

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
2013e	54.0	(54.0)	0.23	(0.23)	0.29	(0.29)	9.6	7.5	0.10
2014e	66.0	(66.0)	0.25	(0.25)	0.31	(0.31)	8.7	6.9	0.10
2015e	73.0	(73.0)	0.30	(0.30)	0.36	(0.36)	7.3	6.0	0.15

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

Q3/13 shows seasonal weakness, but in line with the forecasts

- » Despite revenues weakening in Q3/13 by 28.3% to EUR 9.9m, there was an increase in revenues of 7.6% in 9M/13 to EUR 38.3m, although the two films "The Last Stand" and "Systemfehler - Wenn Inge tanzt" did not meet the expectations. Furthermore, the successful cinema exploitation of "Expendables 2" made considerable revenue contributions last year which were not generated to the same extent in Q3/13. Correspondingly, EBIT fell in Q3/13 under pressure from release costs and negative currency influences from EUR +0.8m to EUR -0.8m. Nevertheless, EBIT of EUR 1.4m (minus 50.0%) was generated in 9M/13 which was in line with the forecasts.
- » The management has confirmed the guidance targets for revenues in the range of EUR 53m to EUR 56.0m and for EBIT in the range between EUR 3.8m and 4.2m. We are expecting revenues of EUR 54.0m and EBIT of EUR 3.7m for 2013. This is based on the expectation of a strong Home Entertainment business as well as the recording of significant TV license revenues in Q4/13. Splendid invested around EUR 14.3m in film assets in 9M/13, which means that numerous cinema and Home Entertainment releases can be anticipated for 2014. This also includes the films "I, Frankenstein" and "The Expendables III", which we believe have considerable potential. The Services segment, which contributed around EUR 3.1m or around 8.0% to revenues in 9M/13, also has solid growth prospects, including the putting into operation of a new dubbing studio in Berlin.

Splendid Medien has built up a very good competitive position in the Home Entertainment Segment in the markets Germany and Benelux. These activities are supplemented by a solid TV license business and the successive further expansion of the theatrical distribution activities. Based on an unchanged revenue and earnings forecast the fair value comes to EUR 3.40. We reiterate our Buy recommendation.

Selected Companies	Price on 15 Nov 2013	PER		EV / EBITDA		EV / Sales 13e	Re- com.
		13e	14e	13e	14e		
Splendid Medien	2.18 EUR	9.6	8.7	7.7	7.7	0.62	↑
Highlight Communications	3.80 EUR	11.5	9.1	12.1	8.7	0.71	↑
Constantin Medien	1.59 EUR	–	–	14.7	11.4	0.63	↑
EuropaCorp	3.90 EUR	4.1	3.5	3.6	3.1	0.84	–
Lions Gate Entert Corp	34.22 USD	31.5	21.5	15.3	12.6	2.10	–
Median for all peer group companies		16.2	14.0	12.1	8.7	0.84	–

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

EQUITIES

Flash
18 Nov 2013

Buy (prev. Buy)

Closing price 15 Nov 2013

(in EUR): 2.18

Fair value: 3.40 (prev. 3.40)

Risk classification: 4

Financial ratios 2013e:

Book value per share (in EUR):	2.45
Equity ratio (in %):	40.6
Net margin (in %):	4.1
ROE (in %):	9.2
Dividend yield (in %):	4.6
Free cash flow (EUR m):	-6.8
Net debt (EUR m):	12.0

Number of shares

(million units): 9.8

Market cap

(in EUR m): 21.35

Free float (in %): 35.0

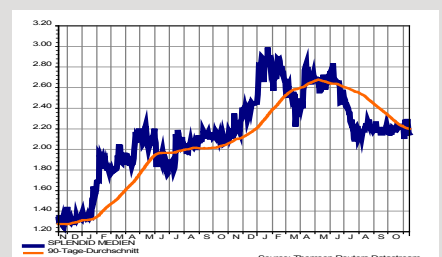
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Author: Harald Heider, Analyst

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 audiovisual 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
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	2012	2013e	2014e	2015e	2016e	2017e
Sales	50.1	54.0	66.0	73.0	80.0	88.0
% against prev. year	20%	8%	22%	11%	10%	10%
Cost of goods sold	-30.2	-32.2	-40.1	-43.6	-47.4	-51.0
Gross profit	20.0	21.8	25.9	29.4	32.6	37.0
% against prev. year	31%	9%	19%	13%	11%	13%
Sales costs	-11.1	-12.9	-15.6	-17.4	-18.8	-20.7
Administration costs	-7.4	-6.8	-7.9	-8.4	-8.8	-9.7
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	3.0	1.9	2.2	2.0	2.2	2.5
Other operating expenses	-0.2	-0.3	-0.4	-0.5	-0.7	-0.9
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	4.3	3.7	4.2	5.0	6.4	8.2
For information: EBIT adjusted	4.3	3.7	4.2	5.0	6.4	8.2
% against prev. year	-7%	-13%	13%	20%	28%	27%
Interest paid / received	-0.9	-1.0	-1.2	-1.3	-1.4	-1.4
Profit before tax	3.4	2.7	3.0	3.7	5.0	6.8
For information: EBT adjusted	3.4	2.7	3.0	3.7	5.0	6.8
% against prev. year	-20%	-18%	10%	22%	36%	35%
Income taxes from continuing operations	0.2	-0.5	-0.6	-0.8	-1.2	-1.7
Tax rate	-7%	19%	19%	21%	23%	25%
Net profit from continuing operations	3.6	2.2	2.5	2.9	3.9	5.1
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	3.6	2.2	2.5	2.9	3.9	5.1
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	2.2	2.5	2.9	3.9	5.1
thereof from continuing operations	3.6	2.2	2.5	2.9	3.9	5.1
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	0.23	0.25	0.30	0.40	0.52
Adjusted earnings per share, diluted (contin.)	0.37	0.23	0.25	0.30	0.40	0.52
For information						
Depreciation	0.4	0.6	0.6	0.6	0.6	0.6
EBITDA	4.7	4.4	4.8	5.6	7.1	8.8
EBITDA adjusted	4.7	4.4	4.8	5.6	7.1	8.8

Fiscal year end December

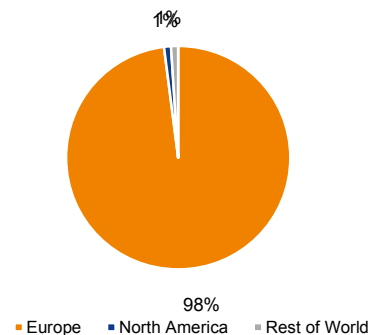
Source: Splendid Medien and DZ BANK estimates

RATIOS

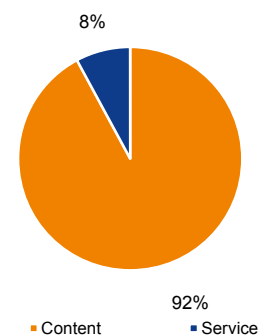
Euro	2012	2013e	2014e	2015e	2016e
Profit and loss ratios					
Sales (m)	50.1	54.0	66.0	73.0	80.0
EBITDA margin	9.4%	8.1%	7.3%	7.7%	8.8%
EBIT margin	8.5%	6.9%	6.4%	6.9%	8.1%
Net margin	7.2%	4.1%	3.7%	4.0%	4.8%
Investment ratio	0.0%	38.8%	32.3%	30.1%	29.5%
R&D as % of sales					
Admin and sales costs as % of sales	36.9%	36.5%	35.6%	35.4%	34.5%
Net other operating costs as % of sales	-5.6%	-3.1%	-2.7%	-2.0%	-1.8%
Net financial income as % of sales	-1.8%	-1.8%	-1.8%	-1.8%	-1.8%
Interest cover	5.1	3.8	3.6	3.8	4.6
Average sales growth next five years	11.9%				
Average earnings growth next five years	7.3%				
Profitability ratios					
ROE	15.7%	9.2%	9.6%	10.6%	13.0%
ROCE	20.3%	12.0%	11.6%	12.5%	15.2%
Productivity ratios					
Sales per employee ('000)	477.27	465.52	543.21	572.55	603.77
EBIT per employee ('000)	40.77	32.21	34.60	39.44	48.60
Balance sheet ratios					
Equity ratio	40.1%	40.6%	39.0%	38.7%	39.8%
Long term debt and equity / Fixed assets	104.7%	92.3%	96.4%	102.2%	102.5%
Liquidity (quick ratio)	96.2%	81.2%	85.7%	91.9%	91.8%
Receivables as % of sales	30.0%	31.5%	33.0%	34.0%	33.0%
Investment (net of GW) / Depreciation		140.4%	111.6%	109.1%	109.0%
Working capital as % of sales	-0.4%	7.1%	10.3%	12.0%	11.4%
Net debt (m)	3.1	12.0	15.6	17.5	17.4
Net debt complete (m)	3.3	12.1	15.8	17.6	17.5
Figures per share					
Earnings per share, diluted	0.37	0.23	0.25	0.30	0.40
Diluted cash earnings per share	0.41	0.29	0.31	0.36	0.46
Dividend per common share	0.10	0.10	0.10	0.15	0.20
Cash per share, diluted	1.06	0.40	0.23	0.25	0.22
Net debt per share, diluted	0.32	1.22	1.60	1.79	1.78
Valuation ratios					
Enterprise value / Sales	0.6	0.6	0.6	0.5	0.5
Enterprise value / EBITDA	6.0	7.7	7.7	6.9	5.5
Enterprise value / EBIT	6.6	8.9	8.8	7.7	6.0
EV/Sales to sales growth	0.04	0.05	0.05	0.04	0.04
PEG ratio - common shares	1.42	1.31			
Fiscal year end December					

Source: Splendid Medien, DZ BANK estimates

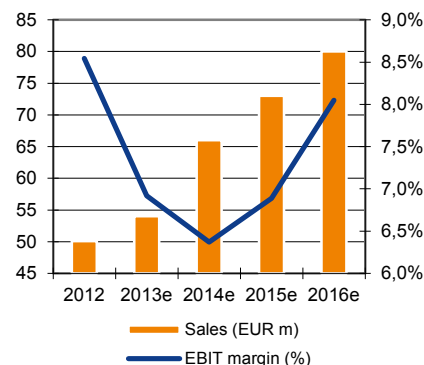
SALES BY REGION 2012



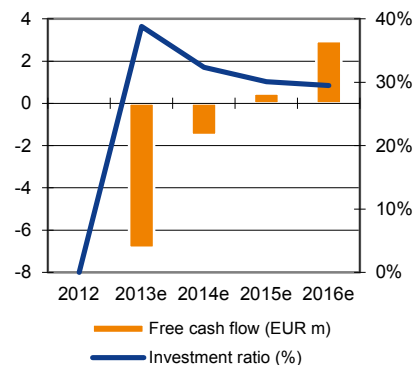
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SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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DISCOUNTED CASH FLOW VALUATION

Market data	
Risk-free interest rate	1.74%
Market premium	5.10%
Data from comparable company	
Levered beta factor	1.6530
Data from company to be valued	
Growth rate of perpetuity	1.0%
Weighted average cost of capital (WACC)	8.86%
(Capital cost are specifically calculated for each particular period)	

Euro m	2013e	2014e	2015e	2016e	2017e	2018e
Adjusted EBIT	3.7	4.2	5.0	6.4	8.2	9.9
Taxes on EBIT	-0.7	-0.8	-1.1	-1.5	-2.0	-2.6
Cash Taxes	19.0%	19.0%	21.0%	23.0%	25.0%	26.0%
Net Operating Profit After Tax (NOPAT)	3.0	3.4	4.0	5.0	6.1	7.3
+ Depreciations (-Reversals)	14.9	19.1	20.1	21.6	22.6	23.7
- Investments (+Proceeds from sale)	-21.0	-21.4	-22.0	-23.6	-24.2	-24.7
Change in working capital	-4.0	-2.9	-2.0	-0.4	-1.3	-1.2
Other changes	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	-7.0	-1.7	0.2	2.6	3.3	5.0
Present value of free cash flows	38.7					
Market value of non-operating assets	0.0					
Financial and liquid assets	10.4					
Enterprise value, beginning of period	49.1					
Liabilities	-13.7					
Provisions (inc. provisions for pensions)	0.0					
Equity value incl. minority interest, bop	35.5					
Value of minority interest	-5.0					
Correction of liabilities by convertible bonds	0.0					
EQV excl. minority interest, bop	30.5					
Accumulation till effective valuation date (with KE-rate)	2.8					
EQV excl. minority interest at valuation date	33.3					
Equity value per share, diluted (EUR)	3.4					

Fiscal year end December

Source: Splendid Medien and DZ BANK estimates

IMPRINT

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Buy 70.5%, Hold 7.1%, Sell 22.4%

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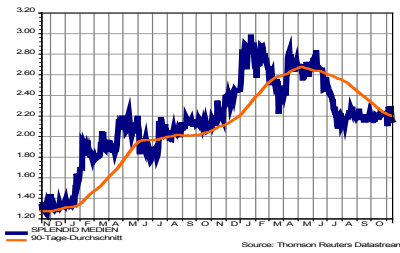
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RATING HISTORY

Recommendation	Date	Price
Buy	7 Nov 2012	2.10 EUR

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