

Lucisano Media Group

Reaping the Fruits of Strong Production

1H23 results were solid: production and distribution were rich, helped by releases of some movies/series produced in FY22. The Multiplex activity benefitted from increasing admissions to cinemas and costs' rationalisation, which has led to positive EBIT. Net debt was flat yoy thanks to better working capital management, despite the high number of productions during the semester. Production and distribution should be strong also in FY24.

1H23 revenues increased by 22.7% yoy to EUR 26M, driven by both divisions

The activity of the Distribution and Production BU (performed by IIF – Italian International Film) was strong in 1H23 leading to EUR 19.2M in revenues (+8.7% yoy). The Multiplex BU activity strongly recovered yoy, now close to pre-Covid levels, thanks to increasing cinema admissions: revenues were EUR 6.8M, almost double yoy (in 1H19 revenues of the Multiplex division were EUR 7.5M). Out of EUR 26M total revenues, EUR 4.4M were represented by tax credits. 1H23 EBITDA almost doubled yoy with a record 45.9% margin on sales, thanks to both divisions and the company's efforts to manage fixed costs, as well as thanks to tax credits on operating costs; EBIT was also positive for the theatrical business.

Both divisions' improvements to support 2H23/FY24

The company stated that in 2H23 it expects to release the movies/TV series started in 1H23 and complete the script of those to be shot in 2024; as for the theatrical business, expectations are for a positive trend. For 2H23E, we expect the release of 2 TV series (completed in FY22) and the delivery of 4 new theatrical movies (completed in FY23). For FY24 we expect LMG to release at least 4 new movies, 2 TV series (with the TV on Raffaella Carrà likely to be released in FY25), and a documentary. The Multiplex BU should benefit from increasing admissions, despite the change in perimeter. We have slightly increased our FY23E revenues and profitability estimates in light of the better admissions trend and the expected pipeline delivery. We highlight that our numbers are conservative in terms of tax credit benefits. For FY24E our estimates are virtually unchanged.

Valuation

We updated our DCF model to incorporate our estimates fine-tuning. Our WACC parameters are slightly changed and lead to 6.8% WACC (vs. 6.7% previously): we have updated the cost of debt and beta parameter. Terminal growth in our DCF remains 0%, and long-term EBIT is based on the average 2015-2024 EBIT margin. We derive **a new TP of EUR 2.1** (vs. EUR 2).

19 October 2023: 7:42 CET
Date and time of production

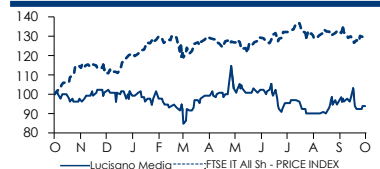
BUY

Target Price: EUR 2.1
(from EUR 2.00)

Italy/Entertainment
Company Update

EGM

Price Performance
(RIC: LMG.MI, BB: LMG IM)



Lucisano Media Group - Key Data

Price date (market close)	17/10/2023
Target price (€)	2.1
Target upside (%)	70.73
Market price (€)	1.23
Market cap (EUR M)	18.30
52Wk range (€)	1.50/1.11

Y/E Dec (EUR M)	FY22A	FY23E	FY24E
Revenues	46.08	52.01	70.84
EBITDA	21.76	20.02	27.27
EBIT	4.74	4.99	5.94
Net income	3.06	3.07	3.91
EPS (EUR)	0.21	0.21	0.26
Net debt/-cash	38.93	32.68	37.30
Adj P/E (x)	6.3	6.0	4.7
EV/EBITDA (x)	2.7	2.5	2.0
EV/EBIT (x)	12.3	10.2	9.4
Div ord yield (%)	0	0	0

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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1H23 Results, Solid in Both BUs

- 1H23 revenues increased by 22.7% yoy to EUR 26M, driven by both divisions.** The activity of the Distribution and Production BU was strong in 1H23, leading to EUR 19.2M in revenues (+8.7% yoy). The Multiplex BU activity strongly recovered yoy, now close to pre-Covid levels, thanks to increasing cinema admissions: revenues were EUR 6.8M, almost double yoy (in 1H19 revenues of the Multiplex division were EUR 7.5M). Out of EUR26M total revenues, EUR 4.4M were represented by tax credits;
- In 1H23, LMG (through its 100% owned IIF) distributed 4 movies** ("I migliori giorni", with EUR 1.9M box office revenues; "Tramite amicizia", EUR 3.0M; "Un matrimonio mostruoso"; "Cattiva coscienza"). On the production side, the company produced or started the production/shooting of 3 movies ("Falla girare 2"; "Totomorto"; "Succede anche nelle migliori famiglie"), which are expected to be released in 2H23, and 2 TV series, also expected to be released in 2H23 ("Non ci resta che il crimine – La serie" and "Il Clandestino");
- The Multiplex BU** was impacted by the closure of the Multisala Big Maxicinema in February and of the Multisala Gaveli in June;
- EBITDA almost doubled yoy and reached EUR 11.9M, with a record 45.9% margin on sales.** The profitability improved thanks to both divisions and the company's efforts in managing fixed costs, as well as the tax credits on operating costs. EBIT jumped to EUR 4.7M and was also positive for the theatrical business after its EBIT loss year-ago. LMG currently has 5 multiplex theatres with a total of 41 screens;
- Net income was EUR 3.4M** (break-even in 1H22);
- Net debt was flat yoy**, slightly decreasing to EUR 37.3M vs. YE22 (when it was EUR 38.9M), after EUR 8.1M capex (for the production of works completed during the semester and for those in progress, as well as the acquisition of movie distribution rights from third parties). The improvement came from better working capital management, in particular receivables from broadcasters and distributors, and better cash management. Net debt adjusted (ex IFRS 16 impact) was EUR 31.1M vs. EUR 32.5M at YE22. The company cashed in EUR 4.6M (July/September) from co-production agreements.

Lucisano Media Group – 1H23 results

EUR M	1H22A	1H23A	yoy%
Revenues	21.2	26.0	22.7
o/w Production & Distribution	17.7	19.2	8.7
o/w Multiplex	3.5	6.8	94.0
EBITDA	6.1	11.9	94.1
o/w Production & Distribution	6.0	9.9	65.1
o/w Multiplex	0.1	2.0	NM
EBITDA margin (%)	29.0	45.9	
o/w Production & Distribution	34.0	51.6	
o/w Multiplex	3.7	29.5	
EBIT	0.9	4.7	432.1
o/w Production & Distribution	2.2	3.3	51.9
o/w Multiplex	-1.3	1.4	NM
Net income	0.1	3.4	NM
Net debt	35.6	37.3	

A: actual; E: estimates; Source: Intesa Sanpaolo Research

Outlook and Estimates Fine-Tuning

The company stated that in 2H23 it expects to release the movies/TV series started in 1H23 and complete the script of those to be shot in 2024; as for the theatrical business, expectations are for a positive trend, with, however, some question marks related to the recent strikes, which could result in some foreign releases' postponement.

For 2H23E, we expect the release of 2 TV series completed in FY22 (more precisely one was shot in 2H22 and the other between 2022 and 2023) and to be delivered to broadcasters in 2H23, as well as the delivery of 4 new theatrical movies completed in FY23. For FY24 we expect LMG to release at least 4 new movies ("La casa di ringhiera" is likely to be delivered in FY25), 2 TV series (with the TV on Raffaella Carrà likely to be delivered in FY25) and a documentary.

The Multiplex BU should benefit from increasing admissions, despite the change in perimeter.

We have slightly increased our FY23E revenues and profitability estimates, in light of a better theatrical scenario and the expected pipeline delivery. We point out that our numbers are conservative in terms of tax credit benefits. For FY24E our estimates are virtually unchanged.

Lucisano Media Group* – Projects expected to be delivered in FY23E-24E and ongoing projects

FY23E	FY24E
Non ci resta che il crimine (TV series)**	Mina Settembre 3 (TV series)
Il clandestino (TV series)**	TV series on Raffaella Carrà (TV series)***
Un matrimonio mostruoso**	I pinguini di Ponte Milvio (TV series)
Cattiva coscienza*	La casa di ringhiera ***
Falla girare 2	Il Clandestino 2
Totomorto	Movie 1
Succede anche nelle migliori famiglie	Movie 2
Ma chi ti conosce	Movie 3
	Le città del futuro - documentary

*through IIF ** production works ended in 2H22, *** movies/series due to be shot between 2024 and 2025
Source: Company data and Intesa Sanpaolo Research elaboration on company data

Lucisano Media Group – FY23E-24E estimates

EUR M	FY23E Old	FY23E New	New vs. Old%	FY24E Old	FY24E New	New vs. Old%
Revenues	50.2	52.0	3.7	71	70.8	0.0
EBITDA	19.2	20.0	4.1	27.2	27.3	0.4
EBITDA margin (%)	38.3	38.5		38.3	38.5	
EBIT	4.2	5.0	19.3	5.9	5.9	0.7
Net income	2.4	3.1	30.1	3.9	3.9	0.9
Net debt	32.4	32.7		38.1	37.3	

E: estimates; Source: Intesa Sanpaolo Research

Valuation

We updated our DCF model to incorporate our estimates fine-tuning. Our WACC parameters are slightly changed and lead to 6.8% WACC (vs. 6.7% previously). We have updated the cost of debt (4.5%, vs. previous 3.2%) and Beta (beta levered now at 0.86x vs. 1x); terminal growth in our DCF remains 0%, and long-term EBIT is based on the average 2015-2024 EBIT margin. We derive a new TP of EUR 2.1 (vs. EUR 2).

Lucisano Media Group – WACC calculation (%)

Gross debt rate	4.5
Tax rate	24
Net debt rate	3.4
Beta levered (x)*	0.86
Gearing	45
Beta (x)*	0.7
Risk-free rate	4.0
Equity risk premium	6.5
WACC	6.8

*elaboration on "Beta, Unlevered beta and other risk measures", Aswath Damodaran; Source: Intesa Sanpaolo Research estimates

Lucisano Media Group – DCF calculation

EUR M	2023E	2024E	LT
EBIT	5.0	5.9	6.8
Tax	-0.4	-0.5	-1.6
NOPAT	4.6	5.4	5.3
Non-cash items	15.0	21.3	
WC change	-1.4	-13.3	
Net Capex	-10	-15	
FCF	8.2	-1.5	5.3
Discounted FCF	7.7	-1.3	4.3
WACC (%)	6.8		
TV growth (%)	0		
Sum	6.3		
TV	63.6		
EV	70.0		
NFP @ 2022A	38.9		
Equity	31.0		
Shares n.	14.9		
Target price (EUR/share)	2.1		

Source: Intesa Sanpaolo Research estimates

Lucisano Media Group – DCF sensitivity analysis (g %, WACC %)

	5.8	6.3	6.8	7.3	7.8
-2.0	1.6	1.4	1.1	0.9	0.7
-1.0	2.2	1.9	1.5	1.3	1.0
0.0	3.0	2.5	2.1	1.7	1.4
1.0	4.0	3.4	2.8	2.4	2.0
2.0	5.7	4.7	3.9	3.2	2.7

Source: Intesa Sanpaolo Research estimates

Valuation and Key Risks

Valuation basis

Our target price of EUR 2.1/sh is derived from a DCF based model (WACC 6.8%, g=0%)

Key Risks

Company specific risks:

- Delays/interruptions affecting the completion of the project for events of force majeure;
- Increasing competitive pressure from online platforms on the multiplex side

Sector generic risks:

- Seasonality of the Italian film market, with a concentration of film releases in a few months of the year
- Credit risk due to a temporal difference between revenues and costs
- We underline that some unpredictable further developments related to the Covid-19 health emergency could undermine the feasibility of our estimates.

Company Snapshot

Company Description

Lucisano Media Group is the holding company controlling all the movie production and multiplex management activities of the Lucisano Family. The core business is managed through the controlled subsidiary Italian International Film ("IIF"), which is the oldest integrated Italian player active in production, acquisition and distribution of movie and television products. Founded in 1958 by Fulvio Lucisano, IIF made history in the Italian movie industry and its brand contributed to the development of the sector and in its success on the global scenario. During its history, IIF produced around 150 films and it distributed nearly 500 foreign movies. The library is today composed by around 600 Italian and international films. The group is active in the Multiplex management business and owns today 7 multiplex movie theatres with 57 screens. The group went public in 2014.

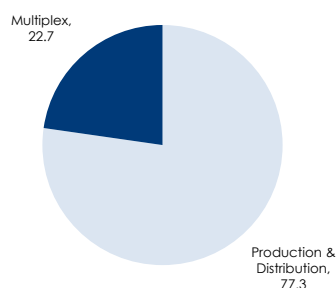
Key data

Mkt price (€)	1.23	Free float (%)	11.9
No. of shares	14.88	Major shr	Keimos
52Wk range (€)	1.50/1.11	(%)	68.0
Reuters	LMG.MI	Bloomberg	LMG IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	-0.8	-1M	1.4
-3M	-1.6	-3M	-0.1
-12M	-6.1	-12M	-27.9

Estimates vs. consensus

EUR M (Y/E Dec)	2022A	2023E	2023C	2024E	2024C	2025E	2025C
Sales	46.08	52.01	NM	70.84	NM	NA	NA
EBITDA	21.76	20.02	NM	27.27	NM	NA	NA
EBIT	4.74	4.99	NM	5.94	NM	NA	NA
Pre-tax income	3.48	3.49	NM	4.44	NM	NA	NA
Net income	3.06	3.07	NM	3.91	NM	NA	NA
Adj. EPS (EUR)	0.21	0.21	NM	0.26	NM	NA	NA

FY22A Sales breakdown by BU (%)



LMG – Vertically integrated Business Model



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 17/10/2023)

Lucisano Media Group – Key Data

Rating BUY	Target price (€/sh) Ord 2.1	Mkt price (€/sh) Ord 1.23			Sector Entertainment
Values per share (EUR)	2020A	2021A	2022A	2023E	2024E
No. ordinary shares (M)	14.88	14.88	14.88	14.88	14.88
Total no. of shares (M)	14.88	14.88	14.88	14.88	14.88
Market cap (EUR M)	18.84	19.69	19.24	18.30	18.30
Adj. EPS	0.08	0.16	0.21	0.21	0.26
BVPS	2.5	2.7	2.9	3.1	3.3
Dividend ord	0	0	0	0	0
Income statement (EUR M)	2020A	2021A	2022A	2023E	2024E
Revenues	32.24	41.62	46.08	52.01	70.84
EBITDA	12.56	16.85	21.76	20.02	27.27
EBIT	2.43	3.78	4.74	4.99	5.94
Pre-tax income	1.41	2.87	3.48	3.49	4.44
Net income	1.21	2.44	3.06	3.07	3.91
Adj. net income	1.21	2.44	3.06	3.07	3.91
Cash flow (EUR M)	2020A	2021A	2022A	2023E	2024E
Net income before minorities	1.2	2.4	3.1	3.1	3.9
Depreciation and provisions	10.1	13.1	17.0	15.0	21.3
Others/Uses of funds	0	0	0	0	0
Change in working capital	1.8	-0.2	-3.4	-1.4	-13.3
Operating cash flow	13.1	15.3	16.7	16.7	12.0
Capital expenditure	-7.3	-13.8	-27.3	-10.0	-15.0
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	5.8	1.5	-10.6	6.7	-3.0
Dividends	0	0	0	0	0
Equity changes & Non-op items	0	0	0	0	0
Net change in cash	5.8	1.5	-10.6	6.7	-3.0
Balance sheet (EUR M)	2020A	2021A	2022A	2023E	2024E
Net capital employed	66.5	68.6	81.6	78.5	87.0
of which associates	0	0	0	0	0
Net debt/-cash	29.4	29.2	38.9	32.7	37.3
Minorities	0	0	0	0	0
Net equity	37.1	39.5	42.7	45.8	49.7
Minorities value	0	0	0	0	0
Enterprise value	48.3	48.9	58.2	51.0	55.6
Stock market ratios (x)	2020A	2021A	2022A	2023E	2024E
Adj. P/E	15.6	8.1	6.3	6.0	4.7
P/CFPS	1.7	1.3	0.96	1.0	0.73
P/BVPS	0.51	0.50	0.45	0.40	0.37
Payout (%)	0	0	0	0	0
Dividend yield (% ord)	0	0	0	0	0
FCF yield (%)	31.0	7.8	-55.0	36.5	-16.5
EV/sales	1.5	1.2	1.3	0.98	0.78
EV/EBITDA	3.8	2.9	2.7	2.5	2.0
EV/EBIT	19.8	12.9	12.3	10.2	9.4
EV/CE	0.73	0.71	0.71	0.65	0.64
D/EBITDA	2.3	1.7	1.8	1.6	1.4
D/EBIT	12.1	7.7	8.2	6.6	6.3
Profitability & financial ratios (%)	2020A	2021A	2022A	2023E	2024E
EBITDA margin	39.0	40.5	47.2	38.5	38.5
EBIT margin	7.5	9.1	10.3	9.6	8.4
Tax rate	14.6	14.9	12.0	12.0	12.0
Net income margin	3.7	5.9	6.6	5.9	5.5
ROCE	3.7	5.5	5.8	6.4	6.8
ROE	3.3	6.4	7.4	6.9	8.2
Interest cover	-2.4	-4.1	-3.8	-3.3	-4.0
Debt/equity ratio	79.3	73.9	91.1	71.4	75.0
Growth (%)		2021A	2022A	2023E	2024E
Sales		29.1	10.7	12.9	36.2
EBITDA		34.2	29.2	-8.0	36.2
EBIT		55.5	25.3	5.2	19.2
Pre-tax income		NM	21.4	0.3	27.4
Net income		NM	25.6	0.3	27.4
Adj. net income		NM	25.6	0.3	27.4

NM: not meaningful; NA: not available; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

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Valuation methodology (long-term horizon: 12M)

The Intesa Sanpaolo SpA Equity Research Department values the companies for which it assigns recommendations as follows:

We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (ie, holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

Equity rating key: (long-term horizon: 12M)

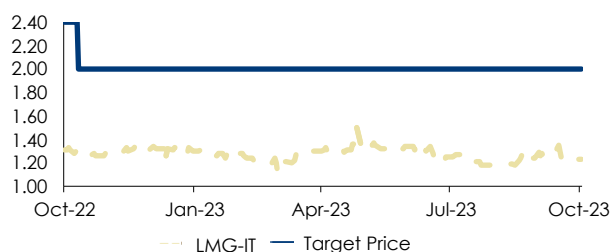
In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, whose key is reported below:

Equity Rating Key (long-term horizon: 12M)

Long-term rating	Definition
BUY	If the target price is 10% higher than the market price.
HOLD	If the target price is in a range 10% below or 10% above the market price.
SELL	If the target price is 10% lower than the market price.
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis to determine an investment rating or target price. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.
TENDER SHARES	We advise investors to tender the shares to the offer.
TARGET PRICE	The market price that the analyst believes the share may reach within a 12M time horizon.
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated.
Note	Intesa Sanpaolo assigns ratings to stocks on a 12M horizon based on a number of fundamental drivers including, among others, updates to earnings and/or valuation models; short-term price movements alone do not imply a reassessment of the rating by the analyst.

Historical recommendations and target price trends (long-term horizon: 12M)

The 12M rating and target price history chart(s) for the companies currently under our coverage can also be found at Intesa Sanpaolo's website/Research/Regulatory disclosures: <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/tp-and-rating-history-12-months->. Intesa Sanpaolo changed its long-term 12M horizon rating key on 3 April 2023; please refer to the ISP Equity Rating Reconciliation Table for further details at the following link: <https://group.intesasanpaolo.com/it/research/equity-credit-research>.

Target price and market price trend (-1Y)**Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
27-Oct-22	BUY	2.00	1.31

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at October 2023)**

Number of companies considered: 132	BUY	HOLD	SELL
Total Equity Research Coverage relating to last rating (%)*	76	24	0
of which Intesa Sanpaolo's Clients (%)**	70	53	0

* Last rating refers to rating as at end of the previous quarter; ** Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category

Company-specific disclosures

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (hereafter the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Organisational, Management and Control Model" pursuant to Legislative Decree 8 June 2001 no. 231 (available at the Intesa Sanpaolo website, <https://group.intesasanpaolo.com/en/governance/leg-decree-231-2001>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group, which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, the FINRA Rule 2241, as well as the Financial Conduct Authority Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial

instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo S.p.A. is available in the "Rules for Research " and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A.

At the Intesa Sanpaolo website, webpage <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest> you can find the archive of disclosure of interests or conflicts of interest of the Intesa Sanpaolo Banking Group in compliance with the applicable laws and regulations.

Furthermore, we disclose the following information on the Intesa Sanpaolo Banking Group's conflicts of interest.

- One or more of the companies of the Intesa Sanpaolo Banking Group plan to solicit investment banking business or intends to seek compensation from Lucisano Media Group in the next three months
- One or more of the companies of the Intesa Sanpaolo Banking Group have an equity stake of 1% or more in Lucisano Media Group or in the Company that has a controlling interest in Lucisano Media Group or in the major shareholder of Lucisano Media Group
- One or more of the companies of the Intesa Sanpaolo Banking Group have a Long position larger than the 0.5% of the issued share capital of Lucisano Media Group
- One or more of the companies of the Intesa Sanpaolo Banking Group are one of the main financial lenders to Lucisano Media Group and its parent and group companies
- Intesa Sanpaolo acts as Specialist, EURONEXT GROWTH ADVISOR relative to securities issued by Lucisano Media Group
- One or more of the companies of the Intesa Sanpaolo Banking Group provide/have provided investment banking services to and/or concerning Lucisano Media Group in the last twelve months

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