

Production date: 16th February 2018 - 17:30 CET

Release date: 19th February 2018 - 07:00 CET

LEONE FILM GROUP	<i>Italy</i>	<i>FTSE AIM Italia</i>	<i>Entertainment</i>
Rating: BUY	Target Price: € 8,45		Risk: Medium

Stock Performance	1M	3M	6M	1Y
Absolute	5,43%	-2,10%	3,79	48,94%
vs FTSE AIM Italia	7,50%	-1,67%	3,91%	32,45%
vs FTSE All-Share	9,70%	-3,61%	0,93%	27,22%

Company overview

Leone Film Group is a leading company operating in the Italian movie industry. Leone Film Group was founded in 1989 by the famous director Sergio Leone and is currently owned by Andrea and Raffaella Leone, sons of the Film Director.

Through the years the company expanded its business from distribution, including big-budget titles which brought to the signing of the first output deal with DreamWorks (Amblin/Storyteller) in December 2012, to production and executive production.

Stock Data (16/02/2018)	
Price	4,66
Bloomberg Code	LFG IM
Market Cap (€m)	65,7
EV (€m)	101,3
Free Float	26,5
Share Outstanding	14,1
52-week high	5,7
52-week low	2,9
Company Agenda	27/03/2018

Main 2017 preliminary results

On 1st February, Leone Film Group released its FY17 preliminary results. Consolidated unaudited revenues rose by 80,3% to € 98.6 mln (€ 54.7 million in FY16). The increase is mainly due to the large increase in turnover of the fully owned subsidiary Lotus Production Srl in the area of international executive productions. Lotus started this activity in 2016 and has quickly become the leading Italian operator in this market segment. Consolidated preliminary Ebitda rose by 13,6% reaching € 26.7 mln (€23,5 mln in FY16). Preliminary Ebitda is lower than those indicated in the 2017-19 strategic plan (€29,1 mln), mainly due to the postponement of some film releases.

Key Financials (€m)	2016A	2017E	2018E	2019E
Sales	54,7	98,6	114,6	120,5
EBITDA	23,5	26,6	36,4	44,3
EBIT	3,0	4,3	9,0	11,9
Net Income	1,8	2,6	5,7	8,1
EBITDA margin	43,0%	27,0%	31,8%	36,8%
EBIT margin	5,5%	4,4%	7,9%	9,9%
ROI	4,5%	5,7%	11,4%	15,7%
ROCE	4,0%	5,4%	10,4%	14,8%

Main Ratios	2016A	2017E	2018E	2019E
EV/EBITDA	4,3 x	3,8 x	2,8 x	2,3 x
EV/EBIT	33,8 x	23,6 x	11,3 x	8,5 x
P/E	36,5 x	25,3 x	11,5 x	8,1 x
NFP/EBITDA	1,4 x	1,5 x	1,2 x	0,7 x

Valuation Update

We based our valuation estimates using the Multiples Valuation method and the DCF Valuation method. Regarding the Multiples Valuation method we have used a panel of companies operating in the same sector as LFG's but with a greater average market capitalization. For that reason, we have applied a Market Cap discount of 25%. The equity value resulting from this method is equal to € 123,1mln. On the other hand, the equity value resulting from the DCF Valuation method is equal to € 115,1mln. The arithmetical average between the DCF method and the Multiples valuation method was conducted resulting in an equity value equals to € 119,1 mln, hence € 8,45 per share. Risk is medium and rating is Buy.

<u>Antonio Tognoli</u>	<u>Mattia Petracca</u>
+39 02 87208 703	+39 02 87208 765
antonio.tognoli@integraesim.it	mattia.petracca@integraesim.it

Summary

1. Company Overview	3
1.1 Group Profile	3
1.1 The distribution business.....	3
1.2 The production and co-production businesses	6
2. Reference Market.....	8
2.1 Film entertainment market	8
2.2 International theatrical distribution market	9
Leone Film Group – Pro-Forma Positioning.....	10
2.3 The Video on Demand (VoD) sector.....	11
2.4 The film sector in Italy	12
2.5 The tax credit in Italy	14
3. Company strategy - Forecast 2017-2020.....	16
3.1 1H17 results.....	16
3.2 2017 – 2019 business plan	18
3.3 Main 2017 preliminary results	20
3.4 Our 2017 – 2019 forecasts	21
4. Economic & Financial Data	23
5. Valuation.....	25
5.1 Ratio analysis	25
5.2 DCF model	26
5.3 Multiples valuation.....	28

1. Company Overview

1.1 Group Profile

Leone Film Group is a leading company operating in the Italian movie industry. Leone Film Group was founded in 1989 by the famous director Sergio Leone and is currently owned by Andrea and Raffaella Leone, sons of the Film Director.

Through the years the company has expanded its business from movie distribution - including big-budget titles which led to the signing of the first production deal with DreamWorks (Amblin/Storyteller) in December 2012 - to movie production and national/international executive productions.

In 2013 Leone Film Group signed an important and strategic output deal with Lionsgate, establishing a strong partnership that will last until June 2019.

In 2014, LFG acquired Lotus Production in order to enter into international productions. In 2015 the Group won the contract for the international executive production of the Lionsgate movie "John Wick 2" (which the company also distributed and paved the way of the Group into the business of International Executive Productions).

During 2016 Leone Film Group produced its first TV Series titled "Immaturo", officially entering this highly growing and profitable market. At the same time, it started developing other internationally oriented TV series (among which "Colt" and "Beati Paoli") which will help company growth in this segment as well.

As of today, Leone Film Group is managing a library of about 500 titles among which it's worth mentioning the renowned library of all Sergio Leone's pictures for Italian and, in many cases, international markets, together with many other international blockbusters. The library is constantly growing thanks to the production deals (DreamWorks and Lionsgate) and to the strong and growing relationships with all US independent producers.

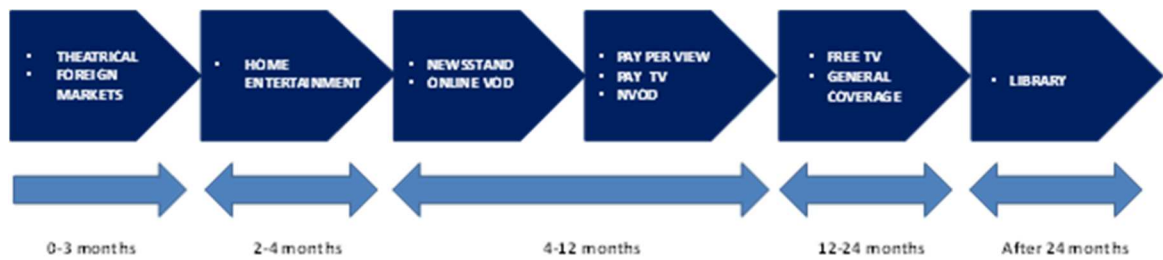
Leone Film Group's activity is divided into two main units:

- **Distribution**, which accounted for c.58% of 2016 sales with an Ebitda margin of 61.1%;
- **Production**, which accounted for c.42% sales and generated an Ebitda margin of 18.6% in 2016. In this field, Leone Film Group is also active in executive production and services for international producers.

1.1 The distribution business

In its distribution activity, Leone Film Group acquires full film rights for the Italian market for 15-25 years, mainly from independent US producers: Lionsgate, Summit Entertainment, DreamWorks (also in co-production). Moreover, the company selects other movies at the American Film Market (AFM) and other important film festivals.

Fig. 1 – The distribution value chain



Source: Leone Film Group

A movie is screened in cinema channels for about 3 months. That phase is particularly important for the film’s entire life cycle, since the success of some other phases also depends on the income generated in this phase.

After theatrical release (in cinemas), the movie is marketed in the home entertainment channels (or HomeVideo) (DVD, Blue Ray, etc.), either directly or through the subscription of specific arrangements. First home video release usually begins 6 months after theatrical.

About 8 months after theatrical the film begins to be marketed also in the pay per view channel and on VoD (Video on Demand) and NVOOD (Near Video on Demand) channels.

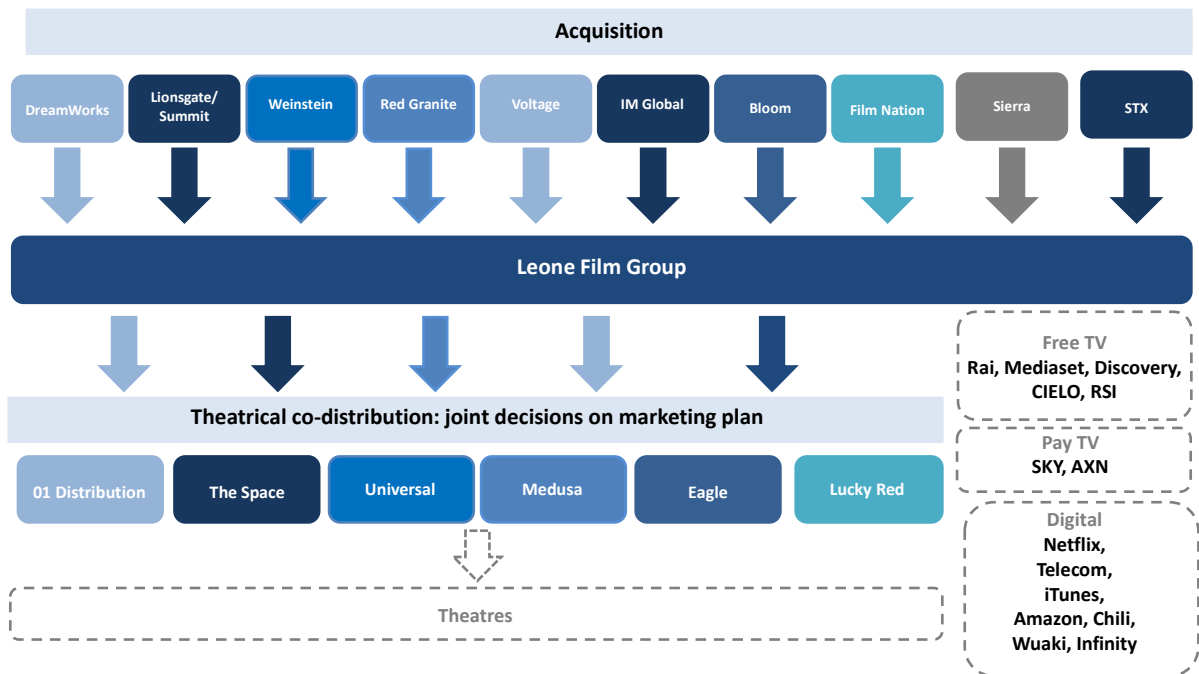
About 12 months after theatrical the movie is seen for the first time on Pay TVs and SVOOD (Subscription Video On Demand) channels. Pay TV contracts generally provide - for a fixed fee - the possibility for television broadcasts for the movie, for a limited number of times in the period covered by the contract. At the end of this period, the film goes to the free TV channels.

The distribution of the movie in the Free TV channel usually begins 24 months after theatrical. Contracts with televisions last longer than those of previous channels. During this period, the film can be broadcasted up to a predefined maximum number of times.

The last window of the 1st round of show is represented by the various digital Channels.

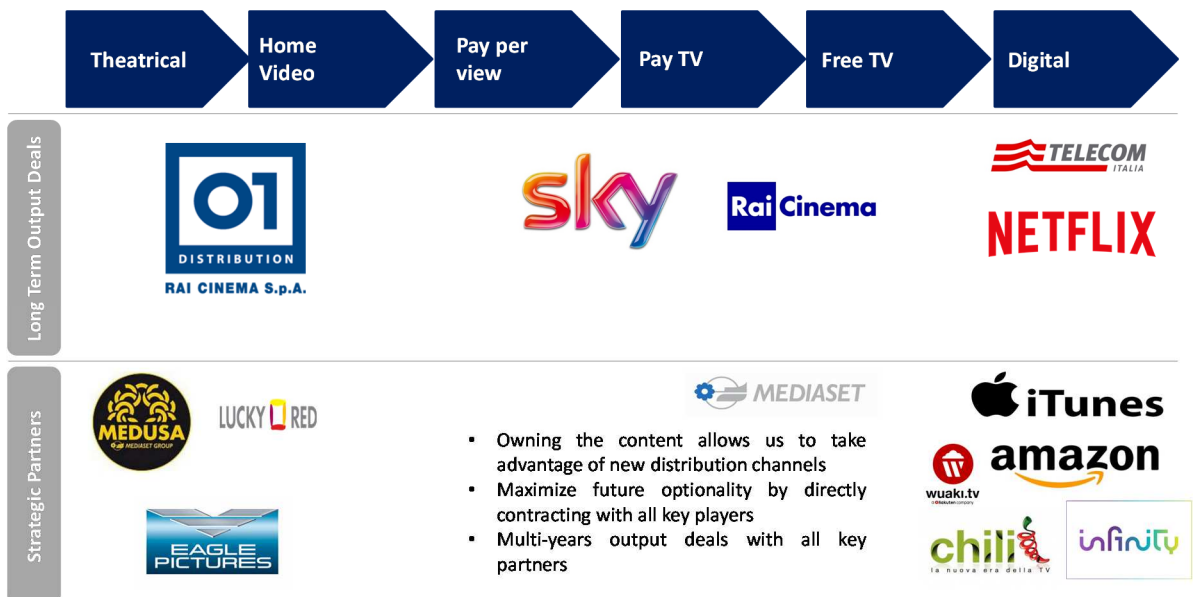
After being shown on all different channels the movie returns available and the distributor can start again to sell its distribution rights to the various channels up to the end of the concession which usually lasts for 15-25 years. This is what is commonly called ‘library revenues’

Fig. 2 – Distribution structure



Source: Leone Film Group

Fig. 3 – The distribution partners

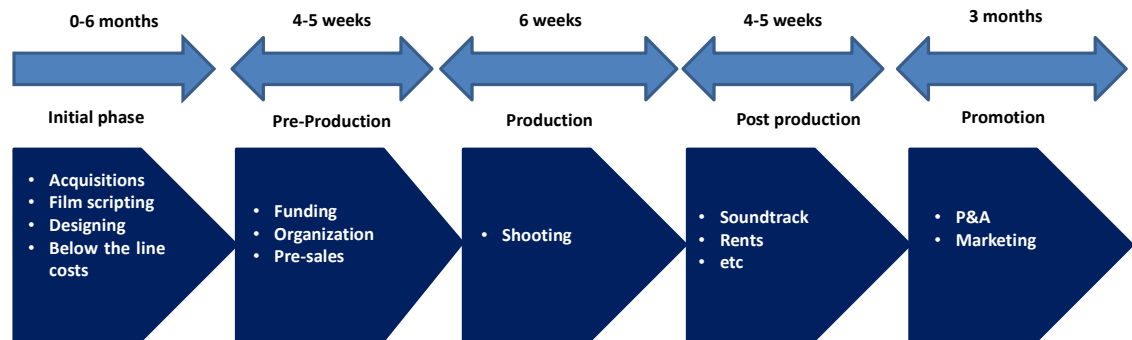


Source: Leone Film Group

1.2 The production and co-production businesses

Leone Film Group is able to manage the entire production cycle, i.e. from the concept to its distribution. Following the whole production value chain.

Fig. 4 – The production value chain



Source: Leone Film Group

Production begins with the selection of "subjects" that provide the plot for a movie to be developed in production and / or co-production. Once the subject is selected, the Company selects a screenwriter for "managing" and later on "scripting" the subject, which consists of developing the movie's context and writing the dialogue. Alternatively, the company may purchase the screenplay of the film already developed by the author or by third parties. In the initial phase, "below the line costs" - which include production, cast and crew costs, excluding film and film director costs - may vary considerably depending on the artists chosen.

In the pre-production phase, the company collects funding from third parties in order to cover the estimated costs of film production, with the exception of P&A costs. The film rights are normally fully negotiated at this stage, except for rare cases when some of them are negotiated during the promotional phase. The average production cost of an Italian movie is between €2 mln and €6 mln while the average cost of international co-productions amounts to about US20 mln dollars.

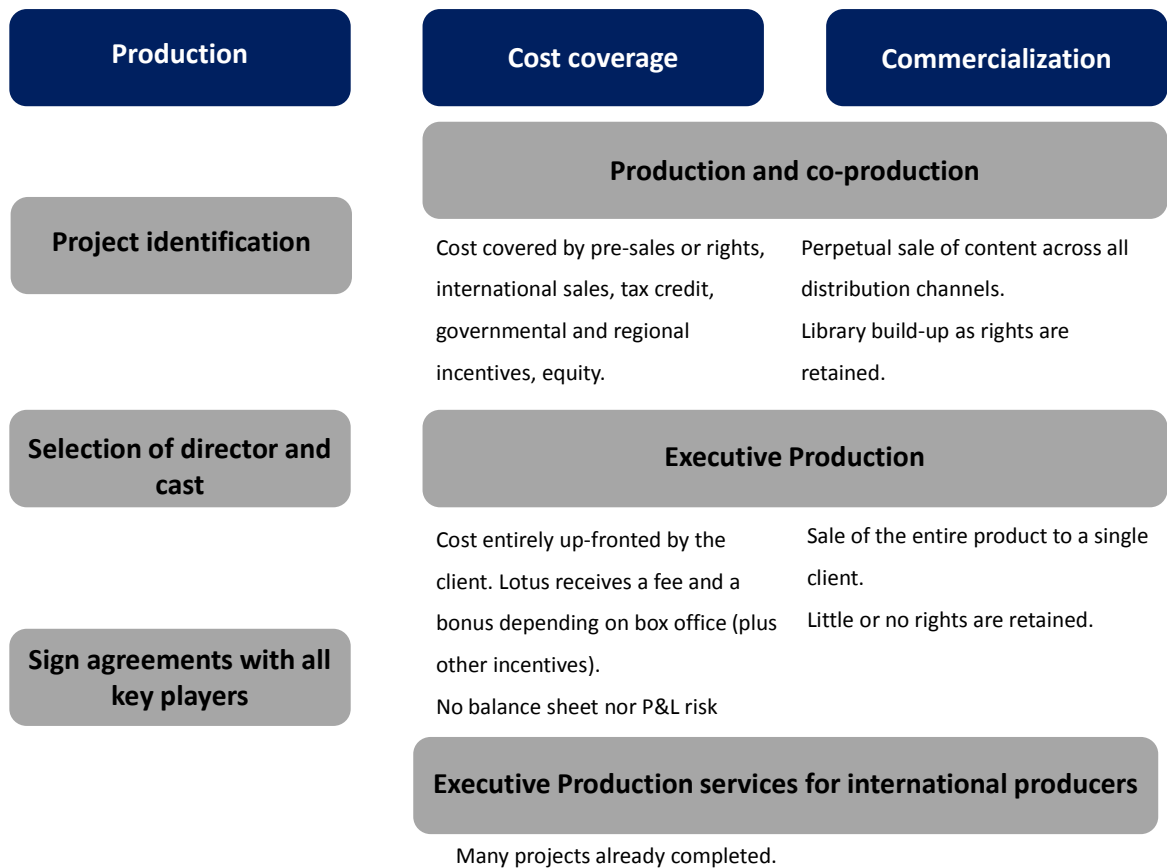
The production phase is the most important moment of the entire movie production process. The production manager and his own team (and in particular the head of production) has to be presented with every aspect of the executive production in order to ensure budget cost compliance.

Long before shooting begins, the production manager draws up a detailed plan in which the times and costs of the film are shown. The plan is updated weekly and forwarded to the management of the company in order to provide an updated representation of the shooting and any economic shifts compared to the initial plan.

Post production is the final stage of the production cycle in producing a film. During this phase, the editing is verified, minor changes are made, dialogues and music are checked, synchronization is performed, and mixing and final editing are carried out.

The post-production phase is completed by film promotion activities, which include, among other things, determining P&A costs, launching the movie, and defining the number of copies as well as details regarding distribution in theaters. Promotional activity is crucial to the success of the film in cinemas.

Fig. 5 – Production business model



Source: Leone Film Group

2. Reference Market

2.1 Film entertainment market

In 2016, the revenue generated by global cinema attendance increased for the ninth consecutive year, reaching a record high of \$38.6 billion, up 2% compared with 2015.

This overall trend in a rapidly changing global market is influenced by a combination of several factors. Of these, the democratization of certain leisure pursuits and products (TV, video, internet), as well as the development of distribution media such as pay-TV and satellite television, VoD and SVoD, the spread of digital technology and the increase in film merchandising have largely contributed to the growth in revenue generated by the film industry.

In 2016, Asia Pacific was the most important region in terms of box office takings (\$14.9 billion) for the fourth consecutive year, with an increase of 5% compared with 2015. After ten years of uninterrupted growth, box office takings (US dollars) in China fell by 1% in 2016 compared with 2015, although they increased (+4%) in local currency.

Box-office takings in North America rose 2% to \$11.4 billion. Latin America saw an 18% decrease, mainly due to the fall in value of several of the region's currencies in relation to the US dollar (Mexico -15%, Argentina -37%, Venezuela -31%).

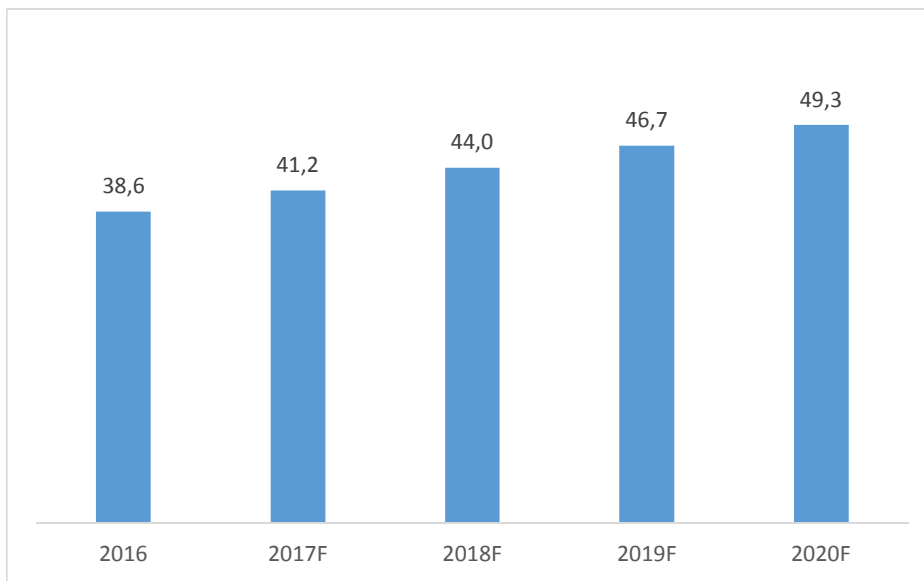
The Europe, Middle East and Africa region recorded a 2% decrease in box office revenue compared with 2015, mainly due to the 10% slump of the UK market caused by the depreciation of the pound sterling in relation to the dollar, and the slowdown by 13% of the German market (Source: MPAA 2016, U.S. Theatrical Market Statistics).

For the first time, China overtook the United States, becoming the country with the highest number of cinema tickets sold (1.37 billion, an increase of 8.9%). In the United States, admissions remained stable at 1.32 billion in 2016. Admissions to theaters in the European Union rose 1.6% to 994 million.

Cinema attendance was up in Italy (+5.4%), Spain (+7.8%) and France (+3.8%), but fell in Germany (-13.0%) and the United Kingdom (-2.1%). However, France remained the largest European market, with a total of 213.1 million admissions, ahead of Russia, which consolidated its position as the second largest European market with 194.7 million admissions in 2016. In France, box office receipts were at their highest level this decade: €1,387.7 million compared with €1,331.3 million in 2015, a 4.2% rise. This is mostly due to increased theater admissions (213.1 million); the average revenue per admission remained stable (€6.51 including VAT in 2016, a 0.4% rise compared to €6.48 in 2015). (Source: CNC – 2016 Report).

As far as the expectations for the next coming years are concerned, according to different public sources, global box office revenues from 2016 to 2020 are expected to show a CAGR growth of 6.3%, reaching \$49.3 bn in 2020F.

Fig. 6 – Global box office revenue (2016 – 2020F) (\$/bln)



Source: Leone Film Group

2.2 International theatrical distribution market

For the first time, China overtook the United States, becoming the country with the highest number of cinema tickets sold (1.37 billion, an increase of 8.9%). In the United States (and Canada) admissions remained stable at 1.32 billion. Admissions to European Union cinemas rose by 1.6%, to 994 million admissions, the best year since 2004. However, in terms of receipts generated, the United States is still the largest global market, worth \$11.4 billion compared with \$6.6 billion in China (Source: CNC – 2016 Report).

On a global scale, theater receipts rose by 0.5% to \$38.6 billion, in particular driven by the strong box office performance in Asia (+5% to \$14.9 billion). The North American market grew to a lesser degree (+2% to \$11.4 billion), while Europe-Middle East-Africa decreased for the third consecutive year (-2% to \$9.5 billion) (Source: MPAA 2016, U.S. Theatrical Market Statistics).

Fig. 7 – Number of annual movie admissions (\$/mln)

Year	North America	China	France	UK	Germany	Italy	Spain	Japan	Russia
2007	1.400	196	179	162	125	116	117	163	107
2008	1.340	210	190	164	129	112	108	161	124
2009	1.420	264	202	174	146	111	110	169	132
2010	1.340	290	207	169	127	121	102	174	156
2011	1.280	370	217	172	130	101	98	145	160
2012	1.360	470	204	173	135	100	94	155	157
2013	1.340	631	194	166	130	107	79	156	177
2014	1.720	830	209	158	122	98	88	161	176
2015	1.320	1.260	205	172	139	107	95	167	174
2016	1.320	1.370	213	168	121	113	102	180	195

Source: CNC – 2016 Report

In 2016, European Union (EU) gross box office receipts fell slightly (-3.6%) to €7.04 billion, with 991 million tickets sold – the lowest level since 2004. This was due to the decrease in the average ticket price in the EU, which fell for the first time in five years, from €7.40 to €7.10.

According to the European Audiovisual Observatory, movie theater admissions in the European Union rose 1.6% in 2016. Total attendance was 994 million admissions (978 million in 2015), making it the best year since 2004. This rise is thanks to increased theater attendance in France, Spain, Poland and Italy. (Source: European Audiovisual Observatory – Press release of May 11, 2017).

Outside of the European Union, the Russian Federation confirmed its position as the second largest European market, with a strong increase in attendance to 194.7 million admissions in 2016 (+11.6%). At the same time, box office receipts were up 7.4% to 47.5 billion rubles (\$790 million).

Despite a slight 3.6% decrease in attendance (58.3 million admissions compared with 60.5 million in 2015), gross box office receipts also continued to increase in Turkey reaching their highest level in the last few decades, +1.5% to 692 million Turkish lira (€187.3 million) (Source: CNC – 2016 Report).

Leone Film Group – Pro-Forma Positioning

Fig. 8 – Italian independent distributors’ market share

Box Office 2014 - Italian - IFGpro forma		Box Office 2015 - Italian - IFGpro forma		Box Office 2016 - Italian - IFGpro forma		Box Office 2017 - Italian - IFGpro forma	
Distributor	Market Share	Distributor	Market Share	Distributor	Market Share	Distributor	Market Share
O1 Distribution	22,8%	O1 Distribution	23,0%	Medusa Film SpA	27,1%	Leone Film Group SpA	20,0%
Medusa Film SpA	13,6%	Medusa Film SpA	15,6%	Leone Film Group SpA	16,9%	O1 Distribution	16,2%
Lucky Red	11,0%	Leone Film Group SpA	10,5%	O1 Distribution	10,0%	Lucky Red	11,6%
Notorious Pict. SpA	8,3%	Lucky Red	8,1%	Lucky Red	11,8%	Medusa Film SpA	10,9%
Eagle Pictures	6,6%	Notorious Pict. SpA	6,8%	Eagle Pictures	7,1%	Eagle Pictures	5,1%
BIM Distribution Srl	5,1%	Eagle Pictures	6,4%	BIM Distribution Srl	3,8%	Videa CDESpA	5,0%
M2 Pictures Srl	4,2%	Videa CDESpA	5,3%	Notorious Pict. SpA	3,4%	Notorious Pict. SpA	5,0%
Leone Film Group SpA	3,8%	Koch Media Srl	3,7%	M2 Pictures Srl	3,2%	Nexo Digital SpA	3,1%
Others	24,6%	Others	20,6%	Others	16,7%	Others	23,1%
Total	100,0%	Total	100,0%	Total	100,0%	Total	100,0%

Source: Cinetel

Fig. 9 – Italian distribution market shares

Box Office 2014 - All Market - IFGpro forma		Box Office 2015 - All Market - IFGpro forma		Box Office 2016 - All Market - IFGpro forma		Box Office 2017 - All Market - IFGpro forma	
Distributor	Market Share	Distributor	Market Share	Distributor	Market Share	Distributor	Market Share
Warner Bros Italia SpA	17,0%	Universal Srl	21,9%	Warner Bros Italia SpA	18,7%	Warner Bros Italia SpA	19,8%
Universal Srl	13,8%	Warner Bros Italia SpA	15,3%	Medusa Film SpA	12,3%	Universal Srl	18,5%
20th Century FOXItalia SpA	12,3%	Walt Disney SMPItalia	15,2%	Walt Disney SMPItalia	13,7%	Walt Disney SMPItalia	14,0%
O1 Distribution	11,4%	O1 Distribution	8,9%	Universal Srl	11,7%	20th Century FOXItalia SpA	9,8%
Medusa Film SpA	6,8%	20th Century FOXItalia SpA	9,3%	20th Century FOXItalia SpA	10,4%	Leone Film Group SpA	7,6%
Walt Disney SMPItalia	6,6%	Medusa Film SpA	6,0%	Leone Film Group SpA	7,7%	O1 Distribution	6,1%
Lucky Red	5,5%	Leone Film Group SpA	4,0%	O1 Distribution	4,6%	Lucky Red	4,4%
Notorious Pict. SpA	4,2%	Lucky Red	3,1%	Lucky Red	5,4%	Medusa Film SpA	4,1%
Eagle Pictures	3,3%	Notorious Pict. SpA	2,6%	Eagle Pictures	3,2%	Eagle Pictures	1,9%
BIM Distribution Srl	2,6%	Eagle Pictures	2,5%	BIM Distribution Srl	1,7%	Videa CDESpA	1,9%
M2 Pictures Srl	2,1%	Videa CDESpA	2,0%	Notorious Pict. SpA	1,6%	Notorious Pict. SpA	1,9%
Leone Film Group SpA	1,9%	Koch Media Srl	1,4%	M2 Pictures Srl	1,4%	Nexo Digital SpA	1,2%
Others	12,5%	Others	7,8%	Others	7,6%	Others	8,8%
Total	100,0%	Total	100,0%	Total	100,0%	Total	100,0%

Source: Cinetel

Leone Film Group does not directly distribute its movies to theaters and uses service companies (like 01, Medusa, Lucky Red, Eagle, etc.). The above tables have been pro-formed to simulate a direct distribution of the Group content to the movie theaters and proves that the market share has constantly grown over the past 4 years making the Group:

- The leader in 2017 among Italian independent distributors with a market share of 20% (from 3.8% of 2014);
- The 4th players among all Italian distribution companies (close to 20th Century Fox) with a market share of 7.6% from 1.9% in 2014.

2.3 The Video on Demand (VoD) sector

The worldwide market is valued at USD 51.59 billion (2016), and it is projected to reach a value of USD 86.12 billion, by end of 2022, registering a CAGR of 8.93%, during the forecast period of 2017-2022.

The United States is leading in video-on-demand films in the European Union, according to a report from the European Audiovisual Observatory.

About 68 transactional VoD services in the EU were considered for the study namely Apple's iTunes, Microsoft's Movies, Wuaki.tv, Chili TV, SF Anytime and 14 additional national transactional video-on-demand (TVoD) services. EU films made up only 23% of the VOD movie catalogs. Other European films represented another 2%.

The study also considered subscription video-on-demand (SVoD) and transactional video-on-demand (TVoD) and found that EU films struggled in this sector too, with EU products amounting to less than a fifth of the products offered amongst the 37 SVoD catalogs examined. Viaplay, C More and four national SVoD services were included, apart from the 28 Netflix country catalogs. The US was a source for two-thirds of available films in the EU SVoD. The number of Netflix offers in SVoD catalogs went from 8 to 28, compared with the 2015, which affected the section of EU 28 films in SVoD catalogs since most of the newly integrated Netflix catalogs had a share below 16% of EU 28 films.

VoD offers a superior user interface and experience, as compared to linear TV offerings. With a broad range of VoD programming preferences, viewers can stream or download content from either a TV package or an online source, creating extensive growth prospects for the service providers in this market.

Worldwide media consumption has witnessed rapid growth over recent years, leading to a rise in the number of devices supporting digital media, combined with increasing internet penetration. This has presented end-users with on-demand access to media content for entertainment, information, or social activity. Furthermore, growing demand for tailor-made viewing of digital content, paired with increasing consumption of on-demand services through mobile platforms, is forecast as part of the growth of the VoD market over the next few years.

There are important market signals that support major CAGR expectations. These are:

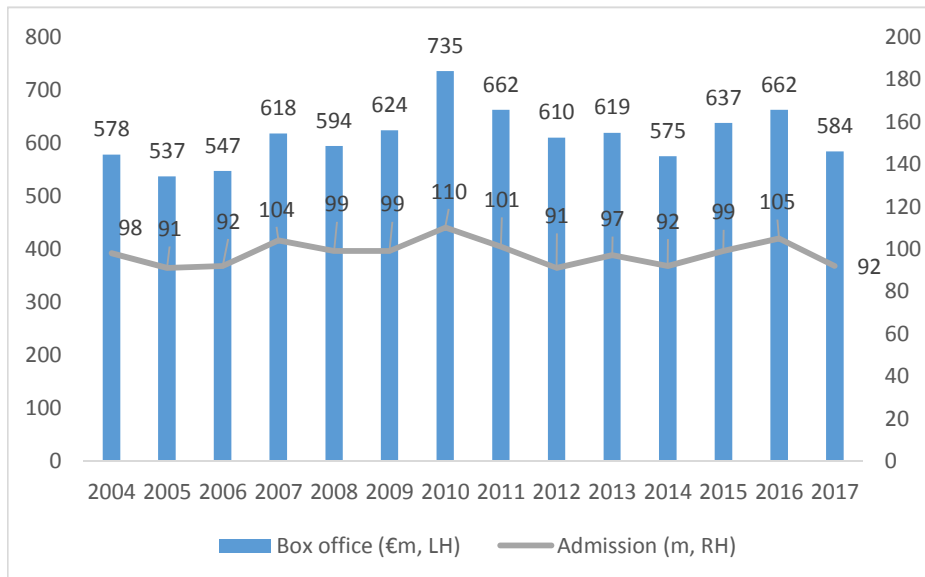
- Amazon, Apple, Cisco, Google, Intel, Microsoft, Mozilla and Netflix, have announced the formation of a new open source alliance — the Alliance for Open Media, which is expected to develop the next generation of royalty-free video formats, codecs, and related technologies;

- Facebook announced its first move into VoD, by introducing its latest platform Watch. The move was expected to drive further competition in the VoD market;
- Google in March 2017, launched a YouTube TV VoD service. This move is expected to help Google maintain its strong foothold in the VoD landscape, while strengthening its place in the video content creator environment and its position in the VoD market.

2.4 The film sector in Italy

Italy is one of the largest movie markets in Europe after UK, France and Germany. During 2016 in Italy, about 554 movies were released, 208 of them being Italian productions. Admissions were 105 mln and box office revenues accounted for €662 mln. According to Cinetel data, the industry trend has been stable over the past three years, with an average ticket of €6.28 in 2016 (€5.95 in 2015).

Fig. 10 – Admissions and box office in Italy (€ mln and /000 data).



Source: Cinetel

The motion picture market in 2016 increased in comparison with the previous year, both in terms of attendance and revenue. According to Cinetel sources, which account for approximately 90% of the market, total box office receipts amounted to € 661.8 mln (in 2015 it was €637.3 mln, with an increase of 3.9%) for a total of 105.4 million tickets sold (in 2015 it was 99.4 million, with an increase of 6.1%). According to the same source, the average ticket price in 2016 was € 6.28 (in 2015: € 6.19, change: + 1.5%).

The films released in theaters numbered 554, compared to 473 in 2015, including 158 US (2015: 159), 199 Italian (2015: 186), 50 French (2015: 39) and 29 English (2015: 23).

Seasonality (in terms of audience presence) continues to be a feature of the industry, both during the different periods of the year and during the week. In the first quarter of 2016 there were about 38% of presence (in 2015: 32%), in the second 18% (in 2015: 19%), in the third 15% (in 2015: 16%) and in the fourth 29% (in 2015: 32%).

The first three titles in 2016 totaled a presence of 14.5 million people, compared to 10.3 million in 2015. The performance of the industry continues to depend on a relatively small number of films: in 2016, the top ten films recorded 27% of total attendance (in 2015: 28%) and the first thirty films accounted for 48% of total attendance (in 2015: 48%).

As far as production is concerned, total 2016 Italian investment rose by 1.8% compared to 2015, reaching €344.9 mln, of which €275.6 mln coming from Italian initiatives (155 movies). Foreign productions rose by 9.9% to €69.2 mln (68 movies, mostly French). In 2016 the average production costs per movie fell by 15.3% compared to 2015, reaching €1.55 mln.

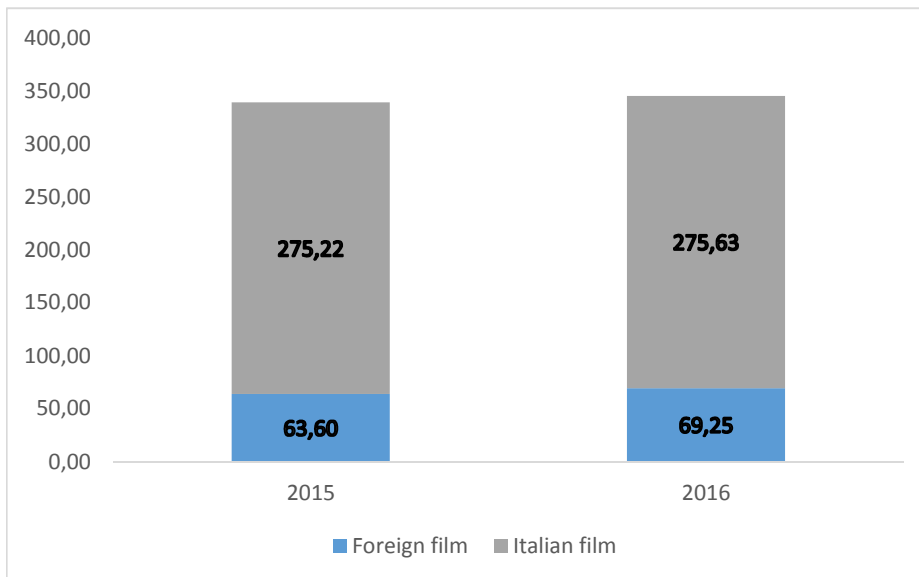
Fig. 11 – Italian movie production market

	2011	2012	2013	2014	2015	2016
Number of Italian production	155	166	167	201	185	223
<i>of which Italian production and co-production</i>	146	150	56	194	179	213
<i>of which number of minority co-production</i>	9	16	11	7	6	10
Total cost of Italian production (€ mln)	423	493	358	320	339	345
Average cost of Italian Production (€ mln)	2,73	2,97	2,14	1,59	1,83	1,55

Source: Anica 2011-2016

Also thanks to fiscal policies, tax credits and government subsidies covered about 32% of 2016 production costs (29% in 2015).

Fig. 12 – Admissions 2015-2016: total costs (€/mln)



Source: Direzione Generale Cinema

In the first half of 2017, the film market declined compared to the previous six months, both in terms of revenue (-16.4%) and presence (-12.2%). According to Cinetel, which accounts for approximately 90% of the market as a whole, box office receipts amounted to €316.7 mln (1H1

was €378.8 mln) for a total of 51.8 million tickets sold (59 million). According to the same source, the price of the average ticket declined by 4.8% in the first half of 2017, reaching €6.11.

Analyzing the Theatrical distributors market, there is an increase in the success of the four major companies, whose box office in the first half of 2017 rose by 14.9% to €190.5 mln (1H16 was €165.8 mln); attendance rose by 17.5% to 30.1 million (€25.6 million).

This was offset by the decline of Italian operators (box office dropped by 40.7% to €126.2 mln) and attendance dropped by 34.9% to €21.8 million.

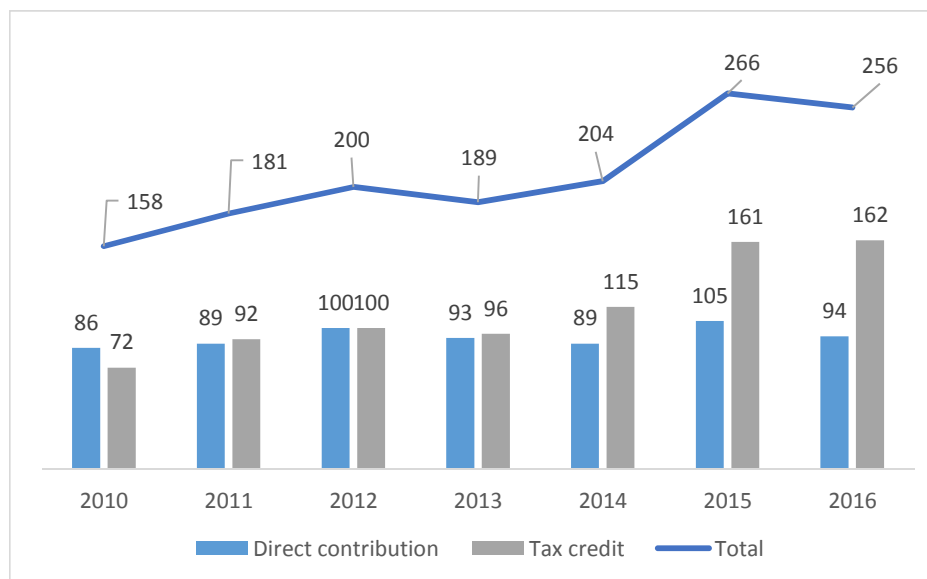
This volatility is not new for the Italian movie market, where results are nearly all based on the success of newly released films.

The films screened in theaters rose by 17.2% compared with 1H16 and reached no. 1,130 compared with no. 964, of which 329 were Italian movies (318), with a share of 29.1% (from 33%).

2.5 The tax credit in Italy

In 2009, the Italian Government approved a strong support tool for the Italian movie industry: a tax credit mechanism. Both direct and tax credit contributions came to €256 mln in 2016 (Source Anica), of which 63% in tax credits, with a growth trend since 2010.

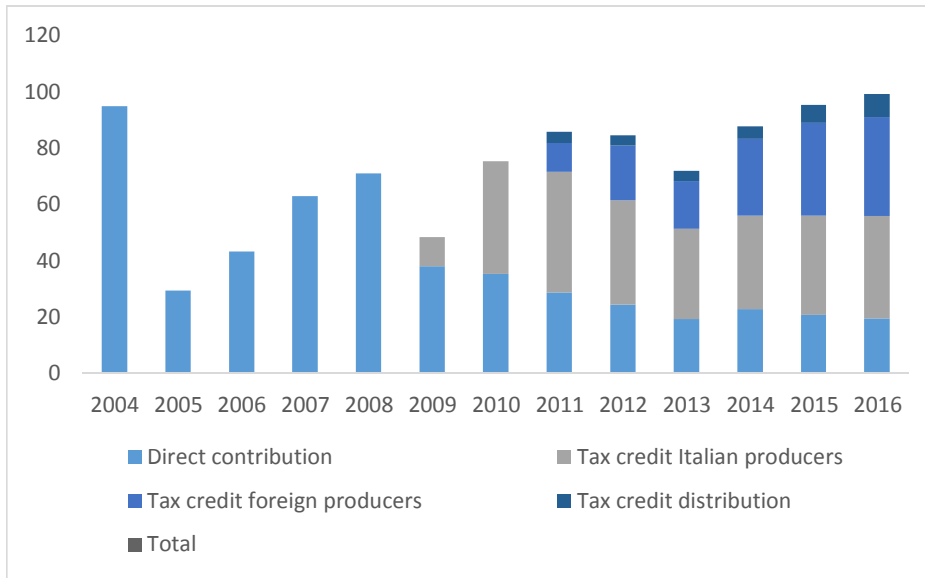
Fig. 13 – Direct and public contributions for movies in Italy (€ mln data)



Source: Anica report 2016

Direct public administration investment in production and distribution amounted to €94 mln in 2016 (-10.5% vs 2015). Foreign movies received contributions amounting to €77.8 mln, while total investments amounted of €311.2 mln for 125 movies.

Fig. 14 – Total public contributions to distribution and production



Source: Anica report 2016

Tax credit continues to represent a great opportunity for film production in Italy. After only a few years of full application of this mechanism, it can be seen how, with regard to both production (producer tax credit) and participating companies ("external" tax credit to investors not belonging to the audiovisual sector), these tax incentives are the basis for increased investment in Italian films.

Recent regulatory evolution (2017) confirms that European and Italian Governments well understand the economic returns of these forms of support and are aiming to increase them. The Italian Parliament approved a new increase in supporting the film industry by 60% to €400 mln p.a., available from 2017.

This new cash should further increase new investments in the film industry. Leone Film Group records tax credits and contributions as revenues of €3.9 mln in 2016 (7% of sales and 20% of production revenues) against €1 mln in 2015.

3. Company strategy - Forecast 2017-2020

3.1 1H17 results

Consolidated 1H17 revenues rose by 10.6%, reaching €35.3 mln. Revenues from sales and services rose by 12.7% to €30.1 mln, other income rose by 21.2% to €1.7 mln, while tax credit dropped by €0.25 mln to €3.5 mln.

Distribution and production revenues rose by 23.7% (to €16.7 mln) and 2.3% (to €13.5 mln) respectively. Product placement activities did not generate revenue during 1H17 and are not expected to generate substantial revenues in the future.

Revenues from the distribution business amounted to €16.7 mln (€13.5 mln at 1H16), of which revenues from theatrical rights for €4.8 mln, sale rights for €1.4 mln, television rights for €2.6 mln, sales on the PAY-TV / PPV channel for €7.2 mln, Home Video for €0.6 mln and digital rights for 0.1 mln.

Revenues from production activities amounted to €13.5 million (€13.2 mln at 1H16), of which €11 mln from content production (which include revenues from both foreign and Italian film productions), sales rights of €1.6 mln, TV rights sale of €0.8 mln and Pay-TV / PPV revenues and other proceeds on film productions of €0.1 mln.

Fig. 15 – 1H17 revenue breakdown

Distribution	1H17	1H16	% Ch.
Theatrical	4,8	3,1	54,8%
Sales of rights	1,4	2,6	-46,2%
Free TV	2,6	3,2	-18,8%
Pay TV	7,2	3,7	94,6%
S-VoD - HV - Others	0,7	0,6	16,7%
Total distribution	16,7	13,2	26,5%

Production	1H17	1H16	% Ch.
Content Production	11,0	1,3	746,2%
Sales of rights	1,6	11,0	-85,5%
Free TV	0,8	0,6	33,3%
Pay TV	0,1	0,3	-66,7%
Total production	13,5	13,2	2,3%

Source: Leone Film Group

During 1H17, Leone Film Group continued to develop its activities, with the goal of becoming a major international player in the sector.

As for the Cinematographic Production business unit, the executive productions of the "Immaturi" TV series, directed by Rolando Ravello, which is currently on air on Mediaset networks and the "Innamorati di Me" audiovisual work, were completed in the first half of 2017 and broadcast on

Sky. In July, Paolo Genovese directed the film "The Place". In September, filming "A Casa Tutti Bene" started shooting, directed by Gabriele Muccino. In October, Paolo Virzì began shooting "Notti Magiche". Development will continue on the international television series called "Colt" (based on an original idea by Sergio Leone) by Stefano Sollima, and Giuseppe Tornatore's "I Beati Paoli". The films "Hotel Gagarin" and "Notti Magiche", scheduled for release in the second half of 2017, were postponed to 2018.

Ebitda slightly declined by 4% to €11.2 mln mainly due to service costs (+25.7% to €13.8%) linked to increased activity, while Ebit rose by 16% to €2.9 mln, after depreciations and amortizations of €8.4 mln (-8.4%).

Net debt rose to €35.7 mln (+€3.4 mln vs FY16), due to investments in acquisitions/productions of movie rights that will be released during 2H17 and 2018.

3.2 2017 – 2019 business plan

In April, Leone Film Group presented its 2017-19 three-year plan. The plan expects 74 new releases, of which 54 in movie distribution, 11 in production and 7 in executive production. This could result in a 2019F consolidated revenue of €67.3 mln (CAGR 2016-19F of 7.2%). Thanks to cost reductions and economies of scale, both Ebitda and Ebit CAGR is expected to be 22.5% and 56.9%, (Ebitda should reach €43.4 mln, and Ebit €11.6 mln) respectively. Thus, the Ebitda and Ebit margin should jump to 64.4% in 2019F (from 43.1% of 2016) and 17.2% (from 5.5% of 2016) respectively.

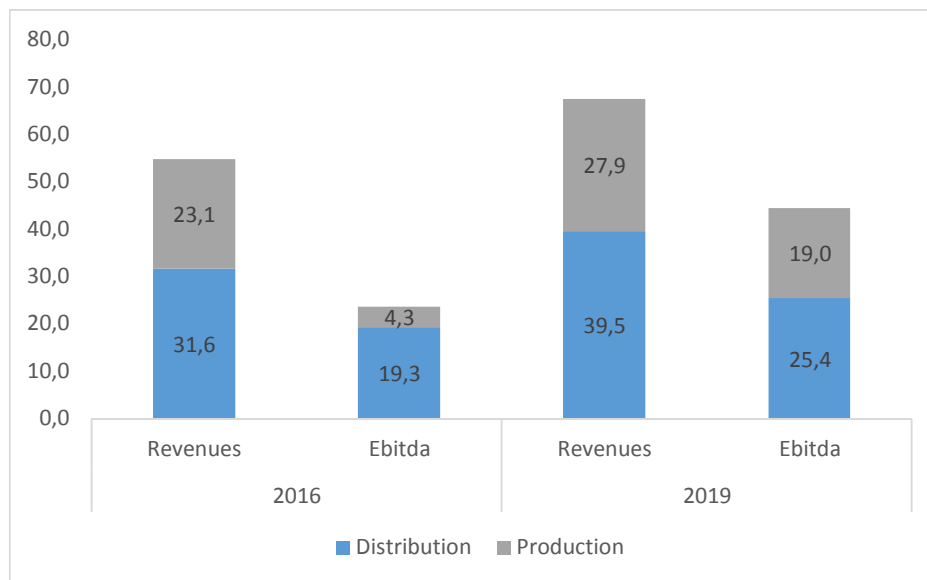
Fig. 16 – 2017-19F consolidated business plan expectations

Consolidated P&L (€ mln)	2016A	2017F	2018F	2019F	CAGR 2016-19F
Revenues	54,7	60,9	66,6	67,4	7,2%
EBITDA	23,6	29,1	35,4	43,4	22,5%
<i>Ebitda margin</i>	43,1%	47,8%	53,2%	64,4%	
EBIT	3,0	5,4	8,4	11,6	56,9%
<i>Ebit margin</i>	5,5%	8,9%	12,6%	17,2%	
Net Income	1,8	2,8	4,7	7,0	57,2%

Source: Leone Film Group

The Business Plan will change both revenue and ebitda mix from 2016 to 2019F.

Fig. 17 – 2017-2019 revenue and Ebitda breakdown



Source: Leone Film Group

The production division is expected to be the main driver: CAGR sales in 2016-19F is expected to be 6.5%, while the Ebitda CAGR should be 61.2%, thanks to new TV and movie productions. The plan is based on agreements (already signed) with distributors and it implies accumulated investments of about €90 mln from 2017 to 2019F.

Fig. 18 – 2017-19F Production business plan expectations

Production (€ mln)	2016A	2017F	2018F	2019F	CAGR 2016-19F
Revenues	23,1	24,9	29	27,9	6,5%
Production, Corp. & P&A	-18,8	-15,9	-18,3	-9,9	-19,2%
EBITDA	4,3	9,0	10,7	18,0	61,2%
<i>Ebitda margin</i>	18,6%	36,1%	36,9%	64,5%	
D&A	-2,6	-6,7	-9,1	-13,5	73,2%
EBIT	1,7	2,3	1,6	4,5	38,3%
<i>Ebit margin</i>	7,4%	9,2%	5,5%	16,1%	
Productions (No)	2	5	4	2	
Executive productions (No)	2	3	3	1	

Source: Leone Film Group

The production division is expected to be the main driver; CAGR sales 2016-19F is expected to be 6.5%, while the Ebitda CAGR should be 61.2%, thanks to new national TV and movie productions. The plan is based on agreements (already signed) with distributors and implies total investment of about €90 mln from 2017 to 2019F. Main key assumptions are:

- Production budgets based on agreements signed or under discussion;
- Pre-sale of rights based on agreements signed or under discussion;
- Executive productions do not absorb capital (advance from producers) and generate producer fees;
- Internal and external tax credits, based on conservative estimates of amounts that will be recognized by implemented decrees;
- Grants, depending on the expected region of shooting and conservative estimates of the amounts.

As far as distribution is concerned, Leone Film Group's management expects to distribute 56 movies during the period of the plan. Revenue CAGR 2016-19F is expected to be 7.7%, reaching €39.5 mln in 2019, while Ebitda and Ebit CAGR should be respectively 9.6% and 76.1% (to €25.4 mln and €7.1 mln respectively in 2019).

Fig. 19 – 2017-19F Distribution business plan expectations

Distribution (€ mln)	2016A	2017F	2018F	2019F	CAGR 2016-19F
Theatrical revenues	4,7	12,6	8,5	11,5	34,7%
Sales of rights	7,0	4,2	5,5	3,1	-23,8%
Free TV	8,0	8,9	10,0	8,5	2,0%
Pay TV	7,0	7,6	10,8	11,3	17,3%
S-VoD - HV - Others	4,9	2,7	2,8	5,1	1,3%
Distribution revenues	31,6	36,0	37,6	39,5	7,7%
P&A and other costs	-12,3	-15,9	-12,9	-14,1	4,7%
EBITDA	19,3	20,1	24,7	25,4	9,6%
<i>Ebitda margin</i>	61,1%	55,8%	65,7%	64,3%	1,7%
Amortisations	-18,0	-17,0	-17,9	-18,3	0,6%
EBIT	1,3	3,1	6,8	7,1	76,1%
<i>EBIT margin</i>	<i>n.m.</i>	8,6%	18,1%	18,0%	
Theatrical releases (No)	14	29	12	15	

Source: Leone Film Group

Main key assumptions are:

- Cinema revenues based on Box Office expectations (net of distribution fee);
- Co-distribution model (i.e. Leone Film Group retaining 50% of equity interest on some movies);
- Free TV revenues are mostly pre-sold or estimated in accordance with movie potential;
- Pay TV and S-Vod revenues in accordance with agreements in place;
- Home video and other digital revenues in accordance with distributors' estimates;
- Revenue guarantees in accordance with contract agreements or with the expected movie budget;
- P&A budgets approved by distributors or scaled to movie potential.

3.3 Main 2017 preliminary results

On 1st February, Leone Film Group released its FY17 preliminary results. Consolidated unaudited revenues rose by 80.3% to € 98.6 mln (€ 54.7 million in FY16) widely beating expectations. The increase is mainly due to the large increase in turnover of its fully owned subsidiary, Lotus Production Srl, in the area of international executive productions. Lotus started this activity in 2016 and has quickly become the leading Italian operator in this market segment.

The increase is also due to the application of new accounting criteria for revenue from international executive productions. The increase in consolidated turnover is higher than that expected in the 2017-2019 strategic Plan (€61 mln) mainly due to the growth of international executive productions that were not even included in the Business Plan.

The release of some movies (release expected in 2017) were postponed in 2018 for strategic reasons (i.e. Tulip Fever, Billionaire Boys Club, Marrowbone, etc). On the other hand, the cinema release of "Wonder", which today has totaled approximately €12.0 mln (of which €5.2 mln has had an effect on FY17 P&L), has been anticipated.

Consolidated preliminary Ebitda rose by 13.6% reaching € 26.7 mln (€23.5 mln in FY16). Preliminary Ebitda is slightly lower than that indicated in the 2017-19 strategic plan (€29.1 mln), mainly due to the postponement of the film releases described above.

The consolidated unaudited net financial debt amounted to €40.8 mln, up by €5.1 mln compared to 1H17 (€35.7 mln) but considerably lower than that expected in the strategic plan 2017 - 2019 (€ 54.2 mln). This difference is linked to the good result of some products, the postponement of some investments and the advance payments of the co-producers.

Following the formal approval of FY17F results, Leone Film Group's management will present a new strategic plan.

3.4 Our 2017 – 2019 forecasts

Taking into account the international production business and the FY17 increase that we believe is sustainable; we are now updating their production estimates by changing Leone Film Group’s business plan (waiting for new plan release).

Fig. 20 – 2017-19F production business forecast

Production (€ mln)	2016A	2017F	2018F	2019F	CAGR 2016-19F
Domestic Revenues	23,1	24,9	29,0	27,9	6,5%
International Revenues		40,0	50,0	56,0	n.a.
Total revenues	23,1	64,9	79,0	83,9	53,7%
Production, Corp. & P&A	-18,8	-58,3	-66,8	-64,1	50,5%
EBITDA	4,3	6,6	12,2	19,8	66,4%
<i>Ebitda margin</i>	18,6%	10,2%	15,5%	23,6%	
D&A	-2,6	-4,9	-9,1	-13,5	73,2%
EBIT	1,7	1,7	3,1	6,3	54,9%
<i>Ebit margin</i>	7,4%	2,6%	4,0%	7,5%	

Source: Integrae SIM forecast

Production activities should be the main profitability drivers for the coming years; in 2019 the Ebitda margin for production business could jump to 23,6% (from 18.6% of FY16), mainly thanks to the pre-sale of pay TV rights, which could also further sustain future margins. We expect Ebitda 2016-19F CAGR to be 66.4%.

Our 2017-19F forecasts take into account the difficulties in estimating the box office results. However, Leone Film Group releases a pipeline for 2017-2019’s forthcoming movies. We believe that in the coming months the company should complete the pipeline for 2019 and start to build up the pipeline for 2020.

Fig. 21 – 2017-2019 expected releases



Source: Leone Film Group

Moreover, our forecast includes tax credit and subsidies representing about 18-20% of production revenues and chargebacks of P&A costs for about €2 mln.

As far as consolidated revenues are concerned, we forecast a CAGR 2016-19 of 30.7% (including foreign production), mainly thanks to positive production trends (+60.1% excluding tax credits). Lower increases in service costs than in revenues (CAGR 2016-19F of 28.5%), plus other cost optimization and a better product mix, could increase Ebitda by 24%, so that the Ebitda margin should reach 36.6% (27% in FY17).

As far as investments for 2017-19F are concerned, we forecast that they will be in line with the company's plan. In particular we expect total investments of €80.5 mln (mostly in the library), of which €30.1 mln in 2017F, €30.3 mln in 2018F and €20.1 mln in 2019F (excluding advances for the 2020 pipeline).

We expect that the investment trend will increase the total net debt, so we forecast a peak of 43.0 mln in 2018F (from €40.8 in 2017) with a gearing of 1.1x (from 1.18x in 2017), and then a decline to €31.0 mln in 2019F, with a gearing of 0.68x.

4. Economic & Financial Data

Fig. 21 – P&L

P&L (€/000)	2015 A	2016 A	2017 F	2018 F	2019 F
Distribution	21.789	29.535	34.200	35.500	37.400
Production	14.974	19.182	58.200	73.000	77.000
Other revenues	2.071	2.086	2.200	2.100	2.100
Government grants	0	3.903	4.000	4.000	4.000
TOTAL REVENUES	38.834	54.706	98.600	114.600	120.500
Raw Material	-353	-506	-912	-1.060	-1.115
Services	-24.708	-19.490	-41.188	-42.605	-40.767
Employees	-4.817	-10.034	-18.085	-20.032	-21.063
Other costs	-3.308	-6.219	-16.813	-19.542	-18.781
Capitalized costs	13.521	5.060	5.000	5.000	5.500
EBITDA	19.169	23.517	26.602	36.361	44.275
Ebitda margin %	49,4%	43,0%	27,0%	31,7%	36,7%
D&A	-14.818	-20.519	-22.300	-27.400	-32.400
Provisions	0	-35	0	0	0
EBIT	4.351	2.963	4.302	8.961	11.875
Ebit margin %	11,2%	5,4%	4,4%	7,8%	9,9%
Financial income (costs)	1.119	35	-500	-750	-150
Extraordinary income (charges)	-937	-1.299	0	0	0
EBT	4.533	1.699	3.802	8.211	11.725
Income Taxes	-956	118	-1.179	-2.546	-3.635
Minorities	16	0	0	0	0
Net Profit	3.593	1.817	2.623	5.666	8.090

Source: Leone Film Group and Integrae SIM estimates

Fig. 22 – A&L

A&L (€/000)	2015 A	2016 A	2017 F	2018 F	2019 F
Tangible assets	49.939	60.954	60.615	63.917	60.493
Intangible assets	353	320	310	300	300
Other fixed assets	1.035	2.520	2.500	2.500	2.500
Net fixed assets	51.327	63.794	63.425	66.717	63.293
Inventories of work in progress	653	0	0	0	0
Trade receivable	26.340	26.046	45.923	50.236	56.123
Trade payable	-15.780	-18.246	-20.714	-20.002	-20.500
Other receivables ST	4.429	9.209	9.500	9.400	8.900
Other payables ST	-8.412	-14.386	-22.000	-26.500	-30.500
Net Working Capital	7.230	2.623	12.709	13.134	14.023
Provisions	-1.518	-1.108	-1.100	-1.500	-1.850
NET INVESTED CAPITAL	57.039	65.309	75.034	78.351	75.466
EQUITY	32.799	33.020	34.234	38.491	44.467
Gross Financial Debts	29.868	40.762	45.800	48.000	36.000
Cash and Cash Equivalents	-5.628	-8.473	-5.000	-5.000	-5.000
NFP / (Cash)	24.240	32.289	40.800	43.000	31.000
TOTAL SOURCES	57.039	65.309	75.034	81.491	75.467

Source: Leone Film Group and Integrae SIM estimates

Fig. 23 – Cash Flow

CASH FLOW (€/000)	2015 A	2016 A	2017 F	2018 F	2019 F
NFP beginning period		-24.030	-32.289	-40.800	-39.860
Net Profit		1.817	2.623	5.666	8.090
Amortisation, Depreciations and Provisions		20.519	22.300	27.400	32.400
Δ inventories and work in progress		653	0	0	0
Δ trade receivables		294	-19.877	-4.312	-5.888
Δ trade payables		2.466	2.468	-712	498
Δ other receivables ST		-4.780	-291	100	500
Δ other payables ST		5.974	7.614	4.500	4.000
Δ NWC		4.607	-10.086	-424	-890
Δ Provisions		-410	-8	400	350
Cash flow from current operations (FCGC)		26.533	14.829	33.041	39.951
Capex		-31.502	-30.000	-30.300	-20.100
FREE CASH FLOW (FCFO)		-4.969	-15.171	2.741	19.851
Others		-2.022	8.070	-393	-8.876
Dividend		-1.268	-1.409	-1.409	-2.114
Available cash flow		-8.259	-8.510	939	8.861
NFP end of the period		-32.289	-40.800	-39.860	-31.000

Source: Leone Film Group and Integrae SIM estimates

5. Valuation

5.1 Ratio analysis

Fig. 24 – Main ratios

Ratios	2015 A	2016 A	2017 E	2018 E	2019 E
Liquidity					
Current ratio	1,53x	1,34x	1,41x	1,39x	1,37x
Quick ratio	1,50x	1,34x	1,41x	1,39x	1,37x
Cash ratio	0,76x	2,20x	-3,89x	-0,77x	-0,50x
Solvency					
D/E	0,91x	1,23x	1,34x	1,25x	0,81x
Total debt-to-asset	0,58x	0,64x	0,72x	0,72x	0,57x
NFP/Equity	0,74x	0,98x	1,19x	1,12x	0,70x
NFP/EBITDA	1,26x	1,37x	1,53x	1,18x	0,70x
Performance					
Cash flow to revenue	n/a	-0,21x	-0,57x	0,08x	0,45x
Cash flow to assets	n/a	-0,08x	-0,24x	0,04x	0,31x
Cash flow to operating income	n/a	-1,68x	-3,53x	0,31x	1,67x
Profitability					
EBITDA margin	49,4%	43,0%	27,0%	31,7%	36,7%
EBIT margin	11,2%	5,4%	4,4%	7,8%	9,9%
Net profit margin	9,3%	3,3%	2,7%	4,9%	6,7%
ROI	7,6%	4,5%	5,7%	11,4%	15,7%
ROA	8,5%	4,6%	6,8%	13,4%	18,8%
ROCE	6,9%	4,0%	5,4%	10,4%	14,8%
ROE	13,3%	9,0%	12,6%	23,3%	26,7%
Valuation					
P/E			23,21x	10,75x	7,53x
P/BV			1,78x	1,58x	1,37x
P/CF			-4,01x	22,21x	3,07x
EV/Sales			0,98x	0,84x	0,80x
EV/EBITDA			3,63x	2,66x	2,18x
EV/EBIT			22,44x	10,77x	8,13x

Source: Integrae SIM estimates

5.2 DCF model

The visibility of Leone Film Group's case allows us to extend its time horizon up to 2020F. This is why we believe the DCF model can express certain aspects of our business that a comparison with other companies, based on multiples, would be unable to approximate.

The input data are provided below:

Fig. 25 – Main input data

Wacc calculation	
Risk Free Rate	1,33%
Market Premium	8,40%
Beta Unlevered	0,97
Tax Rate (Ires + IRAP)	28,82%
D/E (average)	69,71%
Beta Relevered	1,45
Alfa (specific risk)	2,50%
Ke	15,98%
Kd	4,00%
Wacc	10,58%

Source: Integrae SIM estimates

We based the parameters of the above table according to the following assumptions:

- the risk free rate is the average gross yield (Bank of Italy) from January 2017 to December 2017;
- the market premium is that calculated by A. Damodaran for Italy, equal to 8.4% (updated March 2017);
- The unlevered Beta was determined based on the average Beta at 2 years, corresponding to the same sample of comparable securities used to determine the equity value with the multiple method, equal to 0.95x. We note that the choice of the period (2 years) and the frequency of the observations (weekly) was chosen as a function of the maximization of significance of linear regression, expressed by the parameter R². The unlevered Beta resulting from linear regression (0.95x) was adjusted based on the following formula: Beta Adjusted = 0.95*0.67 + 1*0.33 (See E.J. Elton, M.J. Gruber, S.J. Brown, W.N. Goetzmann – Modern Portfolio Theory and Investment Analysis – John Wiley & Sons, 2009), resulting in a “strengthened” unlevered beta of 0.97x. Then we levered the beta, with a result of 1,45x.
- the growth rate “g” used to calculate the Terminal Value was conservatively set to 1.0%;
- the cash flow used to calculate the terminal value was conservatively the simple arithmetical average of flows from 2018 until 2020;
- We have assumed that the invested capital comes to 47.8% of average (2016-2019) equity; so that D/E results come to 109.1%;
- Alpha, i.e. the additional specific risk, typical of equity investments in companies characterized by compact operational dimensions. Being small, the additional small cap risk was assumed to be 2.5%, the average value of those suggested by the leading studies on the matter.

The result is a WACC of 10.58%.

Fig. 26 – DCF Model

Cash Flow	2018F	2019F	2020	TV
EBIT	8.961	11.875	12.469	
Operating Taxes	(2.583)	(3.422)	(3.593)	
NOPLAT	6.379	8.453	8.875	
Depreciations	27.400	32.400	33.048	
Δ NWC	(424)	(890)	500	
Δ Funds	400	350	350	
Investments	(30.300)	(20.100)	(20.000)	
FCFO	3.454	20.213	22.773	161.525
Discounted FCFO	3.124	16.529	16.840	119.444
FCFO actualized	36.493			
TV actualized DCF	119.444			
Enterprise Value	155.937			
NFP (2017)	(40.800)			
Equity Value	115.137			

Source: Integrae SIM

This results in an equity value of €115.1 mln.

Fig. 27 – Sensitivity analysis

		WACC						
		9,08%	9,58%	10,08%	10,58%	11,08%	11,58%	12,08%
TV	2,5%	178,0	162,6	149,1	137,3	126,9	117,6	109,3
	2,0%	165,3	151,6	139,6	129,1	119,6	111,2	103,6
	1,5%	154,2	142,0	131,3	121,7	113,1	105,4	98,4
	1,0%	144,4	133,5	123,8	115,1	107,3	100,2	93,7
	0,5%	135,8	126,0	117,2	109,2	102,0	95,4	89,5
	0,0%	128,2	119,2	111,2	103,9	97,2	91,1	85,5
	-0,5%	121,3	113,1	105,7	99,0	92,8	87,1	81,9

Source: Integrae SIM

5.3 Multiples valuation

Our sample consists of companies that operate in the same sectors as Leone Film Group, but having greater capitalization and a different organizational structure. These are the companies with their multiples for the period 2017-20F (Source: Infionals, prices on 2018, February 6), the same used to calculate Beta.

Fig. 28 – Comparables: Financials

Company	Profitability				Capital Structure	
	ROCE %	EBITDA margin %	EBIT margin %	Net Income margin %	Net Debt /EBITDA x	Equity /Assets %
Peer Median	4,96	45,96	5,77	1,20	0,95	32,79
Lions Gate Entertainment Corp.	-0,80	45,96	-1,44	0,46	2,23	27,34
Lucisano Media Group SpA	12,99	50,77	20,76	13,59	1,55	32,79
Entertainment One Ltd.	4,96	50,01	5,77	1,20	0,61	35,29
wige MEDIA AG	-29,76	1,35	-4,41	-10,95	-2,11	33,86
Technicolor SA	10,14	10,14	5,40	-0,53	1,37	16,07
Constantin Medien AG	16,45	38,00	6,87	1,46	0,20	20,90
Eros International plc	2,31	65,43	10,79	1,50	0,95	65,77
LEONE FILM GROUP	5,375	26,98	4,36	2,66	1,53	53,98

Source: Infionals

Fig. 29 – Comparables: Forecast multiples

Company	EV/Ebitda				EV/Ebit				P/E			
	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020
Lions Gate Entertainment Corp.	15,9	14,7	13,0	11,9	29,7	23,2	18,9	13,8	26,1	36,9	24,2	15,9
Lucisano Media Group SpA	3,7	1,9	1,8		7,4	3,3	3,3		7,2	7,1	6,1	
Entertainment One Ltd.	8,7	7,7	7,1	6,6	8,9	8,0	7,4		13,0	11,6	9,8	
wige MEDIA AG	28,5	7,7	4,7	3,6	53,1	13,8	9,9	7,5	66,0	17,4	12,4	9,4
Technicolor SA	5,1	4,1	3,6		13,6	8,7	7,1		77,5	12,0	8,1	
Constantin Medien AG	5,7	27,0	18,8	12,7	38,8	30,0	20,4	14,6	73,8	30,7	19,6	10,6
Eros International plc	10,4	7,8	6,9		14,2	9,7	7,6		59,3	19,9	12,1	
Average	11,1	10,1	8,0	8,7	23,7	13,8	10,7	11,9	46,1	19,4	13,2	12,0

Source: Infionals

The average equity value calculated by means of the multiple method exceeds €164.2 mln. We have then applied a discount of 25%, obtaining a value of €123.1 mln.

The average of the two valuation methodologies is our target price: 119.1 mln or €8.45 per share. Rating Buy, risk medium.

Disclosure Pursuant to Article 69 Et seq. of Consob (Italian Securities Exchange Commission) Regulation No. 11971/1999

Analyst/s certification

The analysts who have produced the following analyses hereby certify that the opinions expressed herein reflect their own opinions, and that no direct and/or indirect remuneration has been, nor shall be received by them) as a result of the above opinions, or shall be correlated to the success of investment banking operations. INTEGRAE SPA is comprised of the following analysts who have gained significant experience working for INTEGRAE and other intermediaries: Antonio Tognoli and Mattia Petracca. Neither the analysts nor any of their relatives hold administration, management or advising roles for the Issuer. Antonio Tognoli is Integrae SIM's current Deputy Chairman and Head of Research, Board Member of AIAF - Associazione Italiana Analisti Finanziari, Vice President of Associazione Nazionale Private and Investment Banking – ANPIB, member of Organismo Italiano di Valutazione – OIV, member of Organismo Italiano di Contabilità - OIC, international account working group and Journalists guild.

Disclaimer

This publication was produced by INTEGRAE SIM SpA. INTEGRAE SIM SpA is licensed to provide investment services pursuant to Italian Legislative Decree n. 58/1998, released by Consob, with Resolution n. 17725 of March 29th 2011.

INTEGRAE SIM SpA performs the role of corporate broker for the financial instruments issued by the company covered in this report.

INTEGRAE SIM SpA is distributing this report in Italian and in English, starting from the date indicated on the document, to approximately 300 qualified institutional investors by post and/or via electronic media, and to non-qualified investors through the Borsa Italiana website and through the leading press agencies.

Unless otherwise indicated, the prices of the financial instruments shown in this report are the prices referring to the day prior to publication of the report. INTEGRAE SIM SpA will continue to cover this share on a continuing basis, according to a schedule which depends on the circumstances considered important (corporate events, changes in recommendations, etc.), or useful to its role as specialist.

The table below, shows INTEGRAE SIM's recommendation, target price and risk issued during the last 12 months:

Date	Price	Recommendation	Target Price	Risk	Comment
19/02/2018	4.66	Buy	8.45	Medium	Initiation of coverage

The list of all recommendations on any financial instrument or issuer produced by Integrae SIM Research Department and distributed during the preceding 12-month period is available on the Integrae SIM website.

The information and opinions contained herein are based on sources considered reliable. INTEGRAE SIM SpA also declares that it takes all reasonable steps to ensure the correctness of the sources considered reliable; however, INTEGRAE SIM SpA shall not be directly and/or indirectly held liable for the correctness or completeness of said sources.

The most commonly used sources are the periodic publications of the company (financial statements and consolidated financial statements, interim and quarterly reports, press releases and periodic presentations). INTEGRAE SIM SpA also makes use of instruments provided by several service companies (Bloomberg, Reuters, JCF), daily newspapers and press in general, both national and international. INTEGRAE SIM SpA generally submits a draft of the analysis to the Investor Relator Department of the company being analyzed, exclusively for the purpose of verifying the correctness of the information contained therein, not the correctness of the assessment. INTEGRAE SIM SpA has adopted internal procedures able to assure the independence of its financial analysts and that establish appropriate rules of conduct for them. Integrae SIM S.p.A. has formalised a set of principles and procedures for dealing with conflicts of interest. The Conflicts Management Policy is clearly explained in the relevant section of Integrae SIM's web site (www.integraesim.it). This document is provided for information purposes only. Therefore, it does not constitute a contractual proposal, offer and/or solicitation to purchase and/or sell financial instruments or, in general, solicitation of investment, nor does it constitute advice regarding financial instruments. INTEGRAE SIM SpA does not provide any guarantee that any of the forecasts and/or estimates contained herein will be reached. The information and/or opinions contained herein may change without any consequent obligation of INTEGRAE SIM SpA to communicate such changes. Therefore, neither INTEGRAE SIM SpA, nor its directors, employees or contractors, may be held liable (due to negligence or other causes) for damages deriving from the use of this document or the contents thereof. Thus, Integrae SIM does not guarantee any specific result as regards the information contained in

the present publication, and accepts no responsibility or liability for the outcome of the transactions recommended therein or for the results produced by such transactions. Each and every investment/divestiture decision is the sole responsibility of the party receiving the advice and recommendations, who is free to decide whether or not to implement them. Therefore, Integrae SIM and/or the author of the present publication cannot in any way be held liable for any losses, damage or lower earnings that the party using the publication might suffer following execution of transactions on the basis of the information and/or recommendations contained therein.

This document is intended for distribution only to professional clients and qualified counterparties as defined in Consob Regulation no. 16190 of 29.10.2007, as subsequently amended and supplemented, either as a printed document and/or in electronic form.

Rating system (long term horizon: 12 months)

The BUY, HOLD and SELL ratings are based on the expected total return (ETR – absolute performance in the 12 months following the publication of the analysis, including the ordinary dividend paid by the company), and on the risk associated with the share analyzed. The degree of risk is based on the liquidity and volatility of the share, and on the rating provided by the analyst and contained in the report. Due to daily fluctuations in share prices, the expected total return may temporarily fall outside the proposed range

Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 22.5%	ETR >= 25%	ETR >= 30%
HOLD	-20% < ETR < 22,5%	-20% < ETR < 25%	-15% < ETR < 30%
SELL	ETR <= -25%	ETR <= -20%	ETR <= -15%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

Valuation methodologies (long term horizon: 12 months)

The methods that INTEGRAE SIM SpA prefers to use for evaluating the company under analysis are those which are generally used, such as the market multiples method which compares average multiples (P/E, EV/EBITDA, and other) of similar shares and/or sectors, and traditional financial methods (RIM, DCF, DDM, EVA etc). For financial securities (banks and insurance companies) Integrae SIM SpA tends to use methods based on comparison of the ROE and the cost of capital (embedded value for insurance companies).

The estimates and opinions expressed in the publication may be subject to change without notice. Any copying and/or redistribution, in full or in part, directly or indirectly, of this document is prohibited, unless expressly authorized.

Conflict of interest

On the Integrae SIM website you can find the archive of the last 12 months regarding conflicts of interest between Integrae SIM and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Integrae SIM.