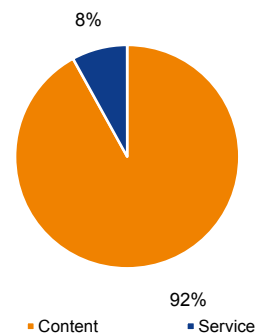
Euro	2015	2016e	2017e	2018e	2019e
<b>Profit and loss ratios</b>					
Sales (m)	56.8	67.0	76.5	85.0	90.5
EBITDA margin	7.4%	8.0%	8.1%	8.6%	8.9%
EBIT margin	6.5%	7.0%	7.2%	7.7%	7.9%
Net margin	5.2%	5.3%	5.5%	5.9%	6.2%
Investment ratio	34.1%	45.3%	35.0%	29.4%	32.1%
R&D as % of sales					
Admin and sales costs as % of sales	29.0%	31.5%	31.4%	31.5%	32.0%
Net other operating costs as % of sales	-3.6%	-2.7%	-2.8%	-2.6%	-2.6%
Net financial income as % of sales	-1.0%	-0.9%	-0.8%	-0.7%	-0.7%
Interest cover	6.4	7.6	9.2	11.0	12.2
Average sales growth next five years	10.6%				
Average earnings growth next five years	13.7%				
<b>Profitability ratios</b>					
ROE	10.7%	11.8%	12.8%	14.0%	14.3%
ROCE	11.8%	12.0%	12.7%	14.0%	14.7%
<b>Productivity ratios</b>					
Sales per employee ('000)	422.31	480.29	542.55	592.33	615.65
EBIT per employee ('000)	27.65	33.63	39.21	45.38	48.73
<b>Balance sheet ratios</b>					
Equity ratio	40.4%	40.5%	42.3%	43.6%	45.0%
Long term debt and equity / Fixed assets	91.7%	80.2%	81.5%	84.4%	89.0%
Liquidity (quick ratio)	87.0%	72.7%	72.8%	75.3%	80.0%
Receivables as % of sales	42.3%	34.5%	34.0%	33.0%	33.0%
Investment (net of GW) / Depreciation	97.4%	143.4%	108.3%	93.3%	104.1%
Working capital as % of sales	8.2%	4.6%	7.3%	7.7%	8.2%
Net debt (m)	9.5	13.3	15.1	15.1	14.0
Net debt complete (m)	9.8	14.9	16.7	16.7	15.5
<b>Figures per share</b>					
Earnings per share, diluted	0.30	0.34	0.40	0.49	0.54
Free cash flow per share, diluted	0.28	-0.35	0.02	0.26	0.42
Dividend per common share	0.10	0.15	0.20	0.25	0.25
Cash per share, diluted	0.80	0.51	0.27	0.27	0.39
Net debt per share, diluted	0.97	1.36	1.54	1.54	1.43
<b>Valuation ratios</b>					
Enterprise value / Sales	0.6	0.6	0.6	0.5	0.5
Enterprise value / EBITDA	7.8	7.6	6.8	5.9	5.2
Enterprise value / EBIT	8.9	8.6	7.7	6.6	5.9
EV/Sales to sales growth	0.09	0.06	0.05	0.05	0.04
PEG ratio - common shares	0.19	0.60			
Fiscal year end December					

Source: Splendid Medien, DZ BANK estimates

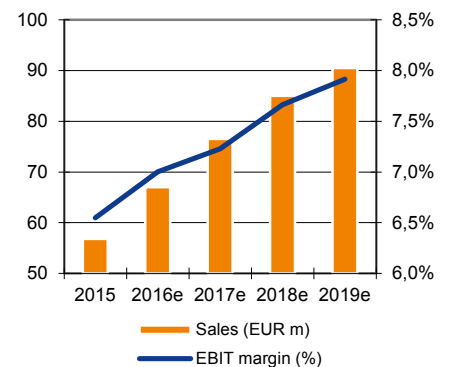
## SALES BY REGION 2015



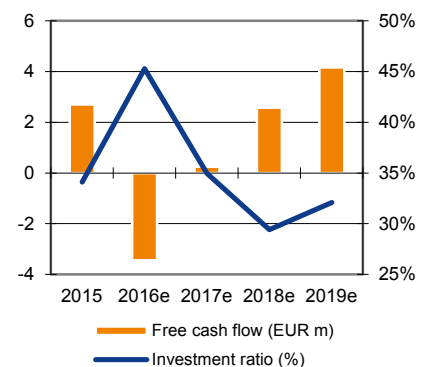
## SALES BY BUSINESS SEGMENT 2015



## SALES AND MARGIN DEVELOPMENT



## FREE CASH FLOW AND INVESTMENT RATIO



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## DISCOUNTED CASH FLOW VALUATION

<b>Market data</b>	
Risk-free interest rate	0.23%
Market premium	5.50%
<b>Data from comparable company</b>	
Levered beta factor	1.7000
<b>Data from company to be valued</b>	
Growth rate of perpetuity	0.8%
Weighted average cost of capital (WACC)	7.99%
(Capital cost are specifically calculated for each particular period)	

Euro m	2016e	2017e	2018e	2019e	2020e	2021e
Adjusted EBIT	4.7	5.5	6.5	7.2	8.0	8.5
Taxes on EBIT	-0.6	-0.8	-1.0	-1.1	-1.6	-2.2
Cash Taxes	13.0%	15.0%	15.0%	15.0%	20.0%	26.0%
<b>Net Operating Profit After Tax (NOPAT)</b>	<b>4.1</b>	<b>4.7</b>	<b>5.5</b>	<b>6.1</b>	<b>6.4</b>	<b>6.3</b>
+ Depreciations (-Reversals)	21.2	24.7	26.8	27.9	28.5	29.4
- Investments (+Proceeds from sale)	-30.4	-26.7	-28.9	-29.0	-29.6	-29.8
Change in working capital	1.6	-2.5	-0.9	-0.9	-0.5	-0.5
Other changes	0.0	0.0	0.0	0.0	0.0	0.0
<b>Free cash flow</b>	<b>-3.5</b>	<b>0.1</b>	<b>2.5</b>	<b>4.1</b>	<b>4.7</b>	<b>5.4</b>
<b>Present value of free cash flows</b>	<b>57.5</b>					
Market value of non-operating assets	0.0					
Financial and liquid assets	7.8					
<b>Enterprise value, beginning of period</b>	<b>65.3</b>					
Liabilities	-17.6					
Provisions (inc. provisions for pensions)	0.0					
<b>Equity value incl. minority interest, bop</b>	<b>47.7</b>					
Value of minority interest	-12.0					
Correction of liabilities by convertible bonds	0.0					
<b>EQV excl. minority interest, bop</b>	<b>35.7</b>					
Accumulation till effective valuation date (with KE-rate)	1.5					
<b>EQV excl. minority interest at valuation date</b>	<b>37.2</b>					
<b>Equity value per share, diluted (EUR)</b>	<b>3.8</b>					

Fiscal year end December

Source: Splendid Medien and DZ BANK estimates

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Buy 66.7%, Hold 18.4%, Sell 14.9%

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Buy 18.6%, Hold 9.6%, Sell 4.8%

Figures as at 06 Apr 2016

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**RATING HISTORY**

Recommendation	Date	Price
Buy	7 Nov 2012	2.10 EUR

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