

Company Note

Lucisano Media Group

1H22 Results

Lucisano Media Group (LMG) confirmed that it is very active in its production and distribution activity, once again, and delivered improving results in 1H22 absolute value terms, although margins were down, mainly due to higher operating costs. We revise our FY22E estimates to embed a delay in some production works and higher operating costs but confirm our FY23E estimates.

1H22 results

Lucisano Media Group revenues rose by 62.7% yoy to EUR 21.2M, of which EUR 3.5M from the Multiplex BU (cinemas were regularly open), and EUR 17.7M from the Distribution and Production BU. EBITDA was EUR 6.1M, +25.5% yoy, with a margin of 29% vs. 37.6% in 1H21. EBIT came in at EUR 0.9M vs. EUR 0.5M in 1H21. Net income was EUR 0.13M vs. EUR 0.08M in 1H21. Net debt (including IFRS 16 effect) was EUR 35.6M vs. EUR 29.2M at YE21A.

Outlook and estimates

We see the strong pipeline of production and distribution works for 2022-23 as consistent with our estimates for FY22E, in terms of numbers of movies under production, but we forecast a slight delay in their delivery (that determines the booking of revenues), leading our top line down by 10% vs. previously. We continue to expect a performance of Multiplex growing yoy, but still approximately 45% lower vs. FY19 (including the positive impact from tax credit) and a positive contribution from the Distribution of rights. We now see a 31.5% FY22E EBITDA margin (vs. 38.6% previously), given the higher costs, even considering that the company should benefit from the 'Aiuti-Ter' decree, with a tax credit to be applied in October and November, and the abovementioned tax credit on costs. For FY23E, we confirm our estimates.

Valuation

We update our DCF model to incorporate our estimates and our WACC parameters' revision (6.3% WACC vs. 5.6% previously). We obtain a new **EUR 2.0/share target price** (vs. EUR 2.4/share previously) and confirm our **BUY rating**.

27 October 2022: 12:47 CET
Date and time of production

BUY

Target Price: EUR 2.0
(from EUR 2.4)

Italy/Entertainment
Results

EGM (ex-AIM)

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



Lucisano Media Group - Key Data

Price date (market close)	26/10/2022		
Target price (EUR)	2.0		
Target upside (%)	52.67		
Market price (EUR)	1.31		
Market cap (EUR M)	19.49		
52Wk range (EUR)	1.59/1.09		
Price performance %	1M	3M	12M
Absolute	4.0	2.3	-19.1
Rel. to FTSE IT All Sh	-1.7	-2.4	-1.6

Y/E Dec (EUR M)	FY21A	FY22E	FY23E
Revenues	41.62	48.70	65.10
EBITDA	16.85	15.36	25.13
EBIT	3.78	2.97	9.50
Net income	2.44	1.74	7.62
EPS (EUR)	0.16	0.12	0.51
Net debt/-cash	29.16	31.20	37.16
Adj P/E (x)	8.1	11.2	2.6
EV/EBITDA (x)	2.9	3.3	2.3
EV/EBIT (x)	12.9	17.1	6.0
Div ord yield (%)	0	0	0

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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1H22 Results

The company confirmed that it is being very active in its production and distribution activity and delivered growing results in absolute value. The EBITDA margin was down due to higher operating costs. We appreciate that the Multiplex division started to recover but was still lower vs. the pre-pandemic levels (e.g. EUR 6.9M in 1H19). The key points of results were:

- **Revenues increased by 62.7% yoy to EUR 21.2M**, of which EUR 3.5M from the Multiplex BU (cinemas were open regularly) vs. EUR 1.2M of 1H21A, and EUR 17.7M vs. EUR 11.8M in 1H21A from the Distribution and Production BU;
- **EBITDA was EUR 6.1M**, +25.5% yoy, with a margin of 29% vs. 37.6% in 1H21; operating costs grew by 85%, due to higher costs for production activities, and costs for the reopening of movie theatres;
- **EBIT came in at EUR 0.9M** vs. EUR 0.5M in 1H21;
- **Net income was EUR 0.13M** vs. EUR 0.08M in 1H21;
- **Net debt (including IFRS 16 effect) was EUR 35.6M**, vs. EUR 29.2M at YE21A, due to higher volumes of audio-visual production. We highlight that part of LMG's debt refers to the 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 – 1H22 results

EUR M	1H21A	1H22A	yoy %
Revenues	13.0	21.2	62.7
o/w Production & Distribution	11.8	17.7	49.8
o/w Multiplex	1.2	3.5	NM
EBITDA	4.9	6.1	25.5
o/w Production & Distribution	4.6	6.0	30.0
o/w Multiplex	0.3	0.1	-51.5
EBITDA margin (%)	37.6	29.0	
o/w Production & Distribution	39.2	34.0	
o/w Multiplex	22.0	3.7	
EBIT	0.5	0.9	70.6
Net income	0.1	0.1	74.7
Net debt	26.2	35.6	35.7

NM: not meaningful; A: actual; Source: Company data

Earnings Outlook

We see the strong pipeline of production and distribution works for 2022-23 as consistent with our estimates for FY22E, in terms of numbers of movies under production but we forecast a slight delay in their delivery (the time that determines the booking of revenues).

FY22E: we assume the delay of delivery of some movies to FY23E...

We therefore reduce our FY22E top line by 10% that implies: 1) a performance of Multiplex growing yoy, but still approximately 45% lower vs. FY19 (including the tax credit on operating costs, whose implementing decree is in progress); and 2) the completion and delivery of 6 production works (the company started in September the shooting of 'Non ci resta che il crimine' and the preparatory activities of 'Cattiva coscienza' and 'Il clandestino') and a positive contribution from the Distribution of rights.

Lucisano Media Group - Expectations on projects under development in FY22

Tramite amicizia*

Un matrimonio mostruoso*

C'era una volta il crimine

Mina Settembre 2 (TV series)**

Il clandestino (TV)

Non ci resta che il crimine (TV series)

Cattiva coscienza

I migliori giorni*

I peggiori giorni*

**shooting completed in 1H22; *shooting completed in August/September; Source: Intesa Sanpaolo Research elaboration on company data

We now see a 31.5% EBITDA margin for FY22E (vs. 38.6% previously), given the higher costs both for production and for the management of multiplex (e.g. energy), even considering that the company should benefit from a tax credit to be applied to costs in 2022-2023 (in addition to the Aiuti-ter decree for costs of October-November, with EUR 40M allocated by the Italian government to support cinemas and theatres).

...higher costs driving our EBITDA margin estimate to 31.5%

We confirm our estimates for FY23E, based on the following assumptions:

- A further 8 production works to be completed in 2023 (including the TV series about Raffaella Carrà), but with an expected higher average value vs. FY22E, and again a positive contribution in terms of distribution;
- A performance of Multiplex still -20% vs. the pre-pandemic levels (i.e. vs. 2019), at approx. EUR 10M revenues.

Lucisano Media Group – 2022E-23E estimates revision

EUR M	2H22E New	FY22E Old	FY22E New	vs. Old %	FY23E Old	FY23E New	yoy %
Revenues	27.5	54.1	48.7	-10.0	65.1	65.1	0.0
EBITDA	9.2	20.9	15.4	-26.5	25.1	25.1	0.0
EBITDA margin (%)	33.5	38.6	31.5		38.6	38.6	
EBIT	2.1	7.1	3.0	-58.3	9.5	9.5	0.0
Net income	1.6	5.5	1.7	-68.2	7.6	7.6	0.0
Net debt	31.2	29.6	31.2	5.2	32.0	37.2	15.9

E: estimates; Source: Intesa Sanpaolo Research

Valuation

We update our DCF model to incorporate our estimates and our WACC parameters revision (WACC of 6.3% vs. 5.6% previously). **We obtain a EUR 2.0/sh. target price** (vs. EUR 2.4/sh. previously) **and confirm our BUY rating**.

**New EUR 2.0/share target price;
BUY confirmed**

Our key DCF assumptions are:

- A 6.3% WACC, incorporating a 3% risk-free rate (1.75% previously), an equity risk premium of 6.5% (6.25% previously) and a gearing of 43%;
- 0% terminal value growth;
- LT EBIT based on the average 2015-23 EBIT margin.

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	43.0
Beta (x)*	1.0
Risk-free rate	3.0
Equity risk premium	6.5
WACC	6.3

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

Lucisano Media Group - DCF calculation

EUR M	2022E	2023E	LT
EBIT	3.0	9.5	5.9
Tax	-0.2	-0.8	-1.2
NOPAT	2.8	8.7	4.6
No-cash items	12.4	15.6	
WC change	-8.2	-20.2	
Net Capex	-8.0	-9.0	
FCF	-1	-4.9	4.6
Discounted FCF	-1	-4.4	4.1
WACC (%)	6.3		
TV growth (%)	0		
Sum	-5.6		
TV	64.9		
EV	59.3		
NFP @ 2021A	29.2		
Equity	30.1		
Shares	14.9		
Target price (EUR/share)	2.0		

Source: Intesa Sanpaolo Research estimates

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

	5.3	5.8	6.3	6.8	7.3
-2.0	1.5	1.2	1.0	0.8	0.6
-1.0	2.1	1.7	1.4	1.2	0.9
0.0	2.9	2.4	2.0	1.7	1.4
1.0	4.1	3.4	2.8	2.3	1.9
2.0	6.1	4.9	4.0	3.3	2.8

Source: Intesa Sanpaolo Research estimates

Lucisano Media Group – Key Data

Rating	Target price (EUR/sh)		Mkt price (EUR/sh)		Sector
BUY	Ord 2.0		Ord 1.31		Entertainment
Values per share (EUR)	2019A	2020A	2021A	2022E	2023E
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)	23.72	18.84	19.69	19.49	19.49
Adj. EPS	0.15	0.08	0.16	0.12	0.51
BVPS	2.4	2.5	2.7	2.8	3.3
Dividend ord	0	0	0	0	0
Income statement (EUR M)	2019A	2020A	2021A	2022E	2023E
Revenues	38.01	32.24	41.62	48.70	65.10
EBITDA	13.37	12.56	16.85	15.36	25.13
EBIT	3.40	2.43	3.78	2.97	9.50
Pre-tax income	2.28	1.41	2.87	1.93	8.47
Net income	2.29	1.21	2.44	1.74	7.62
Adj. net income	2.29	1.21	2.44	1.74	7.62
Cash flow (EUR M)	2019A	2020A	2021A	2022E	2023E
Net income before minorities	2.3	1.2	2.4	1.7	7.6
Depreciation and provisions	10.0	10.1	13.1	12.4	15.6
Others/Uses of funds	2.1	0	0	0	0
Change in working capital	-3.6	1.8	-0.2	-8.1	-20.2
Operating cash flow	10.7	13.1	15.3	6.1	3.0
Capital expenditure	-7.4	-7.3	-13.8	-8.0	-9.0
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	3.3	5.8	1.5	-1.9	-6.0
Dividends	0	0	0	0	0
Equity changes & Non-op items	-6.8	0	0	0	0
Net cash flow	-3.5	5.8	1.5	-1.9	-6.0
Balance sheet (EUR M)	2019A	2020A	2021A	2022E	2023E
Net capital employed	71.1	66.5	68.6	72.4	86.0
of which associates	0	0	0	0	0
Net debt/-cash	35.2	29.4	29.2	31.2	37.2
Minorities	0	0	0	0	0
Net equity	35.9	37.1	39.5	41.2	48.8
Minorities value	0	0	0	0	0
Enterprise value	59.0	48.3	48.9	50.7	56.6
Stock market ratios (x)	2019A	2020A	2021A	2022E	2023E
Adj. P/E	10.3	15.6	8.1	11.2	2.6
P/CFPS	1.9	1.7	1.3	1.4	0.84
P/BVPS	0.66	0.51	0.50	0.47	0.40
Payout (%)	0	0	0	0	0
Dividend yield (% ord)	0	0	0	0	0
FCF yield (%)	14.1	31.0	7.8	-9.9	-30.6
EV/sales	1.6	1.5	1.2	1.0	0.87
EV/EBITDA	4.4	3.8	2.9	3.3	2.3
EV/EBIT	17.4	19.8	12.9	17.1	6.0
EV/CE	0.83	0.73	0.71	0.70	0.66
D/EBITDA	2.6	2.3	1.7	2.0	1.5
D/EBIT	10.4	12.1	7.7	10.5	3.9
Profitability & financial ratios (%)	2019A	2020A	2021A	2022E	2023E
EBITDA margin	35.2	39.0	40.5	31.5	38.6
EBIT margin	8.9	7.5	9.1	6.1	14.6
Tax rate	0.8	14.6	14.9	10.0	10.0
Net income margin	6.0	3.7	5.9	3.6	11.7
ROCE	4.8	3.7	5.5	4.1	11.1
ROE	6.5	3.3	6.4	4.3	16.9
Interest cover	-3.0	-2.4	-4.1	-2.9	-9.2
Debt/equity ratio	98.2	79.3	73.9	75.7	76.1
Growth (%)		2020A	2021A	2022E	2023E
Sales		-15.2	29.1	17.0	33.7
EBITDA		-6.1	34.2	-8.9	63.6
EBIT		-28.3	55.5	-21.6	NM
Pre-tax income		-37.9	NM	-32.5	NM
Net income		-47.4	NM	-28.6	NM
Adj. net income		-47.4	NM	-28.6	NM

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

Company Snapshot

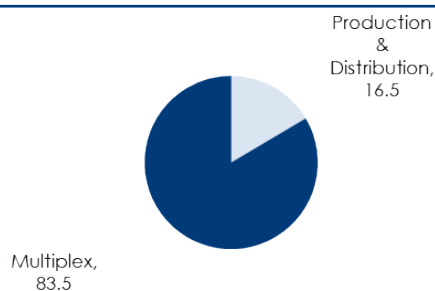
Company Description

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)	1.31	Free float (%)	11.9
No. of shares	14.88	Major shr	Keimos
52Wk range (EUR)	1.59/1.09	(%)	68.0
Reuters	LMG.MI	Bloomberg	LMG IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	4.0	-1M	-1.7
-3M	2.3	-3M	-2.4
-12M	-19.1	-12M	-1.6

1H22A 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

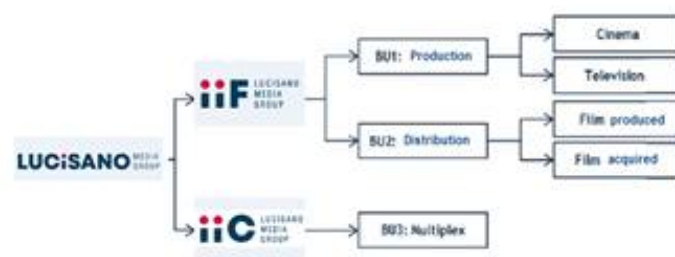
Sector generic risks:

- 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)	2021A	2022E	2022C	2023E	2023C	2024E	2024C
Sales	41.62	48.70	NM	65.10	NM	NA	NA
EBITDA	16.85	15.36	NM	25.13	NM	NA	NA
EBIT	3.78	2.97	NM	9.50	NM	NA	NA
Pre-tax income	2.87	1.93	NM	8.47	NM	NA	NA
Net income	2.44	1.74	NM	7.62	NM	NA	NA
EPS	0.16	0.12	NM	0.51	NM	NA	NA

LMG – Vertically integrated Business Model



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 26/10/2022)

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 eligible for listing have revenues below 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 around EUR 1Bn.

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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)

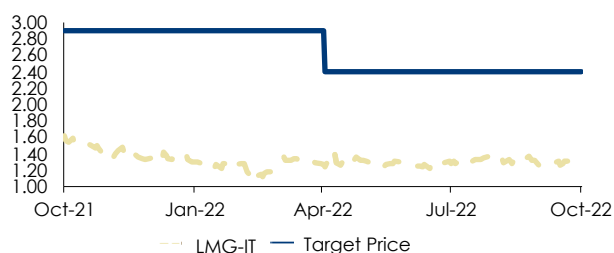
In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, which is not related to market performance and whose key is reported below:

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)
28-Apr-22	BUY	2.4	1.24

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at October 2022)**

Number of companies considered: 127	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)*	65	18	17	0	0
of which Intesa Sanpaolo's Clients (%)**	83	39	55	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 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

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