

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) | 8.2 | -0.01 | (-0.01) | -0.6 | 0.10 |
| 2016e | 68.0 | (68.0) | 0.37 | (0.37) | 6.3 | 0.17 | (0.17) | 7.5 | 0.15 |
| 2017e | 75.0 | (75.0) | 0.42 | (0.42) | 5.5 | 0.20 | (0.20) | 8.6 | 0.20 |

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

Solid H1/15 performance brings company back on track for growth

- » Splendid has published good results for H1/15. Sales increased by 13.6% to EUR 28.4m. In particular, in the Contents segment, sales were up significantly, by 11.8% to EUR 26.1m. Splendid benefited from a successful Home Entertainment series as well as from Licence business. In Home Entertainment, "Sin City 2" and other strong titles were published. In Licence business, sales could be increased by 100% to EUR 5.2m. Splendid also concluded licence agreements which will result in sales over the medium term. In the Services segment, sales were up 4.5% to EUR 2.3m.
- » Based on considerably higher sales and lower P&A expenditure, EBIT for H1/15 improved sharply from EUR -1.4m to EUR +2.0m. This was somewhat higher than we expected. EPS improved from EUR -0.18 to EUR +0.17.
- » As a result of cash inflows from the delivery of films, Splendid was able to generate a considerably positive operating cash flow from operating activities in the amount of EUR 11.9m, growth of 128.8%. Short-term debt could be significantly reduced so that the equity ratio rose by 9.0 percentage points to 43.7%.
- » Management confirmed guidance for 2015. Management now expects sales in the range from EUR 57m to EUR 62m as well as EBIT of between EUR 3.5m and EUR 4.5m. For the moment, we are sticking with our forecast of EUR 61.0m for sales and EUR 3.8m for EBIT: This would result in an estimated EPS of around EUR 0.28. We now see this as conservative. In H2/15, sales from TV licensing business are expected.

Splendid reports good and encouraging results for the first half-year of 2015, slightly above our expectations. We see the company as on good track to further growth and for a considerable improvement in earnings power. Accordingly, we believe the stock is considerably undervalued and we confirm our BUY recommendation.

| Selected Companies | Price on 26 Aug 2015 | PER | | EV / EBITDA | | EV / Sales 15e | Re- com. |
|--|-------------------------|-------------|-------------|-------------|------------|-------------------|-------------|
| | | 15e | 16e | 15e | 16e | | |
| Splendid Medien | 2.33 EUR | 8.2 | 6.3 | 8.5 | 6.9 | 0.61 | ↑ |
| Highlight Communications | 4.59 EUR | 14.0 | 12.4 | 9.1 | 8.4 | 0.77 | ↑ |
| Constantin Medien | 1.68 EUR | 29.3 | 17.5 | 10.1 | 8.6 | 0.73 | ↑ |
| EuropaCorp | 4.45 EUR | 7.2 | 5.6 | 3.2 | 2.0 | 0.78 | – |
| Lions Gate Entert Corp | 37.23 USD | 24.8 | 18.7 | 17.0 | 13.7 | 2.64 | – |
| Median for all peer group companies | | 22.3 | 17.4 | 9.7 | 8.4 | 0.78 | – |

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

EQUITIES

Flash
31 Aug 2015

Buy (prev. Buy)

Closing price 26 Aug 2015

(in EUR): 2.33

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 %): | 4.3 |
| 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): 22.79

Free float (in %): 35.0

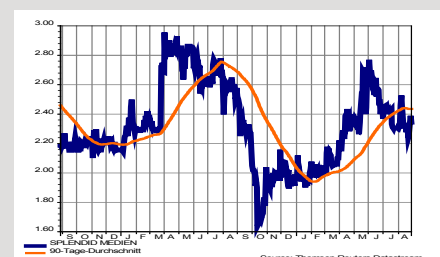
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Q3/15 results 12.11.2015



Author: Harald Heider, Analyst

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. 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. h1/15 has shown a clear turnaround. In our opinion Splendid 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 |

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

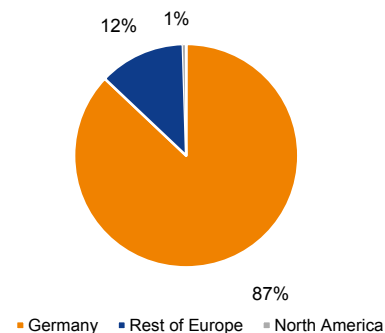
Source: Splendid Medien and DZ BANK estimates

RATIOS

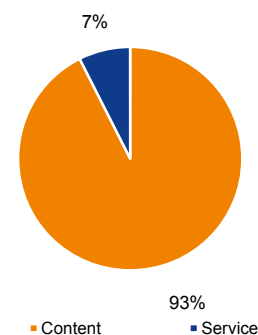
| Euro | 2014 | 2015e | 2016e | 2017e | 2018e |
|--|--------|--------|--------|--------|--------|
| Profit and loss ratios | | | | | |
| Sales (m) | 66.0 | 61.0 | 68.0 | 75.0 | 80.0 |
| EBITDA margin | 3.8% | 7.2% | 7.9% | 7.9% | 8.5% |
| EBIT margin | 3.0% | 6.1% | 6.9% | 7.0% | 7.5% |
| Net margin | 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 | 0.5 | 0.5 | 0.5 |
| Enterprise value / EBITDA | 13.0 | 8.5 | 6.9 | 6.3 | 5.5 |
| Enterprise value / EBIT | 16.1 | 9.9 | 7.9 | 7.1 | 6.2 |
| EV/Sales to sales growth | 0.06 | 0.12 | 0.11 | 0.10 | 0.09 |
| PEG ratio - common shares | 4.45 | 0.20 | | | |
| Fiscal year end December | | | | | |

Source: Splendid Medien, DZ BANK estimates

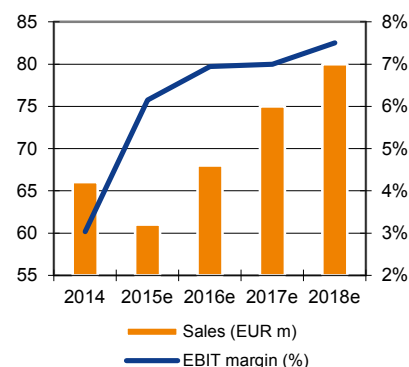
SALES BY REGION 2014



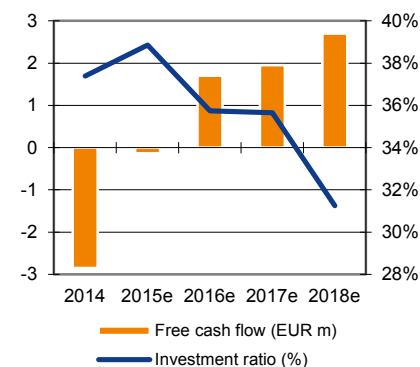
SALES BY BUSINESS SEGMENT 2014



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



¹⁾ - ⁹⁾ 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 | 0.57% |
| Market premium | 5.00% |
| Data from comparable company | |
| Levered beta factor | 1.6500 |
| Data from company to be valued | |
| Growth rate of perpetuity | 0.8% |
| Weighted average cost of capital (WACC) | 7.40% |
| (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 | 54.5 | | | | | |
| Market value of non-operating assets | 0.0 | | | | | |
| Financial and liquid assets | 7.4 | | | | | |
| Enterprise value, beginning of period | 61.9 | | | | | |
| Liabilities | -21.0 | | | | | |
| Provisions (inc. provisions for pensions) | 0.0 | | | | | |
| Equity value incl. minority interest, bop | 40.9 | | | | | |
| Value of minority interest | -8.2 | | | | | |
| Correction of liabilities by convertible bonds | 0.0 | | | | | |
| EQV excl. minority interest, bop | 32.7 | | | | | |
| Accumulation till effective valuation date (with KE-rate) | 2.5 | | | | | |
| EQV excl. minority interest at valuation date | 35.2 | | | | | |
| Equity value per share, diluted (EUR) | 3.6 | | | | | |

Fiscal year end December

Source: Splendid Medien and DZ BANK estimates

IMPRINT

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Buy 70.5%, Hold 12.1%, Sell 17.4%

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RATING HISTORY

| Recommendation | Date | Price |
|----------------|------------|----------|
| Buy | 7 Nov 2012 | 2.10 EUR |

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