

Fenix Entertainment: a content creation machine

FENIX
entertainment

March 9th, 2022, at 18:00

Fenix Entertainment at a glance

Fenix Entertainment is a vertically integrated Media & Entertainment Company specialized in motion pictures, but also engaged in marketing and digital advertising. Fenix produces and distributes films, TV series, animated movies, and music. By applying a business diversification strategy almost since its establishment, Fenix has been also active in communication and marketing, with services such as naming and logo creation, brand positioning, and advertising campaigns. This diversification strategy has allowed the Company not only to normalize cash flows, but also to successfully cope with the disruptive situation affecting the Film Industry following the Covid-19 outbreak. A year after its foundation, in 2016, the Company started movie co-productions, whereas own productions began in 2019. In just three years, the Value of Production has more than quadrupled, from €7.5m in 2019 to €32.4m in 2021 (unaudited data which do not include Laser's figures).

Industry outlook: the war between streaming platforms and cinema recovery are fuelling demand for new contents

Despite prolonged Covid-19 aftermath affecting cinemas, the future for movie producers is brighter. Streaming providers are entering into a new war as demand slows due to reopening, while box office takings should recover after the collapse in revenue over the past years. Movie producers are expected to benefit from this growing competition since the demand for new content remains strong. Moreover, in a battle for subscribers, 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 tax incentives.

Strategic development and our FY21-FY24 estimates

Besides the favourable industry outlook, Fenix is set to diversify and expand its business further. As for film and TV series productions, Fenix's aim is to develop an ever-increasing number of projects per year, thus increasing its VoP and main profitability ratios. On top of revenues from productions, Fenix will generate increasing turnover from distribution, thanks to the library expansion, and marketing, thanks to the recently established LovIt. In partnership with Fishbonecreek, LovIt will be responsible for increasing the business of multimedia content creation, also through the exploitation of new technologies such as augmented reality and virtual reality. According to our aggregate estimates, Fenix VoP is set to grow at a FY20-FY24 CAGR of 37% to reach €57.6m, driven by: i) the progressive increase in VoP from production activities, either in the form of revenues or increase in own work capitalized and ii) growing contribution of revenues from Laser and other activities, mainly marketing and digital content creation.

Valuation: 12-month target price at €12.0; BUY

We initiate our coverage with a BUY recommendation and a target price of €12/share. The target price is computed as the simple average between the fair value from a DCF model (€17.3) and the implicit price in peer's market multiples (€6.7). To run a DCF model, we used 2022E-24E FCF estimates, equal to cumulated €4.6m, a terminal cash flow of €3.6m, equal to the FY23-24 FCF average, a WACC of 6.2% 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 8.9x, coming from the median multiple of selected competitors.

Target Price (€) **12.0**
Recommendation **BUY**

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 5.55 €
Number of shares (mln) 3.6
Market capitalization (mln) 19.8 €
Equity Float 38%

Performance from IPO

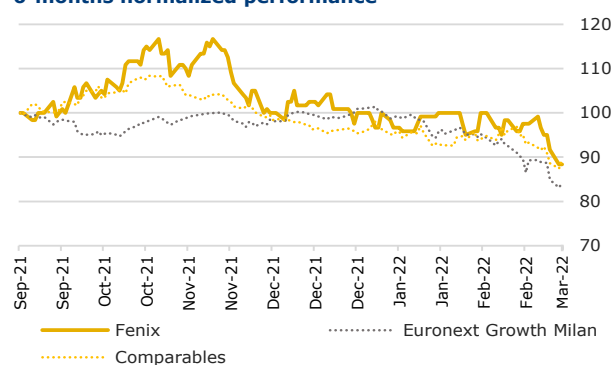
Absolute +39%
Max / Min 8.2/4.8
Average daily volumes 9,159

Financial Highlights

(€mln)	2020	2021E	2022E	2023E	2024E
VoP	16.2	41.6	43.2	54.0	57.6
yoy (%)	116%	156%	33%	25%	7%
EBITDA	3.4	7.7	12.3	20.5	26.2
margin (%)	21%	18%	29%	38%	45%
EBIT	3.0	3.0	3.6	5.2	6.9
margin (%)	19%	7%	8%	10%	12%
Net income	2.1	1.9	2.2	3.3	4.6
margin (%)	13%	5%	5%	6%	8%
Net Debt	3.0	15.2	21.3	27.0	28.9
Sh. Equity	6.0	15.1	18.6	22.0	26.5
CapEx	10.8	9.2	10.1	15.0	16.0
FCFs	(5.5)	(3.6)	(2.5)	2.1	5.0

Source: Banca Profilo estimates and elaborations, Company data.

6-months normalized performance



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Executive summary

Fenix in a nutshell

Fenix: a vertically integrated Media & Entertainment company

Fenix Entertainment is an Italian motion pictures Company founded in 2016 and **specialized in producing and distributing films, TV contents, animated movies, and music**. 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 €8mln in FY20 and is expected to have increased to €9.2mln in FY21.

Revenue breakdown by type of activity

Fenix main activities concern:

- (i) audio-visual products for cinema, TV and streaming platforms (96% of 1H21 revenue, of which 71% represents revenues from production and distribution and 29% is the increase in production in progress)
- (ii) music production (1% of 1H21 revenue),
- (iii) marketing and advertising services (3% of 1H21 revenue), and
- (iv) post-production activities (not included in 1H21 revenue as they were obtained with the acquisition of Laser Digital and Laser Film in December 2021).

Operating holding directly controlling three subsidiaries

The group structure is led by **Fenix Entertainment acting as the operating holding directly controlling three subsidiaries**, Laser Digital Film, Laser S.Film, both acquired in December 2021, and LovIt, established in January 2022.

Ownership structure and free float

Fenix Entertainment is listed on the **Euronext Growth Milan segment of the Italian Stock Exchange**. If considering shareholders holding directly more than 5% of the share capital, free float currently stands at about 39%. The Company has no majority owner, namely no one holding 51% or more of the Company.

Main Financial data and estimates (2021E-2025E)

Fenix history has been a never-ending growth, with a higher than 200% CAGR from FY18 to FY21

Fenix has a **history of constant growth in the Value of Production**. Production of own movies, documentaries, and TV series began in 2019, year in which the Company reached €7.5mln of VoP, including €3.6mln increase in costs capitalized (ongoing production) and €3.9mln operating revenues. Fenix VoP more than doubled the following year, despite the Covid-19 outbreak, reaching €16.2mln in FY20. Among operating revenues, movies sales reached €2mln at year end vs €1.3m in 2019 thanks to the distribution of *Burraco Fatale*, whose success at the box office had driven the sale of broadcasting rights. Despite a resurgence in Covid-19 cases continued to create some concerns on the movie industry in the first half of 2021, Fenix VoP surged to €13.3mln from €1.9mln in 1H20. **According to unaudited data released on January 27th, Fenix closed the 2021 financial year with a Value of Production of €32.4mln, up 99% on the previous year.**

Cost structure with more than 85% of variables costs as of year-end of 2020

Fenix has a cost structure with more than 85% of variables costs as of year-end of 2020. In 2020, main cost was raw materials for sceneries and props. However, raw materials costs recorded in FY20 and in previous years, years in which Fenix accounting was outsourced, included some items that from FY21 on, following the internalization of accounting activities, will be classified as either costs for services, or labour costs, or other operating costs. For this reason, we estimate that the incidence of raw material costs, at 54% in FY20 (total costs of €8.8mln), will drop significantly in subsequent years. In 2020 services costs accounted for 15% of VoP (€2.5mln), but for the opposite reason to that described above, this incidence is expected to increase from

2021 onwards. Labour costs include both temporary workers hired for single productions, and Fenix employees. Labour costs represent on average 10% of the Value of Production.

Being Fenix relatively young, D&A has had a limited impact in past fiscal years

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 industry average. D&A incidence on VoP stood on average at 4% between FY18 and FY20. In 1H21, matched with growing own productions and increasing library (i.e. distribution rights), D&A incidence increased dramatically to 32%, equivalent to €4.3mIn. For this reason, EBIT should be preferred over EBITDA as a measure of relative profit. **Historical EBIT margin on VoP stood at 20% between 2018 and 2020**, progressively increasing thanks to business scale-up. However, we recall that in the first years of activity Fenix had a poor library, consequently a low level of IP rights to amortize. In 1H21, in conjunction with growing own productions and increasing library, the surge in D&A impacted EBIT margin which declined to 10%.

A profitable business model generates a constant increase in Shareholders Equity

Shareholders' Equity evolution has been affected by extraordinary operations Fenix has carried on both in FY20, with the IPO, and in FY21, with the capital raise, with share premium reserves that increased by €2.4mIn and €4.98mIn respectively. Besides these extraordinary effects, **Shareholders' Equity would have increased anyway, thanks to a profitable business model** that has generated roughly €4mIn of Net Income in three years and a half.

Valuation

BUY recommendation with a target price of €12/share

We initiate our coverage on Fenix Entertainment with a **BUY recommendation** and a **target price of €12/share**. The target price is computed as the simple average between the fair value from a DCF model (€17.3) and the implicit price in peer's market multiples (€6.7).

DCF fair value: €17.3/share

To run a 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 €4.6mIn**. 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 FY23 onwards. Other main DCF inputs were: a **WACC of 6.2%** and a **perpetual growth rate of 2%**. The DCF method leads us to an Enterprise Value of €76.6mIn and an Equity Value of €61.6mIn or **€17.3/share**.

*EV/EBIT should be preferred over EV/EBITDA
Average multiple of 8.9x
Implicit per share value of €6.7*

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. 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. In order to avoid any outlier with extremely large or small values, we preferred the median over the average. The **median FY22-23 EV/EBIT is equal to 8.9x**. According to our EBIT estimates, we derived an average Equity Value of €23.7mIn, equal to a **per share value of €6.7**.

Key risks

The most significant risk for our estimates depends on the regulatory context and in particular on the tax incentives for film producers and distributors

Main risks to our projections are linked to: (i) the external context (regulatory risk, competitive risk, macroeconomic risk, obsolescence risk), (ii) the business & the strategy execution (start-up stage risks, risk of losing qualified personnel, seasonality risk), and (iii) financials (risk of an underestimation of film production's costs). The risks we evaluate to have the highest potential impact on the business are:

- **Regulatory risk.** 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.

- **Risk of losing qualified personnel or key manager.** 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.

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 and Laser Digital • M&A that will enhance further group expertise • Global demand for new entertainment product is undergoing continuous growth 	<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

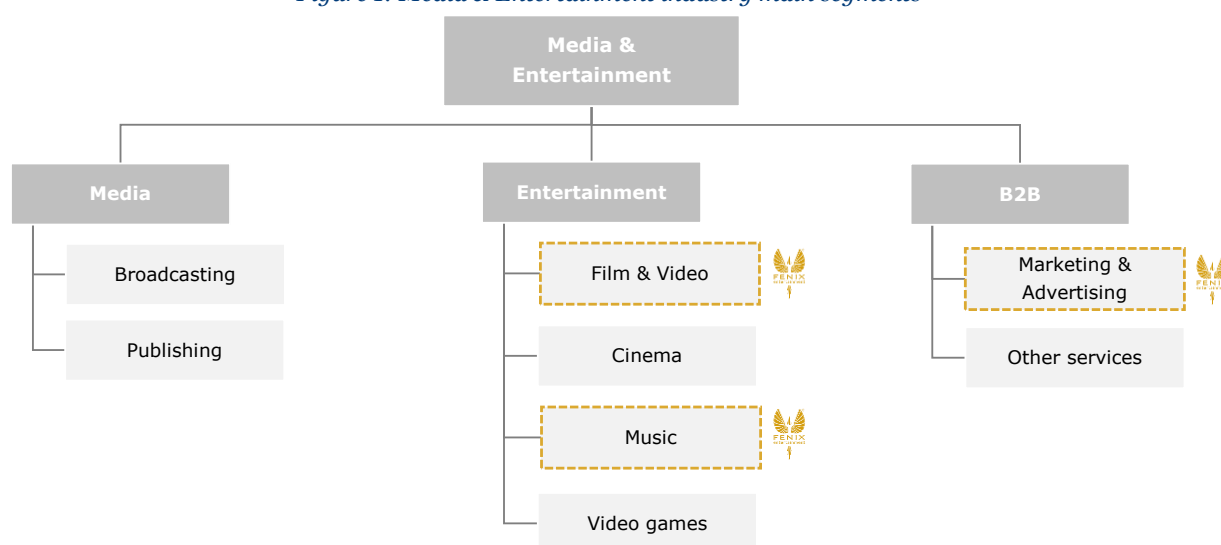
The reference market

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.

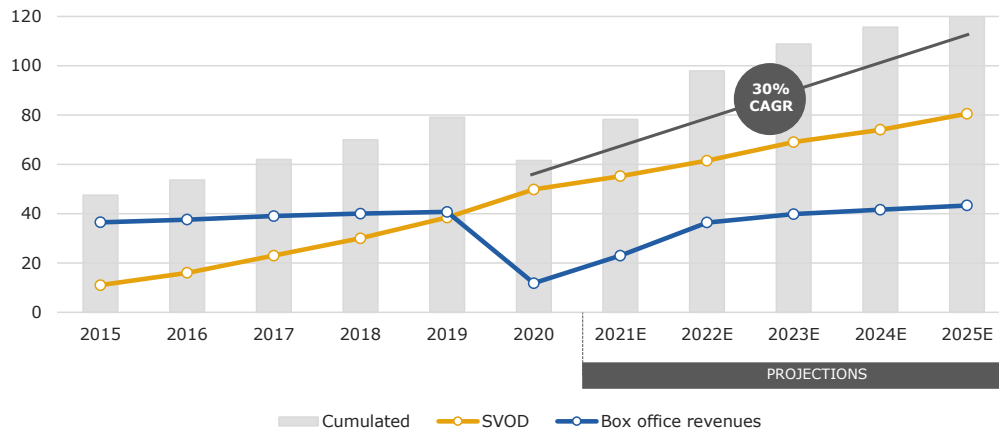
The Global Film Industry

Streaming is here to stay: after having overtaken cinema box office takings, SVOD is now projected to surge away in the coming five years, reaching twice the size of the box office in 2024

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 the outbreak of the Covid-19. Looking at the Film industry in particular, cinema was one of the segments that has suffered the most, with box office revenue 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 in some periods, but more in general also thanks to the growth in the use of internet-related services. However, signs of a cinema revival are already underway, and the

sector is expected to rebound after the crisis of 2020, as the near-future pipeline includes new installments of some of the most lucrative franchises in cinema history (DC and Marvel above all). Overall, thanks to the resumption of cinema and the continuous growth of streaming services, **the Global Film Industry revenue, proxied by the sum of box-office takings and SVoD subscriptions, should reach \$124bn in 2025, growing at 2020-2025 CAGR of 30%¹.**

Figure 2: Global Film Industry revenue: SVOD subscriptions vs box-office takings (\$, mln)



Source: Banca Profilo elaborations on PwC data (Global Entertainment & Media Outlook 2021–2025)

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.

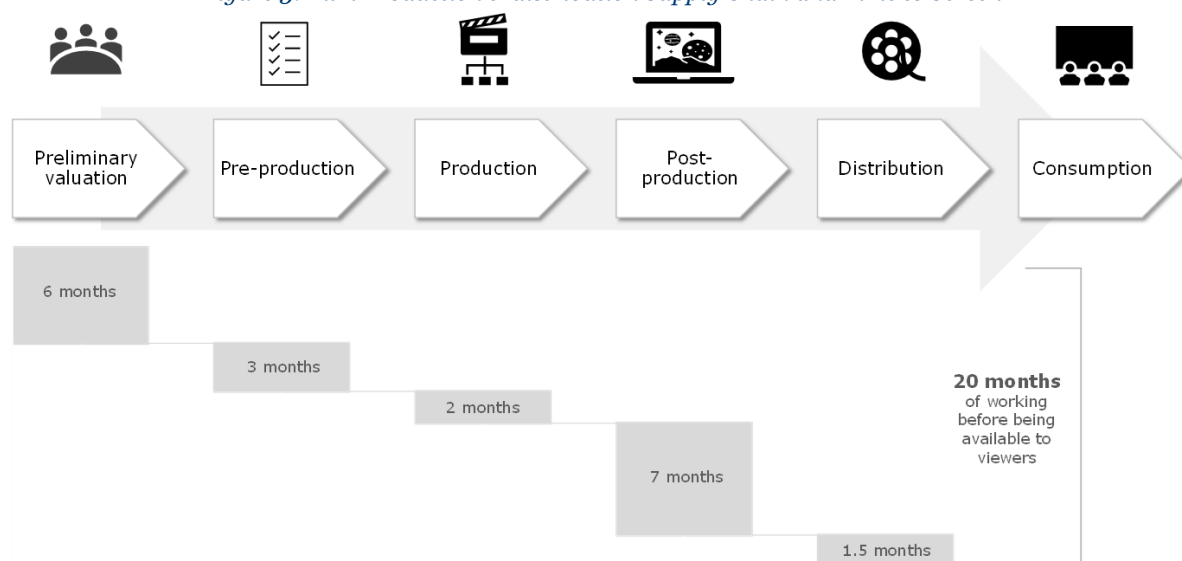
The Global Film Industry value chain: Fenix operates as an integrated player

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.

¹ <https://www.pwc.com/gx/en/industries/tmt/media/outlook.html>

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 everlasting 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 days² 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

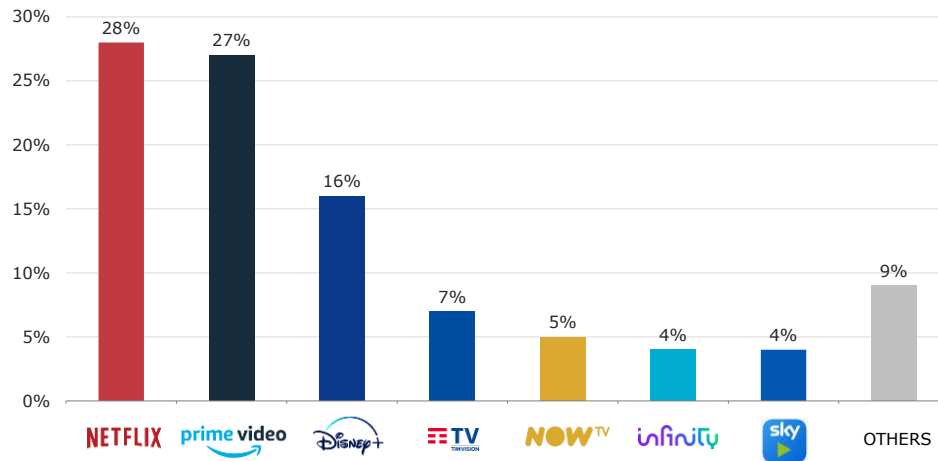
The SVOD market: market shares of main players

In the United States, the most profitable geographic market for SVoD platforms, almost 110mln of citizens (41% of the population over 15 years old) had 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

² <https://www.spglobal.com/marketintelligence/en/news-insights/blog/new-film-release-windows-emerging-in-the-wake-of-the-pandemic>

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%³.

Figure 5: Market shares of SVOD in Italy (9M21 average)



Source: Banca Profilo elaboration on Just Watch data

The Italian Film Industry

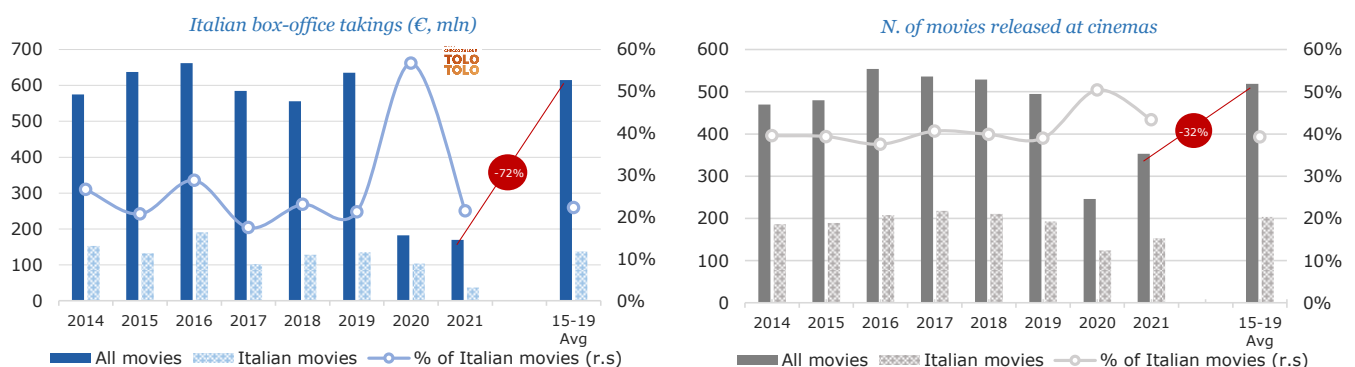
In Italy, the first signs of a recovery in cinema came from production, with a 23% yoy growth in movies released

From a geographical point of view, Fenix main reference market is Italy, both for the production and distribution phases. 100% of FY20 revenues were generated in Italy. In line with the global trend, the Italian Film industry took a serious hit from the pandemic outbreak. In 2021, box-office takings amounted to €169m, a 7% yoy decrease from an already weak performance in 2020. The closure of movie theatres for almost four months due to the Covid-19 restriction was the main constraint. The industry has still to recover, as 2021 box-office takings were 72% below the 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 the 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



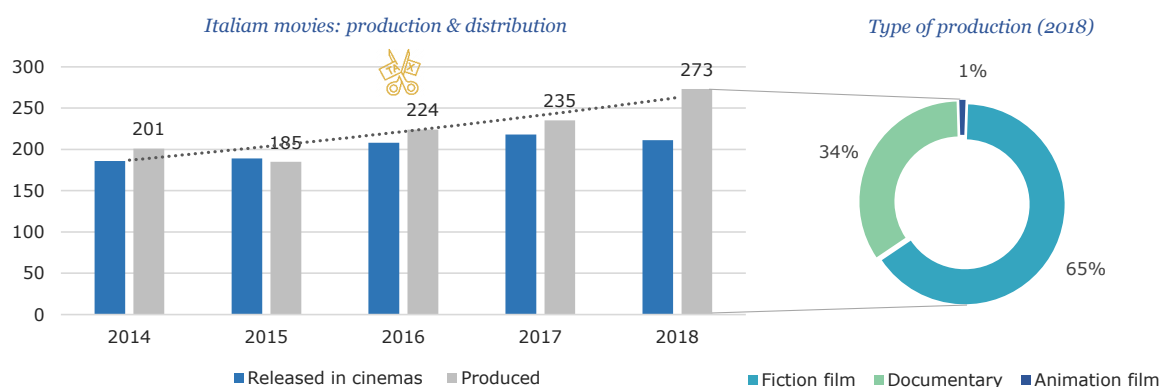
Source: Banca Profilo elaborations on ANICA data

³ <https://advanced-television.com/2021/10/15/netflix-top-svod-in-italy/>

The Italian movie industry has always benefitted from considerable support from both central government and local public authorities

As already stated, while the audience at cinemas still lag, Italian productions are back up. According to ANICA, the recovery of production was facilitated by Italian government support. At the beginning of 2021, the government raised the maximum tax credit on film and audiovisual production costs, now at 40%. In absolute terms, the maximum amount for tax credit is €9m for film productions, going up to €18m if the project is already 30% financed by foreign funds. This has sustained Italian studios in financing major costs linked to the eventual interruption in filming due to Covid-19 related problems. More in general, also before the Covid-19 outbreak, **the Italian movie industry had been benefitting from considerable support from both central government and local public authorities (mainly regional authorities)**. The most consistent financing comes in the form of tax credit. Tax credits, introduced in 2009, rapidly increased and were later extended to distribution and foreign producers.

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

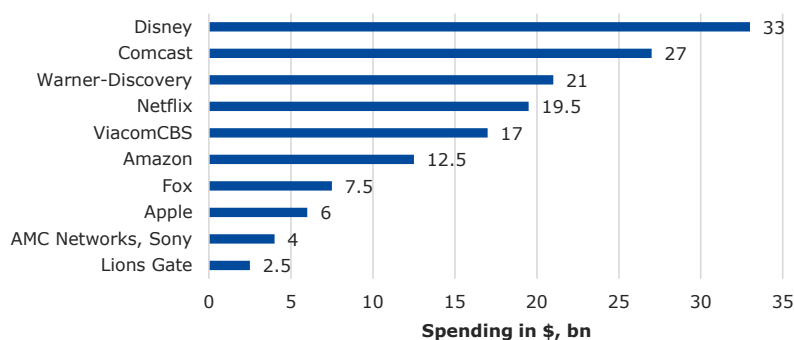
Streaming providers are entering into a new war as demand slow due to reopening, while box office takings should recover after the collapse in revenue of past years. However, which streaming service will win over the other and which distribution channel will grow the most are dynamics that impact Fenix 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

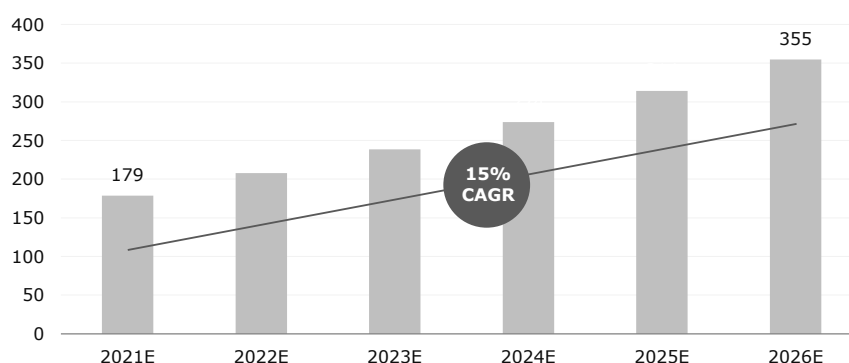
Digital Advertising & Content Creation Industry

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 18% of Value of Production in FY20, and 6% in 1H21, 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 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

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

Please note that **Fenix may deserves a premium to "integrated" domestic players** like Lucisano and Notorious, exposed to and invested in the theatrical buzz. Moreover, since Fenix has the strategic objective to reinforce its marketing & advertising division and expand its business to other sectors, mainly digital content production, we expanded our selection of comparables to two additional peers of the Media & Entertainment industry that are active in content creation and digital marketing activities: Highlight Communication and Squirrel Media.

Figure 10: Fenix competitive arena

Company	STEP 1: Revenue breakdown by activities							STEP 2: Revenue breakdown by country				STEP 3: Additional business considerations					Final Score
	Film produc. & distrib.	TV produc. & distrib.	Music produc. & distrib.	Marketing, Advertising	Movie theaters	Other	Score	Italy	Rest of Europe	RoW	Score	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%	-	17%	-	100%	-	0%	✓	✗	✓	✗	✗	3%

Source: Banca Profilo elaborations on Company data

Iervolino (Italy)

- €93m FY20 revenue
- 14% 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)

- €61mIn FY20 revenue
- 1.5% 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)

- €21mIn FY20 revenue
- 5% 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 theaters throughout Italy as well as conducts special or private screenings.

Notorious (Italy)

- €11mIn FY20 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)

- €38.9mIn FY21 revenue
- 29% 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 audiovisual 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)

- €43.5mIn FY20 revenue
- 11.5% 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)

- €415mIn FY20 revenue
- 7% 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)*

- €69.7mIn FY21 revenue
- 10.7% EBITDA 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 audiovisual content, movies included, and (iii) tech, through TMT services. The group incorporates multiple national and international companies.

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 contents, animated movies, and music**. Movie production and distribution is certainly Fenix core business, but by applying a business diversification strategy since its establishment, **Fenix has been active also in the communication and marketing sector**, with services such as naming and logo creation, brand positioning and marketing campaign. Moreover, for the next years, Fenix has interesting expansion strategies in digital and multimedia content creation. In this sense, the evolution of LovIt, a recently established company controlled by Fenix itself (51%), will be crucial. In partnership with Fishbonecreek, LovIt will be responsible for **increasing the business of multimedia content creation, also through the exploitation of new technologies** such as augmented reality and virtual reality.

Fenix history has been a never-ending growth, with a higher than 200% CAGR from FY18 to FY21

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. In 2020, due to the outbreak of the Covid-19 pandemic, production and distribution activities suffered an unavoidable partial setback. Nevertheless, **Fenix closed the FY20 with two new movie productions, "Ostaggi" and "Ladri di Natale" and with a Value of Production that was more than doubled in one year, equal to €16.2 mln (116% yoy)**. This **fully organic growth** was also attributable to the positive contribution of marketing & advertising activities. In 2021, despite the recrudescence of the pandemic in the first six months, Fenix started the production of seven films, the co-production of one film, and acquired the rights for the distribution of two other films, closing the fiscal year with a Value of Production of €32.4mln (+99% yoy). By expanding the VoP analysis from 2018 to 2021, Fenix Value of Production increased at a CAGR higher than 200%.

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 €8mln in FY20 and is expected to have increased to €9.2mln in FY21**, clearly outperforming the market which came partially to the past years during the outbreak of the Covid-19. Laser Digital Film figures will be fully consolidated in the FY21 income statement. We estimate Fenix will consolidate 100% of Laser despite a majority stake being 60%.

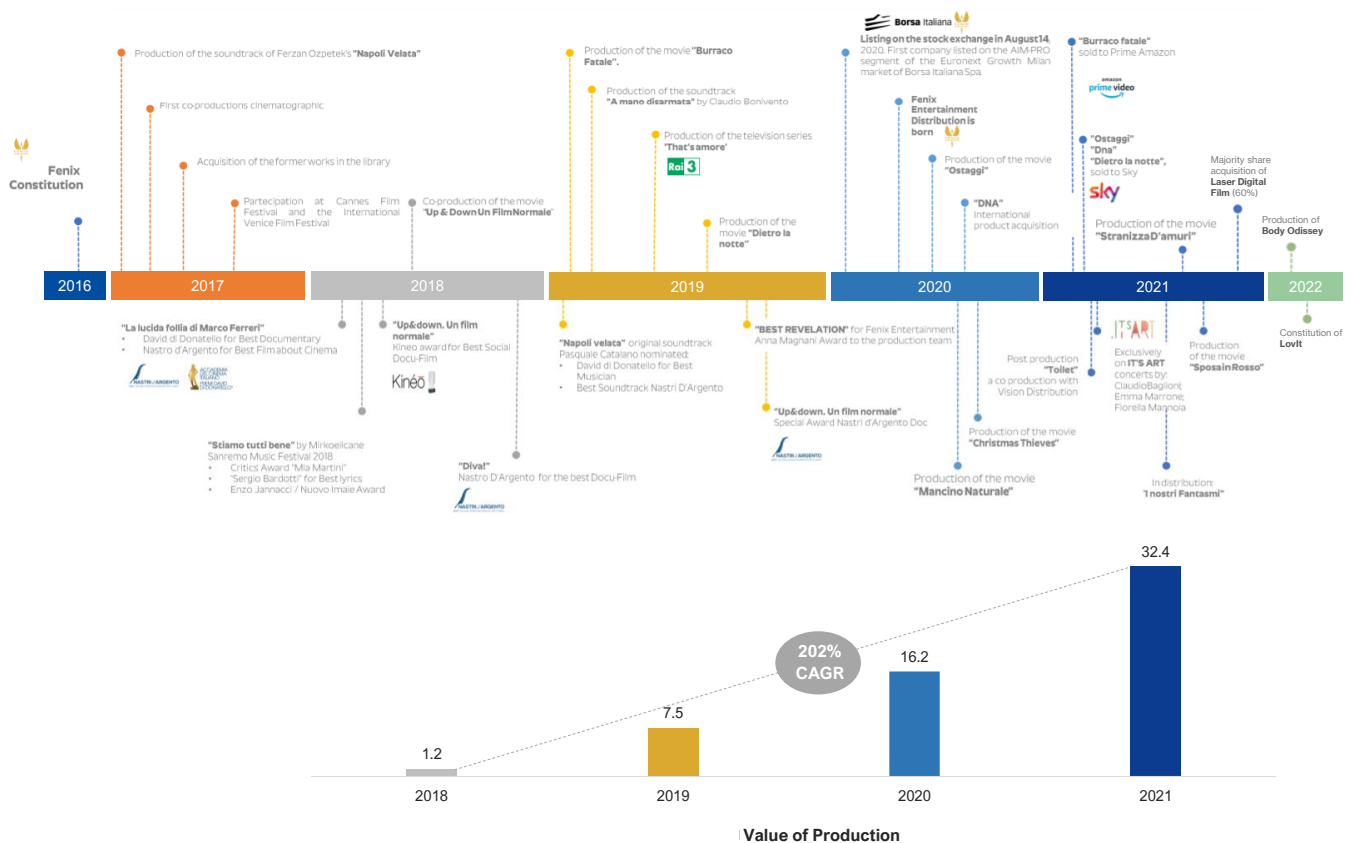
The first months of FY22 marked the beginning of Fenix's transformation from a simple motion picture company to an integrated media one

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**.

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 11: Fenix milestones



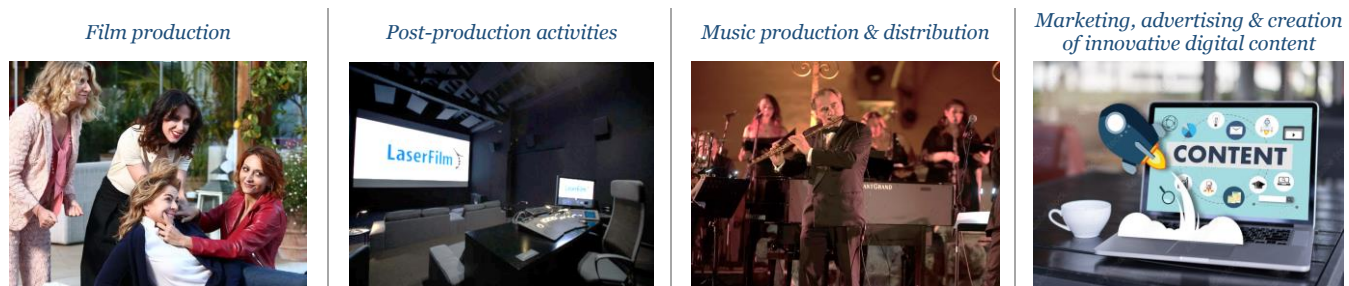
Source: Banca Profilo elaboration on Company data

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:

- (v) audio-visual products for cinema, TV and streaming platforms production and distribution (96% of 1H-21 revenue, of which 71% represents revenues from production and distribution and 29% is the increase in production in progress)
- (vi) music production (1% of 1H-21 revenue),
- (vii) marketing and advertising services (3% of 1H-21 revenue), and
- (viii) post-production activities (not included in 1H-21 revenue as they were acquired with the acquisition of Laser Digital Film in December 2021).

Figure 12: Examples of Fenix activities









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 film production and distribution, with an increasing number of produced and distributed film throughout the years

Figure 13: 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: Rai Play</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: Rai Play</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 which may come from a book, a screenwriter, a director, or even a producer. Once a story 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.

Revenue model

A deep dive into Fenix revenue model

From a business point of view, Fenix Value of Production can be divided into: (i) revenues from the production of audio-visual products, (ii) revenues from distribution activities, (iii) increase in own work capitalized, (iv) revenues from marketing activities, and (v) revenues from music production and distribution.

- **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.
- The Value of Production of movie production companies also includes the **increase in own work capitalized** (capitalized production costs). More in detail, 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.
- Finally, **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 on several factors, mainly 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.** In addition to regional funding, 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:

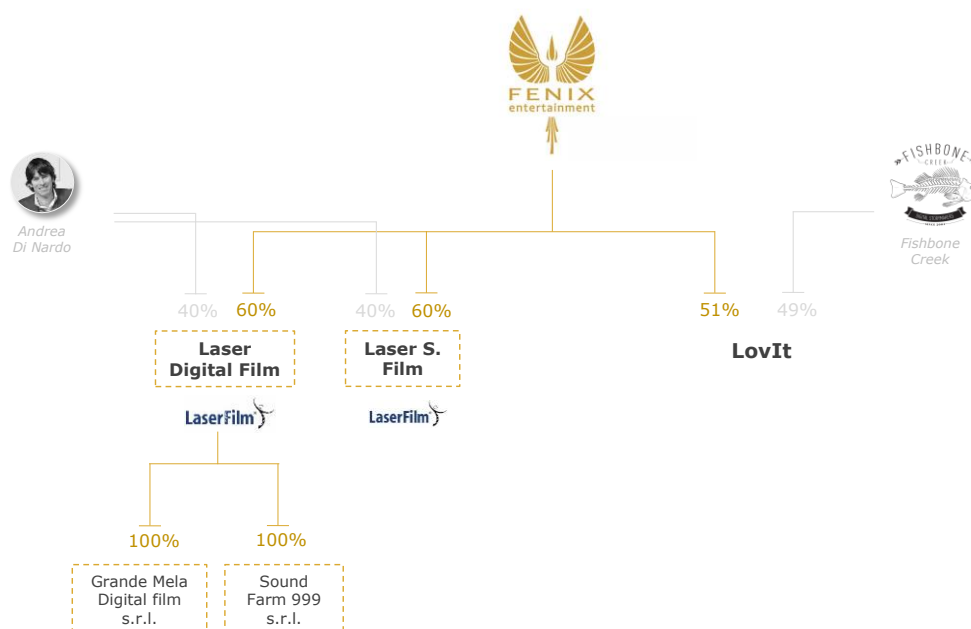
- **Box office takings**, equal to approximately 40% of tickets sold;
- **Royalties.** In addition to movie licensing, TV broadcasters and streaming platforms pay royalties to the owner of the intellectual property. Royalties are typically a percentage of revenues generated by broadcasters and are paid 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.

The corporate structure

Fenix acts as the operating holding directly controlling three subsidiaries

The group structure is led by **Fenix Entertainment acting as the operating holding directly controlling three subsidiaries**, Laser Digital Film, Laser S.Film, both acquired in December 2021, and LovIt, established in January 2022. The subsidiaries have a specific scope of application. Laser Digital and Laser Film are specialized in post-production activities, while LovIt in the creation of technological digital content.

Figure 14: Fenix corporate structure



Source: Banca Profilo elaborations on Company data

Ownership structure and free float

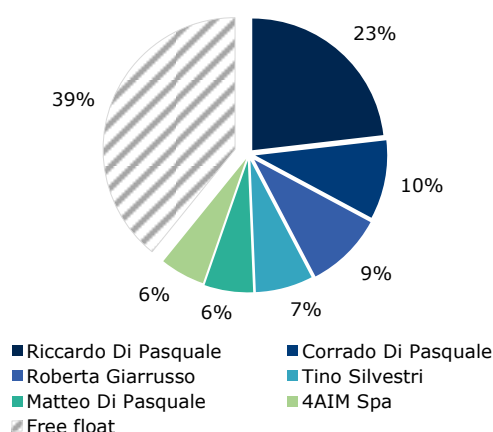
In FY20 the IPO, in FY21 the transfer from AIM Pro to AIM Italia, now Euronext Growth Milan

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 c.€1.5mln. In FY21, to finance additional company growth, the group undertook a second, larger, capital raise of c.€3.6mln 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.€1.45mln.

Fenix has no majority owner

Fenix Entertainment has no majority owner, namely no one holding 51% or more of the Company. Furthermore, even aggregate shares of the individual members of the Di Pasquale family (Riccardo Di Pasquale, Roberta Giarrusso and Corrado Di Pasquale) does not reach a majority share, being jointly equal to 42.3%. The same applies to the aggregate shares of Fenix Board of Directors members (Riccardo Di Pasquale, Tino Silvestri and Roberta Giarrusso) which together reach a cumulative share of 39.7%. If considering shareholders holding directly more than 5% of the share capital, free float currently stands at about 39%. After the Bod meeting of June 2022, the Company is expected to formulate a shareholder's agreement.

Figure 15: Ownership of the Group (%)



Source: Banca Profilo elaborations on Company data. Data as of February 28th, 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 16: 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 the 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, and Artistic Director first and then General Manager then at Warner Music Italia. Before joining the Fenix project, he also worked to a small extent in the cinema sector, 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 Di Pasquale and Corrado Di Pasquale. In about five years of activity, he has led Fenix to generate a Value of Production higher than €30mIn, to attend the Venice Film Festival, and to have a pipeline of productions and co-productions of more than four films per year.

Maurizio Paternò
- Vice Chairman -

Maurizio Paternò di Montecupo is on the board of Fenix Entertainment SpA as Vice-Chairman and independent director, and Thyssenkrupp Uhde Chlorine Engineers (Italia) Srl. He is also a university lecturer at several universities, Member of Ordine dei Dottori Commercialisti di Roma, Managing Partner at Palazzo Paternò di Riccardo e Maurizio Paternò di Montecupo 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 a famous Italian TV and cinema actress. She gained attention as an actress in 2002 with her debut in "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" first and "Squadra Antimafia" after. She hits big screens in 2012, with the Italian comedy movie "Fallo per papà". Since then, she has taken part to other four film productions. In Fenix **she holds the role of non-executive director**. She is married to Riccardo Di Pasquale, CEO of Fenix.

Daniele Orazi

Daniele Orazi is a famous Italian talent scout. He currently works at Do Consulting & Production, a company he founded in 2016. He deals with organizing tour casting, selecting promising young actors, and following their path as actors. Since 2007, he has been a member of the Italian Cinema Academy. In 2012, he won the Kineo Award for Best Agent. He periodically 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 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 founded Laser Digital Film srl, which is focused on sound mix and dubbing. This way, Laser Film Group soon became one of the best entrepreneurial realities in the European postproduction field. Andrea 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 the

real estate sector 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 project of the Group's production HUBs in Italy and abroad. In 2013 he became CEO of the company and strongly speeded up the internationalization of the Group, with the expansion in Asia. In 2017 he founded the Food division by opening a Trussardi restaurant at La Scala, thus creating a new business model focused on Life Style.

Historical operating and financial performance

A few premises on accounting principles

Movie production companies have a few accounting peculiarities

Before going on with the historical financial analysis, it is necessary to make some premises, as Media & Entertainment companies, movie production companies in particular, 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 allow them to recognize as Value of Production the increase in own work capitalized (**capitalized production costs**), 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 credit and local grants can also be included in other revenue. Under IAS/IFRS accounting principles, capitalized production costs cannot be recognized as part of Value of Production but as Inventory. So, once Fenix will complete its transition towards international accounting principles, expected ahead of the FY23 financial statement publication, the increase in own work capitalized will be 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 initial profit margins higher than industry average. When matched with growing own productions and increasing library, D&A will have a heavier impact on the income statement, reducing operating margins.

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**, a liability on Balance Sheet. Inflows can be recognized as earned 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 should be preferred over EBITDA

Comparing EBITDA between movie producers could be a complex and hazardous task. D&A depends on the value of IP rights on films, i.e. the value of the library. Since Fenix was established in 2016, the number of titles in its library is significantly lower than that of its competitors and, consequently, **the Company had little to amortize in the past years, but we expect this is going to change in the next few years**. 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 international accounting standards which could probably take place prior to the FY2023 financial statements release. The most significant change will regard capitalized production costs: to date, according to ITA GAAP, they are accounted as part of the Value of Production, while after First Time

Adoption they will be treated as inventory changes. They will therefore be included among 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.

Historical performance analysis

Value of Production

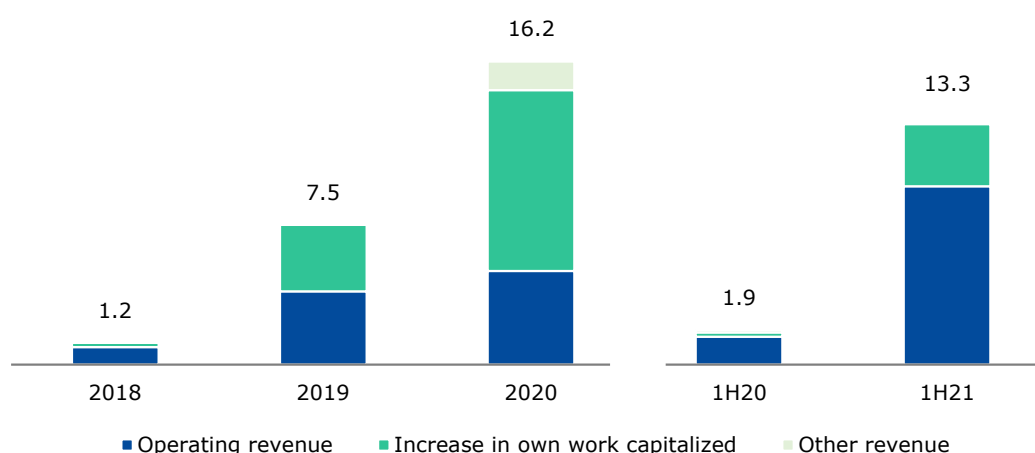
Despite some production and distribution postponement due to Covid-19, there was no harm to revenues

Fenix has a **history of constant growth in the Value of Production**. Fenix was founded in 2016 and started to be operative the following year, with first co-productions and acquisitions of movie rights. Production of own movies, documentaries, and TV series began in 2019, year in which the Company reached €7.5m of VoP, including €3.6m increase in costs capitalized (ongoing production) and €3.9m operating revenues. Fenix VoP more than doubled the following year, despite the Covid-19 outbreak. Fenix VoP reached €16.2m in FY20: increase in own capitalized work was €9.7m (+172% yoy), while operating revenues increased by 27% yoy to €5.1m. Among operating revenues, **movies sales reached €2m at year end vs €1.3m in 2019 thanks to the distribution of *Burraco Fatale***, whose success at the box office had driven the sale of broadcasting rights. Revenue from marketing activities also showed some resiliency and recurrency, increasing by 30% yoy to €3m. Other revenue stood at €1.5m in 2020, with €1.0m coming from a gain due to breach of contractual obligations by certain partners.

First half 2021 led to a surge in VoP

Despite a resurgence in Covid-19 cases continued to create some concerns on the movie industry **in the first half of 2021, Fenix VoP surged to €13.3m from €1.9m in 1H20**. Operating revenues increased significantly, from €1.5m to €9.6m, thanks to: (i) the joint sale of the Pay TV rights of three films to Sky, (ii) the sale "Christmas Thieves" rights to two international distributors and the sale of "Burraco Fatale" rights to Amazon Prime. Fixed assets internally generated also grew by 14% yoy to €3.3m thanks to the progress of work on "Toilet", "Our ghosts" and "Bride in red". **According to unaudited data released on January 27th, Fenix closed the 2021 financial year with a Value of Production of €32.4m, up 99% on the previous year.**

Figure 17: Historical revenue evolution 2018 – FY21 (€, mln)



Source: Banca Profilo elaborations on Company data. Note: FY21 VoP is an unaudited data.

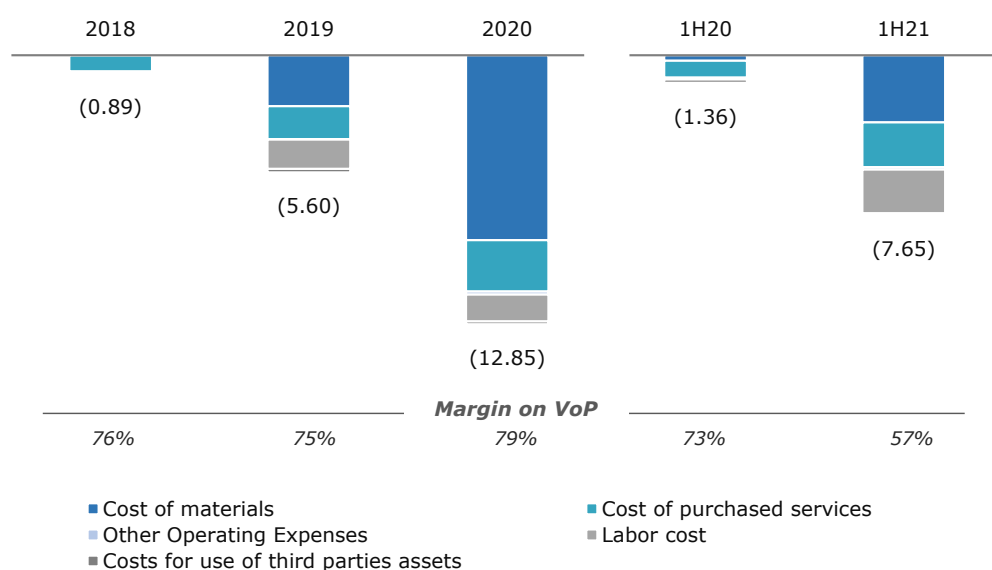
Cost of goods sold

Cost structure with more than 85% of variables costs as of year-end of 2020

Fenix has a cost structure with more than 85% of variables costs as of year-end of 2020. In 2020, main cost was raw materials for sceneries and props. However, raw materials costs recorded in FY20 and in previous years, years in which Fenix accounting was outsourced, included some items that from FY21 on, following the internalization of accounting activities, will be classified as either costs for services, or

labour costs, or other operating costs. For example, in 2020 raw materials costs included costs for post-production, an item that in FY21 will become part of the costs for services. For this reason, we estimate that the incidence of raw material costs, at 54% in FY20 (total costs of €8.8m), will drop significantly in subsequent years. The second most important cost item in 2020 was services cost, which included advertising among others. In 2020 services costs accounted for 15% of VoP (€2.5m), but for the opposite reason to that described above, this incidence is expected to increase from 2021 onwards. Labour costs include both temporary workers hired for single productions, and Fenix employees. Labour costs represent on average 10% of the Value of Production, with a peak of 16% in the 1H21, following the entry of new creative and technical figures and the start of six new productions. Overall, the average incidence of COGS stood at 75% in the three-year period 2018-2020, with a drop to 57% in 1H21.

Figure 18: Historical evolution of COGS 2018 – FY21 (€, mln)



Source: Banca Profilo elaborations on Company data

Profitability

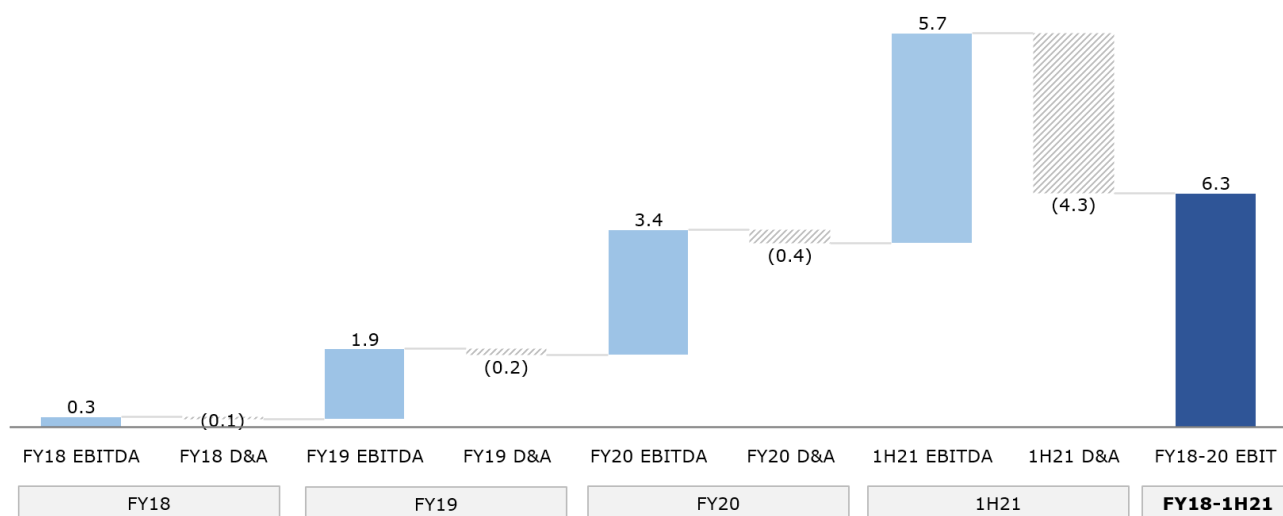
D&A has to reflect distribution rights' value

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 industry average. D&A incidence on VoP stood on average at 4% between FY18 and FY20 while in 1H21, matched with growing own productions and increasing library (i.e. distribution rights), D&A incidence on VoP increased dramatically to 32%, equivalent to €4.3m.

EBIT margin at 20% in 2018-2020, progressively increasing driven by business scale-up

As already stated above, comparing EBITDA between movie producers could be a complex and hazardous task and **EBIT should be preferred over EBITDA as a measure of relative profit. Historical EBIT margin on VoP stood at 20% between 2018 and 2020**, progressively increasing thanks to business scale-up. However, we recall that in the first years of activity Fenix had a poor library, consequently a low level of IP rights to amortize. In 1H21, in conjunction with growing own productions and increasing library, the surge in D&A impacted EBIT margin which declined to 10%.

Figure 19: Historical generation of EBIT 2018 – 1H21 (€, mln)



Source: Banca Profilo elaborations on Company data

Table 1: Fenix Profit & Loss FY18-1H21 (€, mln)

Profit & Loss (€/mln)				
	FY18	FY19	FY20	1H21
Operating revenue	0.9	3.9	5.0	9.6
Grants & Tax credits	N.A.	N.A.	0.0	0.4
Increase in own work capitalized	0.2	3.6	9.7	3.3
Other revenue	0.0	0.0	0.0	1.1
Value of production	1.2	7.5	16.2	13.3
yoy	n.a.	n.a.	116%	613%
Cost of materials and purchased services	(0.8)	(4.0)	(11.3)	(5.3)
% on VoP	-65%	-53%	-70%	-40%
Added Value	0.4	3.5	5.0	8.0
yoy	n.a.	n.a.	n.a.	n.a.
Labor cost	(0.0)	(1.4)	(1.3)	(2.1)
% on VoP	-2%	-19%	-8%	-16%
Costs for use of third parties assets	(0.1)	(0.2)	(0.1)	(0.1)
% on VoP	-5%	-2%	-1%	-1%
Other Operating Expenses	(0.0)	(0.0)	(0.2)	(0.1)
% on VoP	-3%	0%	-1%	-1%
Comprehensive COGS	(0.9)	(5.6)	(12.9)	(7.7)
% on VoP	-76%	-75%	-79%	-57%
EBITDA	0.3	1.9	3.4	5.7
EBITDA Margin on VoP	24%	25%	21%	43%
D&A	(0.1)	(0.2)	(0.4)	(4.3)
% on VoP	-6%	-2%	-2%	-32%
EBIT	0.2	1.7	3.0	1.4
EBIT Margin on VoP	18%	23%	19%	10%
Net financial income (expenses)	(0.0)	(0.0)	(0.1)	(0.1)
% on VoP	-2%	-1%	-1%	-1%
Net extraordinary income (expense)	0.0	0.0	0.0	0.0
% on VoP	0%	0%	0%	0%
EBT	0.2	1.7	2.9	1.3
EBT Margin on Revenue	17%	22%	18%	10%
Income Tax Expense	(0.1)	(0.6)	(0.8)	(0.7)
Tax rate	35%	35%	27%	53%
Net Income	0.1	1.1	2.1	0.6
Net Income Margin on VoP	11%	15%	13%	4%

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, **Intangibles Assets include 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 increased to €14.6mln from €4.3mln at the end of 2019, due to the surge in own productions. FY20 figure can be broken down into €4.9 of IP rights, €9.0 of own capitalized work, and €0.7mln of other assets. Period-end 1H21

Intangible Assets stood at €14.8mln, broadly in line with December 2021, as new productions entering the distribution cycle more than offset D&A.

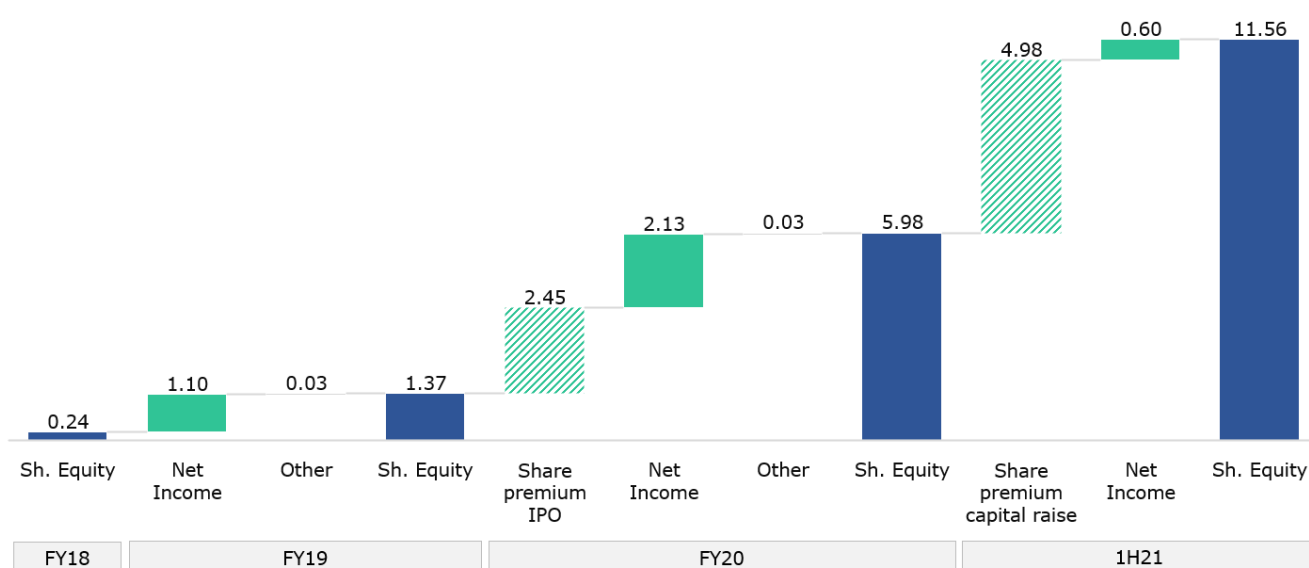
Net Operating Working Capital may be negative due to the nature of film costs and revenues

Net Operating Working Capital was negative for €2.3mln at the end of 2020 and included €5.2mln of accounts payable and €2.9mln of accounts receivable. This dynamic 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. NOWC turned positive at the end of June 2021, at €1.3mln, made up of €7.2mln of receivables and €5.9mln of payables. Including other assets and other liabilities into the calculation, Working Capital was negative for €5.7mln as of December 2020, made of a negative NOWC of €2.3mln and a negative balance between other assets & liabilities for €3.5mln. **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:** Deferred Income stood at -€6.6mln in FY20, down from -€1.6mln, a decline mainly attributable to the drastic increase in own productions in progress.

Shareholders' equity

Shareholders' Equity evolution has been affected by extraordinary operations Fenix has carried on both in FY20, with the IPO, and in FY21, with the capital raise, with share premium reserves that increased by €2.4mln and €4.98mln respectively. Besides these extraordinary effects, **Shareholders' Equity would have increased anyway, thanks to a profitable business model** that has generated roughly €4mln of Net Income in three years and a half.

Figure 20: Shareholders' Equity evolution from December 2018 to June 2021 (€, mln)



Source: Banca Profilo elaborations and estimates on Company data

Debt is financing Fenix expansion, through both organic and inorganic growth

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. However, in FY20 the NFP recorded a deterioration of €2.1mln, which would have been at about €4.5mln net of proceeds coming from the IPO and the exercise of warrants in FY20. As of June 2021, Fenix Net Debt stood at €1.8mln, equal to 0.5x FY20 EBITDA. A significant deterioration has occurred in 2H21. According to unaudited data, **as of the end of December 2021, Fenix Net Debt amounted to €11mln**, including debt arising from the acquisition of Laser Digital Film, equal to €4.2mln. Of these €4.2mln, payable due to Andrea di Nardo, prior owner of Laser Digital Film, (i) €1.3mln will be extinguished through the transfer of Fenix shares to Di Nardo, after a capital raise, while (ii) the remaining €2.9mln will be repaid to Di Nardo in 2022 and 2023 in several instalments of €400k each. Net of Laser Digital Film acquisition, Net Debt would have been equal to €7mln. Net indebtedness to financial institutions is mainly outstanding with Intesa Sanpaolo, Hedge

Invest (operation with growth fund, mainly in support of the pre-IPO working capital), and Banca Profilo (MCC loan guaranteed at 90%). The average cost of debt between December 2020 and June 2021 was equal to 1.8%.

Table 2: Fenix Balance Sheet FY18-1H21 (€, mln)

Balance Sheet (€/mln)				
	FY18	FY19	FY20	1H21
Intangible Assets	0.4	4.3	14.6	14.8
Property, Plant & Equipment	0.0	0.1	0.1	0.1
Financial Assets	0.1	0.0	0.1	0.1
Fixed Assets	0.5	4.4	14.7	14.9
Trade Receivable	0.9	2.3	2.9	7.2
Inventories	-	-	-	-
Trade Payable	(0.4)	(1.8)	(5.2)	(5.9)
Net Operating Working Capital	0.5	0.5	(2.2)	1.3
<i>% on VoP</i>	46%	6%	-14%	9%
Other Assets	1.4	2.2	5.4	7.9
Other Liabilities	(1.9)	(4.8)	(8.9)	(10.6)
Funds	(0.0)	(0.0)	(0.0)	(0.0)
Invested Capital	0.6	2.3	8.9	13.4
CapEx	0.4	4.1	10.8	4.5
<i>Intangible</i>	0.4	4.0	10.6	4.5
<i>Tangible</i>	0.0	0.1	0.0	0.0
<i>Financial</i>	0.0	0.0	0.2	-
<i>% on VoP</i>	38%	55%	67%	34%
Shareholders' equity	0.2	1.4	6.0	11.6
Share capital	0.1	0.1	0.1	0.1
Reserves	0.0	(0.0)	2.5	7.4
Retained earnings	0.1	0.2	1.3	3.4
Group Net Income	0.1	1.1	2.1	0.6
Shareholders' equity attributable to third parties	-	-	-	-
Minority/Non Controlling Interest	-	-	-	-
Consolidated Shareholders' Equity	0.2	1.4	6.0	11.6
Financial Debt	0.8	1.5	4.2	6.4
Cash and cash equivalents	(0.0)	(0.1)	(0.3)	(4.4)
Leasing debt	-	-	-	-
Payables for rights of use	-	-	-	-
Other financial receivables	(0.4)	(0.5)	(0.9)	(0.2)
Net Debt (Cash)	0.3	0.9	3.0	1.8

Source: Banca Profilo elaborations and estimates on Company data

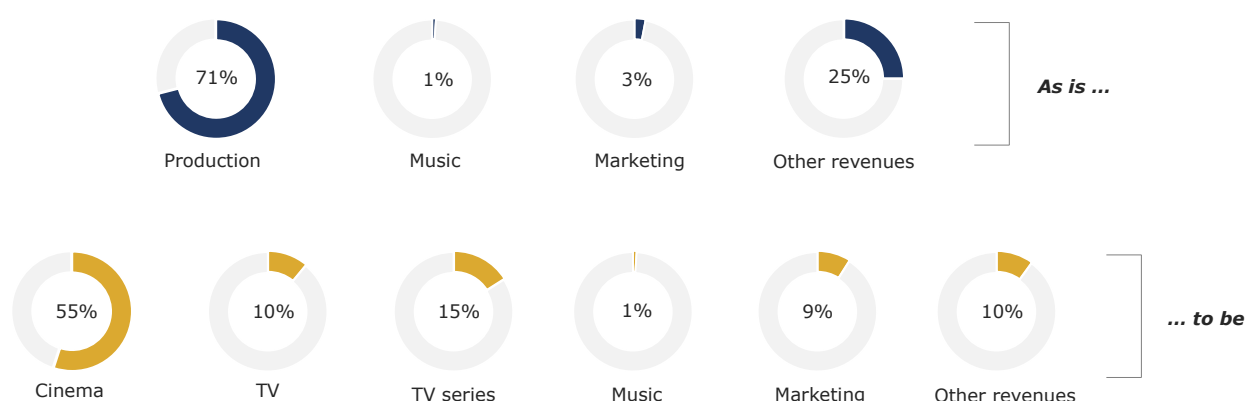
Strategy and estimates

Corporate strategies

Fenix expansion strategy

Fenix entertainment aims to become a tech & media company with an integrated ecosystem of know-how across different sub-segments of the Media & Entertainment industry. Alongside its core activity of film production and distribution, Fenix aims to become a content creator for TV, social media, and, in the near future, for the metaverse. From a financial point of view, the strategy execution will go through a broader diversification of revenue by type of activity.

Figure 21: VoP breakdown by type of activity: as is VS to be



Source: Banca Profilo elaborations and estimates on Company data

Our 2021E-2024E estimates

Not only a motion pictures Company

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

Two different forecasting methodologies, one for film production & distribution and another, more orthodox, for all other activities

Our forecasts for movie & TV production activities are based both on deals and production agreements already announced by Fenix, and on an proxied future production pipeline estimated by us. Fenix current pipeline of movies includes pre-production, production, and post-production. 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 date on which a project is started, which sets the number of years for accounting costs, D&A, revenues, and the increase in own capitalized work. **Financials related to marketing & advertising activities have been estimated separately.**

Income Statement

Forecasting revenue from movie productions and distribution by assuming a pipeline made of 5 movies per year with an average budget of €4mln

To estimate revenue from movie & TV production, given the short history 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. According to our personal estimates we forecast an average of 5 new movies per year, with an average budget of about €4mln in the medium-term. However, we recall that revenues from the film pipeline are not immediately recognized, but only once the project has been concluded. Before that time,

cash inflows are recorded as Deferred Income in the Balance Sheet, but the increase in the value of a movie under production is included in the Value of Production under the item "increase in own work capitalized". On top of it, revenues from distribution activities were forecast separately. Our estimates assume no changes in the Italian regulatory framework regarding tax credits and government and local grants.

- (i) **Revenues from production were 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 FY21-22 revenues we used Fenix's existing pipeline, while from FY23 onwards we had to assume an average of 5 productions per year with an average budget per project of about €4mln. 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 (estimated 20% of total revenue), Government grants (estimated 8%), Local Film Commission grants (estimated 12%), external Tax Credit (estimated 15%), Tax Credit production (estimated 40%) and product placement activities (estimated 5%).
- (ii) **Revenues from distribution activities are on top of productions revenues**, thus they were estimated separately. Revenues from distribution primarily 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) **Revenues from marketing, advertising**, and digital content creation were estimated separately. They are **expected to grow slightly lower than the market, at a FY20-24 CAGR between 10% and 15%**. The underperformance is to be attributed to the early stage of the LovIt project, born only in January 2021.
- (iv) **Revenues from Laser Digital and Laser Film**. Disclosed aggregate financials of the acquired companies are: FY20 revenues €7.9mln (estimated at €9.2mln in FY21), EBITDA of €1.6mln, approximately Net Income of €300k and a Net Debt of €3.8mln.

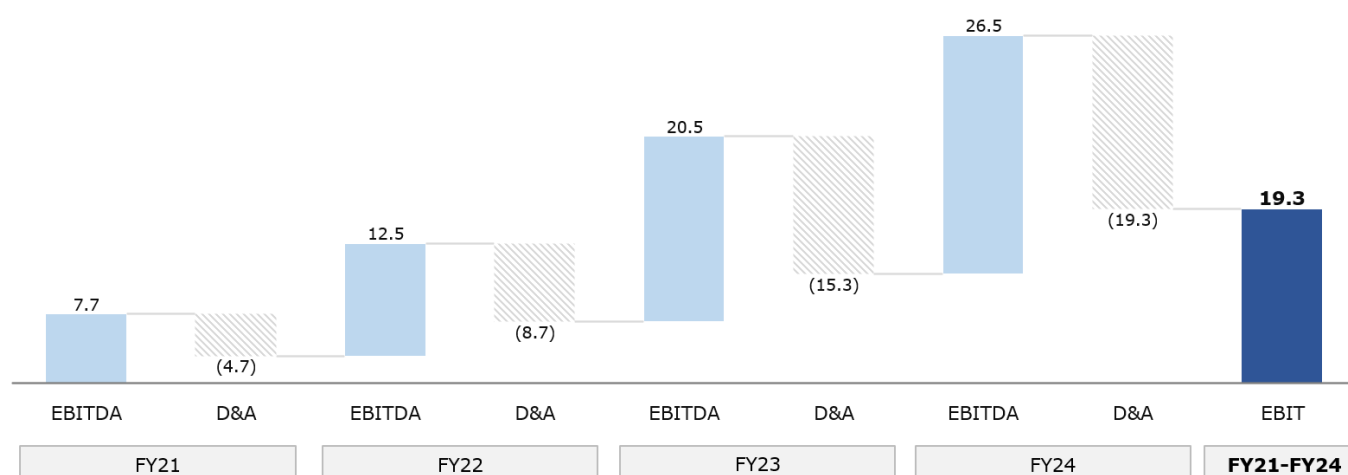
According to our aggregate estimates, **Fenix VoP is set to grow at a FY20-FY24 CAGR of 38% to reach €57.6mln**, driven by: i) the progressive increase in VoP from production activities, either in the form of revenues or increase in own work capitalized and ii) the growing contribution of revenues from other activities, mainly marketing and digital content creation ones.

Laser Film and Laser Digital impact on Fenix Income Statement

Our 2022-2024E estimates include numbers from the recently acquired Laser Film and Laser Digital. Fenix Entertainment has acquired 60% of the shares, but we believe that the Company will consolidate 100% of the income statement figures starting from FY22 and of the balance sheet starting from FY21. The main impacts on the income statement of Fenix Entertainment are expected to be:

- (i) Additional annual revenues between €6.5mln and €8mln. For simplicity we assumed that Laser Film and Laser Digital recorded FY21 revenues in line with FY20 ones (€2.1 and €5.8mln, respectively) while that from FY22 onwards they will grow in line with Fenix revenues from production activities;
- (ii) An increase in the incidence of raw material costs;
- (iii) A potential slight margin dilution, considering that Laser Film and Laser Digital EBITDA margin was on average equal to 12.6% and 12.4% between 2018 and 2020, respectively (vs 24% average of Fenix). However, both companies have improved their margins over the years, reaching an average EBITDA margin of 19% in FY20 compared to 21% recorded by Fenix.

Figure 22: Generation of operating profit over the forecasting period FY21-FY24



Source: Banca Profilo elaborations and estimates

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

FY21 and future financial statements are expected to see a significant increase in D&A, an item that was not that high in previous financial statements because Fenix library was not important as it is today. The growth in D&A is **linked to the expected growth in intellectual property rights** (i.e. the library), since amortization is not done on internally generated intangible asset which are not finished yet (i.e. movies not ready to be distributed). Since Fenix is approaching IFRS adoption, we modelled D&A estimates on a proxy of the *individual-film-forecast-computation-method*. We estimate Fenix movies' useful life could be on average equal to 5 years, but that related revenues should decrease over time, with a peak in the first year. Therefore, we estimate a decreasing amortization rate over the years: 55% in the first year, 25% in the second, 10% in the third, 7% in the fourth, and 3% in the fifth and final year.

Net Income margin should average at 7%

The tax rate was estimated on average at 28%. This level derives from the estimated IRES rate at 24% and IRAP rate at 3.9%, in line with the standard levels for an Italian company. Net Income margin should average at 7%.

Table 3: Fenix Profit & Loss 2018-2024E (€ mln)

Profit & Loss (€/mln)							
	FY18	FY19	FY20	2021E	2022E	2023E	2024E
Operating revenue	0.9	3.9	5.0	14.1	33.5	39.3	42.5
Laser Digital Film				9.2			
Increase in own work capitalized	0.2	3.6	9.7	8.9	9.5	14.6	15.0
Other revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fenix Value of Production	1.2	7.5	16.2	32.4	43.2	54.0	57.6
yoy organic growth	n.a.	536%	116%	99%	33%	25%	7%
Consolidated Value of Production	1.2	7.5	16.2	41.6	43.2	54.0	57.6
yoy consolidated growth	n.a.	536%	116%	156%	33%	25%	7%
Cost of materials and purchased services	(0.8)	(4.0)	(11.3)	(20.4)	(20.5)	(22.3)	(20.6)
% on VoP	-65%	-53%	-70%	-49%	-47%	-41%	-36%
Added Value	0.4	3.5	5.0	12.0	22.7	31.8	37.0
yoy	n.a.	n.a.	n.a.	143%	89%	40%	17%
Labor cost	(0.0)	(1.4)	(1.3)	(3.1)	(8.3)	(9.1)	(8.7)
% on VoP	-2%	-19%	-8%	-7%	-19%	-17%	-15%
Costs for use of third parties assets	(0.1)	(0.2)	(0.1)	(0.3)	(1.4)	(1.5)	(1.6)
% on VoP	-5%	-2%	-1%	-1%	-3%	-3%	-3%
Other Operating Expenses	(0.0)	(0.0)	(0.2)	(1.0)	(0.6)	(0.7)	(0.6)
% on VoP	-3%	0%	-1%	-2%	-1%	-1%	-1%
Comprehensive COGS	(0.9)	(5.6)	(12.9)	(24.7)	(30.8)	(33.6)	(31.4)
% on VoP	-76%	-75%	-79%	-59%	-71%	-62%	-55%
EBITDA	0.3	1.9	3.4	7.7	12.3	20.5	26.2
EBITDA Margin on VoP	24%	25%	21%	24%	29%	38%	45%
D&A	(0.1)	(0.2)	(0.4)	(4.7)	(8.7)	(15.3)	(19.3)
% on VoP	-6%	-2%	-2%	-11%	-20%	-28%	-33%
EBIT	0.2	1.7	3.0	3.0	3.6	5.2	6.9
EBIT Margin on VoP	18%	23%	19%	7%	8%	10%	12%
Net financial income (expenses)	(0.0)	(0.0)	(0.1)	(0.3)	(0.5)	(0.6)	(0.6)
% on VoP	-2%	-1%	-1%	-1%	-1%	-1%	-1%
Net extraordinary income (expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% on VoP	0%	0%	0%	0%	0%	0%	0%
EBT	0.2	1.7	2.9	2.7	3.1	4.6	6.3
EBT Margin on VoP	17%	22%	18%	6%	7%	8%	11%
Income Tax Expense	(0.1)	(0.6)	(0.8)	(0.7)	(0.9)	(1.3)	(1.8)
Tax rate	35%	35%	27%	28%	28%	28%	28%
Net Income	0.1	1.1	2.1	1.9	2.2	3.3	4.6
Net Income Margin on VoP	11%	15%	13%	5%	5%	6%	8%

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

Fenix fixed assets are bound to 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 capitalized and (ii) Intellectual Property rights.

- own capitalized work (capitalized production costs) 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.
- 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. As an example, the budget of a film whose production has started in February 2022, will be recognized as

increase in own work capitalized in the FY22 financial statement, to then be recognized under IP rights in the FY23 one.

According to our estimates, fixed assets are expected to grow at a compounded annual growth rate of 37%, from €14.7mIn in FY20 to €52.4mIn in FY24.

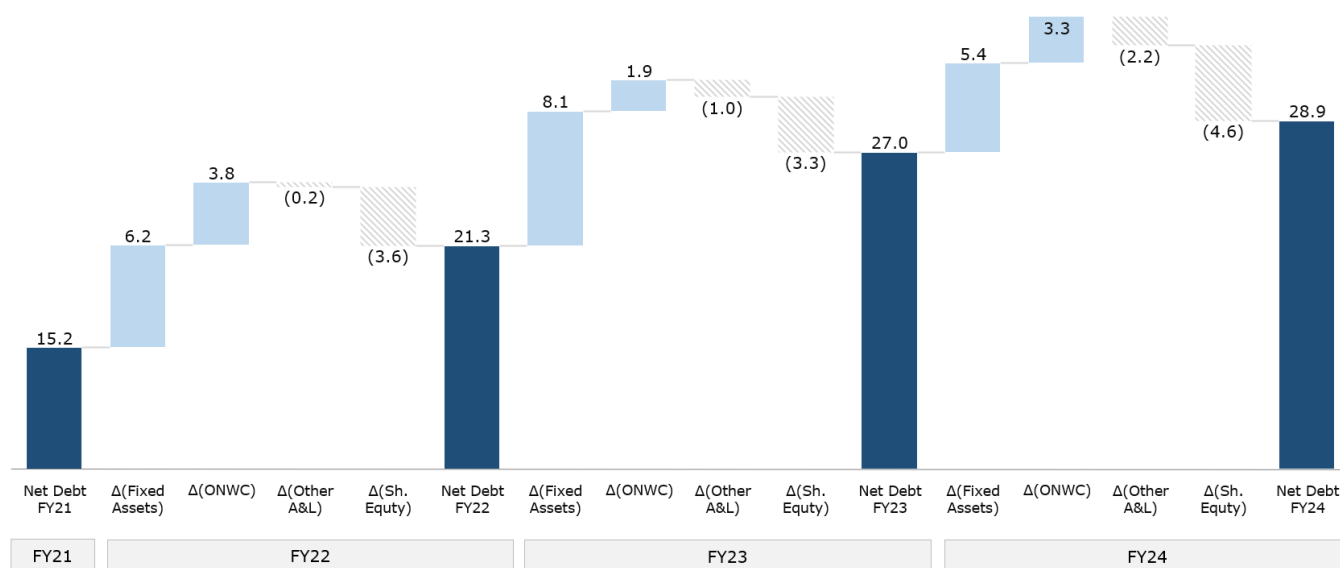
We expect a trend reversal in net working capital

Operating Net Working Capital has been negative over the past few years essentially because production costs are sustained well in advance of the related turnover, which is deferred over time. This phenomenon was exacerbated by the fact that Fenix started its own productions (supporting the costs) only in 2019 and whose first revenues occurred in 2020. **As the Company scales its business up, we estimate a trend reversal**, starting from FY21, mainly thanks to the dramatic growth in revenues, driven by an increase in productions. We recall that the smaller is the content producer, the more the cash absorbed from new productions relative to the cash generated by the productions delivered.

Shareholders' equity should grow by at least €3.5mIn per year

On a stand-alone basis, Shareholders' Equity is expected to gradually increase, from €6mIn in FY20 to €26.5mIn in FY24, as the Company progressively increases its profitability. Besides ordinary operating activities, **in FY22 there will be a €1.3mIn capital raise reserved for Andrea Di Nardo**, former Laser Digital and Laser Film owner. The capital raise will serve to pay off part of the €4.2mIn debt generated with the acquisition of Laser. The remaining part will be repaid in cash, in six instalments of €450k each, paid from January 2022 to March 2023.

Figure 23: Expected Net Financial Position evolution from December 2021 to December 2024 (€, mIn)



Source: Banca Profilo elaborations and estimates on Company data

Note: FY21 Net Debt already includes Laser Digital and Laser Film Debt. Net, Fenix NFP would have been equal to c.€11mIn

Net Debt should 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 by between €1mIn and €5mIn per year, but still on a sustainable level, as Net Debt/EBITDA ratio should decline progressively from FY21 onwards until reaching 1x in FY24, while EBIT Interest Coverage Ratio is forecast to increase comfortably above 10x.

Table 4: Fenix Balance Sheet 2018-2024E (€, mln)

Balance Sheet (€/mln)							
	FY18	FY19	FY20	2021E	2022E	2023E	2024E
Intangible Assets	0.4	4.3	14.6	29.2	35.3	43.4	48.8
Property, Plant & Equipment	0.0	0.1	0.1	1.8	1.8	1.8	1.8
Financial Assets	0.1	0.0	0.1	1.7	1.7	1.8	1.8
Fixed Assets	0.5	4.4	14.7	32.7	38.9	47.0	52.4
Trade Receivable	0.9	2.3	2.9	11.3	16.8	18.8	21.0
Inventories	-	-	-	0.1	0.1	0.2	0.2
Trade Payable	(0.4)	(1.8)	(5.2)	(11.9)	(13.6)	(13.8)	(12.6)
Net Operating Working Capital	0.5	0.5	(2.2)	(0.5)	3.3	5.2	8.5
% on VoP	46%	6%	-14%	-1%	8%	10%	15%
Trade receivables (% on VoP)	80%	31%	18%	35%	39%	35%	36%
Inventories (% on VoP)	-	-	-	0.0	0.0	0.0	0.0
Trade paybles (% on cost of services & materials)	52%	45%	46%	58%	66%	62%	61%
Other Assets	1.4	2.2	5.4	7.4	10.8	12.1	12.8
Other Liabilities	(1.9)	(4.8)	(8.9)	(8.9)	(12.5)	(14.8)	(17.8)
Funds	(0.0)	(0.0)	(0.0)	(0.5)	(0.5)	(0.5)	(0.5)
Invested Capital	0.6	2.3	8.9	30.2	40.0	48.9	55.4
CapEx	0.4	4.1	10.8	9.2	10.1	15.0	16.0
Intangible	0.4	4.0	10.6	8.9	9.5	14.6	15.0
Tangible	0.0	0.1	0.0	0.1	0.4	0.3	0.7
Financial	0.0	0.0	0.2	0.2	0.1	0.1	0.3
% on VoP	38%	55%	67%	28%	23%	28%	28%
Consolidated Shareholders' Equity	0.2	1.4	6.0	15.1	18.6	22.0	26.5
Net Debt (Cash)	0.3	0.9	3.0	15.2	21.3	27.0	28.9

Source: Banca Profilo elaborations and estimates

Free Cash Flow

According to our Profit & Loss and Balance Sheet estimates, **Free Cash Flow generation should progressively improve**. FCF is expected to be negative until FY22, while from FY23 onwards we expected a positive EBITDA cash conversion rate, at 10% in FY23 and 19% in FY24.

Table 5: Fenix Free Cash Flow 2018-2024E (€, mln)

Cash Flow (€/mln)							
	FY18	FY19	FY20	2021E	2022E	2023E	2024E
EBIT	0.2	1.7	3.0	3.0	3.6	5.2	6.9
Tax rate	35%	35%	27%	28%	28%	28%	28%
NOPAT	0.1	1.1	2.2	2.2	2.6	3.7	5.0
D&A	0.1	0.2	0.4	4.7	8.7	15.3	19.3
Changes in Funds			0.0	0.5	(0.0)	(0.0)	(0.0)
Changes in Operating NWC	n.a.	0.1	2.7	(1.8)	(3.8)	(1.9)	(3.3)
Capex	(0.4)	(4.1)	(10.8)	(9.2)	(10.1)	(15.0)	(16.0)
Free Cash Flow	n.a.	(2.7)	(5.5)	(3.6)	(2.5)	2.1	5.0

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, advertising & digital content creation.
	<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 actually estimated.

Table 6: 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

*Initiated at BUY
TP of €12/share*

We initiate our coverage on Fenix Entertainment with a **BUY recommendation** and a **target price of €12/share**. The target price is computed as the simple average between the fair value from a DCF model (€17.3) and the implicit price in peer's market multiples (€6.7).

DCF

Cash flow inputs

To run a 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 €4.6mln**. The final cash flow has been set equal to the FY23-FY24 average, equal to €3.6mln. 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 FY23 onwards.

WACC of 6.2%

To discount cash flows, we used a **WACC of 6.2%**, derived from:

- risk free rate of 3.0%, as implicitly expected by consensus on the 30Y Italian BTP yield curve (moving average of the last 100 days) with an estimated increase in interest rates;
- market risk premium of 5.5%;
- a leveraged beta of 1;
- after tax cost of debt of 1.7%;
- target debt-to-equity ratio of 54%;

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

Table 7: WACC calculation

WACC Calculation	
Perpetual growth rate	2.0%
WACC	6.2%
Risk free rate (Italy 30 + Projected increase)	3.0%
Equity Risk Premium	5.5%
Beta	1.0
Cost of Equity	8.5%
After tax cost of Debt	1.7%
Tax rate	28%

Source: Banca Profilo estimates and elaborations

*DCF fair value:
€17.3/share*

The DCF method leads us to an Enterprise Value of €76.6mln and an **Equity Value of €61.6mln or €17.3/share**.

Table 8: DCF valuation

DCF Valuation (mln, except for the target price)	2020	2021E	2022E	2023E	2024E	Over
Free Cash Flow (FCF)			(2.5)	2.1	5.0	3.6
Years			0.7	1.7	2.7	
Discount factor			0.96	0.91	0.85	
NPV Cash flows			(2.4)	1.9	4.3	
Sum of NPVs			(2.4)	(0.5)	3.7	
Terminal Value						85.4
NPV Terminal Value						72.9
Enterprise Value						76.6
Net Financial Position FY21E						15.2
Minorities FY21						0.2
Equity Value						61.6
Outstanding shares						3.6
Equity Value per share						17.3

Source: Banca Profilo estimates and elaborations

Sensitivity analysis

Our valuation has significant sensitivity to the terminal growth rate and WACC as the fair value in our DCF model is largely based on Terminal Value (95% of Enterprise Value).

Table 9: Sensitivity analysis on fair value

		terminal growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	5.2%	18.1	21.0	24.5	30.3	38.2
	5.7%	15.5	17.8	20.4	24.6	29.9
	6.2%	13.5	15.3	17.3	20.4	24.2
	6.7%	11.8	13.3	14.9	17.3	20.1
	7.2%	10.4	11.6	12.9	14.8	17.0

Source: Banca Profilo estimates and elaborations

Market multiples

Fenix Entertainment is trading at a discount of about 40% on FY21-FY23 EV/EBIT

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. According to our estimate, Fenix Entertainment is trading at a discount of about 40% on FY21-FY23 EV/EBIT, 26% on EV/EBITDA and 20% on P/E to its direct peers.

Table 10: Sample benchmarking on revenue growth and EBIT margin

Company	Currency	Market Cap (Mln)	EV	Sales growth					EBIT margin				
		08/03/2022		2019	2020	2021E	2022E	2023E	2019	2020	2021E	2022E	2023E
Iervolino & Lady Bacardi	EUR	12/2020	2.0	152%	40%	61%	-9%	2%	35%	14%	14%	15%	15%
Leone Film Group	EUR	12/2020	2.5	-38%	4%	54%	20%	8%	4%	2%	3%	7%	10%
Lucisano Media Group	EUR	12/2020	1.2	5%	-32%	115%	20%	N.A.	11%	5%	12%	13%	N.A.
Notorious Pictures	EUR	12/2020	1.5	43%	-72%	168%	109%	24%	17%	-32%	17%	11%	11%
Splendid Medien	EUR	12/2020	1.6	-3%	-13%	2%	-1%	10%	16%	12%	7%	5%	7%
Xilam Animation	EUR	12/2020	32.9	4%	-16%	101%	15%	21%	41%	22%	28%	29%	29%
Highlight Communications	EUR	12/2020	3.8	-8%	-15%	6%	8%	3%	6%	7%	5%	8%	9%
Squirrel Media	EUR	12/2019	3.6	70%	198%	148%	33%	19%	8%	14%	7%	18%	19%
Mean				40%	-15%	99%	35%	11%	17%	-3%	12%	12%	12%
Median				24%	-14%	88%	20%	8%	14%	3%	13%	12%	11%
Fenix Entertainment SpA	EUR	18.9	23.2	536%	116%	156%	4%	25%	23%	19%	7%	8%	10%

Source: Banca Profilo estimates and elaborations on Factset data (as of March 8, 2022)

EV/EBIT should be preferred over EV/EBITDA. Average multiple of 8.9x

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. In order to avoid any outlier with extremely large or small values, we preferred the median over the average. The median **FY22-23 EV/EBIT is equal to 8.9x**. According to our EBIT estimates, we derived an average Equity Value of €23.7mln, equal to a **per share value of €6.7**.

Table 11: Market multiple

Valuation on EV/EBIT market multiple (€ mln, except for the target price)		
	2022E	2023E
Median EV/EBIT best peers	9.3x	8.4x
Average EV/EBIT 2022-23	8.9x	
EBIT	3.6	5.2
Theoretical Enterprise Value	32.1	46.0
Estimated FY21 Net Debt	15.2	
Current Minorities	0.2	0.2
Equity Value	16.8	30.7
Average Equity Value	23.7	
Current outstanding shares	3.6	
Price per share (€)	6.7	

Source: Banca Profilo estimates and elaborations on Factset data (as of March 8, 2022)

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ADDITIONAL INFORMATION

THE BANK PROVIDES ALL OTHER ADDITIONAL INFORMATION, ACCORDING TO ARTICLE 114, PARAGRAPH 8 OF LEGISLATIVE DECREE 58/98 ("FINANCIAL DECREE") AND COMMISSION DELEGATED REGULATION (EU) 2016/958 AS OF 9 MARCH 2016 (THE "COMMISSION REGULATION") ON THE RELEVANT SECTION OF ITS WEBSITE (WWW.BANCAPROFILO.IT, IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA").