

# NOTORIOUS PICTURES

**BUY**

Sector: Media

Price: Eu1.45 - Target: Eu2.00

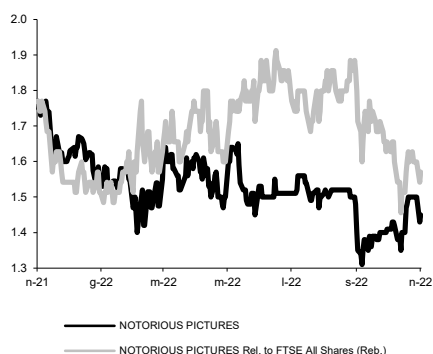
## Important Progress In The Film Production Business

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### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 2.20 to 2.00		
	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>Chg in Adj EPS</b>	-11.5%	-13.0%	-9.0%

### NOTORIOUS PICTURES - 12M Performance



### Stock Data

 Reuters code: NPI.MI  
 Bloomberg code: NPI IM

Performance	1M	3M	12M
Absolute	2.8%	-4.0%	-18.1%
Relative	-5.4%	-14.9%	-10.9%
12M (H/L)	1.77/1.31		
3M Average Volume (th):	2.53		

### Shareholder Data

No. of Ord shares (mn):	22
Total no. of shares (mn):	22
Mkt Cap Ord (Eu mn):	33
Total Mkt Cap (Eu mn):	33
Mkt Float - Ord (Eu mn):	5
Mkt Float (in %):	15.2%
Main Shareholder:	
Marchetti Guglielmo	82.3%

### Balance Sheet Data

Book Value (Eu mn):	29
BVPS (Eu):	1.29
P/BV:	1.1
Net Financial Position (Eu mn):	-23
Enterprise Value (Eu mn):	55

- Production revenues reached 49% of half-yearly sales.** 1H22 results, unveiled on 28 September 2022, showed revenues at Eu17.6mn, +36% YoY thanks mainly to the production business that benefitted from the release of “*The Honeymoon*”, which generated Eu6.3mn of revenues for the sale of global distribution rights. This project provided important confirmation of the company’s ability to realise successful important international productions, following on from the success of “*Love, Wedding, Repeat*”, sold to Netflix in 2019. At the end of June, Notorious still retained rights for the film’s distribution in Italy and Spain (where the group is directly active in the distribution business) which are expected to generate a further Eu2.2mn of revenues in 2H22. The cinema management business (Notorious Cinemas) also recorded significant growth thanks mainly to a very easy comparison (cinemas were closed in 1H21 due to Covid lockdowns); Italian box office figures remained weak compared to pre-Covid levels, but Notorious performed better than the market. Finally, distribution business revenues were broadly in line YoY.
- New governance.** On 14 November 2022, Notorious Pictures announced that Guglielmo Marchetti will step down as Group CEO from 1 January 2023. On the one hand, Marchetti’s role as key shareholder as well as strategic and executive head of the Group remains unchanged, on the other hand the group hired Stefano Bethlen as its new Chief Operating Officer. The arrival of Bethlen is good news, not only in terms of governance (separation of the Executive Chairman and Managing Director roles) but above all in operational terms. Thanks to his distinguished career, Bethlen’s arrival could signal a significant acceleration in Group growth, above all in the field of film production. Moreover, on 25 October the group announced the appointment of Jorge Vázquez as the new Managing Director of the Spanish subsidiary.
- Change in estimates.** We are lowering our 2022-23 revenue forecasts, assuming normalisation of the cinema business will take longer. On the other hand, we are perceiving increasing visibility on our forecasts for the film production business, where Notorious has taken a number of important steps in the right direction, in particular with the production of the international film *The Honeymoon* and the Italian film *Improvvisamente Natale*, available on Amazon Prime as of 1 December. As has been pointed out in the past, film production activity has a less favourable cash flow profile, so we expect net debt, excluding the IFRS 16 effect, to go from Eu3.4mn at YE21 to Eu8.3mn at YE22 (still below our previous forecast of Eu10mn). At bottom line, we are cutting EPS by 11.5% and 13.0% for 2022 and 2023 respectively, partly to reflect the increase in the cost of financing.
- BUY; target from Eu2.2 to Eu2.0.** Even though industry momentum remained sluggish, Notorious was able to pave the way for a promising pipeline in each of its market segments, especially in the film production business. The group is also working to finalise the production of the first film series. Overall, we expect the company to benefit from recovering cinema attendance trends in 2023, but we underline that our estimates increasingly rely on the production business, which is less dependent on the recovery in the cinema channel. Our new target reflects a higher cost of capital (WACC).

Key Figures & Ratios	2020A	2021A	2022E	2023E	2024E
Sales (Eu mn)	13	26	37	48	62
EBITDA Adj (Eu mn)	5	10	17	22	30
Net Profit Adj (Eu mn)	-2	4	4	6	8
EPS New Adj (Eu)	-0.095	0.158	0.191	0.245	0.360
EPS Old Adj (Eu)	-0.095	0.158	0.216	0.281	0.395
DPS (Eu)	0.000	0.082	0.076	0.098	0.144
EV/EBITDA Adj	10.7	5.3	3.3	2.5	1.8
EV/EBIT Adj	nm	16.4	10.3	8.0	5.4
P/E Adj	nm	9.2	7.6	5.9	4.0
Div. Yield	0.0%	5.7%	5.3%	6.8%	9.9%
Net Debt/EBITDA Adj	2.6	1.6	1.3	1.0	0.7

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**NOTORIOUS PICTURES – Key Figures**

<b>Profit &amp; Loss (Eu mn)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Sales	44	13	26	37	48	62
EBITDA	15	5	10	17	22	30
EBIT	7	-3	3	5	7	10
Financial Income (charges)	-0	-0	-0	-0	-1	-1
Associates & Others	0	0	0	0	0	0
Pre-tax Profit	6	-3	3	5	6	10
Taxes	-1	1	0	-1	-1	-1
Tax rate	17.7%	32.7%	-14.7%	15.0%	15.0%	15.0%
Minorities & Discontinued Operations	0	0	0	0	0	0
Net Profit	5	-2	4	4	6	8
EBITDA Adj	15	5	10	17	22	30
EBIT Adj	7	-3	3	5	7	10
Net Profit Adj	5	-2	4	4	6	8
<b>Per Share Data (Eu)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
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	0.232	-0.095	0.158	0.191	0.245	0.360
EPS Adj f.d	0.232	-0.095	0.158	0.191	0.245	0.360
BVPS f.d	1.192	1.094	1.252	1.290	1.406	1.605
Dividend per Share ORD	0.000	0.000	0.082	0.076	0.098	0.144
Dividend per Share SAV	0.000	0.000	0.000	0.000	0.000	0.000
Dividend Payout Ratio (%)	0.0%	0.0%	51.8%	40.0%	40.0%	40.0%
<b>Cash Flow (Eu mn)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Gross Cash Flow	13	5	10	16	21	28
Change in NWC	-6	2	-0	-9	-3	-3
Capital Expenditure	-11	-4	-12	-11	-15	-20
Other Cash Items	0	0	0	0	0	0
Free Cash Flow (FCF)	-4	3	-3	-4	1	3
Acquisitions, Divestments & Other Items	0	0	0	0	0	0
Dividends	-2	0	0	-2	-2	-2
Equity Financing/Buy-back	0	0	0	0	0	0
Change in Net Financial Position	-18	2	-3	-5	1	3
<b>Balance Sheet (Eu mn)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Total Fixed Assets	29	26	33	31	31	31
Net Working Capital	15	13	13	22	25	28
Long term Liabilities	-3	-2	-1	-1	-1	-1
Net Capital Employed	41	38	45	52	55	58
Net Cash (Debt)	-14	-13	-17	-23	-23	-22
Group Equity	27	25	28	29	32	36
Minorities	0	0	0	0	0	0
Net Equity	27	25	28	29	32	36
<b>Enterprise Value (Eu mn)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Average Mkt Cap	64	41	39	33	33	33
Adjustments (Associate & Minorities)	0	0	0	0	0	0
Net Cash (Debt)	-14	-13	-17	-23	-23	-22
Enterprise Value	78	54	55	55	56	55
<b>Ratios (%)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
EBITDA Adj Margin	34.9%	37.5%	39.5%	46.0%	46.3%	48.1%
EBIT Adj Margin	15.0%	nm	12.9%	14.5%	14.5%	16.3%
Gearing - Debt/Equity	53.2%	52.4%	59.0%	78.7%	73.0%	60.8%
Interest Cover on EBIT	23.8	nm	12.0	17.9	14.0	20.0
Net Debt/EBITDA Adj	0.9	2.6	1.6	1.3	1.0	0.7
ROACE*	21.6%	-7.6%	8.2%	11.1%	13.1%	17.8%
ROE*	20.7%	-8.3%	13.5%	15.0%	18.2%	23.9%
EV/CE	2.6	1.4	1.3	1.1	1.0	1.0
EV/Sales	1.8	4.0	2.1	1.5	1.2	0.9
EV/EBITDA Adj	5.1	10.7	5.3	3.3	2.5	1.8
EV/EBIT Adj	11.8	nm	16.4	10.3	8.0	5.4
Free Cash Flow Yield	-11.2%	9.3%	-10.6%	-13.4%	4.4%	10.3%
<b>Growth Rates (%)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Sales	39.9%	-69.5%	95.3%	40.5%	30.2%	28.0%
EBITDA Adj	38.6%	-67.3%	106.0%	63.5%	31.0%	33.1%
EBIT Adj	59.7%	nm	nm	58.3%	30.4%	43.4%
Net Profit Adj	25.8%	nm	nm	20.8%	28.2%	46.8%
EPS Adj	25.8%	nm	nm	20.8%	28.2%	46.8%
DPS	nm	nm	nm	-6.8%	28.2%	46.8%

\*Excluding extraordinary items

Source: Intermonte SIM estimates

## 1H22 Results

The group unveiled 1H22 results on 28 September 2022.

Revenues came in at Eu17.6mn, +36% YoY mainly thanks to the production business, which benefitted from the release of “*The Honeymoon*” for which the sale of global distribution rights generated Eu6.3mn in revenues. This project provides important confirmation of the company’s ability to realise successful important international productions, following on from the success of “*Love, Wedding, Repeat*”, sold to Netflix in 2019. At the end of June, *Notorious* still retained rights for the film’s distribution in Italy and Spain (where the group is directly active in the distribution business) which are expected to generate a further Eu2.2mn of revenues in 2H22. The cinema management business (*Notorious Cinemas*) also recorded significant growth thanks mainly to a very easy comparison (cinemas were closed in 1H21 due to Covid lockdowns); Italian box office figures remained weak compared to pre-Covid levels, but *Notorious* performed better than the market. Finally, distribution business revenues were broadly in line YoY. It is worth pointing out that production revenues represented 49% of half-yearly sales, compared to 39% in 1H21 and zero in 1H20.

### Notorious – 1H22 revenues

Revenues	1H21A	1H22A	YoY chg %
Theatrical	0.14	0.31	
Pay TV	2.79	3.48	
FTA TV	2.24	0.25	
Pay per view and New Media	0.33	1.48	
Library	0.12	0.03	
<b>Total distribution revenues</b>	<b>5.70</b>	<b>5.61</b>	<b>-2%</b>
Theatrical	0.14	1.78	
Food and Beverage	0.03	0.49	
Advertising and Other	0.02	0.13	
<b>Total Notorious Cinemas</b>	<b>0.18</b>	<b>2.40</b>	<b>1196%</b>
Production	0.85	6.29	
Servicing	0.86	2.45	
<b>Total production revenues</b>	<b>1.71</b>	<b>8.74</b>	<b>411%</b>
Work in progress and other	5.31	0.87	
<b>Total Revenues</b>	<b>12.91</b>	<b>17.62</b>	<b>36%</b>

Source: Company data

The significant increase in D&A charges as a percentage of sales relates to the increasing importance of the production business. Film production costs are generally booked as investments, so they are depreciated on the P&L. EBIT came in at Eu2.7mn, +91% YoY. Net debt at the end of September was Eu18.0mn (or Eu4.5mn excluding IFRS16) mainly as a result of the upfront investments to grow in the production business.

### Notorious – 1H22 results

(Eu mn)	1H21A	1H22A	YoY chg %
<b>Value of production</b>	<b>12.9</b>	<b>17.6</b>	<b>36%</b>
<b>EBITDA</b>	<b>5.3</b>	<b>9.7</b>	<b>83%</b>
margin %	41.2%	55.3%	
D&A	(3.9)	(7.0)	
<b>EBIT</b>	<b>1.4</b>	<b>2.7</b>	<b>91%</b>
margin %	11.0%	15.4%	
Net fin. income/(expense)	(0.1)	(0.1)	
<b>Pretax Profit</b>	<b>1.3</b>	<b>2.6</b>	<b>96%</b>
margin %	10.2%	14.7%	
Taxes	(0.2)	(0.4)	
<b>Net profit</b>	<b>1.1</b>	<b>2.2</b>	<b>100%</b>
margin %	8.6%	12.6%	
<b>Net Debt excl. IFRS 16</b>	<b>(1.5)</b>	<b>(4.5)</b>	

Source: Company data and Intermonte SIM estimates

## Business Update and change in estimates

On 14 November 2022, Notorious Pictures announced that Guglielmo Marchetti will step down as Group CEO with effect from 1 January 2023. Marchetti, who controls the group through his 83% stake in the share capital, will remain Chairman of the Board with a range of executive powers. At the same time, the company has announced that Executive Director Laura Marongiu will leave the board; in her place comes Stefano Bethlen, who will become Chief Operating Officer by the end of the year. Bethlen comes to Notorious Pictures from Titanus S.p.A. where he has been General Manager since July 2021 and after a high-profile career at The Walt Disney Company Italia (from 2003); he has also been an independent consultant and producer on Italian films. On joining Notorious as COO, he will assume operational responsibilities and simultaneously take on the role of Managing Director of Notorious Pictures. The arrival of Bethlen represents positive news, not only in terms of governance (separation of the Executive Chairman and Managing Director roles) but above all in operational terms. Thanks to his distinguished career, Bethlen's arrival could signal a significant acceleration in Group growth, above all in the field of film production, which has already seen exceptionally strong growth in 2022, with important productions not just in Italian but also in English for an international audience. Guglielmo Marchetti's role as key shareholder as well as strategic and executive head of the Group remains unchanged.

### Distribution business

On 30 June 2022, the Group announced it had sealed an agreement with a global market leader for the sale of multi-year Pay TV licensing worth Eu7.3mn on a bundle of films.

The line-up of cinema releases in 2H22 should see the launch of 5 films (to reach 11 films released in cinemas in FY22), while the company currently envisages the launch of 16 films in 2023.

For 2023 Notorious has decided to invest in the line-up by purchasing the rights to films with greater commercial potential, against the recognition of a much higher average Guaranteed Minimum than in the past. The editorial line is divided into 3 main strands:

- **Franchise** (including the two main blockbusters of the year – the new *Hunger Games* and *Wonder* films – but also the first 2 episodes of the new French-produced trilogy about the 3 *Musketeers* and a new film about *Asterix and Obelix*)
- **Great stories, great casts** of important international productions (for example, John Malkovich in *Mindcage*, produced by Lionsgate, Johnny Depp in the historical drama *Jeanne Du Barry*, and *The Honeymoon*, produced by Notorious)
- **Animation** (e.g. *Argonuts*, *Betty Floods*), **Family** (e.g., *Charlotte M.*, produced by Notorious).

### Production business

#### 2H22

Management confirmed that 4 films are currently at various stages of the production process for the current year.

Notorious has recently completed the production of *Improvvisamente Natale*, an unconventional Christmas movie shot in Cortina in the Veneto region (the production received subsidies from the Veneto Film Commission). The film is directed by Francesco Patierno and stars Diego Abatantuono and Violante Placido. Rights have already been sold to Amazon Prime (for streaming of the film as of 1 December 2022) and Mediaset (for broadcasting the film on TV in December 2023). The plot has been so warmly welcomed that Notorious is already working on two important follow-ups: an English speaking remake of the film, with an international cast and a sequel in Italian. These two projects should be finalised soon in order to be shot in summer 2023.

Another production is the teen-movie *Charlotte M.*, starring the eponymous Italian YouTuber. The film is expected to be released in Italian cinemas in January.

*L'estate più calda* (The hottest summer) is the title of the film co-produced by Notorius and destined for the Prime Video platform starring Stefania Sandrelli and Nino Frassica. The film is shot in Scicli, Marina di Ragusa, Modica and Punta Secca. Notorious also acts as Executive Producer.

Another film project is *Noi anni luce*. The shooting has been completed at the beginning of November. The film is the remake of a 2010 Australian drama (*Matching Jack*). The sale of film rights is currently in a negotiation phase; the film might be sold to an OTT platform or be released in cinemas next year.

### Production business – 2023

The group is planning 5 production projects:

- We have already mentioned the first two projects, spillovers from *Improvvisamente Natale*;
- Another project is the third film expected to arrive from the successful collaboration with film director Dean Craig, following in from *Love, Wedding, Repeat* (2020) and *The Honeymoon* (2022);
- The last two projects are a Christmas movie shot in English targeting an international audience and the remake in Italian of the film *The War With Grandpa*, a 2020 American family comedy film directed by Tim Hill.

The group is also working to finalise the production of the first film series: one project in particular is at an advanced phase of development and should be announced in the coming months. We are assuming production of the film series will contribute to 2024 figures.

Total estimated CapEx related to 2023 productions should be around Eu12-13mn. 2 films are expected to be released in 2024. We remind that film projects where Notorious is a fully-fledged producer, will see a great EBITDA benefit (production costs are almost entirely capitalised) but also significant absorption at CapEx level (the proceeds from the film, related to both the sale of the rights and tax credits, are deferred by at least 1 year with respect to the contractual recognition of revenues) and at working capital level (once revenues are recorded, payments are collected with a delay of approximately 18 months on average).

### Notorious Spain

On 25 October, the group announced the appointment of Jorge Vázquez as the new Managing Director of the subsidiary. Vázquez has a strong film industry resumé gained in leading companies such as Aurum Producciones S.A., Alliance Films Inc and Entertainment One.

In 2022, Notorious Spain is not going to distribute film (a preliminary distribution agreement with a local player has been cancelled) but the 2023 line-up consists of 8 films.

The line-up includes important films that have already been commented on as part of the Italian line-up, such as the new chapter of *Asterix & Obelix*, the animation film *Argonuts*, and *Jeanne du Barry* starring Johnny Depp and Louis Garrel.

### Notorious Cinemas

In recent years cinema attendance has suffered a major setback linked to the Covid pandemic. This crisis continued in 9M22 and it is still unclear what realistic box office figures will look like in a recovery scenario. At the present time, industry experts foresee sales of about 55-60mn tickets in 2023, still well short of the almost 100mn tickets sold in 2019. This scenario implies quite cautious forecasts for the cinema distribution business and the activities of subsidiary Notorious Cinemas.

In March 2022, Notorious Cinemas has signed agreements to manage a new multiplex inside Merlata Bloom, which will become the largest lifestyle centre in Milan. This multiplex should be the flagship of the Notorious circuit. The Merlata Bloom multiplex is expected to open by the end of 2023. The Notorious Cinemas multiplex will be built according to the guidelines of the proprietary format "The Experience", which offers an entertainment model based on the highest technical audio and video standards, as well as top-level comfort with the latest generation cinema seats.

The government is set to continue to provide significant support for the suffering cinema business. Cinema managers are asking for tax credits based on operating costs - energy, rent, personnel and other items – and should be able to count on a significant budget of over Eu100mn.

## Change in estimates

We are lowering our 2022-23 revenue forecasts, assuming normalisation of the cinema business will take longer. On the other hand, we are perceiving raising visibility on our forecasts for the film production business, where Notorious has made a number of important steps in the right direction, in particular with the production of the international film *The Honeymoon* and with the Italian film *Improvvisamente Natale*, available on Amazon Prime as of 1 December. As already pointed out, film production activity has a less favourable cash flow profile, so we expect net debt, excluding the IFRS 16 effect, to go from Eu3.4mn at YE21 to Eu8.3mn at YE22 (still below our previous forecast of Eu10mn). At bottom line, we are cutting EPS by 11.5% and 13.0% for 2022 and 2023 respectively, partly to reflect the increase in the cost of financing.

### Notorious Pictures - Change to estimates

	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
<b>Revenue from Notorious Pictures</b>	<b>31.15</b>	<b>38.00</b>	<b>46.35</b>	<b>34.29</b>	<b>41.90</b>	<b>48.75</b>	<b>-9.2%</b>	<b>-9.3%</b>	<b>-4.9%</b>
YoY %	30%	22%	22%	43%	22%	16%			
<b>Revenues from Notorious Cinema</b>	<b>5.75</b>	<b>7.47</b>	<b>10.11</b>	<b>6.97</b>	<b>12.97</b>	<b>21.72</b>	<b>-17.6%</b>	<b>-42.4%</b>	<b>-53.5%</b>
YoY %	145%	30%	35%	197%	86%	67%			
<b>Revenues from Notorious Spain</b>	<b>0.00</b>	<b>2.57</b>	<b>5.06</b>	<b>2.03</b>	<b>5.51</b>	<b>7.92</b>			
YoY %			97%		172%	44%			
<b>Total Revenues</b>	<b>36.9</b>	<b>48.0</b>	<b>61.5</b>	<b>43.3</b>	<b>60.4</b>	<b>78.4</b>	<b>-14.8%</b>	<b>-20.4%</b>	<b>-21.5%</b>
YoY %	41%	30%	28%	65%	39%	30%			
<b>EBITDA Notorious Pictures</b>	<b>16.85</b>	<b>20.23</b>	<b>25.79</b>	<b>18.06</b>	<b>16.76</b>	<b>18.25</b>	<b>-6.7%</b>	<b>20.7%</b>	<b>41.4%</b>
margin %	54%	53%	56%	53%	40%	37%			
<b>EBITDA Notorious Cinema</b>	<b>0.11</b>	<b>1.12</b>	<b>2.02</b>	<b>0.14</b>	<b>1.95</b>	<b>4.34</b>	<b>-17.6%</b>	<b>-42.4%</b>	<b>-53.5%</b>
margin %	2%	15%	20%	2%	15%	20%			
<b>EBITDA Notorious Spain</b>	<b>0.00</b>	<b>0.87</b>	<b>1.77</b>	<b>0.67</b>	<b>1.87</b>	<b>2.77</b>			
margin %	33%	34%	35%	33%	34%	35%			
<b>TOTAL EBITDA</b>	<b>17.0</b>	<b>22.2</b>	<b>29.6</b>	<b>18.9</b>	<b>20.6</b>	<b>25.4</b>	<b>-10.1%</b>	<b>8.0%</b>	<b>16.6%</b>
YoY %	64%	31%	33%	82%	9%	23%			
margin %	46.0%	46.3%	48.1%	43.6%	34.1%	32.4%			
<i>D&amp;A Notorious Pictures</i>	<i>(10.5)</i>	<i>(12.7)</i>	<i>(16.3)</i>	<i>(10.8)</i>	<i>(8.5)</i>	<i>(9.3)</i>			
<i>D&amp;A Notorious Cinema</i>	<i>(1.1)</i>	<i>(1.6)</i>	<i>(1.9)</i>	<i>(1.3)</i>	<i>(2.7)</i>	<i>(4.1)</i>			
<i>D&amp;A Notorious Spain</i>	<i>0.0</i>	<i>(1.0)</i>	<i>(1.4)</i>	<i>(0.8)</i>	<i>(1.7)</i>	<i>(2.2)</i>			
<b>D&amp;A</b>	<b>(11.6)</b>	<b>(15.2)</b>	<b>(19.6)</b>	<b>(12.9)</b>	<b>(12.9)</b>	<b>(15.7)</b>			
<b>EBIT</b>	<b>5.4</b>	<b>7.0</b>	<b>10.0</b>	<b>6.0</b>	<b>7.7</b>	<b>9.7</b>	<b>-10.2%</b>	<b>-9.0%</b>	<b>3.2%</b>
YoY %	58%	30%	43%	76%	29%	26%			
margin %	14.5%	14.5%	16.3%	13.8%	12.7%	12.4%			
Net financial income/expense	(0.300)	(0.500)	(0.500)	(0.250)	(0.225)	0.750			
	(0.81%)	(1.04%)	(0.81%)	(0.58%)	(0.37%)	0.96%			
<b>Pretax Profit</b>	<b>5.1</b>	<b>6.5</b>	<b>9.5</b>	<b>5.7</b>	<b>7.4</b>	<b>10.5</b>	<b>-11.5%</b>	<b>-13.0%</b>	<b>-9.0%</b>
YoY %	63%	28%	47%	84%	30%	40%			
margin %	13.7%	13.5%	15.5%	13.2%	12.3%	13.3%			
Taxes	(0.759)	(0.973)	(1.427)	(0.858)	(1.117)	(1.568)			
Tax Rate	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)			
<b>Net profit</b>	<b>4.3</b>	<b>5.5</b>	<b>8.1</b>	<b>4.9</b>	<b>6.3</b>	<b>8.9</b>	<b>-11.5%</b>	<b>-13.0%</b>	<b>-9.0%</b>
YoY %	21%	28%	47%	37%	30%	40%			
margin %	11.7%	11.5%	13.1%	11.2%	10.5%	11.3%			

Source Intermonte SIM

### Notorious – 2H22 revenue forecast

Revenues	1H22A	2H22E	2022E
Theatrical	0.31	1.79	2.10
Home Video	0.07	0.03	0.10
Kiosks	0.00	0.00	0.00
International Sales	0.00	0.00	0.00
Pay TV	3.48	1.52	5.00
FTA TV	0.25	6.75	7.00
Pay per view and New Media	1.48	1.53	3.00
Library	0.03	0.22	0.25
<b>Total distribution revenues</b>	<b>5.61</b>	<b>11.84</b>	<b>17.45</b>
Theatrical	1.78	2.40	4.17
Food and Beverage	0.49	0.81	1.30
Advertising and Other	0.13	0.15	0.27
<b>Total Notorious Cinemas</b>	<b>2.40</b>	<b>3.35</b>	<b>5.75</b>
Production	6.29	3.71	10.00
Servicing	2.45	0.00	2.45
<b>Total production revenues</b>	<b>8.74</b>	<b>3.71</b>	<b>12.45</b>
<b>Total Revenues</b>	<b>16.75</b>	<b>18.90</b>	<b>35.65</b>
Work in progress and other (Spain, tax credits)	0.87	0.38	1.25
<b>Total Revenues</b>	<b>17.62</b>	<b>19.27</b>	<b>36.89</b>

Source: Company data and Intermonte SIM

## 2022-2024 Estimates

The following tables show our 2022-2024 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.

### Distribution

#### Notorious Pictures – Forecasts on distribution business

Distribution	2019A	2020A	2021A	2022E	2023E	2024E
Theatrical	7.18	0.94	0.48	2.20	7.20	8.10
Free TV	1.27	1.67	3.94	7.00	3.30	3.00
Pay TV / Digital	17.10	6.72	7.18	8.00	9.00	8.50
Other revenues	1.52	0.28	0.21	0.25	0.25	0.25
<b>Total Distribution</b>	<b>27.07</b>	<b>9.62</b>	<b>11.82</b>	<b>17.45</b>	<b>19.75</b>	<b>19.85</b>

Source: Intermonte SIM estimates

### Production

#### Notorious Pictures – Forecasts on production business

Production	2019A	2020A	2021A	2022E	2023E	2024E
International Ex. Production (Eu mn)			5.12	2.45	3.00	5.00
# direct to video projects			-	-	1	2
TV Series (Eu mn)			-	-	-	4.00
# films in production	1		-	4	3	5
Film Production (Eu mn)	10.72		-	10.00	12.50	14.00
<b>Total Production</b>	<b>10.72</b>	<b>-</b>	<b>5.12</b>	<b>12.45</b>	<b>15.50</b>	<b>23.00</b>

Source: Intermonte SIM estimates

### Notorious Cinemas

#### Notorious Pictures – Forecasts on Notorious Cinemas

	2019	2020	2021	2022 E	2023 E	2024 E
Seats	Average	1,000	2,775	3,150	3,600	4,500
Occupancy ratio (ticket per seat per year)		278	76	110	190	190
<b>Tickets</b>		<b>277,858</b>	<b>212,039</b>	<b>346,500</b>	<b>684,000</b>	<b>1,111,500</b>
Average Price		6.0	5.5	5.6	6.1	6.3
<b>Box office revenues</b>		<b>1,667,145</b>	<b>1,166,215</b>	<b>1,691,325</b>	<b>4,172,400</b>	<b>7,333,410</b>
Bar revenue per ticket		1.7	1.5	1.6	1.9	2.1
<b>Bar revenues</b>		<b>474,418</b>	<b>320,073</b>	<b>551,418</b>	<b>1,299,600</b>	<b>2,328,315</b>
Ad per ticket		0.4	0.3	0.3	0.4	0.4
<b>Advertising and Services</b>		<b>122,129</b>	<b>65,137</b>	<b>105,377</b>	<b>273,600</b>	<b>444,600</b>
<b>Tax Credit</b>		<b>305,351</b>				
<b>Total Revenues</b>		<b>2,263,692</b>	<b>1,551,425</b>	<b>2,348,120</b>	<b>5,745,600</b>	<b>10,106,325</b>

Source: Intermonte SIM estimates

### Notorious Spain

#### Notourious – Notorious Spain

MAIN ASSUMPTIONS	2021 E	2022 E	2023 E	2024 E
# films			8	10
Box Office per film			0.71	0.73
Box office			5.71	7.28
% distribution fee			45%	45%
% other distribution revenues			31%	32%
<b>ESTIMATES (Eu mn)</b>				
Box office revenues	-	-	2.6	3.3
Other distribution revenues (t+1)	-	-	-	1.8
<b>Revenues</b>	<b>-</b>	<b>-</b>	<b>2.57</b>	<b>5.06</b>

Source: Intermonte SIM estimates

## Cash Flow

We have based our model on the following assumptions:

- **Net working capital:** starting from 2023, we expect the net working capital to sales ratio (expected at 60% at YE22) to converge towards 46% 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 Eu1.7mn and Eu2.2mn in 2023 and 2024 respectively (i.e. a 40% payout on 2022 and 2023 EPS).
- **CapEx:** we estimate CapEx will amount to about 31%/32% of sales in the coming years, mainly supporting distribution and internal production activities. Investments in film production are lowered by government grants.

Overall, we expect free cash flow generation to improve throughout the forecast period, reaching a positive balance in 2024.

### Notorious – Cash Flow Statement

(Eu mn)	2019A	2020A	2021A	2022E	2023E	2024E
Net income	5.2	(2.1)	3.6	4.3	5.5	8.1
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Amortization & Depr.	8.8	8.0	7.0	11.6	15.2	19.6
Rights of use		(0.2)	(0.3)	(0.8)	(1.2)	(1.4)
<b>Gross cash flow</b>	<b>14.0</b>	<b>5.7</b>	<b>10.2</b>	<b>15.1</b>	<b>19.6</b>	<b>26.2</b>
Change in working capital	(5.7)	2.0	(0.3)	(8.8)	(3.2)	(3.2)
Other funds and provisions	(1.1)	(0.4)	(0.9)	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating cash flow</b>	<b>7.2</b>	<b>7.2</b>	<b>9.0</b>	<b>6.3</b>	<b>16.3</b>	<b>23.0</b>
Capex	(10.9)	(4.2)	(12.5)	(10.7)	(14.9)	(19.7)
% on sales	25%	31%	47%	29%	31%	32%
<b>FCF (Eu mn)</b>	<b>(3.7)</b>	<b>3.0</b>	<b>(3.4)</b>	<b>(4.4)</b>	<b>1.5</b>	<b>3.4</b>
FCF/EBITDA	-23.8%	60.5%	-33.2%	-25.7%	6.5%	11.3%
Acquisitions	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
Dividends	(1.8)	0.0	0.0	(1.8)	(1.7)	(2.2)
Right Issue	0.0	0.0	0.0	0.0	0.0	0.0
Other	(12.2)	(1.7)	(0.3)	0.0	0.0	0.0
<b>Cash Flow</b>	<b>(17.7)</b>	<b>1.4</b>	<b>(3.7)</b>	<b>(6.2)</b>	<b>(0.3)</b>	<b>1.2</b>
<b>NFP at bgn year Cash/(Debt)</b>	<b>3.4</b>	<b>(14.3)</b>	<b>(12.9)</b>	<b>(16.6)</b>	<b>(22.8)</b>	<b>(23.1)</b>
Cash Flow: Cash/(Debt)	(17.7)	1.4	(3.7)	(6.2)	(0.3)	1.2
<b>NFP at year end: Cash/(Debt)</b>	<b>(14.3)</b>	<b>(12.9)</b>	<b>(16.6)</b>	<b>(22.8)</b>	<b>(23.1)</b>	<b>(21.9)</b>
of which: Rights of Use liabilities (IFRS16)	(10.7)	(12.3)	(13.2)	(14.5)	(14.5)	(14.5)
<b>Net Cash (Debt) at YE excl. IFRS 16</b>	<b>(3.6)</b>	<b>(0.6)</b>	<b>(3.4)</b>	<b>(8.3)</b>	<b>(8.6)</b>	<b>(7.4)</b>

Source: Intermonte SIM estimates

DETAILS ON STOCKS RECOMMENDATION			
Stock NAME	NOTORIOUS PICTURES		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	2.00	Previous Target (Eu):	2.20
Current Price (Eu):	1.45	Previous Price (Eu):	1.61
Date of report:	30/11/2022	Date of last report:	29/04/2022



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OUTPERFORM:	48.36 %
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