

MEDIA & ENTERTAINMENT

A Research Publication by DZ BANK AG

Splendid Medien⁶⁾

Reuters: SPME.DE

Bloomberg: SPM GY

Year *	Sales		Adj. IFRS- Earnings per sh.		PER	Free cash flow per share		Free cash flow yield per share	Dividend per share
	EUR m		EUR			EUR			
2015	56.8	(59.0)	0.30	(0.27)	8.0	0.28	(0.11)	11.5	0.10
2016e	67.5	(70.0)	0.34	(0.38)	8.2	-0.27	(-0.67)	-9.9	0.15
2017e	76.5	(78.0)	0.40	(0.43)	6.9	0.11	(0.17)	4.1	0.20
2018e	85.0	(-)	0.49	(-)	5.7	0.24	(-)	8.6	0.25

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

Impressive turnaround in earnings in 2015

- » SPM has published sound key figures for 2015. As expected, total sales fell by 13.9% to EUR 56.8m. This was largely attributable to the fact that compared with 2014 the Group had refrained from major cinema releases in 2015. Sales in the Content segment therefore fell by 14.6% to EUR 52.2m, while sales in the Services segment were down 6.0%, at EUR 4.6m.
- » Growth in earnings was impressive. Lower P&A expenses meant there was a further improvement in EBIT of 85.0% to EUR 3.7m, which exceeded our forecast of EUR 3.6m. Net profit grew by 222.0% to EUR 2.9m, resulting in EPS of EUR 0.30 per share, exceeding our forecast of EUR 0.27. The management will propose doubling the dividend from EUR 0.05 to EUR 0.10.
- » On the basis of payments received from the delivery of films, Splendid increased operating cash flow by 1.8% to EUR 22.1m, which allowed the company to reduce short-term borrowings and increase the equity ratio by 5.7 pp to 40.4%.
- » The management has published guidance for 2016, which envisages sales ranging between EUR 64.0m and EUR 69.0m and EBIT ranging between EUR 4.0m and EUR 5.0m. We have somewhat reduced our estimates for 2016.

Splendid achieved an impressive turnaround in earnings in 2015 and we expect the company to further increase sales and earnings. Despite this, we cannot entirely rule out earnings fluctuating to a certain extent around a positive medium-term trend. The possible fluctuations in earnings might also explain the very favourable valuation compared with its peer companies. However, we believe that Splendid has enough substance to improve and accelerate its earnings power. We recommend buying the share.

Selected Companies	Price on 7 Apr 2016	PER		EV / EBITDA		EV / Sales 16e	Re- com.
		16e	17e	16e	17e		
Splendid Medien	2.77 EUR	8.2	6.9	7.4	6.6	0.59	↑
Highlight Communications	5.69 EUR	14.1	12.8	10.3	9.9	0.76	↑
Constantin Medien	2.02 EUR	14.2	10.6	7.4	6.7	0.58	↑
EuropaCorp	4.38 EUR	6.0	10.4	2.2	12.8	0.58	–
Lions Gate Entert Corp	20.21 USD	18.5	13.7	12.8	10.0	1.71	–
Median for all peer group companies		14.2	12.8	7.9	9.9	0.76	–

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

EQUITIES

Flash
8 Apr 2016

Buy (prev. Buy)

Closing price 7 Apr 2016

(in EUR): 2.77

Fair value: 3.80 (prev. 3.80)

Financial ratios 2016e:

Book value per share (in EUR):	3.05
Equity ratio (in %):	41.0
Net margin (in %):	5.3
ROE (in %):	11.8
Dividend yield (in %):	5.4
Free cash flow (EUR m):	-2.7
Net debt (EUR m):	12.3

Number of shares

(million units): 9.8

Market cap

(in EUR m): 27.13

Free float (in %): 35.0

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Next Newsflow:

Q1/2016 figures 15.05.2016



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DZ BANK
Bank on Germany

IMPRESSIVE TURNAROUND IN EARNINGS IN 2015

Having had to absorb a fall in earnings in 2014 because of weaker-performing cinema seasons, operating earnings improved sharply once more in 2015.

As expected, total sales fell by 13.9% to EUR 56.8m. This was largely attributable to the fact that compared with 2014 the Group had refrained from major cinema releases in 2015. Sales of EUR 2.5m were generated at the film distribution exploitation stage with the release of seven films (2014: 15 films). This corresponds to a sharp fall of 67.5%. The film “Still Alice” attracted just under 460,000 viewers to cinemas in Germany and Austria, exceeding expectations. However, the two films “St. Vincent” with 105,000 cinemagoers and “Daddy or Mommy” with 93,000 tickets sold fell somewhat short of planned figures. The Group also had to accept a fall in revenues of 14.6% to EUR 36.1m at the home entertainment stage.

Earnings turnaround achieved despite fall in sales

Nevertheless, sales in digital distribution for Video on Demand (VoD) and Electronic Sell Through (EST) grew by 10.9% to EUR 4.3m. At the licence sales exploitation stage, growth in sales of 18.9% to EUR 13.2m was achieved. Customers included ZDF, the large private broadcasting groups and the pay-tv broadcaster Sky Deutschland. Part of the licence contracts concluded to date will not be reflected in sales until 2016. In total, sales in the **Content segment** fell by 14.6% to EUR 52.2m.

Electronic sales continue rising

At EUR 4.6m, sales in the **Services segment** were 6.0% down on the previous year. Orders for Internet portals such as iTunes, Google and Amazon as well as premastering orders for DVD/Blu-ray were dealt with in the New Media/Digitalisation segment.

Growth in earnings was impressive and shows that the turnaround has been achieved. Lower P&A expenses for copies and advertising, depicted in the fall in distribution costs of 40.5% to EUR 9.6m, meant that there was a further improvement in EBIT of 85.0% to EUR 3.7m, which exceeded our forecast of EUR 3.6m. Net profit grew by 222.0% to EUR 2.9m.

This resulted in EPS of EUR 0.30 per share, which even topped our forecast of EUR 0.27. The management will propose doubling the dividend for the 2015 financial year from EUR 0.05 to EUR 0.10.

At EUR 0.29, EPS exceeded our expectations

On the basis of payments from the delivery of films, Splendid increased operating cash flow by 1.8% to EUR 22.1m, which allowed the company to reduce short-term borrowings and increase the equity ratio by 5.7 pp to 40.4%. Investments in film assets decreased to EUR 17.7m in the 2015 financial year. The conclusion of a new licence agreement with the longstanding partner BBC Worldwide for a further five years is crucial to future development. As part of the output deal, the company will have preferential access to all available titles from the existing and new BBC Worldwide portfolio on DVD and Blu-ray for German-speaking countries, including the very successful TV series Sherlock, the fourth series of which is currently in production and will probably be released at the home entertainment stage in 2017.

Outlook

The management has published guidance for 2016, which envisages sales ranging between EUR 64.0m and EUR 69.0m. This corresponds to estimated growth of between 13% and 21%. At EBIT level, growth is expected to range between EUR 4.0m and EUR 5.0m. In addition to investment in 2015, growth in sales is likely to be

The management is expecting substantial growth in sales and earnings for 2016

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

based on the increase in planned investment in films for 2016 to between EUR 23 million and EUR 27 million. From today's perspective, the company expects to release 15 films, of which five will be solely for the Benelux region, in the **Cinema distribution sub-segment**. The film "The Forrest" was released in Germany at the beginning of February and attracted an audience of over 170,000 in Germany up to the end of March. However, the recent release "Rock the Kasbah" has failed to meet expectations so far. In the second half in particular, Splendid is expecting sales to be boosted by the films "Criminal" and "Beyond Skyline". Release of "Sleepless Night" is planned in Benelux. Overall, sales in the sub-segment are likely to be up on 2015 in 2016, although they are heavily dependent on whether the film releases actually appeal to the public. The **Home Entertainment sub-segment** is still by far the largest contributor to sales. Here, the management expects sales to match the level of the previous year. A slight fall in revenues is expected in the **TV Licences sub-segment** on the basis of the titles which were already licensed or rather which could still be marketed in 2016 which would impact sales.

In the new **TV Production business segment**, which is the responsibility of the newly acquired Joker Productions GmbH, Kiel (60% holding), the company expects a contribution to sales ranging between EUR 9m and EUR 11m. Activity is currently focused on reality TV formats, including formats such as "Die Geissens" (until 2014), "Die Wollnys" as well as "Sarah und Pietro". Joker's clients include all major private and public TV stations in Germany. In the 2014 financial year, Joker achieved sales revenues of EUR 11.3m and EBIT of EUR 1.1m. A slightly increased sales contribution is also expected in the **Services segment**.

The new made-to-order TV Production business segment is likely to contribute substantial sales for the first time

We have adjusted our planning figures and now expect growth in sales of approximately 19% to EUR 67.5m for 2016. This figure also contains the new amounts from Joker Productions GmbH. On the earnings side, we have reduced our EBIT estimate somewhat from EUR 5.2m by 9.6% to EUR 4.7m. This is also due to the company's conservative guidance. We are expecting an achievable EBIT margin of around 6.9%. After deduction of financial expense, which will be somewhat higher because part of the investment was financed through borrowing, and after taking taxes and minority interests into account, net profit for 2016 is estimated at EUR 3.3m. This corresponds to growth of 13.7% and earnings per share of EUR 0.34.

We also expect sales and earnings to improve in 2016

Valuation

Splendid achieved an impressive turnaround in earnings in 2015 and we expect the company to increase sales and earnings further. Despite this, we cannot entirely rule out earnings fluctuating to a certain extent around a positive medium-term trend. The possible fluctuations in earnings might also explain the very favourable valuation compared with its peer companies. However, we believe that Splendid has enough substance to improve and accelerate its earnings power. We have revised our sales and earnings planning figures following presentation of the final annual financial statements. On the basis of the current sales and earnings forecast, an unchanged DCF-based fair value of EUR 3.80 per share is produced. We advise buying the share.

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

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. 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

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	2015	2016e	2017e	2018e	2019e	2020e
Sales	56.8	67.5	76.5	85.0	90.5	94.0
% against prev. year	-14%	19%	13%	11%	6%	4%
Cost of goods sold	-38.7	-43.7	-49.1	-53.9	-56.7	-58.3
Gross profit	18.1	23.8	27.4	31.1	33.8	35.7
% against prev. year	-21%	32%	15%	14%	9%	5%
Sales costs	-9.6	-13.7	-15.6	-17.4	-19.0	-19.7
Administration costs	-6.8	-7.4	-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	2.2	2.4	2.6	2.7	2.8
Other operating expenses	-0.1	-0.2	-0.3	-0.4	-0.4	-0.4
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	3.7	4.7	5.5	6.5	7.2	8.0
For information: EBIT adjusted	3.7	4.7	5.5	6.5	7.2	8.0
% against prev. year	86%	27%	17%	18%	10%	11%
Interest paid / received	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Profit before tax	3.1	4.1	4.9	5.9	6.6	7.4
For information: EBT adjusted	3.1	4.1	4.9	5.9	6.6	7.4
% against prev. year	123%	31%	20%	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%
Net profit from continuing operations	2.9	3.6	4.2	5.0	5.6	5.9
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	2.9	3.6	4.2	5.0	5.6	5.9
Profit or loss attributable to minority interest	0.0	-0.3	-0.3	-0.3	-0.3	-0.4
Profit or loss attributable to shareholders	2.9	3.3	3.9	4.8	5.3	5.6
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
For information						
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

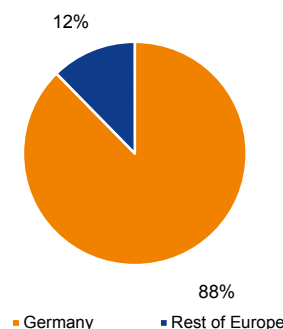
Source: Splendid Medien and DZ BANK estimates

RATIOS

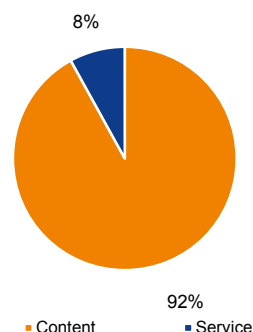
Euro	2015	2016e	2017e	2018e	2019e
Profit and loss ratios					
Sales (m)	56.8	67.5	76.5	85.0	90.5
EBITDA margin	7.4%	8.0%	8.1%	8.6%	8.9%
EBIT margin	6.5%	7.0%	7.2%	7.7%	7.9%
Net margin	5.2%	5.3%	5.5%	5.9%	6.2%
Investment ratio	34.1%	42.4%	35.0%	29.4%	32.1%
R&D as % of sales					
Admin and sales costs as % of sales	29.0%	31.3%	31.4%	31.5%	32.0%
Net other operating costs as % of sales	-3.6%	-3.0%	-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	11.1	12.2
Average sales growth next five years	10.6%				
Average earnings growth next five years	13.7%				
Profitability ratios					
ROE	10.7%	11.8%	12.7%	14.0%	14.3%
ROCE	11.8%	12.3%	13.2%	14.4%	15.1%
Productivity ratios					
Sales per employee ('000)	422.31	483.87	542.55	592.33	615.65
EBIT per employee ('000)	27.65	33.85	39.21	45.38	48.73
Balance sheet ratios					
Equity ratio	40.4%	41.0%	42.4%	43.7%	45.1%
Long term debt and equity / Fixed assets	91.7%	86.0%	87.1%	89.9%	94.6%
Liquidity (quick ratio)	87.0%	74.7%	74.9%	76.7%	81.1%
Receivables as % of sales	42.3%	34.5%	34.0%	33.0%	33.0%
Investment (net of GW) / Depreciation	97.4%	129.9%	108.3%	93.3%	104.1%
Working capital as % of sales	8.2%	7.3%	8.6%	9.1%	9.7%
Net debt (m)	9.5	12.3	13.3	13.5	12.5
Net debt complete (m)	9.8	14.1	15.0	15.3	14.3
Figures per share					
Earnings per share, diluted	0.30	0.34	0.40	0.49	0.54
Free cash flow per share, diluted	0.28	-0.27	0.11	0.24	0.41
Dividend per common share	0.10	0.15	0.20	0.25	0.25
Cash per share, diluted	0.80	0.48	0.34	0.31	0.41
Net debt per share, diluted	0.97	1.26	1.36	1.38	1.28
Valuation ratios					
Enterprise value / Sales	0.6	0.6	0.5	0.5	0.4
Enterprise value / EBITDA	7.8	7.4	6.6	5.7	5.1
Enterprise value / EBIT	8.9	8.4	7.4	6.4	5.7
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

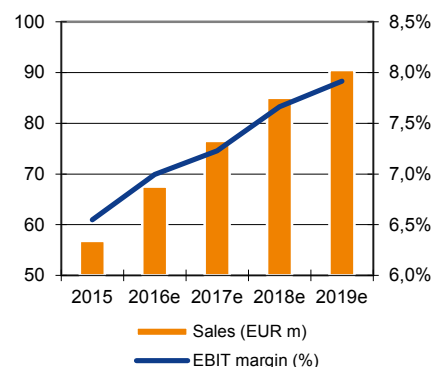
SALES BY REGION 2015



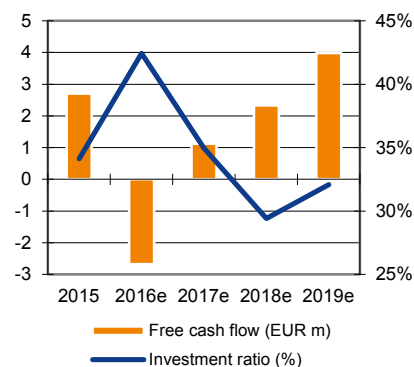
SALES BY BUSINESS SEGMENT 2015



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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

DISCOUNTED CASH FLOW VALUATION

Market data	
Risk-free interest rate	0.16%
Market premium	5.50%
Data from comparable company	
Levered beta factor	1.6500
Data from company to be valued	
Growth rate of perpetuity	0.8%
Weighted average cost of capital (WACC)	7.81%
(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%
Net Operating Profit After Tax (NOPAT)	4.1	4.7	5.5	6.1	6.4	6.3
+ Depreciations (-Reversals)	22.1	24.7	26.8	27.9	28.5	29.4
- Investments (+Proceeds from sale)	-28.7	-26.7	-28.9	-29.0	-29.6	-29.8
Change in working capital	-0.3	-1.6	-1.2	-1.1	-0.7	-0.6
Other changes	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	-2.8	1.0	2.2	3.9	4.6	5.3
Present value of free cash flows	59.2					
Market value of non-operating assets	0.0					
Financial and liquid assets	7.8					
Enterprise value, beginning of period	67.0					
Liabilities	-17.6					
Provisions (inc. provisions for pensions)	0.0					
Equity value incl. minority interest, bop	49.4					
Value of minority interest	-13.3					
Correction of liabilities by convertible bonds	0.0					
EQV excl. minority interest, bop	36.1					
Accumulation till effective valuation date (with KE-rate)	1.2					
EQV excl. minority interest at valuation date	37.3					
Equity value per share, diluted (EUR)	3.8					

Fiscal year end December

Source: Splendid Medien and DZ BANK estimates

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IMPRINT

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Buy 66.7%, Hold 18.4%, Sell 14.9%

PERCENTAGE OF COMPANIES WITHIN EACH CATEGORY FOR WHICH DZ BANK, DZ FINANCIAL MARKETS LCC AND/OR RESPECTIVE AFFILIATES HAVE PROVIDED INVESTMENT BANKING SERVICES WITHIN THE PREVIOUS 12 MONTHS

Buy 18.6%, Hold 9.6%, Sell 4.8%

Figures as at 06 Apr 2016

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Recommendation	Date	Price
Buy	7 Nov 2012	2.10 EUR

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