EDISON Scale research report - Update

Pantaflix

Media & technology

11 October 2018

Progress across the business

While the growth of the video on demand (VoD) platform will likely take the plaudits, Pantaflix's film production business has continued its strong run of ramping up both the quality and volume of content. Continued investment in both businesses saw net losses expand to €4.4m in H118. However, the film production business has a strong pipeline and the VoD platform is growing rapidly. Despite the premium rating, further improvements to the newly launched KPIs or the announcement of additional partnerships could drive upside.

Investment weighs on short-term profitability

Driven by strong performance in the film production business, Pantaflix reported revenues of €13.85m in H118, a y-o-y increase of 19%. However, a €6.3m charge due to the completion of various production projects combined with higher opex due to increased investment in both sides of the business (principally higher headcount) underpinned a net loss of €4.4m (H117: €1.8m loss).

Operational update: Disclosure of VoD KPIs

Pantaflix has begun disclosure of KPIs for its eponymous VoD platform. At period end, it had 400,000 users (198% q-o-q growth), with a focus group indicating that each of whom had accessed an average of 1.6 titles, at an average price of €3.8. The content catalogue also stands at 23,000 titles, having been boosted by substantial partnerships (eg StudioCanal) announced during the period, with an additional deal with Warner Bros. announced post period end. The profitable film production business has a growing pipeline, the portfolio effect of which should alleviate the inherently 'lumpy' nature of revenues and cash flows associated with small film production businesses.

Valuation: KPI improvements to drive upside

Due to the depressed levels of profitability as a result of investment in both sides of the business, Pantaflix trades at a substantial premium to the listed peer group. With the release of KPI information, it is achieving greater levels of transparency. Financial performance improvements aside, we believe that continued progress in delivering on these metrics could be supportive of the share price.

Adjusted consensus estimates (outdated forecasts excluded)

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	28.1	2.2	(0.28)	0.0	N/A	N/A
12/18e	27.7	(4.2)	(3.6)	0.0	N/A	N/A
12/19e	51.1	1.3	(0.6)	0.0	N/A	51.5

Source: Pantaflix, Bloomberg

Price	€59.00
Market cap	€75m

Share price graph

Share details

Code	PAL
Listing	Deutsche Börse Scale
Shares in issue	1.27m
Last reported net cash as at end June	15.0m

Business description

Pantaflix, formerly Pantaleon Entertainment, is a VOD platform to which international film producers can upload and manage their content directly. The business also has a film production segment based in Berlin. Founded in 2009, the group has produced a string of successful films for German cinema. 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.
- Building network effect in target markets.

Bear

- Chinese venture developing slower than expected.
- Market not established; piracy a concern.
- Consensus estimates factor in aggressive growth, leaving risk to the downside.

Analysts

Alasdair Young +44 (0)20 3077 5758
Fiona Orford-Williams +44 (0)20 3077 5700

tech@edisongroup.com
Edison profile page

EDISON

Review of H118 results

The H118 numbers reflect the transitional nature of the business. Driven by strong performance in the film production business, y-o-y revenues grew by 19% to €13.85m. However, the company incurred a €6.3m charge related to the decrease in work in progress (H117: €0), which substantially underpinned a 39% reduction in gross revenues. This charge is the recognition of expenses related to the production of a film or series (eg acting, technology, producer fees), which has been completed but has yet to be released. Minimum revenue guarantees were also recognised during the period. In future, any overages or additional revenues associated with these productions will be recognised without matching expense. The anticipation of these revenues can be seen on the balance sheet, with the intangible asset line for advance payments increasing by a similar amount (€6.7m) over the period.

The cost base also underwent significant changes. First, operating expenses (primarily headcount, cost of purchased services etc) expanded by 131% to €11.2m. This increase led to an EBIT loss of €4.3m, €2.5m greater than in H117. It is important to note that opex for the existing production business and for the VoD platform both expanded over the half. Secondly, depreciation and amortisation charges reduced substantially (88%) to €1.2m as a result of performance related write-downs on capitalised production costs for film projects.

The net result was an EBITDA figure that swung from a positive €8.4m in H117 to a loss of €3.1m in H118. Interest, taxes and minority interests were collectively unchanged (vs H117), leading to net losses of €4.35m. Despite this, management highlighted that the film business remained profitable, implying the investment in the VoD platform was in excess of €4m over the period.

Exhibit 1: H118 results highlights

	H117	H118	y-o-y
Income statement			
Revenue	**11.67**	**13.85**	**19%**
Decrease in work in progress	0	(6.27)	N/A
Gross revenues	13.3	8.1	-39%
Operating expenses	**(4.85)**	**(11.18)**	**131%**
D&A	(10.21)	(1.20)	-88%
EBIT	**(1.79)**	**(4.33)**	**142%**
EBITDA	**8.42**	**(3.13)**	**N/A**
Profit before tax (as reported)	(1.78)	(4.32)	143%
Net income (as reported)	**(1.75)**	**(4.35)**	**149%**
EPS (as reported) (€)	(1.21)	(3.34)	176%
Balance Sheet			
Cash	4.97	17.86	260%
Debt	4.62	2.90	-37%
Net (debt)/cash	**0.35**	**14.96**	**4136%**

Source: Company accounts, Edison Investment Research

Despite negative operating cash flows over H217 and H118, the balance sheet has been significantly strengthened by two capital raises (raising €23m), which underpinned a move to a net cash position of €15m.

Operating update: Strong momentum in both divisions

Release of KPIs for Pantaflix platform

In a welcome update, Pantaflix has started to disclose KPIs for the performance of the eponymous VoD platform. At end June, the Pantaflix VoD platform had registered c 400,000 users, with a content catalogue of over 23,000 films and series. It also announced that it has generated a cumulative c 600,000 app downloads across all services (Apple iOS, Amazon Fire TV, Google

Android, Samsung smart TVs etc). A marketing campaign indicated that of the 400,000 users, each accessed an average of 1.6 titles with an average value per title of €3.8. We note that at this stage it is too early to extrapolate these KPIs across all users. The company also notes that the Q218 number of users was 198% higher than the corresponding number at the end of Q1.

Pantaflix also significantly expanded its network of partnerships with global distributors. Over the period, the company announced agreements with StudioCanal and Premiere Digital, with further relationships with Warner Bros and Red Arrow Studios also announced post the period end. In increasing the size of the catalogue available to consumers, these deals have attributed to the company being able to expand its geographical reach and more generally increasing the attractiveness of the platform to consumers. The platform is now operational in 68 countries, having been launched in 23 Central and South American countries since May. Furthermore, the Spanish language was incorporated into the platform, bringing the total number of supported languages up to seven.

Continued expansion in film production business

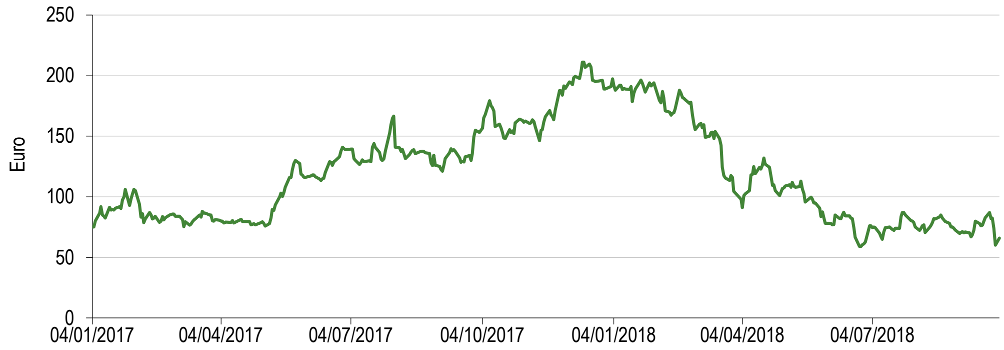
The film production business maintained its recent momentum in H1, with the release of feature films *Hot Dog* (which supplanted *Star Wars: The Last Jedi* in first place at the German box office) and *A Jar Full of Life*. The premiere of the second season of *You Are Wanted*, the most successful German Amazon Prime series of all time, was held in Los Angeles in May. In a new venture, the film production subsidiary Pantaleon also announced it will produce a film adaptation of Mozart's *The Magic Flute*, together with two other studios. The company has also completed filming for feature film *100 Dinge* in collaboration with Warner Bros, which is expected to be released in cinemas in December 2018. Finally, the company has begun the production of *Resistance*, its first English language film, which it also expects to be one of the largest projects it has undertaken. Emphasising the importance of this production, we understand that the project will receive €2m of external funding from FilmFernsehFonds Bayern as part of the International Co-Production.

Forecasts and valuation

Management has guided to FY18 revenues being significantly higher than in FY17 (€28.1m). However, this growth is expected to be coupled with additional investment in the VoD platform in terms of incremental functionality improvements, but also with regards to ramping up marketing exposure. We understand that the majority of marketing will take place via highly targeted social media campaigns.

Furthermore, with the film production business, the company has announced that shooting has begun on two additional feature films, in addition to the Amazon Prime series *Beat*. We note that the increased number of projects undertaken should go some way to alleviating the inherent irregularity of revenue recognition and cash inflows and outflows.

Exhibit 2: Recent share price performance



Source: Bloomberg

The shares have lost over 60% of their value since the end of 2017. As noted above, management has not provided any guidance beyond that broad indication given for a revenue increase over the year. We also highlight the substantial downwards revisions to consensus, which is now looking for FY18e revenues and PBT of €36.4m and losses of €100k, down from €78.9m and €15.3m when we last published in May. These figures are significantly affected by outliers (eg FY18e PBT range of €4m profit to €4.2m loss) to the extent that we consider them uninformative.

We therefore adjust consensus to exclude forecasts that have not been updated since the H1 results. The adjusted forecasts suggest FY18e consensus revenues of €27.7m and loss before tax of €4.2m (FY19e: €51.1m and €1.3m). The reported H118 figures represent exactly 50% of the adjusted FY18 consensus revenue forecasts and imply PBT breakeven over H2. Given the early stage in the VoD platform's development cycle, coupled with the anticipated increase in marketing expenditure, we believe there may be downside to the profitability forecasts, with the unadjusted figures requiring an additional step change in performance in H2.

Exhibit 3: 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	75	29.8	39	2.2	1.2	N/A	51.5	N/A	N/A	N/A
Netflix	159,524	35.5	24	10.4	8.3	98.8	63.5	117.1	74.8	0.0
Eros International	887	16.5	21	4.0	3.3	15.6	11.8	181.5	36.3	0.0
Entertainment One	1,893	14.1	7	1.6	1.5	11.5	10.5	17.0	14.9	0.4
Lions Gate Entertainment	5,045	(4.3)	7	2.0	1.8	20.6	19.9	25.6	17.7	1.2
Mondo TV	124	46.8	25	2.7	2.1	5.6	4.3	7.4	6.0	N/A
Prosiebensat.1 Media	5,233	1.3	4	2.0	1.9	10.6	9.1	9.7	9.1	8.6
Average		**18.3**	**14.8**	**3.8**	**3.2**	**27.1**	**19.8**	**59.7**	**26.5**	**2.0**

Source: Bloomberg, Edison Investment Research. Note: Priced as at 4 October 2018. Pantaflix contributors who have not updated forecasts since the H118 results have been excluded.

Indicative of the current depressed levels of profitability, Pantaflix trades at a premium based on forward-looking EV/EBIT multiple to the broad listed peer group (using the adjusted consensus figures as discussed above). Given the depressed profitability, comparison based on EV/sales maybe more revealing at present. Excluding Netflix, which is not a direct peer, the other peers are trading on 2.5x current year and 2.1x next year multiples, implying Pantaflix is at a significant discount, which could in part be explained by its relatively low profitability.

While we welcome the disclosure of KPI information, other catalysts could include additional content deals and technical integrations and improvements, or could take the form of strategic partnerships. However, in our view, increasing the number of users of the VoD platform (and increasing revenue per user) will likely be the key determinant of share price performance in the mid-term.

EDISON

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia