

November 3, 2017

1H17 Results

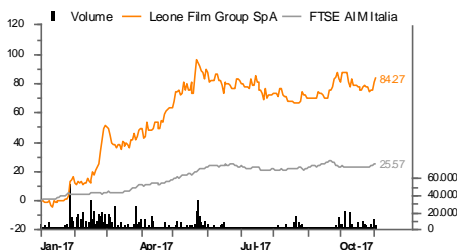


Target Price: €5.48
(Prev. €3.30)

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LFG Relative YTD Performance Chart



Market Data:

Current Price (€)	4.92
Target Price (€)	5.48
Target Upside (%)	11.29
Market Cap (€/mn)	68.35
52 Wk High/Low (€)	2.37-5.67
Free Float (%)	26.51
Avg. Daily Trading 90d	2,733
Share Out (mn)	14.09
Price Change YTD (%)	84.27
Dividend Yield (%)	1.8%
EV/EBIT 2017E	18.25x
EV/EBIT 2018E	12.57x
P/E 2017E	22.33x
P/E 2018E	14.10x

Working on Growing: BP on Track!

It was a good start to the year for LFG with incremental revenue in both distribution and production. On the downstream side, we also saw an improvement of marginality mostly driven by the extraordinary success of *La La Land*. On the other hand, the upstream side has suffered from the absence of big hits such as *Perfetti Sconosciuti* and *La Pazza Gioia* that pushed up 1H16 results.

Results summary. 1H17 was a very positive half year for LFG that could be summarized by the distribution of the big hit *La La Land* coupled with the extraordinary success posted by *Hacksaw Ridge*. In detail, LFG experienced a notable boost of revenue with 10.8% YoY growth. On the other hand, the low margins of production caused a slight decrease of EBITDA (-3.7% YoY) but thanks to distribution LFG showed an increase of EBIT (+13.4% YoY) driven by important box office revenue compared with the cost of films. As for the bottom line, LFG posted lower net income compared with the previous year, mainly as a result of the mark to market valuation adjustment of derivatives covering the USD exchange rate (€0.76mn).

Positive 1H for LFG. The first six months of 2017 show positive signs for Leone Film Group. On the downstream side, we note that LFG has distributed 13 films in 1H17 (vs 8 in 1H16): *La La Land*, *A Dog's Purpose*, *Hacksaw Ridge*, *Light Between the Oceans*, *John Wick 2*, *Power Rangers*, *Patriots Day*, *Gold*, *Weightless*, *A Monster Calls*, *Nerve*, *Lost City of Z* and *The Last Face*, which generated an aggregate box office revenue of app. €20.2mn and an audience of 3.5mn. It is worth mentioning that LFG's turnover growth opposes the downward trend that characterized the Italian movie industry in 1H17, confirming the Company's special ability in selecting movies. In fact, two out of the 13 films mentioned above (*La La Land* and *Hacksaw Ridge*) together won 8 golden statuettes at the 89th Academy Awards (2017 Oscars). Positive news comes also from the production front thanks to the release of *Omicidio all'Italiana* that collected €1.1mn at the box office. Furthermore, the signing in February of the exclusive rights agreement with Mr. Paolo Genovese - one of the main directors within the Italian movie market - for the period 2019-2023 reinforces the potential growth of this business line.

Fine-Tuning of LFG's 2017-2019 Business Plan. The Company disclosed in April its FY17-19 BP, updating its guidance for the next three years. In light of the recently posted results, we have slightly revised LFG's numbers. LFG's 2017-2019 business plan assumptions look reasonable and achievable in terms of revenues. However, in light of 1H17 results, target EBITDA appears challenging to reach. Hence, we revised downward LFG's expected EBITDA from €29.1mn to €26.9mn in FY17. We also expect a lower level of EBITDA in FY18 and FY19 given the high numbers of executive productions in the pipeline (characterized by a lower marginality but associated with the absence of financial risk and amortization). On the other hand, we assess a slight increase of 2017 EBIT from €5.4mn (LFG's BP) to €5.7mn leaving 2018 EBIT materially unchanged and stressing FY19. Looking at the capital structure, we expect a net debt of €47.0mn and €51.0mn in 2017 and 2018 respectively, remaining stable in 2019, which is slightly lower with respect to the Company's business plan. Accordingly, we expect a higher net income in both 2017 and 2018.

Target Price Change. Although the stock outperformed the FTSE AIM Italia by 57.6% YTD, we see reasonable room for further upside. We focus just on the next two years to catch as much visibility as possible. We believe the best way to provide a fair valuation of LFG is to focus on multiple comparisons and specifically on EV/EBIT and P/E. We derive a fair value of €5.48ps which implies +11.3% on the current stock price.

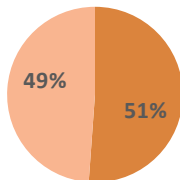
€ thousand	Revenues	EBITDA	EBITDA Margin	EBIT	Earnings	EPS
2015A	38,833	19,181	49%	4,350	3,567	0.25
2016A	54,707	23,518	43%	2,964	1,818	0.13
2017E	60,585	26,881	44%	5,700	3,060	0.22
2018E	66,418	30,008	45%	8,278	4,849	0.34
2019E	66,738	33,447	50%	10,283	6,314	0.45

Source: Company data, KT&Partners' estimates

1H17 Results: Key Highlights

Revenue Breakdown 1H17

■ Production ■ Distribution



The key points of LFG's 1H17 results are the following:

- Revenue up 10.8% YoY at €35.3mn vs €31.9mn in 1H16
- EBITDA down 3.7% YoY at €11.2mn vs €11.7mn in 1H16
- EBIT up 13.4% YoY at 2.9mn vs €2.5mn in 1H16
- Net income down 11.6% YoY at €1.3mn vs €1.4mn in 1H16
- Net debt came in at €35.7mn vs €32.3mn in FY16

Table 1: Summary P&L - 1H17 vs 1H16

€ thousand	Production and Co-Production		Distribution		Total (*)	
	1H16	1H17	1H16	1H17	1H16	1H17
Sales	13,200	13,474	13,534	16,653	26,734	30,127
Other revenues	16	1,075	1,374	611	1,390	1,686
Tax credit	3,776	3,519	0	0	3,776	3,519
Total Revenues	16,992	18,068	14,908	17,264	31,901	35,332
Growth %		6.3%		15.8%		10.8%
Raw materials	(348)	(723)	(7)	(6)	(355)	(729)
Services	(4,448)	(6,657)	(6,545)	(7,154)	(10,993)	(13,811)
Personnel costs	(5,473)	(6,081)	(354)	(510)	(5,827)	(6,591)
Other operating costs	(3,399)	(4,674)	(562)	(757)	(3,961)	(5,431)
Capitalized costs (+)	845	2,477	61	0	906	2,477
EBITDA	4,169	2,410	7,501	8,837	11,666	11,239
EBITDA margin	24.5%	13.3%	50.3%	51.2%	36.6%	31.8%
Growth %		-42.2%		17.8%		-3.7%
D&A	(1,682)	(1,092)	(7,458)	(7,283)	(9,140)	(8,375)
EBIT	2,487	1,318	43	1,554	2,526	2,864
EBIT margin	14.6%	7.3%	0.3%	9.0%	7.9%	8.1%
Growth %		-47.0%		3514.0%		13.4%
Financial income/expenses	n.a.	n.a.	n.a.	n.a.	(704)	(1,144)
EBT	n.a.	n.a.	n.a.	n.a.	1,822	1,720
Income taxes	n.a.	n.a.	n.a.	n.a.	(401)	(464)
Net income	n.a.	n.a.	n.a.	n.a.	1,421	1,256
Net margin					4.5%	3.6%
Growth %						-11.6%

(*) Total also includes marketing and communication revenues and costs whose details, irrelevant in amount, have been omitted

Source: Company data

LFG posted €35.3mn revenues in 1H17 and 10.8% YoY growth. Both distribution and production contributed to the solid sales growth. On the **distribution front**, LFG revenues were €17.3mn (vs €14.9mn in 1H16). LFG distributed **13 international films** in Italy during the first six months of 2017, generating an aggregate box office revenue of app. €20.2mn (vs €16.7mn in 1H16). **The big hits distributed were Damien Chazelle's *La La Land***, which collected €7.9mn at the box office, and **Mel Gibson's *Hacksaw Ridge***, which collected €5.8mn box office revenues.

Scenes from the films “La La Land” and “Hacksaw Ridge”



Table 2: Revenue Breakdown 1H2017 - Distribution

Revenue Breakdown - Distribution	1H17	1H16	% Change
Theatrical	4.80	3.10	54.6%
Resale (RAI, Medusa)	1.38	2.60	-46.9%
Free TV	2.57	3.25	-20.9%
Pay TV	7.11	3.71	91.6%
Digital and Others	0.18	0.32	-43.5%
Home Video	0.62	0.56	10.9%
Other Revenue	0.61	1.37	-55.5%
Total	17.26	14.91	15.8%

Source: Company data

According to the company’s BP2017-2019, LFG is about to partially change its distribution’s revenue model in the coming years by reducing the weight of films in co-ownership. This change is already evident in 1H17 results, which showed a reduction of the Resale contribution coupled with an increase in Theatrical revenue.

As for **upstream side**, revenue totaled €18.1mn, remaining materially unchanged with respect to 1H16 as the 6.3% YoY comes chiefly from other revenue. Since the acquisition of Lotus, LFG has demonstrated it is able to increase the contribution of film productions to total sales that in FY16 accounted for over 50%.

International executive productions (i.e. an executive production realized for foreign clients) is a new business area that is worth looking into. In 1H17, the revenue contribution of this business line was high since LFG acted as executive producer of 5 international films (*All the Money in The World*, among others) and 1 TV series (*Trust*). The executive production for international clients is expected to keep on growing in the coming years. Indeed, thanks to the “tax credit”, foreign producers intending to locate part of their foreign filmmaking on Italian soil can take advantage of a production partnership with domestic producers. In simple terms, even if the Italian executive producer is the only one who can claim the benefit, the foreign producer will transfer to the Italian company a sum equal to the total Italian cost less the fiscal benefit accrued plus a fee. It is worth mentioning that this business is characterized by a lower level of margins, but also by the absence of financial risk and D&A. This has a positive effect on EBIT, penalizing LFG’s percentage EBITDA.

Table 3: Revenue Breakdown 1H2017 - Production

Revenue Breakdown - Production	1H17	1H16	% Change
Theatrical and Executive Prod.	10.91	12.44	-12.3%
Resale (RAI, Medusa)	1.59	0.00	n.m.
Free TV	0.84	0.00	n.m.
Pay TV	0.04	0.66	-94.4%
Digital and Others	0.10	0.04	191.4%
Home Video	0.01	0.07	-92.5%
Tax Credit	3.52	3.78	-6.8%
Other Revenue	1.08	0.02	6618.8%
Total	18.07	16.99	6.3%

Source: Company data

Looking at the **EBITDA**, distribution experienced a significant increase (+1.3mn or 90bps). On the other hand, production showed a decrease (-€1.7mn) principally related to the absence of a bonus related to executive productions. In fact, in 1H16 LFG received a bonus correlated to the extraordinary box office

success of the movie *Perfetti Sconosciuti* that had a relevant impact on 1H16 marginality. The combined effect produced €11.2mn EBITDA compared with €11.7mn in 1H16 (-3.7% YoY).

At the EBIT level, we see an increase of 13.4% (from €2.5mn to €2.9mn) or 20bps in relative terms, principally driven by downstream performance.

Finally, the **bottom line** experienced a 11.6% YoY decrease (from €1.4mn to €1.3mn) due to the effect of mark to market valuation of derivative contracts and greater financial expenses coming from the additional net debt. In fact, looking at the **capital structure side**, LFG showed an increase in its financial position from €28.5mn in 1H16 to €35.6mn in 1H17.

Table 4: Balance Sheet Summary 2016 - Production

€ thousand	FY16	1H17
Intangible fixed assets	55,270	59,250
Tangible fixed assets	320	305
Fixed assets	55,590	59,555
Goodwill	5,684	5,684
Total fixed assets	61,274	65,239
Trade receivables	26,045	37,282
Trade payables	- 18,246	- 22,499
Inventory	-	-
Trade working capital	7,799	14,783
Other asset and liabilities	- 3,452	- 10,759
Net working capital	4,347	4,024
Provisions	- 312	- 312
Net capital employed	65,309	68,951
Shareholders' equity	33,020	33,288
Cash and equivalents (-)	- 8,473	- 13,658
Financial debt	40,762	49,321
Net financial position	32,289	35,663
Sources	65,309	68,951

Source: Company data

Market Trend: 1H17 Italian Box Office Revenues

According to Cinetel, the Italian box office was down 16.4% in the first half of 2017 with box office revenues at €316.7mn (vs €378.8mn in 1H16). Looking at the audience, tickets sold were 51.8mn vs 59.0mn in 1H16 with €6.11 average ticket price (-4.8% YoY). The four majors (i.e. 20th Century Fox, Walt Disney, Warner Bros. and Universal) experienced an increase in their box office revenues with €190.5mn cashed in vs €165.8mn in 1H16. On the other hand, the Italian distributors' box office declined to €126.2 from €213mn in 1H17. **This trend confirms the volatility of the market and the fact that a big hit - such as *Quo Vado* with €65.3mn box office - is able to influence a large part of the Italian market value.** We note that the top three films distributed in the 1H16 totaled €96.3mn vs €50mn in 1H17. We conclude that the market performance is strictly related to the type of films released. For this reason, a crucial factor for Italian distributors is represented by the ability to select movies. **In this scenario, we**

note that LFG outperformed the market, growing 15.8% YoY on the distribution side despite the downward trend that characterized the Italian movie industry in 1H17.

Table 5: Key Numbers of the Italian Market

1H2017				
Majors	Box Office Revenues (€)	Audience (#)	Box Office Revenues (%)	Audience (%)
UNIVERSAL S.R.L. (*)	72,984,351	11,218,054	22.9%	21.5%
WALT DISNEY S.M.P. ITALIA	48,330,011	7,460,132	15.3%	14.4%
WARNER BROS ITALIA S.P.A.	42,359,169	6,988,579	13.4%	13.5%
20TH CENTURY FOX ITALIA S.P.A.	26,815,876	4,390,393	8.5%	8.5%
Total	190,489,406	30,057,158	60.0%	57.8%

(*) Including Filmauro's Box Office results

1H2016				
Majors	Box Office Revenues (€)	Audience (#)	Box Office Revenues (%)	Audience (%)
20TH CENTURY FOX ITALIA S.P.A.	47,753,015	7,347,298	12.6%	12.4%
WALT DISNEY S.M.P. ITALIA	46,457,663	7,037,343	12.3%	11.9%
WARNER BROS ITALIA S.P.A.	37,005,755	5,692,846	9.8%	9.6%
UNIVERSAL S.R.L. (*)	34,572,006	5,513,546	9.1%	9.3%
Total	165,788,438	25,591,033	43.8%	43.4%

Italian Companies	Box Office Revenues (€)	Audience (#)	Box Office Revenues (%)	Audience (%)
01 DISTRIBUTION	38,878,814	6,658,562	12.3%	12.8%
MEDUSA FILM S.P.A.	21,289,240	3,698,534	6.7%	7.1%
LUCKY RED DISTRIB.	16,243,389	2,817,684	5.1%	5.4%
EAGLE PICTURES S.P.A.	13,721,661	2,393,181	4.3%	4.6%
VIDEA-CDE S.P.A.	8,071,549	1,394,976	2.5%	2.7%
NEXO DIGITAL S.P.A.	3,784,391	387,323	1.2%	0.7%
NOTORIOUS PICT. S.P.A.	3,302,162	594,354	1.0%	1.1%
OTHERS	20,951,125	3,819,848	6.8%	7.5%
Total	126,242,331	21,764,462	40.0%	42.2%
Grand total	316,731,737	51,821,620	100.0%	100.0%

Italian Companies	Box Office Revenues (€)	Audience (#)	Box Office Revenues (%)	Audience (%)
MEDUSA FILM S.P.A.	91,184,757	13,406,449	24.1%	22.7%
01 DISTRIBUTION	28,721,736	4,635,985	7.6%	7.9%
LUCKY RED DISTRIB.	27,104,531	4,419,323	7.2%	7.5%
EAGLE PICTURES S.P.A.	17,201,766	2,767,121	4.5%	4.7%
BIM DISTRIB. S.R.L.	7,678,763	1,342,733	2.0%	2.3%
M2 PICTURES S.R.L.	6,610,723	1,046,552	1.7%	1.8%
NOTORIOUS PICT. S.P.A.	6,540,681	1,124,270	1.7%	1.9%
OTHERS	27,993,671	4,682,423	7.4%	7.9%
Total	213,036,627	33,424,856	56.2%	56.6%
Grand total	378,825,065	59,015,889	100.0%	100.0%

Source: Cinetel and Company data

We note that LFG distributes its films through the main Italian operators (i.e. Medusa Film and 01 Distribution). Focusing just on Italian players (excluding the majors) and extracting - from Medusa and 01 Distribution - the part of the films that accrues to LFG, we see that the Company represents the **second Italian player in the market with a market share of 7.9% in terms of box office revenues and 8.3% in terms of audience.**

Table 6: LFG Market Share

1H17				
Italian Players	Box Office Revenues (€)	Audience (#)	Box Office Revenues (%)	Audience (%)
01 DISTRIBUTION	28,173,256	4,823,511	8.9%	9.3%
LEONE FILM GROUP S.P.A.	24,972,914	4,317,768	7.9%	8.3%
MEDUSA FILM S.P.A.	16,088,133	2,775,862	5.1%	5.4%
LUCKY RED DISTRIB.	15,972,120	2,764,867	5.0%	5.3%
VIDEA-CDE S.P.A.	8,071,549	1,394,976	2.5%	2.7%
EAGLE PICTURES S.P.A.	4,926,681	885,953	1.6%	1.7%
NEXO DIGITAL S.P.A.	3,784,391	387,323	1.2%	0.7%
NOTORIOUS PICT. S.P.A.	3,302,162	594,354	1.0%	1.1%
OTHERS	20,951,125	3,819,848	6.6%	7.4%
Total	126,242,331	21,764,462	39.9%	42.0%

Source: Cinetel and Company data

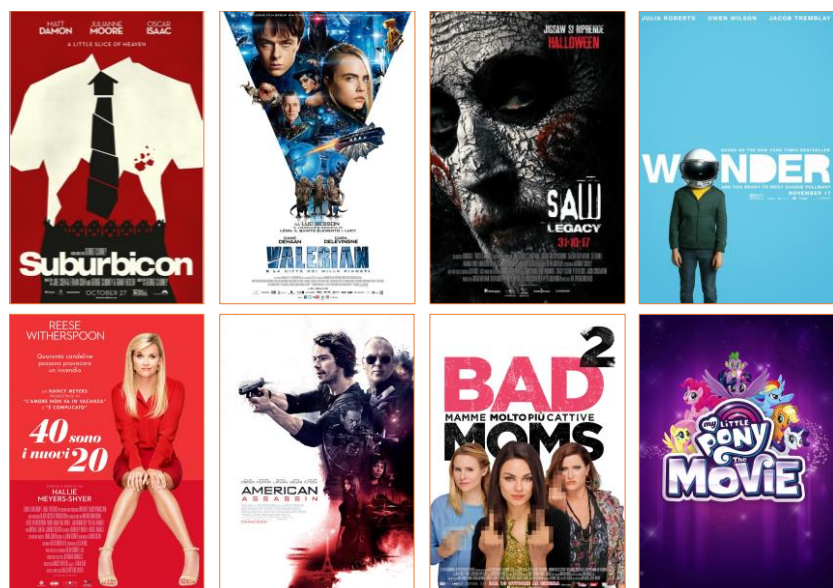
Note that Cinetel underestimates box office revenues as it collects data related to about 90% of the total market

2H17 Outlook: Rich Pipeline but Some Delays

Distribution. On the distribution front, LFG will distribute 11 films in 2H17, among others, George Clooney's *Suburbicon*, *Saw: Legacy* and Luc Besson's *Valerian*. We note that 6 films (*Billionaire Boys Club*, *Rebel in the Rye*, *Marrowbone*, *No Exit*, *Stronger* and *Soldado*) that were expected to be distributed in the second part of 2017 will be postponed to FY18 due to both commercial reasons and delays in foreign film productions. On the other hand, the film *Wonder* - with *Julia Roberts* as leading actress - will be released in advance at the end of 2017 instead of 1H18.

It is worth mentioning that changes in release dates are typical in this industry.

Chart 1: Some Films to be Distributed in 2H17



Note that *Valerian* has already hit the theaters

Source: Company data

Production. As for the upstream, 1H17 saw the completion of the executive production of the TV series *Immaturi*, coming soon on Mediaset's channels, and *Innamorati di Me*, which was released on SKY in September. In July, *The Place*, directed by Paolo Genovese, was filmed, and in September began the production of Gabriele Muccino's *A Casa Tutti Bene*. In October, the production of Paolo Virzi's *Notti Magiche* will start. We highlight that the pipeline also includes international TV series such as Stefano Sollima's *Colt* (based on an original idea by Sergio Leone) and Giuseppe Tornatore's *I Beati Paoli*. We also note that productions will be affected by some delays as the movies *Hotel Gagarin* and *Notti Magiche* that were scheduled to be released in the second half of 2017 have been postponed to 2018.

Still concerning the upstream, we note that in February the Company signed exclusive rights with Mr. Paolo Genovese relating to the artistic performance of the famous Italian director for the period 2019-2023. The agreement will enter into force at the expiry date of the current contract that Mr. Genovese has with Lotus Production. The artistic director will receive compensation composed of both cash and treasury shares. In detail, Mr. Paolo Genovese will obtain a

3.0% stake in LFG over the next 2 years. Shares will be subject to: i) 5 years' lock-up ii) pre-emptive and drag-along rights in favor of Mr. Andrea Leone and Ms. Raffaella Leone. For the time being, Mr. Genovese has received 140,935 shares equal to a 1.0% stake.

Estimates Review: Fine-Tuning of LFG'S Business Plan

On April 3, 2017 LFG disclosed its FY17-19 business plan, updating its guidance for the next three years. The key points are the following:

- FY17 sales at €60.9mn reaching €67.3mn in FY19 (7% CAGR FY16-FY19)
- FY17 EBITDA at €29.1mn reaching €43.4mn in FY19 (23% CAGR FY16-19)
- FY17 EBIT at €5.4 reaching €11.6mn in FY19 (57% CAGR FY16-19)
- FY17 net profit at €2.8mn reaching €7.0mn in FY19 (57% CAGR FY16-19)
- Net debt is targeted at €54.2mn in FY17 to remain app. the same at the end of the plan.

In our view, LFG's 2017-2019 business plan assumptions look reasonable and achievable in terms of revenues. However, in light of 1H17 results, target EBITDA appears challenging to reach for the year end. Hence, we revised downward LFG's expected EBITDA from €29.1mn to €26.9mn in FY17. We also conservatively expect a lower level of EBITDA in FY18 and FY19. On the other hand, we assess a slight increase of 2017 EBIT from €5.4mn (LFG's business plan) to €5.7mn, leaving 2018 EBIT materially unchanged and stressing FY19. **Looking at the capital structure, considering 1H17 results, we expect a net debt of €47.0mn and €51.0mn in 2017 and 2018 respectively, remaining stable in 2019, which is lower with respect to the Company's business plan.** Accordingly, we expect a higher net income in both 2017 and 2018.

Table 7: LFG's FY17-19BP vs KT&P estimates

€ thousand	2016A	2017E Old KT&P	2017E LFG BP	2017E New KT&P	Change	2018E LFG BP	2018E New KT&P	Change	2019 LFG BP	2019 New KT&P	Change
Revenues	54.7	65.7	60.9	60.6	-0.5%	66.6	66.4	-0.3%	67.3	66.7	-0.8%
YoY Change (%)			11.3%	10.8%		9.4%	9.6%		1.1%	0.5%	
EBITDA	23.5	34.9	29.1	26.9	-7.6%	35.4	30.0	-15.2%	43.4	33.4	-22.9%
YoY Change (%)			23.8%	14.4%		21.6%	11.6%		22.6%	11.5%	
EBIT	3.0	8.7	5.4	5.7	5.6%	8.4	8.3	-1.5%	11.6	10.3	-11.4%
YoY Change (%)			80.0%	90.0%		55.6%	45.2%		38.1%	24.2%	
Net Income	1.8	5.6	2.8	3.1	9.3%	4.7	4.8	3.2%	7.0	6.3	-9.8%
YoY Change (%)			55.6%	70.0%		67.9%	58.5%		48.9%	30.2%	
Net Debt	32.3	28.5	54.2	47.0	-13.3%	52.9	51.0	-3.6%	n.a.	51.0	n.a.
YoY Change (%)			67.8%	45.5%		-2.4%	8.5%		n.a.	0.0%	

Source: Company data and KT&Partners' estimates

Valuation

Given the level of seasonality that characterizes this business (which includes box office volatility and the risk of postponing the realization of some films with a consequent relevant effect on cash flows), **we believe the best way to provide a fair valuation of LFG is to focus on multiple comparisons.** Even if we recognize that different amortization policies could affect results, we believe the use of EBIT and earnings multiples makes sense, as D&A represents the real cost of films produced or distributed that otherwise could not be properly reflected.

Our panel of peers has changed slightly from our previous reports, since we have removed DreamWorks Animation (which went private after being acquired in August 2016 by Comcast Corp.) and Bona Film Group (which went private after the merger with Mountain Tiger Limited in April 2016). On the other hand, we have added Eros International, a company that in several respects has a business model similar to LFG.

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

Table 8: Peer Group Valuation Table - 2017 Multiples

Company Name	Stock Exchange	Market Cap	EV/SALES 2017	EV/EBITDA 2017	EV/EBIT 2017	P/E 2017
Lions Gate Entertainment Corp Class A	NYSE	5,524	2.30	15.63	26.26	27.61
Entertainment One Ltd.	London	1,392	1.45	9.65	9.99	13.81
EuropaCorp SA	Euronext Paris	80	1.54	2.29	23.89	26.64
Splendid Medien AG	XETRA	16	0.55	3.91	n.m.	n.m.
Eros International PLC Class A	NYSE	722	3.78	13.41	21.38	n.m.
Avg. International Peer Group		1,547	1.92	8.98	20.38	22.69
Leone Film Group SpA	Milan	68	1.72	3.87	18.25	22.33
Lucisano Media Group S.p.A.	Milan	39	0.71	2.21	4.36	4.51
Notorious Pictures S.p.A.	Milan	28	1.03	2.39	4.51	7.81
Avg. Italian Peer Group		34	0.87	2.30	4.44	6.16
Leone Film Group SpA	Milan	68	1.72	3.87	18.25	22.33

Source: KT&Partners' elaboration on FactSet data

Table 9: Peer Group Valuation Table - 2018 Multiples

Company Name	Stock Exchange	Market Cap	EV/SALES 2018	EV/EBITDA 2018	EV/EBIT 2018	P/E 2018
Lions Gate Entertainment Corp Class A	NYSE	5,524	2.15	13.84	19.91	28.96
Entertainment One Ltd.	London	1,392	1.33	8.54	8.66	11.80
EuropaCorp SA	Euronext Paris	80	1.70	2.73	37.74	n.m.
Splendid Medien AG	XETRA	16	0.46	2.04	10.40	10.59
Eros International PLC Class A	NYSE	722	3.01	9.52	13.15	21.12
Avg. International Peer Group		1,547	1.73	7.33	17.97	18.12
Leone Film Group SpA	Milan	68	1.57	3.47	12.57	14.10
Lucisano Media Group S.p.A.	Milan	39	0.69	1.98	3.51	3.40
Notorious Pictures S.p.A.	Milan	28	0.97	2.19	4.29	7.42
Avg. Italian Peer Group		34	0.83	2.08	3.90	5.41
Leone Film Group SpA	Milan	68	1.57	3.47	12.57	14.10

Source: KT&Partners' elaboration on FactSet data

We decided to exclude Italian comparables as their valuation (highlighted in the tables above) is completely decoupled by fundamentals and does not represent the real multiples of the movie/entertainment industry.

On the other hand, we have applied a 10% discount to international peers to reflect the lower stock liquidity of LFG. **Focusing on 2017 and 2018 EV/EBIT and P/E multiples (we exclude 2019 in order to catch as much visibility as possible on LFG’s pipeline), we derive a valuation of €5.93ps and €5.02ps, respectively. We took the average and we set €5.48ps as a fair value.**

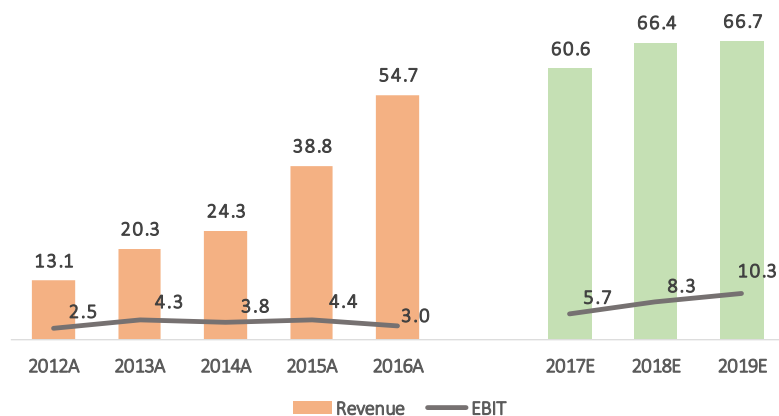
Table 10: Multiples Valuation

Multiple Valuation (€mn)	2017E	2018E	Average
EV/EBIT multiple comparison			
Peer Group EV/EBIT netted from 10% liquidity discount	18.34	16.17	
LFG EBIT	5.70	8.28	
Enterprise value	104.56	133.88	
LFG Net Debt 1H17	35.66	35.66	
Equity Value	68.89	98.21	
Number of shares (mn)	14.09	14.09	
Value per share	4.89	6.97	5.93
P/E multiple comparison			
Peer Group P/E netted from 10% liquidity discount	20.42	16.31	
LFG earnings	3.06	4.85	
Market Cap	62.49	79.07	
Number of shares (mn)	14.09	14.09	
Value per share	4.43	5.61	5.02
Fair Value (Avg.) - € ps	4.66	6.29	5.48

Conclusion

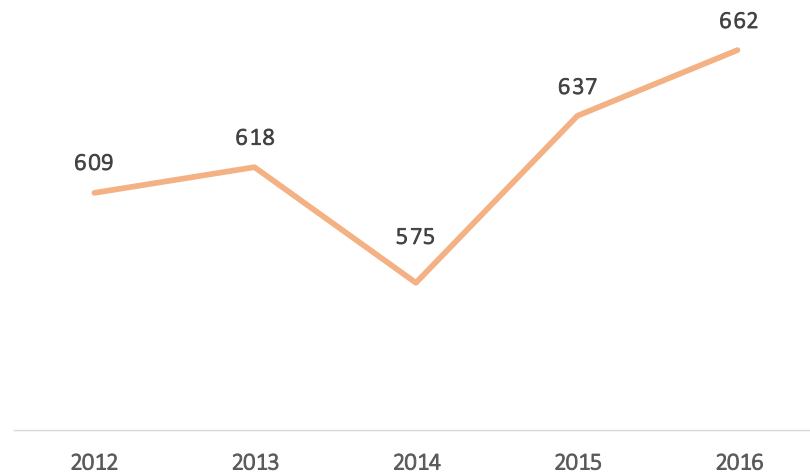
Despite the volatility (in terms of delays of films and box office revenues) that characterizes the industry, since the IPO LFG has shown its ability to perform well in the medium term (+42.8% Revenue CAGR and +4.2% EBIT CAGR in the 2012-2016 period).

Chart 2: LFG Growth Path Since IPO (data in €mn)



Source: Company data

Chart 3: Italian Market: Box Office Revenue Evolution 2012-2016 (€mn)



Source: ANICA elaboration on Cinetel data

Since the beginning, LFG pursued a strategy aimed at strengthening both its positioning in film production and distribution. Milestones were achieved thanks to both external (acquisition of Lotus production) and organic growth (numerous agreements with majors with distribution of international blockbusters). We note that to date LFG is the **second Italian player in the market** with a share of 7.9% in terms of box office revenues and 8.3% in terms of audience. LFG necessarily forwent part of margins to establish its current leading position in the market.

Back to the present, 1H17 results showed that LFG is on the right track to achieve its strategic plan considering also the seasonality that characterizes this business (with larger audiences at Christmastime). We believe the current market value of LFG reflects 2017 expected results. Indeed, from the application of the 2017 multiple we derive a fair value basically aligned with the current market price (see table above for further details). However, the expected growth of 2018 does not yet seem to have been included into the stock valuation. LFG is expected to grow faster than its peer group, so we believe the 2018 forecast should necessarily be considered.

Even though the stock has experienced a very strong performance of +84.3% YTD, we see reasonable room for further upside. By averaging 2017 and 2018 EV/EBIT and P/E valuation, we obtain a fair value of €5.48ps or +11.3% on the current stock price.

Furthermore, the Individual Saving Plan (PIR) introduced with the 2017 budget law does not yet appear to have affected LFG liquidity, which remains very low. According to Assogestioni, at the end of June there were 44 PIR-Compliant funds, of which 27 are new and 17 are existing funds that have been converted. In the first six months of the year, these funds have collected inflows equal to €5.6bn. We note that the Italian government has recently raised its forecast about inflows coming from PIR from €1.8bn to €10.0bn at the end of 2017. The important results LFG is achieving could draw the attention of PIR-compliant funds looking for interesting small caps to invest in. Furthermore, we note that to date LFG has all the requirements needed to move from AIM to the Main Market.

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