

Company Note

MID CORPORATE

# Lucisano Media Group

## 1H21 Results

Lucisano Media Group (LMG) was very active in Production and Distribution, whose revenues in 1H21 almost tripled vs. 1H20 (+70.6% vs. 1H19). The EBITDA margin reached 37.6%. Outlook on Production and Multiplex openings are in line with our FY21E estimates that we confirm. We believe FY22E could grow, driven by production and contribution from rights distribution.

### Growing results, thanks to a very busy Production

Although revenues were impacted by the closure of Multiplex for about 5 months, LMG delivered growing results, with increasing operating margins (EBITDA was +50.5% vs. 1H20 and in line with 1H19) and improving net debt once again. In fact, the company was able to take advantage from its integrated business model being very active in production and distribution activity and signing contracts for the exploitation of its works (current and from the library) with leading broadcasters and distributors (Rai, Sky Italia, Rai Cinema, TIM). The purchase of distribution rights for Italy for various works was also finalised (exploitation is planned for 2022).

### Outlook and FY21E-22E estimates

For 2H21, the company sees the intense production and distribution activity (4 works completed in 3Q21) to continue, including releases of works made in 2020 and 2021. On the Multiplex side, as of today, all the cinemas have reopened (in line with our FY21E expectations) except from BIG in Marcianise (CE), due to extraordinary maintenance. The group expects to be able to bring all cinemas back to a full reopening within year-end, to better capture the flow of audience in the autumn-winter. We confirm our estimates on FY21E and we introduce our projections on FY22E, which incorporate increasing Production revenues vs. 2021, a positive contribution from Distribution rights and a performance of Multiplex still about 45% lower vs. FY19. We forecast an EBITDA margin broadly in line yoy (38.8% vs. 38.7% in FY21E). Unpredictable developments related to the health emergency could have effect on the company's activity (especially on Multiplex opening) and undermine the feasibility of these estimates.

### Valuation

Our updated DCF model **confirms our target price of EUR 2.9/share and our BUY rating.**

8 October 2021: 12:21 CET

Date and time of production

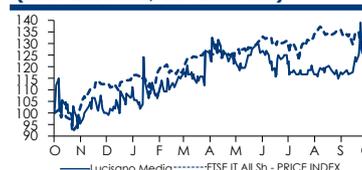
**BUY**

**Target Price: EUR 2.9**

Italy/Entertainment  
Update

### AIM

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



### Lucisano Media Group - Key Data

Price date (market close)	07/10/2021
Target price (EUR)	2.9
Target upside (%)	116.42
Market price (EUR)	1.34
Market cap (EUR M)	19.94
52Wk range (EUR)	1.50/1.01

Price performance %	1M	3M	12M
Absolute	5.5	1.5	24.1
Rel. to FTSE IT All Sh	6.3	-1.1	-7.3

Y/E Dec (EUR M)	FY20A	FY21E	FY22E
Revenues	32.24	45.03	54.13
EBITDA	12.56	17.44	21.02
EBIT	2.43	5.53	7.25
Net income	1.21	3.60	4.97
EPS (EUR)	0.08	0.24	0.33
Net debt/-cash	29.42	29.35	26.88
Adj P/E (x)	15.6	5.5	4.0
EV/EBITDA (x)	3.8	2.8	2.2
EV/EBIT (x)	19.8	8.9	6.5
Div ord yield (%)	0	0	0

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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## 1H21 Results

Although revenues were impacted by the closure of Multiplex for approximately 5 months, LMG delivered growing results, with increasing operating margins (EBITDA was +50.5% vs. 1H20 and in line with 1H19) and net debt improving once again.

In fact, the company was able to take advantage from its integrated business model being very active in production and distribution activity and signing contracts for the exploitation of its works (current and from the library) with leading broadcasters and distributors (Rai, Sky Italia, Rai Cinema, TIM). The purchase of distribution rights for Italy for various works was also finalised (exploitation is planned for 2022). The key points of results were:

- **Revenue increased by 55.8% yoy to EUR 13M**, of which EUR 11.8M from the Distribution and Production BU and EUR 1.2M from the Multiplex BU (cinemas were closed nearly all semester);
- **EBITDA was EUR 4.9M**, +50.5% yoy, with a margin of 37.6%, thanks to the significant results of the Production and Distribution BU and the containment of operating costs of the Multiplex BU of which social safety net;
- **EBIT came in at EUR 0.5M** vs. EUR 0.1M in 1H20;
- **Net income was EUR 0.1M** vs. a net loss of EUR 0.4M in 1H20;
- **Net debt (including IFRS 16 effect) was EUR 26.2M**, improving vs. EUR 29.4M at YE20A. We highlight that part of LMG's debt refers to advance payment of credits deriving from contracts stipulated before the start of production and which guarantee the economic coverage of the work during the production phase that are repaid through the proceeds from films (e.g. transfer of rights to co-producers, licences for PAY, Free or SVOD uses + Tax credit).

### Lucisano Media Group – 1H21 results

EUR M	1H19A	1H20A	1H21A	yoy %	vs. 1H19 %	FY21E
Revenues	14.4	8.4	13.0	55.8	-9.7	45.0
o/w Production & Distribution	6.9	4.1	11.8	NM	70.6	
o/w Multiplex	7.5	4.2	1.2	-71.3	-83.9	
EBITDA	4.9	3.3	4.9	50.5	-0.1	17.4
EBITDA margin (%)	33.9	38.9	37.6			38.7
EBIT	2.6	0.1	0.5	NM	-79.6	5.5
Net income	1.6	-0.4	0.1	NM	-95.3	3.6
Net debt	34.9	27.9	26.2	-6.0	-24.9	29.3

NM: not meaningful; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

## Earnings Outlook

The trend of 1H21A and management's expectations for 2H21 seem in line with our 2021E forecasts. On the Multiplex side, as of today, all the cinemas have reopened except from BIG in Marcanise (CE), which is subject to extraordinary maintenance. The group expects to be able to bring all cinemas back to a full reopening within year-end, to better capture the flow of audience in the autumn-winter. We see the current situation in line with our expectation on the business unit for FY21E (i.e. approx. EUR 7M, in line with 2020A), which is also supported by:

- An attractive pipeline for the remainder of 2021. For example, in September, Disney announced that all of its movies coming out by the end of the year will debut exclusively in cinemas;
- The recent internalisation by LMG of the management of theatres' snack bars, which were still given in concession to third-parties (this activity has interesting margins).

In terms of Production, we summarise in the table below our expectations on projects under development in FY21E-22E, based on latest company's update. Moreover, we assume that in 2022 the company should be able to develop two more projects.

### Lucisano Media Group - Expectations on projects under development in FY21E-22E

2021E
Mina settembre (TV)*
Guida astrologica per cuori infranti**
Il confine
C'era una volta il crimine
L'ultima cena
Non sono quello che sono
Guida astrologica per cuori infranti 2
Ai confini del male
Romanzo radicale
Falla girare
Il segreto di Luigi Proietti..in arte Gigi (documentary)
2022E
Non fate come me
Mina Settembre 2 (TV series)
I pinguini di Ponte Milvio (TV)
Il clandestino (TV)
Meglio non sapere
Non ci resta che il crimine (TV series)

\* already broadcasted in January 2021; \*\* on Netflix since 27 October; E: estimates; Source: Intesa Sanpaolo Research

We therefore introduce our estimates on FY22E, which incorporate: 1) the expected production outlined above (8 works); 2) a positive contribution from Distribution rights; and 3) given the still low visibility in terms of Multiplex' audience in the next year, a performance of Multiplex growing yoy, but still approximately 45% lower vs. FY19. We forecast an EBITDA margin broadly in line yoy (38.8% vs. 38.7% in FY21E).

**FY21E: Production and Multiplex activity in line with our estimates**

**Introducing FY22E estimates**

### Lucisano Media Group – 2021E-22E estimates

EUR M	FY20A	FY21E	yoy %	FY22E	yoy %
Revenues	32.2	45.0	39.5	54.1	20.3
EBITDA	12.6	17.4	38.6	21.0	20.6
EBITDA margin (%)	39.0	38.7		38.8	
EBIT	2.4	5.5	NM	7.2	31.1
Net income	1.2	3.6	NM	5.0	38.2
Net debt	29.4	29.3	-0.3	26.9	-8.3

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

## Valuation

We update our DCF model to incorporate our 2022E estimates and our risk-free rate revision (1% vs. 0.75% previously). **We confirm our target price of EUR 2.9/share and our BUY rating.**

**Target price at EUR 2.9/share; BUY**

Our key DCF assumptions are:

- A 5.3% WACC, incorporating a 1% risk-free rate (0.75% previously), an equity risk premium of 6.5% and a gearing of 44%;
- 0% terminal value growth;
- LT EBIT is calculated as an average of historical 2015-22 EBIT.

### Lucisano Media Group – WACC calculation (%)

Gross debt rate	3.2
Tax rate	24.0
Net debt rate	2.5
Beta levered (x)*	1.0
Gearing	44.0
Beta (x)*	1.0
Risk-free rate	1.0
Equity risk premium	6.5
WACC	5.3

\*elaboration on FactSet data; Source: Intesa Sanpaolo Research estimates

### Lucisano Media Group - DCF calculation 2021E

EUR M	2021E	2022E	LT
EBIT	5.5	7.3	5.3
Tax	-0.9	-1.2	-1.1
NOPAT	4.6	6.0	4.2
No-cash items	11.9	13.8	
WC change	-7.4	-10.0	
Net Capex	-8.0	-6.3	
FCF	1.1	3.5	4.2
Discounted FCF	1.1	3.2	3.6
WACC (%)	5.3		
TV growth (%)	0		
Sum	4.2		
TV	68.6		
EV	72.8		
NFP @ 2020A	29.4		
Equity	43.4		
Shares	14.9		
<b>Target price (EUR/share)</b>	<b>2.9</b>		

E: estimates; Source: Intesa Sanpaolo Research

## Lucisano Media Group – Key Data

Rating BUY	Target price (EUR/sh) Ord 2.9	Mkt price (EUR/sh) Ord 1.34	Sector Entertainment	
<b>Values per share (EUR)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>
No. ordinary shares (M)	14.88	14.88	14.88	14.88
Total no. of shares (M)	14.88	14.88	14.88	14.88
Market cap (EUR M)	23.72	18.84	19.94	19.94
Adj. EPS	0.15	0.08	0.24	0.33
CFPS	0.82	0.76	1.0	1.3
BVPS	2.4	2.5	2.7	3.1
Dividend ord	0	0	0	0
<b>Income statement (EUR M)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>
Revenues	38.01	32.24	45.03	54.13
EBITDA	13.37	12.56	17.44	21.02
EBIT	3.40	2.43	5.53	7.25
Pre-tax income	2.28	1.41	4.50	6.22
Net income	2.29	1.21	3.60	4.97
Adj. net income	2.29	1.21	3.60	4.97
<b>Cash flow (EUR M)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>
Net income before minorities	2.3	1.2	3.6	5.0
Depreciation and provisions	10.0	10.1	11.9	13.8
Others/Uses of funds	2.1	0	0	0
Change in working capital	-3.6	1.8	-7.4	-6.3
Operating cash flow	10.7	13.1	8.1	12.5
Capital expenditure	-7.4	-7.3	-8.0	-10.0
Financial investments	0	0	0	0
Acquisitions and disposals	0	0	0	0
Free cash flow	3.3	5.8	0.1	2.5
Dividends	0	0	0	0
Equity changes & Other non-operating items	-6.8	0	0	0
Net cash flow	-3.5	5.8	0.1	2.5
<b>Balance sheet (EUR M)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>
Net capital employed	71.1	66.5	70.0	72.5
of which associates	0	0	0	0
Net debt/-cash	35.2	29.4	29.3	26.9
Minorities	0	0	0	0
Net equity	35.9	37.1	40.7	45.7
Minorities value	0	0	0	0
Enterprise value	59.0	48.3	49.3	46.8
<b>Stock market ratios (x)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>
Adj. P/E	10.3	15.6	5.5	4.0
P/CFPS	1.9	1.7	1.3	1.1
P/BVPS	0.66	0.51	0.49	0.44
Payout (%)	0	0	0	0
Dividend yield (% ord)	0	0	0	0
FCF yield (%)	14.1	31.0	0.3	12.4
EV/sales	1.6	1.5	1.1	0.86
EV/EBITDA	4.4	3.8	2.8	2.2
EV/EBIT	17.4	19.8	8.9	6.5
EV/CE	0.83	0.73	0.70	0.65
D/EBITDA	2.6	2.3	1.7	1.3
D/EBIT	10.4	12.1	5.3	3.7
<b>Profitability &amp; financial ratios (%)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>
EBITDA margin	35.2	39.0	38.7	38.8
EBIT margin	8.9	7.5	12.3	13.4
Tax rate	0.8	14.6	20.0	20.0
Net income margin	6.0	3.7	8.0	9.2
ROCE	4.8	3.7	7.9	10.0
ROE	6.5	3.3	9.3	11.5
Interest cover	-3.0	-2.4	-5.4	-7.0
Debt/equity ratio	98.2	79.3	72.1	58.9
<b>Growth (%)</b>		<b>2020A</b>	<b>2021E</b>	<b>2022E</b>
Sales		-15.2	39.7	20.2
EBITDA		-6.1	38.8	20.6
EBIT		-28.3	NM	31.1
Pre-tax income		-37.9	NM	38.2
Net income		-47.4	NM	38.2
Adj. net income		-47.4	NM	38.2

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

## Company Snapshot

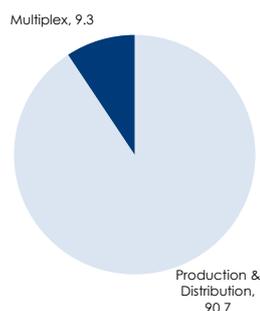
### Company Description

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 230 Italian and international films. In 2006, with the acquisition of Stella Film, the group entered in the Multiplexes management business and own today 7 multiplex movie theatres with 56 screens. The group went public in 2014.

### Key data

Mkt price (EUR)	1.34	Free float (%)	11.9
No. of shares	14.88	Major shr	Keimos
52Wk range (EUR)	1.50/1.01	(%)	68.0
Reuters	LMG.MI	Bloomberg	LMG IM
<b>Performance (%)</b>	<b>Absolute</b>	<b>Rel. FTSE IT All Sh</b>	
-1M	5.5	-1M	6.3
-3M	1.5	-3M	-1.1
-12M	24.1	-12M	-7.3

### 1H21A Sales breakdown by BU (%)



### 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.

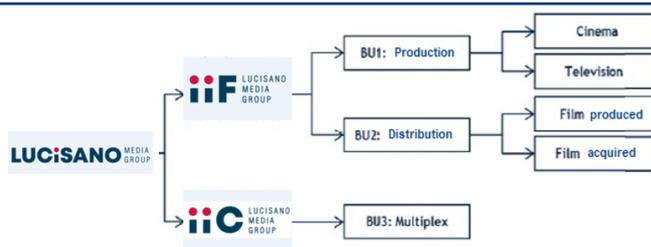
#### Sector generic risks:

- 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.

### Estimates vs. consensus

EUR M (Y/E Dec)	2020A	2021E	2021C	2022E	2022C
Sales	32.24	45.03	NM	54.13	NM
EBITDA	12.56	17.44	NM	21.02	NM
EBIT	2.43	5.53	NM	7.25	NM
Pre-tax income	1.41	4.50	NM	6.22	NM
Net income	1.21	3.60	NM	4.97	NM
EPS	0.08	0.24	NM	0.33	NM

### LMG – Vertically integrated Business Model



NM: not meaningful; Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 07/10/2021)

## Our Mid Corporate Definition

Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies have revenues ranging from EUR 50M-EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation below EUR 1Bn.

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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)

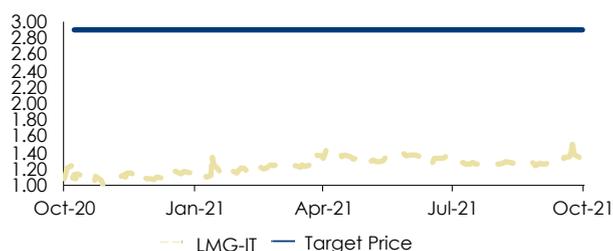
In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, which is not related to market performance and whose key is reported below:

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

Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% 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 for determining an investment rating or target. 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 one-year 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

**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->. Note: please also refer to <https://group.intesasanpaolo.com/it/research/equity-credit-research/equity> in applicable cases for the ISP-UBI Equity Ratings Reconciliation Table, the archive of ex-UBI's previously published research reports and 12M historical recommendations.

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

Date	Rating	TP (EUR)	Mkt Price (EUR)
14-Oct-20	BUY	2.9	1.13

**Equity rating allocations (long-term horizon: 12M)****Intesa Sanpaolo Research Rating Distribution (at October 2021)**

Number of companies considered: 126	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)*	42	37	21	0	0
of which Intesa Sanpaolo's Clients (%)**	79	70	62	0	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

**Valuation methodology (short-term horizon: 3M)**

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

**Equity rating key (short-term horizon: 3M)**

Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

**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 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 Nominated Advisor, Specialist relative to securities issued by Lucisano Media Group

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