

NOTORIOUS PICTURES OUTPERFORM

Price (Eu): **2.83**

Target Price (Eu): **4.00**

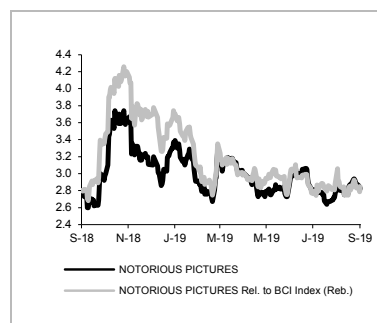
SECTOR: Media

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Increasing Visibility on a Positive Year of Growth

- A solid set of 1H19 results.** On 19 September, Notorious reported 1H19 results (adopting IFRS16), which were positive and in line with our expectations for double-digit top-line growth. Sales performed well, up 16% YoY, and sustained by a very strong performance at the theatrical business (film distribution), which increased 28% YoY despite the tough comparison with 1H18 (up 174% on 1H17). At profitability level, the company reported a weaker performance (EBITDA margin of 29.6% compared to 37.3% in 1H18) due to two main factors: (i) production of the film "Love. Wedding. Repeat." was booked as "work-in-progress" worth Eu6.5mn whereas the margin will be booked in 2H19 when the film should be complete and delivered to Netflix; and (ii) margin dilution from the distribution of the proprietary library (higher margin) together with the third-party library (lower margin) worth Eu5.5mn in revenues overall. EBITDA was therefore down 8% YoY to Eu7.3mn (IFRS16 impact 0.2mn), but EBIT was Eu3.8mn, up 12% YoY. Finally, net debt was Eu5.2mn, adversely affected by the Eu6.5mn financing related to production of "Love. Wedding. Repeat" (movie to be sold to Netflix) and also by the impact of the adoption of IFRS16 (Eu5.3mn); we note that NFP as at YE18 was positive for Eu3.4mn.
- The company provided encouraging indications on FY19 results,** which will benefit from all the business developed throughout the year and has a 9-movie pipeline for 2H19, including major films such as the new Rambo and Playmobil. As regards Notorious Cinema, the company announced that a second multiplex in Rovigo will open in November, while the first multiplex in Milan was successfully inaugurated with a completely refurbished format on 20 September, 2019.
- Upward estimate revision also to factor in Notorious Cinemas.** We are updating our estimates to take into account a stronger expected performance in 2H19, mainly driven by the sale to Netflix of the film "Love. Wedding. Repeat." (expected to generate a margin of at least Eu3mn) but also thanks to a solid programming pipeline. For 2020 and 2021, we are implementing a more limited revision of the core business forecasts, pending more visibility. On top of that, we are consolidating the contribution from Notorious Cinemas in our estimate model, as explained in more detail in this report.
- OUTPERFORM reiterated and target price lifted to Eu4.0 from Eu3.8.** We expect the company to benefit from a strong business performance in the current year and recent newsflow has been very supportive. On top of this, we consider the new venture in theatrical management a highly worthwhile opportunity with an attractive risk-reward profile. Target revision is driven by the increasing visibility on the Notorious Cinemas venture, previously factored in at just Eu0.15 per share.

NOTORIOUS PICTURES - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 3.80 to 4.00

Ch. in Adj. EPS est: **2019E 2020E**
10.9% 9.1%

STOCK DATA

Reuters code: NPI.MI
Bloomberg code: NPI IM

Performance	1m	3m	12m
Absolute	2.5%	-3.7%	1.1%
Relative	-1.2%	-5.4%	1.6%
12 months H/L:	3.74/2.60		

SHAREHOLDER DATA

No. of Ord. shares (mn):	22
Total No. of shares (mn):	22
Mkt Cap Ord (Eu mn):	64
Total Mkt Cap (Eu mn):	64
Mkt Float - ord (Eu mn):	10
Mkt Float (in %):	15.5%
Main shareholder:	
Marchetti Guglielmo	82.3%

BALANCE SHEET DATA

	2019
Book value (Eu mn):	24
BVPS (Eu):	1.06
P/BV:	2.7
Net Financial Position (Eu mn):	-4
Enterprise value (Eu mn):	68

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on the last page of this report

Key Figures	2017A	2018A	2019E	2020E	2021E
Sales (Eu mn)	18	32	43	55	64
Ebitda (Eu mn)	6	11	15	16	17
Net profit (Eu mn)	1	4	7	7	8
EPS - New Adj.(Eu)	0.066	0.185	0.291	0.304	0.344
EPS - Old Adj.(Eu)	0.066	0.185	0.263	0.279	0.291
DPS (Eu)	0.054	0.082	0.084	0.102	0.120

Ratios & Multiples	2017A	2018A	2019E	2020E	2021E
P/E Adj.	43.0	15.3	9.7	9.3	8.2
Div. Yield	1.9%	2.9%	3.0%	3.6%	4.2%
EV/Ebitda Adj.	9.5	5.5	4.6	4.1	3.6
ROCE	12.0%	23.7%	31.7%	27.6%	28.6%

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NOTORIOUS PICTURES - KEY FIGURES

		2017A	2018A	2019E	2020E	2021E
	Fiscal year end	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
PROFIT & LOSS (Eu mn)	Sales	18	32	43	55	64
	EBITDA	6	11	15	16	17
	EBIT	2	4	8	8	9
	Financial income (charges)	(0)	(0)	(0)	0	0
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	2	4	7	8	9
	Taxes	(0)	0	(1)	(1)	(1)
	Tax rate (%)	18.6%	-0.8%	12.0%	13.0%	14.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	1	4	7	7	8
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	6	11	15	16	17
	Ebit excl. extraordinary items	2	4	8	8	9
Net profit restated	1	4	7	7	8	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	22	22	22	22	22
	EPS stated fd	0.066	0.185	0.291	0.304	0.344
	EPS restated fd	0.066	0.185	0.291	0.304	0.344
	BVPS fd	0.935	1.015	1.057	1.281	1.528
	Dividend per share (ord)	0.054	0.082	0.084	0.102	0.120
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	82.6%	44.4%	29.0%	33.6%	34.9%
CASH FLOW (Eu mn)	Gross cash flow	6	8	15	15	15
	Change in NWC	5	(3)	(6)	4	0
	Capital expenditure	(7)	(7)	(9)	(12)	(13)
	Other cash items	(1)	0	0	0	0
	Free cash flow (FCF)	4	(2)	(0)	6	2
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	(1)	(1)	(2)	(2)	(2)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	2	(4)	(7)	4	0	
BALANCE SHEET (Eu mn)	Total fixed assets	14	14	17	21	26
	Net working capital	6	9	15	11	11
	Long term liabilities	(5)	(4)	(4)	(4)	(3)
	Net capital employed	15	20	28	29	34
	Net financial position	6	3	(4)	0	0
	Group equity	21	23	24	29	34
	Minorities	0	0	0	0	0
Net equity	21	23	24	29	34	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	64	64	64	64	64
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	6	3	(4)	0	0
	Enterprise value	57	61	68	64	63
RATIOS(%)	EBITDA margin*	33.2%	35.3%	34.8%	28.2%	27.1%
	EBIT margin*	10.5%	13.2%	17.9%	14.2%	14.0%
	Gearing - Debt/equity	-29.6%	-11.7%	18.2%	-0.5%	-0.9%
	Interest cover on EBIT	23.9	142.6	38.2	nm	nm
	Debt/Ebitda	nm	nm	0.29	nm	nm
	ROCE*	12.0%	23.7%	31.7%	27.6%	28.6%
	ROE*	7.1%	18.9%	28.1%	26.0%	24.5%
	EV/CE	3.6	3.5	2.8	2.2	2.0
	EV/Sales	3.2	1.9	1.6	1.1	1.0
	EV/Ebit	30.3	14.7	8.9	8.1	7.1
Free Cash Flow Yield	5.6%	-3.3%	-0.3%	10.0%	3.9%	
GROWTH RATES (%)	Sales	-21.1%	73.8%	35.8%	29.5%	15.8%
	EBITDA*	-8.8%	84.9%	34.2%	4.9%	11.1%
	EBIT*	-40.1%	118.6%	84.3%	2.7%	14.3%
	Net profit	-47.2%	180.7%	57.8%	4.4%	13.2%
	EPS restated	-47.2%	180.7%	57.8%	4.4%	13.2%

* Excluding extraordinary items

Source: Intermonte SIM estimates

Interim Results

In 1H19:

- Sales at €24.7mn, up 16% YoY, as expected
- EBITDA at €7.33mn (including €0.2mn due to IFRS16 adoption) compared to €8.0mn in 1H18.
- EBIT at €3.8mn (-€0.1mn due to IFRS16 adoption)
- Net profit at €2.6mn
- Net debt at €5.2mn vs net cash at YE18 of €3.4mn (€5.3mn due to IFRS16 adoption)

The company performed well at the top line with a great Theatrical contribution, up 28% on a strong 1H18. Pay TV increased strongly by 50% YoY, and library distribution brought in €5.5mn. Executive production did not contribute to the overall result in the period but is expected to generate revenues in 2H19.

The 1H19 EBITDA Margin was affected by the dilutive effect of (i) €5.5mn in revenues from third-party library distribution, a business characterised by lower margins; and (ii) €6.5mn booked for production in progress, for which the full margin, together with the related fiscal incentive, will be booked at the conclusion of the contract itself, and therefore, presumably, in 2H19.

Notorious Pictures – Interim Results

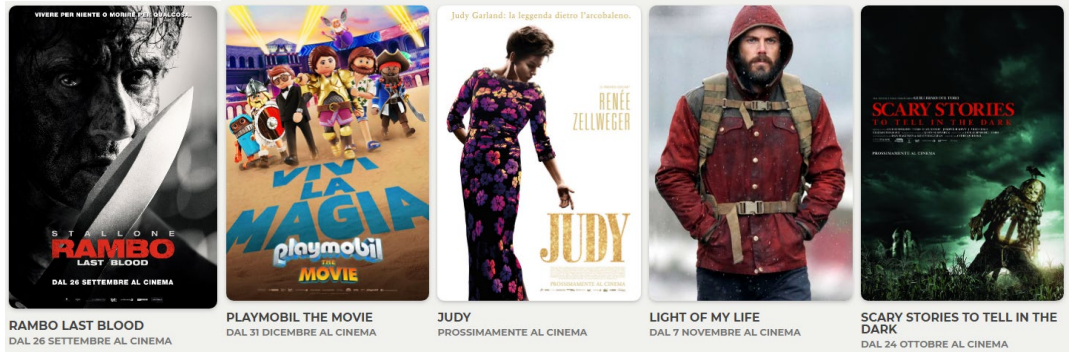
Interim Results	1H18A	1H19A	YoY
Revenue from sales	19.104	24.100	26%
Value of production	21.322	24.748	16%
Value Added	8.984	10.505	17%
Labour costs	(1.028)	(3.174)	
EBITDA	7.96	7.33	-8%
<i>margin %</i>	37.3%	29.6%	
DA	(4.536)	(3.512)	
EBIT	3.420	3.820	12%
<i>margin %</i>	16.0%	15.4%	
Net fin. income/(expense)	(0.010)	(0.078)	
Pretax Profit	3.410	3.742	10%
Taxes	(0.374)	(1.082)	
Tax Rate	(11.0%)	(28.9%)	
Net profit	3.036	2.660	-12%

Source: Company data

Main recent newsflow

- On 10th September, the company announced the signing of two new commercial accords with Sky Italia for the concession of television and distribution rights: one is for the FTA channel and includes 14 items, while the second involves the PayTV-SVOD channel and covers 700 library items. The average duration of the concessions is 4 years. The total value of the accords, to be booked in 2019, is €7.45mn. The accords further strengthen an already solid relationship between Notorious and Sky Italia.
- On 26th August, the company announced the sale to Netflix of the exclusive international rights on the romantic comedy film "Love. Wedding. Repeat". The film is a co-production between Notorious Pictures and Tempo Production Ltd. The accord covers exploitation of all rights for the next 25 years. The film should be delivered to Netflix in 4Q19 and Notorious should book a margin exceeding €3mn. From a financial standpoint, Netflix is expected to pay the bulk of this contract in 2020, while Notorious should cash in the remaining amount in 2021.
- Notorious has a significant film pipeline ahead: the latest film première (26 September) is "Rambo - Last Blood", while on the last day of the year "Playmobil The Movie" will make its debut. Overall, 9 new film releases are scheduled in 2H19, a much stronger programme than in 2H18.

Notorious Pictures – Some of the next films for distribution



Source: Company data

- On 19th September, the Multiplex located at the Viale Sarca shopping centre between Milan and Sesto San Giovanni was inaugurated after a complete renovation. IGD group, owner of the shopping centre and multiplex cinema, took an active role in the cinema redevelopment process. The complex was completely refurbished in the summer using an innovative format that offers the highest technical audio and video standards, the highest levels of comfort in regard to seating, care and cleanliness of auditoriums, and a computerised, automated ticketing area. The multiplex has ten screens and covers 5,536 square meters. Eco-sustainability has been central to the redevelopment of the entire complex.
- In November, Notorious Cinemas will open a second multiplex in Rovigo, close to La Fattoria shopping mall. This opening completes the plan for 2019.

Changes to estimates

We are updating our estimates to take into account a stronger expected performance in 2H19, mainly driven by the sale to Netflix of the film "Love. Wedding. Repeat." (expected to generate a margin exceeding Eu3mn) but also thanks to a solid programming pipeline. For 2020 and 2021, we are implementing a more limited revision of the core business forecasts, pending greater visibility. On top of that, we are consolidating the contribution from Notorious Cinema in our estimate model, as explained in more detail below.

From a financial standpoint, we note that "Love. Wedding. Repeat.", which is in production, should be delivered to Netflix in 4Q19. Netflix is expected to pay off the bulk of this contract in 2020, while Notorious should cash in the remaining amount in 2021.

Changes to estimates

(Eu mn)	2018A	2019E	2020E	2021E
Value of production new	31.53	42.82	55.45	64.23
Value of production old		39.30	41.70	43.70
% change		9.0%	33.0%	47.0%
% YoY		36%	29%	16%
EBITDA new	11.12	14.92	15.66	17.40
EBITDA old		13.63	14.41	15.02
% change		9.5%	8.7%	15.8%
% YoY		34%	5%	11%
EBIT new	4.15	7.64	7.85	8.97
EBIT old		6.63	7.20	7.59
% change		15.3%	9.1%	18.2%
% YoY		84%	3%	14%
Pretax profit new	4.12	7.44	7.86	9.00
Pretax profit old		6.64	7.21	7.62
% change		12.1%	9.1%	18.2%
% YoY		81%	6%	15%
Net profit new	4.15	6.55	6.84	7.74
Net profit old		5.91	6.27	6.55
% change		10.9%	9.1%	18.2%
% YoY		58%	4%	13%

Source: Intermonte SIM

P&L NOTORIOUS	2018A	2019E	2020E	2021E
Revenue from Notorious Pictures	28.0	40.5	42.3	43.8
Revenues from Notorious Cinema	-	2.3	9.9	19.4
Total Revenues	31.5	42.8	55.5	64.2
EBITDA Notorious Pictures	11.1	14.8	14.9	15.5
margin %	41.4%	41.0%	41.0%	41.0%
EBITDA Notorious Cinema	-	0.1	0.8	1.9
margin %	0.00%	5.00%	8.00%	10.00%
TOTAL EBITDA	11.1	14.9	15.7	17.4
margin %	35.26%	34.85%	28.24%	27.08%

Notorious Cinemas

On 9th January 2019, Notorious announced that the group would enter the business of managing cinemas in Italy via the formation of Notorious Cinemas Srl, a wholly-owned subsidiary; the stated aim was management of 20 multiplex cinemas and sales of 5 million tickets by 2023. Notorious anticipates financing the launch of this business through existing liquidity and bank financing.

Notorious says the cinemas will be managed exclusively through rental contracts, and there will be no need to raise capital to fund the investment given the favourable working capital profile in the industry. The project looks highly promising thanks to the involvement of **Andrea Stratta**, who boasts around 20 years' experience as CEO of UCI Cinemas Italy Group, during which time he created the largest network of multi-screen cinemas in the country. The development plan targets 5mn annual cinemagoers in the final year; based on our preliminary estimate, this translates into turnover of around Eu40-45mn, considering box office and food & beverage revenues.

The new business should benefit from:

- (1) specific fiscal incentives;
- (2) lower rental costs compared to the current market average (rents were previously higher because of real estate market conditions and higher competition);
- (3) state-of-the-art auditoriums as judged on seat comfort and video/audio experience, which are key to maintaining the excitement of the out-of-the-home experience versus home video consumption;
- (4) M&A opportunities, given the highly fragmented nature of the industry; these have not been factored into the company's business plan.

Notorious Cinema – Estimates to 2022

	2019 E	2020 E	2021 E	2022 E
Newly Opened Cinemas	2	4	4	4
Cinemas YE	2	6	10	14
Avg Screens per Cinema	8	6	7	7
Total Screens	16	40	68	96
Avg Seats per Screen	150	150	150	150
Seats	Initial	2,400	6,000	10,200
Seats	Final	2,400	6,000	10,200
Seats	Average	1,000	4,200	8,100
Occupancy ratio (ticket per seat)	280	280	280	280
Tickets	280,000	1,176,000	2,268,000	3,444,000
Average Price	6.3	6.4	6.5	6.6
Box office revenues	1,764,000	7,519,932	14,720,267	22,688,293
Bar revenue per ticket	2.0	2.0	2.1	2.1
Bar revenues	560,000	2,399,040	4,719,254	7,309,601
Total Revenues	2,324,000	9,918,972	19,439,521	29,997,894
EBITDA	116,200	793,518	1,943,952	3,899,726
EBITDA margin	5.0%	8.0%	10.0%	13.0%
D&A	(69,720)	(495,949)	(971,976)	(1,799,874)
D&A/sales	(3.0%)	(5.0%)	(5.0%)	(6.0%)
EBIT	46,480	297,569	971,976	2,099,853
EBIT margin	2.0%	3.0%	5.0%	7.0%

Source: Intermonte SIM

On 27 February, NPI announced that Notorious Cinema had signed an agreement with IGD Management, a company controlled by IGD (Immobiliare Grande Distribuzione SIQ SpA), for the rental of the IGD Multiplex located at Sesto San Giovanni (Milan, Italy). The multiplex has a total of 10 screens.

In 1H19, this business provided a Eu0.7mn contribution to group revenues. During the summer, the multiplex was entirely renovated and re-opened on 19th September.

Major Italian players:

UCI Cinemas (United Cinemas International), recently purchased by AMC, has about 50 multiplexes;

The Space Cinema, set up in 2009 through the merger of Warner Village Cinemas and Medusa Multicinema, was sold in November 2014 by 21 Investimenti (Benetton) and Mediaset to Vue International, and today has about 40 cinemas;

Spaziocinema, led by Lionello Cerri, has 8 multiplexes in Milan and other cities in Lombardy;

Circuito Cinema, founded in 1996, controls 9 multiplexes between Rome and Florence;

Multicompany Srl, based in Catania, manages several "Pianeta" multiplexes in Sicily.

Business model and activities

The core of the business is the Library, which is the catalogue of movie rights owned by the company. Whether a movie is owned because the rights were purchased from a third party (typically for a 18-20 years period) or the movie was produced by the company (unlimited rights ownership) itself is not relevant for the purpose of distribution, as it follows the same process.

Distribution

As an independent content provider, NPI has operated on the Italian market since the end of 2012. The company has become a major player on the national scene in very short time thanks to the expertise of a management team that has been together for a very long time and which exploits both internal resources and external relationships with industry players.

The process is composed of the following phases:

1. **Rights Acquisition.** The company acquires the audiovisual utilization rights from sales companies and producers, primarily from international markets. International movies are marketed at four main fairs: three festivals (Cannes, Toronto and Berlin) and the American Film Market. Utilization rights typically last 18-20 years and are related to the Italian market.
2. **Editing.** International movies need to be processed to be distributed in Italy. This step is often limited to dubbing into Italian; to perform this activity, NPI makes use of external companies. In other cases, the process also involves adapting the marketing material to the local market.
3. **P&A.** This activity stands for Print & Advertising (i.e. copies and marketing costs). NPI manages this activity through internal resources, as it is considered to be a core operation: advertising benefits Box Office performance, which in turn drives revenue from subsequent distribution channels. The general manager directly oversees this phase before it is approved by the licensor for publication. P&A accounts for a major part of the cost base, amounting to approximately 80% net of the costs incurred for the production business. The Italian government has introduced significant tax benefits to foster the activity.
4. **Distribution.** The industry recognizes a general "timing rule" when distributing movies through the various channels, which follows a waterfall structure that sets launch priorities.
 - a. Theatrical. Cinema has always been the prime channel for a movie release, except for the singular case of television series and recent Direct-To-Video productions. The success of this step, namely the box office (BO) proceeds, is the main parameter on which revenues from Pay and Free-to-air TV are contractually set, as it represents an approximation of the film's success. In this channel, NPI mainly distributes to UCI Cinema and The Space, which are the top two clients, accounting for almost half of this business.
 - b. Home Video. After 15 weeks, the movie is sold to traditional retail and newsstand channels by rental and/or sale in both digital and physical forms. To do this, NPI reaches agreements with other distributors, such as RAI Cinema (physical) and Mondadori (newsstand), which account for the vast majority of the client base for this business. This revenue line has become less important.
 - c. Pay-per-View. 28 weeks after theatrical release, the movie is distributed to the pay-per-view channel, mainly represented by Sky.
 - d. Pay-TV and Free-to-air TV. 12 months from theatrical release, movies go on Pay-TV, and after 12-24 months on free-to-air TV. NPI sells movie rights defining licensing agreements with the main Free-to-air (FTA) and Pay-TV players. In this sense, NPI boasts active contracts with Sky, RAI Cinema, Viacom, Tele Svizzera and Turner, with Rai and Sky representing the lion's share.
 - e. OIT. Last comes the new media segment, which is covered through agreements with provider such as Sky, Apple, Google, Sony, Chili, Netflix, and

TimVision. This covers video on-demand and electronic sell-through on platforms. Netflix, TimVision and Vodafone represent the majority; Under The Milky Way is the digital distributor covering the Apple, Sony and Google platforms.

Production and co-production

In 2015 Notorious entered the production and co-production business as a major strategic move in order to face up to the changing environment in the entertainment and media industry. Digitalization has brought many improvements in the last decade, leading to significant structural changes to the business model at the same time.

An additional benefit from producing movies is related to licensing dynamics: typically, acquiring movie rights from third parties implies a time frame of 18-20 years and a predetermined geographic area for exploiting the license (Italian speaking countries), whereas the rights of a proprietary movie are valid in any circumstance.

Distribution vs Production		
	Distribution	Production and Co-production
Rights Ownership	License	Ownership
Duration	15-20 years	Unlimited
Market	Italy	Global (ex co-producer's country)
Procurement	Third-party Rights	Autonomous

NPI started to develop experience in this new area gradually: the initial move was a co-production intended as a remake of the French film "Plan de table", while the first production arrived last year with the movie "La coppia dei campioni". The first movie produced entirely by the company was "La verità, vi spiego, sull'amore", released in March 2017.

The recent entry of Over the Top and Telecoms into the content market has generated a boom in growth for TV series production. Notorious considers this new market an attractive opportunity, including for the production business; having acquired a number of rights options related to recently published books, the group is now developing pilot projects and screenplays and expects to be able to generate its first revenues in 2020.

Tax Credits and forms of Contribution

The cinematographic industry, in both the distribution and production sectors, benefits from a series of subsidies. These are offered by different sources and in both direct and indirect forms.

Tax Credits. Automatic contribution. This public aid is the most significant and essential for film production. This measure is periodically reviewed by the government and, in recent years, has been increased (25% tax credit for production last year, probably 30% this year) and put on a more stable footing in order to promote the cinematographic business and its positive impact on the country. This public incentive is targeted at specific activities to varying degrees, as shown in the table below.

Type of subsidy	Rate
Internal tax credit for production	30%
Internal tax credit for P&A	15%
External tax credit	15%
Film commission (regional)	7%
Product placement	3%
Box Office subsidy	
from 0 to 1 million Euro	22.5%
from 1.1 to 2 million Euro	20%
from 2.01 to 2.4 million Euro	17.5%

Source: Company data

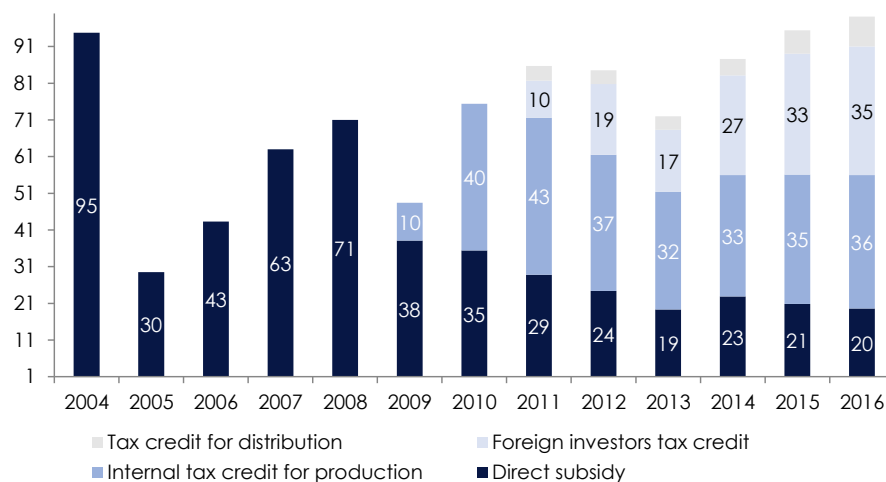
Production activity benefits from a higher contribution, with a tax credit of 30%, while distribution is fostered with 15% on P&A activities. It is worth noting that combining production and distribution means an additional effect, implying an overall tax credit of 40%.

Film commissions and community aid. Automatic contribution. Each Italian region has a film commission (or other similar agency) which allocates a specific budget to finance cinematographic activities considered to benefit the region, both in terms of image/reputation or economically by providing work for local suppliers.

Selective aid. The ones listed above can be considered automatic contributions, since all that is needed to obtain the benefit is to satisfy certain requirements. Selective forms of financing exist, based on additional variables, often focused on performance (i.e. Box Office revenue). This is the case for contributions to executive productions: an Italian producer selected by a foreign producer to conduct activities on site benefits from higher tax credits. As an example, "Black Butterfly" is a Spanish movie on which NPI has collaborated as executive producer.

All in all, these forms of financing are an essential factor for ensuring the existence of independent producers and distributors. In this regard, the Franceschini Law has played an important role in establishing solid support for the industry.

National public contribution for Italian cinema production (2004-2016; Eu mn)



Source: MiBACT, "Tutti I numeri del cinema italiano 2016"

The overall contribution level is increasing, with a rise in support through tax credits. Direct subsidies decreased in recent years, although this has now levelled off, leaving space for the other forms of support.

Focus on the Franceschini Law: named after the Minister of Cultural Heritage, the law came into force on January 12th 2018, and envisages four key elements:

- the creation of a fund to finance the cinema and audiovisual industry, which will be funded by an 11 percent slice of the VAT and IRES tax paid by companies in the communications industry (in a broad sense). Inflows to the fund will be no lower than Eu400mn per year.
- a reduction in the percentage of selective contributions and the introduction of automatic contributions in favour of production companies and companies distributing Italian cinematographic or audiovisual work abroad. Selective contributions will be between 15 percent and 18 percent of the fund mentioned above and will be devoted to debut films, second films, films by young directors, etc.
- six different tax credits will be provided, in order to foster cinematographic and audiovisual production and distribution, post-production companies, etc.
- development of movie theatres and digitalisation of the artistic heritage. Renovating existing theatres and opening new ones will be funded by an extraordinary plan worth Eur 120 million over five years. A plan also exists for the digitisation of the cinematographic and audiovisual heritage.

NOTORIOUS PICTURES Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
NOTORIOUS PICTURES	2.83	EUR	64	2.5%	-3.7%	-10.4%	-11.6%	1.1%	153.1%
ENTERTAINMENT ONE	5.69	GBP	2,834	-2.7%	44.6%	36.4%	59.6%	47.8%	118.8%
EROS INT'L	2.84	USD	170	129.0%	30.3%	-71.3%	-65.7%	-77.7%	-79.0%
LEONE FILM	5.00	EUR	71	-2.9%	5.5%	5.9%	6.4%	2.0%	5.5%
LIONS GATE ENTERT.	9.54	USD	2,077	-8.1%	-19.1%	-36.3%	-40.7%	-56.3%	-69.5%
LUCISANO MEDIA	1.50	EUR	22	13.6%	-6.3%	-13.3%	-5.7%	-16.7%	-42.3%
MONDO TV	1.17	EUR	40	8.3%	11.9%	-7.4%	-2.0%	-69.8%	-70.2%
Mean performance				20.0%	9.0%	-13.8%	-8.5%	-24.2%	2.3%
Italy FTSE Mib	21,788.2	EUR		6.4%	3.1%	3.5%	18.9%	0.6%	-2.7%

Source: FactSet

NOTORIOUS PICTURES Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales		EV/Ebitda		EV/Ebit		P/E		Div Yield	
				2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
NOTORIOUS PICTURES	2.83	EUR	64	1.6	1.1	4.6	4.1	8.9	8.1	9.7	9.3	3.0%	3.6%
ENTERTAINMENT ONE	5.69	GBP	2,834	2.9	2.7	14.5	13.0	17.0	15.2	21.3	19.1	0.3%	0.3%
EROS INT'L	2.84	USD	170	1.4	1.0	3.5	2.7	5.3	4.0	5.4	4.8	0.0%	0.0%
LEONE FILM	5.00	EUR	71										
LIONS GATE ENTERT.	9.54	USD	2,077	1.2	1.1	8.7	7.6	15.9	14.0	31.2	15.4	0.0%	0.0%
LUCISANO MEDIA	1.50	EUR	22										
MONDO TV	1.17	EUR	40	1.7	1.0	2.4	1.5	5.6	3.4	11.4	9.1	0.0%	0.0%
Median				1.5	1.0	6.1	5.1	10.7	9.0	16.3	12.3	0.0%	0.0%

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

NOTORIOUS PICTURES - Estimates Comparison with Consensus

(Eu mn)	2019			2020		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
Revenues	42.8	41.7	2.7%	55.5	51.0	8.7%
Ebitda	14.9	15.2	-1.8%	15.7	15.4	1.7%
Net Profit	6.6	6.5	0.8%	6.8	6.9	-0.9%
EPS	0.291	0.290	0.4%	0.304	0.310	-1.9%
Net Debt	(4.3)	(2.7)	60.5%	0.1	(6.0)	-102.3%

Source: Intermonte SIM estimates and Factset consensus estimates

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	NOTORIOUS PICTURES		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	4.00	Previous Target (Eu):	3.80
Current Price (Eu):	2.83	Previous Price (Eu):	3.28
Date of report:	26/09/2019	Date of last report:	25/03/2019

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- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period ;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

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BUY:	14,18 %
OUTPERFORM:	46,27 %
NEUTRAL:	35,82 %
UNDERPERFORM	03,73 %
SELL:	00,00 %

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OUTPERFORM:	54,17 %
NEUTRAL:	22,91 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

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SPACTIV	0,64	LONG
THESPAC	0,91	LONG
VEI 1	0,65	LONG
WASTE ITALIA	0,65	SHORT

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