

Company Note

MID CORPORATE

# Lucisano Media Group

## FY22 Results

Lucisano Media Group (LMG) posted solid results, despite production and distribution activity's revenues being broadly in line yoy, with some works completed in FY22 but delivered to broadcasters in 1Q23. Notwithstanding the rich production pipeline, we revise our FY23E estimates to embed a revision of some production works' delivery but also the change in Multiplex's perimeter (1 multiplex closed at end-February) and introduce our FY24E forecasts, assuming both the Production and Multiplex activity to increase.

### FY22 results

LMG revenues rose by 10.7% yoy to EUR 46.1M, of which EUR 10.5M from the Multiplex BU, and EUR 35.6M from the Distribution and Production BU, which was broadly in line vs. FY21. This value also benefitted from the new tax credit on operating costs. EBITDA was EUR 21.8M, +29.2% yoy, with a margin of 47.2% vs. 40.5% in FY21. EBIT came in at EUR 4.7M vs. EUR 3.8M in FY21. Net income was EUR 3.1M vs. EUR 2.4M in FY21. Net debt (including IFRS 16 effect) was EUR 38.9M vs. EUR 29.2M at YE21A, given the production volumes started in 2H22 and not completed within YE22. An EUR 0.04/sh. dividend was proposed.

### Outlook and estimates revision

The pipeline in production and distribution continues to be very rich, although some works could be delivered in 2024 vs. the previously expected 2023 (e.g. I Pinguini di Ponte Milvio). The Multiplex division's outlook seems also positive and should keep benefitting from increasing admissions, even though there might be some changes in the operating perimeter (the company ended its activities in one theatre in February 2023). We therefore revise our FY23E estimates to project revenues at -22.9% vs. previously, at EUR 50.2M, albeit still posting a +9% yoy increase, mainly driven by the Production and Distribution business. We then introduced our FY24E forecasts: i) EUR 71M revenues; ii) EUR 27.2M EBITDA (38.3% margin, in line with FY23E); iii) EUR 38.1M net debt.

### Valuation

We update our DCF model to incorporate our estimates and our WACC parameters' revision (6.7% WACC vs. 6.3% previously). We obtain a **EUR 2.0/share target price** and confirm our **BUY rating**.

27 April 2023: 7:20 CET  
Date and time of production

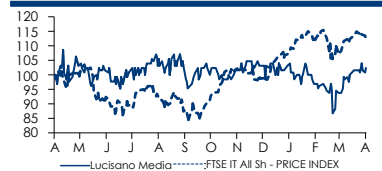
## BUY

Target Price: EUR 2.0

Italy/Entertainment  
Results

### EGM

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



### Lucisano Media Group - Key Data

Price date (market close)	25/04/2023		
Target price (EUR)	2.0		
Target upside (%)	52.67		
Market price (EUR)	1.31		
Market cap (EUR M)	19.49		
52Wk range (EUR)	1.39/1.11		
Price performance %	1M	3M	12M
Absolute	9.2	-0.8	2.3
Rel. to FTSE IT All Sh	4.1	-5.3	-8.9

Y/E Dec (EUR M)	FY22A	FY23E	FY24E
Revenues	46.08	50.17	70.84
EBITDA	21.76	19.23	27.16
EBIT	4.74	4.18	5.91
Net income	3.06	2.36	3.88
EPS (EUR)	0.21	0.16	0.26
Net debt/-cash	38.93	32.35	38.09
Adj P/E (x)	6.3	8.3	5.0
EV/EBITDA (x)	2.7	2.7	2.1
EV/EBIT (x)	12.3	12.4	9.8
Div ord yield (%)	0	0	0

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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## FY22 Results

FY data were strong, with all BUs recording a solid growth and EBITDA margin improving in 2H22. The key points of results were:

- **Revenues increased by 10.7% yoy to EUR 46.1M**, this value benefitted from the new tax credit on operating costs. By BU:
  - the Multiplex BU posted EUR 10.5M from EUR 6.4M (+64.9%) with all the theatres open, and despite the restrictions on food and beverage consumption until March and the requirement to wear a mask until 15 June; and
  - the Distribution and Production BU was at EUR 35.6M, broadly in line vs. FY21;
- **EBITDA was EUR 21.8M**, +29.2% yoy, with a margin of 47.2% vs. 40.5% in FY21A, outperforming our estimates by 41.3% thanks to a good management of costs, including the use of social safety net, and to some favourable contracts regarding the exploitation of the library;
  - the Multiplex BU recorded a EUR 3.4M EBITDA (32.3% margin); we note that the EBITDA margin was 46.5% in 2H22;
  - Production and Distribution accounted for EUR 18.4M EBITDA;
- **EBIT came in at EUR 4.7M** vs. EUR 3.8M in FY21;
- **Net result showed a EUR 3.1M profit** vs. a net income of EUR 2.4M in FY21;
- **Net debt (including approx. EUR 6.4M IFRS16 effect) was EUR 38.9M**, vs. EUR 29.2M at YE21 and EUR 31.2M in our estimates, given the production volumes started in 2H22 and not completed within YE22, 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, licenses for Pay, Free or SVOD uses + Tax credit).
- **An EUR 0.04/sh. dividend was proposed.**

### Lucisano Media Group – FY22 results

EUR M	2H21A	2H22E	2H22A	A/E	yoy %	FY21A	FY22A	yoy %	FY22E	A/E %
Revenues	28.6	27.5	24.9	-9.5	-13.0	41.6	46.1	10.7	48.7	-5.4
o/w Production & Distribution	23.5		17.9		-23.6	35.3	35.6	1.0	-	-
o/w Multiplex	5.1		7.0		35.8	6.4	10.5	64.9	-	-
EBITDA	12.0	9.2	16.9	69.6	41.1	16.8	21.8	29.2	15.4	41.3
o/w Production & Distribution	10.7		12.4		15.7	15.3	18.4	20.0	-	-
o/w Multiplex	3.5		3.3		-7.6	3.8	3.4	-10.7	-	-
EBITDA margin (%)	41.8	33.5	67.8			40.5	47.2		31.5	
o/w Production & Distribution	45.6		69.1			43.4	51.6			
o/w Multiplex	68.4		46.5			59.5	32.3			
EBIT	3.3	2.1	4.2	85.4	29.3	3.8	4.7	25.3	3.0	58.0
Net income	2.4	1.6	3.0	82.0	26.3	2.4	3.1	25.5	1.7	80.0
Net debt	29.2	31.2	38.9	24.8	33.5	29.2	38.9	33.5	31.2	24.8

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

## The theatrical market in Italy

According to Cinetel, box office revenues were EUR 306.6M in 2022, up 81% vs. 2021, a year in which movie theatres were closed until April due to Covid related restrictions. Admissions were 44.5M in 2022, up 79.6% vs. 2021. However, the box office activity has not recovered yet to pre-Covid levels, with revenues down 48% vs. pre-Covid and admissions down 51.6%. Covid related restrictions (in-theatre bar closures until March and obligation to wear face masks until June) impacted admissions also in 2022.

### Box office and admissions in Italy



Source: Intesa Sanpaolo Research elaborations on Cinetel data

Other European markets recovered towards 2019 levels faster than Italy, which, however, grew 81% in box office revenues yoy; only Germany showed such a big jump with a +95% yoy. As in Italy, the first 3 months of the year were still impacted by Covid related restrictions, which slowed down the release of new movies; in autumn the offer in Europe was characterised by a less rich offer of international movies.

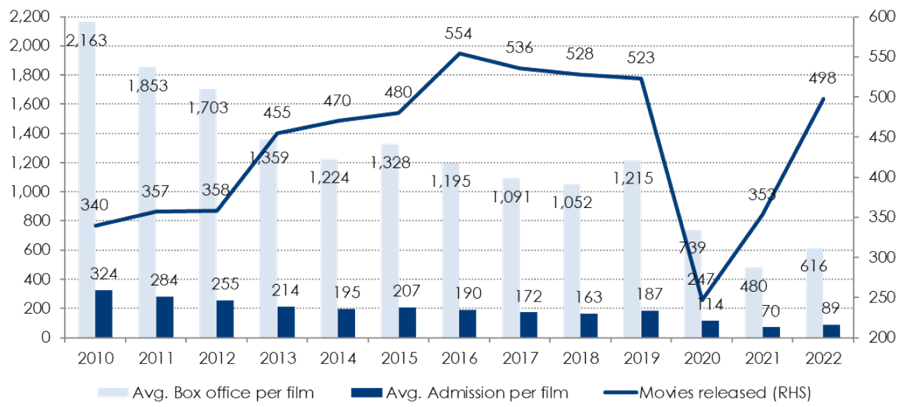
### Box office trend in the main European markets (EUR, GBP for UK, admissions for France)

M	2019A	2020A	2021A	2022A	% yoy	% vs. 2019
France *	213	65	96	152	58.3	-28.6
Germany	971	297	356	693	94.7	-28.6
UK	1,359	333	582	981	68.6	-27.8
Spain	624	172	253	376	48.6	-39.7
Italy	635	183	169	307	81.4	-51.7

Source: Intesa Sanpaolo Research elaborations on Cinetel data \* Admissions in M (France does not supply box office data)

In 2022, 498 new movies were distributed (+145 vs. 2021 and -43 vs. the 2017-2019 average). 251 of them were Italian productions (+95 vs. 2021 and +30 vs. the 2017-2019 average). Both average admissions per film and average box office per film grew yoy, respectively by 27% and 28%, although they were still low compared with pre-Covid levels.

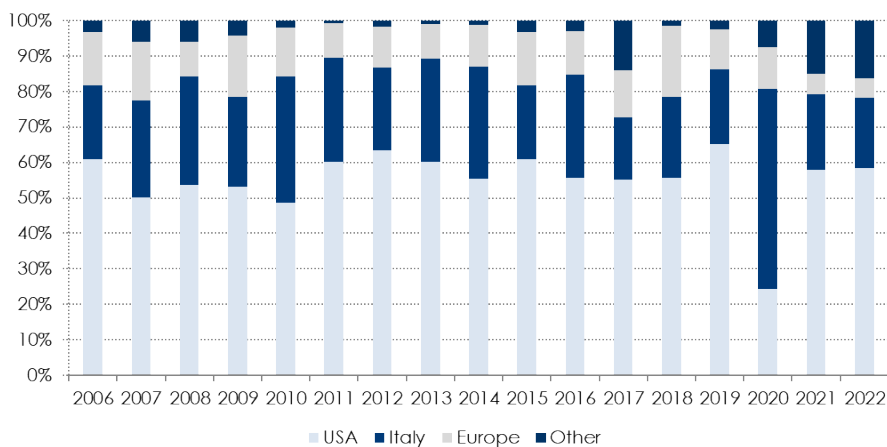
**Movies released, box office and admissions in Italy – Average per film (EUR k)**



Source: Intesa Sanpaolo Research on Cinetel data

We note that Italian movies accounted for 20% of the total box office (21% in 2021). The US continue to be the first country by movie production origin with 59% of the box office revenues (58% in 2021); the rest of Europe accounts for a stable 6% yoy.

**Box office geographical breakdown (production origin)**



Source: Intesa Sanpaolo Research on Cinetel data

## Earnings Outlook

### Production and distribution

The pipeline in production and distribution continues to be very rich. In more detail:

- **For 2023**, since the IFRS allow the recognition of revenues only when the project is delivered, we expect the top-line contribution from the two TV series and two cinema movies made in 2H22 and not yet delivered to the broadcaster (Un matrimonio mostruoso, Cattiva coscienza). As for the tv series I Pinguini di Ponte Milvio, our understanding is that it will be rescheduled to 2024. Then, we also expect the production and delivery of two movies and a documentary;
- **With reference to 2024**, we project that the company should boost its production and distribution activity, with 4 TV series (o/w one on the life of Raffaella Carrà, which should boast international relevance) and 3 movies delivered within YE24.

### Lucisano Media Group - Projects expected to be delivered in FY23E-24E

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	Movie 1
Movie 1	Movie 2
Movie 2	Movie 3
Documentary	

\* production works ended in 2H22; Source: Intesa Sanpaolo Research elaboration on company data

### Multiplex

With regard to the multiplex activity, we expect it to depend on the following drivers:

- The change in the perimeter, after the closure of 'Big' multiplex in Marcianise (13 screens discontinued from February 2023), and a revamping of the group's theaters from 2024, with a possible redefinition of the BU's business model to better meet the current market and people's requests;
- An improving market, with an increasing number of presences at higher average ticket;
- The recovery of food and beverage consumptions in multiplex, which boast healthy margins;
- Tax credit in line with FY22.

### Estimates revision

#### Lucisano Media Group – FY23E-24E estimates

EUR M	FY23E Old	FY23E New	New vs. Old%	FY24E New	yoy %
Revenues	65.1	50.2	-22.9	71.0	41.5
EBITDA	25.1	19.2	-23.4	27.2	41.5
EBITDA margin (%)	38.6	38.3		38.3	
EBIT	9.5	4.2	-56.0	5.9	41.5
Net income	7.6	2.4	-68.9	3.9	64.8
Net debt	37.2	32.4	-13.0	38.1	17.6

E: estimates; Source: Intesa Sanpaolo Research

## Valuation

We update our DCF model to incorporate our estimates and our WACC parameters revision (WACC of 6.7% vs. 6.3% previously). **We obtain a EUR 2.0/sh. target price and confirm our BUY rating.**

**EUR 2.0/share target price, BUY confirmed**

Our key DCF assumptions are:

- A 6.7% WACC, incorporating a 4% risk-free rate (3% previously), an equity risk premium of 6.5% and a gearing of 45%;
- 0% terminal value growth;
- LT EBIT based on the average 2015-24 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	45.0
Beta (x)*	1.0
Risk-free rate	4.0
Equity risk premium	6.5
<b>WACC</b>	<b>6.7</b>

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

### Lucisano Media Group - DCF calculation

EUR M	2023E	2024E	LT
EBIT	4.2	5.9	6.6
Tax	-0.3	-0.5	-1.5
NOPAT	3.9	5.4	5.1
No-cash items	15.0	21.3	
WC change	-0.4	-14.3	
Net Capex	-10.0	-15.0	
FCF	8.5	-2.7	5.1
Discounted FCF	8	-2.3	4.2
WACC (%)	6.7		
TV growth (%)	0		
Sum	5.7		
TV	62.6		
EV	68.2		
NFP @ 2022A	38.9		
Equity	29.9		
Shares	14.9		
<b>Target price (EUR/share)</b>	<b>2.0</b>		

Source: Intesa Sanpaolo Research estimates

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

	5.7	6.2	6.7	7.2	7.7
-2.0	1.6	1.3	1.0	0.8	0.6
-1.0	2.1	1.8	1.5	1.2	0.9
0.0	2.9	2.4	<b>2.0</b>	1.7	1.3
1.0	4.0	3.3	2.8	2.3	1.9
2.0	5.7	4.7	3.9	3.2	2.6

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	
<b>Values per share (EUR)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
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	19.49	19.49
Adj. EPS	0.08	0.16	0.21	0.16	0.26
BVPS	2.5	2.7	2.9	3.0	3.3
Dividend ord	0	0	0	0	0
<b>Income statement (EUR M)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
Revenues	32.24	41.62	46.08	50.17	70.84
EBITDA	12.56	16.85	21.76	19.23	27.16
EBIT	2.43	3.78	4.74	4.18	5.91
Pre-tax income	1.41	2.87	3.48	2.68	4.41
Net income	1.21	2.44	3.06	2.36	3.88
Adj. net income	1.21	2.44	3.06	2.36	3.88
<b>Cash flow (EUR M)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
Net income before minorities	1.2	2.4	3.1	2.4	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	-0.4	-14.3
Operating cash flow	13.1	15.3	16.7	17.0	10.9
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	7.0	-4.1
Dividends	0	0	0	0	0
Equity changes & Non-op items	0	0	0	0	0
Net cash flow	5.8	1.5	-10.6	7.0	-4.1
<b>Balance sheet (EUR M)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
Net capital employed	66.5	68.6	81.6	77.4	87.0
of which associates	0	0	0	0	0
Net debt/-cash	29.4	29.2	38.9	32.4	38.1
Minorities	0	0	0	0	0
Net equity	37.1	39.5	42.7	45.1	49.0
Minorities value	0	0	0	0	0
Enterprise value	48.3	48.9	58.2	51.8	57.6
<b>Stock market ratios (x)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
Adj. P/E	15.6	8.1	6.3	8.3	5.0
P/CFPS	1.7	1.3	0.96	1.1	0.78
P/BVPS	0.51	0.50	0.45	0.43	0.40
Payout (%)	0	0	0	0	0
Dividend yield (% ord)	0	0	0	0	0
FCF yield (%)	31.0	7.8	-55.0	35.9	-21.3
EV/sales	1.5	1.2	1.3	1.0	0.81
EV/EBITDA	3.8	2.9	2.7	2.7	2.1
EV/EBIT	19.8	12.9	12.3	12.4	9.8
EV/CE	0.73	0.71	0.71	0.67	0.66
D/EBITDA	2.3	1.7	1.8	1.7	1.4
D/EBIT	12.1	7.7	8.2	7.7	6.5
<b>Profitability &amp; financial ratios (%)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
EBITDA margin	39.0	40.5	47.2	38.3	38.3
EBIT margin	7.5	9.1	10.3	8.3	8.3
Tax rate	14.6	14.9	12.0	12.0	12.0
Net income margin	3.7	5.9	6.6	4.7	5.5
ROCE	3.7	5.5	5.8	5.4	6.8
ROE	3.3	6.4	7.4	5.4	8.2
Interest cover	-2.4	-4.1	-3.8	-2.8	-3.9
Debt/equity ratio	79.3	73.9	91.1	71.8	77.8
<b>Growth (%)</b>		<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>
Sales		29.1	10.7	8.9	41.2
EBITDA		34.2	29.2	-11.6	41.2
EBIT		55.5	25.3	-11.8	41.2
Pre-tax income		NM	21.4	-22.9	64.3
Net income		NM	25.6	-22.9	64.3
Adj. net income		NM	25.6	-22.9	64.3

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 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 (EUR)	1.31	Free float (%)	11.9
No. of shares	14.88	Major shr	Keimos
52Wk range (EUR)	1.39/1.11	(%)	68.0
Reuters	LMG.MI	Bloomberg	LMG IM
<b>Performance (%)</b>	<b>Absolute</b>		<b>Rel. FTSE IT All Sh</b>
-1M	9.2	-1M	4.1
-3M	-0.8	-3M	-5.3
-12M	2.3	-12M	-8.9

### 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

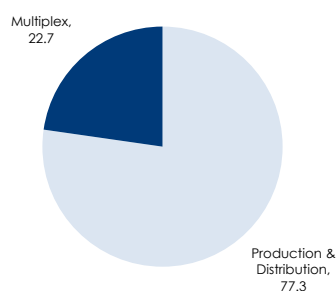
#### Sector generic risks:

- 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.

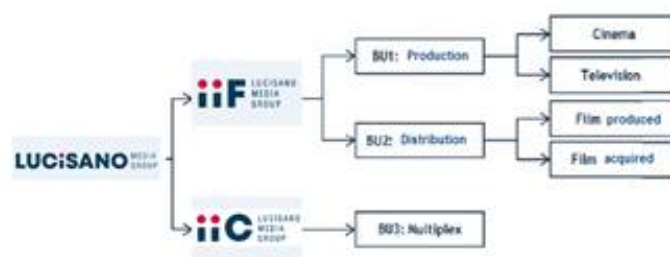
### Estimates vs. consensus

EUR M (Y/E Dec)	2022A	2023E	2023C	2024E	2024C	2025E	2025C
Sales	46.08	50.17	NM	70.84	NM	NA	NA
EBITDA	21.76	19.23	NM	27.16	NM	NA	NA
EBIT	4.74	4.18	NM	5.91	NM	NA	NA
Pre-tax income	3.48	2.68	NM	4.41	NM	NA	NA
Net income	3.06	2.36	NM	3.88	NM	NA	NA
EPS (EUR)	0.21	0.16	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 25/04/2023)

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

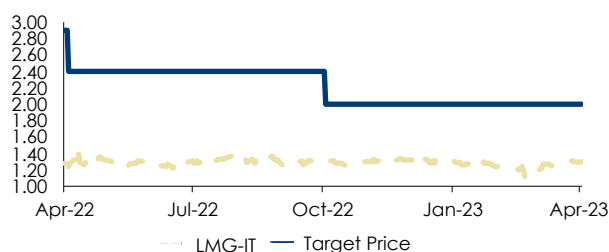
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**Equity Rating Key (long-term horizon: 12M)**

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.
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**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
28-Apr-22	BUY	2.4	1.24

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

Number of companies considered: 131	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)*	63	11	21	0	0
of which Intesa Sanpaolo's Clients (%)**	75	45	43	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

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