

Media & Entertainment

A Research Publication by DZ BANK AG

Splendid Medien⁵⁾⁷⁾⁸⁾¹⁰⁾¹¹⁾¹²⁾

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
	EUR m		EUR			EUR			
2015	56.8	(56.8)	0.30	(0.30)	8.0	0.28	(0.28)	11.5	0.10
2016e	55.0	(55.0)	0.12	(0.12)	17.3	-0.09	(-0.09)	-4.6	0.05
2017e	65.0	(65.0)	0.26	(0.26)	7.8	-0.11	(-0.11)	-5.3	0.10
2018e	80.0	(80.0)	0.32	(0.32)	6.3	0.18	(0.18)	9.0	0.15

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

Q3/16 in line with expectations, guidance confirmed

- SPME has posted Q3/16 results which were largely in line with expectations. Sales in Q1/16 contracted by 11.7% for seasonal reasons to €11.3m. Volatility in sales performance on a quarterly basis is not unusual and primarily due to the fluctuating number of programme titles released. At the cinema level, only one title was released in Benelux in Q3/16 as planned. Also at the home entertainment level, there was also a lower number of releases and in licence business fewer titles fed through to sales. Some licence contracts were concluded with TV channels and SVOD providers which will feed through to earnings in later quarters. In 9M/16, sales fell by 11.2% to €36.6m.
- In view of the low revenue, the decline in EBIT - in Q3/16 from plus €0.3m to minus €0.7m, respectively in 9M/16 from €2.2m to minus €0.2m - is not unexpected. Guidance for 2016 was confirmed by management. Management now expects sales in the range from €55m to €59m as well as EBIT of between €2.0m and €2.5m. For 2016, we expect values to come in at the lower end of the guidance range. The principle optimism for 2016 is based on the upcoming release of attractive home entertainment titles such as "Fear the Walking Dead - Season 2". In Q4, the launch of the film "American Pastoral" with Ewan McGregor is planned.
- For 2017, we are 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.

Splendid has evolved and placed business on a broader footing, especially with the expansion into Benelux. We see a positive earnings trend, though are unable to exclude more pronounced fluctuations in earnings around the anticipated positive trend. With fair value as determined by our DCF model unchanged at €2.80, our recommendation remains to BUY the stock and is geared in particular to speculative investors.

Selected Companies	Price on 9 Nov 2016	PER 16e	PER 17e	EV / EBITDA 16e	EV / 17e	Sales 16e	Re- com.
Splendid Medien	2.04 EUR	17.3	7.8	11.6	7.3	0.56	↑
Highlight Communications	5.15 EUR	12.5	11.4	7.8	7.2	0.56	↑
Constantin Medien	1.73 EUR	15.1	9.4	8.2	6.4	0.55	→
EuropaCorp	4.08 EUR	54.4	4.0	8.8	3.5	1.42	–
Lions Gate Entert Corp	23.53 USD	60.3	44.4	20.4	17.6	1.83	–
Median for all peer group companies		16.3	11.4	8.2	7.2	1.31	–

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

EQUITIES

Flash

Completed: 15 Nov 2016, 12:05

Buy (prev. Buy)

Closing price 9 Nov 2016 (in EUR): 2.04
Fair value: 2.80 (prev. 2.80)

Financial ratios 2016e:

Book value per share (in EUR): 2.83
Equity ratio (in %): 40.2
Net margin (in %): 2.2
ROE (in %): 4.3
Dividend yield (in %): 2.5
Free cash flow (EUR m): -0.9
Net debt (EUR m): 10.8

Number of shares

(million units): 9.8

Market cap

(in EUR m): 19.96

Free float (in %): 35.0

SIN: 727950

ISIN: DE0007279507

Datastream: D:SPMX

Next Newsflow:

Full year report 2016 March 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. 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. After a development of the Q3/16 figures broadly in line with expectations the full year guidance has been confirmed. 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 the 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
Sales	56.8	55.0	65.0	80.0	85.0	88.0
% against prev. year	-14%	-3%	18%	23%	6%	4%
Cost of goods sold	-38.7	-37.3	-43.2	-52.2	-54.9	-56.4
Gross profit	18.1	17.7	21.9	27.8	30.1	31.6
% against prev. year	-21%	-2%	23%	27%	9%	5%
Sales costs	-9.6	-10.5	-12.7	-16.4	-17.9	-18.5
Administration costs	-6.8	-6.8	-7.2	-8.8	-9.4	-9.7
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	2.1	1.7	2.1	2.4	2.6	2.6
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	2.0	3.8	4.6	5.1	5.7
For information: EBIT adjusted	3.7	2.0	3.8	4.6	5.1	5.7
% against prev. year	86%	-46%	92%	20%	11%	12%
Interest paid / received	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Profit before tax	3.1	1.4	3.2	4.0	4.5	5.1
For information: EBT adjusted	3.1	1.4	3.2	4.0	4.5	5.1
% against prev. year	123%	-56%	135%	24%	12%	14%
Income taxes from continuing operations	-0.2	-0.2	-0.5	-0.6	-0.7	-1.0
Tax rate	7%	13%	15%	15%	15%	20%
Net profit from continuing operations	2.9	1.2	2.8	3.4	3.8	4.1
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	2.9	1.2	2.8	3.4	3.8	4.1
Profit or loss attributable to minority interest	0.0	-0.1	-0.2	-0.3	-0.3	-0.4
Profit or loss attributable to shareholders	2.9	1.2	2.6	3.2	3.5	3.8
thereof from continuing operations	2.9	1.2	2.6	3.2	3.5	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	0.12	0.26	0.32	0.36	0.38
Adjusted earnings per share, diluted (contin.)	0.30	0.12	0.26	0.32	0.36	0.38
For information						
Depreciation	0.5	0.7	0.7	0.8	0.9	1.0
EBITDA	4.2	2.7	4.5	5.4	6.0	6.7
EBITDA adjusted	4.2	2.7	4.5	5.4	6.0	6.7

Fiscal year end December

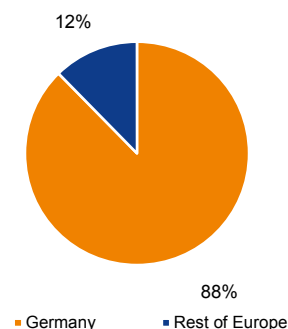
Source: Splendid Medien and DZ BANK estimates

RATIOS

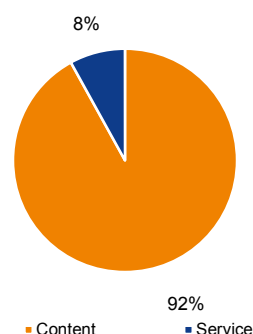
Euro	2015	2016e	2017e	2018e	2019e
Profit and loss ratios					
Sales (m)	56.8	55.0	65.0	80.0	85.0
EBITDA margin	7.4%	4.8%	7.0%	6.7%	7.0%
EBIT margin	6.5%	3.6%	5.9%	5.8%	6.0%
Net margin	5.2%	2.2%	4.2%	4.3%	4.5%
Investment ratio	34.1%	47.9%	39.6%	31.3%	33.0%
R&D as % of sales					
Admin and sales costs as % of sales	29.0%	31.3%	30.5%	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%	-1.1%	-0.9%	-0.7%	-0.7%
Interest cover	6.4	3.2	6.4	7.8	8.7
Average sales growth next five years	9.2%				
Average earnings growth next five years	5.1%				
Profitability ratios					
ROE	10.7%	4.3%	9.2%	10.5%	11.0%
ROCE	11.8%	5.8%	10.0%	11.3%	12.2%
Productivity ratios					
Sales per employee ('000)	422.31	394.27	460.99	557.49	578.23
EBIT per employee ('000)	27.65	14.34	27.27	32.06	34.61
Balance sheet ratios					
Equity ratio	40.4%	40.2%	41.6%	41.8%	42.9%
Long term debt and equity / Fixed assets	91.7%	80.4%	80.7%	86.3%	91.6%
Liquidity (quick ratio)	87.0%	73.6%	72.7%	78.8%	84.0%
Receivables as % of sales	42.3%	34.5%	34.0%	33.0%	33.0%
Investment (net of GW) / Depreciation	97.4%	130.7%	108.6%	93.3%	100.5%
Working capital as % of sales	8.2%	2.2%	5.5%	7.1%	7.6%
Net debt (m)	9.5	10.8	12.9	12.7	11.3
Net debt complete (m)	9.8	12.3	14.5	14.3	12.8
Figures per share					
Earnings per share, diluted	0.30	0.12	0.26	0.32	0.36
Free cash flow per share, diluted	0.28	-0.09	-0.11	0.18	0.36
Dividend per common share	0.10	0.05	0.10	0.15	0.20
Cash per share, diluted	0.80	0.77	0.50	0.52	0.66
Net debt per share, diluted	0.97	1.10	1.32	1.30	1.15
Valuation ratios					
Enterprise value / Sales	0.6	0.6	0.5	0.4	0.4
Enterprise value / EBITDA	7.8	11.6	7.3	6.1	5.4
Enterprise value / EBIT	8.9	15.4	8.6	7.2	6.3
EV/Sales to sales growth	0.11	0.06	0.06	0.05	0.04
PEG ratio - common shares	0.25	3.42			
Fiscal year end December					

Source: Splendid Medien, DZ BANK estimates

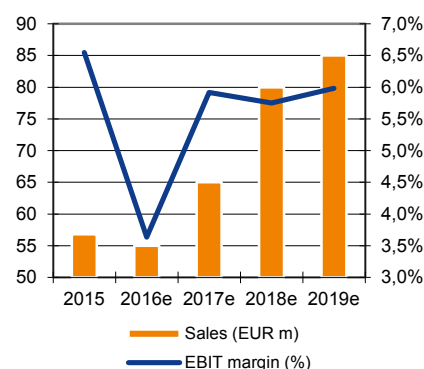
SALES BY REGION 2015



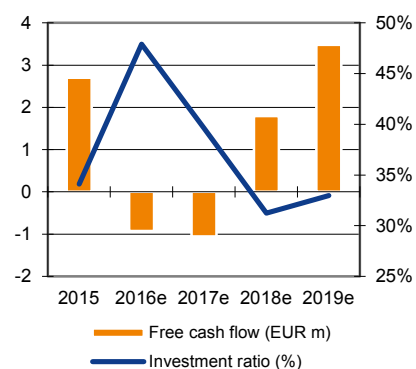
SALES BY BUSINESS SEGMENT 2015



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



¹⁾ - ¹²⁾ 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	0.09%
Market premium	5.50%
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)	7.56%
(Capital cost are specifically calculated for each particular period)	

Euro m	2016e	2017e	2018e	2019e	2020e	2021e
Adjusted EBIT	2.0	3.8	4.6	5.1	5.7	6.2
Taxes on EBIT	-0.3	-0.6	-0.7	-0.8	-1.1	-1.6
Cash Taxes	13.0%	15.0%	15.0%	15.0%	20.0%	26.0%
Net Operating Profit After Tax (NOPAT)	1.7	3.3	3.9	4.3	4.6	4.6
+ Depreciations (-Reversals)	20.2	23.7	26.8	27.9	28.5	29.4
- Investments (+Proceeds from sale)	-26.4	-25.7	-26.9	-28.0	-29.6	-29.8
Change in working capital	3.4	-2.4	-2.1	-0.8	-0.5	-0.5
Other changes	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	-1.0	-1.2	1.7	3.4	3.0	3.7
Present value of free cash flows	43.4					
Market value of non-operating assets	0.0					
Financial and liquid assets	7.8					
Enterprise value, beginning of period	51.3					
Liabilities	-17.6					
Provisions (inc. provisions for pensions)	0.0					
Equity value incl. minority interest, bop	33.7					
Value of minority interest	-8.6					
Correction of liabilities by convertible bonds	0.0					
EQV excl. minority interest, bop	25.1					
Accumulation till effective valuation date (with KE-rate)	2.4					
EQV excl. minority interest at valuation date	27.4					
Equity value per share, diluted (EUR)	2.8					

Fiscal year end December

Source: Splendid Medien and DZ BANK estimates

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Technical analysis one week

Fixed income instruments:

Issuers six months

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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

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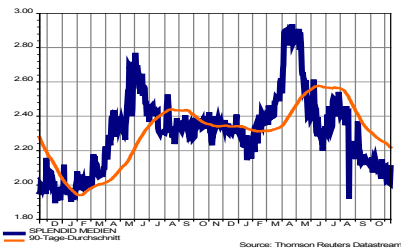
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