

NOTORIOUS PICTURES OUTPERFORM

Price (Eu): **3.28**

Target Price (Eu): **3.80**

SECTOR: Media

Edoardo Girelli, CFA +39-02-77115.369
e-mail: edoardo.girelli@intermonte.it

Andrea Randone +39-02-77115.364
e-mail: andrea.randone@intermonte.it

High Expectations of Business Diversification and Growth Have Been Matched

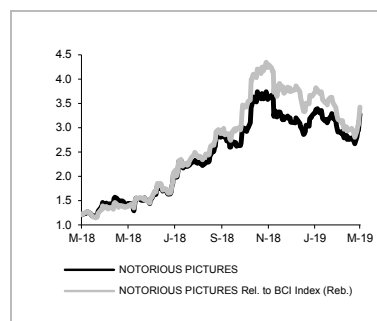
- 2H18 turnover beat estimates and brought higher D&A, EBIT in line.** Notorious Pictures reported a strong set of results for 2H18 that was better than expected at top line, gross operating margin and net income, while matching EBIT due to higher D&A. In the half-year period, revenues reached Eu10.2mn (vs Eu9.5mn exp.) and profitability at EBITDA improved by 6% YoY, translating into Eu3.2mn EBITDA (vs Eu2.4mn exp.). However, the rise in gross operating margin of Eu0.8mn was absorbed by an increase in D&A by the same amount, leading to EBIT that matched our expectation at Eu0.7mn, corresponding in essence to pre-tax profit. The bottom line benefited from a limited but positive contribution at tax level, and net income reached Eu1.1mn, higher than our Eu0.8mn forecast. The net financial position as at year-end was Eu3.4mn, broadly in line, while the DPS was +15% higher than our expectation at Eu0.082 for a 44% payout ratio.
- Growth across all business divisions, with Executive Production accounting for over a quarter of revenues.** 2018 was an extremely positive year for Notorious. Management delivered an impressive business recovery from a weak 2016 and 2017 by implementing a new strategy that puts diversification at the heart of growth and reaps the benefits of investments made of the last 2 years. The company's core business saw strong and healthy growth thanks to new and increasingly important distribution agreements: Theatrical revenues increased by +32% YoY, Pay-TV revenues grew by +34% YoY, and Free-TV by 22% YoY. During FY18, the company distributed 19 films, generating Box-Office revenues of Eu14.1mn, from Eu7mn for FY17, on sales of more than 2.3mn tickets. In addition, the Executive Production division, which NPI decided to boost due to the reconfirmation of tax credits by the Franceschini Law last year, reached over Eu8mn in FY18, from Eu1.5mn for FY17, accounting for 28% of total revenues; in this area, 2018 revenues benefited from the delay of contracts originally expected in 2017. Finally, in regard to diversification, Notorious Cinema took its first step towards a 10-screen Multiplex in Milan through the signing of the agreement with IGD disclosed in January. The business plan forecasts the opening of 20 multiplexes over the next 5 years.
- Estimates confirmed, room for future upward revision for Notorious Cinema.** We confirm our estimates for FY19-20 and we publish FY21 figures in this report. We note that our estimates do not factor in the contribution from the new theatrical business, presented briefly below.
- OUTPERFORM reiterated and target price lifted to Eu3.80 from Eu3.60.** We acknowledge management's ability to deliver strong results in terms of both business growth and an effective diversification strategy. On top of this, we consider the recently-announced new venture in theatrical management a highly worthwhile opportunity with an attractive risk-reward profile. We confirm our positive view on the stock, and we lift our target price to Eu3.80 from Eu3.60, while factoring in a Eu0.15 per share premium related to the new business (calculated as a 15% probability of the NPV in the business plan).

Key Figures	2017A	2018A	2019E	2020E	2021E
Sales (Eu mn)	18	32	39	42	44
Ebitda (Eu mn)	6	11	14	14	15
Net profit (Eu mn)	1	4	6	6	7
EPS - New Adj.(Eu)	0.066	0.185	0.263	0.279	0.291
EPS - Old Adj.(Eu)	0.066	0.168	0.263	0.279	
DPS (Eu)	0.054	0.082	0.084	0.102	0.120

Ratios & Multiples	2017A	2018A	2019E	2020E	2021E
P/E Adj.	49.9	17.8	12.5	11.8	11.3
Div. Yield	1.7%	2.5%	2.6%	3.1%	3.7%
EV/Ebitda Adj.	11.2	6.3	5.1	4.8	4.5
ROCE	12.0%	23.7%	29.8%	27.5%	25.5%

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NOTORIOUS PICTURES - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 3.60 to 3.80

Ch. in Adj.EPS est: **2019E 2020E**
0.0% 0.0%

STOCK DATA

Reuters code: NPI.MI
Bloomberg code: NPI IM

Performance	1m	3m	12m
Absolute	12.7%	5.5%	171.1%
Relative	8.7%	-9.9%	175.3%
12 months H/L:	3.74/1.18		

SHAREHOLDER DATA

No. of Ord. shares (mn):	22
Total No. of shares (mn):	22
Mkt Cap Ord (Eu mn):	74
Total Mkt Cap (Eu mn):	74
Mkt Float - ord (Eu mn):	12
Mkt Float (in %):	16.9%
Main shareholder:	
Marchetti Guglielmo	80.9%

BALANCE SHEET DATA

	2019
Book value (Eu mn):	28
BVPS (Eu):	1.26
P/BV:	2.6
Net Financial Position (Eu mn):	4
Enterprise value (Eu mn):	70

Please see important disclaimer on the last page of this report

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	39	42	44
	EBITDA	6	11	14	14	15
	EBIT	2	4	7	7	8
	Financial income (charges)	(0)	(0)	0	0	0
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	2	4	7	7	8
	Taxes	(0)	0	(1)	(1)	(1)
	Tax rate (%)	18.6%	-0.8%	11.0%	13.0%	14.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	1	4	6	6	7
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	6	11	14	14	15
	Ebit excl. extraordinary items	2	4	7	7	8
Net profit restated	1	4	6	6	7	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	22	22	22	22	22
	EPS stated fd	0.066	0.185	0.263	0.279	0.291
	EPS restated fd	0.066	0.185	0.263	0.279	0.291
	BVPS fd	0.935	1.047	1.262	1.461	1.655
	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%	32.2%	36.7%	41.2%
CASH FLOW (Eu mn)	Gross cash flow	6	9	14	14	13
	Change in NWC	5	(3)	(2)	(1)	0
	Capital expenditure	(7)	(7)	(9)	(10)	(10)
	Other cash items	(0)	0	0	0	0
	Free cash flow (FCF)	4	(1)	2	3	3
	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	(3)	1	1	1	
BALANCE SHEET (Eu mn)	Total fixed assets	14	14	16	19	22
	Net working capital	6	9	12	13	12
	Long term liabilities	(5)	(4)	(4)	(4)	(3)
	Net capital employed	15	20	24	28	31
	Net financial position	6	3	4	5	6
	Group equity	21	24	28	33	37
	Minorities	0	0	0	0	0
Net equity	21	24	28	33	37	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	74	74	74	74	74
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	6	3	4	5	6
	Enterprise value	68	70	70	69	68
RATIOS(%)	EBITDA margin*	33.2%	35.3%	34.7%	34.6%	34.4%
	EBIT margin*	10.5%	13.2%	16.9%	17.3%	17.4%
	Gearing - Debt/equity	-29.6%	-14.5%	-14.0%	-14.8%	-15.5%
	Interest cover on EBIT	23.9	142.6	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	12.0%	23.7%	29.8%	27.5%	25.5%
	ROE*	7.1%	18.6%	22.8%	20.5%	18.7%
	EV/CE	4.3	4.0	3.1	2.6	2.3
	EV/Sales	3.7	2.2	1.8	1.7	1.6
	EV/Ebit	35.6	17.0	10.5	9.6	9.0
Free Cash Flow Yield	4.8%	-1.8%	3.3%	3.8%	4.3%	
GROWTH RATES (%)	Sales	-21.1%	73.8%	24.6%	6.1%	4.8%
	EBITDA*	-8.8%	84.9%	22.5%	5.8%	4.2%
	EBIT*	-40.1%	118.6%	59.8%	8.5%	5.5%
	Net profit	-47.2%	180.7%	42.3%	6.1%	4.5%
	EPS restated	-47.2%	180.7%	42.3%	6.1%	4.5%

* Excluding extraordinary items

Source: Intermonte SIM estimates

2H18 Results

2H18 turnover beat estimates and brought higher D&A, EBIT in line. Notorious Pictures reported a strong set of results for 2H18 that was better than expected at top line, gross operating margin and net income, while matching EBIT due to higher D&A. In the half-year period, revenues reached Eu10.2mn (vs Eu9.5mn exp.) and profitability at EBITDA improved by 6% YoY, translating into Eu3.2mn EBITDA (vs Eu2.4mn exp.). However, the rise in gross operating margin of Eu0.8mn was absorbed by an increase in D&A by the same amount, leading to EBIT that matched our expectation at Eu0.7mn, corresponding in essence to pre-tax profit. The bottom line benefitted from a limited but positive contribution at tax level, and net income reached Eu1.1mn, higher than our Eu0.8mn forecast. The net financial position as at year-end was Eu3.4mn, broadly in line, while the DPS was +15% higher than our expectation at Eu0.082 for a 44% payout ratio.

Notorious Pictures – 2H18 results

(Eu mn)	2H17E	2H18A	YoY chg %	2H18E	A vs E	2017A	2018A	YoY chg %	2018E	A vs E
Value of production	9.0	10.2	14%	9.5	7.9%	18.1	31.5	74%	30.8	2.4%
EBITDA	2.2	3.2	42%	2.4	34.0%	6.0	11.1	85%	10.32	7.8%
margin %	24.7%	31.0%		24.9%		32.5%	35.3%		31.8%	
DA	(1.9)	(2.4)		(1.6)	50.6%	(4.1)	(7.0)		(6.2)	13.2%
EBIT	0.3	0.7	145%	0.8	(1.4%)	1.9	4.1	119%	4.2	(0.3%)
margin %	3.4%	7.3%		7.9%		10.5%	13.2%		13.5%	
Net financial income/expense	(0.0)	(0.0)		0.0		(0.1)	(0.0)		0.0	
Pretax Profit	0.3	0.7	167%	0.8	(5.2%)	1.8	4.1	127%	4.2	(0.9%)
margin %	3.0%	7.1%		8.0%		10.0%	13.1%		13.5%	
Taxes	0.0	0.4		(0.0)		(0.3)	0.0		(0.4)	
Net profit	0.3	1.1	256%	0.8	48.4%	1.5	4.2	181%	3.8	9.7%
margin %	3.5%	11.1%		8.0%		8.2%	13.2%		12.3%	
minorities	0.0	0.0		0.0		0.0	0.0		0.0	
Group net profit	0.3	1.1	256%	0.8	48.4%	1.5	4.2	181%	3.8	9.7%
margin %	3.5%	11.1%		8.0%						
Extraordinary items	0.0	0.0		0.0		0.0	0.0		0.0	
NFP						6.2	3.4		3.8	
DPS (Eu)							0.07		0.08	

Source: Company data and Intermonte SIM

Change in estimates

Growth across all business divisions, with Executive Production accounting for over a quarter of revenues. 2018 was an extremely positive year for Notorious. Management delivered an impressive business recovery from a weak 2016 and 2017 by implementing a new strategy that puts diversification at the heart of growth and reaps the benefits of investments made of the last 2 years. The company's core business saw strong and healthy growth thanks to new and increasingly important distribution agreements: Theatrical revenues increased by +32% YoY, Pay-TV revenues grew by +34% YoY, and Free-TV by 22% YoY. During FY18, the company distributed 19 films, generating Box-Office revenues of Eu14.1mn, from Eu7mn for FY17, on sales of more than 2.3mn tickets. In addition, the Executive Production division, which NPI decided to boost due to the reconfirmation of tax credits by the Franceschini Law last year, reached over Eu8mn in FY18, from Eu1.5mn for FY17, accounting for 28% of total revenues; in this area, 2018 revenues benefited from the delay of contracts originally expected in 2017. Finally, in regard to diversification, Notorious Cinema took its first step towards a 10-screen Multiplex in Milan through the signing of the agreement with IGD disclosed in January. The business plan forecasts the opening of 20 multiplexes over the next 5 years.

Notorious Pictures – Change in estimates

(Eu mn)	2018A	2019E	2020E	2021E
Value of production new	31.53	39.30	41.70	43.70
Value of production old		39.30	41.70	
% change		0.0%	0.0%	
% YoY		25%	6%	5%
EBITDA new	11.12	13.63	14.41	15.02
EBITDA old		13.63	14.41	
% change		0.0%	0.0%	
% YoY		23%	6%	4%
EBIT new	4.15	6.63	7.20	7.59
EBIT old		6.63	7.20	
% change		0.0%	0.0%	
% YoY		60%	9%	5%
Pretax profit new	4.12	6.64	7.21	7.62
Pretax profit old		6.64	7.21	
% change		0.0%	0.0%	
% YoY		61%	9%	6%
Net profit new	4.15	5.91	6.27	6.55
Net profit old		5.91	6.27	
% change		0.0%	0.0%	
% YoY		42%	6%	5%

Source: Company data and Intermonte SIM

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. **OTT.** 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

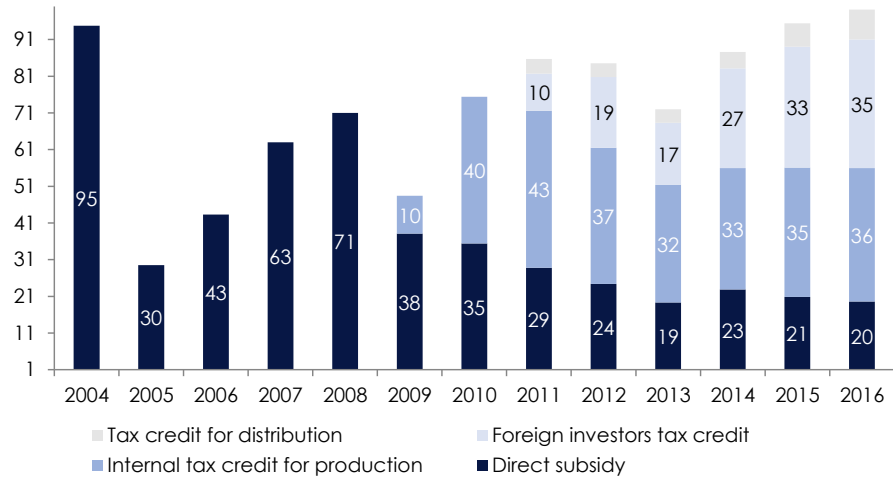
Production activity benefits from a higher contribution, with a tax credit of 30%, while distribution is fostered with 15% on P&A activities. It is worth noting that combining production and distribution means an additional effect, implying an overall tax credit of 40%.

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)



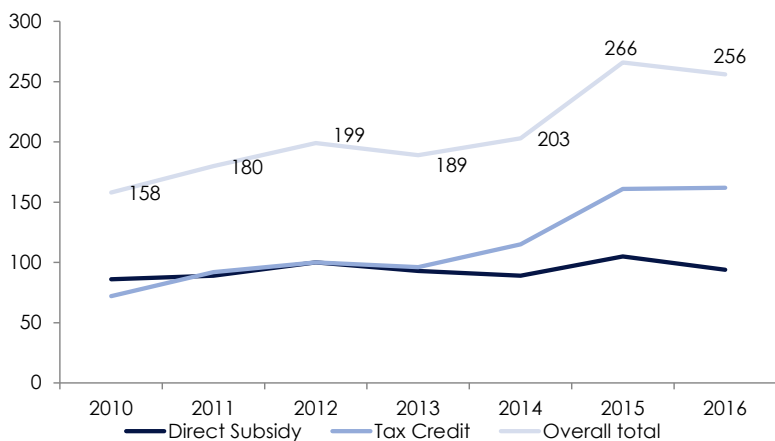
Source: MiBACT, "Tutti I numeri del cinema italiano 2016"

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:

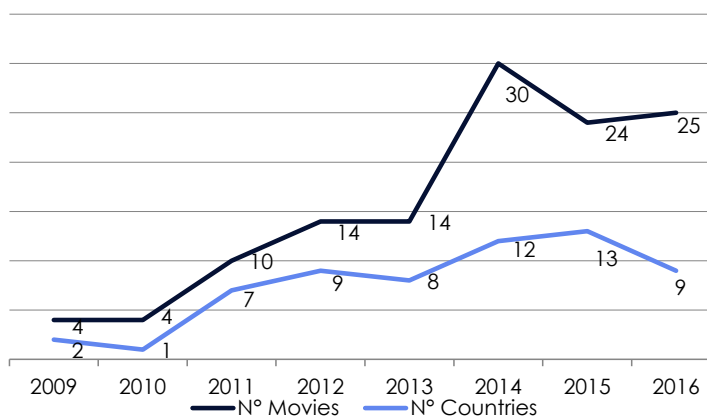
- the creation of a fund to finance the cinema and audiovisual industry, which will be funded by an 11 percent slice of the VAT and IRES tax paid by companies in the communications industry (in a broad sense). Inflows to the fund will be no lower than Eu400mn per year.
- a reduction in the percentage 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.

National public contributions for Production-Distribution-Promotion-Entities in the form of direct subsidies and tax credits in the sector (2010-2016)



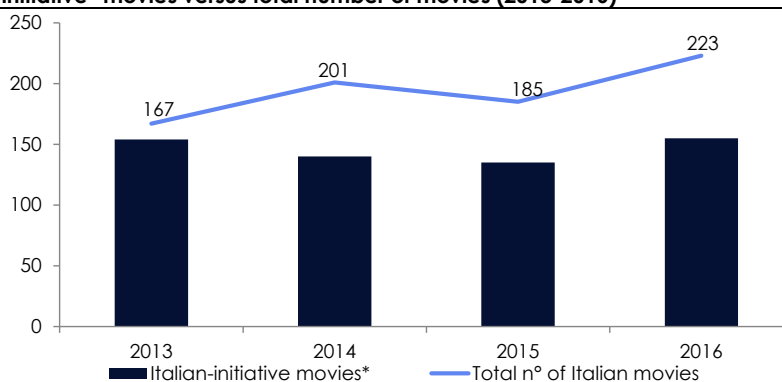
Source: MiBACT, "Tutti I numeri del cinema italiano 2016"

Number of movies and countries that applied for the tax credit for foreign movies (2009-2016)



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

Italian-initiative* movies versus total number of movies (2013-2016)



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

*An Italian-initiative movie is one produced entirely with Italian capital, or co-produced with Italian capital representing the majority share or at least 50% of the total.

A new venture to manage multiplex cinemas

On 9th January 2019, Notorious announced that the group is to enter the business of managing cinemas in Italy via the formation of Notorious Cinema Srl, a fully-owned subsidiary; the stated aim is to manage 20 multiplex cinemas and to sell 5 million tickets by 2023. [Notorious anticipates financing the launch of this business through existing liquidity.](#)

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 the business was more profitable);
- (3) state-of-the-art cinema halls as judged on seat comfort and video/audio experience, which are key success factors for preserving the excitement of the out-of-the-home experience compared to home video consumption;
- (4) M&A opportunities, given the highly fragmented nature of the industry; these have not been factored in the company's business plan.

Notorious Cinema – expected revenue evolution, 2019-2023

	2019 E	2020 E	2021 E	2022 E	2023 E
Newly Opened Cinemas	2	4	4	4	5
Cinemas YE	2	6	10	14	19
Avg Screens per Cinema	8	6	7	7	7
Total Screens	16	40	68	96	131
Avg Seats per Screen	150	150	150	150	150
Seats					
Initial		2,400	6,000	10,200	14,400
Final	2,400	6,000	10,200	14,400	19,650
Average	1,000	4,200	8,100	12,300	17,025
Occupancy ratio (ticket per seat)	280	280	280	280	280
Tickets	280,000	1,176,000	2,268,000	3,444,000	4,767,000
Average Price	6.3	6.4	6.5	6.6	6.7
Box office revenues	1,764,000	7,519,932	14,720,267	22,688,293	31,874,976
Bar revenue per ticket	2.0	2.0	2.1	2.1	2.2
Bar revenues	560,000	2,399,040	4,719,254	7,309,601	10,319,908
Total Revenues	2,324,000	9,918,972	19,439,521	29,997,894	42,194,885

Source: Intermonte SIM estimates

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

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;

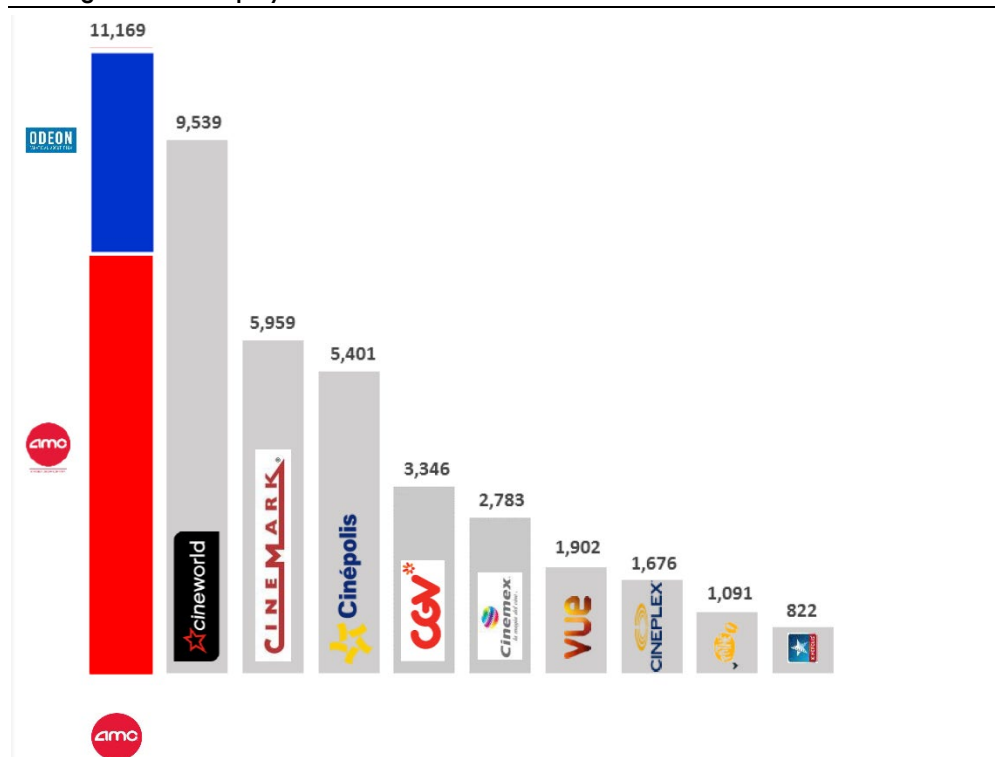
Multicompany Srl, based in Catania, manages several "Pianeta" multiplexes in Sicily.

Internationally, there are a number of large players after recent M&A transactions.

International peers

Valuation	MCAP (EUR)	EV (EUR)	EV / Sales			EV / EBITDA			EV / EBIT			Price / Earnings		
			LTM	2018	2019	LTM	2018	2019	LTM	2018	2019	LTM	2018	2019
AMC Entertainment Hldgs	1,409	5,748	1.20x	1.20x	1.18x	7.7x	7.1x	7.0x	20.6x	24.8x	20.6x	37.6x	37.6x	-
Cineworld Group	4,635	7,901	2.25x	2.24x	1.90x	11.5x	10.0x	8.1x	19.0x	15.3x	12.0x	17.4x	14.3x	11.8x
Cinemark	4,109	5,532	1.95x	1.95x	1.91x	8.7x	8.1x	8.0x	13.7x	16.2x	14.1x	21.8x	21.8x	17.3x
IMAX	1,241	1,227	3.72x	3.72x	3.55x	11.0x	10.5x	9.3x	19.7x	31.1x	15.7x	63.4x	25.2x	21.1x
Cineplex	1,032	1,395	1.32x	1.32x	1.28x	8.4x	8.3x	8.0x	17.4x	17.0x	16.2x	20.3x	20.3x	19.5x

Source Factset

Leading international players – Number of screens at YE17

Source: AMC presentation

NOTORIOUS PICTURES Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
NOTORIOUS PICTURES	3.28	EUR	74	12.7%	5.5%	16.3%	2.5%	171.1%	300.0%
ENTERTAINMENT ONE	4.27	GBP	1,982	1.8%	22.4%	14.2%	19.8%	50.6%	93.7%
EROS INT'L	10.26	USD	628	5.4%	39.6%	-16.6%	23.8%	-17.9%	5.8%
LEONE FILM	4.72	EUR	66	3.5%	-0.4%	-5.6%	0.4%	-1.7%	29.3%
LIONS GATE ENTERT.	15.14	USD	2,014	-0.7%	8.1%	-32.4%	-6.0%	-43.8%	-39.4%
LUCISANO MEDIA	1.73	EUR	26	-3.9%	8.8%	-9.2%	8.8%	-21.7%	-8.7%
MONDO TV	1.28	EUR	44	-9.4%	-8.7%	-67.2%	7.0%	-74.4%	-68.3%
Mean performance				1.4%	10.8%	-14.4%	8.1%	8.9%	44.6%
Italy FTSE Mib	21,078.8	EUR		4.0%	14.6%	-2.1%	15.0%	-5.9%	5.6%

Source: FactSet

NOTORIOUS PICTURES Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
NOTORIOUS PICTURES	3.28	EUR	74	1.8	1.7	5.1	4.8	10.5	9.6	12.5	11.8	2.6%	3.1%
ENTERTAINMENT ONE	4.27	GBP	1,982	2.0	1.7	10.8	9.7	11.0	9.8	15.8	15.6	0.4%	0.4%
EROS INT'L	10.26	USD	628	2.5	1.8	6.9	4.7	8.2	5.4	12.5	9.0	0.0%	0.0%
LEONE FILM	4.72	EUR	66							8.7	6.6		
LIONS GATE ENTERT.	15.14	USD	2,014	1.4	1.3	8.9	8.0	16.0	13.3	21.0	17.2	0.0%	0.0%
LUCISANO MEDIA	1.73	EUR	26										
MONDO TV	1.28	EUR	44	1.6	1.2	2.1	1.6	3.9	3.0	7.7	6.1	0.0%	0.0%
Median				1.8	1.5	7.9	6.3	9.6	7.6	12.5	9.0	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	39.3	40.9	-3.9%	41.7	50.1	-16.8%
Ebitda	13.6	14.0	-2.7%	14.4	15.2	-5.2%
Net Profit	5.9	6.8	-13.1%	6.3	7.3	-14.1%
EPS	0.263	0.300	-12.4%	0.279	0.320	-12.9%
Net Debt	4.0	3.3	20.3%	4.9	3.8	28.3%

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):	3.80	Previous Target (Eu):	3.60
Current Price (Eu):	3.28	Previous Price (Eu):	3.03
Date of report:	25/03/2019	Date of last report:	15/01/2019

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- 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)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

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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;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

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BUY:	11.49 %
OUTPERFORM:	46.62 %
NEUTRAL:	34.46 %
UNDERPERFORM	07.43 %
SELL:	00.00 %

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OUTPERFORM:	56.25 %
NEUTRAL:	22.92 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Gambero Rosso	0.58	LONG
LIFE CARE CAPITAL	0.57	LONG
SPACTIV	0.69	LONG
THESPAC	1.34	LONG
VEI 1	0.72	LONG
WASTE ITALIA	0.65	SHORT

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