

## Pantaflix

### An excellent 2017 sets the stage for 2018

Stefan Langefeld's promotion to CEO is a strong validation of Pantaflix's commitment to its disruptive VOD platform, where it continues to improve functionality and distribution. However, in 2017 it was the excellent performance of the production business that underpinned the 152% increase in revenues and return to operating profitability for the group.

### Strong run from production business

2017 results reflect the increased investment that the group has made in the production business over the last few years, with a 152% increase in total revenues to €41.5m on the back of key titles, in particular the film *Rockstars zählt man nicht* and the series *You are Wanted*. The cost of delivering this pipeline, together with a step-up in investment in the VOD platform, saw total operating costs more than double. The group also continues to improve the functionality and the distribution options for the VOD platform, and management has indicated that there is a 'six-figure' user base. However, progress has been slower than management initially anticipated for the Chinese venture. Notwithstanding this, the group reported EBIT of €2.2m, its first operating profit since 2014. Pantaflix raised €23m of capital during the year and reported net cash of €12.2m at end-December 2017.

### Good production pipeline, platform focus

FY18 looks like it has the potential to be an even better year for the production business; in Q218 it released season two of *You are Wanted* for Amazon, *Hot Dog*, which opened at the top of the German box office charts in March, *Beat* and *A Jar Full of Life*. While this should underpin further revenue growth in FY18, the group's longer-term growth strategy and investment case centres on the roll-out of its VOD platform, PANTAFLIX. Reflecting this emphasis, Stefan Langefeld moved from COO of the platform business to group CEO in April 2018, replacing Dan Maag, who will continue to lead the group's production activities.

### Valuation: Strategic value at these levels

We estimate that the current share price could be valuing the VOD platform at c €60m. The platform, which launched at the end of 2016, remains in the investment phase. However, it is potentially disruptive, scalable and global. Consensus is looking for revenue growth of 90% in FY18, with EBIT margins more than doubling to 18.9%. Should these estimates prove achievable, discounts to peers on a multiples basis suggest that the shares look attractive at these levels.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	GAAP EPS (€)	DPS (€)	P/E (x)	EV/EBIT (x)
12/16	16.5	(1.6)	(1.5)	0.0	N/A	N/A
12/17	41.5	2.2	(0.26)	0.0	N/A	N/A
12/18e	78.9	15.3	4.28	0.0	12.7	8.4
12/19e	108.7	27.7	10.30	0.0	7.0	4.6

Source: Pantaflix, Bloomberg

Technology

10 May 2018

Price €110.5  
Market cap €140m

#### Share price graph



#### Share details

Code PAL  
Listing Deutsche Börse Scale  
Shares in issue 1.27m  
Last reported net cash as at 31 Dec 2017 €12.2m

#### Business description

Pantaflix is a Germany-listed media group. Founded in 2009, the business originally focused on the production of filmed entertainment and it has produced a string of successful films for German cinema and, more recently, international series. It also owns the music label PantaSounds and a brand integration unit, March & Friends. In December 2016 it launched a global VOD platform designed to serve the demand for local language film by expatriate and migrant communities.

#### Bull

- VOD opportunity is significant.
- Limited capital risk: successful core production business supports the funding of the platform.
- Chinese JV provides unique access to almost 100k titles providing a significant launch pad for the services.

#### Bear

- No visibility on the take-up of Pantaflix. Chinese venture developing slower than expected.
- Market not established; piracy a concern.
- Consensus estimates factor in aggressive growth, leaving risk to the downside.

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## Review of FY17 results

Excellent performance from the production business underpinned an increase of more than 150% in gross revenues to €41.5m. Prime contributors to the balance of revenues come from:

- The release of *Rockstars zähmt man nicht*;
- The series *You are Wanted*, developed for Amazon. Season 1 was released in March 2017 and season 2 was completed by December 2017 and released in May 2018;
- *Hot Dog* (film developed during 2017, released in January 2018);
- *A Jar Full of Life* (developed in 2017, released in March 2018); and
- *Beat* (series developed for Amazon).

The company also recorded its first (undisclosed) revenues from the nascent PANTAFLIX VOD platform. The cost of production for this much-increased slate of programmes was €15m, up from €3.6m in 2016, and operational costs rose 140% y-o-y to €8.9m due to increasing headcount (from an average of 91 in 2016 to 154 in 2017) and investment across the business, with particular emphasis on the VOD platform. The increase in opex also included the non-recurring effects of the two capital raises completed over the course of the year.

Despite the increasing levels of investment into the VOD platform, EBITDA almost doubled to €17.5m, and the company reported its first year of operating profit since 2014. However, a large swing in the recognition of tax charges relating to internally generated intangibles pushed the company to a net loss of €0.3m for the period. Despite the increased operating profitability, cash conversion decreased to 42%% (FY16: 126%) with operating cash flow of €7.4m decreasing 37% on last year. However, including the two capital raises (€23m in total), the company moved from an overall net debt position in 2016 to €12m net cash at year-end 2017.

### Exhibit 1: Summary of results

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

## Operational update: New name, new CEO

The production pipeline appears similarly strong in 2018, with the Q218 releases of season 2 of *You are Wanted*, *Hot Dog* (which opened at the top of the German box office charts in January), *Beat* and *A Jar Full of Life*. The group has c 30 projects in development and expects to deliver for December 2018 release *100 Things* (for Warner Bros) and *Resistance* (an international co-production with Rocket Science), and is collaborating on the international adaptation of *The Magic Flute*.

While the production business continues to expand, having delivered its strongest results to date, it is the more scalable VOD platform that will determine the mid/long-term prospects for the business. This is evident from the change of company name during 2017, in addition to the promotion of Stefan Langefeld from COO of the platform business to group CEO in April 2018, replacing Dan Maag, who will continue to lead the group's production activities.

The roll-out to new geographies continues, with the service now available in c 50 countries around the world, including North America, Europe, and the key markets in Asia and Australasia. The app is also now available on the Amazon Fire TV Stick. The company has also announced new content deals with StudioCanal (global) and Disney (in Germany and Austria), which increases both the volume and quality of content available to users.

Marketing, focused on German, Turkish, English and Polish expatriates groups, started in Q118 in target markets and management points to a 'six-figure' user base, which is growing quickly. While visibility on the financial KPIs relating to the VOD platform remains limited, management has confirmed that additional metrics will be introduced later this year.

The separate Chinese venture, which launched in Mandarin in March last year, is progressing more slowly than initially expected, with bottlenecks in content being released from Chinese partners.

## Valuation

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The shares have fallen c 50% from the highs seen at the end of 2017, despite the strong production run, which we expect to continue in FY18, and despite beating FY17 consensus revenue (€38.1m) and PBT (€0.55m) estimates. This may be due to the lack of clarity relating to the evolution of the VOD platform.

Management has provided no forward guidance for 2018. However, consensus is looking for revenue growth of 90% in FY18 with EBIT margins more than doubling to 18.9% (we note a significant outlier in consensus, which brings the forecasts up considerably). Based on this consensus, the shares trade at a steep discount to the companies listed below across all forward-looking metrics. However, the wide disparity in FY18 forecasts that comprise consensus makes us somewhat cautious about relying on these estimates.

Another way to interpret the current valuation would be to back out the production business from the market cap of the entire group. If we assume a typical industry investment to revenue multiples (c 3x), EBITDA margins (c 12%) and an EBITDA multiple of c 12x, we estimate that the current share price is putting a strategic value on the VOD platform of c €60m. The platform is potentially disruptive, scalable and global. However, the lack of relevant KPIs regarding users and library complicates the valuation. Should consensus estimates prove achievable, discounts to peer group multiples suggest that the shares look attractive at these levels.

For the stock to realise further upside potential, investors will be looking for further announcements of content deals and continued geographical expansion, along with the unveiling of more conventional KPIs such as the number of users, engagement metrics and revenues generated by the platform.

**Exhibit 2: Peer comparison summary**

	Market cap (m)	Sales growth (%)		EBIT margin (%)			EV/Sales (x)			EV/EBIT (x)		P/E (x)	
		FY1	FY2	Last	FY1	FY2	Last	FY1	FY2	FY1	FY2	FY1	FY2
PANTAFLIX	€140	181.1	38	8	18.9	24.9	4.5	1.6	1.2	8.4	4.6	12.7	7.0
NETFLIX	\$143,579	37.7	25	7	10.5	13.5	12.6	9.2	7.4	87.5	54.3	98.4	62.8
EROS INTERNATIONAL	\$698	0.6	28	10	22.1	27.3	3.5	3.8	3.0	17.3	10.9	158.3	23.0
ENTERTAINMENT ONE	£1,344	2.4	8	6	13.6	14.3	1.6	1.5	1.4	11.2	9.9	13.8	12.1
LIONSGATE ENTERTAINMENT-A	\$4,538	28.8	(0)	(1)	4.9	10.0	2.2	1.7	1.7	35.5	17.3	15.8	16.9
MONDO TV	€147	49.9	24	54.9	46.0	53	4.7	3.1	2.5	6.8	4.7	9.5	7.6
PROSIEBENSAT.1 MEDIA	€6,627	2.3	5	20.1	20.7	21	2.2	2.1	2.0	10.4	9.8	12.2	11.5
<b>Average</b>		<b>43.3</b>	<b>18.2</b>	<b>15.0</b>	<b>19.5</b>	<b>23.5</b>	<b>4.5</b>	<b>3.3</b>	<b>2.7</b>	<b>25.3</b>	<b>15.9</b>	<b>45.8</b>	<b>20.1</b>

Source: Edison Investment Research, Bloomberg. Note: Priced as at 10 May 2018.

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