



Highlight

Highlight Communications AG



1Q2021

QUARTERLY STATEMENT as of March 31, 2021

The Highlight Group's consolidated revenue and EBIT developed positively in the first quarter of 2021.

- Consolidated revenue increased by CHF 17.2 million to CHF 106.5 million (previous year: CHF 89.3 million).
- EBIT rose by CHF 0.1 million to CHF 1.3 million and is therefore clearly in positive territory once again.
- Net profit for the period declined by CHF 1.0 million compared with the first quarter of 2020 to CHF -2.1 million due to currency effects.

Economic development of the Highlight Group

Sales and earnings (in CHF million)

	Q1 2021	Q1 2020	Change
Sales	106.5	89.3	19.3%
EBIT	1.3	1.2	6.9%
Net profit for the period	-2.1	-1.1	n/a
Net profit attributable to shareholders	-1.9	-0.9	n/a
Earnings per share (in CHF)	-0.03	-0.02	n/a

The sales growth was due to higher sales in the Film segment, whereas sales in the Sport- and Event-Marketing segment were up slightly and sales in the Sport segment were down on the same period of the previous year. At CHF 30.4 million, capitalized film production costs and other own work capitalized increased by CHF 3.1 million year-on-year.

At CHF 138.1 million, consolidated operating expenses were CHF 18.9 million or 15.8% higher than in the previous year. This was due to service productions in the Film segment and a slight increase in personnel expenses of CHF 2.6 million to CHF 43.3 million.

As a result, EBIT amounted to CHF 1.3 million after CHF 1.2 million in the previous year. Consolidated net profit for the period amounted to CHF -2.1 million, CHF -1.0 million compared to the same quarter of the previous year, and was affected by the lower financial result caused by currency effects.

Net assets and financial position (in CHF million)

	March 31, 2021	December 31, 2020	Change
Balance sheet total	663.4	661.3	0.3%
Equity	207.3	207.0	0.1%
Equity ratio (in %)	31.2	31.3	-0.1 point
Current financial liabilities	83.5	69.4	20.2%
Cash and cash equivalents	66.3	48.2	37.6%

With a reduction of CHF 11.6 million to CHF 425.8 million, non-current assets were down slightly compared with the end of 2020. A reduction in both in-house productions and third-party productions contributed to the decline in the value of film assets by CHF 10.0 million to CHF 152.0 million.

Current assets increased by CHF 13.7 million to CHF 237.5 million, with decreases of CHF 18.9 million in contract assets and CHF 7.2 million in trade accounts receivable and other receivables being offset by a CHF 22.1 million increase in inventories.

Equity remained largely unchanged compared with the end of 2020 at CHF 207.3 million.

Operational and economic development of the Film segment

Preliminary remark

Given the ongoing pandemic situation, the comments below only apply to a more or less short period. They do not apply to the medium term and there is no comparative data for this situation.

The “Default Fund I” (EUR 50 million for theatrical movie and TV productions), which is financed by the German Federal Government, was reported on in the 2020 financial statements. It is intended to mitigate the effects of production disruptions due to COVID-19 and allow production to resume on theatrical movies and high-end series in Germany. The fund is part of the NEUSTART KULTUR (RESTART CULTURE) program, which is expected to provide EUR 165 million in total to support the film industry.

In the period under review (specifically from January 2021), additional production assistance can be applied for under the “Default Fund II” (TV and streaming productions), which has been launched by the German federal states and TV stations. With retrospective effect from November 1, 2020, the fund provides production companies with financial support for the duration of filming if they incur financial losses as a result of coronavirus-related disruptions to production that are not covered by their standard insurance.

Theatrical distribution – Due to the COVID-19 situation, the state governments decided to keep movie theaters closed. For this reason, no movies were released in theaters in the reporting period.

Home Entertainment – Despite the coronavirus situation and the closure of retail outlets, in some cases as a result of the pandemic, performance in the first quarter of 2021 was largely in line with expectations. This included the release of the theatrical production “After We Collided” and the Constantin in-house production “Dragon Rider”. The positive overall results were also driven to a large extent by the sales figures for catalog titles in both physical and digital formats, especially titles such as “Das perfekte Geheimnis”, “After Passion”, the “Ostwind” series, and the “Werner” series. March saw the physical release of the theatrical productions “After We Collided” and “Dragon Rider”. As a result of the coronavirus pandemic and the partial restrictions affecting many retail outlets in the German-speaking region, the distribution target was not achieved. By contrast, electronic transactions (TVoD and EST) were significantly higher than planned.

License trading/TV exploitation – Start of licenses for theatrical movies including “Papillon” (ProSieben) in free TV and “Die schönste Zeit unseres Lebens” (Sky) in pay TV (pay-per-view).

TV service production – Filming for the third season of the TV series “Die Heiland” (Olga Film for ARD) and the high-end series “Der Palast - AT” (Constantin Television for ZDF) continued successfully. Filming also began on another double episode of the successful TV series “Kommissarin Lucas” (Olga Film for ZDF). At RatPack, the six-part prime-time series “Mein Freund, das Ekel” (a continuation of the ZDF comedy of the same name) was successfully filmed. Further episodes of the daily show “Dahoam is Dahoam” (Constantin Television) and the “Tatort” episodes set in Franconia (Hager Moss) were also filmed for BR.

At Constantin Entertainment GmbH, further episodes of shows including the weekly “Darf er das? Live – Die Chris Tall Show” (RTL), “K11 – Die neuen Fälle” (Sat.1) and “Fraueng’schichten” (BR) were filmed.

Several TV service productions achieved double-digit percentage market shares (overall market) in the first quarter of 2021. In particular, the broadcast of the TV event “Feinde”, a Ferdinand von Schirach adaptation, achieved a market share of 21.8% with the “Gegen die Zeit” version and 19.5% with the “Recht oder Gerechtigkeit?” version. The broadcast of another episode of “Kommissarin Lucas” in prime time on ZDF achieved a market share of 22.1%. The broadcast of the ZDF series “Kanzlei Berger” recorded an average market share of around 11.2%, while the ARD film “Jackpot” achieved a 12.9% market share (all quoted market shares relate to the overall market).

Another notable success was the total audience for the high-end series “Wir Kinder vom Bahnhof Zoo” on Amazon Prime. With 2.3 million views in the launch week alone, “Wir Kinder vom Bahnhof Zoo” enjoyed a stronger debut on Amazon Prime than many similar titles. As many as 13.4 million views were recorded in the first 30 days after the release date.

Sales and earnings (in CHF million)

	Q1 2021	Q1 2020	Change
Segment sales	67.9	48.1	41.2%
Segment earnings	3.3	0.4	674.4%

The sales growth in the segment was due in particular to the low prior-year figure, which was impacted by uncertainty concerning the measures in response to the COVID-19 pandemic.

Other segment income, which is largely influenced by capitalized film production costs, increased by CHF 1.8 million to CHF 31.5 million as a result of the recovery in the production volume. Segment expenses rose by CHF 18.8 million to CHF 96.1 million.

Operational and economic development of the Sports- and Event-Marketing segment

In the first quarter of 2021, TEAM progressed the sales process for the UEFA Champions League and the combined process for the UEFA Europa League and the, newly established, UEFA Europa Conference League for the 2021/22 to 2023/24 rights cycle.

TEAM also started the preparations to support partners' activations of the UEFA Champions League Final in and the UEFA Europa League Final. Both matches should be able to host a limited number of fans and partners' guests pending confirmation from UEFA and local authorities.

In terms of the Vienna Philharmonic Orchestra project, the main focus of Highlight Event in the first quarter was on holding the New Year's Day Concert without a live audience and arranging COVID compensation with the sponsors and media partners. In addition, further media agreements were concluded until 2027 and events for 2021 were planned under COVID conditions (including the Summer Night Concert and sponsor events in Milan, Florence, Amsterdam, Copenhagen, and Barcelona).

With regard to the 2021 Eurovision Song Contest (ESC), the focus in the first quarter was on the conclusion of further sponsorship agreements (including booking.com), the arrangement of COVID compensation with the main sponsor, and preparations for holding the event (ESC 2021 in Rotterdam) under COVID conditions. Highlight Event is making good progress or recorded good results in all of the aforementioned areas.

Sales and earnings (in CHF million)

	Q1 2021	Q1 2020	Change
Segment sales	16.9	16.2	3.9%
Segment earnings	8.0	7.8	3.1%

The slight increase in the external revenue of the Sports- and Event-Marketing segment is due to currency effects.

Segment expenses remained unchanged year-on-year at CHF 8.9 million, with segment earnings increasing by CHF 0.2 million to CHF 8.0 million.

Operational and economic development of the Sports segment

Sport 1 GmbH continued to expand its product and program portfolio in the first quarter of 2021: The rights to the FIA World Rally Championship (WRC) were acquired for a one-hour highlight magazine show and for exploitation in “AvD Motor & Sport Magazin”, which kicked off the new motorsports season on March 21 as part of an extended cooperation with Automobilclub von Deutschland e.V.. SPORT1 also acquired handball rights to the German Women’s Handball Cup in the shape of the OLYMP Final4 in May and added new podcasts to expand its audio portfolio to more than 20 formats.

In January, cooperation agreements were entered into for the distribution of the two German-language pay TV channels SPORT1+ and eSPORTS1 on Joyn and eSPORTS1 on Amazon Prime Video Channels. In March, this was followed by a partnership with Telenor for the distribution of the new pan-European channel eSportsONE, which was launched in November 2020, in Norway and Sweden. The main focus at the other subsidiaries of Sport 1 Medien AG in the first quarter of 2021 was also on maintaining and expanding existing customer relationships and developing new ones.

SPORT1’s free TV market share was unchanged year-on-year at 0.5% among viewers aged three and over and down slightly at 0.8% in the target group of 14- to 59-year-old men. This was due in particular to the sustained impact of the coronavirus, including the postponement of the Darts Premier League until the second quarter of 2021.

In terms of digital content, visits increased by 5% and video views by 18% in the first quarter of 2021 compared with the same period of the previous year, thanks among other things to the live streaming campaign. VoD reach on the SPORT1 platforms also grew – particularly as a result of the expanded video portfolio – whereas video views on YouTube declined slightly. The number of unique users in the first quarter was 16% higher than in the first quarter of 2020. This was due in particular to the amount of traffic from search engines.

Sales and earnings (in CHF million)

	Q1 2021	Q1 2020	Change
Segment sales	21.8	25.0	-12.8%
Segment earnings	-8.5	-5.2	n/a%

The external sales of the Sport segment declined by CHF 3.2 million to CHF 21.8 million.

Other segment income increased by CHF 0.2 million to CHF 1.5 million while segment expenses rose by CHF 0.5 million to CHF 31.9 million, meaning that segment earnings decreased by CHF 3.4 million overall to CHF -8.5 million compared with the same quarter of the previous year.

Report on risks and opportunities

There were no changes in the Highlight Group's risks and opportunities in the first quarter of 2021. A detailed description of the risk management system and the risk and opportunity profile can be found in the management report of our 2020 annual report.

Forecast

The statements on the outlook for 2020 should be evaluated in the context of the current COVID-19 situation and the unforeseeable timing of the end of the lockdown; the current planning is not reliable.

After the end of the lockdown, growing media consumption and a rise in global demand for audio-visual products can still be expected, resulting in a positive overall situation in the Film segment. Besides competitors with strong market positions, the biggest challenge will be to catch up on the pauses in production and exploitation caused by COVID-19 in the current fiscal year.

Assuming we manage to do so, the sales forecast for 2021 is generally based on a promising portfolio of attractive own/co-productions and licensed films for cinema and home entertainment. In addition, activities in the TV service production business area are set to pick up.

In theatrical distribution, fourteen film releases were planned for 2021, including “Ostwind – Der große Orkan” and “Monster Hunter”. However, this planning is subject to considerable uncertainty at this moment in time, as it is not currently foreseeable when and to what extent movie theaters will reopen and what the competitive environment on the respective release dates will be like.

In home entertainment exploitation, which includes digital and physical sales, we continue to anticipate good sales figures for our catalog products and new releases in digital sales.

As a result of the coronavirus crisis and the associated restrictions in retail, we expect physical business with the sale of audiovisual storage media to be difficult. The uncertainty among consumers in connection with COVID-19 is also likely to make things more difficult in the public sphere. As a result of the closure of the entire movie theater market, new releases of theatrical productions will be postponed until the fourth quarter of the year, which will also have an impact on the home entertainment sector.

In the second quarter of this year, the free-TV business area of the license trading/TV exploitation business area will be dominated mainly by sales from the theatrical movies “Nur Gott kann mich richten” and “Der Vorname”. No movies will be newly licensed in the pay TV segment in the second quarter.

TEAM will focus on completing the media and sponsorship sales process for the UEFA Champions League and the combined process for the UEFA Europa League and the UEFA Europa Conference League for the 2021/22 to 2023/24 rights cycle, which commences in August 2021.

TEAM will also support UEFA and its partners in delivering a successful knock-out phase and finals of the current season, the last of the current rights cycle.

In terms of the Vienna Philharmonic Orchestra project, Highlight Event AG will continue to focus on extending the media agreements until 2027 and arranging the orchestra's events in 2021, while the focus for ESC 2021 will be on holding the event in order to fulfill the sponsorship and media agreements as best as possible. Despite the continued challenges due to COVID, the outlook for both projects is extremely positive.

The Sports segment will focus on the systematic use, distribution, and capitalization of multimedia content in fiscal 2021 as well. In addition to augmenting the SPORT1 portfolio by acquiring new rights, extending existing partnerships and developing new content cooperations and business areas, cross-platform exploitation and production of established pillars of programming also remain central. In particular, these include the core sports of football, motorsports, ice hockey, basketball, volleyball, darts, tennis, US sports and e-sports. Furthermore, the digital diversification of the SPORT1 brand will continue to be promoted and new content and marketing environments will be created in view of the continued massive growth in the digital and cross-platform use of media content – for example, using the Bundesliga and Bundesliga 2 highlight and archive clips acquired in the DFL rights tender for exploitation on digital platforms.

In addition to complex live and non-live productions, PLAZAMEDIA will focus on further developing innovative production technologies, content management solutions and technical content distribution in 2021. The main priorities for sports at the other subsidiaries of Sport1 Medien AG will also be maintaining existing customer relationships and developing new ones. There will be a particular focus on making the best possible use of synergies in the sports sector, where the subsidiaries cover the entire value chain and accordingly provide integrated services for partners and customers.

Events after the balance sheet date

The global coronavirus pandemic will remain a key issue beyond the first quarter of 2021. The Board of Directors is continuously monitoring the situation and has already taken corresponding measures.

Notes and forward-looking statements

This document is a quarterly statement according to Section 51a of the Exchange Rules for the Frankfurter Wertpapierbörse.

For calculation-related reasons, rounding differences of +/- one unit may arise and the percentages shown may not precisely reflect the absolute figures to which they relate.

This document contains forward-looking statements that are based on estimates and expectations of the Group management. Words such as "anticipate", "intend", "expect", "can/could", "plan", "intended", "further improvement", "target is", and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not historical facts. These are subject to risks, uncertainties and factors, of which most are difficult to assess and which in general are beyond the control of the Group management. If one or more of these risks or uncertainties materializes, or if underlying expectations do not occur or assumptions prove to be incorrect, the actual results, performance, or achievements of the Highlight Group may differ significantly from those described explicitly or implicitly in the forward-looking statements. Highlight Communications AG does not intend to continuously update the forward-looking statements contained in this document.

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*Publisher and responsible for content: Highlight Communications AG, Pratteln
Design, copy, layout and production: GFD Finanzkommunikation, Frankfurt am Main
Pictures: dpa Picture-Alliance, Frankfurt am Main and Ralf Wilschewski, Greiling*