

MEDIA & ENTERTAINMENT

A Research Publication by DZ BANK AG

Splendid Medien⁶⁾

Reuters: SPME.DE

Bloomberg: SPM GY

Year *	Sales		Adj. IFRS- Earnings per sh.		Cash flow per share		PER	PCF	Dividend per share
	EUR m		EUR		EUR				
2013	54.9	(54.9)	0.37	(0.37)	0.42	(0.42)	6.0	5.4	0.10
2014e	63.5	(66.0)	0.04	(0.38)	0.11	(0.45)	46.0	18.3	0.10
2015e	68.0	(72.0)	0.22	(0.44)	0.29	(0.51)	9.2	7.1	0.15
2016e	75.0	(78.0)	0.37	(0.50)	0.44	(0.57)	5.4	4.6	0.20

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

Management released a profit warning for 2014

- Due to the unexpectedly weak operating performance in September 2014 Splendid Medien has announced a profit warning. In particular the cinema exploitation of the two sequels "The Expendables 3" and "Sin City 2: A Dame to Kill For" fell short of the earnings of their predecessors in Germany. "The Expendables 3" has so far only attracted 683,000 visitor, while "The Expendables 2" achieved an audience of more than 1.2 million. "Sin City 2: A Dame to Kill For" has so far only attracted 171,000 cinema-goers, while the first film also had an audience of more than 1.2 million.
- Splendid Medien has reduced the revenue forecast for 2014 to a new range between €62m and €66m, compared to the previous figure of €66m-72m. **Important:** The EBIT guidance was reduced from a range between €5m and €6m to €1.0-2.0m. We have reduced our EBIT forecast for 2014 from €5.2m to €1.52m and for precautionary reasons have also somewhat reduced them for the subsequent years.
- The specific reasons for the weak earnings in 2014 have no negative consequences for the next few years, as the weaker performance of the films is not due to a negative economic trend, but rather to cinema-goers' low level of acceptance of the individual films. In addition we expect solid performance by the films at the home entertainment level, as well as a series of positive licence deals with television broadcasters. It also needs to be taken into account that following the operating loss in H1/14 of €1.4m we expect a positive EBIT of about €2.9m for H2/14.

Following the guidance adjustment we have also revised our sales and earnings forecast. On this basis the DCF-based fair value per share falls to €3.50. Splendid Medien continues to enjoy a solid competitive situation in the German cinema and home entertainment market. Against this backdrop we believe there still to be good mid- and long-term earnings prospects and recommend the share as a Buy.

Selected Companies	Price on 1 Oct 2014	PER		EV / EBITDA		EV / Sales 14e	Re- com.
		14e	15e	14e	15e		
Splendid Medien	2.03 EUR	46.0	9.2	14.6	7.3	0.50	↑
Highlight Communications	3.26 EUR	15.5	11.7	11.0	8.5	0.51	↑
Constantin Medien	1.28 EUR	–	27.9	20.4	11.2	0.70	↑
EuropaCorp	3.98 EUR	3.8	2.9	4.1	3.6	0.96	–
Lions Gate Entert Corp	32.09 USD	20.2	17.8	13.3	12.1	2.02	–
Median for all peer group companies		17.8	16.5	11.0	8.5	0.96	–

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

EQUITIES

Flash
2 Oct 2014

Buy (prev. Buy)

Closing price 1 Oct 2014

(in EUR): 2.03

Fair value: 3.50 (prev. 4.10)

Financial ratios 2014e:

Book value per share (in EUR):	2.54
Equity ratio (in %):	38.9
Net margin (in %):	0.7
ROE (in %):	1.7
Dividend yield (in %):	4.9
Free cash flow (EUR m):	-3.7
Net debt (EUR m):	12.0

Number of shares

(million units): 9.8

Market cap

(in EUR m): 19.87

Free float (in %): 35.0

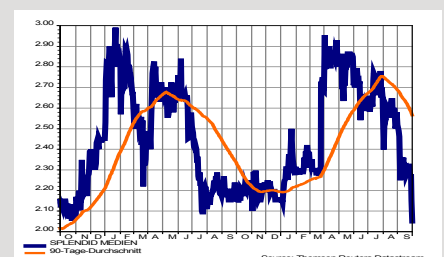
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Q3/2014 Figures 13.11.2014



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DZ BANK
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 regional focus on the German-speaking area and in the Benelux states. The company has a lot of experience in the procurement and exploitation of documentaries and feature films from the areas action, martial arts and horror. Based on a solid financial balance sheet structure, Splendid aims to further increase investments in film assets in future to exploit existing growth potential. In our opinion Splendid has very interesting earnings potential despite a recently released profit warning for 2014.

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
Extention 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

¹⁾⁻⁹⁾ 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	2013	2014e	2015e	2016e	2017e	2018e
Sales	54.9	63.5	68.0	75.0	82.0	85.0
% against prev. year	10%	16%	7%	10%	9%	4%
Cost of goods sold	-34.3	-41.9	-43.0	-45.7	-49.6	-51.5
Gross profit	20.6	21.7	25.0	29.3	32.5	33.5
% against prev. year	3%	5%	15%	17%	11%	3%
Sales costs	-13.4	-14.9	-16.1	-18.0	-19.6	-20.3
Administration costs	-7.2	-7.4	-7.8	-8.6	-9.3	-9.7
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	4.4	2.7	2.9	3.2	3.5	3.7
Other operating expenses	-0.2	-0.4	-0.5	-0.8	-0.9	-0.9
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	4.3	1.5	3.5	5.2	6.1	6.3
For information: EBIT adjusted	4.3	1.5	3.5	5.2	6.1	6.3
% against prev. year	1%	-65%	131%	49%	17%	3%
Interest paid / received	-0.9	-1.0	-1.1	-1.1	-1.1	-1.1
Profit before tax	3.4	0.5	2.4	4.1	5.0	5.2
For information: EBT adjusted	3.4	0.5	2.4	4.1	5.0	5.2
% against prev. year	1%	-86%	398%	70%	23%	5%
Income taxes from continuing operations	0.3	0.0	-0.2	-0.4	-0.5	-0.8
Tax rate	-8%	10%	10%	10%	10%	15%
Net profit from continuing operations	3.7	0.4	2.2	3.7	4.5	4.5
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	3.7	0.4	2.2	3.7	4.5	4.5
Profit or loss attributable to minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Profit or loss attributable to shareholders	3.7	0.4	2.2	3.7	4.5	4.5
thereof from continuing operations	3.7	0.4	2.2	3.7	4.5	4.5
thereof from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	9.790	9.790	9.790	9.790	9.790	9.790
IFRS earnings per share, diluted	0.37	0.04	0.22	0.37	0.46	0.46
Adjusted earnings per share, diluted (contin.)	0.37	0.04	0.22	0.37	0.46	0.46
For information						
Depreciation	0.4	0.7	0.7	0.7	0.7	0.8
EBITDA	4.7	2.2	4.2	5.9	6.8	7.1
EBITDA adjusted	4.7	2.2	4.2	5.9	6.8	7.1

Fiscal year end December

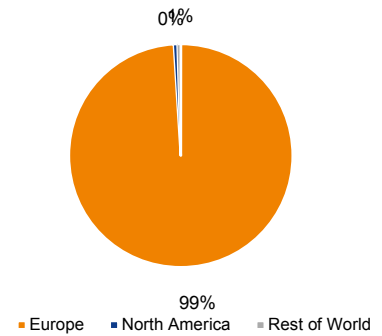
Source: Splendid Medien and DZ BANK estimates

RATIOS

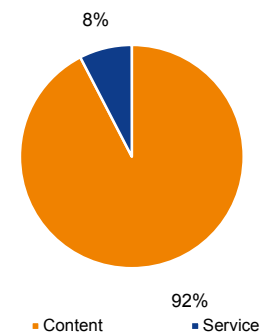
Euro	2013	2014e	2015e	2016e	2017e
Profit and loss ratios					
Sales (m)	54.9	63.5	68.0	75.0	82.0
EBITDA margin	8.6%	3.4%	6.1%	7.9%	8.3%
EBIT margin	7.9%	2.4%	5.2%	7.0%	7.5%
Net margin	6.7%	0.7%	3.2%	4.9%	5.5%
Investment ratio	38.6%	42.5%	34.9%	35.7%	35.0%
R&D as % of sales					
Admin and sales costs as % of sales	37.5%	35.2%	35.2%	35.4%	35.3%
Net other operating costs as % of sales	-7.8%	-3.5%	-3.6%	-3.3%	-3.2%
Net financial income as % of sales	-1.7%	-1.6%	-1.7%	-1.5%	-1.4%
Interest cover	6.3	1.5	3.1	4.6	5.5
Average sales growth next five years	9.1%				
Average earnings growth next five years	4.0%				
Profitability ratios					
ROE	14.4%	1.7%	8.3%	13.0%	14.6%
ROCE	16.5%	4.9%	11.3%	15.8%	17.3%
Productivity ratios					
Sales per employee ('000)	446.66	496.09	513.21	545.45	581.56
EBIT per employee ('000)	35.08	11.88	26.54	38.00	43.46
Balance sheet ratios					
Equity ratio	40.1%	38.9%	39.4%	41.0%	42.6%
Long term debt and equity / Fixed assets	95.1%	86.7%	97.0%	99.4%	102.3%
Liquidity (quick ratio)	89.4%	77.2%	87.4%	89.1%	91.4%
Receivables as % of sales	38.5%	34.0%	33.5%	32.0%	32.0%
Investment (net of GW) / Depreciation	133.2%	115.1%	94.2%	104.4%	103.7%
Working capital as % of sales	1.6%	3.9%	5.8%	6.1%	7.2%
Net debt (m)	6.3	12.0	10.8	10.4	10.2
Net debt complete (m)	6.4	12.1	10.9	10.5	10.3
Figures per share					
Earnings per share, diluted	0.37	0.04	0.22	0.37	0.46
Diluted cash earnings per share	0.42	0.11	0.29	0.44	0.53
Dividend per common share	0.10	0.10	0.15	0.20	0.22
Cash per share, diluted	0.84	0.36	0.58	0.59	0.56
Net debt per share, diluted	0.64	1.22	1.10	1.06	1.04
Valuation ratios					
Enterprise value / Sales	0.5	0.5	0.5	0.4	0.4
Enterprise value / EBITDA	6.0	14.6	7.3	5.1	4.4
Enterprise value / EBIT	6.5	20.9	8.7	5.8	4.9
EV/Sales to sales growth	0.05	0.05	0.05	0.04	0.04
PEG ratio - common shares	1.28	11.35			
Fiscal year end December					

Source: Splendid Medien, DZ BANK estimates

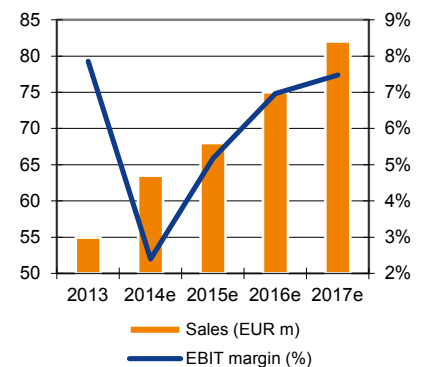
SALES BY REGION 2013



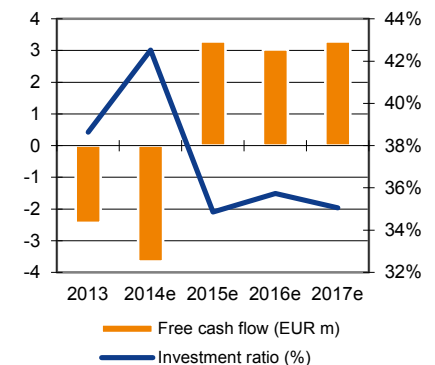
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SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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DISCOUNTED CASH FLOW VALUATION

Market data	
Risk-free interest rate	1.05%
Market premium	5.00%
Data from comparable company	
Levered beta factor	1.7500
Data from company to be valued	
Growth rate of perpetuity	0.8%
Weighted average cost of capital (WACC)	8.41%
(Capital cost are specifically calculated for each particular period)	

Euro m	2014e	2015e	2016e	2017e	2018e	2019e
Adjusted EBIT	1.5	3.5	5.2	6.1	6.3	8.2
Taxes on EBIT	-0.2	-0.4	-0.5	-0.6	-1.0	-1.6
Cash Taxes	10.0%	10.0%	10.0%	10.0%	15.0%	20.0%
Net Operating Profit After Tax (NOPAT)	1.4	3.2	4.7	5.5	5.4	6.6
+ Depreciations (-Reversals)	23.5	25.2	25.7	27.7	28.8	29.4
- Investments (+Proceeds from sale)	-27.0	-23.7	-26.8	-28.7	-29.4	-30.6
Change in working capital	-1.6	-1.5	-0.7	-1.3	-0.9	-1.1
Other changes	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	-3.8	3.2	2.9	3.2	3.9	4.3
Present value of free cash flows	45.5					
Market value of non-operating assets	0.0					
Financial and liquid assets	8.2					
Enterprise value, beginning of period	53.7					
Liabilities	-14.6					
Provisions (inc. provisions for pensions)	0.0					
Equity value incl. minority interest, bop	39.2					
Value of minority interest	-7.4					
Correction of liabilities by convertible bonds	0.0					
EQV excl. minority interest, bop	31.8					
Accumulation till effective valuation date (with KE-rate)	2.5					
EQV excl. minority interest at valuation date	34.3					
Equity value per share, diluted (EUR)	3.5					

Fiscal year end December

Source: Splendid Medien and DZ BANK estimates

IMPRINT

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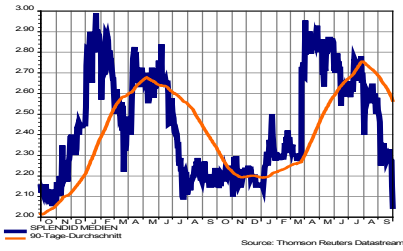
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RATING HISTORY

Recommendation	Date	Price
Buy	7 Nov 2012	2.10 EUR

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