SendR SE

Germany / Communications
Primary Stock Exchange: Xetra, Frankfurt
Bloomberg: SD1 GR
ISIN: DE000A1YDAZ7

Initiation of Coverage

RATING	**BUY**
PRICE TARGET	**€24.00**
Return Potential	**31.4%**
Risk Rating	High

DIGITAL MUSIC WAREHOUSE PRIMED FOR SIGNIFICANT GROWTH

SendR SE ranks among the top independent digital music clearing houses on the European landscape. The company enjoys deep roots into the independent music industry and recently strengthened its position with the takeover of the Oslo, Norway based Phonofile AS in February. SendR differentiates from the majors with its focus on indie labels. We believe the profitable operations are primed for a surge in growth over the near term and initiate coverage with a Buy rating and €24 price target.

Phonofile takeover a major milestone In February, SendR announced plans to takeover the Norwegian based Phonofile AS. We expect the deal to be approved at the AGM on 28 July. In our view, this is a watershed event for SendR that stands to more than double its sales and earnings. We believe the addition is an ideal compliment to the company's finetunes operations boosting its rights catalogue and territorial footprint. We expect a smooth integration of the Phonofile operations, which strongly mirror SendR's own core activities.

Attractive growth market supports operations The global digital music market is growing. Market analysts expect digital music consumption to breach the $10bn barrier in 2020, driven primarily by expansion of the streaming format. This equates to a five year CAGR of 8.6% for 2016-2020E. Moreover, SendR's home market, Germany, offers strong trends in digital music consumption as more Germans embrace digital solutions.

Look for exceptional growth in the near term Thanks to the takeover of Phonofile, SendR is primed for a surge in top line growth starting this year. We model a three year CAGR of 45% for 2016-2018E and expect the revenue expansion to translate into increasing margins, given the sound operating leverage the company enjoys.

FINANCIAL HISTORY & PROJECTIONS

	2014[1]	2015	2016E[2]	2017E	2018E	2019E
Revenue (€m)	8.13	10.88	18.14	28.54	33.28	38.45
Y/Y growth	n.a.	33.8%	66.8%	57.3%	16.6%	15.5%
EBIT (€m)	0.38	-0.02	-0.47	0.79	1.62	2.56
EBIT margin	4.7%	-0.2%	-2.6%	2.8%	4.9%	6.6%
Net income (€m)	0.14	-0.18	-0.33	0.55	1.13	1.79
EPS (diluted) (€)	0.11	-0.15	-0.18	0.30	0.62	0.98
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-0.53	0.04	-8.67	1.85	2.21	2.87
Net gearing	-57.3%	-67.8%	-12.7%	-29.5%	-45.4%	-60.6%
Liquid assets (€m)	0.89	1.28	1.28	3.13	5.34	8.21

[1] includes finetunes GmbH consolidation as of Q2/14
[2] Phonofile AS consolidated as of H2/16

RISKS

Risks include but are not limited to: small size, short contract cycles, low revenue diversification, and low share liquidity.

COMPANY PROFILE

SendR is a license-rights aggregator for audio and video content operating in the manner of a clearing house. The core activity is the exploitation of its digital music rights, and the company currently boasts a catalogue of over 700,000 musical recordings, a number that will eclipse 1.3m with the Phonofile addition.

MARKET DATA

MARKET DATA	As of 7/18/2016
Closing Price	€ 18.27
Shares Outstanding	1.20m
Market Capitalisation	€ 21.92m
52-week Range	€ 17.73 / 25.90
Avg. Volume (12 Months)	112

Multiples	2015	2016E	2017E
P/E	n.a.	n.a.	60.3
EV/Sales	1.9	1.2	0.7
EV/EBIT	n.a.	n.a.	26.6
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW

COMPANY DATA

COMPANY DATA	As of 31 Dec 2015
Liquid Assets	€ 17.70m
Current Assets	€ 39.90m
Intangible Assets	€ 3.60m
Total Assets	€ 49.40m
Current Liabilities	€ 14.10m
Shareholders' Equity	€ 30.20m

SHAREHOLDERS

XOMOX GmbH	47.8%
Alexander Sator	9.2%
Göttlich GmbH	41.5%
Free Float	1.5%

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CONTENTS **PAGE**

INVESTMENT CASE

Well positioned in a sizable and growing market

SendR is a pioneer of the digital music industry having launched operations in 2003 with the formation of its affiliate, finetunes GmbH. The company has a long track record (see table 1) of solid revenue growth and profitability–trends we expect to continue. At the same time, SendR has amassed a substantial digital music rights catalogue that now boasts over 2,000 labels, and 700,000 musical recordings. The company enjoys partnerships with blue-chip online music platforms, such as Spotify and iTunes. We believe SendR differentiates with its vast experience in the independent music segment, which allows the company to position itself between the major players (Sony Music Entertainment, Warner Music Group, and Universal Music Group) as a niche provider with its service orientated business model.

Business model well suited for planned expansion

SendR's core business is driven by the acquisition and exploitation of music rights from independent labels. However, the company success can be traced to management's strategy to become a full service provider covering all major steps in the value chain for the digital music world. In this manner, the company acts both as an enabler and supplier. Now management want to aggressively expand SendR's rights catalogue and geographical footprint even further; plans heralded by the Phonofile deal. The addition will boost the rights catalogue to over 1.3m music titles and more than double the number of licensors to over 4,200. We regard the Phonofile acquisition as a transformational event for the company and believe a swift integration and unlocking of synergies could be a harbinger for further corporate activity to gain market share and enter new markets.

Music industry growth spearheaded by transition to digital consumption

Today's music consumers increasingly demand solutions to fit their mobile lifestyles with the proliferation of hand held smart devices. According to a recent IFPI (International Federation of the Phonographic Industry) report, the music industry reached a major milestone in 2015, when digital music consumption surpassed physical demand for the first time. We also believe SendR's home market is in the early stages of a solid growth trend with the conversion of physical to digital consumption. Market observers at PwC expect the German streaming market to grow at CAGR of 8% to 19m users in 2020 and for the German download market to expand at a 5% CAGR to 10.2m users over the same period.

Look for exceptional growth in the near term

Last year the company booked its best revenue growth performance since 2012. We think SendR is at the early stages of a high top line growth phase that will be driven by organic growth of its core operations and by the takeover of Phonofile. We believe these factors will translate into a three year revenue CAGR of 45% for the period 2016-2018E. Due to its scalable operating structure and its debt free balance sheet we expect this growth to convert into strong profitability. We thus expect the EBITDA margin to expand from 2.9% in 2016 to 8.0% in 2018. With several non-recurring costs associated with the Phonofile transaction to absorb in 2016, we forecast slightly negative net income (NI) result this year. However, expect NI to be positive in 2017 and also look for strong conversion of net income into FCF over the near term, given the company's low working capital and CapEx requirements.

Current share price undervalues positive outlook

We use a DCF model to derive the fair value for SendR. We set a price target of €24 and initiate coverage with a Buy rating. This equates to upside of 31.4% versus the current share price. Our confidence in the company's outlook stems from management's deep knowledge of the market and ability to adapt to the ongoing digital transformation of the music industry. This should keep SendR at the forefront of developments and allow the company to capitalise on emerging trends. In our view, the main risks are: small size, short contract cycles, and low revenue diversification.

SWOT ANALYSIS

STRENGTHS

- **Highly scalable business model** Intra-group synergies can support significant growth, while infrastructure including staff and IT can service labels requiring technology and marketing solutions to deliver music to consumers.
- **Veteran of the digital music industry** Operations are driven chiefly by finetunes GmbH, which ranks among the early trailblazers in the German digital music industry. Since its incorporation in 2003, the company has forged a deep network in the independent music scene.
- **Low customer churn** Thanks to its position in the independent label arena and its service offerings specifically designed to cater to these independent players, customer retention is high and contracts are often renewed upon expiration. At the same time, tailored services box out major labels unable to provide similar offerings.

WEAKNESSES

- **Revenue diversification** SendR counts the industry's top brands among its licensee partners. Spotify, iTunes, and Amazon rank as Tier-1 clients, but the big three online platforms accounted for some 80% of the company's revenues in 2014.
- **Currency exposure** The company generates some 30% of its turnover outside the Euro-zone, where operating expenses are reconciled in Euro. Swings in the USD/EUR exchange rate could significantly impact the bottom line.
- **Share liquidity** Trading volumes are extremely low at present compounded by the small free float. Combined with the small market cap, this makes the share less appealing for institutional investors.

OPPORTUNITIES

- **Takeover target** The company is a takeover candidate for the aforementioned major studios, given SendR's deep roots into the independents, technology competence, and clean balance sheet. Moreover, the consolidation of Phonofile brings SendR closer to achieving an attractive critical mass.
- **Digitalisation boom** Digital music continues to grow whereas packaged content, such as CDs, is a dying format with only vinyl collectors providing any sustainable growth. With the global proliferation of portable devices, digital content will increasingly become the backbone of the music industry.
- **Home market still under-digitalised** The German market continues to be impacted by packaged content i.e. CDs and vinyl. We expect SendR's home turf to continue to digitalise and provide ample growth opportunities for years to come.

THREATS

- **Lean structure** SendR is run by small management team that stewards a tight group of key personnel. The exit of key staff members could impact operations and interrupt the expected growth trajectory.
- **Limited contract duration** Although churn is low, contracts generally run one to two years exposing licensors to poaching. That said, switching digital marketers is a costly endeavour for licensors.
- **Liquidity constraints** The balance sheet is small and lean. This likely means the company will have to tap the capital markets to facilitate any external growth opportunities.

VALUATION

We refer to a DCF model to calculate a fair value for SendR. The WACC we assign is based on our multifactor risk model which takes into account company specific risks such as the strength of management, balance sheet and financial risk, the company's competitive position, as well as company size and free float. Our WACC of 11% is based on a risk free rate of 0.5%, a 5.0% market risk premium, and a 30% tax rate. We have also assumed a 2.0% terminal growth rate for sales.

Our model discounts cash flows until 2030 for a total enterprise value of €43.0m, of which 51% stems from the explicit period. We forecast a top-line CAGR of 45% for 2016-2018E including 2016 Y/Y growth of 67%, which includes the H2/16 consolidation of Phonofile. Our DCF valuation produces a total fair value of €43.9m adjusted for net cash of €0.9m at the end of 2015. Based on 1.8m shares outstanding, including the shares issued for Phonofile, our fair value corresponds to €24/share.

All figures in € '000	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Net sales	**18,145**	**28,537**	**33,278**	**38,451**	**45,372**	**52,178**	**58,439**	**63,699**
NOPLAT	**-467**	**552**	**1,133**	**1,790**	**2,581**	**3,359**	**4,318**	**5,115**
+ depreciation & amortisation	998	1,056	1,032	1,038	1,089	1,096	643	382
Net operating cash flow	531	1,608	2,165	2,828	3,670	4,455	4,961	5,497
- total investments (CAPEX and WC)	-9,396	180	-18	-28	-14	-44	-82	-127
Capital expenditures	-10,008	-114	-133	-154	-181	-209	-234	-255
Working capital	611	294	115	125	168	165	152	128
Free cash flows (FCF)	-8,865	1,788	2,147	2,800	3,656	4,411	4,879	5,370
PV of FCF's	**-8,457**	**1,537**	**1,662**	**1,953**	**2,297**	**2,497**	**2,488**	**2,467**

All figures in '000	
PV of FCFs in explicit period (2016-2030E)	21,803
PV of FCFs in terminal period	21,169
Enterprise value (EV)	42,972
+ Net cash / - net debt	935
+ Investments / minority interests	0
Shareholder value	43,907
Fair value per share in EUR	24.02

Cost of equity	11.0%
Pre-tax cost of debt	5.0%
Tax rate	30.0%
After-tax cost of debt	3.5%
Share of equity capital	100.0%
Share of debt capital	0.0%
WACC	11.0%

*for layout purposes the model shows only to 2023 but runs until 2030

WACC \ Terminal growth rate	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
8.0%	36.94	38.50	40.30	42.40	44.89	47.87	51.51
9.0%	30.78	31.84	33.05	34.43	36.02	37.88	40.07
10.0%	26.01	26.76	27.59	28.53	29.60	30.82	32.23
11.0%	22.22	22.76	23.36	**24.02**	24.76	25.59	26.54
12.0%	19.15	19.55	19.99	20.46	20.99	21.58	22.24
13.0%	16.63	16.93	17.25	17.60	17.99	18.41	18.88
14.0%	14.53	14.75	15.00	15.26	15.55	15.86	16.20

COMPANY PROFILE

SendR is a license-rights aggregator for audio and video content operating in the manner of a clearing house. The core activity is the exploitation of digital music rights, and the company boasts a catalogue of over 1.3m recordings (including Phonofile). Through its subsidiary companies, SendR covers the entire digital media value chain with a focus on audio content. Operations are driven chiefly by the wholly owned finetunes GmbH, which handles the bulk of the company's exploitation activities.

The company likewise monetises the rights for music video content, concert recordings and audio books, although these provide only secondary revenue streams to the core music catalogue. A full spectrum of services include content digitalisation, marketing, promotional offerings, as well as meta-data packages and white label download shop solutions.

Digital disruption of the music industry Prior to the arrival of the digital age and the proliferation of the internet, the music industry had changed very little over the previous one hundred years. The value chain was simple and dominated by select players with the resources to fuel success. Major labels scanned the market for talent, signed promising artists to contracts, and provided the infrastructure to produce and market their records and later CDs. At the other end of the value chain, distributors from local and specialty record shops to major music store chains and other major retailers delivered packaged music into the hands of music lovers.

Figure 1: Digital music value chain

Source: First Berlin Equity Research, SendR SE

However industry consolidation and culling have left the mainstream music industry in the hands of the three major players: Sony Music Entertainment, Warner Music Group, and Universal Music Group. With advances in digital technology and distribution, music production is no longer the insurmountable hurdle of the past century. Home studios are now a viable alternative to expensive recording studios. This change has spawned a number of independent composers, artists, and labels, who now have greater access to consumers through online platforms. At the other end of the value chain, Steve Jobs triggered a sea change in music distribution with the launch of Apple iTunes in 2001. This meant that expensive vinyl and CDs no longer needed to be produced and shipped to music vendors to reach consumers.

This transformation of the music industry has opened the door for smaller specialists to position themselves in between the major labels that focus on global mainstream artists, by providing tailored services to support the myriad of independent artists and labels. Thus, the value chain has been expanded to include stages previously housed under the roofs of major labels.

Strategy: Differentiate from the major players with services for all labels and distributors SendR's strategy is to position itself as a full service provider for the countless small labels that lack the resources and networks to fully exploit their content. This allows SendR and its affiliates to capitalise on their position as both an enabler and supplier for record labels, licensed digital services providers (DSPs), and private consumers. The model has allowed SendR to grow its top and bottom lines steadily over the years, and management now aim to leverage the company's strong market position to spark even stronger growth with increased rights acquisitions and regional expansion.

Management see the strongest growth opportunities throughout Europe following the Phonofile deal. Simply put, the increase in critical mass applied to a broader territorial footprint will allow SendR to win more contracts with big name labels with higher earnings potential. The same dynamic applies to the US and Asian markets, although the company will be less likely to win market share in the complex US market. That said, we believe US operations should keep pace with market growth there, and the company will continue to monitor the US market for acquisition of key personnel or small aggregators to boost SendR's US operations. We also think overall growth will also be supported by opportunistic corporate activity as demonstrated by announced takeover of the Norwegian based Phonofile AS─a digital distribution partner for record labels and distribution companies.

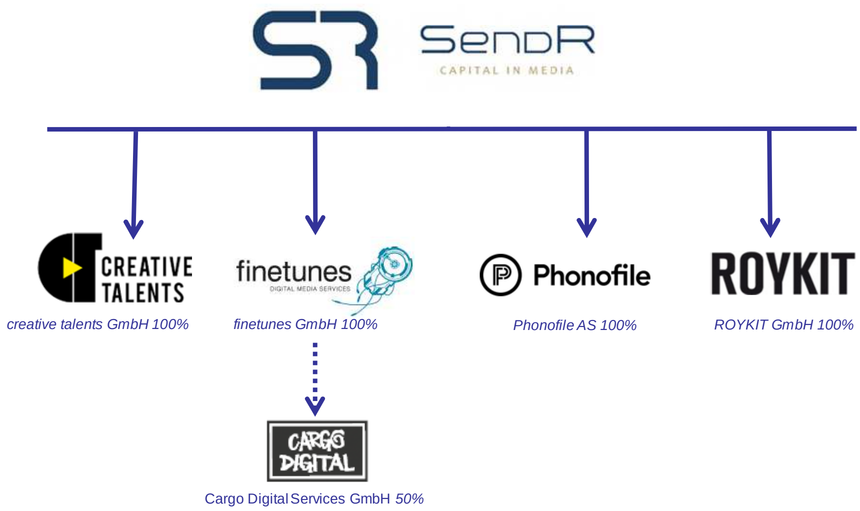
Catering to the independent labels In our view, SendR differentiates with its extensive network in the music industry, particularly with the so-called indie labels. These labels are highly diversified in their size and style with multiple sub-genres, and they are rarely linked to the music industry giants.

Indie labels are generally independently funded. Given their limited funding and resources, these labels often look for third party support to promote and distribute their music. Despite their size drawbacks, indie labels continue to foster many of today's most talented artists, have thrived for years, and have had a tremendous impact on music industry both creatively and in terms of business opportunities. The indie label market accounts for some 30% of the overall music market and provides a deep well of opportunity for SendR's aggregation model, whereas the big three focus more on mainstream music, due to its broader mass appeal, which can cover the associated costs.

Today's technology solutions have removed many of the hurdles involved in setting up an online music store. However, today's music lovers are bombarded with endless options to consume their favourite tunes amplifying the importance of marketing and relationships to ensure that the online shop actually has ample traffic to drive actual downloads or streams. Although SendR often handles the technical issues for its clients, we believe the company's true value-add is in its promotional services. And these are built upon the company's vast network in the industry that allows SendR to tailor campaigns to their targeted audiences.

The Hamburg based SendR was set-up as a holding company in 2013 to orchestrate the activities of its subsidiaries. However, operations were launched back in 2003 with the foundation of finetunes GmbH by Henning Thieß and Oke Göttlich. The fully owned subsidiary is the backbone of SendR's digital warehouse operations and houses a wealth of experience and industry know-how. SendR floated its shares on the Marché Libre Stock Exchange last year and is now also listed on the Entry Standard segment of the Frankfurt Stock Exchange. The company employs a staff of 25 stewarded by Mr Thieß and Mr Göttlich. SendR generated revenue of €10.9m in 2015 compared to €8.1m in the prior year.

Figure 2: Company Corporate Structure



Source: First Berlin Equity Research, SendR SE

finetunes GmbH

Music distribution and exploitation activities are primarily handled by finetunes GmbH. Founded in 2003, the company ranks among the digital music trailblazers and has developed a full suite of marketing and distribution services to facilitate both digital and physical formats. Based in Hamburg, Germany, finetunes also operates offices in London, Paris, Berlin, and San Diego California, which allows the company to better service its partners and licensors locally in these regions.

Table 1: finetunes GmbH track record of growth and profitability

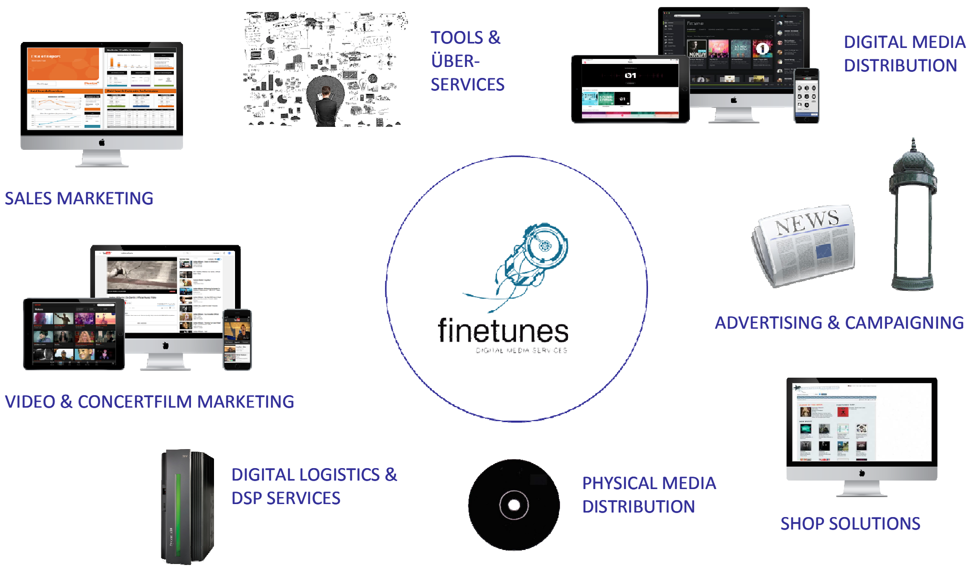
in € '000	2006	2007	2008	2009	2010	2011	2012	2013
Revenue	**1,409**	**2,350**	**3,215**	**3,830**	**5,055**	**7,143**	**9,461**	**9,312**
Cost of goods sold	-732	-1,517	-2,258	-2,364	-3,288	-4,631	-6,875	-6,230
Gross profit	**677**	**833**	**957**	**1,466**	**1,767**	**2,512**	**2,586**	**3,082**
OpEx	-476	-714	-1,108	-1,315	-1,542	-1,923	-1,934	-2,100
EBIT	**201**	**119**	**-151**	**151**	**225**	**589**	**652**	**982**
Net financial result	-1	1	5	0	1	-72	17	6
Pre-tax income	**200**	**120**	**-146**	**151**	**226**	**517**	**669**	**988**
Extrordinary results	0	0	0	0	0	0	0	0
Tax expense	-4	-58	-4	-1	-104	-231	-243	-426
Net income / loss	**196**	**62**	**-150**	**150**	**122**	**286**	**426**	**562**
Ratios								
Gross margin	48.0%	35.4%	29.8%	38.3%	35.0%	35.2%	27.3%	33.1%
EBIT margin on revenues	14.3%	5.1%	-4.7%	3.9%	4.5%	8.2%	6.9%	10.5%
Y-Y Growth								
Revenues	n.m.	66.8%	36.8%	19.1%	32.0%	41.3%	32.5%	-1.6%

Source: First Berlin Equity Research, SendR SE

finetunes develops tools in-house to support its clients with digital logistics and warehousing applications, post-sales analysis, as well as media planning and strategies to address both the digital and physical markets. All tools can be tailored to address the specific requirements of the company's licensors and retail partners. The goal is to help its partners boost monetisation of their content through value-added services centred on placement and presentation. Activities and services include:

- **Digital media distribution** provides a full range of tools to launch and track the performance of new releases including meta-data, monthly statement and digital strategy.
- **Physical media distribution** gives licensors flexible solutions to exploit physical distribution channels to augment digital distribution. This one-stop shop covers both CD and vinyl sales for new releases and back catalogue re-releases.
- **Video and concert film marketing** offers a comprehensive service portfolio and strategy consultancy for the marketing and monetisation of videos and concert films in conjunction with blue chip names such as YouTube, iTunes, Vevo, and tape.tv.
- **Sales & Marketing** enables the creation of products customised for specific areas of the digital markets from free streaming to high resolution audio retailers.
- **Advertising & Campaigning** allows partners to navigate the complex waters of social media behaviour and analysis, while assisting labels and artist with the management of digital marketing campaigns.
- **Shop Solutions** is a fully customisable white label product for artists to integrate a shop into their branded platform according to their corporate design.
- **Überservices** supports finetunes in its ongoing endeavour to forge strategic partnerships with brands, magazines, media and companies from other industries to create promotional opportunities for licensors' products.

Figure 3: finetunes GmbH services and value add



Source: First Berlin Equity Research, SendR SE

SENDR BUSINESS MODEL

Connecting global platforms to indie artists SendR generates revenues chiefly through license fees. The company acquires the rights from labels (licensors) and matches them with a variety of digital music platforms (licensee) for a commission. These licensing fees stem primarily from two channels:

- Download platforms enable the purchase of individual tracks, EPs (extended play), or complete albums through an online music store such as iTunes.
- Streaming services, such as Spotify, provide play on demand services and remit royalty payments according to royalty rates driven by the number of streams.

Licensors primarily comprise independent music labels in the German market, across Europe and the US. Many independent labels simply lack the know-how or the infrastructure to fully support the commercialisation of their artists and outsource functions to intermediaries, such as SendR. Rights agreements generally run up to two years and often include upfront payments to the labels. In these cases, contracts can only be cancelled once the company has recovered the initial outlay for the upfront payment. Although SendR requires some liquidity to lock in future labels with signing bonuses, capital intensity is low and the structure of the contracts allows the company to mitigate some of the risk in recovering the upfront expenditure.

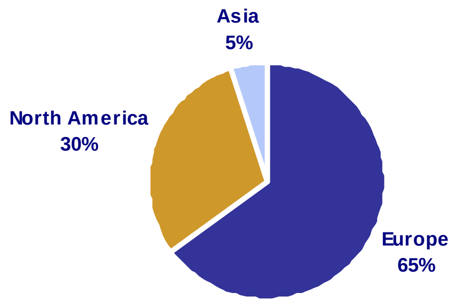
At the other end of the value chain, Digital Service Providers (DSP) such as Spotify, Youtube, and iTunes much prefer to source content and license the rights from an aggregator (SendR) rather than directly navigate the massive pool of Indie-Labels and their artists to populate their online music platforms. The licensee charges its music consumers a fee for downloads or streams, a portion of which then flows back through SendR. Accounts with these download and streaming DSPs are generally settled on a monthly basis, and SendR retains a commission before transferring the royalty payment to the rights-holders.

Figure 4: Cash flow of rights activities

Source: First Berlin Equity Research, SendR SE

Presently, Europe makes up of the lion's share of SendR's license rights with 65% followed by North America with some 30%, while Asia accounts for the remaining 5%. The rights catalogue is grown through both indirect and direct activities, from contact initiated by labels as well as networking activities initiated by the SendR staff.

Figure 5: Regional revenue split



Source: First Berlin Equity Research, SendR

Secondary revenue streams Aside from rights exploitation, SendR also offers small music labels a white label solution for an online shop. This allows customers to integrate a front-end system with an existing corporate identity, meaning shoppers have no indication that they are on a SendR hosted application. SendR receives a one-time setup fee as well as commissions for sales generated over the hosted white label web shop.

Physical or packed sales in the form of CDs and vinyl provide the third significant revenue stream for SendR. finetunes Physical Music Solutions facilitate these activities using an on-demand model to deliver packaged content to retailers across the EU and the US.

PHONOFILE AS TAKEOVER

As part of its growth strategy, management want to opportunistically add distribution power and diversify abroad. In February, SendR announced the takeover of the Norwegian based Phonofile AS. Similar to finetunes GmbH, Phonofile operates as a distribution partner for record labels and music distributors. The company's solutions are designed to support a wide range of business tasks from the online distribution and sale of music to assessing the effectiveness of sales activities with a set of analytical tools designed to provide insight into marketing and sales after content is released. Phonofile also operates its own boutique download store under the brand Klicktrack for music downloads.

Distribution services include digital stores to cater to a broad range of music categories from global mainstream to alternative and electro genres for DJs. Additionally, the company offers a white label store solution for its labels.

Analytics are driven by a broad range of organisational tools allowing labels to track the daily performance of their releases according to various services, regions, and demographic groups. Queries can be displayed graphically for immediate understanding. The goal is to provide accurate and current data essential to support artists with decisions around marketing strategies and to track their returns. Key analytic features include:

- Daily updates from many of the biggest music services, including Spotify, iTunes, WiMP, Amazon and Klicktrack,
- Comparison of cross service and cross type (download vs streaming),
- Comparison of multiple releases within the same time period,
- Tolls to create footnotes to document your activities,
- Tools to export graphs as images or PDFs.

Phonofile is led by Erik Brataas, who has served as Managing Director since 1999. Mr Brataas also has experience as a record label owner and has been a Board Member of Merlin since 2011. Phonofile ranks among Europe's largest digital music aggregators boasting over 2,200 labels and 600,000 tracks in its independent music catalogue. The Norwegian aggregator has offices in Oslo, Stockholm and Copenhagen and works with labels from all over the world.

In our view, Phonofile is an excellent fit that should dovetail smoothly into SendR's existing operations. The acquisition is a potential boon for SendR and will immediately boost its size. Phonofile shareholders will swap their shares for SendR shares, and Erik Brataas will be represented on the SendR Board. Moreover, Phonofile AS and finetunes GmbH will maintain their independent brands and keep their existing staff.

The companies believe the merger will allow them tap into one another's strengths, boost existing market positions and support internationalisation ambitions. For Phonofile's Nordic clients, the merger is an opportunity to gain access into Germany, which ranks as the third largest market globally, whereas the enlarged territorial footprint will unlock opportunities in terms of marketing independent artists internationally. We believe revenue growth will translate into improving profitability given the scalable infrastructure in place.

Table 2: Comparison of 2015 operational data and KPIs

in EUR '000	SendR	Phonofile	Post Merger
Founded	2003	1999	-
Number of tracks	700,000	600,000	1,300,000
Licensees	140	120	260
Licensors	2,000	2,200	4,200
Staff	25	18	43
Revenue	10,876	12,128	23,004
EBIT	761[1]	509	1,271
as %	7.0%	4.2%	5.5%

[1] adjusted for non-recurring expenses

Source: First Berlin Equity Research, SendR

Gauging the Phonofile transaction value SendR will issue 628k new ordinary shares as a capital increase against contribution in kind from authorised capital for an estimated €15.92/share. We believe the deal also includes a cash component, which we estimate at 23% of the estimated €13m transaction value. We think Phonofile generated some €12.1m in sales in 2015. The €13m takeover price corresponds to an EV/sales multiple of 1.1x, which is well below the 2.8x EV/Sales mean for corporate activity in the industry over the past years (see Appendix). Given the implied 1.1x multiple, SendR succeeded in bolting on a highly compatible business with minimal dilution to SendR shareholders as shown in the table below, which compares our assumptions to a deal more in line with the industry mean.

In our view, the deal was a hard earned coup for management made possible by the possibility for Phonofile to join the attractive SendR platform. SendR offers an excellent technical infrastructure and the veteran management that should allow Phonofile to extract untapped potential from its business model to grow revenues and profitability at a much more accelerated pace. We expect shareholders to approve the deal at the AGM slated for 28 July 2016.

Table 3: Phonofile transaction assumptions vs industry multiples

in EUR '000	Industry Mean	Phonofile EV/Sales
Revenue	12,128	12,128
EV/Sales multiple	**2.8x**	**1.1x**
Acquisition price	34,444	13,000
Cash payment	7,949	3,000
Share contribution	26,495	10,000
Issue price (€)	15.92	15.92
Number of shares ('000)	1,664	628

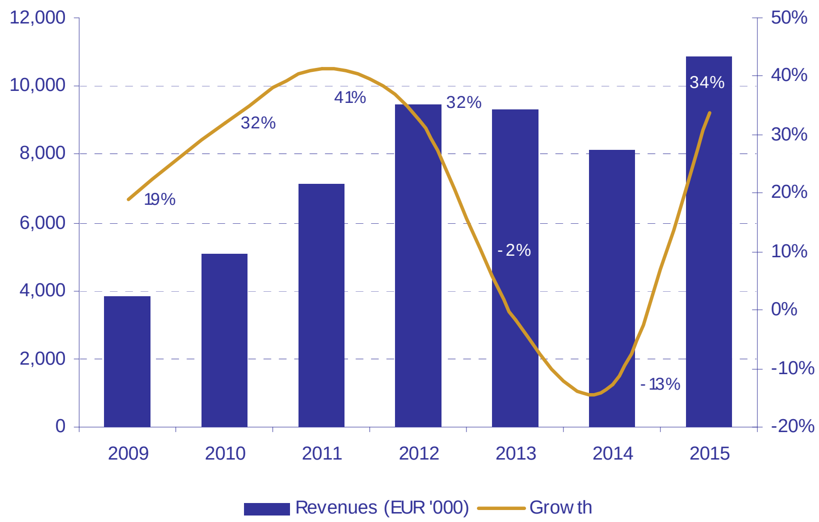
Source: First Berlin Equity Research, SendR; Capital IQ

FINANCIAL HISTORY

SendR's results have historically been chiefly driven by the finetunes operations. We highlighted the affiliate's financial history in table 1 of this report. Costs of the holding company are largely insignificant and limited to administration expenses. SendR began consolidating finetunes after Q1/15.

Full year 2015 results were defined by strong top line growth but lower profitability due mainly to one-off effects. Revenues for the year climbed 33.8% Y/Y to €10.9m, driven by a vibrant digital music market, which continues to convert consumers to online solutions to enjoy their favourite music over a growing number of mobile and on-demand platforms. On a pro-forma basis, assuming full year consolidation of finetunes, revenues increased 11.3% Y/Y. The pro-forma metric represents the best growth performance for the company since 2012, when the top line grew some 32.5% Y/Y.

Figure 6: Historical revenue performance



Source: First Berlin Equity Research, SendR

Gross profit for the year grew sustainably to €2.5m versus €2.0m in the prior year thanks to the strong top line performance. However, the gross margin (GM) slid 160 basis points to 23.3%. This is mainly due to the mix of the rights catalogue and the various agreements.

SendR incurred a number of one-off expenses last year in conjunction with the dual stock listings in Paris and Frankfurt and the associated prospectus and legal expenses. Consequently, other operating expenses increased to €1.2m compared to €0.8m in 2014 and thus corresponded to 10.8% of revenues (2014: 9.4%). Personnel expenses remained comparatively stable totalling €1.4m for the year compared to €1.3m in the prior year underscoring strong operational scale effects. As a percentage of revenue, personnel costs equalled 12.7% of turnover last year compared to 15.4% in 2014. Depreciation and amortisation remained flat at €0.2m for the year. The company thus booked a small operating loss of €-17k for the year (2014: €0.4m). However, adjusted for the non-recurring expenses, EBIT totalled €0.3m for the year.

Since the company carried no significant debt load on its balance sheet, financing expenses were minimal. The net financial result thus totalled €0.0m and the tax result amounted to €-0.1m. Net income of €-0.2m corresponded to EPS of €-0.15.

Balance sheet and cash flow developments SendR's operations require little working capital (WC) investment, since royalty payments from the licensees flow to SendR before payments are made to licensors. In the past, the company has at times even benefited from a negative working capital scenario as a result. SendR requires no inventories for its operations. Last year, accounts receivable increased 214% Y/Y to €1.7m. The spike can be attributed to a change in accounting at the end of the year, whereby fees are now taken into the books at the gross amount (previously: net) and offset with a provision. Total assets thus increased to €4.5m last year up from €3.3m in the prior year, and the company exited the year with cash and cash equivalents of €1.3m vs €0.9m in 2014. SendR ended the year with a small bank loan of €0.4m and a net cash position of some €0.9m. Shareholders' equity declined to €1.4m in 2015, due to the net loss absorbed and the equity ratio slid to 31% vs 47% in the prior year, mainly due to the sharp increase in total assets.

Table 4: Financial highlights

in EUR ' 000	2015	2014	Delta
Cash & cash equivalents	1,285	892	44%
Total assets	4,476	3,348	34%
Interest bearing debt	350	0	-
Net debt	-935	-892	5%
Shareholders' equity	1,379	1,557	-11%
Equity ratio	31%	47%	-

Source: First Berlin Equity Research, SendR

Owing chiefly to the increase in working capital and the net loss, net cash flow from operating activities in 2015 amounted to €0.1m compared to €1.0m in 2014. The main application for the cash consumed last year was the increase in trade receivables to €1.7m (2014: €0.5m). DSO at the end of 2015 totalled 57 compared to 24 at the end of 2014, due to the aforementioned change in accounting. The company made no significant investments in 2015 and cash flow from investing totalled €0.0m. Cash flows from financing amounted to €0.4m for the period and results from a small bank loan. Overall, this led to a net increase in cash of €0.4m.

Table 5: Cash flow performance

in EUR ' 000	2015	2014	Delta
Net operating cash flow	72	973	-93%
Cash flow from investing	-29	-1,501	-98%
Cash flow from financing	350	1,300	-73%
Change in cash	393	772	-49%
Cash at the end of the period	1,285	892	44%

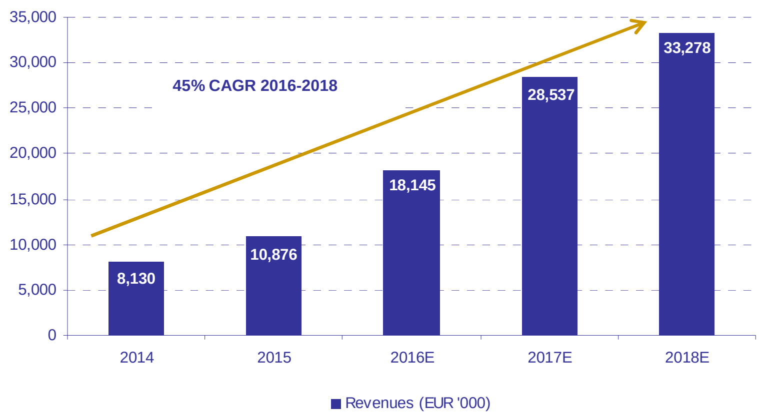
Source: First Berlin Equity Research, SendR

FORECASTING STRONG REVENUE GROWTH

SendR generates the majority of its revenues from licensing fees through finetunes and now through Phonofile as depicted in figure 4 on page 10. We expect a surge in top line growth over the near term occasioned not only by the Phonofile takeover but also organic growth of existing operations. We believe the German market will continue to transition towards digital music consumption, following the path of the more mature US digital music marketplace (figure 15). Thus, SendR's home turf should provide ample opportunity to expand its rights catalogue, while the company makes stronger inroads abroad and leverages its larger post-merger platform.

We model a three year CAGR of 45% for the period 2016–2018E, driven by revenue streams from the rights catalogue. SendR will fully consolidate Phonofile as of H2/16, resulting in a 67% Y/Y spike in revenues for 2016. This figure dips only slightly to 57% Y/Y in 2017 thanks to the full year of consolidation, whereas we expect underlying organic growth to top 15%. Our confidence stems from the synergies resulting from the Phonofile deal. The broader footprint and critical mass will make SendR a much more attractive partner for big name labels. Operational synergies should enable the company to cast a much bigger net to allure new labels. Our revenue forecasts do not include any further corporate activity assumptions. We expect revenues to reach €18.1m in 2016, whereas management currently guide for 2016 sales north of €16m and sales to breach the €20m threshold for the first time in 2017. We judge the latter indication as highly conservative and forecast €28.5m in sales for 2017.

Figure 7: Revenue development

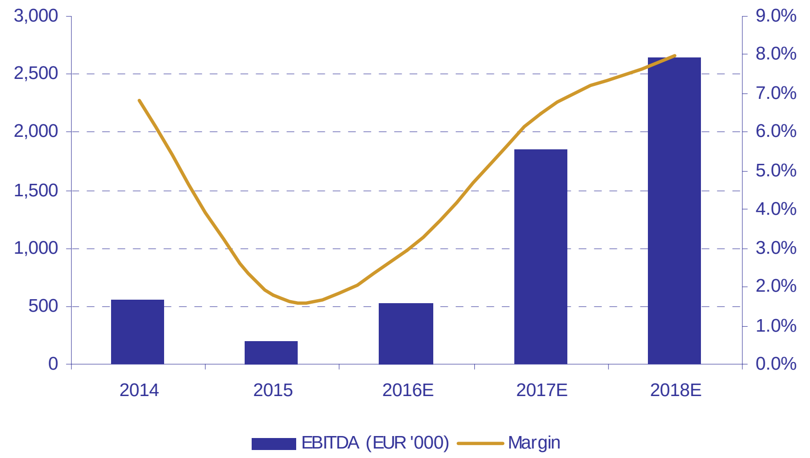


Source: First Berlin Equity Research, SendR SE

Gross margin assumptions Cost of goods sold chiefly contain the royalties passed onto the SendR's licensors from the DSPs. Historically, SendR has generated a gross margin (GM) between 23%–30% depending on the revenue mix from the rights catalogue. We expect this KPI to dip to 20% in 2016 with the half year consolidation of the lower margin Phonofile operations and to flatten out at 19% with the full consolidation of the Norwegian operations.

Operating expense (OpEx) assumptions SendR employed an average staff of 25 in 2015 compared to 24 in the prior year. The Phonofile staff will also be adopted and we expect overall staff numbers to expand with turnover growth, although the company should benefit from strong scaling effects. Personal cost accounted for 12.7% of SendR revenues in 2015 compared to 15.4% in the previous year. Driven by scale effects, we calculate personnel expenses at 9.5% of revenues for 2016 with the ratio compressing to 7.6% in 2018. Other operating expenses contain the standard administration costs. We believe the current infrastructure can support substantial growth over the coming years and look for the ratio to drop to 9.0% of revenues in 2016E after peaking at 10.8% in 2015, due to the non-recurring listing expenses. Our 2016E figure also contains one-off expenses traced to the Phonofile acquisition. Therefore, we look for this KPI to fall even further to 5.0% in 2017E and continue to benefit from economies of scale over the long term. Given this scenario, we look for the EBITDA margin to climb steadily over the near term and reach 8.0% in 2018E.

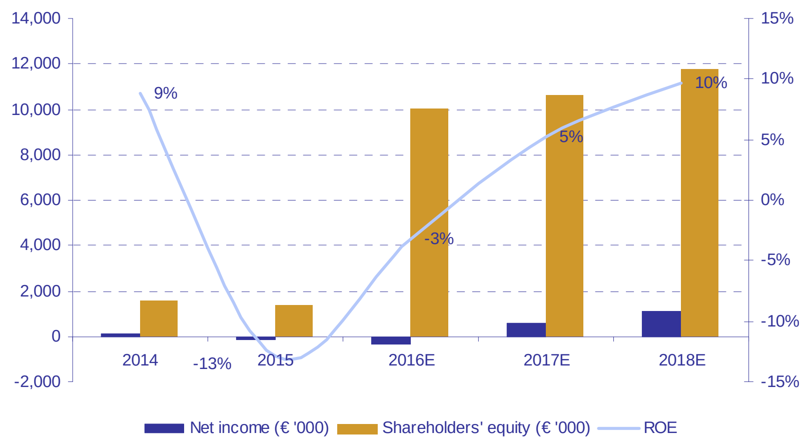
Figure 8: EBITDA and margin development



Source: First Berlin Equity Research, SendR SE

Operating profits sift cleanly to the bottom line SendR has a small credit line of €0.4m on the balance sheet for short term working capital needs, which we expect the company to maintain throughout our forecasts. Given the low interest rate environment and low volume of the credit facility, pre-tax income should virtually mirror EBIT going forward, and we apply a 30% tax rate for the company. Owing chiefly to the non-recurring Phonofile costs, SendR will likely book an operating loss of €-0.5m for 2016E, which we expect to translate into net income (NI) of €-0.3m. We believe EBIT will turn positive again (FBe: €0.8m) next year and look for the bottom line to climb to €1.1m in 2018E corresponding to an NI margin 3.4%.

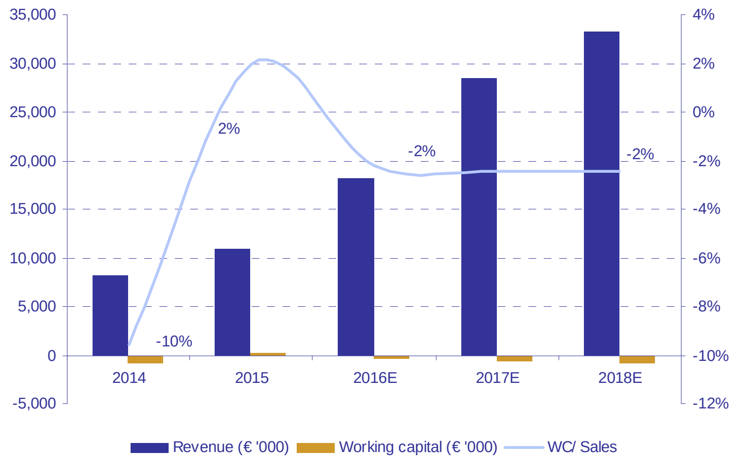
Figure 9: Return on equity development



Source: First Berlin Equity Research, SendR SE

Working capital and investment assumptions SendR traditionally benefits from low working capital requirements since it receives payment from DSPs before paying out royalties to its artists and labels. The company also carries no inventory on its balance sheet. We thus expect the company to run at a slightly negative WC/sales ratio of -2% throughout our forecast period.

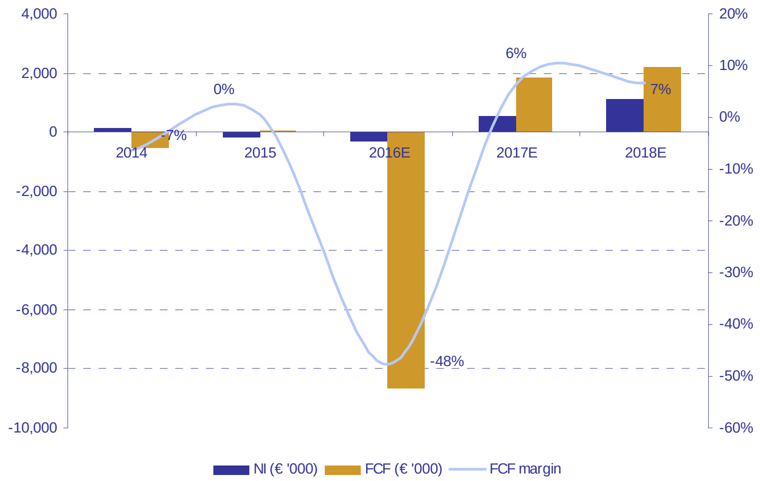
Figure 10: Working capital development



Source: First Berlin Equity Research, SendR SE

CapEx intensity is likewise low and mostly limited to the infrastructure requirements to support the operational staff. Otherwise, we do not foresee any major investments on the horizon. We have fully consolidated Phonofile as of H2/16 and taken the bulk of the assets into the fixed assets of the SendR balance sheet. The company will then write them down over a ten year time span according to their specific useful life guidelines. This accounts for the jump in our forecasted depreciation and amortisation figures. Consequently, the acquisition will result in a spike in cash flow from investing this year. However, given the low investment requirements for chiefly maintenance CapEx and the negative WC structure, we expect a strong conversion of net income into free cash flows (FCF) over the next two years as depicted overleaf.

Figure 11: Cash flow conversion



Source: First Berlin Equity Research, SendR SE

We expect SendR to keep the small loan on its balance sheet but plan for the company to mainly finance growth with cash flow from operations or with new equity in the event that SendR wants to expand externally. We have not accounted for any future equity increases in our model for now. Share capital will increase to €1.8m at the end of 2016 with the issuance of the 628,000 shares to Phonofile for the takeover.

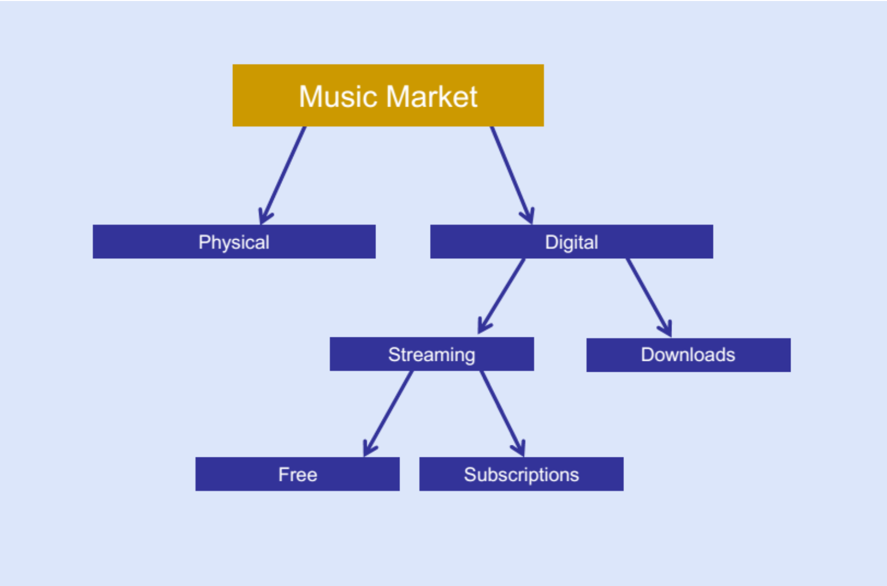
MUSIC INDUSTRY DEVELOPMENTS AND TRENDS

In this section, we highlight a few KPIs and forecasts for the music industry. While these data points are not all encompassing they do align relatively well with SendR's specific activities as a license aggregator. The examples below underscore our view that SendR's position in the market will provide ample opportunities to capture additional market share and grow over a variety of channels and territories. We will also expand upon the different territories SendR is involved in.

Music market structure

The music market can be split into two main segments: physical and digital. The physical market is defined by purchasing music in its final form as a CD or Vinyl. The digital market is defined as audio content that is distributed to the end-user via the Internet. The digital sector includes purchased digital downloads of single tracks or albums/compilations as well as on-demand digital streaming. On-demand digital streaming is either subscription-based or ad-supported which is then free of charge.

Figure 12: Structure of the music market



Source: First Berlin Equity Research

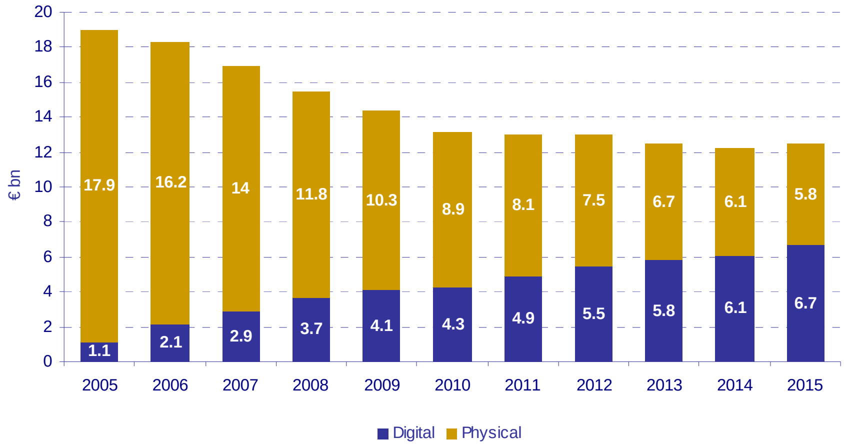
Global Picture

The music industry is experiencing a digital revolution driven by the proliferation of portable devices and consumers increasing desire to access music digitally on demand rather than through physical distribution. According to the 2015 IFPI report, the music market reached a major milestone in 2015, as digital music consumption surpassed physical demand for the first time. Global music revenue climbed 3.2% Y/Y to $15bn in 2015, which marked the first significant Y/Y growth since 1998 (IFPI).

Total digital revenue in 2015 increased by 10.2% Y/Y to $6.7bn. The increase can be chiefly traced to the streaming sector. The digital market growth is the result of tireless work and adaptation of the music industry in an attempt to be transformative. This innovative new market has lead to more stability in the music industry than has been seen in the last two decades.

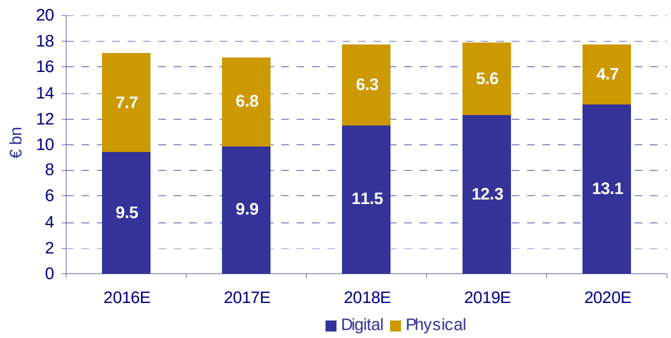
Meanwhile, physical format revenue continued to contract sliding 4.9% Y/Y in 2015. This was preceded by declines of 8.9% Y/Y in 2014 and 10.6% Y/Y in 2013. Digital music accounted for 54% of the overall market overtaking physicals' 46% share as shown below in figure 12. Digital music access is rapidly becoming main stream across the globe with four vastly different music markets having surpassed the 50% threshold for digital music consumption in 2015: Colombia, New Zealand, Philippines and Taiwan.

Figure 13: Development of global recorded music industry revenues 2005-2015



Source: First Berlin Equity Research, IFPI

Figure 14: Forecasted global recorded music industry revenues 2016-2020E

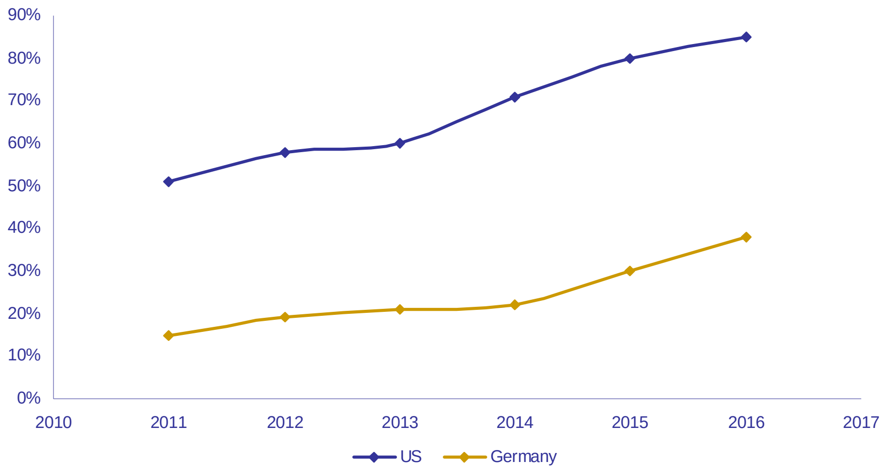


Source: First Berlin Equity Research, PwC

Germany: Still under-digitalised

Germany is SendR's home market and ranks as the third largest music market in the world behind the US (No.1) and Japan (No.2). A 2015 study done by Friedrich-Schiller-Universität found that the German music industry generated €1.5bn in revenues. The study also found that the music industry's gross value added (GVA) to the German Economy was approximately €3.9bn, which is higher than the book, film and the magazine industries. The German music industry continues to grow, but the physical market accounts for the majority of the German market at 70% (€1bn). Meanwhile, the digital music share consisting of streaming and downloading accounts for only 30% (€476m) of the market (IFPI).

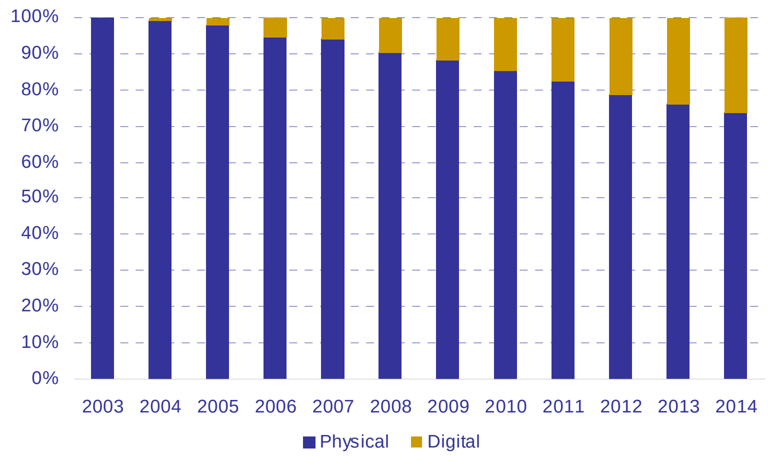
Figure 15: Comparison of German vs US digital market shares



Source: First Berlin Equity Research, IFPI

Germany has experienced a comparatively slow transition to the digital music age. The main drawback is that the physical market continues to be of high importance to the German people. Germans tend to pride themselves on having large physical collections, which is supported by the resurgence in vinyl. The physical market is important not only to collectors, but also to older generations who still enjoy listening to entire albums and for the most part have not begun accessing digital music. In contrast, the younger generation is embracing many of the modern applications that deliver high quality music on-demand. As shown below in Figure 16, it is clear the digital market continues to capture market share.

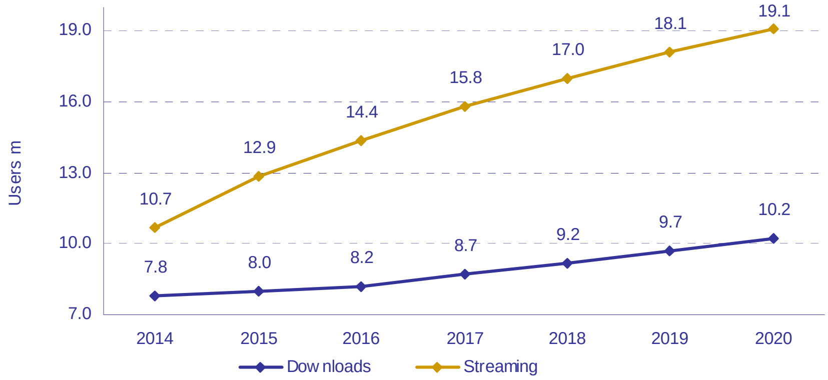
Figure 16: German digital transition from 2003 to 2014



Source: First Berlin Equity Research, IFPI

In 2015, streaming was the driving force behind the digital market growth. The number of music streamers in Germany is expected to grow from 12.9m in 2015 to 19.1m in 2020 (PwC). The rapid growth in the market leads us to believe SendR will also reap benefits and continue to grow and potentially acquire greater market share, while persisting as a leader in European digital aggregation and distribution. Market analysts believe the growth is driven by increasing numbers of on-demand consumers as well as a growing number of catalogues becoming available. While streaming continues to grow, the growth in downloading volume is expected to slow and eventually plateau. We attribute this shift to the improving quality of streaming technology and platforms.

Figure 17: German market expectations through 2020

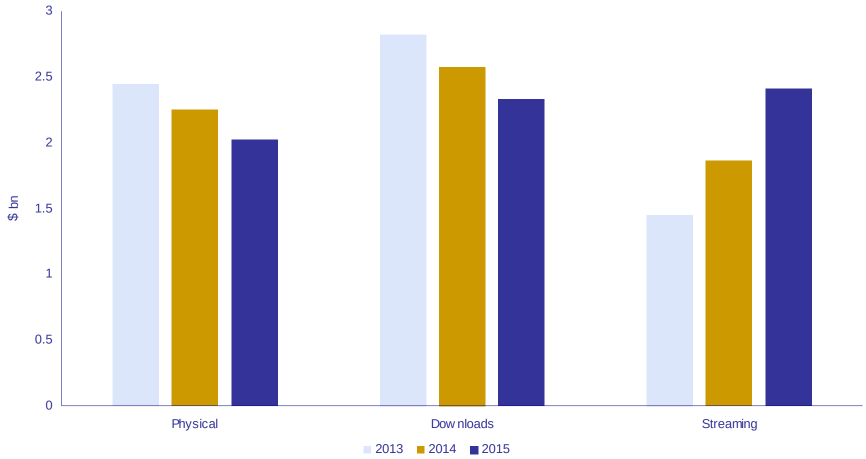


Source: First Berlin Equity Research, PwC

United States: The largest and most mature market

The US market makes up some 30% of SendR's total licensing revenue. The market continues to accelerate in growth; in 2004 digital music revenue amounted to $400m but by 2015 had multiplied 17x reaching $6.8bn. As shown below, digital channels accounted for approximately 68% of the total music market in 2015 with $4.8m in sales compared to $2.0m for physicals. Overall, the US market edged 1.4% Y/Y higher from $6.7bn. The *US Financial Times* found that providers such as Spotify, Apple Music and Pandora were largely responsible for the 29% Y/Y increase of domestic streaming revenues to $2.4bn in 2015. SendR boasts strong relationships with Apple and Spotify giving us a high degree of confidence that the company will continue to grow with these industry bellwethers. Meanwhile, digital download revenue has been on the decline for several years falling 10% Y/Y in 2015 to $2.3bn. Sales from physical formats also slumped 10% Y/Y to $2bn. As shown below, it is clear that physical formats and digital downloads are declining while streaming continues to hold the top position in the growth outlook.

Figure 18: Comparison of segment developments in the US market



Source: First Berlin Equity Research, RIAA

Nordic countries lead EU in digital music

As part of the growth strategy to continue expanding internationally, SendR is acquiring Norwegian based Phonofile AS. The four Nordic countries: Denmark, Norway, Finland and Sweden are at the forefront of the transition to digital music consumption. The countries' strong interest in music making, sharing, and listening has led to a powerful local music repertoire. A study done by three music societies Teosto, Koda and Tono found that in 2015, around 77% of respondents in the Nordic countries had used digital music services while 58%, or 9.7m users, had streamed music in the last 12 months.

As SendR plans to position itself as a full service provider for the thousands of small labels and artists on a broader international platform, entering the Scandinavian market was a positive strategic move for both the rights expansion and distribution goals of the company.

Untapped potential

The digital market is expanding globally according to Statista, revenue in this segment will grow 33% from $10bn in 2016 to $13bn by 2020E. User penetration of the digital market is 23% and is expecting to climb to 30% by 2020E.

It is clear that the German digital market is persistently growing but that it remains behind the curve compared to the US market, especially when it comes to market share. In our view, there is significant upside in Germany. As the market continues to move towards digitalisation, we think it will lead to substantial growth for SendR.

MANAGEMENT

Executive Director

Henning Thieß serves as executive director of SendR and is the co-founder of finetunes GmbH. He oversees operational processes and technical management activities. Previously, Mr Thieß studied law, information technology and economics. In late 2000, he founded GUDBERG Unprinted Media GmbH & Co. KG, an agency for building web shops, databases and other business information systems. GUDBERG developed an audio watermark and P2P Gopher "blue ice," which was then used by "GVU," the German Society for the Prosecution of Copyright Infringement, to detect illegal material in P2P-networks.

Executive Director

Oke Göttlich co-founded finetunes GmbH 13 years ago as a distribution solution for his private music label. finetunes has become one of the five largest digital distributors for independent music worldwide. Currently, Mr. Göttlich oversees marketing, distribution, and label management. He serves as a chairman of the VUT board, a German association for 12k independent music companies and is a board observer at Merlin, a global indie digital licensing agency.

BOARD OF DIRECTORS

Chairman

Alexander Sator co-founded one of the first software companies in Germany in 1983. In 1996, he founded Sator Laser, which focused on the development of lasers and laser systems for industrial applications, soon becoming market leader for its specific field. Mr Sator is currently the Managing Director of Sapfi Kapital and Strategy Advisor at Deutsche Telekom AG for the last two years. Mr Sator also serves on the Board of Trustees for 4G systems GmbH & Co. KG, as Non-Executive Director of Telit Communications PLC, as Non-Executive Director of Cinterion Wireless Modules Holding GmbH, and as Director of Breuer Nachrichtentechnik GmbH.

Non-Executive member of the Board of Directors

Helmuth Thieß is Managing Director of Helmut Thieß Law Firm GmbH. He specializes in mediation and insolvency law. Between 1998 and 2006, Mr Thieß managed an organisation with some 1,150 employees. From 1990 to 1998, he served as Managing Director of a sales organisation for financial products with around 650 employees. Mr Thieß is well known for his legal background and management skills making him a valuable asset to SendR's Board of Directors.

Non-Executive member of the Board of Directors

Jan Müller-Wiefel co-founded finetunes GmbH and now serves as Managing Director of GUDBERG with Henning Thieß. Recently Müller-Wiefel has expanded GUDBERG into a Publishing House and Art Gallery while cooperating with international artists in physical and non-physical distribution of creative content.

INCOME STATEMENT

in € '000	2014[1]	2015	2016E[2]	2017E	2018E
Revenue	8,130	10,876	18,145	28,537	33,278
Cost of goods sold	-6,334	-8,343	-14,516	-23,115	-26,955
Gross profit	**2,025**	**2,533**	**3,629**	**5,422**	**6,323**
Personal expenses	-1,253	-1,383	-1,724	-2,438	-2,531
Depreciation	-174	-214	-998	-1,056	-1,032
Other Operating expenses	-763	-1,178	-1,633	-1,437	-1,483
Operating income (EBIT)	**381**	**-17**	**-467**	**789**	**1,619**
Interest expense	-13	-15	0	0	0
Interest income	61	2	2	2	2
Other financial result	8	0	0	0	0
Pre-tax income (EBT)	**437**	**-30**	**-465**	**791**	**1,621**
Extrordinary results	-14	0	0	0	0
Tax expense	-286	-149	139	-237	-486
Net income / loss	**137**	**-179**	**-325**	**554**	**1,135**
Diluted EPS (in €)	**0.11**	**-0.15**	**-0.18**	**0.30**	**0.62**
EBITDA	**555**	**197**	**531**	**1,845**	**2,651**
Ratios					
Gross margin	24.9%	23.3%	20.0%	19.0%	19.0%
EBIT margin on revenues	4.7%	-0.2%	-2.6%	2.8%	4.9%
EBITDA margin on revenues	6.8%	1.8%	2.9%	6.5%	8.0%
Net margin on revenues	1.7%	-1.6%	-1.8%	1.9%	3.4%
Tax rate	65.5%	-503.4%	30.0%	30.0%	30.0%
Expenses as % of revenues					
Personal expenses	15.4%	12.7%	9.5%	8.5%	7.6%
Other Operating expenses	9.4%	10.8%	9.0%	5.0%	4.5%
Y-Y Growth					
Revenues	n.m.	33.8%	66.8%	57.3%	16.6%
Operating income	n.m.	n.m.	n.m.	n.m.	105.2%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	104.9%

[1] finetunes was fully consolidated as of Q2/14

[2] assumes consolidation of Phonofile as of H2/16

BALANCE SHEET

in € '000	2014[1]	2015	2016E[2]	2017E	2018E
Assets					
Current assets, total	**1,970**	**3,282**	**4,560**	**8,127**	**11,127**
Cash and cash equivalents	892	1,285	1,279	3,129	5,340
Accounts receivable	544	1,707	2,983	4,691	5,470
Other assets	534	290	298	307	317
ST financial assets	0	0	0	0	0
Non-current assets, total	**1,378**	**1,194**	**10,205**	**9,263**	**8,364**
Intangible assets	1,216	1,037	2,692	2,150	1,651
Tangible assets	106	99	7,453	7,054	6,655
Financial assets	52	52	52	52	52
Other LT assets	5	8	8	8	8
Total assets	**3,348**	**4,476**	**14,765**	**17,390**	**19,491**
Shareholders' equity & debt					
Current liabilities, total	**1,446**	**1,951**	**3,493**	**5,502**	**6,402**
Customer advances	17	20	21	22	23
Accounts payable	1,321	1,493	3,380	5,383	6,277
Provisions	0	0	0	0	0
ST debt	0	350	0	0	0
Other current liabilities	108	88	92	97	101
Long-term liabilities, total	**345**	**1,146**	**1,206**	**1,269**	**1,335**
Deferred tax assets	153	122	131	140	150
Pensions	0	0	0	0	0
Other accruals	192	1,024	1,075	1,129	1,185
Shareholders' equity, total	**1,557**	**1,379**	**10,065**	**10,619**	**11,754**
Share capital	1,200	1,200	1,828	1,828	1,828
Capital reserve	220	220	8,604	8,604	8,604
Loss carryforward / retained earnings	137	-42	-367	187	1,322
Total consolidated equity and debt	**3,348**	**4,476**	**14,765**	**17,390**	**19,491**
Ratios					
Current ratio (x)	1.4	1.7	1.3	1.5	1.7
Net debt	-892	-935	-1,279	-3,129	-5,340
Net gearing	-57%	-68%	-13%	-29%	-45%
Return on equity (ROE)	8.8%	n.a.	n.a.	5.2%	9.7%
Capital employed (CE)	544	1,349	9,748	8,512	7,499
Return on capital employed (ROCE)	70%	n.a.	n.a.	9%	22%

[1] finetunes was fully consolidated as of Q2/14

[2] assumes consolidation of Phonofile as of H2/16

CASH FLOW STATEMENT

in € '000	2014[1]	2015	2016E[2]	2017E	2018E
Net income	**137**	**-179**	**-325**	**554**	**1,135**
Depreciation & amortisation	174	214	998	1,056	1,032
Financial result	-48	13	-2	-2	-2
Tax Result	286	149	-139	237	486
Change in receivables	-93	-1,163	-1,276	-1,708	-779
Change in other current assets/liabilities	159	1,133	5	6	7
Change in payables	334	172	1,887	2,003	894
Operating cash flow	**949**	**340**	**1,147**	**2,145**	**2,772**
Tax paid	-37	-270	139	-237	-486
Interest income	61	2	2	2	2
Net operating cash flow	**973**	**72**	**1,289**	**1,910**	**2,288**
Purchase PP&E	-154	-207	-7,990	-86	-100
Purchase intangibles	-999	179	-2,019	-29	-33
Other LT assets	-349	-2	51	54	56
Cash flow from investing	**-1,501**	**-30**	**-9,957**	**-60**	**-77**
Dividend paid to shareholders	0	0	0	0	0
Debt inflow, net	0	350	-350	0	0
Equity inflow, net	1,300	0	9,012	0	0
Interest expense	0	0	0	0	0
Cash flow from financing	**1,300**	**350**	**8,662**	**0**	**0**
Cash, start of the year	121	892	1,285	1,279	3,129
Change in cash, net	771	393	-6	1,850	2,211
Cash, end of the year	**892**	**1,285**	**1,279**	**3,129**	**5,340**
Free cash flow (FCF)	**-529**	**43**	**-8,668**	**1,850**	**2,211**
FCF/share (in €)	-0.44	0.04	-4.33	0.92	1.11
Y-Y Growth					
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.
FCF/share	n.m.	n.m.	n.m.	n.m.	19.6%

[1] finetunes was fully consolidated as of Q2/14

[2] assumes consolidation of Phonofile as of H2/16

SHAREHOLDERS & STOCK INFORMATION

Stock Information	
ISIN	DE000A1YDAZ7
WKN	A1YDAZ7
Bloomberg ticker	SD1 GR
No. of issued shares	1,200,000
Transparency Standard	Entry Standard
Country	Germany
Sector	Entertainment
Subsector	Digital Music

Source: Börse Frankfurt, First Berlin Equity Research

Shareholder Structure	
XOMOX GmbH	47.8%
Alexander Sator	9.2%
Göttlich GmbH	41.5%
Free Float	1.5%

Source: SendR SE

APPENDIX

TRANSACTION MULTIPLES

Table 6: Corporate activity in the music industry

Date Announced	Target	Acquirer	Implied EV ($m)	Revenue	EBITDA
03/01/2010	2 entertain	BBC Worldwide	64	0.2x	-
26/11/2010	Chrysalis Group	BMG Rights Managment	206	1.8x	22.4x
08/12/2010	ORICON	Lawson	107	1.4x	7.6x
27/02/2011	Independent Media Distribution	Vitruvian Partners	53	3.2x	11.5x
19/04/2011	DaDaNet	Buongiorn	45	0.4x	3.1x
05/05/2011	Warner Music Group	Al Entertainment Holdings	2,994	1.0x	7.9x
06/07/2011	GoConnect	Private Buyer	5	13.1x	
15/01/2011	CELL	DWANGO	38	1.1x	
14/05/2012	Buongiorn	NTT DOCOMO	318	1.0x	10.9x
15/07/2012	Make Music	LaunchEquity Partners	6	0.3x	
28/09/2012	EMI	Universal Music Group	1,900	-	-
15/02/2013	Sanctuary Records	BMG Rights Managment	63	4.9x	8.9x
01/08/2014	Beats	Apple	3,000	-	-
11/08/2014	Saatchi Art	Demand Media	17	-	-
15/01/2015	Preiumbeat.com	Shutterstock	32	-	-
18/03/2015	The Orchard	Sony	200	-	-
27/05/2015	Instinctiv	SoundCloud	10	-	-
25/11/2015	Rdio	Pandora	75	-	-
12/01/2016	Loen Entertainment Inc.	Kakao	1,600	-	-
12/02/2016	BandPage	YouTube	8	-	-
Mean			**1,074**	**2.8x**	**7.2x**

Source: First Berlin Equity Research; SendR; Capital IQ

SELECT DIGITAL MUSIC AGGREGATOR PEERS

The industry has spawned a number of digital clearing houses over the past decade. Many operate similar models to SendR, although direct comparisons make little sense given the various services housed and marketed by each provider. The short list outlines a select group that operates in the same markets as SendR, but it is not all encompassing. Although we have not assumed further corporate activity by SendR, there are ample opportunities for management to opportunistically roll up the market further.

Believe Digital

Founded in 2005, Believe Digital is headquartered in Paris, France and is an independent digital distributor and service provider for artists and labels worldwide. The company provides label and campaign management, trade and digital marketing services, distribution, as well as an in-house record label, Believe recordings. The company provides tailor made strategies, international networking, and extensive international office set-up services.

Zebralution

Zebralution, founded in 2003, is one of the first media distributors in Germany. The company distributes a range of media from music and videos, to audio books and mobile entertainment products. The digital music distribution aspect of the company works strictly with independent labels and provides them with online platforms leading to international exposure. In 2007, Zebralution became an independent affiliate of Warner Music Group and is also a member of BVMI and A2IM.

Ditto Music

Ditto Music was founded in 2005 and is headquartered in Liverpool, UK. Ditto Music is an online music distribution company that works with over 85k artists from over 100 countries. The company currently distributes to more than 160 digital music stores, including iTunes, Google Play, Amazon, Spotify, and Rhapsody. The company was nominated distributor of the year at the 2013 Music Week Awards.

State51 Conspiracy

State 51, founded in 1991, was the first independent company to provide media to iTunes. The company offers labels and artists reliable digital distribution. The labels and artists retain 100% of their rights, while the company distributes their music.

CD Baby

CD Baby is headquartered in Portland Oregon and was founded 1995. The company specialises in the sale of CDs, vinyl records, and music downloads and is one of the first online digital and physical music distributors to open its doors to independent artists. CD Baby has a catalogue of more than 350k albums and over two million downloadable song tracks. The company distributes music to over 100 digital retailers and 15,000 brick-and-mortar stores worldwide.

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	Today	€18.27	Buy	€24.00

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- **sensitivity of valuation parameters**

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