

## Pantaflix

Media & technology

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### Entertaining through lockdown

Pantaflix expects a tough FY20, followed by a strong recovery in FY21. The COVID-19 shutdown has disrupted current productions and the release of previously finished films, weighing heavily on FY20 revenue. EBIT should retrench less, given efficiencies put in place. With production hopefully resuming later in the year, the content pipeline should start unwinding. The Pantaflix VoD (video on demand) platform is building its presence in a busy market and has some interesting B2B opportunities. The group is looking for cost savings, which may include the sale or spin-off of operations. Due to COVID-19, broker forecasts are currently withdrawn.

### VoD platform giving flexibility

Media consumption has naturally increased during lockdown, while the global streaming market continues to get more crowded and competitive. It always remains the case that good content will draw in viewers and Pantaflix's exclusive content helps differentiate, while arrangements with major studios such as Sony Pictures and Paramount provide further draws. The pricing environment is aggressive, and the group is offering some content at reduced rates and some supporting charities. It is actively appraising new monetisation opportunities. These include B2B arrangements, such as those with the German Film Academy and with Weltbild to host its online video library.

### Content creation paused but pipeline good

The group released three feature films in FY19: *Close to the Horizon*, *Auerhaus* and *Abikalypse*. *Resistance* was released in the US in March 2020, in the UK in June and is scheduled for later in the year in Germany. Filming on *Generation Relationship-Shy* was paused due to lockdown but is hoped to resume in the autumn, while *Oskars Kleid* is in the planning stage. *The Last Word*, made for Netflix, is set to air in autumn 2020 and the group is expanding its customer base with work for Amazon Prime Video, Apple, Sky and Joyn. The pipeline is therefore quite strong, but the scheduling has been thrown by the requirements of lockdown.

### Valuation: Production overshadowed by VoD

The group's EV of c €17m 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. Pantaflix trades at a historical EV/sales multiple of 0.6x, compared with peers on 1.8x.

#### Adjusted consensus estimates withdrawn

Year end	Revenue (€m)	PBT (€m)	GAAP EPS (€)	DPS (€)	P/E (x)	EV/EBIT (x)
12/18	35.1	(8.7)	(0.63)	0.0	N/A	N/A
12/19	28.7	(7.2)	(0.51)	0.0	N/A	N/A
12/20e	N/A	N/A	N/A	N/A	N/A	N/A
12/21e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Pantaflix, Refinitiv

Price €1.40  
Market cap €22m

#### Share price graph



#### Share details

Code	PAL
Listing	Deutsche Börse Scale
Shares in issue	15.4m
Last reported net cash at FY19	€4.6m

#### Business description

Pantaflix is a European media group. It consists of the VoD platform Pantaflix, the film production division Pantaleon Films, the production unit Pantaflix Studios, the music label PantaSounds, and the creative agency Creative Cosmos 15.

#### Bull

- SVoD, AVoD opportunities significant.
- Increasing B2B offering.
- Internationalisation of platform.

#### Bear

- COVID-19 project delays and postponements.
- Profitability horizon pushed out.
- Project risk on film/series production.

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## Review of FY19 results

The group does not split out performance of the production and distribution elements of the business, although it does split out the revenues from its creative agency and its music business. These generated €638k and €405k respectively, meaning that production and distribution account for 96% of group revenues, although these latter two elements have different dynamics. Revenues falling into any particular period can swing by substantial amounts as film projects move towards completion and distribution. H219 revenues were broadly similar to H1 (€14.2m vs €14.5m), but there was a substantial change in working capital into positive territory in the second half as projects came to fruition. Gross revenues for the year were down 28%.

### Exhibit 1: Summary of results

€m	2015	2016	2017	2018	2019
<b>INCOME STATEMENT</b>					
Revenue	13.7	15.1	28.1	35.1	28.7
Increase in working capital			10.8	(3.9)	(7.1)
Other own work capitalised	0.0	0.4	0.3	0.4	0.2
Other operating income	6.6	0.9	2.4	2.6	2.6
Gross revenues	20.3	16.5	41.5	34.2	24.5
Cost of purchased services	(9.2)	(3.6)	(15.0)	(19.0)	(12.0)
Gross profit	11.1	12.9	26.5	15.2	12.6
Opex	(2.3)	(3.7)	(8.9)	(12.3)	(9.2)
D&A	(9.4)	(10.9)	(15.3)	(11.9)	(11.9)
EBIT	(0.5)	(1.7)	2.2	(9.0)	(8.6)
EBITDA	8.8	9.2	17.5	2.9	3.3
Profit Before Tax (as reported)	(0.4)	(1.6)	2.2	(9.0)	(8.6)
Net income (as reported)	(0.4)	(1.7)	(0.3)	(8.8)	(7.9)
EPS (as reported) (€)	(0.35)	(1.52)	(0.26)	(0.64)	(0.52)
<b>BALANCE SHEET</b>					
Total non-current assets	1.1	7.6	4.5	8.5	6.0
Total current assets	12.4	10.4	41.4	31.8	15.1
Total assets	13.5	18.1	46.0	40.3	21.1
Total current liabilities	(8.7)	(14.8)	(16.9)	(22.5)	(9.0)
Total non-current liabilities	(0.1)	(0.2)	(2.3)	(0.7)	0.0
Total liabilities	(8.7)	(14.8)	(16.9)	(23.2)	(9.0)
Total Equity	4.8	3.1	26.1	17.1	12.1
<b>CASH FLOW STATEMENT</b>					
Net cash from operating activities	10.7	11.7	7.4	12.9	2.1
Net cash from investing activities	(10.3)	(17.4)	(14.7)	(16.0)	(9.4)
Net Cash from financing activities	6.0	0.0	23.4	0.0	2.9
Net cash flow	6.4	(5.7)	16.1	(3.1)	(4.5)
Net cash/(debt) at end of year	1.8	(3.9)	12.2	9.0	4.6

Source: Pantaflix, Edison Investment Research

The cost of purchased services, being co-producers' shares in revenues from licensing film rights and follow-up costs for completed projects, reduced in line with revenues, while personnel costs were broadly flat at €5.7m from €5.9m (on headcount of 113, from 126). The EBIT loss therefore narrowed slightly and EBITDA showed a small increase from €2.9m to €3.3m.

The smaller balance sheet primarily reflects finished films moving out of work-in-progress, which reduced from €8.5m to €1.4m, a lowering in trade receivables from €7.6m to €5.0m and cash balances reducing from €13.9m to €7.2m. This was partly offset by advanced payments going down from €10.7m to €2.8m, clearly demonstrating how the timing of delivery of large projects, such as films or series, can have a major impact on the face of the balance sheet.

These large swings in working capital led to a significant reduction in operating cash flow, from €12.9m to €2.1m. Investment for the year was €9.4m, down from €16.0m in FY18, while the group raised €2.9m in financing from a share placing in February 2019. This resulted in a cash outflow for the year of €4.5m. With bank debt (which relates to project financing) down from €4.9m to €2.7m, this gave a closing net cash position of €4.6m.

## Operating update

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### Leveraging the VoD platform

The group has been working on broadening and diversifying the content available on its transactional VoD platform, but it is also looking at additional monetisation routes. Initial moves to include a B2B offering have made progress, with the German Film Academy signing up and major German publisher and media retailer Weltbild now using Pantaflix's platform to host its online video library. During FY19, the group launched an AVoD (advertising-supported video on demand) offering and is evaluating a SVoD (subscription) option. Given how crowded and competitive this market is, a differentiated and compelling product offering will be needed to make headway. The B2B option looks to be the more profitable route, particularly in the short term.

### Production postponements mar prospects

Having entered the year with a strong production slate, it has obviously been a great frustration that so much filming has had to be shelved for the time being (although safety is obviously always paramount). Pantaflix's production arm has ambitious plans to broaden its sphere beyond large-scale movies. This is both in terms of:

- format, taking in TV series and made-for-TV films, supplying the various VoD platforms with content, web series and shows; and
- geography, through looking to internationalise productions.

The group has two majority-owned subsidiaries. PantaSounds (57.5%-owned) had a relatively quiet year in FY19, but is planning a second album from Matthias Schweighöfer, who joined the group in spring 2019, to be released in conjunction with Airforce1/Universal Music. Creative Cosmos 15 (the group's 51%-owned creative marketing agency) has been working with the group's production arm to create content for corporate clients including Mercedes-Benz, eBay, Audi and ARD.

## Forecasts and valuation

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The shares fell back from highs of over €3.00 in June and July 2019 to €1.66 at the turn of the year. They then climbed back to €2.44 in February before falling away again sharply as the COVID-19 pandemic spread and its impact on activities such as filming became apparent. As the route to unlocking has become clearer, there has been some recovery to current levels.

The level of uncertainty has led to the withdrawal of forecasts, with those that remain for a broad set of peers being highly subjective and speculative. Forward-looking multiple comparison is therefore not currently feasible, nor any DCF in the absence of projections. On historical multiples, the available comparators are therefore simply EV/Sales and EV/EBIT (EV/EBITDA not being a useful metric due to differing international treatments of work in progress and depreciation). On FY19 EV/Sales, a ratio of 0.7x is clearly well below the level of relevant media peers on 1.7x. However, the company is yet to reach profitability and there is little to be learned from the comparative EV/EBIT multiple. Given the uneven nature of the film business, with projects falling across more than one year, even EV/Sales is not a particularly satisfactory measure of relative valuation. With no split given between the revenues from the production and the platform businesses, it is not possible to look at the market valuation on a 'sum-of-the-parts' basis. This may clarify if, indeed, management does look to realise some value through spinning off or selling a segment of the group.

While there is no specific management guidance, the company anticipates a difficult FY20 and a better FY21, which will together deliver a similar cumulative total to that previously anticipated.

**Exhibit 2: Peer multiples**

Name	Ytd perf (%)	Market cap (m)	Sales growth 1FY (%)	Sales growth 2FY (%)	EV/Sales 0FY (x)	EV/Sales 1FY (x)	EV/EBIT 0FY (x)	EV/EBIT 1FY (x)	P/E 0FY (x)	P/E 1FY (x)
Pantaflix (€)	-13	22	N/A	N/A	0.6	N/A	2.0	N/A	N/A	N/A
Eros International (\$)	-8	412	-27	18	2.7	3.7	35.7	47.6	N/A	-21.2
Lions Gate Ent. (\$)	-29	1,587	-12	17	1.2	1.4	1651	50.0	N/A	-39.2
Mondo TV (€)	-14	71	21	14	3.3	2.7	11.9	8.6	20.6	14.6
Prosiebensat.1 Media (€)	-27	2,386	-6	9	1.2	1.2	7.1	11.4	6.0	9.5
Highlight Comms (€)	-14	227	-11	8	0.9	1.0	14.4	710.7	8.7	-47.9
Notorious Pictures (€)	-20	45	N/A	N/A	1.6	N/A	11.9	N/A	N/A	N/A
<b>Average</b>	<b>-18</b>		<b>-6</b>	<b>13</b>	<b>1.8</b>	<b>2.0</b>	<b>16.2</b>	<b>29.4</b>		

Source: Refinitiv, Edison Investment Research. Note: Priced as at 22 June 2020. Average excludes Pantaflix and outlier.

BlackMars Capital holds over 25% of the equity, and together with 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 19% stake. The free float is 31%.

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