



# Highlight

Highlight Communications AG



## 1Q2020

## QUARTERLY STATEMENT AS OF MARCH 31, 2020

The Highlight Group's sales developed in line with expectations in the first quarter of 2020, while earnings performance exceeded expectations.

- At CHF 89.3 million, consolidated sales were CHF 27.4 million below the figure for the first quarter of 2019.
- EBIT rose by CHF 4.1 million to CHF 1.2 million and is clearly in the positive range, after CHF -2.9 million was reported in the same quarter of the previous year.
- Net profit for the period improved compared with the first quarter of 2019 by CHF 3.4 million to CHF -1.1 million.

## Economic development of the Highlight Group

### *Sales and earnings (in CHF million)*

	Q1 2020	Q1 2019	Change
Sales	89.3	116.7	-23.5%
EBIT	1.2	-2.9	n/a
Net profit for the period	-1.1	-4.5	74.4%
Net profit attributable to shareholders	-0.9	-3.4	75.0%
Earnings per share (in CHF)	-0.02	-0.06	66.7%

The decline in sales is a result in particular of lower sales in the Film segment, where the COVID-19-related measures have impacted since March, while sales in the other segments of Sport- and Event-Marketing and Sport remained roughly at the prior-year level. At CHF 27.3 million, capitalized film production costs and other own work capitalized were down CHF 3.5 million year-on-year. This also applies to other operating income, which declined by CHF 0.5 million to CHF 3.8 million.

Consolidated operating expenses were lowered by CHF 35.6 million or 23.0% to CHF 119.2 million. This development resulted primarily from decreases in the cost of materials and licenses (by CHF 11.0 million to CHF 52.0 million) as well as from amortization, depreciation and impairment (by CHF 22.0 million to CHF 11.9 million), while personnel expenses of CHF 40.7 million were only slightly below the prior-year level of CHF 40.9 million.

As a result, EBIT is CHF 1.2 million after CHF -2.9 million in the previous year. Consolidated net profit for the period of CHF -1.1 million after CHF -4.5 million in the previous quarter was affected in particular by a CHF 0.6 million improvement in the financial result.

### *Net assets and financial position (in CHF million)*

	March 31, 2020	December 31, 2019	Change
Balance sheet total	656.0	673.9	-2.7%
Equity	191.3	197.7	-3.2%
Equity ratio (in %)	29.2	29.3	-0.1 point
Current financial liabilities	80.3	66.7	20.4%
Cash and cash equivalents	51.1	53.0	-3.6%

With a reduction of CHF 0.7 million to CHF 457.1 million, non-current assets remained at the level of the end of 2019. An increase in in-house productions contributed to the value of film assets by CHF 4.2 million to CHF 178.8 million, while third-party productions declined slightly.

Current assets declined by CHF 17.2 million to CHF 198.9 million, with a decrease in trade accounts receivable and other receivables of CHF 17.4 million being offset by a CHF 2.6 million rise in contract assets.

The main reasons for the reduction in equity were consolidated net profit for the period of CHF -1.1 million and especially currency effects in the amount totaling CHF -4.3 million.

## Operational and economic development of the Film segment

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

At the allocation of reference funding for 2019 by the German Federal Film Board, the Constantin Film Group was once again named the most successful German producer and distributor. This comes with reference funding of around EUR 3.3 million for production and around EUR 0.6 million for distribution.

Home Entertainment – Until the outbreak of the coronavirus pandemic, the first quarter of 2020, in which the theatrical productions “Die Drei !!!” and the Bavarian comedy “Eine ganz heiße Nummer 2” were released, developed mostly as planned. The positive overall results were also attributable to successes in digital sales and consistently good sales figures for catalog titles, particularly the “Fack Ju Göhte” series, “Ostwind – Aris Ankunft”, and the theatrical hit “After Passion”. At the end of March, the big theatrical hit “Das perfekte Geheimnis” was released at the end of March. As a result of the coronavirus pandemic and the associated closure of most retail space 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 “Mortal Instruments” (ProSieben) and “Das Pubertier” (ProSieben) in free TV as well as “Das perfekte Geheimnis” (Sky) in pay TV (pay-per-view).

TV service production – Filming for the second season of the TV series “Die Heiland” (Olga Film GmbH for ARD) was continued in January, and filming of the high-end series “Wir Kinder vom Bahnhof Zoo” (Constantin Television GmbH for Amazon) was successfully completed in February. At Moovie GmbH, the individual productions “Nicht tot zu kriegen” (ZDF) featuring Iris Berben and Nina Grosse and “Gott” based on the play by Ferdinand von Schirach (ARD) were filmed.

Due to the COVID-19 situation, filming for the daily show “Dahoam is Dahoam” (Constantin Television GmbH for BR) had to be suspended in mid-March, as did the filming of further episodes of the TV series “Kroatien Krimi” (Constantin Television GmbH for ARD) and the project “Transatlantic 473” (Rat Pack Filmproduktion GmbH for NETFLIX).

At Constantin Entertainment GmbH, further episodes of shows including the weekly “Darf er das? Live – Die Chris Tall Show” (RTL) and “K11 – Die neuen Fälle” (Sat. 1) were filmed. In addition, further episodes of “Shopping Queen” (VOX) and the quiz show “Genial daneben – Das Quiz” (Sat. 1) were produced, but had to be suspended due to COVID-19.

Several TV service productions achieved double-digit percentage market shares (overall market) in the first quarter of 2020. In particular, the broadcast of the Tatort episode “Die Nacht” – a Hager Moss GmbH production for ARD – achieved a market share of 23.1% on March 1 and “Der Kroatien-Krimi: Tote Mädchen” – a Constantin Television GmbH production, also for ARD – achieved a market share of 13.0% on March 12 (all quoted market shares relate to the overall market). The entertainment show “Darf er das? Live – Die Chris Tall Show” from Constantin Entertainment GmbH achieved a strong market share of 22.9% of 14- to 49-year-olds on February 21.

### *Sales and earnings (in CHF million)*

	Q1 2020	Q1 2019	Change
Segment sales	48.1	72.4	-33.5%
Segment earnings	0.4	-3.5	n/a

The sales decrease across the segment was driven primarily by the measures in connection with the COVID-19 pandemic, which affected the whole industry.

Other segment income, which is largely influenced by capitalized film production costs, dropped by CHF 3.9 million to CHF 29.6 million as a result of the currently lower production volume. Segment expenses fell by CHF 32.0 million to CHF 77.3 million.

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

TEAM's work has focused on the sales process for the UEFA Champions League and the combined process for the UEFA Europa League and a newly established competition, the UEFA Europa Conference League, for the 2021/22 to 2023/24 rights cycle.

Further developments in this area, as well as new market media rights tender launches, have been delayed until further notice amid the Covid-19 pandemic.

Again, due to the Covid-19 pandemic, the preparations to support partners' activation of the UEFA Europa League Final in Gdansk and UEFA Champion League Final in Istanbul have been put on hold with the Finals being postponed.

Highlight Event AG has been fully consolidated in the scope of consolidation of the Highlight Group since January 1, 2020 and has been assigned to the Sport- and Event-Marketing segment.

In terms of the Vienna Philharmonic Orchestra project, Highlight Event AG succeeded in extending the exclusive main sponsor agreement early for a period of a further five years. Due to the successful partnership, the agency agreement has previously already been extended for the 2023-2027 contract cycle. On the event side, the 2020 New Year's Concert was very successfully implemented for the TV stations involved in over 90 countries as well as for the sponsors.

The main focus of the Eurovision Song Contest 2020, which has since been canceled due to the COVID-19 pandemic, was the implementation of the various media and sponsor agreements. Highlight Event AG therefore worked closely with the European Broadcasting Union (EBU). A focus was also to achieve the financial goals that have been set to automatically renew the agency agreement with the EBU for the 2021-2024 contractual period, which still appears absolutely realistic despite the corona-related crisis situation.

### *Sales and earnings (in CHF million)*

	Q1 2020	Q1 2019	Change
Segment sales	16.2	16.5	-1.5%
Segment earnings	7.8	8.5	-9.1%

The slight decrease in the external sales of the Sports- and Event-Marketing segment results from the lower agency commission that the TEAM Group generated as a result of the marketing of UEFA club competitions for the 2020/21 to 2021/22 seasons.

Due to the rise of segment expenses by CHF 0.8 million to CHF 8.8 million, segment earnings declined by 9.1% to CHF 7.8 million.

## Operational and economic development of the Sports segment

SPORT1's product range and rights portfolio was expanded in the first quarter of 2020. In February, the new SPORT1 app was launched with news, videos, interviews, statistics, and live tickers for over 50 different sports and 200 competitions. The rights acquired by Sport 1 GmbH included rights to the Coupe de France in football and to the US NASCAR Cup racing series and the FIA World Rallycross Championship in motorsports. In e-sports, the cooperations with FIFA and DreamHack were extended for the FIFA 20 Global Series and the FIFA eWorld Cup 2020™ and for Dota 2 events. The ESL Pro League was also broadcast under an agreement with 7Sports. Due to the cancellation or postponement of sports events from March onward as a result of the coronavirus pandemic, SPORT1 entered into an extensive programming cooperation with FIFA and also acquired additional sports documentary and docutainment formats. The main focus at the other subsidiaries of Sport 1 Medien AG in the first quarter of 2020 was also on maintaining and expanding existing customer relationships and developing new ones. For example, PLAZAMEDIA implemented productions for Constantin Film ("Caveman"), Constantin Entertainment ("Die SAT.1 Comedy Konferenz – Promis in Quarantäne") and MingaMedia ("An die Töpfe, fertig, lecker!").

SPORT1's free-TV market shares were below the level of the previous year's quarter at 0.5% among viewers aged three and over and 0.9% in the core target group of 14- to 59-year-old men, particularly due to the cancellation of almost all sports events from March onward as a result of the coronavirus. The program was accordingly adjusted and has since offered a wide range of special programming and topic days with highlights from major sports events of the past, e-sports events, talk, news, and docutainment.

The lack of new sports events also brought about a decrease in visits. By contrast, the number of unique users in the first quarter was higher than in the same quarter of the previous year, particularly due to social media and SEO activities in the mobile sector. Video views and livestreams on the SPORT1 platforms in January and February significantly exceeded those from the year before, meaning that the previous year's level was maintained in the first quarter of 2020 despite the effects of the coronavirus in March. YouTube video views rose by another 28% year-on-year, making the first quarter of 2020 SPORT1's second-best quarter since it first began YouTube activities.

*Sales and earnings (in CHF million)*

	Q1 2020	Q1 2019	Change
Segment sales	25.0	28.1	-11.0%
Segment earnings	-5.2	-6.1	15.1%

The slight decrease in the external sales of the Sports segment by CHF 3.1 million to CHF 25.0 million is due mainly to currency translation effects.

At the same time, segment expenses declined disproportionately to the drop of sales by CHF 4.4 million to CHF 31.5 million, so that the segment earnings improved by CHF 0.9 million overall to CHF -5.2 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 2020. A detailed description of the risk management system and the risk and opportunity profile can be found in the management report of our 2019 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 2020 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, ten film releases were planned in 2020. Among other titles, "After 2", "Die Stasi Komödie" (Leander Hausmann), "Ostwind – Der große Orkan", "Contra" (a new Sönke Wortmann production in the comedy genre starring Christoph Maria Herbst, Nilam Farooq, Hassan Akkouch), "Monster Hunter", "Dragon Rider", and "Kaiserschmarrndrama", the seventh big-screen adaptation of Rita Falk's crime novel series, were to be released. However, at this moment in time this planning is subject to considerable uncertainty, as it is not currently foreseeable when and to what extent movie theaters will reopen. If need be, releases will have to be postponed until next year.

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 second half 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 "Fack Ju Göhte 3" and "Jugend ohne Gott". In pay-TV exploitation, sales will be generated by movies including "Ostwind – Aris Ankunft" (pay-per-view) and "Die schönste Zeit unseres Lebens" (pay-per-view).

Due to the stoppage of the football season across Europe, TEAM will focus on supporting UEFA in commercial and calendar planning for the UEFA Club Competitions' resumption over the summer months. This includes preparing commercial analysis of several format changes to complete the current season in time for the next one to start. In addition, TEAM are helping UEFA to understand the potential implications for partners of the disrupted season.

Despite the pandemic-related travel restrictions imposed at the end of the quarter, sales teams will be actively preparing for a more intense sales period in Q3 and Q4 of 2020 and in 2021 as restrictions are lifted.

Highlight Event AG is focusing on renewing the media contracts (including TV, radio, and streaming) for the Vienna Philharmonic Orchestra's New Year's Concert and Summer Night Concert for the 2023-2027 contract cycle. With regard to the Eurovision Song Contest 2021, the intensive marketing phase is starting now already. Despite the challenges arising from the coronavirus crisis, the outlook for both projects is positive, as initial agreements have already been concluded.

The Sports segment will essentially focus on the systematic use, distribution, and capitalization of multimedia content in fiscal 2020 as well. In addition to augmenting the 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. These particularly include the core sports of football, motorsports, ice hockey, basketball,

volleyball, darts, tennis, boxing, US sports, and e-sports. In view of the continued massive growth in the digital and cross-platform use of media content, the Sports segment will also continue to promote the digital diversification of the SPORT1 brand while at the same time creating new content and marketing environments.

In addition to implementing complex live and non-live productions, PLAZAMEDIA will continue to focus on the development and enhancement of production technologies, content management solutions, and technical content distribution in 2020. The main priorities at the other subsidiaries of Sport1 Medien AG will also be maintaining and expanding existing customer relationships and developing new ones. Here, 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.

With a view to the challenges arising from the coronavirus pandemic, in the Sports segment the aim is to compensate as much as possible for the loss in sales caused in particular by the decline in advertising revenue with savings, for example with license and manufacturing costs as well as staff costs and rental costs. Sales potential is being strengthened in marketing once again.

#### Events after the balance sheet date

The new coronavirus strain has continued to spread around the world in the first quarter of 2020. The Board of Directors continues to monitor the situation and has taken corresponding measures. The Board of Directors assumes that the spread of coronavirus will affect the Highlight Group.

### *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.*

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