

Company Update

Buy (maintained)

3 May 2019 – 5:30PM

MARKET PRICE: EUR4.80

TARGET PRICE: EUR6.74 (from EUR6.48)

Entertainment

Data

Shares Outstanding (m):	14.09
Market Cap. (EURm):	68.1
Enterprise Value (EURm):	109.4
Free Float (%):	19.3%
Av. Daily Trad. Vol. (m):	0.01
Main Shareholder:	Leone family 58.1%
Reuters/Bloomberg:	LFG.MI LFG IM
52-Week Range (EUR)	4.0 5.3

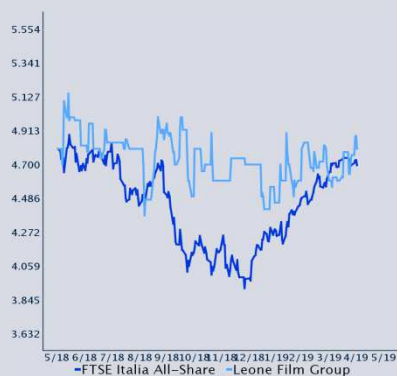
Source: Factset, UBI Banca estimates

Performance

	1m	3m	12m
Absolute	4.3%	7.6%	-0.8%
Rel. to FTSE IT	3.4%	-2.6%	10.9%

Source: Factset

Graph area Absolute/Relative 12 M



Source: Factset

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Financials

	2018	2019E	2020E	2021E
Revenues (EURm)	122.08	130.62	139.27	150.16
EBITDA (EURm)	30.47	34.08	39.39	42.75
EBITDA margin (%)	25.0%	26.1%	28.3%	28.5%
EBIT (EURm)	6.65	9.51	12.14	12.54
EPS (EUR)	0.48	0.58	0.78	0.87
CFPS (EUR)	1.13	2.35	2.90	3.08
DPS (EUR)	0.09	0.18	0.24	0.24

Source: Company Data, UBI Banca Estimates

Positive 2019 kick off

Lifted by positive box office performance (EUR41.9 million) and higher production revenues, LFG reported 2018 sales of EUR122.1 million (+15.4% for the full year, with a stable second half of the year), slightly above the preliminary results and the business plan while the EBITDA increased by 4% vs. 2017, consistent with the 2019-2020 business plan and our estimates. Net profit (EUR6.8 million) was well above our expectations and the business plan benefitting from tax credits for executive productions and from the positive effect of mark to market of derivatives on USD. The company also returned to dividends with a DPS of EUR0.09 (19% pay-out, 1.8% yield). In addition, the 2019 kick off was strongly positive with three blockbusters released ("Green Book" which was also the Oscar winner for the best movie of the year, "After" and "Mia e il Leone Bianco") and >EUR23 million box office takings to date (around 56% of the box office reported in the whole of 2018) providing a solid base for 2019 results despite the challenging movie market (admissions declined by 7% and box office receipts dropped by 5% in 2018). We have fine tuned our estimates (top line forecasts for 2019-20 +3% on average and EBITDA +2% on average). We also factored in higher D&A costs and slightly increased net debt forecasts. Buy confirmed with a new target price of EUR6.74 per share (from EUR6.48).

- > We were impressed by 2018 results above the preliminary outcome and by the robust start to the year. Our 2019-20 estimates have been fine tuned and are slightly above LFG's business plan. We expect a sales CAGR of 7.1% until 2021 with an EBITDA which could exceed EUR42 million in 2021 and a bottom line of >EUR12 million. Net debt, should progressively decline to EUR22 million at Dec-21.
- > Our target price of EUR6.74 per share (from EUR6.48) is based on the average of a DCF analysis and a relative valuation, applying a 10% discount: it implies a potential upside of >40%. The shares are now trading at a discount of about 48% to the average 2019-21 EV/EBITDA of peers and at a 45% discount to P/E.
- > LFG remains an attractive buying opportunity in our view, thanks to a wide range of long-term contracts with content providers, broadcasters and highly respected Italian directors, potential acquisitions or partnerships to expand outside Italy, an attractive lineup, a wide film library and growing tax credits. Buy reiterated.

Ratios

priced on 2 May 2019

	2018 *	2019E	2020E	2021E
P/E(x)	10.0	8.3	6.2	5.5
P/CF(x)	2.2	2.1	1.8	1.6
P/BV(x)	1.6	1.3	1.2	1.0
Dividend Yield	1.9%	3.8%	5.0%	5.0%
EV/EBITDA(x)	3.9	3.2	2.5	2.1
Debt/Equity (x)	1.1	0.8	0.5	0.3
Debt/EBITDA (x)	1.6	1.2	0.8	0.5

Source: UBI Banca Estimates * Based on 2018 average price

Key Financials

(EURm)	2018	2019E	2020E	2021E
Revenues	122.08	130.62	139.27	150.16
EBITDA	30.47	34.08	39.39	42.75
EBIT	6.65	9.51	12.14	12.54
NOPAT	4.52	6.47	8.26	8.53
Free Cash Flow	-7.13	12.01	14.02	15.26
Net Capital Employed	93.01	91.14	90.28	89.78
Shareholders' Equity	43.57	50.50	58.96	67.96
Net Financial Position	49.42	40.64	31.32	21.82

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2018	2019E	2020E	2021E
Net Debt/Ebitda (x)	1.6	1.2	0.8	0.5
Net Debt/Equity (x)	1.1	0.8	0.5	0.3
Interest Coverage (%)	57.3	6.5	9.1	33.1
Free Cash Flow Yield (%)	-10.5%	17.6%	20.6%	22.4%
ROE (%)	15.6%	16.3%	18.7%	18.3%
ROI pre-tax (%)	5.3%	7.0%	9.0%	9.4%
ROCE (%)	5.3%	7.0%	9.1%	9.5%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

	2018 *	2019E	2020E	2021E
P/E (x)	10.0	8.3	6.2	5.5
P/BV (x)	1.6	1.3	1.2	1.0
P/CF (x)	2.2	2.1	1.8	1.6
Dividend Yield (%)	1.9%	3.8%	5.0%	5.0%
EV/Sales (x)	0.9	0.8	0.7	0.6
EV/EBITDA (x)	3.9	3.2	2.5	2.1
EV/EBIT (x)	17.7	11.5	8.2	7.2
EV/CE (x)	1.3	1.2	1.1	1.0

Source: Company data, UBI Banca estimates

* Based on 2018 average price

Key Value Drivers

(%)	2018	2019E	2020E	2021E
Payout	18.8%	31.1%	30.9%	27.5%
NWC/Sales	12.4%	10.8%	8.3%	7.0%
Capex/Sales	18.1%	15.0%	17.9%	17.4%

Source: Company data, UBI Banca estimates

Recent Developments

- > LFG reported EUR122.1 million revenues, slightly above preliminary results and 13% above the business plan, increasing by 15.4%. This result is explained by the positive trend for Distribution division which reached EUR33 million (+13.6%) but also thanks to higher revenues for the Production division (+9.4%), sales of rights and higher tax credits. In the second half of the year revenues were broadly flat as the increase of distribution sales were offset by weaker production revenues.
- > LFG distributed 16 movies in 2018, including several blockbusters (“The Post” which generated box office of >EUR6.5 million, “A Casa tutti Bene” with >EUR9 million, “Adrift” with >EUR3.2 million box office, and “House with a Clock in its Walls” with EUR3.1 million) contributing to total box office receipts of about EUR41.9 million (vs. EUR44.2 million in 2017, when LFG distributed 23 movies), representing around EUR2.6 million per movie, more than twice the average Italian box office figure, which was around EUR1.1 million per movie in 2018. 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 7.5%, placing it top among Italian distributors.
- > The EBITDA margin suffered a dilutive effect from executive production moving from 27.8% in 2017 to 25.0% in 2018, while the performance of the movies released pushed the EBITDA in absolute terms up by 4% to EUR30.5 million, in line with our expectations and slightly above the business plan projections. After D&A in line with 2017, the EBIT was in line with our estimate and with the plan. The net profit experienced significant growth (+74% for the full year) stopping at EUR6.8 million, thanks to the tax credit for executive productions, which more than offset corporate taxes, and the positive effect of mark to market of derivatives on USD for around EUR2.2 million.
- > Net debt was EUR49.4 million at Dec-18 (vs. EUR40.5 million at Dec-17) after capex for EUR23.2 million and a significant NWC absorption (higher trade receivables and lower trade payables plus higher tax credits and VAT credits related to the large amount of executive productions) reaching EUR16 million (or 13.1% of sales vs. 1.3% in 2017). Fixed assets increased to EUR77.8 million, of which EUR57.6 million was rights, and the total invested capital rose to EUR93.7 million, giving a capital turnover of 1.3x and a ROCE of around 6.7%.
- > The company announced a DPS of EUR0.09 (vs. no dividend in 2017) implying a dividend yield of 1.8% at the current market price and corresponding to a payout ratio of 19%, which was slightly below our expectations.
- > As expected, the announced share capital increase of up to EUR30 million in one or more tranches, without share option rights and reserved for institutional investors, did not take place given current difficult market conditions exacerbated by political instability and BPT/Bund spread enlargement. The rights issue was solely aimed to sustain an accelerated growth strategy and a potential expansion abroad while increasing the free float of the company.
- > The trend in the movie market was negative in 2018: with 528 movies distributed, of which 210 Italian productions, admissions declined by 6.9% and box office receipts were down 5.0% (source: *Cinetel*) with a decrease of average theatrical sales per movie (-3.6% at EUR1.05 million). The first three months of 2019 were also not bright.

Figure 1 – 2018 results

(EURm)	2017A	2018A	% Chg.	2018E	% Chg.
Sales Distribution	29.2	33.2	13.6%	29.21	13.6%
Sales Production	56.0	61.3	9.4%	56.01	9.4%
Sales Other	20.6	27.6	34.4%	22.92	20.6%
Sales total	105.8	122.1	15.4%	108.13	12.9%
EBITDA	29.4	30.5	3.6%	30.63	-0.5%
% margin	27.8%	25.0%		27.8%	
EBIT	5.4	6.7	22.7%	6.57	1.2%
% margin	5.1%	5.4%		5.1%	
Pre tax profit	2.5	6.5	161.0%	5.14	27.2%
Net profit	3.9	6.8	73.9%	5.65	20.0%
Net debt/(cash)	40.5	49.4		40.54	21.9%

Source: Company data, UBI Banca estimates

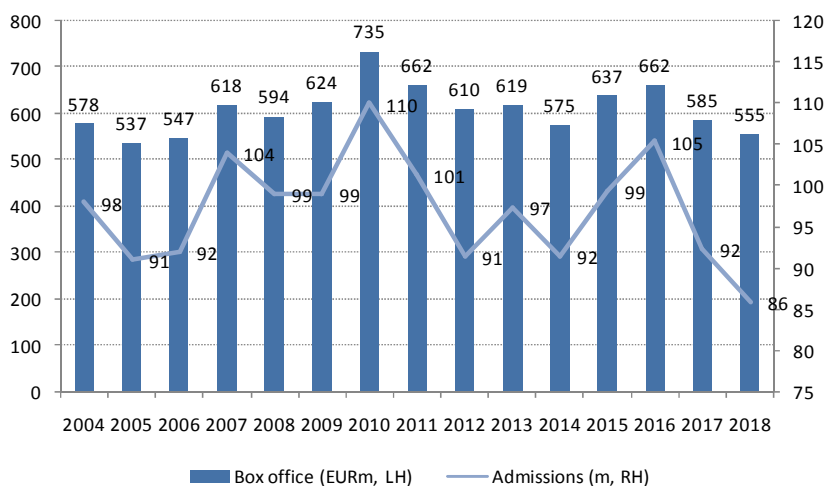
Figure 2 – 2H18 results

(EURm)	2H17A	2H18A	% Chg.
Sales Distribution	12.6	23.5	87.4%
Sales Production	42.5	28.4	-33.3%
Sales Other	15.4	18.2	18.4%
Sales total	70.5	70.1	-0.5%
EBITDA	18.2	21.2	16.8%
% margin	25.8%	30.3%	
EBIT	2.6	4.7	82.8%
% margin	3.6%	6.7%	
Pre tax profit	0.8	4.4	463.4%
Net profit	2.6	4.1	56.4%

Source: Company data

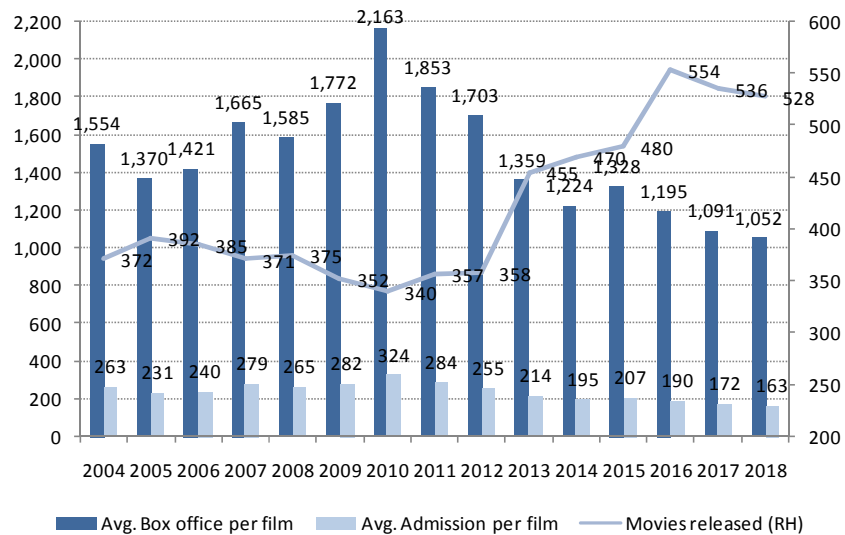
Figure 3 – Box office and admissions in Italy

Admissions and box office were significantly down in the past two years, also due to the lack of significant blockbusters. 2019 is expected to improve significantly.



Source: UBI Banca on Cinetel data

Figure 4 – Movies released, box office and admissions in Italy – average per movie (000)



Source: UBI Banca on Cinetel data

Figure 5 – Movie releases in 2018

Movie title	Release	Box office (EUR000)
The post	Feb-18	6400
Based on a true story	Mar-18	388
Wind River	Apr-18	1100
Stronger	Jul-18	130
12 Soldiers	Jul-18	725
Down a dark hall	Aug-18	355
The spy who dumped me	Aug-18	360
Fire squad (only the brave)	Aug-18	285
Adrift (resta con me)	Aug-18	3200
Tulip Fever	Sep-18	294
Soldado	Oct-18	1371
House with a clock in its walls	Oct-18	3100
Robin Hood: origins	Nov-18	1888
Sink or swim	Dec-18	1000
A simple favor	Dec-18	2200

Source: Cinetel

Financial Projections

> The Company did not provide an updated outlook for 2019 that anticipates 12 movies released with 2 productions and 1 executive production and expectations of EUR129.3 million sales with EBITDA at EUR32.3 million. We have updated our forecasts following 2018 results and added 2021 projections. Our new estimates are slightly above the business plan as we factored in the stunning box office results reported up to date (namely “Green Book” reached EUR9.7 million, “After” with a box office of EUR6.1 million and “Mia e il Leone Bianco” at EUR5.6 million). However, EBIT margins have been slightly lowered reflecting higher D&A costs. Below the operating line we reduced our financial charges projections, thus implying a stable bottom line compared with our previous estimates. For the coming years we estimate a pay-out ratio at around 30% (19% in 2018) thus implying a dividend yield of 3.7% on 2019 results and nearly 5% in 2020-21.

Figure 6 – Old vs. New estimates

(EURm)	2018A	2019E		2020E		2021E
	New	Old	New	Old	New	New
Total Sales	122.1	127.7	130.6	134.9	139.3	150.2
% change			2.3%		3.2%	
EBITDA	30.5	33.5	34.1	38.7	39.4	42.7
% change			1.8%		1.8%	
EBIT	6.7	10.2	9.5	12.4	12.1	12.5
% change			-6.8%		-2.5%	
Net Profit	6.8	8.2	8.2	10.9	11.0	12.4
% change			-0.5%		1.0%	
Net Debt/(Cash)	49.4	37.6	40.6	33.5	31.3	21.8
EBIT margin	5.4%	8.0%	7.3%	9.2%	8.7%	8.4%
EBITDA margin	25.0%	26.2%	26.1%	28.7%	28.3%	28.5%

Source: Company data, UBI Banca estimates

Figure 7 – New 2019-20 estimates compared with the business plan

(EURm)	2018A	Business plan		Our estimates		Delta	
		2019E	2020E	2019E	2020E	2019E	2020E
Consolidated sales	122.1	129.3	136.8	130.6	139.3	1.0%	1.8%
EBITDA Consolidated	30.5	32.3	39.1	34.1	39.4	5.5%	0.7%
% margin	25.0%	25.0%	28.6%	26.1%	28.3%		
D&A	(23.8)	(22.9)	(26.5)	(24.6)	(27.2)	7.3%	2.8%
EBIT	6.7	9.4	12.6	9.5	12.1	1.2%	-3.6%
% margin	5.4%	7.3%	9.2%	7.3%	8.7%		
Net profit	6.8	7.4	10.5	8.2	11.0	10.9%	4.9%
Net debt	49.4	37.9	34.3	40.6	31.3	7.2%	-8.7%

Source: Company data, UBI Banca estimates

Valuation

- > Given our forecasts fine tuning, our DCF valuation has increased to EUR7.69 per share (from EUR7.56) and our relative valuation to EUR7.29 per share from EUR6.84 per share. The simple average of our DCF and the relative valuation gives a fair value of EUR7.49. 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 EUR6.74 per share (vs. EUR6.48 before) offering >40% upside.
- > LFG's current market capitalization (EUR68 million) is below its net invested capital (EUR93.7 million at Dec-18), which implies that LFG may not be able to create value in the future. We believe this scenario is highly unlikely given the wide line-up of the company and the growing EBITDA expected for 2019-21.
- > At our EUR6.74 per share target price, LFG would trade below the average multiple of our sample of peers on both P/E and EV/EBITDA.

Figure 8 – Valuation summary

(EUR)		Weight	9 October 18	Delta
DCF Valuation	7.69	50.0%	7.56	1.7%
Relative Valuation	7.29	50.0%	6.84	6.6%
Fair Value	7.49		7.20	4.0%
Liquidity discount (10%)	-0.75		-0.72	4.0%
Target price	6.74		6.48	4.0%
Current price	4.80		4.78	0.4%
Potential upside	40.4%		35.5%	

Source: UBI Banca estimates

Figure 9 – DCF Valuation

Our DCF valuation implies 4.6x EV/EBITDA at terminal value.

(EURm)	(EUR m)	(% weight)
Sum of PV 2018-26 FCF	77.0	49%
Terminal value	81.1	51%
Total Enterprise value	158.1	100%
- minorities	0.0	
- Pension Provision	(0.4)	
- Net debt (+ cash)	(49.4)	
Total Equity value	108.3	
Fully diluted number of shares (m)	14.1	
Fair value per share (EUR)	7.69	

Source: UBI Banca estimates

Figure 10 – Peer comparison and valuation based on multiples (priced on 2 May 2019)

Company	Market Cap (EURm)	P/E			EV/EBITDA			EV/EBIT		
		2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Splendid Medien AG	13	42.7 x	10.7 x	9.1 x						
Lions Gate	2,549	18.6 x	15.0 x	13.7 x	8.6 x	7.4 x		14.9 x	12.3 x	
Entertainment One Ltd.	2,746	19.1 x	15.6 x		12.2 x	10.8 x		14.1 x	13.3 x	
Constantin Medien AG	173	92.5 x	46.3 x		26.8 x	21.3 x		80.5 x	45.7 x	
Highlight Communications AG	287	14.8 x	12.1 x		2.3 x	2.1 x		10.2 x	8.1 x	
Lucisano Media Group	27	6.6 x	5.2 x	4.8 x	4.5 x	4.0 x	3.8 x	8.4 x	7.4 x	7.0 x
Mondo TV	46	11.5 x	8.4 x	6.5 x	3.2 x	2.5 x	3.1 x	6.7 x	5.4 x	6.3 x
Notorious Pictures	66	10.9 x	9.5 x	7.5 x	4.6 x	4.5 x	3.9 x	8.9 x	8.2 x	6.7 x
Average		27.1 x	15.3 x	8.3 x	8.9 x	7.5 x	3.6 x	20.5 x	14.3 x	6.6 x
Median		14.8 x	11.4 x	7.5 x	4.6 x	4.5 x	3.8 x	10.2 x	8.2 x	6.7 x
Current market multiples	68	10.0 x	8.3 x	6.2 x	3.9 x	3.2 x	2.5 x	17.7 x	11.5 x	8.2 x
Discount to Average		-63.1%	-45.9%	-25.9%	-56.6%	-57.4%	-29.2%	-13.8%	-19.9%	24.0%
Discount to Median		-32.5%	-27.2%	-17.7%	-16.9%	-29.1%	-33.2%	74.2%	40.2%	23.8%

Source: Factset, UBI Banca estimates

Figure 11 – Implicit multiples based on our EUR6.74 target price

(x)	2019E	2020E	2021E
P/E	11.7 x	8.7 x	7.7 x
EV/EBITDA	4.0 x	3.2 x	2.8 x
EV/EBIT	14.4 x	10.5 x	9.4 x
EV/Sales	0.96 x	0.84 x	0.72 x
P/BV	1.9 x	1.6 x	1.4 x
EV/ Capital employed	1.5 x	1.4 x	1.3 x

Source: UBI Banca estimates

Income Statement

(EURm)	2018	2019E	2020E	2021E
Value of production	128.14	142.38	151.80	163.67
EBITDA	30.47	34.08	39.39	42.75
EBITDA margin	25.0%	26.2%	28.3%	28.5%
EBIT	6.65	9.51	12.14	12.54
EBIT margin	5.2%	6.7%	8.0%	7.7%
Net financial income /expense	-0.12	-1.47	-1.34	-0.38
Associates & Others	0.00	0.00	0.00	0.00
Profit before taxes	6.54	8.05	10.80	12.16
Taxes	0.25	0.16	0.22	0.24
Minorities & discontinuing ops	0.00	0.00	0.00	0.00
Net Income	6.79	8.21	11.02	12.40

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2018	2019E	2020E	2021E
Net working capital	15.94	15.40	12.55	11.44
Net Fixed assets	77.78	76.68	78.56	79.19
M/L term funds	-0.71	-0.93	-0.82	-0.86
Capital employed	93.01	91.14	90.28	89.78
Shareholders' equity	43.57	50.50	58.96	67.96
Minorities	0.00	0.00	0.00	0.00
Shareholders' funds	43.57	50.50	58.96	67.96
Net financial debt/(cash)	49.43	40.64	31.32	21.82

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2018	2019E	2020E	2021E
NFP Beginning of Period	40.54	49.42	40.64	31.32
Group Net Profit	6.79	8.21	11.02	12.40
Minorities	0.00	0.00	0.00	0.00
D&A	23.82	24.56	27.25	30.21
Change in Funds & TFR	0.00	0.00	0.00	0.00
Gross Cash Flow	30.60	32.77	38.27	42.61
Change In Working Capital	-14.52	0.54	2.85	1.10
Other	0.00	0.00	0.00	0.00
Operating Cash Flow	16.08	33.31	41.12	43.71
Net Capex	-23.21	-21.30	-27.10	-28.46
Other Investments	0.00	0.00	0.00	0.00
Free Cash Flow	-7.13	12.01	14.02	15.26
Dividends Paid	0.00	-1.28	-2.56	-3.41
Other & Chg in Consolid. Area	-1.77	-1.95	-2.14	-2.36
Chg in Net Worth & Capital Incr.	0.00	0.00	0.00	0.00
Change in NFP	-8.90	8.79	9.32	9.50
NFP End of Period	49.43	40.64	31.32	21.82

Source: Company data, UBI Banca estimates

Financial Ratios				
(%)	2018	2019E	2020E	2021E
ROE	15.6%	16.3%	18.7%	18.3%
ROI (pre-tax)	7.8%	10.2%	13.3%	13.8%
Net Fin. Debt/Equity (x)	1.1	0.8	0.5	0.3
Net Fin. Debt/EBITDA (x)	1.6	1.2	0.8	0.5
Interest Coverage	57.3	6.5	9.1	33.1
NWC/Sales	12.4%	10.8%	8.3%	7.0%
Capex/Sales	18.1%	15.0%	17.9%	17.4%
Pay Out Ratio	18.8%	31.1%	30.9%	27.5%

Source: Company data, UBI Banca estimates

Per Share Data				
(EUR)	2018	2019E	2020E	2021E
EPS	0.48	0.58	0.78	0.87
DPS	0.09	0.18	0.24	0.24
Op. CFPS	1.13	2.35	2.90	3.08
Free CFPS	-0.50	0.85	0.99	1.07
BVPS	3.07	3.56	4.15	4.79

Source: Company data, UBI Banca estimates

Stock Market Ratios				
(x)	2018	2019E	2020E	2021E
P/E	10.0	8.3	6.2	5.5
P/OpCFPS	4.2	2.0	1.7	1.6
P/BV	1.6	1.3	1.2	1.0
Dividend Yield (%)	1.9%	3.8%	5.0%	5.0%
Free Cash Flow Yield (%)	-10.5%	17.6%	20.6%	22.4%
EV (EURm)	117.67	109.35	100.05	90.59
EV/Sales	0.9	0.8	0.7	0.6
EV/EBITDA	3.9	3.2	2.5	2.1
EV/EBIT	17.7	11.5	8.2	7.2
EV/Capital Employed	1.3	1.2	1.1	1.0

Source: Company data, UBI Banca estimates

* Based on 2018 average price

Growth Rates				
(%)	2018	2019E	2020E	2021E
Growth Group Net Sales	9.3%	11.1%	6.6%	7.8%
Growth EBITDA	3.6%	11.8%	15.6%	8.5%
Growth EBIT	22.7%	43.0%	27.6%	3.3%
Growth Net Profit	73.9%	21.0%	34.2%	12.6%

Source: Company data, UBI Banca estimates

Disclaimer

Analyst Declaration

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Equity rating dispersion in the past 12 months

Buy	Hold	Sell	No Rating
91.1%	4.5%	0.0%	4.4%

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
14 February 2018	Buy	6.34	5.55
13 April 2018	Buy	6.86	5.05
12 July 2018	Buy	6.58	4.80
9 October 2018	Buy	6.48	4.78