

## Pantaflix

### Bouncing back

Pantaflix had a tough FY20, but expects a strong recovery in FY21 with management guiding to revenues of at least €30m. COVID-19 was very disruptive to production and release schedules but the pace has picked up notably in FY21. Management expects the FY21 EBIT loss to narrow to between €2.5m and breakeven, with market forecasts anticipating an even better outturn. The group has been making good progress with its B2B offering and is keen to scale its production slate in film and episodic. In May, the balance sheet was buoyed by a further 10% placing, raising €2m, following one in November 2020 that raised €1.7m.

### Building and rebuilding

Pantaflix has continued to add B2B customers and projects to its video on demand (VoD) platform, with the pandemic encouraging innovation, such as virtual film festivals and awards ceremonies. In FY21, DOK.fest Munich, the international documentary film festival, has been run using Pantaflix's streaming technology and the cult cinema Abaton in Hamburg has used the platform to support its virtual reopening. B2B arrangements usually involve a set-up fee, continuing support fees plus a revenue share, building a recurring income stream. On the content side, eased restrictions in H220 enabled the completion of filming of *Wolke unterm Dach* and *Army of Thieves* (prequel to *Army of the Dead*) for Netflix. A second series of *Das Internat* has been commissioned by Joyn, this time with 24 episodes, twice series one. The group has a good spread of customers and the appetite for locally produced, quality content remains high.

### Better financial performance in sight FY21 and FY22

The scale of the practical difficulties presented by pandemic-induced restrictions is clear in the FY20 financials, with revenues retrenching from €28.7m to €7.8m. It is worth noting that film projects can be large in scale and often span multiple reporting periods, leading to big swings in revenues and working capital. The pipeline implies good FY21 and FY22 recovery, shown in the guidance of FY21 revenues over €30m. The two share placings in the last 12 months have given some protection to the balance sheet.

### Valuation: Production overshadowed by VoD

The group's €20m EV implies a very low valuation for the production business, in a market where streamers remain hungry for quality, local content as they compete for viewers. Pantaflix trades at an historical EV/sales multiple of 2.9x, compared with peers on 2.6x. For FY21, the multiple falls to 0.7x, with peers at 1.8x.

#### Adjusted consensus estimates

Year end	Revenue (€m)	PBT (€m)	GAAP EPS (€)	DPS (€)	P/E (x)	EV/EBIT (x)
12/19	28.7	(8.6)	(0.52)	0.0	N/A	N/A
12/20	7.8	(7.1)	(0.42)	0.0	N/A	N/A
12/21e	33.8	1.4	0.08	0.0	15.9	16.0
12/22e	36.7	1.6	0.09	0.0	14.2	13.2

Source: Pantaflix, Refinitiv

#### Media & technology

8 July 2021

**Price** €1.275  
**Market cap** €24m

#### Share price graph



#### Share details

Code	PAL
Listing	Deutsche Börse Scale
Shares in issue	18.6m
Last reported net cash at end FY20	€1.3m

#### 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

- Significant VoD opportunities.
- Increasing B2B offering.
- Internationalisation of platform.

#### Bear

- Large productions mean large working capital swings.
- Limited liquidity.
- Project risk on film/series production.

#### Analyst

Fiona Orford-Williams +44 (0)20 3077 5739

[media@edisongroup.com](mailto:media@edisongroup.com)  
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## Review of FY20 results

The group does not disclose the split of its revenues between production and distribution elements, nor does it separately identify revenues from its creative agency (56% owned) or music business (57.5% owned in FY20, now 100% owned). However, these latter two activities only accounted for 4% of group FY19 revenues. Revenues falling into any period can swing by substantial amounts as film projects move towards completion and distribution. With the disruption to filming schedules due to pandemic restrictions, actual booked revenues retrenched from €28.7m to €7.8m, but gross revenues were only down by 7%, as these included €13.7m relating to a large project uncompleted at the year end.

### Exhibit 1: Summary of results

€m	2016	2017	2018	2019	2020
<b>INCOME STATEMENT</b>					
Revenue	15.1	28.1	35.1	28.7	7.8
Increase in working capital		10.8	(3.9)	(7.1)	13.7
Other own work capitalised	0.4	0.3	0.4	0.2	0.8
Other operating income	0.9	2.4	2.6	2.6	0.5
Gross revenues	16.5	41.5	34.2	24.5	22.8
Cost of purchased services	(3.6)	(15.0)	(19.0)	(12.0)	(20.0)
Gross profit	12.9	26.5	15.2	12.6	2.8
Opex	(3.7)	(8.9)	(12.3)	(9.2)	(8.2)
D&A	(10.9)	(15.3)	(11.9)	(11.9)	(1.7)
EBIT	(1.7)	2.2	(9.0)	(8.6)	(7.1)
EBITDA	9.2	17.5	2.9	3.3	(5.4)
Profit before tax (as reported)	(1.6)	2.2	(9.0)	(8.6)	(7.1)
Net income (as reported)	(1.7)	(0.3)	(8.8)	(7.9)	(7.1)
EPS (as reported) (€)	(1.52)	(0.26)	(0.64)	(0.52)	(0.42)
<b>BALANCE SHEET</b>					
Total non-current assets	7.6	4.5	8.5	6.0	19.9
Total current assets	10.4	41.4	31.8	15.1	25.7
Total assets	18.1	46.0	40.3	21.1	45.7
Total current liabilities	(14.8)	(16.9)	(22.5)	(9.0)	(39.0)
Total non-current liabilities	(0.2)	(2.3)	(0.7)	0.0	0.0
Total liabilities	(14.8)	(16.9)	(23.2)	(9.0)	(39.0)
Total equity	3.1	26.1	17.1	12.1	6.7
<b>CASH FLOW STATEMENT</b>					
Net cash from operating activities	11.7	7.4	12.9	2.1	9.0
Net cash from investing activities	(17.4)	(14.7)	(16.0)	(9.4)	(16.0)
Net Cash from financing activities	0.0	23.4	0.0	2.9	3.7
Net cash flow	(5.7)	16.1	(3.1)	(4.5)	(3.3)
Net cash/(debt) at end of year	(3.9)	12.2	9.0	4.6	1.3

Source: Company accounts, 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, rose to €20.0m from €12.0m in FY19, but with large film and episodic projects, the timing of receipts and expenses does not always match in reporting periods and we would not regard this divergence as inherently troubling. Personnel costs were down at €4.4m from €5.7m (on year-end headcount of 143, from 113). Again, the number of employees will swing as projects move through their cycle. An EBITDA loss of €5.4m, versus an FY19 positive EBITDA of €3.3m, translated to a reduction in EBIT loss from €8.6m in FY19 to €7.1m in FY20, as the timing of the projects led to a big reduction in the amount of amortisation charged in the period.

The balance sheet also swings widely as finished films and projects move in and out of work-in-progress. Fixed assets rose from €6.0m at end FY19 to €19.9m at end FY20, largely reflecting advances on current co-productions, while current assets rose from €14.6m to €25.6m as inventory built in respect of commissioned projects. Pre-paid expenses on productions stood at €0.01m at the year-end, from €0.5m at end FY19, reflecting project timing. On the liability side of the balance

sheet, bank liabilities of €9.4m related to film projects still in production across the year-end but not invoiced at that juncture, along with €25.3m of advance payment liabilities.

The year-end cash position of €7.2m (FY19: €7.2m) benefited from the 10% equity raise in November 2020 that raised €1.7m. The €9.4m of bank liabilities relate specifically to project financing, with the quoted net cash position of €1.3m being net of overdrafts of 5.9m (FY19: €2.7m).

## Operating update

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### Leveraging the VoD platform

Additional monetisation routes via building up the B2B offering continue to make progress, with a growing range of clients across the entertainment and events sectors. The emphasis now is on growing the B2B2C revenue stream and opening the pure B2B to a broader range of customers. Given how crowded and competitive the advertising supported VoD and subscription VoD markets are and how much financial resource is available to the major VoD operators, we regard this as a sensible approach.

The group has also been working on broadening and diversifying the content available on its transactional VoD platform.

### Production back on

After the hiatus in production, Pantaflix finished filming of *Army of Thieves* for Netflix in H220 and wrapped filming for *Wolke Unterm Dach* just before Christmas. A third major film, *Oskars Kleid*, was completed in H120. These last two are slated for theatrical release in FY22. *Generation Beziehungsunfähig* is scheduled for release later this month (July 2021). The group has also produced a documentary called *Social Media, Social Me* for Xiaomi, which is an interesting development, being commissioned by a commercial provider rather than a network or broadcaster.

Across the whole of FY20, Pantaflix had a total of 70 films and episodic productions at various stages of production. It has a very strong roster of customers, including Amazon Prime, Netflix, Apple, Sky and Joyn.

Pantaflix's production arm has been making good progress in broadening 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 moves by European governments to require global streaming platforms to increase their locally produced and local language content is very helpful in this context.

## Forecasts and valuation

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The shares opened 2021 at just over €1.00. The share price climbed later in January, then traded in a range of €1.30–1.65 until the end of April, when they dropped back to around €1.20 while there was negligible newsflow.

With the publication of the FY20 report and accounts, management has issued guidance for the current year for revenue and for EBIT. FY21 revenue is guided to 'over €30m' and an EBIT between a loss of €2.5m and breakeven. Current market forecasts are more optimistic than this and show a consensus revenue figure of €33.8m. This translates to an EBIT of €1.4m. Further progress is anticipated in FY22, with a consensus forecast revenue figure of €36.7m and EBIT of €1.7m

However, we do note that, as in previous periods, the timing of the larger projects can lead to substantial swings in reported revenues and working capital. If the business develops in line with management's declared intention to broaden the spread of projects, the larger film projects should be less distortive. Altogether, the potential for wide fluctuations makes it problematic to evaluate comparative valuation with peers that may have a different revenue profile. As can be seen below, the range of multiples amongst the peer set is very wide. By looking across multiple periods, some of this can be ameliorated. On EV/sales, averaged across FY20–22e, Pantaflix trades at a 27% discount to peers; on EV/EBIT the discount is 7%. Using both measures, the discount is 19%, which, at least in part, reflects the comparatively small market capitalisation and consequent limited liquidity.

**Exhibit 2: Peer multiples**

Name	Ytd perf (%)	Market cap (m)	EV/sales 0FY (x)	EV/sales 1FY (x)	EV/sales 2FY (x)	EV/EBIT 0FY (x)	EV/EBIT 1FY (x)	EV/EBIT 2FY (x)
Pantaflix (€)	16	23	2.9	0.7	0.6	N/A	16.2	13.4
Eros International (\$)	-18	333	3.7	1.6	0.8	N/A	N/A	9.3
Lions Gate Ent. (\$)	82	4,249	2.2	1.9	1.6	57.5	73.4	32.8
Mondo TV (€)	15	66	2.7	2.3	2.1	8.2	6.4	5.2
Prosiebensat.1 Media (€)	27	4,057	1.6	1.5	1.4	12.4	11.4	10.3
Highlight Comms (€)	1	273	1.6	N/A	N/A	24.4	N/A	N/A
Notorious Pictures (€)	-3	38	3.8	1.7	0.9	N/A	10.1	7.2
Average	17		2.6	1.8	1.4	25.6	25.3	13.0
Premium/(Discount)			12%	(61%)	(56%)	N/A	(36%)	3%

Source: Refinitiv, Edison Investment Research. Note: Priced at 5 July 2021. Average excludes Pantaflix.

BlackMars Capital, the management team and the founding shareholders (Marco Beckmann, Dan Maag and Matthias Schweighöfer) together 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 remains 31%.

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