

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 m)	EUR	(EUR)		EUR	(EUR)		
2015	56.8	(56.8)	0.30	(0.30)	8.0	0.28	(0.28)	11.5	0.10
2016e	51.9	(51.0)	-0.40	(-0.05)	-	-0.16	(-0.21)	-8.9	0.00
2017e	57.0	(62.0)	0.08	(0.17)	21.5	-0.10	(-0.09)	-5.9	0.05
2018e	62.0	(75.0)	0.12	(0.24)	14.2	0.09	(0.46)	5.1	0.10

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

Impairments on film assets and latent taxes encumber 2016 accounts, FV reduced

- » Splendid published key data for 2016 which, following a profit warning in Dec. 2016, were largely in line with the expectations. Group sales fell by 8.6% to EUR 51.9m. In the Content segment sales fell by 10.3% to EUR 46.8m. Some of the cinema releases did not generate the expected sales. The Home Entertainment and TV Production segments also fell somewhat short of the expectations. In the Services segment the company recorded a sales increase of 10.9 % to EUR 5.1m.
- » Due to the somewhat disappointing exploitation successes the company had to take an EBIT loss of EUR 1.3m (2015: plus EUR 3.1m). Impairments on film assets in the amount of EU 2.7m encumbered the earnings in particular. Furthermore, extraordinary value adjustments in respect of capitalized deferred taxes on loss carryovers were made in the amount of EUR 1.9m, so that the company had to accept a net loss of EUR 3.9m or respectively of minus EUR 0.40 per share. The management proposes foregoing a dividend for 2016.
- » **Outlook 2017:** With sales between EUR 55m and EUR 60m Splendid is expecting an EBIT between EUR 1.0m and EUR 2.0m as well as positive consolidated net earnings for the year. All levels of the audio-visual exploitation chain should contribute to this improvement. We have lowered our medium-term earnings forecast somewhat and now expect sales growth of 9.8% to EUR 57.0m for 2017. In view of an attractive film rights portfolio which will be exploited in 2017, together with cost-saving measures we are expecting a positive EBIT of EUR 1.6m in the current year and weakened but still profitable growth.

Splendid recorded an EBIT loss in 2016 for the first time in six years. In this period the company recorded an average EBIT margin of 7.2%. We have lowered our earnings forecast slightly again due to the guidance. The DCF-based fair value decreases to EUR 2.20 per share. We recommend speculative-oriented investors to buy the share.

Selected Companies	Price on 21 Mar 2017	PER		EV / EBITDA		EV / Sales 17e	Re- com.
		17e	18e	17e	18e		
Splendid Medien	1.73 EUR	21.5	14.2	12.8	10.5	0.53	↑
Highlight Communications	5.30 EUR	11.8	11.3	8.0	7.3	0.61	●
Constantin Medien	1.87 EUR	10.2	8.0	6.6	5.7	0.55	●
EuropaCorp	3.49 EUR	10.1	-	6.5	-	1.91	-
Lions Gate Entert Corp	24.48 USD	18.0	16.8	13.2	11.4	1.94	-
Median for all peer group companies		11.8	12.5	7.5	7.2	1.12	-

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

EQUITIES

Flash

Completed: 22 Mar 2017, 10:40

Buy (prev. Buy)

Closing price 21 Mar 2017

(in EUR): 1.73

Fair value: 2.20 (prev. 2.30)

Financial ratios 2017e:

Book value per share (in EUR):	2.39
Equity ratio (in %):	34.1
Net margin (in %):	1.6
ROE (in %):	3.8
Dividend yield (in %):	2.9
Free cash flow (EUR m):	-1.0
Net debt (EUR m):	13.0

Number of shares

(million units): 9.8

Market cap

(in EUR m): 16.94

Free float (in %): 35.0

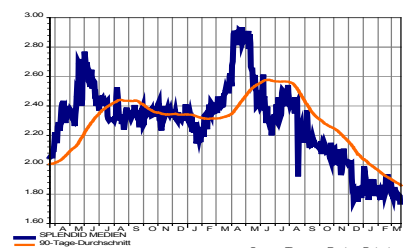
SIN: 727950

ISIN: DE0007279507

Datastream: D:SPMX

Next Newsflow:

Final 2016 accounts 31.03.2017



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. For the first time in six years the company had to face a loss on group level in 2016 due to weaker exploitation results on the stages Cinema, Home Entertainment and TV-Production. In our opinion Splendid still has interesting earnings potential in the midterm. Already in 2017 a positive result should be achievable.

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

Topical share price-sensitive issues along with risks and opportunities have been factored into our recommendation as far as possible. Taking into account the current share price, we believe that price-sensitive opportunities currently outweigh other factors.

PROFIT AND LOSS ACCOUNT

Euro m	2015	2016e	2017e	2018e	2019e	2020e
Sales	56.8	51.9	57.0	62.0	67.0	72.0
% against prev. year	-14%	-9%	10%	9%	8%	7%
Cost of goods sold	-38.7	-38.0	-39.8	-43.0	-45.8	-48.5
Gross profit	18.1	13.9	17.2	19.0	21.2	23.5
% against prev. year	-21%	-23%	24%	11%	12%	11%
Sales costs	-9.6	-9.9	-10.8	-11.8	-12.7	-13.7
Administration costs	-6.8	-6.5	-6.3	-6.8	-7.4	-7.9
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	2.1	1.6	1.8	2.0	2.1	2.2
Other operating expenses	-0.1	-0.4	-0.2	-0.2	-0.3	-0.3
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	3.7	-1.3	1.7	2.1	3.0	3.7
For information: EBIT adjusted	3.7	-1.3	1.7	2.1	3.0	3.7
% against prev. year	86%	-135%		28%	40%	25%
Interest paid / received	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Profit before tax	3.1	-1.9	1.1	1.5	2.4	3.1
For information: EBT adjusted	3.1	-1.9	1.1	1.5	2.4	3.1
% against prev. year	123%	-161%		46%	55%	31%
Income taxes from continuing operations	-0.2	-2.0	-0.2	-0.2	-0.4	-0.6
Tax rate	7%	-105%	16%	16%	18%	20%
Net profit from continuing operations	2.9	-3.9	0.9	1.3	2.0	2.5
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	2.9	-3.9	0.9	1.3	2.0	2.5
Profit or loss attributable to minority interest	0.0	-0.1	-0.1	-0.1	-0.2	-0.2
Profit or loss attributable to shareholders	2.9	-4.0	0.8	1.2	1.8	2.3
thereof from continuing operations	2.9	-4.0	0.8	1.2	1.8	2.3
thereof from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	9.789	9.789	9.789	9.789	9.789	9.789
IFRS earnings per share, diluted	0.30	-0.40	0.08	0.12	0.19	0.24
Adjusted earnings per share, diluted (contin.)	0.30	-0.40	0.08	0.12	0.19	0.24
For information						
Depreciation	0.5	0.7	0.7	0.8	0.9	1.0
EBITDA	4.2	-0.6	2.4	2.9	3.9	4.7
EBITDA adjusted	4.2	0.7	2.4	2.9	3.9	4.7

Fiscal year end December

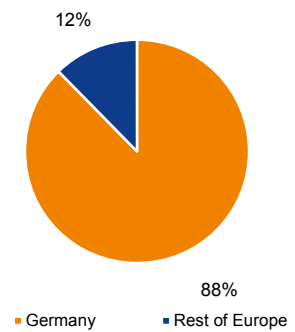
Source: Splendid Medien and DZ BANK estimates

RATIOS

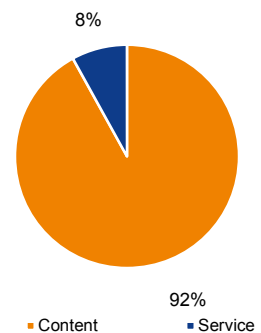
Euro	2015	2016e	2017e	2018e	2019e
Profit and loss ratios					
Sales (m)	56.8	51.9	57.0	62.0	67.0
EBITDA margin	7.4%	1.3%	4.1%	4.7%	5.8%
EBIT margin	6.5%	-2.5%	2.9%	3.4%	4.4%
Net margin	5.2%	-7.5%	1.6%	2.1%	2.9%
Investment ratio	34.1%	52.7%	41.6%	40.3%	38.9%
R&D as % of sales					
Admin and sales costs as % of sales	29.0%	31.6%	30.0%	30.0%	30.0%
Net other operating costs as % of sales	-3.6%	-2.4%	-2.8%	-2.8%	-2.8%
Net financial income as % of sales	-1.0%	-1.2%	-1.1%	-0.9%	-0.9%
Interest cover	6.4		2.8	3.7	5.1
Average sales growth next five years	4.9%	8.2%			
Average earnings growth next five years	-4.7%				
Profitability ratios					
ROE	10.7%	-17.2%	3.8%	5.3%	7.7%
ROCE	11.8%	-4.1%	4.8%	6.0%	8.1%
Productivity ratios					
Sales per employee ('000)	422.31	372.04	404.26	432.06	455.78
EBIT per employee ('000)	27.65	-9.32	11.74	14.75	20.22
Balance sheet ratios					
Equity ratio	40.4%	33.4%	34.1%	34.3%	34.8%
Long term debt and equity / Fixed assets	91.7%	73.3%	72.5%	74.8%	77.0%
Liquidity (quick ratio)	87.0%	71.7%	70.5%	72.6%	74.5%
Receivables as % of sales	42.3%	42.0%	42.0%	41.0%	40.0%
Investment (net of GW) / Depreciation	97.4%	139.1%	104.6%	101.7%	100.6%
Working capital as % of sales	8.2%	0.0%	2.7%	3.8%	4.7%
Net debt (m)	9.5	11.4	13.0	13.2	13.2
Net debt complete (m)	9.8	13.0	14.6	14.8	14.7
Figures per share					
Earnings per share, diluted	0.30	-0.40	0.08	0.12	0.19
Free cash flow per share, diluted	0.28	-0.16	-0.10	0.09	0.17
Dividend per common share	0.10	0.00	0.05	0.10	0.15
Cash per share, diluted	0.80	0.70	0.48	0.48	0.48
Net debt per share, diluted	0.97	1.17	1.33	1.35	1.34
Valuation ratios					
Enterprise value / Sales	0.6	0.6	0.5	0.5	0.5
Enterprise value / EBITDA	7.8	44.8	12.8	10.5	7.9
Enterprise value / EBIT	8.9		18.2	14.4	10.3
EV/Sales to sales growth	1.99	0.12	0.06	0.06	0.06
PEG ratio - common shares	0.53				
Fiscal year end December					

Source: Splendid Medien, DZ BANK estimates

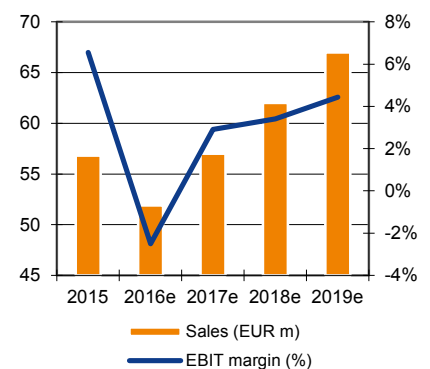
SALES BY REGION 2015



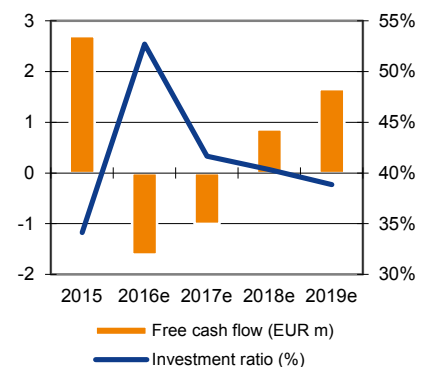
SALES BY BUSINESS SEGMENT 2015



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	0.46%
Market premium	5.50%
Data from comparable company	
Levered beta factor	1.9000
Data from company to be valued	
Growth rate of perpetuity	0.5%
Weighted average cost of capital (WACC)	9.21%
(Capital cost are specifically calculated for each particular period)	

Euro m	2017e	2018e	2019e	2020e	2021e
Adjusted EBIT	1.7	2.1	3.0	3.7	4.4
Taxes on EBIT	-0.1	-0.1	-0.5	-0.7	-0.9
Cash Taxes	6.4%	6.4%	15.4%	20.0%	21.0%
Net Operating Profit After Tax (NOPAT)	1.5	2.0	2.5	3.0	3.4
+ Depreciations (-Reversals)	22.7	24.6	25.9	27.2	28.6
- Investments (+Proceeds from sale)	-23.7	-24.9	-26.0	-27.1	-28.1
Change in working capital	-1.6	-0.8	-0.8	-0.1	-1.1
Other changes	0.0	0.0	0.0	0.0	0.0
Free cash flow	-1.0	0.8	1.6	3.0	2.8
Present value of free cash flows	39.3				
Market value of non-operating assets	0.0				
Financial and liquid assets	6.8				
Enterprise value, beginning of period	46.1				
Liabilities	-19.8				
Provisions (inc. provisions for pensions)	0.0				
Equity value incl. minority interest, bop	26.3				
Value of minority interest	-5.5				
Correction of liabilities by convertible bonds	0.0				
EQV excl. minority interest, bop	20.8				
Accumulation till effective valuation date (with KE-rate)	0.8				
EQV excl. minority interest at valuation date	21.6				
Equity value per share, diluted (EUR)	2.2				

Fiscal year end December

Source: Splendid Medien and DZ BANK estimates

I. IMPRINT

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"Buy" means that the absolute appreciation expected in the next twelve months is greater than 5%.

"Sell" means that the absolute depreciation expected in the next twelve months is greater than 5%.

"Hold" means that the absolute *price* volatility expected in the next twelve months lies between +5% and -5%.

– Technical (Chart) Analysis (tertiary trend):

The short term technical estimate refers to the short tertiary move of the share:

„Positive“ means that an absolute appreciation could be expected during the next week.

"Negative" means that an absolute depreciation could be expected during the next week.

"Neutral" means that no absolute change of price could be expected during the next week.

– Technical (chart) Analysis (secondary trend):

The longer term technical estimate refers to the shorter secondary move of the share:

„Positive“ means that an absolute appreciation greater than 10% could be expected during the next six months.

"Negative" means that an absolute depreciation greater than 10% could be expected during the six months.

"Neutral" means that an absolute change of price between +10% to -10% could be expected during the next six months.

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- Shares:**
- | | |
|---|------------|
| Fundamental analysis | six months |
| Technical (chart) analysis (tertiary trend) | one week |
| Technical (chart) analysis (secondary term) | six months |
- Fixed income instruments:**
- | | |
|---------|------------|
| Issuers | six months |
|---------|------------|
- 5.4 Evaluations of isolated aspects without investment recommendation** have the following validity periods:
- Sustainability analyses:** one month
- 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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- 7.8 Investment recommendations for the same financial instrument / issuer that have deviated in the last 12 months are stated in the respective current Financial Analysis together with the relevant investment recommendation category and date.**
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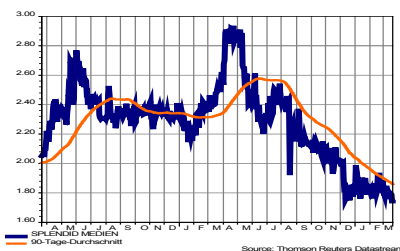
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RATING HISTORY

Recommendation	Date	Price
Buy	7 Nov 2012	2.10 EUR

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