

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 yield per share
	EUR m	(EUR m)	EUR	(EUR)		EUR	%		
2014	66.0	(66.0)	0.09	(0.09)	21.3	-0.29	(-0.29)	-14.9	0.05
2015e	61.0	(61.0)	0.28	(0.28)	8.6	-0.01	(-0.01)	-0.6	0.10
2016e	68.0	(68.0)	0.37	(0.37)	6.6	0.17	(0.17)	7.1	0.15
2017e	75.0	(75.0)	0.42	(0.42)	5.8	0.20	(0.20)	8.1	0.20

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

Solid performance in Q1/15, outlook confirmed

- Splendid has posted very good ratios for Q1/15. Sales increased by 37.7% to EUR 15.7m. Both segments managed to contribute to this performance. In the Contents segment, sales grew significantly by 40.4% to EUR 14.6m. Sales growth was mainly driven by a successful home entertainment release series such as the release of "Sin City 2". Revenues in TV Licence business and theatrical exploitation of three films could contribute to this growth. The film "Still Alice - Mein Leben ohne Gestern" attracted around 400,000 viewers in Q1. In the Services segment, sales were up 10.0% to EUR 1.1m.
- Based on the considerable rise in sales, EBIT for Q1/15 could be improved significantly from EUR -0.3m to EUR 1.5m. This came in somewhat higher than our expectation, though is in part due to seasonal fluctuation. EBT rose from EUR -0.5m to EUR 1.3m. Due to cash inflows from the delivery of films, Splendid managed to generate a considerably positive operating cash flow from operations in the amount of EUR 4.1m. This corresponded to growth of 241%. The short-term debt could be reduced so that the equity ratio rose by 6.4pp to 41.1%.
- Management confirmed full-year guidance. Sales in the range of between EUR 57m and EUR 62m and EBIT of between EUR 3.5m and EUR 4.5m are expected. We are sticking with our forecast of EUR 61.0m for sales and EUR 3.8m for EBIT. This would lead to an estimated EPS of around EUR 0.28.

Splendid made an encouraging start into the year 2015 and came in above our expectations. In view of seasonal fluctuations, we would not extrapolate the figures for the full-year though. However, we see Splendid on good course to a considerable rise in profitability in the medium term. The stock appears undervalued with DCF-based Fair Value of EUR 3.60 and we confirm our BUY recommendation.

Selected Companies	Price on 18 May 2015	PER		EV / EBITDA		EV / Sales 15e	Re- com.
		15e	16e	15e	16e		
Splendid Medien	2.45 EUR	8.6	6.6	8.7	7.1	0.63	↑
Highlight Communications	4.42 EUR	12.9	12.1	8.7	8.0	0.70	↑
Constantin Medien	1.62 EUR	36.7	20.6	10.6	8.9	0.63	↑
EuropaCorp	5.32 EUR	6.1	5.7	3.0	2.4	0.87	–
Lions Gate Entert Corp	31.78 USD	20.0	16.9	13.9	12.4	2.09	–
Median for all peer group companies		20.0	16.9	8.7	8.0	0.87	–

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

EQUITIES

Flash
19 May 2015

Buy (prev. Buy)

Closing price 18 May 2015

(in EUR): 2.45
Fair value: 3.60 (prev. 3.60)

Financial ratios 2015e:

Book value per share (in EUR):	2.80
Equity ratio (in %):	37.7
Net margin (in %):	4.6
ROE (in %):	10.2
Dividend yield (in %):	4.1
Free cash flow (EUR m):	-0.1
Net debt (EUR m):	14.4

Number of shares

(million units): 9.8

Market cap

(in EUR m): 23.99

Free float (in %):

35.0

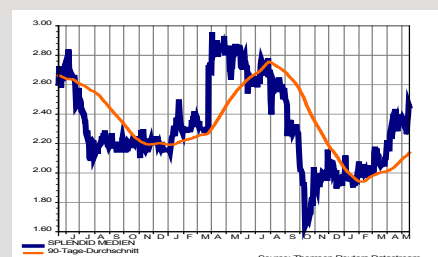
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DZ BANK
Bank on Germany

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 focus on Germany and the Benelux states. The company has a lot of experience in the 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. Following a profit warning the company managed to close the year 2014 at the top end of the reduced guidance. In our opinion Splendid has very interesting earnings potential in the medium term.

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	2014	2015e	2016e	2017e	2018e	2019e
Sales	66.0	61.0	68.0	75.0	80.0	84.0
% against prev. year	20%	-8%	11%	10%	7%	5%
Cost of goods sold	-43.2	-37.9	-42.4	-46.9	-49.6	-51.8
Gross profit	22.8	23.1	25.6	28.1	30.4	32.2
% against prev. year	10%	1%	11%	10%	8%	6%
Sales costs	-16.1	-14.0	-15.6	-17.3	-18.4	-19.3
Administration costs	-7.1	-6.7	-7.5	-8.3	-8.8	-9.2
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	2.6	1.9	2.9	3.2	3.4	3.6
Other operating expenses	-0.2	-0.5	-0.6	-0.6	-0.6	-0.7
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	2.0	3.8	4.7	5.3	6.0	6.6
For information: EBIT adjusted	2.0	3.8	4.7	5.3	6.0	6.6
% against prev. year	-54%	87%	26%	11%	14%	10%
Interest paid / received	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Profit before tax	1.4	3.2	4.1	4.7	5.4	6.0
For information: EBT adjusted	1.4	3.2	4.1	4.7	5.4	6.0
% against prev. year	-59%	125%	30%	13%	16%	11%
Income taxes from continuing operations	-0.5	-0.4	-0.5	-0.6	-0.8	-0.9
Tax rate	36%	12%	12%	12%	15%	15%
Net profit from continuing operations	0.9	2.8	3.6	4.1	4.6	5.1
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.9	2.8	3.6	4.1	4.6	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	0.9	2.8	3.6	4.1	4.6	5.1
thereof from continuing operations	0.9	2.8	3.6	4.1	4.6	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	0.09	0.28	0.37	0.42	0.47	0.52
Adjusted earnings per share, diluted (contin.)	0.09	0.28	0.37	0.42	0.47	0.52
For information						
Depreciation	0.5	0.6	0.7	0.7	0.8	0.9
EBITDA	2.5	4.4	5.4	6.0	6.8	7.5
EBITDA adjusted	2.5	4.4	5.4	6.0	6.8	7.5

Fiscal year end December

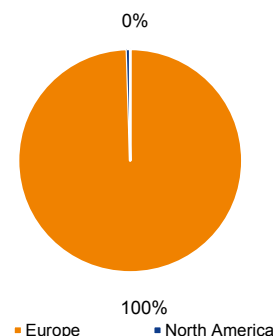
Source: Splendid Medien and DZ BANK estimates

RATIOS

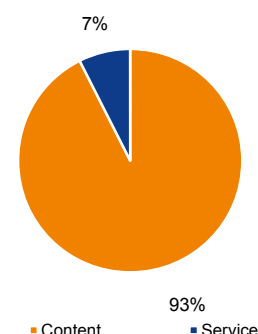
Euro	2014	2015e	2016e	2017e	2018e
Profit and loss ratios					
Sales (m)	66.0	61.0	68.0	75.0	80.0
EBITDA margin	3.8%	7.2%	7.9%	7.9%	8.5%
EBIT margin	3.0%	6.1%	6.9%	7.0%	7.5%
Net margin	1.4%	4.6%	5.3%	5.5%	5.8%
Investment ratio	37.4%	38.9%	35.7%	35.7%	31.3%
R&D as % of sales					
Admin and sales costs as % of sales	35.2%	34.0%	34.0%	34.0%	34.0%
Net other operating costs as % of sales	-3.7%	-2.3%	-3.3%	-3.5%	-3.5%
Net financial income as % of sales	-0.9%	-1.0%	-0.9%	-0.8%	-0.7%
Interest cover	3.4	6.4	7.9	9.0	10.5
Average sales growth next five years	4.9%				
Average earnings growth next five years	41.7%				
Profitability ratios					
ROE	3.6%	10.2%	12.1%	12.6%	13.1%
ROCE	6.1%	10.3%	12.1%	12.6%	13.6%
Productivity ratios					
Sales per employee ('000)	515.85	460.38	494.55	531.91	557.49
EBIT per employee ('000)	15.65	28.30	34.36	37.23	41.81
Balance sheet ratios					
Equity ratio	34.7%	37.7%	39.7%	41.3%	42.8%
Long term debt and equity / Fixed assets	81.4%	81.4%	83.9%	84.9%	86.8%
Liquidity (quick ratio)	79.3%	74.7%	76.1%	76.4%	77.5%
Receivables as % of sales	39.1%	36.0%	34.0%	33.0%	32.0%
Investment (net of GW) / Depreciation	112.2%	120.6%	107.2%	108.2%	93.3%
Working capital as % of sales	5.4%	4.9%	5.8%	6.2%	6.3%
Net debt (m)	13.2	14.4	14.4	14.5	14.3
Net debt complete (m)	13.5	14.8	14.7	14.8	14.6
Figures per share					
Earnings per share, diluted	0.09	0.28	0.37	0.42	0.47
Free cash flow per share, diluted	-0.29	-0.01	0.17	0.20	0.28
Dividend per common share	0.05	0.10	0.15	0.20	0.25
Cash per share, diluted	0.76	0.74	0.72	0.65	0.67
Net debt per share, diluted	1.35	1.48	1.47	1.48	1.46
Valuation ratios					
Enterprise value / Sales	0.5	0.6	0.6	0.5	0.5
Enterprise value / EBITDA	13.0	8.7	7.1	6.5	5.6
Enterprise value / EBIT	16.1	10.2	8.1	7.3	6.4
EV/Sales to sales growth	0.06	0.13	0.11	0.10	0.10
PEG ratio - common shares	4.45	0.21			
Fiscal year end December					

Source: Splendid Medien, DZ BANK estimates

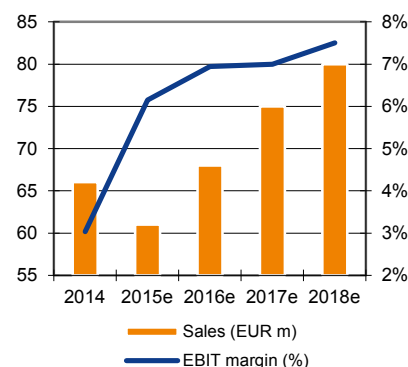
SALES BY REGION 2014



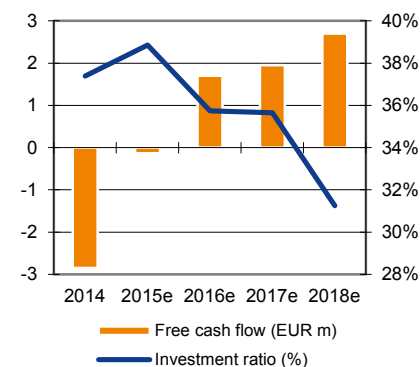
SALES BY BUSINESS SEGMENT 2014



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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DISCOUNTED CASH FLOW VALUATION

Market data	
Risk-free interest rate	0.67%
Market premium	5.00%
Data from comparable company	
Levered beta factor	1.6000
Data from company to be valued	
Growth rate of perpetuity	0.8%
Weighted average cost of capital (WACC)	7.28%
(Capital cost are specifically calculated for each particular period)	

Euro m	2015e	2016e	2017e	2018e	2019e	2020e
Adjusted EBIT	3.8	4.7	5.3	6.0	6.6	6.7
Taxes on EBIT	-0.5	-0.6	-0.6	-0.9	-1.0	-1.0
Cash Taxes	12.0%	12.0%	12.0%	15.0%	15.0%	15.0%
Net Operating Profit After Tax (NOPAT)	3.3	4.2	4.6	5.1	5.6	5.7
+ Depreciations (-Reversals)	19.6	22.7	24.7	26.8	27.9	29.5
- Investments (+Proceeds from sale)	-23.7	-24.3	-26.7	-28.9	-29.1	-30.1
Change in working capital	0.5	-0.9	-0.7	-0.4	-0.7	-0.7
Other changes	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	-0.2	1.6	1.9	2.6	3.8	4.5
Present value of free cash flows	55.6					
Market value of non-operating assets	0.0					
Financial and liquid assets	7.4					
Enterprise value, beginning of period	63.0					
Liabilities	-21.0					
Provisions (inc. provisions for pensions)	0.0					
Equity value incl. minority interest, bop	42.1					
Value of minority interest	-8.2					
Correction of liabilities by convertible bonds	0.0					
EQV excl. minority interest, bop	33.9					
Accumulation till effective valuation date (with KE-rate)	1.4					
EQV excl. minority interest at valuation date	35.3					
Equity value per share, diluted (EUR)	3.6					

Fiscal year end December

Source: Splendid Medien and DZ BANK estimates

IMPRINT

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RATING HISTORY

Recommendation	Date	Price
Buy	7 Nov 2012	2.10 EUR

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