

Business Valuation Report



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Section 1: Business Model Analysis

Business Overview: Splendid Medien AG is a Germany-based holding company for its subsidiaries, which cover the value chain of the film business with cinema, video and digital versatile disc (DVD), pay television, free television and video on demand (VOD). Splendid Film GmbH and Polyband Medien GmbH acquire rights for feature films, TV productions, special interest and children's programs, which are distributed in the German-speaking countries, as well as in Belgium, the Netherlands and Luxembourg. Kids for Kids GmbH purchases, produces and markets entertainment and edutainment programs. WVG Medien GmbH distributes DVDs of the labels Splendid, Polyband, Kids for Kids and other marketing partners to the retail trade. eNterActive GmbH provides animations, trailers, DVD and Internet games. Together with Splendid Synchron GmbH, it is active in the area of post-production. In addition, Splendid Synchron GmbH and its subsidiary FFS Koeln Film- und Fernseh-Synchron GmbH dub and synchronize films and TV series.

Business Model: The Group's principal activities are trading and distribution movie/serial rights, dubbing of movies/ TV serials, as well as the production, distribution and leasing of video tapes and DVDs. The Group operates through three segments namely: Home Entertainment, License Trade and Post Production. Most of the revenues are from Home Entertainment segment does the distribution work.

For example, here is data from the latest H2, 2007 report.

Business Segments	License Trading	Home Entertainment	Post Production
Revenues (Mn Euro)	1.202	10.599	1.582
% of Total	9%	79%	12%

Section 2: Fundamental Analysis - SWOT

STRENGTHS

1. All 3 business segments are related to each other so growth and successes can benefit the whole group.
2. Company has processes and systems in place to distribute the films/media it buys - it is ready for growth.
3. Already working in the high growth area of Internet new media and post-production (Splendid Synchron), making it ready for new contracts here. Based on indications of H2 pipeline, 2007 post-production revenues will continue to grow.

WEAKNESSES

1. Almost 90% revenue from License Trading and Home Entertainment puts significant revenue to risk of 'right choice of film investment' and 'tracking of market taste'.
2. There is minimal Intellectual Property being created, which will continue to put high pressure of "service selling" quarter on quarter. Only one group company- Die Enteractive – is doing something along new media creation and formats.

OPPORTUNITIES

1. Internet new media and its sub-segments like games and trailers are high growth.
2. The Internet makes audience in each country aware of new movies worldwide, and they want to see them too. There is increasing demand for post-production work in German speaking places for dubbing new films and serials from America and Asia. Post Production revenue must be increased – something like 25% will be better.

THREATS

1. Traditional DVD distribution channels are slowly but steadily being replaced by paid online video (VoD Video on Demand) from companies like AOL and ProSeibenSat1 itself, and also potential paid YouTube model. The market is evolving rapidly.

Section 3: Quantitative Analysis - Valuation

This section provides the following analysis: EV/ EBITDA Valuation, P/FCF Valuation, and P/E multiple valuation

EV/ EBITDA Valuation (Euros in 000s)			P/FCF Valuation		
	<u>2008E</u>			<u>2008E</u>	<u>2009E</u>
(a)	Annualized EBITDA	12,099	Cashflows from operations	10,483	12,593
(b)	Assumed EV/EBITDA Multiple	4.0x 5.0x	less: Investments	9,520	10,020
(c) = (a) * (b)	Implied Enterprise Value	48,398 60,497	Net free cash-flow	963	2,573
	Debt	6,534	Shares outstanding	9,789	9,789
	add: Current Liabilities	9,329	FCF per share	0.10	0.26
	less: Current Assets	16,577	P/FCF Multiples	18.0x	12.0x
(d)	Net Debt	(714) (714)	Implied share value	1.77	3.15
(e)	Minority Interest (Book value)	111 111	P/E multiple valuation		
(f) = (c) - (d) - (e)	Implied Equity Value	49,000 61,100	Annualized EPS	<u>0.24</u>	<u>0.38</u>
(g)	Shares Outstanding	9,789 9,789	Assumed P/E multiple	18.0x	12.0x
	Implied Share Value	5.01 6.24	Implied Share price	4.27	4.51

Key Assumptions Used in Building Projections

Business Segment	Revenue Growth YoY% Kept same Now till 2010	Profitability EBITDA margin % Kept same Now till 2010
License Trading	0%	55%
Home Entertainment	25%	30%
Post Production	10%	20%

Section 4: Business Value Decision: Confidential and Non-Binding

- **Business Value:** With the current business growth rate and favourable market conditions, the EPS can increase by 50% next year. So whatever PE multiple we consider (5 to 15) – the share price should increase by about 50% in 2008. And that makes this an 'Invest'.
- **Price Band for Value Investor:** Our business valuation indicates that a per share price of Euro 1.85 to 2.05 is a good fair market value for this business. The specific price agreed for the transaction will depend on the negotiation between the buyer and seller based on their unique needs.
- **Our recommendation:** is to buy an equity stake that can help you influence the management decision making (5% equity onwards is good) and thereby increase the thrust on new media opportunities and IP creation. Splendid itself acknowledges the rising force of online Video Services, but it is making investments in small parts only. An investor with a clear understanding of new media market can help in increasing the market value of this company.

Alpha Neuron Team behind this Report

- **Shankar AVSB:** He is the Director of Alpha Neuron with executive experience in TMT and Energy sectors. He has bought and sold over a dozen businesses, and has helped over 100 business owners and board members in their business growth. He is an alumni of IIM India & Stanford University, USA.
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- **To learn more** please visit: <http://www.alphaneuron.com/business-valuation-services.html>