

Production date: 16th February 2018 - 17:30 CET

Release date: 19th February 2018 - 07:00 CET

<b>LEONE FILM GROUP</b>	<i>Italy</i>	<i>FTSE AIM Italia</i>	<i>Entertainment</i>
<b>Rating: BUY</b>	Target Price: € 8,45		<b>Risk: Medium</b>

Stock Performance	1M	3M	6M	1Y
Absolute	5,43%	-2,10%	3,79	48,94%
vs FTSE AIM Italia	7,50%	-1,67%	3,91%	32,45%
vs FTSE All-Share	9,70%	-3,61%	0,93%	27,22%

## Company overview

Leone Film Group is a leading company operating in the Italian movie industry. Leone Film Group was founded in 1989 by the famous director Sergio Leone and is currently owned by Andrea and Raffaella Leone, sons of the Film Director.

Through the years the company expanded its business from distribution, including big-budget titles which brought to the signing of the first output deal with DreamWorks (Amblin/Storyteller) in December 2012, to production and executive production.

Stock Data (16/02/2018)	
Price	4,66
Bloomberg Code	LFG IM
Market Cap (€m)	65,7
EV (€m)	101,3
Free Float	26,5
Share Outstanding	14,1
52-week high	5,7
52-week low	2,9
Company Agenda	27/03/2018

## Main 2017 preliminary results

On 1st February, Leone Film Group released its FY17 preliminary results. Consolidated unaudited revenues rose by 80,3% to € 98.6 mln (€ 54.7 million in FY16). The increase is mainly due to the large increase in turnover of the fully owned subsidiary Lotus Production Srl in the area of international executive productions. Lotus started this activity in 2016 and has quickly become the leading Italian operator in this market segment. Consolidated preliminary Ebitda rose by 13,6% reaching € 26.7 mln (€23,5 mln in FY16). Preliminary Ebitda is lower than those indicated in the 2017-19 strategic plan (€29,1 mln), mainly due to the postponement of some film releases.

Key Financials (€m)	2016A	2017E	2018E	2019E
Sales	54,7	98,6	114,6	120,5
EBITDA	23,5	26,6	36,4	44,3
EBIT	3,0	4,3	9,0	11,9
Net Income	1,8	2,6	5,7	8,1
EBITDA margin	43,0%	27,0%	31,8%	36,8%
EBIT margin	5,5%	4,4%	7,9%	9,9%
ROI	4,5%	5,7%	11,4%	15,7%
ROCE	4,0%	5,4%	10,4%	14,8%

Main Ratios	2016A	2017E	2018E	2019E
EV/EBITDA	4,3 x	3,8 x	2,8 x	2,3 x
EV/EBIT	33,8 x	23,6 x	11,3 x	8,5 x
P/E	36,5 x	25,3 x	11,5 x	8,1 x
NFP/EBITDA	1,4 x	1,5 x	1,2 x	0,7 x

## Valuation Update

We based our valuation estimates using the Multiples Valuation method and the DCF Valuation method. Regarding the Multiples Valuation method we have used a panel of companies operating in the same sector as LFG's but with a greater average market capitalization. For that reason, we have applied a Market Cap discount of 25%. The equity value resulting from this method is equal to € 123,1mln. On the other hand, the equity value resulting from the DCF Valuation method is equal to € 115,1mln. The arithmetical average between the DCF method and the Multiples valuation method was conducted resulting in an equity value equals to € 119,1 mln, hence € 8,45 per share. Risk is medium and rating is Buy.

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## 1. Company Overview

### 1.1 Group Profile

Leone Film Group is a leading company operating in the Italian movie industry. Leone Film Group was founded in 1989 by the famous director Sergio Leone and is currently owned by Andrea and Raffaella Leone, sons of the Film Director.

Through the years the company has expanded its business from movie distribution - including big-budget titles which led to the signing of the first production deal with DreamWorks (Amblin/Storyteller) in December 2012 - to movie production and national/international executive productions.

In 2013 Leone Film Group signed an important and strategic output deal with Lionsgate, establishing a strong partnership that will last until June 2019.

In 2014, LFG acquired Lotus Production in order to enter into international productions. In 2015 the Group won the contract for the international executive production of the Lionsgate movie "John Wick 2" (which the company also distributed and paved the way of the Group into the business of International Executive Productions).

During 2016 Leone Film Group produced its first TV Series titled "Immaturo", officially entering this highly growing and profitable market. At the same time, it started developing other internationally oriented TV series (among which "Colt" and "Beati Paoli") which will help company growth in this segment as well.

As of today, Leone Film Group is managing a library of about 500 titles among which it's worth mentioning the renowned library of all Sergio Leone's pictures for Italian and, in many cases, international markets, together with many other international blockbusters. The library is constantly growing thanks to the production deals (DreamWorks and Lionsgate) and to the strong and growing relationships with all US independent producers.

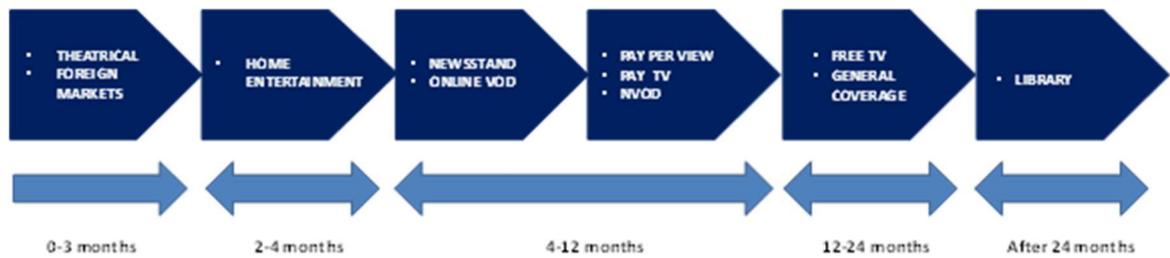
Leone Film Group's activity is divided into two main units:

- **Distribution**, which accounted for c.58% of 2016 sales with an Ebitda margin of 61.1%;
- **Production**, which accounted for c.42% sales and generated an Ebitda margin of 18.6% in 2016. In this field, Leone Film Group is also active in executive production and services for international producers.

### 1.1 The distribution business

In its distribution activity, Leone Film Group acquires full film rights for the Italian market for 15-25 years, mainly from independent US producers: Lionsgate, Summit Entertainment, DreamWorks (also in co-production). Moreover, the company selects other movies at the American Film Market (AFM) and other important film festivals.

**Fig. 1 – The distribution value chain**



Source: Leone Film Group

A movie is screened in cinema channels for about 3 months. That phase is particularly important for the film’s entire life cycle, since the success of some other phases also depends on the income generated in this phase.

After theatrical release (in cinemas), the movie is marketed in the home entertainment channels (or HomeVideo) (DVD, Blue Ray, etc.), either directly or through the subscription of specific arrangements. First home video release usually begins 6 months after theatrical.

About 8 months after theatrical the film begins to be marketed also in the pay per view channel and on VoD (Video on Demand) and NVOOD (Near Video on Demand) channels.

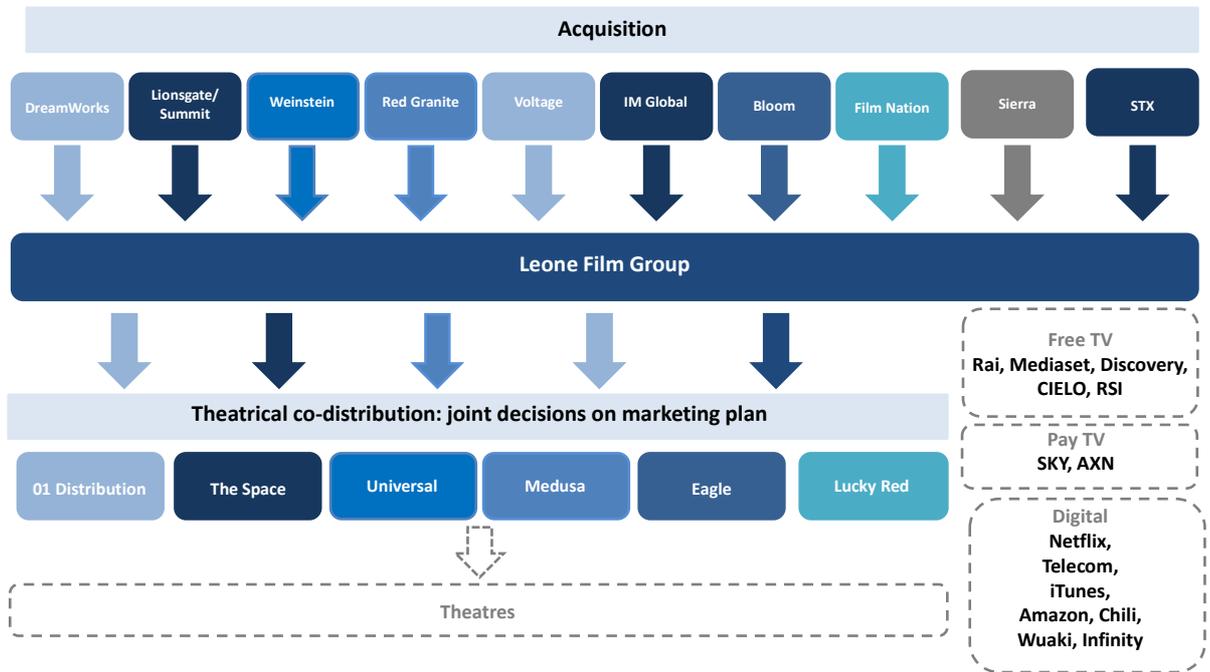
About 12 months after theatrical the movie is seen for the first time on Pay TVs and SVOOD (Subscription Video On Demand) channels. Pay TV contracts generally provide - for a fixed fee - the possibility for television broadcasts for the movie, for a limited number of times in the period covered by the contract. At the end of this period, the film goes to the free TV channels.

The distribution of the movie in the Free TV channel usually begins 24 months after theatrical. Contracts with televisions last longer than those of previous channels. During this period, the film can be broadcasted up to a predefined maximum number of times.

The last window of the 1<sup>st</sup> round of show is represented by the various digital Channels.

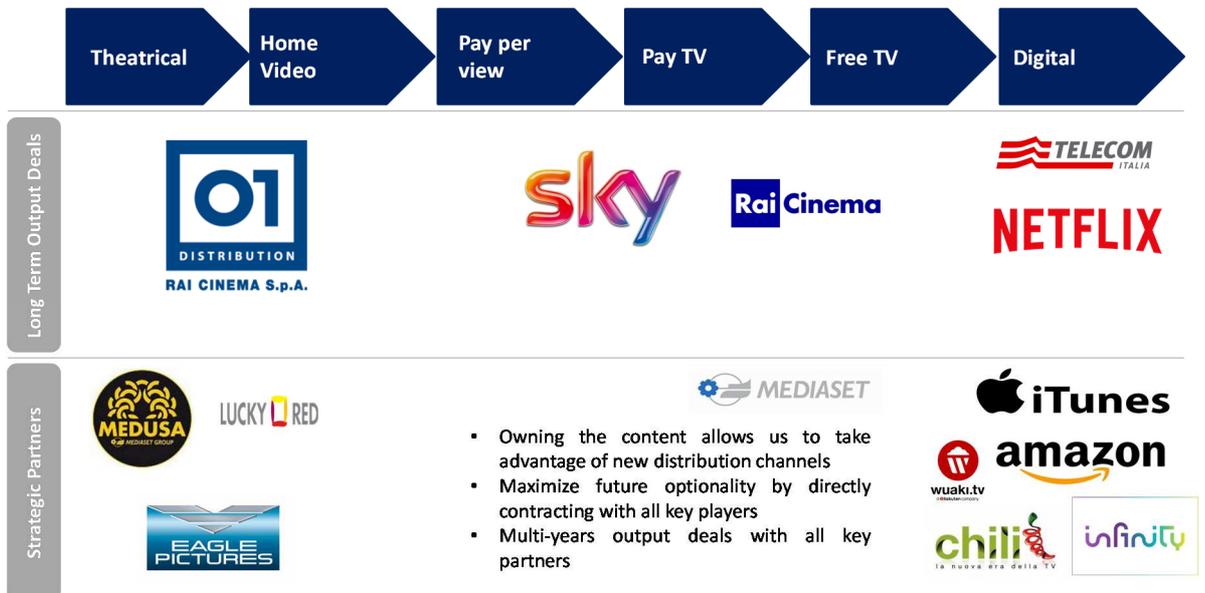
After being shown on all different channels the movie returns available and the distributor can start again to sell its distribution rights to the various channels up to the end of the concession which usually lasts for 15-25 years. This is what is commonly called ‘library revenues’

**Fig. 2 – Distribution structure**



Source: Leone Film Group

**Fig. 3 – The distribution partners**

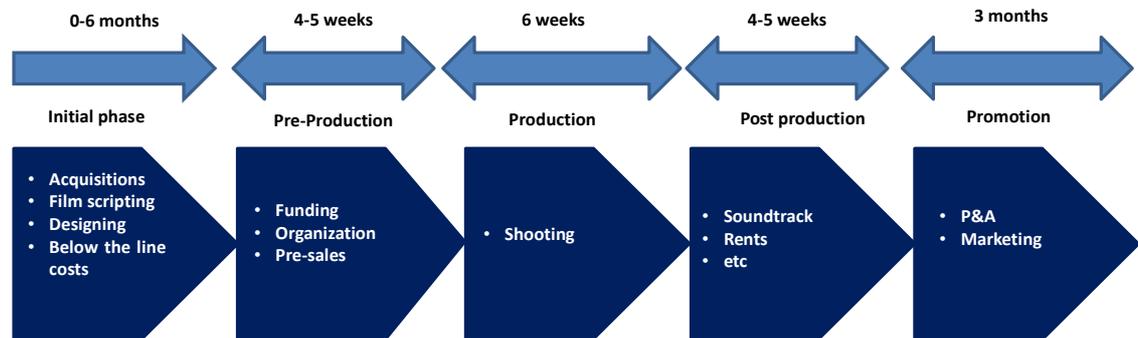


Source: Leone Film Group

## 1.2 The production and co-production businesses

Leone Film Group is able to manage the entire production cycle, i.e. from the concept to its distribution. Following the whole production value chain.

**Fig. 4 – The production value chain**



Source: Leone Film Group

Production begins with the selection of "subjects" that provide the plot for a movie to be developed in production and / or co-production. Once the subject is selected, the Company selects a screenwriter for "managing" and later on "scripting" the subject, which consists of developing the movie's context and writing the dialogue. Alternatively, the company may purchase the screenplay of the film already developed by the author or by third parties. In the initial phase, "below the line costs" - which include production, cast and crew costs, excluding film and film director costs - may vary considerably depending on the artists chosen.

In the pre-production phase, the company collects funding from third parties in order to cover the estimated costs of film production, with the exception of P&A costs. The film rights are normally fully negotiated at this stage, except for rare cases when some of them are negotiated during the promotional phase. The average production cost of an Italian movie is between €2 mln and €6 mln while the average cost of international co-productions amounts to about US20 mln dollars.

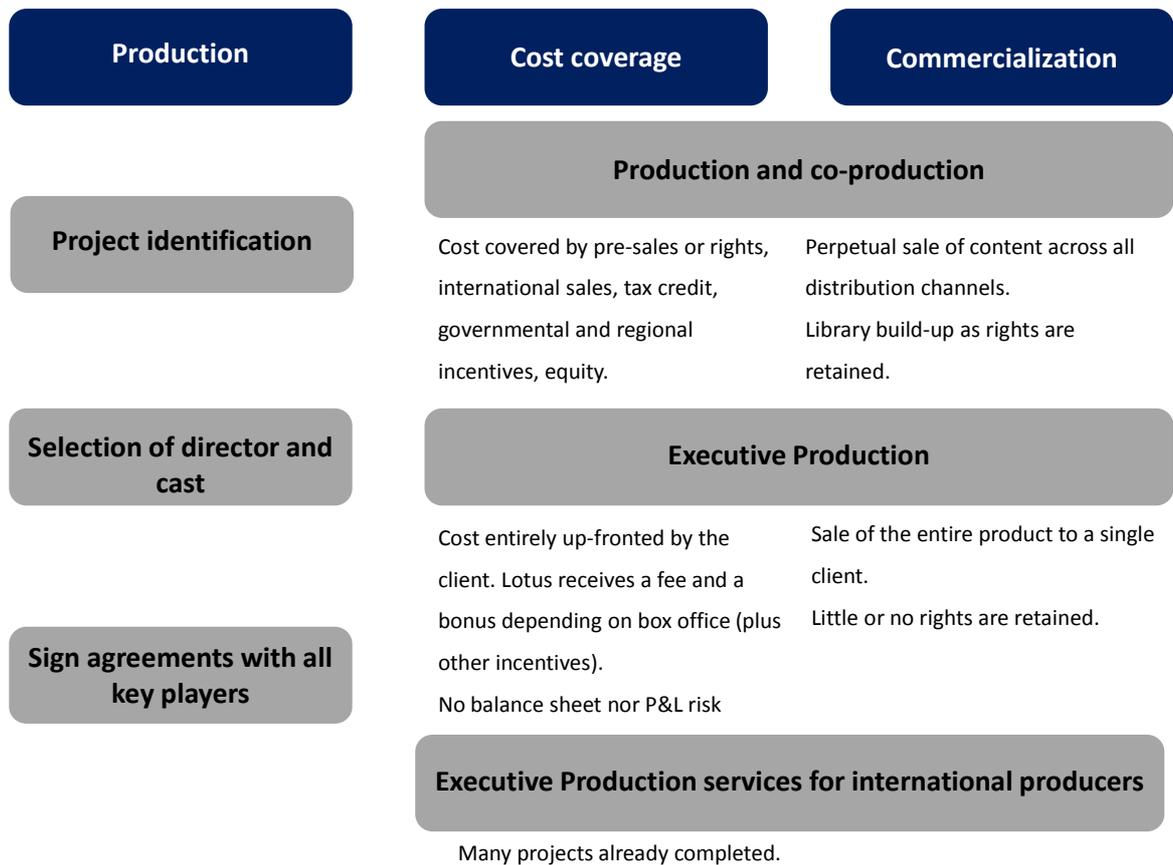
The production phase is the most important moment of the entire movie production process. The production manager and his own team (and in particular the head of production) has to be presented with every aspect of the executive production in order to ensure budget cost compliance.

Long before shooting begins, the production manager draws up a detailed plan in which the times and costs of the film are shown. The plan is updated weekly and forwarded to the management of the company in order to provide an updated representation of the shooting and any economic shifts compared to the initial plan.

Post production is the final stage of the production cycle in producing a film. During this phase, the editing is verified, minor changes are made, dialogues and music are checked, synchronization is performed, and mixing and final editing are carried out.

The post-production phase is completed by film promotion activities, which include, among other things, determining P&A costs, launching the movie, and defining the number of copies as well as details regarding distribution in theaters. Promotional activity is crucial to the success of the film in cinemas.

**Fig. 5 – Production business model**



Source: Leone Film Group

## 2. Reference Market

### 2.1 Film entertainment market

In 2016, the revenue generated by global cinema attendance increased for the ninth consecutive year, reaching a record high of \$38.6 billion, up 2% compared with 2015.

This overall trend in a rapidly changing global market is influenced by a combination of several factors. Of these, the democratization of certain leisure pursuits and products (TV, video, internet), as well as the development of distribution media such as pay-TV and satellite television, VoD and SVoD, the spread of digital technology and the increase in film merchandising have largely contributed to the growth in revenue generated by the film industry.

In 2016, Asia Pacific was the most important region in terms of box office takings (\$14.9 billion) for the fourth consecutive year, with an increase of 5% compared with 2015. After ten years of uninterrupted growth, box office takings (US dollars) in China fell by 1% in 2016 compared with 2015, although they increased (+4%) in local currency.

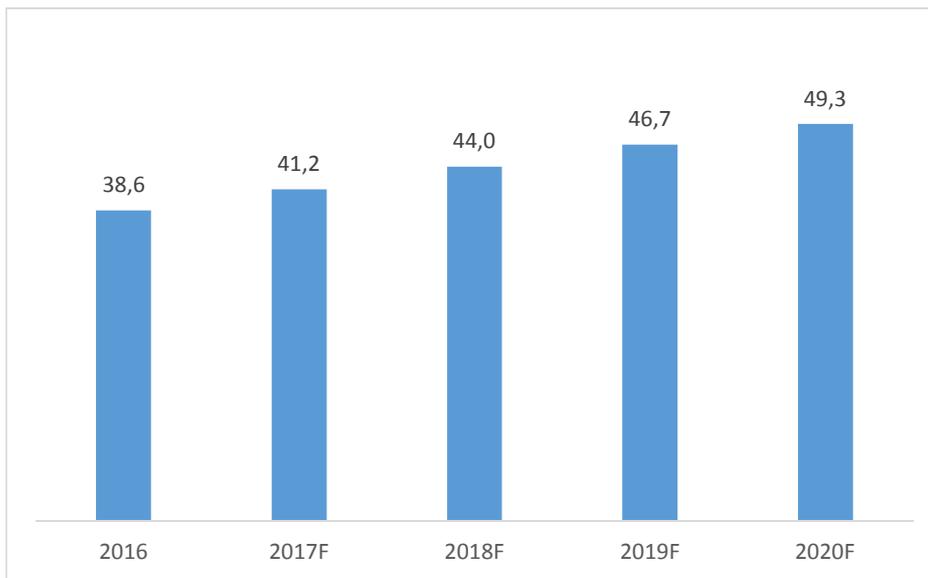
Box-office takings in North America rose 2% to \$11.4 billion. Latin America saw an 18% decrease, mainly due to the fall in value of several of the region's currencies in relation to the US dollar (Mexico -15%, Argentina -37%, Venezuela -31%).

The Europe, Middle East and Africa region recorded a 2% decrease in box office revenue compared with 2015, mainly due to the 10% slump of the UK market caused by the depreciation of the pound sterling in relation to the dollar, and the slowdown by 13% of the German market (Source: MPAA 2016, U.S. Theatrical Market Statistics).

For the first time, China overtook the United States, becoming the country with the highest number of cinema tickets sold (1.37 billion, an increase of 8.9%). In the United States, admissions remained stable at 1.32 billion in 2016. Admissions to theaters in the European Union rose 1.6% to 994 million.

Cinema attendance was up in Italy (+5.4%), Spain (+7.8%) and France (+3.8%), but fell in Germany (-13.0%) and the United Kingdom (-2.1%). However, France remained the largest European market, with a total of 213.1 million admissions, ahead of Russia, which consolidated its position as the second largest European market with 194.7 million admissions in 2016. In France, box office receipts were at their highest level this decade: €1,387.7 million compared with €1,331.3 million in 2015, a 4.2% rise. This is mostly due to increased theater admissions (213.1 million); the average revenue per admission remained stable (€6.51 including VAT in 2016, a 0.4% rise compared to €6.48 in 2015). (Source: CNC – 2016 Report).

As far as the expectations for the next coming years are concerned, according to different public sources, global box office revenues from 2016 to 2020 are expected to show a CAGR growth of 6.3%, reaching \$49.3 bn in 2020F.

**Fig. 6 – Global box office revenue (2016 – 2020F) (\$/bln)**


Source: Leone Film Group

## 2.2 International theatrical distribution market

For the first time, China overtook the United States, becoming the country with the highest number of cinema tickets sold (1.37 billion, an increase of 8.9%). In the United States (and Canada) admissions remained stable at 1.32 billion. Admissions to European Union cinemas rose by 1.6%, to 994 million admissions, the best year since 2004. However, in terms of receipts generated, the United States is still the largest global market, worth \$11.4 billion compared with \$6.6 billion in China (Source: CNC – 2016 Report).

On a global scale, theater receipts rose by 0.5% to \$38.6 billion, in particular driven by the strong box office performance in Asia (+5% to \$14.9 billion). The North American market grew to a lesser degree (+2% to \$11.4 billion), while Europe-Middle East-Africa decreased for the third consecutive year (-2% to \$9.5 billion) (Source: MPAA 2016, U.S. Theatrical Market Statistics).

**Fig. 7 – Number of annual movie admissions (\$/mln)**

Year	North America	China	France	UK	Germany	Italy	Spain	Japan	Russia
2007	1.400	196	179	162	125	116	117	163	107
2008	1.340	210	190	164	129	112	108	161	124
2009	1.420	264	202	174	146	111	110	169	132
2010	1.340	290	207	169	127	121	102	174	156
2011	1.280	370	217	172	130	101	98	145	160
2012	1.360	470	204	173	135	100	94	155	157
2013	1.340	631	194	166	130	107	79	156	177
2014	1.720	830	209	158	122	98	88	161	176
2015	1.320	1.260	205	172	139	107	95	167	174
2016	1.320	1.370	213	168	121	113	102	180	195

Source: CNC – 2016 Report

In 2016, European Union (EU) gross box office receipts fell slightly (-3.6%) to €7.04 billion, with 991 million tickets sold – the lowest level since 2004. This was due to the decrease in the average ticket price in the EU, which fell for the first time in five years, from €7.40 to €7.10.

According to the European Audiovisual Observatory, movie theater admissions in the European Union rose 1.6% in 2016. Total attendance was 994 million admissions (978 million in 2015), making it the best year since 2004. This rise is thanks to increased theater attendance in France, Spain, Poland and Italy. (Source: European Audiovisual Observatory – Press release of May 11, 2017).

Outside of the European Union, the Russian Federation confirmed its position as the second largest European market, with a strong increase in attendance to 194.7 million admissions in 2016 (+11.6%). At the same time, box office receipts were up 7.4% to 47.5 billion rubles (\$790 million).

Despite a slight 3.6% decrease in attendance (58.3 million admissions compared with 60.5 million in 2015), gross box office receipts also continued to increase in Turkey reaching their highest level in the last few decades, +1.5% to 692 million Turkish lira (€187.3 million) (Source: CNC – 2016 Report).

## Leone Film Group – Pro-Forma Positioning

**Fig. 8 – Italian independent distributors’ market share**

Box Office 2014 - Italian - IFGpro forma		Box Office 2015 - Italian - IFGpro forma		Box Office 2016 - Italian - IFGpro forma		Box Office 2017 - Italian - IFGpro forma	
Distributor	Market Share						
O1 Distribution	22,8%	O1 Distribution	23,0%	Medusa Film SpA	27,1%	Leone Film Group SpA	20,0%
Medusa Film SpA	13,6%	Medusa Film SpA	15,6%	Leone Film Group SpA	16,9%	O1 Distribution	16,2%
Lucky Red	11,0%	Leone Film Group SpA	10,5%	O1 Distribution	10,0%	Lucky Red	11,6%
Notorious Pict. SpA	8,3%	Lucky Red	8,1%	Lucky Red	11,8%	Medusa Film SpA	10,9%
Eagle Pictures	6,6%	Notorious Pict. SpA	6,8%	Eagle Pictures	7,1%	Eagle Pictures	5,1%
BIM Distribution Srl	5,1%	Eagle Pictures	6,4%	BIM Distribution Srl	3,8%	Videa CDESpA	5,0%
M2 Pictures Srl	4,2%	Videa CDESpA	5,3%	Notorious Pict. SpA	3,4%	Notorious Pict. SpA	5,0%
Leone Film Group SpA	3,8%	Koch Media Srl	3,7%	M2 Pictures Srl	3,2%	Nexo Digital SpA	3,1%
Others	24,6%	Others	20,6%	Others	16,7%	Others	23,1%
Total	100,0%	Total	100,0%	Total	100,0%	Total	100,0%

Source: Cinetel

**Fig. 9 – Italian distribution market shares**

Box Office 2014 - All Market - IFGpro forma		Box Office 2015 - All Market - IFGpro forma		Box Office 2016 - All Market - IFGpro forma		Box Office 2017 - All Market - IFGpro forma	
Distributor	Market Share						
Warner Bros Italia SpA	17,0%	Universal Srl	21,9%	Warner Bros Italia SpA	18,7%	Warner Bros Italia SpA	19,8%
Universal Srl	13,8%	Warner Bros Italia SpA	15,3%	Medusa Film SpA	12,3%	Universal Srl	18,5%
20th Century FOXItalia SpA	12,3%	Walt Disney SMPItalia	15,2%	Walt Disney SMPItalia	13,7%	Walt Disney SMPItalia	14,0%
O1 Distribution	11,4%	O1 Distribution	8,9%	Universal Srl	11,7%	20th Century FOXItalia SpA	9,8%
Medusa Film SpA	6,8%	20th Century FOXItalia SpA	9,3%	20th Century FOXItalia SpA	10,4%	Leone Film Group SpA	7,6%
Walt Disney SMPItalia	6,6%	Medusa Film SpA	6,0%	Leone Film Group SpA	7,7%	O1 Distribution	6,1%
Lucky Red	5,5%	Leone Film Group SpA	4,0%	O1 Distribution	4,6%	Lucky Red	4,4%
Notorious Pict. SpA	4,2%	Lucky Red	3,1%	Lucky Red	5,4%	Medusa Film SpA	4,1%
Eagle Pictures	3,3%	Notorious Pict. SpA	2,6%	Eagle Pictures	3,2%	Eagle Pictures	1,9%
BIM Distribution Srl	2,6%	Eagle Pictures	2,5%	BIM Distribution Srl	1,7%	Videa CDESpA	1,9%
M2 Pictures Srl	2,1%	Videa CDESpA	2,0%	Notorious Pict. SpA	1,6%	Notorious Pict. SpA	1,9%
Leone Film Group SpA	1,9%	Koch Media Srl	1,4%	M2 Pictures Srl	1,4%	Nexo Digital SpA	1,2%
Others	12,5%	Others	7,8%	Others	7,6%	Others	8,8%
Total	100,0%	Total	100,0%	Total	100,0%	Total	100,0%

Source: Cinetel

Leone Film Group does not directly distribute its movies to theaters and uses service companies (like 01, Medusa, Lucky Red, Eagle, etc.). The above tables have been pro-formed to simulate a direct distribution of the Group content to the movie theaters and proves that the market share has constantly grown over the past 4 years making the Group:

- The leader in 2017 among Italian independent distributors with a market share of 20% (from 3.8% of 2014);
- The 4<sup>th</sup> players among all Italian distribution companies (close to 20<sup>th</sup> Century Fox) with a market share of 7.6% from 1.9% in 2014.

### 2.3 The Video on Demand (VoD) sector

The worldwide market is valued at USD 51.59 billion (2016), and it is projected to reach a value of USD 86.12 billion, by end of 2022, registering a CAGR of 8.93%, during the forecast period of 2017-2022.

The United States is leading in video-on-demand films in the European Union, according to a report from the European Audiovisual Observatory.

About 68 transactional VoD services in the EU were considered for the study namely Apple's iTunes, Microsoft's Movies, Wuaki.tv, Chili TV, SF Anytime and 14 additional national transactional video-on-demand (TVoD) services. EU films made up only 23% of the VOD movie catalogs. Other European films represented another 2%.

The study also considered subscription video-on-demand (SVoD) and transactional video-on-demand (TVoD) and found that EU films struggled in this sector too, with EU products amounting to less than a fifth of the products offered amongst the 37 SVoD catalogs examined. Viaplay, C More and four national SVoD services were included, apart from the 28 Netflix country catalogs. The US was a source for two-thirds of available films in the EU SVoD. The number of Netflix offers in SVoD catalogs went from 8 to 28, compared with the 2015, which affected the section of EU 28 films in SVoD catalogs since most of the newly integrated Netflix catalogs had a share below 16% of EU 28 films.

VoD offers a superior user interface and experience, as compared to linear TV offerings. With a broad range of VoD programming preferences, viewers can stream or download content from either a TV package or an online source, creating extensive growth prospects for the service providers in this market.

Worldwide media consumption has witnessed rapid growth over recent years, leading to a rise in the number of devices supporting digital media, combined with increasing internet penetration. This has presented end-users with on-demand access to media content for entertainment, information, or social activity. Furthermore, growing demand for tailor-made viewing of digital content, paired with increasing consumption of on-demand services through mobile platforms, is forecast as part of the growth of the VoD market over the next few years.

There are important market signals that support major CAGR expectations. These are:

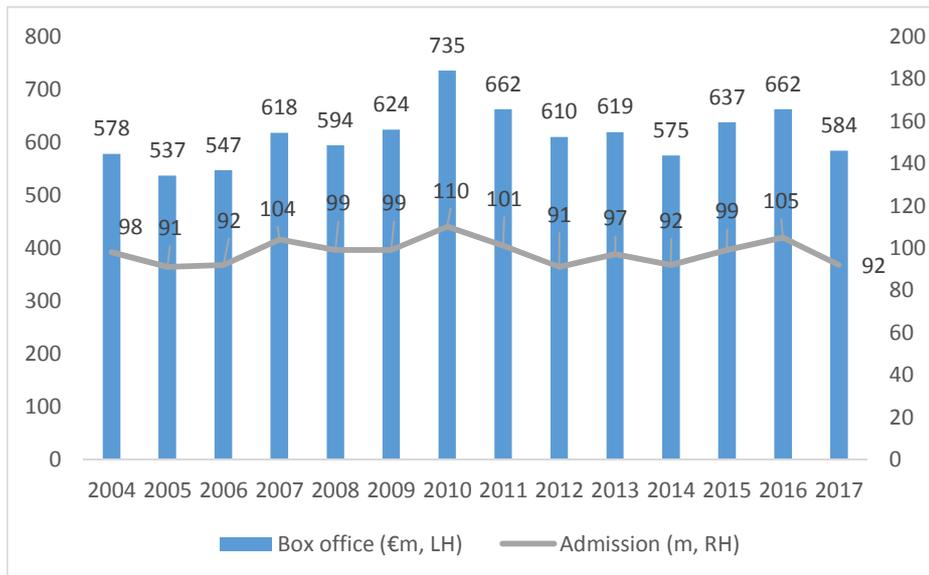
- Amazon, Apple, Cisco, Google, Intel, Microsoft, Mozilla and Netflix, have announced the formation of a new open source alliance — the Alliance for Open Media, which is expected to develop the next generation of royalty-free video formats, codecs, and related technologies;

- Facebook announced its first move into VoD, by introducing its latest platform Watch. The move was expected to drive further competition in the VoD market;
- Google in March 2017, launched a YouTube TV VoD service. This move is expected to help Google maintain its strong foothold in the VoD landscape, while strengthening its place in the video content creator environment and its position in the VoD market.

## 2.4 The film sector in Italy

Italy is one of the largest movie markets in Europe after UK, France and Germany. During 2016 in Italy, about 554 movies were released, 208 of them being Italian productions. Admissions were 105 mln and box office revenues accounted for €662 mln. According to Cinetel data, the industry trend has been stable over the past three years, with an average ticket of €6.28 in 2016 (€5.95 in 2015).

**Fig. 10 – Admissions and box office in Italy (€ mln and /000 data).**



Source: Cinetel

The motion picture market in 2016 increased in comparison with the previous year, both in terms of attendance and revenue. According to Cinetel sources, which account for approximately 90% of the market, total box office receipts amounted to € 661.8 mln (in 2015 it was €637.3 mln, with an increase of 3.9%) for a total of 105.4 million tickets sold (in 2015 it was 99.4 million, with an increase of 6.1%). According to the same source, the average ticket price in 2016 was € 6.28 (in 2015: € 6.19, change: + 1.5%).

The films released in theaters numbered 554, compared to 473 in 2015, including 158 US (2015: 159), 199 Italian (2015: 186), 50 French (2015: 39) and 29 English (2015: 23).

Seasonality (in terms of audience presence) continues to be a feature of the industry, both during the different periods of the year and during the week. In the first quarter of 2016 there were about 38% of presence (in 2015: 32%), in the second 18% (in 2015: 19%), in the third 15% (in 2015: 16%) and in the fourth 29% (in 2015: 32%).

The first three titles in 2016 totaled a presence of 14.5 million people, compared to 10.3 million in 2015. The performance of the industry continues to depend on a relatively small number of films: in 2016, the top ten films recorded 27% of total attendance (in 2015: 28%) and the first thirty films accounted for 48% of total attendance (in 2015: 48%).

As far as production is concerned, total 2016 Italian investment rose by 1.8% compared to 2015, reaching €344.9 mln, of which €275.6 mln coming from Italian initiatives (155 movies). Foreign productions rose by 9.9% to €69.2 mln (68 movies, mostly French). In 2016 the average production costs per movie fell by 15.3% compared to 2015, reaching €1.55 mln.

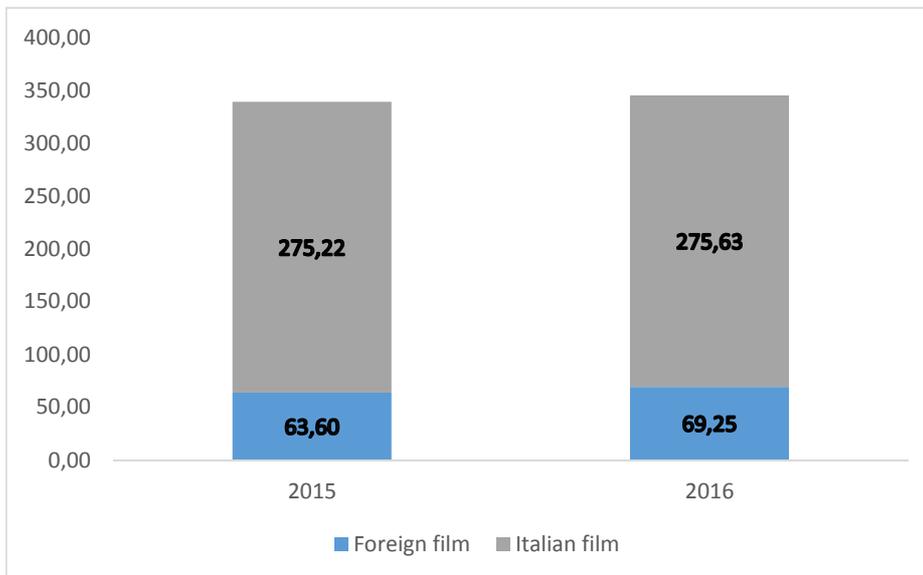
**Fig. 11 – Italian movie production market**

	2011	2012	2013	2014	2015	2016
Number of Italian production	155	166	167	201	185	223
<i>of which Italian production and co-production</i>	146	150	56	194	179	213
<i>of which number of minority co-production</i>	9	16	11	7	6	10
Total cost of Italian production (€ mln)	423	493	358	320	339	345
Average cost of Italian Production (€ mln)	2,73	2,97	2,14	1,59	1,83	1,55

Source: Anica 2011-2016

Also thanks to fiscal policies, tax credits and government subsidies covered about 32% of 2016 production costs (29% in 2015).

**Fig. 12 – Admissions 2015-2016: total costs (€/mln)**



Source: Direzione Generale Cinema

In the first half of 2017, the film market declined compared to the previous six months, both in terms of revenue (-16.4%) and presence (-12.2%). According to Cinetel, which accounts for approximately 90% of the market as a whole, box office receipts amounted to €316.7 mln (1H1

was €378.8 mln) for a total of 51.8 million tickets sold (59 million). According to the same source, the price of the average ticket declined by 4.8% in the first half of 2017, reaching €6.11.

Analyzing the Theatrical distributors market, there is an increase in the success of the four major companies, whose box office in the first half of 2017 rose by 14.9% to €190.5 mln (1H16 was €165.8 mln); attendance rose by 17.5% to 30.1 million (€25.6 million).

This was offset by the decline of Italian operators (box office dropped by 40.7% to €126.2 mln) and attendance dropped by 34.9% to €21.8 million.

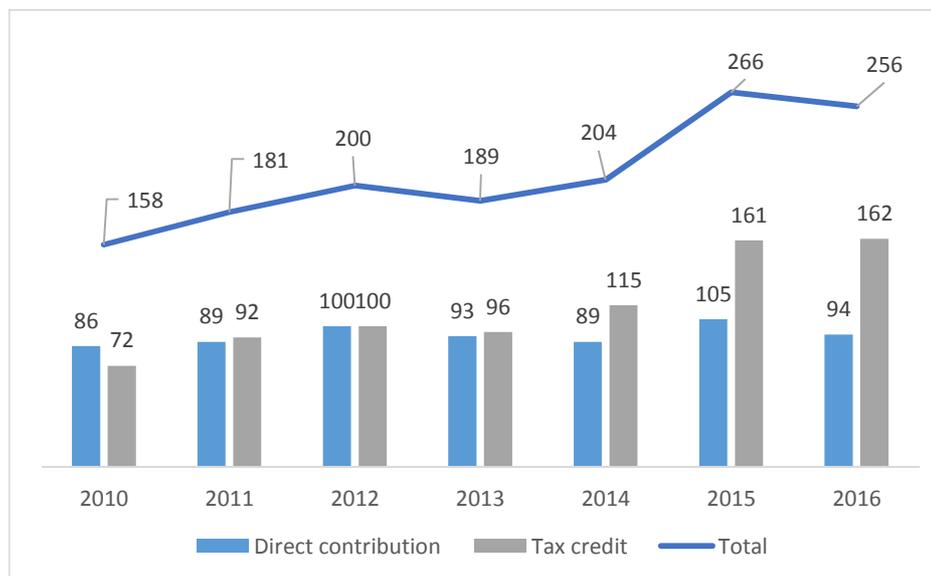
This volatility is not new for the Italian movie market, where results are nearly all based on the success of newly released films.

The films screened in theaters rose by 17.2% compared with 1H16 and reached no. 1,130 compared with no. 964, of which 329 were Italian movies (318), with a share of 29.1% (from 33%).

## 2.5 The tax credit in Italy

In 2009, the Italian Government approved a strong support tool for the Italian movie industry: a tax credit mechanism. Both direct and tax credit contributions came to €256 mln in 2016 (Source Anica), of which 63% in tax credits, with a growth trend since 2010.

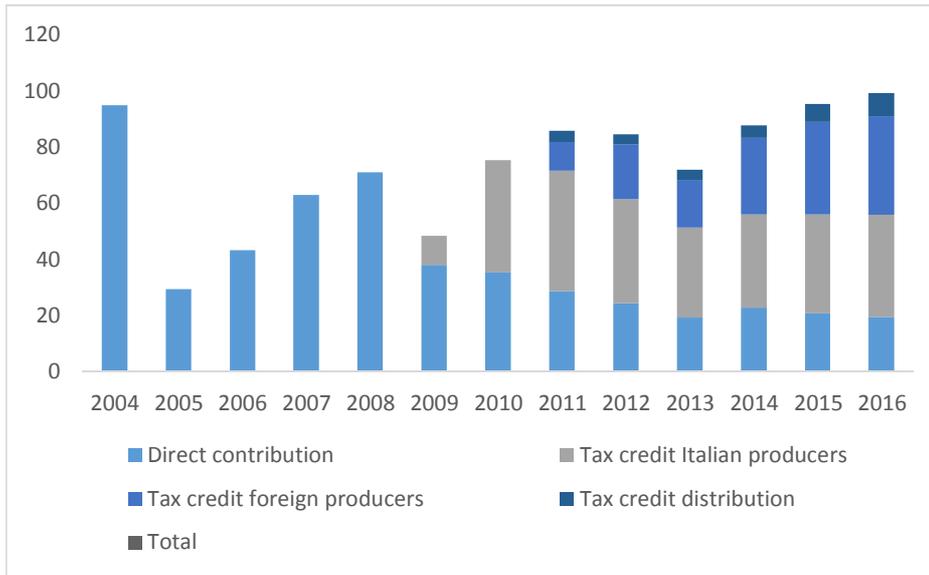
**Fig. 13 – Direct and public contributions for movies in Italy (€ mln data)**



Source: Anica report 2016

Direct public administration investment in production and distribution amounted to €94 mln in 2016 (-10.5% vs 2015). Foreign movies received contributions amounting to €77.8 mln, while total investments amounted of €311.2 mln for 125 movies.

**Fig. 14 – Total public contributions to distribution and production**



Source: Anica report 2016

Tax credit continues to represent a great opportunity for film production in Italy. After only a few years of full application of this mechanism, it can be seen how, with regard to both production (producer tax credit) and participating companies ("external" tax credit to investors not belonging to the audiovisual sector), these tax incentives are the basis for increased investment in Italian films.

Recent regulatory evolution (2017) confirms that European and Italian Governments well understand the economic returns of these forms of support and are aiming to increase them. The Italian Parliament approved a new increase in supporting the film industry by 60% to €400 mln p.a., available from 2017.

This new cash should further increase new investments in the film industry. Leone Film Group records tax credits and contributions as revenues of €3.9 mln in 2016 (7% of sales and 20% of production revenues) against €1 mln in 2015.

### 3. Company strategy - Forecast 2017-2020

#### 3.1 1H17 results

Consolidated 1H17 revenues rose by 10.6%, reaching €35.3 mln. Revenues from sales and services rose by 12.7% to €30.1 mln, other income rose by 21.2% to €1.7 mln, while tax credit dropped by €0.25 mln to €3.5 mln.

Distribution and production revenues rose by 23.7% (to €16.7 mln) and 2.3% (to €13.5 mln) respectively. Product placement activities did not generate revenue during 1H17 and are not expected to generate substantial revenues in the future.

Revenues from the distribution business amounted to €16.7 mln (€13.5 mln at 1H16), of which revenues from theatrical rights for €4.8 mln, sale rights for €1.4 mln, television rights for €2.6 mln, sales on the PAY-TV / PPV channel for €7.2 mln, Home Video for €0.6 mln and digital rights for 0.1 mln.

Revenues from production activities amounted to €13.5 million (€13.2 mln at 1H16), of which €11 mln from content production (which include revenues from both foreign and Italian film productions), sales rights of €1.6 mln, TV rights sale of €0.8 mln and Pay-TV / PPV revenues and other proceeds on film productions of €0.1 mln.

**Fig. 15 – 1H17 revenue breakdown**

Distribution	1H17	1H16	% Ch.
Theatrical	4,8	3,1	54,8%
Sales of rights	1,4	2,6	-46,2%
Free TV	2,6	3,2	-18,8%
Pay TV	7,2	3,7	94,6%
S-VoD - HV - Others	0,7	0,6	16,7%
<b>Total distribution</b>	<b>16,7</b>	<b>13,2</b>	<b>26,5%</b>

Production	1H17	1H16	% Ch.
Content Production	11,0	1,3	746,2%
Sales of rights	1,6	11,0	-85,5%
Free TV	0,8	0,6	33,3%
Pay TV	0,1	0,3	-66,7%
<b>Total production</b>	<b>13,5</b>	<b>13,2</b>	<b>2,3%</b>

Source: Leone Film Group

During 1H17, Leone Film Group continued to develop its activities, with the goal of becoming a major international player in the sector.

As for the Cinematographic Production business unit, the executive productions of the "Immaturi" TV series, directed by Rolando Ravello, which is currently on air on Mediaset networks and the "Innamorati di Me" audiovisual work, were completed in the first half of 2017 and broadcast on

Sky. In July, Paolo Genovese directed the film "The Place". In September, filming "A Casa Tutti Bene" started shooting, directed by Gabriele Muccino. In October, Paolo Virzì began shooting "Notti Magiche". Development will continue on the international television series called "Colt" (based on an original idea by Sergio Leone) by Stefano Sollima, and Giuseppe Tornatore's "I Beati Paoli". The films "Hotel Gagarin" and "Notti Magiche", scheduled for release in the second half of 2017, were postponed to 2018.

Ebitda slightly declined by 4% to €11.2 mln mainly due to service costs (+25.7% to €13.8%) linked to increased activity, while Ebit rose by 16% to €2.9 mln, after depreciations and amortizations of €8.4 mln (-8.4%).

Net debt rose to €35.7 mln (+€3.4 mln vs FY16), due to investments in acquisitions/productions of movie rights that will be released during 2H17 and 2018.

### 3.2 2017 – 2019 business plan

In April, Leone Film Group presented its 2017-19 three-year plan. The plan expects 74 new releases, of which 54 in movie distribution, 11 in production and 7 in executive production. This could result in a 2019F consolidated revenue of €67.3 mln (CAGR 2016-19F of 7.2%). Thanks to cost reductions and economies of scale, both Ebitda and Ebit CAGR is expected to be 22.5% and 56.9%, (Ebitda should reach €43.4 mln, and Ebit €11.6 mln) respectively. Thus, the Ebitda and Ebit margin should jump to 64.4% in 2019F (from 43.1% of 2016) and 17.2% (from 5.5% of 2016) respectively.

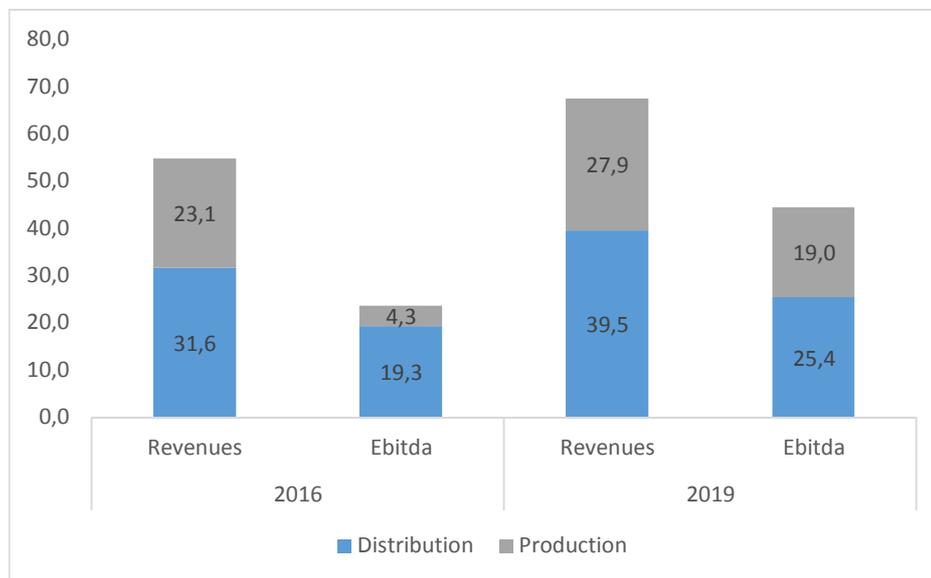
**Fig. 16 – 2017-19F consolidated business plan expectations**

Consolidated P&L (€ mln)	2016A	2017F	2018F	2019F	CAGR 2016-19F
Revenues	54,7	60,9	66,6	67,4	7,2%
EBITDA	23,6	29,1	35,4	43,4	22,5%
<i>Ebitda margin</i>	43,1%	47,8%	53,2%	64,4%	
EBIT	3,0	5,4	8,4	11,6	56,9%
<i>Ebit margin</i>	5,5%	8,9%	12,6%	17,2%	
Net Income	1,8	2,8	4,7	7,0	57,2%

Source: Leone Film Group

The Business Plan will change both revenue and ebitda mix from 2016 to 2019F.

**Fig. 17 – 2017-2019 revenue and Ebitda breakdown**



Source: Leone Film Group

The production division is expected to be the main driver: CAGR sales in 2016-19F is expected to be 6.5%, while the Ebitda CAGR should be 61.2%, thanks to new TV and movie productions. The plan is based on agreements (already signed) with distributors and it implies accumulated investments of about €90 mln from 2017 to 2019F.

**Fig. 18 – 2017-19F Production business plan expectations**

Production (€ mln)	2016A	2017F	2018F	2019F	CAGR 2016-19F
Revenues	23,1	24,9	29	27,9	6,5%
Production, Corp. & P&A	-18,8	-15,9	-18,3	-9,9	-19,2%
<b>EBITDA</b>	<b>4,3</b>	<b>9,0</b>	<b>10,7</b>	<b>18,0</b>	<b>61,2%</b>
<i>Ebitda margin</i>	18,6%	36,1%	36,9%	64,5%	
D&A	-2,6	-6,7	-9,1	-13,5	73,2%
<b>EBIT</b>	<b>1,7</b>	<b>2,3</b>	<b>1,6</b>	<b>4,5</b>	<b>38,3%</b>
<i>Ebit margin</i>	7,4%	9,2%	5,5%	16,1%	
<b>Productions (No)</b>	<b>2</b>	<b>5</b>	<b>4</b>	<b>2</b>	
<b>Executive productions (No)</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>1</b>	

Source: Leone Film Group

The production division is expected to be the main driver; CAGR sales 2016-19F is expected to be 6.5%, while the Ebitda CAGR should be 61.2%, thanks to new national TV and movie productions. The plan is based on agreements (already signed) with distributors and implies total investment of about €90 mln from 2017 to 2019F. Main key assumptions are:

- Production budgets based on agreements signed or under discussion;
- Pre-sale of rights based on agreements signed or under discussion;
- Executive productions do not absorb capital (advance from producers) and generate producer fees;
- Internal and external tax credits, based on conservative estimates of amounts that will be recognized by implemented decrees;
- Grants, depending on the expected region of shooting and conservative estimates of the amounts.

As far as distribution is concerned, Leone Film Group's management expects to distribute 56 movies during the period of the plan. Revenue CAGR 2016-19F is expected to be 7.7%, reaching €39.5 mln in 2019, while Ebitda and Ebit CAGR should be respectively 9.6% and 76.1% (to €25.4 mln and €7.1 mln respectively in 2019).

**Fig. 19 – 2017-19F Distribution business plan expectations**

Distribution (€ mln)	2016A	2017F	2018F	2019F	CAGR 2016-19F
Theatrical revenues	4,7	12,6	8,5	11,5	34,7%
Sales of rights	7,0	4,2	5,5	3,1	-23,8%
Free TV	8,0	8,9	10,0	8,5	2,0%
Pay TV	7,0	7,6	10,8	11,3	17,3%
S-VoD - HV - Others	4,9	2,7	2,8	5,1	1,3%
<b>Distribution revenues</b>	<b>31,6</b>	<b>36,0</b>	<b>37,6</b>	<b>39,5</b>	<b>7,7%</b>
P&A and other costs	-12,3	-15,9	-12,9	-14,1	4,7%
<b>EBITDA</b>	<b>19,3</b>	<b>20,1</b>	<b>24,7</b>	<b>25,4</b>	<b>9,6%</b>
<i>Ebitda margin</i>	61,1%	55,8%	65,7%	64,3%	1,7%
Amortisations	-18,0	-17,0	-17,9	-18,3	0,6%
<b>EBIT</b>	<b>1,3</b>	<b>3,1</b>	<b>6,8</b>	<b>7,1</b>	<b>76,1%</b>
<i>EBIT margin</i>	<i>n.m.</i>	8,6%	18,1%	18,0%	
<b>Theatrical releases (No)</b>	<b>14</b>	<b>29</b>	<b>12</b>	<b>15</b>	

Source: Leone Film Group

Main key assumptions are:

- Cinema revenues based on Box Office expectations (net of distribution fee);
- Co-distribution model (i.e. Leone Film Group retaining 50% of equity interest on some movies);
- Free TV revenues are mostly pre-sold or estimated in accordance with movie potential;
- Pay TV and S-Vod revenues in accordance with agreements in place;
- Home video and other digital revenues in accordance with distributors' estimates;
- Revenue guarantees in accordance with contract agreements or with the expected movie budget;
- P&A budgets approved by distributors or scaled to movie potential.

### 3.3 Main 2017 preliminary results

On 1<sup>st</sup> February, Leone Film Group released its FY17 preliminary results. Consolidated unaudited revenues rose by 80.3% to € 98.6 mln (€ 54.7 million in FY16) widely beating expectations. The increase is mainly due to the large increase in turnover of its fully owned subsidiary, Lotus Production Srl, in the area of international executive productions. Lotus started this activity in 2016 and has quickly become the leading Italian operator in this market segment.

The increase is also due to the application of new accounting criteria for revenue from international executive productions. The increase in consolidated turnover is higher than that expected in the 2017-2019 strategic Plan (€61 mln) mainly due to the growth of international executive productions that were not even included in the Business Plan.

The release of some movies (release expected in 2017) were postponed in 2018 for strategic reasons (i.e. Tulip Fever, Billionaire Boys Club, Marrowbone, etc). On the other hand, the cinema release of "Wonder", which today has totaled approximately €12.0 mln (of which €5.2 mln has had an effect on FY17 P&L), has been anticipated.

Consolidated preliminary Ebitda rose by 13.6% reaching € 26.7 mln (€23.5 mln in FY16). Preliminary Ebitda is slightly lower than that indicated in the 2017-19 strategic plan (€29.1 mln), mainly due to the postponement of the film releases described above.

The consolidated unaudited net financial debt amounted to €40.8 mln, up by €5.1 mln compared to 1H17 (€35.7 mln) but considerably lower than that expected in the strategic plan 2017 - 2019 (€ 54.2 mln). This difference is linked to the good result of some products, the postponement of some investments and the advance payments of the co-producers.

Following the formal approval of FY17F results, Leone Film Group's management will present a new strategic plan.

### 3.4 Our 2017 – 2019 forecasts

Taking into account the international production business and the FY17 increase that we believe is sustainable; we are now updating their production estimates by changing Leone Film Group’s business plan (waiting for new plan release).

**Fig. 20 – 2017-19F production business forecast**

Production (€ mln)	2016A	2017F	2018F	2019F	CAGR 2016-19F
Domestic Revenues	23,1	24,9	29,0	27,9	6,5%
International Revenues		40,0	50,0	56,0	n.a.
<b>Total revenues</b>	<b>23,1</b>	<b>64,9</b>	<b>79,0</b>	<b>83,9</b>	<b>53,7%</b>
Production, Corp. & P&A	-18,8	-58,3	-66,8	-64,1	50,5%
<b>EBITDA</b>	<b>4,3</b>	<b>6,6</b>	<b>12,2</b>	<b>19,8</b>	<b>66,4%</b>
<i>Ebitda margin</i>	18,6%	10,2%	15,5%	23,6%	
D&A	-2,6	-4,9	-9,1	-13,5	73,2%
<b>EBIT</b>	<b>1,7</b>	<b>1,7</b>	<b>3,1</b>	<b>6,3</b>	<b>54,9%</b>
<i>Ebit margin</i>	7,4%	2,6%	4,0%	7,5%	

Source: Integrae SIM forecast

Production activities should be the main profitability drivers for the coming years; in 2019 the Ebitda margin for production business could jump to 23,6% (from 18.6% of FY16), mainly thanks to the pre-sale of pay TV rights, which could also further sustain future margins. We expect Ebitda 2016-19F CAGR to be 66.4%.

Our 2017-19F forecasts take into account the difficulties in estimating the box office results. However, Leone Film Group releases a pipeline for 2017-2019’s forthcoming movies. We believe that in the coming months the company should complete the pipeline for 2019 and start to build up the pipeline for 2020.

**Fig. 21 – 2017-2019 expected releases**



Source: Leone Film Group

Moreover, our forecast includes tax credit and subsidies representing about 18-20% of production revenues and chargebacks of P&A costs for about €2 mln.

As far as consolidated revenues are concerned, we forecast a CAGR 2016-19 of 30.7% (including foreign production), mainly thanks to positive production trends (+60.1% excluding tax credits). Lower increases in service costs than in revenues (CAGR 2016-19F of 28.5%), plus other cost optimization and a better product mix, could increase Ebitda by 24%, so that the Ebitda margin should reach 36.6% (27% in FY17).

As far as investments for 2017-19F are concerned, we forecast that they will be in line with the company's plan. In particular we expect total investments of €80.5 mln (mostly in the library), of which €30.1 mln in 2017F, €30.3 mln in 2018F and €20.1 mln in 2019F (excluding advances for the 2020 pipeline).

We expect that the investment trend will increase the total net debt, so we forecast a peak of 43.0 mln in 2018F (from €40.8 in 2017) with a gearing of 1.1x (from 1.18x in 2017), and then a decline to €31.0 mln in 2019F, with a gearing of 0.68x.

## 4. Economic & Financial Data

**Fig. 21 – P&L**

<b>P&amp;L (€/000)</b>	<b>2015 A</b>	<b>2016 A</b>	<b>2017 F</b>	<b>2018 F</b>	<b>2019 F</b>
Distribution	21.789	29.535	34.200	35.500	37.400
Production	14.974	19.182	58.200	73.000	77.000
Other revenues	2.071	2.086	2.200	2.100	2.100
Government grants	0	3.903	4.000	4.000	4.000
<b>TOTAL REVENUES</b>	<b>38.834</b>	<b>54.706</b>	<b>98.600</b>	<b>114.600</b>	<b>120.500</b>
Raw Material	-353	-506	-912	-1.060	-1.115
Services	-24.708	-19.490	-41.188	-42.605	-40.767
Employees	-4.817	-10.034	-18.085	-20.032	-21.063
Other costs	-3.308	-6.219	-16.813	-19.542	-18.781
Capitalized costs	13.521	5.060	5.000	5.000	5.500
<b>EBITDA</b>	<b>19.169</b>	<b>23.517</b>	<b>26.602</b>	<b>36.361</b>	<b>44.275</b>
<b>Ebitda margin %</b>	<b>49,4%</b>	<b>43,0%</b>	<b>27,0%</b>	<b>31,7%</b>	<b>36,7%</b>
D&A	-14.818	-20.519	-22.300	-27.400	-32.400
Provisions	0	-35	0	0	0
<b>EBIT</b>	<b>4.351</b>	<b>2.963</b>	<b>4.302</b>	<b>8.961</b>	<b>11.875</b>
<b>Ebit margin %</b>	<b>11,2%</b>	<b>5,4%</b>	<b>4,4%</b>	<b>7,8%</b>	<b>9,9%</b>
Financial income (costs)	1.119	35	-500	-750	-150
Extraordinary income (charges)	-937	-1.299	0	0	0
<b>EBT</b>	<b>4.533</b>	<b>1.699</b>	<b>3.802</b>	<b>8.211</b>	<b>11.725</b>
Income Taxes	-956	118	-1.179	-2.546	-3.635
Minorities	16	0	0	0	0
<b>Net Profit</b>	<b>3.593</b>	<b>1.817</b>	<b>2.623</b>	<b>5.666</b>	<b>8.090</b>

Source: Leone Film Group and Integrae SIM estimates

**Fig. 22 – A&L**

<b>A&amp;L (€/000)</b>	<b>2015 A</b>	<b>2016 A</b>	<b>2017 F</b>	<b>2018 F</b>	<b>2019 F</b>
Tangible assets	49.939	60.954	60.615	63.917	60.493
Intangible assets	353	320	310	300	300
Other fixed assets	1.035	2.520	2.500	2.500	2.500
<b>Net fixed assets</b>	<b>51.327</b>	<b>63.794</b>	<b>63.425</b>	<b>66.717</b>	<b>63.293</b>
Inventories of work in progress	653	0	0	0	0
Trade receivable	26.340	26.046	45.923	50.236	56.123
Trade payable	-15.780	-18.246	-20.714	-20.002	-20.500
Other receivables ST	4.429	9.209	9.500	9.400	8.900
Other payables ST	-8.412	-14.386	-22.000	-26.500	-30.500
<b>Net Working Capital</b>	<b>7.230</b>	<b>2.623</b>	<b>12.709</b>	<b>13.134</b>	<b>14.023</b>
Provisions	-1.518	-1.108	-1.100	-1.500	-1.850
<b>NET INVESTED CAPITAL</b>	<b>57.039</b>	<b>65.309</b>	<b>75.034</b>	<b>78.351</b>	<b>75.466</b>
<b>EQUITY</b>	<b>32.799</b>	<b>33.020</b>	<b>34.234</b>	<b>38.491</b>	<b>44.467</b>
Gross Financial Debts	29.868	40.762	45.800	48.000	36.000
Cash and Cash Equivalents	-5.628	-8.473	-5.000	-5.000	-5.000
<b>NFP / (Cash)</b>	<b>24.240</b>	<b>32.289</b>	<b>40.800</b>	<b>43.000</b>	<b>31.000</b>
<b>TOTAL SOURCES</b>	<b>57.039</b>	<b>65.309</b>	<b>75.034</b>	<b>81.491</b>	<b>75.467</b>

Source: Leone Film Group and Integrae SIM estimates

**Fig. 23 – Cash Flow**

<b>CASH FLOW (€/000)</b>	<b>2015 A</b>	<b>2016 A</b>	<b>2017 F</b>	<b>2018 F</b>	<b>2019 F</b>
<b>NFP beginning period</b>		<b>-24.030</b>	<b>-32.289</b>	<b>-40.800</b>	<b>-39.860</b>
Net Profit		1.817	2.623	5.666	8.090
Amortisation, Depreciations and Provisions		20.519	22.300	27.400	32.400
Δ inventories and work in progress		653	0	0	0
Δ trade receivables		294	-19.877	-4.312	-5.888
Δ trade payables		2.466	2.468	-712	498
Δ other receivables ST		-4.780	-291	100	500
Δ other payables ST		5.974	7.614	4.500	4.000
<b>Δ NWC</b>		<b>4.607</b>	<b>-10.086</b>	<b>-424</b>	<b>-890</b>
Δ Provisions		-410	-8	400	350
<b>Cash flow from current operations (FCGC)</b>		<b>26.533</b>	<b>14.829</b>	<b>33.041</b>	<b>39.951</b>
Capex		-31.502	-30.000	-30.300	-20.100
<b>FREE CASH FLOW (FCFO)</b>		<b>-4.969</b>	<b>-15.171</b>	<b>2.741</b>	<b>19.851</b>
Others		-2.022	8.070	-393	-8.876
Dividend		-1.268	-1.409	-1.409	-2.114
<b>Available cash flow</b>		<b>-8.259</b>	<b>-8.510</b>	<b>939</b>	<b>8.861</b>
<b>NFP end of the period</b>		<b>-32.289</b>	<b>-40.800</b>	<b>-39.860</b>	<b>-31.000</b>

Source: Leone Film Group and Integrae SIM estimates

## 5. Valuation

### 5.1 Ratio analysis

**Fig. 24 – Main ratios**

<b>Ratios</b>	<b>2015 A</b>	<b>2016 A</b>	<b>2017 E</b>	<b>2018 E</b>	<b>2019 E</b>
<b>Liquidity</b>					
Current ratio	1,53x	1,34x	1,41x	1,39x	1,37x
Quick ratio	1,50x	1,34x	1,41x	1,39x	1,37x
Cash ratio	0,76x	2,20x	-3,89x	-0,77x	-0,50x
<b>Solvency</b>					
D/E	0,91x	1,23x	1,34x	1,25x	0,81x
Total debt-to-asset	0,58x	0,64x	0,72x	0,72x	0,57x
NFP/Equity	0,74x	0,98x	1,19x	1,12x	0,70x
NFP/EBITDA	1,26x	1,37x	1,53x	1,18x	0,70x
<b>Performance</b>					
Cash flow to revenue	n/a	-0,21x	-0,57x	0,08x	0,45x
Cash flow to assets	n/a	-0,08x	-0,24x	0,04x	0,31x
Cash flow to operating income	n/a	-1,68x	-3,53x	0,31x	1,67x
<b>Profitability</b>					
EBITDA margin	49,4%	43,0%	27,0%	31,7%	36,7%
EBIT margin	11,2%	5,4%	4,4%	7,8%	9,9%
Net profit margin	9,3%	3,3%	2,7%	4,9%	6,7%
ROI	7,6%	4,5%	5,7%	11,4%	15,7%
ROA	8,5%	4,6%	6,8%	13,4%	18,8%
ROCE	6,9%	4,0%	5,4%	10,4%	14,8%
ROE	13,3%	9,0%	12,6%	23,3%	26,7%
<b>Valuation</b>					
P/E			23,21x	10,75x	7,53x
P/BV			1,78x	1,58x	1,37x
P/CF			-4,01x	22,21x	3,07x
EV/Sales			0,98x	0,84x	0,80x
EV/EBITDA			3,63x	2,66x	2,18x
EV/EBIT			22,44x	10,77x	8,13x

Source: Integrae SIM estimates

## 5.2 DCF model

The visibility of Leone Film Group's case allows us to extend its time horizon up to 2020F. This is why we believe the DCF model can express certain aspects of our business that a comparison with other companies, based on multiples, would be unable to approximate.

The input data are provided below:

**Fig. 25 – Main input data**

<b>Wacc calculation</b>	
Risk Free Rate	1,33%
Market Premium	8,40%
Beta Unlevered	0,97
Tax Rate (Ires + IRAP)	28,82%
D/E (average)	69,71%
Beta Relevered	1,45
Alfa (specific risk)	2,50%
Ke	15,98%
Kd	4,00%
<b>Wacc</b>	<b>10,58%</b>

Source: Integrae SIM estimates

We based the parameters of the above table according to the following assumptions:

- the risk free rate is the average gross yield (Bank of Italy) from January 2017 to December 2017;
- the market premium is that calculated by A. Damodaran for Italy, equal to 8.4% (updated March 2017);
- The unlevered Beta was determined based on the average Beta at 2 years, corresponding to the same sample of comparable securities used to determine the equity value with the multiple method, equal to 0.95x. We note that the choice of the period (2 years) and the frequency of the observations (weekly) was chosen as a function of the maximization of significance of linear regression, expressed by the parameter R<sup>2</sup>. The unlevered Beta resulting from linear regression (0.95x) was adjusted based on the following formula: Beta Adjusted = 0.95\*0.67 + 1\*0.33 (See E.J. Elton, M.J. Gruber, S.J. Brown, W.N. Goetzmann – Modern Portfolio Theory and Investment Analysis – John Wiley & Sons, 2009), resulting in a “strengthened” unlevered beta of 0.97x. Then we levered the beta, with a result of 1,45x.
- the growth rate “g” used to calculate the Terminal Value was conservatively set to 1.0%;
- the cash flow used to calculate the terminal value was conservatively the simple arithmetical average of flows from 2018 until 2020;
- We have assumed that the invested capital comes to 47.8% of average (2016-2019) equity; so that D/E results come to 109.1%;
- Alpha, i.e. the additional specific risk, typical of equity investments in companies characterized by compact operational dimensions. Being small, the additional small cap risk was assumed to be 2.5%, the average value of those suggested by the leading studies on the matter.

The result is a WACC of 10.58%.

**Fig. 26 – DCF Model**

Cash Flow	2018F	2019F	2020	TV
<b>EBIT</b>	<b>8.961</b>	<b>11.875</b>	<b>12.469</b>	
Operating Taxes	(2.583)	(3.422)	(3.593)	
<b>NOPLAT</b>	<b>6.379</b>	<b>8.453</b>	<b>8.875</b>	
Depreciations	27.400	32.400	33.048	
Δ NWC	(424)	(890)	500	
Δ Funds	400	350	350	
Investments	(30.300)	(20.100)	(20.000)	
<b>FCFO</b>	<b>3.454</b>	<b>20.213</b>	<b>22.773</b>	<b>161.525</b>
<b>Discounted FCFO</b>	<b>3.124</b>	<b>16.529</b>	<b>16.840</b>	<b>119.444</b>
FCFO actualized	36.493			
TV actualized DCF	119.444			
<b>Enterprise Value</b>	<b>155.937</b>			
NFP (2017)	(40.800)			
<b>Equity Value</b>	<b>115.137</b>			

Source: Integrae SIM

This results in an equity value of €115.1 mln.

**Fig. 27 – Sensitivity analysis**

		WACC						
		9,08%	9,58%	10,08%	10,58%	11,08%	11,58%	12,08%
TV	2,5%	178,0	162,6	149,1	137,3	126,9	117,6	109,3
	2,0%	165,3	151,6	139,6	129,1	119,6	111,2	103,6
	1,5%	154,2	142,0	131,3	121,7	113,1	105,4	98,4
	1,0%	144,4	133,5	123,8	115,1	107,3	100,2	93,7
	0,5%	135,8	126,0	117,2	109,2	102,0	95,4	89,5
	0,0%	128,2	119,2	111,2	103,9	97,2	91,1	85,5
	-0,5%	121,3	113,1	105,7	99,0	92,8	87,1	81,9

Source: Integrae SIM

### 5.3 Multiples valuation

Our sample consists of companies that operate in the same sectors as Leone Film Group, but having greater capitalization and a different organizational structure. These are the companies with their multiples for the period 2017-20F (Source: Infineals, prices on 2018, February 6), the same used to calculate Beta.

**Fig. 28 – Comparables: Financials**

Company	Profitability				Capital Structure	
	ROCE %	EBITDA margin %	EBIT margin %	Net Income margin %	Net Debt /EBITDA x	Equity /Assets %
<b>Peer Median</b>	<b>4,96</b>	<b>45,96</b>	<b>5,77</b>	<b>1,20</b>	<b>0,95</b>	<b>32,79</b>
Lions Gate Entertainment Corp.	-0,80	45,96	-1,44	0,46	2,23	27,34
Lucisano Media Group SpA	12,99	50,77	20,76	13,59	1,55	32,79
Entertainment One Ltd.	4,96	50,01	5,77	1,20	0,61	35,29
wige MEDIA AG	-29,76	1,35	-4,41	-10,95	-2,11	33,86
Technicolor SA	10,14	10,14	5,40	-0,53	1,37	16,07
Constantin Medien AG	16,45	38,00	6,87	1,46	0,20	20,90
Eros International plc	2,31	65,43	10,79	1,50	0,95	65,77
<b>LEONE FILM GROUP</b>	<b>5,375</b>	<b>26,98</b>	<b>4,36</b>	<b>2,66</b>	<b>1,53</b>	<b>53,98</b>

Source: Infineals

**Fig. 29 – Comparables: Forecast multiples**

Company	EV/Ebitda				EV/Ebit				P/E			
	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020
Lions Gate Entertainment Corp.	15,9	14,7	13,0	11,9	29,7	23,2	18,9	13,8	26,1	36,9	24,2	15,9
Lucisano Media Group SpA	3,7	1,9	1,8		7,4	3,3	3,3		7,2	7,1	6,1	
Entertainment One Ltd.	8,7	7,7	7,1	6,6	8,9	8,0	7,4		13,0	11,6	9,8	
wige MEDIA AG	28,5	7,7	4,7	3,6	53,1	13,8	9,9	7,5	66,0	17,4	12,4	9,4
Technicolor SA	5,1	4,1	3,6		13,6	8,7	7,1		77,5	12,0	8,1	
Constantin Medien AG	5,7	27,0	18,8	12,7	38,8	30,0	20,4	14,6	73,8	30,7	19,6	10,6
Eros International plc	10,4	7,8	6,9		14,2	9,7	7,6		59,3	19,9	12,1	
Average	11,1	10,1	8,0	8,7	23,7	13,8	10,7	11,9	46,1	19,4	13,2	12,0

Source: Infineals

The average equity value calculated by means of the multiple method exceeds €164.2 mln. We have then applied a discount of 25%, obtaining a value of €123.1 mln.

The average of the two valuation methodologies is our target price: 119.1 mln or €8.45 per share. Rating Buy, risk medium.

**Disclosure Pursuant to Article 69 Et seq. of Consob (Italian Securities Exchange Commission) Regulation No. 11971/1999**

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Equity Total Return (ETR) for different risk categories			
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SELL	ETR <= -25%	ETR <= -20%	ETR <= -15%
U.R.	Rating e/o target price Under Review		
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