

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	0.10
2014e	66.0 (66.0)	0.38 (0.43)	0.45 (0.50)	6.9	5.9	0.10
2015e	72.0 (75.0)	0.44 (0.48)	0.51 (0.55)	6.0	5.2	0.15
2016e	78.0 (81.0)	0.50 (0.54)	0.57 (0.61)	5.2	4.6	0.20

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

Weaker first half due to seasonal factors, guidance confirmed

- » Splendid suffered a fall in sales of 12.0% to €25.0m in H1/14. This is on the one hand due to a weaker movie slate in H1/14 and the fact that H1/13 was very positively affected by the considerable earnings from exploitation of the film “The Expendables 2” in Home Entertainment. In spite of these circumstances performance in H1/14 in the Content segment did not match the expectations of the management. The operating EBIT loss of €1.8m in the Content segment and Holding was only partly compensated for by the positive performance in the Services segment. Splendid therefore had to absorb a loss at EBIT level of €1.4m in H1/14, after a profit of €2.2m had been achieved in H1/13.
- » In spite of weaker performance in H1/14 due to seasonal effects the management is standing by its full-year guidance, with sales in a range from €66m to €72m and EBIT between €5m and €6m. The positive outlook is based on the forthcoming releases of two promising franchise films: “The Expendables 3” and “Sin City 2: A Dame to Kill For”. The film “Expendables 3” made a promising start with an audience of approximately 255,000 in the first weekend. In addition the management expects positive growth in the licensing business with the television broadcasters and in the segment services on the basis of a large order book.
- » We, too, anticipate positive growth in H2/14. Nevertheless, we are reducing our EBIT forecast for 2014 by 11.0% to €5.15m. We have also reduced the forecast for 2015 and the subsequent years. We are reducing the DCF-based fair value to €4.10 per share.

Splendid has good competitive positions in Home Entertainment, cinema distribution, TV licensing business and complementary services. We therefore anticipate a good rate of earnings growth, which may intrinsically be subject to heavy seasonal fluctuations. We see good upside and recommend the share as a Buy.

Selected Companies	Price on 28 Aug 2014	PER 14e 15e	EV / EBITDA 14e 15e	EV / Sales 14e	Re- com.
Splendid Medien	2.62 EUR	6.9 6.0	5.6 5.2	0.49	↑
Highlight Communications	3.46 EUR	16.4 12.4	11.5 8.9	0.53	↑
Constantin Medien	1.37 EUR	– 30.0	20.9 11.4	0.71	↑
EuropaCorp	4.40 EUR	4.2 3.3	4.4 3.8	1.01	–
Lions Gate Entert Corp	32.31 USD	20.6 18.0	13.3 12.3	2.03	–
Median for all peer group companies		18.5 17.4	11.5 8.9	1.01	–

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

EQUITIES

Flash
29 Aug 2014

Buy (prev. Buy)

Closing price 28 Aug 2014

(in EUR): 2.62

Fair value: 4.10 (prev. 4.90)

Financial ratios 2014e:

Book value per share (in EUR):	2.88
Equity ratio (in %):	41.5
Net margin (in %):	5.6
ROE (in %):	13.2
Dividend yield (in %):	3.8
Free cash flow (EUR m):	1.4
Net debt (EUR m):	6.9

Number of shares

(million units): 9.8

Market cap

(in EUR m): 25.67

Free float (in %): 35.0

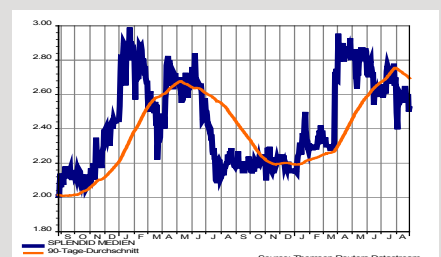
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Q3/14 figures 13.11.2014



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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
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

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	72.0	78.0	84.0	88.0
% against prev. year	10%	20%	9%	8%	8%	5%
Cost of goods sold	-34.3	-41.1	-43.6	-46.5	-50.1	-52.3
Gross profit	20.6	24.9	28.4	31.5	33.9	35.7
% against prev. year	3%	21%	14%	11%	8%	5%
Sales costs	-13.4	-15.3	-17.1	-18.7	-20.1	-21.0
Administration costs	-7.2	-7.6	-8.3	-8.9	-9.6	-10.0
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	4.4	3.6	3.3	3.5	3.8	4.0
Other operating expenses	-0.2	-0.5	-0.5	-0.8	-0.9	-0.9
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	4.3	5.2	5.9	6.6	7.1	7.7
For information: EBIT adjusted	4.3	5.2	5.9	6.6	7.1	7.7
% against prev. year	1%	20%	14%	12%	8%	9%
Interest paid / received	-0.9	-1.0	-1.1	-1.1	-1.1	-1.1
Profit before tax	3.4	4.1	4.8	5.4	6.0	6.6
For information: EBT adjusted	3.4	4.1	4.8	5.4	6.0	6.6
% against prev. year	1%	21%	16%	14%	10%	11%
Income taxes from continuing operations	0.3	-0.4	-0.5	-0.5	-0.6	-1.0
Tax rate	-8%	10%	10%	10%	10%	15%
Net profit from continuing operations	3.7	3.7	4.3	4.9	5.4	5.6
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	3.7	3.7	4.3	4.9	5.4	5.6
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	3.7	4.3	4.9	5.4	5.6
thereof from continuing operations	3.7	3.7	4.3	4.9	5.4	5.6
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	0.38	0.44	0.50	0.55	0.58
Adjusted earnings per share, diluted (contin.)	0.37	0.38	0.44	0.50	0.55	0.58
For information						
Depreciation	0.4	0.7	0.7	0.7	0.7	0.8
EBITDA	4.7	5.8	6.5	7.3	7.8	8.5
EBITDA adjusted	4.7	5.8	6.5	7.3	7.8	8.5

Fiscal year end December

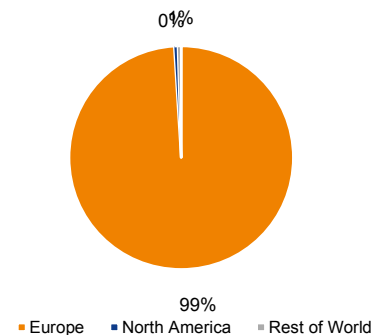
Source: Splendid Medien and DZ BANK estimates

RATIOS

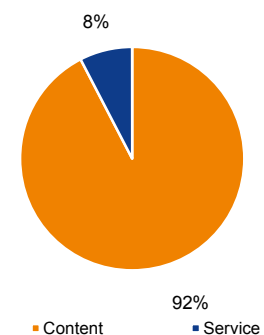
Euro	2013	2014e	2015e	2016e	2017e
Profit and loss ratios					
Sales (m)	54.9	66.0	72.0	78.0	84.0
EBITDA margin	8.6%	8.8%	9.1%	9.3%	9.3%
EBIT margin	7.9%	7.8%	8.2%	8.4%	8.5%
Net margin	6.7%	5.6%	6.0%	6.3%	6.4%
Investment ratio	38.6%	40.9%	36.4%	35.6%	34.2%
R&D as % of sales					
Admin and sales costs as % of sales	37.5%	34.8%	35.2%	35.4%	35.3%
Net other operating costs as % of sales	-7.8%	-4.8%	-3.9%	-3.5%	-3.4%
Net financial income as % of sales	-1.7%	-1.6%	-1.6%	-1.5%	-1.3%
Interest cover	6.3	5.0	5.3	5.8	6.4
Average sales growth next five years	9.9%				
Average earnings growth next five years	9.1%				
Profitability ratios					
ROE	14.4%	13.2%	13.6%	14.0%	14.1%
ROCE	16.5%	17.5%	17.2%	17.2%	17.2%
Productivity ratios					
Sales per employee ('000)	446.66	515.63	543.40	567.27	595.74
EBIT per employee ('000)	35.08	40.30	44.38	47.93	50.38
Balance sheet ratios					
Equity ratio	40.1%	41.5%	43.5%	45.8%	47.7%
Long term debt and equity / Fixed assets	95.1%	94.0%	101.7%	104.2%	108.8%
Liquidity (quick ratio)	89.4%	84.4%	91.9%	94.1%	98.7%
Receivables as % of sales	38.5%	29.5%	31.5%	32.0%	33.0%
Investment (net of GW) / Depreciation	133.2%	119.2%	106.3%	108.2%	103.7%
Working capital as % of sales	1.6%	-0.2%	4.4%	6.6%	8.5%
Net debt (m)	6.3	6.9	8.4	9.0	8.6
Net debt complete (m)	6.4	7.0	8.5	9.1	8.7
Figures per share					
Earnings per share, diluted	0.37	0.38	0.44	0.50	0.55
Diluted cash earnings per share	0.42	0.45	0.51	0.57	0.62
Dividend per common share	0.10	0.10	0.15	0.20	0.22
Cash per share, diluted	0.84	0.88	0.82	0.73	0.72
Net debt per share, diluted	0.64	0.70	0.86	0.92	0.88
Valuation ratios					
Enterprise value / Sales	0.5	0.5	0.5	0.4	0.4
Enterprise value / EBITDA	6.0	5.6	5.2	4.8	4.4
Enterprise value / EBIT	6.5	6.3	5.8	5.3	4.8
EV/Sales to sales growth	0.05	0.05	0.05	0.05	0.04
PEG ratio - common shares	0.71	0.76			
Fiscal year end December					

Source: Splendid Medien, DZ BANK estimates

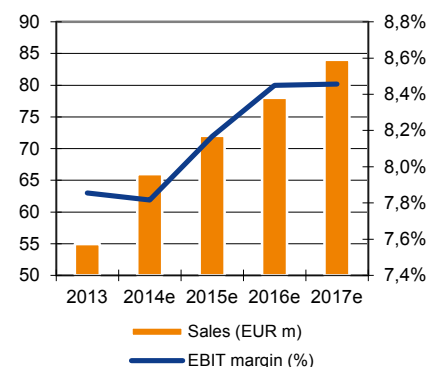
SALES BY REGION 2013



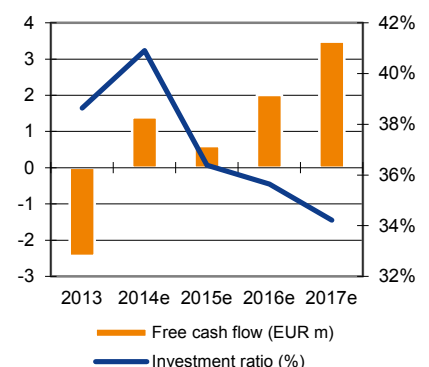
SALES BY BUSINESS SEGMENT 2013



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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DISCOUNTED CASH FLOW VALUATION

Market data	
Risk-free interest rate	0.98%
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)	8.60%
(Capital cost are specifically calculated for each particular period)	

Euro m	2014e	2015e	2016e	2017e	2018e	2019e
Adjusted EBIT	5.2	5.9	6.6	7.1	7.7	9.3
Taxes on EBIT	-0.5	-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)	4.6	5.3	5.9	6.4	6.6	7.4
+ Depreciations (-Reversals)	22.7	24.7	25.7	27.7	28.8	29.4
- Investments (+Proceeds from sale)	-27.0	-26.2	-27.8	-28.7	-29.4	-30.6
Change in working capital	1.0	-3.3	-1.9	-2.0	-1.1	-1.4
Other changes	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	1.3	0.5	1.9	3.4	4.9	4.9
Present value of free cash flows	51.3					
Market value of non-operating assets	0.0					
Financial and liquid assets	8.2					
Enterprise value, beginning of period	59.5					
Liabilities	-14.6					
Provisions (inc. provisions for pensions)	0.0					
Equity value incl. minority interest, bop	44.9					
Value of minority interest	-7.5					
Correction of liabilities by convertible bonds	0.0					
EQV excl. minority interest, bop	37.4					
Accumulation till effective valuation date (with KE-rate)	2.7					
EQV excl. minority interest at valuation date	40.1					
Equity value per share, diluted (EUR)	4.1					

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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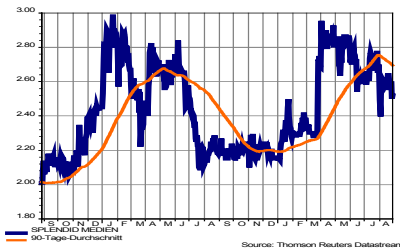
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RATING HISTORY

Recommendation	Date	Price
Buy	7 Nov 2012	2.10 EUR

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