

Need to push further on business diversification

October 14th, 2022, at 18:00

FENIX
entertainment

Revenues below estimates; double-digit margin confirmed

In 1H22, the Aggregated VoP came in at €13.6m, representing 30% of our FY22 VoP forecast (€56m). [Please refer to our Company Update on July, 14th]. Regarding turnover breakdown (i) Fenix VoP came in at €8.4m, 36% below our estimates, representing 19% of our FY22 Fenix VoP forecast (€44m) and ii) Laser VoP stood at €5.2m which is roughly in line with our forecast, representing 46% of our FY22 Laser VoP estimate (€11.4m). EBITDA came in at €3.4m, some 60% below our projections and representing 33% of our FY22 EBITDA forecast at €10.3m. Nevertheless, EBITDA margin stood at 25%, well above our estimate at 18%, confirming the Company historic double-digit margins. At the end of June 2022, Net Operating Working Capital stood at €2.7m (vs €0.9m at the end of 2021), including trade receivables at €30.3m, trade payables at €27.8m and inventories at €0.2m. Finally, at the end of June 2022, Net Debt rose to €15.2m from €14.1m in December 2021, and it still includes the residual debt to A. Di Nardo related to the acquisition of 60% of Laser for €2m.

ESG Analysis and the first Sustainability Report in 2021

Fenix Entertainment published its first Sustainability Report in 2021, in accordance with GRI standards.

Strategic development and need to diversification

Due to the critical Italian scenario related to theatrical, it is necessary for Fenix to push further on business diversification towards docu, docu-fiction, emertainment and TV series. With this aim, the Company has started an international expansion through high-standing collaborations and co-productions.

Estimates revision: reducing 2022-2024E

We revised downward our estimates on Fenix Revenues amid €6.7m in 1H22 is only 18% of our FY22 estimates (€44m). Therefore, we assume Total Revenues to grow at 21% 2021-2024 CAGR, down from our previous 30%. The aggregated VoP (including Laser and Verve) is set to rise at a 3% 21-24E CAGR to reach €61.5m, well below our previous projections at 12% to €79m. We project EBITDA to increase to €11.1m (vs our previous €10.3m) in 2022E with a marginality of 20%, above our previous estimate at 18%. We plan EBITDA to grow at 27% CAGR over the 2021-2024 to reach €14.2m or 23% margin, below our previous estimate at a 42% CAGR. We expect NOWC to increase by €6.3m over 2022-2024E with an increasing incidence on VoP of 5% in 2022E and to reach 12% in 2024E. Since several film will be distributed in the 2H22, there will be a higher reduction in deferred income than our previous estimates; therefore, our Net Debt at the end of 2022 is estimates at €24.1m, below previous estimate at €27.3m.

Valuation: BUY confirmed; 12-month target price cut to €5.6

We confirm our BUY recommendation but reduce our 12-month target price to €5.6/share for: (i) higher WACC, deriving from increasing risk-free rate; (ii) lower cumulated and Terminal Value FCFs; and (iii) higher number of shares following the capital increase. To run the DCF model, we used 2022E-2024E cumulated FCFs at €6.9m (vs previous €10.1m), a Terminal Value FCF of €2.3m as FY22-24 average (vs previous €3.4m), a 7.1% WACC (vs previous 6.8%) and 2% perpetual growth rate (unchanged). Since the weight of Fenix Library has increased over time, we decided to change the multiple for relative valuation to EBITDA, using the median FY22-23 EV/EBITDA at 2.9x.

Given the critical global scenario, we expect a re-rating of multiples in the future; therefore, our target price is the weighted average of DCF fair value (70%) and relative market multiples (30%).

Target Price €5.6
Recommendation BUY **From €9** Confirmed

Company Profile

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

Market Data

Last Closing Price as of October 14th 1.4 €
Number of shares (mln) 4.4
Market capitalization (mln) 5.8 €
Equity Float 35%

Performance from IPO

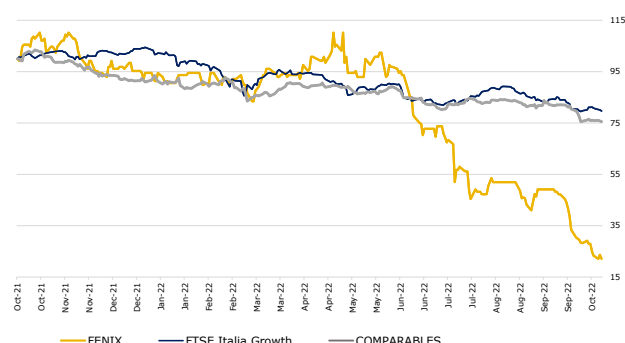
Absolute -78.1%
Max / Min 7/1.3
Average daily volumes 4,889

Main Financials

(€ mln)	FY21	2022E	2023E	2024E
Fenix VoP	43.8	42.6	43.7	44.6
yoy change	170%	-3%	3%	2%
VoP (including Laser and Verve)*	56.8	54.5	58.6	61.5
yoy change	n.a.	-4%	7%	5%
Added Value	13.5	23.5	27.1	29.5
Margin (%)	31%	43%	46%	48%
EBITDA	7.0	11.1	12.9	14.2
yoy change	106%	58%	16%	10%
Margin (%)	16%	20%	22%	23%
EBIT	1.5	1.2	1.2	2.7
Margin (%)	3%	2%	2%	4%
Net Income	0.5	0.4	0.6	1.7
Margin (%)	1%	1%	1%	3%
Net Debt (Cash)	14.1	24.1	17.1	19.6
Shareholders' Equity	12.3	15.4	16.0	17.7
Net Operating Working Capital	0.9	2.5	3.6	7.2
CapEx	24.8	7.9	9.3	7.3
FCFs	-21.0	2.2	2.2	2.5

*Verve included from 4Q2022

1Y-monthly normalized performance



Francesca Sabatini

Head of Equity Research

francesca.sabatini@bancaprofilo.it

+39 02 58408 461

Eleonora Chetri

Equity Research Analyst

eleonora.chetri@bancaprofilo.it

+39 02 58408 298

Sales Desk

+39 02 58408 478

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SWOT analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Financial coverage of films ahead of the actual start of production • Know-how and expertise across different segments of the Media & Entertainment Industry, from film and music production to digital marketing • 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 • Film pipeline delays
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Expansion of the production business • Synergies from the acquisitions of Laser Group and Verve Media Company • M&A opportunities to enhance further group expertise • Growing global demand for new entertainment products • Public financing through tax credit: more than €540mln in 2022 to support cinema and TV 	<ul style="list-style-type: none"> • Increasing competition in both film production and distribution • Possible changes in the regulatory framework affecting tax incentives and local grants for film producers and distributors

1H22 results

A few premises on accounting principles

Movie production companies have a few accounting peculiarities

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

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

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

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

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

EBITDA is now the preferred benchmarking figure in this Industry

Since the weight and the value of Fenix library increased over time, we decided to change the industry benchmarking figure to EBITDA instead of EBIT, contrary to the previous research. In fact, the number of titles in its library has been higher than the previous years and therefore the company has been a lot to amortize since 2021. For this reason, EBITDA should be preferred over EBIT as a profitability indicator

First-Time Adoption

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

Historical performance analysis

No yoy comparison data for P&L

No yoy comparison data have been provided because Fenix did not draw up consolidated P&L in 2021, as the purchase of Laser Group and the setup of Lovit took place between late 2021 and early 2022 respectively.

Income Statement

1H22: VoP at €13.6mln, 30% of our FY22 VoP forecast (€56mln)

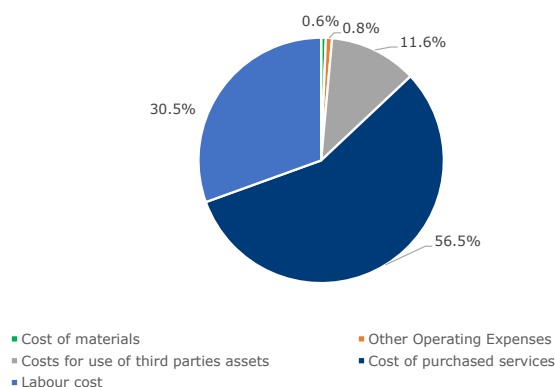
In 1H22, the Aggregated Value of Production came in at €13.6mln, representing 30% of our FY22 VoP forecast (€56mln). *[Please refer to our Company Update on July, 14th]*. Regarding turnover breakdown (i) Fenix VoP came in at €8.4mln, 36% below our estimates, representing 19% of our FY22 Fenix VoP forecast (€44mln) and ii) Laser VoP stood at €5.2mln which is roughly in line with our estimates, represent 46% of our FY22 Laser VoP forecast (€11.4mln).

1H22: COGS at €10.1mln

Total cost of goods sold was €10.2mln, including:

- €3.1mln of labour costs, which represents 23% of FY22 VoP, versus our FY22 estimates of 16%;
- €5.8mln of raw materials and purchased services, which represents 43% of FY22 VoP versus our FY22 estimates of 62%;
- €1.3mln related to the cost of third parties' assets and other operating expenses, which represents 9% of FY22 VoP, versus our FY22 estimates of 3%.

Figure 1: COGS Breakdown (%)



Source: Banca Profilo elaborations on Company data

1H22: EBITDA at €3.4mln (-60% vs our forecast)

EBITDA came in at €3.4mln, some 60% below our projections and represents 33% of our FY22 EBITDA forecast at €10.3mln.

1H22: EBITDA margin at 25% (vs our 18%)

Nevertheless, EBITDA margin stood at 25%, well above our estimate at 18%, confirming the Company historic double-digit margins.

1H22: D&A at €2.4mln including goodwill amortization

In line with the amortization policy adopted at the approval of the 2021 budget, D&A stood at €2.4mln, including goodwill amortization at €0.2mln.

Table 1: depreciation rates of IP rights as of 2021

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

Source: Banca Profilo elaborations on Company data

1H22: EBIT at breakeven

In 1H22 EBIT was basically zero (-€0.01mln).

1H22: Net Loss of
€0.5mIn

In 1H22, Fenix recorded a net loss of €0.5mIn, mainly due to: i) Lovit (-€0.2mIn) start-up costs; ii) Parent Company tax provisions (-€0.04mIn); and iii) the net loss of Laser (-€0.2mIn).

Table 2: Fenix Profit & Loss 1H20-1H22 (€, mln)

Profit & Loss (€/mln)					
	1H20	2020	1H21	2021	1H22
Fenix revenue	0.2	5.0	9.6	20.1	6.7
Increase in own work capitalized	0.2	9.7	3.3	22.6	2.7
Other revenue	0.1	1.5	0.1	1.2	0.0
Fenix Value of Production	0.6	16.2	12.9	43.8	9.6
yoy change (%)	n.a.	116%	2230%	170%	-26%
Laser Digital Film	0.0	0.0	0.0	10.9	4.0
Value of Production (including Laser)	0.6	16.2	12.9	54.7	13.6
yoy change (%)	n.a.	116%	2230%	237%	5%
Verve Media Company	0.0	0.0	0.0	2.1	0.0
Fenix VoP (including Laser + Verve)	0.6	16.2	12.9	56.8	13.6
yoy change (%)	n.a.	116%	2230%	249%	5%
Cost of materials and purchased services	-1.1	-11.3	-5.3	-30.3	-5.8
% on VoP	-192%	-70%	-41%	-69%	-43%
Added Value	(0.5)	5.0	7.6	13.5	7.8
% on VoP	-92%	30%	59%	31%	57%
yoy change (%)	n.a.	-91%	-164%	1%	-2%
Labor cost	-0.2	-1.3	-2.1	-6.1	-3.1
% on VoP	-34%	-8%	-16%	-14%	-23%
Costs for use of third parties assets	0.0	-0.1	-0.1	-0.2	-1.2
% on VoP	-3%	-1%	-1%	0%	-9%
Other Operating Expenses	-0.1	-0.2	-0.1	-0.3	-0.1
% on VoP	-15%	-1%	-1%	-1%	-1%
Comprehensive COGS	-1.4	-12.9	-7.7	-36.8	-10.2
% on VoP	-245%	-79%	-59%	-84%	-75%
EBITDA	(0.8)	3.4	5.3	7.0	3.4
EBITDA Margin on VoP	-145%	21%	41%	16%	25%
EBITDA including Laser				8.6	
Margin on VoP (%)				16%	
EBITDA (including Laser + Verve)				9.3	
Margin on VoP (%)				16%	
D&A	-0.1	-0.4	-4.3	-5.5	-3.4
% on VoP	-18%	-2%	-33%	-13%	-25%
EBIT	(0.9)	3.0	1.0	1.5	(0.01)
EBIT Margin on VoP	-163%	19%	7%	3%	0%
Net financial income (expenses)	0.0	-0.1	-0.1	-0.3	(0.21)
% on VoP	-1%	-1%	-1%	-1%	-2%
Net extraordinary income (expense)	0.0	0.0	0.0	0.0	0.00
EBT	(0.9)	2.9	0.9	1.2	(0.22)
EBT Margin on VoP	-163%	18%	7%	3%	-2%
Income Tax	-0.1	-0.8	-0.7	-0.6	(0.24)
Tax rate	35%	35%	27%	55%	0.28
Net Income	(1.0)	2.1	0.2	0.5	(0.46)
Net Income Margin on VoP	-185%	13%	2%	1%	-3%

Source: Banca Profilo elaborations on Company data. 2022 data are not comparable with previous years.

Balance Sheet

30.06.22: Net
Operating Working
Capital increased to
€2.7mIn (from
€0.9mIn)

At the end of June 2022, Net Operating Working Capital stood at €2.7mIn (vs €0.9mIn at the end of 2021), including trade receivables for €30.3mIn, trade payables for €27.8mIn and inventories of €0.2mIn. The incidence of trade receivables on VoP increased to 74% from 71% in the first semester, while the incidence of trade payable on VoP slightly declined to 68% from 69% at the end of 2021.

30.06.22: Net Debt rose by €1.1mln to €15.2mln

At the end of June 2022, Net Debt rose to €15.2mln from €14.1mln in December 2021. Net Financial Position still includes the residual debt to Andrea Di Nardo for the acquisition of 60% of Laser at €2mln. Since several films will be distributed in the 2H22, there will be a large reduction in deferred income and therefore, Net Debt at the end of the year 2022 is expected to increase.

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

Balance Sheet (€/mln)					
	1H20	2020	1H21	2021	1H22
Intangible Assets	4.5	17.7	14.8	40.1	40.2
Property, Plant & Equipment	0.3	0.1	0.1	2.0	2.4
Financial Assets	0.1	0.1	0.1	0.1	0.1
Fixed Assets	4.8	17.9	14.9	42.2	42.7
Verve Media Company		0.0	0.0	0.0	0.0
Trade Receivable	2.1	2.9	7.2	31.0	30.3
Inventories	0.0	0.0	0.0	0.2	0.2
Trade Payable	-2.2	-5.2	-5.9	-30.3	-27.8
Net Operating Working Capital	-0.1	-2.2	1.3	0.9	2.7
Verve Media Company NOWC		0.0	0.0	1.1	0.0
% on VoP	-22%	-14%	10%	2%	7%
Trade receivables (% on VoP)	375%	18%	55%	71%	74%
Inventories (% on VoP)	-	-	-	0%	1%
Trade payables (% on VoP)	-397%	-32%	-44%	-69%	-68%
Other Assets	2.5	5.4	7.9	9.0	0.3
Other Liabilities	-6.1	-8.9	-10.6	-24.9	-21.4
Ratei e risconti passivi	0.0	-6.6	0.0	-18.3	-14.6
Funds	0.0	0.0	0.0	-0.7	-0.8
Invested Capital	1.1	12.1	13.4	26.4	23.5
CapEx		10.6		24.8	
Intangible		10.6		24.8	
Tangible		0.0		0.0	
% on VoP		66%		58%	
Shareholders' equity	1.7	6.0	11.6	11.8	13.9
Share capital	0.1	0.1	0.1	0.1	0.2
Reserves	1.3	2.5	7.4	7.7	14.3
Retained earnings	-	1.3	3.4	3.4	-
Group Net Income	0.3	2.1	0.6	0.5	(0.5)
Net Income attributable to third parties	-	-	-	-	-
Shareholders' equity attributable to third parties	-	-	-	0.6	-
Minority/Non Controlling Interest	-	-	-	-	-
Consolidated Shareholders' Equity	1.7	6.0	11.6	12.3	13.9
Financial Debt	1.5	4.2	6.4	11.2	13.8
Cash and cash equivalents	(0.0)	(0.3)	(4.4)	(1.2)	(0.6)
Payables for rights of use	-	-	-	-	-
Other financial receivables	(0.5)	(0.9)	(0.2)	(0.1)	(0.0)
Net Financial Position (Cash)	1.0	3.0	1.8	14.1	15.2

Source: Banca Profilo elaborations and estimates on Company data

Strategy and estimates

Management evolution and relevant facts

The delay in deliveries of key films hit 1H22 results

The delay of key films production hit the Group results in 1H22. In details, the expected deliveries of films marketed in July and August, including 'Toilet' and 'La Sposa in Rosso' for a total amount of €5.9mIn were delayed (we assume to 2H22) and therefore we included them in our FY22 estimate.

€6.1mIn Tax credit in 2H22

As of July 2022, Fenix Entertainment received €6.1mIn tax credit (included in our FY22 forecast), related to productions carried out in 2021. In addition, on September the 5th, Fenix applied for the final tax credit on "Ladri di Natale" for €2.7mIn, which we included in our FY23 estimates.

Need to push further on business evolution due to the critical Italian scenario mostly in the Cinema

In 2021, box-office takings decreased 7% yoy to €169mIn, from an already weak performance in 2020. The closure of movie theatres for almost 4 months during Covid-19 restriction was the main constraint. The Industry is still far from recovering, as 2021 box-office takings were 72% below their 2015-2019 average. The reasons why cinema attendance has decreased are mainly related to either the fear of infection, in older age groups, or the annoyance of restrictions. Another reason is the increase in ticket prices, which has made people less inclined to go to the cinema.

Due to this critical Italian scenario related to theatrical, it is necessary for Fenix to push further on business diversification towards docu, docu-fiction, emotainment and TV series. With this aim, the Company has started an international expansion through high-standing collaborations and co-productions. Some of its ongoing projects are (i) the TV series (Canale 5) starring Gabriel Garko, (ii) the co-production with France and Belgium of 'Maria' (the story of Maria Schneider) and (iii) the UK co-production of the film based on the best seller 'Le parole lo sanno' by Marco Franzoso. Finally, the management is working to strengthen relations with new platforms (Disney, Amazon, Netflix and Paramount), as well as consolidating its historical relations with traditional broadcasters (Rai and Mediaset).

Our 2022-2024E estimates revision

A distinctive forecasting modelling for film and TV production & distribution

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

Verve consolidation in 4Q22

Our 2022-2024E estimates include the acquisition of Verve Media Company from the last quarter of 2022 (filing is expected in 4Q22).

Income Statement

Assumptions on revenue; synergies from Laser and Verve

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

We forecast 5 new movies per year, with an average budget of about €3mIn in the medium-term. Moreover, thanks to the business evolution and to the inclusion in TV production, we also estimate an average of 4 new television entertainment programs each year with an initial budget of €4.4mIn in 2022 and with an annual increase in budget on overage of 45%.

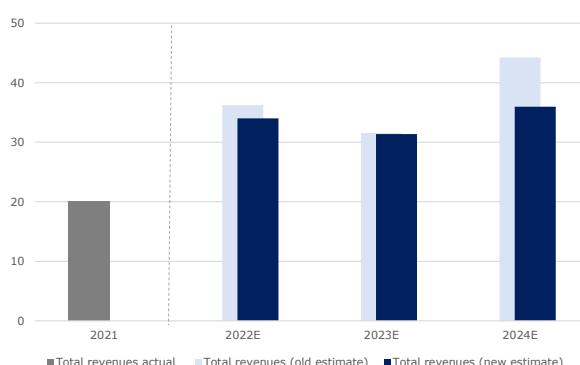
Revenues from the film pipeline are not immediately recognized, but only once the project is finalised. Before that time, cash inflows are recorded as Deferred Income in the Balance Sheet, and the increase in the value of a movie under production is included in the Value of Production under the item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

- (i) Production revenues are estimated as the costs incurred to produce the movie plus a 15% producer fee, namely the commission that Fenix generates through each production. To model FY22 revenues we used Fenix's existing pipeline, while from FY23 onwards we assumed 5 productions per year with an average budget of about €3mln each. Revenues from production are recognized in the income statement only once the film is distributed, therefore not necessarily in the year in which the proceed is collected. Revenues from production mainly come from: IP licensing or sale (20%), Government grants (8%), Local Film Commission grants (12%), external Tax Credit (15%), Tax Credit production (40%) and product placement activities (5%).
- (ii) Distribution revenues depend on cinema proceeds, as the success of a movie at the box office sets the economic standard for IP rights. We estimated average revenues from cinema of about €300k per film (production company revenues correspond to only a percentage of cinema's proceeds). However, we assume that only half of Fenix films will be released in theatres. Part of Fenix productions are, in fact, commissioned directly by a broadcaster, such as RAI, with no release to the cinema.
- (iii) We forecast an average of 4 new entertainment programs per year with an initial budget of €4.4mln in 2022E, increasing on average of 45% yoy. There are immediately accounted together with related costs;
- (iv) Marketing, advertising and digital content turnover is estimated separately and increases by 25% on average each year;
- (v) Music revenues are projected to grow by 10% per year;
- (vi) Laser turnover is expected to increase on average by 10% over 2022-2024E period compared to previous estimates that assumed a growth on average of 15%;
- (vii) Verve Media revenue are seen growing by 10% in 2023-2024E vs previous estimates that assumed a growth of 25%.

Fenix Revenues at 21% 21-24E CAGR (vs previous 30%)

We revised downward our estimates on Fenix Revenues amid €6.7mln in 1H22 is only 18% of our FY22 estimates (€44mln). Therefore, we assume Total Revenues to grow at 21% 2021-2024 CAGR, down from our previous 30%.

Figure 2: Old vs new estimates on Total Revenues– FY 2021-2024E (€,mln)

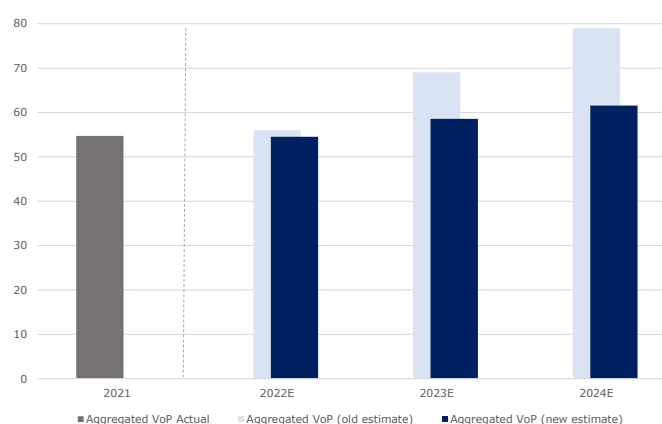


Source: Banca Profilo elaborations and estimates on Company data

Aggregated VoP is set to grow at a 21-24 CAGR of 3%

According to our estimates, the aggregated VoP (including Laser and Verve) is set to rise at a 3% 21-24E CAGR to reach €61.5mln, well below our previous projections at 12% to €79mln.

Figure 3: Old vs new estimates on Aggregated VoP- FY2021-2024E (€,mln)



Source: Banca Profilo elaborations on Company data

Raw materials and services VoP incidence down to 57% in 2022E

We reduced the incidence of raw material and service costs on VoP to 57% in 2022E (vs our previous 62%) in line with 1H22 trend when the incidence was equal to 43% from 69% in 2021. We then project a reduction of the incidence to 52% in 2024E.

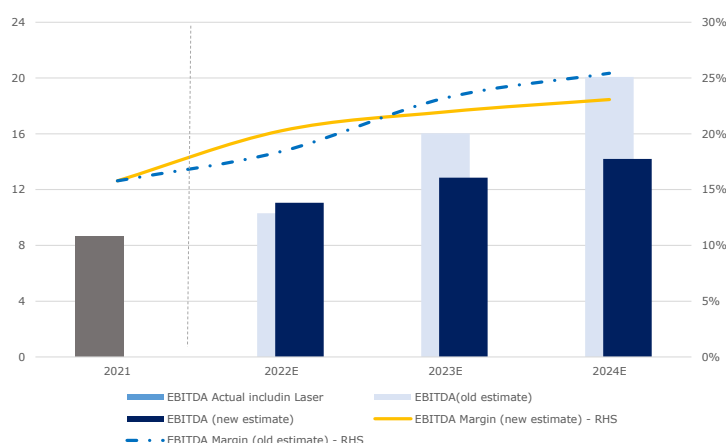
Incidence of Labour cost on VoP is set to increase to 16.8% on average

We increase the incidence of Labour cost on VoP over 2022-24E period from 15.8% on average to 16.8%, in line with 1H22 trend when the incidence was equal to 23% from 14% in 2021.

EBITDA margin at 23% in 2024E from 20% 2022E

Following our revenue and operating costs projections, we end up with EBITDA increasing to €11.1mln (vs our previous €10.3mln) in 2022E with a marginality of 20%, above our previous estimate at 18%. We plan EBITDA to grow at 27% CAGR over the 2021-2024 to reach €14.2mln or 23% margin, below our previous estimate at a 42% CAGR. Overall, EBITDA margin average over 2022E-2024E is now seen improving to 22% at the same level of our previous estimate.

Figure 4: Old vs new estimates on EBITDA and EBITDA margin– FY 2021-2024E (€,mln)



Source: Banca Profilo elaborations on Company data

D&A incidence on VoP up to 19% as the library grows

We assumed an increasing D&A incidence on VoP to 18% in 2022E (vs previous 14%), as Fenix Library grows. The D&A incidence on VoP is now revised to 19% on average over 2022E-2024E from our previous estimate at 17%.

EBIT at €2.7mln in 2022E

Since we revised downward our estimates on VoP and upwards our forecasts on D&A, our EBIT estimate is set to increase from €1.2mln in 2022E (vs our old estimate at €2.4mln) and to reach €2.7mln in 2024E (vs our old estimate at €4mln).

Net income at €0.4mIn
in 2022E and to reach
€1.7mIn in 2024

Net income is now seen at approximately €0.4mIn in 2022E, below our previous estimate at €1.3mIn. In 2021-2024E, net income is expected to grow at 47% CAGR (vs old projection of 70% CAGR) to reach €1.7mIn in 2024E.

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

Profit & Loss (€/mln)							
	FY21	2022E		2023E		2024E	
		OLD	NEW	OLD	NEW	OLD	NEW
Fenix revenue	20.1	36.2	34.0	31.6	31.4	44.2	36.0
Increase in own work capitalized	22.6	6.3	7.4	20.4	10.9	14.5	7.1
Other revenue	1.2	1.5	1.2	1.5	1.5	1.5	1.5
Fenix Value of Production	43.8	44.0	42.6	53.5	43.7	60.2	44.6
yoy change (%)	170%	1%	-3%	21%	3%	13%	2%
Laser Digital Film	10.9	11.4	11.4	13.1	12.6	15.8	14.5
Aggregated VoP (including Laser)	54.7	55.5	54.0	66.6	56.3	76.0	59.0
yoy change (%)	237%	1%	-1%	20%	4%	14%	5%
Verve Media Company	2.1	0.5	0.5	2.5	2.3	3.0	2.5
Aggregated VoP (including Laser + Verve)	56.8	56.0	54.5	69.1	58.6	79.0	61.5
yoy change (%)	(0.0)	(0.0)	-4%	0.2	7%	0.1	5%
Cost of materials and purchased services	(30.3)	(34.8)	(31.1)	(38.7)	(31.5)	(42.9)	(32.0)
ii) Altri costi per servizi	(11.7)	(10.7)	(11.0)	(9.6)	(12.0)	(8.0)	(9.4)
% on VoP	-55%	-62%	-57%	-56%	-54%	-54%	-52%
Changes in inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Added Value	13.5	21.2	23.5	30.4	27.1	36.1	29.6
yoy	173%	57%	74%	44%	15%	19%	9%
gross margin	31%	38%	43%	44%	46%	46%	48%
Added Value (including Laser)	18.5						
	34%						
Labor cost	(6.1)	(9.1)	(9.3)	(11.0)	(9.7)	(12.1)	(10.2)
% on VoP	-14%	-16.2%	-17.0%	-15.9%	-16.6%	-15.3%	-16.6%
Costs for use of third parties assets	(0.2)	(1.0)	(2.4)	(1.2)	(2.5)	(1.4)	(2.9)
% on VoP	0%	-2%	-4%	-2%	-4%	-2%	-5%
Other Operating Expenses	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
% on VoP	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Comprehensive COGS	(36.8)	(45.7)	(43.5)	(53.0)	(45.7)	(58.9)	(47.3)
iii) Verve Media Company	(1.4)	(0.3)	(0.3)	(1.7)	(1.5)	(2.0)	(1.7)
% on VoP	-84%	-82%	-80%	-77%	-78%	-75%	-77%
EBITDA	7.0	10.3	11.1	16.0	12.9	20.1	14.2
EBITDA Margin on VoP	16%	18%	20%	23%	22%	25%	23%
EBITDA (including Laser)	8.6						
EBITDA Margin on VoP	16%						
D&A	(5.5)	(7.9)	(9.9)	(12.4)	(11.7)	(16.0)	(11.4)
% on VoP	-13%	-14%	-18%	-18%	-20%	-20%	-19%
EBIT	1.5	2.4	1.2	3.7	1.2	4.0	2.7
EBIT Margin on VoP	3%	4%	2%	5%	2%	5%	4%
Net financial income (expenses)	(0.3)	(0.6)	(0.6)	(0.5)	(0.4)	(0.4)	(0.4)
% on VoP	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Net extraordinary income (expense)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBT	1.2	1.8	0.6	3.2	0.8	3.6	2.3
EBT Margin on VoP	3%	3%	1%	5%	1%	5%	4%
Income Tax Expense	(0.6)	(0.5)	(0.2)	(0.9)	(0.2)	(1.0)	(0.6)
Tax rate	55%	28%	28%	28%	28%	28%	28%
Net Income	0.5	1.3	0.4	2.3	0.6	2.6	1.7
Net Income Margin on VoP	1%	2%	1%	3%	1%	3%	3%

Source: Banca Profilo elaborations and estimates

Balance Sheet & Cash Flow

Operating Net Working
Capital will rise by
about €2mIn per year

Regarding Balance Sheet estimates, we expect Net Operating Working Capital to increase by €6.3mIn over 2022-2024E with an increasing incidence on VoP of 5% in 2022E and to reach 12% in 2024E. This is in line with 1H22 results, when the incidence of NOWC was at 7% from 2% in 2021.

In details, over 2022-2024E we forecast an increase in Trade receivables of about €11mIn with an incidence on VoP on average equal to 70% from 71% in 2021.

We estimate trade payables to decrease by €4.9mIn over 2022-2024E with an incidence on VoP on average equal to 63% from 69% in 2021.

Net Debt up to €24mln at the end of 2022E

Since several film will be distributed in the 2H22, there will be a higher reduction in deferred income than the previous estimates; therefore, our Net Debt at the end of 2022 is estimates at €24.1mln, below our previous estimate at €27.3mln, to reach €19.6mln at the end of 2024E.

Table 5: Fenix Balance Sheet 2021-2024E (€, mln)

Balance Sheet (€/mln)							
	FY21	2022E		2023E		2024E	
		OLD	NEW	OLD	NEW	OLD	NEW
Intangible Assets	40.1	39.3	36.8	53.9	35.5	53.0	31.1
Property, Plant & Equipment	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Financial Assets	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fixed Assets	42.2	42.8	40.2	57.4	37.7	56.4	33.2
Verve Media Company	1.3	1.3	1.3	1.3	0.0	1.3	0.0
Trade Receivable	31.0	16.1	38.6	18.9	40.5	23.8	42.3
Inventories	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Trade Payable	(30.3)	(15.2)	(37.4)	(18.0)	(37.1)	(21.8)	(35.3)
Net Operating Working Capital	0.9	2.1	2.5	2.3	3.6	3.3	7.2
Verve Media Company NOWC	1.1	1.1	1.1	1.1	0.0	1.1	0.0
% on VoP	2%	4%	5%	3%	6%	4%	12%
Trade receivables (% on VoP)	71%	29%	71%	27%	69%	30%	69%
Inventories (% on VoP)	0%	0%	0%	0%	0%	0%	0%
Trade p (%cost of services&materials)	100%	44%	120%	46%	118%	51%	110%
Other Assets	9.0	9.6	9.0	8.5	8.5	11.8	9.7
Other Liabilities	(24.9)	(9.6)	(11.5)	(22.4)	(15.9)	(16.8)	(12.2)
Ratei e risconti passivi	(18.3)	(8.6)	(8.8)	(22.2)	(12.9)	(16.8)	(8.0)
Funds	(0.7)	(1.3)	(0.7)	(1.3)	(0.7)	(1.3)	(0.8)
Invested Capital	26.4	43.6	39.5	44.5	33.1	53.4	37.3
CapEx	24.8	6.3	7.9	12.0	9.3	14.4	7.3
Intangible	24.8	6.3	8.0	12.1	9.4	14.5	7.3
Tangible	0.0	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Financial	-	-	-	-	-	-	-
% on VoP	57%	11%	15%	17%	16%	18%	12%
Shareholders' equity	11.8	15.6	14.7	17.9	15.3	20.5	17.0
Share capital	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Reserves	7.7	10.2	10.2	10.2	10.2	10.2	10.2
Retained earnings	3.4	3.9	3.9	5.3	4.4	7.6	5.0
Group Net Income	0.5	1.3	0.4	2.3	0.6	2.6	1.7
Shareholders' equity attributable to third parties	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Minority/Non Controlling Interest	-	-	-	-	-	-	-
Consolidated Shareholders' Equity	12.3	16.3	15.4	18.6	16.0	21.2	17.7
Financial Debt	11.2	9.2	9.2	7.2	7.2	5.2	5.2
Cash and cash equivalents	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)
Payables for rights of use	-	-	-	-	-	-	-
Other financial receivables	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net Financial Position (Cash)	14.1	27.3	24.1	25.9	17.1	32.2	19.6

Source: Banca Profilo elaborations and estimates

Cumulated FCFs at €6.9mln or €2.3mln as yearly average

According to our 2022-2024 Profit & Loss and Balance Sheet estimates, Free Cash Flow generation should reach €2.5mln in 2024E. We now project cumulated FCFs at €6.9mln or €2.3mln as yearly average, which is below our previous estimates at €10.1mln and €3.4mln respectively. The Cumulated Free Cash Flow plunged from the previous estimates mainly because of i) lower cumulated EBIT of €5.1mln versus previous forecast at €10.1mln, ii) higher cumulated Net Operating working Capital cash out, which is now seen at €5.2mln vs previous €1.4mln and a lower Cumulated D&A at €33mln vs previous €36.3mln

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

	Cash Flow (€/mln)						
	FY21	2022E		2023E		2024E	
	NEW	OLD	NEW	OLD	NEW	OLD	NEW
EBIT	1.5	2.4	1.2	3.7	1.2	4.0	2.7
Tax rate	55%	28%	28%	28%	28%	28%	28%
NOPAT	0.7	1.7	0.8	2.7	0.9	2.9	2.0
D&A	5.5	7.9	9.9	12.4	11.7	16.0	11.4
Changes in Funds	0.7	0.6	0.0	0.0	0.0	0.0	0.0
Changes in Operating NWC	(3.1)	(0.2)	(0.6)	(0.1)	(1.1)	(1.1)	(3.6)
Capex	(24.8)	(6.3)	(7.9)	(12.0)	(9.3)	(14.4)	(7.3)
Free Cash Flow	(21.0)	3.8	2.2	2.8	2.2	3.4	2.5

Source: Banca Profilo elaborations and estimates

Key risks

TYPE OF RISK		DESCRIPTION
EXTERNAL CONTEXT	<i>Regulatory risk:</i> - medium-low likelihood - very high impact	Italian Film production and distribution companies can rely on significant tax benefit provided by the government which allows a saving of 40% on eligible production costs. Our estimates assume no changes in the Italian regulatory framework regarding tax credits and government and local grants. Any repeal, reduction, or modification of these tax incentive could have negative effects on Fenix profitability, negatively impacting its economic and financial situation.
	<i>Competitive risk:</i> - medium-low likelihood - medium-low impact	Fenix operates in a highly competitive market scenario and have a limited scale compared to some well-known international competitors. However, competition is growing more among broadcasters than among content producers. In addition, Fenix is a unique player on the domestic market for the degree of vertical integration it has. Moreover, Fenix is seeking to further diversify its business through expansion into digital marketing, digital content creation and TV production.
	<i>Obsolescence risk:</i> - medium likelihood - medium impact	The Global Film Industry is characterized by a high level of technological innovation, both in production and distribution activities. As for production, technology's greatest impact is perhaps felt in new cameras that allow cinematographers to shoot in a higher definition. Post-production is another area where technological innovation leads to new trends. The process of distributing film has undergone a technological transformation with the rise of streaming platforms that has radically changed the market. Finally, the market may face several technological changes over the next few years about how a film or video is viewed. VR, glasses-free 3D, augmented reality, IoT are just a few emerging technologies that may revolutionize the Film Industry.
BUSINESS & STRATEGY EXECUTION	<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.
	<i>Start-up stage risks:</i> - low high likelihood - low impact	Being operative only since 2017, Fenix is characterized by a limited previous operating history and a limited set of information useful for deeply evaluating historical financial performance. Moreover, early-stage Company traditionally might incur unexpected costs deriving from the embryonic phase of its life. However, in our opinion, this is not the case of Fenix Entertainment: in just a few years, the management has been able to achieve exceptional results, both in economic and operational terms.
	<i>Seasonality risk:</i> - high likelihood - low impact	The Global Film Industry is characterized by highly seasonality, with the concentration of releases and cinema attendance in the last quarter of the calendar year. The distribution period can affect the success of a movie, and any delay or postponement of the launch could compromise related economic results.

	<i>Risk of losing qualified personnel:</i> - low likelihood - high impact	Fenix strategic and financial results strictly depend on its management and on some key figures. The Company, should there be an interruption of the professional collaboration relationships with some key figures, may be exposed to a deterioration of its competitiveness, with repercussions on both demand and economic results.
FINANCIAL	<i>Risks linked to an underestimation of costs:</i> - medium likelihood - medium-low impact	The production processes require significant financial sources. Fenix starts the production of a movie or similar only once it has guaranteed the financial coverage of all estimated costs. However, production and co-production works may be influenced by events beyond the control of the Company. These circumstances may lead to an increase in the costs initially estimated by Fenix and the need to find additional resources to finance the project. However, Fenix minimizes this risk by ensuring financial coverage usually 15% higher than the budget estimated.

Table 7: Risk matrix

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

Source: Banca Profilo elaborations on Company data

ESG Analysis

FY21 Sustainability Report

The first Sustainability Report in 2021

To best involve stakeholders and to communicate in an increasingly transparent way its ESG goals, Fenix Entertainment has published its first Sustainability Report in 2021. The Company has issued the report in accordance with GRI standards.

Materiality Assessment

Materiality Assessment

The purpose of the materiality analysis is to determine the most relevant issues for the Company and its stakeholders, and to decide which issues should be included in the Sustainability Report. The following figures explained the emerged results.

Figure 5: Qualitative Materiality Assessment

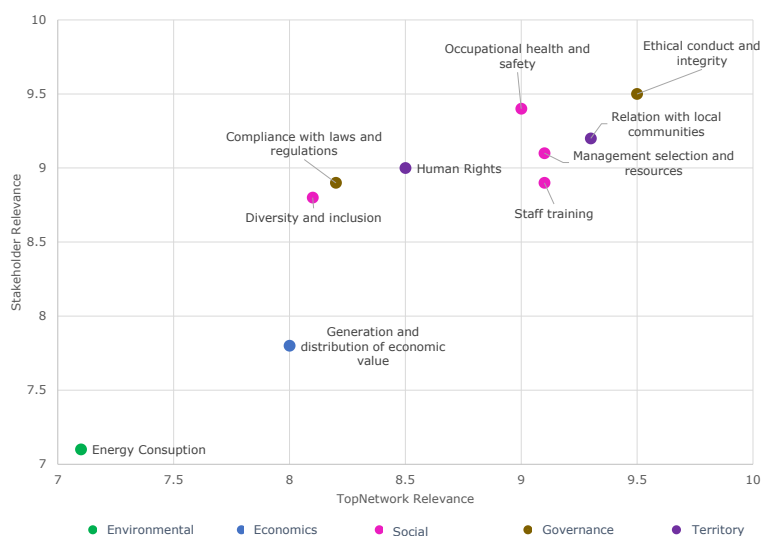


Source: Banca Profilo elaborations on Company data

The materiality matrix

Through the two-dimension analysis, internal (top management expectations) and external (stakeholders' expectations), the Company assigned a score to each material topics and positioned them according to their importance.

Figure 6: Quantitative Materiality Assessment



Source: Banca Profilo elaborations on Company data

Environmental sustainability



Environmental commitment

Commitment to the environment is one of the aspects that guides Fenix's activities. Every activity of the Companies is carried out trying to ensure a saving of natural resources, reduction of pollution and consumption, and in general, minimization of negative impacts on the environment.

Consumption reporting for internal and external filming

Considering the production and filming, the group believes it is correct to collect, analyse and report information on energy consumption and environmental impact, on a production-by-production basis. Therefore, Fenix reports to its stakeholders data regarding single filming, with reference to its energy consumption.

Table 8: Energy Consumption internal and external shooting

Month	KWh	Gj
September	-	-
October	3,593	12.93
November	331	1,19
TOTAL	3,924	14.13

Source: Banca Profilo elaborations on Company data

Generator set	September		October		November		Total	
	KWh	Gj	KWh	Gj	KWh	Gj	KWh	Gj
100 KW	2,317	8.34	18,076	65.07	4,575	16.47	24,968	89.88
50KW	-	-	4,416.5	15.9	-	-	4,416.5	15.90
TOTAL	2,317	8.34	22,492.5	80.97	4,575	16.47	29,384.5	105.78

Source: Banca Profilo elaborations on Company data

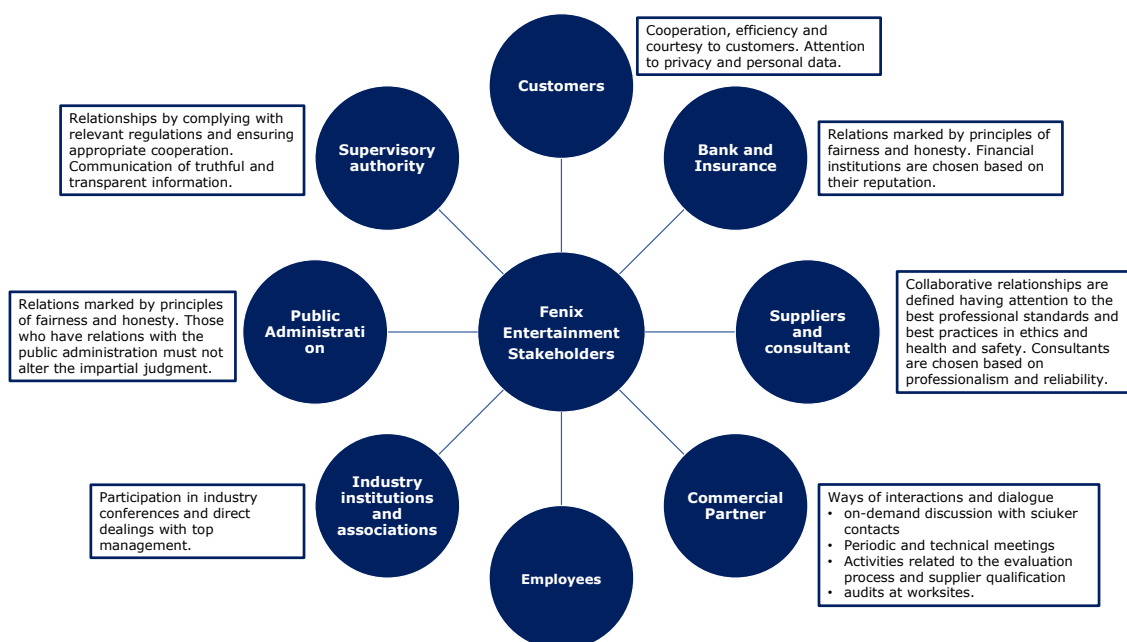
Social issues



Stakeholder involvement and dialogue

Fenix Entertainment is committed to developing a corporate culture focused on creating shared value for stakeholders.

Figure 7: Fenix stakeholder involvement and dialogue



Source: Banca Profilo elaborations on Company data

Health and safety at work

As per Legislative Decree n. 81/2008 (Testo Unico sulla Salute e Sicurezza), the company identifies the prevention and protection service manager (RSPP) that drew up the Document of Evaluation of Risks (DVR) with the assessment of the company's internal risks. Moreover, the employer selected the worker safety officer (RLS) and the fire safety officer who have attended the relevant courses. Fenix does not provide specific training dealing with situations or hazardous activities.

Training and skills development

Fenix believes in training its resources to quickly achieve strategic goals. For Fenix, improving people's knowledge has a direct positive impact on motivation and attitude to work and enables the company to organize its activities more efficiently.

Table 9: Total hours of training provided by employee qualification

Staff training Hours	Hours
Women	49
Men	83
Total	132
Average hours of staff training	Hours
Women	8
Men	9

Source: Banca Profilo elaborations on Company data

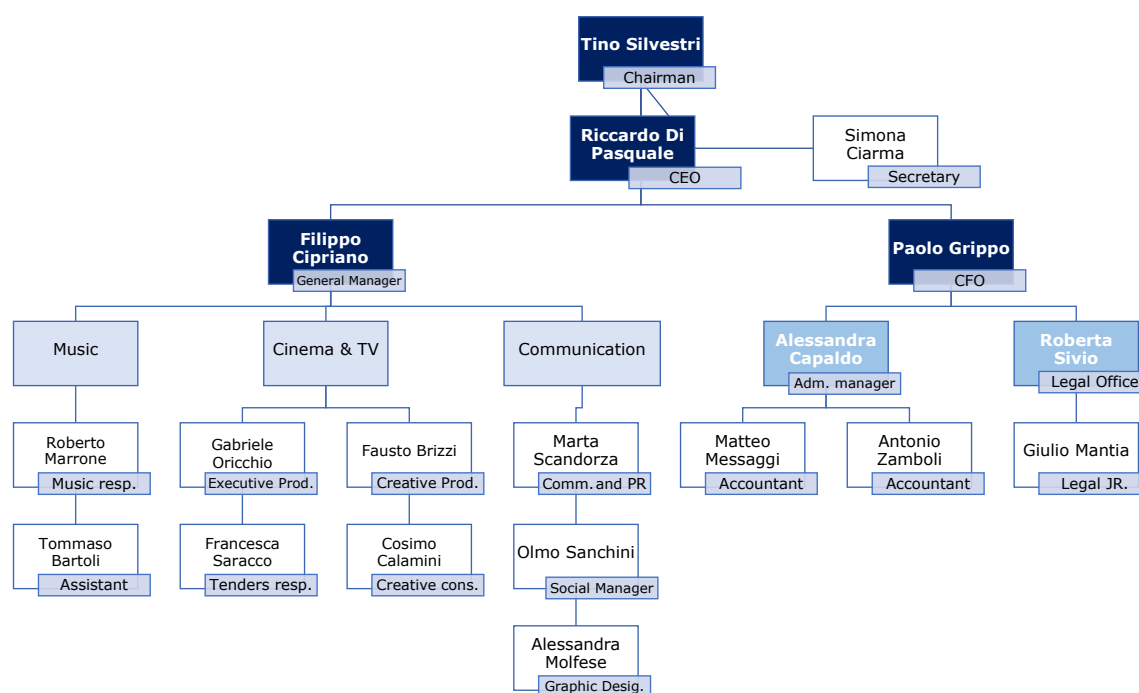


Governance

Fenix organization chart

Fenix's organizational structure reflects the vision strategy of the Company. The roles and responsibilities are consistent with its business model to compete in the Entertainment industry. The General Manager reports directly to the CEO as well as the Chief Financial Officer. The General Manager coordinates the core activities concerning Music, Cinema & TV and Communication.

Figure 8: Fenix organization chart



Source: Banca Profilo elaborations on Company data

Governing bodies composition

Fenix BoD is made up of 7 members including a woman, director Roberta Giarrusso. While the Board of Statutory Auditors, including effective and additional auditors, is made up of 3 men and 2 women.

Table 10: Gender composition of governing bodies from 2019 to 2021

Governing Body and diversity	2021	%
N° of BoD members	7	
Women	1	14%
Men	6	86%
Age groups women		
< 30 years old		
30-50 years old	1	100%
>50 years old		
Age groups men	4	27%
< 30 years old		
30-50 years old	2	33%
>50 years old	4	67%

Source: Banca Profilo elaborations on Company data

Fenix employees

Fenix has 15 full-time employees, including six women, all with a national collective labour agreement (CCNL). Moreover, Fenix focuses on knowledge and skills of its resources, in order to carry out the activities in support of the company's business. Therefore 73% of the employees owns a bachelor's degree.

Table 11: Employees number of Fenix by type of employment and contract

Employees and employment contracts	2021	%
Employees	15	100%
Women	6	40%
Men	9	60%
Full time	15	
Part time	-	
Employees with high-school graduation	4	27%
Employees with degrees	11	73%

Source: Banca Profilo elaborations on Company data

Human resource management and hiring

In 2021, five new resources joined Fenix, all men, of which an employee under the age of 30 years and the other aged between 30 and 50 years old. On the other hand, there were no terminations of employment.

Table 12: Hiring in FY2021

Hiring	2021
Women	-
Men	5
< 30 years old	1
30-50 years old	4
>50 years old	-
Total	5
Overall Turnover rate	33%

Source: Banca Profilo elaborations on Company data

Valuation

DCF method and market multiples

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

Confirmed BUY; TP reduced to €5.6/share

We confirm our BUY recommendation but reduce our 12-month target price to €5.6/share from previous €9/share, mainly due to (i) higher WACC deriving from increasing risk-free rate, ii) lower cumulated and Terminal Value FCFs and iii) higher number of shares after the capital increase concluded on August 2022. Given the critical global scenario, we expect a re-rating of multiples in the future; therefore, our target price is the weighted average of DCF fair value (70%) at €6.1/share and relative market multiples (30%) at €4.4/share.

DCF

€6.9mln cumulated FCFs (vs previous €10mln) Terminal FCF at €2.3mln (vs previous €4.3mln)

To run the DCF model, we used our 2022-2024 explicit period FCFs projections. We expect cumulated 2022-2024 cash flows at €6.9mln, below our previous estimate at €10.1mln. [Please refer to our Fenix Company Update on July, 14th 2022]. The Terminal Value FCF has been set as the FY22-FY24 average of €2.3mln, lower than our previous forecast at €3.4mln. To get to the Equity Valuation, we used the latest available Net Debt (at the end of June 2022) of €15.2mln, higher than that at the end of December 2021 (€14.1mln).

Forecasting Fenix future cash flows was not trivial, mainly because the Company had not a consistent historical series that could back up our assumptions. Fenix historical series of negative cash flow is in our opinion not reliable for future trend, due to two key aspects: (i) Fenix had little to amortize in past years, having few titles in its library, and (ii) own productions were little implying that cash absorption from new productions was higher than cash generated by productions delivered. As the number of own productions grows, we expect Free Cash Flow to progressively improve throughout the forecasting period, becoming positive from FY22 onwards.

Table 13: DCF valuation

DCF Valuation (mln, except for the target price)	2020	2021	2022E	2023E	2024E	Over
Free Cash Flow (FCF)			2.2	2.2	2.5	2.3
Years			1	2	3	
Discount factor			0.93	0.87	0.81	
NPV Cash flows			2.1	1.9	2.1	
Sum of NPVs			2.1	4.0	6.0	
Terminal Value						45.1
NPV Terminal Value						36.6
Enterprise Value						42.7
Net Financial Position 1H22						15.2
Minorities FY22						0.7
Equity Value						26.8
Outstanding shares						4.4
Equity Value per share						6.1

Source: Banca Profilo estimates and elaborations (as of October 14th, 2022)

WACC at 7.1% from previous 6.8% for higher Rf

To discount cash flows, we used a WACC of 7.1%, higher than our last Company Update at 6.8%, mainly due to the increase of risk-free rate from 3.9% to 4.5%.

The WACC derived from:

- 4.5% risk free rate, as the moving average of the last 100 days assuming further interest rate increases (+75bps).
- 5.5% market risk premium;
- 1 the leveraged beta;
- 3.1% after tax cost of debt;

- Debt-to-equity target ratio at 40%, in the middle between the figure at the end of 2020 and 2021

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

Table 14: WACC calculation

WACC Calculation	
Perpetual growth rate	2.0%
WACC	7.1%
Risk free rate (Italy 30 + Projected increase)	4.5%
Equity Risk Premium	5.5%
Beta	1.0
Cost of Equity	9.8%
After tax cost of Debt	3.1%
Tax rate	28%

Source: Banca Profilo estimates and elaborations

DCF fair value:
€6.1/share

The DCF method leads us to an Enterprise Value of €42.7mln and an Equity Value of €26.8mln or €6.1/share, below our previous €13.7/share mainly due to higher Net Debt, WACC and number of shares and lower cumulated 2022-2024E FCFs and Terminal Value.

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:

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

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

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

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

Figure 9: Fenix competitive arena

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

Source: Banca Profilo elaborations on Company data

Iervolino (Italy)

- €147.8mIn FY21 revenue
- 15% EBIT margin

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

Leone Film (Italy)

- €98.6mIn FY21 revenue
- 8% EBIT margin

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

Lucisano (Italy)

- €41.6mIn FY21 revenue
- 9% EBIT margin

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

Notorious (Italy)

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

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

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

Xilam Animation (France)

- €40.2mIn FY21 revenue
- 22% EBIT margin

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

Splendid Medien (Germany)

- €44.7mIn FY21 revenue
- 7% EBIT margin

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

Highlight Communications (Germany)

- €508.2mIn FY21 revenue
- 3% EBIT margin

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

Squirrel Media (Spain)

- €70mIn FY21 revenue
- 9% EBIT margin

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

Market multiples

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

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

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

Table 15: Sample benchmarking on Sales growth and EBIT margin

Company	Currency	Market Cap (Mln)	EV	Sales growth					EBIT margin				
				2019	2020	2021	2022E	2023E	2019	2020	2021	2022E	2023E
Iervolino & Lady Bacardi	Euro	12/2021	1.4	204%	51%	14%	1%	5%	28%	18%	18%	16%	16%
Leone Film Group	Euro	12/2021	1.9	-38%	5%	30%	-4%	25%	4%	1%	10%	7%	7%
Lucisano Media Group	Euro	12/2021	1.3	7%	-32%	33%	93%	20%	11%	5%	7%	13%	15%
Notorious Pictures	Euro	12/2021	1.4	27%	-68%	46%	230%	24%	17%	-23%	-16%	11%	11%
Splendid Medien	Euro	12/2021	1.4	-3%	-13%	3%	0%	8%	16%	12%	7%	7%	7%
Xilam Animation	Euro	12/2021	30.8	7%	-27%	23%	52%	34%	31%	20%	32%	25%	25%
Highlight Communications	Euro	12/2021	3.8	2%	-15%	23%	3%	3%	6%	7%	3%	6%	6%
Squirrel Media	Euro	12/2021	2.8	70%	198%	118%	45%	25%	8%	5%	9%	20%	23%
Mean				35%	12%	36%	52%	18%	15%	6%	9%	13%	14%
Median				7%	-14%	26%	24%	22%	13%	6%	8%	12%	13%
Fenix Entertainment Spa	Euro	6.5	21.3	535%	116%	170%	22%	4%	23%	19%	3%	6%	3%

Source: Banca Profilo estimates and elaborations on Factset data (as of October 14th, 2022)

Median FY22-23
EV/EBITDA equal to
2.9x

Since the weight and the value of Fenix library has increased over time, we decided to change the industry benchmarking figure to EBITDA, instead of EBIT. Therefore, in relation to relative market multiples valuation, we used EV/EBITDA as the reference multiple. The median FY22-23 EV/EBITDA is equal to 2.9x. According to our EBITDA estimates, we derived an average Equity Value of €19.1mIn, equal to a per share value of €4.4.

Table 16: Market multiple

Valuation on EV/EBITDA market multiple (€ mln, except for the target price)		
	2022E	2023E
Median EV/EBITDA best peers	3.8x	2.1x
Average		2.9x
EBITDA	11.1	12.9
Theoretical Enterprise Value	32.4	37.7
Net Debt 1H22		15.2
Current Minorities	0.7	0.7
Equity Value	16.5	21.8
Average Equity Value		19.1
Current outstanding shares		4.4
Price per share (€)		4.4
Potential Upside on Last Price		214%

Source: Banca Profilo estimates and elaborations on Factset data (as of October 14th, 2022)

BUY confirmed; TP cut
to €5.6/share

We set our 12-month Target Price as the average of DCF and market multiples valuations at €5.6/share from previous €9/share mainly due to: (i) higher WACC, (ii) lower cumulated FCFs and (iii) higher number of shares (from 3.8mIn to 4.4mIn) following the capital increase concluded on August 2022. Given the critical global scenario, we expect a re-rating of multiples in the future; therefore, our target price is the weighted average of DCF fair value (70%) at €6.1/share and relative market multiples (30%) at €4.4/share.

Given the significant potential upside on Fenix's closing price, we confirm our BUY recommendation.

APPENDIX

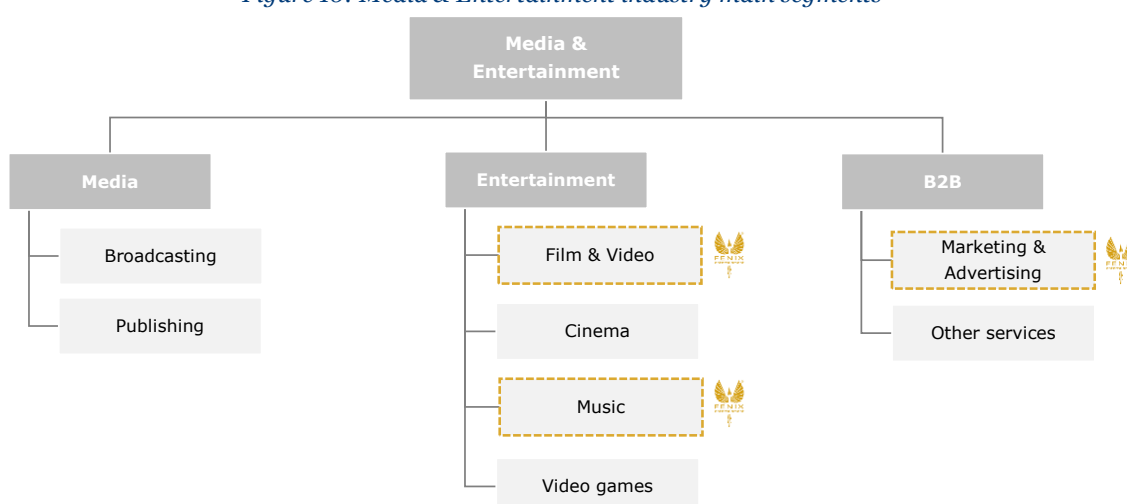
The reference market

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.

Figure 10: Media & Entertainment industry main segments



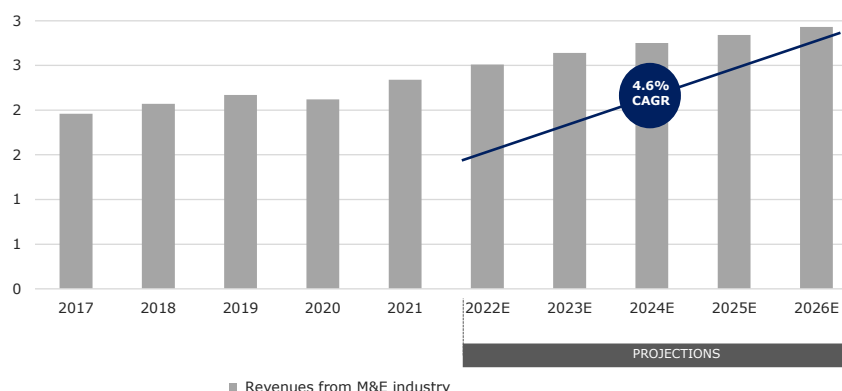
Source: Banca Profilo elaborations on public data and Company data

The Global Film Industry

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

The M&E industry has radically changed over the last few years, as live events such as Music concerts and Cinema have been severely hit by Covid-19 outbreak. Looking at the Film industry, Cinema has suffered the most, with box office turnover collapsing double-digit in 2020. On the opposite, the persistent growth of digitization and VoD services softened the blow for the broader industry. As recently as 2015, box office takings were three times those of the SVoD (subscription video on demand) service, but in 2020 the situation has changed, as global revenue from subscription video services has overtaken worldwide cinema box office. This, not only because lockdowns made home entertainment the only choice during lockdowns, but also thanks to the increase in the use of internet-related services. In 2021, M&E Industry bounced back from 2020 contraction with revenues up by 10.4% yoy. The Entertainment and Media industry revenue is seen reaching \$2.9tn in 2026, growing at 4.6% CAGR in 2022-2026E.

Figure 11: Media & Entertainment Industry revenue: (\$, tn)



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

VoD services companies have represented a disruption for the Film industry

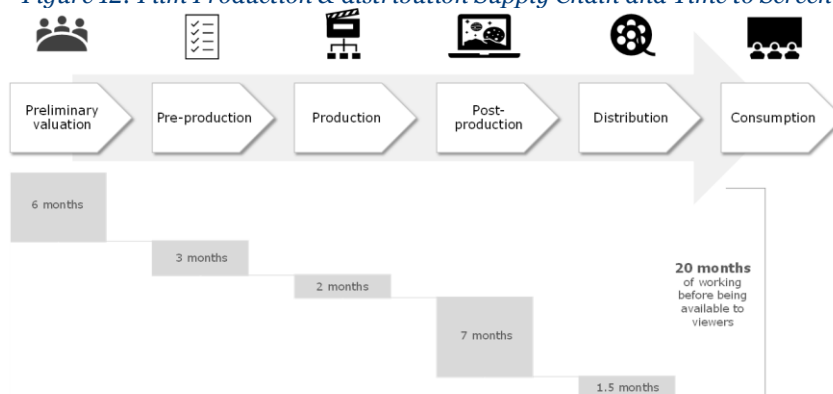
VoD (video on demand) services have represented a disruption for the Film industry. At first, this change seemed to affect only the distribution phase, as SVoD services created another channel through which the audience could access the content it was interested in. But later, companies managing streaming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

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

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

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

Figure 12: Film Production & distribution Supply Chain and Time to Screen



Source: Banca Profilo elaborations on Company data

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

For the distribution of a cinematographic product, studios exploit different markets (movie theatres, VOD, Pay TV, and free TV) at different times, or "windows", to maximize profits by avoiding competition between those markets. Both the order and the length of these windows have witnessed a profound and ever-lasting transformation related to the development of the new digital technologies. Movie theaters still represent the first distribution channel for a film as box office takings set the benchmark for the success of a product and consequently its economic value. However, as Covid-19 pandemic forced movie theaters to shut down throughout 2020 studios adopted new distribution strategies: many have cut the exclusive theatrical window, for example from 90 days to 45 days to have the movie available on their proprietary streaming platforms as soon as possible – a blatant example was the case of the Netflix movie *È stata la mano di Dio*,

released in movie theaters on November 24, 2021, and already available on Netflix from December 15, 2021 –. After the theatrical release, films will move into the typical modern era of distribution with a traditional VoD release along with DVD/Blu-ray and electronic sell-through. After this phase, films would debut on either a pay-TV network, or a streaming service. Below there is a graphical proxy of what could be the new pattern of release windows.

Figure 13: Film Distribution: release windows

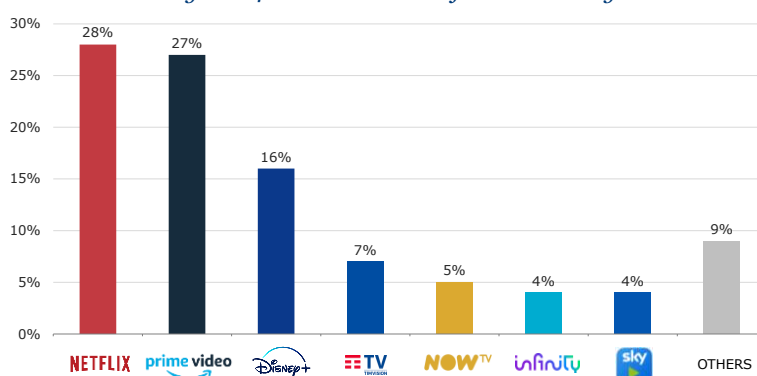
Distribution Channel	Months																		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Movie theaters																			
Home-video																			
Pay-per-View & TVOD																			
Pay TV																			
SVOD																			
Free TV																			

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

The SVoD market: main players

The United States are the most profitable geographic market for SVoD platforms as it can counts on almost 110mln of citizens and more than 40% of its population over 15 years old with a streaming service subscription in 2021.

Figure 14: Market shares of SVOD in Italy



Source: Banca Profilo elaboration on Just Watch data

The Italian Film Industry

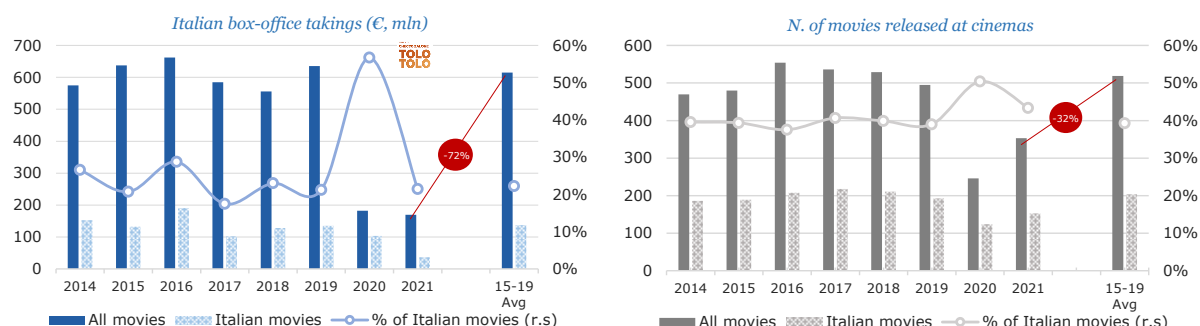
In Italy, the first signs of a recovery in cinema came from production, with a 23% yoy growth in movies released

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

Seasonality matters for box-office takings

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

Figure 15: ANICA data about box-office takings in Italy

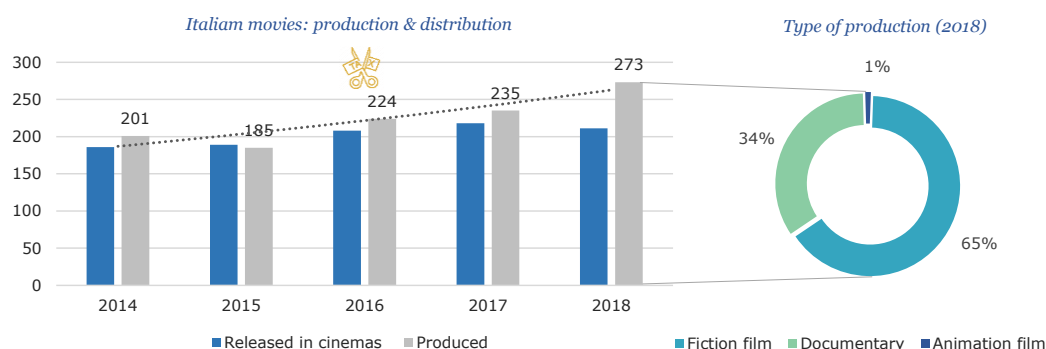


Source: Banca Profilo elaborations on ANICA data

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

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

Figure 16: 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 slows 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.

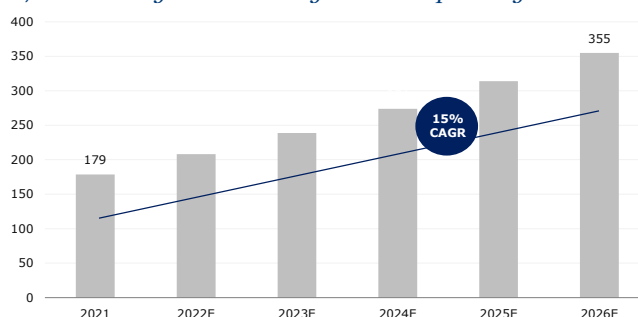
Digital Advertising & Content Creation Industry

Digital Advertising & Content Creation Industry

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

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

Figure 17: Global Digital Marketing market expected growth rates (\$, bn)



Source: Banca Profilo elaborations on The Business Research Company data

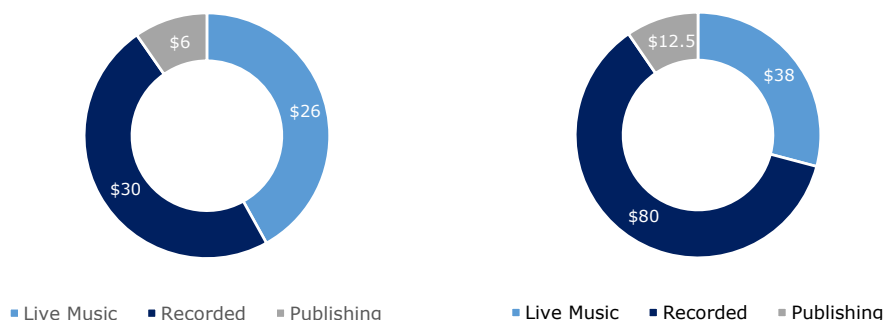
Music industry is undergoing a massive revival: revenue is expected to more than double to \$130bn by 2030

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

Figure 18: Music Revenue in 2017 and forecast in 2030 (\$, bn)

Music Revenue in 2017

Estimated Music Revenue in 2030E



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

Fenix overview and business model

Company's foundation and business scope

Fenix business at a glance

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

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 Digital Film figures have not been consolidated in the FY21 income statement, but only in the balance sheet. Fenix will consolidate 100% of Laser despite a majority stake being 60%.

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

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

Verve Media: first steps into TV content production

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

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

- (i) audio-visual products for cinema, TV and streaming platforms production and distribution
- (ii) music production
- (iii) marketing and advertising services and
- (iv) post-production activities

Figure 19: Examples of Fenix activities



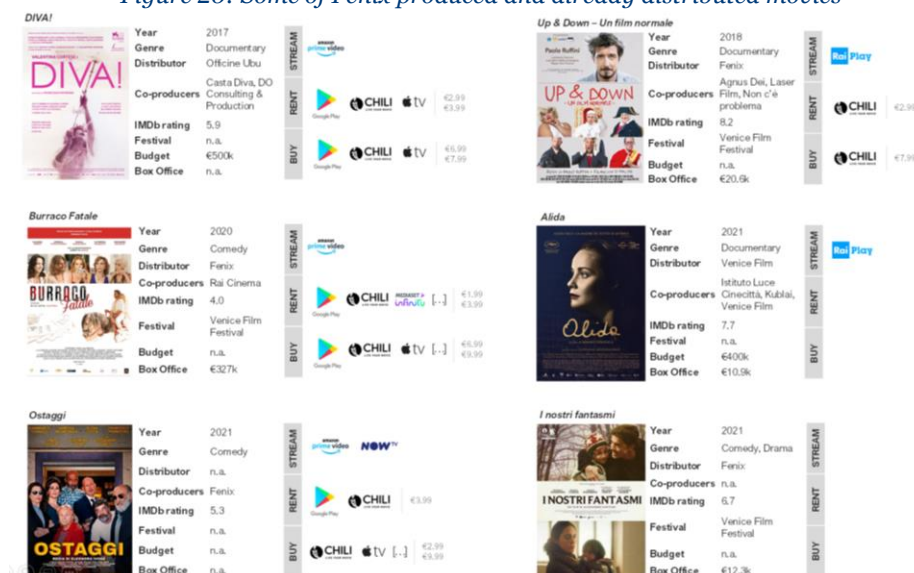
A laptop screen displays the word "CONTENT" in large, bold, black letters. Surrounding the word are various colorful icons representing digital marketing and social media, such as a magnifying glass, a lightbulb, a speech bubble, a mail icon, a person icon, a gear, a thumbs up, a graduation cap, and a document. A stylized blue and yellow rocket ship is launching from the bottom of the screen, with white smoke coming out of its exhaust. The laptop is on a dark surface, and a white coffee cup is visible to the left.

Source: Banca Profilo elaborations on Company and public pictures

Business model and activities

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

Figure 20: Some of Fenix produced and already distributed movies



Source: Banca Profilo elaborations on Company data

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

- (i) Every film starts with a story and once it is found, the Company assesses its marketability and, if potentially successful, takes on meetings to secure financing for the film. This phase, in terms of costs incurred, is worth about 5% of the total budget.
- (ii) The pre-production phase starts immediately after. Here Fenix financially organizes the production and only once the financial coverage is reached – please note that Fenix does not directly finance its production activities – Fenix validates the project. After ensuring the financial coverage, Fenix

- carries out the preparatory activities, such as the selection of the actors, the director, the music, the location for the filming, etc. Pre-production costs amount to approximately 7% of the total budget.
- (iii) Production starts only after the financial coverage of the project is ensured. The shooting phase, or animation phase in the case of animated films, represents the key phase of the entire production process. Some companies, like Fenix, outsource the various activities of this phase to third-party companies, while maintaining supervision. Production costs amount to approximately 78% of the total budget.
 - (iv) Once the production phase is over, the post-production phase begins. These activities are generally outsourced to external suppliers, given the highly specialized expertise required for this work, and take several months to be completed, representing the longest stage of the entire process. Post-production costs amount to approximately 10% of the total budget: however, the acquisition of Laser Digital Film will allow Fenix to internalize these activities, thus saving on services costs.
 - (v) The last step is the distribution phase. Being both producer and distributor, Fenix has the right to both distribute internally produced films and distribute films of which it has acquired the IP right from third party producers. Distribution activities generally cost around 7% of a film budget but generate additional revenues to those related to production. Net of distribution costs, revenues from distribution activities converge almost entirely in the operating margin. This is because production costs of a film have already been fully covered by production revenues, whether in the form of grants, tax credits or IP rights sale.

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

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

Revenue model

A deep dive into Fenix revenue model

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

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

Revenues from production: IP sale, tax credits & grants

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

- Intellectual Property (IP) licensing or sale. TV broadcasters and streaming platforms must purchase movie licensing to play that copyrighted content to their audience. Movie licensing pricing depends mainly on the box office proceeds, which proxies the potential success of a movie, the participation in festivals and eventual awards, and the cast. License agreements are accounted as sales when the rights are transferred to the customer or when the license period begins. IP rights of film produced internally do not expire, while IP rights of the films purchased have a duration defined by the contract which can vary from 1 to 10 years.
- Tax credit. Under the Italian scheme, Italian movie production companies can obtain a tax credit up to 40% of the eligible production costs up to €9mln. Only Italian production service companies that are subject to taxation in Italy and meet certain legal requirements, such as Fenix, are entitled to apply. Since 2018 production companies have been authorized to sell their tax credits to financial intermediaries to reduce working capital and free up cash flows. Tax credits are accounted as other revenues and follow the amortizing schedule of costs to which they are related.
- Local grants. Each Italian region has a so-called *Film Commission* which, on an annual basis, allocates a specific budget to finance those films that most represent that region in two ways (i) the presence of local images in the film and, (ii) the costs actually incurred by the production company in the region.
- Government grants. There are also ministerial funding in case the movie is of national interest. This funding is recognized in two specific cases: (i) the film deals with an issue which is particularly relevant to the society and difficult to represent, and (ii) the film is a first or second work by an emerging artist.

Revenue from distribution activities

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

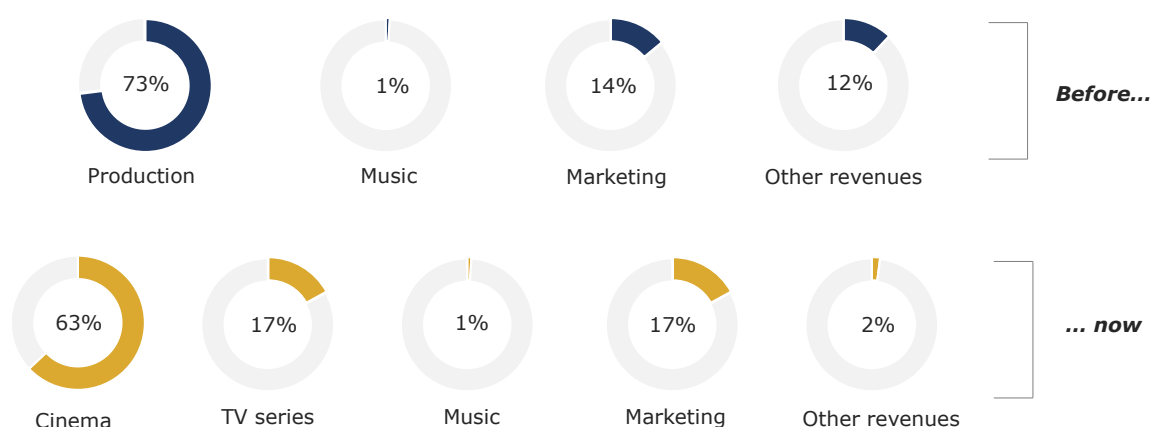
- Box office takings, equal to approximately 40% of tickets sold;
- Royalties. In addition to movie licensing, TV broadcasters and streaming platforms pay royalties to the owner of the intellectual property, which are a percentage of revenues generated by broadcasters and are paid according to contractual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

Corporate strategies

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

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

Figure 21: VoP breakdown by type of activity: before VS now



Source: Banca Profilo elaborations and estimates on Company data

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

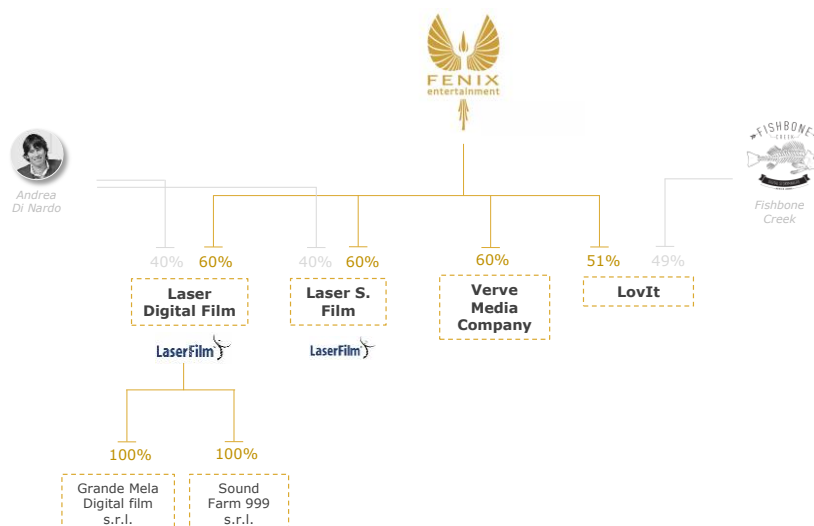
Main goal in 2022 is to improve margins through a better revenue mix, increasing the weight of TV productions versus Film productions. The cinematographic production activity will continue but with a focus on international productions with higher budgets and more important results both at an economic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

The corporate structure

Fenix acts as the operating holding directly controlling four subsidiaries

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

Figure 22: Fenix corporate structure



Source: Banca Profilo elaborations on Company data

Lovit: a digital content creator

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

Verve Media: first steps into TV content production

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Ownership structure and free float

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

Fenix Entertainment is listed on the Euronext Growth Milan segment of the Italian Stock Exchange. The company was originally listed on the AIM Pro segment in August 2020, undertaking a capital raise of €1.5mln. 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.

Three capital increases to support acquisitions and business evolution

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

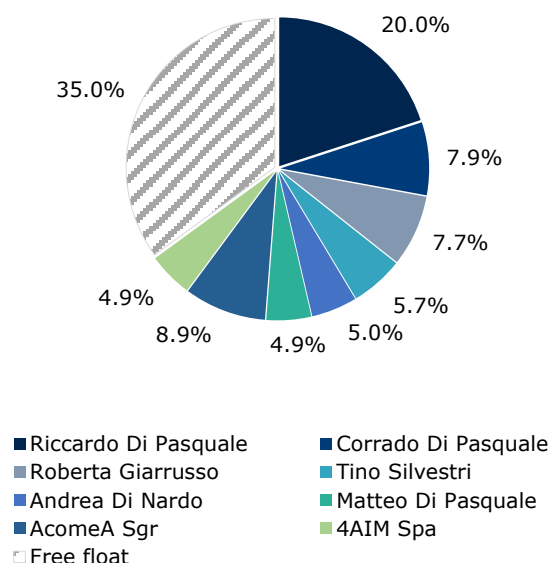
On 13th June a third capital increase has been approved up to €4.1mln and a maximum of 755,633 new ordinary shares, at €5.5 per share, to be offered in option to shareholders in the ratio of 1 new ordinary for every 5 shares held. On that date, the relative majority shareholder Riccardo Di Pasquale has committed for €0.250mln. The offer period ended on 8th July and the shareholders have exercised a total of 101,225 option rights equivalent to 20,245 ordinary shares, for a total amount of €0.111mln.

The Di Pasquale family owns 35.6% of Fenix; The BoD owns 38.4%; Free Float is 35%; AcomeA Sgr entered with 8.9%

No majority of Fenix share capital is currently held by a single person; even the Di Pasquale family (Riccardo Di Pasquale, Roberta Giarrusso and Corrado Di Pasquale), all together, does not reach a majority share, owning jointly 35.6% of share capital. The same applies to the aggregate shares of Fenix BoD members (Riccardo Di Pasquale, Tino Silvestri, Roberta Giarrusso and Andrea Di Nardo) which together reach a cumulative 38.4% of share capital. If considering shareholders holding directly more than 5% of share capital, free float currently stands at about 35%.

After the capital increase in June 2022 in favour of Andrea Di Nardo, he joined the Group's corporate structure owning a 5% stake.

Figure 23: Ownership of the Group (%)



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

Management

Key figures

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

Table 17: 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

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FENIX "ID Card"

Recommendation
BUY

Target Price
5.6 €

Upside
302%

Company Overview

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

SWOT Analysis

Strengths

- Financial coverage of films ahead of the actual start of production
- Know-how and expertise across different segments of the Media & Entertainment Industry, from film and music production to digital marketing
- Strong ongoing relationships with key people of the Italian Film industry
- Well-structured to benefit from tax incentive schemes and local grants

Opportunities

- Expansion of the production business
- Synergies coming from the acquisition of Laser Film, Laser Digital and Verve Media Company
- M&A that will enhance further group expertise
- Growing global demand for new entertainment products
- Public financing through tax credit: more than €540mln in 2022 to support cinema and TV

Weaknesses

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

Threats

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

Main catalysts

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

Main risks

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



FENIX "ID Card"

October 17, 2022

Recommendation
BUY

Target Price
5.6 €

Upside
302%

Main Financials

(€ mln)	FY21	2022E	2023E	2024E
Fenix VoP	43.8	42.6	43.7	44.6
yoy change	170%	-3%	3%	2%
VoP (including Laser and Verve)*	56.8	54.5	58.6	61.5
yoy change	n.a.	-4%	7%	5%
Added Value	13.5	23.5	27.1	29.5
Margin (%)	31%	43%	46%	48%
EBITDA	7.0	11.1	12.9	14.2
yoy change	106%	58%	16%	10%
Margin (%)	16%	20%	22%	23%
EBIT	1.5	1.2	1.2	2.7
Margin(%)	3%	2%	2%	4%
Net Income	0.5	0.4	0.6	1.7
Margin (%)	1%	1%	1%	3%
Net Debt (Cash)	14.1	24.1	17.1	19.6
Shareholders' Equity	12.3	15.4	16.0	17.7
Net Operating Working Capital	0.9	2.5	3.6	7.2
CapEx	24.8	7.9	9.3	7.3
FCFs	-21.0	2.2	2.2	2.5

*Verve included from 4Q2022

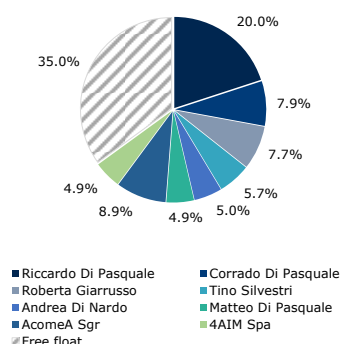
Solvability Ratios

	FY21	2022E	2023E	2024E
Net Debt/EBITDA	1.6x	2.2x	1.3x	1.4x
Net Debt/Equity	1.1x	1.6x	1.1x	1.1x
EBIT Interest Coverage Ratio	4.6x	2.1x	3.4x	6.5x

Financial and Operative ratios

	FY21	2022E	2023E	2024E
Tax rate	55%	28%	28%	28%
ROE	0.04	0.03	0.04	0.09
ROA	0.01	0.01	0.01	0.04
D&A/Capex	0.22	1.25	1.25	1.57

Ownership structure



Company Description

Company Sector	Media & Entertainment
Number of shares (mln)	4.4
Market Cap (€ mln)	6.5
Stock Exchange	Italian Stock Exchange
Reference Index	Euronext Growth Milan
Last Closing Price (as of 12th October)	1.3
Max/min	7/1.4
Main Shareholders	Riccardo Di Pasquale
Main Shareholder stake	20%
Free Float	35%
Average Daily Volumes	4,764

Sample of comparables	Iervolino & Lady Bacardi, Leone Film, Lucisano Media, Notorius Pictures, Splendid Medien, Xilam Animation, Highlight Communications, Squirrel Media
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Data of peers - Media & Entertainment

	FY21	2022E	2023E
Sales Growth (yoy)	36%	51%	18%
EBITDA Margin	9%	12%	14%

Average Data (mean)

Valuation on EV/EBIT market multiple

	2022E	2023E
Media EV/EBITDA best peers	3.8x	2.1x
Average EV/EBIT 2022-23	2.9x	
EBIT	11.05	12.86
Theoretical Enterprise Value	11.50	12.00
Net Debt 2021	15.2	
Current Minorities	0.7	0.7
Equity Value	16.5	21.8
Average Equity Value	19.1	
Current outsta 0	4.4	
Price per share (€)	4.4	

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CONFLICTS OF INTEREST

THE BANK MAY, FROM TIME TO TIME, DEAL IN, HOLD OR ACT AS MARKET MAKER OR ADVISER, BROKER OR BANKER IN RELATION TO THE FINANCIAL INSTRUMENTS, OR DERIVATIVES THEREOF, OF PERSONS, FIRMS OR ENTITIES MENTIONED IN THIS DOCUMENT, OR BE REPRESENTED IN THE GOVERNING BODIES OF THE COMPANY. IN FACT, THE BANK IS GLOBAL COORDINATOR IN THE IPO PROCESS, IT IS PRESENTLY NOMAD, CORPORATE BROKER AND SPECIALIST OF THE ISSUER.

BANCA PROFILO S.P.A. HAS ADOPTED INTERNAL PROCEDURES FOR THE PREVENTION AND AVOIDANCE OF CONFLICTS OF INTEREST WITH RESPECT TO THE RECOMMENDATIONS, WHICH CAN BE CONSULTED ON THE RELEVANT SECTION OF ITS WEBSITE (WWW.BANCAPROFILO.IT, IN THE SECTION "CLIENTI AZIENDALI E ISTITUZIONALI/ANALISI E RICERCA").

EQUITY RESEARCH PUBLICATIONS IN LAST 12M

THE BANK PUBLISHES ON ITS WEBSITE WWW.BANCAPROFILO.IT, ON A QUARTERLY BASIS, THE PROPORTION OF ALL RECOMMENDATIONS THAT ARE 'BUY', 'HOLD', 'SELL' OR EQUIVALENT TERMS OVER THE PREVIOUS 12 MONTHS, AND THE PROPORTION OF ISSUERS CORRESPONDING TO EACH OF THOSE CATEGORIES TO WHICH SUCH PERSON HAS SUPPLIED MATERIAL SERVICES OF INVESTMENT FIRMS SET OUT IN SECTIONS A AND B OF ANNEX I TO DIRECTIVE 2014/65/EU OVER THE PREVIOUS 12 MONTHS.

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").