

Company Update

Buy (maintained)

14 February 2018 – 5:30PM

MARKET PRICE: EUR4.64

TARGET PRICE: EUR6.34 (from EUR5.55)

Entertainment

Data

Shares Outstanding (m):	14.09
Market Cap. (EURm):	65.39
Enterprise Value (EURm):	111.90
Free Float (%):	25.6%
Av. Daily Trad. Vol. (m):	0.001
Main Shareholder:	Leone family 57.8%
Reuters/Bloomberg:	LFG.MI LFG IM
52-Week Range (EUR)	3.0 5.3

Source: Factset, UbiBanca estimates

Performance

	1m	3m	12m
Absolute	4.0%	1.3%	53.1%
Rel. to FTSE IT	10.9%	3.3%	31.6%

Source: Factset

Graph area Absolute/Relative 12 M



Source: Factset

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Booming revenues...beaten expectations

LFG reported booming 2017 preliminary sales of EUR98.6 million (+80% for the full year and +177% in 2H17) despite the postponed release of 12 movies. This was possible due to the contribution of a growing number of international executive productions (supported by higher tax credits for international co-producers), now fully reported in the accounts (LFG previously recognised only the production fee in its P&L): this activity generates lower margins (3-5%) but is relatively risk-free and incurs no D&A costs and we therefore view this strategic diversification positively. Consequently, EBITDA margin decreased to 27.1% vs. 43% in 2016, but EBITDA increased by 13.6% in absolute terms. Box office results were positive with several blockbusters released during the year (9 titles appeared amongst the top 100 movies), confirming the movie selection skills of the management. We have revised our estimates and significantly upgraded our top line forecasts for 2018-19 (+69% on average) and EBITDA (+21% on average). We reiterate our positive stance on the shares: LFG not only presents an attractive line-up (and 2018 has started strongly with “Wonder” and “The Post”) and a well-diversified business model, but it is also trading at a substantial discount to its peers. We have raised our target price to EUR6.34 per share (from EUR5.55). Positive stance confirmed.

- > Preliminary results are well above our expectations for sales, substantially in line with our EBITDA estimates and reported net debt is much better than expected because of lower capex (related to the postponement of movie releases) and to significant advances from co-producers.
- > LFG generated box office takings in 2017 of about EUR44 million, or EUR1.7 million per movie compared with EUR1.1 million for Italy. LFG’s market share (calculated on a pro-forma basis) for the full year was about 7.6%, ranking it first amongst the Italian distributors (around 20% market share excluding the majors).
- > Our new target price of EUR6.34 per share (from EUR5.55) implies potential upside of >35%. The shares are now trading at a discount of about 34% to peers. Buy.

Financials

	2016	2017E	2018E	2019E
Revenues (EURm)	54.71	98.62	111.18	118.08
EBITDA (EURm)	23.52	26.66	40.86	39.91
EBITDA margin (%)	39.3%	25.5%	34.0%	31.4%
EBIT (EURm)	2.96	6.12	12.07	11.49
EPS (EUR)	0.13	0.19	0.42	0.32
CFPS (EUR)	1.90	1.85	1.99	2.09
DPS (EUR)	0.09	0.11	0.15	0.20

Source: Company Data, UBI Banca Estimates

Ratios

priced on 13 February 2018

	2016 *	2017E	2018E	2019E
P/E(x)	20.2	24.0	9.7	9.5
P/CF(x)	1.6	2.8	1.8	1.9
P/BV(x)	1.1	1.9	1.6	1.5
Dividend Yield	3.4%	2.4%	3.2%	4.3%
EV/EBITDA(x)	3.0	4.0	2.7	2.6
Debt/Equity (x)	1.0	1.2	1.2	0.8
Debt/EBITDA (x)	1.4	1.5	1.1	0.9

Source: UBI Banca Estimates * Based on 2016 average price

Key Financials

(EURm)	2016	2017E	2018E	2019E
Revenues	54.71	98.62	111.18	118.08
EBITDA	23.52	26.66	40.86	39.91
EBIT	2.96	6.12	12.07	11.49
NOPAT	2.01	4.16	8.21	7.81
Free Cash Flow	-4.73	-7.18	-3.87	11.14
Net Capital Employed	65.31	75.25	85.81	81.59
Shareholders' Equity	33.02	34.47	39.65	44.45
Net Financial Position	32.29	40.74	46.16	37.14

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2016	2017E	2018E	2019E
Net Debt/Ebitda (x)	1.4	1.5	1.1	0.9
Net Debt/Equity (x)	1.0	1.2	1.2	0.8
Interest Coverage (%)	2.3	2.6	5.9	7.1
Free Cash Flow Yield (%)	nm	nm	nm	17.0%
ROE (%)	5.5%	7.9%	17.0%	15.6%
ROI pre-tax (%)	4.8%	8.6%	14.7%	13.5%
ROCE (%)	3.2%	5.8%	10.0%	9.2%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

	2016 *	2017E	2018E	2019E
P/E (x)	20.2	24.0	9.7	9.5
P/BV (x)	1.1	1.9	1.6	1.5
P/CF (x)	1.6	2.8	1.8	1.9
Dividend Yield (%)	3.4%	2.4%	3.2%	4.3%
EV/Sales (x)	1.2	1.0	0.9	0.8
EV/EBITDA (x)	3.0	4.0	2.7	2.6
EV/EBIT (x)	23.4	17.4	9.3	9.0
EV/CE (x)	1.1	1.4	1.3	1.3

Source: Company data, UBI Banca estimates

* Based on 2016 average price

Key Value Drivers

(%)	2016	2017E	2018E	2019E
Payout	69.8%	56.9%	31.4%	40.8%
NWC/Sales	4.4%	-0.1%	2.7%	2.7%
Capex/Sales	52.7%	31.8%	30.0%	18.9%

Source: Company data, UBI Banca estimates

Recent Developments

- > LFG announced 2017 preliminary results (full results are due in March 27): sales of EUR98.6 million were dramatically higher, rising >80% compared with last year (revealing rapid acceleration in the second half of the year, when revenues nearly tripled), EBITDA was EUR23.5 million (+13.6% vs. 2016) while net debt increased to EUR40.8 million (EUR32.3 million at Dec-16 and EUR35.7 million at June-17). Overall, preliminary results show revenues that are significantly above our expectations and the business plan projections, EBITDA which is substantially in line with our estimates while the net debt position was much better than anticipated. The sharp improvement in the net financial position compared to our estimates and the business plan is due to lower capex (related to the postponement of movie releases) and to significant advances from co-producers.
- > The impressive revenue growth was achieved as a result of the high number of high budget executive productions, of both domestic and international films but also of TV series. We believe that this activity, which generates a modest EBITDA margin of 3-5% but which is relatively risk-free risk and involves, contributed >EUR40 million to the top line in 2017 (making LFG the leading Italian company in this sector) also due to changes in the accounting methodology (prior to 2016 LFG recognised just the international executive production fees within sales, without incorporating revenues and production costs, while in 2017 it recognised the full cost and revenues of the international executive productions). In consequence, executive productions had a dilutive impact on the EBITDA margin, which declined to 27% compared with 43% in 2016. We estimate that excluding executive productions the EBITDA margin would have been >40%.
- > LFG distributed 25 movies in 2017 (11 movies in the second half), including several blockbusters (“La La Land” which generated box office receipts of >EUR8 million, “Wonder” with >EUR12 million box office, and “Hacksaw Ridge” with almost EUR4 million) contributing to total box office receipts of about EUR44 million, representing >EUR1.7 million per movie, well above the average Italian box office figure, which was around EUR1.1 million per movie in 2017. LFG’s market share (calculated on a pro-forma basis, as LFG does not distribute movies directly but signs distribution agreements with major distributors in Italy) in the full year was about 7.6%, placing it first amongst the Italian distributors. It should be noted the expected release of 12 movies in 2017 was postponed to 2018, including possible blockbusters (e.g. “Notti Magiche” directed by Paolo Virzi) while the release of “Wonder” was brought forward to Christmas.
- > The trend in the movie market was negative in 2017: admissions declined by 12.4% in 2017 and box office receipts were down 11.6% (source: *Cinetel*) with a sharp decrease of average theatrical sales per movie (-8.7% at EUR1.09 million). Nine movies released by LFG in 2017 were in the top 100 movies with “La La Land” 16th and “Wonder” 27th (source: *Cinetel*).

Figure 1 – 2017 preliminary results and 2H17 preliminary results

(EURm)	2016A	2017A	% Chg.	2017E	% Chg.	2H16A	2H17A	% Chg.
Sales total	54.71	98.60	80.2%	61.40	60.6%	22.81	63.27	177.4%
EBITDA	23.52	26.70	13.5%	27.50	-2.9%	11.85	15.42	30.1%
% margin	43.0%	27.1%		44.8%		52.0%	24.4%	
Net debt/(cash)	32.29	40.80	26.4%	53.50	-23.7%			

Source: Company data, UBI Banca estimates

Figure 2 – Movie releases in 2H17

Movie title	Release	Box office (EUR000)
Miss Sloan	Sep-17	73
Valerian	Sep-17	2,439
Home again (40 sono i nuovi 20)	Oct-17	443
Saw Legacy	Oct-17	2,863
The Place	Nov-17	4,272
Detroit	Nov-17	172
American assassins	Nov-17	1,000
Bad Moms 2	Dec-17	612
My little pony	Dec-17	163
Suburbicon	Dec-17	879
Wonder *	Dec-17	5,206

Source: Cinetel

* plus EUR7 million box office in 2018

Financial Projections

- > We have updated our forecasts following the release of preliminary results for 2017. Our revised estimates show a net result of EUR2.7 million in 2017, slightly below our previous expectation, due to slightly lower EBITDA and the mark to market of derivatives on USD partially offset by lower D&A caused by the postponement of 12 films in 2018.
- > 2018 started strongly with “Wonder” generating box office receipts of almost EUR7 million and “The Post” taking EUR2.3 million in its opening weekend and reaching EUR4.3 million by February 12. We have significantly upgraded our top line estimates for 2018 and 2019 to incorporate executive productions and the revenue stream from the film releases postponed from 2017. EBITDA has been increased by 21% on average in 2018-19, although expected percentage margins are significantly lower than our previous expectations due to the different business mix, in particular executive productions. Lower D&A costs prompted an average increase of EBIT forecasts for 2018-19 of around 29% leading to an average increase of about 20% to our bottom line forecast.
- > The company is expected to present an updated business plan together with its full 2017 results (due on March 27th). It should be noted that the business plan presented in April 2017 anticipated 74 releases in 2017-19 of which 56 movie distributions, 11 productions and 7 executive productions which could boost revenues to EUR67 million in 2019 with a 7.2% CAGR over the period.

Figure 3 – Old vs. New estimates

(EURm)	2016A	2017E		2018E		2019E	
		Old	New	Old	New	Old	New
Total Sales	54.7	61.4	98.6	71.1	111.2	64.9	118.1
% change			60.6%		56.5%		81.9%
EBITDA	23.5	27.5	26.7	35.2	40.9	31.7	39.9
% change			-3.0%		16.2%		26.0%
EBIT	3.0	6.2	6.1	8.9	12.1	7.4	11.5
% change			-1.6%		35.4%		54.6%
Net Profit	1.8	3.2	2.7	5.4	6.7	4.5	6.9
% change			-13.9%		24.3%		55.2%
Net Debt/(Cash)	32.3	53.5	40.7	55.8	46.2	47.6	37.1

Source: Company data, UBI Banca estimates

Valuation

- > Given the revisions to our forecasts, our DCF valuation has increased to EUR7.52 per share (from EUR7.18) and our relative valuation to EUR6.56 per share from EUR5.15 per share. The simple average of our DCF and the relative valuation gives a fair value of EUR7.04. We have applied a 10% liquidity discount to the fair value to take into account the limited liquidity of LFG and its modest size which generates a target price of EUR6.34 per share (vs. EUR5.55 before). This discount could diminish on listing of the company on the MTA.
- > LFG's current market capitalization (EUR65 million) is below its net invested capital (EUR69 million at June-17) which implies that LFG may not be able to create value in future. We believe this scenario is highly unlikely given the wide line up of the company and the growing EBITDA expected for 2018-19.
- > At our EUR6.34 per share target price, LFG would trade at 13.3x 2018 EV/EBIT, which is broadly in line the average multiple of our sample of peers (12.6x).

Figure 4 – Valuation summary

(EUR)		Weight	4-October 17	Delta
DCF Valuation	7.52	50.0%	7.18	4.7%
Relative Valuation	6.56	50.0%	5.15	27.4%
Fair Value	7.04		6.17	14.2%
Liquidity discount (10%)	(0.70)		(0.62)	14.2%
Target price	6.34		5.55	14.2%
Current price	4.64		5.00	-7.2%
Potential upside	36.6%		11.0%	

Source: UBI Banca estimates

Figure 5 – DCF Valuation

Our DCF valuation implies 3.4x EV/EBITDA at terminal value.

	(EUR m)	(% weight)
Sum of PV 2018-25 FCF	46.6	32%
Terminal value	100.5	68%
Total Enterprise value	147.2	100%
- minorities	0.0	
- Pension Provision	(0.3)	
- Net debt (+ cash)	(40.8)	
Total Equity value	106.0	
Fully diluted number of shares (m)	14.1	
Fair value per share (EUR)	7.52	

Source: UBI Banca estimates

Figure 6 – Peer comparison and valuation based on multiples (priced on 13 February 2018)

Company	Market Cap (EURm)	P/E			EV/EBITDA			EV/EBIT		
		2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
EuropaCorp SA	149				9.5 x	5.4 x	4.9 x			
Lions Gate	4,771	16.9 x	55.7 x	30.9 x	15.9 x	12.6 x	10.5 x	34.2 x	21.5 x	16.3 x
Entertainment One Ltd.	1,465	13.7 x	12.0 x	10.4 x	9.5 x	8.2 x	7.4 x	9.7 x	8.4 x	7.5 x
Constantin Medien AG	204	72.7 x	31.1 x	19.9 x	5.1 x	22.9 x	15.5 x	21.8 x	29.3 x	16.4 x
Highlight Communications AG	325	19.1 x	16.7 x	14.7 x	12.0 x	10.9 x	9.7 x	13.3 x	12.1 x	10.7 x
Lucisano Media Group	34	7.8 x	3.2 x	3.1 x	4.3 x	2.5 x	2.4 x	8.9 x	4.4 x	4.3 x
Mondo TV	166	11.8 x	10.2 x	8.3 x	6.8 x	4.0 x	2.8 x	9.6 x	6.6 x	4.2 x
Notorious Pictures	26	33.5 x	11.3 x	9.2 x	4.0 x	2.3 x	1.9 x	19.2 x	5.9 x	4.3 x
Average		25.1 x	20.0 x	13.8 x	8.4 x	8.6 x	6.9 x	16.7 x	12.6 x	9.1 x
Current market multiples	65	22.2 x	9.7 x	9.5 x	3.8 x	2.7 x	2.6 x	16.6 x	9.3 x	9.0 x
Discount to Average		-11.3%	-51.5%	-31.4%	-54.5%	-68.2%	-62.5%	-0.4%	-26.5%	-1.5%

Source: Factset, UBI Banca estimates

Figure 7 – Implicit multiples based on our EUR6.34 target price

(x)	2017E	2018E	2019E
P/E	32.8 x	13.3 x	12.9 x
EV/EBITDA	4.9 x	3.3 x	3.2 x
EV/EBIT	21.3 x	11.3 x	11.0 x
EV/Sales	1.25 x	1.13 x	1.00 x
P/BV	2.6 x	2.3 x	2.0 x
EV/ Capital employed	1.7 x	1.6 x	1.6 x

Source: UBI Banca estimates

Income Statement

(EURm)	2016	2017E	2018E	2019E
Value of production	59.77	104.53	120.08	127.06
EBITDA	23.52	26.66	40.86	39.91
EBITDA margin	39.3%	25.5%	34.0%	31.4%
EBIT	2.96	6.12	12.07	11.49
EBIT margin	5.0%	5.9%	10.1%	9.0%
Net financial income /expense	-1.26	-2.39	-2.04	-1.61
Associates & Others	0.00	0.00	0.00	0.00
Profit before taxes	1.70	3.73	10.03	9.88
Taxes	0.12	-1.01	-3.31	-2.96
Minorities & discontinuing ops	0.00	0.00	0.00	0.00
Net Income	1.82	2.72	6.72	6.92

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2016	2017E	2018E	2019E
Net working capital	2.62	-0.13	3.26	3.46
Net Fixed assets	63.79	76.60	84.21	79.84
M/L term funds	-1.11	-1.22	-1.66	-1.71
Capital employed	65.31	75.25	85.81	81.59
Shareholders' equity	33.02	34.47	39.65	44.45
Minorities	0.00	0.00	0.00	0.00
Shareholders' funds	33.02	34.47	39.65	44.45
Net financial debt/(cash)	32.29	40.74	46.16	37.14

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2016	2017E	2018E	2019E
NFP Beginning of Period	24.03	32.29	40.74	46.16
Group Net Profit	1.82	2.72	6.72	6.92
Minorities	0.00	0.00	0.00	0.00
D&A	20.55	20.54	28.79	28.43
Change in Funds & TFR	0.00	0.00	0.00	0.00
Gross Cash Flow	22.37	23.27	35.51	35.34
Change In Working Capital	4.40	2.75	-3.38	-0.20
Other	0.00	0.00	0.00	0.00
Operating Cash Flow	26.77	26.02	32.13	35.14
Net Capex	-31.50	-33.20	-36.00	-24.00
Other Investments	0.00	0.00	0.00	0.00
Free Cash Flow	-4.73	-7.18	-3.87	11.14
Dividends Paid	-1.21	-1.27	-1.55	-2.11
Other & Chg in Consolid. Area	-2.32	0.00	0.00	0.00
Chg in Net Worth & Capital Incr.	0.00	0.00	0.00	0.00
Change in NFP	-8.26	-8.45	-5.42	9.03
NFP End of Period	32.29	40.74	46.16	37.14

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2016	2017E	2018E	2019E
ROE	5.5%	7.9%	17.0%	15.6%
ROI	3.2%	5.8%	10.0%	9.2%
Net Fin. Debt/Equity (x)	1.0	1.2	1.2	0.8
Net Fin. Debt/EBITDA (x)	1.4	1.5	1.1	0.9
Interest Coverage	2.3	2.6	5.9	7.1
NWC/Sales	4.4%	-0.1%	2.7%	2.7%
Capex/Sales	52.7%	31.8%	30.0%	18.9%
Pay Out Ratio	69.8%	56.9%	31.4%	40.8%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2016	2017E	2018E	2019E
EPS	0.13	0.19	0.48	0.49
DPS	0.09	0.11	0.15	0.20
Op. CFPS	1.90	1.85	2.28	2.49
Free CFPS	-0.34	-0.51	-0.27	0.79
BVPS	2.34	2.45	2.81	3.15

Source: Company data, UBI Banca estimates

Stock Market Ratios

(x)	2016 *	2017E	2018E	2019E
P/E	20.2	24.0	9.7	9.5
P/OpCFPS	1.4	2.5	2.0	1.9
P/BV	1.1	1.8	1.6	1.5
Dividend Yield (%)	3.4%	2.4%	3.2%	4.3%
Free Cash Flow Yield (%)	nm	nm	nm	17.0%
EV (EURm)	69.38	106.46	111.90	102.89
EV/Sales	1.2	1.0	0.9	0.8
EV/EBITDA	3.0	4.0	2.7	2.6
EV/EBIT	23.4	17.4	9.3	9.0
EV/Capital Employed	1.1	1.4	1.3	1.3

Source: Company data, UBI Banca estimates

* Based on 2016 average price

Growth Rates

(%)	2016	2017E	2018E	2019E
Growth Group Net Sales	14.2%	74.9%	14.9%	5.8%
Growth EBITDA	22.7%	13.4%	53.2%	-2.3%
Growth EBIT	-31.9%	106.6%	97.2%	-4.8%
Growth Net Profit	-49.4%	49.9%	146.9%	2.9%

Source: Company data, UBI Banca estimates

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Disclosure of interests and conflicts of interests pursuant to Delegated Regulation 2016/958/EU

In relation to the Company the following interest/conflict of interest have been found:

- > UBI Banca acts as Specialist for Leone Film Group.
- > UBI Banca may have long or short positions with the issuer

On the basis of the checks carried out no other interest/conflict of interest arose.

Frequency of updates

UBI Banca aims to provide continuous coverage of the companies in conjunction with the timing of periodical accounting reports and any exceptional event that occurs affecting the issuer's sphere of operations and in any case at least twice per year. The companies for which UBI Banca acts as Sponsor or Specialist are covered in compliance with regulations

of the market authorities.

For further information please refer to www.ubibanca.com/equity-research

Valuation methodology

UBI Banca's analysts value the Company subject to their recommendations using several methods among which the most prevalent are: the Discounted Cash Flow method (DCF), the Economic Value Added method (EVA), the Multiple comparison method, the SOP method and the NAV method.

The analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (i.e. holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

For further information please refer to www.ubibanca.com/equity-research.

Ranking system

UBI Banca's analysts use an "absolute" rating system, not related to market performance. The explanation of the rating system is listed below:

Buy: if the target price is 10% higher than the market price, over the next 12 months.

Hold: if the target price is 10% below or 10% above the market price, over the next 12 months.

Sell: if the target price is 10% lower than the market price, over the next 12 months.

No Rating: the investment rating and target price have been suspended as there is not sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect. Alternatively, No Rating is assigned in certain circumstances when UBI Banca is acting in any advisory capacity in a strategic transaction involving the Company.

Target price: the market price that the analyst believes that the share may reach within a one-year time horizon.

Market price: closing price on the day before the issue date of the report, appearing on the first page.

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Distribution of ratings

Equity rating dispersion in the past 12 months

Buy	Hold	Sell	No Rating
84.2%	10.5%	0.0%	5.3%

Proportion on issuers to which UBI Banca has supplied investment banking services relating to the last 12 months

Buy	Hold	Sell	No Rating
100%	100%	-	100%

For further information regarding yearly and quarterly rating statistics and descriptions, please refer to www.ubibanca.com/equity-research.

Historical ratings and target prices

Date	Rating	Target Price (EUR)	Market Price (EUR)
10 May 2017	Buy	5.16	4.64
4 October 2017	Buy	5.55	5.00