

FY15 RESULTS

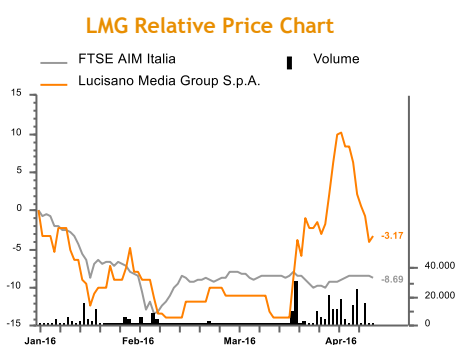


Target Price: €3.60
(Unchanged)

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Market Data:

Price (€)	1.83
Market Cap (€/mn)	27.27
52 Wk. High / Low (€)	1.34-2.51
Free Float (%)	12.30
Avg. Daily Trading 90d	3,844
Share Out. (mn)	14.88
Price Change YTD (%)	-3.17
Dividend Yield	3.8%

Strong Earnings Growth Drives Dividends Up

FY2015 results fully in line with expectations. Lucisano Media Group announced FY2015 net sales of €50.7mn that is in line with our expectation of €50.8mn. 64% or €32.6mn of these revenues is generated by productions, including the Warner Bros co-production *Noi e La Giulia*, *Tutte Lo Vogliono*, *Gli Ultimi Saranno Ultimi*, *Io Che Amo Solo Te* (with box-office revenues of €4mn, €1.9mn, €2.5mn and €3.4mn, respectively) and the TV production *Il Sistema*, whereas 9%, i.e. €4.6mn, of the topline is generated by distribution of foreign films in Italy, namely *Spivet*, *Samba*, *I 7 Nani* and *Non Sposate Le Mie Figlie* (which together generated an aggregate box-office income of app. €6mn). The remaining 27% or €13.5mn of revenues is generated by Stella Film, registering an 8% yoy increase, which falls slightly short of the 10% yoy industry growth. EBITDA margin recovered three p.p. from 37% in 1H2015 to 40% by YE2015, due mainly to the fact that the production costs of 2H2015 films were mostly incurred in 1H2015, having surpassed the margins in the first half. Net margin recovered back to 10% by YE2015, as expected, with net profit reaching €5.1mn (2.3times FY2014 net profit). In the light of this, LMG announced its dividend of 7cents per share, which implies a payout ratio of 21% and a dividend yield of 3.8%. LMG's net debt decreased significantly from €39mn by 1H2015-end to €27mn by YE2015 as the Company cashed-in most of the revenues and receivables related to the productions of the year.

A sound 2016 pipeline. 2016 pipeline is rich on the production front, with six cinematographic and two TV production projects: a) **Cinematographic productions:** *Se Mi Lasci Non Vale*, directed by Vincenzo Salemme, was already out in theaters during February and reached box-office revenues of €2.2mn whereas Massimo Bruno's *Beata Ignoranza*, Edoardo Leo's *Che Vuoi Che Sia* and *Io Che Amo Sempre Solo Te* -- a continuation of the 2015 film *Io Che Amo Solo Te* -- are all at the production stage and are expected to be out in 2H2016. In addition, there are two more projects, not yet fully defined, which are scheduled to be finalized and exhibited during the year. b) **TV productions:** LMG will start producing *Co-housing* in May for RAI and it will be a 12-episode series with a production budget of €3mn. *Les Italiens* will be produced together with Space Rocket Nation (production house of Nicolas Winding Rehn) for SKY Italy, again during the year. This second one is an international production and therefore, may also be sold out to markets outside Italy. On the distribution front, for the time being there are only 2 films in the pipeline for 2016, namely *Blinky Bill* and *Neon Demon*; however, top management may consider investing further in the segment in case they find films they like at the Cannes Film Festival of 2016 that will take place between the 10th and 22nd of May.

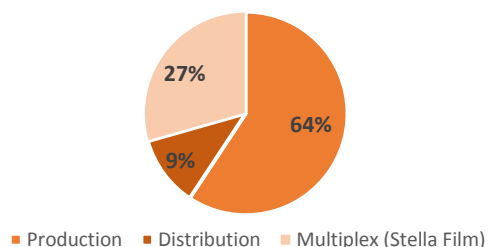
TP confirmed at €3.6ps. We expect to see a 10% topline growth in 2016E with consolidated net sales anticipated to reach €56mn. This includes a conservative 4% growth for Stella Film, whose revenues are estimated to reach €14.1mn in the year. Considering that there will not be delays in the 2016 production pipeline, we estimate EBIT margin to recover slightly by one p.p. in the year, with EBIT reaching €10.2mn and the net profit margin gaining two p.p. yoy, with net profit reaching €6.7mn. On 2016E multiple basis, LMG trades at discount at every level to its peers. We continue to see the company undervalued, and we confirmed our previous target price.

€ thousand	Revenues	EBITDA	EBITDA Margin	EBIT	Earnings	Net Margin
2013A	35,235	14,650	41.6%	1,594	337	1.0%
2014A	44,082	18,943	43.0%	4,212	2,238	5.1%
2015A	50,741	20,177	39.8%	7,568	5,055	10.0%
2016E	56,058	23,544	42.0%	10,201	6,696	11.9%
2017E	57,310	24,070	42.0%	12,082	8,033	14.0%

Source: Company Data, KT&Partners estimates

FY15 Results Summary

Chart 1: Sales Breakdown FY15



LMG posted €50.7mn revenues equal 15.1% YoY growth. Top line fully reflected our expectations of €50.8mn. Looking at EBITDA, it was slightly lower than our estimates. EBITDA reached €20.2mn, growing 7% from FY14 whereas decreasing three percentage points in terms of margin on sales. As for net operating profit, EBIT strong increase (+80.0% YoY) was due to lower D&A contribution of intangible assets. EBIT margin on sales grew from 9.6% in FY14 to 14.9% in FY15. The bottom line saw a significant increase, reaching €5.1mn, more than doubling FY14 result. LMG announced its dividend of 7cents per share, indicating a payout ratio of 21% and a dividend yield of 3.8%.

As for net debt, it was about €27mn in FY15 showing better results than FY14 thanks to generated cash flows. In case we adjust net debt also with public-related receivables (subsidies, regional funds etc.) of € 10.1mn carried on the balance sheet, we may arrive at an adjusted net debt of € 17mn.

Table 1: Estimates vs. Actual Results

€ thousand	FY14A	FY15A	FY15E	A/E %
Revenues	44,082	50,741	50,803	0%
YoY Change (%)	-	15%	15%	
EBITDA	18,943	20,177	22,065	-9%
YoY Change (%)	-	7%	16%	
EBIT	4,212	7,568	8,597	-12%
YoY Change (%)	-	80%	104%	
Net Income	2,238	5,055	5,134	-2%
YoY Change (%)	-	126%	129%	

Source: Company Data, KT&P Estimates

FY16 Outlook and Estimates' Fine-Tuning

In the light of positive FY15 results and rich 2016 pipeline we maintain almost unchanged our previous projections. We expect revenues to reach €56.1mn in FY16 with EBITDA at €23.5mn. Production will remain the key driver of future revenues growth. However, we assume a conservative 4% growth for Stella Film with over €14.0mn revenues contribution. On the other hand, we slightly decrease our EBIT forecast due to a higher level of amortisation that we expect for the next year principally referred to films and TV production.

Table 2: Changes in Estimates

€ thousand	2015A	2016E Prev.	2016E Curr.	Change
Revenues	50,741	56,044	56,058	0%
YoY Change (%)	15.1%	10.5%	10.5%	
EBITDA	20,177	24,118	23,544	-2%
YoY Change (%)	6.5%	19.5%	16.7%	
EBIT	7,568	10,471	10,201	-3%
YoY Change (%)	79.7%	38.4%	34.8%	
Net Income	5,055	6,652	6,696	1%
YoY Change (%)	125.9%	31.6%	32.5%	

Source: Company Data, KT&P Estimates

LMG's rich pipeline supports our estimates. For the time being, 2016 pipeline includes six cinematographic productions, two TV productions and two films on distribution front. We note that two cinematographic productions are just projects at the moment, but according to the management they are expected to be finalized and exhibited during the year. Finally, it is worth mentioning that Cannes Film Festival will be an important event for discovering new films.

Table 3: LMG's FY16 Pipeline

Title	Type	Release Date
Se Mi Lasci Non Vale	Production	Feb. 2016
Beata Ignoranza	Production	2H2016
Che Vuoi Che Sia	Production	2H2016
Io Che Amo Sempre Solo Te	Production	2H2016
TBD	Production	2016
TBD	Production	2016
Co-Housing	TV Production	2016
Les Italien	TV Production	2016
Blinky Bill	Distribution	2016
Neon Demon	Distribution	2016

Source: Company Data

Market Trend: FY15 Italian Box Office Revenues

According to Cinetel, Italian box office was up 10.8% in 2015 with €637mn and €6.19 average ticket price. However, Italian films' revenue share moved from 27.19% in FY14 to 20.74% in FY15. Among the 25 grossing titles 17 were US production, 3 were made in the UK and 5 were Italian. 2015 saw 184 films produced or coproduced by national companies, 26 more than the previous year.

Table 4: Italian Box Office Revenues and Breakdown since 2010

	2010	2011	2012	2013	2014	2015
Overall box-office revenues (€ mn)	735	662	610	618	575	637
YoY Change	18%	-10%	-8%	1%	-7%	11%
Made-in-USA films (€ mn)	414	304	314	332	289	388
Made-in-Italy films* (€ mn)	204	220	147	189	156	132
Others (€ mn)	117	138	149	97	130	117
# of films exhibited	345	363	364	453	470	473
# of audience (mn)	110	101	91	97	92	99

*including co-production with other countries

Source: Cinetel

Since 2010, Italians have spent increasingly less on watching movies in theaters. Overall box-office revenues in 2014, €575mn, are 22% lower than the €735mn revenues in 2010. However, 2015 was a very positive year in terms of theatrical revenues reaching the highest box-office since 2012.

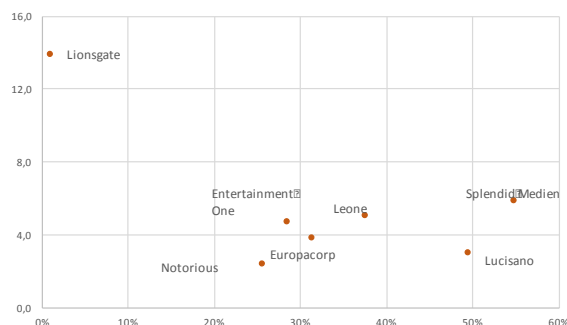
Valuation

Given the level of volatility that characterized this business, we believe the best way to provide a fair valuation of LMG is to focus on multiple comparisons. Furthermore, we look at EBIT and earnings multiples as at the EBITDA level cost of films produced or distributed could not be accurately reflected.

Peers have been chosen taking into account the business activity and the services provided. However, it is worth noting that selected companies are quite different in terms of the size of revenues and international presence.

Although we have slightly revised our EBIT down to take into account higher level of D&A, we continue to see LMG undervalued to its European peers. It trades at a deep 43% P/EBIT discount to its European peers avg., even though it is one of the fastest growing players in the industry, as seen below in chart 2. Furthermore, LMG trades at less than 5x the 2016E P/E implying a 45% discount vs. the avg. European comparables. Considering the median, discount would be deeper. Given the mentioned reasoning, we remain positive on LMG and we confirmed our target price at €3.6ps.

Chart 2: 2016E P/EBIT versus EBIT Growth (2014A-16E)



Source: Factset, KT&P Estimates

Table 5: Peer Group Valuation Table - 2016 Multiples

Company Name	Stock Exchange	Market Cap €mn	EV/SALES 2016	EV/EBITDA 2016	EV/EBIT 2016	P/E 2016	P/EBIT 2016
Lions Gate Entertainment Corp.	NYSE	2,981	1.98	15.92	24.58	19.95	16.39
DreamWorks Animation SKG, Inc.	NASDAQ	3,055	4.05	34.49	44.53	n.m.	40.79
Entertainment One Ltd.	London	1,065	1.28	7.86	8.46	9.52	5.88
Bona Film Group Ltd. Sponsored ADR	NASDAQ	756	n.a.	n.a.	n.a.	n.a.	n.a.
EuropaCorp SA	Euronext	128	1.22	4.66	8.54	6.02	3.79
Splendid Medien AG	Xetra	28	0.30	1.31	4.26	7.90	5.76
Leone Film Group SpA	Milan	42	0.98	1.98	8.08	10.12	5.84
Notorious Pictures S.p.A.	Milan	28	0.71	1.19	1.74	3.31	2.24
Avg. Peer Group		1,010	1.50	9.63	14.31	9.47	11.53
Avg. European Peers		258	0.90	3.40	12.60	7.37	4.70
Lucisano Media Group S.p.A.		27	0.97	2.30	5.31	4.07	2.67

Source: KT&Partners elaboration on Factset data

Table 6: Peer Group Valuation Table - 2017 Multiples

Company Name	Stock Exchange	Market Cap €mn	EV/SALES 2017	EV/EBITDA 2017	EV/EBIT 2017	P/E 2017	P/EBIT 2017
Lions Gate Entertainment Corp.	NYSE	2,981	1.83	12.88	18.79	14.99	12.53
DreamWorks Animation SKG, Inc.	NASDAQ	3,055	3.50	22.00	25.63	39.05	23.48
Entertainment One Ltd.	London	1,065	1.16	6.97	7.44	8.12	5.17
Bona Film Group Ltd. Sponsored ADR	NASDAQ	756	n.a.	n.a.	n.a.	n.a.	n.a.
EuropaCorp SA	Euronext	128	1.20	12.90	12.90	10.38	5.73
Splendid Medien AG	Xetra	28	0.27	1.16	3.59	6.90	4.85
Leone Film Group SpA	Milan	42	0.88	1.67	6.66	7.48	n.a.
Notorious Pictures S.p.A.	Milan	28	0.65	1.05	1.53	2.88	1.97
Avg. Peer Group		1,010	1.36	8.38	10.93	12.83	8.95
Avg. European Peers		258	0.84	4.75	6.42	7.15	4.43
Lucisano Media Group S.p.A.		27	0.94	2.25	4.48	3.39	2.25

Source: KT&Partners elaboration on Factset data

Apart from the discount that the comparative peer valuation points to, we continue to underline the fact that LMG's current market valuation of €29.9mn reflects neither the real estate (located in Rome and Brindisi) carried on the balance sheet with a net book value of €27mn, nor the film library with a net book value of €12mn.

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