

# MEDIA & ENTERTAINMENT

A Research Publication by DZ BANK AG

## Splendid Medien<sup>6)</sup>

Reuters: SPME.DE      Bloomberg: SPM GY

Year *	Sales		Adj. IFRS-Earnings per sh.		PER	Free cash flow per share		Free cash Dividend flow yield per share	
	EUR m		EUR			EUR	%		EUR
2013	54.9	(54.9)	0.37	(0.37)	6.0	-0.25	(-)	-11.1	0.10
2014e	63.5	(63.5)	0.04	(0.04)	45.5	-0.37	(-)	-18.6	0.10
2015e	68.0	(68.0)	0.22	(0.22)	9.1	0.34	(-)	16.7	0.15
2016e	75.0	(75.0)	0.37	(0.37)	5.4	0.31	(-)	15.4	0.20

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

### 9M/14 figures in line with reduced expectations

- » After the management recently reduced the guidance for 2014, the 9M/14 figures were in line with expectations. Sales increased by 10.7% to €42.4m. In the Content and Services segments revenues increased by 10.5% to €38.9m and 12.9% to €3.5m respectively. In spite of the positive sales growth, due to disappointing cinema exploitation of the higher-budgeted films in Q3/14 in combination with high release costs the company took a loss at EBIT level of €2.5m (previous year: plus €1.4m).
- » On announcement of the 9M/14 figures the management confirmed the guidance for 2014. Revenues in a range between €62m and €66m together with EBIT in a target range from €1.0 to €2.0m are expected. We anticipate sales of €63.5m and EBIT of €1.5m. This estimate is based on positive expectations in respect of the sales and earnings contributions of the forthcoming Home Entertainment releases and TV licence sales in Q4/14. For example, video exploitation of the fourth series of "The Walking Dead" was very successful.
- » For 2015 we anticipate positive sales and earnings growth based on the exploitation of an extensive Home Entertainment schedule. In 9M/14 Splendid invested €21.5m (plus 48.3%) in promising film rights which can be expected to contribute to sales and earnings over the next few quarters. We anticipate sales growth of 7.1% to €68.0m and a disproportionately large improvement in EBIT by 135% to €3.5m, though it needs to be taken into account that film exploitation is always subject to attractiveness risk and is very unpredictable.

**After presentation of the 9M/14 figures and confirmation of the guidance we see no reason to adjust our forecast. Splendid has a valid business model with a strong Home Entertainment business. We confirm our Buy recommendation.**

Selected Companies	Price on 21 Nov 2014	PER		EV / EBITDA		EV / Sales 14e	Re-com.
		14e	15e	14e	15e		
Splendid Medien	2.01 EUR	45.5	9.1	14.5	7.3	0.50	↑
Highlight Communications	3.12 EUR	12.6	10.5	7.7	7.5	0.47	↑
Constantin Medien	1.20 EUR	-	17.6	12.6	9.4	0.61	↑
EuropaCorp	4.20 EUR	13.8	4.6	5.2	2.8	1.07	-
Lions Gate Entert Corp	33.25 USD	19.9	18.3	13.8	12.7	2.11	-
<b>Median for all peer group companies</b>		<b>16.9</b>	<b>17.0</b>	<b>8.7</b>	<b>8.0</b>	<b>1.07</b>	<b>-</b>

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

## EQUITIES

Flash  
24 Nov 2014

**Buy** (prev. Buy)

Closing price 21 Nov 2014

(in EUR): 2.01

Fair value: 3.50 (prev. 3.50)

### Financial ratios 2014e:

Book value per share (in EUR):	2.54
Equity ratio (in %):	38.9
Net margin (in %):	0.7
ROE (in %):	1.7
Dividend yield (in %):	5.0
Free cash flow (EUR m):	-3.7
Net debt (EUR m):	12.0

### Number of shares

(million units): 9.8

### Market cap

(in EUR m): 19.67

Free float (in %): 35.0

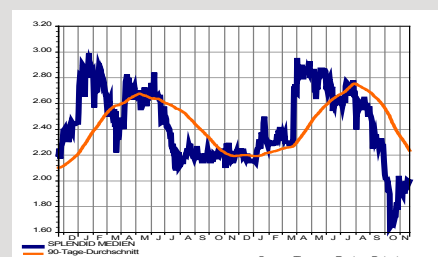
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Datastream: D:SPMX

### Next Newsflow:

Full year 2014 figures March 2015



Author: Harald Heider, Analyst

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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 the German-speaking area and 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 to exploit existing growth potential. Despite the current profit warning for 2014 in our opinion Splendid has 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

<sup>1)-9)</sup> 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
<b>Sales</b>	<b>54.9</b>	<b>63.5</b>	<b>68.0</b>	<b>75.0</b>	<b>82.0</b>	<b>85.0</b>
% against prev. year	10%	16%	7%	10%	9%	4%
Cost of goods sold	-34.3	-41.9	-43.0	-45.7	-49.6	-51.5
<b>Gross profit</b>	<b>20.6</b>	<b>21.7</b>	<b>25.0</b>	<b>29.3</b>	<b>32.5</b>	<b>33.5</b>
% against prev. year	3%	5%	15%	17%	11%	3%
Sales costs	-13.4	-14.9	-16.1	-18.0	-19.6	-20.3
Administration costs	-7.2	-7.4	-7.8	-8.6	-9.3	-9.7
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	4.4	2.7	2.9	3.2	3.5	3.7
Other operating expenses	-0.2	-0.4	-0.5	-0.8	-0.9	-0.9
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating profit (EBIT)</b>	<b>4.3</b>	<b>1.5</b>	<b>3.5</b>	<b>5.2</b>	<b>6.1</b>	<b>6.3</b>
For information: EBIT adjusted	4.3	1.5	3.5	5.2	6.1	6.3
% against prev. year	1%	-65%	131%	49%	17%	3%
Interest paid / received	-0.9	-1.0	-1.1	-1.1	-1.1	-1.1
<b>Profit before tax</b>	<b>3.4</b>	<b>0.5</b>	<b>2.4</b>	<b>4.1</b>	<b>5.0</b>	<b>5.2</b>
For information: EBT adjusted	3.4	0.5	2.4	4.1	5.0	5.2
% against prev. year	1%	-86%	398%	70%	23%	5%
Income taxes from continuing operations	0.3	0.0	-0.2	-0.4	-0.5	-0.8
Tax rate	-8%	10%	10%	10%	10%	15%
<b>Net profit from continuing operations</b>	<b>3.7</b>	<b>0.4</b>	<b>2.2</b>	<b>3.7</b>	<b>4.5</b>	<b>4.5</b>
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>3.7</b>	<b>0.4</b>	<b>2.2</b>	<b>3.7</b>	<b>4.5</b>	<b>4.5</b>
Profit or loss attributable to minority interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>Profit or loss attributable to shareholders</b>	<b>3.7</b>	<b>0.4</b>	<b>2.2</b>	<b>3.7</b>	<b>4.5</b>	<b>4.5</b>
thereof from continuing operations	3.7	0.4	2.2	3.7	4.5	4.5
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	0.04	0.22	0.37	0.46	0.46
Adjusted earnings per share, diluted (contin.)	0.37	0.04	0.22	0.37	0.46	0.46
<b>For information</b>						
Depreciation	0.4	0.7	0.7	0.7	0.7	0.8
EBITDA	4.7	2.2	4.2	5.9	6.8	7.1
EBITDA adjusted	4.7	2.2	4.2	5.9	6.8	7.1

Fiscal year end December

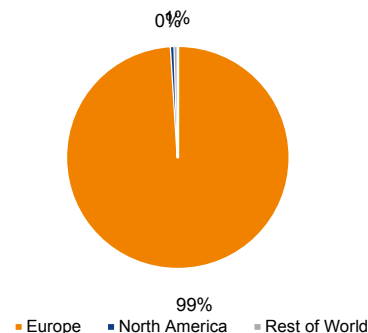
Source: Splendid Medien and DZ BANK estimates

**RATIOS**

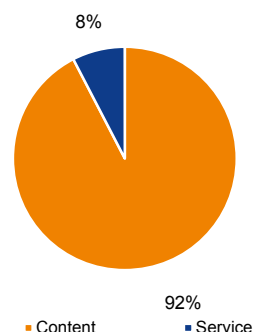
Euro	2013	2014e	2015e	2016e	2017e
<b>Profit and loss ratios</b>					
Sales (m)	54.9	63.5	68.0	75.0	82.0
EBITDA margin	8.6%	3.4%	6.1%	7.9%	8.3%
EBIT margin	7.9%	2.4%	5.2%	7.0%	7.5%
Net margin	6.7%	0.7%	3.2%	4.9%	5.5%
Investment ratio	38.6%	42.5%	34.9%	35.7%	35.0%
R&D as % of sales					
Admin and sales costs as % of sales	37.5%	35.2%	35.2%	35.4%	35.3%
Net other operating costs as % of sales	-7.8%	-3.5%	-3.6%	-3.3%	-3.2%
Net financial income as % of sales	-1.7%	-1.6%	-1.7%	-1.5%	-1.4%
Interest cover	6.3	1.5	3.1	4.6	5.5
Average sales growth next five years	9.1%				
Average earnings growth next five years	4.0%				
<b>Profitability ratios</b>					
ROE	14.4%	1.7%	8.3%	13.0%	14.6%
ROCE	16.5%	4.9%	11.3%	15.8%	17.3%
<b>Productivity ratios</b>					
Sales per employee ('000)	446.66	496.09	513.21	545.45	581.56
EBIT per employee ('000)	35.08	11.88	26.54	38.00	43.46
<b>Balance sheet ratios</b>					
Equity ratio	40.1%	38.9%	39.4%	41.0%	42.6%
Long term debt and equity / Fixed assets	95.1%	86.7%	97.0%	99.4%	102.3%
Liquidity (quick ratio)	89.4%	77.2%	87.4%	89.1%	91.4%
Receivables as % of sales	38.5%	34.0%	33.5%	32.0%	32.0%
Investment (net of GW) / Depreciation	133.2%	115.1%	94.2%	104.4%	103.7%
Working capital as % of sales	1.6%	3.9%	5.8%	6.1%	7.2%
Net debt (m)	6.3	12.0	10.8	10.4	10.2
Net debt complete (m)	6.4	12.1	10.9	10.5	10.3
<b>Figures per share</b>					
Earnings per share, diluted	0.37	0.04	0.22	0.37	0.46
Free cash flow per share, diluted	-0.25	-0.37	0.34	0.31	0.34
Dividend per common share	0.10	0.10	0.15	0.20	0.22
Cash per share, diluted	0.84	0.36	0.58	0.59	0.56
Net debt per share, diluted	0.64	1.22	1.10	1.06	1.04
<b>Valuation ratios</b>					
Enterprise value / Sales	0.5	0.5	0.4	0.4	0.4
Enterprise value / EBITDA	6.0	14.5	7.3	5.1	4.4
Enterprise value / EBIT	6.5	20.8	8.7	5.7	4.9
EV/Sales to sales growth	0.05	0.05	0.05	0.04	0.04
PEG ratio - common shares	1.28	11.23			
Fiscal year end December					

Source: Splendid Medien, DZ BANK estimates

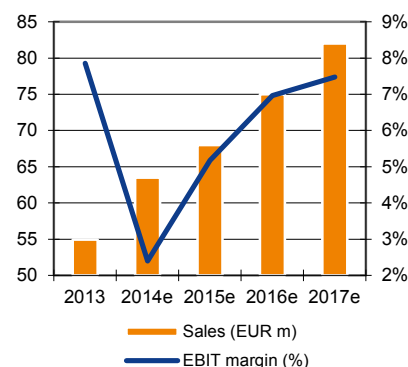
**SALES BY REGION 2013**



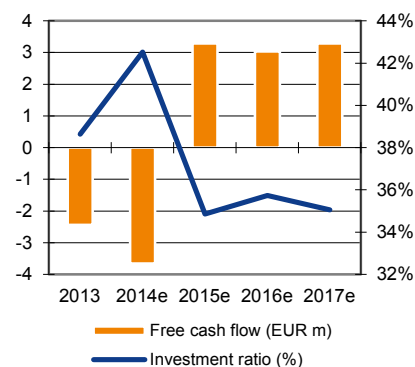
**SALES BY BUSINESS SEGMENT 2013**



**SALES AND MARGIN DEVELOPMENT**



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## DISCOUNTED CASH FLOW VALUATION

<b>Market data</b>	
Risk-free interest rate	1.05%
Market premium	5.00%
<b>Data from comparable company</b>	
Levered beta factor	1.7500
<b>Data from company to be valued</b>	
Growth rate of perpetuity	0.8%
Weighted average cost of capital (WACC)	8.41%
(Capital cost are specifically calculated for each particular period)	

<b>Euro m</b>	<b>2014e</b>	<b>2015e</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
Adjusted EBIT	1.5	3.5	5.2	6.1	6.3	8.2
Taxes on EBIT	-0.2	-0.4	-0.5	-0.6	-1.0	-1.6
Cash Taxes	10.0%	10.0%	10.0%	10.0%	15.0%	20.0%
<b>Net Operating Profit After Tax (NOPAT)</b>	<b>1.4</b>	<b>3.2</b>	<b>4.7</b>	<b>5.5</b>	<b>5.4</b>	<b>6.6</b>
+ Depreciations (-Reversals)	23.5	25.2	25.7	27.7	28.8	29.4
- Investments (+Proceeds from sale)	-27.0	-23.7	-26.8	-28.7	-29.4	-30.6
Change in working capital	-1.6	-1.5	-0.7	-1.3	-0.9	-1.1
Other changes	0.0	0.0	0.0	0.0	0.0	0.0
<b>Free cash flow</b>	<b>-3.8</b>	<b>3.2</b>	<b>2.9</b>	<b>3.2</b>	<b>3.9</b>	<b>4.3</b>
<b>Present value of free cash flows</b>	<b>45.5</b>					
Market value of non-operating assets	0.0					
Financial and liquid assets	8.2					
<b>Enterprise value, beginning of period</b>	<b>53.7</b>					
Liabilities	-14.6					
Provisions (inc. provisions for pensions)	0.0					
<b>Equity value incl. minority interest, bop</b>	<b>39.2</b>					
Value of minority interest	-7.4					
Correction of liabilities by convertible bonds	0.0					
<b>EQV excl. minority interest, bop</b>	<b>31.8</b>					
Accumulation till effective valuation date (with KE-rate)	2.5					
<b>EQV excl. minority interest at valuation date</b>	<b>34.3</b>					
<b>Equity value per share, diluted (EUR)</b>	<b>3.5</b>					

Fiscal year end December

Source: Splendid Medien and DZ BANK estimates

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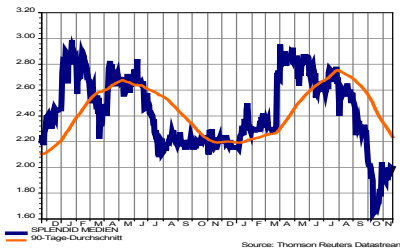
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Recommendation	Date	Price
Buy	7 Nov 2012	2.10 EUR

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