

April 27, 2016

FY15 RESULTS



Target Price: € 3.60

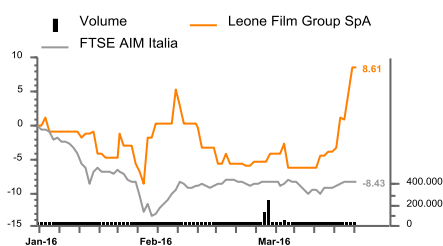
Kevin TEMPESTINI
+39.02.83424007

ktempestini@ktepartners.com

Füsün BEKTAŞ
+39.02.83424008

fbektas@ktepartners.com

LFG Relative Performance Chart



Market Data:

Price (€)	2.90
Market Cap (€/mn)	40.87
52 Wk. High / Low (€)	2.36-3.17
Free Float (%)	23.65
Avg. Daily Trading 90d	6,017
Share Out. (mn)	14.09
Price Change YTD (%)	8.61
Dividend Yield (%)	3.1

Higher Targets with Higher-End

Two years after IPOing Company shares, Leone Film Group is on track with what they have promised operation-wise during pre-IPO. In both the distribution and production fronts, the Company has observed FY2015 topline which reached €38.8mn, up 60% YoY from €24.3mn in 2014:

- Downstream / Content Distribution:** LFG continues to perform well on the distribution front, which has alone reached FY2015 revenues of €21.54mn, i.e. 55% of the consolidated topline. We are looking at an affluent pipeline of 22 films for 2016 and 17 films for 2017, among which there are Spielberg's *Big Friendly Giant*, Sean Penn's *The Last Face*, Europacord's *Valerian*, Lionsgate's *Now You See Me* series, and many others. Downstream revenues not only make the major contribution (an expected 62-64% in 2016E and 2017E) to the consolidated turnover but also help LFG build a premium library with high-end content.
- Upstream / Production** After acquiring Marco Belardi's Lotus Productions in November 2014, the Company eventually realized €17.4mn of production revenues in FY2015. The contribution of production revenues to the topline reached 45%, an all-time high, and helped the consolidated topline to improve by 60% YoY by reaching €38.8mn (from €24.3mn in 2014).

After a better-than-expected FY2015 performance, FY2016 is anticipated to become a milestone for LFG. The distribution pipeline is richer than ever, and success of the upcoming production projects are likely to secure bigger and higher-end future deals. We revised our estimates accordingly, and EBITDA growth is now expected to reach 55% in 2016E. EBITDA margin is expected to remain at 49%, the same as FY2015. The affluent pipeline for 2016 requires an investment plan of an expected €34mn, out of which €6mn is already invested and capitalized throughout FY2015.

LFG has completed the first 12 months of the €1mn buy-back program that it had launched in April 2015. As of December 31st, 2015, the shares bought back (39,600 shares) total 0.281% of the Company and with today's price of €2.90, the total value of these shares are €114.8k. The program is scheduled to continue until October 2016.

Leone is one of the fast-growing players in its peer group. We expect the Company's steady profit growth to continue with EBITDA, EBIT, and net profit growing at a CAGR of 35%, 41%, and 25% respectively between 2015 and 2017E. These growth rates are not yet fully reflected in its current multiples of 2.19x 2016E EV/EBITDA, 9.06x 2016E EV/EBIT, and 9.51x 2016E P/E. On 2016E-2017E peers EBIT consensus basis, we see the discount vs. its comparables as not justified by fundamentals. We believe a fair value of the stock to be around €3.60.

€ thousand	Revenues	EBITDA	EBITDA Margin	EBIT	Earnings	Net Margin
2013	20,271	12,551	62%	4,264	2,364	12%
2014	24,288	14,735	61%	3,766	2,598	11%
2015	38,833	19,181	49%	4,363	3,577	9%
2016E	60,231	29,685	49%	7,186	4,298	7%
2017E	65,655	34,872	53%	8,725	5,612	9%

Source: Company data, KT&P estimates

FY2015 Results

On the distribution front, LFG distributed thirteen foreign films in Italy during 2015, generating an aggregate box-office revenue of €19.6mn. Brad Pitt's *Fury* alone generated €4.3mn in box-office income, followed by Russell Crowe's *Fathers & Daughters* (€3.2mn) and Vin Diesel's *The Last Witch Hunter* (€2.9mn). During FY2015, LFG generated: a) €3.5mn in theatrical revenues from these 13 films' box-office performances (net of marketing and distribution costs), b) €4.7mn from the sale of rights, c) €6.3mn from the sale of Free TV rights, d) €3.5mn from the sale of Pay TV rights, e) €2.4mn from the sale of digital, home video and other rights, and f) €1.0mn from other. Overall distribution revenues reached €21.5mn, which was 8% lower with respect to that of FY2014. The YoY decline is due to the fact that in 2014 LFG had the blockbuster *Wolf of Wall Street*, which alone successfully generated €12mn in Italian box-office revenues, therefore significantly augmenting the distribution revenues of the year.

Table 2: LFG's 2015 Films

Title	Segment	Box-Office (€000)
Fury	Distribution	4,275
Fathers and Daughters	Distribution	3,193
The Last Witch Hunter	Distribution	2,910
Adam Jones	Distribution	2,140
Premonitions	Distribution	1,672
Other (total of 8 foreign films)	Distribution	5,019
Il Professor Cenerentolo	Production	6,042
Italiano Medio	Executive Production	4,100
Le Leggi del Desiderio	Executive Production	588

Source: Cinetel

While 55% of LFG's topline (€21.5mn) was coming from distribution revenues in FY2015, the remaining 45%, i.e. €17.4mn, was generated from upstream. Last year, upstream revenues were only €0.5mn. This was mainly due to the acquisition of Lotus in late 2014, having partially consolidated the period after November. In its first full year after having acquired Lotus, LFG produced the blockbuster *Il Professore Cenerentolo*, which succeeded to reach €6mn in box-office revenues. In addition, there is the contribution of *Italiano Medio* and *Le Legge del Desiderio*, both of which were executive productions that were exhibited in theaters back in 1Q2015.

Overall topline showed a significant 60% YoY increase in FY2015, to €38.8mn. It is important to note that executive productions generate a pre-determined producer's fee for LFG which is based on a percentage of the production budget and a bonus that is correlated to the Box Office success of the movie. The Company's profit margin on a single executive production is therefore not fully correlated to the box-office performance of the film. On the other hand,

accounting principles require the producer, i.e. LFG, to account the total budget of the film as net sales.

Table 3: Summary Income Statement

€ thousand	2013	2014	2015	YoY %
Net Sales	20,271	24,288	38,833	60%
EBITDA	12,551	14,735	19,180	30%
EBIT	4,264	3,766	4,362	16%
Net Income after MI	2,364	2,598	3,577	38%

Source: Company Data

LFG reached €19mn of EBITDA in FY2015, with a 30% YoY increase. In the same period, the Company capitalized €13.5mn of production costs, out of which €7mn is for *Il Professore Cenerentolo* whereas the rest is part of the production costs for 2016 films --such as *La Pazza Gioia* and *Miami Beach*-- whose production had already started during 2015. Leone's bottom line was €3.6mn in FY2015, which was 38% higher with respect to FY2014.

The Company net debt has reached €24mn by YE2015, up from €10mn in YE2014, due mainly to: a) the acquisition of the films for LFG's rich 2016 pipeline, b) financing of upstream projects, and c) the payment of the balance remaining for the acquisition of Lotus Productions.

2016: A Good Start!

With all the news flow back in 2H2015, the top management had already signaled that 2016 would be LFG's most vibrant year of operations. In 1Q2016, three foreign movies hit the theaters with good results: *The Hateful Eight*, *Allegiant*, and *Gods of Egypt*. These films realized respective box-office revenues of €8.5mn, €4mn, and €1.2mn. In addition, Genovese's film *Perfetti Sconosciuti*, an LFG executive production, hit the theaters in February 2016 and reached €16mn in box-office revenues. It is worth mention that *Perfetti Sconosciuti* has recently won the *David di Donatello* as "Best Film" and was awarded as "Best Screenplay" at New York's *Tribeca Film Festival*. Even though the producer's fee received from this film was pre-set, LFG also had a bonus schema depending on the box-office success of this film. This bonus will improve 1H2016 operating results whereas such a successful LFG production is likely to secure the continuation of executive production projects where LFG does not carry any balance sheet risk. The revenues generated from foreign films distributed in Italy are again not fully linked to their box-office performances as Free TV and movie participation shares are often sold before the film goes out in theaters.

Table 4: LFG's 2016 Pipeline for Content Distribution

Title	Release Date	Director	Actors	Producer
The Hateful Eight*	Feb 2016	Quentin Tarantino	Kurt Russell, S. Jackson, J. Leight	Weinstein
Allegiant*	Mar 2016	Robert Schwentke	Theo James, Shailene Woodley	Lionsgate
Gods of Egypt*	Feb 2016	Alex Proyas	Gerard Butler, Geoffrey Rush	Summit Ent
Hardcore*	Apr. 2016	Naishuller	S. Copley, Haley Bennett	STX
Little Boy	July 2016	A Monteverde	E. Varestegui	Saverino
Tulip Fever	Sept. 2016	Justin Chadwick	Christoph Waltz	Weinstein
Happy Mothers Day	Jun. 2016	G. Marshall	J. Aniston, B. Robertson	Capacity
La La Land	Dec. 2016	Damien Chazelle	Emma Stone, Ryan Gosling	Lionsgate
A Monster Calls	Oct. 2016	J. A. Bayona	Liam Neeson, Felicity Jones	Lionsgate
Deep Water Horizon	Sept. 2016	Peter Berg	Mark Wahlberg, Kurt Russell	Lionsgate
The Girl on The Train	Oct. 2016	Tate Taylor	Emily Blunt, Kate Mara	Dreamworks
Nerve	Sept. 2016	H. Joost, A. Shulman	Emma Roberts, Dave Franco	Lionsgate
Lost City of Zen	Jun. 2016	James Gray	Sienna Miller, R. Pattinson	Cierra
Equals	Jun. 2016	Drake Doremus	Kristen Stewart, Nicholas Hoult	Mr. Smith
Hacksaw Ridge	Dec 2016	Mel Gibson	Andrew Garfield	IM Global
Big Friendly Giant	Aug. 2016	Steven Spielberg		Dreamworks
Now You See Me 2	Jun. 2016	Jon M. Chu	Morgan Freeman, Woody Harrelson	Lionsgate
Escape from Planet Earth	Apr. 2016	C. Brunker	(Animation)	Weinstein
The Last Face	Oct. 2016	Sean Penn	Charlize Theron, Javier Bardem	Lionsgate
American Ultra	Jun. 2016	TBD	TBD	Filmnation
Les Nouvelles Aventures d'Aladin	2016	TBD	TBD	Pathe
Light Between the Oceans	2016	Derek Cianfrance	Michael Fassbender, Rachel Weisz	Dreamworks

Source: LFG

*Already hit the theaters.

2016 will be the first year LFG will produce a TV series, *Immaturi*, inspired from the 2011 film *Immaturi* featuring Raul Bova, that reached €11.4mn box-office in the first three weeks of its theater performance. The Company will act both as the executive producer and the co-producer (together with Mediaset) for this TV series and will therefore own a share in future revenues. The production will take place during 2016 whereas Mediaset will release the series in 2017. The second TV series on LFG's pipeline is the 12-episode *I Beati Paoli* (the book of Luigi Natoli), which will be directed by Giuseppe Tornatore during 2017 and will be released in 2018.

Table 5: LFG Productions in 2016

Title	Release Date	Director	Type
Perfetti Sconosciuti*	Feb. 2016	P. Genovese	Exec. Prod.
La Pazza Gioia	May 2016	P. Virzi	Co-prod.
Miami Beach	June 2016	Vanzina	Co-Prod.
Quel Bravo Ragazzo	Ott. 2016	Enrico Lando	Exec. Pro.
Immaturo (TV Series)	Mar. 2017	R. Ravello	Exec. Prod./Co-prod.

Source: LFG

*Already hit the theaters.

All in all, we expect Leone to reach €38mn and €23mn revenues from distribution and production segments respectively in 2016E, totaling to consolidated revenues of €60mn for the year. Within the €38mn distribution revenues, there are also revenues generated from library and digital.

We expect Leone to distribute 17 films for 2017, among which there are Spielberg's *Big Friendly Giant*, Sean Penn's *The Last Face*, Europacord's *Valerian*, Lionsgate's *Now You See Me* series, and many others. We, therefore, expect 2017E sales to continue to grow, reaching €65.65mn and EBITDA to reach €34.87mn, with a 9.0% and a 17.5% YoY growth, respectively.

Table 6: Summary Estimates

€ thousand	2013	2014	2015	2016E	2017E
Net Sales	20,271	24,288	38,833	60,231	65,655
EBITDA	12,551	14,735	19,181	29,685	34,872
Amortization	-8,287	-10,969	14,818	22,498	26,147
EBIT	4,264	3,766	4,363	7,186	8,725
Net Income after MI	2,364	2,598	3,577	4,298	5,612

Source: Company data, KT&P estimates

Valuation

Given the level of volatility that characterizes this business, we believe the best way to provide a fair valuation of LFG is to focus on multiple comparisons. We prefer to compare EBIT multiples as at the EBITDA level cost of films produced or distributed could not be properly reflected.

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.

We have based our valuation on 2016 and 2017 multiples and have applied a 10% stock liquidity discount to EV/EBIT peers average. This translates into €3.60ps for 2016E and €3.59ps for 2017E. We set €3.60ps - 2016-2017E average - as a target price.

Table 7: Multiple Valuation

Multiple Valuation (€mn)	2016E	2017E
Peer Group EV/EBITDA netted from 10% liquidity discount	10.44	8.57
LFG EBIT	7.19	8.73
Enterprise value	74.99	74.77
LFG Net Debt	24.24	24.24
Equity Value	50.75	50.53
Number of shares (mn)	14.09	14.09
Value per share	3.60	3.59

Source: KT&Partners elaboration on Factset data

It is worth pointing out that our valuation takes into account the following points:

- The company's EV/EBIT 2016 multiple is in line with its European peers. However, LFG is one of the fast growing players in its peer group. Furthermore, on 2017 multiple basis, LFG trades at discount to both American and European comparables;
- Conservatively, our estimates on LFG's EBIT are lower than the Company's guidance for both 2016 and 2017. The ability of the company to meet its targets could drive the price up.

We have reported in the following tables the peers' valuation showing both 2016 and 2017 multiples at current market prices.

Table 8: Peer Group Valuation Table - 2016 Multiples

Company Name	Market Cap	EV/SALES 2016	EV/EBITDA 2016	EV/EBIT 2016	P/E 2016
Lions Gate Entertainment Corp.	2,666	1.83	14.72	22.73	17.74
DreamWorks Animation SKG, Inc. Class A	2,085	2.82	22.86	29.11	49.95
Entertainment One Ltd.	1,023	1.24	7.65	8.24	9.15
Bona Film Group Ltd. Sponsored ADR	759	n.a.	n.m.	n.m.	n.m.
EuropaCorp SA	129	1.22	4.68	8.57	6.08
Splendid Medien AG	29	0.31	1.38	4.47	8.18
Lucisano Media Group S.p.A.	28	1.01	2.41	6.15	4.71
Notorious Pictures S.p.A.	30	0.77	1.30	1.90	3.54
Avg. Peer Group	843	1.32	7.86	11.59	14.19
Leone Film Group S.p.A.	41	1.08	2.19	9.06	9.51

Source: KT&Partners elaboration on Factset data

Table 9: Peer Group Valuation Table - 2017 Multiples

Company Name	Market Cap	EV/SALES 2017	EV/EBITDA 2017	EV/EBIT 2017	P/E 2017
Lions Gate Entertainment Corp.	2,666	1.70	12.01	17.56	13.47
DreamWorks Animation SKG, Inc. Class A	2,085	2.49	15.26	17.93	26.78
Entertainment One Ltd.	1,023	1.13	6.78	7.24	7.81
Bona Film Group Ltd. Sponsored ADR	759	n.a.	n.a.	n.a.	n.a.
EuropaCorp SA	129	1.21	12.95	12.95	10.48
Splendid Medien AG	29	0.28	1.22	3.76	7.14
Lucisano Media Group S.p.A.	28	0.97	2.31	5.53	4.04
Notorious Pictures S.p.A.	30	0.71	1.14	1.67	3.09
Avg. Peer Group	843	1.21	7.38	9.52	10.40
Leone Film Group S.p.A.	41	0.99	1.87	7.46	7.28

Source: KT&Partners elaboration on Factset data

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