

ILBE Spa

Sector: Media content production



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Business holds well, amid industry downgrades

Iervolino & Lady Bacardi Entertainment (ILBE) is an Italian cinema, TV and web content production company with a *Hollywood* footprint and strong focus on OTTs contents, listed on Euronext Growth Milan. It produces diversified contents for an international audience, focusing on core production phases and IP ownership.

1H appears weaker due to tough comps and new format costs

Interim results suggest lower deliveries compared to 1H21 and higher costs on new content formats: revenues of €83.3mn (-27% y/y) and EBIT from €15.0mn in 1H21 to €9.7mn (margin from 13.1% to 11.6%). 1H was particularly affected by i) lack of sizeable revenues from one-off deals (vs “*Pipeline & font*” license for €22.9mn in 1H21); ii) higher service costs for Metaverse contents development. The bulk of revenues (67%) still comes from animations (production, executive production and IPs), while a few executive productions and movies’ deliveries have been delayed to 2H.

Net debt under control and solid backlog

Net debt as of June 2022 closed at €28.6mn, a touch below the €29.3mn reported in Dec 2021, despite the €47mn invested in contents/distribution rights. Also, management confirmed a solid slate: the updated backlog and the target value of projects (incl. executive productions/distribution) equal to €225mn (2022-24) and €395mn (2023-25) respectively.

Top line & FCF broadly unchanged, margins slightly lower

Our updated model factors a) the announced productions and most of those targeted; b) higher budget to develop innovative contents (including metaverse) for ca.€18mn per year charged to P&L; c) higher cost of debt. The revised 2022E-24E forecasts show broadly unchanged top line, but EBIT on average 10% lower (margins around 12.5%) and only slightly lower cash generation (cumulated 2022-24E at €1.5mn vs €5.7mn). This is because higher costs for innovative formats should be mostly compensated by better cost and capital management.

Fair value adj. for higher interest rates & sector de-rating

The stock has further traced back over the last months and trades at deep discount to peers, whose ratings are higher than ILBE, due to better stock performances (albeit negative) but also to recent earnings downgrades. We stick to our valuation methodologies - relative peers’ multiples (always scattered around) and DCF (WACC to 9.3% from 8.1%) - and adjust our fair value accordingly from €4.2 to €3.1.

Fair Value (€)	3.1
Market Price (€)	1.3
Market Cap. (€m)	45.1

KEY FINANCIALS	2021A	2022E	2023E
REVENUES	152.3	158.9	163.8
EBITDA	138.2	123.4	115.8
EBIT	23.5	20.1	20.2
NET PROFIT	18.4	11.9	16.4
EQUITY	85.6	98.0	114.4
NET FIN. POS.	-29.3	-28.4	-28.0
EPS ADJ. (€)	0.53	0.38	0.46
DPS (€)	0.00	0.00	0.00

Source: Company (historical figures),
Value Track (2021A-23E estimates)

RATIOS & MULTIPLES	2021A	2022E	2023E
EBITDA MARGIN (%)	90.8	77.6	70.7
EBIT MARGIN (%)	15.4	12.7	12.3
NET DEBT / EBIT (x)	1.2	1.4	1.4
NET DEBT / EQUITY (x)	0.3	0.3	0.2
EV/SALES (x)	0.5	0.5	0.4
EV/EBITDA (x)	0.5	0.6	0.6
EV/EBIT (x)	3.1	3.7	3.6
P/E ADJ. (x)	2.4	3.3	2.7

Source: Company (historical figures),
Value Track (2021A-23E estimates)

STOCK DATA	
FAIR VALUE (€)	3.1
MARKET PRICE (€)	1.3
SHS. OUT. (m)	35.5
MARKET CAP. (€m)	45.1
FREE FLOAT (%)	25.8
AVG. -20D VOL.	9,579
RIC / BBG	IE.MI / IE.IM
52 WK RANGE	1.08-2.86

Source: Stock Market Data



Business Description

ILBE (Iervolino & Lady Bacardi Entertainment, ex Iervolino Entertainment) is an Italian cinematographic production company with a global footprint that, through its headquarters in Rome and thanks to its founder and CEO's relationships and experience in the world of Cinema, is able to produce "Hollywood Style" movies and web series. It produces diversified contents for an international audience, focusing on the core production phases and IP ownership and exploitation.

The company is listed since August 2019 on Euronext Growth Milan (and Paris since 2022) and the IPO proceeds are funding the accelerating growth in high quality and innovative contents for cinema, TV and streaming platforms.

Key Financials

€'000	2021A	2022E	2023E	2024E
Total Revenues (VoP)	152.3	158.9	163.8	165.1
Chg. % YoY	26.2%	4.4%	3.0%	0.8%
EBITDA	138.2	123.4	115.8	90.0
EBITDA Margin (% of VoP)	90.8%	77.6%	70.7%	54.5%
EBIT	23.5	20.1	20.2	20.7
EBIT Margin (% of VoP)	15.4%	12.7%	12.3%	12.5%
Net Profit	18.4	11.9	16.4	16.1
Chg. % YoY	-5.6%	-35.6%	38.2%	-1.7%
Net Fin. Position	-29.3	-28.4	-28.0	-27.8
Net Fin. Pos. / EBITDA (x)	0.2	0.2	0.2	0.3
Capex	-147.4	-114.4	-112.5	-88.1
OpFCF b.t.	-7.5	9.9	4.1	4.8
OpFCF b.t. as % of EBITDA	-5.4%	8.0%	3.6%	5.3%

Source: ILBE (historical figures), Value Track (estimates)

Investment Case

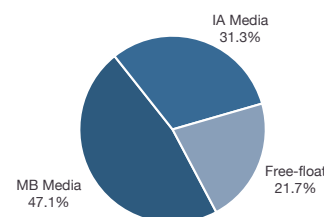
Strengths / Opportunities

- ◆ ILBE is set to benefit from the rising global demand for audio-visual contents, as it produces contents with international appeal, ranging from movies to animation;
- ◆ The company has recently focused on short contents, i.e. short animation contents for web series with hundreds of episodes (of 5-8') and time horizon of many years;
- ◆ ILBE focuses on the core production phases and IP ownership and exploitation, with a risk-adverse approach: it gets funding of new productions ahead of kick-off.

Weaknesses / Risks

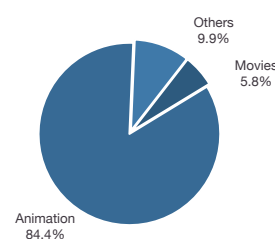
- ◆ In the content production industry the FCF lags behind the revenues recognition. This implies a small and fast growing producer faces material ST funding needs;
- ◆ The Company is highly dependent upon its founder, CEO and Chairman Mr Iervolino, given the lean structure and his key relationships in the industry;
- ◆ The Covid-19 outbreak and OTTs boom may challenge the media & content industry driven by box office and advertising spending.

Shareholders Structure



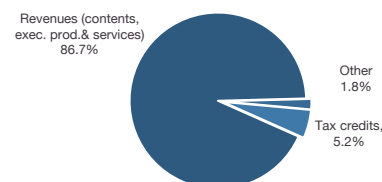
Source: ILBE

Revenues breakdown 2021



Source: ILBE

Sales breakdown 2021



Source: ILBE

Stock multiples @ €3.1 Fair Value

	2022E	2023E
EV / SALES (x)	0.9	0.8
EV / EBIT (x)	6.9	6.9
EV / CAP.EMP. (x)	1.1	1.0
OpFCF Yield (%)	7.1	3.0
P / E (x)	9.3	6.7
P / BV (x)	1.1	1.0
Div. Yield. (%)	0.0	0.0

Source: Value Track

Recent Events

In the first half of the year the company has finalized some important agreements aimed at fostering its medium-term growth potential and optimizing its capital structure, namely: 1) Acquisition of SoBe Sport; 2) New Productions and Agreements; 3) new loans and shares buy-back.

1. Acquisition of SoBe Sport

In **February** the company has signed an agreement to acquire a 60% stake in **SoBe Sport**, a leading sports communication and marketing company for professional athletes and coaches. The operation strengthens the company's position in the rapidly growing celebrity management, communication & marketing segment.

In terms of financial results, SoBe Sport as at 31 December 2021 recorded:

- ◆ Revenues of €2.0mn, (+58% y/y);
- ◆ EBITDA of €0.7mn, (+78% y/y);
- ◆ Net Cash Position of €50k;

We calculate that ILBE has acquired SoBe at max 2.8x EV/EBITDA (2021A), based on the following:

- ◆ the **€658k** payment in **cash** for 31.4% of share capital;
- ◆ the issue of 244.8k **new ILBE shares** for a total value of **€514k** (valued at €2.1 per share) for an additional 28.6% stake;
- ◆ the cash position at acquisition was €230k
- ◆ the deal also contains **call & put** options for ILBE and the seller for the acquisition of the remaining 40% share, for a total value of €1mn, to be activated by March 2024 (in July-Sept 2023 by the seller).

On top of the undemanding multiple implied by the deal, we appreciate the rationale of the acquisition that allows ILBE to:

1. Expand its range of services in celebrity management and advertising, communication & marketing consultancy;
2. Generate great revenue synergies with ILBE's subsidiary Red Carpet, already engaged in the celebrity management; advertising, communication and marketing consultancy; and original TV shows, documentaries and series production.

2. New productions and agreements

As for ILBE we acknowledge that, despite the challenging environment, management was able to **secure a few sizeable projects / distribution agreements**:

- ◆ In **March**, ILBE signed an agreement with the international distribution company WWPS.TV for the rights of the animated series Baby Puffins & Bunny, the sequel to Puffins. The three-year contract provides for total revenues for up to 405 episodes of **€106mn** (€262k per episode). WWPS.TV will be in charge of the distribution worldwide in over 80 countries and including Amazon prime video and Apple TV.
- ◆ In **August**, ILBE has come on board for executive production of the **highly anticipated "Ferrari"** written, directed and produced by four time Oscar nominee Michael Mann and starring Adam Driver, Penélope Cruz, Shailene Woodley, Patrick Dempsey and others. In addition to generating a ca. **€1mn** revenues fee, this project opens the door to a new line of business for ILBE, geared toward major international producers of high visibility/ high budget projects with

involvement in domestic (Italian) production, where it can play the role of highly reliable partner for local executive productions.

- ◆ In **September**, ILBE announced the production of new Puffins-related series designed with an innovative “shorts” format (i.e. 60 second videos) and intended for digital platforms (Tik Tok, Instagram Reels, etc.). The world distribution rights for 3 projects of 100 episodes each were sold to Wonderfilm Media Corporation for a total of **€17.1mn** and will be realized between the current and next fiscal year. In addition, ILBE will handle distribution in Italy.
- ◆ In **October**, the group announced that new biographical production “**Mahmood**” by Red Carpet will be premiered at the Rome Film Festival.

3. New loans and Shares buy-back programme

During 1H 2022 ILBE secured **additional funding** from major Italian banks (Intesa and BPM) with two loans for a total of €3.9mn, with a 5-year duration and rates at Euribor 3M + 2.65% / 2.75% Spread. In June 2022 ILBE reported a gross debt of ca €47.6mn – including €2.1mn or leasing (IFRS16) - with a cash position of €19mn, of which €9mn invested in mutual funds, which have caused a €900k non cash loss in the 1H P&L.

On 17 May 2022, ILBE announced the launch of a **shares buy-back** program for a maximum of 150,000 ordinary shares (representing approximately 0.4% of the current share capital) and for a maximum market value of €300,000. The programme, which has lasted until 30 September, allows treasury shares to be used:

- 1) To support liquidity in compliance with applicable laws and regulations;
- 2) In the context of transactions connected to ordinary operations or extraordinary finance and growth by external lines projects;
- 3) As strategic incentive and loyalty policies for beneficiaries of any stock option plans.

As of today, value of treasury shares equals €198,000, i.e. 150,000 shares at a price of €1.32p.s. and equivalent to the 0.43% of the share capital.

Backlog

The contracted production backlog for deliveries over 2022-2024E period was equal to **€224.9mn** as of June 2022, compared to €152.4mn as of December 2021. Of these €65.6mn relates to activities in the 2H22. The backlog is composed as follows:

- ◆ New sequel to the animated series Arctic Friends and Puffins, titled **Baby Puffins & Bunny** consisting of 405 episodes each lasting 5 minutes, of which 54 animatics episodes were produced in 1H22. The backlog of the new animated production is **€105.0mn**, of which €21.5mn is planned in 2H22 and €83.5mn with a production plan spread between 2023 and 2024;
- ◆ **3 Puffins animated series** (*Mini Puffins Wonder, Swifty, Super Impossible*) of 100 episodes each in the new "short" lasting 60 seconds. The backlog of the new animated production is **€17.1mn**, of which €9.5mn is expected in the 2H22 and €7.6mn in the first half of 2023;
- ◆ **Executive production of the Puffins Impossible animated series**, and related service activities including IP exploitation licenses, consisting of 270 episodes. The backlog of executive production and licensing on IP is **€72.4mn**, of which €13.6mn is expected in the 2H22 and €58.8mn with a production plan spread between fiscal years 2023 and 2024;
- ◆ Production of the film **In the Fire** for **€4.5mn**, scheduled for delivery in the 2H22;
- ◆ Production of the film **Muti**, which is due for delivery in 2H22, for **€2.4mn**;

- ◆ Production of **3 Animation Films**, based on the characters of the animated series of Puffins (*A Stellar Adventure*), Arctic Friends (*In Search of the Arctic Idol*) and Puffins Impossible (*The Walrus Who Wanted Too Much*) respectively, lasting 85 minutes each. The backlog of the new production is **€21.0mn**, of which €11.7mn is expected in the 2H22 and €9.3mn in the first half of 2023;
- ◆ Production of the **Giving Back Generation 3** project for approximately **€1.3mn** expected to be delivered in the 2H22;
- ◆ Production of the **Mahmood** and **Red Valley** projects totaling approximately **€1.2mn** in the 2H22

Management provided also the updated 3-year slate of **target projects for the period 2023-2025E**, for a total value of **€395mn**, compared to the €338mn value provided in December 2021 (for deliveries over 2022-2024E). This target includes ca. 47 projects which should be split as follows in terms of contribution to revenues:

- ◆ €334mn in new **productions**, which include animations, movies and other scripted and unscripted contents in various stage of development;
- ◆ €25mn of revenues from **service** activities (including executive production, digital delivery – Arte Video - and concession of IPs);
- ◆ €36mn of revenues from projects of **celebrity management and digital ADV** (Red Carpet, SobeSport).

On top of these project ILBE management expect additional business to arrive from **executive productions** “a la” *Ferrari*, i.e. for international producers with potential executive production in Italy, as described above. These projects would be recognised by ILBE only in terms of net fee in the P&L, with a limited top line contribution to the top line, but they would be attractive in terms of earnings and cash flow.

ILBE: Backlog and target projects

(€mn)	Type	Delivery 2H 2022	Delivery 2023-2024	Total	Total Episodes (#)
Baby Puffins & Bunny	Series	21.5	83.5	105.0	405
3 “Shorts” Series	Shorts	9.5	7.6	17.1	300
Puffins Impossible (Servicing)	Web Series	13.6	58.8	72.4	270
In the Fire	Film	4.5		4.5	
i	Film	2.4		2.4	
Animation Films (3)	Film	11.7	9.3	21.0	
Giving Back Generation	Film	1.3		1.3	
Mahmood	Film	1.2		1.2	
Total Contracted Backlog (2022-24E)		65.6	159.3	224.9	
Animation productions	Tik Tok, Movies, Series			184.2	10 projects
Audiovisual productions	Various			28.3	9 projects
Feature Films	Film			91.5	12 projects
Unscripted Projects				30.0	16 projects
Servicing & Licensing				24.9	-
Celebrity Management. Digital ADV				36.7	-
Total Target Projects Value (2023-25E)				395.5	

Source: Value Track Analysis

1H 2022: tough comps and higher costs

Interim results' main outcomes are the following:

- ◆ **Total Revenues at €83.3mn** vs. €114.2mn of 1H 21, supported by i) animations' productions, executive production and IP licensing (66% of total revenues); ii) two movies (vs relatively weak 1H21); iii) minor activities, which hold 2021 levels, while iv) we remind that 1H21 benefitted from the concession of the production *Pipeline & font* license (a €22.9mn deal);
- ◆ **EBIT at €9.7mn** vs. €15.9mn as of 30 June 2021, weighed down by higher labour costs and major service costs related also to the development of new contents in metaverse format, with EBIT margin at 11.6% (vs. 13.8% of 1H21);
- ◆ **Net profit at €3.4mn** vs €12.4mn 1H21, burdened by higher tax rate and increased financial charges and value adjustments (linked to higher net debt and to the new debt structure);
- ◆ **Net Debt decreased to €28.6mn** from €29.3mn of Dec 2021, as cash flow fully funded investments in new productions and distribution rights as well as NWC requirements.

ILBE: Key Financials

(€mn)	1H21	1H22	Change YoY (%)
Total Revenues	114.2	83.3	-27.1%
EBITDA	107.9	65.0	-39.8%
EBIT	15.0	9.7	-35.4%
Net Profit	12.4	3.4	nm
Group Equity	79.4	89.3	12.4%
Net Financial Position	-29.3 (*)	-28.6	nm

Source: Value Track Analysis (*) As of Dec 2021

Revenues down (as expected), but marked by improved diversification

Total 1H22 Revenues came from:

- ◆ **Productions & IPs equal to €69.8mn**, decreasing from €100.2mn in 1H21 and marked by a more even distribution between animated productions (39%), movies (25%), animation services / executive production (32%) and licensing of animated characters (4%);
- ◆ a **stable** amount of related **Tax Credits**, still at ca. €10mn level;
- ◆ **other Revenues** split in i) Celebrity Management, digital ADV (Red Carpet, Sobe Sport) and ii) Authoring&Digital Delivery (Arte Video), with total revenues of €2.6mn, broadly in line y/y and supported by the consolidation of Sobe Sport from mid-March.

ILBE: Total Revenues 1H21A – 1H22E

(€mn)	1H21A	1H22A	Change YoY (%)
Revenues from Productions & IPs , o/w	100.2	69.8	-30%
Content Production	67.3	44.5	-34%
Characters licensing	2.9	3.0	3%
Pipeline licensing	22.9	0.0	nm
Services (executive prod.)	7.0	22.3	nm
Others	0.1	0.0	nm
Celebrity Management, casting & digital ADV	2.4	2.1	-13%
Authoring, Encoding, Digital delivery	0.5	0.5	11%
Revenues from sales	103.1	72.5	-30%
Other Revenues	0.2	0.3	nm
Tax Credits	10.9	10.5	-4%
Total Revenues	114.2	83.3	-27%

Source: ILBE, Value Track Analysis

Production & management of contents / IPs, i.e. the core business of ILBE, reported revenues of ca. €70mn out of a total €83.3mn top line and the main contributors were:

#1 Content Production activities (€44.5mn): lower revenues but higher diversification

As far as Revenues from Content Production are concerned, the main 1H22 contributors were *Puffins* (34%), *Muti* (28%) and *Baby Puffins & Bunny* (27%), which however were not enough to offset the end of the *Artic Friends* web series.

ILBE: Content production details 1H21A – 1H22E

(€mn)	1H21A	1H22A	Δ YoY
Artic Friends	42.4	0.0	-42.4
Tell It Like a Woman	2.4	0.0	-2.4
Waiting for the Barbarians	0.0	0.1	0.1
Puffins Web Series	22.5	15.2	-7.3
Baby Puffins & Bunny	0.0	11.9	11.9
Muti	0.0	12.6	12.6
State of Consciousness	0.0	3.4	3.4
Giving Back 2	0.0	1.3	1.3
Total Revenues	67.3	44.5	-22.8

Source: ILBE, Value Track Analysis

Here below we show the distribution of revenues within the content production & IPs business, which witnesses a much improved diversification of projects.

ILBE: Revenues from Content Production breakdown in 1H21 (left) and 1H22 (right)



Source: Value Track analysis

#2 Services and Executive Production activities (€22.3mn): Iervolino Studios (Serbia) at full speed

The second largest contributor is services (including executive productions) for €22.3mn in 1H22, and here the bulk comes from “**Puffins: Impossible**” servicing, i.e. the executive production carried by Iervolino Studios (Serbia) with recognition of revenues for a total of €20.1mn vs €6.6mn in 1H21. The major jump in revenues of these executive production devoted to animations allowed management to increase also the budget to develop new formats (including metaverse).

#3 Licensing (€3mn): more volatile activities with tough comps

The 1H22 revenues from concessions / licensing out of ILBE IPs (either characters, fonts or production pipeline) faced the tough comp of 1H21, that benefitted from a one-off deal on concession of the production *Pipeline & font* license, worth €22.9mn.

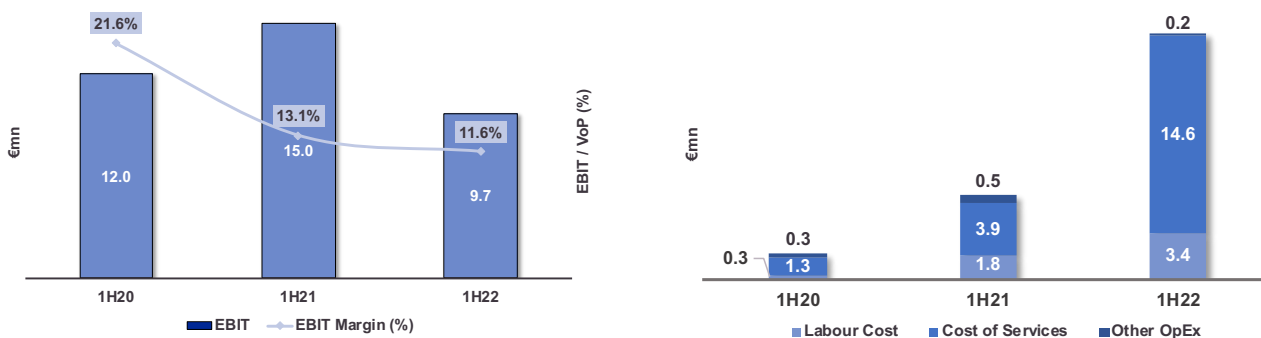
From Revenues to EBIT: higher service costs eat up margins despite lower D&A

In terms of costs, the major swing y/y was witnessed by:

- i) personnel costs (€3.4mn as of 1H22 vs. €1.8mn 1H21), due to Iervolino Studios d.o.o. hiring plan;
- ii) other Opex (€14.7mn as of 1H22 vs. €4.3mn 1H21), with the difference almost entirely attributable to €9.3mn cost of outsourced services related also to animated content intended for the metaverse.
- iii) amortizations, as in this business most of the costs related to production are represented by the amortization of the capitalized production costs, and D&A halved with respect to 1H21 and accounted for €55.3mn (mostly *Puffins*, *Muti* and *Baby Puffins & Bunny*), with the decrease fully attributable to the termination of the *Artic Friends* web series (whose amortisations were at ca. €60mn in 1H21)

- ◆ **EBIT** in 1H22 closed down to €9.7mn vs €15.0mn of 1H21, with margin at ca. 11.6% or 150bsp below previous year, while adjusting EBIT for extraordinary costs in both semesters, margin fall would be of ca. 50bps;

ILBE:1H20-1H21-1H22: EBIT evolution (left) and Opex evolution (right)



Source: ILBE, Value Track Analysis

- ◆ **Net Profit** burdened by increased Income Taxes (€2.7mn) and Net financial charges(€3.6mn), with the latter reflecting a higher cost of debt, but also foreign exchange losses and adjustments on financial assets' value (€1.2mn and €0.9mn respectively).

ILBE: Income Statement (1H21-1H22)

€mn	1H21A	1H22A
Value of Production	114.2	83.3
Labour Costs	-1.8	-3.4
Other Opex	-4.4	-14.8
EBITDA	107.9	65.0
<i>EBITDA margin (%)</i>	<i>95%</i>	<i>78%</i>
Amortisation	-92.9	-55.3
<i>Artic Justice (web series)</i>	<i>-59.8</i>	<i>-1.3</i>
<i>Waiting for the Barbarians</i>	<i>-0.1</i>	<i>-0.1</i>
<i>Puffins</i>	<i>-28.7</i>	<i>-24.9</i>
<i>Tell it like a woman</i>	<i>-1.8</i>	<i>0.0</i>
<i>Paradox Productions</i>	<i>0.0</i>	<i>-4.0</i>
<i>Muti</i>	<i>0.0</i>	<i>-12.0</i>
<i>Baby Puffins & Bunny</i>	<i>0.0</i>	<i>-10.0</i>
<i>Giving Back 2</i>	<i>0.0</i>	<i>-1.7</i>
<i>others productions</i>	<i>-2.6</i>	<i>0.0</i>
<i>other rights</i>	<i>0.0</i>	<i>-1.2</i>
EBIT	15.0	9.7
<i>EBIT margin (%)</i>	<i>13%</i>	<i>12%</i>
<i>Net Financial charges</i>	<i>-0.7</i>	<i>-3.6</i>
<i>Taxes</i>	<i>-0.8</i>	<i>-2.7</i>
Net Profit	12.4	3.4

Source: ILBE, Value Track Analysis

Cash Flow & Balance Sheet

At Balance Sheet level we note:

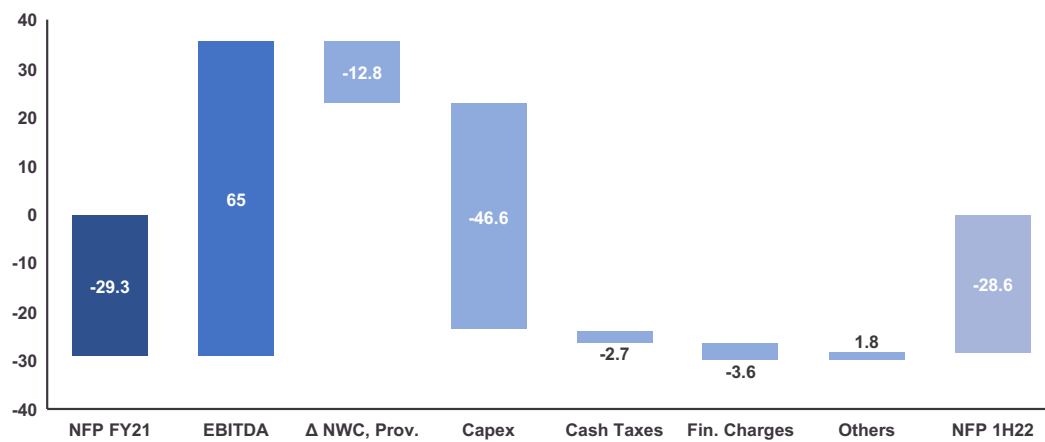
- ◆ **Net fixed assets** at €101.1mn, down by ca. €10mn attributable to reduction in capitalized production costs of products delivered and in progress, which stood at €89mn level;
- ◆ **Working capital** at €17.3mn (vs. €4.6mn in Dec 2021), due to sharp increase in trade payables related to key productions started in 2021/1H22 and just delivered (e.g. *Muti* and *State of Consciousness*) whose funding is still on ILBE shoulders;
- ◆ **OpFCF_{a.t.}** back to positive territory at €2.7mn despite lower EBITDA, thanks to halved Capex (€48.1mn) and only partially offset by €12.8mn Net Working Capital absorption;
- ◆ **Net Debt** stood at €28.6mn vs. €29.3mn as of Dec 2021, slightly improving despite: 1) €0.6mn outlay for acquisition of a 60% stake in SoBe Sport; 2) €2.1mn resulting from the accounting of new leases on the basis of IFRS 16 and 3) the NWC absorption.

ILBE: Balance Sheet (FY21-1H22)

€mn	FY21A	1H22A
Working Capital	4.6	17.3
Net Fixed Assets	111.0	101.1
Provisions	0.7	0.4
Total Capital Employed	114.9	118.0
Group Net Equity	85.6	89.3
Net Fin. Position	-29.3	-28.6

Source: ILBE, Value Track Analysis

ILBE: FY21 – 1H22 Cash Flow Statement



Source: ILBE, Value Track

Review of 2022-2024E forecasts

Following 1H22 results and recent news flow, we have update our model and as a result, the Company’s 2022-2024E forecasts compares to previous ones as follows:

- ◆ **Broadly in line Revenues**, despite some changes in revenues mix;
- ◆ **Operating Profitability down**, with EBIT margins reduced by an average of 160bps;
- ◆ **Slightly higher Net debt**, mainly due to the higher cash costs (services costs and financial charges), partially offset by lower investments in production and other IPs.

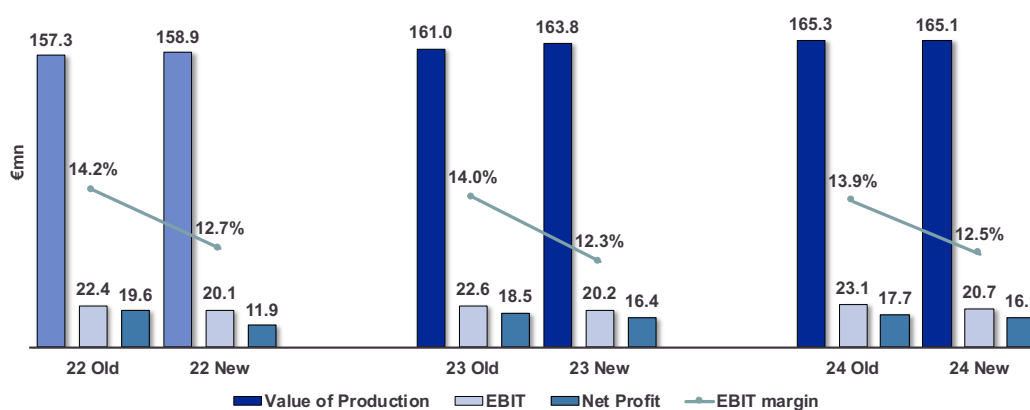
Our forecasts are based on the indications provided by management in terms of contracted production portfolio and projects under development, yet they are slightly more cautious on 2023-2024E, as the value of backlog and target projects provided seem to support annual turnover potentially around €200mn after 2023E, also supported by a strengthened team and recent US hiring.

ILBE: Old vs. New Estimates 22E-24E

€mn	2022E			2023E			2024E		
	Old	New	Δ(%)	Old	New	Δ(%)	Old	New	Δ(%)
Total Revenues	157.3	158.9	1%	161.0	163.8	2%	165.3	165.1	0%
EBITDA	126.1	123.4	-2%	121.4	115.8	-5%	95.0	90.0	-5%
<i>EBITDA Margin (%)</i>	80%	78%	-49bps	75%	71%	-473bps	57%	54%	-299bps
EBIT	22.4	20.1	-10%	22.6	20.2	-11%	23.1	20.7	-10%
<i>EBIT Margin (%)</i>	14.2%	12.7%	-158bps	14.0%	12.3%	-172bps	13.9%	12.5%	-142bps
Net Profit	19.6	11.9	-40%	18.5	16.4	-12%	17.7	16.1	-9%
Net Fin. Position	-27.0	-28.4	-5.0%	-24.7	-28.0	-13%	-23.4	-27.8	-19%
OpFCF after tax	4.0	6.4	nm	3.3	2.2	-32%	2.2	2.0	-10%

Source: Value Track Analysis

ILBE: Old vs. New Estimates 22E-24E



Source: ILBE, Value Track Analysis

Revenues broadly unchanged, EBIT margin cut and converging towards 12.5%

The impact of our update on 2022E-24E financial forecasts can be summarized as follows:

- ◆ **Revenues** – broadly unchanged, with just some minor adjustments in revenue mix related to delays in the executive production of Christmas movies, entirely offset by the additional deliveries factored in the updated Backlog (3 New Puffins-related animation movies), higher contribution from *Puffins: Impossible* (executive production) and improved outlook for the minor businesses (Red Carpet, SoBe Sport);
- ◆ **EBIT margin** – 160bps average deterioration over the forecast period, mainly driven by increased service and labour costs related to the executive production business in Serbia (+€4.0mn and +€1.5mn average increase in the forecast period respectively compared to our last update, also due to increasing efforts in new formats/technologies as metaverse), and despite lighter amortization (€2.3mn lower on average in 2022-24E);
- ◆ **Net Profit** –burdened by higher interest expenses related to higher interest rates and to the new debt structure (+€1.0mn average cost per year, compared to our last update).

ILBE 2021A-24E Revenues breakdown by title (€mn)

Title	2021A	2022E	2023E	2024E
Arctic Friends	78.3	-	-	-
Waiting for the Barbarians	-	0.1	-	-
Puffins	33.1	37.5	34.0	9.5
Tell it like a Woman	2.4	-	-	-
Giving Back Generation	-	2.6	0.1	0.1
Paradox Productions	0.9	6.7	6.6	0.3
Muti	-	15.0	1.5	1.5
WWPS/Universal	3.9	-	0.1	0.1
Baby Puffins & Bunny	-	26.5	36.4	36.4
WW Productions	0.4	-	-	-
Puffin: impossible (Exec. Productions)	10.8	29.0	29.3	32.3
Others (incl. Exec. Productions)	2.2	5.3	23.7	64.0
3 Animation Movies	-	11.7	10.5	-
Amazon Documentaries	-	1.2	-	-
Others	0.11	-	-	-
Total Revenues from Sales	132.1	135.6	142.2	144.2
Total Revenues (incl. Tax credits)	146.3	150.9	153.8	153.1
R&D Tax Credit	0.6	0.0	0.0	0.0
Others (D. Delivery, Celebrity mgmt., D. ADV)	5.4	8.0	10.0	12.0
Total Revenues	152.3	158.9	163.8	165.1

Source: Value Track Analysis

ILBE: 2021-2024E Profit & Loss

(€mn)	2021A	2022E	2023E	2024E
Revenues from Sales	132.1	135.6	142.2	144.2
Other Revenues	5.4	8.0	10.0	12.0
Tax credits	14.8	15.3	11.5	8.9
Total Revenues i.e. VoP	152.3	158.9	163.8	165.1
Cost of Sales	-10.6	-29.7	-41.9	-68.8
Labour Costs	-3.4	-5.9	-6.1	-6.3
EBITDA	138.2	123.4	115.8	90.0
EBITDA Margin (%)	90.8%	77.6%	70.7%	54.5%
Depreciation / Provisions	-0.1	-1.0	-0.3	-0.3
Amortization	-114.7	-102.2	-95.3	-69.0
EBIT	23.5	20.1	20.2	20.7
EBIT Margin (%)	15.4%	12.7%	12.3%	12.5%
Net Fin. charges & others	-3.1	-4.8	-1.9	-1.8
Pre-Tax Profit	20.4	15.4	18.3	18.9
Taxes	-1.9	-3.5	-1.9	-2.8
Net Profit	18.4	11.9	16.4	16.1

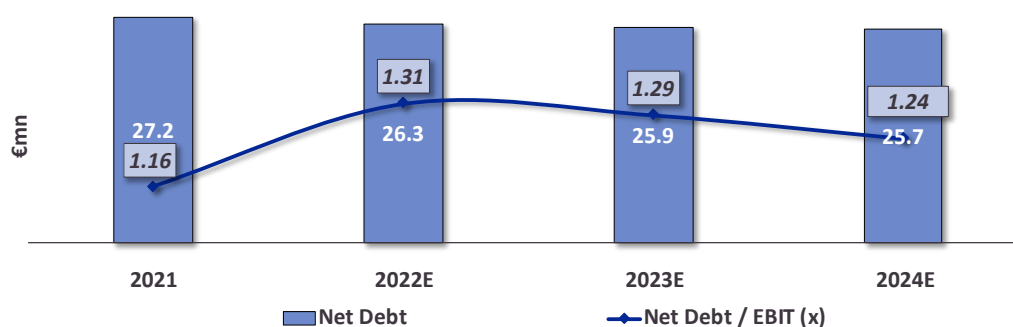
Source: Value Track Analysis

Net Debt still requires discipline

As for Balance sheet and Cash Flow, we expect:

- ◆ **Net Fixed Assets** to increase coherently with investments in new productions and rights, up to ca. €160mn in 2024E;
- ◆ **Net Working Capital** gradually levelling off at €0.2mn in 2024E, relieved by favourable trade receivables/payables dynamics;
- ◆ **Investments in new productions and rights** (i.e. Capital Expenditure) to reduce from €147mn of 2021E to average €105mn in 2022-24E, but still expected to absorb almost all the cash generated;
- ◆ **Stabilizing Net Debt**, as the company still needs to support its growth and will be barely cash-generative in the short-term. We forecast Net Debt/EBIT at ca. 1.4x in 2022E-23E (1.3x excluding IFRS16), suggesting that ILBE will have to stick to a very disciplined strategy in terms of contents production and M&A or alternatively renegotiate the covenants.

As a consequence, we do not expect free cash flow to drive any visible de-leverage before 2024E, after which, cash generation will be highly dependent on the evolution of size and quality of the backlog.

ILBE: Adj. Net Debt (*) / EBIT 2021A-2024E


Source: Value Track Analysis, Net Debt adjusted for IFRS-16 elements

ILBE: 2021A-24E Balance Sheet

(€mn)	2021A	2022E	2023E	2024E
Net Working Capital	4.6	3.8	3.0	0.2
Net Fixed Assets	111.0	123.4	140.3	159.2
Provisions	0.7	0.8	0.9	1.1
Capital Employed	114.9	126.3	142.4	158.3
Group Net Equity	85.6	98.0	114.4	130.5
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	-29.3	-28.4	-28.0	-27.8

Source: Value Track Analysis

ILBE: 2021A-24E Cash Flow Statement

(€mn)	2021A	2022E	2023E	2024E
EBITDA	138.2	123.4	115.8	90.0
Op. WC Requirements	1.4	0.8	0.8	2.8
Capex	-147.4	-114.4	-112.5	-88.1
Change in Provisions	0.2	0.1	0.1	0.1
Cash Taxes	-1.9	-3.5	-1.9	-2.8
OpFCF a.t.	-9.5	6.4	2.2	2.0
Capital Injection	0.0	0.5	0.0	0.0
Other (Incl. Fin. Inv.)	-2.4	-3.4	0.0	0.0
Net Financial Charges	-1.8	-2.6	-1.9	-1.8
Change in Net Fin. Position	-13.7	0.9	0.4	0.2

Source: Value Track Analysis

Valuation

As outlined in our last report of April 2022, the key points for ILBE investment case are the following:

- ◆ despite our top line forecasts, supported by the Group backlog, have been very resilient over the last quarters, our recent updates have focused on margin and net debt revisions, as we have been assuming higher production costs, lower margins and **longer pay-back periods**;
- ◆ **the stock needs a trigger for its rerating, despite it seems to offer deep “value”** - given its undemanding multiples;
- ◆ the trigger required could be, in our view, the **evidence of actual returns and sustainability of ILBE business model**, in the post-pandemic word driven by OTTs;
- ◆ it may take some more time for ILBE to provide such an evidence in terms of **FCF generation and/or top line and EBIT growth acceleration**: probably until FY2025, according to our forecasts.

We stick to this thesis, whose corollary is that **for the time being ILBE is unlikely to trade at premium to peers**, and stick to our valuation approach, i.e. an average of peers' multiples analysis and DCF. While the latter methodology is currently factoring more cautious valuations, driven by rising interest rates and equity risk premium, peers' multiples have de-rated only slightly over the last months despite the poor stocks' performance, as earning and FCF consensus has fallen faster. The outcome of such external factors combined with slightly lower earnings forecasts for ILBE is a reduction in the stock fair value from €4.2 per share to €3.1.

On the other hand, we confirm our **positive stance** relative to:

- size and track record, as** ILBE has become one of the largest players among the listed peers' group and management has proved prompt and flexible, while delivering on most of anticipated projects and productions;
- risk profile and visibility** – despite the increased investments in distribution rights, ILBE remains mainly an international contents' producer, focused on animations for OTTs platforms' with “visible” revenues, positive margins and with cautious accounting practices on IPs depreciation;
- the recent **move into the executive production, a potential positive** for ILBE as these activities do have a more favourable capital and NWC needs profile. While on this issue our **initial reading is still mixed**, as a) so far these executive productions seem to imply also an increasing involvement of ILBE in the content distribution activity and this jeopardizes the financial benefits of the move; b) these services suffered from significant delays YTD, we acknowledge that the recent news about the executive production of *Ferrari* and talks about another sizeable service may lead to an improved profile for the executive production activity.

At fair value the stock trades at EV/EBIT of 6.9x and P/E of 6.8x for 2023E respectively and these multiples would put the stock at ca. 40% premium to domestic peers (all trading well below their consensus target values) and still at discount to international content production players, in particular to the French Xilam Animation and the Canadian Thunderbird Entertainment. These, however, are expected to deliver faster earnings growth and/or free cash flow and, in the case of the latter, enjoys a much larger scale.

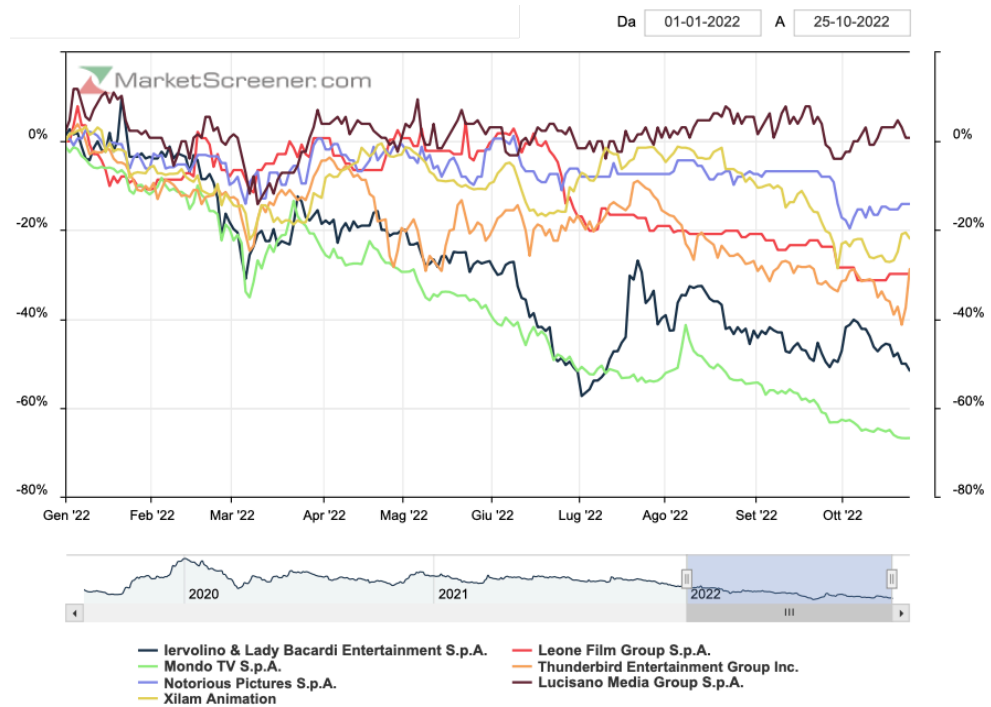
ILBE: Sensitivity of implicit stock ratings at different stock prices

Share price (€)	EV / EBIT (x)			P / E (x)		
	2022E	2023E	2024E	2022E	2023E	2024E
€ 1.1	3.4	3.3	3.3	2.9	2.4	2.4
€ 1.6	4.2	4.2	4.1	4.1	3.4	3.5
€ 2.1	5.1	5.1	4.9	5.4	4.5	4.6
€ 2.6	6.0	5.9	5.8	6.7	5.6	5.6
€ 3.1	6.8	6.8	6.6	8.0	6.6	6.7
€ 3.6	7.7	7.7	7.5	9.3	7.7	7.8
€ 4.1	8.6	8.5	8.3	10.6	8.8	8.9

Source: Value Track Analysis

The stocks included in the peers’ group have all performed quite poorly over the last six months (with the only exception of Lucisano Media Group), leaving on the ground on average between 10% and 50%. These performances compare to a -10.8% reported by Euronext Growth Milan over 6 months (ca.-20% YTD) and with a -4.5% for Euronext Growth Paris (over 6 months).

Comparables Stock Performance YTD



Source: Market Screener

Despite the stock performance described above, the market multiples of the peers’ group de-rated much less than one would expect – as consensus on earnings and free cash flow adjusted down quickly - and ILBE still trades at material discount to domestic and international peers.

ILBE: Sensitivity of implicit stock ratings at different stock prices

Company	Revenues	Revenues	Revenues	Revenues Composition (FY2021)			
	FY21 (€mn)	1H22 (€mn)	1H22 (% y/y)	Production	Distribution	Cinemas	Other
Notorious Pictures	26.3	17.6	+36%	33%	63%	4%	--
Leone Film Group	98.6	25.1	-35%	74%	26%	--	--
Lucisano Media Group	41.6	21.2	+63%	85%	--	15%	--
Xilam Animation	35.5	19.2	+31%	100%	--	--	--
Thunderbird (*)	111.5	n.a.	+34%	70%	30%	--	--
Mondo TV	35.6	16.7	+13%	75%	25%	--	--
ILBE	152.3	83.3	-27%	96%	4%		4%

Source: Value Track Analysis, (*) FY2022, i.e. FY ended in June 2022 and interim growth refers to FY

As in the past we focus on **EV/EBIT and P/E** and prefer to avoid metrics that are not fully comparable because of the differences in accounting methodologies: all peers considered report under IFRS/IAS and follow the individual-film-forecast-computation-method for IPs, but there is a certain degree of subjectivity and some of them report EBITDA net of contents' amortisations. The table below summarises the current ratings of the selected peers, which remain quite scattered around and this lead us to prefer median values vs average ones.

ILBE: Peers' stock trading multiples

Company	EV / EBIT (x)			P / E (x)		
	2022E	2023E	2024E	2022E	2023E	2024E
Notorious Pictures SpA	9.4	7.3	5.8	6.4	5.0	3.8
Leone Film Group SpA	nm	13.2	9.8	10.8	6.4	5.7
Lucisano Media Group	6.8	5.4	nm	3.5	2.5	nm
Mondo TV	4.5	1.6	0.5	3.3	2.2	1.8
Xilam Animation	19.0	13.3	12.6	21.7	15.0	14.3
Thunderbird Entertainment Group	14.0	5.0	4.0	37.1	22.2	19.9
Average	12.2	10.8	7.6	12.2	13.8	8.9
Median	12.1	9.4	6.4	8.3	8.6	5.7
ILBE	3.6	3.6	3.5	3.3	2.7	2.8

Source: Value Track Analysis

On the back of the above considerations, we believe that ILBE's market ratings should be in between those of the Italian players – much smaller, more exposed to the distribution and box-office business and hence more volatile - and those of the pure content producers, as Xilam and Thunderbird, whose premium ratings are supported by either higher growth and/or FCF prospects and/or size. Based on peers' multiples we get to a **fair equity value per share of €3.2**.

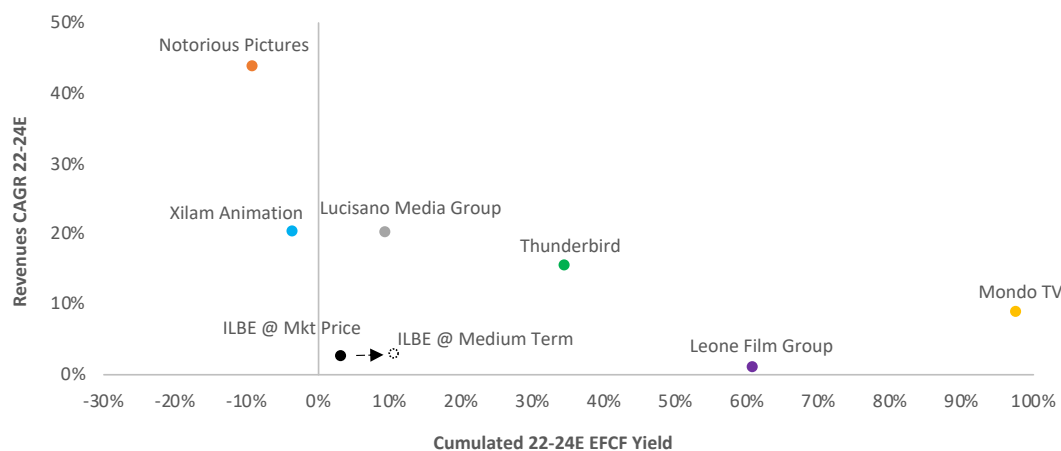
ILBE: Fair Value based on peer’s multiples

	EV / EBIT (x)			P / E (x)		
	2022E	2023E	2024E	2022E	2023E	2024E
Total Peers' Average	10.8	7.6	6.5	13.8	8.9	9.1
Total Peers' Median	9.4	6.4	5.8	8.6	5.7	5.7
Fair Multiple ILBE (x)	9.4	6.4	5.8	8.6	5.7	5.7
Fair Equity ILBE (€mn)	160.7	99.7	92	159.0	77.2	93
Fair Value ILBE (€ p/sh.)	4.5	2.8	2.6	4.5	2.2	2.6
Average (€ p/sh.)	3.2					

Source: Value Track Analysis

The chart below shows all the peers considered on the back of i) their cumulated EFCF yield (over 2022-24E) and ii) the expected top line growth (CAGR 2022-24E) and confirms ILBE’s current weak positioning among comparables, which are expected to deliver on average stronger free cash flow generation and/or stronger top line growth. While we believe it is not possible to set the stock fair value on normalized EFCF vs peers (their positioning is too scattered around), we can still do a reverse-engineering exercise and check if our fair value of €3.1 is supported by ILBE potential medium-term EFCF, in the light of peers EFCF yield of ca.7.5%.

ILBE: EFCF Yield vs Revenue Growth



Source: Value Track Analysis

ILBE: Fair Value based on normalized EFCF yield

€mn	
Normalized ILBE EFCF (2025E)	€9.8mn
Fair EFCF Yield (2022E of peers)	7.5%
ILBE target Equity (based on Medium Term potential)	130.6
Target Equity Per Share (Medium Term, 2025E)	€3.7
Current Value (2022 NPV @ WACC)	€3.1

Source: Value Track Analysis

DCF model

Our DCF model provides a **fair equity value per share of €3.0** and is built on the back of the following assumptions:

- time horizon for explicit forecasts is 2022-27E;
- valuation date is December 2022 and net debt refers to 2022E;
- WACC is equal to 9.3% (see table below for its components);
- terminal value is based on PGR of 0% and implies an exit EV/EBIT of 6.7x.

ILBE: WACC calculation

Risk free	2%
Risk Premium	7.8%
Credit spread	3%
Beta Levered	0.93
Small Cap Mkt Risk Premium	1.0%
Cost of Equity	10.3%
Cost of Debt a.t.	3.8%
D/D+E	15%
WACC	9.3%

Source: Value Track Analysis

ILBE: DCF valuation

	€mn
PV of future cash flows (2023-2027E)	33.4
PV of Terminal value	101.9
Fair Enterprise value	135.3
Fair Equity value	106.5
Shares (mn)	35.5
Fair Equity Value p.s. (€)	3.0

Source: Value Track Analysis

By averaging the fair value per share coming from the peer's analysis (€3.2 p/s) and the DCF analysis (€3.0) we come up with a **fair value per share of €3.1**.

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