

## Pantaflix

**Media & technology**
**19 June 2019**

### Growing digital channels

Pantaflix's content production business continues to do well, although FY18 earnings were impacted by timing issues, with revenues slipping into FY19 and costs already incurred. The content pipeline is strong, including a first series for Netflix. Longer-term growth should come from expanding the Pantaflix platform from transactional video-on-demand (TVoD) to subscription and advertising-supported models (SVoD and AVoD). It should also open up white-label and commercial B2B2C opportunities.

### Greater coherence in new CEO's strategy

Nicolas Paalzow took over as CEO in January 2019, having been running group creative agency Creative Cosmos 15. He was previously MD of ProSiebenSat.1 Media. His vision for the group involves a greater degree of integration between the group's content production, content distribution and marketing and social media activities. Adding SVoD and AVoD capability to the distribution platform gives a far larger addressable market, from c €170m to c €1700m in Germany (Source: Statista). The domestic AVoD market is set to grow in double digits over the next five years. White labelling for third parties on the platform will also drive revenues. The group's content production arm recently announced its first series for Netflix, *The Last Word*, for six 45 minute episodes. It has previously made successful series' for Amazon Prime, as well as its longer-established business producing films for theatrical release, which it is now also targeting at audiences outside Germany.

### Operational update:

FY18 revenues were up 25%, a figure which would have been higher still but for slippage of revenue recognition for two film productions (*Resistance* and *So Near the Horizon*) into FY19. The costs, however, fell in FY18 and the group reported an EBIT loss of €9.0m (FY17: profit €2.2m). The route to profitability is predicated on building volumes on the Pantaflix digital streaming platform, with the expansion of the business model through AVoD and SVoD. Forecasting for specific reporting periods is complicated by the timescales of delivering the larger film productions.

### Valuation: Production overshadowed by VoD

The retrenchment in the share price has resulted in an EV of c €23m, which suggests that the market is not yet convinced that the VoD strategy will pay off. It also implies a very low valuation for the production business, in a market where the major channels are hungry for quality content as they compete for viewer share.

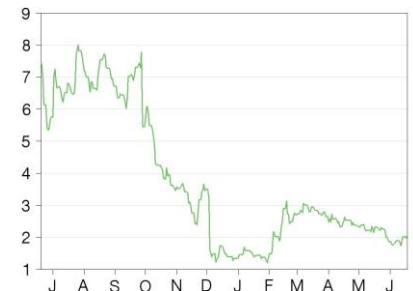
#### Adjusted consensus estimates

Year end	Revenue (€m)	PBT (€m)	GAAP EPS (€)	DPS (€)	P/E (x)	EV/EBIT (x)
12/17	28.1	2.2	(0.28)	0.0	N/A	N/A
12/18	35.1	(9.0)	(0.64)	0.0	N/A	N/A
12/19e	45.7	(1.0)	(0.09)	0.0	N/A	N/A
12/20e	52.4	0.6	0.03	0.0	68.7	57.8

Source: Pantaflix, Refinitiv

**Price** €2.06  
**Market cap** €32m

#### Share price graph



#### Share details

Code	PAL
Listing	Deutsche Börse Scale
Shares in issue	15.4m
Last reported net cash as at end Dec 18	€9.0m

#### Business description

Pantaflix is a European media group. It consists of the VoD platform Pantaflix, the film production division (Pantaleon Films and Pantaleon Pictures), the music label PantaSounds, the brand integration unit March & Friends and the creative agency Creative Cosmos 15.

#### Bull

- SVoD, AVoD opportunities significant
- Strong production/ launch slate
- Path back to profit outlined

#### Bear

- VoD roll-out behind original timescale
- Project risk on film/series production
- Low liquidity in shares

#### Analysts

Fiona Orford-Williams	+44 (0)20 3077 5739
Russell Pointon	+44 (0)20 3077 5757

[media@edisongroup.com](mailto:media@edisongroup.com)  
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

## Review of FY18 results

The group does not split out the performance of the production and the distribution elements to the business, making it difficult to comment on their relative strengths. FY18 revenues were up by 25% despite the slippage of the film revenue from the two large projects into FY19. This reflects some successful projects; the film *Hot Dog* (which took around \$4.2m at the box office), *100 Dinge (100 Things)*, with a box office of \$13.3m, series two of *You Are Wanted* and *Beat*, produced for Amazon Prime.

### Exhibit 1: Summary of results

€m	2015	2016	2017	2018
<b>Income Statement</b>				
<b>Revenue</b>	<b>13.7</b>	<b>15.1</b>	<b>28.1</b>	<b>35.1</b>
Increase in working capital			10.8	(3.9)
Other own work capitalised	0.0	0.4	0.3	0.4
Other operating income	6.6	0.9	2.4	2.6
Gross revenues	20.3	16.5	41.5	34.2
Cost of purchased services	(9.2)	(3.6)	(15.0)	(19.0)
Gross profit	11.1	12.9	26.5	15.2
Opex	(2.3)	(3.7)	(8.9)	(12.3)
D&A	(9.4)	(10.9)	(15.3)	(11.9)
<b>EBIT</b>	<b>(0.5)</b>	<b>(1.7)</b>	<b>2.2</b>	<b>(9.0)</b>
EBITDA	8.8	9.2	17.5	2.9
Profit Before Tax (as reported)	(0.4)	(1.6)	2.2	(9.0)
Net income (as reported)	(0.4)	(1.7)	(0.3)	(8.9)
<b>EPS (as reported) (€)</b>	<b>(0.35)</b>	<b>(1.52)</b>	<b>(0.26)</b>	<b>(0.64)</b>
<b>Balance Sheet</b>				
Total non-current assets	1.1	7.6	4.5	8.5
Total current assets	12.4	10.4	41.4	31.7
Total assets	13.5	18.1	46.0	40.3
Total current liabilities	(8.7)	(14.8)	(16.9)	(21.6)
Total non-current liabilities	(0.1)	(0.2)	(2.3)	(0.9)
Total liabilities	(8.7)	(14.8)	(16.9)	(23.2)
<b>Total Equity</b>	<b>4.8</b>	<b>3.1</b>	<b>26.1</b>	<b>17.1</b>
<b>Cash flow Statement</b>				
Net cash from operating activities	10.7	11.7	7.4	12.9
Net cash from investing activities	(10.3)	(17.4)	(14.7)	(16.0)
Net Cash from financing activities	6.0	0.0	23.4	0.0
<b>Net cash flow</b>	<b>6.4</b>	<b>(5.7)</b>	<b>16.1</b>	<b>(3.1)</b>
<b>Net cash/(debt) at end of year</b>	<b>1.8</b>	<b>(3.9)</b>	<b>12.2</b>	<b>9.0</b>

Source: Company accounts, Edison Investment Research

Swings in working capital and higher input costs meant lower gross revenue, with higher operating expenses pushed EBITDA down from €17.5m to €2.9m and a pre-tax loss. A cash outflow of €3.1m meant the group ending the financial year with net cash of €9.0m.

## Operating update

### Repurposing the VoD platform

The earlier VoD strategy was centred on providing content to consumers using a transactional business model only. The new approach is looking at a much broader model, where the group will need to carve out a role in a market dominated by Netflix in SVoD and YouTube in AVoD. The third party white-label and the commercial B2B2C opportunities may be the more effective route, particularly given that the group has an in-house marketing agency. The cash on the balance sheet gives the benefit of some time to trial options to determine where efforts are best focused.

### Continued content expansion

The film production business is inevitably uneven, although some of the risks can be offset by pre-sales and minimum guarantees. In addition to the two films mentioned above, two others are scheduled to be released in FY19; *Abikalypse* (provisional launch date July 2019) and *Auerhaus* (December 2019).

With major industry partners, such as Warner Brothers, the group has produced two seasons of *You are Wanted* and has recently been commissioned for its first series for Netflix, *The Last Word*, which will consist of six 45-minute episodes. With the rapid development of the VoD market (both in terms of growth and on corporate activity), demand for high quality content that can drive viewers onto each platform is currently strong.

## Forecasts and valuation

The shares fell heavily over 2018, hitting a low of €1.15, before climbing back up to around €3 then drifting back down to current levels. The depressed levels of financial performance mean that it is difficult to draw conclusions from earnings-based valuations. With a market capitalisation of €31.7m, the EV is now just €22.7m, a little ahead of the €17.1m book value of the net assets per share.

The current year EV/sales ratio is 0.6x, well below the level of relevant media peers on 1.5x sales. However, given the uneven nature of the film business, even this is not a particularly satisfactory measure of relative valuation. Although the relative performance of the different aspects of the group's business is not split out, it is likely that the market's appraisal of the value of the platform potential is weighing heavily on the group.

### Exhibit 2: Peer multiples

Name	Market cap (m)	Sales growth 1FY (%)	Sales growth 2FY (%)	EV/sales 1FY (x)	EV/sales 2FY (x)	EV/EBIT 1FY (x)	EV/EBIT 2FY (x)	P/E 1FY (x)	P/E 2FY (x)	Div yield 1FY (%)
Pantaflix (€)	32	33	15	0.6	0.5	N/A	57.8	N/A	68.7	0.0
Eros International (\$)	243	7	22	2.1	1.7	8.9	5.7	7.7	4.0	0.0
Entertainment One (£)	1,976	21	7	1.8	1.7	10.9	10.8	15.4	13.8	0.4
Lions Gate Ent. (\$)	2,929	6	7	1.6	1.5	29.3	21.8	13.3	10.3	0.0
Mondo TV (€)	36	13	26	1.3	1.1	5.2	3.8	12.2	8.7	0.0
Prosiebensat.1 Media (€)	3,530	3	4	1.6	1.5	8.8	8.4	7.6	7.3	6.9
Highlight Comms (€)	291	3	6	0.8	0.7	11.2	9.8	14.4	12.3	4.1
<b>Average</b>		<b>9</b>	<b>12</b>	<b>1.5</b>	<b>1.4</b>	<b>12.4</b>	<b>10.0</b>	<b>11.8</b>	<b>9.4</b>	<b>1.9</b>

Source: Refinitiv, Edison Investment Research. Note: Priced as at 10 June 2019. Average excludes Pantaflix.

BlackMars Capital continues to directly own more than a quarter of Pantaflix shares. The management of BlackMars Capital owns less than 50% of the shares.

---

## General disclaimer and copyright

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally.

Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd who holds an Australian Financial Services Licence (Number: 427484). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.