

NOTORIOUS PICTURES

BUY

Sector: Media

Price: Eu1.80 - Target: Eu2.40

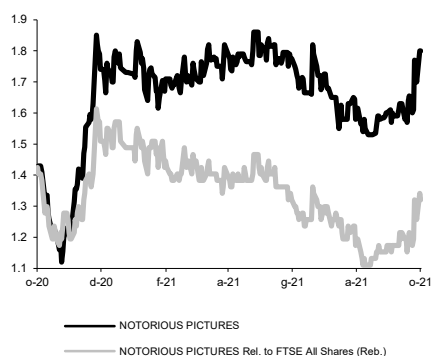
Well Placed To Benefit From Cinema Business Recovery

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

Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 2.20 to 2.40		
	2021E	2022E	2023E
Chg in Adj EPS	-4.0%	6.2%	9.0%

NOTORIOUS PICTURES - 12M Performance



Stock Data

 Reuters code: NPI.MI
 Bloomberg code: NPI IM

Performance	1M	3M	12M
Absolute	12.5%	4.3%	26.3%
Relative	13.4%	2.4%	-8.6%
12M (H/L)	1.86/1.12		
3M Average Volume (th):	5.94		

Shareholder Data

No. of Ord shares (mn):	22
Total no. of shares (mn):	22
Mkt Cap Ord (Eu mn):	40
Total Mkt Cap (Eu mn):	40
Mkt Float - Ord (Eu mn):	6
Mkt Float (in %):	15.2%
Main Shareholder:	
Marchetti Guglielmo	82.3%

Balance Sheet Data

Book Value (Eu mn):	29
BVPS (Eu):	1.28
P/BV:	1.4
Net Financial Position (Eu mn):	-14
Enterprise Value (Eu mn):	54

■ **Positive set of 1H21 results.** The figures (released on 29th September) were again penalised by the pandemic (cinemas were closed until the end of April 2021), but figures showed a clear improvement on the 1H20 situation, not just thanks to significant government subsidies (Eu3.1mn, of which Eu1.8mn booked as other revenues, while the remaining Eu1.3mn were deducted from the net asset value) but also thanks to the diversification into other segments such as film production, where the Group is working on a film under contract to Amazon. Revenues, which dropped to Eu5.6mn in 1H20 from Eu24.7mn in 1H19, reached Eu13.0mn in 1H21, with high margins thanks to the subsidies. Net debt as at end-June was Eu13.0mn, but debt was just Eu1.5mn excluding the impact of IFRS16 related to the leasing contracts for Notorious Cinemas. Management expects to distribute 7 films to cinemas in 2H21. The press release highlights that Eu2mn of public subsidies, despite relating to activities already carried out, will be consolidated, accrued and cashed-in during 2H21.

■ **Supportive recent newsflow.** On 22nd September Notorious announced the establishment of Notorious Pictures Spain (fully-owned subsidiary) with the aim of starting up distribution in the Spanish market, as a first step of a long planned international expansion strategy. The line-up already includes 11 films ready for distribution in Spain. As for the production business, in March the group announced an agreement with Amazon Studios for the production of *Anni da Cane* (first *Amazon Original* production in Italy) from an original subject developed by Notorious. On 31st August, shooting of *The Honeymoon* began: this film is an international co-production with UK company Tempo Productions Ltd. Additionally, the group is developing a number of different projects, relating both to films and to TV series, some of which are already at an advanced stage with leading industry players.

■ **Change in estimates.** For 2021, we are fine-tuning our estimates to factor in 1H21 results and industry newsflow that since September has provided increasing visibility on the fact that people are going back to cinemas. On 27th September, by government request, the technical-scientific committee resolved that the maximum occupancy in indoor cinemas could be increased from the current limit of 50% to 80% indoors. Our estimates also now include the expected contribution from Notorious Spain, which can already count on the rights for the distribution of 11 films in 2H21-2022-2023 (in detail we are assuming 1 film to be released in 2H21, 5 in 2022 and 10 in 2023). All in all, mainly thanks to this contribution, we are raising our 2022 and 2023 EPS forecasts by 6% and 9%.

■ **BUY; target from Eu2.2 to Eu2.4.** In a very tough half-year for the industry, Notorious was able to secure positive results and pave the way for a promising future in each of its market segments. Overall, thanks partly to continuously rising cinema attendance trends, we think our FY21 estimates are realistic. Notorious can be a major beneficiary of the recovery of the Italian film industry in 2022, thanks to a solid balance sheet and diversified business model. Our target reflects a 25% liquidity discount on a fair valuation.

Key Figures & Ratios	2019A	2020A	2021E	2022E	2023E
Sales (Eu mn)	44	13	30	63	78
EBITDA Adj (Eu mn)	15	5	12	18	23
Net Profit Adj (Eu mn)	5	-2	4	6	7
EPS New Adj (Eu)	0.232	-0.095	0.197	0.253	0.310
EPS Old Adj (Eu)	0.232	-0.095	0.206	0.238	0.284
DPS (Eu)	0.000	0.000	0.079	0.101	0.124
EV/EBITDA Adj	5.1	10.7	4.5	3.3	2.5
EV/EBIT Adj	11.8	nm	10.5	8.4	6.9
P/E Adj	7.8	nm	9.1	7.1	5.8
Div. Yield	0.0%	0.0%	4.4%	5.6%	6.9%
Net Debt/EBITDA Adj	0.9	2.6	1.1	1.0	0.8

The reproduction of the information, recommendations and research produced by Intermonte SIM contained herein, and any of its parts, is strictly prohibited. None of the contents of this document may be shared with third parties without Company authorization. Please see important disclaimer on the last page of this report

NOTORIOUS PICTURES – Key Figures

Profit & Loss (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Sales	32	44	13	30	63	78
EBITDA	11	15	5	12	18	23
EBIT	4	7	-3	5	7	8
Financial Income (charges)	-0	-0	-0	-0	-0	-0
Associates & Others	0	0	0	0	0	0
Pre-tax Profit	4	6	-3	5	7	8
Taxes	0	-1	1	-0	-1	-1
Tax rate	-0.8%	17.7%	32.7%	8.2%	15.0%	15.0%
Minorities & Discontinued Operations	0	0	0	0	0	0
Net Profit	4	5	-2	4	6	7
EBITDA Adj	11	15	5	12	18	23
EBIT Adj	4	7	-3	5	7	8
Net Profit Adj	4	5	-2	4	6	7
Per Share Data (Eu)	2018A	2019A	2020A	2021E	2022E	2023E
Total Shares Outstanding (mn) - Average	22	22	22	22	22	22
Total Shares Outstanding (mn) - Year End	23	23	23	23	23	23
EPS f.d	0.185	0.232	-0.095	0.197	0.253	0.310
EPS Adj f.d	0.185	0.232	-0.095	0.197	0.253	0.310
BVPS f.d	1.047	1.192	1.094	1.277	1.363	1.437
Dividend per Share ORD	0.082	0.000	0.000	0.079	0.101	0.124
Dividend per Share SAV	0.000	0.000	0.000	0.000	0.000	0.000
Dividend Payout Ratio (%)	44.4%	0.0%	0.0%	40.0%	40.0%	40.0%
Cash Flow (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Gross Cash Flow	8	13	5	11	17	21
Change in NWC	-3	-6	2	-5	-6	-2
Capital Expenditure	-7	-11	-4	-7	-11	-12
Other Cash Items	0	0	0	0	0	0
Free Cash Flow (FCF)	-2	-4	3	-1	-1	5
Acquisitions, Divestments & Other Items	0	0	0	0	0	0
Dividends	-1	-2	0	0	-2	-2
Equity Financing/Buy-back	0	0	0	0	0	0
Change in Net Financial Position	-3	-18	2	-0	-3	3
Balance Sheet (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Total Fixed Assets	14	29	26	27	26	24
Net Working Capital	9	15	13	18	24	26
Long term Liabilities	-4	-3	-2	-2	-2	-2
Net Capital Employed	20	41	38	42	48	48
Net Cash (Debt)	3	-14	-13	-14	-18	-18
Group Equity	24	27	25	29	31	32
Minorities	0	0	0	0	1	2
Net Equity	24	27	25	29	30	30
Enterprise Value (Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Average Mkt Cap	46	64	41	40	40	40
Adjustments (Associate & Minorities)	0	0	0	0	0	0
Net Cash (Debt)	3	-14	-13	-14	-18	-18
Enterprise Value	42	78	54	54	59	58
Ratios (%)	2018A	2019A	2020A	2021E	2022E	2023E
EBITDA Adj Margin	35.3%	34.9%	37.5%	40.2%	28.8%	29.6%
EBIT Adj Margin	13.2%	15.0%	nm	17.3%	11.1%	10.9%
Gearing - Debt/Equity	-14.5%	53.2%	52.4%	47.9%	59.3%	54.8%
Interest Cover on EBIT	142.6	23.8	nm	14.8	27.8	37.4
Net Debt/EBITDA Adj	-0.3	0.9	2.6	1.1	1.0	0.8
ROACE*	23.7%	21.6%	-7.6%	13.0%	15.4%	17.6%
ROE*	18.6%	20.7%	-8.3%	16.6%	19.5%	23.2%
EV/CE	2.4	2.6	1.4	1.4	1.3	1.2
EV/Sales	1.3	1.8	4.0	1.8	0.9	0.8
EV/EBITDA Adj	3.8	5.1	10.7	4.5	3.3	2.5
EV/EBIT Adj	10.2	11.8	nm	10.5	8.4	6.9
Free Cash Flow Yield	-5.1%	-9.1%	7.5%	-2.1%	-1.6%	11.7%
Growth Rates (%)	2018A	2019A	2020A	2021E	2022E	2023E
Sales	73.8%	39.9%	-69.5%	123.2%	108.8%	23.8%
EBITDA Adj	84.9%	38.6%	-67.3%	139.6%	49.5%	27.2%
EBIT Adj	118.6%	59.7%	nm	nm	34.0%	21.1%
Net Profit Adj	180.7%	25.8%	nm	nm	28.3%	22.3%
EPS Adj	180.7%	25.8%	nm	nm	28.3%	22.3%
DPS	51.0%	nm	nm	nm	28.3%	22.3%

*Excluding extraordinary items

Source: Intermonte SIM estimates

1H21 Results

On 29th September 2021 the group unveiled 1H21 results.

The numbers were again penalised by the pandemic (cinemas were closed until the end of April 2021), but figures showed a clear improvement on the situation in 1H20, not just thanks to significant government subsidies (Eu3.1mn, of which Eu1.8mn booked as other revenues, with the remaining Eu1.3mn deducted from net asset value) but also thanks to the diversification into other segments such as film production, where the Group is working on a film under contract to Amazon (*Anni da cane*, first Amazon Original production in Italy). Revenues, which dropped to Eu5.6mn in 1H20 from Eu24.7mn in 1H19, reached Eu13.0mn in 1H21, with high margins thanks to the subsidies.

Notorious – 1H21 revenues

(Eu '000)	1H20A	1H21A	YoY chg %
Theatrical distribution	597	169	-72%
Theatrical box office	905	137	-85%
F&B and advertising	284	48	-83%
Other distribution revenues	1,098	5,883	436%
OTT and Pay Per View	1,899	380	-80%
Resale of third party library	66	117	77%
Production	0	4,126	nm
Revenues	4,849	10,860	124%
Other revenues	775	2,051	165%
Total revenues	5,624	12,911	130%

Source: Company data

Net debt as at end-June was Eu13.0mn, but debt was just Eu1.5mn excluding the impact of IFRS16 related to the leasing contracts for Notorious Cinemas. Management expects to distribute 7 films to cinemas in 2H21. The press release highlights that Eu2mn of public subsidies, despite relating to activities already carried out, will be consolidated, accrued and cashed-in during 2H21.

Notorious – 1H21 results

(Eu mn)	1H19A	1H20A	1H21A	YoY chg %	2Y chg %	1H21E	A vs E
Value of production	24.7	5.6	12.9	130%	(48%)	13.0	(0.7%)
EBITDA	7.3	0.9	5.3	483%	(27%)	5.0	6.3%
margin %	29.6%	16.2%	41.2%			38.5%	
DA	(3.5)	(2.4)	(3.9)			(2.4)	60.4%
EBIT	3.8	(1.5)	1.4	nm	(63%)	1.3	9.1%
margin %	15.4%	(27.0%)	11.0%			10.0%	
Net fin. income/(expense)	(0.1)	(0.1)	(0.1)			(0.1)	
Pretax Profit	3.7	(1.6)	1.3	nm	(65%)	1.2	6.2%
margin %	15.1%	(28.1%)	10.2%			9.5%	
Taxes	(1.1)	0.7	(0.2)			(0.1)	
Net profit	2.7	(0.8)	1.1	nm	(58%)	1.1	(0.4%)
margin %	10.7%	(14.9%)	8.6%			8.6%	
Net Debt excl. IFRS 16		(1.2)	(1.5)				

Source: Company data and Intermonte SIM estimates

Change in Estimates

For 2021, we are fine-tuning estimates to take into account 1H21 results and industry newsflow that, since September, has provided increasing visibility on the fact that people are going back to cinemas (two important premieres, *Dune* and *No Time to Die*, generated box office takings of Eu0.42mn and Eu0.49mn respectively in the first day of screening). On 27th September, by government request the technical-scientific committee resolved that the maximum occupancy in indoor cinemas could be increased from the current limit of 50% to 80%. Additionally, we are now factoring in the expected contribution from Notorious Spain, which can already count on the rights for the distribution of 11 films in 2H21-2022-2023 (in detail we are assuming 1 film to be released in 2H21, 5 in 2022 and 10 in 2023). All in all, mainly thanks to this contribution, we are raising our 2022 and 2023 EPS forecasts by 6% and 9%.

Notorious Pictures - Change to estimates

P&L NOTORIOUS	NEW			OLD			% Change		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenue from Notorious Pictures	26.85	52.65	57.86	27.75	48.50	54.95	-3.2%	8.6%	5.3%
YoY %	126%	96%	10%	133%	75%	13%			
Revenues from Notorious Cinema	2.66	7.21	12.98	2.66	8.85	14.89	0.0%	-18.5%	-12.9%
YoY %	72%	171%	80%	72%	232%	68%			
Revenues from Notorious Spain	0.50	2.81	6.73	0.00	0.00	0.00			
YoY %	0%	467%	140%	0%	0%	0%			
Total Revenues	30.0	62.7	77.6	30.4	57.3	69.8	-1.3%	9.3%	11.1%
YoY %	123%	109%	24%	126%	89%	22%			
EBITDA Notorious Pictures	11.38	15.02	16.50	11.38	14.61	16.28	0.0%	2.8%	1.4%
margin %	42%	29%	29%	41%	30%	30%			
EBITDA Notorious Cinema	0.53	2.09	4.15	0.67	2.57	4.77	-20.0%	-18.5%	-12.9%
margin %	20%	29%	32%	25%	29%	32%			
EBITDA Notorious Spain	0.15	0.93	2.29	0.00	0.00	0.00			
margin %	30%	33%	34%	0%	0%	0%			
TOTAL EBITDA	12.1	18.0	22.9	12.0	17.2	21.0	0.1%	5.0%	9.0%
YoY %	140%	50%	27%	139%	43%	23%			
margin %	40.2%	28.8%	29.6%	39.6%	29.9%	30.1%			
D&A Notorious Pictures	(6.0)	(8.7)	(9.7)	(6.0)	(8.8)	(10.1)			
D&A Notorious Cinema	(0.7)	(1.4)	(2.7)	(0.7)	(1.7)	(3.1)			
D&A Notorious Spain	(0.2)	(1.0)	(2.1)						
D&A	(6.9)	(11.1)	(14.5)	(6.7)	(10.5)	(13.2)			
EBIT	5.2	6.9	8.4	5.4	6.7	7.8	-3.8%	4.4%	7.5%
YoY %	(273%)	34%	21%	(280%)	24%	18%			
margin %	17.3%	11.1%	10.9%	17.7%	11.6%	11.2%			
Net financial income/expense	(0.350)	(0.250)	(0.225)	(0.500)	(0.350)	(0.315)			
	(1.17%)	(0.40%)	(0.29%)	(1.64%)	(0.61%)	(0.45%)			
Pretax Profit	4.8	6.7	8.2	4.9	6.3	7.5	-1.1%	6.2%	9.0%
YoY %	(253%)	39%	22%	(255%)	29%	19%			
margin %	16.1%	10.7%	10.6%	16.1%	11.0%	10.8%			
Taxes	(0.397)	(1.005)	(1.229)	(0.264)	(0.946)	(1.127)			
Tax Rate	(8.2%)	(15.0%)	(15.0%)	(5.4%)	(15.0%)	(15.0%)			
Net profit	4.4	5.7	7.0	4.6	5.4	6.4	-4.0%	6.2%	9.0%
YoY %	(309%)	28%	22%	(317%)	16%	19%			
margin %	14.8%	9.1%	9.0%	15.2%	9.3%	9.1%			

Source Intermonte SIM

2021-2023 Estimates

The following tables show our 2021-2023 revenue expectations broken down by business unit. Our main assumptions are broken down as follows: 1) Distribution; 2) Production; and 3) other revenues (tax credits are included in this line). Our forecasts for Notorious Cinemas and for Notorious Spain are presented separately.

Notorious Pictures – Revenue breakdown

Revenue Breakdown	2019A	2020A	2021E	2022E	2023E
Distribution	27.1	9.6	13.0	22.0	24.2
YoY		-64.5%	34.6%	69.5%	10.4%
Production	10.7	-	8.5	20.5	22.6
YoY				141.2%	10.2%
Tax credit and other revenues	4.1	2.3	5.4	10.2	11.0
YoY		-44.2%	137.9%	88.9%	8.2%
Total	41.9	11.9	26.9	52.7	57.9
YoY		-71.6%	125.8%	96.1%	9.9%

Source: Intermonte SIM estimates

Distribution

In our model we assume that Notorious will be able to distribute 7 films in 2H21, while starting from 2022 we are assuming 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 2H21, we have assumed coronavirus will continue to have some negative impact due to restrictions on the number of seats that can be occupied in any cinema.

Notorious Pictures – Forecasts on distribution business

Assumptions	2019A	2020A	2021E	2022E	2023E
#films	17	5	10	18	18
Theatrical revenue per film (Eu '000)	422	188	300	500	510
REVENUES	2019A	2020A	2021E	2022E	2023E
Theatrical	7.18	0.94	3.00	9.00	9.18
Free TV	1.27	1.67	3.20	2.20	3.30
Pay TV / Digital	17.10	6.72	6.50	10.50	11.50
Other revenues	1.52	0.28	0.25	0.25	0.25
Total Distribution	27.07	9.62	12.95	21.95	24.23

Source: Intermonte SIM estimates

Theatrical: We forecast cinema revenues to recover gradually, reaching Eu9.2mn in FY23. On 22nd March, Notorious announced the acquisition of rights for 8 international films at the European Film Market (Berlin Film Festival). This deal enhances visibility on the group's film distribution line-up, adding important titles such as "The Actor" starring Ryan Gosling or "Places, Please" starring Meryl Streep.

Pay TV / Digital: traditionally, the Pay TV (i.e. SKY) and digital (i.e. Amazon Prime, Netflix, Tim Vision, etc.) segment closely tracks cinema revenue trends, as box-office proceeds broadly dictate income from pay TV/digital. The increasing role played by OTT players should favour Notorious.

Free-to-Air TV: this business division is proving quite resilient, partly thanks to the sale of new films being included in bundles with other titles from the library.

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. In March the group announced an agreement with Amazon Studios for the production of *Anni da Cane* from an original subject developed by Notorious. On 31st August, the shooting of *The Honeymoon* began: this film is an international co-production with UK company Tempo Productions Ltd. Endeavor Content is in charge of selling the worldwide rights, while CAA will sell the rights in the USA. Furthermore, the group is developing a number of different projects, relating both to films and TV series, some of which are already at an advanced stage with leading industry players.

Notorious Pictures – Forecasts on production business

Production	2019A	2020A	2021E	2022E	2023E
International Ex. Production (Eu mn)				4.50	4.59
# direct to video projects				1	2
TV Series (Eu mn)				7.00	9.00
# films in production	1		2	3	3
Film Production (Eu mn)	10.72		8.50	9.00	9.00
Total Production	10.72	-	8.50	20.50	22.59

Source: Intermonte SIM estimates

Executive Production: Notorious enjoys good visibility on a number of projects. It represents a contract business that Notorious generally carries out 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, no associated CapEx and a favourable cash flow profile. Given the strong public incentives, we expect this business to enjoy healthy growth in the coming years, reaching Eu4.6mn by the end of 2023.

TV series and film production. In 2021 we expect Notorious to be able to complete 2 film productions. At the moment 4 projects have already been announced, but we only expect 2 to be completed before year-end: (1) the co-production of the first Italian Amazon Original film *Anni da Cane* (first *Amazon Original* production in Italy) born from the development of the winning entry to the first edition of Notorious Project, a competition dedicated to young authors; (2) An international comedy co-produced with Solaria Film and Minerva Pictures; (3) The drama "Sulla giostra" with Claudia Gerini, co-produced with Anele and RAI Cinema; (4) The international co-production "Europe C-19", a work made with 4 other European producers, focused on the impact of the covid outbreak in different European countries. In 2022 we expect Notorious to be able to complete a TV series and 2 film productions. In 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. We remind that global platforms like Netflix and Amazon Prime have to screen a minimum of local content. In line with EU directives, more stringent rules are being introduced in Italy, that would greatly favour local producers such as Notorious.

Notorious Cinemas

In our model we cautiously assumed no new openings in 2021 while, in 2022 and 2023, we added 2 and 3 new cinemas under management per year, respectively.

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 close to 250, while on 2021 we expect this figure to be about 110.

Notorious Pictures – Forecasts on Notorious Cinemas

	2019	2020	2021 E	2022 E	2023 E
Newly Opened Cinemas	2	1	-	2	3
Cinemas YE	2	3	3	5	8
Avg Screens per Cinema	8	5	5	7	7
Total Screens	16	21	21	35	56
Avg Seats per Screen	150	150	150	150	150
Seats		2,400	3,150	3,150	5,250
Seats	Initial	2,400	3,150	3,150	5,250
Seats	Final	2,400	3,150	5,250	8,400
Seats	Average	1,000	2,775	3,150	6,825
Occupancy ratio (ticket per seat per year)	278	76	110	220	240
Tickets	277,858	212,039	346,500	924,000	1,638,000
Average Price	6.0	5.5	5.6	5.7	5.8
Box office revenues	1,667,145	1,166,215	1,934,336	5,235,603	9,420,516
Bar revenue per ticket	1.7	1.5	1.8	1.8	1.9
Bar revenues	474,418	320,073	623,700	1,696,464	3,067,515
Ad per ticket	0.4	0.3	0.3	0.3	0.3
Advertising and Services	122,129	65,137	103,950	277,200	491,400
Tax Credit	305,351				
Total Revenues	2,263,692	1,551,425	2,661,986	7,209,267	12,979,432

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 is largely funded by landlords or public subsidies.

In our estimates we expect box office revenues to improve in 2022 and to normalise in 2023.

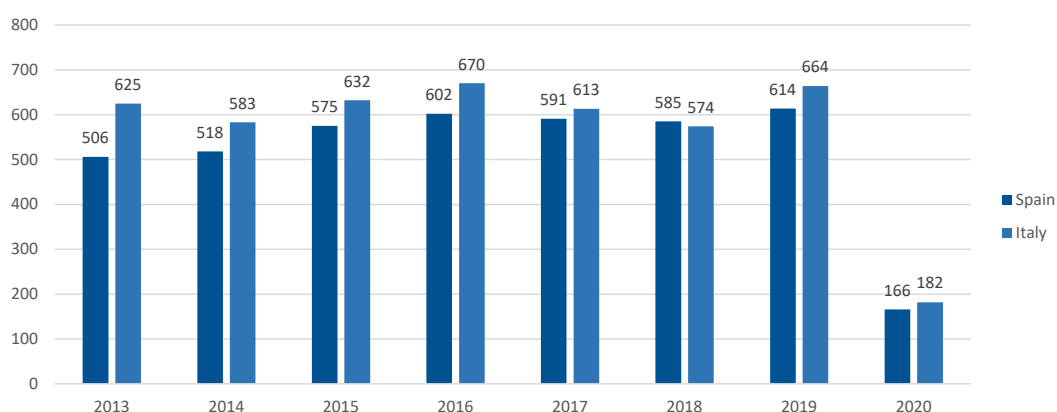
Notorious Spain

On 22nd September 2021 Notorious announced the establishment of Notorious Pictures Spain (100% subsidiary) with the aim of starting up distribution business in the Spanish market, as a first step of a long planned international expansion strategy. In the medium term, the goal is also to carry out production and cinema management activity in Spain. The launch of the new initiative was also prepared through Notorious's progressive acquisition of distribution rights for the Spanish market and the line-up already includes 11 films ready for distribution in Spain.

The expansion of the distribution business in other European countries should allow the group to strengthen its bargaining power with leading producers, as at the moment rights are acquired at the same time for Italy and Spain. Spain is a market with many similarities to Italy, so we think the initiative has a low risk profile.

In box office terms, the Spanish and Italian markets are similar, as Spain has a lower population but higher per capita spending. In 2020 both markets suffered a 73% collapse, but in 2021 Spain recovered faster than Italy.

Notorious – Box Office (Eu mn) in Spain and Italy between 2013 and 2020



In our estimates, we assume 1 film to be distributed in 2H21, then 5 in 2022, 10 in 2023 and finally 12 in 2024. International films such as those to be distributed by Notorious should generate box office takings in excess of Eu1mn in the Spanish market. Notorious is going to retain a 45% distribution fee on box office receipts. On top of that, Notorious should cash in other distribution revenues after the cinema run, mainly selling the content to FTA broadcasters.

Notorious – Notorious Spain

MAIN ASSUMPTIONS	2021 E	2022 E	2023 E	2024 E
# films	1	5	10	12
Box Office per film	1.10	1.10	1.12	1.14
Box office	1.10	5.50	11.22	13.73
% distribution fee	45%	45%	45%	45%
% other distribution revenues	30%	31%	31%	32%
ESTIMATES (Eu mn)				
Box office revenues	0.5	2.5	5.0	6.2
Other distribution revenues (t+1)	-	0.3	1.7	3.5
Revenues	0.50	2.81	6.73	9.68
EBITDA	0.15	0.93	2.29	3.39
EBITDA margin	30%	33%	34%	35%
D&A	(0.19)	(0.98)	(2.09)	(2.74)
% on sales	38.9%	35.0%	31.0%	28.3%
EBIT	(0.04)	(0.06)	0.20	0.65
% on sales	-8.9%	-2.0%	3.0%	6.7%

Source: Intermonte SIM estimates

Cash Flow

We have based our model on the following assumptions:

- **Net working capital:** starting from 2022, we expect net working capital to sales ratio to converge towards 38%-33% thanks to better payment terms when dealing with large OTT players and thanks to the increasing contribution from the cinema management business.
- **Dividend:** dividends are foreseen at Eu1.8mn and Eu2.3mn in 2022 and 2023 respectively (i.e. a 40% payout on 2021 and 2022 EPS); no dividends were paid in 2021.
- **CapEx:** we estimate CapEx will amount to about 17%/16% of sales in the coming years, mainly supporting distribution and internal production activities.

Overall, we expect free cash flow generation to improve throughout the forecast period, reaching a positive balance in 2023 despite the NWC absorption entailed by the expected top line growth.

Notorious – Cash Flow Statement

(Eu mn)	2019A	2020A	2021E	2022E	2023E
Net income	5.2	(2.1)	4.4	5.7	7.0
Minorities	0.0	0.0	0.0	0.0	0.0
Amortization & Depr.	8.8	8.0	6.9	11.1	14.5
Rights of use		(0.2)	(0.4)	(1.0)	(2.1)
Gross cash flow	14.0	5.7	10.9	15.8	19.4
Change in working capital	(5.7)	2.0	(4.9)	(5.8)	(2.3)
Other funds and provisions	(1.1)	(0.4)	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Operating cash flow	7.2	7.2	6.0	10.0	17.1
Capex	(10.9)	(4.2)	(6.9)	(10.7)	(12.4)
% on sales	25%	31%	23%	17%	16%
FCF (Eu mn)	(3.7)	3.0	(0.9)	(0.6)	4.7
FCF/EBITDA	(0.2)	0.6	(0.1)	(0.0)	0.2
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Dividends	(1.8)	0.0	0.0	(1.8)	(2.3)
Right Issue	0.0	0.0	0.0	0.0	0.0
Other	(12.2)	(1.7)	0.0	(2.0)	(2.0)
Cash Flow	(17.7)	1.4	(0.9)	(4.4)	0.5
NFP at bgn year Cash/(Debt)	3.4	(14.3)	(12.9)	(13.8)	(18.2)
Cash Flow: Cash/(Debt)	(17.7)	1.4	(0.9)	(4.4)	0.5
NFP at year end: Cash/(Debt)	(14.3)	(12.9)	(13.8)	(18.2)	(17.7)
of which: Rights of Use liabilities (IFRS16)	(10.7)	(12.3)	(12.5)	(14.5)	(17.5)
Net Cash (Debt) at YE excl. IFRS 16	(3.6)	(0.6)	(1.3)	(3.7)	(0.2)

Source: Intermonte SIM estimates

Valuation

We have calculated our target price of Eu2.4 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	4.0	WACC: 7.5%, g: 1.0%
Mutliples	2.4	EV/EBIT 21/22
Simple average	3.2	
Liquidity discount	25%	
Fair Equity value per share	2.4	
Current share price	1.80	
Upside/Downside	34%	

DCF valuation range (Eu mn)

		terminal growth		
		0.5%	1.0%	1.5%
WACC	7.0%	4.1	4.4	4.7
	7.5%	3.8	4.0	4.3
	8.0%	3.5	3.7	3.9

DETAILS ON STOCKS RECOMMENDATION			
Stock NAME	NOTORIOUS PICTURES		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	2.40	Previous Target (Eu):	2.20
Current Price (Eu):	1.80	Previous Price (Eu):	1.75
Date of report:	06/10/2021	Date of last report:	13/04/2021

DISCLAIMER (for more details go to [DISCLAIMER](#))
IMPORTANT DISCLOSURES

The reproduction of the information, recommendations and research produced by Intermonte SIM contained herein and of any its parts is strictly prohibited. None of the contents of this document may be shared with third parties without authorisation from Intermonte.

This report is directed exclusively at market professional and other institutional investors (Institutions) and is not for distribution to person other than "Institution" ("Non-Institution"), who should not rely on this material. Moreover, any investment or service to which this report may relate will not be made available to Non-Institution.

The information and data in this report have been obtained from sources which we believe to be reliable, although the accuracy of these cannot be guaranteed by Intermonte. In the event that there be any doubt as to their reliability, this will be clearly indicated. The main purpose of the report is to offer up-to-date and accurate information in accordance with regulations in force covering "recommendations" and is not intended nor should it be construed as a solicitation to buy or sell securities.

This disclaimer is constantly updated on Intermonte's website www.intermonte.it under LEGAL INFORMATION. Valuations and recommendations can be found in the text of the most recent research and/or reports on the companies in question. For a list of all recommendations made by Intermonte on any financial instrument or issuer in the last twelve months consult the [PERFORMANCE](#) web page.

Intermonte distributes research and engages in other approved activities with respect to Major U.S. Institutional Investors ("Majors") and other Qualified Institutional Buyers ("QIBs"), in the United States, via Brasil Plural Securities LLC under SEC 15a-6 guidelines. Intermonte is not registered as a broker dealer in the United States under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC.

ANALYST CERTIFICATION

For each company mentioned in this report the respective research analyst hereby certifies that all of the views expressed in this research report accurately reflect the analyst's personal views about any or all of the subject issuer (s) or securities. The analyst (s) also certify that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation or view in this report.

The analyst (s) responsible for preparing this research report receive(s) compensation that is based upon various factors, including Intermonte's total profits, a portion of which is generated by Intermonte's corporate finance activities, although this is minimal in comparison to that generated by brokerage activities.

Intermonte's internal procedures and codes of conduct are aimed to ensure the impartiality of its financial analysts. The exchange of information between the Corporate Finance sector and the Research Department is prohibited, as is the exchange of information between the latter and the proprietary equity desk in order to prevent conflicts of interest when recommendations are made.

The analyst responsible for the report is not a) a resident of US; b) an associated person of a U.S. broker-dealer; c) supervised by a supervisory principal of a U.S. broker-dealer. This Research Report is distributed in the U.S. through Brasil Plural Securities LLC, 545 Madison Avenue, New York 10022.

GUIDE TO FUNDAMENTAL RESEARCH

The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- 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)

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.

Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

- 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.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS

Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 30 September 2021 Intermonte's Research Department covered 122 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	17,36 %
OUTPERFORM:	52,89 %
NEUTRAL:	25,62 %
UNDERPERFORM:	04,13 %
SELL:	00,00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (55 in total) is as follows:

BUY:	30,91 %
OUTPERFORM:	49,09 %
NEUTRAL:	20,00 %
UNDERPERFORM:	00,00 %
SELL:	00,00 %

CONFLICT OF INTEREST

In order to disclose its possible conflicts of interest Intermonte SIM states that:

Within the last year, Intermonte SIM managed or co-managed/is managing or is co-managing an Institutional Offering and/or managed or co-managed/is managing or is co-managing an offering with firm commitment underwriting of the securities of the following Companies: BPER, Cyberoo, Luve, Seri Industrial, The Italian Sea Group, Tinexta, WITT.

Intermonte SIM has provided in the last 12 months / provides / may provide investment banking services to the following companies: Abitare In, Aedes, Aeroporto di Bologna, Alkemy, Ambientes, Azimut, Banca Ifis, Cellularine, Creval, Cy4Gate, ePrice, Falck Renewables, Guala Closures, H-Farm, IEG, Iervolino Entertainment, Link Mobility Group (on AMM shares), Mittel, Nova Re, OVS, Retelit, Saes Getters, Somec, SPSI (on Guala Closures shares), Tesmec, TXT, UBI Banca, and WITT.

Intermonte acts as financial advisor to Ambientes in connection with the announced potential transaction with Greenthesi.

Intermonte SIM is Specialist and/or Corporate Broker and/or Sponsor and/or Broker in charge of the share buy back activity of the following Companies: Abitare In, Aedes, Alkemy, Ambientes, Aquafil, Avio, Banca Ifis, Banca Sistema, Cattolica, Cellularine, Cyberoo, Cy4gate, DeA Capital, El.En, Eles, Elica, Emak, Esprinet, Falck Renewables, Fimit - Fondo Alpha, Fine Foods, Gefran, Go Internet, Gpi, Gruppo Fos, IEG, Iervolino Entertainment, IndelB, Luve, Maticia Fintec, Notorious Pictures, Nova Re SIQ, Omer, Pharamnutra, Relatech, Reply, Retelit, Saes Getters, Salcef, Sciuker Frames, Servizi Italia, Sesa, Seri Industrial, Somec, Tamburi, Tinexta, Tesmec, The Italian Sea Group, Txt and WITT.

Intermonte SIM has a contractual commitment to act as liquidity provider on behalf of third parties for the following company: Banca Sistema.

Intermonte SIM performs as a market maker for the following companies: A2A, Anima, Atlantia, Autogrill, Azimut Holding, BAMI, Banca Generali, Banca Mediolanum, Brembo, Buzzi, CNHI, Enel, ENI, Exor, Fineco, FCA, FTMB, Generali, Italgas, Iren, Intesa Sanpaolo, Leonardo, Mediobanca, Moncler, Mediaset, Pirelli&C, Prysmian, Poste, Ferrari, Saipem, Snam, STM, Tenaris, Telecom Italia, Telecom Italia sav, Terna, UBI, Unicredit, Unipol, UnipolSai.

Intermonte SIM is a member of the CBOE Europe Equities Liquidity Provider Program for the following financial instruments: A2A, Atlantia, ATSM, Autogrill, Azimut Holding, Banca Generali, Banca Mediolanum, Banco BPM, Bca Monte dei Paschi di Siena, Bca Pop Emilia Romagna, Banca Pop Sondrio, Buzzi Unicem, Buzzi Unicem rsp, Campari, CIR - Compagnie Industriali Riunite, Credito Emiliano, Danieli & C., Danieli & C. Risparmio, Diasorin, Enel, Eni, Generali, Hera, Intesa Sanpaolo, Iren, Italgas, Italmobiliare, Leonardo, Maire Tecnimont, Mediaset, Mediobanca, Pirelli & C., Poste Italiane, Prysmian, Recordati, S.I.A.S., Saipem, Salini Impregio, Salvatore Ferragamo, Snam, Telecom Italia, Telecom Italia rsp, Terna, Tod's, UBI Banca, Unicredit, Unipol, Unipolsai.

Through its Websim Division, Intermonte SIM acts as a Retail Investor Research Provider on behalf in regard to the following companies: Aedes, Banca Ifis, Banca Sistema, Cattolica Assicurazioni, Cellularine, CFT Group, Circle, Coima RES, Comer Industries, Crowdfundme, Digital Bros, Digital Magics, Elettra Investimenti, Falck Renewables, Fiera Milano, Finlogica, First Capital, FOPE, Gefran, Generali Assicurazioni, Giglio, Go Internet, H-Farm, Ilpra, Indel B, ISI/Salcef, Italiaonline, La Doria, L'Ente, MailUp, Maps, Masi Agricola, Molmed, Neodecortech, Piaggio, Portale Sardegna, Primi sui Motori, Retelit, Safe Bag, Somec, SOS Travel, Tinexta, TPS, WITT.

Through its Websim Division, Intermonte SIM carries out marketing / communication activities on behalf of the following equity crowdfunding 200Crowd, BacktoWork24, Crowdfundme, Opstart and the following issuers: Banca IMI, BNP Paribas, Credit Suisse, Exane, Leonteq, Unicredit, Vontobel, Wisdomtree.

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
AEDES NEW	3,7	LONG
COGEME SET SPA	1,6	SHORT
IKF	0,57	SHORT
OLIDATA	0,74	SHORT

© Copyright 2020 by Intermonte SIM - All rights reserved

It is a violation of national and international copyright laws to reproduce all or part of this publication by email, xerography, facsimile or any other means. The Copyright laws impose heavy liability for such infringement. The Reports of Intermonte SIM are provided to its clients only. If you are not a client of Intermonte SIM and receive emailed, faxed or copied versions of the reports from a source other than Intermonte SIM you are violating the Copyright Laws. This document is not for attribution in any publication, and you should not disseminate, distribute or copy this e-mail without the explicit written consent of Intermonte SIM.

INTERMONTE will take legal action against anybody transmitting/publishing its Research products without its express authorization.

INTERMONTE Sim strongly believes its research product on Italian equities is a value added product and deserves to be adequately paid.

Intermonte Sim sales representatives can be contacted to discuss terms and conditions to be supplied the INTERMONTE research product.

INTERMONTE SIM is MiFID compliant - for our Best Execution Policy please check our Website [MiFID](#)

Further information is available