

MEDIA & ENTERTAINMENT

A Research Publication by DZ BANK AG

Splendid Medien⁶⁾

Reuters: SPME.DE Bloomberg: SPM GY

Year *	Sales EUR m	Adj. IFRS- Earnings per sh. EUR	Cash flow per share EUR	PER	PCF	Dividend per share EUR
2013	54.9 (54.9)	0.37 (0.37)	0.42 (0.42)	6.0	5.4	0.00
2014e	66.0 (66.0)	0.43 (0.43)	0.50 (0.50)	6.3	5.5	0.10
2015e	75.0 (75.0)	0.48 (0.48)	0.55 (0.55)	5.7	5.0	0.15
2016e	81.0 (-)	0.54 (-)	0.61 (-)	5.1	4.5	0.20

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

Seasonally weaker Q1/14 should be compensated over course of the year

- » Revenues fell in Q1/14 by 30.9% to EUR 11.4m. This is due to the extraordinary success of the film "The Expendables 2" in Q1/13 which resulted in a rise in revenues of 33.1% vs Q1/12. No corresponding Home Entertainment release followed in Q1/14. At the theatre level, the film "I, Frankenstein" fell short of expectations with 308 thousand cinema-goers. As a result, earnings in the Content segment fell by 33.6% to EUR 10.4m. In the Services segment, revenues grew by 25% in Q1/14 as a result of good demand and ultimately stood at EUR 1.0m. Consolidated EBIT fell in Q1/14 from EUR +1.7m to EUR -0.3m.
- » In terms of planning, larger releases in Cinema and Home Entertainment are not planned until H2/14. As a result, we must also expect weaker performance in Q2/14. For H2/14, the release of the sequels "The Expendables 3" and "Frank Miller's Sin City 2" is planned with considerable audience potential. In view of the releases in Home Entertainment and the imminent realisation of TV contracts, we can expect to see a considerable rise in earnings in H2/14. Splendid has confirmed guidance with earnings of between EUR 66m and EUR 72m and EBIT of between EUR 5m and EUR 6m.
- » For 2014, we continue to expect revenues of EUR 66.0m and EBIT of EUR 5.8m. In recent years, Splendid has made successive investments in film assets and set the foundation for profitable growth. The success of the films is, however, very much dependent on audience preference so that we must continue to expect large fluctuations in earnings.

Splendid has carved out for itself a solid competitive position in the value chain. Exploitation of available earnings potential opens up interesting prospects for the share price. Our recommendation is to BUY the stock.

Selected Companies	Price on 15 May 2014	PER		EV / EBITDA		EV / Sales 14e	Re- com.
		14e	15e	14e	15e		
Splendid Medien	2.75 EUR	6.3	5.7	5.4	5.1	0.52	↑
Highlight Communications	3.96 EUR	20.2	14.5	15.8	12.1	0.70	↑
Constantin Medien	1.33 EUR	8.5	32.3	8.0	10.2	0.67	↑
EuropaCorp	4.55 EUR	4.1	3.3	3.7	3.3	0.90	–
Lions Gate Entert Corp	25.50 USD	15.8	13.6	9.6	8.3	1.45	–
Median for all peer group companies		15.8	14.5	9.1	8.4	0.90	–

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

EQUITIES

Flash
16 May 2014

Buy (prev. Buy)

Closing price 15 May 2014

(in EUR): 2.75

Fair value: 4.90 (prev. 4.90)

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 %):	3.6
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): 26.92

Free float (in %): 35.0

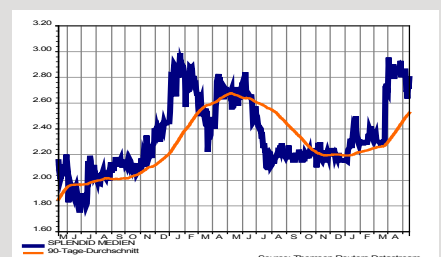
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DZ BANK
Bank on Germany

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 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

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	2013	2014e	2015e	2016e	2017e	2018e
Sales	54.9	66.0	75.0	81.0	86.0	90.0
% against prev. year	10%	20%	14%	8%	6%	5%
Cost of goods sold	-34.3	-40.5	-45.0	-48.2	-51.0	-53.3
Gross profit	20.6	25.5	30.0	32.8	35.0	36.7
% against prev. year	3%	24%	18%	9%	7%	5%
Sales costs	-13.4	-15.3	-18.0	-19.4	-20.6	-21.3
Administration costs	-7.2	-7.9	-8.6	-9.2	-9.8	-10.2
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	4.4	4.0	3.5	3.6	3.9	4.1
Other operating expenses	-0.2	-0.5	-0.5	-0.8	-1.0	-0.9
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	4.3	5.8	6.3	7.0	7.5	8.3
For information: EBIT adjusted	4.3	5.8	6.3	7.0	7.5	8.3
% against prev. year	1%	33%	10%	10%	7%	11%
Interest paid / received	-0.9	-1.0	-1.1	-1.1	-1.1	-0.9
Profit before tax	3.4	4.7	5.2	5.8	6.4	7.4
For information: EBT adjusted	3.4	4.7	5.2	5.8	6.4	7.4
% against prev. year	1%	39%	10%	12%	9%	16%
Income taxes from continuing operations	0.3	-0.5	-0.5	-0.6	-0.6	-1.1
Tax rate	-8%	10%	10%	10%	10%	15%
Net profit from continuing operations	3.7	4.2	4.7	5.3	5.7	6.3
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	3.7	4.2	4.7	5.3	5.7	6.3
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	3.7	4.2	4.7	5.3	5.7	6.3
thereof from continuing operations	3.7	4.2	4.7	5.3	5.7	6.3
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	0.43	0.48	0.54	0.59	0.64
Adjusted earnings per share, diluted (contin.)	0.37	0.43	0.48	0.54	0.59	0.64
For information						
Depreciation	0.4	0.7	0.7	0.7	0.7	0.8
EBITDA	4.7	6.4	7.0	7.7	8.2	9.1
EBITDA adjusted	4.7	6.4	7.0	7.7	8.2	9.1

Fiscal year end December

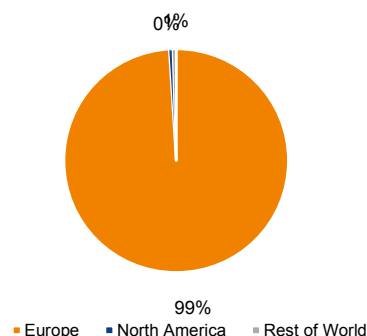
Source: Splendid Medien and DZ BANK estimates

RATIOS

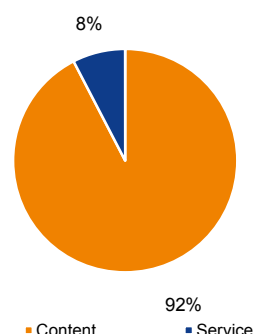
Euro	2013	2014e	2015e	2016e	2017e
Profit and loss ratios					
Sales (m)	54.9	66.0	75.0	81.0	86.0
EBITDA margin	8.6%	9.7%	9.3%	9.5%	9.5%
EBIT margin	7.9%	8.7%	8.4%	8.6%	8.7%
Net margin	6.7%	6.4%	6.2%	6.5%	6.7%
Investment ratio	38.6%	40.9%	35.6%	34.3%	33.4%
R&D as % of sales					
Admin and sales costs as % of sales	37.5%	35.3%	35.5%	35.4%	35.3%
Net other operating costs as % of sales	-7.8%	-5.3%	-3.9%	-3.5%	-3.3%
Net financial income as % of sales	-1.7%	-1.6%	-1.5%	-1.4%	-1.3%
Interest cover	6.3	5.6	5.7	6.1	6.7
Average sales growth next five years	10.4%				
Average earnings growth next five years	11.4%				
Profitability ratios					
ROE	14.4%	14.3%	14.0%	14.1%	14.0%
ROCE	16.5%	18.1%	17.3%	17.8%	18.2%
Productivity ratios					
Sales per employee ('000)	446.66	515.63	566.04	589.09	609.93
EBIT per employee ('000)	35.08	44.95	47.74	50.77	53.09
Balance sheet ratios					
Equity ratio	40.1%	42.8%	44.5%	46.9%	49.1%
Long term debt and equity / Fixed assets	95.1%	98.2%	106.9%	111.4%	116.8%
Liquidity (quick ratio)	89.4%	88.8%	97.0%	101.4%	106.8%
Receivables as % of sales	38.5%	33.0%	34.0%	33.0%	33.0%
Investment (net of GW) / Depreciation	133.2%	119.2%	106.1%	106.2%	103.7%
Working capital as % of sales	1.6%	3.3%	7.3%	7.9%	8.7%
Net debt (m)	6.3	7.7	8.8	7.6	5.9
Net debt complete (m)	6.4	7.8	8.9	7.7	6.0
Figures per share					
Earnings per share, diluted	0.37	0.43	0.48	0.54	0.59
Diluted cash earnings per share	0.42	0.50	0.55	0.61	0.66
Dividend per common share	0.00	0.10	0.15	0.20	0.22
Cash per share, diluted	0.84	0.79	0.78	0.88	1.00
Net debt per share, diluted	0.64	0.79	0.90	0.77	0.60
Valuation ratios					
Enterprise value / Sales	0.5	0.5	0.5	0.4	0.4
Enterprise value / EBITDA	6.0	5.4	5.1	4.5	4.0
Enterprise value / EBIT	6.5	6.0	5.7	4.9	4.4
EV/Sales to sales growth	0.04	0.05	0.05	0.04	0.04
PEG ratio - common shares	0.61	0.56			
Fiscal year end December					

Source: Splendid Medien, DZ BANK estimates

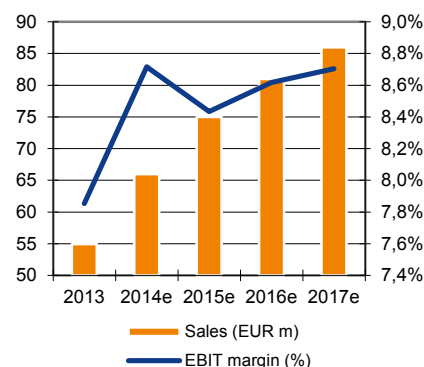
SALES BY REGION 2013



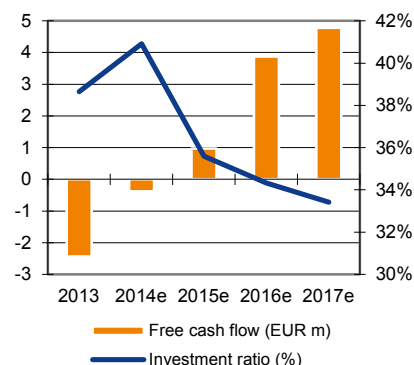
SALES BY BUSINESS SEGMENT 2013



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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DISCOUNTED CASH FLOW VALUATION

Market data	
Risk-free interest rate	1.61%
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	2019e
Adjusted EBIT	5.8	6.3	7.0	7.5	8.3	9.5
Taxes on EBIT	-0.6	-0.6	-0.7	-0.7	-1.2	-1.9
Cash Taxes	10.0%	10.0%	10.0%	10.0%	15.0%	20.0%
Net Operating Profit After Tax (NOPAT)	5.2	5.7	6.3	6.7	7.1	7.6
+ Depreciations (-Reversals)	22.7	25.2	26.2	27.7	29.3	29.9
- Investments (+Proceeds from sale)	-27.0	-26.7	-27.8	-28.7	-29.4	-30.6
Change in working capital	-1.3	-3.3	-0.9	-1.1	-1.1	-0.8
Other changes	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	-0.5	0.9	3.7	4.7	5.9	6.2
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

IMPRINT

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Hold: price changes between +5% and -5%
Sell: more than 5% decrease in share price

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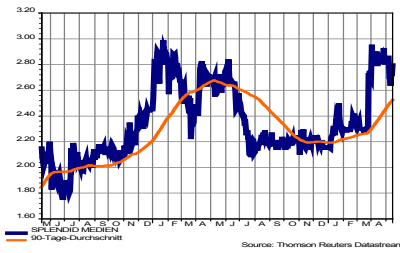
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RATING HISTORY

Recommendation	Date	Price
Buy	7 Nov 2012	2.10 EUR

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