

SendR SE

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

H1/16
 Results

RATING
PRICE TARGET

Return Potential
 Risk Rating

BUY
€24.00
 33.1%
 High

SOLID GROWTH IN H1/16; PHONOFIL DEAL APPROVED

Six month results were in line with our projections. The company grew the top line some 7.6% Y/Y to €5.0m, driven by a vibrant market environment for digital music consumption. The figure nearly matched our estimate of €5.1m. Profitability remained slightly burdened by one-off expenses associated with the Phonofile acquisition, and EBIT was slightly negative at €47k. The announced Phonofile takeover was approved by 100% of the shareholders at the July 2016 AGM, and we expect full consolidation as of H2/16. We confirm our full year estimates and €24 price target. Our rating remains Buy.

Shareholders ratify Phonofile acquisition SendR shareholders cleared the way for the takeover of the Norway-based Phonofile AS at the July AGM with a 100% approval. In our view, the deal represents a significant milestone that will significantly increase company turnover—we forecast revenue to double in H2/16—and, importantly, greatly expand SendR's rights catalogue and geographic footprint. The higher revenue volume will also unlock economies of scale to spur improved profitability. We believe the merger will allow finetunes and Phonofile to tap into one another's strengths, boost existing market positions, and support further internationalisation ambitions.

Steady organic growth of finetunes operations Revenue grew some 7.6% in H1 to €5.0m (FBe: €5.1m), driven primarily from licensing fees traced to finetunes operations. The gross margin remained steady at 23%, which is in line with the 2015 figure and our target for finetunes activities. We expect the gross margin to dip to 20% going forward with the consolidation of the lower margin Phonofile operations starting in H2/16. The gross profit of €1.2m allowed the company to cover most of the operating costs, which encompassed several one-off expenses, and nearly break even at the EBIT level. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016E	2017E	2018E	2019E
Revenue (€m)	8.13	10.88	18.14	28.54	33.28	38.45
Y-o-y growth	n.a.	33.8%	66.8%	57.3%	16.6%	15.5%
EBIT (€m)	0.56	0.20	0.53	1.84	2.65	3.59
EBIT margin	6.8%	1.8%	2.9%	6.5%	8.0%	9.3%
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

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.

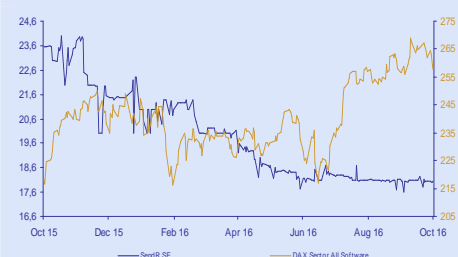
MARKET DATA

As of 13 Oct 2016

Closing Price	€ 18.03
Shares outstanding	1.20m
Market Capitalisation	€ 21.64m
52-week Range	€ 17.61 / 23.99
Avg. Volume (12 Months)	040

Multiples	2015	2016E	2017E
P/E	n.a.	n.a.	59.5
EV/Sales	2.0	1.2	0.7
EV/EBITDA	108.6	40.3	11.6
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2016

Liquid Assets	€ 0.64m
Current Assets	€ 3.70m
Intangible Assets	€ 0.97m
Total Assets	€ 4.82m
Current Liabilities	€ 2.39m
Shareholders' Equity	€ 1.19m

SHAREHOLDERS

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

**Table 1: Six month results vs forecasts**

All figures in EUR '000	H1 2016	H1 2016E	% delta	H1 2015	% delta
Revenue	5,027	5,111	-1.6%	4,670	7.6%
Gross profit	1,165	1,175	-0.9%	1,097	6.2%
Margin (%)	23.2%	23.0%	-	23.5%	-
EBIT	-47	-133	-	-114	-
Margin (%)	-0.9%	-2.6%	-	-2.4%	-
Net income	-178	-133	-	-255	-
EPS diluted (\$)	-0.15	-0.11	-	-0.21	-

Source: First Berlin Equity Research; Company

Operating expenses remained steady in H1 Personnel costs at €0.7m were unchanged on the previous year and corresponded to 13% of sales, which is line with the historical metric. We expect this KPI to decline with the consolidation of Phonofile in H2/16. Other operating expenses amounted to €0.6m for the period (H1/15: €0.5m). We estimate the company incurred some €0.1m in one-off expenses traced to the Phonofile deal. Depreciation and amortisation remained insignificant at €0.0m and EBIT was €-47k. This was slightly ahead of our forecast of €-133k. Adjusted for one-offs, we calculate EBIT at €50k. Net income was €-178k compared to our figure of €-133k, due to a higher than expected tax result.

Table 2: Balance sheet KPIs

All figures in EUR '000	H1/16	FY 2015	Delta
Cash and cash equivalents	643	1,285	-50.0%
Financial debt (short- and long-term)	395	350	12.9%
Net debt	-248	-935	-73.5%
Total assets	4,815	4,476	7.6%
Shareholders' equity	1,199	1,379	-13.1%
Equity ratio	24.9%	30.8%	-

Source: First Berlin Equity Research; Company

Balance sheet remains stable Total assets grew to €4.8m (FY15: €4.5m), mainly due an increase in accounts receivable to €2.1m (FY15: €1.7m) in conjunction with upswing in sales activities. We note that a change in accounting at the end of last year means that fees are now taken into the books at the gross amount (previously: net) and offset with a provision. SendR requires no inventories for its operations. Shareholders' equity decreased to €1.2m (FY15: €1.4m), owing to the net loss booked in H1. Consequently, the equity ratio declined to 25% vs 31% in FY15.

The company did not provide a cash flow statement for the period under review. We estimate net operating cash flows totalled some €-0.6m in H1 traced to the small net loss and the increase in working capital, which included a high number of pre-payments to labels. SendR made no significant investments during the period, while cash flow from financing was limited to the €44k increase in small bank loans on the balance sheet. Thus total cash consumed for the six month period equalled €-0.6m leaving SendR with some €0.6m in cash and equivalents on the balance sheet and a net cash position of €0.2m.



Company on track to meet our full year targets; rating remains Buy with €24 price target Our estimates remain unchanged following the in line six month performance. We look for full year revenues to top €18m driven by the consolidation of Phonofile in H2 and organic growth. Management expect sales to breach the €20m mark in 2017—guidance that looks conservative in our view. We project sales to reach €28.5m in 2017 and model a three year CAGR of 45% for the period 2016—2018E, driven by revenue streams from the rights catalogue.

We continue to believe that the ongoing transition of the German market towards digital music consumption will provide SendR with ample opportunity to expand its rights catalogue, while the company makes stronger inroads abroad and leverages its larger post-merger platform. The latest music industry fundamentals support this positive view. The industry grew some 3.6% Y/Y spurred chiefly by streaming, which increased by a whopping 88% to represent a 24% market share of overall music consumption. Vinyl continues to grow significantly at 46% and represented 4.3% of the market compared to 3.1% in H1/15.



VALUATION MODEL

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	-8,672	1,576	1,704	2,002	2,356	2,561	2,552	2,530

All figures in '000	
PV of FCFs in explicit period (2016-2030E)	22,186
PV of FCFs in terminal period	21,463
Enterprise value (EV)	43,650
+ Net cash / - net debt (H1/16)	249
+ Investments / minority interests	0
Shareholder value	43,899
Fair value per share in EUR	24.01

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

		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	8.0%	36.88	38.45	40.27	42.38	44.89	47.89	51.56
	9.0%	30.74	31.81	33.03	34.42	36.03	37.91	40.12
	10.0%	25.98	26.73	27.58	28.53	29.61	30.85	32.27
	11.0%	22.19	22.74	23.34	24.01	24.77	25.61	26.57
	12.0%	19.12	19.52	19.97	20.45	20.99	21.59	22.25
	13.0%	16.59	16.89	17.22	17.58	17.97	18.41	18.88
	14.0%	14.47	14.70	14.95	15.22	15.52	15.84	16.19



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
Extraordinary 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	-4.74	1.01	1.21
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

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	19 July 2016	€18.27	Buy	€24.00
2	Today	€18.03	Buy	€24.00

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

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