

# NOTORIOUS PICTURES

## BUY

SECTOR: Media

Price (Eu):

1.23

Target Price (Eu):

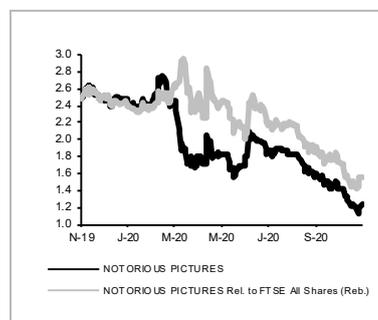
2.20

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## Solid During the Storm, Well Positioned for Recovery

- A successful strategic repositioning completed in 2019.** Since its listing in 2014, Notorious Pictures has successfully implemented a dynamic strategy to keep up with changing consumer habits. Even before Covid-19, the sector was going through an in-depth transformation led by digital innovation: while purely digital players were creating a revolution in the film industry, the cinema segment was still of huge importance to the overall sector. In this context, Notorious Pictures was able to evolve from being a pure film distributor by entering the production sector in order to ride the positive trend in the overall media market and take advantage of public support. In 2019, an important milestone was the production and sale of a film to Netflix that attracted a huge number of global viewers. At the same time, last year Notorious also entered the business of managing cinemas in Italy, a self-financed initiative led by a dedicated management team that enjoys an attractive risk/reward profile.
- Well placed to recover after the storm.** Covid-19 has triggered huge global uncertainty about the future of the industry, with cinemas struggling globally. In our opinion, however, Notorious is well placed to navigate the storm and regain momentum as of 2H21 when the situation is expected to return to normal. The key assets are a proactive management team, a solid capital structure, strong relationships with all the main industry players, such as Sky, RAI, Mediaset, Netflix and Amazon. A number of promising production projects are already at an advanced stage. On top of that, the key strategic pillar of Notorious Cinemas, i.e. focusing on providing a unique experience in cinemas, represents the only viable future for the industry, in our opinion. The current crisis is likely to open up several opportunities to accelerate the business plan. Finally, public subsidies will remain a long-term tailwind: the Italian government has made substantial contributions to companies operating in the media sector for many years and this aid has shown a solid growth trend.
- Business expected to recover in 2021 and then show its full potential in 2022-2023.** Even in a very negative 2020, we expect Notorious to reach bottom-line breakeven thanks to cost-saving efforts. Revenues should reach Eu75.2mn by 2023, from a combination of Eu56.2mn from the traditional business of Notorious Pictures (film distribution and production) and Eu19.0mn from Notorious Cinemas. In terms of EBIT, we expect 2022 to show a return to the peak level reached in 2019, and we forecast the group will reach a Eu7.4mn net operating result in 2023 (37% from distribution business, 25% from production, 23% from cinema management and the rest from exploitation of the library).
- Re-initiating coverage with a BUY recommendation; target Eu2.2.** Notorious can be a major beneficiary from the recovery of the Italian film industry in 2021-2022, thanks to a solid balance sheet and diversified business model. The pandemic is creating significant uncertainty on future estimates, but Notorious is well positioned for a future restart. Our target is calculated as a simple average between a DCF model and a peer comparison, having applied a 25% liquidity discount.

### NOTORIOUS PICTURES - 12m Performance



RATING: New Coverage

TARGET PRICE (Eu): New Coverage

Ch. in Adj.EPS est. 2020E 2021E

#### STOCK DATA

 Reuters code: NPI.MI  
 Bloomberg code: NPI IM

Performance	1m	3m	12m
Absolute	-14.0%	-32.2%	-51.2%
Relative	-10.0%	-28.3%	-31.7%
12 months H/L:	2.74/1.12		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	22
Total No. of shares (mn):	22
Mkt Cap Ord (Eu mn):	28
Total Mkt Cap (Eu mn):	28
Mkt Float - ord (Eu mn):	4
Mkt Float (in %):	15.2%
Main shareholder:	
Marchetti Guglielmo	82.3%

#### BALANCE SHEET DATA 2020

Book value (Eu mn):	24
BVPS (Eu):	1.08
P/BV:	1.1
Net Financial Position (Eu mn):	-12
Enterprise value (Eu mn):	40

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on the last page of this report

Key Figures	2018A	2019A	2020E	2021E	2022E
Sales (Eu mn)	32	44	18	46	66
Ebitda (Eu mn)	11	15	6	12	19
Net profit (Eu mn)	4	5	-1	4	5
EPS - New Adj.(Eu)	0.185	0.232	-0.024	0.159	0.228
EPS - Old Adj.(Eu)					
DPS (Eu)	0.082	0.000	0.000	0.079	0.114

Ratios & Multiples	2018A	2019A	2020E	2021E	2022E
P/E Adj.	6.7	5.3	nm	7.7	5.4
Div. Yield	6.7%	0.0%	0.0%	6.5%	9.3%
EV/Ebitda Adj.	2.2	2.7	7.2	3.3	2.2
ROCE	23.7%	21.6%	-2.1%	11.2%	15.2%

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**NOTORIOUS PICTURES - KEY FIGURES**

		2018A	2019A	2020E	2021E	2022E
	Fiscal year end	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	32	44	18	46	66
	EBITDA	11	15	6	12	19
	EBIT	4	7	(1)	4	6
	Financial income (charges)	(0)	(0)	(0)	(0)	(0)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	4	6	(1)	4	6
	Taxes	0	(1)	0	(1)	(1)
	Tax rate (%)	-0.8%	17.7%	40.0%	14.0%	15.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	4	5	-1	4	5
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	11	15	6	12	19
	Ebit excl. extraordinary items	4	7	(1)	4	6
Net profit restated	4	5	(1)	4	5	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	22	22	22	22	22
	EPS stated fd	0.185	0.232	-0.024	0.159	0.228
	EPS restated fd	0.185	0.232	-0.024	0.159	0.228
	BVPS fd	1.047	1.192	1.080	1.180	1.309
	Dividend per share (ord)	0.082	0.000	0.000	0.079	0.114
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	44.4%	0.0%	0.0%	50.0%	50.0%
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	8	13	5	11	18
	Change in NWC	(3)	(6)	1	(3)	(5)
	Capital expenditure	(7)	(11)	(4)	(9)	(9)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(2)	(3)	2	(1)	2
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	(1)	(2)	0	0	(2)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	(3)	(18)	2	(0)	2	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	14	29	26	27	24
	Net working capital	9	15	14	16	21
	Long term liabilities	(4)	(3)	(4)	(4)	(4)
	Net capital employed	20	41	36	40	41
	Net financial position	3	(14)	(12)	(13)	(13)
	Group equity	24	27	24	27	29
	Minorities	0	0	0	0	1
Net equity	24	27	24	27	28	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	28	28	28	28	28
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	3	(14)	(12)	(13)	(13)
	Enterprise value	24	42	40	41	40
<b>RATIOS(%)</b>	EBITDA margin*	35.3%	34.9%	30.8%	27.2%	28.3%
	EBIT margin*	13.2%	15.0%	nm	9.3%	9.3%
	Gearing - Debt/equity	-14.5%	53.2%	49.9%	49.4%	43.1%
	Interest cover on EBIT	142.6	23.8	nm	42.5	61.4
	Debt/Ebitda	nm	0.93	2.20	1.06	0.68
	ROCE*	23.7%	21.6%	-2.1%	11.2%	15.2%
	ROE*	18.6%	20.7%	-2.1%	14.1%	18.7%
	EV/CE	1.4	1.4	1.0	1.1	1.0
	EV/Sales	0.8	1.0	2.2	0.9	0.6
EV/Ebit	5.8	6.3	nm	9.6	6.6	
Free Cash Flow Yield	-7.5%	-11.8%	7.7%	-3.5%	7.9%	
<b>GROWTH RATES (%)</b>	Sales	73.8%	39.9%	-59.5%	154.9%	44.7%
	EBITDA*	84.9%	38.6%	-64.2%	125.3%	50.1%
	EBIT*	118.6%	59.7%	nm	nm	44.3%
	Net profit	180.7%	25.8%	nm	nm	43.7%
	EPS restated	180.7%	25.8%	nm	nm	43.7%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

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## SWOT Analysis

### Strengths

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- **Management team** with strong international relationships in the industry;
- **Production & distribution synergies;**
- **Established relationships**, not only with the main Free-to-Air and Pay-TV players but also with OTT players such as Netflix and Amazon;
- **Oversight of the full distribution process;**
- **Well-structured to benefit from incentive schemes introduced by the Franceschini law;**
- **Solid balance sheet**

### Opportunities

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- **Expansion of the production business;**
- **Expansion of the customer base.** The film industry is witnessing the entry of new players interested in enriching the content offering;
- **Entering TV series production** with a Direct-to-Video approach;
- **M&A** can enhance group expertise.

### Weaknesses

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- **Heavily dependent on expertise of personnel;**
- **Client base highly concentrated in Pay TV;**
- **Limited scale** compared to international competitors;
- **Limited appeal of Italian movies** on international markets.

### Threats

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- **Structural changes to consumer habits;**
- **Piracy;**

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Source: Intermonte SIM

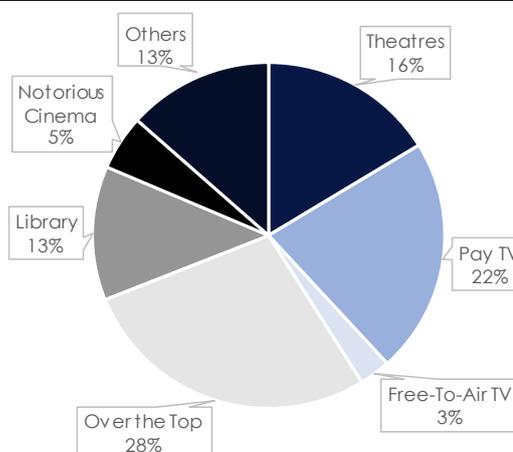
## Company highlights and description

Notorious Pictures (NPI or "Notorious") is an independent company operating in the Italian cinematographic sector. It engages in the acquisition of the full range of movie rights and in distribution through all available channels. In 2015, the company entered the production business, in most cases as a co-producer with international partners. On 9th January 2019, Notorious established Notorious Cinema Srl, a wholly-owned subsidiary to run the cinema management business in Italy.

Notorious Pictures was founded in July 2012 by Guglielmo Marchetti, a key figure in the world of Italian cinema who has held important roles in the industry for decades (he was president and CEO of Moviemax Media Group SpA from 2001 to 2012 before leaving to found NPI). Marchetti started the company with an experienced and dependable management team, which has since been expanded. Notorious Pictures is based in Rome, and founder Guglielmo Marchetti is the CEO.

In 2019, consolidated revenues came to Eu44.1mn, +40% YoY, largely thanks to revenues from film distribution (Eu7.2mn, +22% YoY) and Pay TV (Eu9.7mn, +27.6%). 2019 also benefited from Eu10.7mn in revenues from international sales (a film produced by Notorious was sold to Netflix), while Notorious Cinemas generated Eu2.3mn. On the P&L, EBIT rose 60% YoY to Eu6.6mn. The company closed the year with net debt of Eu14.3mn, equivalent to Eu2.6mn excluding the impact of the adoption of IFRS 16. Unfortunately, from 23<sup>rd</sup> February 2020 to 15<sup>th</sup> June 2020 all cinemas in Italy were closed by order of the authorities due to Covid-19, and Notorious has therefore had to postpone scheduled film launches and suspend filming on new productions. In light of the ongoing crisis, the company has moved swiftly to implement a series of measures aimed at cutting costs.

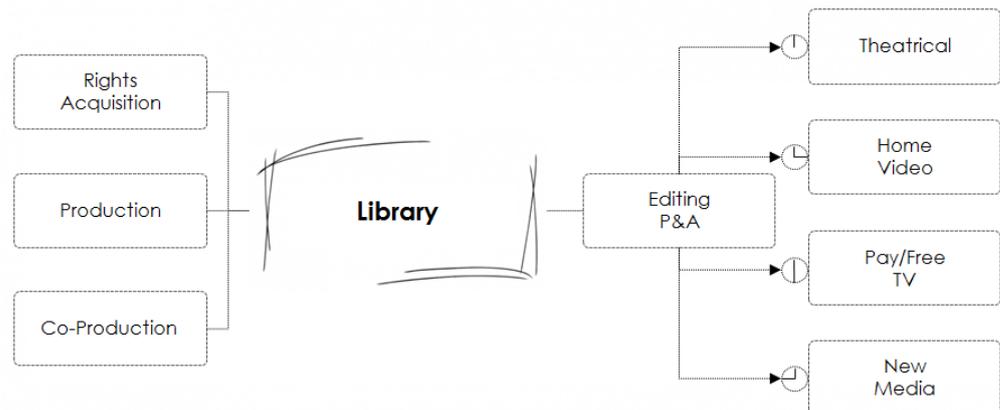
### Notorious Pictures – Revenue breakdown by distribution channel (2019)



Source: Intermonte SIM

## Business model and activities

The main activities currently performed by Notorious are shown here:



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 or the movie was produced by the company itself is not relevant for distribution purposes, as it follows the same process.

### Distribution

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

The process comprises the following phases:

1. **Rights Acquisition.** The company acquires the audio-visual utilisation 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. Utilisation rights typically last 18-20 years and are for the Italian market.
2. **Editing.** International movies need to be processed for distribution in Italy. This step is often limited to dubbing into Italian, for which NPI uses external companies. In other cases, the process also involves adapting 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 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 this activity.
4. **Distribution.** The industry recognises a general "timing rule" when distributing movies through the various channels, following a waterfall structure that sets launch priorities.
  - a. **Theatrical.** Cinema has always been the prime channel for a movie release, except for the specific cases 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 set contractually, as it represents an approximation of the film's success.
  - 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.** 15 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. 6 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 Netflix, Amazon, Sky, Apple, Google, Sony, Chili, and TimVision. This covers video on-demand and electronic sell-through on platforms.

The following figure shows the typical schedule, split into "distribution windows" that determine releases through various channels:

### Notorious – Film distribution windows



Source: Company data

### 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. Digitalisation has brought many improvements in the last decade, leading to significant structural changes to the business model at the same time.

An added benefit of producing movies over merely acquiring the distribution rights is related to licensing dynamics: typically, acquiring movie rights from third parties implies a time frame of 18-20 years and a set geographical area in which the licence is valid, whereas rights for a proprietary movie are valid in any circumstance.

### Comparison between Distribution and Production business models

	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

Notorious operates in this segment through two business models: traditional film production or co-production for cinema or direct to video, and international executive production.

During 2019, the group completed production of "Love Wedding Repeat" produced by Notorious Pictures with Tempo Production. International exploitation rights of the film were transferred to Netflix in August 2019. In April 2020, it was the most watched film in the world on the Netflix platform. A record debut saw it gain first place in the most important international markets, including the UK and US. The film was also released in Italy on the Netflix platform on 14<sup>th</sup> July 2020. The outstanding results of this production will not be easy for Notorious to replicate but mark an important start in the commercial relationship with Netflix; a sequel is a possibility.

During 1H20, co-productions of "Non Odiare" and "The Shift" were finalised, with cinema release in September for the former and October for the latter. The film "Non Odiare", starring Italian actors Alessandro Gassmann and Sara Serraiocco, was the only Italian film to compete at the 35th International Critics' Week in Venice in September 2020, where it was highly successful.

The film "The Shift", starring Clotilde Hesme and Adamo Dionisi, competed at the 15<sup>th</sup> Festival del Cinema di Roma, October 2020.

### Notorious – Recent Co-Productions



#### Non odiare Thou Shalt Not Hate

Directed by Mauro Mancini  
Italy, Poland 2020  
Runtime 96'



#### The Shift

Alessandro Tonda  
Italia, Belgio, 2020, 83'  
Cast Clotilde Hesme, Adamo Dionisi, Adam Amora

Source: Intermonte

### A new venture to manage multiplex cinemas

On 9<sup>th</sup> January 2019, Notorious announced that the group would enter the cinema management business in Italy via the formation of Notorious Cinema Srl, a wholly-owned subsidiary; the stated aim is to manage 20 multiplex cinemas by 2023. Notorious financed the launch of this business from 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 Straffa**, 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 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 in terms of seat comfort and audio/ video experience, which are key factors for successfully preserving the excitement of the out-of-the-home experience compared to home video consumption.

During 2019, Notorious Cinemas opened two Multiplexes, one in Milan at the "Centro Sarca" Shopping Centre in Sesto San Giovanni and one in Rovigo at the "La Fattoria" Shopping Park. Starting 1<sup>st</sup> February 2020, Notorious Cinema has also taken over management of the historic Gloria cinema in Corso Vercelli, in the heart of Milan (2 screens for a total of 600 seats), which has been enhanced with the proprietary format "Notorious Cinemas - The Experience" involving the highest technical audio and video standards, top quality comfort, expert hospitality, care and cleaning of the theatres, and computerised automation of the ticketing area.

#### Major Italian players:

**UCI Cinemas** (United Cinemas International), recently purchased by AMC, has almost 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 almost 40 cinemas;

- **Spaziocinema**, led by Lionello Ceri, has 5 multiplexes in total, 2 in Milan and 3 in Monza;
- **Circuito Cinema**, founded in 1996, controls 7 multiplexes, 5 in Rome and 2 in Florence;
- **Multicompany Srl**, based in Catania, manages several "Pianeta" multiplexes in Sicily.

## Tax Credits and Other Forms of Subsidy

The cinematographic industry benefits from a number of subsidies for both the distribution and production sectors. These come from different sources in both direct and indirect forms.

**Tax Credits.** Automatic contribution. This public aid is the most significant and necessary for film production. The measure is periodically reviewed by the government and, in recent years, has been increased 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	40%
Internal tax credit for P&A	40%
External tax credit	30%
International Executive Production	30%
Tax credit for exhibition	20%
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 enjoys a higher contribution (tax credit of 40%), while distribution benefits from a 15% credit on P&A activities. It is worth noting that combining production and distribution enhances the impact, leading to 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 of benefit to the region, both in terms of image/reputation or economically by providing work for local suppliers.

**Selective aid.** The subsidies described above can be considered automatic contributions, as 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, e.g. "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 (2004-2018; Eu mn)



Source: MiBACT, "Tutti I numeri del cinema italiano 2018"

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

Focus on the Franceschini Law: named after the Cultural Heritage Minister, the law came into force on 12<sup>th</sup> January 2018. There are four key elements:

- the creation of a fund to finance the cinema and audio-visual industry, which will be funded by an 11% slice of the VAT and IRES tax paid by companies in the communications industry (in a broader 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 audio-visual work abroad. Selective contributions will be between 15% and 18% 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 audio-visual production and distribution, post-production companies, etc.
- development of cinemas and digitalisation of the artistic heritage. Renovating existing cinemas and opening new ones will be funded by an extraordinary plan worth Eu120mn over five years. A plan also exists for the digitisation of the national cinematographic and audio-visual heritage.

#### Tax credit accounting

As we have explained, there are essentially two categories of subsidies received in the form of tax credits. These are booked in different ways:

##### 1) Tax credit on film distribution (calculated on box office or P&A expenses)

In this case, a credit is recorded on the balance sheet under tax credits and revenue is booked on the income statement under "other" revenue.

The credit is gradually reduced by using it to offset tax liabilities, as soon as these emerge (VAT, withholdings, IRPEG corporate tax, etc.).

The tax credit is deductible, so taxable income is calculated by subtracting the amount of the credit from pre-tax profit.

##### 2) Tax credit on film production (calculated on production costs incurred)

In this case, a credit is recorded on the balance sheet among tax credits and the asset value is decreased as a result of the capitalisation of expenses.

As in case 1, the credit is gradually reduced, being used to offset tax liabilities as soon as these emerge (VAT, withholdings, regional taxes etc.).

The subsidy is tax-exempt but, as it has not been booked as revenue in the income statement, the tax benefit is achieved over time, in proportion to the recognition on the income statement of the depreciation of the capitalised asset.

This rule does not hold for executive productions, because in such cases the company is merely working as an agent for a third-party producer. In 2019, the production of *Love, Wedding, Repeat* was booked as an executive production because the film had already been sold to Netflix, so related tax credits were booked as revenues.

## Impact of the Covid-19 Pandemic

### Global impact: theatrical releases postponed or replaced by digital releases

In the US, after five months of forced closure due to the pandemic, the big movie theatre chains had reopened in roughly 68% of the United States by Labor Day weekend, in large part so they could show "Tenet", a \$200 million Warner Bros. film promoted as "a global tent pole of jaw-dropping size, scope and scale." Directed by Hollywood heavyweight Christopher Nolan, Tenet actually turned in a less-than-stellar box-office performance, with ticket sales amounting to \$9.4 million in its first weekend in North America and just \$29.5 million over its first two weeks. Wall Street's reaction to the Tenet opening and the postponement of Wonder Woman is telling: AMC shares climbed to about \$7 on 4 September, the day Tenet arrived in US theatres, up from about \$2 in April; they have since declined by about 17%. Cinemark has dropped 18% since 4 September. Cineworld, the parent company of Regal Cinemas, is down 14% (for context, the S&P 500 was flat for the period.)

To strengthen its streaming business further, Disney said it would bypass theatres in the United States, Canada and part of Europe and make Mulan — a \$200mn film — available to Disney+ subscribers on a premium basis. Indefinite access will cost \$30 on top of Disney+ membership and start on 4 September. Success looked likely in China, where Mulan is set and where Disney hoped to enjoy record numbers: however, the film took in a lacklustre \$8mn while The Lion King, released last year, took \$13mn on its first day in China. It must also be borne in mind that the country's 70,000 theatres have reopened, but most are still limiting capacity to 50% as a coronavirus precaution. Even considering that rampant piracy and frosty reviews may well have cut into ticket sales, the result looks somewhat disappointing.

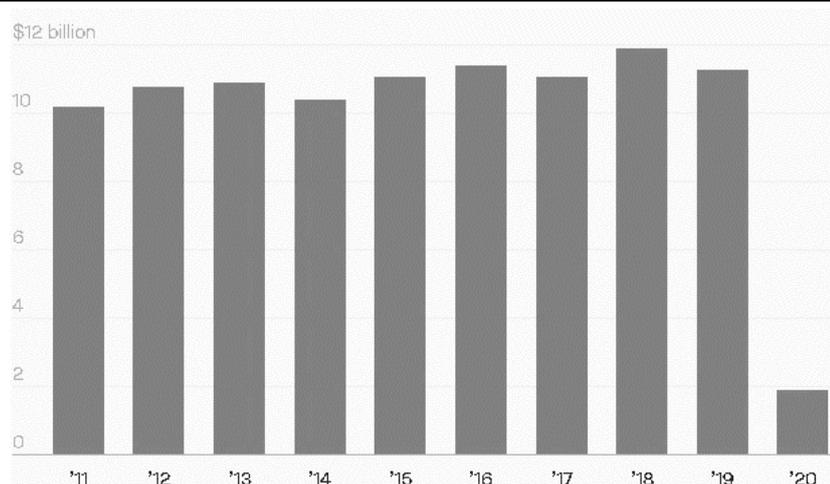
On 11<sup>th</sup> October, 2020, the Walt Disney Company announced a realignment of its business divisions that placed the focus squarely on Disney+ and its other streaming services as the future of the company's creative efforts.

The release of the new James Bond film, "No Time To Die" has been delayed again: the premiere had already been moved from April to November because of the pandemic and now the film has been delayed further until 2 April 2021 "in order to be seen by a worldwide theatrical audience", a statement on the film's website said. Recently, Apple, Netflix and other streaming services explored the possibility of acquiring "No Time to Die". MGM, the studio behind the film, reportedly lost between \$30 million to \$50 million due to the delays, insiders said. The discussions were first reported by *Bloomberg*. Other studios, such as Paramount and Sony, have raked in tens of millions by selling movies like "Greyhound," "Coming 2 America" and "Without Remorse" to streaming services while the exhibition sector continues to struggle during the pandemic.

The postponement of No Time to Die comes after two major autumn releases, Wonder Woman: 1984 and Marvel Studios' Black Widow - starring Scarlett Johansson - were both pushed back. With Steven Spielberg's West Side Story and Kenneth Branagh's Death on the Nile remake also delayed, the situation is extremely critical for many struggling cinema chains, which rely on big budget releases for much of their income.

In the US, AMC, the largest American movie theatre chain is close to bankruptcy.

### US box office (revenue by years – 2020 YTD)



Source: Box Office Mojo

### **The dramatic situation in Italy**

Starting January 2020, the national scenario has been drastically transformed by the spread of Coronavirus and the consequent restrictive measures implemented by authorities to curb infections. These extraordinary circumstances continue to have direct and indirect repercussions on the business. In light of this situation, Notorious has temporarily suspended shooting of the film "Lamborghini" for which it is Executive Producer, and on the distribution side of the business, year to date, only 4 films have arrived in cinemas, with total revenues of approximately Eu1.7mn. Theatrical distribution of all movies expected from the end of February 2020 has been postponed. The line-up for the second half of 2020 currently includes the release of 8 films (this plan is subject to review as a consequence of renewed restrictive measures being implemented).

Regarding cinema operation, the 3 multiplexes managed by the Notorious Cinemas subsidiary were closed from 23 February 2020 until 19 August 2020. The reopening took place in compliance with the capacity limits set by national regulations.

The group promptly adopted all available cost control measures and, where possible, made use of furlough schemes.

Following the escalation of coronavirus case numbers (now over 20,000 new positive cases per day), the Italian government closed cinemas again by decree on 24 October 2020. Even before this dramatic decision, Italian box office revenues were down almost 70% YoY in September, a figure that demonstrates the difficulty of relaunching the business during the coronavirus pandemic.

### **Public aid from the Italian government to sustain the sector**

The Italian government has put certain measures in place to try to stem the ongoing crisis in the sector. The tax credit for the production of cinematographic works, normally set at 30% of costs and in any case not exceeding Eu8mn per year per company, was raised by 10 points, i.e. to 40%, if at least two weeks or 25% of filming days were shot between February 28 and November 30, with a maximum bonus of Eu4mn per film.

Similar incentives have also been provided for production of audio-visual works intended for television or streaming.

The tax credit for film and audio-visual distribution, which can be worth up to a maximum of Eu2mn per company, is normally recognised on the basis of a rate between 15% and 40% of the expenses incurred for the national distribution of Italian films.

## Financials

### 1H20 results

As we already pointed out, in response to the extremely tough situation the group promptly adopted all the possible cost control measures, including the use of furlough where available.

1H20 revenues amounted to Eu5,624k (from Euro24,748k in 1H19) and show a decrease of approximately 77%.

All channels, for the reasons already outlined, showed strongly negative performances compared to 1H19m with the only exception of revenues from New Media and PPV.

Half-yearly EBITDA was positive despite the substantial block in activity, coming to Eu0.9mn, down 88% from Eu7.3mn in 1H19. The result was obtained thanks to the aforementioned saving policies and the use of social safety nets.

The net loss was limited to Eu0.8mn compared to a net profit of Eu2.6mn in 1H19.

At the end of June 2020, the Group recorded a net debt position of Eu13.6mn (Eu14.3mn at 31<sup>st</sup> December 2019). The net financial position excluding the IFRS 16 effect was negative at Eu1.2mn, an improvement on the Eu2.6mn posted as at 31.12.2019.

### Notorious Pictures – 1H20 results

Revenue breakdown	1H19A	1H20A	YoY
Theatrical	5.124	0.597	-88%
<i>Won Total %</i>	29.1%	12.3%	
Home Video	0.474	0.232	-51%
<i>Won Total %</i>	2.7%	4.8%	
Pay TV	5.288	0.821	-84%
<i>Won Total %</i>	30.0%	16.9%	
Free TV	0.420	0.032	-92%
<i>Won Total %</i>	2.4%	0.7%	
Executive production	0.000	0.000	
<i>Won Total %</i>	0.0%	0.0%	
Notorious Cinema	0.615	1.189	93%
<i>Won Total %</i>	3.5%	24.5%	
Others	6.293	3.167	-50%
<i>Won Total %</i>	31.8%	4.9%	
<b>Total operating revenues</b>	<b>17.599</b>	<b>4.849</b>	<b>-72%</b>

Interim Results	1H19A	1H20A	YoY
Revenue from sales	17.599	4.849	-72%
<b>Value of production</b>	<b>24.748</b>	<b>5.624</b>	<b>-77%</b>
<b>Value Added</b>	<b>10.505</b>	<b>2.205</b>	<b>-79%</b>
Labour costs	(3.174)	(1.293)	
<b>EBITDA</b>	<b>7.33</b>	<b>0.91</b>	<b>-88%</b>
<i>margin %</i>	29.6%	16.2%	
DA	(3.512)	(2.429)	
<b>EBIT</b>	<b>3.820</b>	<b>(1.518)</b>	<b>-140%</b>
<i>margin %</i>	15.4%	(27.0%)	
Net fin. income/(expense)	(0.078)	(0.062)	
<b>Pretax Profit</b>	<b>3.742</b>	<b>(1.580)</b>	<b>-142%</b>
Taxes	(1.082)	0.742	
Tax Rate	(28.9%)	(46.9%)	
<b>Net profit</b>	<b>2.660</b>	<b>(0.838)</b>	<b>-132%</b>
minorities	0	0	
<b>Group net profit</b>	<b>2.660</b>	<b>(0.838)</b>	<b>-132%</b>

Source: Company data and Intermonte SIM

## 2020-2023 Estimates

The following tables show our 2020-2023 revenue expectations broken down by business unit. Our main assumptions are broken down as follows: 1) Distribution; 2) Production; 3) Direct to video library and 4) other revenues. Our forecasts for Notorious Pictures are presented separately.

### Notorious Pictures – Revenue breakdown

Revenue Breakdown	2019A	2020E	2021E	2022E	2023E
<b>Distribution</b>	21.6	11.7	16.6	20.2	21.3
YoY		-46.0%	42.8%	21.5%	5.3%
<b>Production</b>	10.7	-	15.5	23.6	23.7
YoY				52.3%	0.5%
<b>Direct to video Library</b>	5.5	1.9	2.0	2.0	2.1
YoY		-65.6%	3.0%	3.0%	3.0%
<b>Tax credit and other revenues</b>	3.8	2.8	6.7	9.1	9.1
YoY		-26.7%	141.0%	36.6%	0.4%
<b>Total</b>	<b>41.6</b>	<b>16.3</b>	<b>40.7</b>	<b>54.9</b>	<b>56.2</b>
YoY		-60.8%	149.8%	34.8%	2.3%

Source: Intermonte SIM estimates

### Distribution

In our model we assume that as of 2021 Notorious will be able to distribute 18 films per year, in line with its historical track record. This number may include internally produced films.

Estimates are built assuming an average standard level of revenues per film. In reality Notorious's line-up consists of a very diversified offer ranging from major US blockbusters that are expected to rake in several million euros in box office revenues, to small Italian productions.

As for 2021, we have assumed coronavirus will continue to have a negative impact on 1H21.

### Notorious Pictures – Forecasts on distribution business

Assumptions	2019A	2020E	2021E	2022E	2023E
# films	17	4	18	18	18
Theatrical revenue per film (Eu '000)	425	213	300	450	460
Free TV revenue per film (Eu '000)			80	80	80
Pay TV / Digital revenue per film (Eu '000)			500	550	600
REVENUES	2019A	2020E	2021E	2022E	2023E
Theatrical	7.23	0.85	5.40	8.10	8.28
Free TV	1.27	2.00	1.44	1.44	1.44
Pay TV / Digital	11.57	7.80	9.00	9.90	10.80
Other revenues	1.51	1.00	0.80	0.78	0.77
<b>Total Distribution</b>	<b>21.58</b>	<b>11.65</b>	<b>16.64</b>	<b>20.22</b>	<b>21.29</b>

Source: Intermonte SIM estimates

**Cinema:** we expect the cinema segment to remain a significant part of Notorious's business, recovering from the 2020 crisis as early as 2021, as the films originally slated for release in 2020 will contribute to 2021 figures instead. We forecast cinema revenues to recover gradually, reaching Eu8.3mn in FY23, assuming a higher average quality of film in distribution than in 2019.

**Pay TV / Digital:** traditionally, the Pay TV (i.e. SKY) and digital (i.e. Amazon Prime, Netflix, Tim Vision, etc.) segment closely follows the theatrical revenue trend, as box-office proceeds broadly dictate income from pay TV/digital. The increasing role played by OTT players should favour Notorious, offsetting a likely gradual decrease in revenues from SKY.

**Free-to-Air:** in this business division we cautiously forecast modest sales due to a structural change in consumer habits.

### Production

This is the key business area looking forward. In 2019 Notorious produced the film *Love, Wedding, Repeat*, which it then sold to Netflix for Eu10.7mn. This represented a great success that we cautiously assume the company will be unable to replicate in the coming years. In the meantime the group is developing a number of different projects, with some of them already at an advanced stage with leading industry players.

#### **Notorious Pictures – Forecasts on production business**

	2019A	2020E	2021E	2022E	2023E
International Ex. Production (Eu mn)	-	-	5.50	5.61	5.72
# direct to video projects	-	-	1	2	2
TV Series (Eu mn)	-	-	5.00	10.00	10.00
# films in production	1	-	2	3	3
Film Production (Eu mn)	10.72	-	5.00	8.00	8.00
<b>Total Production</b>		<b>-</b>	<b>15.50</b>	<b>23.61</b>	<b>23.72</b>

Source: Intermonte SIM estimates

**Executive Production:** this activity is expected to restart in 2021 and Notorious enjoys good visibility on a number of projects. It represents a contract business that Notorious carries out in general for international producers. This activity benefits from specific public incentives, with tax credits of up to 30% of the total costs, and typically shows an EBITDA margin of c.10%, structurally lower than the company's other activities but with a very low risk profile and with no CapEx attached. Given the strong public incentives, we expect this business to see healthy growth in the coming years, reaching Eu5.7mn by the end of 2023.

**TV series and film production.** In 2021 we expect Notorious to be able to complete a TV series and 2 film productions. In 2022-2023 we expect 2 TV series and 3 film productions. The group's involvement in these projects can vary from a role similar to executive production to being the main originator of the intellectual property. Notorious is working on both Italian and international projects. To the best of our knowledge, Notorious is in advanced talks with leading industry players on a number of projects. We remind that global platforms like Netflix and Amazon Prime have to produce local content. In our opinion, the great success of *Love, Wedding, Repeat* is an excellent calling card that may enable Notorious to sign new collaborations with top industry players.

### Notorious Cinemas

Italian cinemas are currently closed and 2020 will be the worst year in history. We expect the situation to normalise gradually over the course of 2021. The crisis is providing players like Notorious with significant opportunities for consolidation. In our model we cautiously assumed no new openings in 2021 while, starting from 2022, 3 new cinemas under management per year.

The key number in our estimates is the occupancy ratio, i.e. the average number of tickets sold annually per seat. In a normal year we estimate this ratio at 300, while on 2020 we expect this figure to be about 75.

(see table on the next page)

**Notorious Pictures – Forecasts on Notorious Cinemas**

	2019	2020 E	2021 E	2022 E	2023 E
Newly Opened Cinemas	2	1	-	3	3
Cinemas YE	2	3	3	6	9
Avg Screens per Cinema	8	5	5	7	7
Total Screens	16	21	21	42	63
Avg Seats per Screen	150	150	150	150	150
Seats	Initial	2,400	3,150	3,150	6,300
Seats	Final	2,400	3,150	3,150	6,300
Seats	Average	1,000	2,775	3,150	4,725
Occupancy ratio (ticket per seat per	278	75	200	300	306
<b>Tickets</b>	<b>277,858</b>	<b>208,125</b>	<b>630,000</b>	<b>1,417,500</b>	<b>2,409,750</b>
Average Price	6.0	5.5	5.6	5.7	5.8
<b>Box office revenues</b>	<b>1,667,145</b>	<b>1,144,688</b>	<b>3,516,975</b>	<b>8,031,892</b>	<b>13,859,029</b>
Bar revenue per ticket	1.7	1.7	1.8	1.8	1.8
<b>Bar revenues</b>	<b>474,418</b>	<b>362,463</b>	<b>1,119,128</b>	<b>2,568,400</b>	<b>4,453,605</b>
Ad per ticket	0.4	0.3	0.3	0.3	0.3
<b>Advertising and Services</b>	<b>122,129</b>	<b>62,438</b>	<b>189,000</b>	<b>425,250</b>	<b>722,925</b>
<b>Tax Credit</b>	<b>305,351</b>				
<b>Total Revenues</b>	<b>2,569,043</b>	<b>1,569,588</b>	<b>4,825,103</b>	<b>11,025,541</b>	<b>19,035,559</b>

Source: Intermonte SIM estimates

Notorious has built an extremely flexible business model, so we consider Notorious Cinemas to be an opportunity with very limited associated risks.

Not only are rents expected to be agreed according to the number of tickets sold, but CapEx to refurbish cinemas to meet the highest industry standards are largely funded by landlords or public subsidies.

In our estimates we expect box office revenues to normalise in 2022. The main risk to this assumption is the possible decision, taken by leading Hollywood majors like Disney, to release films directly on digital platforms. We still believe that cinema distribution is not only the best way to enjoy a film, but also the best channel to start the distribution process.

### Income Statement

The table below summarises our estimates to 2023. As we have already pointed out, 2020 will be a very negative year due to Covid-19, a factor that we also expect to burden 1H21. Nevertheless, thanks to cost saving actions we still expect Notorious to reach bottom line break-even in 2020.

According to our forecasts, revenues should reach Eu75.2mn by 2023, as the combination of a contribution of Eu56.2mn from the traditional business of Notorious Pictures (film distribution and production) and Eu19.0mn from Notorious Cinemas.

Group EBITDA is forecast at Eu22.2mn in 2023; we remind that EBITDA incorporates IFRS 16, which has a relevant impact on the Notorious Cinemas business (in our model rents correspond to 18% of revenues).

In terms of EBIT, we expect 2022 to show a return to the 2019 peak, and forecast the group will achieve a Eu7.4mn net operating result in 2023. It is worth pointing out expectations for the diversification of this result across different business lines to improve: distribution business should remain the top contributor with 37% of the total, then production with 25%, cinema management with 23% and resale of the library with 14%.

The tax rate largely benefits from tax credits on the various activities (distribution and production) and is particularly sensitive to production tax rates. Contribution from tax credits should drive 2020 net result close to break-even.

### **Notorious Pictures – Profit & Loss**

	2017A	2018A	2019A	2020E	2021E	2022E	2023E
<b>Revenue from Notorious Pictures</b>	<b>16.869</b>	<b>31.534</b>	<b>41.548</b>	<b>16.309</b>	<b>40.747</b>	<b>54.933</b>	<b>56.203</b>
YoY %	(17.93%)	66.27%	31.76%	(60.75%)	149.84%	34.81%	2.31%
<b>Revenues from Notorious Cinema</b>			<b>2.569</b>	<b>1.570</b>	<b>4.825</b>	<b>11.026</b>	<b>19.036</b>
YoY %				(38.90%)	207.41%	128.50%	72.65%
<b>Total Revenues</b>	<b>18.139</b>	<b>31.534</b>	<b>44.117</b>	<b>17.879</b>	<b>45.572</b>	<b>65.958</b>	<b>75.239</b>
YoY %	(21.11%)	73.85%	39.90%	(59.47%)	154.90%	44.73%	14.07%
<b>EBITDA Notorious Pictures</b>	<b>6.015</b>	<b>11.112</b>	<b>15.059</b>	<b>5.261</b>	<b>11.210</b>	<b>15.439</b>	<b>15.912</b>
YoY %	(7.65%)	74.40%	35.52%	(65.07%)	113.09%	37.73%	3.06%
margin %	41.3%	35.2%	36.2%	32.3%	27.5%	28.1%	28.3%
<b>EBITDA Notorious Cinema</b>			<b>0.354</b>	<b>0.251</b>	<b>1.206</b>	<b>3.197</b>	<b>6.091</b>
margin %			13.8%	16.0%	25.0%	29.0%	32.0%
<b>TOTAL EBITDA</b>	<b>6.015</b>	<b>11.119</b>	<b>15.412</b>	<b>5.512</b>	<b>12.416</b>	<b>18.636</b>	<b>22.003</b>
YoY %	(8.75%)	84.85%	38.61%	(64.24%)	125.26%	50.10%	18.07%
margin %	33.2%	35.3%	34.9%	30.8%	27.2%	28.3%	29.2%
<b>D&amp;A Notorious Pictures</b>	<b>(4.118)</b>	<b>(6.971)</b>	<b>(8.255)</b>	<b>(5.825)</b>	<b>(6.993)</b>	<b>(9.960)</b>	<b>(10.248)</b>
<b>D&amp;A Notorious Cinema</b>			<b>(0.517)</b>	<b>(0.483)</b>	<b>(1.169)</b>	<b>(2.536)</b>	<b>(4.378)</b>
<b>D&amp;A</b>	<b>(4.118)</b>	<b>(6.971)</b>	<b>(8.786)</b>	<b>(6.308)</b>	<b>(8.161)</b>	<b>(12.496)</b>	<b>(14.626)</b>
YoY %	20.32%	69%	26.04%	(28.21%)	29.39%	53.12%	17.04%
<b>EBIT</b>	<b>1.897</b>	<b>4.148</b>	<b>6.626</b>	<b>(0.796)</b>	<b>4.254</b>	<b>6.140</b>	<b>7.377</b>
YoY %	(40.14%)	118.61%	59.74%	(112.01%)	(634.55%)	44.32%	20.15%
margin %	10.5%	13.2%	15.0%	(4.5%)	9.3%	9.3%	9.8%
Net financial income/expense	(0.079)	(0.029)	(0.278)	(0.100)	(0.100)	(0.100)	0.000
	(0.44%)	(0.09%)	(0.63%)	(0.56%)	(0.22%)	(0.15%)	0.00%
<b>Pretax Profit</b>	<b>1.818</b>	<b>4.119</b>	<b>6.348</b>	<b>(0.896)</b>	<b>4.154</b>	<b>6.040</b>	<b>7.377</b>
YoY %	(42.57%)	126.54%	54.12%	(114.11%)	(563.72%)	45.39%	22.14%
margin %	10.0%	13.1%	14.4%	(5.0%)	9.1%	9.2%	9.8%
Taxes	(0.339)	0.034	(1.124)	0.358	(0.582)	(0.906)	(1.107)
Tax Rate	(18.6%)	0.8%	(17.7%)	(40.0%)	(14.0%)	(15.0%)	(15.0%)
<b>Net profit</b>	<b>1.479</b>	<b>4.153</b>	<b>5.223</b>	<b>(0.538)</b>	<b>3.573</b>	<b>5.134</b>	<b>6.271</b>
YoY %	(47.22%)	180.72%	25.78%	(110.29%)	(764.67%)	43.70%	22.14%
margin %	8.2%	13.2%	11.8%	(3.0%)	7.8%	7.8%	8.3%
minorities	0	0	0	0	0	0	0
<b>Group net profit</b>	<b>1.479</b>	<b>4.153</b>	<b>5.223</b>	<b>-0.538</b>	<b>3.573</b>	<b>5.134</b>	<b>6.271</b>

Source: Intermonte SIM estimates

### Balance Sheet and Cash Flow

We have based our model on the following assumptions:

- **Net working capital:** starting from 2021, we expect net working capital to sales ratio to converge towards 30%;
- **Dividend:** dividends are foreseen at Eu1.8mn and Eu2.6mn in 2022 and 2023 respectively; we are cautiously not expecting dividends to be paid in 2021;
- **CapEx:** we estimate CapEx will remain broadly above Eu9-10mn in the coming years, mainly supporting the distribution and internal production activities.

Overall, we expect cash generation to improve throughout the forecast period.

### **Notorious – Cash Flow Statement**

	(Eu mn)	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Net income		1.5	4.2	5.2	(0.5)	3.6	5.1	6.3
Minorities		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization & Depr.		4.1	7.0	8.8	6.3	8.2	12.5	14.6
	% on sales	22.7%	22.1%	19.9%	35.3%	17.9%	18.9%	19.4%
<b>Gross cash flow</b>		<b>5.6</b>	<b>11.1</b>	<b>14.0</b>	<b>5.5</b>	<b>10.9</b>	<b>15.6</b>	<b>17.5</b>
Change in working capital		5.2	(3.1)	(5.7)	1.1	(2.7)	(4.5)	(2.6)
Other funds and provisions		0.7	(2.7)	(0.7)	(0.4)	(0.5)	0.5	0.0
Other		(0.7)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating cash flow</b>		<b>10.7</b>	<b>5.3</b>	<b>7.6</b>	<b>6.3</b>	<b>7.7</b>	<b>11.6</b>	<b>14.9</b>
<b>Capex</b>		<b>(7.2)</b>	<b>(7.4)</b>	<b>(10.9)</b>	<b>(4.1)</b>	<b>(8.7)</b>	<b>(9.4)</b>	<b>(10.3)</b>
	% on sales	39.6%	23.5%	24.7%	23.0%	19.0%	14.3%	13.7%
<b>FCF (Eu mn)</b>		<b>3.6</b>	<b>(2.1)</b>	<b>(3.3)</b>	<b>2.1</b>	<b>(1.0)</b>	<b>2.2</b>	<b>4.6</b>
	FCF/EBITDA	59.3%	(18.7%)	(21.2%)	38.9%	(7.8%)	11.7%	20.7%
Acquisitions		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends		(1.2)	(1.2)	(1.8)	0.0	0.0	(1.8)	(2.6)
	% Pay Out	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Right Issue		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		(0.0)	0.5	(12.6)	0.0	0.0	0.0	0.0
<b>Cash Flow</b>		<b>2.4</b>	<b>(2.8)</b>	<b>(17.7)</b>	<b>2.1</b>	<b>(1.0)</b>	<b>0.4</b>	<b>2.0</b>
NFP at bgn year Cash/(Debt)		3.8	6.2	3.4	(14.3)	(12.1)	(13.1)	(12.7)
<b>NFP at year end: Cash/(Debt)</b>		<b>6.2</b>	<b>3.4</b>	<b>(14.3)</b>	<b>(12.1)</b>	<b>(13.1)</b>	<b>(12.7)</b>	<b>(10.7)</b>
<b>NFP excl. IFRS 16</b>		<b>6.2</b>	<b>3.4</b>	<b>(3.6)</b>	<b>(1.4)</b>	<b>(2.4)</b>	<b>(2.0)</b>	<b>(0.0)</b>

Source: Intermonte SIM estimates

**Notorious – Balance Sheet**

(Eu mn)	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Inventories	0.2	0.2	0.3	0.5	0.9	0.7	0.8
% on sales	1.0%	0.7%	0.7%	3.0%	2.0%	1.0%	1.0%
Trade Receivables	12.4	14.7	28.3	15.2	23.9	34.3	39.1
% on sales	68.4%	46.6%	64.1%	85.0%	52.5%	52.0%	52.0%
Trade Payables	(6.7)	(7.2)	(14.8)	(4.5)	(11.4)	(16.5)	(18.8)
% on sales	(36.9%)	(22.7%)	(33.5%)	(25.0%)	(25.0%)	(25.0%)	(25.0%)
Commercial working capital	5.9	7.7	13.8	11.3	13.4	18.5	21.1
% on sales	32.6%	24.5%	31.3%	63.0%	29.5%	28.0%	28.0%
Other current Assets/Liabilities	0.2	1.5	1.1	2.5	3.0	2.5	2.5
<b>Net working capital</b>	<b>6.1</b>	<b>9.2</b>	<b>14.9</b>	<b>13.8</b>	<b>16.4</b>	<b>21.0</b>	<b>23.6</b>
% on sales	33.8%	29.2%	33.7%	77.0%	36.1%	31.8%	31.3%
% on Net capital employed	41.4%	45.7%	36.2%	37.8%	41.5%	51.0%	59.7%
Tangible asset	0.1	0.2	1.3	1.3	1.3	1.4	1.4
Total intangible	13.7	14.1	27.6	25.0	25.5	22.5	18.2
Participations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Fixed Asset</b>	<b>13.8</b>	<b>14.6</b>	<b>28.8</b>	<b>26.3</b>	<b>26.9</b>	<b>23.8</b>	<b>19.6</b>
Other non current assets/liabilities	(5.2)	(3.7)	(2.6)	(3.7)	(3.7)	(3.7)	(3.7)
<b>Net capital employed</b>	<b>14.8</b>	<b>20.1</b>	<b>41.1</b>	<b>36.4</b>	<b>39.6</b>	<b>41.1</b>	<b>39.5</b>
<b>Net (debt)/cash</b>	<b>6.2</b>	<b>3.4</b>	<b>(14.3)</b>	<b>(12.1)</b>	<b>(13.1)</b>	<b>(12.7)</b>	<b>(10.7)</b>
% on Net capital employed	(42.0%)	(16.9%)	34.7%	33.3%	33.1%	30.9%	27.1%
<b>Net Equity</b>	<b>21.0</b>	<b>23.6</b>	<b>26.8</b>	<b>24.3</b>	<b>26.5</b>	<b>28.4</b>	<b>28.8</b>
% on Net capital employed	142.0%	116.9%	65.3%	66.7%	66.9%	69.1%	72.9%
Shareholders Funds	21.0	23.6	26.8	24.3	26.5	28.4	28.8
Minorities	0.0	0.0	0.0	0.0	0.0	1.0	2.0
<b>Net capital employed</b>	<b>14.8</b>	<b>20.1</b>	<b>41.1</b>	<b>36.4</b>	<b>39.6</b>	<b>41.1</b>	<b>39.5</b>

Source: Intermonte SIM estimates

## Peers

Two of the closest comparable entities could be Lucisano Media Group and Leone Film Group in terms of both dimension and core market.

- **Lucisano Media Group** earns revenues (2019 figures) from the cinema business (39%), production (52%), and distribution (9%). The EBITDA margins in 2016 and 2017 were 14% and 9% respectively.
- **Leone Film Group** started business as a producer and this remains its core activity (c.70% of sales) while the rest comes from the distribution business.

### Notorious Pictures – Comparable peers

	Mkt Cap	EV/EBITDA 2020	EV/EBITDA 2021	EV/EBITDA 2022	EV/EBIT 2020	EV/EBIT 2021	EV/EBIT 2022	PE 2020	PE 2021	PE 2022	EV/Sales 2020	EV/Sales 2021	EV/Sales 2022
<b>Notorious Pictures</b>	<b>28</b>	<b>7.2 x</b>	<b>3.3 x</b>	<b>2.2 x</b>	<b>nm</b>	<b>9.6 x</b>	<b>6.6 x</b>	<b>nm</b>	<b>7.7 x</b>	<b>5.4 x</b>	<b>2.2 x</b>	<b>0.9 x</b>	<b>0.6 x</b>
Lucisano Media Group S.p.A.	16	4.1 x	2.6 x		16.2 x	8.1 x		10.9 x	4.7 x		1.4 x	1.0 x	
Leone Film Group SpA	29	3.8 x	2.3 x	2.2 x	253.9 x	21.2 x	12.3 x		9.0 x	4.5 x	1.7 x	1.2 x	1.0 x
Lions Gate Entertainment Corp Class A	1,217	8.5 x	7.2 x	5.6 x	28.3 x	23.1 x	15.4 x		201.0 x	41.9 x	1.1 x	0.9 x	0.8 x
Mediawan SA	370	14.3 x	9.2 x	7.3 x	17.0 x	9.8 x	8.3 x	32.0 x	12.3 x	10.2 x	1.9 x	1.3 x	1.2 x
Mondo TV S.p.A.	49	2.4 x	2.1 x	2.4 x	5.4 x	4.7 x	4.8 x	10.2 x	9.1 x	6.3 x	1.8 x	1.6 x	2.0 x
<b>Mean</b>		<b>6.6 x</b>	<b>4.7 x</b>	<b>4.4 x</b>	<b>64.2 x</b>	<b>13.4 x</b>	<b>10.2 x</b>	<b>17.7 x</b>	<b>47.2 x</b>	<b>15.7 x</b>	<b>1.6 x</b>	<b>1.2 x</b>	<b>1.2 x</b>
<b>Median</b>		<b>4.1 x</b>	<b>2.6 x</b>	<b>4.0 x</b>	<b>17.0 x</b>	<b>9.8 x</b>	<b>10.3 x</b>	<b>10.9 x</b>	<b>9.1 x</b>	<b>8.3 x</b>	<b>1.7 x</b>	<b>1.2 x</b>	<b>1.1 x</b>

Source: Intermonte SIM estimates and Factset

### Notorious Pictures – Comparable peers' performances

	Mkt Cap	1M	3M	6M	YTD	1Y
<b>Notorious Pictures</b>	<b>28</b>	<b>-14.0%</b>	<b>-32.2%</b>	<b>-31.5%</b>	<b>-50.4%</b>	<b>-51.2%</b>
Lucisano Media Group S.p.A.	16	3.8%	-6.0%	-10.7%	-24.8%	-26.8%
Leone Film Group SpA	29	-17.6%	-30.4%	-33.1%	-53.2%	-58.8%
Lions Gate Entertainment Corp Class A	1,217	-28.9%	-11.8%	-11.8%	-39.4%	-19.0%
Mediawan SA	370	-3.7%	-3.7%	41.6%	10.2%	20.5%
Mondo TV S.p.A.	49	-22.1%	-24.7%	-19.6%	-41.0%	10.9%
<b>Mean</b>		<b>-13.7%</b>	<b>-15.3%</b>	<b>-6.7%</b>	<b>-29.7%</b>	<b>-14.6%</b>
<b>Median</b>		<b>-17.6%</b>	<b>-11.8%</b>	<b>-11.8%</b>	<b>-39.4%</b>	<b>-19.0%</b>

Source: Intermonte SIM estimates and Factset

## Valuation

We have calculated our target price of Eu2.2 per share as the simple average between the result of a DCF model and the fair value from a peer comparison, to which we have applied a liquidity discount of 25%.

### Notorious Pictures – Valuation Summary

Model	Target Price (Eu)	Notes
DCF	3.3	WACC 7.5%, g 1.0%, EBIT margin 9.7%, CAPEX/Sales 13.7%
Multiples	2.6	EV/EBIT 21/22
Simple average	2.9	
Liquidity discount	25%	
<b>Fair Equity value per share</b>	<b>2.2</b>	

Source: Intermonte SIM

### DCF valuation range (Eu mn)

	WACC	terminal growth		
		0.5%	1.0%	1.5%
	7.0%	3.3	3.6	3.8
	7.5%	3.1	<b>3.2</b>	3.5
	8.0%	2.8	3.0	3.1

Source: Intermonte SIM estimates

Our discounted cash-flow model yields an equity value of c.Eu40.6mn. The model is based on the following assumptions:

- 2.5% risk-free rate;
- 5.0% risk premium;
- 1.0x beta;
- 100% equity weighting;
- Long-term terminal growth rate of 1.0%.

## APPENDIX: Market Data

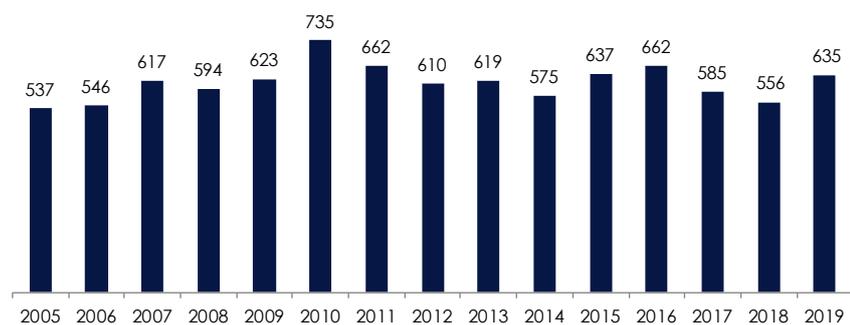
### Ranking of Italian Distributors in 2019

Distribution	Major/Independent	Attendees	BO Takings (€)
WALT DISNEY S.M.P. ITALIA	Major	25,631,811	170,041,654
WARNER BROS ITALIA	Major	20,342,055	137,556,268
01 DISTRIBUTION	RAI	9,434,317	60,702,923
EAGLE PICTURES	Independent	6,092,945	37,605,904
20TH CENTURY FOX ITALIA	Major	5,157,529	33,681,118
UNIVERSAL	Major	5,043,029	32,534,433
MEDUSA FILM	Mediaset Group	5,079,769	32,304,818
VISION DISTRIBUTION	Independent	4,986,103	31,968,152
LUCKY RED DISTRIB.	Independent	4,893,451	30,866,906
NOTORIOUS PICT.	Independent	2,805,546	16,974,236
NEXO DIGITAL	Independent	773,232	7,467,635
M2 PICTURES	Independent	835,003	5,181,291
BIM DISTRIB.	Independent	910,153	5,061,074
KOCH MEDIA	Independent	711,236	4,705,535
I WONDER PICTURES	Independent	559,461	3,380,993
ACADEMYTWO DISTR.	Independent	561,174	3,350,080
ADLER ENTERTAINMENT	Independent	484,119	2,897,341
VIDEOA	Independent	368,216	2,190,789
CINEMA	Independent	335,110	1,782,815
QMI PROD.	Independent	85,361	1,185,195
Others		2,497,238	14,010,614
<b>TOTAL</b>		<b>97,586,858</b>	<b>635,449,774</b>

Source: Cinetel

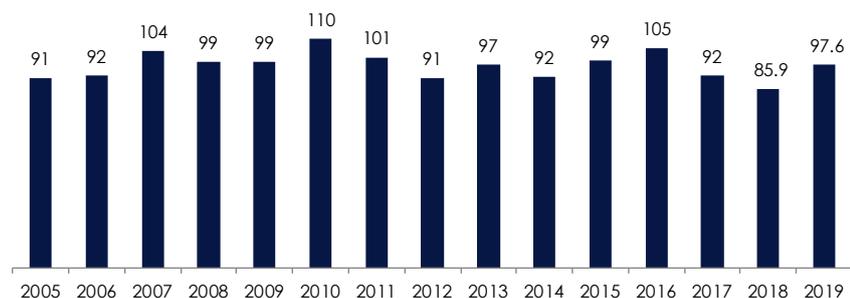
As shown by the bar graphs below, this market has experienced a broadly stable trend in recent years, which has been highly influenced by big individual releases in specific years. For example, in 2017, only two Italian movies garnered more than Eu10mn, while in 2016 one film, "Quo vado?" by Checco Zalone, generated Eu65mn and accounted for 34% of total box office revenues generated by Italian productions. In 2018 the top three films recorded an overall box office of Eu54mn while in 2019 the top three cash in Eu98mn.

### Italian cinema – Box Office proceeds (Eu mn)



Source: Cinetel, Dati Cinema

### Italian cinema – Number of tickets (mn)



Source: Cinetel, Dati Cinema

## NOTORIOUS PICTURES Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>NOTORIOUS PICTURES</b>	<b>1.23</b>	<b>EUR</b>	<b>28</b>	<b>-14.0%</b>	<b>-32.2%</b>	<b>-31.5%</b>	<b>-50.4%</b>	<b>-51.2%</b>	<b>-66.1%</b>
LEONE FILM	2.06	EUR	29	-14.2%	-30.4%	-33.1%	-53.2%	-57.4%	-57.1%
LIONS GATE ENTERT.	6.73	USD	1,484	-25.6%	-12.1%	-5.9%	-36.9%	-15.9%	-64.8%
LUCISANO MEDIA	1.06	EUR	16	-0.9%	-8.6%	-13.1%	-26.9%	-28.9%	-33.8%
MONDO TV	1.45	EUR	50	-15.1%	-20.8%	-17.3%	-39.3%	12.8%	-59.7%
<b>Mean performance</b>				<b>-13.9%</b>	<b>-20.8%</b>	<b>-20.2%</b>	<b>-41.3%</b>	<b>-28.1%</b>	<b>-56.3%</b>
<b>Italy FTSE Mib</b>	18,400.0	EUR		-3.5%	-3.6%	4.0%	-21.7%	-19.8%	-5.1%

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
				2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
<b>NOTORIOUS PICTURES</b>	<b>1.23</b>	<b>EUR</b>	<b>28</b>	<b>2.2</b>	<b>0.9</b>	<b>7.2</b>	<b>3.3</b>	<b>(50.0)</b>	<b>9.6</b>	<b>(51.5)</b>	<b>7.7</b>	<b>0.0%</b>	<b>6.5%</b>
LEONE FILM	2.06	EUR	29	1.7	1.2	3.8	2.3	253.9	21.2		9.0	0.0%	4.4%
LIONS GATE ENTERT.	6.73	USD	1,484	1.1	0.9	8.5	7.4	28.3	23.1		201.9	0.0%	0.0%
LUCISANO MEDIA	1.06	EUR	16	1.3	1.0	4.1	2.6	16.1	8.0	10.6	4.6	0.0%	0.0%
MONDO TV	1.45	EUR	50	1.8	1.6	2.5	2.1	5.6	4.8	10.5	9.3	0.0%	0.0%
<b>Median</b>				<b>1.5</b>	<b>1.1</b>	<b>3.9</b>	<b>2.4</b>	<b>22.2</b>	<b>14.6</b>	<b>10.5</b>	<b>9.1</b>	<b>0.0%</b>	<b>0.0%</b>

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

research@intermonte.it

## DETAILS ON STOCKS RECOMMENDATION

Stock NAME	NOTORIOUS PICTURES		
Current Recomm:	BUY	Previous Recomm:	--
Current Target (Eu):	2.20	Previous Target (Eu):	--
Current Price (Eu):	1.23	Previous Price (Eu):	--
Date of report:	03/11/2020	Date of last report:	--

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

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UNDERPERFORM	06.61 %
SELL:	00.00 %

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OUTPERFORM:	59.62 %
NEUTRAL:	28.84 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short
COGEME SET SPA	1,6	SHORT
IKF	0,57	SHORT
LIFE CARE CAPITAL	0,59	LONG
OLIDATA	0,74	SHORT

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