

Company:	Rating:	Target Price:	Sector:
Fenix Entertainment	Not Rated	Not Rated	Media & Entertainment

Focus on core business and international film production

1H23 revenues and EBITDA above our estimates; EBITDA margin below

Fenix Entertainment released its 1H23 results: Group (Fenix and Laser) Total revenue (VoP) stood at €18.5mln (+36% yoy), which represents 52% of our previous FY23E (€35.5mln) vs 37% in 1H22/FY22. *[Please refer to our Company Update on 10th July 2023]*. Fenix standalone came in at €12.6mln (+51% yoy) or 56% of our prior FY23E (€22.6mln) vs 34% in 1H22/FY22. Revenue growth was driven by: i) "Here After" in co-production with ClaRo Production and ii) "Garbage Man", in co-production with GiKa Production. Both productions are currently in the post-production stage. Laser VoP stood at €5.9mln (+13% yoy) which represents 45% of FY23E (€13mln), in line with last year. Laser VoP growth is mainly related to the resumption of the dubbing activity following the end of the strikes. EBITDA came in at €4.5mln with a margin of 24.5%, below our previous FY23 forecast at 30.4%. In 1H23, Fenix recorded a negative EBIT of -€1.7mln (vs €12mln in 1H22) mainly due to the Library D&A, below our estimate. At the end of June 2023, Net Debt remained stable at €18.1mln. Our forecast for 2023 was €21.6mln. On 29th September, Simone Manfredi resigned as Chairman of BoD due its academic and professional commitments. In his place, Mr. Carlo Angelini, already a director, was appointed.

Fine-tuning 2023-2025 estimates

Amid 1H23 results, we will update our 2023-2025E estimates. We left unchanged our top-line estimates. We forecast Fenix revenues at €12.2mln in FY23E to reach €10.7mln in 2025E. We slightly revised upward Fenix VoP which is now seen at €24.6mln (vs previous €22.6mln) in 2023 and €24mln in 2025E (vs previous €22.8mln). Laser VoP is set to increase at 22-25E CAGR of 10% to reach €15.7mln in 2025E, at the same level of our previous estimate. Overall, the Group VoP is expected to grow at a 3% 22-25E CAGR and reach €39.7mln, slightly above our previous 22-25E CAGR at 2% and €38.5mln respectively. We end up with EBITDA at €9.5mln (vs our previous €10.8mln) in 2023E or 25% margin, below our previous estimate at 30%, due to higher cost incidence on revenues in line with 1H23. We estimate Net Debt to increase in 2023E at €22mln, and to increase by some €1mln at the end of 2024E.

1H23 Financial Statements: going concern by Auditors

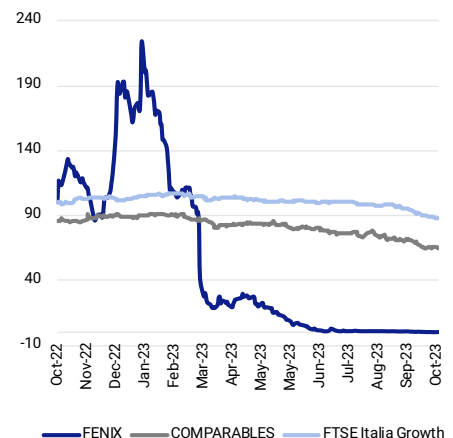
Fenix announced that the Auditing firm BDO has issued a limited audit report on 1H23 results, declaring that it is unable to express an opinion due to significant uncertainties on the financial front that could impact Fenix's ability to continue as a going concern in the near future. Furthermore, the BoDs pointed out significant uncertainties on the financial front that could impact the Company's ability to continue as a going concern for the foreseeable future. The assumptions on which the continuity is based are (i) the possibility of continuing to use POC; (ii) debt renegotiation to align interest payment and capital repayment to the company's effective capacity; (iii) library profitability optimization and (iv) structural costs streamlining through Group synergies.

Valuation: Not rated

We remind that on 10 July we decided to suspend our rating on Fenix due to persisting significant uncertainty linked to (i) €10mln Convertible Bond emission by Negma with weekly conversions, which is extremely dilutive and has led to a plunge in the share price as well as uncertainty on its future trend; (ii) Corporate governance reorganization with management resignations and reshuffle; (iii) Lack of clear financial guidelines for the financial community.

October 23, 2023 at 17:40

Company Profile				
Bloomberg	FNX IM			
FactSet	FNX-IT			
Stock exchange	Italian Stock Exchange			
Reference Index	FTSE Italia Growth			
Market Data				
Last Price (as of 20 October)	€ 0.004			
Number of shares (mln)	114.3			
Market cap. (mln)	€ 0.400			
1-Y Performance				
Absolute	-99.8%			
Max / Min	3.02/ 0.002			
(€ mln)	FY22	2023E	2024E	2025E
Fenix VoP	24.6	24.6	24.1	24.0
<i>yoy change</i>	<i>-44%</i>	<i>0%</i>	<i>-2%</i>	<i>0%</i>
Laser VoP	11.8	13.0	14.3	15.7
<i>yoy change</i>	<i>8%</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>
Group VoP (FENIX + LASER)	36.4	37.5	38.3	39.7
<i>yoy change</i>	<i>-33%</i>	<i>3%</i>	<i>2%</i>	<i>4%</i>
EBITDA	10.0	9.5	9.8	11.2
<i>Margin (%)</i>	<i>27%</i>	<i>25%</i>	<i>26%</i>	<i>28%</i>
EBIT	-7.8	-1.1	-0.7	1.2
Net Income	-8.5	-2.4	-2.0	0.1
Net Debt (Cash)	18.7	22.0	23.0	22.5
Shareholders' Equity	6.9	6.6	4.6	4.6
Net Operating Working Capital	-1.9	0.5	0.6	0.5
CapEx	5.2	8.3	8.4	6.0
FCFs	7.6	-0.7	2.1	5.7



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Contents

SWOT analysis	3
1H23 results	4
A few premises on accounting principles	4
Strategy and estimates	7
Management evolution and relevant facts	7
Management	8
POC subscription and evolution	8
Estimates fine-tuning: 2023-2025	9
Key risk	13
Valuation Assumption	15
DCF	15
Fenix competitive arena	16
Market multiples	18
Appendix	19
Revenue model	20
The corporate structure	21
Disclaimer	25

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
- Well-structured to benefit from tax incentive schemes and local grants
- Structural reorganization of corporate governance to reduce overheads
- New partnerships for production and distribution activities

WEAKNESSES

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

OPPORTUNITY

- Expansion of the production business
- Synergies from the acquisitions of Laser Group
- M&A opportunities to enhance further group expertise
- Global demand for new entertainment product is undergoing continuous growth
- Public financing through tax credit

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
- Share price instability and ownership uncertainty due to POC issue by Negma leading to continuing share capital increases
- Repeated corporate governance changes

1H23 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. Initially, D&A had a limited impact over past years resulting in higher profit margins than industry average. With the increase in own library production, D&A is having a heavier impact, reducing the EBIT margin.

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 value of Fenix library has increased over time, we decided to change the Industry benchmarking figure to EBITDA instead of EBIT. In fact, the number of titles in Fenix library has risen impacting on EBIT.

First-Time Adoption

The Company is working on the transition towards IAS. 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.

1H23 revenues above our estimates; EBITDA margin below. Auditors going-concern

1H23 Group VoP at €18.5mIn (+36% yoy)

Fenix Entertainment released its 1H23: Group (Fenix and Laser) Total revenues (VoP) stood at €18.5mIn (+36% yoy), which represents 52% of our FY23E (€35.5mIn) vs 37% in 1H22/FY22 and, therefore, it is above our estimates. *[Please refer to our Company Update on 10th July 2023].*

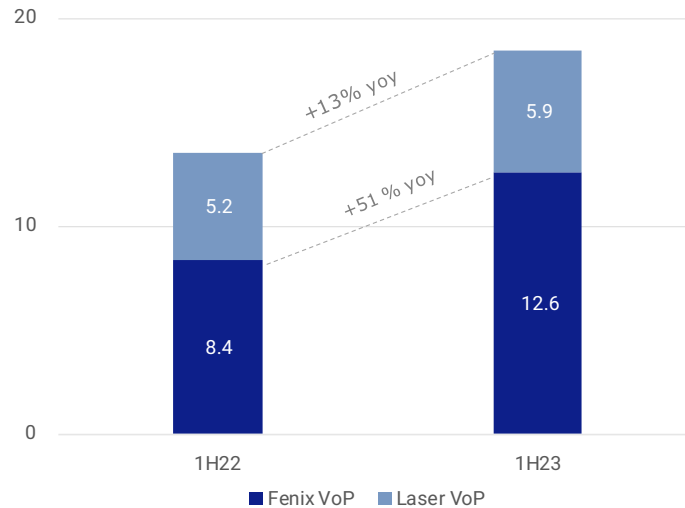
1H23 Fenix VoP at €12.6m, above our FY23E

Fenix standalone VoP came in at €12.6m (+51% yoy) or 56% of our FY23E (€22.6m) vs 34% in 1H22/FY22 and, therefore, above our estimates. Revenue growth was driven by: i) "Here After" in co-production with ClaRo Production and ii) "Garbage Man", in co-production with GiKa Production. Both productions are in the post-production and finalization stage.

1H23 Laser VoP in line with our FY23E

Laser VoP stood at €5.9m (+13% yoy) which represents 45% of FY23E (€13m), in line with last year. Laser VoP growth is mainly related to the resumption of the dubbing activity following the end of the strikes. Moreover, Laser has seen an increment in post-production activities in terms of TV series.

Figure 1: Fenix and Laser VoP 1H22-1H23 (€, mln)



Source: Banca Profilo elaborations on Company data

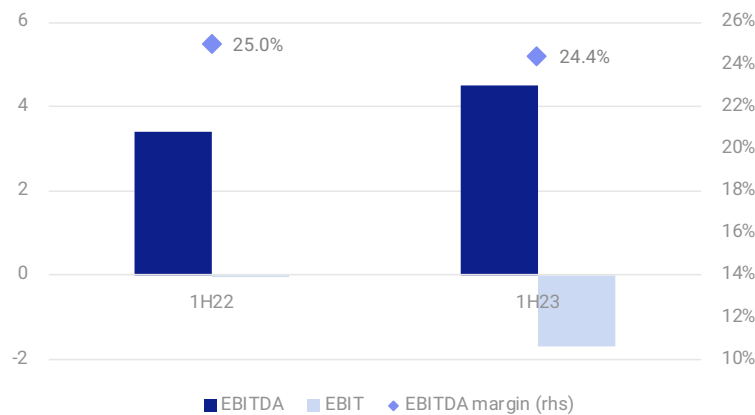
1H23 EBITDA margin at 24.5% from 25% in 1H22

EBITDA came in at €4.5m (+33% yoy) with margin at 24.5% (from 25% in 1H22), below our FY23 forecast at 30.4%, mainly due to higher costs related to the production of "Here After" and "Garbage Man".

Negative EBIT due to higher library amortization

In 1H23, Fenix recorded a negative EBIT of -€1.7m (vs -€12k in 1H22), mainly due to increasing D&A to €6.2m from 3.4m in 1H22.

Figure 2: Fenix EBITDA and EBIT in 1H22-1H23 (€, mln)



Source: Banca Profilo elaborations on Company data

Table 1: Income statement 1H22-1H23 (€, mln)(%)

Profit & Loss (€/mln)			
	1H22	2022	1H23
Fenix Revenue	1.4	12.2	2.3
Increase in own work capitalized	2.7	5.5	6.6
Other revenue	4.2	7.0	3.6
Fenix Value of Production	8.4	24.6	12.6
	<i>yoy change (%)</i>	-37%	51%
Laser Value of Production	5.2	11.8	5.9
	<i>yoy change (%)</i>	8%	13%
Group Value of Production	13.6	36.4	18.5
	<i>yoy change (%)</i>	-33%	36%
Cost of materials and purchased services	-5.8	-16.1	-7.7
	<i>% on VoP</i>	43%	42%
Added Value	2.6	20.3	10.8
	<i>% on VoP</i>	19%	58%
Labor cost	-3.1	-6.0	-5.0
	<i>% on VoP</i>	23%	27%
Costs for use of third parties assets	-1.2	-2.3	-1.1
	<i>% on VoP</i>	9%	6%
Other Operating Expenses	-0.1	-2.0	-0.2
	<i>% on VoP</i>	1%	1%
Comprehensive COGS	-10.2	-26.4	-14.0
	<i>% on VoP</i>	75%	76%
EBITDA	3.4	10.0	4.5
	<i>EBITDA Margin on VoP</i>	25%	24%
D&A	-3.4	-17.8	-6.2
	<i>% on VoP</i>	25%	34%
EBIT	(0.0)	(7.8)	(1.7)
	<i>EBIT Margin on VoP</i>	<i>n.a.</i>	<i>n.a.</i>
Net financial income (expenses)	-0.2	-0.6	-0.6
	<i>% on VoP</i>	-2%	-3%
EBT	(0.2)	(8.4)	(2.3)
	<i>EBT Margin on VoP</i>	<i>n.a.</i>	<i>n.a.</i>
Income Tax	-0.2	-0.1	0.0
	<i>Tax rate</i>	<i>n.a.</i>	<i>n.a.</i>
Net Income	(0.5)	(8.5)	(2.3)
	<i>Net Income Margin on VoP</i>	<i>n.a.</i>	<i>n.a.</i>

Source: Banca Profilo elaborations on Company data

Net Operating Working Capital at -€0.3mln or 1% of VoP

At the end of June 2023, Net Operating Working Capital worsened to -€0.3mln from -€1.9mln at the end of 2022. It included: i) lower trade receivables at €5.9mln from €6.7mln at the end of 2022; ii) lower trade payables at €6.9mln from €8.7mln at the end of 2022 and iii) higher inventories at €0.8mln from €0.1mln at the end of 2022. Our previous estimate on NOWC at the end of 2023 was -€0.7mln.

At the end of June 2023, Net Debt basically unchanged at €18.1mln

At the end of June 2023, Net Debt was basically unchanged at €18.1mln from €18.7mln at the end of 2022. Main changes include: (i) the cash out for the payment to A. Di Nardo of €850k for the purchase of Laser Group, (ii) the cash out for €500k as partial reimbursement of Banca Progetto €1mln loan, (iii) increase of cash and cash equivalent of €304k and (iv) debts related to subscription of POC cum warrant reserved to Negma Group for €1.63mln. In our last research we estimated a Net Debt of €21.6mln at the end of 2023E.

Table 2: Balance Sheet 1H22-1H23 (€, mln)

Balance Sheet (€/mln)			
	1H22	2022	1H23
Intangible Assets	40.2	28.7	29.8
Property, Plant & Equipment	2.4	2.1	1.9
Financial Assets	0.1	0.1	0.1
Fixed Assets	42.7	30.9	31.8
Trade Receivable	30.3	6.7	5.9
Inventories	0.2	0.1	0.8
Trade Payable	-27.8	-8.7	-6.9
Net Operating Working Capital	2.7	(1.9)	(0.3)
	<i>% on VoP</i>	<i>5%</i>	<i>1%</i>
Trade receivables (% on VoP)	<i>n.a.</i>	<i>18%</i>	<i>14%</i>
Inventories (% on VoP)	<i>n.a.</i>	<i>0%</i>	<i>2%</i>
Trade payables (% on VoP)	<i>n.a.</i>	<i>28%</i>	<i>31%</i>
Other Assets	5.9	10.1	8.5
Other Liabilities	-21.4	-12.7	-15.9
Ratei e risconti passivi	-14.6	-6.5	-3.5
Funds	-0.8	-0.8	-0.8
Net Invested Capital	29.2	25.6	23.3
Shareholders' equity	13.9	15.3	4.8
Share capital	0.1	0.2	0.5
Reserves	14.3	10.7	11.3
Retained earnings	0.0	3.9	-4.7
Group Net Income	-0.5	0.5	-2.3
Net Income attributable to third parties	0.0	-0.1	0.0
Shareholders' equity attributable to third parties	0.0	0.6	0.4
Minority/Non Controlling Interest	0.0	0.0	0.0
Consolidated Shareholders' Equity	13.9	15.8	5.2
Net Financial Position (Cash)	15.2	18.7	18.1

Source: Banca Profilo elaborations on Company data

BoD pointed out uncertainties on the financial front that could impact on company going concern for the foreseeable future

On 3rd October 2023, Fenix announced that the Auditing firm BDO has issued a limited audit report on 1H23 financial statements, declaring that it is unable to express an opinion due to significant uncertainties on the financial front that could impact the Company's ability to continue as a going concern in the near future. Despite delays in the implementation of strategic restructuring policies, the new BoD foresees scenarios suitable for the continuation of profitability because of the various corrective hypotheses it intends to implement. Furthermore, in terms of going concern, the BoDs pointed out significant uncertainties on the financial front that could impact the Company's ability to continue as a going concern for the foreseeable future. The assumptions on which the continuity is based are (i) the possibility of continuing to use POC; (ii) debt renegotiation to better align interest payment and capital repayment to the company's effective capacity; (iii) library profitability optimisation and (iv) structural costs streamlining through Group synergies.

Strategy and estimates

Management evolution and relevant facts

Structural reorganization and corporate governance changes

At the beginning of 2023, Fenix has started a structural reorganization aimed at (i) containing the Company's structural costs, (ii) rescheduling trade payables, deriving from film productions and (iii) redefining the deadline for the payment of the remaining €0.8mln owed to A. Di Nardo for the acquisition of Laser.

Exit from non-core businesses; stop pushing on Marketing and Music	In terms of CapEx containment, the agreement to acquire Verve Media Company automatically ended as the original assumptions on Fenix stock price have not occurred. Moreover, in November 2022 Fenix sold the majority of Lovit, which was set up in January 2022.
Focus on film production and post-production	According to management, in 2023 Fenix has been focusing on international film production, post-production, and distribution, rather than marketing and music activities. In 2023, the Group signed (i) a co-production agreement with the American Company ClaRo Production for the movie "Here After" and (ii) a co-development agreement for the full-length film with the provisional title "Aditi," currently being written, with the prestigious collaboration of Ugo Chiti, who won the David Di Donatello for the screenplay "La Stranezza" by Roberto Andò.

Management

Key figures	<p>Within the process of overheads saving, Fenix at the beginning of 2023, announced (i) the consensual termination of the relationship with Dr. Filippo Cipriano, as General Manager, (ii) the sale of the majority of Lovit, which was set up in January 2022 and (iii) non-completion of the investment in Verve Media Company, signed in June 2022.</p> <p>Moreover, the Company announced some changes in governance and top management with resignation of key people: (i) Riccardo Di Pasquale as CEO; (ii) A. Di Nardo as Fenix BoDs' member, (iii) Paolo Grippo as CFO/Investor Relator, (iv) Silvestro Silvestri as the Chairman of the BoD and (v) Maurizio Paternò as independent member of the Board.</p> <p>As of today, the BoD is composed by 5 members. The Chairman is Carlo Angelini, who was already a member of BoD. In his place Giuseppe Nicolò was co-opted as a member of BoD to restore the minimum number of 5 directors as stipulated in the bylaws.</p>
Riccardo Di Pasquale as General Manager of Fenix Entertainment	Moreover, on September, the 11 th , the BoD appointed Riccardo Di Pasquale as General Manager. His responsibilities include (i) setting up and managing the Company's editorial plan on a three-year basis, (ii) drafting investment proposals, (iii) coordinating executive productions, the marketing function and the press office, and (iv) scouting for new projects, talent and industrial collaborations.

POC subscription and evolution

€10mIn convertible bond subscription by Negma Group	In March 2023, Fenix Entertainment approved a €10mIn convertible bond ("POC") subscribed by Negma Group. Negma will subscribe up to 1,000 bonds (€10k each) in 10 tranches each of €1mIn. Each tranche will bring warrants to be converted in shares at 1:1 ratio and strike price equal to 130% of the average Fenix price in previous 15 days. Bonds maturity is six months; after this period non-reimbursed bonds will be converted into Fenix shares.
Negma disbursed the first three tranches for a total amount €2.25mIn	<p>Negma Group disbursed the first, the second and part of the third tranches for a total amount of €2.25mIn equal to 225 bonds. As of now, no.57 bonds remain to be converted for a nominal value of €570k. The amount received by Fenix, equal to €1.15mIn, is already net of: (i) 2% of the nominal value, as provided for in the investment agreement; (ii) an advance of €850k on the first tranche, received on 14 March 2023 and (iii) €200k as a commitment fee.</p> <p>We forecast Fenix to raise up to €6.1mIn in 2023E, €1.5mIn in 2024E and €0.5mIn in 2025E.</p>
No. 114mIn of shares outstanding	Before the subscription of the POC, Fenix total outstanding shares were 4,356,734 with 45.5% of free float. Main shareholder was Riccardo di Pasquale with 20%, followed by Corrado Di Pasquale and Roberta Giarrusso. As of now, 109,951,551 new shares have been issued by Fenix out of 255,784,881 that have been converted. Therefore, fully diluted shares are 260,141,615.

Figure 3: Shareholders structure before POC emission

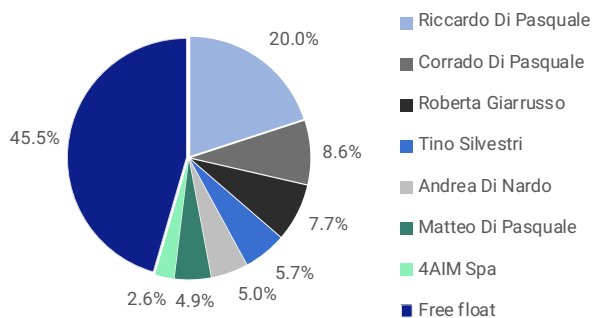
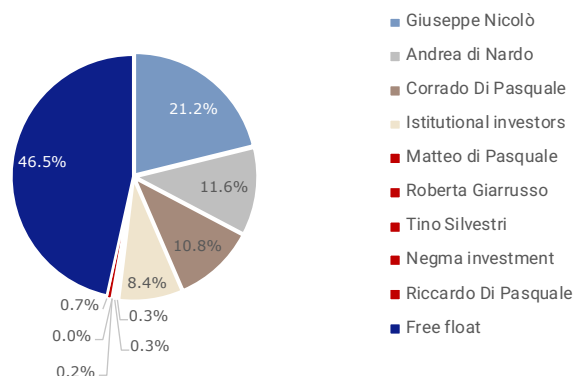


Figure 4: Shareholders structure as of 23 October



Source: Banca Profilo elaborations on Company data

Note: due to the POC subscription, the number of shares is subject to frequent changes. Shareholder information shown in the figure on the right is as of October 23, 2023 (source: Company website)

Table 3: POC evolution (as of October 17, 2023)

No. of shares before POC	4,356,734
No. of new shares issued after POC	109,951,551
Total no. of shares as of now	114,308,285
Shares converted	255,784,881
Fully diluted shares	260,141,615

Source: Banca Profilo elaborations on Company data (as of 19th October 2023)

Estimates fine-tuning: 2023-2025

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.

Assumptions on revenue; synergies from Laser

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 an average of 3 new movies per year (vs our previous projection of 5 movies), with an average budget of about €2mln in the medium-term. Moreover, thanks to the business evolution and to the inclusion in TV production, we also estimate a new television entertainment program for 2024 and 2025 with an initial budget of €2.4mln and €3.1mln respectively.

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.

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. 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%).

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.

We forecast two new entertainment programs for 2024 and 2025 with an initial budget of €2.3mIn and €3.1mIn respectively; the revenues are immediately accounted together with related costs.

Laser turnover is expected to increase on average by 10% over 2023-2025E period at the same level of our previous estimates.

**Fenix VoP at
€24.6mIn in 2023E**

We left unchanged our top-line estimates. We forecast Fenix revenues at €12.2mIn in FY23E to reach €10.7mIn in 2025E. We slightly revised upward Fenix VoP which is now seen at €24.6mIn (vs previous €22.6mIn) in 2023 and €24mIn in 2025E (vs previous €22.8mIn).

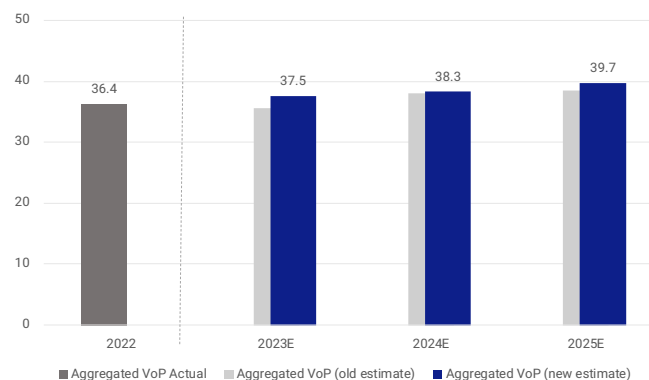
**Laser VoP to reach
€15.7mIn in 2025E**

Laser VoP is set to increase at 22-25E CAGR of 10% to reach €15.7mIn in 2025E, at the same level of our previous estimate.

**Group VoP to grow at
3% 22-25E CAGR**

Overall, the Group VoP is expected to grow at a 3% 22-25E CAGR and reach €39.7mIn, slightly above our previous 22-25E CAGR at 2% and €38.5mIn respectively.

Figure 5: Old vs new Group VoP 2023-2025E (€,mIn)

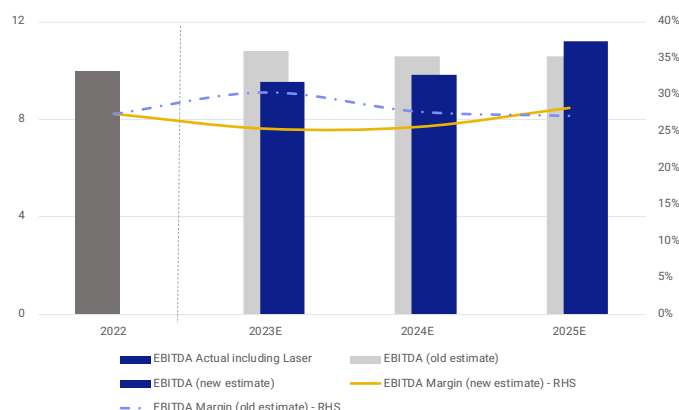


Source: Banca Profilo elaborations and estimates on Company data

**EBITDA to grow at 4%
CAGR over the 2022-
2025E**

We end up with EBITDA at €9.5mIn (vs our previous €10.8mIn) in 2023E or 25% margin, below our previous estimate at 30%, due to higher cost incidence on revenues in line with 1H23. We plan EBITDA to grow at 4% CAGR over the 2022-2025E to reach €11.2mIn or 28% margin, above our previous estimate at a 2% CAGR over the 22-25 period. Overall, EBITDA margin average over 2023-25E is now seen decreasing to 27%, than previous 28%.

Figure 6: Old vs new estimates on EBITDA and EBITDA margin– FY 2022-25E (€,mln)



Source: Banca Profilo elaborations and estimates on Company data

D&A incidence on VoP at 27% on average in 23-25E

We assumed an increase of D&A incidence on VoP to 28% in 2023E (vs previous 26%), as Fenix Library grows. The D&A incidence on VoP is now revised to 27% on average over 2023-25E from our previous estimate at 24% over 22-24E period.

Negative EBIT in 2023 and 2024E

We estimate a negative EBIT in 2023-24E (-€1.1mln and -€0.7mln) period to become positive in 2025E at €1.2mln (vs our previous €1.8mln).

Net income to reach €0.1mln in 2025E

We project a Net loss in 2023-2024E period at -€2.4mln (vs prior €0.2mln) and -€2mln (vs prior €0.7mln) respectively, to become positive in 2025E at €0.1mln (vs previous €0.5mln).

Table 4: Profit & Loss Old vs New 2023-2025E (€, mln)

	Profit & Loss (€/mln)						
	FY22	2023E		2024E		2025E	
		OLD	NEW	OLD	NEW	OLD	NEW
Fenix revenue	12.2	12.3	12.3	10.4	10.3	10.6	10.7
Increase in own work capitalized	5.5	3.2	5.2	7.4	7.9	6.0	7.0
Other revenue	1.2	7.1	7.1	6.0	5.9	6.2	6.2
Fenix Value of Production	24.6	22.6	24.6	23.8	24.1	22.8	24.0
<i>yoy change (%)</i>	-44%	-8%	0%	5%	-2%	-4%	0%
Laser Value of Production	11.8	13.0	13.0	14.3	14.3	15.7	15.7
<i>yoy change (%)</i>	8%	10%	10%	10%	10%	10%	10%
Group Value of Production (FENIX + LASER)	36.4	35.5	37.5	38.1	38.3	38.5	39.7
<i>yoy change (%)</i>	-33%	-2%	3%	7%	2%	1%	4%
Cost of materials and purchased services	(16.1)	(15.2)	(16.3)	(17.5)	(16.6)	(19.1)	(17.1)
Other services costs	(6.4)	(4.4)	(6.1)	(3.4)	(3.1)	(2.6)	(1.3)
<i>% on VoP</i>	-44%	-43%	-43%	-46%	-43%	-50%	-43%
Added Value	20.3	20.4	21.3	20.6	21.8	19.3	22.5
<i>yoy</i>	50%	0%	5%	1%	2%	-6%	4%
<i>gross margin</i>	56%	57%	57%	54%	57%	50%	57%
Labor cost	(6.0)	(5.5)	(7.5)	(5.5)	(7.8)	(5.3)	(8.0)
<i>% on VoP</i>	-16.4%	-15.6%	-19.9%	-14.3%	-20.3%	-13.8%	-20.2%
Costs for use of third parties assets	(2.3)	(2.0)	(2.1)	(2.2)	(1.8)	(1.7)	(1.4)
<i>% on VoP</i>	-6%	-6%	-6%	-6%	-5%	-5%	-4%
Other Operating Expenses	(2.0)	(2.0)	(2.1)	(2.3)	(2.4)	(1.8)	(1.9)
<i>% on VoP</i>	-6%	-6%	-6%	-6%	-6%	-5%	-5%
Comprehensive COGS	(26.4)						
<i>% on VoP</i>	-73%						
Comprehensive COGS FENIX+LASER	(26.4)	(24.7)	(28.0)	(27.5)	(28.5)	(28.0)	(28.5)
<i>% on VoP</i>	-73%	-70%	-75%	-72%	-74%	-73%	-72%
EBITDA	10.0						
<i>EBITDA Margin on VoP</i>	27%						
EBITDA FENIX +LASER	10.0	10.8	9.5	10.6	9.8	10.5	11.2
<i>EBITDA Margin on VoP</i>	27%	30%	25%	28%	26%	27%	28%
D&A	(17.8)	(9.4)	(10.6)	(8.4)	(10.5)	(8.7)	(10.0)
<i>% on VoP</i>	-49%	-26%	-28%	-22%	-27%	-23%	-25%
EBIT	(7.8)	1.4	(1.1)	2.1	(0.7)	1.8	1.2
<i>EBIT Margin on VoP</i>	n.m.	4%	n.m.	6%	n.m.	5%	3%
Net financial income (expenses)	(0.6)	(1.2)	(1.3)	(1.2)	(1.4)	(1.2)	(1.1)
<i>% on VoP</i>	-2%	-3%	-4%	-3%	-4%	-3%	-3%
EBT	(8.4)	0.2	(2.4)	0.9	(2.0)	0.6	0.1
<i>EBT Margin on VoP</i>	n.m.	1%	n.m.	2%	n.m.	2%	0%
Income Tax Expense	(0.1)	(0.1)	0.0	(0.3)	0.0	(0.2)	(0.0)
<i>Tax rate</i>	-1%	28%	0%	28%	0%	28%	28%
Net Income	(8.5)	0.2	(2.4)	0.7	(2.0)	0.5	0.1
<i>Net Income Margin on VoP</i>	n.m.	0%	n.m.	2%	n.m.	1%	0%

Source: Banca Profilo elaborations and estimates on Company data

Stable Net Operating Working Capital Regarding Balance Sheet estimates, we expect Net Operating Working Capital remains stable in the range of €0.5-0.6mln in 2023-2025E with an incidence on VoP of 1% on average, in line with 1H23 results. In details, over 2023 we forecast NOWC at €0.5mln which includes Trade receivables of €2.3mln (from €6.7mln at the end of 2022), Inventories of €0.3mln (from €0.1mln at the end of 2022) and Trade Payables of €2.1mln from €8.7mln in December 2022.

Shareholders' Equity following the convertible bond We included in Shareholders' Equity the changes in share capital and share premium that have occurred to date, as a result of bond conversion. As of now, we increased the Share capital which is equal €1,883,284 (vs previous €543,284); from the end of 2022, the share premium reserve is increased by €81,715. We have not yet included future share capital increase coming from bond conversion. Nevertheless, we assumed Fenix to raise up to €6.1mln in 2023E, €1.5mln in 2024E and €0.5mln in 2025E for a total of €8.1mln out of potential €10mln.

Net Debt at €22mln at the end of 2023E We estimate Net Debt to increase in 2023E at €22mln, and to Increase by some €1mln at the end of 2024E. Our previous estimate was €21.6mln at the end of 2023E.

Table 5: Income Statement Old vs New 2022-2025E (€, mln)

Balance Sheet (€/mln)							
	FY22	2023E		2024E		2025E	
		OLD	NEW	OLD	NEW	OLD	NEW
Intangible Assets	28.7	31.4	32.6	32.5	33.3	31.0	33.5
Property, Plant & Equipment	2.1	1.8	2.0	1.6	1.8	1.4	1.6
Financial Assets	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fixed Assets	30.9	33.2	34.7	34.2	35.2	32.6	35.2
Trade Receivable	6.7	6.0	2.3	6.3	6.1	6.0	2.9
Inventories	0.1	0.1	0.3	0.1	0.7	0.1	0.4
Trade Payable	(8.7)	(6.8)	(2.1)	(6.6)	(6.2)	(6.8)	(2.8)
Net Operating Working Capital	(1.9)	(0.7)	0.5	(0.2)	0.6	(0.7)	0.5
<i>% on VoP</i>	-5%	-2%	1%	-1%	2%	-2%	1%
Trade receivables (% on VoP)	18%	17%	6%	16%	16%	16%	7%
Inventories (% on VoP)	0%	0%	1%	0%	2%	0%	1%
Trade payb. (%COGS without labour cost)	42%	36%	10%	30%	30%	30%	14%
Other Assets	10.1	5.0	6.4	3.7	4.4	2.9	3.7
Other Liabilities	(12.7)	(6.9)	(11.8)	(5.5)	(10.7)	(4.8)	(9.6)
Ratei e risconti passivi	(6.5)	(1.6)	(3.8)	(0.9)	(2.3)	(0.8)	(2.0)
Funds	(0.8)	(1.0)	(1.1)	(1.4)	(2.0)	(1.8)	(2.7)
Net Invested Capital	25.6	29.6	28.6	30.8	27.5	28.2	27.2
CapEx	5.2	6.6	8.3	7.8	8.4	6.0	6.0
<i>Intangible</i>	5.0	6.2	7.8	7.4	8.0	5.7	5.7
<i>Tangible</i>	0.2	0.3	0.4	0.4	0.4	0.3	0.3
<i>% on VoP</i>	14%	19%	22%	21%	22%	16%	15%
Shareholders' equity	6.5	7.4	6.1	8.1	4.1	8.5	4.2
Share capital	0.2	0.5	1.9	0.5	1.9	0.5	1.9
Reserves	10.7	11.1	11.1	11.1	11.1	11.1	11.1
Retained earnings	3.9	(4.4)	(4.4)	(4.2)	(6.8)	(3.6)	(8.8)
Group Net Income	(8.3)	0.2	(2.4)	0.7	(2.0)	0.5	0.1
Shareholders' equity attributable to third parties	0.6	0.6	0.4	0.6	0.4	0.6	0.4
Net Income attributable to third parties	(0.1)	-	-	-	-	-	-
Consolidated Shareholders' Equity	6.9	8.0	6.6	8.6	4.6	9.1	4.6
Net Financial Position (Cash)	18.7	21.6	22.0	22.2	23.0	19.1	22.5

Source: Banca Profilo elaborations and estimates on Company data

Key risk

	TYPE OF RISK	DESCRIPTION
EXTERNAL CONTEXT	Regulatory risk: - 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.
	Competitive risk: - 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.
	Obsolescence risk: - 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.
	Illegal distribution risk: - 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.
BUSINESS & STRATEGY EXECUTION	Start-up stage risks: - 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.
	Seasonality risk: - 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.
	Risk of losing qualified personnel: - medium-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	Risks linked to an under estimation of costs: - 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 6: Risk matrix

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

Source: Banca Profilo elaborations and estimates on Company data

Valuation Assumption

Combined DCF and market multiples approach We would use a DCF method combined with relative market multiples as a valuation approach for Fenix.

Rating suspended We have decided to suspend our rating on the stock due to current significant uncertainty linked to:

- (i) €10mIn Convertible Bond emission by Negma with weekly conversions, which is extremely dilutive and has led to a plunge in the share price as well as uncertainty on its future trend;
- (ii) Corporate governance reorganization with management resignations and reshuffle at the end of 2022, including the exit of Riccardo Di Pasquale (founder) as CEO, who is now mainly dedicated to business development as General Manager;
- (iii) Lack of guidelines for the financial community.

As soon as more visibility comes in, including first results of new management team and business refocusing, we will publish our new recommendation.

DCF

€7.1mIn cumulated FCFs and Terminal FCF at €2.4mIn To run a DCF model, we would use our projections of FCFs for the 2023-25E explicit period: €7.1mIn of cumulated FCFs (vs previous €9.8mIn). We would consider the average 2023-25E FCF of €2.4mIn as the Terminal Value cash flow (vs previous €3.3mIn)

Table 7: DCF Valuation

	Cash Flow (€/mIn)						
	FY22	2023E		2024E		2025E	
		OLD	NEW	OLD	NEW	OLD	NEW
EBIT	(7.8)	1.4	(1.1)	2.1	(0.7)	1.8	1.2
Tax rate	-1%	28%	0%	28%	0%	28%	28%
NOPAT	(7.9)	1.0	(1.1)	1.5	(0.7)	1.3	0.9
D&A	17.8	9.4	10.6	8.4	10.5	8.7	10.0
Changes in Funds	0.0	0.2	0.4	0.3	0.9	0.4	0.6
Changes in Operating NWC	2.8	(1.2)	(2.4)	(0.4)	(0.1)	0.5	0.2
Capex	(5.2)	(6.6)	(8.3)	(7.8)	(8.4)	(6.0)	(6.0)
Free Cash Flow	7.6	2.9	(0.7)	2.1	2.1	4.9	5.7

Source: Banca Profilo elaborations and estimates on Company data

WACC at 8.6% from previous 7.8% for higher Rf and Beta

To discount cash flows, we would use a WACC of 8.6%, higher than our last Company Update at 7.8%, mainly due to the increase of risk-free rate from 5% to 5.2% and higher beta of the peers.

The WACC derives from:

- 5.2% risk free rate, as the moving average of the last 100 days assuming further interest rate increases (+50bps).
- 5.5% market risk premium;
- 1.1 the leveraged beta (from 0.9 in the previous research);
- 6% cost of debt;
- Debt-to-equity target ratio at 40%
- In order to assess the Terminal Value, we would use a 2% perpetual growth rate.

Table 8: WACC calculation

WACC Calculation	
Perpetual growth rate	2.0%
WACC	8.6%
Risk free rate (Italy 30 + Projected increase)	5.2%
Equity Risk Premium	5.5%
Beta	1.1
Cost of Equity	11.5%
Cost of Debt	6.0%
After tax cost of Debt	4.3%
Tax rate	28%

Source: Banca Profilo elaborations and estimates on Company data

Fenix competitive arena

Six main

comparables:

Iervolino, Leone Film,
Lucisano, Notorious,
Xilam Animation and
Splendid Medien

To select Fenix competitors, we carried out an overlap analysis on Italian and European Media & Entertainment companies specialized in film production & distribution.

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.

Table 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%	-	-		✓	✓	✓	✓	✗			
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%	2%	51%	73%	-	27%	73%	✓	✓	✓	✗	✓	50%		
Xilam Animation	100%	-	-	-	-	-	72%	1%	53%	46%	1%	✓	✓	✓	✓	✗	43%		
Splendid Medien	80%	18%	-	-	-	2%	57%	-	98%	2%	0%	✓	✓	✓	✓	✗	40%		

Source: Banca Profilo elaborations and estimates on Company data

Iervolino (Italy) €161mIn FY22 revenue 81% EBITDA margin	<p>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.</p>
Leone Film (Italy) €56.2mIn FY22 revenue 69% EBITDA margin	<p>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.</p>
Lucisano (Italy) €72.4mIn FY22 revenue 28% EBITDA margin	<p>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.</p>
Notorious (Italy) €35.6mIn FY22 revenue 49% EBITDA margin	<p>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.</p>
Xilam Animation (France) €50.5mIn FY22 revenue 73% EBITDA margin	<p>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.</p>

**Splendid Medien
(Germany)**
**€43.7mln FY22
revenue**
27% EBITDA 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.

**Fenix lower sales
growth and EBITDA
margin**

We conducted an analysis on main financial indicators of Fenix's selected competitors, which highlights Fenix's lower sales growth and EBITDA margin. In fact, in terms of revenue growth, the sample shows a median 11% yoy in 2022, while Fenix turnover decreased by 33% yoy. In terms of cash flows generation, in 2022 peer's median EBITDA margin was 59%, above Fenix's 27%.

Table 10: Fenix benchmarking on revenue growth and EBITDA margin

Company	Sales growth				EBITDA margin				
	2021	2022	2023E	2024E	2020	2021	2022	2023E	2024E
18/10/2023									
Iervolino & Lady Bacardi	14%	18%	1%	4%	93%	101%	68%	79%	79%
Leone Film Group	30%	-30%	82%	15%	46%	63%	71%	54%	54%
Lucisano Media Group	33%	7%	73%	37%	60%	60%	67%	38%	38%
Notorious Pictures	174%	-16%	37%	37%	38%	34%	60%	44%	41%
Xilam Animation	84%	-11%	25%	11%	47%	84%	89%	47%	50%
Splendid Medien	3%	-2%	-6%	7%	49%	36%	31%	35%	36%
Median	31%	-6%	31%	13%	48%	61%	67%	45%	46%
Fenix Entertainment Spa	237%	-33%	3%	-95%	21%	16%	27%	25%	26%

Source: Banca Profilo elaborations on Factset and company data (as of 29th September 2023)

Market multiples

**EV/EBITDA the "best"
multiple to be used**

To assess a relative valuation of Fenix through the market multiples relative approach, we selected a sample of listed national and international companies specialized in film production, post-production & distribution.

We suggest using a blend of 2023-2024E EV/EBITDA multiple. Our selected sample comprises: Iervolino & Lady Bacardi Entertainment SpA, Leone Film Group SpA, Lucisano Media Group SpA, Notorious Pictures SpA, Xilam Animation and Splendid Medien AG.

**Median FY23-24
EV/EBITDA equal to
2.3x and 1.9x**

The Peers' median EV/EBITDA is 2.3x (vs prior 2.2x) in 2023E and 1.9x (vs prior 1.8x) in 2024E (as of October 18, 2023). [Please refer to our Company Update on 10th July 2023]. Therefore, Fenix trades at discount in 2023E while in line with 2024E multiples.

Table 11: Market multiples

Company	EV / EBITDA	
	18/10/2023	2024E
Iervolino & Lady Bacardi	0.4x	0.4x
Leone Film Group	1.9x	1.6x
Lucisano Media Group	2.9x	2.1x
Notorious Pictures	2.8x	2.2x
Splendid Medien	0.7x	0.6x
Xilam Animation	3.9x	3.3x
Median	2.3x	1.9x
Fenix Entertainment Spa	2.0x	1.9x

Source: Banca Profilo elaborations on Factset and company data (as of October, 18 2023)

Appendix

Fenix overview and business model

Fenix business at a glance	Fenix Entertainment is a film, television content production and distribution Company, which is characterised by being present in the entire value chain: from the choice of subjects to scriptwriting, to production/co-production/post-production, to distribution. The exploitation of post-production works takes place through traditional channels (cinema, free TV, Home Video) and extends to the most innovative Video On Demand platforms.
The acquisition of Laser Digital Film makes Fenix a unique player in the Italian Media & Entertainment 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. Fenix will consolidate 100% of Laser despite a majority stake being 60%.
A vertically integrated player	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.
The main steps of a film production	<p>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.</p> <ul style="list-style-type: none"> (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.

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 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.

The corporate structure

Fenix acts as the operating holding directly controlling two subsidiaries

The Group structure is led by Fenix that directly controls 2 subsidiaries: Laser Digital Film and Laser S. Film, both acquired at the end of 2021 and specialized in post-production. Between the end of 2022 and the beginning of 2023, Fenix (i) sold the majority of Lovit, which was set up in January 2022 and (ii) does not complete the investment in Verve Media Company, signed in June 2022.

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FENIX "ID Card"

Recommendation
NOT RATED

Target Price
-

Upside
-

Company Overview

Fenix Entertainment is a film, television content production and distribution Company, which is characterised by being present in the entire value chain: from the choice of subjects to scriptwriting, to production/co-production/post-production, to distribution. The exploitation of post-production works takes place through traditional channels (cinema, free TV, Home Video) and extends to the most innovative Video On Demand platforms. The group structure is led by Fenix that directly controls two subsidiaries: Laser Digital Film and Laser S. Film, both acquired at the end of 2021. Laser Digital and Laser Film are specialized in post-production. According to management, in 2023 Fenix has been focusing on international film production, post-production, and distribution, rather than marketing and music activities. In 2023, the Group signed (i) a co-production agreement with the American Company ClaRo Production for the movie "Here After" and (ii) a co-development agreement for the full-length film with the provisional title "Aditi," currently being written, with the prestigious collaboration of Ugo Chiti, who won the David Di Donatello for the screenplay "La Stranezza" by Roberto Andò.

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
- Structural reorganization of corporate governance to reduce overheads
- Well-structured to benefit from tax incentive schemes and local grants
- New partnerships for production and distribution activities

Opportunities

- Expansion of the production business
- Synergies coming from the acquisition of Laser Film and Laser Digital
- M&A that will enhance further group expertise
- Growing global demand for new entertainment products
- Public financing through tax credit

Weaknesses

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

Threats

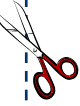
- Increasing competition in both film production and distribution
- Possible changes in the regulatory framework affecting tax incentives and local grants for film producers and distributors
- Share price instability and ownership uncertainty due to POC issue by Negma and continuing share capital increase with original shareholders relevant dilution

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
Share price instability and ownership uncertainty due to POC issue by Negma



FENIX "ID Card"

October 23, 2023

Recommendation

NOT RATED

Target Price

-

Upside

-

Main Financials				
(€ mln)	FY22	2023E	2024E	2025E
Fenix VoP	24.6	24.6	24.1	24.0
<i>yoy change</i>	-44%	0%	-2%	0%
Laser VoP	11.8	13.0	14.3	15.7
<i>yoy change</i>	8%	10%	10%	10%
Group VoP (FENIX + LASER)	36.4	37.5	38.3	39.7
<i>yoy change</i>	-33%	3%	2%	4%
EBITDA	10.0	9.5	9.8	11.2
<i>yoy change</i>	13%	-5%	3%	14%
<i>Margin (%)</i>	27%	25%	26%	28%
EBIT	-7.8	-1.1	-0.7	1.2
<i>Margin (%)</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	3%
Net Income	-8.5	-2.4	-2.0	0.1
<i>Margin (%)</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	0%
Net Debt (Cash)	18.7	22.0	23.0	22.5
Consolidated Shareholders' Equity	6.9	6.6	4.6	4.6
Net Operating Working Capital	(1.9)	0.5	0.6	0.5
CapEx	5.2	8.3	8.4	6.0
FCFs	7.6	-0.7	2.1	5.7

Solvency Ratio				
	FY22	2023E	2024E	2025E
Net Debt/EBITDA	1.9x	2.3x	2.3x	2.0x
Net Debt/Equity	2.7x	3.3x	5.0x	4.9x

Financial and Operative ratios				
	FY22	2023E	2024E	2025E
Tax rate	-1%	0%	0%	28%
ROE	-1.22	-0.37	-0.45	0.02
ROA	-0.20	-0.06	-0.05	0.00
D&A/Capex	3.44	1.29	1.24	1.68

Company Description

Company Sector	Media & Entertainment
Number of shares (mln)	114.3
Market Cap (€)	0.4
Stock Exchange	Italian Stock Exchange
Reference Index	Euronext Growth Milan
Last Closing Price (as of 18 October)	0.0035
Max/min	3.02/ 0.002
Absolute 1-Y performance	-99.8%
Average Daily Volumes	2,111

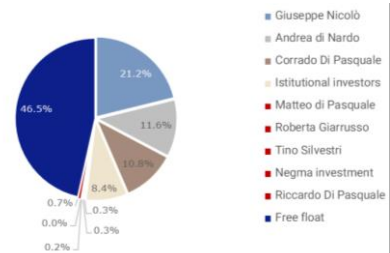
Sample of comparables	Iervolino & Lady Bacardi, Leone Film, Lucisano Media, Notorius Pictures, Splendid Medien, Xilam Animation
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Data of peers - Media & Entertainment

	FY22	2023E	2024E
Sales Growth (yoy)	-6%	31%	13%
EBITDA Margin	67%	45%	46%

(Median data)

Shareholders structure as of 23 October 2023



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