

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 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	(67.0)	0.12	(0.34)	20.9	-0.09	(-0.35)	-3.8	0.05
2017e	65.0	(76.5)	0.26	(0.40)	9.4	-0.11	(0.02)	-4.4	0.10
2018e	80.0	(85.0)	0.32	(0.49)	7.6	0.18	(0.26)	7.5	0.15

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

Prelims for H1/16 fell short of expectations, guidance for 2016 reduced

- » Splendid published disappointing preliminary figures for H1/16. Sales declined by 11.0 % to EUR 25.3m. This was mainly due to a lack of strong Home Entertainment films, which had had a positive impact in the first half of 2015 by comparison. With the exception of the film “The Forrest”, for which some 270,000 tickets were sold in Germany, Austria and the Benelux countries, the performance of the five film releases in H1/16 was only average. As a result, EBIT fell by 0.75% to EUR 0.5m, and net profit declined from EUR 1.7m to EUR 0.1m.
- » Based on a stronger pipeline, Splendid expects performance to pick up in H2/16; however, management does not believe that the guidance for 2016, with sales of between EUR 64m, and EUR 69m and previously anticipated EBIT of between EUR 4.0m and EUR 5.0m, cannot be achieved due to postponements in the releases of six films until 2017 and the postponement of TV projects until 2017.
- » Management’s new guidance for 2016 provides for sales of between EUR 55m and EUR 59m, and EBIT of between EUR 2.0m and EUR 2.5m. We have also adjusted our sales and income forecast, and now expect sales of EUR 55.0m and EBIT of EUR 2.0m for 2016. This results in estimated EPS of EUR 0.12. The postponed films and TV projects are then expected to have a significantly positive effect in 2017. Conservatively, we expect sales of EUR 65.0m and EBIT of EUR 3.8m for 2017.

On the basis of our new and significantly lower sales and income planning, the new fair value, which is based exclusively on DCF, was calculated at EUR 2.80 per share. The lower valuation of the company, with a PER of 7.1 in relation to our previous EPS estimate for 2016, appears to have already taken into account the intrinsic risk of project postponements, which are not unusual for film distribution companies. Income should rise considerably when the postponed projects are released in 2017. We are therefore sticking with our recommendation to buy.

Selected Companies	Price on 18 Aug 2016	PER		EV / EBITDA		EV / Sales 16e	Re- com.
		16e	17e	16e	17e		
Splendid Medien	2.46 EUR	20.9	9.4	13.1	8.2	0.63	↑
Highlight Communications	5.40 EUR	13.3	12.2	8.2	7.6	0.59	↑
Constantin Medien	2.40 EUR	21.0	13.1	9.6	7.5	0.65	→
EuropaCorp	3.73 EUR	36.9	3.5	7.8	2.8	1.26	–
Lions Gate Entert Corp	21.66 USD	46.1	31.9	17.8	15.5	1.73	–
Median for all peer group companies		21.0	13.1	8.2	7.5	1.26	–

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

EQUITIES

Flash

Completed: 19 Aug 2016, 14:32

Buy (prev. Buy)

Closing price 18 Aug 2016

(in EUR): 2.46

Fair value: 2.80 (prev. 3.80)

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 %):	2.0
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): 24.08

Free float (in %): 35.0

SIN: 727950

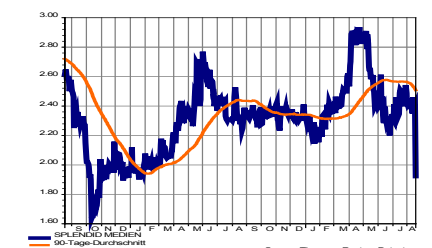
ISIN: DE0007279507

Datastream: D:SPMX

Next Newsflow:

Final H1/16 Report

30 Aug 2016



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 weaker as expected development in H1/16 the guidance 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
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

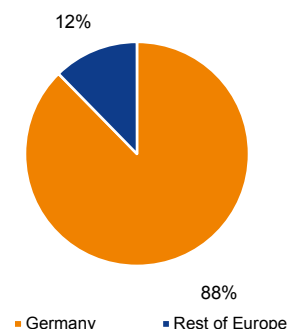
Source: Splendid Medien and DZ BANK estimates

RATIOS

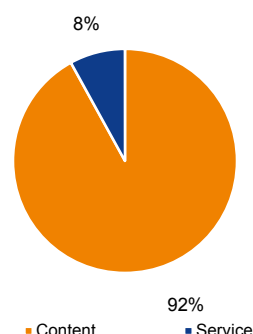
Euro	2015	2016e	2017e	2018e	2019e
Profit and loss ratios					
Sales (m)	56.8	55.0	65.0	80.0	85.0
EBITDA margin	7.4%	4.8%	7.0%	6.7%	7.0%
EBIT margin	6.5%	3.6%	5.9%	5.8%	6.0%
Net margin	5.2%	2.2%	4.2%	4.3%	4.5%
Investment ratio	34.1%	47.9%	39.6%	31.3%	33.0%
R&D as % of sales					
Admin and sales costs 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	0.6	0.5	0.4
Enterprise value / EBITDA	7.8	13.1	8.2	6.9	6.1
Enterprise value / EBIT	8.9	17.4	9.7	8.1	7.1
EV/Sales to sales growth	0.11	0.07	0.06	0.05	0.05
PEG ratio - common shares	0.25	4.12			
Fiscal year end December					

Source: Splendid Medien, DZ BANK estimates

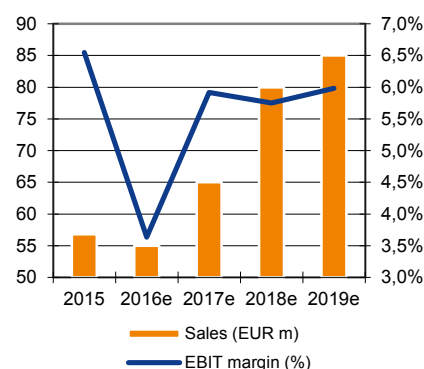
SALES BY REGION 2015



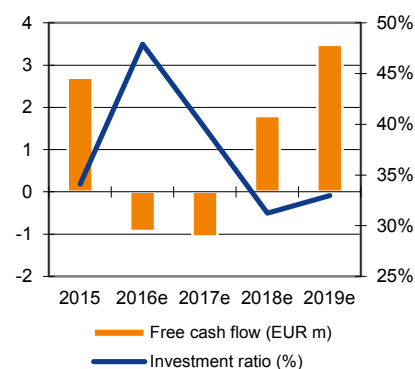
SALES BY BUSINESS SEGMENT 2015



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)	7.45%
(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	44.4					
Market value of non-operating assets	0.0					
Financial and liquid assets	7.8					
Enterprise value, beginning of period	52.2					
Liabilities	-17.6					
Provisions (inc. provisions for pensions)	0.0					
Equity value incl. minority interest, bop	34.6					
Value of minority interest	-8.9					
Correction of liabilities by convertible bonds	0.0					
EQV excl. minority interest, bop	25.7					
Accumulation till effective valuation date (with KE-rate)	1.7					
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

I. IMPRINT

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Fundamental analysis three months
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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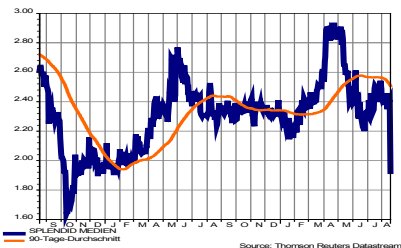
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