

Company Note

Lucisano Media Group

FY20 Results

The company reacted to Covid-19 restrictions by fully developing its Production and Distribution business, which rose by 8% yoy in 2020, while the Multiplex division was down 51.4% yoy. We appreciate that, despite the reduction in turnover (-15.2%), the EBITDA margin rose yoy and net income was positive. We revise our estimates to project a mixed outlook for the two BUs.

Leveraged on its fully-vertical business model

Lucisano Media Group (LMG) restarted production activity in July at a good pace (2 projects for cinemas; 3 for TV), continued to develop its rich pipeline of new audio-visual works, and postponed to 2021 the release of 'Ritorno al crimine'. We recall that in 1H20 it remained operational in the Rights Distribution business, also by launching some movies on the online platforms of OTT operators and signed licensing agreements for various works. We appreciate the initiatives taken to limit the margin erosion (FY20 EBITDA margin at 39% vs. 35.2% in FY19A), report a net profit (EUR 1.2M vs. EUR 2.3M in FY19) and manage debt (net debt including IFRS 16 was EUR 29.4M, improving vs. EUR 35.2M at YE19A), including the eligible forms of support provided by the Italian government. According to Cinetel data, the cinema market dropped by 71.3% vs. FY19 to EUR 182.5M in terms of revenues from admissions (multiplex were closed on 8 March and allowed to reopen only from 14 June to 25 October).

Outlook and estimates revision

In 2021, we believe the business units should follow different trends. For Production and Distribution, we see a positive trend given the company's production activity at the start of year (1 new TV series, 4 new movies). The Multiplex cinemas' activity is to depend on the deployment of the vaccination campaigns. For FY21E, we estimate EUR 45M revenues (+39.5% vs. FY20A; -3.7% vs. previously), an EBITDA margin at 38.7%, slightly lower than FY20A (39%), but improving vs. our previous 37.5%, and net debt at EUR 29.5M, broadly stable vs. 31 December 2020. Unpredictable developments related to the health emergency could undermine the feasibility of these estimates.

Valuation

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

16 April 2021: 7:47 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)	14/04/2021
Target price (EUR)	2.9
Target upside (%)	111.68
Market price (EUR)	1.37
Market cap (EUR M)	20.38
52Wk range (EUR)	1.43/1.00

Price performance %	1M	3M	12M
Absolute	8.7	21.2	5.4
Rel. to FTSE IT All Sh	6.4	11.4	-24.7

Y/E Dec (EUR M)	FY20A	FY21E	FYNA
Revenues	32.24	44.96	NA
EBITDA	12.56	17.41	NA
EBIT	2.43	5.52	NA
Net income	1.21	3.59	NA
EPS (EUR)	0.08	0.24	NA
Net debt/-cash	29.42	29.32	NA
Adj P/E (x)	15.6	5.7	NA
EV/EBITDA (x)	3.8	2.9	NA
EV/EBIT (x)	19.8	9.0	NA
Div ord yield (%)	0	0	NA

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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FY20: Leveraging on a Versatile Business Model

FY20 business trends and results

The company reacted to the Covid-19 pandemic by leveraging on its fully-vertical integrated business model. In July, production activity was allowed to restart and the company continued working on its projects:

- 'Lasciarsi un giorno a Roma'; 'Una famiglia mostruosa' for cinemas;
- 'Mina Settembre', 'The Power of Rome' and the pre-production of 'Guida astrologica per cuori infranti' for TV.

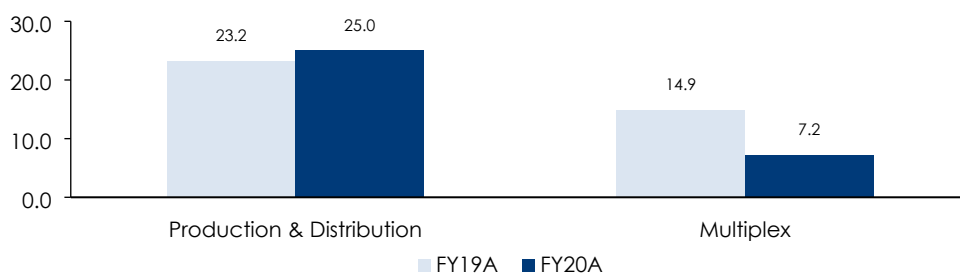
Moreover, in 2H20, the company has continued to work on the development of its rich pipeline of new audio-visual works both for cinemas and television, but it postponed to 2021 the release of 'Ritorno al crimine', previously planned in October 2020. We recall that in 1H20, after the initial closure of Multiplex cinemas in March, it remained operational in the Rights Distribution business, also by launching some movies (e.g. '7 Ore per farti innamorare'; 'Georgetown') on the online platforms of OTT operators and signed licensing agreements for various works with operators, such as TIMVISION, Amazon Prime Video, Chili, Sky Now, Disney+ and MUBI.

We also appreciate the initiatives taken to limit the margin erosion (which allowed it to record an EBITDA margin higher than in FY19 and to report a net profit) and manage debt, including the eligible forms of support provided by the Italian government.

LMG reported FY20 revenues down by 15.2% yoy to EUR 32.2M, of which EUR 7.2M from the Multiplex BU, -51.4% yoy, due to the closure of cinemas from March, followed by a partial reopening only around the summer, and by another closure in October. It is also worth considering that the number of presences in cinemas in June-October in Italy were not significant, as seen in Cinetel data (see page 4). The Distribution and Production BU, which recorded EUR 25M revenues, outperformed FY19 by around 8%.

FY20 results

Lucisano Media Group – Evolution of BUs revenues FY19-FY20



A: actual; Source: Company data

EBITDA was EUR 12.6M, -6.1% yoy, with a margin of 39% vs. 35.2% in FY19A, despite the fixed costs related to the Multiplex activities, thanks to a more flexible costs structure in the Distribution and Production BU and contingent cost containment measures.

EBIT came in at EUR 2.4M vs. EUR 3.4M in FY19.

Net result showed a EUR 1.2M profit vs. EUR 2.3M in FY19.

Net debt (including IFRS 16 effect) was EUR 29.4M, improving vs. EUR 35.2M at YE19A. This improvement was achieved also thanks to a better working capital management, especially regarding receivables from broadcasters and distributors, and the optimisation of financial resources. 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 – FY20 results

EUR M	2H19A	2H20A	yoy %	2H20E	FY19A	FY20A	yoy %	FY20E	A/E yoy%
Revenues	23.6	23.8	1.0	29.6	38.0	32.2	-15.2	38.0	-15.1
o/w Production & Distribution	15.4	20.9	36.3	NA	23.2	25.0	8.1	NA	NA
o/w Multiplex	8.3	3.0	-63.5	NA	14.9	7.2	-51.4	NA	NA
EBITDA	8.5	9.3	9.3	9.2	13.4	12.6	-6.1	12.5	0.5
EBITDA margin (%)	1.3	0.1		31.2	35.2	39.0		32.9	
EBIT	0.8	2.3	193.5	3.1	3.4	2.4	-28.3	3.2	-23.5
Net income	0.7	1.6	131.6	1.9	2.3	1.2	-47.4	1.4	-16.1
Net debt	0.3	1.5	324.3	35.3	35.2	29.4	-16.7	35.3	-16.9

NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

The theatrical market in Italy

According to Cinetel data, the cinema market dropped in FY20 vs. FY19. Overall, revenues from admissions decreased by 71.3% vs. FY19 to EUR 182.5M and the number of presences was down by 71.2% yoy. This data is the result of cinemas' closure due to the outbreak (all multiplex were closed on 8 March and then were allowed to reopen only from 14 June to 25 October). In fact:

The Italian box office was down by 71.3% vs FY19

- At the end of February, before the emergency began, the market was growing in terms of revenues by more than 20% vs. 2019;
- If we consider data since 8 March, revenues were EUR 33.7M and tickets sold were 5,356,204 (-93.2% and -93% yoy respectively). During April, May, November and December, no presences were obviously recorded.

Cumulated no. of presences in Italian cinemas (M)



Source: Intesa Sanpaolo Research elaboration on Cinetel data

According to the same source, 246 new films were screened in FY20 (of which 124 were Italian or in co-production with an Italian player) vs. the 523 films distributed in FY19. The weighting of Italian films in the total number of films shown has risen from 33% to 34%.

Earnings Outlook

As regards 2021, the following distinctions should be made between the BUs:

- **Production and distribution could continue the positive trend** with the use of different distribution platforms and channels. In fact, the distribution of rights to broadcasters and the new digital platforms (e.g. TIMVISION, Amazon Prime Video) has continued and, on the demand side, we believe it has been reinforced by the new lifestyle. LMG is developing its activity in terms of rights distribution, together with making progress on new projects and continuing its production activity since the start of year: 1 new TV series that will be available on Netflix: 'Guida astrologica per cuori infranti'; and 4 new movies: 'Finché c'è crimine c'è speranza', 'Il confine', 'Non sono quello che sono', and 'L'ultima cena';
- **The multiplex cinemas' outlook remains uncertain** and is likely to depend on the deployment of the vaccination campaigns. At their reopening, Multiplex units are expected to benefit from a significant pipeline of attractive movies not distributed during lockdowns, according to management.

Development activities continued in 1Q21, with numerous projects including the ones reported in the table below expected to be realised between 2H21 and 1H22.

Lucisano Media Group – Projects under development*

Mina Settembre 2 (TV)
Guida astrologica per cuori infranti 2
I pinguini di Ponte Milvio (TV)
Il clandestino (TV)
Meglio non sapere
Non ci resta che il crimine (TV series)
Documentary film on Marco Pannella

*expected to be realised in 2H21-1H22; Source: Company data

Estimates revision

We estimate EUR 45M FY21E revenues (+39.5% vs. FY20A; -3.7% vs. previously) driven by:

- The ongoing production and development activity (1 new TV series and 4 new movies since the start of the year): we expect the completion of the second seasons of 'Mina Settembre' and 'Guida astrologica per cuori infranti' in 2021 in addition to the 5 productions started in 1Q21;
- A performance of Multiplex in line with that of 2020A (approximately EUR 7M), assuming the reopening of cinemas only in September (4 months that represented 40% of total presence at the Italian level in 2019, according to Cinetel data).

We forecast EBITDA margin at 38.7%, slightly lower than FY20A (39%), but improving vs. our previous 37.5%. We see net debt at EUR 29.3M, stable vs. EUR 29.4M at YE20, as we expect the better working capital management (i.e. more efficient management of receivables from broadcasters and distributors) to become structural and to broadly offset the rise in net debt due to the likely intense production activity at end year. We underscore that some unpredictable further developments related to the Covid-19 health emergency could undermine the feasibility of these estimates (e.g. obligation to maintain distance in public spaces, other lockdown measures, roll-out of vaccines campaigns etc.).

Lucisano Media Group – 2021E estimates revision

EUR M	FY20A	Old FY21E	New FY21E	New vs. Old %	chg % vs. FY20A
Revenues	32.2	46.7	45.0	-3.7	39.5
EBITDA	12.6	17.5	17.4	-0.5	38.6
EBITDA margin (%)	39.0	37.5	38.7	3.3	-0.6
EBIT	2.4	5.6	5.5	-1.4	127.0
Net income	1.2	3.5	3.6	3.5	197.7
Net debt	29.4	29.0	29.3	1.0	-0.3

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

FY21E forecasts

Valuation

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

EUR 2.9/share TP and BUY rating confirmed

Our key DCF assumptions are:

- A 5.1% WACC, incorporating a 0.75% risk-free rate (1% previously), an equity risk premium of 6.5% (7.25% previously) and a gearing of 44%;
- 0% terminal value growth;
- LT EBIT is calculated as an average of historical 2015-19 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	0.75
Equity risk premium	6.5
WACC	5.1

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

Lucisano Media Group - DCF calculation 2021E

EUR M	2021E	LT
EBIT	5.5	5.4
Tax	-0.9	-1.1
NOPAT	4.6	4.3
No-cash items	10.1	
WC change	-7.4	
Net Capex	-8.0	
FCF	1.1	4.3
Discounted FCF	1.1	3.7
WACC (%)	5.1	
TV growth (%)	0	
Sum	1.1	
TV	71.6	
EV	72.7	
NFP @ 2020A	29.4	
Equity	43.3	
Shares	14.9	
Target price (EUR/share)	2.9	

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 1.37	Sector Entertainment
Values per share (EUR)			
No. ordinary shares (M)		2019A	2020A
		14.88	14.88
Total no. of shares (M)		14.88	14.88
Market cap (EUR M)		23.72	18.84
Adj. EPS		0.15	0.08
CFPS		0.82	0.76
BVPS		2.4	2.5
Dividend ord		0	0
Income statement (EUR M)			
		2019A	2020A
Revenues		38.01	32.24
EBITDA		13.37	12.56
EBIT		3.40	2.43
Pre-tax income		2.28	1.41
Net income		2.29	1.21
Adj. net income		2.29	1.21
Cash flow (EUR M)			
		2019A	2020A
Net income before minorities		2.3	1.2
Depreciation and provisions		10.0	10.1
Others/Uses of funds		2.1	0
Change in working capital		-3.6	1.8
Operating cash flow		10.7	13.1
Capital expenditure		-7.4	-7.3
Financial investments		0	0
Acquisitions and disposals		0	0
Free cash flow		3.3	5.8
Dividends		0	0
Equity changes & Other non-operating items		-6.8	0
Net cash flow		-3.5	5.8
Balance sheet (EUR M)			
		2019A	2020A
Net capital employed		71.1	66.5
of which associates		0	0
Net debt/-cash		35.2	29.4
Minorities		0	0
Net equity		35.9	37.1
Minorities value		0	0
Enterprise value		59.0	48.3
Stock market ratios (x)			
		2019A	2020A
Adj. P/E		10.3	15.6
P/CFPS		1.9	1.7
P/BVPS		0.66	0.51
Payout (%)		0	0
Dividend yield (% ord)		0	0
FCF yield (%)		14.1	31.0
EV/sales		1.6	1.5
EV/EBITDA		4.4	3.8
EV/EBIT		17.4	19.8
EV/CE		0.83	0.73
D/EBITDA		2.6	2.3
D/EBIT		10.4	12.1
Profitability & financial ratios (%)			
		2019A	2020A
EBITDA margin		35.2	39.0
EBIT margin		8.9	7.5
Tax rate		0.8	14.6
Net income margin		6.0	3.7
ROCE		4.8	3.7
ROE		6.5	3.3
Interest cover		-3.0	-2.4
Debt/equity ratio		98.2	79.3
Growth (%)			
		2020A	2021E
Sales		-15.2	39.5
EBITDA		-6.1	38.6
EBIT		-28.3	NM
Pre-tax income		-37.9	NM
Net income		-47.4	NM
Adj. net income		-47.4	NM

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 Multiplex management business and own today 7 multiplex movie theatres with 56 screens. The group went public in 2014.

Key data

Mkt price (EUR)	1.37	Free float (%)	11.9
No. of shares	14.88	Major shr	Keimos
52Wk range (EUR)	1.43/1.00	(%)	68.0
Reuters	LMG.MI	Bloomberg	LMG IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	8.7	-1M	6.4
-3M	21.2	-3M	11.4
-12M	5.4	-12M	-24.7

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

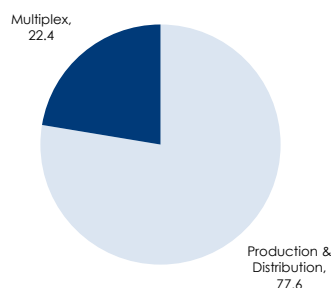
Sector generic risks:

- 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.

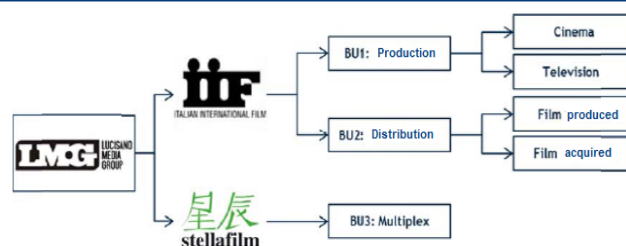
Estimates vs. consensus

EUR M (Y/E Dec)	2020A	2021E	2021C
Sales	32.24	44.96	NM
EBITDA	12.56	17.41	NM
EBIT	2.43	5.52	NM
Pre-tax income	1.41	4.49	NM
Net income	1.21	3.59	NM
EPS	0.08	0.24	NM

FY20A Sales breakdown by BU (%)



Vertically integrated Business Model



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 14/04/2021)

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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Valuation methodology (long-term horizon: 12M)

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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)

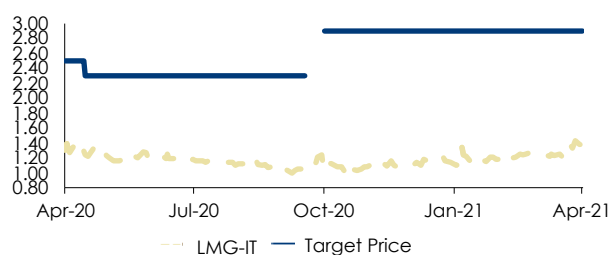
In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, which is not related to market performance and whose key is reported below:

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.
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->

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
01-Oct-20	Under Review	Under Review	1.09
28-Apr-20	BUY	2.3	1.24

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

Number of companies considered: 127	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%) (*)	46	27	26	1	0
of which Intesa Sanpaolo's Clients (%) (**)	82	71	64	100	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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