

# Media & Entertainment

A Research Publication by DZ BANK AG

## Splendid Medien<sup>5)7)8)10)11)12)</sup>

Reuters: SPME.DE Bloomberg: SPM GY

Year *	Sales		Adj. IFRS- Earnings per sh.		PER	Free cash flow per share		Free cash flow yield %	Dividend per share
	EUR m		EUR			EUR			
2015	56.8	(56.8)	0.30	(0.30)	8.0	0.28	(0.28)	11.5	0.10
2016e	51.0	(55.0)	-0.05	(0.12)	-	-0.21	(-0.09)	-11.5	0.00
2017e	62.0	(65.0)	0.17	(0.26)	10.6	-0.09	(-0.11)	-5.2	0.05
2018e	75.0	(80.0)	0.24	(0.32)	7.4	0.46	(0.18)	25.6	0.10

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

### Profit warning on account of temporal shift in exploitation, Fair Value reduced

- In the interim release on Q3/16, management once again confirmed guidance for 2016. Revenue is now expected to come in in the range from €55m to €59m with EBIT of between €2.0m and €2.5m. Our forecast for 2016 was at the lower end of guidance. Management expected considerably stronger performance in Q4/16 after weaker performance in 9M/16 for seasonal and product-related reasons. Since the exploitation of the feature film "American Pastoral" fell short of expectations and since the earnings anticipated for Q4/16 in Home Entertainment, TV Production and Licence business are no longer realisable on account of lower market potential, management has now cut guidance for 2016. Management now expects revenue in the range from €50m to €53m as well as an EBIT loss of between €1.0m and €1.5m. We expect that somewhat more than €1.0m of the difference between the old and the new earnings guidance is the result of impairment charges on film assets.
- We have cut our forecast for 2016 and now expect consolidated revenue of €51m and an EBIT loss of €1.2m. After adjusting for extraordinary impairments, we have an estimated adjusted EBIT of approx. €0.1m. For the coming year, Splendid hasn't issued any guidance. We have also reduced our forecasts for 2017, through basically remain optimistic. At the Home Entertainment level, the fourth season of Sherlock will be released and at the cinema level a significant expansion of the series of films is planned. This increases the exploitation risk over the near term, but also opens up interesting earnings potential.

**For the first time in six years, Splendid has had to take a loss at the EBIT level. With a rising revenue trend, the company has been able to generate an average EBIT margin of 7.2% over the past six years. Based on our reduced revenue and earnings forecasts, our DCF model now puts Fair Value at EUR 2.30 per share. Our recommendation is that speculative investors BUY the stock.**

Selected Companies	Price on 9 Dec 2016	PER 16e	PER 17e	EV / EBITDA 16e	EV / 17e	Sales 16e	Re- com.
Splendid Medien	1.80 EUR	-	10.6	14.3	9.1	0.58	↑
Highlight Communications	5.67 EUR	14.9	12.7	9.6	8.5	0.70	●
Constantin Medien	1.92 EUR	16.8	10.4	8.6	6.7	0.58	●
EuropaCorp	3.95 EUR	56.4	3.9	9.8	4.3	1.59	-
Lions Gate Entert Corp	26.09 USD	69.6	54.4	-	-	-	-
<b>Median for all peer group companies</b>		<b>16.8</b>	<b>12.7</b>	<b>9.1</b>	<b>7.0</b>	<b>0.95</b>	<b>-</b>

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

## EQUITIES

### Flash

Completed: 12 Dec 2016, 13:56

### Buy (prev. Buy)

Closing price 9 Dec 2016 (in EUR): 1.80  
Fair value: 2.30 (prev. 2.80)

### Financial ratios 2016e:

Book value per share (in EUR): 2.55  
Equity ratio (in %): 38.3  
Net margin (in %): -0.9  
ROE (in %): -1.8  
Dividend yield (in %): 0.0  
Free cash flow (EUR m): -2.0  
Net debt (EUR m): 11.9

### Number of shares

(million units): 9.8

### Market cap

(in EUR m): 17.62

### Free float (in %):

35.0

SIN: 727950

ISIN: DE0007279507

Datastream: D:SPMX

### Next Newsflow:

Full year 2016 report April 2017



Author: Harald Heider, Analyst

## 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. After a development of 9M/16 weaker but still broadly in line with expectations Q4/16 could not meet the expectations, hence the guidance for 2016 has been reduced. In our opinion Splendid still 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

## PROFIT AND LOSS ACCOUNT

Euro m	2015	2016e	2017e	2018e	2019e	2020e
<b>Sales</b>	<b>56.8</b>	<b>51.0</b>	<b>62.0</b>	<b>75.0</b>	<b>82.0</b>	<b>88.0</b>
% against prev. year	-14%	-10%	22%	21%	9%	7%
Cost of goods sold	-38.7	-37.4	-42.4	-50.3	-53.7	-56.4
<b>Gross profit</b>	<b>18.1</b>	<b>13.6</b>	<b>19.6</b>	<b>24.7</b>	<b>28.3</b>	<b>31.6</b>
% against prev. year	-21%	-25%	44%	26%	14%	12%
Sales costs	-9.6	-9.7	-11.8	-15.0	-17.1	-18.5
Administration costs	-6.8	-6.4	-6.8	-8.3	-9.0	-9.7
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	2.1	1.6	2.0	2.4	2.6	2.6
Other operating expenses	-0.1	-0.4	-0.2	-0.3	-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>-1.2</b>	<b>2.7</b>	<b>3.6</b>	<b>4.4</b>	<b>5.7</b>
For information: EBIT adjusted	3.7	0.1	2.7	3.6	4.4	5.7
% against prev. year	86%	-97%	2635%	30%	25%	29%
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>-1.8</b>	<b>2.1</b>	<b>3.0</b>	<b>3.9</b>	<b>5.1</b>
For information: EBT adjusted	3.1	-0.5	2.1	3.0	3.9	5.1
% against prev. year	123%	-116%		39%	30%	33%
Income taxes from continuing operations	-0.2	0.2	-0.3	-0.4	-0.6	-1.0
Tax rate	7%	13%	15%	15%	15%	20%
<b>Net profit from continuing operations</b>	<b>2.9</b>	<b>-1.6</b>	<b>1.8</b>	<b>2.5</b>	<b>3.3</b>	<b>4.1</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>-1.6</b>	<b>1.8</b>	<b>2.5</b>	<b>3.3</b>	<b>4.1</b>
Profit or loss attributable to minority interest	0.0	-0.1	-0.2	-0.2	-0.2	-0.4
<b>Profit or loss attributable to shareholders</b>	<b>2.9</b>	<b>-1.6</b>	<b>1.7</b>	<b>2.4</b>	<b>3.1</b>	<b>3.8</b>
thereof from continuing operations	2.9	-1.6	1.7	2.4	3.1	3.8
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	-0.17	0.17	0.24	0.32	0.38
Adjusted earnings per share, diluted (contin.)	0.30	-0.05	0.17	0.24	0.32	0.38
<b>For information</b>						
Depreciation	0.5	0.7	0.7	0.8	0.9	1.0
EBITDA	4.2	-0.5	3.4	4.3	5.3	6.7
EBITDA adjusted	4.2	2.1	3.4	4.3	5.3	6.7

Fiscal year end December

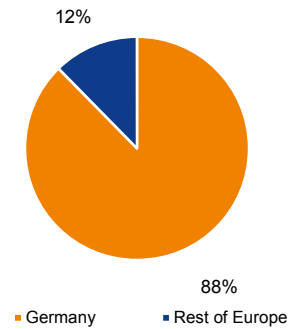
Source: Splendid Medien and DZ BANK estimates

**RATIOS**

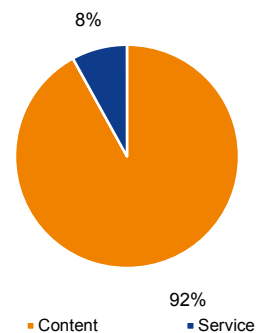
Euro	2015	2016e	2017e	2018e	2019e
<b>Profit and loss ratios</b>					
Sales (m)	56.8	51.0	62.0	75.0	82.0
EBITDA margin	7.4%	4.0%	5.5%	5.8%	6.5%
EBIT margin	6.5%	0.2%	4.4%	4.7%	5.4%
Net margin	5.2%	-0.9%	2.9%	3.4%	4.0%
Investment ratio	34.1%	51.7%	39.9%	33.3%	31.7%
R&D as % of sales					
Admin and sales costs as % of sales	29.0%	31.5%	30.0%	31.0%	31.8%
Net other operating costs as % of sales	-3.6%	-2.4%	-2.8%	-2.8%	-2.8%
Net financial income as % of sales	-1.0%	-1.2%	-1.0%	-0.8%	-0.7%
Interest cover	6.4		4.6	6.1	7.6
Average sales growth next five years	9.2%				
Average earnings growth next five years	5.1%				
<b>Profitability ratios</b>					
ROE	10.7%	-1.8%	6.8%	8.7%	10.5%
ROCE	11.8%	0.3%	7.6%	10.3%	13.1%
<b>Productivity ratios</b>					
Sales per employee ('000)	422.31	365.59	439.72	522.65	557.82
EBIT per employee ('000)	27.65	0.72	19.36	24.74	30.25
<b>Balance sheet ratios</b>					
Equity ratio	40.4%	38.3%	39.3%	39.3%	40.3%
Long term debt and equity / Fixed assets	91.7%	75.3%	77.0%	86.5%	97.6%
Liquidity (quick ratio)	87.0%	68.6%	70.0%	80.9%	90.7%
Receivables as % of sales	42.3%	34.5%	34.0%	32.0%	32.5%
Investment (net of GW) / Depreciation	97.4%	130.7%	104.4%	93.3%	93.4%
Working capital as % of sales	8.2%	1.2%	5.0%	4.8%	6.2%
Net debt (m)	9.5	11.9	13.4	10.0	7.2
Net debt complete (m)	9.8	13.4	14.9	11.5	8.8
<b>Figures per share</b>					
Earnings per share, diluted	0.30	-0.05	0.17	0.24	0.32
Free cash flow per share, diluted	0.28	-0.21	-0.09	0.46	0.44
Dividend per common share	0.10	0.00	0.05	0.10	0.15
Cash per share, diluted	0.80	0.65	0.45	0.80	1.08
Net debt per share, diluted	0.97	1.21	1.37	1.02	0.74
<b>Valuation ratios</b>					
Enterprise value / Sales	0.6	0.6	0.5	0.4	0.3
Enterprise value / EBITDA	7.8	14.3	9.1	6.4	4.8
Enterprise value / EBIT	8.9	295.8	11.4	7.9	5.7
EV/Sales to sales growth	0.13	0.06	0.05	0.04	0.03
PEG ratio - common shares	0.29				
Fiscal year end December					

Source: Splendid Medien, DZ BANK estimates

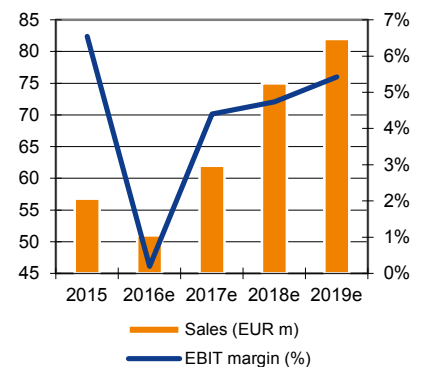
**SALES BY REGION 2015**



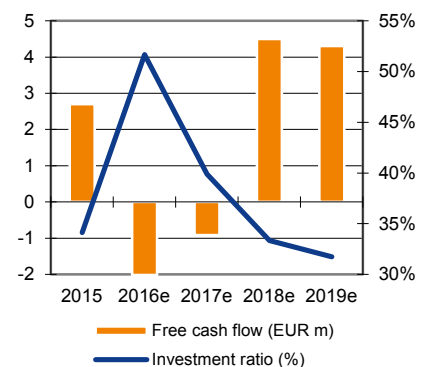
**SALES BY BUSINESS SEGMENT 2015**



**SALES AND MARGIN DEVELOPMENT**



**FREE CASH FLOW AND INVESTMENT RATIO**



<sup>1)</sup> - <sup>12)</sup> Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

**DISCOUNTED CASH FLOW VALUATION**

<b>Market data</b>	
Risk-free interest rate	0.24%
Market premium	5.50%
<b>Data from comparable company</b>	
Levered beta factor	1.8000
<b>Data from company to be valued</b>	
Growth rate of perpetuity	0.5%
Weighted average cost of capital (WACC)	8.62%
(Capital cost are specifically calculated for each particular period)	

<b>Euro m</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>	<b>2021e</b>
Adjusted EBIT	-1.2	2.7	3.6	4.4	5.7	6.5
Taxes on EBIT	0.0	-0.2	-0.4	-0.7	-1.1	-1.7
Cash Taxes	0.0%	6.0%	12.3%	15.0%	20.0%	26.0%
<b>Net Operating Profit After Tax (NOPAT)</b>	<b>-1.2</b>	<b>2.6</b>	<b>3.1</b>	<b>3.8</b>	<b>4.6</b>	<b>4.8</b>
+ Depreciations (-Reversals)	21.5	23.7	26.8	27.9	28.5	29.1
- Investments (+Proceeds from sale)	-26.4	-24.7	-24.9	-26.0	-28.1	-29.6
Change in working capital	4.1	-2.5	-0.6	-1.4	-0.9	-0.6
Other changes	0.0	0.0	0.0	0.0	0.0	0.0
<b>Free cash flow</b>	<b>-2.0</b>	<b>-1.0</b>	<b>4.4</b>	<b>4.2</b>	<b>4.0</b>	<b>3.7</b>
<b>Present value of free cash flows</b>	<b>39.1</b>					
Market value of non-operating assets	0.0					
Financial and liquid assets	7.8					
<b>Enterprise value, beginning of period</b>	<b>47.0</b>					
Liabilities	-17.6					
Provisions (inc. provisions for pensions)	0.0					
<b>Equity value incl. minority interest, bop</b>	<b>29.3</b>					
Value of minority interest	-9.4					
Correction of liabilities by convertible bonds	0.0					
<b>EQV excl. minority interest, bop</b>	<b>19.9</b>					
Accumulation till effective valuation date (with KE-rate)	2.6					
<b>EQV excl. minority interest at valuation date</b>	<b>22.5</b>					
<b>Equity value per share, diluted (EUR)</b>	<b>2.3</b>					

Fiscal year end December

Source: Splendid Medien and DZ BANK estimates

## I. IMPRINT

### Published by:

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main,  
Platz der Republik, 60265 Frankfurt am Main

**Telephone:** + 49 69 7447 - 01

**Telefax:** + 49 69 7447 - 1685

**Homepage:** [www.dzbank.de](http://www.dzbank.de)

**E-mail:** [mail@dzbank.de](mailto:mail@dzbank.de)

### Represented by the Board of Managing Directors:

Wolfgang Kirsch (Chief Executive Officer),  
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Dr. Christian Brauckmann, Lars Hille, Wolfgang Köhler, Karl-Heinz Moll,  
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**Chairman of the Supervisory Board:** Helmut Gottschalk

**Head office of the company:** Registered as public limited company in Frankfurt am Main, Local Court (Amtsgericht) Frankfurt am Main, Commercial Register HRB 45651

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**Responsible for the contents:** Stefan Bielmeier, Head of Research and Economics

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- his compensation depends neither in full nor in part, neither directly nor indirectly, on an opinion expressed in this Research Publication.

### 4. Definitions of the Categories for Investment Recommendations in Financial Analyses

The **categories for investment recommendations** in **Financial Analyses** of DZ BANK are defined as follows:

#### 4.1 Shares:

##### – Fundamental Analysis:

**"Buy"** means that the absolute appreciation expected in the next twelve months is greater than 5%.

**"Sell"** means that the absolute depreciation expected in the next twelve months is greater than 5%.

**"Hold"** means that the absolute *price* volatility expected in the next twelve months lies between +5% and -5%.

##### – Technical (Chart) Analysis (tertiary trend):

The short term technical estimate refers to the short tertiary move of the share:

**„Positive“** means that an absolute appreciation could be expected during the next week.

**"Negative"** means that an absolute depreciation could be expected during the next week.

**"Neutral"** means that no absolute change of price could be expected during the next week.

##### – Technical (chart) Analysis (secondary trend):

The longer term technical estimate refers to the shorter secondary move of the share:

**„Positive“** means that an absolute appreciation greater than 10% could be expected during the next six months.

**"Negative"** means that an absolute depreciation greater than 10% could be expected during the six months.

**"Neutral"** means that an absolute change of price between +10% to -10% could be expected during the next six months.

#### 4.2 Fixed Income Instruments:

The prevailing factor for an investment recommendation regarding an **issuer** is whether, according to the estimate of DZ BANK, this issuer's bonds are able to perform better, worse or in tandem with the bonds of comparable issuers in the next six months. The below defined recommendation categories apply to 'senior unsecured bonds' denominated in Euro and in case of Emerging Markets issuers in individual cases also in US-Dollar:

**"Outperformer"** means that a better performance is expected for the issuer's bonds than for the bonds of comparable issuers.

**"Underperformer"** means that a worse performance is expected for the issuer's bonds than for the bonds of comparable issuers.

**"Market performer"** means that the performance of the issuer's bonds is not expected to materially differ from the bonds of comparable issuers.

#### 4.3 Categories for isolated statements without investment recommendation

Statements on the **isolated evaluation of specific aspects** that **precede an investment recommendation** on a financial instrument and / or an issuer - **especially** according to the **sustainability criteria** defined by DZ BANK, its defined **value approach**, its defined asset allocation (DZ BANK Portfolio), its defined **sector strategy Euro-Stoxx** (DZ BANK Sector Favorites), its defined valuation of **payments to beneficiaries (DZ BANK Dividend Aristocrats)** and its **CRESTA-SCORE MODEL** - are **not investment categories** and therefore **do not contain any investment recommendations**.

These isolated statements **alone** are **not sufficient** to form the basis of an investment decision. Reference is made to the explanation of the accompanying used methods.

### 5. Scheduled Updates and Validity Periods of Investment Recommendations

5.1 The frequency of **updates** of **Financial Analyses** depends in particular on the underlying macroeconomic conditions, current developments on the relevant markets, the current development of the analyzed companies, measures undertaken by the issuers, the behavior of trading participants, the competent supervisory authorities and the competent central banks as well as a wide

<sup>1)</sup> – <sup>12)</sup> Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

- range of other parameters. The periods of time named below therefore merely provide a **non-binding indication** of when an updated investment recommendation may be expected.
- 5.2 No obligation exists to update an investment recommendation.** If an investment recommendation is updated, this update **replaces** the previous **investment recommendation with immediate effect**. If no update is made, investment recommendations **end / lapse on expiry** of the **validity periods** named below. These periods **begin** on the **day** and at the **time** the investment recommendation is **completed**.
- 5.3 The validity periods for investment recommendations (financial analyses)** are as follows:
- Shares:**
- |   |            |
|---|------------|
| Fundamental analysis                        | six months |
| Technical (chart) analysis (tertiary trend) | one week   |
| Technical (chart) analysis (secondary term) | six months |
- Fixed income instruments:**
- |         |            |
|---------|------------|
| Issuers | six months |
|---------|------------|
- 5.4 Evaluations of isolated aspects without investment recommendation** have the following validity periods:
- Sustainability analyses:** one month
- Analyses according to the value approach:** one month
- Asset allocation analyses** (DZ BANK Portfolio): one month
- Euro Stoxx sector strategy** (DZ BANK Sector Favorites): one month
- Dividends** (DZ BANK Dividend Aristocrats): three months
- 5.5** In a given case, updates of analyses may also be **temporarily suspended without prior announcement** on account of compliance with supervisory regulations.
- 5.6** If **no updates are to be made in the future** because the analysis of an object is to be discontinued, notification of this shall be made in the final publication or, if no final publication is made, the close of the analysis shall be given in a separate note.
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<b>EQUITY SALES</b>	Kai Böckel	+49 – (0)69 – 74 47 – 12 28	kai.boeckel@dzbank.de
Germany	Kai Böckel	+49 – (0)69 – 74 47 – 12 28	kai.boeckel@dzbank.de
Benelux	Lars Wohlers	+49 – (0)69 – 74 47 – 68 34	lars.wohlers@dzbank.de
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Austria	Thomas Reichelt	+49 – (0)69 – 74 47 – 67 09	thomas.reichelt@dzbank.de
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