

## Pantaflix

Media & technology

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### Content and distribution

Pantaflix's first half results show a marked reduction in the EBITDA loss, from €3.1m in H118 to €1.1m for the period, benefiting from lower operating expenses. The new corporate strategy put in place earlier in the year broadens the potential revenue streams, both in terms of channels to market and in the breadth of content. Management guidance suggests a significant improvement in EBIT and earnings in H219, with consensus forecasts suggesting that the group should move into profit in FY21.

### Management team further strengthened

Following the appointment of Nicolas Paalzow as CEO in January 2019, the group has now appointed a CFO, Eerik Budarz. He has been with the company for a while in various roles, and has a background in IR and investment banking. With a new COO in place since the spring, Paalzow's vision for the group is already being implemented. Some elements are ahead of schedule, in particular the addition of SVoD and AVoD capability to the distribution platform. The AVoD channel is set to go into beta phase imminently – timely as the domestic AVoD market is set to grow in double digits over the next five years (source: Statista). White labelling for third parties on the platform will also drive revenues.

### Content slate broadening

The focus in the current financial year in the group's content production arm is on scaling up successful in-house film and TV series' productions. The fourth and fifth seasons of *Krass Klassenfahrt* will be aired on the AVoD platform on its launch, having previously streamed on the Joyn platform. This production is with highly successful social media personalities, with a reach of around seven million between them. The production company has three major releases scheduled for H219: *Abikalyptse*, *Dem horizont so nah* and *Auerhaus*. The first series for Netflix, *The Last Word*, announced earlier in the year, is for six 45-minute episodes. This, and previous successful release, *Resistance*, emphasise that Pantaflix's ambitions reach beyond its domestic market.

### Valuation: Production overshadowed by VoD

The group's EV of c €21m suggests 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	38.4	(2.6)	(0.21)	0.0	N/A	N/A
12/20e	42.5	(1.6)	(0.11)	0.0	N/A	57.8

Source: Pantaflix, Refinitiv

Price €1.63

Market cap €25m

#### Share price graph



#### Share details

Code	PAL
Listing	Deutsche Börse Scale
Shares in issue	15.4m
Last reported net cash at H119	€4.1m

#### 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

- Profitability now projected in FY21 (was FY20).
- 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](#)

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## Review of H119 results

The group does not split out performance of the production and distribution elements of the business, making it difficult to comment on their relative dynamics. H119 revenues were up by 5% on H118, despite some slippage of the expected revenue into H219, with timing on this type of large film project always difficult to predict.

### Exhibit 1: Summary of results

€m	H118	H119	% change
<b>INCOME STATEMENT</b>			
Revenue	13.8	14.5	+5
Increase (decrease) in working capital	(6.3)	(8.3)	+32
Other own work capitalised	0.0	0.2	
Other operating income	0.5	0.9	+80
<b>Gross revenues</b>	<b>8.1</b>	<b>7.3</b>	<b>-10</b>
Cost of purchased services	(5.0)	(3.6)	-28
<b>Gross profit</b>	<b>3.1</b>	<b>3.7</b>	<b>+19</b>
Opex	(6.2)	(4.8)	+23
D&A	(1.2)	(5.2)	+331
<b>EBIT loss</b>	<b>(4.3)</b>	<b>(6.3)</b>	<b>+47</b>
<b>EBITDA loss</b>	<b>(3.1)</b>	<b>(1.1)</b>	<b>-65</b>
<b>Profit Before Tax (as reported)</b>	<b>(4.3)</b>	<b>(6.3)</b>	<b>+47</b>
Net income (as reported)	(4.4)	(6.3)	+47
EPS (as reported) (€)	(0.31)	(2.44)	+687
<b>BALANCE SHEET</b>			
	<b>End FY18</b>	<b>End H119</b>	
Total non-current assets	8.5	7.6	
Total current assets	31.8	10.4	
Total assets	40.3	18.1	
Total current liabilities	(23.2)	(14.8)	
Total non-current liabilities	(0.0)	(0.2)	
Total liabilities	(23.2)	(14.8)	
Total Equity	17.1	3.1	

Source: Company accounts, Edison Investment Research

Swings in working capital and higher input costs meant lower gross revenue, but reductions in other operating expenses more than offset a 17% increase in personnel costs, reducing the EBITDA loss from €3.1m in H118 to €1.1m in this latest reported half year.

No cash flow statement was provided for the period, but a net cash outflow reduced the net cash balance from €9.0m at the end of December 2018 to €4.1m at the half year, being €9.1m of cash less €5.0m of bank debt (which relates to production finance).

## 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 looks 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. 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.

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.

The group's majority-owned subsidiaries, PantaSounds (57.5%-owned) and Creative Cosmos 15 (51%-owned) are also progressing. The former is releasing a second album from Matthias Schweighöfer, who joined the group in the spring, with a possible tour being put together for FY20. The latter continues to work with Daimler and has been adding new business with other clients.

## Forecasts and valuation

The shares fell back from a high of €3.07 in June 2019 to €1.69 in August. Since that time, they have drifted back to current levels of around €1.7/share.

The current year EV/Sales ratio is 0.5x, well below the level of relevant media peers on 1.6x sales. However, the company is yet to reach profitability. 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.

Management is guiding that, although revenues can vary according to the timing of delivery of projects, it expects that H219 will generate a 'significant improvement' in EBIT and earnings.

**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 (€)	25	9	11	0.5	0.5	N/A	N/A	N/A	N/A	0.0
Eros International (\$)	161	3	15	1.7	1.5	6.8	6.0	2.8	2.5	0.0
Entertainment One (£)	2,808	21	7	2.9	2.7	17.4	15.5	20.8	18.4	0.3
Lions Gate Ent. (\$)	1,882	4	6	1.4	1.3	24.6	20.6	100.6	31.1	0.0
Mondo TV (€)	40	11	29	1.6	1.3	5.9	4.5	10.5	8.5	0.0
Prosiebensat.1 Media (€)	2,832	4	4	1.3	1.3	7.8	7.5	6.3	6.1	8.7
Highlight Comms (€)	262	0	6	0.9	0.9	14.9	12.7	12.9	11.9	4.4
<b>Average</b>		<b>7</b>	<b>11</b>	<b>1.6</b>	<b>1.5</b>	<b>12.9</b>	<b>11.1</b>	<b>10.7</b>	<b>9.5</b>	<b>2.2</b>

Source: Refinitiv, Edison Investment Research. Note: Priced as at 9 October 2019. Average excludes Pantaflix and outlier.

Between them, BlackMars Capital, the management team and the founding shareholders (Marco Beckmann, Dan Maag and Matthias Schweighöfer) own around 50% of the shares. Austrian entrepreneur, Klemens Hallmann, was elected to the Supervisory Board in July 2019 and holds a 13% stake. The free float is 37%.

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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  
1,185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

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