



# ProSieben – TV's real House of Cards

ProSieben's (ETR:PSM) growth story is a lie: earnings manipulation, huge put liabilities  
Published March 6, 2018

ProSiebensat.1 Media SE (**ProSieben**) is a European media company focused in the German-speaking TV and digital market. The company's core business is advertising-financed free TV, supplemented by digital segments built by a diversification campaign over the last half-decade.

Diversification has proven a costly and ultimately unsuccessful strategy. Viceroy believes ProSieben is a highly leveraged entity with non-performing subsidiaries offering no synergies. ProSieben's core business – which has carried ProSieben's investment losses – appears to be in accelerating decline, with a potential death knell spurred by the EU's implementation of its General Data Protection Regulation (GDPR).

- ProSieben's acquisition and expansion strategy has been catastrophic, unfocused, and expensive – the company is currently attempting to control the damage caused. Many expensive investments are loss-making, hidden through segment accounting gimmickry, and offer no synergies. It is unlikely that ProSieben will be able to offset losses through divestment. There is no clear rhyme or reason to their business and such disjointed segments have proven difficult to manage and integrate.
- **Viceroy believes ProSieben's non-cash barter transactions have artificially boosted revenues by EUR 210m in 2016: almost 50% of net income.** Viceroy believe ProSieben's media-for-equity and media-for-revenue transactions will never be realized in cash because investments have been pulled from the bottom of the barrel. Despite classifying these transactions as revenue items, ProSieben does not appear to adjust its operating cashflows to reflect this non-cash item, as equity/investments are inherently not a working-capital account.
- ProSieben has subsidized a fabricated digital "growth story" using cash flows from its TV advertising business and idle TV advertising inventory. As its core business declines, **ProSieben can no longer counterbalance its underperforming digital segments** – the earnings structure is on the verge of collapse.
- Significant unmet financing needs and dividend commitments far outweigh ProSieben's cash flows. **We believe shareholders will inevitably be subject to increasingly dilutive equity raises.** Outstanding amongst these are ProSieben's acquisition-related put liabilities which amounted to EUR 366m as of EOFY 2016.
- ProSieben's unconditional put liabilities have the characteristics of former management "bonuses" which bypass the consolidated income statement and stagger the company's cash outflows (despite being unconditional). **This allows ProSieben to consolidate entities (through majority ownership) without full cash outlay and minimizing P&L effects.**
- **ProSieben has lost at least 14 senior executives & board members in 2017 alone.** It is very telling that almost the entire finance-related management team has left the company within that period. **It seems the people most familiar with the true financial state of ProSieben have jumped ship.** The collective Executive Board and Supervisory Board directly hold a mere 65,244 shares in ProSieben as of December 31, 2017. This is equivalent to 0.0% of the share capital.
- ProSieben is locked-in to new "output deal" contracts with major US studios to the tune of EUR 3,022m which it acknowledges does not meet the appetite of German viewers. Viceroy believe this will substantially increase costs in a declining market – a margin-trimming exercise.
- The head of ProSieben's M&A team who processed an acquisition was employed by the seller a short period after. Viceroy believe the transaction was extremely favorable to the sellers.
- The Company's dividend rates are fiscally irresponsible and unsustainable. Viceroy believes the capital raise in November 2016 which followed a large dividend payout was totally nonsensical.



*Viceroy believes that ProSieben will be forced to issue another capital raise or cancel its dividend to zero to deal with these problems.*

ProSieben displays all the signs of a business in an advanced state of decay in every operating segment. Viceroy believes that these issues have gone unattended for too long, and a correction is imminent as ProSieben's market becomes stressed.

Viceroy believe ProSieben must make significant downward revisions on its earnings:

<b>Revised Earnings - LTM</b>		<b>(EUR m)</b>
<b>EBITDA</b>		<b>752</b>
Less:		
Assumed non-cash MFE / MFR revenues		(210)
Put liabilities		(40)
Other intangible assets		(89)
<b>Viceroy revised EBITDA</b>		<b>413</b>
<b>Net Income*</b>		<b>201</b>
Less:		
Assumed non-cash MFE / MFR revenues		(141)
Put liabilities		(27)
<b>Viceroy revised Net Income</b>		<b>33</b>
*Removed gain on sale of Etraveli using avg tax rate over last 2 years where applicable.		

*Figure 1 Viceroy analysis: ProSieben revised earnings*

We value ProSieben at EUR 7.51 per share, representing a 75% downside on the closing price at March 5, 2018. Given the lack of transparency within the business, Viceroy believe ProSieben is uninvestable, as earnings appear to be artificially boosted and massive impairments are imminent, as are restatements to previous accounts.

<b>EV /EBITDA Valuation</b>			
<b>(EUR m)</b>	<b>Low</b>	<b>Mean</b>	<b>High</b>
EV Multiple	4.29	8.18	11.50
Viceroy revised EBITDA	413	413	413
EV	1,772	3,377	4,750
Net Cash	(1,632)	(1,632)	(1,632)
Implied Market Cap	140	1,745	3,118
Current Market Cap	6,861	6,861	6,861
<b>Downside</b>	<b>-98%</b>	<b>-75%</b>	<b>-55%</b>

*Figure 2 Viceroy analysis: ProSieben valuation*



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## 1. Background

ProSieben is a European media company, mainly operating in advertising-financed free TV. ProSieben's station catalogue includes SAT.1, ProSieben, kabel eins, six, SAT.1 Gold, ProSieben MAXX and kabel eins Doku. The group also includes subscription-based video marketing entity maxdome (aka Studio71) and media producer/distributor Red Arrow. The majority of the company's operations and revenue are derived from the German-speaking markets in Germany, Switzerland and Austria.

For the past half-decade ProSieben has attempted to diversify through a flurry of acquisitions and initiatives that have become a millstone around the company's neck. These include e-commerce, fashion, travel, health, free TV streaming services and gaming. This "digital growth story" has been heavily subsidized by the group's core business, divestment of quality assets and has led to the use of "media-for-equity" arrangements whereby the company trades its advertising volume for equity stakes.

In its 2016 annual report, ProSieben defined its operating segments as:

- Broadcasting (German-speaking);
- Digital entertainment;
- Digital ventures and commerce;
- Content production and global sales.

ProSieben's reporting on the performance of these segments is inconsistent and the company regularly redefines segments to its benefit. The company's allocation of revenues and costs to these segments is often counterintuitive or not adequately disclosed. Viceroy find that companies who aggressively redefine reporting segments and disclosures do so in an effort to mislead investors and cover up operational weaknesses.

ProSieben has been limping along for some time however Viceroy believes the company's decline will soon accelerate, supported by an exodus of senior management across its divisions in the past year.

In late August 2017 ProSieben announced a forecasted growth downgrade resulting in a plunge in the group's share price of ~15%.

The cracks now surfacing in the company's growth story are the result of several fundamental issues with the company, which we will lay out over the course of this report.





## 2. Catastrophic and unfocused M&A and expansion strategy

ProSieben's M&A strategy does not seem to follow a coherent pattern and can be described as erratic at best. As a media company ProSieben knows how to put on a good show, clearly shown at its Capital Market Day presentations. However, the Company changes its investment strategy so often and so drastically it seems to think that its shareholders do not remember what the Company told them in the previous year.

While the company has made some effort to group these disparate operations into segments or clusters, Viceroy can see very few synergies at play both within and between these clusters.

After spending the better part of a decade putting together these acquisitions and shuffling them around business segments, ProSieben now appears to be offloading minority interests. Viceroy believes this is an indicator of a failed M&A strategy and overcommitted cash-flows.

For a company so invested in its M&A activity, ProSieben seems to go to great lengths to obscure or conceal the ongoing performance of the entities it acquires. Even relatively large investments such as Etraveli or SilverTours seem to fall off the radar the year after ProSieben's investment and the only indicator of performance is under the "List of affiliated companies and investments".

List of affiliated companies and investments of ProSiebenSat.1 Media SE Continued						
No.	Company	Location	Share in %	Held via	Currency <sup>2</sup>	Equity in thousand <sup>3</sup> Profit/loss for the period <sup>4</sup>
76	SilverTours GmbH	Freiburg im Breisgau	74.90	36	EUR	6,843.2 6,818.2

Figure 3 Extract of ProSieben Annual Report 2015<sup>1</sup>

While ProSieben does break down revenue by segment, the large number of additions to each group as the company rolls up makes a like-for-like comparison difficult. The standalone performance of any acquisition seems to be made intentionally opaque. The separation of its "Digital and Adjacent" segment into "Digital Entertainment" and "Digital Ventures and Commerce" in 2016 further adds to this problem.

Additionally, the profit/loss of a subsidiary for the period presented is representative of the previous financial year as shown below in the corresponding notes to Figure 3 above.

- |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1 Company meets the requirements of Section 264 (3) of the German Commercial Code and exercises the option to be exempted from certain requirements on the preparation, auditing and disclosure of the annual financial statements and the financial report.</p> <p>2 The figures for Equity and Profit/loss for the period presented have been translated using the foreign exchange spot rates as of the end of the reporting period.</p> <p>3 Result after profit and loss transfer agreement.</p> <p>4 No figures available. Company acquired in 2015 or founded or in liquidation.</p> | <p>5 Shortened financial year from October 15, 2014 to December 31, 2014.</p> <p>6 Shortened financial year from October 6, 2014 to December 31, 2014.</p> <p>7 Shortened financial year from March 28, 2014 to December 31, 2014.</p> <p>8 Shortened financial year from September 19, 2014 to December 31, 2014.</p> <p>9 The figures for Equity and Profit/loss refer to the financial year 2014 and partly reflect local accounting rules which do not necessarily correspond to IFRS.</p> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Figure 4 Extract of ProSieben Annual Report 2015<sup>2</sup>

Viceroy believes this is intentional in order to prevent scrutiny into the performance of acquired entities. As a result we believe that ProSieben will attempt to respond to this report claiming we have intentionally misread the company's financial statements. We urge stakeholders to push the company for greater transparency regarding the post-acquisition performance of its subsidiaries.

### Beauty and accessories cluster

In 2015, ProSieben announced a new cluster called "Beauty & Accessories" with the acquisition of majority interests in perfume startup Flaconi and erotic shop Amorelie. Also in the cluster was e-commerce jewelry site Valmano, previously of ProSieben's defunct incubator Epic Companies which closed its doors a year and a half after its inception<sup>3</sup>. In July 2016, ProSieben added Stylight to this cluster, as **"the company is an essential strategic element of our fast-growing commerce business"**<sup>4</sup> by increasing its holding from 22.06% to 100%.

<sup>1</sup> ProSieben Annual Report 2015 pg. 309

<sup>2</sup> ProSieben Annual Report 2015 pg. 314

<sup>3</sup> <https://www.gruenderszene.de/allgemein/aus-epic-companies-prosiebensat-1>

<sup>4</sup> <http://www.prosiebensat1.de/en/press/7commerce-acquires-stylight>



By January 2017, the loss-making Valmano was sold<sup>5</sup>.

ProSieben's internal segment structure makes ascertaining the performance of these businesses difficult however from its annual filings it is possible to determine the profit/loss attributable to these acquisitions over time:

	Profit of subsidiaries (EUR m)				Total
	Flaconi	Amorelie	Valmano	Stylight	
2013	-0.70		-4.35		-5.05
2014	1.50	-3.00	-0.74		-2.24
2015	1.25	-5.50		-0.43	-4.68
Total	2.05	-8.50	-5.09	-0.43	-11.99

Figure 5 Viceroy analysis of ProSieben Beauty & Accessories cluster

ProSieben's lofty goals for its beauty and accessories cluster seem to be pure fiction. We expect the beauty cluster to continue its downward trajectory and expect a full goodwill impairment.

## Travel cluster

The Travel cluster was ProSieben's largest cluster and was supposed to be bolstered by the EUR 235m acquisition of Etraveli in November 2015.

ProSieben executive board member Dr. Christian Wegner said of the acquisition:

**Dr. Christian Wegner, Member of the Executive Board ProSiebenSat.1:**

"With our investment in Etraveli, we have taken a significant step toward internationalizing our existing travel portfolio and we have laid the foundation for additional growth that extends far beyond the borders of Europe. Our strategic goal is to gradually globalize the digital business fields so we can continue ProSiebenSat.1's success story as an eCommerce powerhouse."

Figure 6 Extract from ProSieben press release "ProSieben acquires Etraveli"<sup>6</sup>

In October 2016, ProSieben stated that its key strategy for the digital segment was to "grow travel into European leader"<sup>7</sup>. It is very difficult to imagine how and why ProSieben, a media company that is exclusively focused on three German speaking countries, can or would drive a pan-European expansion into travel.

	Profit of subsidiaries (EUR m)							Total
	Mydays Group	SilverTours	Tropo	Wetter.com	Comvel	Discavo	Etraveli Group	
2012	8.33	6.02	-1.93	3.98				16.40
2013	-0.07	4.89	-4.53	0.29	-0.36	-0.60		-0.38
2014	-6.61	6.82	-2.84	4.50	-3.67	-2.19	1.21	-3.99
2015	-3.52	4.88			0.29		0.10	2.04
Total	-1.87	22.61	-9.30	8.77	-3.74	-2.79	1.31	14.07

Figure 7 Viceroy analysis of ProSieben Travel cluster

Note that the cumulative profit of the cluster so far is exceeded by the purchase consideration of just one member, SilverTours (EUR 59.9m), to say nothing of the purchases of Comvel (EUR 40.8m) and Etraveli (EUR 187.8m)

As can be seen above only SilverTours and Wetter.com are profitable in this travel cluster. Viceroy are also skeptical of the inclusion of Wetter.com in this cluster as the company primarily operates a weather forecasting

<sup>5</sup> <http://www.gruenderszene.de/allgemein/prosiebensat1-anteile-valmano>

<sup>6</sup> <http://www.prosiebensat1.com/en/press/internationalization-of-the-travel-cluster-prosiebensat-1-acquires-etrali-a-leading-pan-european-online-travel-agent-for-flights>

<sup>7</sup> <http://www.prosiebensat1.de/uploads/2016/12/22/Digital%20Ventures%20%26%20Commerce.pdf>



service in German-speaking regions (“wetter” being the German word for “weather”); its relation to travel is somewhat tangential.

**ProSieben sold Etraveli just a year and a half after its acquisition.** This is odd given that the strategic goal of the digital segment was to grow its travel division into the European leader.

It seems ProSieben were unable to sell the remaining companies in the travel cluster and is now stuck with this rather unattractive portfolio (e.g. Tropo and weg.de).

## Gaming cluster

ProSieben’s entrance into the Games cluster failed as well.

	Profit of subsidiaries (EUR m)			Total
	SevenGames	Aeria Games	gamigo	
2012	1.31			1.31
2013		0.49		0.49
2014		-11.91		-11.91
2015				0.00
2016		-30.00	-4.00	-34.00
Total	1.31	-41.42	-4.00	-44.11

Figure 8 Viceroy analysis of ProSieben Gaming cluster

*Note: the profit/loss for Aeria Games Europe is derived from an EUR -42m loss from discontinued operations in 2016. The only other disposed subsidiary was Magic Internet GmbH which incurred EUR -0.23m in losses the prior year.*

On February 19, 2014 ProSieben acquired the European branch of American mobile game developer Aeria Games for EUR 29m in cash. Two years of losses later, Aeria was sold in exchange for a 33% stake in a questionable game company, gamigo AG. The transaction was framed as an M&A.

Gamigo was formerly owned by Axel Springer, who offloaded the company in 2012 for consideration of \$0.00<sup>8</sup>. Gamigo was previously hacked, with PwnedList founder Steve Thomas commenting “It’s the largest leak I’ve ever actually seen,” at the time of the incident<sup>9</sup>.

Gamigo AG – which has publicly traded bonds outstanding – has not yet disclosed its FY 2016 financial statements. Gamigo’s 2015 auditor (Rödl & Partner GmbH) includes a going concern opinion, as well as concerns in relation to Gamigo’s intangible valuation methods.

We are very surprised that ProSieben even considered being involved with a company that has such serious accounting and internal control issues, which present an even greater problem in light of the incoming General Data Protection Regulation. **Viceroy believe this investment should be fully impaired.**

## Video streaming service

Another failed ProSieben investment is maxdome, a loss-making subscription-based video streaming service in which ProSieben has sunk an estimated EUR 140m<sup>10</sup>. Viceroy believe maxdome will be perpetually loss-making, with competition intensifying in Europe. Shareholders are unlikely to see any return.

ProSieben was very proud when it announced that maxdome reached 1m subscribers in December 2016, however failed to clarify that **many of these customers are due to B2B sales through local telecom groups**

<sup>8</sup> [http://www.axelspringer.us/dl/15289079/Annual\\_Report\\_2012\\_Axel\\_Springer.pdf](http://www.axelspringer.us/dl/15289079/Annual_Report_2012_Axel_Springer.pdf)

<sup>9</sup> <https://www.forbes.com/sites/andygreenberg/2012/07/23/eight-million-passwords-spilled-from-gaming-site-gamigo-months-after-breach/#30f9bfe46f77>

<sup>10</sup> <http://www.wiwo.de/unternehmen/it/prosiebensat-1-das-prosieben-digitalgeschaef-wirkt-staerker-als-es-ist/19558080-all.html>





which yield significantly lower margins. ProSieben tries to sell its investors the subscriptions growth success story while the cost of the “growth” is increasing maxdome’s problems.

Maxdome has a rather mediocre product and is competing against US giants Netflix<sup>11</sup> and Amazon, at a similar price point (Netflix is EUR 2/month more) and limited content. What is maxdome’s edge over these competitors? It is definitely not maxdome’s original content. The company produced just one season of one TV show (“Jerks”), which was available on ProSieben’s free TV channel ProSieben only one month later. Maxdome is lagging its rivals in subscriptions, content, and IT expertise. Recent changes in maxdome’s management, stemming from the resignation of maxdome’s managing director, is additional signal of the massive problems within the division.

### Physical goods cluster

ProSieben hasn’t had much luck with the digital assets and has changed its strategy again to focus on physical goods.

In October 2016, ProSieben bought stakes in WindStar Medical Group: EUR 65m for 92% stake plus a EUR 14m put option for the remaining 8%. One month later ProSieben acquired Vitafy for EUR 7m cash plus EUR 20m media for an additional 20% stake for its new 7Wellbeing cluster.

### Fragmented divestment of digital business

Having seemingly realized their mistake, ProSieben appears to be attempting to limit the damage by divesting itself of its acquisitions (or at least, in part).

On February 22, 2018 ProSieben announced General Atlantic as partner in its newly formed NuCom group composed of 10 e-commerce subsidiaries, essentially a large part of its Digital Ventures & Commerce segment.

HOME SERVICES & MOBILITY	LEISURE & RELATIONSHIPS	HEALTH & BEAUTY	STYLE
#2 <b>verivox</b>	#1 <b>mydays</b> <b>JOCHEN SCHWEIZER</b>	#2 <sup>3)</sup>	#1 <sup>5)</sup>
#1 <b>billiger-mietwagen.de</b>	#1 <b>PARSHIP ELITE Group</b>	<b>FLACONI</b>	<b>moebel.de</b>
#1 <sup>2)</sup> <b>Käuferportal</b>	#2 <b>AMORELIE</b>	#2 <sup>4)</sup>	#1 <sup>5)</sup>
		<b>WINDSTAR MEDICAL</b>	<b>Stylight</b>

Figure 9 Extract from ProSieben Capital Markets Day 2017 presentation slides<sup>12</sup>

Why ProSieben would be divesting supposedly its second highest-margin and highly-marketed future growth segment is unclear. We question how this fits with ProSieben’s strategy and why it appears to be backing out of its e-commerce initiatives.

Further details on Viceroy’s analysis on the General Atlantic investment are presented in Section 4 below.

<sup>11</sup> <https://global.handelsblatt.com/companies/netflix-takes-the-streaming-battle-to-germany-757489>

<sup>12</sup> [http://www.prosiebensat1.com/uploads/2017/12/06/05\\_CMD\\_2017\\_The%20NuCom%20Group.pdf](http://www.prosiebensat1.com/uploads/2017/12/06/05_CMD_2017_The%20NuCom%20Group.pdf)





### 3. Earnings & Cash Flow Manipulation

Close analysis of ProSieben's financials and make it clear that the company uses several methods to artificially inflate EBITDA, EBIT, net profit, and cash flows. These include:

- Media-for-equity and media-for-revenue deals
- Huge unrecognized expenses as a result of ProSieben's issue of acquisition-related put-options
- Capitalization of upfront IT costs to move them off EBITDA
- Filing consistent recurring costs as "non-recurring" impairments

#### Media for equity

ProSieben's 7Ventures business segment generates a large portion of its revenue and earnings through "media-for-equity" (**MFE**) and "media-for-revenue" (**MFR**) deals. In essence, 7Ventures – a ProSieben subsidiary – trades advertising in exchange for equity or revenues of the 'customer'.

These transactions are often non-cash generating as most of the companies 7Ventures invests in are early stage startups and result in impairments of the investments in later periods. ProSieben is essentially gambling revenue from advertising on the success of these start-ups.

Some of these investments include:

- Jawbone aka Aliphcom
- Vitafy
- Teatox
- Koakult (rebranded and trading as Koach)

We will deep-dive into these transactions to show that cash or equity value will likely never be realized from these incrementally loss-making entities, many of which ProSieben itself has already started writing off.

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*Despite classifying these MFE and MFR transactions as revenue items, ProSieben does not appear to adjust its operating cashflows to reflect this non-cash item, as equity/investments are inherently not a working capital account.*

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Viceroy are of the opinion that ProSieben is adjusting for these inflated operating cashflows by overstating acquisition outflows. This is obviously not IFRS or GAAP compliant, akin to capitalizing expenses which ProSieben also appear to be doing.

#### Revenue recognition policy

Media-for-equity (**MFE**) is recognized as soon as advertisements are broadcast (we presume in line with fair value of advertisement 'slot' cost), and media-for-revenue (**MFR**) is recognized so long as "target achievement" documentation is received (**in other words, entirely speculative**).



Timing of revenue recognition		
Revenues	Business model	Timing of recognition
<b>Advertising revenues</b>		
TV advertising revenues	Broadcasting of advertising spots in Free TV	Broadcasting of advertising spots
Media-for-Revenue-Share	Broadcasting of residual advertising times for fixed consideration and a variable revenue share	Broadcasting of advertising spots; Variable parts on receipt of necessary target achievement documentation of the contract partner
Marketing of digital offerings of external providers	Marketing of external websites via sale of online advertising	Sale of advertising space
Online agency services	Arranging of contracts between primary service providers and end customers in the areas of car rental, travel, insurance, events, energy supply, mobile communications via online price comparison websites	Transmission of customer data/ start of performance by the partner
Revenues from content production	Production of programming content such as TV formats and serial programmes	Percentage-of-completion method
Revenues from the sale of goods	Sale of products via online portals and stationary trading	Delivery of goods to the end customer, taking into account rights of return
<b>Distribution revenues</b>		
Technical activation fees (HD/Pay)	Distribution of ProSiebenSat.1 HD and Pay TV stations via cable, satellite and IPTV	Provision of the TV signal
Pay TV operations	Online platform for the reception of TV stations or content	Retrieval of signal
<b>Barter transactions</b>		
General barter transactions	Countertrades as part of marketing of advertising times	On performance, e.g. on broadcasting
Media-for-Equity-Share	Broadcasting of residual advertising times in exchange for entity shares	Broadcasting of advertising spots

Figure 10 Extract from ProSieben Annual Report 2016<sup>13</sup>

Viceroy believe this type of transaction is extremely suspicious for two reasons, it allows ProSieben to:

1. Discretionally record non-cash revenues for MFE transactions
2. Mark-to-market value their equity investments at what appear to be very inflated, self-determined market prices (which we believe is happening, as a vast majority of acquisitions appear to be terminally loss making and many already in liquidation).

### Cash flow irregularities

As a quick accounting 101 refresher, operating cash flows can be recorded in two ways:

1. Direct cash flows, which is a record of actual cash inflow/outflow accounts (i.e. receipts from customers, payments to suppliers & employees, etc.)
2. Indirect cash flows, in which earnings are adjusted for non-cash items and working capital account balances to derive operating cash flows.

Cash flows from investment activities and financing activities **must** be recorded using the direct method given the nature of the cash flows. This is recognized in ProSieben's annual report:

Cash flows from investing and financing activities are calculated using the direct method. On the other hand, cash flows from operating activities are derived indirectly from consolidated net profit. In this indirect derivation, the changes of the relevant statement of financial position items relating to operating activities are adjusted for effects from foreign currency translation and from changes to the scope of consolidation. For this reason, the changes of the statement of financial position items cannot be reconciled with the relevant figures of the consolidated statement of financial position and the segment key figures.

Figure 11 Extract from ProSieben Annual Report 2016<sup>14</sup>

<sup>13</sup> ProSieben Annual Report pg. 201

<sup>14</sup> ProSieben Annual Report 2016 pg. 264



We note that ProSieben prepare indirect cash flows for their operating cash flows *only*, despite recommendation by the IFRS that the direct method also be used. Generally speaking, Viceroy notes that most companies present both.

Oddly, there are no reconciliatory entries we can find for non-cash revenues from MFE and MFR deals in ProSieben's operating cash flows. Given that barter transactions are said to have been the major reason for year on year revenue growth for FY 2015 and FY 2016, we'd expect this amount to be quite substantial.

Recall that revenue derived from MFE deals is recognized as barter revenue as per figure 10 above:

**Revenues** of ProSiebenSat.1 Media SE increased in financial year 2016 by EUR 7 million or 8% to EUR 99 million. The year-on-year revenue growth resulted primarily from higher revenues from the sale of ancillary programming rights as well as revenues from barter transactions.

Figure 12 Extract from ProSieben Annual Report 2016<sup>15</sup>

**Revenues** at ProSiebenSat.1 Media SE increased in financial year 2015 by EUR 7.1 million or 23.1% to EUR 37.9 million. The year-on-year revenue upturn resulted primarily from higher revenues from the sale of ancillary programming rights and revenues from barter transactions.

Figure 13 Extract from ProSieben Annual Report 2015<sup>16</sup>

Viceroy believe ProSieben are offsetting these non-cash incomes as non-cash investment outflows. This theory is supported by an investment cash outflow much larger (about twice as large) than the disclosed "significant" cash acquisitions we can account for. It is also illegal as investment cash flows must be recorded using the direct method.

<b>Cash flow Adjustment</b>	
<b>Commitments to obtain control of subsidiaries</b>	<b>(420)</b>
<i>Add: Cash acquisitions</i>	
Dorsey	26
Blue studios	19
Wind Star	65
Parship	100
<b>Assumed non-cash MFE / MFR revenues</b>	<b>(210)</b>

Figure 14 Viceroy analysis of Cash Flow Adjustment

*In order to adjust for these gimmicks, we believe an earnings correction of \$210m is required per year. This would represent incorrectly reported non-cash MFE and MFR revenues that are unlikely to ever pay out.*

## Vitafy

According to ProSieben's 2015 annual report, Vitafy GmbH is "an online store for fitness, wellness and health" and augments the commerce vertical "Health & Wellness" in the Digital & Adjacent segment.

ProSieben's initial investment in Vitafy was EUR 6.8m comprising EUR 4.3m in cash and a gross media volume of EUR 2.4m for 29.05% combined stake. Note that at the time Vitafy was already making a loss.

<sup>15</sup> ProSieben Annual Report 2016 pg. 138

<sup>16</sup> ProSieben Annual Report 2015 pg. 152





### Associates

By contract dated October 6, 2015, and effective as of October 14, 2015, ProSiebenSat.1 Group acquired, via the Group company 7NXT GmbH, a 29.05% share in Vitafy GmbH, Munich. Vitafy is an online store for fitness, wellness and health and augments the commerce vertical "Health & Wellness" in the Digital & Adjacent segment. The entity is a material associate and is included in the consolidated financial statements using the equity method. **The total purchase price for the investment in Vitafy amounted to EUR 6.8 million (including transaction costs of EUR 0.1 million), of which EUR 4.3 million is attributable to the cash purchase price and EUR 2.4 million to the media agreement.** In addition, multiple call options were agreed for the gradual acquisition of control in the next three years. In the reporting year, ProSiebenSat.1 Group did not receive any dividends from Vitafy,

EUR m	Vitafy GmbH	
	12/31/2016	12/31/2015
<b>ProSiebenSat.1 Group's share (in %)</b>	<b>49.9%<sup>2</sup></b>	<b>29.05%</b>
Non-current assets	19	3
Current assets	9	8
Non-current liabilities	5	0
Current liabilities	5	0
<b>Net assets (100 %)</b>	<b>18</b>	<b>11</b>
ProSiebenSat.1 Group's share of net assets	9	3
Goodwill	7	3
Impairment	-9	-/-
<b>Carrying amount of interest in associate</b>	<b>7</b>	<b>6</b>
Revenue	19	1 <sup>1</sup>
Profit or loss for the period (100 %)	-11	-2 <sup>1</sup>
<b>ProSiebenSat.1 Group's share of profit or loss</b>	<b>-3</b>	<b>-0<sup>1</sup></b>

Figures 15 & 16 Extracts from ProSieben Annual Report 2015<sup>17</sup>

**The following year ProSieben impaired its investment in Vitafy by EUR 9m, more than the entire cash consideration of the purchase, due to "negative business development". Despite this it increased its holding to from 29.05% to 49.9% for EUR 7m in cash and gross media volume of EUR 20m that same year.**

The company also agreed to "multiple call options...for the gradual acquisition of control in the next three years."

ciate accounted for using the equity method. Vitafy is an online shop for fitness, wellness, and health. The purchase price comprises a cash purchase price of EUR 7 million and a media agreement with a gross media volume of EUR 20 million. **In addition, multiple call options for the step-by-step acquisition of up to 100% of the shares within the next three years were agreed.**

Figure 17 Extracts from ProSieben Annual Report 2016<sup>18</sup>

We doubt that this "media-for-equity" revenue will ever translate into cash. If Vitafy fails to turn a profit, in what way can ProSieben claim this deferred media-for-equity income? Further we question ProSieben's continued acquisition of a loss-making entity.

<sup>17</sup> ProSieben Annual Report 2015 pg. 258-259

<sup>18</sup> ProSieben Annual Report 2016 pg. 217



Note that no mention is made of the deferred media-for-equity revenue that would undoubtedly be affected by “negative business development.”

Vitafy is only one example of ProSieben’s commitments to loss-making attempts at diversification that is representative of its acquisition strategy. Given ProSieben’s continuous involvement with a souring acquisition we must assume these losses will continue.

#### Jawbone aka Aliphcom

In the 2014 financial year, ProSieben acquired a 1.8% share in AliphCom, a San Francisco-based provider of fitness wearables under the Jawbone brand. The investment amount was not disclosed in company accounts however German startup website gruenderszene.de states there was a media-for-equity component to the deal, later confirmed in ProSieben’s 2016 annual report.

Media-for-equity investments resulted in measurement effects of minus EUR 14 million (previous year: minus EUR 25 million), of which minus EUR 11 million (previous year: minus EUR 19 million) is attributable to AliphCom Inc. The result of the remeasurement of the warrant agreement con-

Figure 18 Extract from ProSieben Annual Report 2016<sup>19</sup>

In 2016 ProSieben impaired the investment for EUR 19.4m. In that year’s “List of affiliated companies and investments”, ProSieben fails to disclose Aliphcom’s Profit/loss for the period. As can be seen in figure 19 below this is due to “Company acquired in 2015 or founded or in liquidation.” As Aliphcom does not fit the first two categories we must assume the company was in liquidation as early as 2015.

List of affiliated companies and investments of ProSiebenSat.1 Media SE Continued							
No.	Company	Location	Share in %	Held via	Currency <sup>2</sup>	Equity in thousand <sup>5</sup>	Profit/loss for the period <sup>9</sup>
<b>Switzerland</b>							
260	ayondo Holding AG	Zug	8.67	75	CHF	27,581.6	-1,253.3
<b>United Kingdom</b>							
261	Kastr Limited	London	7.78	44	GBP	-/-	-/- <sup>4</sup>
<b>United States of America</b>							
262	AliphCom	San Francisco, CA	1.22	75	USD	-/-	-/- <sup>4</sup>
263	EverSport Media, Inc.	Wilmington, DE	6.02	44	USD	-/-	-/- <sup>4</sup>
264	Talenthous, Inc.	Dover, DE	9.94	79	USD	-/-	-/- <sup>4</sup>
265	Wrap Media, Inc.	Dover, DE	10.47	44	USD	-/-	-/- <sup>4</sup>
266	ZeniMax Media, Inc.	Wilmington, DE	6.83	114	USD	621,977.3	-81,245.7
<sup>1</sup> Company meets the requirements of Section 264 (3) of the German Commercial Code and exercises the option to be exempted from certain requirements on the preparation, auditing and disclosure of the annual financial statements and the financial report. <sup>2</sup> The figures for Equity and Profit/loss for the period presented have been translated using the foreign exchange spot rates as of the end of the reporting period. <sup>3</sup> Result after profit and loss transfer agreement. <sup>4</sup> No figures available. Company acquired in 2015 or founded or in liquidation. <sup>5</sup> Shortened financial year from October 15, 2014 to December 31, 2014. <sup>6</sup> Shortened financial year from October 6, 2014 to December 31, 2014. <sup>7</sup> Shortened financial year from March 28, 2014 to December 31, 2014. <sup>8</sup> Shortened financial year from September 19, 2014 to December 31, 2014. <sup>9</sup> The figures for Equity and Profit/loss refer to the financial year 2014 and partly reflect local accounting rules which do not necessarily correspond to IFRS.							

Figure 19 Extract from ProSieben Annual Report 2015<sup>20</sup>

On June 19, 2017 AliphCom announced it would be undergoing liquidation through an assignment for the benefit of its creditors.

<sup>19</sup> ProSieben Annual Report 2016 pg. 205

<sup>20</sup> ProSieben Annual Report 2015 pg. 316



### The Exit Strategy: sale to related party

On June 28, 2017 ProSieben announced the sale of “a large part of its media-for-equity portfolio” to Lexington Partners. However, it seems as though ProSieben was never paid for the sale of its portfolio, an amount of EUR 35m.

The announcement of the sale and proceeds are mentioned as “events after the reporting period” in the company’s Q2 2017 report however the only cash from the sale of operations in its Q3 2017 report is from Etraveli.

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#### Events after the interim reporting period

##### Disposal of a minority investments portfolio

With economic effect as of July 5, 2017, ProSiebenSat.1 Group has sold a minority investments portfolio to LCP (Overseas) Financial Holdings DAC, Dublin, Ireland (acquirer). In the context of the sale, the holdings were contributed to a GmbH & Co. KG established by ProSiebenSat.1 Group, and 75.1% of said GmbH & Co. KG were sold to the acquirer. The purchase price in the amount of EUR 35 million was supposed to be paid on July 5, 2017. Due to ProSiebenSat.1 Group having significant influence, the 24.9% share in Crosslantic Fund I GmbH & Co. KG held by the Group is accounted for using the equity method as a material associated entity.

- > In the third quarter of 2017, cash inflow from the sale of consolidated subsidiaries amounted to EUR 470 million (previous year: EUR -4 million). It includes the net cash inflow from the sale of etraveli of EUR 469 million.

*Figures 20 & 21 Extract from ProSieben Quarterly Reports Q2 and Q3 2017*

The most concerning aspect of this transaction is that the buyer, CrossLatic, is ~25% owned by none other than SevenVentures, a ProSieben subsidiary.

Therefore, not only has ProSieben possibly created mark-to-model valuations for much of its media-for-equity portfolio through arbitrary excess inventory valuation (which seems very plausible to us given the quality of the investments), ProSieben has now booked what we believe to be unjustified capital gains on its awful portfolio through a related party sale. CrossLantic is inherently not subject to the same level of financial scrutiny and transparency as ProSieben, and thus not under obligation to screen investment for prudent write-offs.

Unsurprisingly, **the entire CrossLantic team (bar Arne Rees) are former high-level ProSieben officers**, which we perceive as a massive red flag, and not a dissimilar activity to Steinhoff moving loss-making entities off its balance sheet.





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**Sascha van Holt**

Sascha van Holt is the founding partner and managing director of Crosslantic Capital. Before founding Crosslantic, he built and led SevenVentures, the investment unit of Germany's largest listed media company. Prior to that role he worked as an investment professional for a top tier private equity firm. Earlier assignments include corporate positions and entrepreneurial work.

**Christian Koeglsperger**

Christian Koeglsperger worked for 7Commerce, a part of ProSiebenSat.1 and conducted major acquisitions for the group. He started his investment career at the Earlybird Ventures and the M & A branch of Thales.

**Arne Rees**

Arne Rees is a venture partner. He started his career as Director of Business Development for ID Media in Berlin and London before joining UBS Capital. In 2001, UEFA joins Head of Strategic Business Development, focusing on the commercial development of the Champions League and the EURO tournament. In 2006 he moved to NY to work for ESPN Working as the Chief of Staff. Recently he worked as COO at RSE Ventures and Partners at the Vayner / RSE Technology fund.

**Kyle Widrick**

Kyle Widrick is a venture partner for Crosslantic. He has been an advisor for the US business of SevenVentures, the investment firm of Germany's largest listed media company. Before Kyle worked as the lead investment manager of a well-known family office based New York City. Former positions include roles in M & A and various entrepreneurial activities.

Figure 22 Extract from CrossLantic website<sup>21</sup>

## Huge put liabilities

ProSieben is on the hook for huge put liabilities it has issued alongside its acquisitions. Many of the companies acquired by ProSieben's content production subsidiary Red Arrow Entertainment follow the following M&A pattern:

1. ProSieben acquires a majority stake in the target entity.
2. Management/former shareholders of the target entity keep a minority equity stake.
3. Management/former shareholders are granted put option on their target entity equity stake against ProSieben.

The practical upshot for ProSieben is that the business consolidation percentage for these acquisitions is 100% as the company is unconditionally obliged to meet the terms of the put option.

gent purchase price payment. As ProSiebenSat.1 Group has an unconditional obligation to meet the terms of the put option on exercise, the consolidation percentage used on the basis of present ownership was 100.0% as of July 27, 2015. The fair value of the contingent purchase

Figure 23 Extract from ProSieben Annual Report 2015<sup>22</sup>

<sup>21</sup> [www.crosslantic.com](http://www.crosslantic.com)

<sup>22</sup> ProSieben Annual Report 2015 pg. 223



This is yet another example of catastrophic short term thinking by ProSieben, as the liabilities associated with these options are rapidly approaching and the costs of acquiring these minority interests is often exorbitant for the preliminary benefit of not paying the full settlement amount upfront.

*At 2016, ProSieben's books showed a liability of EUR 366m attributable to "earn-out liabilities, liabilities from put options and purchase price liabilities".*

Viceroy have compiled a list of publicized put options from ProSieben reports below. Even with the deduction of put liabilities related to the NuCom group, we estimate ProSieben's overall put liabilities add up to EUR ~200m.

Company Acquired	Date	Initial stake acquired	Initial Consideration (EURm)	Put option liability at time of acquisition (EURm)		
				Put option stake		Put option premium
Kinetic Content LLC	Aug-10	51%	3.9	49%	9.2	141%
Covus Games GmbH	May-11	51%	1.9	49%	5.0	174%
The Mob Film Holdings Limited	Apr-11	51%	1.5	49%	7.4	413%
Left/Right Holdings LLC	Aug-12	60%	24.2	40%	14.2	-12%
Half Yard Productions LLC	Feb-14	65%	18.1	35%	13.1	34%
Collective Digital Studio LLC	Apr-15	70%	191.9	25%	87.4	28%
Virtual Minds AG	Sep-15	51%	29.5	49%	35.7	28%
Crow Magnon LLC	Nov-15	60%	27.9	40%	14.9	-20%
Dorsey Pictures LLC	Jan-16	60%	26.0	40%	18.0	4%
44 Blue Studios LLC	Jul-16	65%	19.0	35%	14.0	37%
Total					218.9	-
Weighted average					-	42%

Figure 24 Viceroy analysis of ProSieben put options

Through this very ProSieben-unique structure, significant payments to management will never impact EBITDA: they are treated as income-statement neutral as a financial liability at the acquisition date. The resulting fair value swings are presented below the EBITDA line as a financial result. As we have already explored, we believe the fair value of these investments inevitably swings downwards.

*In reality, these put liabilities appear to represent a former shareholder/management "bonus", as there is no conditional earn-out. Instead there is an unconditional put option payout.*

We believe this liability should be adjusted for when calculating ProSieben's EBITDA. In 2016, Viceroy estimate that this would have amounted to approximately EUR 117m.



### TF1 Mediaset capital increase

On January 12, 2017 ProSieben announced the investment of TF1 Group and Mediaset in ProSieben's multi-channel network Studio71<sup>23</sup>. In its 2016 annual report, the full details of this investment were made clear.

#### Capital increase at Studio71

By agreement and effective as of January 11, 2017, the media groups TF1 SA, Boulogne-Billancourt, France (TF1), and Reti Televisive Italiane S.p.A., Milan, Italy (Mediaset), each acquired a minority stake in ProSiebenSat.1 Digital Content LP (Studio71) as part of a capital increase. Following the capital increase, ProSiebenSat.1 Group retains approximately 70% of the shares in Studio71. With its subsidiaries, the company aggregates the Group's online video business. Put options for the buyback of the shares were agreed with both TF1 and Mediaset. As ProSiebenSat.1 Group has an unconditional obligation to meet the terms of the put options as of exercise date, the consolidation percentage used on the basis of the present ownership is still 100.0%.

Figure 25 Extract from ProSieben Annual Report 2016<sup>24</sup>

ProSieben's press release regarding the investment announced that TF1 and Mediaset had acquired 5.5% and 6.1% of Studio71 respectively and represented a valuation of EUR 400m. The implied purchase price is EUR 46.4m and when applying the 42% weighted average put option premium derived above in this section represents a likely EUR 65.89m put option liability.

### Effective earnings impact

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*Conservatively – if ProSieben abandons its reckless acquisition scheme – we believe the put liability balance of EUR ~200m should be expensed over a period of 5 years (amounting to EUR 40m per year) in order to properly reflect earnings.*

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As ProSieben has also begun writing down a number of its investments, we expect the fulfilment of unconditional put options will likely result in a loss on acquisition.

<sup>23</sup> <http://www.prosiebensat1.com/en/press/european-broadcasters-invest-in-studio71-the-premium-multi-channel-network-of-prosiebensat-1>

<sup>24</sup> ProSieben Annual Report 2016 pg. 251





## Internally generated intangibles

ProSieben's approach to internally generated intangibles is surprisingly consistent: they are amortized 100% each year. Viceroy believes this is done to move what are ostensibly upfront cash expenses off the income statement and artificially inflate ProSieben's EBITDA.

Statement of changes in other intangible assets (Fig. 152)					
EUR m	Brands <sup>1</sup>	Customer relationships	Other intangible assets	Advances paid	Total other intangible assets
<b>COST</b>					
Balance as of January 1, 2015	84	34	485	17	619
Exchange rate differences	1	2	3	0	5
Additions due to change in scope of consolidation	159	107	42	2	309
Additions	-/-	-/-	69	30	99
Reclassifications	-/-	-/-	12	-12	-/-
Disposals due to change in scope of consolidation	-/-	-1	0	-/-	-1
Disposals	0	-/-	-63	0	-63
Balance as of December 31, 2015/January 1, 2016	243	141	547	37	968
Exchange rate differences	-1	2	1	0	2
Additions due to change in scope of consolidation	190	77	39	0	307
Additions	-/-	-/-	109	34	143
Reclassifications	-/-	-/-	24	-24	-/-
Disposals due to change in scope of consolidation	-4	-1	-60	-4	-70
Disposals	-2	-/-	-84	0	-86
Balance as of December 31, 2016	426	220	576	42	1,264
<b>AMORTIZATION</b>					
Balance as of January 1, 2015	14	10	335	0	359
Exchange rate differences	0	0	1	-/-	1
Additions due to change in scope of consolidation	-/-	-/-	1	-/-	1
Additions <sup>2</sup>	5	10	100	0	115
Disposals due to change in scope of consolidation	-/-	-1	0	-/-	-1
Disposals	-/-	-/-	-61	0	-61
Balance as of December 31, 2015/January 1, 2016	19	19	376	1	415
Exchange rate differences	0	0	1	-/-	1
Additions <sup>2</sup>	11	26	111	6	153
Disposals due to change in scope of consolidation	-4	-1	-47	0	-53
Disposals	-2	-/-	-68	0	-71
Balance as of December 31, 2016	23	44	373	6	447
Carrying amount as of December 31, 2016	403	175	202	36	817
Carrying amount as of December 31, 2015	224	122	171	36	553

<sup>1</sup> Including brands with indefinite useful lives with a carrying amount of EUR 333 million (previous year: EUR 197 million).  
<sup>2</sup> Of the impairment's recognized in this position amounting to EUR 24 million (previous year: EUR 18 million), EUR 18 million (previous year: EUR 14 million) are presented in the expenses of the corresponding functional area.

Other intangible assets include software, licenses from the sale of digital offerings of external providers and industrial property rights. This item also includes internally generated intangible assets of EUR 48 million (previous year: EUR 22 million).

Figure 26 Extract from ProSieben Annual Report 2016<sup>25</sup>

Given these costs appear to be amortized over a year, we believe they form the appearance of an upfront cash cost. Therefore, Viceroy believe that – at a minimum – internally generated intangibles should be applied to EBITDA.

Our valuation assumes all Other Intangible Assets are recognized under EBITDA, using a 2-year average of \$89m.

<sup>25</sup> ProSieben Annual Report 2016 pg. 213



## Programming assets

Programming assets are typically under-amortized each year and a portion are written off instead.

In its 2015 annual report ProSieben disclosed a that programming assets are impaired on the basis of changing consumption estimates:

In the financial year 2015, the impact of the change in estimates on consumption resulted in a decline of approximately EUR 6 million. In the medium term, the extension of the expected useful life is associated with lower consumption. This is expected to be offset by higher impairment. This effect is related to a higher number of broadcasts that will be subject to impairment and to higher carrying amounts at the date of calculating impairment. As a result, we are also currently expecting no material effect on the total consumption of programming assets reported in the income statement in the medium term.

Figure 27 Extract from ProSieben Annual Report 2015<sup>26</sup>

Further, we wonder how ProSieben can justify the resultant large impairments on programming assets of EUR 117m and EUR 99m in 2016 and 2015, respectively.

Statement of changes in programming assets (Fig. 159)			
EUR m	Capitalized rights	Advances paid	Total
Carrying amount January 1, 2015	1,123	89	1,212
Additions due to change in scope of consolidation	1	0	1
Additions	901	43	944
Disposals	-8	0	-8
Reclassifications	57	-57	-/-
Consumption <sup>1</sup>	-897	-/-	-897
thereof scheduled			-797
thereof impairment			-99
Carrying amount December 31, 2015 and January 1, 2016	1,176	76	1,252
thereof non-current programming assets			1,153
thereof current programming assets			99
Additions due to change in scope of consolidation	-/-	1	1
Additions	920	73	994
Disposals	-17	0	-18
Reclassifications	34	-34	-/-
Consumption <sup>1</sup>	-918	-/-	-918
thereof scheduled			-801
thereof impairment			-117
Carrying amount December 31, 2016	1,196	117	1,312
thereof non-current programming assets			1,166
thereof current programming assets			146
<sup>1</sup> Consumption including provisions for onerous contracts from prior periods of EUR 6 million (previous year: EUR 10 million).			

Figure 28 Extract from ProSieben Annual Report 2016<sup>27</sup>

Despite the requirements under IAS 36 we cannot find any further disclosures explaining the background of these impairments. **We therefore assume an extremely high impairment risk for the remaining book value of programming assets amounting to EUR 1,370m (as of 30 June 2017).** The assumed reduction in useful life of these assets corroborates our thesis that ProSieben has committed to overpaying for programming rights and is competing in a declining traditional TV market.

We believe that this very questionable accounting practice for its programming assets is used as a tool to meet budgets and consensus estimates from research analysts on a quarterly basis and on adjusted figures. For comparison, ProSieben competitor RTL Group's accounting policy seems to be much more appropriate: RTL

<sup>26</sup> ProSieben Annual Report 2015 pg. 211

<sup>27</sup> ProSieben Annual Report 2016 pg. 219



Group's free-TV rights are largely amortized on the first transmission whereas ProSieben seems to amortize them over several transmissions.

#### 1. 10. Current programme rights

Current programme rights are initially recognised at acquisition cost or Group production cost when the Group controls, in substance, the respective assets and the risks and rewards attached to them.

Current programme rights include programmes in progress, (co-)productions and rights acquired with the primary intention to broadcast or sell them in the normal course of the Group's operating cycle. Current programme rights include an appropriate portion of overheads and are stated at the lower of cost and net realisable value. The net realisable value assessment is based on the advertising revenue expected to be generated when broadcast and on estimated net sales. Weak audience shares or changes from a prime time to a late-night slot constitute indicators that a valuation allowance may be recorded. **They are consumed based on either the expected number of transmissions or expected revenue in order to match the costs of consumption with the benefits received.** The rates of consumption applied for broadcasting rights are as follows:

- Free television thematic channels: programme rights are **consumed on a straight-line basis over a maximum of six runs;**
- Free television other channels:
  - Blockbusters (films with high cinema ticket sales), mini-series (primarily own productions with a large budget), other films, series, TV movies and (co-)productions are mainly consumed over a maximum of two transmissions as follows: **at least 67 per cent upon the first transmission, with the remainder upon the second transmission;**
  - Soaps, in-house productions, quiz and game shows, sports and other events, documentaries and music shows are **fully consumed upon the first transmission;**
  - Children's programmes and cartoons are consumed over a maximum of two transmissions as follows: **at least 50 per cent upon the first transmission, with the remainder upon the second transmission;**
- Pay television channels: **programme rights are consumed on a straight-line basis over the licence period.**

Figure 29 Extract from RTL Group Annual Report 2016<sup>28</sup>

Additionally, we noticed very unusual programming assets sale/write-offs in connection with various M&A transactions.

This happened during the sale of Eastern & Northern European broadcasting stations and the Pluto.TV transaction. We assume that whenever possible ProSieben uses M&A transactions as a "clean-up measure" for its programming assets in order **to keep the actual consumption of programming assets as opaque as possible by offsetting them against other balance sheet items.**

As an example, we present the recent Etraveli sale transaction:

ProSieben announced an extra-ordinary gain in the third quarter of 2017 due to the sale of travel entity Etraveli.

**The successful closing of the Etraveli disposal results in an extra-ordinary gain of c. EUR 319 million in the third quarter. This positive earnings effect will be largely offset by certain other balance sheet effects that will be expensed through the income statement and recognized in the third quarter as well.**

These effects will predominantly be related to a strategic revaluation of parts of the Group's programming assets, which will not negatively affect the Group's financial cash position.

Figure 30 Extract from ProSieben Trading Statement for Q3 2017<sup>29</sup>

<sup>28</sup> RTL Group Annual Report 2016 pg. 120

<sup>29</sup> <http://www.prosiebensat1.de/en/press/prosiebensat-1-media-se-trading-statement-for-q3-2017>





True to their word ProSieben impaired EUR ~170m of programming assets in Q3 2017:

Total costs increased by 40% or EUR 289 million in the third quarter of 2017 and amounted to EUR 1,016 million (Fig. 10). This includes consumption of programming assets totaling EUR 383 million (previous year: EUR 203 million). In the third quarter of 2017, ProSiebenSat.1 Group reevaluated its programming assets. This reevaluation was strategic and went beyond the common analysis as part of the regular impairment test. In this context, ProSiebenSat.1 identified a need to impair programming assets by around EUR 170 million.

Figure 31 Extract from ProSieben Quarterly Report Q3 2017

This statement supports our view that the programming assets are overstated and that ProSieben is using M&A transactions to hide the impairment of programming costs

**While we question the behavior of ProSieben's auditor in this matter: the German tax authorities seem interested in this questionable accounting policy.** In its Q2 2017 quarterly report ProSieben disclosed an ongoing investigation into the group's treatment of programming assets stating:

### Contingent liabilities and other financial obligations

#### Tax risks regarding the assessment of the programming assets:

In June 2017, the German tax authorities have, in the context of the tax audit for the years 2004 to 2012, which has been ongoing since 2010 and 2013 respectively, called into question the accuracy of ProSiebenSat.1 Group's accounting for programming assets for tax purposes for the first time. This relates in particular to the presentation of programming assets as current assets and the determination of consumption. Technical discussions with the fiscal administration are still

Figure 32 Extract from ProSieben Quarterly Report Q2 2017

No such disclosure had been stated prior to this. We believe ProSieben will continue to impair programming assets going forward to boost consensus forward earnings and valuations. The investigation of tax treatment of programming assets may require back-payment upon review by regulators.

### Net intangible additions from change of scope of consolidation

ProSieben appears to consolidate and deconsolidate a sizable group of entities each year as part of a rolling "reorganization" strategy. We believe this is to conceal ProSieben's poor acquisitions, many of which are in liquidation (thus the deconsolidation).

<b>3 Scope of consolidation</b>			
The number of subsidiaries included in the consolidated financial statements changed as follows in the financial year 2016:			
<b>Fully consolidated subsidiaries (Fig. 117)</b>			
	Germany	Other countries	Total
Included at December 31, 2015	94	106	200
Additions	24	21	45
Disposals	- 6	- 7	- 13
<b>Included at December 31, 2016</b>	<b>112</b>	<b>120</b>	<b>232</b>

Figure 33 Extract from ProSieben Annual Report 2016<sup>30</sup>

As part of these additions, ProSieben books a surprisingly large amount of intangible assets especially when viewed relative to the small corresponding amounts of property, plant, and equipment (PPE). Below are the additions in PPE from changes in scope of consolidation:

<sup>30</sup> ProSieben Annual Report 2016 pg. 191



Statement of changes in property, plant and equipment (Fig. 155)					
EUR m	Buildings on land owned by others, fixtures and renovations	Technical facilities	Office furniture and equipment	Advances paid	Total
<b>COST</b>					
Balance as of January 1, 2015	255	154	58	5	472
Exchange rate differences	0	1	0	-/-	1
Additions due to change in scope of consolidation	0	10	3	-/-	14
Additions	8	18	8	8	42
Reclassifications	3	1	0	-4	-/-
Disposals due to change in scope of consolidation	-/-	-/-	0	-/-	0
Disposals	-1	-8	-1	-/-	-10
Balance as of December 31, 2015/January 1, 2016	266	176	68	9	519
Exchange rate differences	0	1	0	-/-	1
Additions due to change in scope of consolidation	0	2	1	0	4
Additions	6	18	10	6	41
Reclassifications	7	1	0	-7	-/-
Disposals due to change in scope of consolidation	-1	0	-2	0	-3
Disposals	0	-7	-5	-1	-12
Balance as of December 31, 2016	278	190	72	7	548

Figure 34 Extract from ProSieben Annual Report 2016<sup>31</sup>

Despite recognizing EUR 4m (2015: EUR 14m) in PPE additions, ProSieben booked a staggering EUR 307m (2015: EUR 309m) in “other intangible assets”.

Statement of changes in other intangible assets (Fig. 152)					
EUR m	Brands <sup>1</sup>	Customer relationships	Other intangible assets	Advances paid	Total other intangible assets
<b>COST</b>					
Balance as of January 1, 2015	84	34	485	17	619
Exchange rate differences	1	2	3	0	5
Additions due to change in scope of consolidation	159	107	42	2	309
Additions	-/-	-/-	69	30	99
Reclassifications	-/-	-/-	12	-12	-/-
Disposals due to change in scope of consolidation	-/-	-1	0	-/-	-1
Disposals	0	-/-	-63	0	-63
Balance as of December 31, 2015/January 1, 2016	243	141	547	37	968
Exchange rate differences	-1	2	1	0	2
Additions due to change in scope of consolidation	190	77	39	0	307
Additions	-/-	-/-	109	34	143
Reclassifications	-/-	-/-	24	-24	-/-
Disposals due to change in scope of consolidation	-4	-1	-60	-4	-70
Disposals	-2	-/-	-84	0	-86
Balance as of December 31, 2016	426	220	576	42	1,264

Figure 35 Extract from ProSieben Annual Report 2016<sup>32</sup>

Of the EUR 426m in brands, 78.17% (EUR 333m) is attributed to brands with indefinite useful lives. As we will detail in section 4 below, 74.47% (EUR 248m) of this amount is attributable to two suspicious acquisitions: Verivox and Parship ELITE group. At the time of the writing this report, ProSieben’s further consolidation of these entities had not yet been announced. We cover this transaction in more detail below.

Considering the entities are a price comparison portal and an online dating service we fail to understand how this valuation was originally justified.

<sup>31</sup> ProSieben Annual Report 2016 pg. 215

<sup>32</sup> ProSieben Annual Report 2016 pg. 213



## 4. Management Exodus

ProSieben has shown an unusually high turnover of its key management personnel in 2017. Not only have several executive board members resigned, but many members of upper management below the executive level. All departments are impacted from TV to Digital to vital holding company functions.

Year	Month	Name	Position
2014	October	Arnd Benninghoff <sup>33</sup>	Chief Digital Officer
2016	September	Jack Artmen <sup>34</sup>	Executive VP of Mergers & Acquisitions
	June	Hanno Fichtner <sup>35</sup>	Chief Digital Strategy Officer
	December	Christian Wegner <sup>36</sup>	Chief Officer of Digital & Adjacent
		Andreas Boelte <sup>37</sup>	Managing Director of 7Life
2017	January	Markus Frerker <sup>38</sup>	Chief Officer of Group Content
	February	Eva Adelsgruber <sup>39</sup>	Managing Director of 7Screen
	March	Gunnar Wiedenfels <sup>40</sup>	Chief Financial Officer
		Michael Green <sup>41</sup>	Chairman of Studio71
		Manuel Alvarez von Zerboni di Sposetti <sup>42</sup>	Chief Accounting and Tax Officer
	April	Rene Carl <sup>43</sup>	Managing Director of ProSieben & ProSieben Maxx
		Thorsten Putsch <sup>44</sup>	Managing Director of kabel eins Doku
		Julian Geist <sup>45</sup>	EVP of Communications & Public Affairs
	May	Daniel Raab <sup>46</sup>	Managing Director of 7Commerce
		Marvin Lange <sup>47</sup>	CEO of Maxdome
	July	Ralf Schremper <sup>48</sup>	Chief Strategy and Investment Officer
		Sascha van Holt <sup>49</sup>	CEO of 7Ventures
		Nicole Gerhardt <sup>50</sup>	Head of Human Resources
	August	Filmon Zeraï <sup>51</sup>	Chief Digital Officer, former CEO of Maxdome
	September	Johannes Keienburg <sup>52</sup>	EVP of Group Strategy & Ops, MD of 7Commerce
	November	Thomas Ebeling <sup>53</sup>	CEO of ProSieben

<sup>33</sup> <https://www.linkedin.com/in/arnd-benninghoff-9897063/>

<sup>34</sup> <https://www.linkedin.com/in/jack-artman/>

<sup>35</sup> <https://www.linkedin.com/in/fichtner/>

<sup>36</sup> <https://www.linkedin.com/in/christian-wegner-89852541/>

<sup>37</sup> <http://www.healthcaremarketing.eu/koepfe/detail.php?rubric=K%F6pfe&nr=46573>

<sup>38</sup> <http://www.turi2.de/aktuell/markus-frerker-verlaesst-prosiebensat-1/>

<sup>39</sup> <https://tinyurl.com/y8uemgn6>

<sup>40</sup> <http://www.prosiebensat1.com/en/press/dr-gunnar-wiedenfels-to-leave-prosiebensat-1-on-march-31-2017>

<sup>41</sup> <http://variety.com/2017/digital/news/michael-green-steps-down-as-chairman-of-studio71-exclusive-1202009874/>

<sup>42</sup> <https://www.linkedin.com/in/dr-manuel-alvarez-von-zerboni-di-sposetti-920a54125/>

<sup>43</sup> <https://kress.de/news/detail/beitrag/137442-prosiebensat1-strukturiert-um-senderchefs-rene-carl-und-thorsten-puetsch-verlassen-die-gruppe.html>

<sup>44</sup> <https://tinyurl.com/y9o7uvku>

<sup>45</sup> <http://www.prosiebensat1.com/en/press/julian-geist-to-leave-prosiebensat-1>

<sup>46</sup> [https://www.linkedin.com/in/daniel-raab-295b6911/?locale=de\\_DE](https://www.linkedin.com/in/daniel-raab-295b6911/?locale=de_DE)

<sup>47</sup> <https://kress.de/news/detail/beitrag/137748-marvin-lange-verlaesst-prosiebensat1-ralf-bartoleit-uebernimmt-die-maxdome-geschaeftsfuehrung-mit.html>

<sup>48</sup> <http://www.prosiebensat1.de/en/press/new-cfo-dr-jan-kemper-to-also-head-m-a-at-prosiebensat-1>

<sup>49</sup> <https://www.linkedin.com/in/saschavanholt/>

<sup>50</sup> <https://tinyurl.com/y8vna59y>

<sup>51</sup> [https://www.wuv.de/karriere/prosiebensat\\_1\\_verliert\\_filmon\\_zeraï](https://www.wuv.de/karriere/prosiebensat_1_verliert_filmon_zeraï)

<sup>52</sup> <https://www.linkedin.com/in/dr-johannes-keienburg/>

<sup>53</sup> <https://www.reuters.com/article/us-prosieben-media/ma-hopes-boost-prosieben-after-ceo-quits-idUSKBN1DK13K>





The exodus of individuals in senior finance roles in particular sticks out and seems to be an indicator that there is something fundamentally wrong with ProSieben's financial health. We also note that the Chief Digital Officer role becomes vacant every 2 years.

The managing director of kabel eins Doku left his post just 7 months after the channel went live.

We also see the CEO of Maxdome – which we discuss in section 2 – also resigning from the business, despite ProSieben sinking an estimated EUR 140m into the project as of EOFY 2016.

ProSieben's CEO of nine years, Thomas Ebeling, announced his resignation in November 2017 and is to be replaced by mid-2018 with **Max Conze, who will arrive with no industry experience<sup>54</sup> and on bitter terms with former employer Dyson.**

Mr Conze only recently settled a lawsuit with his former employer who accused him of selling trade secrets for his benefit or that of a venture capital firm<sup>55</sup>. It appears Mr Conze might fit in perfectly with ProSieben's culture, however we do not see Mr Conze being of use to ProSieben's business unless perhaps they want to branch out into the vacuum cleaner or electric car industries.

ProSieben lost almost its entire finance and accounting key management within less than twelve months including its CFO, Chief Investment Officer, Head of Accounting & Tax, Head of M&A, and Head of Strategy. As we have identified in section 3, this is in the midst of tax accounting concerns by regulators.

Viceroy find it troubling that ProSieben decided to appoint the rather young (36 years) and inexperienced Jan Kemper as its new CFO following the resignation of Gunnar Wiedenfels. Kemper has never been a CFO and lacks any media industry experience.

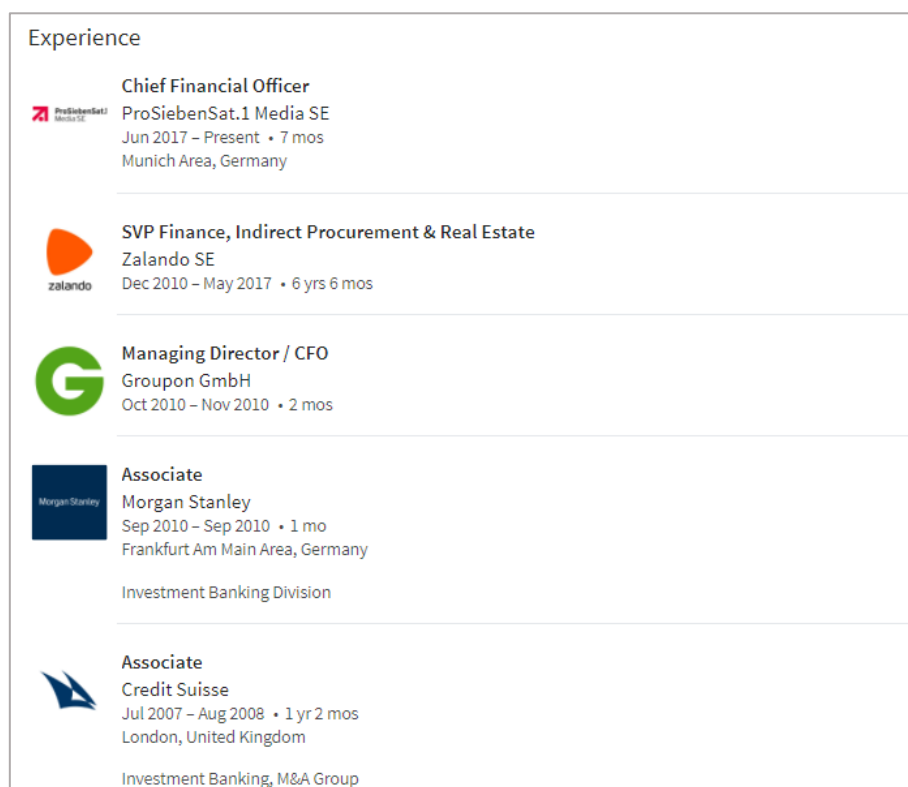


Figure 36 Extract from Jan Kemper's LinkedIn profile<sup>56</sup>

<sup>54</sup> <https://www.linkedin.com/in/max-maximilian-conze-3786903/>

<sup>55</sup> <https://www.ft.com/content/21b39c00-e623-11e7-97e2-916d4fbac0da>

<sup>56</sup> <https://www.linkedin.com/in/dr-jan-kemper-b4560b/>



## DR. JAN KEMPER TO BECOME CFO OF PROSIEBENSAT.1 MEDIA SE

**Munich, December 7, 2016.** Dr. Jan Kemper (36) will be appointed to the Executive Board of ProSiebenSat.1 Media SE as Chief Financial Officer, from June 1, 2017. Kemper is currently

Figure 37 Extract from ProSieben announcement “Dr. Jan Kemper to become CFO of ProSiebensat.1 Media SE”<sup>57</sup>

Chairman of the supervisory board, Werner Brandt, was formerly CFO of European software company SAP SE. We would have expected him to intervene, but this passive behavior by the supervisory board seems to be a general pattern.

As a catch-all, the collective Executive Board and Supervisory Board directly hold a mere 65,244 shares in ProSieben as of December 31, 2017. This is equivalent to 0.0% of the share capital.

### Ralf Schremper & Oakley Capital

Ralf Schremper was ProSieben’s former Chief Strategy and Investment Officer from April 2015 to July 2017 and a member of the company’s executive board. Schremper left ProSieben in July 2017 and immediately joined Oakley Capital, a private equity fund with over EUR 1.5b under management<sup>58</sup>.






Experience	
	<b>Partner</b> Oakley Capital Private Equity Aug 2017 – Present • 5 mos London, Großbritannien
	<b>Member of the Executive Board, Chief Strategy &amp; Investment Officer</b> ProSiebenSat.1 Media SE Apr 2015 – Jul 2017 • 2 yrs 4 mos
	<b>Chief Investment Officer</b> ProSiebenSat.1 Media AG Apr 2014 – Mar 2015 • 1 yr
	<b>CFO Digital &amp; Adjacent</b> ProSiebenSat.1 Media AG Feb 2013 – Mar 2015 • 2 yrs 2 mos Munich Area, Germany
	<b>Executive Vice President Mergers &amp; Acquisitions</b> ProSiebenSat.1 Media AG Sep 2012 – Mar 2014 • 1 yr 7 mos

Figure 38 Extract of Ralf Schremper’s LinkedIn Profile<sup>59</sup>

Schremper’s move is extremely troubling as ProSieben acquired two businesses from Oakley Capital: Verivox and Parship, on terms greatly favoring Oakley Capital. **For both transactions Schremper was the Chief Investment Officer and Head of M&A at ProSieben.**

<sup>57</sup> <http://www.prosiebensat1.com/en/press/dr-jan-kemper-to-become-cfo-of-prosiebensat-1-media-se>

<sup>58</sup> <http://oakleycapital.com/>

<sup>59</sup> <https://www.linkedin.com/in/ralf-schremper-21154b14/>



## Verivox

In December 2009, Oakley Capital acquired 51% of Verivox GmbH, an online portal for price comparisons on finance, insurance, and telecommunications. Verivox also offered a search engine for commission-free real estate and second-hand automobiles.

By 2015 ProSieben had acquired a total of 80% interest Verivox from Oakley Capital for EUR 198m generating a 14.5x money multiple and an IRR of 71%. Oakley retains a minority stake in Verivox and was issued put options to sell the remaining shares for EUR 62m in 2020.

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*Despite the exorbitant price tag, Verivox only generated revenues of EUR 47.0m and profits of EUR 5.9m.*

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Schremper was closely involved with the purchase as a Member of the Executive board, Chief Investment Officer and Head of Mergers & Acquisitions as per the 2015 annual report.

**Changes in the Composition of the Executive Board and Supervisory Board**  
Dr. Gunnar Wiedenfels succeeded Axel Salzmann as Chief Financial Officer of ProSiebenSat.1 Media AG on April 1, 2015. At the same time, Dr. Ralf Schremper was also appointed to the Executive Board of ProSiebenSat.1 Media AG as Chief M&A and Strategy Officer. He took on the new "Investment & Strategy, Mergers & Acquisitions" department. Both had already worked for the Company in executive positions for several years.

Figure 39 Extract from ProSieben Annual Report 2015<sup>60</sup>

## Parship Elite Group

Oakley profited even further from the sale of a 50.001% stake in Parship Elite Group in September 2016, an online dating service operating primarily in the German speaking region for EUR 102m. This is concerning as Oakley Capital had only acquired its stake 16 months earlier, at a 72% discount to ProSieben's implied purchase value.

Oakley netted a 3.6x money multiple and an IRR of 150% in little less than a year and a half. In addition to the EUR 102m purchase price, ProSieben took over Parship's EUR 96m loan through the issuance of preferred shares of ProSieben subsidiary 7love holdings. The shares bore an interest of 6.5% p.a. and are to be redeemed from 2018 to 2020.

**ProSieben's total investment is EUR 198m, for a company generating EUR 87m in revenue but only EUR 4m in profit.**

As per merger filings, Oakley Capital still retained a 43.7% stake in Parship after ProSieben's initial investment.

ProSiebenSat.1 Commerce GmbH ("P7S1 Commerce") intends to acquire the majority of the shares and sole control of PARSHIP ELITE Group GmbH ("PARSHIP ELITE"), whose shares are currently indirectly traded by THMMS Holding GmbH ("THMMS"), a subsidiary of the OCPE II Master LP ("OCPE") investment fund. To this end, 7Love Holding GmbH ("HoldCo"), which was newly established by P7S1 Commerce for the purpose of the merger, will acquire 100% of the shares in THMMS, while THMMS Limited (UK), another subsidiary of OCPE, will acquire a stake of 43.777%. will acquire the voting common stock in HoldCo and a management holding company will acquire all non-voting common shares in HoldCo P7S1 Commerce becomes 56,

Figure 40 Extract from ProSieben/PARSHIP ELITE merger filings (translated)<sup>61</sup>

<sup>60</sup> ProSieben Annual Report 2015 pg. 43

<sup>61</sup> [https://www.bwb.gv.at/Zusammenschluesse/Zusammenschluesse\\_2016/Seiten/BWB\\_Z-3196.aspx](https://www.bwb.gv.at/Zusammenschluesse/Zusammenschluesse_2016/Seiten/BWB_Z-3196.aspx)





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**Between Verivox and Parship, ProSieben paid and committed nearly EUR 460m for approximately EUR 7m share in profit.**

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## The General Atlantic investment

On February 22, 2018 ProSieben announced a partnership with of General Atlantic regarding General Atlantic's investment in NuCom group. There was a curious attachment to the announcement regarding the Parship and Verivox operations.

### First joint transactions

In a first joint transaction, NuCom Group is acquiring the shares held by Oakley Capital and other shareholders in Verivox and Parship Elite Group, whereby the share ownership increases to almost 100 percent and around 94 percent, respectively. In addition, NuCom Group is also acquiring the outstanding minority

*Figure 41 Extract from Oakley Capital Parship & Verivox disposal announcement<sup>62</sup>*

Oakley capital company releases again highlight the profitability of the sales.

### Oakley agrees sale of PARSHIP ELITE Group and Verivox to ProSiebenSat.1's Commerce unit NuCom Group

- **Enterprise Value:** The transactions value Parship and Verivox at €440 million and €530 million, respectively
- **Proceeds:** Fund II to receive €190.6 million representing a 28% premium to the December 2017 carrying value of these assets
- **Returns:** Approximate Fund II gross returns for Parship are 4.7x MM, 119% IRR and for Verivox are 2.5x MM, 43% IRR

*Figure 42 Extract from Oakley Capital Parship & Verivox disposal announcement<sup>63</sup>*

Viceroy believe the details of the NuCom transaction to date have been extremely vague to conceal the poor quality of the underlying assets and cash outflows. This includes details such as the EUR 1.8b EV attached to the underlying businesses. A more accurate representation of the transaction value would be to deduct the EUR ~395m outflow to acquire the minority interests and the EUR 400m preferred equity injection required by ProSieben as part of the deal.

At face value, we do not understand the purpose of the combined EUR 400m of preferred equity investment by ProSieben accruing 8% per annum and the 25% equity sale stake to General Atlantic. ProSieben has enough cash on its balance sheet to meet both the EUR 400m equity input and repurchase of minority shares. This transaction is again contradictory to ProSieben's highly marketed roadmap to grow its business with high leverage from its commercial segments.

ProSieben has significant financing needs evidenced by consistent equity and debt raising, despite the cash on its balance sheet. Cash at hand does not appear to be restricted or formally committed in any way. In order to raise capital, which it doesn't really need, ProSieben has taken several questionable different approaches each year. Viceroy believe this bag of tricks has run empty.

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<sup>62</sup> <http://oakleycapital.com/disposal-of-parship-elite-group-and-verivox/>

<sup>63</sup> <http://oakleycapital.com/disposal-of-parship-elite-group-and-verivox/>



Year	Event
2015	ProSieben issued debt instruments with proceeds of EUR 617m in order to pay dividends
2016	ProSieben shocked the market by announcing a EUR 515m capital raise on November 3, 2016 - just 4 months after distributing a EUR 363m dividend. The company claimed the capital was for M&A activities however to date Viceroy has not seen any acquisitions for which ProSieben would have needed new capital.
2017	Just a few months after the 2016 capital raise, ProSieben announced the sale of Etraveli which had only been acquired 15 months earlier. Etraveli, one of the few valuable assets on the ProSieben balance sheet, was supposedly supposed to be the cornerstone of ProSieben's travel cluster. The Etraveli sale in August 2017 netted ProSieben EUR 491m.
2018	ProSieben is already significantly levered, with few valuable assets left to sell. In order to meet its cash needs Viceroy anticipates ProSieben will be left with no financially prudent options but to announce a further capital increase and cut its dividends to zero.

Figure 43 Viceroy analysis

Here's the catch – **the General Atlantic transaction allows ProSieben to make early minority interest payments ahead of put option exercise dates without affecting its net asset position, in the same way the sale of Etraveli was used to conceal large impairments.** As we have touched on earlier in this report, we consider these put options as effectively prior management “bonuses” and the creeping massive outflows were becoming unsustainable.

Another interesting point to make is that **General Atlantic has essentially invested against an EBITDA multiple which has been propped up by advertising “mate’s rates” through ProSieben.** Management disclosed that advertisement rates for NuCom will be brought to arm’s length and as such, **the division will independently be posting negative growth EBITDA at the expense of General Atlantic** – results will round out for ProSieben post-consolidation.

*“When it comes to the 15 times multiple, you will find in the presentation also the numbers for 2017. The only thing that comes on top is the on an arm's length basis agreed data contract and also a new media contract negotiated between our advertising guys and the NuCom Group management and it will bake into those numbers leading to a slightly lower 2018 EBITDA going forward.”*  
– Jan Kemper – Conference call extract 22 February 2018

**This is not a small figure, as NuCom is ProSieben’s largest advertisement customer.**

We find it extremely deceptive that management are knowingly flaunting the viability of their subsidiaries at the expense of other areas of their business.

## 5. Unclear intersegment relationships

From its 2016 annual report ProSieben breaks down its operations into four segments:

- Broadcasting German-Speaking
- Content Production and Global Sales
- Digital Entertainment
- Digital Ventures and Commerce

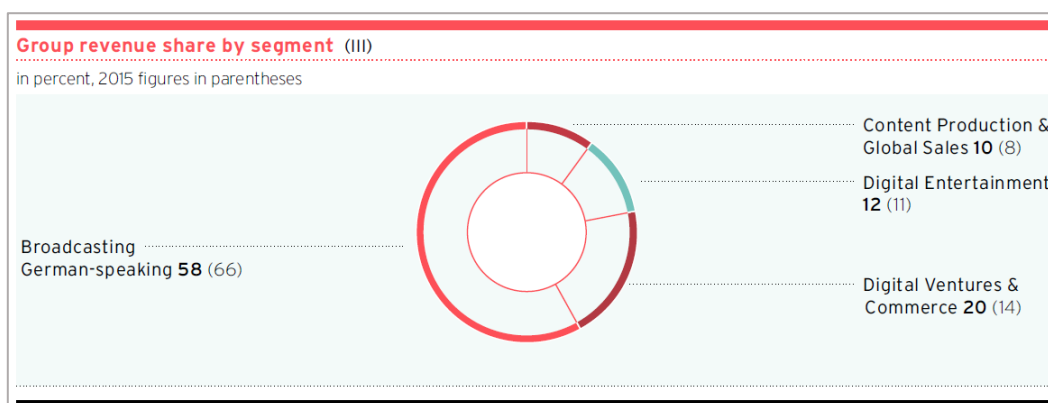


Figure 44 Extract from ProSieben 2016 annual report<sup>64</sup>

There are no meaningful disclosures regarding the Company's intersegment relationships. We are especially concerned regarding how TV media volumes are allocated and priced to ProSieben's Digital Entertainment and the Digital Ventures & Commerce segments.

ProSieben states in its annual reports that transactions between segments "are generally conducted at arm's length".

The eliminations include consolidation of business transactions between the segments as well as certain reconciliation and reclassification items. The reconciliation figures show values that by definition are not integral to the segments. Transactions between segments are eliminated in the reconciliation. These are generally conducted on arm's length terms.

Figure 45 Extract from ProSieben 2016 annual report<sup>65</sup>

Viceroy finds this difficult to believe: in 2016 the company only disclosed internal revenue of EUR 94m from its Broadcasting German-speaking segment.

Segment information 2016 (Fig. 111)							
	Segment Broadcasting German- speaking	Segment Digital Enter- tainment	Segment Digital Ventures & Commerce	Segment Content Production & Global Sales	Total Segments	Others/ Eliminations	Total Group
EUR m	2016	2016	2016	2016	2016	2016	2016
Revenues	2,304	463	782	421	3,971	-172	3,799
External revenues	2,210	442	768	362	3,782	17	3,799
Internal revenues	94	21	14	60	188	-188	-/-

Figure 46 Extract from ProSieben 2016 annual report<sup>66</sup>

Similar low figures of EUR 40m and EUR (48m), respectively, can be found in the 2016 eliminations for intersegment operating and investing cashflows.

<sup>64</sup> ProSieben Annual Report 2015 pg. 2

<sup>65</sup> ProSieben Annual Report 2015 pg. 190

<sup>66</sup> ProSieben Annual Report 2015 pg. 187





Cash flow per segment 2016 (Fig. 115)							
	Segment Broadcasting German- speaking	Segment Digital Enter- tainment	Segment Digital Ventures & Commerce	Segment Content Production & Global Sales	Total Segments	Others/ Elimination	Total Group
EUR m	2016	2016	2016	2016	2016	2016	2016
Cash flow from operating activities	1,447	36	115	-19	1,579	40	1,619
Cash flow from investing activities	-998	-140	-417	-20	-1,575	-48	-1,623
Free Cashflow	449	-104	-301	-40	4	-8	-4
Cash flow from financing activities <sup>1</sup>	457	122	413	39	1,031	-447	584

<sup>1</sup> Dividends paid by ProSiebenSat.1 Media SE are disclosed in column „Others/Elimination“.

Figure 47 Extract from ProSieben 2016 annual report<sup>67</sup>

ProSieben’s Broadcasting German-speaking segment’s internal revenue is far lower than we would expect given that the Digital Entertainment and Digital Ventures and Commerce divisions must incur significant costs payable to that segment.

We believe this figure is so low due to media-for-equity and media-for-revenue barter transactions. While these transactions are inter-group, they are not eliminated within the consolidated entity, despite the probability that cash will never be realized from these transactions.

### Digital Entertainment & Adjacent

ProSieben’s Digital Entertainment segment includes its “Adjacent” business segment which is incorporated under the name ProSiebensat.1 Adjacent Holdings GmbH. There is very little actually digital about the adjacent business, it includes:

- PSH Entertainment GmbH: unknown
- Seven Scores Musikverlang GmbH: Minor music label
- Starwatch Entertainment GmbH: music, live entertainment, events, and ticketing
- ProSiebensat.1 Licensing GmbH: sells customers licensing rights to ProSieben channels and programmes

Viceroy believes the inclusion of these businesses in the “Digital Entertainment” segment is to create an illusion of progress in ProSieben’s drive to digitize. Similar to the 7Ventures business, we would expect this to present a non-digital TV media sales unit which does not relate to any ‘digital’ activities.

### Segment restructuring to hide failing digital entertainment segment

*ProSieben appears to redefine its segment groups each year, likely in order to boost the perceived results of their drive to digitize.*

It seems to be the focus of ProSieben’s board to hide non-performing business units and to prevent impairments. After restructuring its segment structure at the beginning of 2017, the new structure seems to be backfiring as “too transparent”. In its August 2017 “Trading Statements” ProSieben announced that it “has started a review of its Group segment structure and certain other portfolio measures.”

<sup>67</sup> ProSieben Annual Report 2015 pg. 190



ProSiebenSat.1 furthermore announces that it has started a review of its Group segment structure and certain other portfolio measures. Objectives are the alignment of the Group structure to a dynamically developing media landscape and to maximizing shareholder value. Focus of the segment structure review is a potential combination of the Broadcasting German-speaking and Digital Entertainment segments into one combined entertainment segment. This also includes the realization of meaningful

Figure 48 Extract from ProSieben Trading Statement for Q3 2017<sup>68</sup>

In the first half of 2017, Digital Entertainment was barely break-even with EUR 4m EBITDA and had close to no revenue growth compared to the previous period. ProSieben does not disclose the free cash flow of this segment, but we estimate it to be negative.

We therefore assume that this re-segmentation will be done to avoid disclosure of the decline of this segment and to prevent discussions of a necessary goodwill impairment.

### Expensive US content

ProSieben made a huge bet on the appetite of its audience for US TV shows and movies. In favor of expensive output deals with US major studios ProSieben lost financing power to produce original content.

As of 30 June 2017, “procurement commitments for programming assets” amounted to an incredibly high EUR 3,022m. ProSieben is locked-in to “output deal” contracts with the major US studios evidenced by the fact that this figure appears to be consistent over the past 8 quarters. This content seems to be very expensive and does not appear to meet the taste of German viewers, as recognized by ProSieben:

**Content risks/license purchases.** For us, the US is the most important market for licensed programs worldwide. This is why ProSiebenSat.1 has signed long-term agreements with film studios and production companies with an appropriate reputation and successful track record. However, successful formats from the US do not necessarily receive the same positive response among German viewers. Viewer interests can also develop in various ways in different countries. We follow a standard procedure to take this uncertainty into account when purchasing licenses. We have thus slightly increased the probability of occurrence and now consider this risk to be unlikely (previously: very unlikely). In this event, a moderate impact on the Group's earnings performance would be conceivable. This is why we still rate the risk arising from license purchases as a low risk overall.

Figure 49 Extract from ProSieben Quarterly Report for Q2 2017

We anticipate further impairments on these sizable investments.

## 6. Decline in business fundamentals

ProSieben faces more troubles in addition to the financially irresponsible acquisition streak evidenced above. On a fundamental level the business faces decreasing margins, a failing digital sector and a deteriorating core business. While the company has attempted to disguise these facts through accounting gimmicks we believe the information brought to light in the following section will reveal the true nature of the company's fundamental operations.

### Loss of market

It's no secret that traditional television – especially free-to-air – has experienced significant market erosion in the era of Over-The-Top (OTT) platforms such as Netflix. The only way to compete, in our opinion, is to cannibalize free-to-air viewership by marketing a competing OTT platform, which is typically less profitable.

<sup>68</sup> <http://www.prosiebensat1.com/en/press/prosiebensat-1-media-se-trading-statement-for-q3-2017>



Cable operators have an advantage as they are able to leverage and upsell low-margin sports coverage audience into subscriptions to high-margin premium media subscriptions. ProSieben does not have this advantage because they are free-to-air.

While we were unable to find reliable viewership figures for the German traditional television market, a comparable view around the world's largest traditional television consumer geographies show consistent patterns of viewership decline, especially within the younger population. This means the effects of business decline will become progressively worse through time.

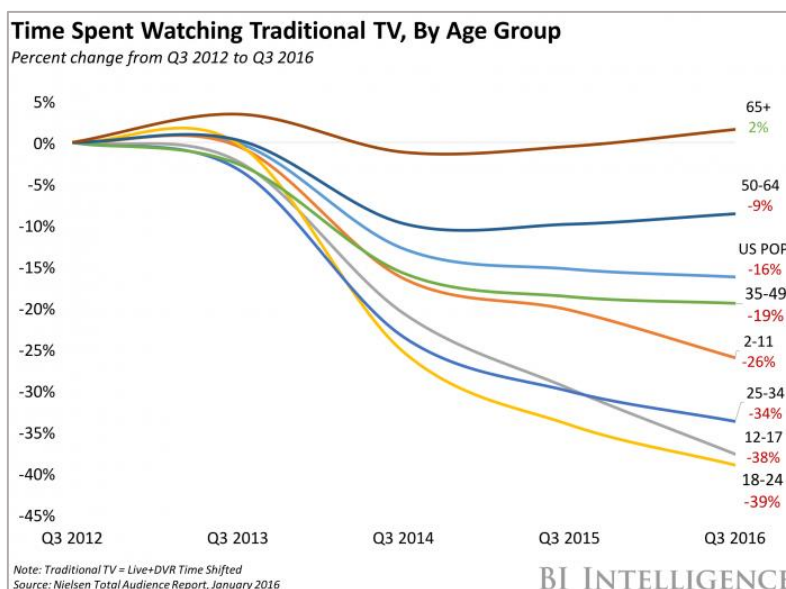


Figure 50 Extract from Business Insider: Traditional TV's demographic woes get worse<sup>69</sup>

## Loss of market share

Coupled with a shrinking market, ProSieben's core business has continuously been losing market share in Germany on a year-on-year basis in every single quarter of 2016 and 2017. The company's performance in Austria and Switzerland follow similar patterns (ProSieben bought ATV in Q2 2017 which would need to be adjusted in comparing numbers year-on-year).

Continuing Trend: Declining Market share for 6 straight quarters in Germany							
	2016					2017	
	Q1	Q2	Q3	Q4	Full year	Q1	Q2
Market share in %	28.1	27.8	27.5	28.5	28	26.8	27.1
Decline year-on-year	-2.8	-6.7	-8.6	-3.1	-5.1	-4.6	-2.5

Figure 51 Viceroy analysis of ProSieben market share decline

Note: The market share decline excludes the addition of kebl eins Doku in Q1 and Q2 2017 is 5.3% in Q1 2017 and 4.0% in Q2 2017. ProSieben's H1 2017 market share has declined by 5.0% and 9.2% from H1 2016 and H1 2015 respectively.

ProSieben claimed that the 2016 decline was due to two summer sports events (Men's Soccer European Championship and the Summer Olympics), the actual figures are telling a different story: every single quarter since Q1 2016 is lower than the previous year's quarter, not just for the summer 2016. Since there were no major sports event in 2017 it is clear that ProSieben has a fundamental problem with its shrinking audience.

<sup>69</sup> <http://www.businessinsider.com/traditional-tvs-demographic-woes-get-worse-2017-1/?r=AU&IR=T>





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*Actual declining figures over each quarter of the year do not stack up to management's claims.*

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The decreased market share and size will result in decreased attractiveness of advertising on traditional media channels such as ProSieben's free-to-air channels. Viceroy believes ProSieben will have to display more advertising for lower prices to maintain revenues, which is a slippery slope to losing more viewers. We estimate that going forward, the Company will no longer be able to hide the decline of its core business.

Viceroy expects this trend to continue moving forward.

### The effect of GDPR

In May 2018, the EU will begin to regulate online advertising's use of personal data via a set of standards called the **General Data Protection Regulation (GDPR)**. In accordance with new privacy standards, users must give consent to have their data used for ad targeting: this data includes IP addresses, location, social media posts, and various other identifying info considered personal data.

Viceroy believes the GDPR will have a profound effect on ProSieben who derive significant amounts of revenue from displaying targeted ads based on personal information collected from consumers. These take revenues the form of addressable TV, advertising revenues in the digital segment and the use of personal information in the ventures segment. Digital advertising revenues are heavily dependent on user data, and so are revenues from ProSieben's digital ventures segment where the services like travel and dating *rely* upon personal information to deliver high value ads.

Figure 41 below from ProSieben's 2016 annual report specifically shows their "Innovation" in addressable TV relying upon location information for ad targeting:

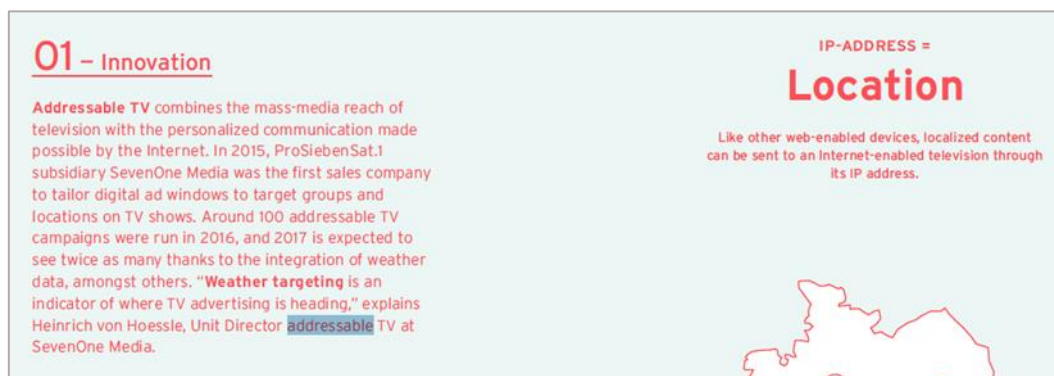


Figure 52 Extract from ProSieben Annual Report 2016<sup>70</sup>

Certain public market investors are already aware of the huge challenges that GDPR will create for companies that rely upon online advertising revenues (note that sites using their own voluntarily provided information like Facebook and Google will be largely unaffected).

Apple's recently introduced Intelligent Tracking Prevention, which blocked the use of similar data for tracking purposes had a material impact on Criteo (CRTO), another European company that relies upon digital ad sales. Despite initial claims that it would not affect revenue in a significant manner, on December 14<sup>th</sup> 2017<sup>71</sup>, Criteo had to suspend guidance, and said that previously stated revenue impact could no longer be relied upon.

Viceroy believes a similar theme will play out at ProSieben following the implementation of the GDPR.

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<sup>70</sup> ProSieben Annual Report 2016 pg. 21

<sup>71</sup> <https://www.criteo.com/news/press-releases/2017/12/criteo-q4-2017-outlook-update/>



### Addressable TV

ProSieben's addressable TV and other new advertising formats intend to take location information from cookie data to deliver highly targeted ads on the television to cable customers. The company expects this to be a large growth driver and the company has highlighted that this will be the principal growth driver in their TV segment.

According to Citibank research:

"New ad formats e.g. Live ads, contextual ads, link to voice-based search, bidding for keywords, audience segmentation from across the 70m unique profiles and organization of sales into specialized groups are the factors that will drive this share gain for TV and help introduce new pricing models."

We do not doubt that this would be useful to sell advertising space. However, it is clear that without highly sensitive information about the consumer and personal information that cannot be tracked, the ads have significantly less value and are likely to not generate the returns that ProSieben desperately seeks.

### Digital segment advertising

ProSieben's two digital business lines are the engines of reported growth, and both are highly dependent on data gathering and tailored online ads to support revenue. We can see revenue growth by segment here:

ACTUAL FIGURES 2016		FORECASTS 2017
+17%	Revenues EUR 3,799 million	Mid single-digit increase
+3%	Broadcasting German-speaking EUR 2,210 million	Stable
+19%	Digital Entertainment EUR 442 million	Stable
+65%	Digital Ventures & Commerce EUR 768 million	Significant increase
+38%	Content Production & Global Sales EUR 362 million	Mid single-digit decrease

Figure 53 Extract from ProSieben Annual Report 2016<sup>72</sup>

ProSieben's **Digital Entertainment** segment comprised 11% of revenue in Q3 2017. The vast majority of the Digital Entertainment segment's revenues comes from ad support.

As stated by ProSieben, the "growth drivers were the MCN Studio71 and the area of digital advertising technology". MCN Studio 71 produces online videos and sells ads against them. What creates value for an advertiser on this platform is the use of personal information about the viewer that is gathered from other areas of the internet or from certain data like locations. Using these types of inputs, advertisers can then assess if the viewer is the type of customer they want and pay to display advertising to.

The problem is that without significant amounts of information, that ad becomes significantly less valuable. ProSieben has bet hard on the use of personal information and ad-tech in order to create growth. However, as we saw with Criteo, ad rates will likely decline severely once these advertisers cannot use various types of cookie data. This puts ProSieben's digital revenues at significant risk.

In its **Digital Ventures** segment, ProSieben has touted platforms such as Parship, a dating portal. Dating apps and sites make money by using your personal information to sell advertising.

The saying goes, if the product is free, YOU are the product. This is commonplace in the internet economy, however with GDPR these businesses are at risk. As we have already detailed, media-for-equity in this segment

<sup>72</sup> ProSieben Annual Report 2016 pg. III



is highly problematic. However, ProSieben has made no announcements whatsoever as to how they plan to move the business forward when its main product is monetization of personal information!

In their annual report they regularly tout Wetter.com, a weather portal. Wetter.com is free and relies upon location-based ads:

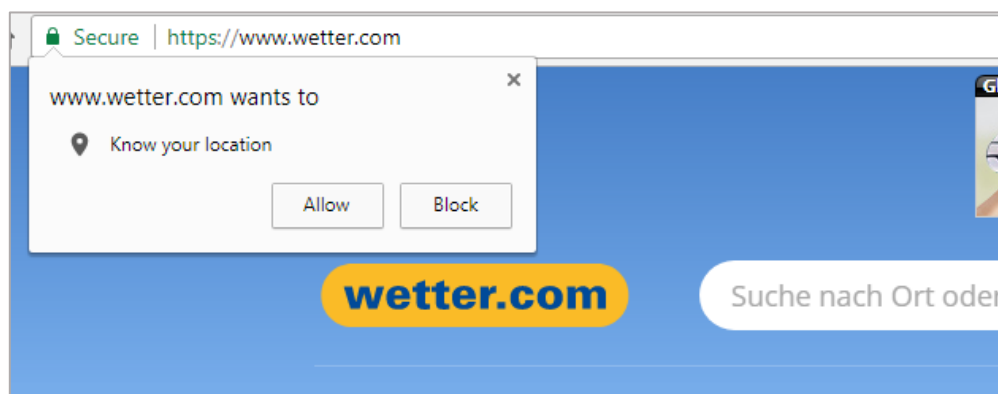


Figure 54 Extract from wetter.com<sup>73</sup>

Under GDPR, the marketability of these sites has yet to be properly assessed given uncertainty. As ProSieben is deliberately vague on disclosure of online ad revenues while mixing in Media for Equity, we cannot be sure as to the exact revenue impact. We believe that the growth driver for the company is inherently up in the air.

If instead of delivering 60% growth, they deliver the >10% declines of Criteo, ProSieben will have to become further reliant on the distorted and manipulated revenue of Media for Equity to sustain their share price, which is ultimately unsustainable and non-cash.

#### Viceroy analysis of ProSieben's privacy statements

**We reviewed 301 PSM's subsidiary companies contained in its most recent annual report for the potential at-risk value of GDPR.**

	Equity Value (Euro 000's) (assigned by PSM)	Function	Impact of GDPR	Traffic Trends
mydays GmbH	33,302	German (local) gifting site	Impacted	Lower
PARSHIP ELITE Group GmbH	68,339	German online data co	Impacted	Lower
ProSieben Travel GmbH 1	435,686	Global Travel organizer	Impacted	Lower
ProSiebenSat.1 Commerce GmbH 1	253,210	Holding Co	Impacted	
ProSiebenSat.1 Digital & Adjacent GmbH 1	980,074	Holding Co	Impacted	
<b>ProSiebenSat.1 Digital Content GmbH</b>	120,712	Holding Co	Impacted	
Red Arrow Entertainment Group GmbH 1	110,971	20 production cos in 7 territories	Impacted	
THMMS MidCo GmbH Hamburg	75,003	N/AV	N/AV	
Verivox GmbH	29,887	Contract Comparison Site	Impacted	Lower
Verivox Holding GmbH	204,587	Contract Comparison Site	Impacted	Lower
WSM Holding GmbH	31,737	N/AV	N/AV	N/AV
Markt guru LLC	N/A	General Marketsite	Impacted	Improving
Flightmate AB	160,769	Flight Comparison Site	Impacted	N/A
Seat24 Travel AB	22,809	Travel Comparison Site	Impacted	Lower
Svenska Resegruppen AB	32,738	Etraveli - Travel website	Impacted	Lower
<b>SevenOne Media (Schweiz) AG</b>	15,588	Marketer for Audiovisual	Impacted	Lower
<b>Red Arrow International, Inc.</b>	4,508	<b>Digital Products</b>	Impacted	N/AV
Studio 71, LP	5,204	Digital Network	Impacted	Lower
<b>Total Value</b>	<b>2,585,124</b>			
<b>Total Equity Value of ProSieben</b>	<b>6,603,000</b>			
<b>% of ProSieben</b>	<b>39.15%</b>			

Figure 55 Viceroy analysis of ProSieben operations affected by GDPR

<sup>73</sup> [www.wetter.com](https://www.wetter.com)





For many of its affiliates and investments, PSM doesn't disclose revenue but does provide an equity value. An assessment of the privacy policies for 30 of the most meaningful (equity value) businesses, as well as traffic trends for these business in the past year, shows they are susceptible to major GDPR impact. Traffic has either already started to be impacted by privacy regulations and/or is seeing a deterioration with the exception of one. As such, we think the overall impact on ProSieben's equity value will be meaningful.

Approximately 40% of the total company equity value depend on consumer data for revenue generation.

## 7. Conclusion

ProSieben displays all the signs of a business in an advanced state of decay in every segment. Viceroy believes that these issues have gone unattended for too long, and a correction is imminent as ProSieben's market becomes stressed and its earnings tricks come undone.

Given the lack of transparency within the business, Viceroy believe ProSieben is uninvestable. We have never come across a 300-page annual report that says as little as ProSieben's.

Per our findings, Viceroy believe ProSieben must make significant downward revisions on its earnings. These adjustments are summarized below:

1. EBITDA and Net Income have been adjusted to remove the gain on sale of Etraveli which, as discussed, concealed a number of predictable impairments which we believe are not one-time.
2. Viceroy have fully discounted revenue from media-for-equity and media-for-revenue deals, which we have detailed as being non-cash and do not appear to have an adjusting entry on ProSieben's operating cash flows.
3. Put liabilities have characteristics of upfront cash expenses, and we have recorded them as such.
4. Other intangible assets consist of internally generated assets which are almost systematically amortized over a year and do not make their way into the Company's EBITDA. These internally generated assets have the characteristics of cash expenses and we record them as such.

Revised Earnings - LTM		(EUR m)
<b>EBITDA</b>		<b>752</b>
Less:		
Assumed non-cash MFE / MFR revenues		(210)
Put liabilities		(40)
Other intangible assets		(89)
<b>Viceroy revised EBITDA</b>		<b>413</b>
<b>Net Income*</b>		<b>201</b>
Less:		
Assumed non-cash MFE / MFR revenues		(141)
Put liabilities		(27)
<b>Viceroy revised Net Income</b>		<b>33</b>
*Removed gain on sale of Etraveli using avg tax rate over last 2 years where applicable.		

Figure 56 Viceroy earnings analysis



We value ProSieben at EUR 7.51 per share, representing a 75% downside on the 5 March 2018 closing price of EUR 30.05.

EV /EBITDA Valuation			
(EUR m)	Low	Mean	High
EV Multiple	4.29	8.18	11.50
Viceroy revised EBITDA	413	413	413
EV	1,772	3,377	4,750
Net Cash	(1,632)	(1,632)	(1,632)
Implied Market Cap	140	1,745	3,118
Current Market Cap	6,861	6,861	6,861
<b>Downside</b>	<b>-98%</b>	<b>-75%</b>	<b>-55%</b>

Comp Set		
LTM	P/E	EV/EBITDA
ProSieben	14.57	7.83
Comcast	7.46	8.27
RTL Group	15.20	9.76
Sky Network Television	7.68	4.29
Viacom*	10.06	8.01
CBS	15.61	11.50
AMC Network	6.99	7.24
* FY 2017 used		

Figures 57 & 58 Viceroy valuation analysis

*Given the lack of transparency within the business, Viceroy believe ProSieben is uninvestable, as earnings appear to be artificially boosted and massive impairments are imminent.*