

Technicolor

Financial restructuring completed

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With its complex financial restructuring complete, Technicolor can now move forward secure in the knowledge of a supportive equity- and debt-holder base. With US Chapter 15 proceedings now closed, both S&P and Moody's have lifted their ratings, the former to CCC+ with stable outlook (B for the new debt), the latter to Caa2 (Caa1 for new debt), which should help improve commercial terms of trade. The rights issue was taken up by 18.1% of equity holders, at €2.98, above the prevailing market price, with previous debt holders swapping their debt for equity. The focus is now firmly on rebuilding profitability by leveraging Technicolor's leading market positions across its three operations.

Year end	Revenue (€m)	EBITA (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)
12/18	3,988	98	7	(3.07)	0.0	N/A
12/19	3,800	42	(73)	(4.92)	0.0	N/A
12/20e	3,100	(64)	(144)	(1.40)	0.0	N/A
12/21e	3,460	104	33	0.06	0.0	20.3

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Guidance unchanged

The next trading update should be with the Q3 figures in early November (we covered H120 progress in our [August update note](#)). The fundamentals remain unaltered, with a demonstrable need for Connected Home's products as the effects of the pandemic on corporate and domestic life highlight the importance of reliable domestic broadband. Our model is set to match management guidance. We expect adjusted EBITDA of €169m for FY20, with an adjusted EBITA loss of €64m. Guidance for free cash flow is for an outflow of between €115m and €150m in FY20, with our model at the lower end. By FY22, the business plan points to adjusted EBITDA of €425m and adjusted EBITA of €202m. FY22 free cash flow is indicated to improve to €259m.

Reconfigured share register

Post the debt-to-equity swap, the share register is now led by previous debt holders, topped by Credit Suisse AM with 12.7%, Barings with 10.3% and Bain Capital Credit with 8.2%. Previous shareholders have been diluted down to 11.1%. Warrants have now been issued to both new money lenders (17.7m, exercisable at €0.01) and to shareholders registered at 7 August on the basis of one-for-one shares held, with five warrants giving the right to subscribe to four new shares at €3.58, totalling 12.3m new shares.

Valuation: Digestion underway

The share price is primarily reflecting the issue of the additional shares and warrants diluting previous shareholders, having come back from €2.81 on 15 September, prior to the announcement of the rights' take up. With the financial restructuring now resolved, the valuation should start to be more representative of the trading prospects but may need positive newsflow on Q3 progress to act as a catalyst to a rerating.

Media

30 September 2020

Price **€1.22**

Market cap **€266m**

Forecast net debt (€m) at 31 December 2020 794

Shares in issue 218.3m

Free float 100%

Code TCH

Primary exchange Euronext

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (53.8) (55.2) (94.4)

Rel (local) (52.2) (54.5) (93.5)

52-week high/low €23.27 €1.18

Business description

Technicolor is a worldwide technology leader operating in the media and entertainment industry. Its activities fall in three business segments: Production Services, DVD Services and Connected Home.

Next events

Q3 figures Early November

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Exhibit 1: Financial summary

	€'m	2018	2019	2020e	2021e
		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Y/E December					
Revenue		3,988	3,800	3,100	3,460
Cost of Sales		(3,521)	(3,375)	(2,841)	(3,042)
Gross Profit		467	425	259	418
EBITDA		266	325	169	338
EBITA		98	42	(64)	104
Amortisation of acquired intangibles		(81)	(54)	(59)	(59)
Exceptionals		(127)	(79)	(145)	(20)
Reported operating profit		(119)	(121)	(268)	25
Net Interest		(51)	(84)	(80)	(71)
Joint ventures & associates (post tax)		0	(1)	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		7	(73)	(144)	33
Profit Before Tax (reported)		(170)	(206)	(348)	(46)
Reported tax		(54)	(3)	(20)	(20)
Profit After Tax (norm)		(47)	(75)	(164)	13
Profit After Tax (reported)		(224)	(208)	(368)	(66)
Minority interests		(1)	0	0	0
Discontinued operations		157	(22)	0	0
Net income (normalised)		(48)	(75)	(164)	13
Net income (reported)		(68)	(230)	(368)	(66)
Average Number of Shares Outstanding (m)		15	15	117	218
EPS - normalised (c)		(306.94)	(492.18)	(140.14)	5.96
EPS - normalised fully diluted (c)		(306.94)	(492.18)	(121.70)	5.52
Dividend per share (c)		0.00	0.00	0.00	0.00
Revenue growth (%)		(6)	(5)	(18)	12
Gross Margin (%)		11.7	11.2	8.4	12.1
EBITDA Margin (%)		6.7	8.6	5.4	9.8
EBITA Margin (%)		2.5	1.1	(2.1)	3.0
BALANCE SHEET					
Fixed Assets		2,101	2,082	1,825	1,689
Intangible Assets		1,591	1,483	1,274	1,140
Tangible Assets		233	476	428	426
Investments & other		26	40	40	40
Deferred tax and other		251	84	84	84
Current Assets		1,659	1,126	1,185	1,310
Stocks		268	243	198	221
Debtors		677	507	447	523
Cash & cash equivalents		291	64	228	254
Other		423	312	312	312
Current Liabilities		(1,909)	(1,542)	(1,232)	(1,287)
Creditors		(1,135)	(825)	(610)	(665)
Tax and social security		(34)	(41)	(41)	(41)
Short term borrowings		(20)	(95)	0	0
Other		(720)	(581)	(581)	(581)
Long Term Liabilities		(1,385)	(1,604)	(1,424)	(1,424)
Long term borrowings		(1,004)	(1,203)	(1,023)	(1,023)
Deferred tax		(193)	(27)	(27)	(27)
Other long term liabilities		(381)	(401)	(401)	(401)
Net Assets		466	62	354	288
Minority interests		1	0	0	0
Shareholders' equity		467	62	354	288
CASH FLOW					
Net profit		(224)	(208)	(368)	(66)
Depreciation and amortisation		234	322	292	281
Working capital		2	(69)	(110)	(45)
Tax and interest		(53)	(76)	(90)	(81)
Exceptional & other		159	101	165	81
Net operating cash flow		118	70	(110)	170
Capex		(113)	(169)	(110)	(145)
Acquisitions/disposals		1	(2)	0	0
Equity financing		0	1	60	0
Dividends		0	0	0	0
Other		28	3	0	0
Net Cash Flow		34	(97)	(161)	25
Opening net debt/(cash)		778	733	1,234	794
FX		1		0	0
Discontinued		105	0	0	0
Other non-cash movements		(95)	(404)	600	0
Closing net debt/(cash), excluding IFRS16 leases		733	1,234	794	769

Source: Company accounts, Edison Investment Research

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