

On track to business evolution: Laser and Verve acquisitions; TV content production

FENIX
entertainment

July 13th, 2022, at 18:00

Fenix Entertainment at a glance

Fenix Entertainment is an Italian motion pictures company founded in 2016 and specialized in producing and distributing films, TV content, animated movies, and music. Movie production and distribution is certainly Fenix original and core business, but recent diversification, through Laser and Verve acquisitions and the set-up of LovIt, has been evolving its business model towards a Media & Entertainment company with a specific know-how in content production and post-production services leveraging on cutting-edge audio and video technologies and talents.

Industry outlook: Film industry is going local, and Italy is a highly desirable place for its iconic locations and tax credit

The Media & Entertainment sector bounced back from 2020 contraction with revenues up by 10.4% yoy. The industry is expected to grow at 4.6% CAGR in 2022-2026E.

Moreover, VoD streaming platforms have been investing in an increasing number of local productions to better satisfy local audience demand. In this sense, the Film industry is going local, and Italy is a highly desirable place to be, not only for its iconic locations, but also for the tax credit: in 2022, the Government has awarded €545mln to support the audio-visual sector.

Strategic development

Besides the favourable M&E industry outlook, Fenix has been diversifying and expanding its business to accelerate growth and improve margins. On top of revenues from productions, Fenix will generate increasing turnover from distribution, thanks to its library expansion, and marketing, following the recently founded LovIt. Main goal in 2022 is to improve the Group revenue mix in terms of margins and time to market, increasing the weight of TV productions, through Verve acquisition, versus Film productions. Furthermore, the Group brand awareness and visibility will benefit from the greater media impact of TV programs compared to film productions.

Our revised 2022-2024 estimates

According to our estimates, Fenix VoP is set to grow at a 39% 20-24 CAGR to €60.2mln versus our previous estimate at 37%.

The aggregated VoP (including Laser and Verve) is set to rise at a 12% 21-24 CAGR to €79mln. Since the acquisition of Laser in 2021 was accretive in terms of Added Value, we continue to forecast an increase in efficiency from 34% in 2021 to 38% in 2022. Despite lower projected cumulated EBIT in 2022-2024 (now seen at €10.1mln vs previous €15.8mln), we estimate cumulated FCFs at €10.1mln or €3.4mln as yearly average, which is above our previous estimates at €4.6mln and €1.5mln respectively for lower Net Operating Working Capital cash out (€ 1.4mln vs previous €9mln) and CapEx (€32.8mln vs our old projections at €41mln).

Valuation: 12-month target price at €9.0; BUY

We confirm our BUY recommendation but reduce our 12-month target price to €9/share from previous €12/share, mainly due to (i) lower market multiples since the media FY22-23 EV/EBIT decreased from 11.8x to 10.2x and (ii) higher WACC deriving from increasing risk free rate. The target price is computed as the simple average between the fair value from our DCF model and the implicit price in peer's market multiples. To run the DCF model, we used 2022E-24E FCF estimates, equal to cumulated €10.1mln, a terminal cash flow of €3.4mln, equal to the FY22-24 FCF average, a WACC of 6.8% and a perpetual growth rate of 2%. To assess the relative valuation through the market multiples approach we preferred EV/EBIT over EV/EBITDA, and we applied to our forecasts an average FY22-23 EV/EBIT of 10.2x, coming from the mean multiple of selected competitors.

Target Price €9
Recommendation BUY
From €12 Unchanged

Company Profile

Ticker FNX IM (Bloomberg), FNX-IT (FactSet)
Reference Industry Media & Entertainment
Stock exchange Italian Stock Exchange
Reference Index Euronext Growth Milan

Market Data

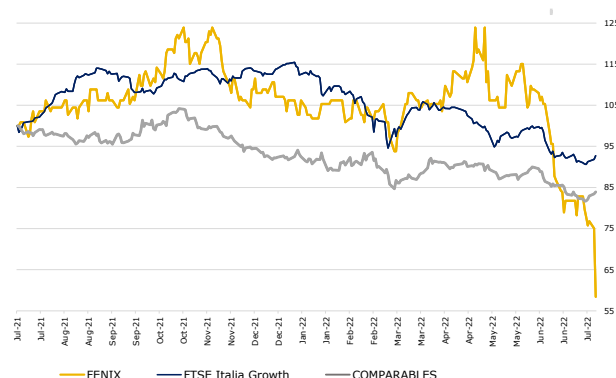
Last Closing Price as of July 12th 3.3 €
Number of shares (mln) 3.8
Market capitalization (mln) 13.6 €
Equity Float 37.2%

Performance from IPO

Absolute -23.2%
Max / Min 7/3.3
Average daily volumes 5,545

Main Financials	FY21	2022E	2023E	2024E
(€ mln)				
Fenix VoP	43.8	44.0	53.5	60.2
yoy change	170%	1%	21%	13%
VoP (including Laser and Verve)*	54.7	56.0	69.1	79.0
yoy change	237%	2%	23%	14%
Added Value	18.5	21.1	30.4	36.1
Margin (%)	34%	38%	44%	46%
EBITDA	7.0	10.3	16.0	20.1
yoy change	106%	47%	55%	25%
Margin (%)	16%	18%	23%	25%
EBIT	1.5	2.4	3.7	4.0
Margin(%)	3%	4%	5%	5%
Net Income	0.5	1.3	2.3	2.6
Margin (%)	1%	2%	3%	3%
Net Debt (Cash)	14.1	27.7	26.2	32.6
Shareholders' Equity	12.3	15.9	18.2	20.8
Net Operating Working Capital	0.9	2.1	2.3	3.3
CapEx	24.8	6.3	12.0	14.4
FCFs	-21.0	3.8	2.8	3.4

*Verve included from 4Q2022



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SWOT analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Economic and financial coverage of a film ensured before the actual start of production • Solid film pipeline in addition to recurring revenues coming from deferred income • Know-how and expertise across different segments of the Media & Entertainment Industry, from film and music production to digital marketing • Management proven track record • Strong ongoing relationships with key people of the Italian Film industry • Well-structured to benefit from tax incentive schemes and local grants 	<ul style="list-style-type: none"> • Low degree of internationalization • Weak diversification among type of activity • Limited scale compared to international competitors
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Expansion of the production business • Synergies coming from the acquisition of Laser Film, Laser Digital and Verve Media Company • M&A that will enhance further group expertise • Global demand for new entertainment product is undergoing continuous growth • Financing through tax credit: assigned €545mln in 2022 to support cinema and TV 	<ul style="list-style-type: none"> • Increasing competition both in the production phase and in the distribution one • Possible changes in the regulatory framework affecting tax incentives and local grants for film producers and distributors

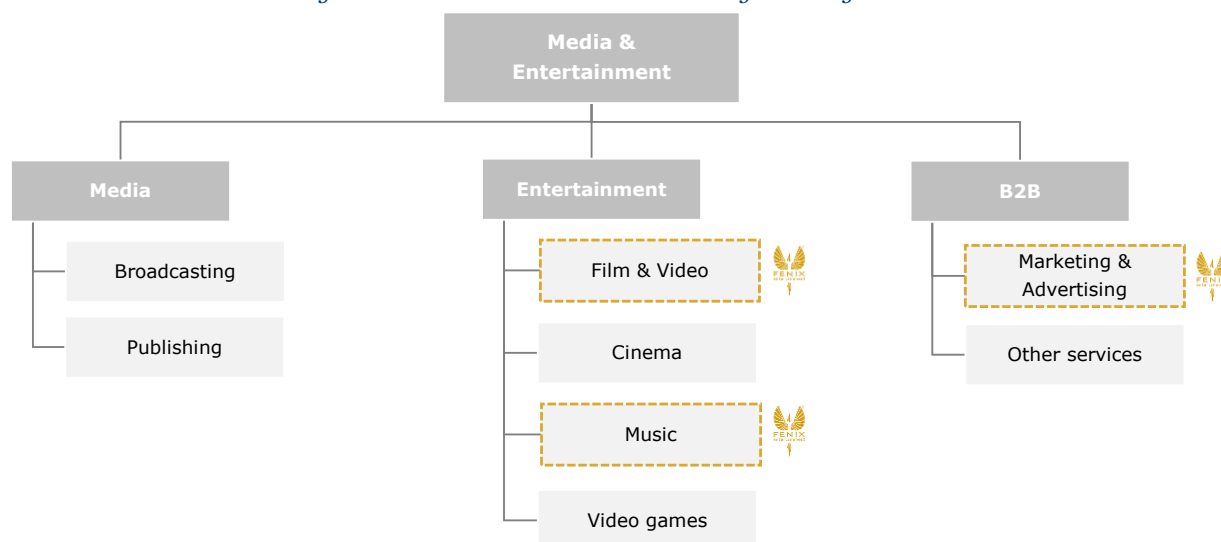
The reference market

The Media & Entertainment Industry

A diversified Company amongst segments of the Media & Entertainment sector

The Media & Entertainment Industry, Fenix reference market, has multiple segments that combine into one vertical: Film & Video, Cinema, Television, Music, Publishing, Radio, Advertising and Gaming among the most important ones. Fenix core business falls within the Film Industry scope, as the Company mainly operates as a vertically integrated entity that produces, post-produces and distributes movies (72% of FY20 Value of Production). By applying a business diversification strategy since its establishment, Fenix has been active in the Music sector as well, where the Company tackles the creation and management of proprietary musical works from the production phase to the distribution one (<1% in FY20). To a lesser extent, Fenix is also active in the Marketing & Advertising sector by offering communication and marketing services such as naming and logo creation, brand positioning and marketing campaign (18% in FY20). Other revenues (approximately 9% in FY20) come from royalties, tax credits, windfall-profits, and any revenue from contractual termination due to counterparty default.

Figure 1: Media & Entertainment industry main segments



Source: Banca Profilo elaborations on public data and Company data

The US Media & Entertainment industry is the largest in the world

The largest Media & Entertainment (M&E) industry in the world is the US one. It was worth over €650bn in 2020, enduring an estimated \$53bn or 7.3% decline due to the pandemic. The uptick in streaming services and subscriptions for digital media in 2020 has been a boon for the VoD, Video Games and Music sectors, while live performance, cinemas and gig economy activities have been forced to pivot or shut down.

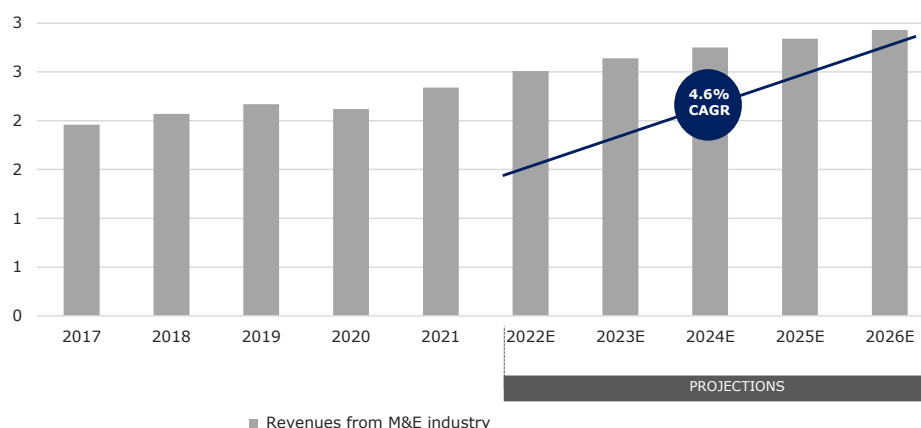
The Global Film Industry

M&E Industry bounced back from the Covid-19 contraction with revenues increase of 10.4% and 2021-2026 CAGR of 4.6%

The M&E industry has radically changed over the last few years, as live events such as Music concerts and Cinema have been severely hit by Covid-19 outbreak. Looking at the Film industry, Cinema has suffered the most, with box office turnover collapsing double-digit in 2020. On the opposite, the persistent growth of digitization and VoD services softened the blow for the broader industry. As recently as 2015, box office takings were three times those of the SVoD (subscription video on demand) service, but in 2020 the situation has changed, as global revenue from subscription video services has overtaken worldwide cinema box office. This, not only because lockdowns made home entertainment the only choice during lockdowns, but also thanks to the increase in the use of internet-related services. In 2021, M&E Industry bounced back from 2020

contraction with revenues up by 10.4% yoy. The Entertainment and Media industry revenue is seen reaching \$2.9tn in 2026, growing at 4.6% CAGR in 2022-2026E.

Figure 2: Media & Entertainment Industry revenue: (\$, tn)



Source: Banca Profilo elaborations on PwC data (Global Entertainment & Media Outlook 2022-2026)

VoD services companies have represented a disruption for the Film industry

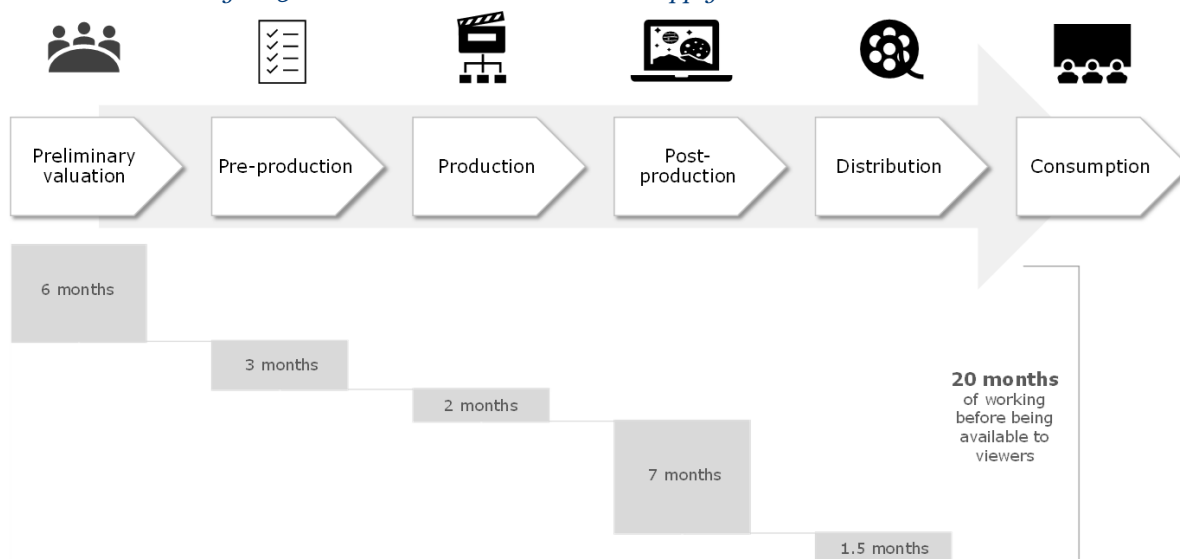
VoD (video on demand) services have represented a disruption for the Film industry. At first, this change seemed to affect only the distribution phase, as SVoD services created another channel through which the audience could access the content it was interested in. But later, companies managing streaming platforms started to generate increasingly higher cash flows and began producing their own content, becoming studios themselves.

The Global Film Industry value chain: Fenix operates as an integrated player

The appearance of these highly profitable new players has increased the competition within the industry and, consequently, the demand for new productions. In addition, they significantly changed the industry value chain mainly in its final phases, the distribution, and the consumption. The diagram below shows the five main steps involved in the cinematographic business. With the (✓) symbol we marked those where Fenix gets involved.

- (i) Preliminary valuation (✓). This is the phase when studios select the project. The selection mainly involves a production or co-production partner and the selection of a potentially winning screenplay after market analysis on audience tastes and current trends.
- (ii) Pre-production (✓). In this phase, film companies financially organize the production and carry out the preparatory activities, such as the selection of the actors, the director, the music, the location for the filming, etc. In this phase, Fenix ensures in advance the coverage of the estimated costs before starting production.
- (iii) Production (✓). The shooting phase, or animation phase in the case of animated films, represents the key phase of the entire production process. Some companies, like Fenix, outsource the various activities of this phase to third-party companies, while maintaining supervision.
- (iv) Post-production (✓). During post-production, the editing is carried out, the soundtrack, the dialogues (including any dubbing), the special effects and the mixing are made, up to the final editing.
- (v) Distribution (✓). Distribution is the final stage of the value chain. Movies are distributed to strike a lucrative deal amongst cinemas, TV, and other distribution channels such as streaming platforms.

Figure 3: Film Production & distribution Supply Chain and Time to Screen



Source: Banca Profilo elaborations on Company data

The distribution phase: cinematographic products are exploited in different markets (movie theatres, VOD, Pay TV, and free TV) and at different times, or "windows"

For the distribution of a cinematographic product, studios exploit different markets (movie theatres, VOD, Pay TV, and free TV) at different times, or "windows", to maximize profits by avoiding competition between those markets. Both the order and the length of these windows have witnessed a profound and ever-lasting transformation related to the development of the new digital technologies. Movie theaters still represent the first distribution channel for a film as box office takings set the benchmark for the success of a product and consequently its economic value. However, as Covid-19 pandemic forced movie theaters to shut down throughout 2020 studios adopted new distribution strategies: many have cut the exclusive theatrical window, for example from 90 days to 45 days to have the movie available on their proprietary streaming platforms as soon as possible – a blatant example was the case of the Netflix movie *È stata la mano di Dio*, released in movie theaters on November 24, 2021, and already available on Netflix from December 15, 2021 –. After the theatrical release, films will move into the typical modern era of distribution with a traditional VoD release along with DVD/Blu-ray and electronic sell-through. After this phase, films would debut on either a pay-TV network, or a streaming service. Below there is a graphical proxy of what could be the new pattern of release windows.

Figure 4: Film Distribution: release windows

Distribution Channel		Months																		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
	Movie theaters																			
	Home-video																			
	Pay-per-View & TVOD																			
	Pay TV																			
	SVOD																			
	Free TV																			

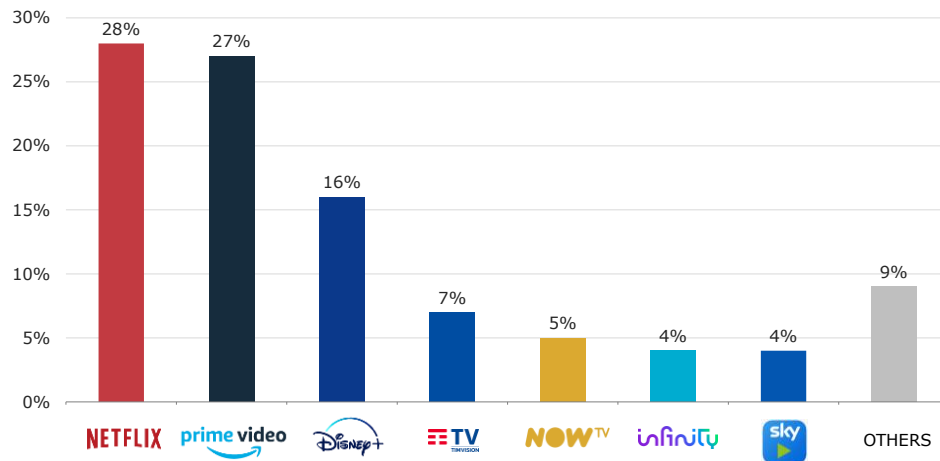
Source: Banca Profilo elaborations and estimate on European Audiovisual Observatory and S&P Global data

The SVoD market: main players

The United States are the most profitable geographic market for SVoD platforms as it can counts on almost 110mln of citizens and more than 40% of its population over 15 years old with a streaming service subscription in 2021. These numbers are justified by the underlying trend for which more and more people move away from traditional TV and home video market towards the internet. The SVOD segment has Netflix, Amazon Prime, Hulu, HBO and Disney+ as main players. In Italy, Netflix (28%) remains the preferred

streaming platform, trailed by Amazon Prime Video (27%) and Disney+ (16%), citing data from streaming search engine Just Watch as of September 2021. The list also includes national players TimVision (7%), Sky Italia's Now TV (5%), Sky Go (4%) and Mediaset Infinity (4%), whilst all other services account for the remaining 9%.

Figure 5: Market shares of SVOD in Italy



Source: Banca Profilo elaboration on Just Watch data

The Italian Film Industry

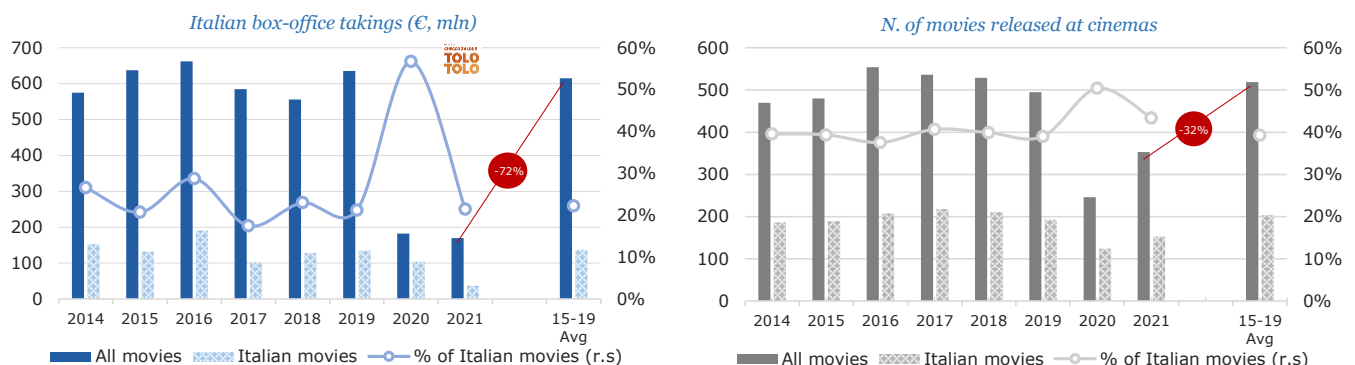
In Italy, the first signs of a recovery in cinema came from production, with a 23% yoy growth in movies released

From a geographical point of view, Fenix main reference market is Italy. In line with the global trend, the Italian Film industry took a serious hit from the pandemic outbreak. In 2021, box-office takings decreased 7% yoy to €169m, from an already weak performance in 2020. The closure of movie theatres for almost 4 months during Covid-19 restriction was the main constraint. The industry has still to recover, as 2021 box-office takings were 72% below their 2015-2019 average levels. On the other hand, the production sector showed some signs of recovery, as the number of movies released in cinemas increased by 23% from 2020, despite being still 32% below their 2015-2019 average. The incidence of Italian productions and co-productions remained almost in line with the historical average in 2021, both in terms of revenue and number of produced films. In 2020, this incidence was particularly high due to the release of Tolo Tolo, a record box office.

Seasonality matters for box-office takings

Finally, it is important to highlight that seasonality is a significant feature of the movie industry, with December and January (Christmas season) as the strongest months of the year.

Figure 6: ANICA data about box-office takings in Italy

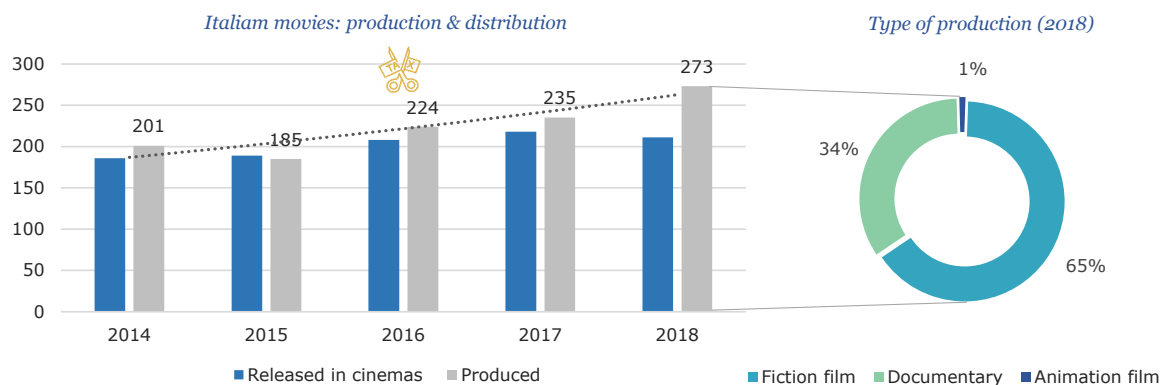


Source: Banca Profilo elaborations on ANICA data

The Italian movie industry has always benefitted from considerable public financial support: in 2022 tax credit reached €545m

As already stated, while the audience at cinemas still lag, Italian productions are recovering. According to ANICA, the recovery of production was supported by the Italian Government, that raised the tax credit on film and audiovisual production costs to 40% and lifted the cap for tax credit to €20m for each production company. Even before the Covid-19 outbreak, the Italian movie industry had been benefitting from considerable financial support from both central government and local public authorities (mainly regional). The most consistent financing typically comes in the form of tax credits, which were introduced in 2009, rapidly increased and were later extended to distribution and foreign producers. In 2022, the Government has awarded €545m through various forms of tax credit, to support the audiovisual sector.

Figure 7: ANICA data about Italian movies both produced and released in cinemas in 2018 (most recent data)



Source: Banca Profilo elaborations on ANICA data

Note: For Italian film produced ANICA intends those film that have obtained clearance for public screening from DGCinema - MiBACT during the calendar year. Re-editions or second editions of films that have previously obtained the authorization are excluded.

The most consistent financing comes in the form of tax credit: law n. 220 of 14 November 2016 was a milestone

A milestone in this sense was law n. 220 of 14 November 2016, *Disciplina del cinema e dell'audiovisivo*. The law established the *Film and Audiovisual Fund* aimed at funding works through tax credits, automatic contributions, and selective contributions. The law recognizes six types of tax credits: (i) tax credits for production companies, (ii) tax credits for distribution companies, (iii) tax credits for film exhibitors, technical industries and post-production companies, (iv) tax credits for strengthening the film supply, (v) tax credits for attracting investments in film and audiovisual products to Italy, and (iv) tax credits for companies that manage cinema rooms. Among these, Fenix particularly benefits from tax credits for production companies, which allows it to partially offset tax liabilities (IRES – corporate income tax, IRPEF – income tax, IRAP – regional income tax, VAT, social security and insurance contributions) with credits accrued following an investment in film and audiovisual development and production.

Film Industry outlook

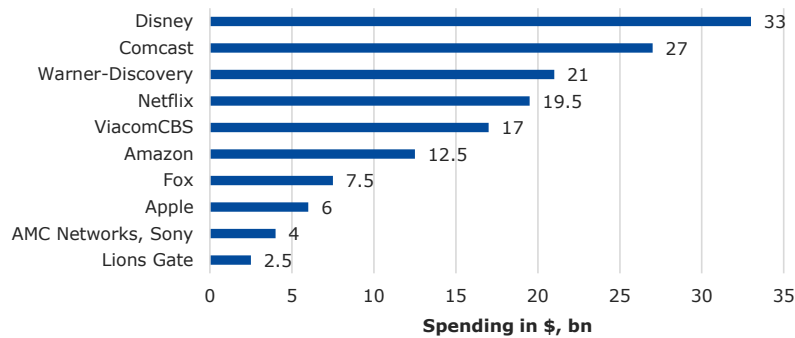
The most consistent financing comes in the form of tax credit: law n. 220 of 14 November 2016 was a milestone

Streaming providers are entering into a new war as demand slow due to reopening, while box office takings should recover after the collapse in revenue of past years. However, which streaming service will win over the other and which distribution channel will grow the most are dynamics that impact Fenix only to a limited extent. Regardless of where a film is shown, the demand for new content remains strong and as an audio-visual content producer, Fenix will be among the main beneficiaries within the value chain.

The Film industry is going local, and Italy is a highly desirable place to be in this sense

Italian film studios could also benefit from another factor, namely the increasing demand for local productions. In a battle for subscribers, VoD streaming platforms have been investing in an increasing number of productions, but above all in local productions. Numbers of streaming giants' budgets for local productions confirm this thesis. Italy is a very attractive country in this sense, as the location plus the access to local tax credits make the country a highly desirable place for studios. Moreover, since VoD platforms do not require shows to compete for scarce prime-time slots like on linear TV, the market is becoming less selective and more oriented to satisfy a local audience demand.

Figure 8: Estimated programming spending in the US for 2022 (\$, bn)



Source: Banca Profilo elaborations on Bloomberg data

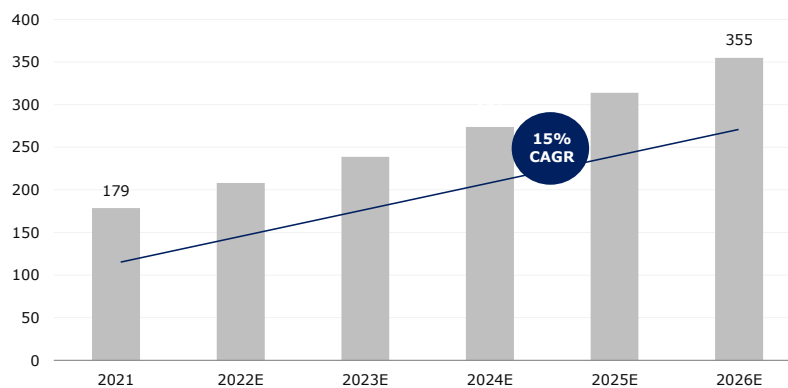
Digital Advertising & Content Creation Industry

Digital Advertising & Content Creation Industry

To a lesser extent, Fenix offers communication, marketing, and digital advertising services such as naming and logo creation, brand positioning, website development, marketing campaign and creation of editorial plans. These activities represented 10% of Value of Production in FY21, but we estimate an increase in its incidence in a few years, given Fenix meaningful expansion projects to the Digital Content Creation sub-industry, for which the success of the newly born LovIt will be crucial.

The Global Digital Marketing market is expected to grow from \$179bn in 2021 to \$355bn in 2026, growing at a compound annual growth rate of 15%. The growth in is expected to be driven mainly by the internet user base expansion and consequently by increasing spending on digital advertising by companies and shop. Technological advancements such as AR (Augmented Reality) are a major trend gaining popularity in the global digital advertising market to enhance the user experience. Major players in the digital advertising market are Google Ads, Facebook, Alibaba, Amazon, Baidu, Tencent, Microsoft, Verizon, Twitter and Sina.

Figure 9: Global Digital Marketing market expected growth rates (\$, bn)



Source: Banca Profilo elaborations on The Business Research Company data

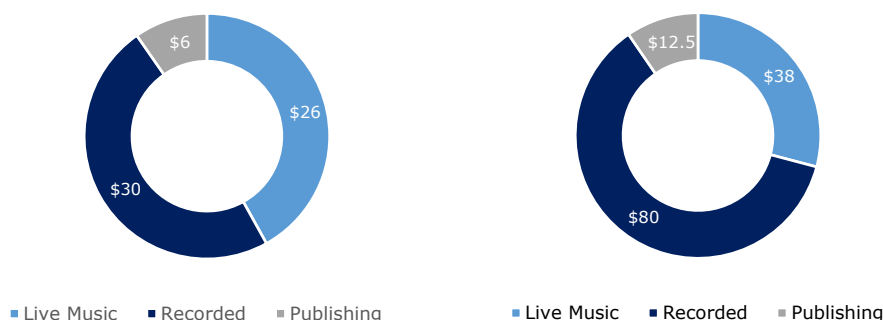
Music industry is undergoing a massive revival: revenue is expected to more than double to \$130bn by 2030

Music production and distribution represents 3.2% of Fenix revenue in FY21, but this result is bound to increase. The Music industry is undergoing a massive revival: streaming music platforms like Spotify and Apple Music are becoming more popular and consumers are signing up for subscriptions like never before. Moreover, Millennials and Generation Z are spending more of their annual budgets on music than other age groups. According to Goldman Sachs, music revenue will more than double to about \$130.5bn by 2030E, from \$62bn in 2017.

Figure 10: Music Revenue in 2017 and forecast in 2030 (\$, bn)

Music Revenue in 2017

Estimated Music Revenue in 2030E



Source: Banca Profilo elaborations on Goldman Sachs research (Music in the Air)

Fenix competitive arena

Six main comparables: Iervolino, Leone Film, Lucisano, Notorious, Xilam Animation and Splendid Medien.

To select Fenix competitors, we carried out an overlap analysis on Italian and European Media & Entertainment companies specialized in film production & distribution or marketing. Our analysis took into consideration:

- (i) Revenue breakdown by activities (Film production & distribution, TV & video or broadcasting, Music production & distribution, Marketing & Advertising, Cinema & Other)
- (ii) Revenue breakdown by country (Italy, rest of Europe, rest of the world)
- (iii) Additional business considerations regarding core activities conducted by the companies (Production, Post-production, Distribution, Animation production and movie theatres as asset).

Potential competitors were compared with Fenix for each of these macro-categories. For business and geo revenue breakdown we computed a quantitative score equal to the weighted average between the weights of Fenix revenue breakdown with the weights deriving from peers' revenue breakdown. The step 3, namely considerations on peers' business model vs Fenix one, have taken us to validate, or not, the peers previously identified through quantitative analysis of steps 1 and 2. We identified six main comparables: Iervolino & Lady Bacardi Entertainment SpA, Leone Film Group SpA, Lucisano Media Group SpA, Notorious Pictures SpA, Xilam Animation and Splendid Medien AG.

Additional considerations: Fenix current expansion path towards content production, Media and post production

Please note that Fenix may deserve a premium to "integrated" domestic players like Lucisano and Notorious, exposed to and invested in the theatrical buzz.

Moreover, since Fenix has started its business diversification evolving towards: i) content production outside the Film industry, through Verve; ii) marketing & advertising activities through LoveIt; iii) post-production through Laser, we expanded our sample including two international peers in the Media & Entertainment industry, that are active in content creation and digital marketing activities: Highlight Communication and Squirrel Media.

Figure 11: Fenix competitive arena

Company	STEP 1: Revenue breakdown by activities						Score	STEP 2: Revenue breakdown by country			Score	STEP 3: Additional business considerations					Final Score
	Film produc. & distrib.	TV produc. & distrib.	Music produc. & distrib.	Marketing, Advertising	Movie theaters	Other		Italy	Rest of Europe	RoW		Production	Post-production	Dis-tribution	Animated movies	Movie theaters as asset	
Fenix Entertainment	72%	-	-	18%	-	9%		100%	-	-		✓	✓	✓	✓	✗	
FENIX AS IS	Iervolino & Lady Bacardi	100%	-	-	-	-	72%	100%	-	-	100%	✓	✓	✗	✓	✗	73%
	Leone Film Group	100%	-	-	-	-	72%	84%	2%	14%	84%	✓	✓	✓	✗	✗	68%
	Lucisano Media Group	67%	14%	-	-	19%	48%	100%	-	-	100%	✓	✓	✓	✗	✓	54%
	Notorious Pictures	70%	17%	-	1%	10%	51%	73%	-	27%	73%	✓	✓	✓	✗	✓	50%
	Xilam Animation	100%	-	-	-	-	72%	1%	53%	46%	1%	✓	✓	✓	✓	✗	43%
	Splendid Medien	80%	18%	-	-	-	57%	-	98%	2%	0%	✓	✓	✓	✓	✗	40%
FENIX TO BE	Highlight Communications	30%	33%	-	5%	-	23%	2%	84%	14%	2%	✓	✗	✓	✓	✗	11%
	Squirrel Media	4%	4%	-	79%	-	13%	-	100%	-	0%	✓	✗	✓	✗	✗	3%

Source: Banca Profilo elaborations on Company data

Iervolino (Italy)

- €147.8mIn FY21 revenue
- 15% EBIT margin

Iervolino & Lady Bacardi Entertainment SpA is an Italian film production & distribution company. It operates through the following business segments: Film Productions; Authoring, Encoding, and Digital Delivery; and Celebrity Management. The Film Production segment specializes in producing Hollywood-style cinematic and television content for the international market. The Authoring, Encoding, and Digital Delivery segment engages in the activities of the subsidiary Arte Video which mainly involves in film post-production, managing streaming platforms, and web video management. The Celebrity Management segment engages in talent agency operations.

Leone Film (Italy)

- €98.6mIn FY21 revenue
- 8% EBIT margin

Leone Film Group SpA is an Italian Film production and distribution Company. The Company engages in the production, co-production, and distribution of audio-visual products. It operates through the following business units: Film Production, Distribution, and Product Placement. The Film Production unit engages in filmmaking produced by the company or with the participation of third parties for the Italian market. The Distribution unit exploits film rights that belong to the company library through cinema, home entertainment, free television, pay television, video on demand, subscription video on demand, and new media marketing channels. The Product Placement unit involves in brand integration and management strategies in movies or television programs.

Lucisano (Italy)

- €41.6mIn FY21 revenue
- 9% EBIT margin

Lucisano Media Group SpA is an Italian company providing motion picture film services. The Company engages in the production, acquisition, and distribution of films and television programs, as well as in the management of movie theatre complexes. It operates through the following business Units: Production, Distribution and Multiplex Management. The Production business unit executes the phases of film and television works production as well as co-production and purchases copyrights for cinema and television release. The Distribution business unit deals with the marketing and the legal release of films and programs produced locally and internationally through theatrical, home video, television and new media channels. The Multiplex Management business unit operates movie theatres throughout Italy as well as conducts special or private screenings.

Notorious (Italy)

- €26.3mIn FY21 revenue
- <0% EBIT margin

Notorious Pictures SpA is an Italian film production and distribution company. Notorious is specialized in the acquisition of rights of cinematographic works in its distribution and marketing through all available channels (cinema, home video, pay-TV, free TV, and new media). In 2015, the company entered the production business, in most cases as a co-producer with international partners. In January 2019, Notorious

established Notorious Cinema Srl, a wholly-owned subsidiary to run the cinema management business in Italy.

*Xilam Animation
(France)*

- €40.2mIn FY21 revenue
- 22% EBIT margin

Xilam Animation SA is a French integrated studio founded in 1999 that creates, produces and distributes original programmes in more than 190 countries for both children and adult audiences. Xilam engages in the production of audio-visual and multimedia entertainment programs, mainly animated movies and cartoons. Xilam content is broadcast on television as well as on SVoD and AVoD streaming platforms.

*Splendid Medien
(Germany)*

- €44.7mIn FY21 revenue
- 7% EBIT margin

Splendid Medien AG is a Germany-based Company that operates in German-speaking countries, as well as in Belgium, Luxembourg and the Netherlands. The Company produces and distributes films and provides for film-related services. The Company operates through two segments: Content and Services. The Content segment covers licensing with film rights, film exploitation in cinema and home entertainment, marketing of edutainment programs and music content as well as film production. The Services segment provides a wide range of services for the film and television industry, such as digitization, soundtrack post-production, new media and dubbing.

*Highlight
Communications
(Germany)*

- €508.2mIn FY21 revenue
- 3% EBIT margin

Highlight Communications AG is a holding company, which engages in the media and entertainment business through the following business segments: Film, Sports and Event Marketing, Sports and Other. The Film segment deals with the development, production, and exploitation of the rights to the films it produces and acquires. The Sports and Event Marketing segment focuses on global marketing of international sports events. The Sports segment operates as a multi-platform marketer in television, online platforms, and mobile applications. The Other segment represents corporate functions including group management, corporate finance, investor relations, controlling, legal, group accounts, corporate communications, internal audit and human resources. The company was founded in 1983 and is headquartered in Pratteln, Switzerland.

*Squirrel Media
(Spain)*

- €70mIn FY21 revenue
- 9% EBIT margin

Squirrel Media SA is a Spanish communication technology group company. The Company offers services across three main business areas: (i) media, essentially through advertising, (ii) content, through creation and distribution of all kinds of audio-visual content, movies included, and (iii) tech, through TMT services. The group incorporates multiple national and international companies.

Historical operating and financial performance

A few premises on accounting principles

Movie production companies have a few accounting peculiarities

Media & Entertainment companies, including movie producers, follow specific accounting practices regarding revenue and cost recognition, amortisation of production costs and tax credits treatment.

In the Income Statement, peculiarities mainly affect: (i) revenue, and (ii) D&A.

- ITA GAAP accounting principle for motion pictures companies recognize the increase in own work capitalized (capitalized production costs) in the Value of Production, namely the change in the value of cinematographic and audio-visual assets not finished yet. This change in value corresponds to production costs incurred up to that moment. Tax credits and local grants can also be included in other revenue. Under IAS/IFRS accounting principles, capitalized production costs cannot be included in the VoP and are accounted as Inventory. So, once Fenix completes its transition towards IAS principles, expected ahead of the FY23 financial statement publication, the increase in own capitalized work will be included in the Income Statement as “change in inventory” and recognized as an increase in inventory in the Income Statement. The impact on EBITDA will be null.
- A very important item for film producers is D&A on own library's titles. Being Fenix relatively young, D&A has had a limited impact over past years resulting in profit margins higher than industry average. D&A will have a heavier impact on the income statement, reducing EBIT margin, as own production and library increase.

In the Balance Sheet, peculiarities mainly relate to: (i) deferred income, and (ii) internally generated intangible asset.

- Earned inflows before the film distribution, so from pre-valuation to post-production phases, must be recognized as deferred income. Inflows can be recognized as revenues only once a film is completed and distributed. Deferred income can include tax credits, grants as well as IP sale.
- Capitalized production costs are recognized both in the Income Statement as part of Value of Production and in the Balance Sheet as part of Intangible Assets. They are not subject to amortization. Once the movie/soundtrack/TV series is completed and enters the distribution phase, its value can be recorded among intellectual property rights and becomes subject to amortization.

EBIT is the preferred benchmarking figure in this Industry

According to these accounting peculiarities, EBITDA might differ among players depending on the production/distribution phase and on the weight (and the value) of their library. Since Fenix was established in 2016, the number of titles in its library has been significantly lower than that of its competitors and, consequently, the Company had little to amortize in the past years, but this has started to change in 2021. For this reason, EBIT should be preferred over EBITDA as profitability indicator. Moreover, there are differences between companies using ITA GAAP and those using IAS/IFRS. The latter amortize IP rights by using the “individual-film-forecast-computation-method” which amortizes such costs in the same ratio that current period actual revenue (numerator) bears to estimated remaining unrecognized ultimate revenue as of the beginning of the current fiscal year (denominator). However, within the same methodology there can be differences between one company and another. For example, the time horizon considered could range from 4 to 20 years, thus impacting on annual D&A rate.

First-Time Adoption

The Company is working on the transition towards IAS, which could probably take place in FY23. The most significant change will affect capitalized production costs: according to ITA GAAP, they are included in the VoP, while after First Time Adoption they will be treated as Inventory changes and included costs (with opposite sign) with no impact on margins. As regards to the Balance Sheet, we do not expect fixed assets to be subject to relevant impairment tests, as Fenix library includes primarily new titles.

Main operating and financial data FY 2021

Laser Balance Sheet included in FY21 Fenix figures

Since the acquisition of Laser (Laser Digital and Laser Film) occurred on the 16th December 2021, Fenix consolidated figures include only its Balance Sheet whereas the newly acquired Profit & Loss was not included.

Value of Production

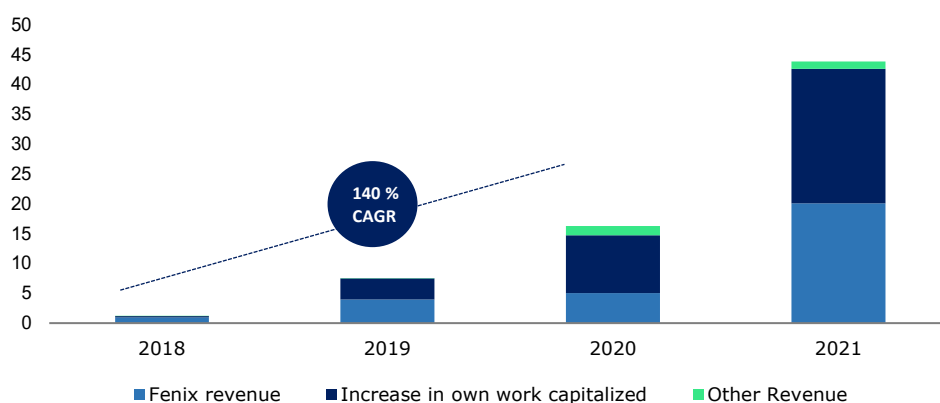
Fenix turnover rose from €0.9m in 2018 to €20.1m in 2021

Fenix revenue have increased significantly over time, from €0.9m in 2018 to €20.1m in 2021. In 2021 revenue came in well above our projection at €14.1m due to an extraordinary and unexpected turnover accounting at the year end.

The increase in Fenix Revenue was mainly driven by the distribution of the following films: "Dietro la notte", "Ostaggi", "Dna", "I nostri fantasmi", "One second" and "I ladri di Natale".

Own capitalized work rose to €22.6m in 2021 from €9.7m in 2020 and above our estimates of €8.9m, coming from accumulated production in the 2H21 and a delay in related distribution.

Figure 12: Historical VoP evolution 2018 – FY21 (€, mln)

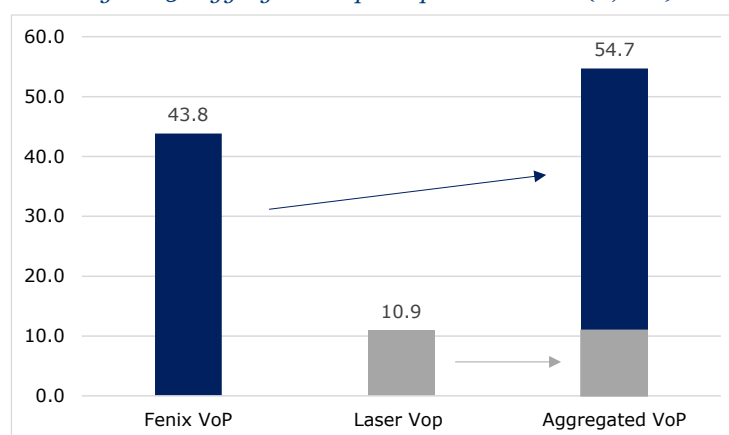


Source: Banca Profilo elaborations on Company data

VoP at €55m in 2021 including Laser at €11m

Therefore, in FY21 Fenix VoP reached €43.8m. In 2021, Fenix acquired 60% of Laser Group (Film and Digital); the aggregated VoP was then €54.7m, including Laser VoP at €10.9m.

Figure 13: Aggregated Vop composition– FY21 (€, mln)



Source: Banca Profilo elaborations on Company data

Cost of goods sold

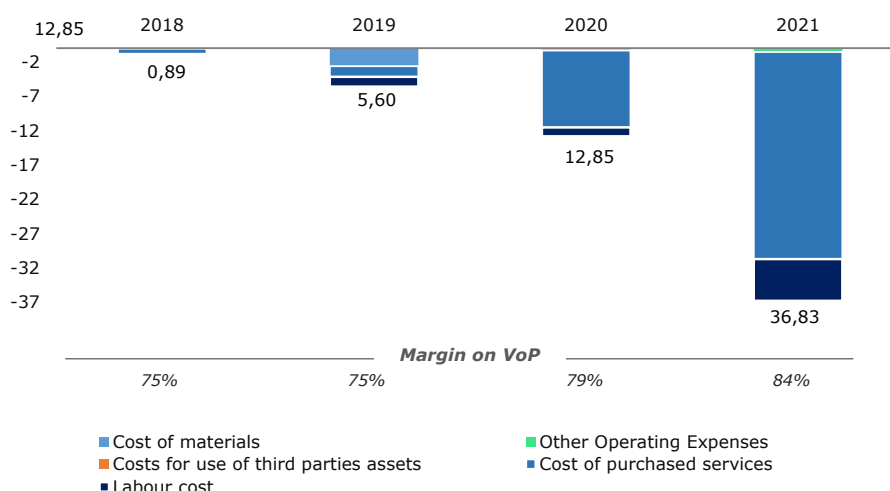
Cost of raw materials and purchased services reclassification in 2021

In 2021 Fenix reclassified raw materials and purchased services costs, including the production costs in the cost of services. To compare the results, we have reclassified the 2020 costs as 2021. Production cost is the most significant cost item and includes the cost to produce cinematographic works, such as costs for film set design, production, distribution, advertising, consultancy, and costs incurred for main and secondary actors, registers and collaborators. In 2021, raw materials costs stood at €0.2mln while services costs were €30.2mln.

Labour cost increased significantly in 2021 due to the greater number of productions

Labour costs include both temporary workers and Fenix employees. Labour costs weights on average 11% on VoP; it rose to €6.1mln or 14% of VoP in 2021, from €1.3mln and 8% respectively in 2020, following the entry of new creative and technical figures. In 2021, labour cost came in above our estimates at €3.1mln for the greater number of productions. Some 80% of employees are temporary workers based on the number of productions.

Figure 14: Historical evolution of COGS 2018 – FY21 (€, mln)

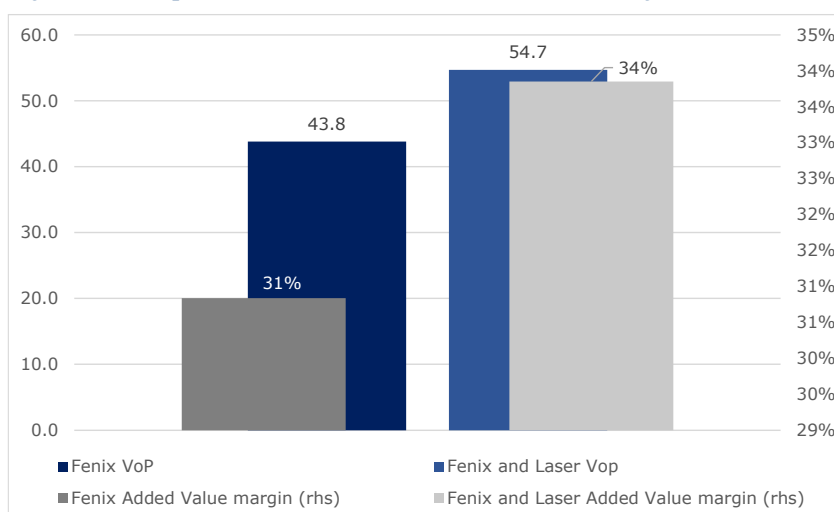


Source: Banca Profilo elaborations on Company data

Laser acquisition was accretive in terms of Added Value

The acquisition of Laser was accretive in terms of Added Value, which improved from 31% to 34% in 2021.

Figure 15: Comparison between VoP and Added Value margin– FY21 (€, mln)



Source: Banca Profilo elaborations on Company data

Profitability

D&A has to reflect distribution rights' value; in 2021 D&A incidence on VoP increased dramatically to 13%

For movie picture companies D&A has to reflect the increase/decrease in film IP rights, part of Intangible Assets. Being Fenix relatively young, D&A has had a limited impact in past fiscal years, resulting in initial profit margins higher than the industry average. D&A incidence on VoP stood on average at 4% between FY18 and FY20 while in FY21, following the increase in own productions and library (i.e. distribution rights) and the change in the IP depreciation rates, D&A incidence on VoP surged to 13%, equivalent to €5.5mln, above our forecast at €4.7mln.

Table 1: depreciation rates of IP rights as of 2021

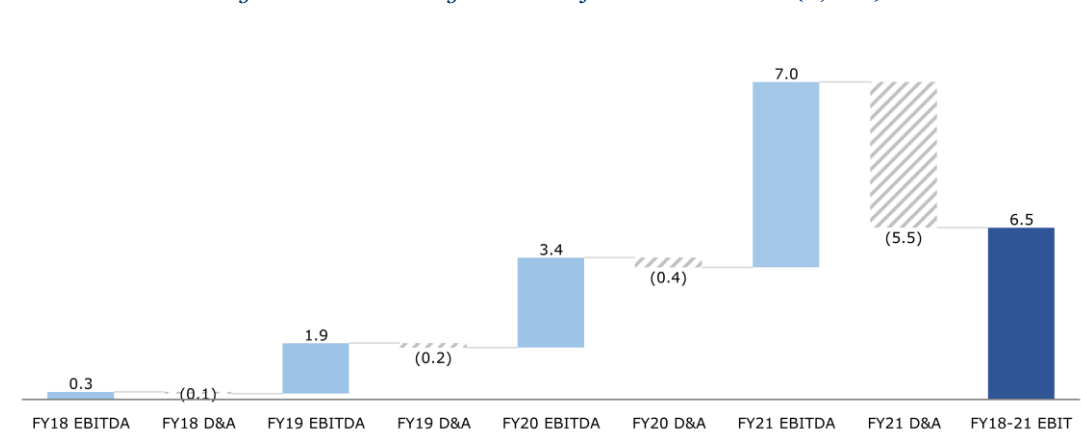
Years	Depreciation rate
1°	30%
2°	25%
3°	20%
4°	15%
5°	10%

Source: Banca Profilo elaborations on Company data

EBIT margin decreasing to 3% in 2021 for higher D&A

Fenix historical EBIT margin on VoP was 20% between 2018 and 2020, progressively increasing thanks to business scale-up. However, in 2021, following own productions growth and library expansion, the surge in D&A impacted EBIT margin which declined to 3% vs our projection of 7%.

Figure 16: Historical generation of EBIT 2018 – 2021 (€, mln)



Source: Banca Profilo elaborations on Company data

Table 2: Fenix Profit & Loss FY18-FY21 (€ mln)

Profit & Loss (€ mln)					
	FY18	FY19	FY20	2021	
				OLD	NEW
Fenix revenue	0.9	3.9	5.0	14.1	20.1
Increase in own work capitalized	0.2	3.6	9.7	8.9	22.6
Other revenue	0.0	0.1	1.5	0.2	1.2
Fenix Value of Production	1.2	7.5	16.2	32.4	43.8
yoy change (%)	n.a.	535%	116%	99%	170%
Laser Digital Film				9.2	10.9
Value of Production (including Laser)	1.2	7.5	16.2	41.6	54.7
yoy change (%)	n.a.	535%	116%	156%	237%
Verve Media Company		0.0	0.0		2.1
Fenix VoP (including Laser + Verve)		7.5	16.2	41.6	56.8
Cost of materials and purchased services	(0.8)	(4.0)	(11.3)	(20.4)	(30.3)
ii) Altri costi per servizi		0.0	0.0		(11.7)
% on VoP	-65%	-53%	-70%	-49%	-55%
Changes in inventories		0.0	0.0	0.0	0.0
Added Value	0.4	3.5	5.0	12.0	13.5
yoy	n.a.	n.a.	n.a.	143%	173%
gross margin		47%	30%	37%	31%
Added Value (including Laser)					18.5
Labor cost	(0.0)	(1.4)	(1.3)	(3.1)	(6.1)
% on VoP	-2%	-19%	-8%	-9%	-14%
Costs for use of third parties assets	(0.1)	(0.2)	(0.1)	(0.3)	(0.2)
% on VoP	-5%	-2%	-1%	-1%	0%
Other Operating Expenses	(0.0)	(0.0)	(0.2)	(1.0)	(0.3)
% on VoP	-3%	0%	-1%	-2%	-1%
Comprehensive COGS	(0.9)	(5.6)	(12.9)	(24.7)	(36.8)
iii) Verve Media Company					(1.4)
% on VoP	-75%	-75%	-79%	-76%	-84%
EBITDA	0.3	1.9	3.4	7.7	7.0
EBITDA Margin on VoP	25%	25%	21%	24%	16%
EBITDA (including Laser)					8.6
EBITDA Margin on VoP					16%
EBITDA (including Laser + Verve)					9.3
					16%
D&A	(0.1)	(0.2)	(0.4)	(4.7)	(5.5)
% on VoP	-6%	-2%	-2%	-11%	-13%
EBIT	0.2	1.7	3.0	3.0	1.5
EBIT Margin on VoP	18%	23%	19%	7%	3%
Net financial income (expenses)	(0.0)	(0.0)	(0.1)	(0.3)	(0.3)
% on VoP	-2%	-1%	-1%	-1%	-1%
Net extraordinary income (expense)	0.0	0.0	0.0	0.0	0.0
EBT	0.2	1.7	2.9	2.7	1.2
EBT Margin on VoP	17%	22%	18%	6%	3%
Income Tax Expense	(0.1)	(0.6)	(0.8)	(0.7)	(0.6)
Tax rate	35%	35%	27%	28%	55%
Net Income	0.1	1.1	2.1	1.9	0.5
Net Income Margin on VoP	11%	15%	13%	6%	1%

Source: Banca Profilo elaborations on Company data

Balance Sheet

Intangibles Assets: IP rights on films in distribution plus the aggregate value of assets under construction

Looking at the Balance Sheet, the main items of Intangibles Assets are IP rights on films in distribution (whether they have been produced internally by Fenix or acquired) and the value of assets under construction (films that have not yet been completed). At the end of 2020, Intangible Assets rose to €17.7m from €4.3m at the end of 2019. In 2021 the Intangible assets stood at €40.1m vs our projection of €29.2m mainly due to higher Own Work Capitalized and Intellectual Property Rights.

The own work capitalized increased from €9m to €22.3m due to the surge in own productions; the growth in IP rights from €4.9m to €12.8m mainly derives from the commercialization of the following films: "Dietro la notte", "Ostaggi", "Dna", "I nostri fantasmi", "One second" and "I ladri di Natale"; lastly, Goodwill rose as a consequence of the 60% stake in Laser Digital and Film.

Positive Net Operating Working Capital and growth of DSO and DPO

The dynamic of Net Operating Working Capital depends on supply and receivables days of collection, as production activities absorb significant amounts of money in a short period of time, while related revenues are deferred over time. However, the gap between the times when costs are incurred and those when revenues are realized is partially offset by marketing activities which guarantee greater stability to the working capital.

Net Operating Working Capital moved from -€2.2m at the end of 2020 to €0.9m at the end of 2021 and included €30.3m of payables and €31.1m of receivables.

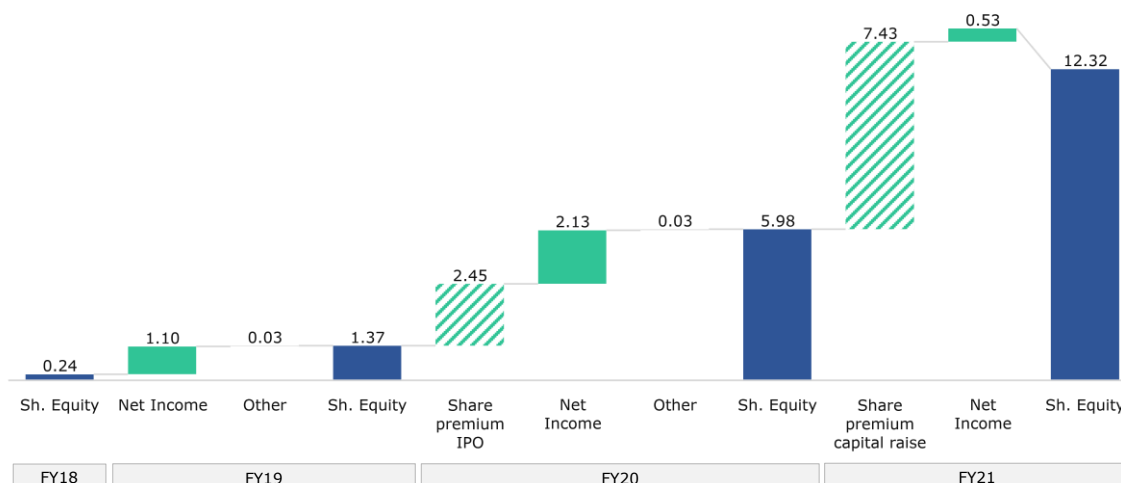
Including other assets and other liabilities into the calculation, Working Capital was negative for €15.1m in 2021, made of a NOWC of €0.9m and a negative balance between other assets & liabilities for €16m due to the increase of deferred income in 2021. Deferred income, namely revenues already generated by Fenix on productions not yet distributed – therefore not yet attributable to the Income Statement – weigh heavily on Working Capital: they stood at -€6.6m in FY20 and increased to -€18.3 (+176% yoy) in 2021, mainly attributable to the drastic increase in own productions in progress.

Shareholders' equity at €12.3m at the end of 2021 post IPO proceeds and capital increase

Shareholders' Equity rose from €1.4m at the end of 2019 to €6m at the end of 2020 following the IPO and capital increase. The retained earnings were equal to €1.3m and net income stood at €2.1m.

In 2021 Shareholders' Equity stood at €12.3m (+107% yoy) deriving from a capital increase of €7.4m and share capital of €0.1m. Moreover, the retained earnings stood at €3.4m and net income at €0.5m; Shareholders' equity attributable to third parties was equal to €0.6m.

Figure 17: Shareholders' Equity evolution from 2018 to 2021 (€, mln)



Source: Banca Profilo elaborations and estimates on Company data

Net Debt rose to
€14.1mln for Laser
acquisition

Over the past three years Fenix has maintained a highly sustainable level of Net Debt, with an average FY18-FY20 Net Debt/EBITDA ratio equal to 0.8x.

In 2021, Group Net Debt rose to €14.1mln or 1.6x EBITDA, following the acquisition of Laser for €4.2mln in December 2021. Of these to be paid to the founder of Laser, Andrea di Nardo, €1.3mln will be extinguished through a capital increase in option to Mr. Di Nardo, whereas the remaining €2.9mln will be paid to Mr. Di Nardo in 2022 and 2023 in several instalments of €400k each.

The average cost of debt in 2020-2021 was 4.2%.

Table 3: Fenix Balance Sheet FY18-21 (€, mln)

Balance Sheet (€/mln)					
	FY18	FY19	FY20	2021	
				OLD	NEW
Intangible Assets	0.4	4.3	17.7	29.2	40.1
Property, Plant & Equipment	0.0	0.1	0.1	1.8	2.0
Financial Assets	0.1	0.0	0.1	1.7	0.1
Fixed Assets	0.5	4.4	17.9	32.7	42.2
Verve Media Company		0.0	0.0		1.3
Trade Receivable	0.9	2.3	2.9	11.3	31.0
Inventories	-	-	-	0.1	0.2
Trade Payable	(0.4)	(1.8)	(5.2)	(11.9)	(30.3)
Net Operating Working Capital	0.5	0.5	(2.2)	(0.5)	0.9
Verve Media Company NOWC					1.1
% on VoP	46%	6%	-14%	-1%	2%
Trade receivables (% on VoP)	80%	31%	18%	35%	71%
Inventories (% on VoP)	-	0%	0%	0%	0%
Trade payables (% on cost of services & materials)	52%	45%	46%	58%	100%
Other Assets	1.4	2.2	5.4	7.4	9.0
Other Liabilities	(1.9)	(4.8)	(8.9)	(8.9)	(24.9)
Ratei e risconti passivi		(1.6)	(6.6)	(8.9)	(18.3)
Funds	(0.0)	(0.0)	(0.0)	(0.5)	(0.7)
Invested Capital	0.6	2.3	12.1	30.2	26.4
CapEx	0.4	4.1	10.6	9.2	24.8
Intangible	0.4	4.0	10.6	8.9	24.8
Tangible	0.0	0.1	0.0	0.1	0.0
Financial	0.0	0.0	-	0.2	-
% on VoP	34%	55%	66%	28%	57%
Shareholders' equity	0.2	1.4	6.0	14.9	11.8
Share capital	0.1	0.1	0.1	0.4	0.1
Reserves	0.0	(0.0)	2.5	9.1	7.7
Retained earnings	0.1	0.2	1.3	3.7	3.4
Group Net Income	0.1	1.1	2.1	1.8	0.5
Shareholders' equity attributable to third parties	-	-	-	0.2	0.6
Minority/Non Controlling Interest	-	-	-	-	-
Consolidated Shareholders' Equity	0.2	1.4	6.0	15.1	12.3
Financial Debt	0.8	1.5	4.2	13.3	11.2
Cash and cash equivalents	(0.0)	(0.1)	(0.3)	(2.0)	(1.2)
Payables for rights of use	-	-	-	-	-
Other financial receivables	(0.4)	(0.5)	(0.9)	-	(0.1)
Net Financial Position (Cash)	0.3	0.9	3.0	15.2	14.1

Source: Banca Profilo elaborations and estimates on Company data

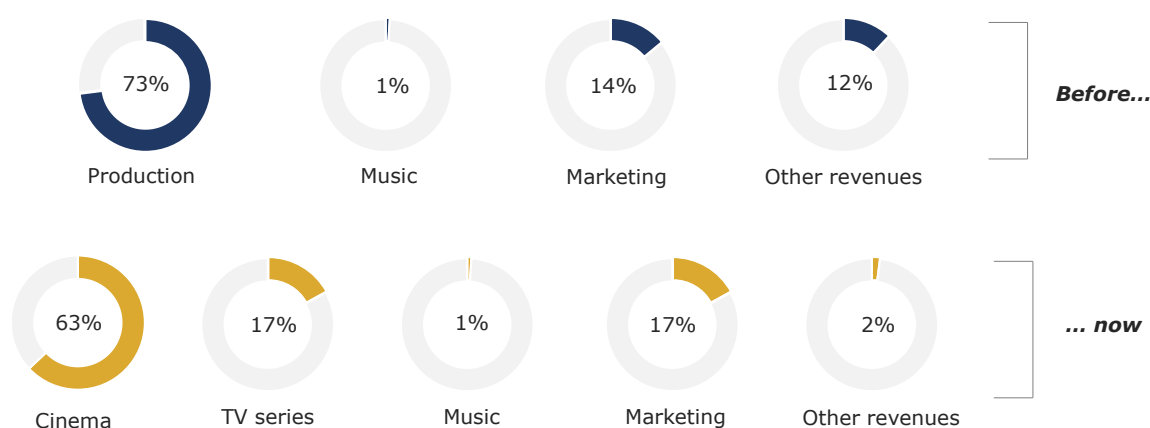
Strategy and estimates

Corporate strategies

Fenix expansion strategy: business evolution from film producer to a Media&Entertainment company

Fenix Entertainment aims to become a Media & Entertainment company with an integrated ecosystem of know-how across different sub-segments of the M&E industry. Born as a film producer and distributor Fenix is evolving into a comprehensive content creator (starting with TV productions) and a post-production provider, using the most advanced technological (audio and video) know-how and the best-in-class talents. Even from a financial point of view, in 2021 the Group broke down its revenue to enhance its evolving and diversifying activity.

Figure 18: VoP breakdown by type of activity: before VS now



Source: Banca Profilo elaborations and estimates on Company data

Business model evolution: from Film to TV productions. Higher margins and quicker time to market

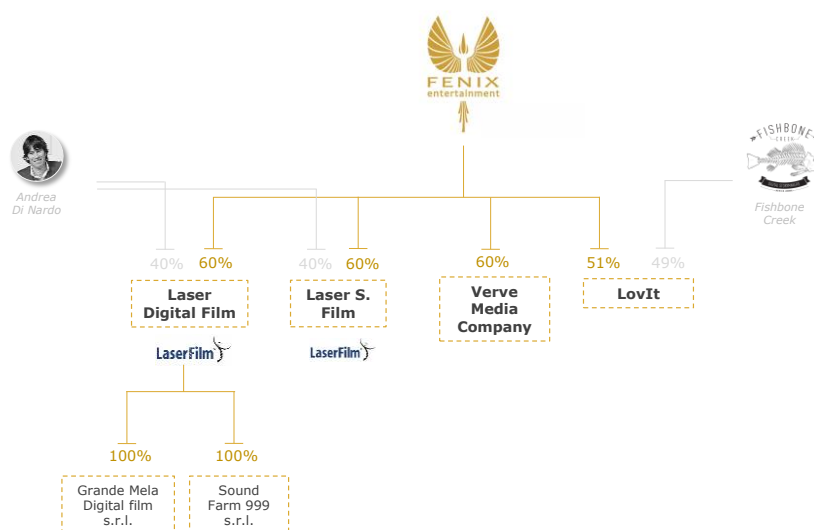
Main goal in 2022 is to improve margins through a better revenue mix, increasing the weight of TV productions versus Film productions. The cinematographic production activity will continue but with a focus on international productions with higher budgets and more important results both at an economic and reputational level for the company. Through the acquisition of Verve, Fenix can incorporate the television production business. Since the media impact of a television program is much wider than film productions, the company will benefit from it in terms of visibility. The first television program, designed and produced for Rai 3, is called "Sex" and will start in August 2022. Fenix won't broadcast only the latter: a series of other television programs will be concluded by 2022.

The corporate structure

Fenix acts as the operating holding directly controlling four subsidiaries

The group structure is led by Fenix that directly controls four subsidiaries: Laser Digital Film, Laser S. Film, both acquired at the end of 2021, LovIt, set up in January 2022 and Verve Media, acquired in June 2022. These subsidiaries have a specific scope of application. Laser Digital and Laser Film are specialized in post-production, LovIt in the creation of technological digital content and Verve Media in TV content.

Figure 19: Fenix corporate structure



Source: Banca Profilo elaborations on Company data

Lovit: a digital content creator

Lovit has been set up to create digital content. Lovit was founded in January 2022 by Filippo Cipriani and Alessio Mazzalotti. Lovit points to become an influencer brand by exploiting the engineering of algorithms and artificial intelligence. The Company uses a mechanism in which technology and content interact synergistically to aggregate the public around their passions.

Verve Media: first steps into TV content production

On 10th June 2022 Fenix Entertainment acquired a stake of 60% in Verve Media's share capital, which develops and produces original television and multimedia content for all major companies' distribution platforms on national and international markets for more than 10 years. Through this acquisition, Fenix can incorporate the television production business. Verve produced over 5,000 hours of programming in different areas (light entertainment, infotainment, game show, docu-reality and documentary film), with the aim of telling the social and cultural changes through innovative languages. The acquisition of a 60% stake will be financed by a capital increase worth €0.835mIn in option to seller shareholders.

Ownership structure and free float

In FY20 the IPO, in FY21 the transfer from AIM Pro to AIM Italia, now Euronext Growth Milan

Fenix Entertainment is listed on the Euronext Growth Milan segment of the Italian Stock Exchange. The company was originally listed on the AIM Pro segment in August 2020, undertaking a capital raise of €1.5mIn. In FY21, to finance additional company growth, the group undertook a second, larger, capital raise of c.€3.6mIn and moved from the AIM Pro segment to the AIM Italia segment, now Euronext Growth Milan. At the same time, the Company also exercised all the no. 361,250 "Fenix 2020-2022 Warrants" outstanding, with the consequent subscription of new 361,250 ordinary shares, translating into new proceeds of c.€1.45mIn.

Three capital increases to support acquisitions and business evolution

After the acquisition of 60% of Laser Digital and Film, Fenix accrued a debt towards Di Nardo for €1.3mIn. Therefore, on 10th June 2022, Fenix increased its share capital by €1.3mIn, which was reserved to Mr. Di Nardo, through the issue of 216,000 shares. Another share capital increase is planned in 2022 to partially finance the acquisition of 60% of Verve Media. This increase will be worth €0.835mIn through the issue of 100,000 shares at €8.35 per share.

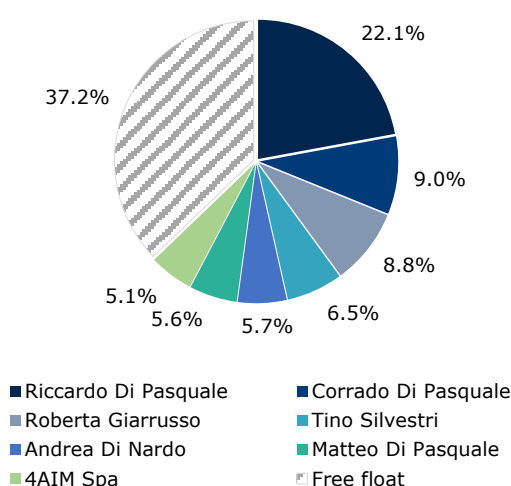
On 13th June a third capital increase has been approved up to €4.1mIn and a maximum of 755,633 new ordinary shares, at €5.5 per share, to be offered in option to shareholders in the ratio of 1 new ordinary for every 5 shares held. On that date, the relative majority shareholder Riccardo Di Pasquale has committed for €0.250mIn.

The offer period ended on 8th July and the shareholders have exercised a total of 101,225 option rights equivalent to 20,245 ordinary shares, for a total amount of €0.111mln.

The Di Pasquale family owns 45.5% of Fenix; The BoD owns 43.1%; Free Float is 37.2%; Di Nardo entered with 5.7%

No majority of Fenix share capital is currently held by a single person; even the Di Pasquale family (Riccardo Di Pasquale, Roberta Giarrusso and Corrado Di Pasquale), all together, does not reach a majority share, owning jointly 45.5% of share capital. The same applies to the aggregate shares of Fenix BoD members (Riccardo Di Pasquale, Tino Silvestri, Roberta Giarrusso and Andrea Di Nardo) which together reach a cumulative 43.1% of share capital. If considering shareholders holding directly more than 5% of share capital, free float currently stands at about 37%. After the capital increase in June 2022 in favour of Andrea Di Nardo, he joined the Group's corporate structure owning a 5.7% stake.

Figure 20: Ownership of the Group (%)



Source: Banca Profilo elaborations on Company data. Data as of July 12th, 2022

Management

Key figures

Fenix Board of Directors is made up of seven members appointed up to December 2023. The Board of Statutory Auditors is made up of three members appointed up to December 2023. Despite Fenix is characterized by a limited previous operating history, strategic and financial objectives reached so far demonstrate management skills.

Figure 21: Composition of the Board of Directors

BoD members	Position	Executive	Independent	Minority	Birth Year	Gender	Nationality
Tino Silvestri	Chairman	x			1960	M	Italian
Riccardo Di Pasquale	CEO	x			1983	M	Italian
Maurizio Paternò	Vice-Chairman		x		1949	M	Italian
Daniele Orazi	Director				1971	M	Italian
Roberta Giarrusso	Director				1982	F	Italian
Andrea Di Nardo	Director				1970	M	Italian
Tomaso Trussardi	Director				1983	M	Italian

Source: Banca Profilo elaborations on Company data

Tino Silvestri
- Chairman -

Tino Silvestri, Fenix Chairman, is an old-timer of the Italian music industry, with over thirty years of experience in this sector. He has collaborated with both national and international artists, such as Celentano, Ligabue, Abba, Patty Smith and Depeche Mode among many others. Amongst his most significant working experiences, Silvestri has been Artistic Director at Compagnia Generale del Disco, the Caterina Caselli's record label, Artistic Director and General Manager at Warner Music Italia. Before joining the Fenix project, he also worked in the cinema, conceiving the Ligabue's Radio Freccia film project.

Riccardo Di Pasquale
- CEO -

Riccardo Di Pasquale, Fenix CEO, began his career in the financial sector, after graduating in Business Administration from the University of Tor Vergata in Rome and getting a Master's degree in Business Administration from the Luiss Business School in Rome. In 2016, after more than five years as a former private banker, driven by his passion for cinema and with the aim of seizing the tax breaks in the sector, founded Fenix Entertainment together with his brothers Matteo and Corrado Di Pasquale. After only five years of activity, Fenix reached €30m turnover. Fenix was invited to the Venice Film Festival, and can show a production and co-production pipeline of more than four films per year.

Maurizio Paternò
- Vice Chairman -

Maurizio Paternò di Montecupo is Fenix Vice-Chairman. He is also a university lecturer and Member of Ragioneria Generale dello Stato. He got a bachelor degree in Economics from Università degli Studi di Napoli Federico II.

Roberta Giarrusso

Roberta Giarrusso is an Italian TV and cinema actress. She gained attention in 2002 with her debut in the TV series "Carabinieri". After a short break in "Don Matteo" and "Un Caso di Coscienza" and a short experience as co-presenter in "I Migliori Anni", a prime-time TV Show, she took the female lead role in "Commissario Manara" and "Squadra Antimafia". She hits big screens in 2012, with the Italian comedy movie "Fallo per papà". In Fenix she is non-executive BoD member. She is married to Riccardo Di Pasquale.

Daniele Orazi

Daniele Orazi is an Italian talent scout. He founded Do Consulting & Production in 2016. He deals with tour casting, promising young actors' selection, and management. Since 2007, he has been a member of the Italian Cinema Academy. In 2012, he won the Kineo Award for Best Agent. He collaborates with Academies, Universities and Festivals as a teacher in seminars and masters related to talent management. In 2016, he began his career as a co-producer, making his debut at the Venice International Film Festival with the first work by director Marco Danieli "La ragazza del mondo". In Fenix he holds the role of non-executive director.

Andrea Di Nardo

Andrea Di Nardo is the CEO of Laser Film. After a bachelor's degree in Economics, he started his career in the international trading of film rights for the American and European markets. In 2001, he founded Laser S. Film, initially specialized in subtitling. In a few years, the Company started performing audio and video restoration for HomeVideo entertainment and TV, activities then extended to all video services for theatrical, tv, and online platforms. In 2014, he founded Laser Digital Film srl, which is focused on sound mix and dubbing. Laser Film Group soon became one of the best entrepreneurial realities in the European postproduction field. Mr. Di Nardo is passionate about sustainability and has historically transmitted this passion also within the Company, which boasts an outstanding CSR profile. In Fenix he holds the role of non-executive director.

Tomaso Trussardi

Tomaso Trussardi is a successful Italian entrepreneur. After a degree in Economics and a master in Corporate Finance, he began his professional career in Real Estate at the Hines studio. In 2008, he joined the Trussardi Group, the Italian luxury fashion house of his family. As COO, he undertook the development and modernization of the Group's production HUBs in Italy and abroad. In 2013, he became CEO of the Company with the focus on accelerating the internationalization, mainly in Asia. In 2017, he founded the Food division by opening the Trussardi restaurant at La Scala, creating a new business model focused on Life Style.

Updating our 2022E-2024E estimates

Not only a motion pictures Company

Fenix is not only a motion pictures Company. Fenix should be considered a vertically integrated Media & Entertainment company engaged also in marketing, advertising, digital content, and TV production. However, since film production & distribution have a peculiar revenue generation cycle, related financials deserve a separate and dedicated forecasting methodology.

A distinctive forecasting modelling for film and TV production & distribution

Our forecasts for movie & TV production are based on production agreements. Fenix current pipeline of movies includes pre-productions, productions, and post-productions. This pipeline is our starting point for developing a fictitious pipeline for the next few years, used to compute: i) production costs and their competence per year, ii) the increase in own capitalized work; iii) productions revenues, iv) distribution revenues and v) the increase in IP rights. Key variables are: i) a single movie budget, which corresponds to both the production cost and 85% of the production revenue, and ii) the project starting date, which sets the number of years for accounting costs, D&A, revenues, and the increase in own capitalized work.

Laser and Verve consolidation in Financial Statement

Our 2022-2024E estimates include the acquisition of Laser and Verve Media Company. Fenix acquired a 60% stake in each company. Laser is included in our P&L estimates starting from the FY22 (acquisition completed in December 2021), whereas Verve is included in the last quarter of 2022 (filing is expected in 4Q22). Since management has not yet disclosed a pro-forma P&L, the Value of Production indicated in the next paragraphs is an aggregate value.

Income Statement

Forecasting revenue from movie and TV productions and distribution; synergies deriving from Laser and Verve acquisition

To estimate revenue from movie & TV production, given the short track record of Fenix, it may not be feasible to rely on a normalized carry-forward of past figures. However, year-end pipeline might be considered as a sustainable level of activity on which we based assumptions for a future pipeline.

We forecast 5 new movies per year, with an average budget of about €4mln in the medium-term. Moreover, thanks to the business evolution and to the inclusion in TV production, we also estimate 4 new television entertainment programs on average each year with an initial budget of €4.4mln in 2022 and with an annual increase in budget on average of 38%.

Revenues from the film pipeline are not immediately recognized, but only once the project is finalised. Before that time, cash inflows are recorded as Deferred Income in the Balance Sheet, and the increase in the value of a movie under production is included in the Value of Production under the item "increase in own capitalized work". In addition, we forecast distribution turnover separately. Our estimates assume no changes in the Italian regulatory framework regarding tax credits, government and local grants.

- (i) Production revenues are estimated as the costs incurred to produce the movie plus a 15% producer fee, namely the commission that Fenix generates through each production. To model FY22 revenues we used Fenix's existing pipeline, while from FY23 onwards we assumed 5 productions per year with an average budget of about €4mln each. Revenues from production are recognized in the income statement only once the film is distributed, therefore not necessarily in the year in which the proceed is collected. Revenues from production mainly come from: IP licensing or sale (20%), Government grants (8%), Local Film Commission grants (12%), external Tax Credit (15%), Tax Credit production (40%) and product placement activities (5%).
- (ii) Distribution revenues depend on cinema proceeds, as the success of a movie at the box office sets the economic standard for IP rights. We estimated average revenues from cinema of about €300k per film (production company revenues correspond to only a percentage of cinema's proceeds). However, we assume that only half of Fenix films will be released in theatres. Part of Fenix productions are, in fact, commissioned directly by a broadcaster, such as RAI, with no release to the cinema.

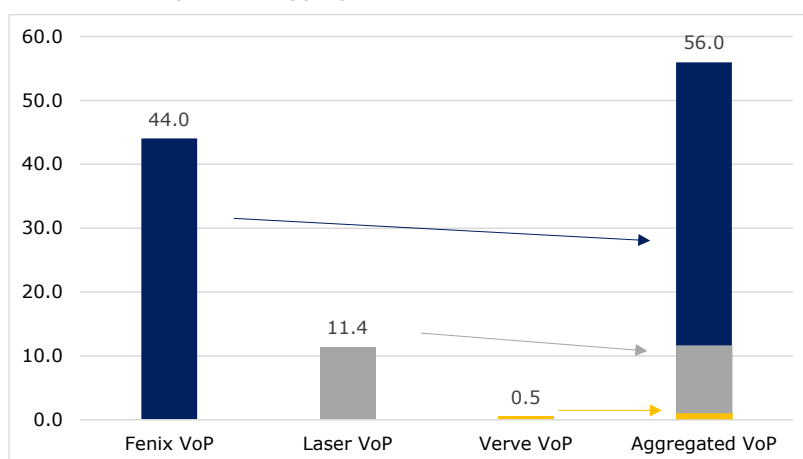
- (iii) Entertainment revenues are Fenix new business line. We forecast an average of 4 new entertainment programs per year with an initial budget of €4.4mln in 2022, increasing on average of 38% yoy. There are immediately accounted together with related costs;
- (iv) Marketing, advertising and digital content turnover is estimated separately and seen flat over the entire forecasting period;
- (v) Music revenues are projected to grow by 25% per year, according to their reference market;
- (vi) Laser turnover is expected to increase by 5% in 2022E, 15% in 2023E and by 20% in 2024E;
- (vii) Verve Media revenue are seen growing by 20% in 2023-24E.

Fenix VoP to grow at 39% CAGR 20-24; Aggregated VoP at 12% CAGR 21-24

According to our estimates, Fenix VoP is set to grow at a 39% 20-24 CAGR to €60.2mln versus our previous estimates at 37%.

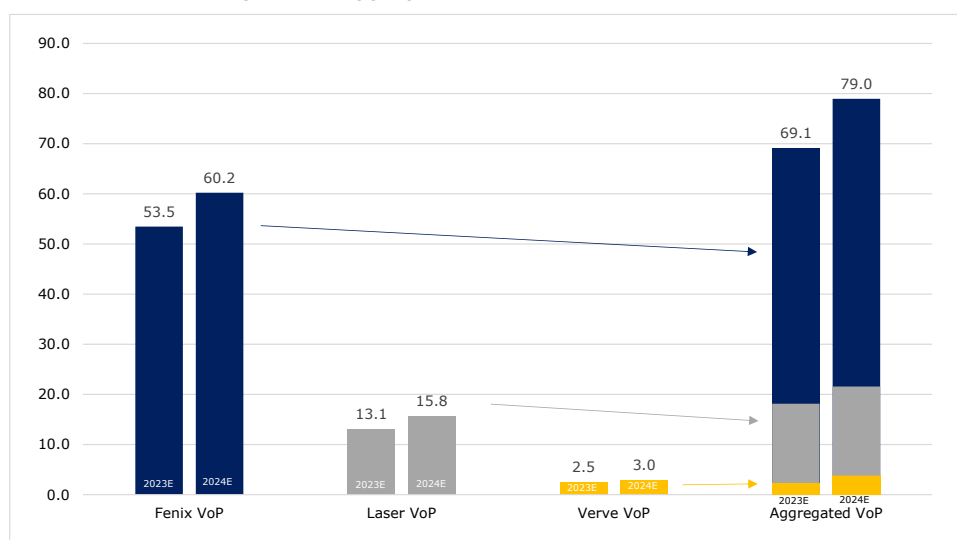
The aggregated VoP (including Laser and Verve) is set to rise at a 12% 21-24 CAGR to €79mln. Growth is mainly driven by: i) the progressive increase in VoP from production activities, either in the form of revenues or increase in own capitalized works; ii) growing contribution of revenues from other activities such as music; and iii) synergies deriving from Laser and Verve acquisition.

Figure 22: Aggregated VoP – FY 2022E (€,mln)



Source: Banca Profilo elaborations on Company data

Figure 23: Aggregated VoP - FY2023-24E (€,mln)



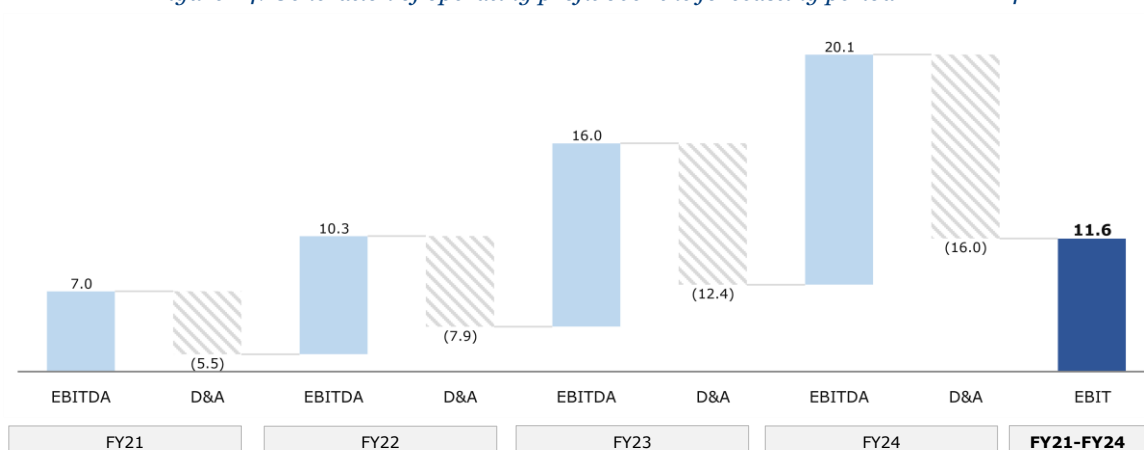
Source: Banca Profilo elaborations on Company data

*COGS are mainly production and labour costs
Laser is accretive in terms of Added Value*

Cost of services and the cost of labour make the most of COGS. Due to the reclassification made in 2021, the cost of services had a fixed component equal to over €10m in 2021, which we project at €9.5m per year on average, starting from 2022. The cost of services incidence on VoP for 2022E-2024E is now 58% versus our previous estimate at 41%. However, Laser acquisition looks accretive in terms of Value Added: in 2021 the incidence of COGS were 69% excluding Laser; if we include this acquisition the COGS weight on VoP gains 3pp and goes down to 66%.

Labour cost includes both Fenix and Laser employees. For the 2022-2024 period, we project 20 hirings and assume an inflationary annual increase in the average cost per employee, according to current ISTAT estimates.

Figure 24: Generation of operating profit over the forecasting period FY21-FY24



Source: Banca Profilo elaborations and estimates

EBITDA margin at 25% in 2024E from 16% in 2021

According to our estimates, EBITDA margin will reach €20.1m in 2024 from 16% in 2021, yet below our previous estimate at 45%, due to higher labour and services costs.

D&A is expected to increasingly affect operating margins, as Fenix library increases

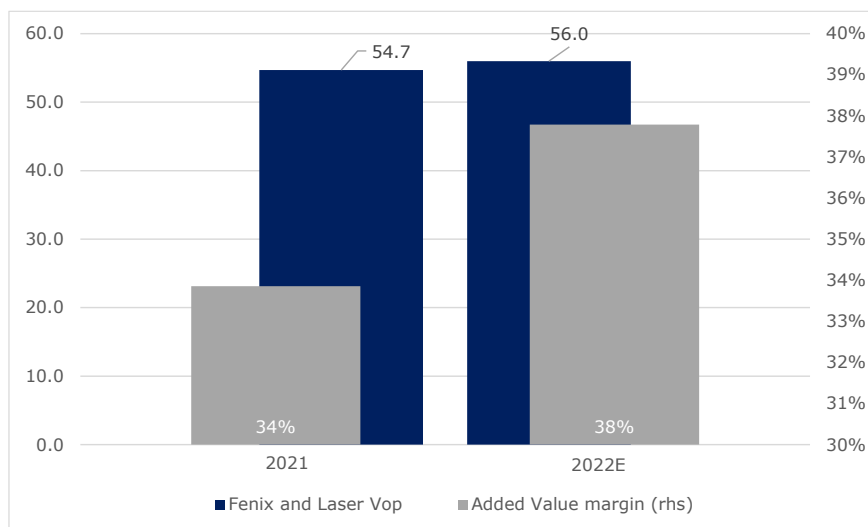
In 2022-2024, we forecast a significant increase in D&A, as Fenix Library expands. Furthermore, starting from 2021:

- i) Fenix has changed the intellectual property (IP) rights (i.e. the Library) depreciation rates to 30% the first year, 25% the second, 20% the third, 15% the fourth and 10% the fifth and final year;
- ii) we included Laser intangible assets;
- iii) we included the Goodwill deriving from the acquisition of Laser to be amortized in 5 years;
- iv) we included expansion costs to be amortized at a yearly rate of 20%.

Laser acquisition continues to be accretive in terms of Added Value in 2022

Since the acquisition of Laser in 2021 was accretive in terms of Added Value, we continue to forecast an increase in efficiency from 34% in 2021 to 38% in 2022.

Figure 25: Comparison between VoP and Added Value margin– FY21-22E (€, mln)



Source: Banca Profilo elaborations on Company data

*Net Income margin
should average at 3%*

We forecast an average tax rate of 28%. Thus, net income should reach €2.6mln in 2024E.

Table 4: Fenix Profit & Loss 2021-2024E (€ mln)

	Profit & Loss (€ mln)									
	FY18	FY19	FY20	FY21	2022E		2023E		2024E	
					OLD	NEW	OLD	NEW	OLD	NEW
Fenix revenue	0.9	3.9	5.0	20.1	33.5	36.2	39.3	31.6	42.5	44.2
Increase in own work capitalized	0.2	3.6	9.7	22.6	9.5	6.3	14.6	20.4	15.0	14.5
Other revenue	0.0	0.1	1.5	1.2	0.2	1.5	0.2	1.5	0.2	1.5
Fenix Value of Production	1.2	7.5	16.2	43.8	43.2	44.0	54.0	53.5	57.6	60.2
yoy change (%)	n.a.	535%	116%	170%	33%	1%	25%	21%	7%	13%
Laser Digital Film				10.9		11.4		13.1		15.8
Aggregated VoP (including Laser)	1.2	7.5	16.2	54.7		55.5		66.6		76.0
yoy change (%)	n.a.	535%	116%	237%	33%	1%	25%	20%	7%	14%
Verve Media Company		0.0	0.0	2.1		0.5		2.5		3.0
Aggregated VoP (including Laser + Verve)		7.5	16.2	56.8		56.0		69.1		79.0
yoy change (%)						-1%		23%		14%
Cost of materials and purchased services	(0.8)	(4.0)	(11.3)	(30.3)	(20.5)	(34.8)	(22.3)	(38.7)	(20.6)	(42.9)
ii) Altri costi per servizi		0.0	0.0	(11.7)		(10.7)		(9.6)		(8.0)
% on VoP	-65%	-53%	-70%	-55%	-47%	-62%	-41%	-56%	-36%	-54%
Changes in inventories		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Added Value	0.4	3.5	5.0	13.5	22.7	21.2	31.8	30.4	37.0	36.1
yoy	n.a.	n.a.	n.a.	173%	89%	57%	40%	44%	17%	19%
gross margin		47%	30%	31%	53%	38%	59%	44%	64%	46%
Added Value (including Laser)				18.5						
Labor cost	(0.0)	(1.4)	(1.3)	(6.1)	(8.3)	(9.1)	(9.1)	(11.0)	(8.7)	(12.1)
% on VoP	-2%	-19%	-8%	-14%	-19%	-16%	-17%	-16%	-15%	-15%
Costs for use of third parties assets	(0.1)	(0.2)	(0.1)	(0.2)	(1.4)	(1.0)	(1.5)	(1.2)	(1.6)	(1.4)
% on VoP	-5%	-2%	-1%	0%	-3%	-2%	-3%	-2%	-3%	-2%
Other Operating Expenses	(0.0)	(0.0)	(0.2)	(0.3)	(0.6)	(0.4)	(0.7)	(0.5)	(0.6)	(0.5)
% on VoP	-3%	0%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Comprehensive COGS	(0.9)	(5.6)	(12.9)	(36.8)	(30.8)	(45.7)	(33.6)	(53.1)	(31.4)	(58.9)
iii) Verve Media Company				(1.4)		(0.3)		(1.7)		(2.0)
% on VoP	-75%	-75%	-79%	-84%	-71%	-82%	-62%	-77%	-55%	-75%
EBITDA	0.3	1.9	3.4	7.0	12.3	10.3	20.5	16.0	26.2	20.1
EBITDA Margin on VoP	25%	25%	21%	16%	29%	18%	38%	23%	45%	25%
EBITDA (including Laser)				8.6						
EBITDA Margin on VoP				16%						
EBITDA (including Laser + Verve)				9.3						
				16%						
D&A	(0.1)	(0.2)	(0.4)	(5.5)	(8.7)	(7.9)	(15.3)	(12.4)	(19.3)	(16.0)
% on VoP	-6%	-2%	-2%	-13%	-20%	-14%	-28%	-18%	-33%	-20%
EBIT	0.2	1.7	3.0	1.5	3.6	2.4	5.2	3.7	6.9	4.0
EBIT Margin on VoP	18%	23%	19%	3%	8%	4%	10%	5%	12%	5%
Net financial income (expenses)	(0.0)	(0.0)	(0.1)	(0.3)	(0.5)	(0.6)	(0.6)	(0.5)	(0.6)	(0.4)
% on VoP	-2%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Net extraordinary income (expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBT	0.2	1.7	2.9	1.2	3.1	1.8	4.6	3.2	6.3	3.6
EBT Margin on VoP	17%	22%	18%	3%	7%	3%	8%	5%	11%	5%
Income Tax Expense	(0.1)	(0.6)	(0.8)	(0.6)	(0.9)	(0.5)	(1.3)	(0.9)	(1.8)	(1.0)
Tax rate	35%	35%	27%	55%	28%	28%	28%	28%	28%	28%
Net Income	0.1	1.1	2.1	0.5	2.2	1.3	3.3	2.3	4.6	2.6
Net Income Margin on VoP	11%	15%	13%	1%	5%	2%	6%	3%	8%	3%

Source: Banca Profilo elaborations and estimates

Balance Sheet & Cash Flow

As production activities grow, intangible fixed (i.e. IP rights and internal works) are set to increase further

We project that Fenix fixed assets will increase over the next few years, considering the expected growth in production and distribution activities. Fixed assets are mainly intangible fixed assets which include:

- i) own capitalized work is the value change of in-progress cinematographic and audio-visual assets. They are estimated on films production pipeline assumptions, not yet distributed. These assets are not subject to D&A. Once the film is released, this asset is zeroed, and becomes IP right.
- ii) IP rights are estimated in line with the timing of the distribution of the films in pipeline. We estimate that from the start of the production phase, a film will go into distribution on average eleven months later.

According to our estimates, fixed assets are expected to grow at a CAGR 21-24 of 10%, to reach €56.4m in 2024 versus our estimates of €52.4m.

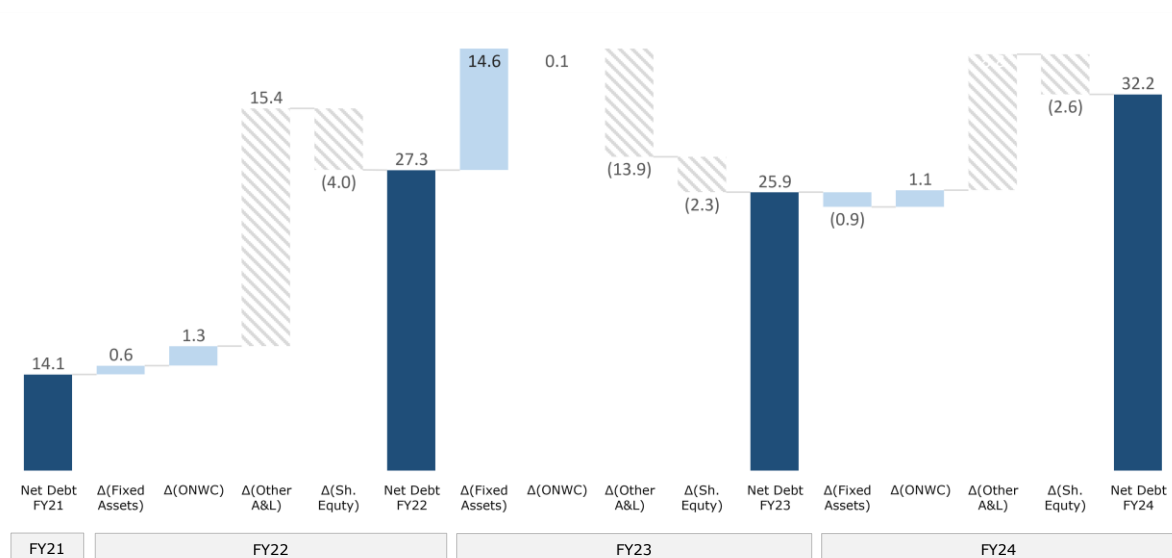
Operating Net Working Capital will rise by about €1m per year

We estimate a lower Operating NWC at €3.3m in 2024E compared to €8.5m in our old estimates, with a weight on VoP at 4% in 2024. Overall, we project that NOWC will rise by about €1m per year from 2022 to 2024E.

Shareholders' equity will increase, reaching €21.2m in 2024E

On a stand-alone basis, Shareholders' Equity is expected to gradually increase, from €12.3m in FY21 to €21.2m in FY24, as the Company progressively increases its profitability. Moreover, we include in our estimates the share capital increase of €1.3m carried out on 10th June FY22, reserved for Andrea Di Nardo. We also consider two other capital increases in our FY22 estimates; the first one aims to partially finance the acquisition of 60% of Verve Media Company and will be equal to €0.835m; the second one is in option for an amount of €4.1m through a maximum of 755,633 ordinary shares, at €5.5 per share. The offer period ended on 8th July and the shareholders have exercised a total of 101,225 option rights equivalent to 20,245 ordinary shares, for a total amount of €0.111m.

Figure 26: Expected Net Financial Position evolution from 2021 to 2024 (€, mln)



Source: Banca Profilo elaborations and estimates on Company data

Net Debt will increase over years; sustainable levels of Net Debt/EBITDA Ratio and EBIT Interest Coverage Ratio

Finally, we estimate the increase in production activities will lead to an increase in Net Invested Capital, inducing the Company to ask for new financing. Net Debt is thus expected to grow on average by €6m per year, versus our old estimates of on average €4.6m per years.

Net Debt/EBITDA ratio should be on average 2.0x for the FY22-24E; sustainable levels of EBIT Interest Coverage Ratio is forecast to be equal on average at 7x for 22-24E period.

Table 5: Fenix Balance Sheet 2018-2024E (€, mln)

Balance Sheet (€/mln)										
	FY18	FY19	FY20	FY21	2022E		2023E		2024E	
					OLD	NEW	OLD	NEW	OLD	NEW
Intangible Assets	0.4	4.3	17.7	40.1	35.3	39.3	43.4	53.9	48.8	53.0
Property, Plant & Equipment	0.0	0.1	0.1	2.0	1.8	2.0	1.8	2.0	1.8	2.0
Financial Assets	0.1	0.0	0.1	0.1	1.7	0.1	1.8	0.1	1.8	0.1
Fixed Assets	0.5	4.4	17.9	42.2	38.9	42.8	47.0	57.4	52.4	56.4
Verve Media Company		0.0	0.0	1.3		1.3		1.3		1.3
Trade Receivable	0.9	2.3	2.9	31.0	16.8	16.1	18.8	18.9	21.0	23.8
Inventories	-	-	-	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Trade Payable	(0.4)	(1.8)	(5.2)	(30.3)	(13.6)	(15.2)	(13.8)	(18.0)	(12.6)	(21.8)
Net Operating Working Capital	0.5	0.5	(2.2)	0.9	3.3	2.1	5.2	2.3	8.5	3.3
Verve Media Company NOWC				1.1		1.1		1.1		1.1
% on VoP	46%	6%	-14%	2%	8%	4%	10%	3%	15%	4%
Trade receivables (% on VoP)	80%	31%	18%	71%	39%	29%	35%	27%	36%	30%
Inventories (% on VoP)	-	0%	0%	0%	0%	0%	0%	0%	0%	0%
de paybles (%cost of services&materials)	52%	45%	46%	100%	66%	44%	62%	46%	61%	51%
Other Assets	1.4	2.2	5.4	9.0	10.8	9.6	12.1	8.5	12.8	11.8
Other Liabilities	(1.9)	(4.8)	(8.9)	(24.9)	(12.5)	(9.6)	(14.8)	(22.4)	(17.8)	(16.8)
Ratei e risconti passivi		(1.6)	(6.6)	(18.3)		(8.6)	(14.8)	(22.2)	(17.8)	(16.8)
Funds	(0.0)	(0.0)	(0.0)	(0.7)	(0.5)	(1.3)	(0.5)	(1.3)	(0.5)	(1.3)
Invested Capital	0.6	2.3	12.1	26.4	40.0	43.6	48.9	44.5	55.4	53.4
CapEx	0.4	4.1	10.6	24.8	10.1	6.3	15.0	12.0	16.0	14.4
Intangible	0.4	4.0	10.6	24.8	9.5	6.3	14.6	12.1	15.0	14.5
Tangible	0.0	0.1	0.0	0.0	0.4	(0.1)	0.3	(0.1)	0.7	(0.1)
Financial	0.0	0.0	-	-	0.1	-	0.1	-	0.3	-
% on VoP	34%	55%	66%	57%	23%	11%	28%	17%	28%	18%
Shareholders' equity	0.2	1.4	6.0	11.8	18.4	15.6	21.7	17.9	26.3	20.5
Share capital	0.1	0.1	0.1	0.1	0.4	0.2	0.4	0.2	0.4	0.2
Reserves	0.0	(0.0)	2.5	7.7	10.5	10.2	10.7	10.2	11.0	10.2
Retained earnings	0.1	0.2	1.3	3.4	5.3	3.9	7.3	5.3	10.3	7.6
Group Net Income	0.1	1.1	2.1	0.5	2.2	1.3	3.3	2.3	4.6	2.6
Shareholders' equity attributable to third	-	-	-	0.6	0.2	0.7	0.2	0.7	0.2	0.7
Minority/Non Controlling Interest	-	-	-	-	-	-	-	-	-	-
Consolidated Shareholders' Equity	0.2	1.4	6.0	12.3	18.6	16.3	22.0	18.6	26.5	21.2
Financial Debt	0.8	1.5	4.2	11.2	16.5	9.2	19.2	7.2	19.1	5.2
Cash and cash equivalents	(0.0)	(0.1)	(0.3)	(1.2)	(5.0)	(1.2)	(8.0)	(1.2)	(10.0)	(1.2)
Payables for rights of use	-	-	-	-	-	-	-	-	-	-
Other financial receivables	(0.4)	(0.5)	(0.9)	(0.1)	-	(0.1)	(0.2)	(0.1)	(0.2)	(0.1)
Net Financial Position (Cash)	0.3	0.9	3.0	14.1	21.3	27.3	27.0	25.9	28.9	32.2

Source: Banca Profilo elaborations and estimates

Lower cumulated EBIT 2022-2024; yet higher Free Cash Flows for reduced Capex and NWC cash out

According to our 2022-2024 Profit & Loss and Balance Sheet estimates, Free Cash Flow generation should reach €3.4mln in 2024E. We now project cumulated FCFs at €10.1mln or €3.4mln as yearly average, which is above our previous estimates at €4.6mln and €1.5mln respectively.

Even if the cumulated EBIT (€10.1mln) is lower than the previous estimates (€15.8mln), cumulated FCFs surged due to a lower cumulated Net Operating Working Capital cash out, which is now seen at € 1.4mln vs previous €9mln and a lower cumulated CapEx which are €32.8mln vs old projections of €41mln.

Table 6: Fenix Free Cash Flow 2018-2024E (€, mln)

Cash Flow (C / mln)										
	FY18	FY19	FY20	2021	2022E		2023E		2024E	
				NEW	OLD	NEW	OLD	NEW	OLD	NEW
EBIT	0.2	1.7	3.0	1.5	3.6	2.4	5.2	3.7	6.9	4.0
Tax rate	35%	35%	27%	55%	28%	28%	28%	28%	28%	28%
NOPAT	0.1	1.1	2.2	0.7	2.6	1.7	3.7	2.7	5.0	2.9
D&A	0.1	0.2	0.4	5.5	8.7	7.9	15.3	12.4	19.3	16.0
Changes in Funds			0.0	0.7	(0.0)	0.6	(0.0)	0.0	(0.0)	0.0
Changes in Operating NWC	n.a.	0.1	2.7	(3.1)	(3.8)	(0.2)	(1.9)	(0.1)	(3.3)	(1.1)
Capex	(0.4)	(4.1)	(10.6)	(24.8)	(10.1)	(6.3)	(15.0)	(12.0)	(16.0)	(14.4)
Free Cash Flow	n.a.	(2.7)	(5.3)	(21.0)	(2.5)	3.8	2.1	2.8	5.0	3.4

Source: Banca Profilo elaborations and estimates

Key risks

TYPE OF RISK		DESCRIPTION
EXTERNAL CONTEXT	<i>Regulatory risk:</i> - medium-low likelihood - very high impact	Italian Film production and distribution companies can rely on significant tax benefit provided by the government which allows a saving of 40% on eligible production costs. Our estimates assume no changes in the Italian regulatory framework regarding tax credits and government and local grants. Any repeal, reduction, or modification of these tax incentive could have negative effects on Fenix profitability, negatively impacting its economic and financial situation.
	<i>Competitive risk:</i> - medium-low likelihood - medium-low impact	Fenix operates in a highly competitive market scenario and have a limited scale compared to some well-known international competitors. However, competition is growing more among broadcasters than among content producers. In addition, Fenix is a unique player on the domestic market for the degree of vertical integration it has. Moreover, Fenix is seeking to further diversify its business through expansion into digital marketing, digital content creation and TV production.
	<i>Obsolescence risk:</i> - medium likelihood - medium impact	The Global Film Industry is characterized by a high level of technological innovation, both in production and distribution activities. As for production, technology's greatest impact is perhaps felt in new cameras that allow cinematographers to shoot in a higher definition. Post-production is another area where technological innovation leads to new trends. The process of distributing film has undergone a technological transformation with the rise of streaming platforms that has radically changed the market. Finally, the market may face several technological changes over the next few years about how a film or video is viewed. VR, glasses-free 3D, augmented reality, IoT are just a few emerging technologies that may revolutionize the Film Industry.
	<i>Illegal distribution risk:</i> - medium-low likelihood - medium impact	The illegal distribution of film, known as film piracy, is constantly evolving. Moreover, the unauthorized creation, transmission and sharing of high-quality copies of films is made easier by technological progress. In the absence of high adequate technological tools and an efficient cybersecurity system, Fenix may have to face a significant economic and image damage. We asked the Company a deepening about this topic, and it told us to have implemented any possible security safeguard measure regarding IP rights protection. Cybersecurity is 50% internalized and the remaining 50% outsourced to Unidata.
BUSINESS & STRATEGY EXECUTION	<i>Start-up stage risks:</i> - low high likelihood - low impact	Being operative only since 2017, Fenix is characterized by a limited previous operating history and a limited set of information useful for deeply evaluating historical financial performance. Moreover, early-stage Company traditionally might incur unexpected costs deriving from the embryonic phase of its life. However, in our opinion, this is not the case of Fenix Entertainment: in just a few years, the management has been able to achieve exceptional results, both in economic and operational terms.
	<i>Seasonality risk:</i> - high likelihood - low impact	The Global Film Industry is characterized by highly seasonality, with the concentration of releases and cinema attendance in the last quarter of the calendar year. The distribution period can affect the success of a movie, and any delay or postponement of the launch could compromise related economic results.
	<i>Risk of losing qualified personnel:</i> - low likelihood - high impact	Fenix strategic and financial results strictly depend on its management and on some key figures. The Company, should there be an interruption of the professional collaboration relationships with some key figures, may be exposed to a deterioration of its competitiveness, with repercussions on both demand and economic results.
FINANCIAL	<i>Risks linked to an underestimation of costs:</i> - medium likelihood - medium-low impact	The production processes require significant financial sources. Fenix starts the production of a movie or similar only once it has guaranteed the financial coverage of all estimated costs. However, production and co-production works may be influenced by events beyond the control of the Company. These circumstances may lead to an increase in the costs initially estimated by Fenix and the need to find additional resources to finance the project. However, Fenix minimizes this risk by ensuring financial coverage usually 15% higher than the budget estimated.

Table 7: Risk matrix

Impact	Very high		Regulatory risk			
	High	Risk of losing qualified personnel or key manager				
	Medium		Film piracy risk	Obsolescence risk		
	Medium-Low		Competitive risk	Risks linked to an underestimation of costs		
	Low	Start-up stage risks			Seasonality risk	
Potential impact on the business VS likelihood of occurrence		Low	Medium-Low	Medium	High	Very high
		Likelihood				

Source: Banca Profilo elaborations on Company data

Valuation

DCF method and market multiples

Given Fenix Entertainment's cash generating business model, a DCF method well adapts as a valuation approach. Furthermore, we have selected a sample of listed international "comparables" to Fenix, in order to suggest an appropriate sample for the relative valuation through market multiples.

Confirmed BUY TP of €9/share

We confirm our BUY recommendation but reduce our 12-month target price to €9/share from previous €12/share, mainly due to (i) lower market multiples since the media FY22-23 EV/EBIT decreased from 11.8x to 10.2x and (ii) higher WACC deriving from increasing risk-free rate. The target price is computed as the simple average between the fair value from our DCF model (€13.7) and the implicit price in peer's market multiples (€4.3).

DCF

€10.1mln cumulated FCFs Terminal FCF at €3.4mln

To run the DCF model, we used our projections of FCFs for the 2022E-24E explicit period coming from our Income Statement & Balance Sheet estimates. Cumulated 2022E-2024E cash flow is estimated at €10.1mln. The final cash flow has been set equal to the FY22-24 average at €3.4mln. Forecasting Fenix future cash flows was not trivial, mainly because the Company had not a consistent historical series that could back up our assumptions. Fenix historical series of negative cash flow is in our opinion not reliable for future trend, due to two key aspects: (i) Fenix had little to amortize in past years, having few titles in its library, and (ii) own productions were little implying that cash absorption from new productions was higher than cash generated by productions delivered. As the number of own productions grows, we expect Free Cash Flow to progressively improve throughout the forecasting period, becoming positive from FY22 onwards.

WACC of 6.8%

To discount cash flows, we used a WACC of 6.8%, derived from:

- 3.9% risk free rate, as the moving average of the last 100 days with an estimated increase in interest rates in line with the ECB forecasts (+75bps adjustment).
- 5.5% market risk premium;
- 1 the leveraged beta;
- 3.1% after tax cost of debt;
- Debt-to-equity target ratio at 40%, in the middle between the figure at the end of 2020 and 2021

In order to assess the Terminal Value, we used a perpetual growth rate of 2%.

Table 8: WACC calculation

WACC Calculation	
Perpetual growth rate	2.0%
WACC	6.8%
Risk free rate (Italy 30 + Projected increase)	3.9%
Equity Risk Premium	5.5%
Beta	1.0
Cost of Equity	9.3%
After tax cost of Debt	3.1%
Tax rate	28%

Source: Banca Profilo estimates and elaborations

DCF fair value:
€13.7/share

The DCF method leads us to an Enterprise Value of €66.3mln and an Equity Value of €52.3mln or €13.7/share.

Table 9: DCF valuation

DCF Valuation (mln, except for the target price)	2022E	2023E	2024E	Over
Free Cash Flow (FCF)	3.8	2.8	3.4	3.4
Years	1	2	3	
Discount factor	0.94	0.88	0.82	
NPV Cash flows	3.5	2.5	2.8	
Sum of NPVs	3.5	6.0	8.9	
Terminal Value				70.0
NPV Terminal Value				57.5
Enterprise Value				66.3
Net Financial Position FY21				14.1
Minorities FY21				-
Equity Value				52.3
Outstanding shares				3.8
Equity Value per share				13.7

Source: Banca Profilo estimates and elaborations (as of July 12th, 2022)

Market multiples

Sample of six comparables: Iervolino, Leone Film, Lucisano, Notorious, Xilam Animation and Splendid Medien.

In order to assess a relative valuation of Fenix Entertainment through the market multiples approach, we selected a sample of six comparables: Iervolino, Leone Film, Lucisano, Notorious, Xilam Animation and Splendid Medien.

In terms of Sales Growth, consensus estimate an average increase of 26% and 18% in 2022-23E. For Fenix we estimated a slightly higher than average increase in at 28% and 23% respectively.

Table 10: Sample benchmarking on Sales growth and EBIT margin

Company	Currency	Market Cap (Mln)	EV	Sales growth					EBIT margin				
		12/07/2022		2019	2020	2021	2022E	2023E	2019	2020	2021	2022E	2023E
Iervolino & Lady Bacardi	Euro	12/2021	1.3	204%	51%	22%	-7%	5%	28%	18%	15%	16%	16%
Leone Film Group	Euro	12/2021	2.3	-43%	3%	36%	-23%	25%	3%	1%	8%	7%	7%
Lucisano Media Group	Euro	12/2021	1.3	2%	-15%	29%	30%	20%	9%	8%	9%	13%	15%
Notorious Pictures	Euro	12/2021	1.5	27%	-68%	102%	139%	24%	17%	-23%	-11%	11%	11%
Splendid Medien	Euro	12/2021	1.4	-3%	-13%	3%	-2%	10%	16%	12%	7%	5%	7%
Xilam Animation	Euro	12/2021	40.6	7%	-27%	84%	9%	37%	31%	20%	22%	23%	24%
Highlight Communications	Euro	12/2021	3.7	2%	-15%	23%	3%	3%	6%	7%	3%	6%	6%
Squirrel Media	Euro	12/2021	3.2	70%	198%	118%	54%	18%	8%	5%	9%	19%	23%
Mean				33%	14%	52%	26%	18%	15%	6%	7%	13%	13%
Median				5%	-14%	33%	6%	19%	12%	7%	8%	12%	13%
Fenix Entertainment Spa	Euro	12.5	27.2	535%	116%	170%	28%	23%	23%	19%	3%	4%	5%

Source: Banca Profilo estimates and elaborations on Factset data (as of July 12th, 2022)

EV/EBIT at 11.4x and 7.4x for FY22-23E

In terms of EV/EBIT, the consensus estimates a median for FY22-23E equal to 10.4x and 7.9x respectively. On average, Fenix trades in line at 11.4x in 2022E and 7.4x in 2023E.

Table 11: Sample benchmarking on EV/EBIT

Company	EV / EBIT		
12/07/2022	2021	2022E	2023E
Iervolino & Lady Bacardi	2.8x	2.8x	2.7x
Leone Film Group	12.6x	18.3x	14.0x
Lucisano Media Group	12.8x	6.8x	5.1x
Notorious Pictures	-15.5x	6.8x	5.6x
Splendid Medien	5.9x	7.7x	5.2x
Xilam Animation	25.3x	21.6x	15.5x
Highlight Communications	32.5x	13.0x	13.0x
Squirrel Media	49.4x	14.8x	10.2x
Mean	15.7x	11.5x	8.9x
Median	12.7x	10.4x	7.9x
Fenix Entertainment Spa	18.2x	11.4x	7.4x

Source: Banca Profilo estimates and elaborations on Factset data (as of July 12th, 2022)

EV/EBIT should be preferred over EV/EBITDA. Average multiple of 10.2x

To compute the valuation implicit in market multiples we used the EV/EBIT as reference multiple, as EBITDA could be misleading for the reasons explained above in the Historical operating and financial performance section. The media FY22-23 EV/EBIT is equal to 10.2x, above the previous value at 11.8x. According to our EBIT estimates, we derived an average Equity Value of €16.9mIn, equal to a per share value of €4.4.

Table 12: Market multiple

Valuation on EV/EBIT market multiple (€ mIn, except for the target price)		
	2022E	2023E
Media EV/EBIT best peers	11.5x	8.9x
Average EV/EBIT 2022-23	10.2x	
EBIT	2.4	3.7
Theoretical Enterprise Value	24.5	37.5
Net Debt 2021	14.1	
Current Minorities	0.0	0.0
Equity Value	10.4	23.4
Average Equity Value	16.9	
Current outstanding shares	3.8	
Price per share (€)	4.4	

Source: Banca Profilo estimates and elaborations on Factset data (as of July 12th, 2022)

TP cut to €9/share; BUY confirmed

We set our 12-month Target Price at €9/share as the average of DCF and market multiples valuations. Given the significant potential upside on Fenix's closing price (as of 12th July 2022), we confirm our BUY recommendation.

APPENDIX

Fenix overview and business model

Company's foundation and business scope

Fenix business at a glance

Fenix Entertainment is an Italian motion pictures company founded in 2016 and specialized in producing and distributing films, TV content, animated movies, and music. Movie production and distribution is certainly Fenix original and core business, but recent diversification, through Laser and Verve acquisitions and the set-up of LovIt, has been evolving its business model towards a Media & Entertainment company with a specific know-how in content production and post-production services leveraging on cutting-edge audio and video technologies and talents.

Fenix history has been a never-ending growth

The Company was founded in 2016 by the entrepreneurs Riccardo Di Pasquale, former investment banking manager, and Matteo Di Pasquale, former organizational manager, in collaboration with Roberta Giarrusso, a well-known Italian film and television actress. The Company started to be operative in movie production only a year later its foundation. The first operational activities involved co-productions in which Fenix contributed as a financial partner. In the meantime, the Company established its musical production business, began acquiring film licenses to build its library, and launched the marketing & advertising service. Own productions activities of both movies and TV series began in 2019, year in which Fenix produced two movies, "Burraco Fatale" and "Dietro La Notte", and a docu-TV series, "That's Amore", that tells the story of an Italian veterinary clinic and its passion for animals.

The acquisition of Laser Digital Film makes Fenix a unique player in the Italian Entertainment & Media sector

In December 2021 the Company acquired the majority (60%) of Laser Film Digital, a crucial media & entertainment supplier of post-production activities, namely dubbing, mixing, colour grading, subtitling, and visual effects among others. This vertical addition integrates Fenix business model with inhouse management and control of quality and timing of last production phase, making Fenix the only player among Italian entertainment companies such vertically integrated and at the same time diversified across sub-industries and activities. Laser Value of Production stood at €10.9mIn in FY21 and is expected to have increased in the following, clearly outperforming the market. Laser Digital Film figures have not been consolidated in the FY21 income statement, but only in the balance sheet. Fenix will consolidate 100% of Laser despite a majority stake being 60%.

Fenix's transformation from a simple motion picture company to an integrated media one

In the first months of 2022 Fenix regularly carried out the productions already in progress without starting new film or television ones. The management's attention was mainly focused on the reorganization of activities and the definition of the strategic lines after the acquisition of Digital Laser Film. The most important event was surely represented by the establishment of LovIt, the branch of Fenix which will oversee entering the market digital content creation and use. Lovit points to become an influencer brand by exploiting the engineering of algorithms and artificial intelligence. The Company uses a mechanism in which technology and content interact synergistically to aggregate the public around their passions.

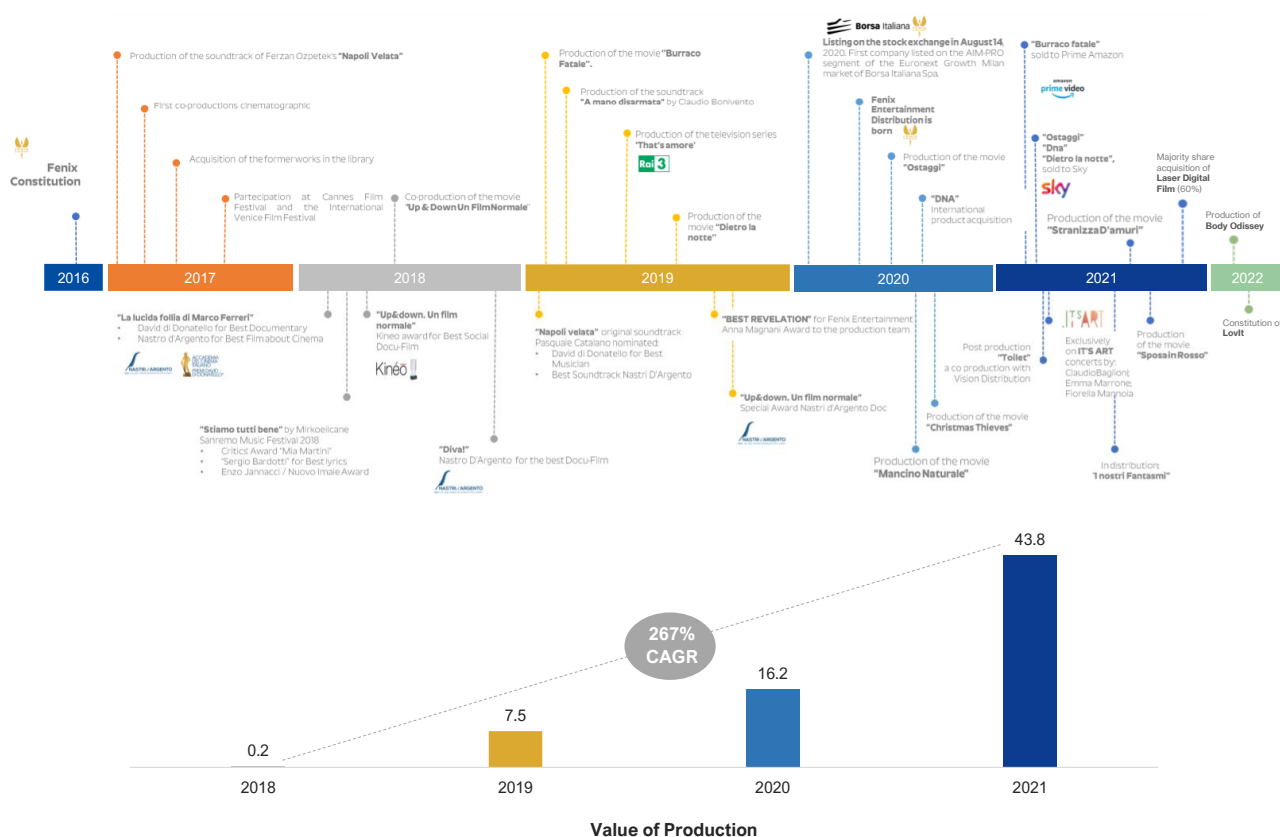
Verve Media: first steps into TV content production

On 10th June 2022 Fenix Entertainment acquired a stake of 60% in Verve Media's share capital, which develops and produces original television and multimedia content for all major companies' distribution platforms on national and international markets for more than 10 years. Through this acquisition, Fenix can incorporate the television production business. Verve produced over 5,000 hours of programming in different areas (light entertainment, infotainment, game show, docu-reality and documentary film), with the aim of telling the social and cultural changes through innovative languages. The acquisition of a 60% stake will be financed by a capital increase worth €0.835mIn in option to seller shareholders.

Additional notable thing

Fenix has been recognized as innovative SME. This status allows investors to receive tax incentives and makes Fenix stock eligible for PIR asset management products.

Figure 27: Fenix milestones



Source: Banca Profilo elaboration on Company data

In a nutshell: film production and distribution, music production, post-production, and digital marketing & advertising

Here below you can find some illustrative images of the main activities of Fenix, which concern:

- audio-visual products for cinema, TV and streaming platforms production and distribution
- music production
- marketing and advertising services and
- post-production activities

Figure 28: Examples of Fenix activities

Film production



Post-production activities



Music production & distribution



Marketing, advertising & creation of innovative digital content









Source: Banca Profilo elaborations on Company and public pictures

Business model and activities

A vertically integrated player

Alongside its diversification projects, Fenix keeps pushing its core business of production and distribution, with an increasing number of produced and distributed film throughout the years.

Figure 29: Some of Fenix produced and already distributed movies

 <p>DIVA!</p> <p>Year: 2017 Genre: Documentary Distributor: Officine Ubu Co-producers: Casta Diva, DO Consulting & Production IMDb rating: 5.9 Festival: n.a. Budget: €500k Box Office: n.a.</p>	<p>STREAM: amazon prime video</p> <p>RENT: Google Play, CHILI, Apple TV €2.99, €3.99</p> <p>BUY: Google Play, CHILI, Apple TV €6.99, €7.99</p>
 <p>Up & Down – Un film normale</p> <p>Year: 2018 Genre: Documentary Distributor: Fenix Co-producers: Agnus Dei, Laser Film, Non c'è problema IMDb rating: 8.2 Festival: Venice Film Festival Budget: n.a. Box Office: €20.6k</p>	<p>STREAM: RaiPlay</p> <p>RENT: CHILI €2.99</p> <p>BUY: CHILI €7.99</p>
 <p>Burraco Fatale</p> <p>Year: 2020 Genre: Comedy Distributor: Fenix Co-producers: Rai Cinema IMDb rating: 4.0 Festival: Venice Film Festival Budget: n.a. Box Office: €327k</p>	<p>STREAM: amazon prime video</p> <p>RENT: Google Play, CHILI, Mediaset Infinity €1.99, €3.99</p> <p>BUY: Google Play, CHILI, Apple TV €6.99, €9.99</p>
 <p>Alida</p> <p>Year: 2021 Genre: Documentary Distributor: Venice Film Co-producers: Istituto Luce, Cinecittà, Kublai, Venice Film IMDb rating: 7.7 Festival: n.a. Budget: €400k Box Office: €10.9k</p>	<p>STREAM: RaiPlay</p> <p>RENT: CHILI</p> <p>BUY: CHILI</p>
 <p>Ostaggi</p> <p>Year: 2021 Genre: Comedy Distributor: n.a. Co-producers: Fenix IMDb rating: 5.3 Festival: n.a. Budget: n.a. Box Office: n.a.</p>	<p>STREAM: amazon prime video, NOW TV</p> <p>RENT: Google Play, CHILI €3.99</p> <p>BUY: CHILI, Apple TV €2.99, €9.99</p>
 <p>I nostri fantasmi</p> <p>Year: 2021 Genre: Comedy, Drama Distributor: Fenix Co-producers: n.a. IMDb rating: 6.7 Festival: Venice Film Festival Budget: n.a. Box Office: €12.3k</p>	<p>STREAM: CHILI</p> <p>RENT: CHILI</p> <p>BUY: CHILI</p>

Source: Banca Profilo elaborations on Company data

The main steps of a film production

A film or television project goes through five main steps, and Fenix has direct management of all of them, starting from the story and leading to the final output.

- (i) Every film starts with a story and once it is found, the Company assesses its marketability and, if potentially successful, takes on meetings to secure financing for the film. This phase, in terms of costs incurred, is worth about 5% of the total budget.
- (ii) The pre-production phase starts immediately after. Here Fenix financially organizes the production and only once the financial coverage is reached – please note that Fenix does not directly finance its production activities – Fenix validates the project. After ensuring the financial coverage, Fenix carries out the preparatory activities, such as the selection of the actors, the director, the music, the location for the filming, etc. Pre-production costs amount to approximately 7% of the total budget.
- (iii) Production starts only after the financial coverage of the project is ensured. The shooting phase, or animation phase in the case of animated films, represents the key phase of the entire production process. Some companies, like Fenix, outsource the various activities of this phase to third-party companies, while maintaining supervision. Production costs amount to approximately 78% of the total budget.
- (iv) Once the production phase is over, the post-production phase begins. These activities are generally outsourced to external suppliers, given the highly specialized expertise required for this work, and take several months to be completed, representing the longest stage of the entire process. Post-production costs amount to approximately 10% of the total budget:

however, the acquisition of Laser Digital Film will allow Fenix to internalize these activities, thus saving on services costs.

- (v) The last step is the distribution phase. Being both producer and distributor, Fenix has the right to both distribute internally produced films and distribute films of which it has acquired the IP right from third party producers. Distribution activities generally cost around 7% of a film budget but generate additional revenues to those related to production. Net of distribution costs, revenues from distribution activities converge almost entirely in the operating margin. This is because production costs of a film have already been fully covered by production revenues, whether in the form of grants, tax credits or IP rights sale.

Business model evolution: from Film to TV productions. Higher margins and quicker time to market

Main goal in 2022 is to improve margins through a better revenue mix, increasing the weight of TV productions versus Film productions. The cinematographic production activity will continue but with a focus on international productions with higher budgets and more important results both at an economic and reputational level for the company. Through the acquisition of Verve, Fenix can incorporate the television production business. Since the media impact of a television program is much wider than film productions, the company will benefit from it in terms of visibility. The first television program, designed and produced for Rai 3, is called "Sex" and will start in August 2022. Fenix won't broadcast only the latter: a series of other television programs will be concluded by 2022.

Revenue model

A deep dive into Fenix revenue model

From a business point of view, Fenix Value of Production can be divided into:

- Revenues from production activities include: (i) government and local grants, (ii) tax credits, and (iii) operating revenues such as IP licensing or sale and product placement revenue.
- Revenue from distribution activities come from cinema takings and subsequently from distribution agreements with Pay-Per-View companies, Free TV, other broadcasters, and streaming platforms.
- increase in own work capitalized (capitalized production costs): Fenix recognizes as VoP the change in value of cinematographic and audio-visual assets that are still work in progress. This change in value corresponds to the costs incurred up to that moment to produce the work.
- Revenues from marketing and advertising come mainly from recurring activities for client companies, such as digital promotion, offline production and creation of events, or occasional activities such as brand and logo creation and brand positioning.
- Revenues from music derive from the production and distribution of products by young artists. Revenues are based both on streaming playback and selling records.

Revenues from production: IP sale, tax credits & grants

Focusing on Fenix current core business, namely motion picture activities, revenues from production are those primarily used for the economic and financial coverage of a project. Main sources are:

- Intellectual Property (IP) licensing or sale. TV broadcasters and streaming platforms must purchase movie licensing to play that copyrighted content to their audience. Movie licensing pricing depends mainly on the box office proceeds, which proxies the potential success of a movie, the participation in festivals and eventual awards, and the cast. License agreements are accounted as sales when the rights are transferred to the customer or when the license period begins. IP rights of film produced internally do not expire, while IP rights of the films purchased have a duration defined by the contract which can vary from 1 to 10 years.
- Tax credit. Under the Italian scheme, Italian movie production companies can obtain a tax credit up to 40% of the eligible production costs up to €9mIn. Only Italian production service companies that are subject to taxation in Italy and meet certain legal requirements, such as Fenix, are entitled to apply.

Since 2018 production companies have been authorized to sell their tax credits to financial intermediaries to reduce working capital and free up cash flows. Tax credits are accounted as other revenues and follow the amortizing schedule of costs to which they are related.

- Local grants. Each Italian region has a so-called *Film Commission* which, on an annual basis, allocates a specific budget to finance those films that most represent that region in two ways (i) the presence of local images in the film and, (ii) the costs actually incurred by the production company in the region.
- Government grants. There are also ministerial funding in case the movie is of national interest. This funding is recognized in two specific cases: (i) the film deals with an issue which is particularly relevant to the society and difficult to represent, and (ii) the film is a first or second work by an emerging artist.

Revenue from distribution activities

Besides grants and tax credits, Fenix mainly generate revenues from distribution where its main customers, are: (i) cinema, (ii) broadcasters, (iii) satellite television platforms, (iv) and streaming platforms. Revenue mainly comes from:

- Box office takings, equal to approximately 40% of tickets sold;
- Royalties. In addition to movie licensing, TV broadcasters and streaming platforms pay royalties to the owner of the intellectual property, which are a percentage of revenues generated by broadcasters and are paid according to contractual agreements for that specific piece of intellectual property;
- Ancillary revenues coming from further exploitation of IP through merchandising, spinoffs, books etc. They are recognised as they occur.

FENIX "ID Card"

Recommendation
BUY

Target Price
9.0 €

Upside
174%

Company Overview

Fenix Entertainment is an Italian motion pictures company founded in 2016 and specialized in producing and distributing films, TV content, animated movies, and music. Movie production and distribution is certainly Fenix original and core business, but recent diversification, through Laser and Verve acquisitions and the set-up of LovIt, has been evolving its business model towards a Media & Entertainment company with a specific know-how in content production and post-production services leveraging on cutting-edge audio and video technologies and talents. The group structure is led by Fenix that directly controls four subsidiaries: Laser Digital Film, Laser S. Film, both acquired at the end of 2021, LovIt, set up in January 2022 and Verve Media, acquired in June 2022. These subsidiaries have a specific scope of application. Laser Digital and Laser Film are specialized in post-production, LovIt in the creation of technological digital content and Verve Media in TV content. Main goal in 2022 is to improve margins through a better revenue mix, increasing the weight of TV productions versus Film productions. The cinematographic production activity will continue but with a focus on international productions with higher budgets and more important results both at an economic and reputational level for the company. Through the acquisition of Verve, Fenix can incorporate the television production business. Since the media impact of a television program is much wider than film productions, the company will benefit from it in terms of visibility.

SWOT Analysis

Strengths

- Economic and financial coverage of a film ensured before the actual start of production
- Solid film pipeline in addition to recurring revenues coming from deferred income
- Know-how and expertise across different segments of the Media & Entertainment Industry, from film and music production to digital marketing
- Management proven track record
- Strong ongoing relationships with key people of the Italian Film industry
- Well-structured to benefit from tax incentive schemes and local grants

Weaknesses

- Low degree of internationalization
- Weak diversification among type of activity
- Limited scale compared to international competitors

Opportunities

- Expansion of the production business
- Synergies coming from the acquisition of Laser Film, Laser Digital and Verve Media Company
- M&A that will enhance further group expertise
- Global demand for new entertainment product is undergoing continuous growth
- Financing through tax credit: assigned €545mln in 2022 to support cinema and TV

Threats

- Increasing competition both in the production phase and in the distribution one
- Possible changes in the regulatory framework affecting tax incentives and local grants for film producers and distributors

Main catalysts

- 👍 Full grounding of the potential deriving from the latest acquisitions
M&A operations expected to continue in the coming years

Main risks

- ⚠️ Risk associated with the change in the regulatory framework that affects tax incentives



FENIX "ID Card"

July 13, 2022

Recommendation

BUY

Target Price

9.0 €

Upside

174%

Main Financials

(€ mln)	FY21	2022E	2023E	2024E
Fenix VoP	43.8	44.0	53.5	60.2
yoy change	170%	1%	21%	13%
VoP (including Laser and Verve)*	54.7	56.0	69.1	79.0
yoy change	237%	2%	23%	14%
Added Value	18.5	21.1	30.4	36.1
Margin (%)	34%	38%	44%	46%
EBITDA	7.0	10.3	16.0	20.1
yoy change	106%	47%	55%	25%
Margin (%)	16%	18%	23%	25%
EBIT	1.5	2.4	3.7	4.0
Margin (%)	3%	4%	5%	5%
Net Income	0.5	1.3	2.3	2.6
Margin (%)	1%	2%	3%	3%
Net Debt (Cash)	14.1	27.3	25.9	32.2
Shareholders' Equity	12.3	16.3	18.6	21.2
Net Operating Working Capital	0.9	2.1	2.3	3.3
CapEx	24.8	6.3	12.0	14.4
FCFs	-21.0	3.8	2.8	3.4

*Verve included from 4Q2022

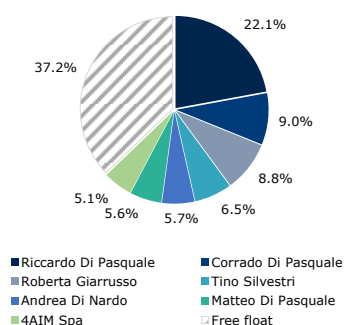
Solvability Ratios

	FY21	2022E	2023E	2024E
Net Debt/EBITDA	1.6x	2.6x	1.6x	1.6x
Net Debt/Equity	1.1x	1.7x	1.4x	1.5x
EBIT Interest Coverage Ratio	4.6x	4.4x	7.5x	9.1x

Financial and Operative ratios

	FY21	2022E	2023E	2024E
Tax rate	55%	28%	28%	28%
ROE	0.04	0.08	0.12	0.12
ROA	0.01	0.03	0.03	0.04
D&A/Capex	0.22	1.26	1.03	1.11

Ownership structure



Company Description

Company Sector	Media & Entertainment
Number of shares (mln)	3.8
Market Cap (€ mln)	13.6
Stock Exchange	Italian Stock Exchange
Reference Index	Euronext Growth Milan
Last Closing Price (as of 12th July)	3.3
Max/min	7/3.3
Main Shareholders	Riccardo Di Pasquale
Main Shareholder stake	22%
Free Float	37%
Average Daily Volumes	5,545
Sample of comparables	Iervolino & Lady Bacardi, Leone Film, Lucisano Media, Notorius Pictures, Splendid Medien, Xilam Animation, Highlight Communications, Squirrel Media

Data of peers - Media & Entertainment

	FY21	2022E	2023E
Sales Growth (yoy)	52%	26%	18%
EBITDA Margin	7%	13%	13%

Average Data (mean)

Valuation on EV/EBIT market multiple

	2022E	2023E
Media EV/EBIT best peers	11.5x	8.9x
Average EV/EBIT 2022-23	10.2x	
EBIT	2.40	3.68
Theoretical Enterprise Value	24.47	37.52
Net Debt 2021	14.1	
Current Minorities	0.0	0.0
Equity Value	10.4	23.4
Average Equity Value	16.9	
Current outsta 0	3.8	
Price per share (€)	4.4	

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