

OTTOBRE 14, 2014

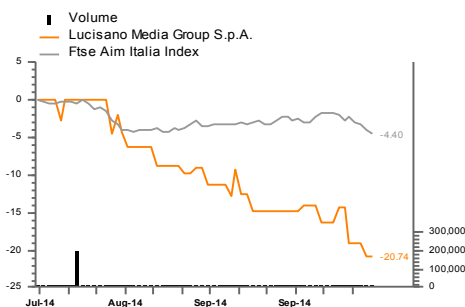
INITIATING COVERAGE



Kevin TEMPESTINI
+39.02.83424007
ktempestini@ktepartners.com

Fusun BEKTAŞ
+39.02.83424008
fbektas@ktepartners.com

LMG Relative Price Chart



Market Data (€)	
Close Price (€)	2.79
52 Wk. High / Low (€)	3.70 / 2.73
Daily Trading Volume (thousands)	-
Price Change: 1 w	-7.5%
Price Change: 1 m	-9.4%
Price Change: YTD	-20.7%
Market Capitalization	41.3
Dividend Yield	0.0%

Lucisano Media Group S.p.A. (LMG) announced 1H2014 results, according to which the top-line grew by 10% yoy, from € 14.3mn in 1H2013 to € 15.7mn in 1H2014. 51% of revenues were generated from productions, 42% from movie exhibition (Stella Film) and the rest from content distribution. Having reached € 6.8mn EBITDA in the first half (with a 30% yoy increase), the company's EBITDA margin improved slightly to 43%, from 42% in FY2013. LMG's bottom-line was € 1.3mn in 1H2014, with a 1.5times yoy increase. These results are in line with our expectations.

In 1H2014, Lucisano released two of its own motion picture productions, namely *Matrimonio da Favola* (in April) and *Pane e Burlesque* (in May), which together generated € 6.4mn revenues (theatrical as well as sale of rights, Pay TV and Free TV revenues, DVD sales, tax credits and regional funds). In addition, the company recorded other € 1.7mn of revenues in the production segment, which arrived as product placement revenues and internal tax credits earned from the films in the pipeline and from the sale of its own LMG content in the library. All in all, with € 8.1mn of turnover, production remained to be the top contributor (with 51%) to LMG's net sales.

Stella Film, LMG's 100% subsidiary active in the movie exhibition segment operating 55 screens around the country, generated € 6.5mn of sales (42% of the top-line), which includes not only direct revenues from ticket sales but also indirect revenues from services such as advertising and parking as well as commercial goods and food & beverage sales. Content distribution, LMG's third line of business, generated € 1.1mn revenues (7% of the top-line) in the period from the distribution of content acquired by LMG in the previous periods.

LMG's 1H2014 results are in line with our expectations, thus we maintained our FY2014 turnover estimate of € 48.8mn. The company's 2H2014 revenues are expected to be much stronger because: a) two new blockbusters, Massimiliano Bruno's *Confusi e Felici* (featuring Claudio Bisio) and Riccardo Milani's *Scusate se Esisto* (featuring Paola Cortellesi and Raoul Bova), both produced by LMG, are to be released consecutively in October and November of 2014, the second one also covering the holiday period, b) *Anna e Yusuf*, the TV series whose production already started in 1H2014 is expected to be completed before YE2014 and the company is accordingly is expected to cash-in revenues from the sale to RAI, c) the production of Edoardo Leo's *Noi e la Giulia* (co-production with Warner Bros) has already started and we expect the start of another movie, Alessio Federici's *Tutte lo Vogliono*, and a TV production, *Il Sistema*, in 2H2014. These three productions, although being will be released in 2015, are expected to already generate revenues in 2H2014, in the form of sale of rights and tax credits.

We forecast LMG to grow its turnover by a CAGR of 19% between 2013-2016E. EBIT --the most significant indicator for this asset class-- is expected to grow by a CAGR of 118% until 2016E (54% in case we use 2013 Pro-forma EBIT) and until then, the company offers an average 23% ROE and 19% adjusted-ROCE. Since its IPO in July, LMG shares underperformed the FTSE AIM Italia index by 16.3% and today they trade at a 57% discount to peers' 2015E average P/E multiple of 15.0x.

€ thousand	Revenues	EBITDA	EBITDA Margin	EBIT	Earnings	Net Margin
2012	39,932	17,502	43.8%	2,800	752	1.9%
2013	35,235	14,650	41.6%	1,594	337	1.0%
2013 Pro forma*	38,175*	17,590*	46.1%	4,534*	-	-
2014E	48,808	22,224	45.5%	7,533	4,331	8.9%
2015E	55,075	26,537	48.2%	10,510	6,420	11.7%
2016E	59,653	29,209	49.0%	16,586	11,060	18.5%

Source: Company data, KT&P Estimates *In 2013, the company adopted a change in the registry of 'Other Revenues'. These are 2013 pro-forma figures showing us what the Consolidated Revenues, EBIT and EBITDA would have been in 2013 in case there was no change in the accounting method.

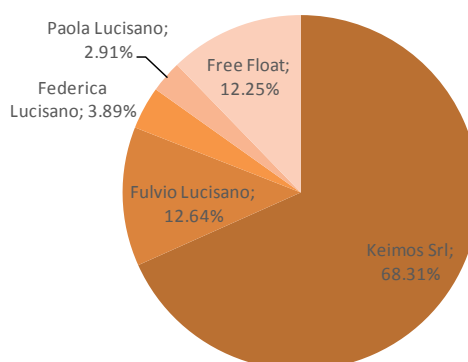
Contents:

Lucisano Media Group S.p.A. (LMG)	1
Investment Highlights	3
Company and the Business Model	13
Industry Overview	25
Appendix A	38
Disclaimer	39

Investment Highlights Following the IPO and 1H2014 Results

IPO proceeds of € 6.4mn will be invested to strengthen LMG's core business, i.e. content production... LMG offers exposure to Italy's rejuvenating motion picture production industry as well as to the content distribution business and to the TV market that is living its new golden age with the rise of creative formats. The company, founded in 1958 by the famous Italian film producer Fulvio Lucisano, is today managed by Federica Lucisano, the CEO, and Paola Lucisano, whose extensive experience, network and energy are expected to carry LMG to command a bigger share of the Italian motion picture and TV production businesses. To fuel LMG's growth, the company raised € 6.4mn of public capital in July 2014 and got listed in Italy's AIM market. IPO proceeds will be invested to strengthen LMG's production arm, enabling Lucisano's to amplify their market share among independent Italian production houses.

Graph 1: Post-IPO Shareholding Structure



Half-century experience in the Italian motion picture production industry... Fulvio Lucisano is among the best-known film producers in Italy. His creation, Lucisano Media Group, has produced 150 films since its establishment in 1958 and today his daughters, Federica and Paola Lucisano, are committed to grow the company even further by taking advantage of the positive momentum the Italian motion picture productions have re-attained in recent years. Some of LMG's most famous work produced in the last decade are *Notte Prima degli Esami* (2006), *Notte Prima degli Esami-Oggi* (2007), *Ex* (2009), *Maschi contro Femmine* (2010), *Femmine contro Maschi* (2011), *Nessuno mi può Giudicare* (2011), *Ex: Amici Come Prima* (2011), *Viva L'Italia* (2012), e *Mai Stati Uniti* (2013). These are all blockbusters, each of which generated box-office revenues ranging from € 5mn to € 14mn in Italy. Production, LMG's core business generating 54% of consolidated revenues in 2013 (51% in 1H2014), will continue to be the main driver of growth in the coming years,

and consequently the company has a rich pipeline of films that are expected to be released in 2H2014 and 2015 (Table 1).

Table 1: LMG's Production Pipeline for 2H2014 and 2015

Title of the film:	Release:	Director:	Leading Actors:	Distribution:
Confusi e Felici	Oct. 2014	M. Bruno	Bisio, Giallini	01 Distribution
Scusate Se Esisto	Nov. 2014	R. Milani	Bova, Cortellesi	01 Distribution
Noi e La Giulia	2015	E. Leo	Argentero, Buccirosso	Warner Bros
Tutte Lo Vogliono	2015	A.M. Federici	TBD*	01 Distribution
L'ultimi Saranno L'ultimi	2015	M. Bruno	Cortellesi	01 Distribution
Io Che Amo Solo Te	2015	M. Ponti	TBD	01 Distribution
La Strada Giusta	2015/2016	E. Leo	TBD	TBD

Source: Company Data

*TBD: To-be-decided

LMG commands an average 8% of the Italian motion picture production industry, making it one of the most prominent independent production houses in the country... In a typical year, Italian big screens generate € 612mn (last ten years' average) revenues and on average 54% of these revenues are coming from motion picture imported from the USA. Only 27% of the Italian box office revenues are generated from Italian local productions and co-productions. In this € 164mn reference market, two large integrated players, namely Mediaset (via Medusa Film and Taodue) and RAI (via Rai Cinema), hold a steady, big portion of the market. Independent production studios such as Lucisano's LMG, Filmauro, Eagle Pictures, Fandango, and Cattleya together take hold of the rest of the market. There also exist various small production houses which occasionally get a meaningful stake in this reference market. The market share of independent production houses varies each year depending on the number of films they shoot and these films' box office performances. LMG's market share in the last five years varied between 3% and 15%, an average of 8%. Federica Lucisano's focus is on capturing a bigger share in this reference market targeting to be the leading independent player in Italy.

Table 2: Italian Film Production Studios

Majors:	Independents:	Small Players:
Medusa Film (Mediaset)	Lucisano's LMG	Various
Taodue (Mediaset)	Filmauro (De Laurentiis)	
Rai Cinema (RAI)	Eagle Pictures	
	Fandango	
	Cattleya	

Source: KT&Partners

A motion picture is a non-correlated asset... It is valid almost all around the world that films are a non-correlated asset class and the production of studios is resilient to economic declines in other industries. It is the genre, the caliber of the director, the creativity of the screenwriter, the budget, and the lead actor that entices us to go see a movie. Besides, among all other forms of mass entertainment, movies are the most affordable for consumers. As a result, box-office revenues are hardly correlated to economic cycles and Italy is no exception (Table 3).

Table 3: Italian Box-Office Revenues' Growth vs. GDP Growth

In Italy / yoy Growth:	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP	1.1%	2.3%	1.5%	-1.2%	-5.5%	1.7%	0.6%	-2.4%	-1.8%
Box-office Revenues	-6.9%	1.9%	12.8%	-3.7%	4.9%	18.0%	-9.9%	-7.9%	1.8%

Source: FactSet, Cinetel

Made-in-Italy motion picture on the rise... Looking at the data since 2005, it is remarkable that the demand for locally produced motion picture has grown (at a CAGR of 6%) two times faster than the demand for USA motion picture (which has grown at a CAGR of 3%) in Italy. This is mainly due to the fact that Italians have a very strong preference for comedies and the local producers are focusing significantly on this genre to eventually meet this demand. In any given year since 2005, comedies appear to be the dominant revenue generators in the local market. For example; Checco Zalone's *Sole e Catinelle* (produced by Mediaset's Taodue), which cost € 8mn to produce, reached € 52mn box-office revenues in 2013, 28% of all revenues generated from Italian movies in that year. Audience's increasing demand for Made-in-Italy comedies can hardly be substituted by USA (or else) productions and therefore local upstream players are competing to win a bigger share in this segment by focusing increasingly on talent, creativity and budget.

LMG's business model is focused on best exploiting best the 'smart release strategy' as well as the state support provided under a variety of different forms... Movie producers have multiple sources of revenues. Even if a film does not perform well on the big screen, which is almost always the first release window, it can be strongly demanded by other release windows, like Free TV. If the production company is well-established with a significant track record, just like Lucisano's LMG, Free TV players (RAI, Mediaset and others) would agree to acquire the rights already during the production stage, and this cash funding alone may cover c. 25-40% of the production costs. Moreover, LMG will generate Pay TV, DVD and VoD revenues from the same movie afterwards. In addition to this, movie producers may receive state support --in the form of national and/or regional funds, tax credits and tax shelters-- no matter how the movie's performance is on the big screen. These funds and credits can be received as early as during the production stage,

much before the movie starts performing on the big screen. Plus, in the case the theatrical performance is well done, the producer receives additional cash subsidies from the state. In brief, state support is an important risk-offsetter in this industry and LMG's business model is focused on utilizing it best. As seen in Table 4 below, such support covers alone c. 30-40% of LMG's production costs. So, if you are a reputable player with strong credibility and network, per-film profitability is hard to miss.

Table 4: Two LMG films - Success versus Flop

(€ mn)	Mai Stati Uniti (2013):	All'Ultima Spiaggia (2010):
Box-Office Revenues	5,720,039	283,518
Box-Office Performance	Success	Flop
Production, P&A and Distribution Costs (A)	5,280,617	2,729,334
State Support (Tax Credits, Subsidies, Funds) (B)	2,109,120	815,443
State Support / Costs (B/A)	40%	30%
Free TV Right Sales (C)	1,600,000	1,156,000
Free TV / Costs (C/A)	30%	42%
Minimum Guarantee	150,000	1,150,000
Box-Office Income for LMG	1,356,801	129,405
All Other Revenues	3,065,077	36,142
Total Revenues	8,280,998	3,286,990
Margin	36%	17%

Source: Company data

Partnering up with downstream players --Italian as well as international-- LMG guarantees the best distribution for its productions... Motion picture is a network industry in which players partner up in various steps of the way to achieve the best distribution and accordingly, the highest cash-generation capability of a film. RAI's 01 Distribution, Mediaset's Medusa, Walt Disney Italy, Warner Bros Italy, Sky, La 7, Mediaset's Infinity, and Apple's iTunes are all among LMG's business partners for different distribution platforms in Italy. The Big 2 (namely RAI and Mediaset), being integrated players active in theatrical as well as Free TV, Pay TV and VoD segments, surely have an important share in this picture. In 2013, RAI and Mediaset group companies generated 26% and 14% of LMG's revenues, respectively.

Recent evolution of the motion picture content distribution business in Italy has re-opened the market for independent players... LMG started distributing USA-based motion picture content

for the first time in the 1960s when it acquired the exclusive distribution rights of AIP (American International Pictures, whose library is today owned by Metro Goldwyn Mayer) movies in Italy. In the following years, LMG made similar agreements with other independent content developers in the USA such as MGM, Polygram, Columbia Pictures, Nu Image and Millenium to distribute their movies in Italy. These are highly notable international agreements considering that an independent production house in the USA needs to guarantee best-in-class distribution channels in countries around the world because it is only through this channel that they generate their revenues, which will cover their sometimes gigantic costs and determine the final product's profitability. In the early 1990s, Italy's Big 2, both integrated players commanding also to a significant downstream network, started having a proactive approach in content acquisitions, buying the Italian rights of the USA motion picture content directly from the independents in the USA. This lasted almost for two decades until 2010, when, also due to the effect of some financial stress, they changed strategy. Today, both prefer purchasing the rights from local independent distributors with whom they make revenue-sharing agreements. This re-opened the market for players like Lucisano's LMG, which already have well-kept relations with foreign independent production studios. In 2013, LMG distributed two films, Nicolas Winding's *Only God Forgives* (featuring Ryan Gosling and Kristin Scott Thomas) and *Escape Plan* (featuring Sylvester Stallone and Arnold Schwarzenegger), which together generated box-office revenues of € 1.9mn around Italy. In 2H2014, LMG will distribute two European productions, *Spivet* and *Pusher* (Table 5 below). In 2015, on the other hand, LMG plans to distribute three films, among which a French comedy *Qu'est-ce qu'on a fait au Bon Dieu* (*Serial Bad Weddings*) that registered € 105mn box-office revenues in 2014 in France. 2015 will also be the first time Lucisano's will distribute a cartoon movie, *Il Settimo Nano*.

Table 5: LMG's Pipeline for Content Distribution

Title:	Release:	Producer:	Int. Distribution:	Director:
Spivet	2014	Gaumont, Epitete, Tapioca	Freeway Entert.	J.P. Jeunet
Pusher	2014	Vertigo Films, Embargo Films	Gaumont	L. Prieto
Samba	2015	Gaumont, Quad	Freeway Entert.	O.Nakache/E.Toledano
Serial Bad Weddings*	Feb. 2015	TF1	TF1	P. de Chauveron
Il Settimo Nano	Mar. 2015	Global Screen		

Source: Company Data

**Qu'est-ce qu'on a fait au Bon Dieu*

LMG's content library, composed of 234 films, is a continuous cash generator at no additional cost... As of today, LMG's library is

composed of 234 films, almost half of which are Italian productions and co-productions and 37% of which are comedies, the preferred genre of the Italian audience. Once a motion picture content is developed or acquired, related development or acquisition costs are capitalized and then are amortized at a significant extent in the first 12 months of theatrical performance when the major part of the revenues are generated. The content then moves into the library and is marketed to other distribution channels such as Pay TV, DVD, VoD, and Free TV. Agreements are made with the owners of these channels, pricing a movie (or a portfolio of movies) on a per-view basis. Accordingly, LMG continues to generate revenues from these assets until the expiration of distribution rights (which is perpetual in case the movie is produced by LMG or if LMG has acquired perpetual distribution rights). As of 1H2014-end, LMG library's book value, net of accumulated amortization, is at € 13.1mn. We ran a DCF analysis (no debt, cost of equity of 8%) to value LMG's existing library and accordingly reached an intrinsic value of € 45mn.

LMG targets to enrich its library not only with newly produced or acquired content but also via library acquisitions... The company plans to purchase an international content library --composed of around 100 international motion pictures-- which will improve revenues generated from this segment. The acquisition is expected to take place in 2015 and the size of the investment is estimated to be c. € 5mn. LMG will need to incur c. € 0.9mn costs related to this new library during the very first year and there will be no additional costs afterwards. This library is expected to generate € 2.5mn revenues (including multi-year agreements) for LMG only in its first year, with an immediate 42% expected return on the investment.

Table 6: Breakdown of LMG's Library* Revenues

Segment:	2013 Revenues (€):	Share:
Free TV	1,638,556	39%
Pay TV	1,692,014	40%
Home Video (DVD)	431,629	10%
VoD	193,743	5%
Other**	230,365	6%
Total	4,186,307	

Source: Company Data

*Also including Pay TV, Free TV, DVD and VoD revenues from movies released in 2013, not including theatrical or other revenues. **Other revenues are generated from the sale of musical rights as well as sale of rights abroad

The digital revolution created new sales platforms, such as Video on Demand (VoD) and iTunes, which enable instant access to entertainment. These platforms are both reshaping the revenue flow of content owners and enlarging the overall market size... Today 5% of LMG's library revenues are generated via VoD (Table 6)

and future prospects seem increasingly promising, also with the expected entrance of new players, such as the USA pioneer Netflix, into the Italian market. VoD leaves the choice of content to the viewer, regenerating income for movies that are no longer visible on other distribution platforms such as Free TV or Pay TV. Plus, thanks to the time and place flexibility it offers, the movie-watch frequency of a given audience increases. The digital revolution, in conclusion, improved the value of content libraries.

Opportunities on TV productions' front... Television is having its second Golden Age: innovative formats, series, shows and programs full of sophisticated, creative and highly-entertaining quality content bombard our TV screens, making it almost impossible to recall the old expression 'idiot box'. Mini-series became the new big thing, TV fictions are frequently preferred, make-over and game shows as well as reality programs have risen to become prime-time content. On top of this, technological developments not only increased the size and slenderize the thickness of our TV screens but also added ancillary devices that enabled time-shifting and digital recording capabilities, providing the audience with greater flexibility on watching their preferred programs. Led by Paola Lucisano since 2001, LMG's TV Production arm successfully partnered up with the Big 2 to produce television content for them. Some recent examples of LMG's TV productions are *Mi Ricordo Anna Frank* (2010), *Il Caso di Enzo Tortora* (2012 mini-series), *Agata E Ulisse* (2011 TV movie), and *Due Imbroglioni E Mezzo* (2010 mini-series). A TV production starts after having reached an agreement with the broadcaster who usually shoulders the full production costs, limiting LMG's risks. The company generated € 3.8mn revenues from TV productions in 2013, contributing 11% to its consolidated revenues. LMG's 2014 and 2015 pipeline in this segment (Table 7) signals to two fiction projects, both of which carry the potential to continue in the following years. In addition, the management is also exploring potential opportunities in other rising formats such as web-series or acquisition of some international formats.

Table 7: Some of LMG's TV Production Pipeline

Title:	Format:	Episodes:	Year:	For:	Director:
Il Sistema	Fiction	6	2014-2015	RAI	TBD
Anna e Yusuf	Fiction	2	2014	RAI	C. Torrini

Source: Company Data

Market expansion on the TV front is supported by the Italian State as well... The Italian government recently announced that Italian TV productions will also receive tax credits, just like the motion picture productions. This is positive news for operators, such as LMG, who is expected to generate increasing revenues from the same product. In addition to this, the new decree issued by the government requires media groups active in television broadcasting to allocate a

minimum amount of investment to Made-in-Italy TV programs and series. The share of Italian programs is significantly low for some international broadcasters operating in Italy and the switch will expand the TV productions market in favor of independent production groups as all broadcasters will require an increasing amount of Italian TV content.

Stella Film is LMG's arm in the exhibition segment... In 2006, LMG acquired Stella Film which today manages seven different movie theaters and 55 screens located in Central and Southern Italy. With this investment, LMG became an integrated player and gained access to the final consumer. Stella contributed 40% or € 14mn to LMG's 2013 consolidated revenues (42% or € 6.5mn in 1H2014). In this particular business segment, CURs are commonly low for all operators, meaning that only around 18% of the movie theater seats generate income. Yet, it is a profitable business with above 20% EBITDA margins. Drivers of growth in this segment will be: a) the average number of viewers that enters the theater who then generates income via ticket purchases and other commercial acquisitions, b) other possible alternative events organized to utilize the theater space, such as other theatrical events, concerts, conventions, private gathering etc. In 2013, 69% of Stella's revenues were generated via ticket sales (the remaining 31% was generated via commercial good sales, advertising, food & beverage sales as well as contributions from the state) and with a possible increase in alternative events, this percentage may gradually decline in the coming years. Under the status-quo, LMG's management does not foresee further investments to grow Stella's seat capacity, however, they are ready to evaluate any potential possible growth opportunities (including acquisitions) in case such opportunity offers higher than average return rates. It is important to mention that Stella Film also owns two real estates, one in Rome and the other in Brindisi, which are listed in LMG's consolidated balance sheet with a total net book value of € 20mn (the company has € 9.9mn remaining mortgage payments for related assets) and are valued at € 23mn by an independent third party.

1H2014 results in line with expectations... According to the recently-announced 1H2014 results, LMG increased its net sales by 10% yoy to € 15.7mn, 51% of which were generated from productions, 42% from movie exhibition (Stella Film) and the rest from content distribution. Having reached € 6.8mn EBITDA in the first half (with a 30% yoy increase), the company's EBITDA margin improved slightly to 43%, from 42% in FY2013. LMG's bottom-line was € 1.3mn in 1H2014, with a 1.5times yoy increase. (Table 8)

Table 8: Summary Income Statement

€ thousand	2012	2013	1H2013	1H2014	Yoy%
Sales	33,260	26,870	12,099	12,704	
Other Sales	6,673	8,365	2,176	3,020	
Net Sales	39,932	35,235	14,275	15,724	10%
Service Costs	-12,275	-10,180	-7,845	-14,172	
Personnel Costs	-2,734	-2,729	-1,352	-1,380	
Other Operating Costs*	-7,422	-7,676	-605	-599	
(+) Capitalized Prod Costs			758	7,212	
EBITDA	17,502	14,650	5,231	6,785	30%
Amortization	-14,702	-13,056	-3,881	-4,395	
EBIT	2,800	1,594	1,350	2,390	77%
Net Financial Income	-1,639	-1,196	-740	-739	
PBT	1,161	398	610	1,651	
Taxes	-210	105	76	-316	
Net Income	951	503	686	1,335	
Minority Interest	199	166	145	-4	
Net Income after MI	752	337	541	1,339	148%

Source: Company Data

*Other operating costs in 2012 and 2013 included rent expenses of Stella Film. These expenses are classified under Service Costs in 1H2014 and 1H2013.

A net book value of € 22.9mn... LMG capitalizes all content production and acquisition costs under intangible assets, which have reached € 22.9mn as of 1H2014-end. These assets include not only its library but also the costs incurred for ongoing productions. (Table 9)

Table 9: Summary Balance Sheet

€ thousand	2012	2013	1H2013	1H2014
Cash and Cash Equivalents	5,593	6,156	6,156	6,933
Trade Receivables	19,780	11,656	11,657	9,711
Other Current Assets	5,694	15,725	15,724	15,330
Current Assets	31,066	33,538	33,537	31,974
Tangible Assets	32,524	30,807	30,807	29,767
Intangible Assets	23,107	20,072	20,072	22,922
Other Non-current Assets	14,714	2,423	2,588	2,453
Non-Current Assets	70,345	53,302	53,467	55,142
TOTAL ASSETS	101,411	86,840	87,004	87,116
Trade Payables	15,715	12,420	12,420	9,991
Financial Debt	7,398	4,478	4,478	3,781
Other Short-term Liabilities	9,041	9,637	9,637	12,734
Short-Term Liabilities	32,154	26,535	26,535	26,506
Financial Debt	43,668	41,402	41,402	41,193
Deferred Taxes	3,096	797	962	858
Other Long-term Liabilities	9,326	4,459	4,459	4,434
Long-Term Liabilities	56,091	46,658	46,823	46,485
Minority Interests	972	1,089	1,089	81

Shareholders' Equity	12,194	12,559	12,558	14,044
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	101,411	86,840	87,005	87,116

Source: Company Data

All in all, we maintain our previous forecasts, according to which LMG is expected to grow its top-line by a CAGR of 19% between 2013-2016E. Together with the margin improvements, the company is estimated to reach a net profit of € 4.3mn, € 6.4mn and € 11.0mn respectively in 2014E, 2015E and 2016E. Between 2014E-2016E, LMG offers an average 23% ROE and 19% adjusted-ROCE.

Table 10: LMG Consolidated Revenue Generation

€ 000	2013	2014E	2015E	2016E
Production (Movie and TV)	18,895	31,792	33,184	38,286
Distribution	2,421	3,268	7,927	7,195
Exhibition	13,919	13,749	13,964	14,172
Total	35,235	48,808	55,075	59,653

Source: Company Data, KT&P Estimates

RISKS:

- Motion picture content produced or distributed by LMG may underperform expectations in terms of box office revenues.
- Any possible unexpected increase in the cost of production or any potential delays in the completion dates can put a drag on the Company's financing costs.
- A possible decision of downstream operators (especially the Big 2) to cut back on investments in the market.
- Possible delays in receivable collections from the Italian government may increase LMG's financing costs.
- Any future reductions of state support to motion picture producers.
- Increases in motion picture piracy.
- LMG's operations are largely dependent on the Lucisano family.

Company and Business Model

- LMG is a leading independent production house commanding an 8% of the Italian motion picture productions. The management's target is to capture an increasing share in this market where they compete with the advantage of a half-century family background, significant experience and achievements (including an Oscar nomination), as well as strongly-established relations, locally and world-wide.
- TV productions are expected to have an increasing share in LMG's consolidated turnover, in line with the recent transformation of the TV industry. The demand of the Big 2 for locally-produced mini-series, fictions and sit-coms are increasing in number and LMG is well-equipped to meet this rising demand.
- Downstream, i.e. distribution of the content for which LMG acquired the rights, although currently a small portion of LMG's overall revenues is growing for independent players as the Big 2 now prefers to co-operate with them rather than acting alone. For LMG, this implies growth opportunities as well as possible synergies.
- LMG's operation in the Movie Exhibition segment is via its full subsidiary Stella Film that it acquired back in 2006. Stella today contributes significantly to LMG's top-line as well as EBITDA. In addition, the group creates synergies not only on the operating side but also on cash management (Stella generates deferred tax assets).

Early Years (1958-2000): Lucisano Media Group (LMG) was established in 1958 by the famous Italian film producer Fulvio Lucisano and the company commenced film production as well as content distribution in its early years. Some of its most well-known productions in this period were Giorgio Capitani's *Aragosta a colazione*, Dino Risi's *Sesso e volentieri*, Salvatore Samperi's *Amore in prima classe*, Luigi Magni's *Arrivano i bersaglieri*, Pasquale Festa Campanile's *Il ladrone* and Massimo Troisi's *Ricomincio da tre*, which also became a milestone in the history of Italian comedy in terms of both fan affection and box-office proceeds. LMG worked with internationally famous film directors like Mario Bava who directed LMG films such as *Due marine e un generale*, *Le spie vengono dal semifreddo* (both films combining Italy's top comedians Franco & Ciccio and the US star Buster Keaton) and *Terrone nello spazio*, one of the very first sci-fi movies which became an international cult. By then, LMG was also co-producing films together with American

independent production studios that were then viewed by the American audience.

Graph 2: LMG Library Gems



In these early years, the company also signed distribution agreements with AIP (American International Pictures), Cannon Films, MGM and Polygram to acquire the exclusive distribution rights of their films for the Italian market. Some famous movies distributed by LMG in this period were *Thelma and Louise*, *Four Weddings and a Funeral*, *French kiss*, *Over the Top*, and *Sleepers*.

Transformation Phase (2000-2006): Early 2000s marked important events for LMG that transformed the company into an integrated media group. TV productions were given start in these years. With the acquisition of Stella Film, the company also entered into the Movie Exhibition segment. More importantly, in 2003, a generational change occurred at the executive management level with Federica Lucisano now leading the group as its CEO as well as actively managing the movie production segment and her sister Paola Lucisano leading the TV productions segment.

Re-launch Phase (from 2006 on): Under its new management, the company, in 2006, produced *Notte Prima degli Esami* which was a milestone not only for the company itself but also for the Italian motion picture industry in general. Until then, the most avid cinema-goers, the 15-40 age group, were somehow estranged from

locally produced movies. This film which generated € 14mn box-office revenues and became the 3rd best film of the year managed to attract the Italian youngsters back to the theaters. In the following years, LMG produced important blockbusters such as *Ex* (2009), *Maschi contro Femmine* (2010), *Femmine contro Maschi* (2011), *Nessuno mi può Giudicare* (2011), *Ex: Amici Come Prima* (2011), *Viva L'Italia* (2012), e *Mai Stati Uniti* (2013).

Graph 3: Some Famous LMG Motion Pictures since 2006



Today LMG is an integrated group active in production (movie and TV content), distribution, and exhibition segments. With its € 35mn consolidated revenues in 2013, it is one of Italy's leading independent players.

Table 11: LMG's Historical Revenue Breakdown into Segments

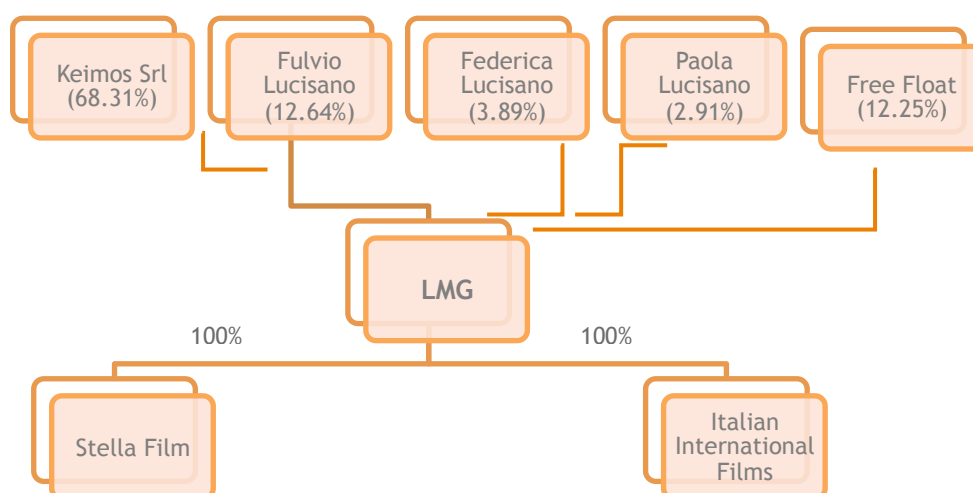
€ 000	2012	Share	2013	Share
Productions (Movie and TV)	25,607	63.9%	18,895	54.0%
Distribution	1,532	4.1%	2,421	6.5%
Exhibition	12,793	32.0%	13,919	39.5%
Total	39,932		35,235	

Source: Company Data

The productions, both movie and TV, take place under Italian International Films (IIF) that is a 100% affiliate of LMG (Graph 4). Exhibition business is run by Stella Film that is again 100% affiliated to LMG.

Keimos Srl, now 68% shareholder of LMG, is a company fully owned by Lucisano family members.

Graph 4: Group Structure (following the IPO)

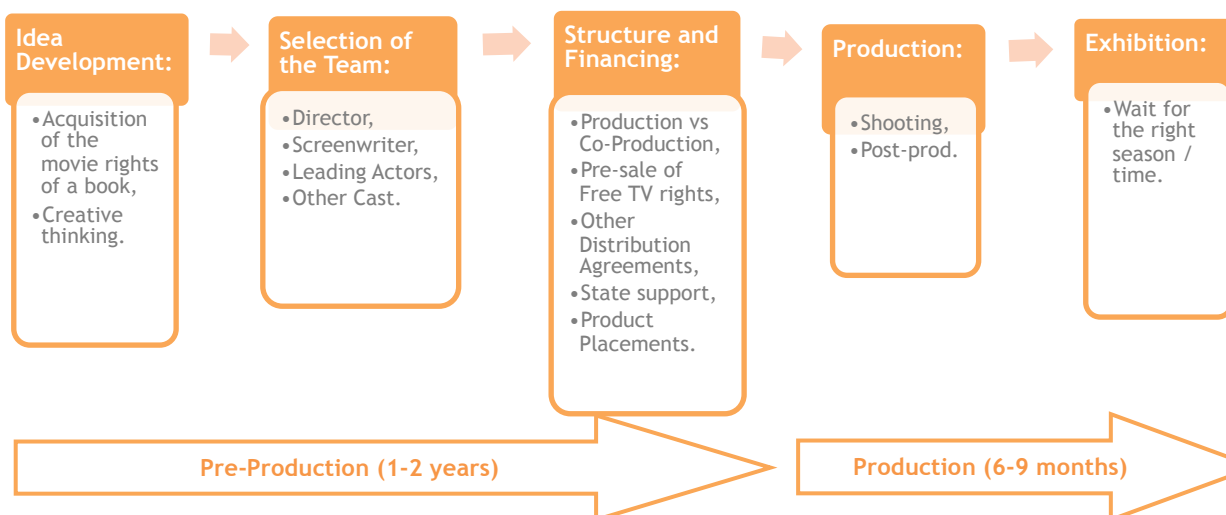


Source: Company Data

MOVIE PRODUCTION

Pre-production of a motion picture is the most complicated stage. In this phase, the idea is developed, the team is selected and the financing structure of the film is set. Once this stage is completed, which may take up to two years; it takes six to nine months to actually produce a motion picture.

Graph 5: A Motion Picture's Production Process



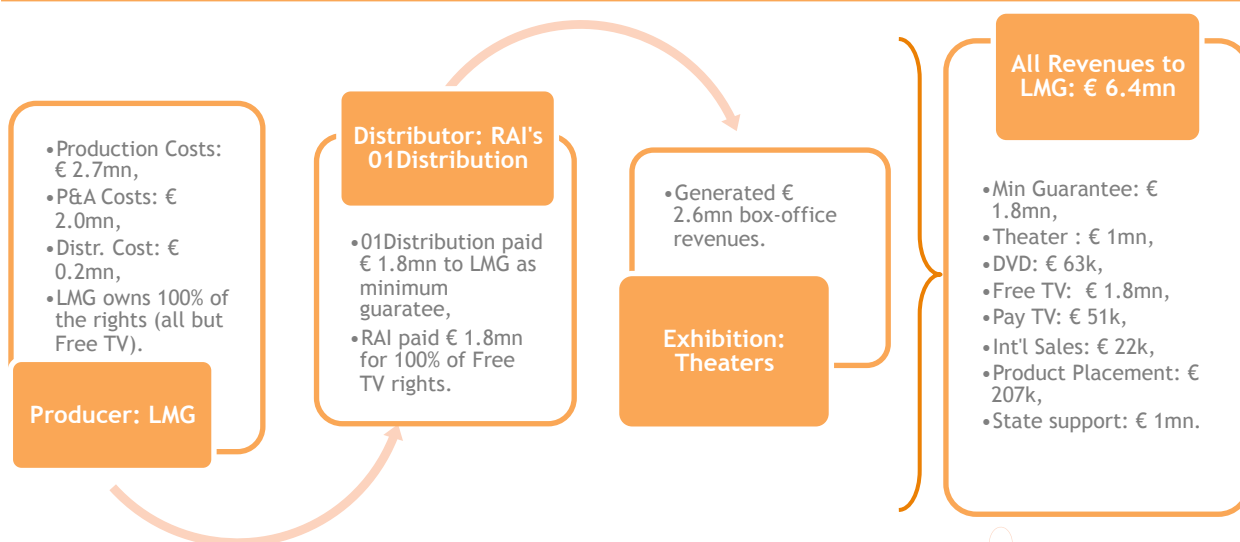
Source: KT&P Illustration

One of the most important decisions a production studio makes during the pre-production stage is the selection of the film director.

The film director is a key person for the success of any given film as he is intimately involved in all aspects of a film's development, from pre to post production, and it is his creative vision that drives not only the actors and the crew, but also the screenwriter and other parties involved. Well-aware of the importance of the director's talent and creativity, Federica Lucisano invests in a film director long before she decides to invest in a film. LMG makes multi-year exclusivity agreements with directors that fit her criteria. For example, the director Fausto Brizzi had a 5-year agreement (2006-2011) with LMG, during which he produced five blockbusters (*Notte Prima degli Esami*, *Notte Prima degli Esami-Oggi*, *Ex*, *Maschi Contro Femmine*, *Femmine Contro Maschi*) which all together generated € 62mn box-office revenues. Currently, LMG has exclusivity agreements with two film directors, Massimiliano Bruno (the director of *Nessuno Mi Può Giudicare* and *Viva L'Italia*) and Edoardo Leo (the director of *Buongiorno Papà*). These talented directors will be producing a total of three movies for LMG in 2014 and 2015 (Table 1 on Page 4).

To better understand the production and revenue generation process of a movie, let's go over LMG's 2013 motion picture *Buongiorno Papà*, featuring the international star Raul Bova and directed by Eduardo Leo.

Graph 6: Revenue Generation of *Buongiorno Papà*



Source: KT&P Illustration

As seen above in Graph 6, *Buongiorno Papà* generated a total of € 6.4mn revenues for LMG, much more than the total € 2.6mn box-office revenues it generated in theaters. When the film's theatrical performance was over in mid-2013, it was moved into LMG's content library where it continues to generate revenues via Pay TV and VoD platforms at no additional cost. We also see in the graph that the movie received a total of € 1mn as internal and external tax credits

as well as cash subsidies from the Italian state. All in all, LMG's margin on this € 4.9mn investment (film's total costs) was 31% during its first year.

In 2H2014 and 2015, LMG targets to produce a total of seven movies (Table 1 on Page 4) and per film production cost of these movies are expected to vary between € 2-4mn (excluding P&A and distribution costs). We expect each of these movies to generate box-office revenues between € 2-6.5mn.

Table 12: Expected Revenues versus Costs for 2014&2015 movies

€ 000	2014E	2015E
Production Costs	18,600*	10,500
Advertising Costs	2,300	2,780
Distribution Costs	767	926
Total Costs:	21,677	14,206
Expected Revenues:	31,642	24,064
Margin	31%	41%

Source: KT&P Estimates

*€ 4.6mn of these costs were incurred in 2013.

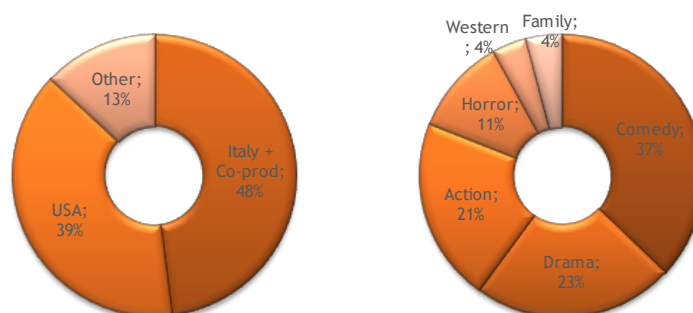
The production cost of € 18.6mn in 2014E includes both the production costs incurred in 2013 for the 2014 movies and a part of the production cost of 2015 movies that are to be given start in 2014. We should also mention that expected revenues in Table 12 above include revenues that are expected to be generated from share sell-offs (of these movies) to downstream partners (whereas *Buongiorno Papà* mentioned above is 100% owned by LMG) and a part of these expected revenues, although related to the same film, are generated in a time period exceeding one single year.

LIBRARY MANAGEMENT AND CONTENT DISTRIBUTION

LMG's current library is composed of 234 motion pictures, both LMG's own productions and the content acquired from foreign independent production studios to be distributed in Italy. Out of these 234, LMG holds the perpetual rights for 154 movies. The average duration of the remaining 80 films in LMG's library is 18 years.

Almost half of LMG's existing library is composed of Italian productions and co-productions, 37% of which is comedy (Graph 7).

Graph 7: Breakdown of LMG's Library into Nationality and Genre



Source: Company Data

LMG targets to enrich its library in 2015 by purchasing an international content portfolio, composed of around 100 international motion pictures. This will improve revenues generated from this segment as this new portfolio of movies is expected to generate € 2.5mn revenues (including multi-year agreements) in 2015 alone (Table 13 below).

In our estimation model, we also moved LMG's own productions in 2014 and 2015 into the library 18 months after their theatrical release. In those 18 months, these motion pictures have already generated box office revenues as well as the initial Pay TV, Free TV, and DVD revenues. In addition, they have already received the state support. The 'New Library Built-up' line of Table 13 therefore includes the movies produced by LMG in 2014 and 2015.

Table 13: Expected Revenue Generation of LMG's Library

€ 000	2014E	2015E	2016E
Existing Library	2,932	3,057	3,336
New Acquisition in 2015	0	2,500	500
New Library Built-up	0	110	177
Total:	2,932	5,667	4,013
YoY growth		93%	-29%

Source: KT&P Estimates

Content distribution is an area where LMG has been active since the 1960's and, following a break of almost two decades, this segment once again offers growth opportunities in Italy. The Big 2, both integrated players with a broad downstream network, previously had a proactive approach in foreign content acquisitions purchasing the Italian rights of foreign movies directly from independent production houses abroad. Since 2010, on the other hand, they switched back their strategy, preferring once again to partner up with local independent content distributors with whom they share the costs

and make revenue-sharing agreements. For LMG, which already has well-established, long-lasting relations with foreign independent content producers, this opened up a new opportunity. Although content distribution is not LMG's core business, having generated a mere 7% of the company's consolidated revenues in 1H2014, the management will continue to be active in this segment taking advantage of potentially profitable opportunities. This segment apparently offers synergies as maintaining relations with foreign independent production houses, American or European, may ease up the process for any co-production possibilities with these studios in the future.

Table 14: Foreign Motion Picture Content Distribution

€ 000	2014E	2015E	2016E
Content Distribution	336	2,206	3,183
YoY Growth		573%	41%

Source: KT&P Estimates

TV PRODUCTIONS

With the transformation of the television industry during the last decade, TV audience is not only being offered higher-quality TV content but also, being introduced to new and creative formats that are increasingly entertaining. As a result, television production is a growing market around the world, and Italy is no exception.

Since 2001, LMG has been producing for Italian televisions various formats such as TV films, mini-series and sit-coms (situation comedies). Some examples of the company's productions are: *Il Caso Enzo Tortora* (2012), *Il Destino ha 4 Zampe* (2002, RAI), *Un Difetto di Famiglia* (2002, RAI), *Ricomincio da Me* (2005, Mediaset), *L'Inchiesta* (RAI, 2006), *Due Imbroglioni e Mezzo* (2007, Mediaset), *Tutti I Rumori del Mondo* (2007, RAI), *L'Uomo del Carità* (2007, Mediaset), *Agata e Ulisse* (2011, Mediaset), *Mi Ricordo Anna Frank* (2010, RAI).

Paola Lucisano, with her extensive experience and network, is leading LMG's TV Productions arm that works with various Italian broadcasters such as RAI, Mediaset, Sky and others.

A TV production starts only after having reached an agreement with the broadcaster who shoulders the production costs. The producer earns a 'producer's fee' that is set by the Italian law as c. 12-15% of the production costs. In addition to this fee, the producer may maintain the ownership of the rights of the TV production for distribution channels other than Free TV and accordingly can generate revenues from these channels, such as Home Video (DVD)

and digital. There may be cases, however, where the broadcaster maintains the full ownership of rights for all distribution channels.

Graph 8: Paola Lucisano's *Senza Parole*, 1997



Paola Lucisano's 'court m trage' film 'Senza Parole' was awarded an **Oscar nomination** (American award for achievements in the film industry) in 1997. The same film won the **Golden Globe** (the American award for excellence in film and tv) and **David di Donatello** (the Italian award for achievements in the film industry).

Source: Youtube and Company Data

An important recent development in the industry has been the decree issued by the Italian government to support Italian TV productions. Accordingly, TV productions will receive tax credits, just like Italian motion pictures. Moreover, the government sets a minimum requirement for broadcasters to invest in nationally produced TV programs. The Big 2 is already investing in and broadcasting a significant number of national productions whereas multi-national broadcasters that are operating in Italy are currently more focused on international productions.

We have listed LMG's expected TV productions in Table 7 on page 9, and Table 15 below shows the expected revenue generation of these productions in the coming years.

Table 15: TV Productions' Revenue Generation

� 000	2014E	2015E	2016E
TV Productions	4,400	9,120	8,500
YoY Growth	16%	107%	-7%

Source: KT&P Estimates

MOVIE EXHIBITION

Stella Film, LMG's 100% subsidiary, manages seven multiplexes in Central and Southern Italy managing 55 screens and 9,855 seats.

Table 16: Stella Film Movie Theaters

Name of the Theater	City	# of Screens	# of Seats
Andromeda	Rome	8	1,024
Modernissimo	Naples	4	695
Happy Maxicinema	Afragola (NA)	13	2,500
BIG Maxicinema	Marcianise (CE)	13	2,586

Andromeda	Brindisi	7	1,024
Gavelli Multisala	Benevento	5	957
Andromeda River	Zumpano	5	756

Source: Company Data

In addition to the theaters listed above in Table 16, Stella Film broadcasts movie content in the Duel Village cinemas (Caserta and Salerno) with a total of 12 screens, in the Citringo cinema (Cosenza) with one screen, in the Supercinema (Cosenza) with one screen, and in the San Nicola (Cosenza) with two screens.

With the ownership of Stella Film, LMG completes the value chain having access to the final consumer. Stella is managed by Luciano Stella, founder of the company back in 1994 and an industry veteran with broad experience in this business segment.

Exhibition is a business where operators usually have low CURs, meaning that only around 18% of the movie theater seats generate income. Yet, together with other commercial activities (such as the snack bar and movie-related commercial good sales) and advertising income, they generate above 20% EBITDA margins.

Movie theater operators commonly work on a consignment-basis and therefore do not need to carry inventories or fixed assets. They rent the content from the distributor and earn a fixed percentage over its proceeds. Their selection and scheduling of the films is upmost important as it directly effects the proceeds generated.

LMG theaters are already high-quality, offering highly-advanced technological features (like 3D). Today, Luciano Stella's main focus is to increase the efficiency of the space and seats they manage, targeting to increase the overall profitability of this business unit and challenging the industry norms.

Table 17: Stella Film Expected Revenues*

€ 000	2014E	2015E	2016E
Exhibition	13,749	13,964	14,172
YoY Growth	-1.2%	1.6%	1.5%

Source: KT&P Estimates

*Assuming no increase in ticket prices

This business unit also generates deferred tax assets (because the VAT on a movie ticket in Italy is 10% whereas it is 22% over purchases), and as Stella's financials are fully consolidated under LMG, these tax assets are offset by LMG's tax liabilities.

A very recent development in the Movie Exhibition segment in Italy is that; the country's major movie exhibitors, representing together a cinema audience of 10mn, united to form the Italian Independent Cinematographic Entity (Esercenti Cinematografici Independenti

Italiani). This entity targets to support its members --Stella Film being one of them--by a) increasing the overall advertising revenues of movie exhibitors, b) decreasing the cost of renting the content, and c) creating purchasing power in commercial goods acquisitions.

LMG ORGANIZATION

LMG has a lean organizational structure with six people supporting the Lucisano siblings in the production and distribution businesses and a six member administrative team. Due to the nature of the business, the Movie Exhibition unit led by Lucisano Stella has 58 people working under it.

Graph 9: LMG's Organizational Chart



Source: Company Data

Table 18: LMG Board of Directors

Board Member:	Role:
Fulvio Lucisano	Chairman
Federica Lucisano	CEO
Paola Lucisano	Director
Roberto Cappelli	Independent member

Source: Company Data

CONSOLIDATED ESTIMATES

Table 19: Summary Consolidated P&L (2013-2016E)

€ mn	2013	2013**	2014E	2015E	2016E
Revenues	35,235	38,175	48,808	55,075	59,653
YoY Growth	-12%	-4%	39%	13%	8%
EBITDA	14,650	17,590	22,224	26,537	29,209
YoY Growth	-16%	1%	52%	19%	10%
EBITDA margin	42%	46%	46%	48%	49%
EBIT	1,594	4,534	7,533	10,510	16,586
YoY Growth	-43%	62%	373%	40%	58%
EBIT margin	5%	12%	15%	19%	28%
Net Income After Minority Interest*	337	-	4,331	6,420	11,060
YoY Growth	-55%	-	1184%	48%	72%
Net Margin	1%	-	9%	12%	19%

Source: KT&P Estimates

*Minority Shareholders' effect will be very low from 2014 onwards due to changing group structure.

**2013 Pro forma numbers

LMG's net debt, € 38mn by 1H2014-end, is expected to decline in the coming years with improving profitability. It is important to note that LMG collects tax credits, subsidies and other contributions from the government in a period generally exceeding 12 months, generating an important amount of 'Other Receivables' on its balance sheet (€ 8.7mn as of 1H2014-end), which need to be financed until their collection. Below in Table 20, we adjusted LMG's net debt by the amount of these receivables and IPO proceeds collected in July 2014.

Table 20: LMG ROCE Calculation

€ 000	2014E	2015E	2016E
Net Debt	34,228	26,192	13,107
Adjusted Net Debt	24,301	15,734	3,547
Equity	22,934	29,588	40,985
Total Capital Employed	47,235	45,322	44,532
NOPAT	5,735	7,572	11,955
Adjusted ROCE	12.1%	16.7%	26.8%

Source: KT&P Estimates

Industry Overview

- Italian Motion Picture Production industry is rejuvenating with most avid cinema-goers (15-40 age group) again regularly frequenting theaters to see Made-in-Italy comedies. In 2013, 1 out of every 3 cinema admissions was for an Italian production, encouraging content producers to produce bigger and better projects utilizing higher talent and creativity.
- Italian movies are regaining their success also abroad. In 2013, for example, Paolo Sorrentino's *La Grande Bellezza* won the Best Foreign Language Film Oscar as well as the Golden Globe and the BAFTA (British Academy of Film and Television Arts) award in the same category.
- In the Content Distribution segment, local independents partner up with RAI and Mediaset to achieve the best distribution for their content. Accordingly, the Big 2 command 1/4th of the theatrical market.
- Movie Exhibition is a fragmented segment where there have been acquisitions in the last 5-10 years, with the leading players enlarging their market share with these investments.
- State Support, which totaled to € 73mn in 2013, is an important risk-offsetter for content producers, and the recent decree issued by the Italian government foresees an increase to € 110mn from 2015 onwards. We believe this will render the industry increasingly competitive and in the end leading to an increase in box-office revenues generated by Italian producers.

MOTION PICTURE IN ITALY

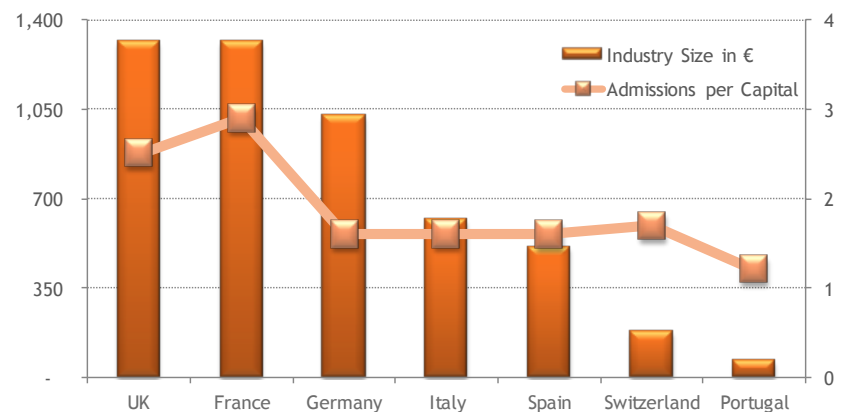
Italy has had a memorable role in the global development of the motion picture industry thanks not only to world-famous past and present directors it had produced, like Fellini, Bertolucci, Leone, Tornatore and many others, but also to great past and present international acting talents like Cardinale, Loren, Benigni, Bellucci and many more. Founded in 1932, the Italian Venice Film Festival is the world's oldest international film festival. During the industry's early years, Italy as a country was a notable motion picture producer in the international arena, sending its movies even to the USA market then to-be-viewed by the American audience. Then, in sequent years with the high-speed transformation and growth of the American industry and its increasing dominance over world markets, Italy lost ground in the international arena and even its local market suffered at a great extent.

Starting in 2000, the outlook started to change. There is much more dynamism in the Italian market today because local productions started attracting more audiences. Italian cinema-goers started once again watching Italian-made movies, encouraging producers who in the end came out with increasingly better projects. In this context, LMG's 2006 production *La Notte Prima Degli Esami*, the 3rd best film of the year with € 14mn box-office revenues, was a milestone for the Italian industry, attracting the Italian youngsters back to theaters.

THE BIG SCREEN

Big Screen is a € 612mn (last 10 years' average box office revenues) industry in Italy. Compared to the UK, France and Germany, Italy's size is small, yet with promising growth potential. UK and France are the biggest markets in Europe, both generating € 1.3bn box-office revenues annually (Graph 10). French are the most-frequent cinema-goers in Europe with an average of three admissions per year, whereas the Italian average is less than two admissions.

Graph 10: Industry Size (€ mn) vs. Annual Admissions/Capita

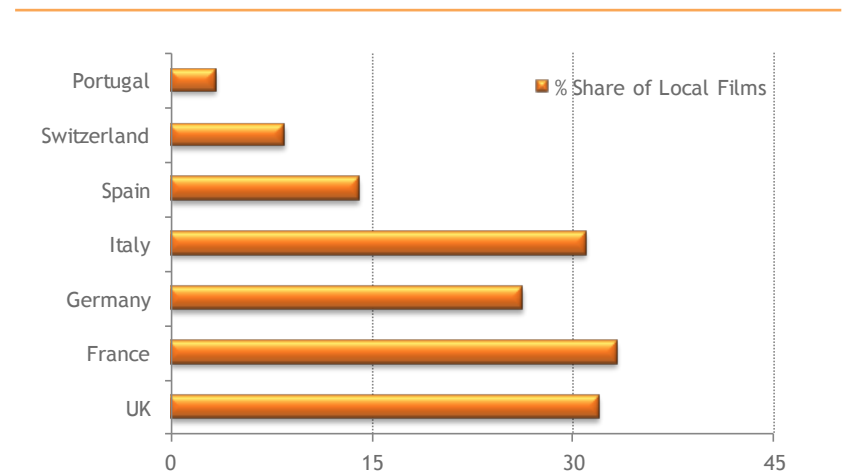


Source: UNIC 2013

When it comes to the share of local/national films in total box-office revenues (Graph 11), France once again come forward, as 1 out of every 3 movies they see is French-made. In Italy, a decade ago, in 2005, a mere 1 out of 5 (i.e. 22%) of all admissions were for Italian motion pictures, whereas today almost 1 out of 3 (i.e. 31%) of all admissions are for Italian motion pictures, which is due to the expansion of the local industry that we mentioned above. The trend in these last 10 years has, however, not always been rising, it rather fluctuates in years depending primarily on the number and success

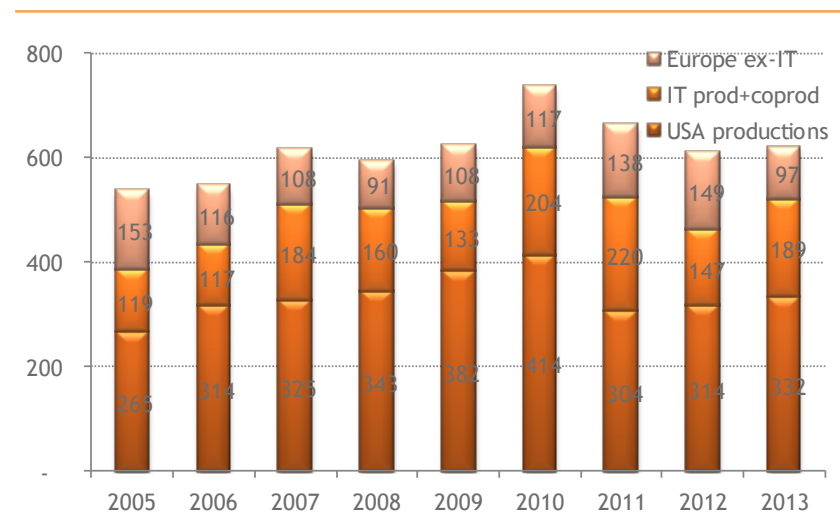
of local productions (Graph 12). Still, we can easily conclude that Italian productions are increasingly welcomed by the Italian audience.

Graph 11: Local Films' Share in Total Admissions in 2013



Source: UNIC 2013

Graph 12: Breakdown of Italian Box-Office Revenues (€ mn)



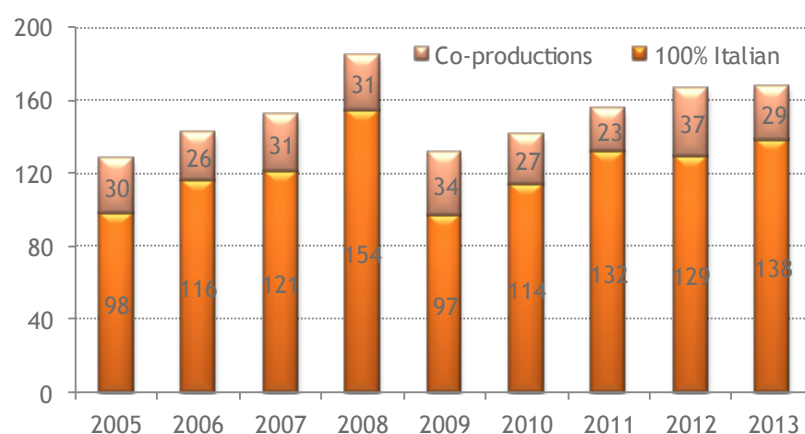
Source: Cinetel

As one would expect, motion pictures imported from the USA have dominance on the Italian Big Screen, today generating almost 54% of all box-office revenues. This dominance is hard to beat as Americans lead the global motion picture industry in terms of creativity, technology, and budget. Obviously, this is the reason why independent players in the Italian market, such as LMG, are also active in the content distribution business, importing the USA-based content and distributing it in Italy, participating in the revenue generation of these American movies and consequently, diversifying their income sources in this € 612mn industry.

MOVIE PRODUCTION IN ITALY

In 2013, Italian production houses created a total of 167 motion pictures, 138 of which were pure local productions whereas the rest were co-productions with either European (ex-Italy) or American houses (Graph 13).

Graph 13: Number of Italian Productions and Co-productions



Source: Anica and Cineconomy.com

In 2013, in spite of the big success of *Sole a Catinelle* that generated € 52mn box-office revenues, the industry overall could not over-perform year 2010. The average revenue generated by the top-10 Italian films (€ 12mn) in 2013 was 12% lower than the average revenue generated by the top-10 Italian films in 2010 (€ 14mn). Even though Italians produced 18% more movies in 2013 in comparison to 2010 (Graph 13), they generated 33% less revenue. This trade-off highlights the importance of the contribution of each single production to the overall growth of the local industry.

Table 21: Top-10 Italian Films in 2013 vs. 2010 (€ mn)

2013 Film:	Proceeds:	%:	2010 Films:	Proceeds:	%:
Sole A Catinelle	51.8	27%	Benvenuti Al Sud	29.9	15%
Il Principe Abusivo	14.3	8%	La Banda dei Babbi Natale	21.5	11%
La Migliore Offerta	9.3	5%	Natale in Sudafrica	18.7	9%
Benvenuto Presidente	8.5	5%	Io, Loro e Lara	15.8	8%
Colpi di Fortuna	9.0	5%	Maschi Contro Femmine*	13.6	7%
Un Fantastico Via Vai	7.6	4%	Baciami Ancora	9.2	5%
La Grande Bellezza	6.8	4%	Genitori & Figli	8.5	4%
Indovina Chi Viene A Natale?	6.3	3%	Mine Vaganti	8.4	4%
Mai Stati Uniti*	5.5	3%	A Natale Mi Sposo	8.2	4%

Fuga di Cervelli	5.1	3%	Scusa Ma Ti Voglio Sposare	6.8	3%
Total of Top-10	124.2	66%	Total of Top-10	140.6	69%
Total Italian Prod. & Co-prod.	188.7	100%	Total Italian Prod. & Co-prod.	204.0	100%

Source: ANICA

*Produced by Lucisano's LMG

The Big 2 dominates the Italian motion picture production industry and their production houses (Medusa Film, Taodue and Rai Cinema) receive a large, steady share in the market. Independent production studios such as Lucisano's LMG, Filmauro, Eagle Pictures, Fandango, and Cattleya together make up the rest of the market. There also exist various small production houses which occasionally get a meaningful stake in this reference market.

Table 22: Italian Film Production Studios

Majors:	Independents:	Small Players:
Medusa Film (Mediaset)	Lucisano's LMG	Various
Taodue (Mediaset)	Filmauro (De Laurentiis)	
Rai Cinema (RAI)	Eagle Pictures	
	Fandango	
	Cattleya	

Source: KT&Partners Illustration

To reach LMG's market share in its reference market, we calculated LMG movies' average market share during the last five years. Accordingly, with its 8% share, LMG is one of the leading independent production houses in the country.

Below in Table 23, we also listed the top-30 best-performing Italian motion pictures during the three years (between September 2010 and August 2013). Accordingly, LMG films had a 12% share in the top-30.

Table 23: Top-30 Films by Box-Office Proceeds (Sep. '10-Aug '13)

Title	Year	Proceeds (€ mn)
Che Bella Giornata	2011	43.5
Benvenuti al Sud	2010	29.9
Benvenuti al Nord	2012	27.2
La Banda dei Babbi Natale	2010	21.5
Natale in Sudafrica	2010	18.7
Immaturo	2011	15.2
Qualunquemente	2011	15.9
Il Principe Abusivo	2013	14.3

Maschi Contro Femmine*	2010	13.6
Immaturo-Il Viaggio	2012	11.8
Femmine Contro Maschi*	2011	11.6
Vacanze di Natale a Cortina	2011	11.7
I Soliti Idioti	2011	10.8
Finalmente la Felicità	2011	10.3
La migliore Offerta	2013	9.3
Posti in Piedi in Paradiso	2012	9.3
La Peggior Settimana della mia vita	2011	9.7
Benvenuto Presidente!	2013	8.5
A Natale Mi Sposo	2010	8.2
Nessuno Mi Può Giudicare*	2011	8.0
Il Peggior Natale della Mia Vita	2012	7.8
Colpi di Fulmini	2012	8.1
La Grande Bellezza	2012	6.8
Tutto Tutto Niente Niente	2012	7.7
Com'è Bello Far L'amore	2012	6.9
Manuale d'Amore 3	2011	6.6
I 2 Soliti Idioti	2013	7.3
Mai Stati Uniti*	2013	5.5
Venuto al Mondo	2012	5.0
Viva L'Italia*	2012	5.3

Source: Cinetel

*LMG Productions

ITALIAN MOTION PICTURE OUTSIDE ITALY

Throughout the decades, Italian films have won 14 Academy Awards for Best Language Films, which puts Italy ahead of any other country in the world. Still, when it comes to cross-border revenue generation, the success of Italian motion pictures is yet to come. This may also be due to the fact that late Italian productions are heavily concentrated on the comedy genre, which creates a trade-off when it comes to foreign revenue generation. Co-productions with other European or American production houses, for the time being, seems to be the major way to create international box-office revenues. Italian production houses usually partner up with French, Spanish, Belgium and German independent studios, and the cultural similarities permit these co-productions to succeed in multiple European markets.

There are some reasons to be more optimistic though. Recently in May 2014, for example, LMG sold the 'remake' rights of their 2010

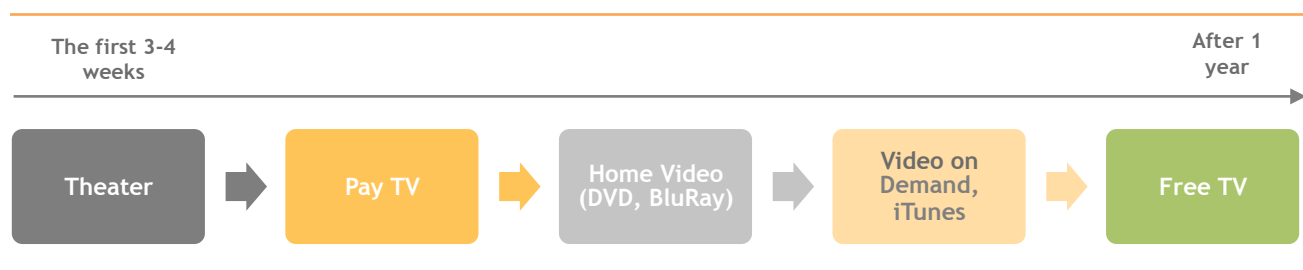
blockbuster movie *Maschi Contro Femmine* to a Chinese production house that is expected to adapt the film to the Chinese audience and show it in Chinese theaters. The Chinese motion picture industry is growing significantly, faster than any other market in the world; Italian producers may be better off if they now explore the potentials in this market.

MOVIE DISTRIBUTION IN ITALY

Motion picture industry uses a ‘smart release strategy’, which allows it to generate returns on each single step of a movie’s life cycle after production. Theater is the launch-pad for the content and the success of the content during the theatrical release contributes significantly to its overall success on all other platforms.

Theatrical success is usually correlated to the number of weeks a movie stays in theaters, whereas a typical movie stays in a single country’s theaters for around 3-4 weeks. Once the theatrical performance is over, the distributor opens up other release windows one at a time. Recently Pay TV has risen to become the second release window. Here, the content distributor makes single or multi-year contracts with the Pay TV operator according to which the operator purchases the right to show the content to its subscribers at a pre-determined number of times per year.

Graph 14: Life Cycle of a Motion Picture after Production



Source: KT&P illustration

DVDs, on the other hand, are typically released within three months after the theatrical release and the distributor earns a percentage income from the sale of each DVD. Although DVD sales have been an important source of revenue since their first introduction to retail in 1997, it is no secret that the global DVD market is on a declining trend, following the revolution in digital platforms such as VoD and iTunes. People can now view movies at home, or wherever they are, whenever they want, choosing from a library of thousands of films by paying a small monthly subscription fee and renting (or purchasing) the movie online. The digital platform, which revolutionized the way movies are watched, is rapidly growing all around the world, including Italy. According to a recent report published by IDate, the

VoD market in the EU zone is predicted to soar and single countries are expected to experience an average annual growth rate of 19% in the following years.

Table 24: Italian Players in each Distribution Platform

Theaters:	Pay TV:	VoD:	Free TV:
UCI Cinemas	Mediaset Premium	Chili	RAI
The Space Cinema	Sky Italia	CuboVision (TIM)	Mediaset
Stella Film*		Voddler	Cairo Communication
Ferrero Cinemas		Apple TV	Discovery Communications
Giometti Cinema		Xbox Video	Viacom
Bernaschi & Co.		PlayStation Video	News Corp
Movie Planet		Indieframe	G.E. L'espresso
Other		iTunes	Other

Source: KT&P

*LMG subsidiary

Once the theatrical performance is over, the content moves into other distribution platforms such as Pay TV, Home Video, VoD and Free TV. According to a report published by Fondazione Ente dello Spettacolo that analyzed 2010 market data, Home Video, Pay TV, VoD and Free TV total a market value of € 1.3bn and Home Video (DVD) and Pay TV get the lion's share with c. € 1bn, total size. We estimate that 2013 distribution of revenues would be quite different as the Home Video market is estimated to have shrunk and the VoD market to have expanded in recent years.

Graph 15: Size of Each Distribution Platform in Italy - 2010



Source: Fondazione Ente dello Spettacolo, Rapporto 2011

CONTENT DISTRIBUTORS IN ITALY

Motion picture distribution in Italy is led by the majors who are either integrated US companies' Italian arms, namely Warner Bros, Universal, 20th Century Fox and Walt Disney, or the Italian Big 2's distribution arms. These majors together generate 79% of total admissions and 81% of all box office revenues in Italy (Table25).

Table 25: Motion Picture Distributors in Italy in 2013

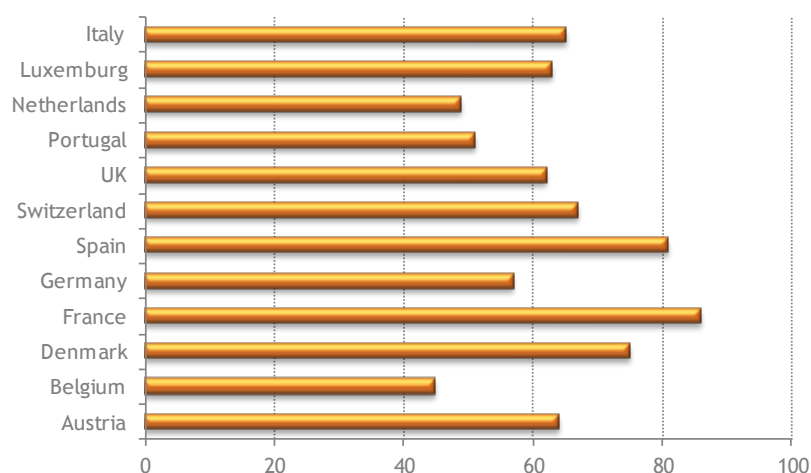
Distributor:	Admission (mn):	Share:	Box Office (€ mn):	Share:
MAJORS				
Warner Bros IT	19.0	20%	125.3	20%
Universal IT	14.4	15%	93.0	15%
Medusa Film	13.1	13%	83.6	14%
01 Distribution	13.1	13%	80.0	13%
Walt Disney IT	10.3	11%	69.6	11%
20th Century Fox IT	7.1	7%	46.3	7%
INDEPENDENTS				
Lucky Red	4.5	5%	27.7	4%
Eagle Pictures	3.7	4%	22.3	4%
BIM	2.1	2%	11.7	2%
Notorious Pic.	1.9	2%	11.1	2%
Moviemax	1.6	2%	8.5	1%
M2 Pictures	1.5	2%	8.8	1%
Teodora	0.8	1%	4.4	1%
Videa-CDE	0.5	1%	2.9	<1%
Good Films	0.4	<1%	2.1	<1%
Acedemy Two	0.4	<1%	2.1	<1%
Koch Media	0.4	<1%	2.3	<1%
Nexo Digital	0.3	<1%	3.1	1%
Officine UBU	0.3	<1%	1.7	<1%
Bolero	0.3	<1%	1.4	<1%
Other	1.8	2%	10.6	2%
Total	97.4	100%	618.4	100%

Source: CINETEL

Independents that command the remaining 20% of the market are led by Lucky Red, Eagle Pictures, BIM and so on. This breakdown, however, needs further explanation because 01 Distribution (of RAI) and Medusa Film (of Mediaset) do not only distribute the content they have developed and/or acquired from abroad, but they also distribute independent players' content. For example, in this list, we cannot observe LMG as it is a network player making agreements with 01Distribution and Medusa to subcontract the distribution of its content. Accordingly, € 10mn of box-office revenues generated by LMG's 2013 movies (both produced and acquired content) is above listed under 01Distribution and Medusa.

MOVIE EXHIBITION

Italy's cinema screen density (screens per 1 million people) of 65 is almost in line with the European average of 64, however, it is well below the Mediterranean neighbors' average (France with 86 screens and Spain with 81 screens).

Graph 16: Screen Density per 1mn Inhabitants 2013

Source: UNIC 2013

Even though movie exhibition in Italy is quite a fragmented market, the first two players (The Space Cinema and UCI) dominate the market operating 362 and 442 screens, respectively (Table 26). We have calculated Stella Film's market share by dividing the box-office revenues generated via its theaters to the overall Italian box-office revenues, and we see Stella commands 2% of the Italian Movie Exhibition Sector.

Table 26: Top 10 Players in the Italian Movie Exhibition Market

Company	# of Theaters	# of Screens	Viewers (mn)
The Space Cinema	36	362	18.9
UCI	42	442	18.9
Stella Film	7	55	1.8
Ferrero Cinemas	5	44	1.7
Giometti Cinema	5	46	1.6
Bernaschi & Co.	5	44	1.5
Movie Planet	7	38	1.4
CIN CIN	4	26	1.4
Cinelandia	6	44	1.3
Cinestar - Starplex	6	47	1.3

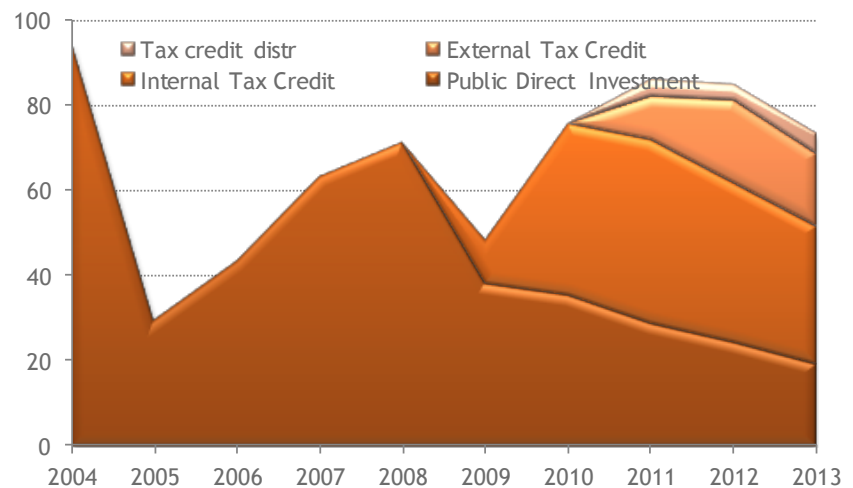
Source: Box Office 2014

GOVERNMENT SUPPORT

National governments and local administrations all around the world provide different forms of tax incentives to motion picture producers

and distributors, and the Italian government is no exception. In 2013, the industry received a total support of € 73mn (Graph 17), 16% of the total production investments (€ 0.5bn) made in the industry in that same year. With the recently approved *Decreto Cultura*, this support is expected to increase to € 110mn from 2015 onwards.

Graph 17: Public Support to Italian Films (€ mn)



Source: ANICA

The incentives in Italy can be grouped into three categories:

1-National and Regional funds

These are public direct investments where the national government and/or the regional authorities may decide to provide direct funds -- in the form of cash-- to the producer, when certain criteria are met. These criteria are usually about Italian elements (Italian film director, Italian location, Italian language, etc.) to promote the Italian culture in and outside Italy. Over the last couple of years, as seen in Graph 17 above, these direct public investments have partially been replaced by tax credits.

2-Tax Credit (Internal and External) and Tax Shelter

In October 2013, the Italian government approved the new *Decreto Cultura* according to which movie producers are given the opportunity to offset fiscal debt (namely IRES, IRPEF, IRAP, VAT, social security and insurance taxes) as large as the size of the credit they receive related to their investment. In addition, they are given the possibility to have a tax shield for the revenues reinvested in theatrical productions and distributions (Table 27).

Table 27: Tax Credit and Shelter in Italy

	Category:	Form:	Amount:
Productions	External Investors	External Tax Credit (players outside movie industry)	40% funding to an Italian production
Distributions	Legal Subjects, Firm's Revenue's Owners	Internal Tax Credit (movie industry players)	15% production costs of Italian film, 15-20% distribution costs, 20-30% retailers costs, 25% film-making costs for foreign customers.
Retailers	Italian and foreign film- making and non film- making firms with an established organization in Italy	External Tax Shelter	30% revenues reinvested in the production and distribution of Italian films.
Executive Productions and Technical Industry		Internal Tax Shelter	Up to 100% of revenues reinvested in production and distribution of Italian films

3-Subsidies based on the theatrical performance of the movie

According to the legislative decree of the Italian Ministry of Cultural Assets and Activities (MIBAC), dated March 2012, Italian content producers receive cash subsidies if the pre-tax box office revenues generated within 18 months following the content's theatrical release exceed € 50,000. The subsidies are calculated as follows:

Table 28: After Release Subsidies

Pre-tax Revenue Brackets (Euros)	% Subsidy
1-1,000,000	22.5%
1,000,001-2,000,000	20.0%
2,000,001-3,000,000	17.5%
3,000,001-4,000,000	15.0%
4,000,001-5,000,000	12.5%
5,000,001-10,000,000	10.0%

Source: Company Data

In addition to the subsidies listed above, in case a film production is accepted as of 'cultural interest', it receives an additional 5% (of the box-office revenues) incentive from the Italian government.

Appendix

International Peer Multiples

Peer:	P/E 2014E	P/E 2015E	EV/EBITDA 2014E	EV/EBITDA 2015E	EV/EBIT 2014E	EV/EBIT 2015E
LIONS GATE ENTERTAINMENT	19.6x	17.0x	14.6x	13.6x	19.0x	17.1x
BONA FILM GROUP	25.3x	18.6x	8.9x	7.1x	38.3x	26.6x
MONDO TV	53.2x	14.2x	5.8x	4.2x	23.3x	9.3x
ENTERTAINMENT ONE	14.0x	12.5x	9.8x	8.9x	10.2x	9.4x
LEONE FILM GROUP	19.1x	14.2x	1.9x	2.3x	7.5x	5.7x
DREAMWORKS ANIMATION	-	22.1x	28.4x	18.7x	410.7x	17.6x
EUROPACORP	12.2x	4.0x	5.3x	3.3x	12.6x	5.3x
SPLENDID MEDIEN	39.9x	5.2x	3.0x	2.2x	20.5x	6.0x
CONSTANTIN MEDIEN	n.m.	29.0x	3.1x	2.7x	38.0x	11.6x
EROS INTERNATIONAL	14.9x	12.8x	9.2x	8.1x	9.9x	8.6x
Average	19.8x	15.0x	9.0x	7.1x	59.0x	11.7x
LUCISANO MEDIA GROUP	9.5x	6.4x	3.4x	2.8x	9.8x	7.1x

Source: Factset

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