

IERVOLINO ENTERTAINMENT

OUTPERFORM

SECTOR: Media

Price (Eu):

3.87

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Target Price (Eu):

5.10

Valuation Still Attractive Even Making More Cautious Assumptions

- FY20 EBIT in line with our estimates.** FY20 results, approved at market close on 19th March, showed a value of production of Eu120.7mn, up 51% YoY and 9% better than expected. EBIT closed at Eu22mn, broadly in line YoY and with our estimate, demonstrating the group's ability to hit targets in spite of the pandemic. On the other hand, at the end of 2020, net debt was Eu15.6mn, higher than expected. This figure reflects delays to investments in film production and subsequent deliveries due to the Covid emergency, investments for the launch of the Serbian business, as well as postponed requests for access to government grants, and the resulting delay in their award.
- Estimate update.** In this report we are taking a more cautious stance on 2021-2022 estimates, but at the same time we consider visibility on these numbers to have improved thanks to clarification on a number of projects. Compared to our previous estimates we are lowering the expected contribution from the Arctic Friends project in 2021 because the production of 12 episodes was brought forward to 2020, and also reducing the contribution from Serbian activities (our initial estimate was for 100/150 episodes in 2021/2022, now we are assuming 80 episodes per year). Positively, we are seeing improving visibility on 2023, because we expect animation production to continue (also involving external partners) as well as the completion of the contracts with Paradox and WWPS (more precisely we are assuming the delivery of the fifth film with Paradox and the fourth film with WWPS).
- Cash flow projections.** Management's efforts this year will be focused on finding a sustainable equilibrium between business growth and cash flow generation. We expect net debt at YE21 to remain broadly stable YoY as a result of continued investments in new projects (2021 CapEx seen at Eu110mn, flat YoY) and a certain amount of working capital absorption (Eu8.5mn). Deleverage will be strong in 2022 (the Arctic Friends projects will not require additional CapEx) and even stronger in 2023. We expect new productions for 2022 and 2023 to be announced in the coming months: as in the past, our estimates must therefore be considered as a work in progress.
- OUTPERFORM confirmed, target from Eu4.8 to Eu5.1.** Just under 2 years after the IPO the company has kept most of its promises, and its strategic positioning has proved to be extremely effective. Despite the very negative impact on the industry from the Covid pandemic, Iervolino's business model has proved resilient thanks to a large exposure to animation business (88% of the total) and its independence from the cinema business. In this report we are projecting more cautious forecasts, but the company has announced a number of new projects that improve medium-term visibility and that are progressively diversifying revenue breakdown in the coming years. For this reason, we calculate our target applying a fair P/E multiple to the average 2021-2023 EPS. Reaching a more sustainable cash flow equilibrium, as reflected in our estimates starting from this year, is an important condition for triggering a multiple re-rating.

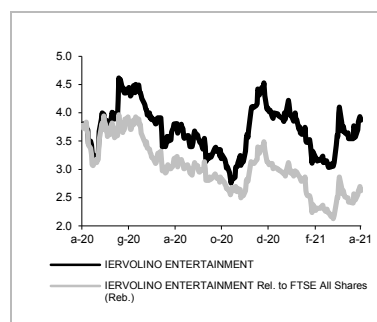
Key Figures	2019A	2020A	2021E	2022E	2023E
Sales (Eu mn)	80	121	153	123	126
Ebitda (Eu mn)	75	112	122	95	97
Net profit (Eu mn)	20	19	19	15	15
EPS - New Adj.(Eu)	0.607	0.557	0.535	0.424	0.439
EPS - Old Adj.(Eu)	0.607	0.552	0.707	0.583	
DPS (Eu)	0.000	0.000	0.000	0.000	0.000

Ratios & Multiples	2019A	2020A	2021E	2022E	2023E
P/E Adj.	6.4	7.0	7.2	9.1	8.8
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda Adj.	1.8	1.3	1.2	1.4	0.6
ROCE	69.7%	33.7%	24.5%	17.8%	26.9%

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Next event: 1H21 results
Results out 30 September 2021

IERVOLINO ENTERTAINMENT - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 4.80 to 5.10

Ch. in Adj.EPS est: 2021E 2022E
-24.3% -25.8%

STOCK DATA

Reuters code: IE.MI
Bloomberg code: IE IM

Performance	1m	3m	12m
Absolute	7.2%	-1.9%	2.4%
Relative	4.9%	-12.7%	-44.8%
12 months H/L:	4.62/2.75		

SHAREHOLDER DATA

No. of Ord. shares (mn): 35
Total No. of shares (mn): 35
Mkt Cap Ord (Eu mn): 136
Total Mkt Cap (Eu mn): 136
Mkt Float - ord (Eu mn): 28
Mkt Float (in %): 20.9%
Main shareholder:
Andrea Iervolino 31.7%

BALANCE SHEET DATA

	2021
Book value (Eu mn):	86
BVPS (Eu):	2.46
P/BV:	1.6
Net Financial Position (Eu mn):	-16
Enterprise value (Eu mn):	151

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on the last page of this report

IERVOLINO ENTERTAINMENT - KEY FIGURES

		2019A	2020A	2021E	2022E	2023E
	Fiscal year end	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
PROFIT & LOSS (Eu mn)	Sales	80	121	153	123	126
	EBITDA	75	112	122	95	97
	EBIT	23	22	23	18	19
	Financial income (charges)	(0)	(1)	(1)	(1)	(1)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	22	21	22	17	18
	Taxes	(2)	(2)	(3)	(3)	(3)
	Tax rate (%)	9.5%	8.8%	15.0%	15.0%	15.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	20	19	19	15	15
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	75	112	122	95	97
	Ebit excl. extraordinary items	23	22	23	18	19
Net profit restated	20	19	19	15	15	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	33	35	35	35	35
	EPS stated fd	0.607	0.557	0.535	0.424	0.439
	EPS restated fd	0.607	0.557	0.535	0.424	0.439
	BVPS fd	1.428	1.915	2.462	2.915	3.386
	Dividend per share (ord)	0.000	0.000	0.000	0.000	0.000
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
CASH FLOW (Eu mn)	Gross cash flow	75	97	118	95	95
	Change in NWC	(3)	2	(9)	2	0
	Capital expenditure	(87)	(109)	(110)	(81)	(16)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(14)	(10)	(0)	17	79
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	0	0	0	0	0
	Equity financing/Buy-back	17	0	0	0	0
Change in Net Financial Position	5	(15)	(0)	17	79	
BALANCE SHEET (Eu mn)	Total fixed assets	49	69	79	83	20
	Net working capital	(5)	6	14	9	7
	Long term liabilities	(0)	(1)	(1)	(1)	(1)
	Net capital employed	48	83	102	101	38
	Net financial position	(1)	(16)	(16)	1	80
	Group equity	48	67	86	102	119
	Minorities	0	0	0	0	0
Net equity	48	67	86	102	119	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	136	136	136	136	136
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(1)	(16)	(16)	1	80
	Enterprise value	136	151	151	134	55
RATIOS(%)	EBITDA margin*	94.2%	93.1%	79.8%	77.2%	77.5%
	EBIT margin*	28.3%	18.3%	14.8%	14.7%	14.9%
	Gearing - Debt/equity	1.2%	23.3%	18.5%	-1.1%	-67.7%
	Interest cover on EBIT	84.6	33.5	34.5	29.0	30.0
	Debt/Ebitda	0.01	0.14	0.13	nm	nm
	ROCE*	69.7%	33.7%	24.5%	17.8%	26.9%
	ROE*	69.1%	34.0%	24.4%	15.8%	13.9%
	EV/CE	4.2	2.3	1.6	1.3	0.8
	EV/Sales	1.7	1.3	1.0	1.1	0.4
	EV/Ebit	6.0	6.9	6.7	7.4	3.0
Free Cash Flow Yield	-10.5%	-7.1%	-0.2%	12.6%	58.4%	
GROWTH RATES (%)	Sales	131.1%	50.9%	27.1%	-19.6%	1.9%
	EBITDA*	120.8%	49.1%	8.8%	-22.2%	2.4%
	EBIT*	94.4%	-2.7%	2.9%	-20.2%	3.4%
	Net profit	98.5%	-3.7%	-4.0%	-20.6%	3.5%
	EPS restated	66.5%	-8.2%	-4.0%	-20.6%	3.5%

* Excluding extraordinary items

Source: Intermonte SIM estimates

FY20 Results

FY20 results, approved at market close on 19th March, showed a value of production of Eu120.7mn, up 51% YoY and 9% better than expected. EBIT closed at Eu22mn, broadly in line YoY and with our estimate. It should be noted that this line was affected by Eu0.7mn of non-recurring charges linked to the activation of remote working due to the pandemic. Moreover, in 2020 the company did not receive any new government grants for research and development (for the creation of a proprietary pipeline of animation films) following regulatory changes. Such grants contributed Eu4.6mn in 2019.

We note that on 16th October 2020, the company released 9M20 results that showed revenues at Eu75.7mn, EBIT at Eu16.7mn, up 17.8% YoY, net profit at Eu14.3mn, up 2.6% YoY, and net debt at Eu10.3mn as at end-September.

IE – FY and Interim Results

Income Statement	2018A	2019	1Q20A	2Q20A	1H20A	3Q20A	9M20A	4Q20A	2H20A	2020A	2020E	A. vs. E.
Value of production	34.6	80.0	23.8	31.7	55.5	20.2	75.7	45.0	65.2	120.7	110.7	9.1%
YoY %		131%	679%	381%	475%	-47%	59%	40%	-7%	51%	38%	
EBITDA	34.145	75.4			53.6				58.8	112.4	103.7	
D&A	(22.493)	(52.7)			(41.6)				(48.8)	(90.4)	(81.5)	
EBIT	11.7	22.6	5.6	6.4	12.0	4.7	16.7	5.3	10.0	22.0	22.3	-1.0%
YoY %		94%	1149%	158%	311%	-58%	18%	-37%	-49%	-3%	-2%	
margin %	34%	28%	24%	20%	22%	23%	22%	12%	15%	18%	20%	
Net financial income/€	(0.242)	(0.3)			(0.4)				(0.3)	(0.7)	(0.3)	
Pretax Profit	11.410	22.4			11.6				9.8	21.4	22.0	-2.7%
YoY %		96%			295%				-50%	-4%	-2%	
Taxes	(1.206)	(2.1)			(2.0)				0.1	(1.9)	(2.6)	
Tax Rate	-11%	-10%			-17%				1%	-9%	-12%	
Net profit	10.203	20.2			9.6				9.9	19.5	19.3	0.9%
YoY %		98.5%			259%				(44%)	(3.71%)	(4.53%)	
minorities	0	0			0.00				0.0	0	0	
Group net profit	10.20	20.25			9.59				9.91	19.50	19.33	

Source: Company data and Intermonite SIM estimates

In more detail, animated series accounted for 88% of revenues in 2020. 72 episodes of the "Arctic Friends" web series, which began in 2018, have been delivered, with total revenues of Eu60.5mn (including the relevant government grants) in addition to revenues for back-end, production pipeline licences and character licences for a total of Eu13.8mn (again, including the relevant government grants). In 2020 the 50 episodes of the "Puffins" series were delivered, generating Eu26.9mn in revenues (including the relevant government grants).

IE – Revenue breakdown

Turnover breakdown	2018 A	2019 A	2020 A
The Poison Rose	16.94	3.05	0.43
Arctic Friends	16.38	37.62	74.10
Waiting for the Barbarians	-	19.02	5.76
Women Stories	-	4.51	4.33
Puffins	-	12.16	26.89
Paradox films	-	-	2.26
Turnover from film productions	33.32	76.35	113.77
other revenues	1.30	1.59	1.11
Total turnover from film productions	34.63	77.95	114.88
Iervolino Studios (Serbian productions)	-	-	2.88
Arte Video	-	-	0.94
Celebrity Management	-	1.31	0.95
Other	-	0.75	1.09
Group Turnover	34.63	80.01	120.74

Source: Company data and Intermonite SIM estimates

At the end of 2020, net debt was Eu15.6mn, well above our Eu8.2mn estimate (and the Eu4.8mn reported at the end of June 2020). This figure reflects delays to investments in film production and subsequent deliveries due to the Covid emergency, investments for the launch of the Serbian business, as well as postponed requests for access to government grants, and the resulting delay in their award.

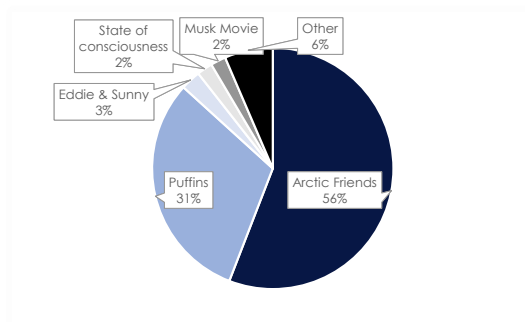
IE – Cash flow statement

(Eu mn)	2018A	2019A	2020A
EBIT	11.7	22.6	22.0
Amortization & Depr.	22.5	52.7	90.4
Fin Charges / Taxes	(1.2)	(2.1)	(2.5)
Change in working capital	4.0	(3.3)	2.3
Other funds and provisions	2.0	2.5	(12.8)
Operating cash flow	39.0	72.4	99.3
Capex	(41.5)	(86.6)	(109.0)
FCF (Eu mn)	(2.6)	(14.2)	(9.7)
Acquisitions	0.0	0.0	0.0
Disposals	0.0	0.0	0.0
Dividends	0.0	0.0	0.0
Right Issue	0.0	16.5	0.0
Other	(2.5)	3.0	(5.4)
Cash Flow	(5.1)	5.3	(15.1)
NFP at bgn year Cash/(Debt)	(0.8)	(5.9)	(0.5)
Cash Flow: Cash/(Debt)	(5.1)	5.3	(15.1)
NFP at year end: Cash/(Debt)	(5.9)	(0.5)	(15.6)

Source: Company data and Intermonte SIM estimates

Consistently with the revenue breakdown, Arctic Friends and Puffins accounted for the largest portion of 2020 CapEx.

IE – 2020 CapEx Breakdown



Source: Intermonte SIM

Business Update

Recent corporate newsflow

- On 30th September 2019, the group signed a multi-year agreement with Paradox Studios related to the production of 5 films. This contract will generate at least \$12mn in revenues for Iervolino Entertainment.
- On 18th October 2019, the group announced it had signed a contract for the realisation of the animated series "Puffins" with the Paradox studios group. This is a multi-year contract and covers up to 500 episodes of 5 mins each. Iervolino foresees revenues of \$600k per episode plus other revenues for exploitation in Italy and the Middle-East. Assuming production costs of \$750k per episode, the guaranteed coverage by the agreement would be c.80%. Nevertheless, the agreement does not include Italy and the Middle-East so IE can negotiate other rights with other distributors in these two areas, therefore enabling revenues to cover costs in full. The tax credit is considered separately.
- On 19th November 2019, IE announced the signing of an agreement for the acquisition of Arte Video S.r.l., which carries out high quality cinematographic, video, animation and multimedia production and post-production. The move should enable IE to widen its international post-production services. In FY18, Arte Video turnover amounted to Eu0.9mn, EBIT was Eu110k and net profit Eu65k, with a net cash position as at YE18 of Eu20k. Payment is in two tranches: the first of Eu153k in cash for 51%; the second, for the remaining 49%, in IE shares (30k shares at Eu4.9 p.s. for a total of Eu147k). The rights issue was endorsed by the AGM called to approve FY19 results; the lock-up on the shares will run for 36 months.
- On 31st December 2019, the group acquired full Intellectual Property (IP) rights to seven characters from the film Arctic Justice. From each of these characters the group estimates that it can derive animated series intended for TV and new media worldwide in similar fashion to the "Puffins" series currently in production. All rights for merchandising, commercial exploitation and soundtracks are included. The total rights acquired amount to \$12.25 million, in addition to a commitment to the seller of a portion of the results from exploitation of the rights.
- On 22nd January 2020, the group announced a production project for a series comprising 4 episodes lasting 50 minutes each. Renowned director Dario Argento will direct the first episode himself as well as overseeing direction of the whole series.
- On 25th February 2020, the Group announced the first film of the multi-year agreement with Paradox Studios. The contract is worth \$4.6mn (guaranteed minimum) for the production and distribution of a new film entitled "Eddie and Sunny". The film will be produced in Italy and benefit from tax credit regulations.
- On 5th June 2020, the group announced it had set up a wholly-controlled subsidiary in Serbia, "Iervolino Studios", for the production of short format web content. The newly-constituted company has signed an agreement with a Serbian firm that produces animation films, Archangel Digital Studios, granting it a licence to the rights on the "Arctic" film characters acquired by IE in December 2019; the Serbian company is committed to financing the production budget.
- On 15th July 2020, the company announced it had issued a bond for Eu8mn to finance new productions. Reimbursement of the principal will follow a structured amortisation plan over 7 years, including an interest-only period of 2 years. The bond will pay interest of 4.07% per annum, with payouts every six months in arrears.
- On 2nd November 2020, the Group announced a new agreement with Paradox Studios worth \$4.8mn (guaranteed minimum) for the production and distribution of a new film entitled "State of Consciousness". Delivery is scheduled for 2021. The film will be produced in Italy and benefit from tax credit regulations. This was the second project under the Paradox agreement.
- On 3rd November 2020, Fenix Entertainment S.p.A. bought the script of the film project "The Christmas Goofy Burglars" from Iervolino Entertainment. The film is a comedy that combines live action and animation, which will have characters from the animated web series "Arctic Friends", produced by IE, among the protagonists. Fenix also acquired the right to exploit, in the film, the animated characters of the "Arctic Friends" series (the "Intellectual Properties") using the same production process (the "Pipeline") of the web series. IE has also inked a deal with production company Minerva Pictures for another

Christmas movie, "The Christmas Witch". Also in this case, the project plans to mix the live action genre with the presence of animation movie characters. In this sense, Minerva Pictures has acquired licence rights to the characters of the "Puffins" series and the license of the pipeline created ad-hoc by IE for the realisation of its animation projects. WWPS TV has acquired the rights to both of these films for international distribution.

- On 28th November 2020, the web series Puffins made its debut on Apple TV (in many countries including Italy) and on Amazon Prime (the USA, UK, Japan and Germany at present), with Johnny Depp voicing the Johnny Puff character. The number of 5-minute episodes available now amounts to 250. We note that the Puffins project was created as a spin-off of the animated film "Arctic Justice", currently third place on the most-watched list on Netflix US.
- On 5th February, 2021, Iervolino Entertainment announced that it has signed an agreement with the international distribution company WWPS.TV for the production and distribution of 4 films of Italian origin destined for the global market. This agreement provides for revenues for Iervolino Entertainment estimated at approximately USD22mn, divided more or less equally between 2021 and 2022. Production of the first film is expected to begin in spring 2021. For its part, WWPS will acquire the global distribution rights and exploitation rights of the individual works while Iervolino Entertainment will retain 100% of the copyright of the individual films. We note that WWPS specialises in international productions, and its founders include David Tickle, an internationally famous music and audio-visual producer.
- On 18th February 2021, Iervolino Entertainment announced the signing of two agreements, one with US giant Universal Pictures and another with distribution company WWPS.TV, for the disposal of distribution rights for the film Dakota. Based on these agreements, Iervolino Entertainment will purchase production rights to the film from WWPS while selling distribution rights to Universal on a worldwide basis, with the exception of Italy and other territories (Canada, USA, and global airlines) for which the distribution rights will be held by WWPS. These agreements with Universal and WWPS stipulate guaranteed minimum revenues of US\$6.25mn for Iervolino. Production of Dakota will begin in spring 2021. Filming will take place in Italy and Los Angeles, and it will qualify as an Italian film, therefore benefitting from tax credits and rules on European film quotas.
- On April 14th, 2021, the group has formalised a partnership with SPACE 11, a company dedicated to cinema and TV projects in space. SPACE 11 is born out of an idea from founder Andrea Iervolino to create cinema, TV and web content, as well as live events (concerts, sports contests, etc.) to be filmed in space. SPACE 11 has a committee of experts that includes former employees of Elon Musk's Space-X, as well as the GAL Hassin International Centre for Astronomical Sciences in Sicily. According to Andrea Iervolino the first live event could be filmed in 1H23. This news provides further demonstration of Andrea Iervolino's status as a major innovator within the sector, capable of collaborating with major international partners. We think more details will be provided on the project during the year, in particular with regard to its financing.

Management outlook on 2021

Management did not provide guidance on 2021 but indicated that it expects revenues to grow, albeit with a more static margins trend. In more detail, in 2021 management intends to provide greater focus on activities with stronger cash generation, such as service (executive production) and character and pipeline licensing. The benefits are gradually expected to be seen from the second half of the current year. This new focus will entail greater exploitation of the Intellectual Properties of the web series, with the services and licensing of characters and pipelines both in Italy and abroad. In this context, the following must be included: (i) the activity of Iervolino Studios d.o.o. (Serbia) for the production of episodes relating to the *Puffins: Impossible* web-series for which the production of several episodes is planned for the client producer, in line with the development plan; (ii) the licensing of characters, processes and processing methods for animated production.

As for the contract signed in February 2021 with the international distribution company WWPS, the group expects revenues of approximately \$22mn, divided fairly equally between 2021 and 2022. Further episodes of the films *Women Stories* and *State of Consciousness* are also foreseen during the course of 2021. Finally, the activities of the subsidiaries R.E.D. Carpet and Arte Video are expected to grow strongly.

Change in estimates

In this report we are taking a more cautious stance on 2021-2022 estimates, but at the same time we consider visibility on these numbers to have improved thanks to clarification on a number of projects. Compared to our previous estimates we are lowering the expected contribution from the Arctic Friends project in 2021 because the production of 12 episodes was brought forward to 2020, and also reducing the contribution from Serbian activities (our initial estimate was for 100/150 episodes in 2021/2022, now we are assuming 80 episodes per year). Positively, we are seeing improving visibility on 2023, because we expect animation production to continue (also involving external partners) as well as the completion of the contracts with Paradox and WWPS (more precisely we are assuming the delivery of the fifth film with Paradox and the fourth film with WWPS).

IE – Changes to estimates

(Eu mn)	NEW				OLD			% CHANGE		
	2020A	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Value of production	120.7	153.4	123.3	125.6	156.4	130.0		-1.9%	-5.2%	
EBIT	22.0	22.7	18.1	18.7	29.4	23.9		-22.9%	-24.1%	
margin %	18.3%	14.8%	14.7%	14.9%	18.8%	18.4%				
Net financial charges	(0.7)	(0.7)	(0.6)	(0.6)	(0.3)	(0.3)				
Pretax Profit	21.4	22.0	17.5	18.1	29.1	23.6		-24.3%	-25.8%	
margin %	17.7%	14.4%	14.2%	14.4%	18.6%	18.1%				
Taxes	(1.9)	(3.3)	(2.6)	(2.7)	(4.4)	(3.5)				
Tax Rate	(8.8%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)	(15.0%)				
Net profit	19.5	18.7	14.9	15.4	24.7	20.0		-24.3%	-25.8%	
YoY %	(3.7%)	(4.0%)	(20.6%)	3.5%	28.0%	(19.0%)				
margin %	16.1%	12.2%	12.1%	12.2%	15.8%	15.4%				

Source: Intermonte SIM estimates

Arctic Friends: it is worth flagging up that 72 episodes of the "Arctic Friends" series were delivered in 2020, rather than the original forecast of 60, so as a result in 2021 there remain 68 to be delivered as opposed to 80 in order to complete the project. We have adjusted our estimates accordingly. We have added the expected business contribution from the executive production of third party film projects involving the presence of Arctic Friends characters to our estimates.

Puffins: for the "Puffins" series, at least 60 episodes should be produced in 2021, in line with our previous estimates. We then expect a further 80 short films per year to be delivered in 2022 and 2023. We remind that the master agreement is valid for up to 500 episodes (of which 290 delivered by the end of 2023 according to our estimates).

Women Stories: We have assumed production will be completed in 2021 with the recognition of Eu3.6mn in revenues, coming from the last instalment of the minimum guarantee (Eu2.4mn) and the related tax credits (Eu1.2mn). In 2022-2023 the film will cash-in the remaining back-end revenues and tax credits.

Contract with Paradox: on 30th September 2019, the groups signed a multi-year agreement with Paradox Studios related to the production of 5 films. This contract will generate revenues of at least \$12mn for Iervolino Entertainment. On 25th February 2020, the Group announced the first film of the multi-year agreement with Paradox Studios. The contract is worth \$4.6mn (guaranteed minimum) for the production and distribution of a new film entitled "Eddie and Sunny". On 2nd November 2020, the Group announced a new agreement with Paradox Studios worth \$4.8mn (guaranteed minimum) for the production and distribution of a new film entitled "State of Consciousness". In conclusion, the initial agreement was for 5 films for at least \$12mn overall. The first and second films were already started worth \$4.6mn and \$4.8mn. We expect the first 2 films to be delivered in 2021, with a further 2 films in 2022 and the fifth in 2023.

Contract with WWPS: On 5th February 2021, Iervolino Entertainment announced that it has signed an agreement with the international distribution company WWPS.TV for the production and distribution of 4 films of Italian origin destined for the global market. This agreement provides for estimated revenues of approximately USD22mn for Iervolino Entertainment. On 18th February 2021, Iervolino Entertainment announced the signing of two agreements, one with US giant Universal Pictures and another with distribution company WWPS.TV, for the disposal of distribution rights for the film Dakota. These agreements with Universal and WWPS stipulate guaranteed minimum revenues of US\$6.25mn for Iervolino. In conclusion, the agreement with WWPS foresees 4 films for

at least \$22mn, the first film was already stated to be worth \$6.25mn, therefore we can assume \$18mn from the remaining 3 films. After the conclusion of Dakota in 2021, we are assuming a second film to be delivered in 2022 and the other two films to be delivered in 2023.

Business in Serbia: as for Iervolino Studios d.o.o. (Serbia), involving production of the web series Puffins:Impossible, the signed contracts with Archangel Studios relate to the first 18 episodes and entail revenues of approximately Eu5.9mn for Iervolino Entertainment Group, which were realised partly in 4Q20 (Eu2.88mn) and partly in 1Q21. In Serbia, we expect production of 80 episodes in 2021, 2022 and 2023 (previously we assumed 100 and 150 episodes in 2021 and 2022). Our rough estimate is that every episode will generate Eu330,000, therefore we are assuming Eu26.2mn revenues in our 2021, 2022 and 2023 forecasts. We have assumed that these productions generate a 15% EBIT margin in 2021 and then a 22% EBIT margin in 2022 and 2023 (previously we assumed a 20% margin).

IE – Turnover breakdown (film sales include tax credits)

Turnover breakdown	2018 A	2019 A	2020 A	2021 E	2022 E	2023 E
The Poison Rose	16.94	3.05	0.43	0.00	0.00	0.00
Arctic Friends	16.38	37.62	74.10	72.62	18.09	26.07
Waiting for the Barbarians	0.00	19.02	5.76	0.39	0.16	0.00
Women Stories	0.00	4.51	4.33	4.30	1.08	1.01
Puffins	0.00	12.16	26.89	34.11	48.95	52.00
Paradox films	0.00	0.00	2.26	4.88	9.74	6.99
WWPS films	0.00	0.00	0.00	7.13	14.26	8.57
Turnover from film productions	33.32	76.35	113.77	123.43	92.28	94.65
other revenues	1.30	1.59	1.11	0.25	0.26	0.27
Total turnover from film productions	34.63	77.95	114.88	123.67	92.54	94.92
Iervolino Studios (Serbian productions)	-	-	2.88	26.22	26.22	26.22
Arte Video	-	-	0.94	2.50	3.00	3.00
Celebrity Management	-	1.31	0.95	1.00	1.50	1.50
Other	-	0.75	1.09	-	-	-
Group Turnover	34.63	80.01	120.74	153.40	123.26	125.64

Source: Intermonte Sim estimates

IE – EBIT breakdown

EBIT breakdown	2018 A	2019 A	2020 A	2021 E	2022 E	2023 E
The Poison Rose	4.64	0.82	(1.02)	0.00	0.00	0.00
Arctic Friends	6.19	12.98	18.43	17.14	5.24	7.10
Waiting for the Barbarians	0.00	8.03	2.46	0.02	(0.03)	0.00
Women Stories	0.00	1.67	1.59	1.55	0.71	0.63
Puffins	0.00	1.62	2.62	3.11	4.82	4.90
Paradox films	0.00	0.00	0.07	0.88	1.65	1.40
WWPS films	0.00	0.00	0.00	1.04	2.85	1.91
EBIT from film productions	10.83	25.13	24.15	23.75	15.24	15.94
Iervolino Studios (Serbian productions)	0.00	0.00	0.00	3.93	5.77	5.77
Arte Video	0.00	0.00	0.29	0.63	0.75	0.75
Celebrity Management	0.00	0.06	(0.05)	0.10	0.15	0.15
Other	0.82	(2.54)	(2.34)	(5.72)	(3.80)	(3.89)
Group EBIT	11.65	22.65	22.04	22.68	18.11	18.72

Source: Intermonte Sim estimates

Management's efforts this year will be focused on finding a sustainable equilibrium between business growth and cash flow generation. We expect net debt at YE21 to remain broadly stable YoY as a result of continued investments in new projects (2021 CapEx seen at Eu110mn, flat YoY) and a certain amount of working capital absorption (Eu8.5mn). Deleverage will be strong in 2022 (the Arctic Friends projects will not require additional CapEx) and even stronger in 2023. We expect new productions for 2022 and 2023 to be announced in the coming months: as in the past, our estimates must therefore be considered as a work in progress.

IE – Balance Sheet

(Eu mn)	2018A	2019A	2020A	2021E	2022E	2023E
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Trade Receivables	14.7	20.2	16.8	30.7	22.2	22.6
Trade Payables	(24.3)	(26.4)	(25.3)	(30.7)	(24.7)	(25.1)
Other current Assets/Liabilities	4.1	1.6	14.4	14.4	11.0	10.0
Net working capital	(5.5)	(4.6)	5.9	14.4	8.5	7.5
Tangible asset	0.0	0.0	0.2	0.3	0.4	0.5
Intangible assets	20.6	49.2	68.1	78.6	82.2	19.5
Participations	0.0	0.0	0.0	0.0	0.0	0.0
Net Fixed Asset	22.3	53.2	77.3	88.3	93.0	31.5
Severance Indemnity / other LT Liabilities	(0.0)	(0.3)	(0.6)	(0.6)	(0.7)	(0.7)
Net capital employed	16.8	48.2	82.7	102.1	100.9	38.3
<i>Financed by:</i>						
Net (debt) cash	(5.9)	(0.5)	(15.6)	(15.9)	1.2	80.3
Net Equity	10.9	47.7	67.0	86.2	102.1	118.6
Net capital employed	16.8	48.2	82.7	102.1	100.9	38.3

Source: Intermonte Sim estimates

IE – Cash Flow Statement

(Eu mn)	2018A	2019A	2020A	2021E	2022E	2023 E
EBIT	11.7	22.6	22.0	22.7	18.1	18.7
Amortization & Depr.	22.5	52.7	90.4	99.7	77.0	78.7
Fin Charges / Taxes	(1.2)	(2.1)	(2.5)	(4.0)	(3.2)	(3.3)
Change in working capital	4.0	(3.3)	2.3	(8.5)	2.5	0.0
Other funds and provisions	2.0	2.5	(12.8)	0.0	3.4	1.0
Operating cash flow	39.0	72.4	99.3	109.9	97.8	95.1
Capex	(41.5)	(86.6)	(109.0)	(110.2)	(80.7)	(16.0)
FCF (Eu mn)	(2.6)	(14.2)	(9.7)	(0.3)	17.1	79.1
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Right Issue	0.0	16.5	0.3	0.0	0.0	0.0
Other	(2.5)	3.0	(5.7)	0.0	0.0	0.0
Cash Flow	(5.1)	5.3	(15.1)	(0.3)	17.1	79.1
NFP at bgn year Cash/(Debt)	(0.8)	(5.9)	(0.5)	(15.6)	(15.9)	1.2
Cash Flow: Cash/(Debt)	(5.1)	5.3	(15.1)	(0.3)	17.1	79.1
NFP at year end: Cash/(Debt)	(5.9)	(0.5)	(15.6)	(15.9)	1.2	80.3

Source: Intermonte Sim estimates

Valuation

Just under 2 years after the IPO, the company has kept most of its promises, and its strategic positioning has proved to be extremely effective. Despite the highly negative impact on the industry of the Covid pandemic, Iervolino's business model has proven resilient thanks to large exposure to the animation business (88% of the total) and its independence from the cinema business. In this report we are more cautious in our forecasts, but the company has announced a number of new projects that improve medium-term visibility and which will progressively diversify revenue breakdown in the coming years.

Valuing this kind of business is no easy task because every film is a unique project that should be assessed separately, and for this reason in our previous reports we have only considered fully contractualised projects for company valuation purposes, calculating a net present value for each project.

This approach (which implies the recognition of no terminal value) is becoming excessively cautious as the company is demonstrating its ability to diversify revenue streams, providing a certain degree of recurrency to the business.

It is worth commenting on the animation business, which represents the core contributor to group results: it started with the project "Arctic Friends", which was followed by a spin-off web series, "Puffins". In 2020, the company launched a new venture in Serbia to produce a new spin-off with a local partner ("Puffin: impossible") and at the same time signed two important contracts with two Italian producers to licence the use of the animated characters in two Christmas movies.

For this reason, we calculate our target by applying a fair P/E multiple to the average 2021-2023 EPS.

We have taken the average 2021-2023 EPS to reflect the mid-term visibility of the business and we have applied a fair P/E of 11x, which corresponds to a 20% discount to the corresponding figure in our small cap panel. As soon as new projects are announced and added to our estimates, we can add their contribution to our fair value.

Looking at the peer group, Italian companies such as Notorious are trading at even lower multiples but are much more exposed to the cinema business, which has yet to prove its ability to recover. International peers such as Lions Gate are of a very different size, while French company Xilam, operating like Iervolino in short animation films, can be taken as a reference to build a bullish valuation case.

In conclusion, we confirm our positive view on the stock, which trades at attractive multiples and enjoys credible exposure to a fast changing market. Reaching a more sustainable cash flow equilibrium, as reflected in our estimates starting from this year, is an important condition for triggering a multiple re-rating.

IE – Peer Group

	Mkt Cap	PE 2021	PE 2022	PE 2023	EV/EBITDA 2021	EV/EBITDA 2022	EV/EBITDA 2023	EV/EBIT 2021	EV/EBIT 2022	EV/EBIT 2023
Iervolino Entertainment	136	7.2 x	9.1 x	8.8 x	1.2 x	1.4 x	0.6 x	6.7 x	7.4 x	3.0 x
Notorious Pictures	40	8.7 x	7.5 x	6.3 x	4.5 x	3.4 x	2.8 x	10.1 x	8.7 x	7.6 x
Lucisano Media Group S.p.A.	21	5.9 x			2.9 x			9.1 x		
Lions Gate Entertainment Corp Class A	2,691	19.7 x	21.1 x	14.4 x	9.5 x	11.4 x	8.8 x	49.9 x	41.6 x	21.3 x
Mondo TV S.p.A.	63	9.7 x	8.8 x		2.6 x	2.3 x		5.3 x	5.0 x	
Xilam Animation SA	231	27.5 x	22.5 x	19.0 x	9.1 x	8.4 x	13.8 x	20.1 x	16.9 x	15.5 x
Thunderbird Entertainment Group Inc	166	45.6 x	33.3 x		11.5 x	9.5 x				
Mean		19.5 x	18.6 x	13.2 x	6.7 x	7.0 x	8.5 x	18.9 x	18.0 x	14.8 x
Median		14.7 x	21.1 x	14.4 x	6.8 x	8.4 x	8.8 x	10.1 x	12.8 x	15.5 x

Source: Intermont SIM and Factset

IERVOLINO ENTERTAINMENT Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
IERVOLINO ENTERTAINM	3.87	EUR	136	7.2%	-1.9%	18.7%	-1.8%	2.4%	68.3%
HIGHLIGHT COMM.	4.00	EUR	227	0.0%	-2.4%	12.4%	-1.0%	7.0%	-9.1%
LIONS GATE ENTERT.	16.03	USD	3,545	-13.0%	22.6%	91.7%	41.0%	134.7%	0.1%
MONDO TV	1.45	EUR	63	3.1%	10.7%	-10.4%	9.2%	-7.2%	10.5%
NOTORIOUS PICTURES	1.79	EUR	40	-0.8%	6.9%	42.1%	3.5%	-9.6%	-41.9%
THUNDERBIRD ENTERT.	5.14	CAD	249	15.5%	63.2%	141.3%	60.6%	414.0%	245.0%
XILAM ANIMATION	47.00	EUR	228	-2.8%	0.3%	-2.7%	0.3%	33.5%	18.2%
Mean performance				1.3%	14.2%	41.9%	16.0%	82.1%	41.6%
Italy FTSE Mib		EUR							

Source: FactSet

IERVOLINO ENTERTAINMENT Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
IERVOLINO ENTERTAINM	3.87	EUR	136	1.0	1.1	1.2	1.4	6.7	7.4	7.2	9.1	0.0%	0.0%
HIGHLIGHT COMM.	4.00	EUR	227										
LIONS GATE ENTERT.	16.03	USD	3,545	1.5	1.2	11.4	8.8	41.6	21.3	21.1	14.4	0.0%	0.0%
MONDO TV	1.45	EUR	63	2.2	2.0	2.6	2.3	5.3	5.0	9.7	8.8	0.0%	0.0%
NOTORIOUS PICTURES	1.79	EUR	40	1.8	1.0	4.5	3.4	10.1	8.7	8.7	7.5	4.6%	5.3%
THUNDERBIRD ENTERT.	5.14	CAD	249	2.1	1.8	11.5	9.5			45.6	33.3		
XILAM ANIMATION	47.00	EUR	228	5.6	5.0	9.1	8.4	20.1	16.9	27.5	22.5	0.0%	0.0%
Median				2.1	1.8	9.1	8.4	15.1	12.8	21.1	14.4	0.0%	0.0%

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

IERVOLINO ENTERTAINMENT - Estimates Comparison with Consensus

(Eu mn)	2021			2022		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
Revenues	153.4	137.9	11.2%	123.3	106.4	15.9%
Ebitda	122.4	118.6	3.2%	95.2	83.9	13.5%
Net Profit	18.7	21.5	-12.9%	14.9	18.2	-18.3%
EPS	0.535	0.615	-13.1%	0.424	0.520	-18.4%
Net Debt	(15.9)	(19.0)	-16.1%	1.2	3.1	-62.8%

Source: Intermonte SIM estimates and Factset consensus estimates

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	IERVOLINO ENTERTAINMENT		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	5.10	Previous Target (Eu):	4.80
Current Price (Eu):	3.87	Previous Price (Eu):	3.13
Date of report:	19/04/2021	Date of last report:	28/09/2020

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- Comparison with market peers, using the most appropriate methods for the individual company analysed; among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

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NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

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BUY:	16,26 %
OUTPERFORM:	51,22 %
NEUTRAL:	28,45 %
UNDERPERFORM	04,07 %
SELL:	00,00 %

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OUTPERFORM:	57,69 %
NEUTRAL:	17,31 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

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Emittente	%	Long/Short
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COGEME SET SPA	1,6	SHORT
IKF	0,57	SHORT
OLIDATA	0,74	SHORT

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