

Company Update

**Buy (maintained)**

03 May 2018 – 5:30PM

 MARKET PRICE: **EUR1.42**

 TARGET PRICE: **EUR1.75 (from EUR1.50)**
**Entertainment**
**Data**

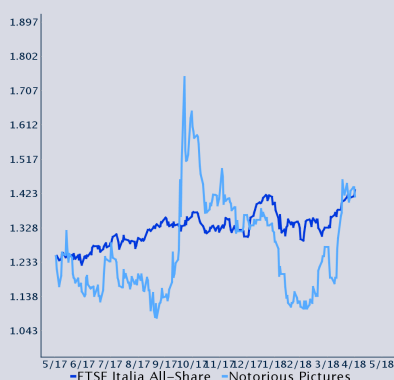
Shares Outstanding (m):	22.5
Market Cap. (EURm):	31.8
Enterprise Value (EURm):	26.5
Free Float (%):	16.9%
Av. Daily Trad. Vol. (m):	0.0
Main Shareholder:	Mr. Marchetti 82.0%
Reuters/Bloomberg:	NPI.MI NPI IM
52-Week Range (EUR)	0.9 1.7

Source: Factset, UbiBanca estimates

**Performance**

	1m	3m	12m
Absolute	11.0%	9.7%	38.0%
Rel. to FTSE	3.0%	5.4%	19.3%

IT  
Source: Factset

**Graph area Absolute/Relative 12 M**


Source: Factset

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## New activities make 2018 bright

We believe that 2018 could be a turning point for Notorious Pictures, after disappointing results in 2017 (revenues down 21%, EBITDA margin below our expectations, net result down 48%): 1) 2018 kickoff was strongly positive with EUR7.2 million box office takings to date (>65% of the box office reported in the whole 2017), 2) the company is changing its strategy, enriching and also other TV formats: this segment should give Notorious Pictures greater sales visibility while lowering the overall risk, 3) development of executive productions (one contract just signed for EUR10.3 million) could strongly increase revenues in the future while offering attractive tax credits. As a result, we believe that the coming years should see a gradual but sizeable improvement of the top line and profitability with an excellent first half in 2018, similar to the whole 2017. The shares grew strongly in the past few weeks (+28% since the beginning of March) but are still trading at an impressive discount to peers (>55% on 2018-19 EV/EBITDA, 32% in P/E and 47% on EV/EBIT) leaving room for further outperformance. Lastly, Notorious Pictures could benefit from the recent classification as an innovative small company ("PMI innovativa"), which increases the appeal of the shares given the associated tax benefits for investors, from the potential listing on the STAR segment (a reiterated management objective), from a solid financial structure (net cash is currently equal to 20% of market capitalisation) and from an attractive dividend yield (we estimate >5% in 2018-20). We confirm our Buy rating with a new target price of EUR1.75 per share (from EUR1.50).

- > 2017 was penalized by a challenging environment for the Italian movie industry (box office down 11.6%), by the lack of blockbusters and by the postponement of some movie releases due to the Weinstein scandal. As a result, Notorious Pictures missed its business plan targets and our estimates. The only positive news was higher than expected net cash at year-end thanks to NWC reduction and lower capex.
- > We have revised our 2018-19 forecasts (and added 2020), increasing sales prospects but reducing profitability (different sales mix) with a negative impact on the bottom line close to 23% on average.
- > Our new target price of EUR1.75 per share (from EUR1.50) offers a potential upside of >20%. Buy reiterated.

**Financials**

	2017	2018E	2019E	2020E
Revenues (EURm)	18.1	30.4	32.5	34.1
EBITDA (EURm)	6.0	10.0	11.3	11.7
EBITDA margin (%)	33.2%	32.9%	34.7%	34.2%
EBIT (EURm)	1.9	4.8	6.2	6.3
EPS (EUR)	0.06	0.17	0.23	0.23
CFPS (EUR)	0.33	0.28	0.41	0.45
DPS (EUR)	0.054	0.070	0.080	0.080

Source: Company Data, UBI Banca Estimates

**Ratios**

	priced on 2 May 2018			
	2017 *	2018E	2019E	2020E
P/E(x)	17.6	8.2	6.3	6.1
P/CF(x)	4.6	3.5	3.1	3.0
P/BV(x)	1.2	1.3	1.2	1.0
Dividend Yield	4.7%	4.9%	5.7%	5.7%
EV/EBITDA(x)	3.3	2.7	2.3	2.1
Debt/Equity (x)	-0.3	-0.2	-0.2	-0.2
Debt/EBITDA (x)	-1.0	-0.5	-0.6	-0.6

Source: UBI Banca Estimates \* Based on 2017 average price

**Key Financials**

(EURm)	2017	2018E	2019E	2020E
Revenues	18.1	30.4	32.5	34.1
EBITDA	6.0	10.0	11.3	11.7
EBIT	1.9	4.8	6.2	6.3
NOPAT	1.3	3.2	4.2	4.2
Free Cash Flow	3.8	0.5	2.5	2.8
Net Capital Employed	14.8	18.2	20.8	23.1
Shareholders' Equity	21.0	23.7	27.2	30.6
Net Financial Position	-6.2	-5.5	-6.4	-7.4

Source: Company data, UBI Banca estimates

**Key Profitability Drivers**

	2017	2018E	2019E	2020E
Net Debt/Ebitda (x)	-1.0	-0.5	-0.6	-0.6
Net Debt/Equity (x)	-0.3	-0.2	-0.2	-0.2
Interest Coverage (%)	23.8	238.2	310.0	317.1
Free Cash Flow Yield (%)	14.8%	1.5%	7.9%	8.8%
ROE (%)	6.9%	16.4%	18.6%	17.0%
ROI (%)	6.0%	14.7%	16.8%	15.6%
ROCE (%)	7.9%	19.3%	21.3%	19.4%

Source: Company data, UBI Banca estimates

**Key Valuation Ratios**

	2017 *	2018E	2019E	2020E
P/E (x)	17.6	8.2	6.3	6.1
P/BV (x)	1.2	1.3	1.2	1.0
P/CF (x)	4.6	3.5	3.1	3.0
Dividend Yield (%)	4.7%	4.9%	5.7%	5.7%
EV/Sales (x)	1.1	0.9	0.8	0.7
EV/EBITDA (x)	3.3	2.7	2.3	2.1
EV/EBIT (x)	10.5	5.6	4.1	3.9
EV/CE (x)	1.3	1.5	1.2	1.1

Source: Company data, UBI Banca estimates

\* Based on average 2017 price

**Key Value Drivers**

(%)	2017	2018E	2019E	2020E
Payout	83.7%	40.5%	35.5%	34.7%
NWC/Sales	52.0%	40.4%	40.9%	40.4%
Capex/Sales	20.0%	19.1%	20.3%	21.1%

Source: Company data, UBI Banca estimates

### Recent Developments

- > Notorious Pictures reported 2017 sales of EUR18.1 million, well below our forecasts at EUR28.8 million and the business plan at EUR28.6 million (-37%). This weak performance vs. 2016 (-21% for the full year) could be partially explained by the negative trend of the 2017 movie industry in Italy and by the suspension of two significant movies programmed for 4Q17 (among them "The War with Grandpa" with Robert De Niro) due to the scandal involving The Weinstein Company LLC which is now in bankruptcy. Moreover, the postponement of new executive production contracts has further reduced the top line of 2017. Despite the distribution of 16 movies in 2017 (vs. 14 in 2016) theatrical sales were slightly down (EUR4.5 million in 2017 vs. EUR4.8 million in 2016), implying a lower box office per movie (EUR0.69 million vs. EUR0.73 million in 2016). However, 2H17 recorded a significant boost vs. 1H17 (+90%), thanks to the release of some successful movies like "Shot Caller", "The Nut Job 2: Nutty by Nature" and "The Man Who Invented Christmas". Pay TV revenues (EUR5.7 million vs. EUR5.9 million in 2016) declined by 4% while free TV increased by 68% (to EUR3.4 million) due to the release of some 2015 blockbusters. Executive production revenues declined by nearly 65% to EUR1.9 from EUR5.3 million in 2016 (which benefitted from the executive production activity of the movie "Black Butterfly").
- > The EUR6 million 2017 EBITDA was lower than the previous year (-9%) and heavily below our expectations (-53%) and the business plan (-59%). The EBITDA margin of 33.2%, although much lower than the 50.8% proposed by the business plan, was higher than the 28.7% margin of 2016, due to the different revenue mix and a substantial EUR4.2 million operating costs reduction. EBIT, which was down 41% vs. 2016, was impacted by higher D&A costs (EUR4.1 million in 2017 compared with EUR3.4 million in 2016, which benefitted from executive production). The bottom line dropped by 47% compared to the previous year and was 62% below our forecasts. Net cash improved from EUR3.3 million at Jun-17 to EUR6.2 million at Dec-17, even above our estimate of EUR5.6 million. The full year capex of EUR7.1 million is substantially equivalent to the investment sustained the previous year.
- > Notorious Pictures' library of 388 movies (304 movies were acquired libraries or direct to video) had a net value of EUR8.0 million at Dec-17 (+40% vs. Dec-16), with an average amortization of 65%.
- > The company announced a DPS of EUR0.054 (+3% vs. 2016, payable on May 9) implying a dividend yield of 3.8% at the current market price and corresponding to a payout ratio of 84%, which is once again above the stated 25% policy of the company.
- > The trend in the movie market was negative in 2017: admissions declined by 12.4% 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). Overall, in 2017 Notorious Pictures distributed 16 movies (compared to 14 movies in 2016) with a box office take of around EUR11 million and 1.8 million admissions, ranking tenth as distributor and fourth among independent distributors (source: Cinetel), similar to the previous year.
- > In July 2017, Notorious Pictures was qualified as an innovative small company ("PMI innovativa"), which grants some significant incentives to investors: 1) for legal persons, allowance from gross income tax amounting to 30% (19% before 2017) of the sum invested in the SME, up to EUR1.0 million (EUR0.5 million before 2017); 2) for enterprises, deduction on taxable income amounting to 30% (20% before 2017) of the sum invested in the share capital of the SME, up to

EUR1.8 million. Moreover, the investment can be disposed of indirectly through funds and corporations that predominantly invest in innovative start-ups and small medium entities. The only drawback is represented by the compulsory holding period of at least three years.

- > Beyond the usual library expansion through the acquisition of the full rights of 18 new movies at the main film market festivals, the company has concluded forward-looking commercial agreements with OTT players like Netflix, Amazon and TIM Vision. In this way, Notorious is not only improving its visibility on the market, but is also creating long-term relationships with web broadcasters that are significantly increasing their market shares and number of subscriptions. Given the fire power of these companies, the trend is destined to continue in the future: Netflix is going to double its investment in content production in Europe, to a total of EUR1 billion in 2018 (source: *Financial Times*), while Amazon paid USD250 million for the sole rights to produce TV programs based on J.R.R. Tolkien's "Lord of the Rings" in Nov-17.
- > In October 2017, Notorious Pictures signed two significant commercial agreements: the first one established the concession of the free TV rights of five movies to VIACOM International Media Networks Italia, while the second settled the concession of the free TV rights of two films to Turner Broadcasting System. The two agreements were jointly worth around EUR0.2 million and implied an intrinsic strategic value, strengthening the presence and the visibility of the company on the free TV market.
- > In February 2018, the company acquired the full rights to four new movies at the European Film Market of Berlin. These include the eagerly-awaited sci-fi "Kung Fury", starring Michael Fassbender, the thrillers "Extremely Wicked, Shockingly Evil", based on the story of the American serial killer Ted Bundy, and "The Haunting of Sharon Tate", centered around the murder of the emerging actress by the Manson Family.
- > Notorious Pictures just announced an agreement with an American producer (Lambofilm LLC) for the executive production of "Lamborghini" a movie with Antonio Banderas to be realized in 2018 and released in 2019. The contract is worth EUR10.3 million (56% of 2017 revenues) of which EUR7.2 million in 2018 and the residual part in 1Q19. Executive productions present no risk and a modest EBITDA margin but benefit from the tax credit for international production.
- > Notorious Pictures' buyback program reached 401k shares or 1.78% of the share capital at April-18, corresponding to 22,491,480 shares. The buyback is for possible M&A activity, to enhance the liquidity of the shares and support the stock option plan of the firm.

Figure 1 – 2017 results

(EURm)	2016A	2017A	% Chg.	2017E UBI	% Chg.
Sales total	22.99	18.14	-21.1%	28.79	-37.0%
<b>EBITDA</b>	<b>6.59</b>	<b>6.00</b>	<b>-9.0%</b>	<b>12.79</b>	<b>-53.1%</b>
<b>% margin</b>	<b>28.7%</b>	<b>33.1%</b>		<b>44.4%</b>	
EBIT	3.17	1.88	-40.8%	5.23	-64.1%
% margin	13.8%	10.4%		18.2%	
<b>Net profit</b>	<b>2.80</b>	<b>1.46</b>	<b>-47.9%</b>	<b>3.90</b>	<b>-62.5%</b>
Net debt/(cash)	(3.84)	(6.22)	62.0%	(5.61)	10.8%

Source: Company data, UBI Banca estimates

Figure 2 – Revenues breakdown

(EURm)	2016A	2017A	% Chg.
Theatrical sales	4.78	4.47	-6.4%
Pay TV sales	5.92	5.68	-4.1%
Free TV sales	2.01	3.39	68.6%
Production sales	4.05	1.53	-62.3%
Other sales	6.23	3.08	-50.7%
<b>Total sales</b>	<b>22.99</b>	<b>18.14</b>	<b>-21.1%</b>
Box office	10.19	11.05	8.5%

Source: Company data

Figure 3 – 2017 results: comparison with the business plan

(EURm)	Business Plan	2017A	% Change
Sales total	28.61	18.14	-36.6%
<b>EBITDA</b>	<b>14.54</b>	<b>6.00</b>	<b>-58.8%</b>
<b>% margin</b>	<b>50.8%</b>	<b>33.1%</b>	
EBIT	7.41	1.88	-74.7%
% margin	25.9%	10.4%	
Net debt/(cash)	(7.98)	(6.22)	-22.1%

Source: Company data, UBI Banca estimates

Figure 4 – Movie releases in 2017

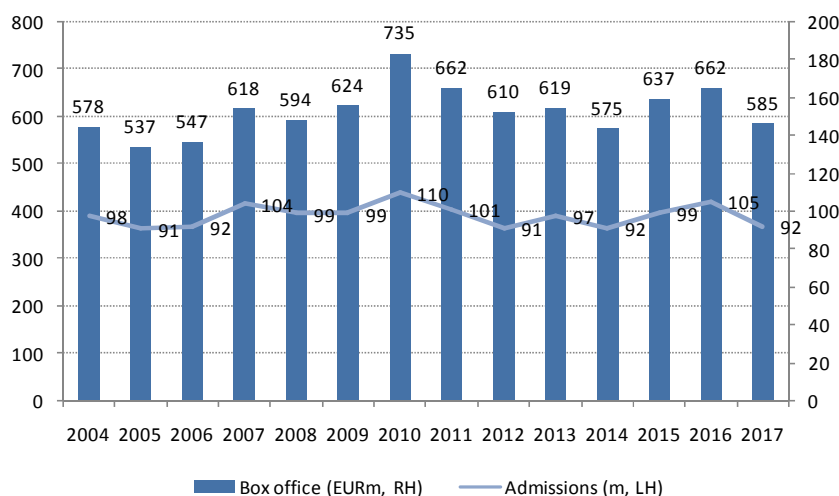
**Total box office revenues were considerably below our estimates and those in the company's business plan. However, we can highlight the successful results of the second half of the year (EUR6.4 million vs. EUR4.5 million in 1H17 and more than double compared to 2H16).**

Movie title	Release	Genre	Country	Box office (000)
Sleepless night	Feb-17	Thriller/Action	USA	764
March of the penguin: the call	Feb-17	Documentary	France	70
Bleed for this	Mar-17	Biopic	USA	1,192
La verità vi spiego sull'amore	Mar-17	Comedy	Italy	422
Lasciami per sempre	Apr-17	Comedy	Italy	75
Unlocked	May-17	Thriller/Action	UK	656
Coconut the little dragon	Jun-17	Animation	Germany	337
02:22	Jun-17	Thriller	USA	1,010
Black Butterfly	Jul-17	Thriller	Spain	265
Amityville: the awakening	Aug-17	Horror	USA	946
Shot caller (la fratellanza)	Sep-17	Thriller	USA	1,996
Il contagio	Sep-17	Drama/Crime	Italy	134
Re-assignment (Nemesi)	Oct-17	Thriller	USA	141
The little vampire	Oct-17	Animation	Germany	834
The nut job 2	Nov-17	Animation	USA	1,110
The men who invented Christmas	Dec-17	Comedy/Drama	USA	937
<b>Total 2017</b>				<b>11,053</b>

Source: Cinetel, UBI Banca estimates

Figure 5 – Box office and admissions in Italy

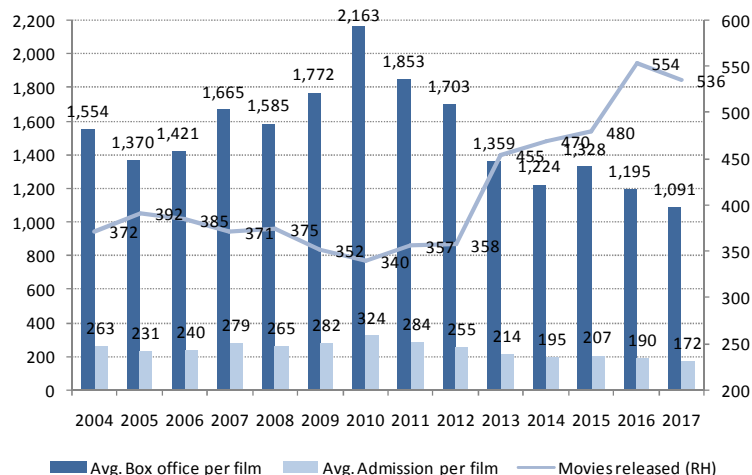
Admissions and box office remained relatively stable over the past 10 years but the lack of blockbusters penalized 2017.



Source: UBI Banca on Cinetel data

Figure 6 – Movies released, box office and admissions in Italy – average per movie (000)

There was a strong increase in movies released in 2016-17 (>500 vs. >400 on average in the past ten years). However, box office take declined by nearly 12% and admissions were down 12.4%. Therefore, the average box office per movie fell 8.7% and the average admission per movie 8.7%.



Source: UBI Banca on Cinetel data

### Financial Projections

- > The 2018 box office is impressive so far (EUR7.2 million receipts at May 2), more than 65% of the full 2017 result, mainly due to the success of “Belle & Sebastian, Friends for Life” (EUR2.7 million), which surprisingly exceeded its prequel (+10.6%). Moreover, “Loving Pablo” almost reached EUR2.5 million since the release on April 19th, leading the box office during the weekend following its release date and leaving space for some additional growth. Although the box office from the May to mid-June (“The Full House” and “The Strangers: Pray at Night” will be in theaters in those weeks) could be negatively affected by the release of two Disney blockbusters (“Avengers: Infinity War” by Marvel Studios and “Solo: A Star Wars Story” by Lucasfilm), we are positive about the 2018 theatrical sales, which could reach EUR5.9 million (or +33% vs. 2017) based on our estimates, given the promising line up in the forthcoming months. In particular, we expect a strong first half of the year supported by the box office already achieved to date.
- > Pending the update of the business plan, we have revised our estimates and reduced the 2018-19 forecasts, as well as including forecasts for 2020. We expect 18 movies per annum to be released in 2018-20, of which 33 are already in the pipeline (including the recent acquisitions). We have increased our 2018-19 revenues by 5% on average, reflecting lower theatrical and production revenues, offset by an estimated increase in pay and free TV sales and the executive production contract recently signed (EUR10.3 million of which EUR7.2 million this year). We also reduced our projections for new media and DTV revenues. We have to highlight that our forecasts do not include the release of the movies owned by The Weinstein Company (and “The War with Grandpa” could be a blockbuster).
- > As a consequence of the different sales mix (executive productions offer a modest profitability), our EBITDA estimates for 2018-19 have been reduced by around 28% and we have also reduced EBIT, although we lowered our D&A expectations (due to reduced theatrical sales). Our estimate for the net result is now EUR3.9 million for 2018.
- > Our net cash estimates (EUR5.5 million at Dec-18, EUR6.4 million at Dec-19 and EUR7.4 million at Dec-20) have been reduced as a result of the lower operating cash flow. Our estimates include a dividend pay-out ratio of around 40% (compared with our previous estimates of 30% and a pay-out ratio of 84% in 2017), which gives an attractive dividend yield (>5% at current market price).
- > Our estimates do not include any external growth although this has not been ruled out by Notorious Pictures, which is currently looking at some film production companies. A significant acquisition could see the company list on the main Italian stock market (STAR segment), which remains one of the company's targets.

Figure 7 – Old vs. New estimates

(EURm)	2017A	2018E		2019E		2020E
		Old	New	Old	New	
Total Sales	18.1	29.0	30.4	30.7	32.5	34.1
% change			4.6%		5.8%	
<b>EBITDA</b>	<b>6.0</b>	<b>13.9</b>	<b>10.0</b>	<b>15.9</b>	<b>11.3</b>	<b>11.7</b>
<b>% change</b>			<b>-28.3%</b>		<b>-29.1%</b>	
EBIT	1.9	7.1	4.8	8.4	6.2	6.3
% change			-32.6%		-25.9%	
<b>Net Profit</b>	<b>1.5</b>	<b>5.3</b>	<b>3.9</b>	<b>6.3</b>	<b>5.1</b>	<b>5.2</b>
<b>% change</b>			<b>-26.5%</b>		<b>-19.0%</b>	
Net Debt/(Cash)	(6.2)	(10.2)	(5.5)	(14.8)	(6.4)	(7.4)
<b>EBIT margin</b>	<b>10.4%</b>	<b>24.3%</b>	<b>15.7%</b>	<b>27.2%</b>	<b>19.1%</b>	<b>18.6%</b>
<b>EBITDA margin</b>	<b>33.1%</b>	<b>47.9%</b>	<b>32.9%</b>	<b>51.8%</b>	<b>34.7%</b>	<b>34.2%</b>

Source: Company data, UBI Banca estimates

Figure 8 - Detailed P&amp;L estimates

(EURm)	2016A	2017A	2018E	2019E	2020E
<b>Total movies</b>	<b>14</b>	<b>16</b>	<b>18</b>	<b>18</b>	<b>18</b>
Theatrical	4.78	4.47	5.93	7.07	7.34
Pay TV	5.92	5.68	7.35	7.72	7.89
Free TV	2.01	3.39	2.76	2.80	2.94
Home video	0.88	0.19	0.45	0.33	0.31
Vod, PPV, Kiosk	2.91	1.89	2.10	2.20	2.31
Production	4.05	1.53	3.40	3.60	3.80
Executive production			6.70	7.10	8.00
Other	2.44	0.99	1.70	1.68	1.55
<b>Total sales</b>	<b>22.99</b>	<b>18.14</b>	<b>30.40</b>	<b>32.50</b>	<b>34.14</b>
Direct costs (P&A and other)	(14.80)	(10.45)	(18.57)	(19.25)	(20.40)
<b>Gross margin</b>	<b>8.19</b>	<b>7.69</b>	<b>11.83</b>	<b>13.25</b>	<b>13.74</b>
<b>Gross margin (%)</b>	<b>35.6%</b>	<b>42.4%</b>	<b>38.9%</b>	<b>40.8%</b>	<b>40.2%</b>
Labour and other structure costs	(1.60)	(1.69)	(1.84)	(1.97)	(2.07)
<b>EBITDA</b>	<b>6.59</b>	<b>6.00</b>	<b>9.99</b>	<b>11.28</b>	<b>11.67</b>
<b>% margin</b>	<b>28.7%</b>	<b>33.1%</b>	<b>32.9%</b>	<b>34.7%</b>	<b>34.2%</b>
D&A on the library	(3.30)	(3.99)	(5.09)	(4.94)	(5.18)
Other D&A	(0.12)	(0.13)	(0.13)	(0.14)	(0.15)
<b>EBIT</b>	<b>3.17</b>	<b>1.88</b>	<b>4.76</b>	<b>6.20</b>	<b>6.34</b>
<b>% margin</b>	<b>13.8%</b>	<b>10.4%</b>	<b>15.7%</b>	<b>19.1%</b>	<b>18.6%</b>

Source: Company data, UBI Banca estimates



Figure 9 – 2018 movie pipeline

Movie title	Release	Genre	Country
A bag of marbles	Jan-18	Drama/Family	France
Belle & Sebastien 3	Feb-18	Family	France
Hostiles	Mar-18	Drama/Western	USA
Quanto basta	Apr-18	Comedy	Italy-Brazil
Loving Pablo Hating Escobar	Apr-18	Thriller/Drama	Spain
The extraordinary journey of the fakir	May-18	Action/Drama	India/France/Spain
The full house	May-18	Comedy/Romance	France
The strangers -Prey at night	May-18	Horror	USA
#211 (Rapina in corso)	3Q18	Action	USA
Heidi - Regina della montagna	3Q18	Family	UK/India
Mary Shelley	3Q18	Bio/Drama	UK
Keepers	3Q18	Thriller	USA
Patrick	3Q18	Comedy/Family	USA
Bent	3Q18	Thriller/Crime	USA
Labyrinth (City of lies)	3/4Q18	Thriller	USA
Teen Spirit	4Q18	Comedy/Romance	USA
Asterix e la pozione magica	Dec-18	Animation	France
Strange but true	TBC	Thriller	USA
Freak show	TBC	Drama	USA
War with gradpa	Stand by	Comedy	USA
Polaroid	Stand by	Horror	USA

Source: Company data, UBI Banca estimates

Figure 10 – 2019 movie pipeline

Movie title	Release	Genre	Country
Ben is back	1Q19	Drama	USA
Primal	1Q19	Action	USA
Richard says goodbye	1Q19	Drama	USA
Plan de table	1Q19	Comedy	USA
The last full measure	1/2Q19	Drama/Legal	USA
Light of my life	1/2Q19	Action/SciFi	USA
The wanting	1/2Q19	Horror	USA
Playmobil	Apr-19	Animation	USA
Snow Ponies	2/3Q19	Action/Western	USA
Latte and the magic waterstone	4Q19	Animation	Germany
Rambo V	4Q19	Action	USA
Arkie	4Q19	Animation	USA
Kung Fury	TBC	Sci-Fi	USA
Extremely wicked, shockingly evil	TBC	Thriller	USA
Little Miss Dolittle	TBC	Family	Germany
The haunting of Sharon Tate	TBC	Thriller	USA

Source: Company data, UBI Banca estimates

**Valuation**

- > Notorious Pictures performed well in the past twelve months, outperforming both the Italian stock index and the movie industry. From a minimum of around EUR1.1 at the beginning of March-18, share have now risen by >25% to date on the back of the buoyant box office results of its latest releases. The company is still trading at a huge discount to peers: >55% on 2018-19 EV/EBITDA, 32% in P/E and 47% on EV/EBIT.
- > Given our new estimates, our DCF valuation has increased to EUR1.77 per share (from EUR1.60), benefitting from a lower beta and a different financial structure. Our relative valuation grows to EUR1.73 per share (applying a 30% discount to take into account the limited free float of Notorious Pictures and its modest size) from EUR1.40 per share thanks to the higher multiples of peers. The simple average of our DCF and the relative valuation gives a price of EUR1.75 per share, which is our new target price (from the previous figure of EUR1.50). The upside potential is >20% and justifies our Buy rating.
- > At the target price, the company trades at 3.4x 2018 EV/EBITDA and 2.9x 2019 EV/EBITDA, both well below the median multiple for the industry (5.8x and 5.3x respectively). There is also a considerable gap in the P/Es: Notorious Pictures at our target price would trade at 10.1x 2018 P/E and 7.8x for 2019 compared with 11.2x 2018 and 9.9x 2019 for its peers.

Figure 11 – Valuation summary

(EUR)	3 May -18	Weight	3 April-17	Delta
DCF Valuation	1.77	50.0%	1.60	10.4%
Relative Valuation (at 30% discount)	1.73	50.0%	1.40	23.8%
<b>Target Price</b>	<b>1.75</b>		<b>1.50</b>	<b>16.7%</b>
Current price	1.42		0.90	56.6%
Potential upside	23.7%		66.1%	

Source: UBI Banca estimates

Figure 12 – DCF Valuation

**Our model incorporates a WACC of 7.0%, a terminal growth rate of 1% and an EBIT margin of 18% at terminal value, which is below the margin we expect for 2019-20. Our DCF valuation implies a 1.6x EV/EBITDA at terminal value.**

	(EUR m)	(% weight)
Sum of PV 2018-26 FCF	10.4	31%
Terminal value	23.4	69%
<b>Total Enterprise value</b>	<b>33.7</b>	<b>100%</b>
- minorities	0.0	
- Pension Provision	(0.2)	
- Net debt (+ cash)	6.2	
<b>Total Equity value</b>	<b>39.8</b>	
Fully diluted number of shares (m)	22.5	
<b>Fair value per share (EUR)</b>	<b>1.77</b>	

Source: UBI Banca estimates

Figure 13 – Peer comparison and valuation based on multiples (priced on 2 May 2018)

Company	Market Cap (EURm)	P/E		EV/EBITDA		EV/EBIT	
		2018E	2019E	2018E	2019E	2018E	2019E
EuropaCorp SA	124			5.8 x	5.3 x		
Splendid Medien AG	13	6.5 x	5.6 x	1.2 x	1.1 x	8.4 x	6.5 x
Lions Gate	3,789	52.0 x	31.1 x	10.6 x	9.0 x	18.8 x	14.9 x
Entertainment One Ltd.	1,425	11.4 x	10.2 x	8.3 x	7.9 x	8.5 x	8.2 x
Constantin Medien AG	195	52.0 x	34.7 x	22.4 x	16.8 x	55.9 x	29.0 x
Leone Film Group	68	11.0 x	9.7 x	3.0 x	2.6 x	10.7 x	8.9 x
Lucisano Media Group	33	3.2 x	3.3 x	2.0 x	1.9 x	3.5 x	3.4 x
<b>Average</b>		<b>22.7 x</b>	<b>15.7 x</b>	<b>7.6 x</b>	<b>6.4 x</b>	<b>17.6 x</b>	<b>11.8 x</b>
<b>Median</b>		<b>11.2 x</b>	<b>9.9 x</b>	<b>5.8 x</b>	<b>5.3 x</b>	<b>9.6 x</b>	<b>8.5 x</b>
Current market multiples	32	8.2 x	6.3 x	2.7 x	2.3 x	5.6 x	4.1 x
<b>Discount to Media</b>		<b>-26.9%</b>	<b>-36.8%</b>	<b>-54.2%</b>	<b>-57.1%</b>	<b>-41.9%</b>	<b>-51.7%</b>

Source: Factset, UBI Banca estimates

Figure 14 – Implicit multiples based on our EUR1.75 target price

(x)	2018E	2019E	2020E
P/E	10.1 x	7.8 x	7.6 x
EV/EBITDA	3.4 x	2.9 x	2.8 x
EV/EBIT	7.2 x	5.3 x	5.1 x
EV/Sales	1.1 x	1.0 x	0.9 x
P/BV	1.7 x	1.4 x	1.3 x
EV/ Capital employed	1.9 x	1.6 x	1.4 x

Source: UBI Banca estimates

**Income Statement**

(EURm)	2017	2018E	2019E	2020E
Net Revenues	18.1	30.4	32.5	34.1
EBITDA	6.0	10.0	11.3	11.7
EBITDA margin	33.2%	32.9%	34.7%	34.2%
EBIT	1.9	4.8	6.2	6.3
EBIT margin	10.4%	15.7%	19.1%	18.6%
Net financial income /expense	-0.1	-0.0	-0.0	-0.0
Associates & Others	0.0	0.0	0.0	0.0
Profit before taxes	1.8	4.7	6.2	6.3
Taxes	-0.3	-0.9	-1.1	-1.1
Minorities & discontinuing ops	0.0	0.0	0.0	0.0
Net Income	1.5	3.9	5.1	5.2

Source: Company data, UBI Banca estimates

**Balance Sheet**

(EURm)	2017	2018E	2019E	2020E
Net working capital	9.4	12.3	13.3	13.8
Net Fixed assets	10.5	11.2	12.7	14.7
M/L term funds	-5.2	-5.2	-5.3	-5.3
Capital employed	14.8	18.2	20.8	23.1
Shareholders' equity	21.0	23.7	27.2	30.6
Minorities	0.0	0.0	0.0	0.0
Shareholders' funds	21.0	23.7	27.2	30.6
Net financial debt/(cash)	-6.2	-5.5	-6.4	-7.4

Source: Company data, UBI Banca estimates

**Cash Flow Statement**

(EURm)	2017	2018E	2019E	2020E
NFP Beginning of Period	-3.8	-6.2	-5.5	-6.4
Group Net Profit	1.5	3.9	5.1	5.2
Minorities	0.0	0.0	0.0	0.0
D&A	4.1	5.2	5.1	5.3
Change in Funds & TFR	0.0	0.0	0.0	0.0
Gross Cash Flow	5.6	9.1	10.1	10.5
Change In Working Capital	1.9	-2.8	-1.0	-0.5
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	7.4	6.3	9.1	10.0
Net Capex	-3.6	-5.8	-6.6	-7.2
Other Investments	0.0	0.0	0.0	0.0
Free Cash Flow	3.8	0.5	2.5	2.8
Dividends Paid	-1.2	-1.2	-1.6	-1.8
Other & Chg in Consolid. Area	-0.2	0.0	0.0	0.0
Chg in Net Worth & Capital Incr.	0.0	0.0	0.0	0.0
Change in NFP	2.4	-0.7	0.9	1.0
NFP End of Period	-6.2	-5.5	-6.4	-7.4

Source: Company data, UBI Banca estimates

**Financial Ratios**

(%)	2017	2018E	2019E	2020E
ROE	6.9%	16.4%	18.6%	17.0%
ROI	6.0%	14.7%	16.8%	15.6%
Net Fin. Debt/Equity (x)	-0.3	-0.2	-0.2	-0.2
Net Fin. Debt/EBITDA (x)	-1.0	-0.5	-0.6	-0.6
Interest Coverage	23.8	238.2	310.0	317.1
NWC/Sales	52.0%	40.4%	40.9%	40.4%
Capex/Sales	20.0%	19.1%	20.3%	21.1%
Pay Out Ratio	83.7%	40.5%	35.5%	34.7%

Source: Company data, UBI Banca estimates

**Per Share Data**

(EUR)	2017	2018E	2019E	2020E
EPS	0.06	0.17	0.23	0.23
DPS	0.053	0.070	0.080	0.080
Op. CFPS	0.33	0.28	0.41	0.45
Free CFPS	0.17	0.02	0.11	0.13
BVPS	0.93	1.05	1.21	1.36

Source: Company data, UBI Banca estimates

**Stock Market Ratios**

(x)	2017 *	2018E	2019E	2020E
P/E	17.6	8.2	6.3	6.1
P/OpCFPS	3.5	5.1	3.5	3.2
P/BV	1.2	1.3	1.2	1.0
Dividend Yield (%)	4.7%	4.9%	5.7%	5.7%
Free Cash Flow Yield (%)	14.8%	1.5%	7.9%	8.8%
EV (EURm)	19.7	26.5	25.6	24.6
EV/Sales	1.1	0.9	0.8	0.7
EV/EBITDA	3.3	2.7	2.3	2.1
EV/EBIT	10.5	5.6	4.1	3.9
EV/Capital Employed	1.3	1.5	1.2	1.1

Source: Company data, UBI Banca estimates

Based on average 2017 price

**Growth Rates**

(%)	2017	2018E	2019E	2020E
Growth Group Net Sales	-21.1%	67.6%	6.9%	5.1%
Growth EBITDA	-9.0%	66.6%	12.9%	3.5%
Growth EBIT	-40.8%	153.7%	30.1%	2.3%
Growth Net Profit	-47.9%	166.5%	30.3%	2.3%

Source: Company data, UBI Banca estimates

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