

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				
2012	50.1	(50.1)	0.37	(0.37)	0.41	(0.41)	7.0	6.3	0.10
2013	54.9	(54.0)	0.37	(0.23)	0.42	(0.29)	6.0	5.4	0.00
2014e	66.0	(66.0)	0.43	(0.25)	0.50	(0.31)	6.6	5.7	0.10
2015e	75.0	(73.0)	0.48	(0.30)	0.55	(0.36)	6.0	5.2	0.15

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

Higher results expected for 2014

- » Splendid has come up with solid figures for 2013 which exceeded the expectations. Revenues were up 9.6% to EUR 54.9m (DZe: EUR 54.0m). EBIT was down slightly by 2.3% to EUR 4.1m, but clearly exceeded our estimate of EUR 3.7m. This is attributable to a good performance in the Home Entertainment segment. Q4/13 was able to contribute EUR 2.7m and almost compensate for the missing earnings contributions from cinema exploitation, in particular the films 'The Last Stand' and 'Systemfehler – Wenn Inge tanzt'.
- » Net income was up 2.8% to EUR 3.7m and EPS was unchanged on the prior-year level at EUR 0.37. Against this backdrop, the management is proposing a dividend of EUR 0.10 per share. Equity increased by 11.8% to EUR 25.5m and the equity ratio came to a solid 40.1%.
- » Splendid has published guidance for 2014. It is anticipating revenues in a range between EUR 66.0m and EUR 72.0m (DZe: EUR 66m) and EBIT between EUR 5.0m and EUR 6.0m. This exceeds our estimate of EUR 4.2m for 2014.
- » Splendid has a strong film slate for exploitation in 2014 including the sequels 'Expendables 3' and 'Sin City 2: A Dame to Kill For'. The earlier film 'Expendables 2' was able to attract more than 1.2 million cinema-goers in Germany in 2012. Alongside the feature films Splendid also has a strong film slate in the area of animation ready for launch. In addition the Home Entertainment segment should make good earnings contributions again.

Splendid has come up with solid earnings figures for 2013 which exceeded our expectations, although cinema exploitation was not quite able to meet the expectations. This is a sign that Splendid's activities are on a broad base and no longer dependent on the successful exploitation of an individual film. The company has a solid financing structure and interesting growth potential. We have to raise our earnings estimates and are confirming our recommendation.

Selected Companies	Price on 8 Apr 2014	PER		EV / EBITDA		EV /	Re- com.
		14e	15e	14e	15e	Sales 14e	
Splendid Medien	2.85 EUR	6.6	6.0	5.6	5.3	0.54	↑
Highlight Communications	3.94 EUR	20.1	14.4	15.7	12.0	0.69	↑
Constantin Medien	1.55 EUR	9.9	37.5	8.4	10.7	0.70	↑
EuropaCorp	4.56 EUR	4.1	3.4	3.7	3.3	0.91	–
Lions Gate Entert Corp	25.68 USD	16.0	14.3	9.9	8.5	1.46	–
Median for all peer group companies		16.0	14.4	8.4	8.5	0.91	–

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

EQUITIES

Flash
9 Apr 2014

Buy (prev. Buy)

Closing price 8 Apr 2014

(in EUR): 2.85

Fair value: 4.90 (prev. 3.40)

Financial ratios 2014e:

Book value per share (in EUR):	3.03
Equity ratio (in %):	42.8
Net margin (in %):	6.4
ROE (in %):	14.3
Dividend yield (in %):	3.5
Free cash flow (EUR m):	-0.4
Net debt (EUR m):	7.7

Number of shares

(million units): 9.8

Market cap

(in EUR m): 27.90

Free float (in %): 35.0

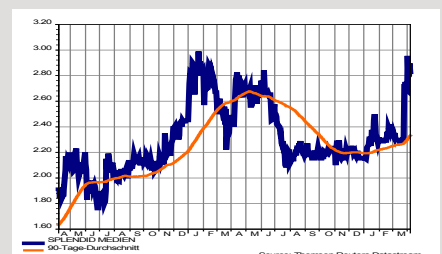
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DZ BANK
Bank on Germany

2013 COMES IN ABOVE THE EXPECTATIONS

Despite cinema exploitation falling short of the expectations in 2013, Splendid generated a very good result which is attributable in particular to the solid performance in the Home Entertainment segment.

Splendid presented solid figures for 2013 which were way above the expectations. Revenues were up 9.6% to EUR 54.9m (DZe: EUR 54.0m). EBIT fell slightly by 2.3% to EUR 4.1m, but exceeded our estimate of EUR 3.7m significantly. The group EBIT margin came to 7.4%.

At EUR 50.8m revenues in the **Content segment** were up by around 10.5%. This is due in particular to the good performance in the Home Entertainment segment. Revenues in this sub-segment were increased by 31.8% to EUR 42.1m. It is worth mentioning that revenues with VoD (Video on Demand) and EST (Electronic sell through) were improved by 170.0% to EUR 3.9m, thus exceeding the market trend in the Home Entertainment sector. Overall revenues in the Home Entertainment market grew by 3.0% to EUR 1.757bn. Digital revenues (S-VoD, T-VoD and EST) grew by 24.2% in 2013 to EUR 154.0m.

This more than compensated for the decline in revenues in the cinema distribution sub-segment of 69.0% to EUR 2.5m. The films 'The Last Stand' with 180,000 cinema-goers and 'Systemfehler – Wenn Inge tanzt' with only 93,000 cinema tickets sold fell short of the expectations in particular whereas the films 'Expendables 2' and 'Iron Skies' were able to record very good box-office results the previous year. The license sales sub-segment was able to generate revenues almost on the prior-year level at EUR 6.2m. License agreements were concluded with the RTL Group, ZDF and Sky Deutschland among others.

EBIT of EUR 4.5m was generated in the Content segment corresponding to a decline of 2.2%. The decline in earnings and the deterioration in the margin by around 1.2 percentage points to 8.9% can be explained primarily by the increase in production and distribution costs (P&A) for the cinema releases. These were set against cinema revenues which were only below target. This was compensated to a large extent by the good trend in business in the home entertainment business.

In the **Services** segment revenues were up 7.7% to EUR 4.2m. Dubbing for feature films and TV series on the one hand and premastering orders for DVF/Blu-ray and orders for Vod/EST digitalisation for Internet portals such as I-tunes and maxdome are carried out in this segment. The segment was able to increase EBIT by 14.3% to EUR 0.8m. The EBIT margin improved by 1.2 percentage points to 13.7%.

Based on group EBIT of EUR 4.1m EBT after deducting the financial result of EUR -0.7m comes to EUR 3.4m. As a result of the repayment of a mezzanine loan the negative financial result was improved by EUR 0.1m or 12.5% to EUR -0.7m. Thanks to a tax loss carry-forward as well as a positive effect from the formation of deferred taxes tax income was generated.

Against this backdrop group net income was slightly higher compared to the previous year at EUR 3.7m and EPS unchanged at EUR 0.37 per share. The management board of Splendid Medien AG will propose the payment of an unchanged dividend of EUR 1.0 to the AGM.

Revenues were increased significantly in 2013

The relatively weak performance of the films 'The Last Stand' and 'Systemfehler - wenn Inge tanzt' prevented a significant increase in earnings

The trend in the Services segment was very positive

EPS on the prior-year level in 2013

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

Splendid invested around EUR 19.9m in the acquisition of film assets in the year under report, therefore laying the foundation for further revenue growth in 2014 and 2015. Splendid already invested EUR 20.7m in film rights in 2012. Film assets as at 31 December 2013 amounted to only 12.4% of the acquisition and production costs invested, a very healthy level. Despite the major investments liquid funds stand at EUR 8.2m and net debt at EUR 6.5m. The leverage factor net debt to EBITDA (without write-downs on film assets) comes to around 1.44 and is to be regarded as solid. The equity ratio is also unchanged at a solid 40.1%.

The management has published new guidance for 2014 and is expecting revenues ranging between EUR 66.0m and EUR 72.0m (DZe: EUR 66m). EBIT is expected to come in between EUR 5.0m and EUR 6.0m, way above our estimate of EUR 4.2m for 2014. We have therefore raised our earnings estimate. However, it is to be anticipated that the trend in revenues and earnings will be weaker than in the previous year in the first half of the year owing to the releases planned in both cinema exploitation and the home entertainment business.

The management is anticipating a significant improvement in earnings for 2014

For 2014 we are anticipating revenue growth of around 20.2% to EUR 66.0m. A total of 15 cinema releases are planned for 2014 which means that significant revenue growth is to be expected in the cinema exploitation sub-segment. The most important releases are likely to be the sequels 'The Expendables 3' and 'Sin City: A Dame to Kill For'. The predecessor to 'Expendables 3' was able to attract a cinema audience of more than 1.2 million in Germany in 2012.

Furthermore, the cinema releases of 'Sabotage' with Arnold Schwarzenegger, 'The Legend of Herkules' by director Renny Harlin and 'Before I go to Sleep' with Nicole Kidman and Colin Firth are on the agenda for 2014. The cinema exploitation of 'I, Frankenstein' is slightly below expectations with around 308,000 cinema-goers in Germany, Austria and Benelux. In the area of animated films three films are currently on the exploitation agenda for 2014. Polyband is planning the cinema release of five films at present.

In view of the releases revenue and earnings growth can also be expected in the Home Entertainment segment in the second half of the year. The general economic setting appears to remain good. The Federal Association of Audiovisual Media expects an increase in digital revenues of 26% to EUR 194m and of 21.6% to EUR 2345m, respectively, for 2014 and 2015. Splendid should also benefit from this. Higher revenues are to be anticipated in the TV license revenues sub-segment based on license agreements already concluded. In the Services segment the company is expecting revenue growth of around 10.0% to approx. EUR 6.8m. We are also anticipating the first revenue contributions from the new dubbing studio in Berlin.

Even though the release of the comprehensive cinema slate is associated with considerable expenses for marketing and distribution (P & A costs), there should be a significant increase in the operating result. We estimate an increase on EBIT level of 33.7% to EUR 5.75m. This would correspond to an estimated EBIT margin of 8.7%. After allowing for the financial result, taxes, which are likely to be negligible owing to tax loss carry-forwards still available, group net income for the year comes to EUR 4.2m. This corresponds to EPS of EUR 0.43 per share and growth of 16.2%.

We are anticipating a significant increase in the operating result for 2014

Splendid still has a very solid balance sheet structure. Against the backdrop of the comprehensive release slate it is expected that investments will be expanded to

The company has good growth and earnings prospects

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around EUR 25m for 2014. Beyond 2014 Splendid is well positioned across the entire audio-visual exploitation chain. The company has a good track record in the exploitation of licensed titles. In view of this, progressively growing investments in film assets promise an interesting return on investment.

Valuation

We have raised our revenue and earnings forecast significantly after the presentation of the annual financial statements. This is due on the one hand to the trend in operating earnings, which was better than expected and therefore represents a higher base for further development, but on the other also to lower tax expenses in the medium term. On this basis the DCF-based fair value per share is significantly higher at EUR 4.90. This corresponds to an increase of 44.1%. We continue to recommend buying the shares.

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 increasingly 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.

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

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PROFIT AND LOSS ACCOUNT

Euro m	2012	2013	2014e	2015e	2016e	2017e
Sales	50.1	54.9	66.0	75.0	81.0	86.0
% against prev. year	20%	10%	20%	14%	8%	6%
Cost of goods sold	-30.2	-34.3	-40.5	-45.0	-48.2	-51.0
Gross profit	20.0	20.6	25.5	30.0	32.8	35.0
% against prev. year	31%	3%	24%	18%	9%	7%
Sales costs	-11.1	-13.4	-15.3	-18.0	-19.4	-20.6
Administration costs	-7.4	-7.2	-7.9	-8.6	-9.2	-9.8
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	3.0	4.4	4.0	3.5	3.6	3.9
Other operating expenses	-0.2	-0.2	-0.5	-0.5	-0.8	-1.0
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	4.3	4.3	5.8	6.3	7.0	7.5
For information: EBIT adjusted	4.3	4.3	5.8	6.3	7.0	7.5
% against prev. year	-7%	1%	33%	10%	10%	7%
Interest paid / received	-0.9	-0.9	-1.0	-1.1	-1.1	-1.1
Profit before tax	3.4	3.4	4.7	5.2	5.8	6.4
For information: EBT adjusted	3.4	3.4	4.7	5.2	5.8	6.4
% against prev. year	-20%	1%	39%	10%	12%	9%
Income taxes from continuing operations	0.2	0.3	-0.5	-0.5	-0.6	-0.6
Tax rate	-7%	-8%	10%	10%	10%	10%
Net profit from continuing operations	3.6	3.7	4.2	4.7	5.3	5.7
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	3.6	3.7	4.2	4.7	5.3	5.7
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	3.6	3.7	4.2	4.7	5.3	5.7
thereof from continuing operations	3.6	3.7	4.2	4.7	5.3	5.7
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	0.37	0.43	0.48	0.54	0.59
Adjusted earnings per share, diluted (contin.)	0.37	0.37	0.43	0.48	0.54	0.59
For information						
Depreciation	0.4	0.4	0.7	0.7	0.7	0.7
EBITDA	4.7	4.7	6.4	7.0	7.7	8.2
EBITDA adjusted	4.7	4.7	6.4	7.0	7.7	8.2

Fiscal year end December

Source: Splendid Medien and DZ BANK estimates

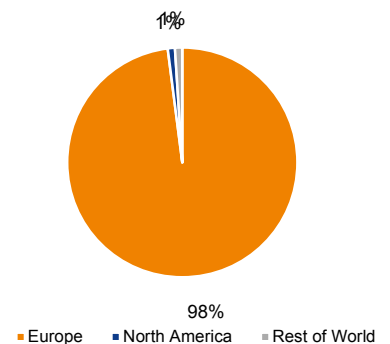
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RATIOS

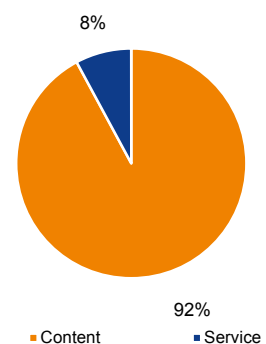
Euro	2012	2013	2014e	2015e	2016e
Profit and loss ratios					
Sales (m)	50.1	54.9	66.0	75.0	81.0
EBITDA margin	9.4%	8.6%	9.7%	9.3%	9.5%
EBIT margin	8.5%	7.9%	8.7%	8.4%	8.6%
Net margin	7.2%	6.7%	6.4%	6.2%	6.5%
Investment ratio	0.0%	38.6%	40.9%	35.6%	34.3%
R&D as % of sales					
Admin and sales costs as % of sales	36.9%	37.5%	35.3%	35.5%	35.4%
Net other operating costs as % of sales	-5.6%	-7.8%	-5.3%	-3.9%	-3.5%
Net financial income as % of sales	-1.8%	-1.7%	-1.6%	-1.5%	-1.4%
Interest cover	5.1	6.3	5.6	5.7	6.1
Average sales growth next five years	11.4%	10.4%			
Average earnings growth next five years	9.8%	11.4%			
Profitability ratios					
ROE	15.7%	14.4%	14.3%	14.0%	14.1%
ROCE	20.3%	16.5%	18.1%	17.3%	17.8%
Productivity ratios					
Sales per employee ('000)	477.27	446.66	515.63	566.04	589.09
EBIT per employee ('000)	40.77	35.08	44.95	47.74	50.77
Balance sheet ratios					
Equity ratio	40.1%	40.1%	42.8%	44.5%	46.9%
Long term debt and equity / Fixed assets	104.7%	95.1%	98.2%	106.9%	111.4%
Liquidity (quick ratio)	96.2%	89.4%	88.8%	97.0%	101.4%
Receivables as % of sales	30.0%	38.5%	33.0%	34.0%	33.0%
Investment (net of GW) / Depreciation		133.2%	119.2%	106.1%	106.2%
Working capital as % of sales	-0.4%	1.6%	3.3%	7.3%	7.9%
Net debt (m)	3.1	6.3	7.7	8.8	7.6
Net debt complete (m)	3.3	6.4	7.8	8.9	7.7
Figures per share					
Earnings per share, diluted	0.37	0.37	0.43	0.48	0.54
Diluted cash earnings per share	0.41	0.42	0.50	0.55	0.61
Dividend per common share	0.10	0.00	0.10	0.15	0.20
Cash per share, diluted	1.06	0.84	0.79	0.78	0.88
Net debt per share, diluted	0.32	0.64	0.79	0.90	0.77
Valuation ratios					
Enterprise value / Sales	0.6	0.5	0.5	0.5	0.4
Enterprise value / EBITDA	6.0	6.0	5.6	5.3	4.6
Enterprise value / EBIT	6.6	6.5	6.2	5.8	5.1
EV/Sales to sales growth	0.04	0.04	0.05	0.05	0.04
PEG ratio - common shares	0.61	0.61	0.58		
Fiscal year end December					

Source: Splendid Medien, DZ BANK estimates

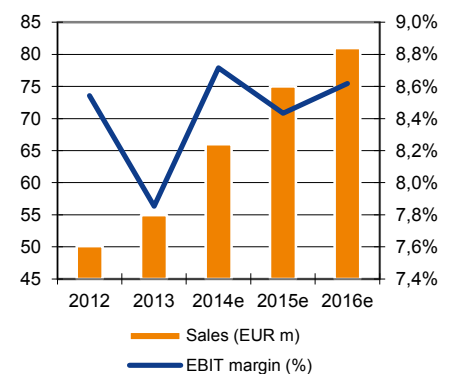
SALES BY REGION 2012



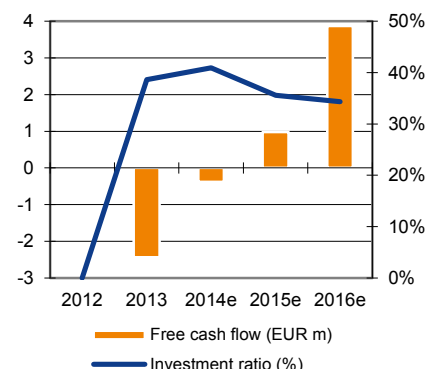
SALES BY BUSINESS SEGMENT 2012



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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BALANCE SHEET

IFRS - Euro m	2012	2013	2014e	2015e	2016e	2017e
ASSETS						
Non current assets	26.9	31.1	35.5	37.0	38.6	39.6
Intangible assets	0.7	0.7	0.6	0.6	0.6	0.7
thereof goodwill	0.3	0.3	0.3	0.3	0.3	0.3
Tangible assets	0.8	0.8	0.7	0.8	0.8	0.9
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term assets	6.5	6.3	6.3	6.3	6.3	6.3
Current assets	30.0	32.4	33.9	38.0	40.6	43.8
Inventories	2.3	2.0	3.2	3.5	3.8	4.0
Trade receivables	15.0	21.2	21.8	25.5	26.7	28.4
Financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Other receivables and short-term assets	2.3	1.0	1.2	1.4	1.5	1.6
Liquid assets	10.4	8.2	7.8	7.6	8.6	9.8
Assets available for sale	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	56.9	63.5	69.4	75.0	79.2	83.4
LIABILITIES						
Shareholders' equity	22.8	25.5	29.7	33.4	37.2	41.0
Share capital	9.8	9.8	9.8	9.8	9.8	9.8
Reserves	13.0	15.7	19.9	23.6	27.4	31.2
Other equity	0.0	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Treasury stock	0.0	0.0	0.0	0.0	0.0	0.0
Non current liabilities	5.3	4.1	5.1	6.1	5.8	5.3
Provisions for pensions	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities	4.8	4.0	5.0	6.0	5.7	5.2
Other payables	0.5	0.1	0.1	0.1	0.1	0.1
Current liabilities	28.8	33.9	34.6	35.5	36.2	37.1
Trade payables	10.9	12.6	13.2	13.5	13.6	13.9
Other provisions	7.0	7.3	7.5	7.7	8.0	8.4
Financial liabilities	8.7	10.5	10.5	10.5	10.5	10.5
Other liabilities	2.2	3.5	3.4	3.8	4.1	4.3
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity and liabilities	56.9	63.5	69.4	75.0	79.2	83.4
Fiscal year end December						

Source: Splendid Medien and DZ BANK estimates

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DISCOUNTED CASH FLOW VALUATION

Market data	
Risk-free interest rate	1.61%
Market premium	5.10%
Data from comparable company	
Levered beta factor	1.7000
Data from company to be valued	
Growth rate of perpetuity	0.8%
Weighted average cost of capital (WACC)	8.88%
(Capital cost are specifically calculated for each particular period)	

Euro m	2014e	2015e	2016e	2017e	2018e
Adjusted EBIT	5.8	6.3	7.0	7.5	8.3
Taxes on EBIT	-0.6	-0.6	-0.7	-0.7	-1.2
Cash Taxes	10.0%	10.0%	10.0%	10.0%	15.0%
Net Operating Profit After Tax (NOPAT)	5.2	5.7	6.3	6.7	7.1
+ Depreciations (-Reversals)	22.7	25.2	26.2	27.7	29.3
- Investments (+Proceeds from sale)	-27.0	-26.7	-27.8	-28.7	-29.4
Change in working capital	-1.3	-3.3	-0.9	-1.1	-1.1
Other changes	0.0	0.0	0.0	0.0	0.0
Free cash flow	-0.5	0.9	3.7	4.7	5.9

Present value of free cash flows	62.0
Market value of non-operating assets	0.0
Financial and liquid assets	8.2
Enterprise value, beginning of period	70.2
Liabilities	-14.6
Provisions (inc. provisions for pensions)	0.0
Equity value incl. minority interest, bop	55.7
Value of minority interest	-9.2
Correction of liabilities by convertible bonds	0.0
EQV excl. minority interest, bop	46.5
Accumulation till effective valuation date (with KE-rate)	1.5
EQV excl. minority interest at valuation date	48.0
Equity value per share, diluted (EUR)	4.9

Fiscal year end December

Source: Splendid Medien and DZ BANK estimates

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Buy 70.9%, Hold 7.0%, Sell 22.1%

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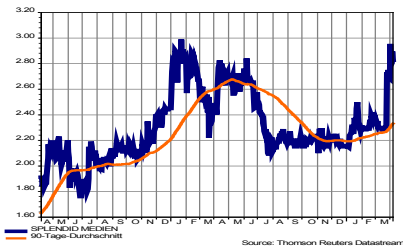
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RATING HISTORY

Recommendation	Date	Price
Buy	7 Nov 2012	2.10 EUR

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