

Recommendation: **BUY** (BUY) Risk: **MEDIUM** (MEDIUM) Price Target: **EUR 3.00** (3.50)

01 October 2014

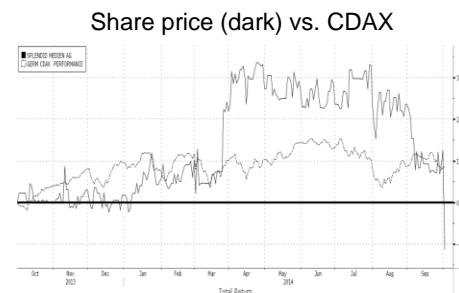
## Profit warning for FY14

Figures for Sin City 2 lower than expected, previous guidance lowered

- Profit warning:** Yesterday evening, splendid medien AG announced a profit warning and lowered its previous guidance significantly in the bottom line. The management now expects the group to achieve group revenues to range within EUR 62m to EUR 66m and EBIT to come in between EUR 1.0m and EUR 2.0m. The previous guidance assumed group revenues of EUR 66-72m with an EBIT guidance of EUR 5.0m-6.0m.
- Weak theatrical releases in 2014:** We had already pointed out that Expendables 3 was not a hit, but it reached at least break-even in the theatrical release. However, after two very successful installments the expectations for the latest film were definitely higher. Given that the home entertainment start will be at the beginning of December we expect that Expendables 3 will be a positive contributor in 4Q and should at least compensate partially the lower than forecasted box office success. The reason behind the profit warning is not based on one single film or one release but the development in 2014 as a whole at splendid but also in the general film market. Analysing the box offices of 2014 in Germany, it became clear that this year was not a good year with regards to sold tickets. So far the best selling film at the box office was the French film 'Monsieur Claude und seine Töchter' with 'only' 2.8m sold tickets (2010-2013: average of >3.7m). The start of Sin City 2 was also way below the company expectation and unfortunately the September figures of Expendables 3 were also not as expected (even after the already weakish start). Hence, the group did not believe that the strong 4Q14 can compensate the theatrical performance. Therefore, the management decided to update its guidance, which is significantly lower than the previous guidance. We believe that possible negative effects for 4Q are included into the new guidance.
- Outlook 2H14E:** All eyes are now on 4Q and the christmas shopping. After talking to the management and reconsidering our previous estimates we change our forecast to a much lower level, but still within the new guidance. Group revenues are now expected to be at EUR 62.3m and EBIT should come in at EUR 1.5m (midpoint of range). 2015E and 2016E are unchanged for the time being as we think that the impact on the home entertainment segment in 2015 is rather limited. The film pipeline for the next years are also not linked to these films, hence, no impact on the mid-term outlook. Given the updated 2014E estimates, we lower our PT to EUR 3.00 per share but confirm our BUY recommendation.

| Y/E 31 Dec, EURm | 2011  | 2012  | 2013  | 2014E | 2015E | 2016E |
|------------------|-------|-------|-------|-------|-------|-------|
| Sales            | 41.8  | 50.1  | 54.9  | 62.3  | 76.4  | 82.3  |
| EBITDA           | 15.5  | 16.2  | 20.2  | 18.2  | 23.9  | 24.9  |
| EBIT (reported)  | 4.6   | 4.2   | 4.1   | 1.5   | 6.8   | 7.5   |
| Net income/loss  | 5.1   | 3.6   | 3.7   | 0.5   | 5.0   | 5.4   |
| EPS              | 0.53  | 0.37  | 0.37  | 0.05  | 0.51  | 0.55  |
| DPS              | 0.00  | 0.00  | 0.10  | 0.10  | 0.10  | 0.10  |
| EBITDA margin    | 37.0% | 32.3% | 36.9% | 29.3% | 31.2% | 30.2% |
| EBIT margin      | 11.1% | 8.4%  | 7.4%  | 2.4%  | 8.9%  | 9.1%  |
| Net margin       | 12.3% | 7.2%  | 6.7%  | 0.8%  | 6.5%  | 6.6%  |
| EV/EBITDA        | 1.7   | 1.6   | 1.3   | 1.4   | 1.1   | 1.1   |
| EV/EBIT          | 5.7   | 6.3   | 6.4   | 17.6  | 3.9   | 3.5   |
| P/E              | 4.6   | 6.5   | 6.4   | 48.2  | 4.7   | 4.3   |

Source: splendid medien AG, CBS Research AG



Sources: CBS Research AG, Bloomberg

| Change | 2014E |      | 2015E |      | 2016E |      |
|--------|-------|------|-------|------|-------|------|
|        | new   | old  | new   | old  | new   | old  |
| Sales  | 62.3  | 67.0 | -     | 76.4 | -     | 82.3 |
| EBIT   | 1.5   | 5.0  | -     | 6.8  | -     | 7.5  |
| EPS    | 0.05  | 0.36 | -     | 0.51 | -     | 0.55 |

Internet: splendidmedien.de Sector: Media  
WKN: 727950 ISIN: DE0007279507  
Reuters: SPME.DE Bloomberg: SPM GY

### Short company profile:

splendid medien is a medium-sized media group that generates sales and income from the exploitation of films and entertainment program, sales services for companies in the home entertainment sector and postproduction services.

### Share data:

|   |                 |
|---|-----------------|
| Share price (last closing price):           | <b>EUR 2.39</b> |
| Shares outstanding (m):                     | 9.79            |
| Market capitalisation (EURm):               | 23.4            |
| Enterprise value (EURm):                    | 26.3            |
| Ø daily trading volume (3m, no. of shares): | 4,846           |

### Performance data:

|                                   |       |
|-----------------------------------|-------|
| High 52 weeks (EUR):              | 2.94  |
| Low 52 weeks (EUR):               | 2.10  |
| Absolute performance (12 months): | 29.1% |
| Relative performance (vs. CDAX):  |       |
| 1 month:                          | 8.3%  |
| 3 months:                         | 1.2%  |
| 6 months:                         | 20.7% |
| 12 months:                        | 13.0% |

### Shareholders:

|                            |       |
|----------------------------|-------|
| Andreas R. Klein (CEO)     | 53.4% |
| Family Klein GbR           | 6.3%  |
| Josef Siepe                | 5.1%  |
| Scherrer Small Caps Europe | 3.2%  |
| Free float                 | 32.0% |

### Financial calendar:

3Q14 report November 2014

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## Appendix

### Profit and loss account

|  | IFRS | EURm | 2011         | 2012         | 2013         | 2014E        | 2015E        | 2016E        |
|--|------|------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Sales</b>                                   |      |      | <b>41.82</b> | <b>50.11</b> | <b>54.94</b> | <b>62.28</b> | <b>76.43</b> | <b>82.30</b> |
| YoY growth                                     |      |      | 48.6%        | 19.8%        | 9.6%         | 13.4%        | 22.7%        | 7.7%         |
| Cost of revenues                               |      |      | -26.56       | -30.16       | -34.29       | -37.99       | -42.80       | -45.84       |
| as % of sales                                  |      |      | -63.5%       | -60.2%       | -62.4%       | -61.0%       | -56.0%       | -55.7%       |
| <b>Total output</b>                            |      |      | <b>15.25</b> | <b>19.95</b> | <b>20.65</b> | <b>24.29</b> | <b>33.63</b> | <b>36.46</b> |
| as % of sales                                  |      |      | 36.5%        | 39.8%        | 37.6%        | 39.0%        | 44.0%        | 44.3%        |
| General & administrative expenses              |      |      | -6.73        | -7.36        | -7.17        | -6.85        | -8.41        | -9.05        |
| as % of sales                                  |      |      | -16.1%       | -17.6%       | -17.1%       | -16.4%       | -20.1%       | -21.6%       |
| Sales & marketing                              |      |      | -6.79        | -11.15       | -13.44       | -17.13       | -19.87       | -21.40       |
| as % of sales                                  |      |      | -16.2%       | -26.7%       | -32.1%       | -41.0%       | -47.5%       | -51.2%       |
| Other operating income                         |      |      | 2.90         | 3.04         | 4.43         | 2.43         | 3.06         | 3.29         |
| as % of sales                                  |      |      | 6.9%         | 7.3%         | 10.6%        | 5.8%         | 7.3%         | 7.9%         |
| Other operating expenses                       |      |      | -0.44        | -0.22        | -0.16        | -1.25        | -1.61        | -1.81        |
| as % of sales                                  |      |      | -1.1%        | -0.4%        | -0.3%        | -2.0%        | -2.1%        | -2.2%        |
| <b>Operating profit</b>                        |      |      | <b>4.19</b>  | <b>4.28</b>  | <b>4.32</b>  | <b>1.49</b>  | <b>6.80</b>  | <b>7.49</b>  |
| as % of sales                                  |      |      | 10.0%        | 8.5%         | 7.9%         | 2.4%         | 8.9%         | 9.1%         |
| Currency effects                               |      |      | 0.44         | -0.08        | -0.23        | 0.00         | 0.00         | 0.00         |
| <b>EBIT (reported)</b>                         |      |      | <b>4.63</b>  | <b>4.20</b>  | <b>4.08</b>  | <b>1.49</b>  | <b>6.80</b>  | <b>7.49</b>  |
| as % of sales                                  |      |      | 11.1%        | 8.4%         | 7.4%         | 2.4%         | 8.9%         | 9.1%         |
| Net financial results                          |      |      | -0.86        | -0.84        | -0.68        | -0.80        | -0.80        | -0.80        |
| <b>EBT (Earnings before income taxes)</b>      |      |      | <b>3.77</b>  | <b>3.36</b>  | <b>3.40</b>  | <b>0.69</b>  | <b>6.00</b>  | <b>6.69</b>  |
| as % of sales                                  |      |      | 9.0%         | 6.7%         | 6.2%         | 1.1%         | 7.9%         | 8.1%         |
| Income taxes (incl. other taxes)               |      |      | 1.37         | 0.23         | 0.26         | -0.21        | -1.02        | -1.27        |
| as % of EBT                                    |      |      | 36.4%        | 6.8%         | 7.5%         | -30.1%       | -17.0%       | -19.0%       |
| <b>Net income</b>                              |      |      | <b>5.14</b>  | <b>3.58</b>  | <b>3.66</b>  | <b>0.49</b>  | <b>4.98</b>  | <b>5.42</b>  |
| Minorities                                     |      |      | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         | 0.00         |
| <b>Net income attributable to shareholders</b> |      |      | <b>5.14</b>  | <b>3.59</b>  | <b>3.66</b>  | <b>0.49</b>  | <b>4.98</b>  | <b>5.42</b>  |
| as % of sales                                  |      |      | 12.3%        | 7.2%         | 6.7%         | 0.8%         | 6.5%         | 6.6%         |
| Shares outstanding (in m)                      |      |      | 9.79         | 9.79         | 9.79         | 9.79         | 9.79         | 9.79         |
| <b>Basic earnings per share (EUR)</b>          |      |      | <b>0.53</b>  | <b>0.37</b>  | <b>0.37</b>  | <b>0.05</b>  | <b>0.51</b>  | <b>0.55</b>  |

Source: splendid medien AG, CBS Research AG

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BUY: The expected performance of the share price is above +10%.

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SELL: The expected performance of the share price is below 0%.

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Recommendation history over the last 12 months for the company analysed in this report:

| Date             | Recommendation | Price at change date | Price target |
|------------------|----------------|----------------------|--------------|
| 14 November 2013 | BUY            | EUR 2.27             | EUR 3.50     |
| 26 March 2014    | BUY            | EUR 2.36             | EUR 3.50     |
| 02 April 2014    | BUY            | EUR 2.72             | EUR 3.50     |
| 15 May 2014      | BUY            | EUR 2.75             | EUR 3.50     |

|                   |     |          |          |
|-------------------|-----|----------|----------|
| 07 August 2014    | BUY | EUR 2.68 | EUR 3.50 |
| 16 September 2014 | BUY | EUR 2.32 | EUR 3.50 |
| 01 October 2014   | BUY | EUR 2.39 | EUR 3.00 |

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