

LUCISANO MEDIA OUTPERFORM

Price (Eu): **2.85**

Target Price (Eu): **3.80**

SECTOR: Media

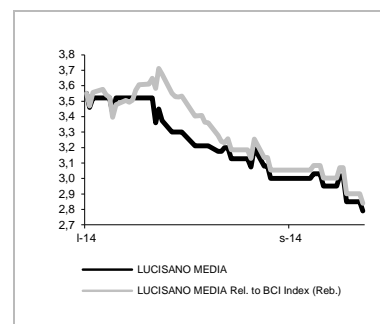
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An Independent Winner in the Italian Movie Market

- A 50-year history of success in motion pictures.** Lucisano Media Group (LMG), established in 1958 by Fulvio Lucisano, covers around 8% of the Italian film production market, placing it as one of the top independent Italian film production studios. The company has produced over 150 films, has distributed about 500, and boasts a proprietary library of some 230 films, both domestic and foreign. The group's most successful films include *Notte prima degli esami* (Night Before Exams), which brought in Eu14.3mn at the box office in 2006, and *Maschi contro femmine* (Boys vs. Girls), which hit Eu13.9mn at the box office in 2010. The company produces 4-5 new feature films a year and one new TV movie per year. The company also operates as a multiplex cinema manager, running 55 screens at 7 different facilities.
- From production to projection and distribution.** LMG covers all phases of a film's value chain. The company's business initially involved producing films for cinema release, before expanding into content for TV in 2000. Later on in 2006 the company invested in the multiplex business through the full acquisition of Stella Film. Its turnover can be split between three business lines: 54% is generated by productions (for cinemas and television) and 40% by the multiplex projection business; the remaining 6% is generated by distribution (data as of 2013). The development of the business mix is expected to involve a higher focus on production, which will significantly increase its weight on overall revenue generation (from the current 54% to 60-70%).
- Good margins and steadily rising revenue the keys to future development.** Lucisano closed 2013 with revenues reaching Eu35.2mn and EBITDA at Eu14.6mn. Over the next three years we expect the company to increase its revenues at a 2013-16 CAGR of 19%, and the EBITDA to a 2013-16 CAGR of 28.1%, thanks to good cost management and increased proceeds from the film production and distribution segments, while the projection business line is expected to remain pretty flat. In 2013 the net profit reached Eu0.5mn; we expect the bottom line to reach Eu11.0mn by 2016 thanks to healthy industry momentum, with the business set to undergo steady growth thanks to its counter-cyclical nature. The fiscal environment is likely to sustain the business thanks to tax credit incentives for production, regional subsidies and contributions from the strong box office performance of the group's films. We assume a 30% dividend payout ratio, given the company strong cash generation
- Initiating coverage with an OUTPERFORM rating; target Eu3.80 per share.** Our valuation of the company incorporates a number of different approaches: primarily, we have taken the average of DCF and EV/ROACE models and a peer comparison (70% weight on overall target price); we also considered an asset-based SOP analysis (30% weight on overall target price). This process yielded a fair value of Eu3.80 per share (after a 30% liquidity discount), which implies upside of 33% of the current market price.

LUCISANO MEDIA - 12m Performance



RATING: New Coverage

TARGET PRICE (Eu): New Coverage

Change in EPS est: 2014E 2015E

STOCK DATA

Reuters code: LCMG.MI
Bloomberg code: LMG IM

Performance	1m	3m	12m
Absolute	-10,9%		
Relative	-10,9%		
12 months H/L:			3.55/2.85

SHAREHOLDER DATA

No. of Ord. shares (mn):	15
Total No. of shares (mn):	15
Mkt Cap Ord (Eu mn):	42
Total Mkt Cap (Eu mn):	42
Mkt Float - ord (Eu mn):	5
Mkt Float (in %):	12,3%
Main shareholder:	
Keimos Srl	68,3%

BALANCE SHEET DATA

	2014
Book value (Eu mn):	22
BVPS (Eu):	1,42
P/BV:	2,0
Net Financial Position (Eu mn):	-26
Enterprise value (Eu mn):	68

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Key Figures	2013A	2014E	2015E	2016E
Sales (Eu mn)	35	48	53	60
Ebitda (Eu mn)	15	22	26	31
Net profit (Eu mn)	0	5	7	11
EPS - New (Eu)	0,026	0,328	0,486	0,743
EPS - Old (Eu)				
DPS (Eu)	0,004	0,098	0,146	0,223
Ratios & Multiples	2013A	2014E	2015E	2016E
P/E	nm	8,7	5,9	3,8
Div. Yield	0,1%	3,4%	5,1%	7,8%
EV/Ebitda	5,6	3,1	2,6	2,0
ROCE	3,0%	14,4%	23,1%	33,4%

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LUCISANO MEDIA - KEY FIGURES

		2013A	2014E	2015E	2016E
	Fiscal year end	31/12/2013	31/12/2014	31/12/2015	31/12/2016
PROFIT & LOSS (Eu mn)	Sales	35	48	53	60
	EBITDA	15	22	26	31
	EBIT	2	7	11	16
	Financial income (charges)	(1)	(1)	(1)	(1)
	Associates & Others	0	0	0	0
	Pre-tax profit (Loss)	0	6	10	15
	Taxes	0	(1)	(3)	(4)
	Tax rate (%)	26,3%	-19,4%	-27,3%	-26,7%
	Minorities & discontinue activities	(0)	0	0	0
	Net profit	0	5	7	11
	Total extraordinary items	0	0	0	0
	Ebitda excl. extraordinary items	15	22	26	31
	Ebit excl. extraordinary items	2	7	11	16
	Net profit restated	0	5	7	11
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	13	15	15	15
	EPS stated fd	0,026	0,328	0,486	0,743
	EPS restated fd	0,026	0,328	0,486	0,743
	BVPS fd	0,966	1,420	1,412	1,938
	Dividend per share (ord)	0,004	0,098	0,146	0,223
	Dividend per share (sav)	0,000	0,000	0,000	0,000
	Dividend pay out ratio (%)	14,9%	30,0%	30,0%	30,0%
CASH FLOW (Eu mn)	Gross cash flow	14	20	22	26
	Change in NWC	0	(1)	(3)	(3)
	Capital expenditure	(8)	(11)	(11)	(14)
	Other cash items	0	0	0	0
	Free cash flow (FCF)	6	14	3	9
	Acquisitions, divestments & others	0	0	(5)	0
	Dividend	(0)	(0)	(1)	(2)
	Equity financing/Buy-back	0	6	0	0
Change in Net Financial Position	6	14	1	7	
BALANCE SHEET (Eu mn)	Total fixed assets	52	45	41	39
	Net working capital	5	7	10	13
	Long term liabilities	(4)	(4)	(4)	(4)
	Net capital employed	53	48	47	48
	Net financial position	(40)	(26)	(25)	(18)
	Group equity	13	21	21	29
	Minorities	1	1	1	1
Net equity	14	22	22	30	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	42	42	42	42
	Adjustments (associate & minorities)	0	0	0	0
	Net financial position	(40)	(26)	(25)	(18)
	Enterprise value	82	68	67	60
RATIOS(%)	EBITDA margin*	41,6%	46,0%	48,3%	51,7%
	EBIT margin*	4,5%	15,2%	20,6%	26,5%
	Gearing - Debt/equity	nm	124,2%	118,7%	62,7%
	Interest cover on EBIT	1,3	5,7	10,0	19,8
	Debt/Ebitda	2,71	1,18	0,96	0,58
	ROCE*	3,0%	14,4%	23,1%	33,4%
	ROE*	2,5%	27,1%	37,4%	50,2%
	EV/CE	1,5	1,3	1,4	1,3
	EV/Sales	2,3	1,4	1,3	1,0
	EV/Ebit	nm	9,4	6,1	3,8
	Free Cash Flow Yield	13,8%	32,5%	6,5%	21,3%
GROWTH RATES (%)	Sales		36,2%	11,3%	11,6%
	EBITDA*		50,9%	16,7%	19,4%
	EBIT*		358,1%	50,7%	43,6%
	Net profit		1342,1%	48,3%	52,8%
	EPS restated		1165,5%	48,3%	52,8%

* Excluding extraordinary items

Source: Intermonte SIM estimates

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Company Structure

Lucisano Media Group was created by Fulvio Lucisano in 1958. The company operates in film production and distribution through fully owned subsidiary Italian International Film (IIF), while in 2000 it branched out into the production of films for television through its subsidiary Stella Film (100% acquired in 2006). LMG is also active in the management of a number of multiplexes.

Italian International Film

Founded in 1958, the company is engaged in the production and distribution of motion picture, and since 2000 also in the production of films for the television market.

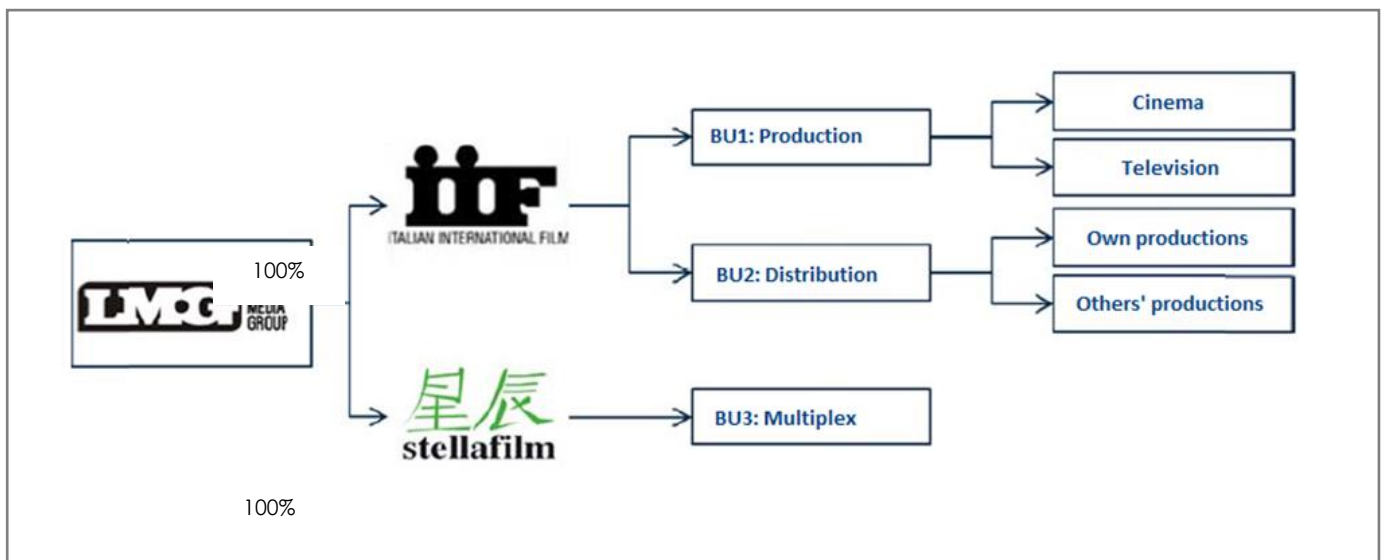
In recent years the company has produced successful films which achieved excellent results in the Italian box office, to name a few we can mention "Notte prima degli esami" (Eu14.3mn), the sequel "Notte prima degli esami – oggi" (Eu12.1mn) and "Maschi contro femmine" (Eu13.9mn), whose rights were recently sold to a movie company for the production of a Chinese version for the Far East market.

Continuous work on young directors led to the establishment of a factory, a group of talents directed by Massimiliano Bruno, with the aim to establish and strengthen artistic relationship among them and to produce high-quality movies.

Stella Film

Through Stella Film the Group operates seven Multiplex complex in southern-central Italy. The activity consist in the choice of the films to be projected, in the management and optimization of the programming activity and in the execution of screenings and related activities, such as, for example, the management of the advertising space and the dining areas inside

Lucisano Media Group - Group Structure

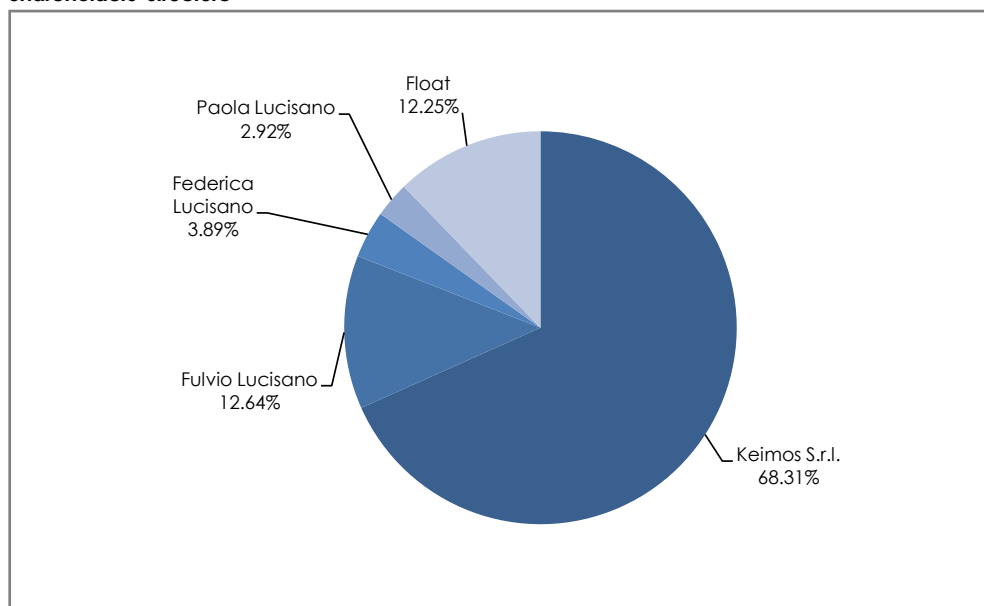


Source: Company presentation

Shareholders

The Lucisano family (Fulvio, Federica and Paola Lucisano) controls 87.75% of the capital, both directly and through Keimos S.r.l., with the free float consisting of 12.25% of the capital after the IPO.

Shareholders' structure



Source: Intermonte SIM; company presentation

History and Management

50-year history

- The company was established by Fulvio Lucisano in 1958.
- It has distributed two major Academy Award-winning films in Italy, "Thelma & Louise" in 1991 and "Indochine" in 1992.
- In 2000 the business expanded, diversifying into content for television.
- The acquisition of Stella Film in 2006 brought the group into multiplex management in southern Italy (7 multiplex cinemas with a total of 55 screens)
- In the same year, the company recorded a major success with the hit film "Notte prima degli esami" (grossing Eu14.3mn at the box office with a 69% margin).
- 2010 witnessed another hit, "Maschi contro femmine" (Eu13.9mn at the box office with a 43% margin).
- Listing on the AIM Italia market in 2014 raised Eu6.35mn.
- 2014 and 2015 should see releases for both cinema and TV being stepped up: over the next two years, there should be 10 new films released for cinema along with two new movies for TV.

Track Record: since its foundation LMG has produced and distributed more than 600 films for cinema and TV, building up a library of over 300 films (both in Italian and other languages).

Management

Company management is composed of:

Fulvio Lucisano (Chairman & Founder)

Graduated in Law in 1954. He produced numerous documentaries, but his real ambition was to move into film production. He began his long and successful career with the founding of Italian International Film in 1958. He remains the Chairman of the company with which he has produced about 160 films and distributed over 500. He was twice President of the Italian Movie Producers Association and also twice President of ANICA (the Italian film academy). He has won 6 Nastro d'argento (silver ribbons) and 4 David di Donatello awards from the academy, including the David di Donatello lifetime achievement award in 2009. In 2007 he was honoured as a Cavaliere del Lavoro (Knight of Labour) by President of the Republic Giorgio Napolitano.

Federica Lucisano (CEO)

Graduated with honours in Economics from Rome's "La Sapienza" University. Even before completing her studies, she collaborated with Italian International Film, witnessing the various phases of feature film production in her role as a secretary. From 1992, she acted as Head of Foreign Acquisitions for IIF, managing the distribution of foreign titles in Italy. From 2006 onwards she began to work in the production field, putting her name to some of the most significant films of recent years. In 2003 she became CEO of Italian International Film and a Director on the board of the other group companies.

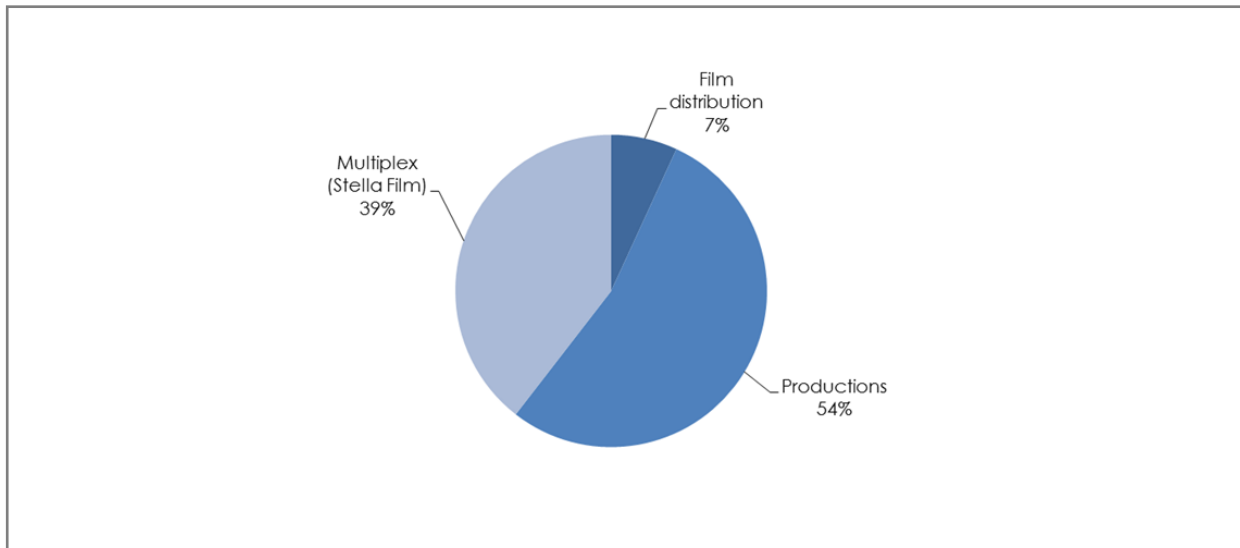
Paola Lucisano (Executive Director)

Graduated with honours in Political Science, also from La Sapienza. She worked as a journalist, writing about television for a number of magazines. After producing a number of award winning short films, from 2000 she became head of the fiction division of Italian International Film, with several acclaimed television productions subsequently produced under her guidance.

Business Description

Lucisano Media Group's activities are split into three main businesses: film production, accounting for 54% of total revenues, film distribution, accounting for 7% of total revenues, and multiplex management, which accounts for the remaining 39%.

Lucisano Media Group – Revenues breakdown 2013



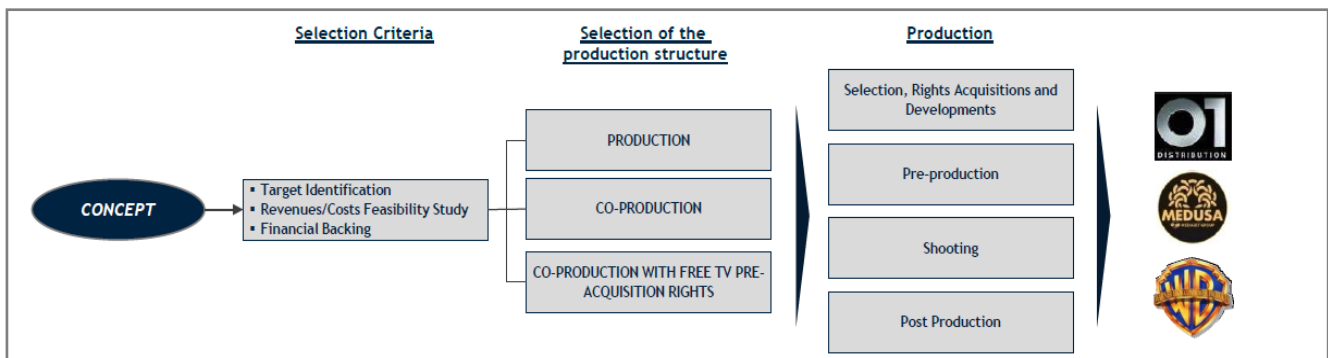
Source: company data

Movie production

The production phase consists of the following stages:

- Development: the creation of a movie starts from the initial concept. Once an idea has been chosen, the company selects a screenwriter or buys in an existing screenplay.
- Pre-Production: at this stage the company gathers the financial resources needed to make the film, mainly through the pre-sale of distribution rights. Once the film is fully funded shooting can begin.
- Shooting: this is the stage in which filming takes place. The company manages execution and ensures the film does not go over its budget.
- Post-Production: the final stage of the production cycle involves editing, the recording of the soundtrack, and the dubbing of film into other languages, if required.

Lucisano Media Group – Movie production business



Source: company's data

TV movie production

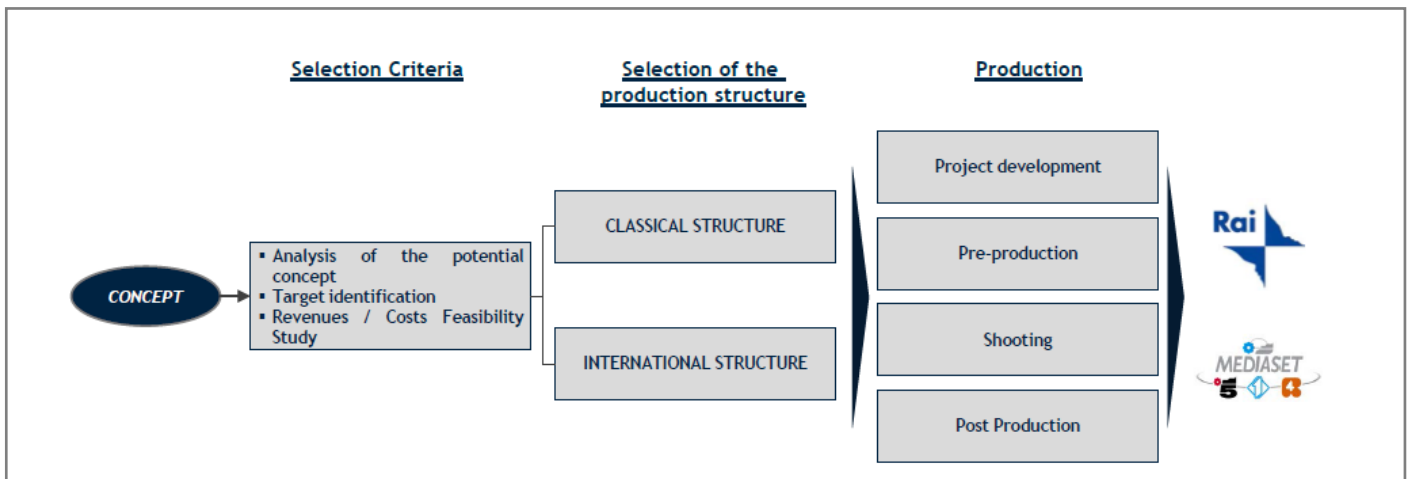
The production of dedicated films for television takes place after specific agreements have been sealed with the commissioning broadcaster, which usually has an involvement in choosing and developing the overall concept.

Production costs are shouldered by the broadcaster, with IIF generally retaining a share of distribution rights for the international market and the home video channel, as well as commanding a production fee.

The production stage can vary drastically depending on the reference market:

- Domestic market: the product is presented to the broadcaster and then usually co-produced. In the domestic environment the formats usually adopted for television are: miniseries (2 to 5 episodes), TV movies, TV series (more than six episodes), and sit-coms. The cast is usually selected by the broadcaster.
- International market: the product is designed by IIF for both the domestic and the international market. Typically, the format used is a TV movie, either in one or two episodes, which is often followed by a cinematic release. The movie is usually co-produced with the foreign broadcaster and shot in English with an international cast.

Lucisano Media Group – TV Movie production business



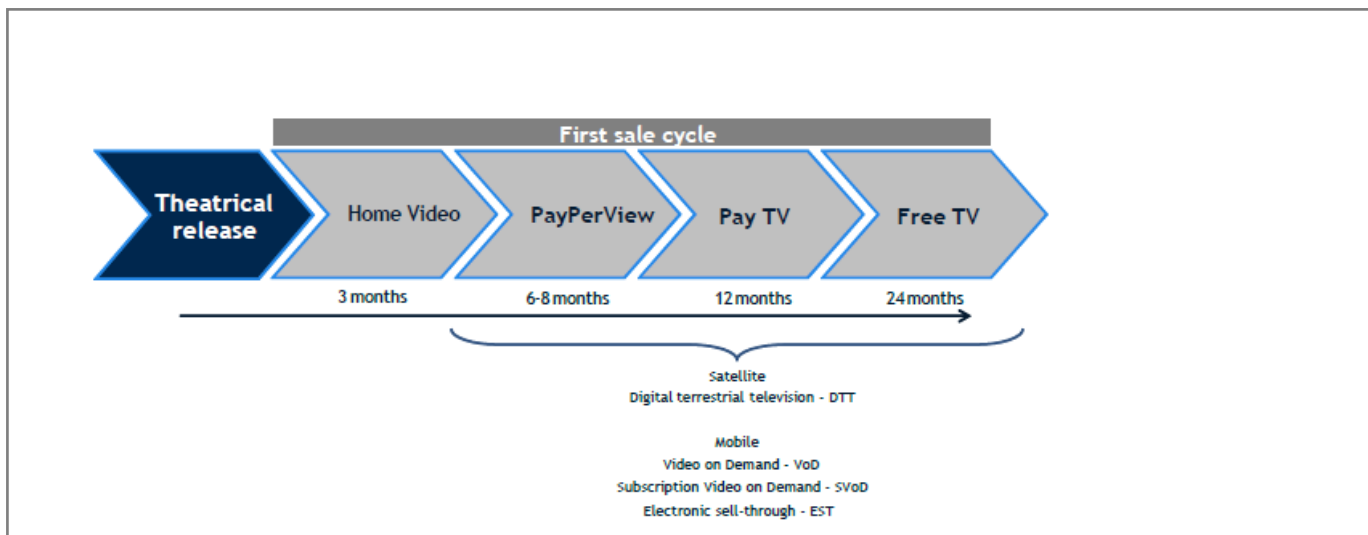
Source: company's data

Film distribution

The company distributes films it produces in-house and also those it purchases on the market. For its own productions, in addition to distribution rights the company can also command other rights, such as for the production of a sequel or a remake and for the sale of merchandising. Moreover the rights are permanent and global, whereas for purchased films they are usually only effective for a restricted time period and only in the Italian market.

A film's distribution cycle requires considerable promotional activity, carried out up to and during its cinematic release (this activity is also known as printing and advertising, or P&A). P&A activity consists of printing the copies of the film that will be distributed in cinemas and widespread marketing activity, normally carried out through newspaper and magazine advertisements, poster campaigns, promotional events and/or engaging mass media channels (TV, radio, Internet).

Lucisano Media Group – Movie distribution business



Source: company's data

Multiplex management

Through its subsidiary Stella Film the company manages seven multiplex cinemas in southern Italy, with a combined total of 55 screens and 9,766 seats. The company's multiplexes welcomed 1.79mn filmgoers in 2013. Moreover, it also manages movie content in five more complexes in the same area.

Its business activity involves selecting the films to be projected on the screens, managing and optimising the schedule, and related activities, such as the management of advertising space and dining areas inside the multiplex complexes.

This activity allows the company to generate liquidity, as multiplex revenues are largely in cash, and enhances the chances of creating lasting relationships with foreign producers.



Source: company presentation

Sector Trends

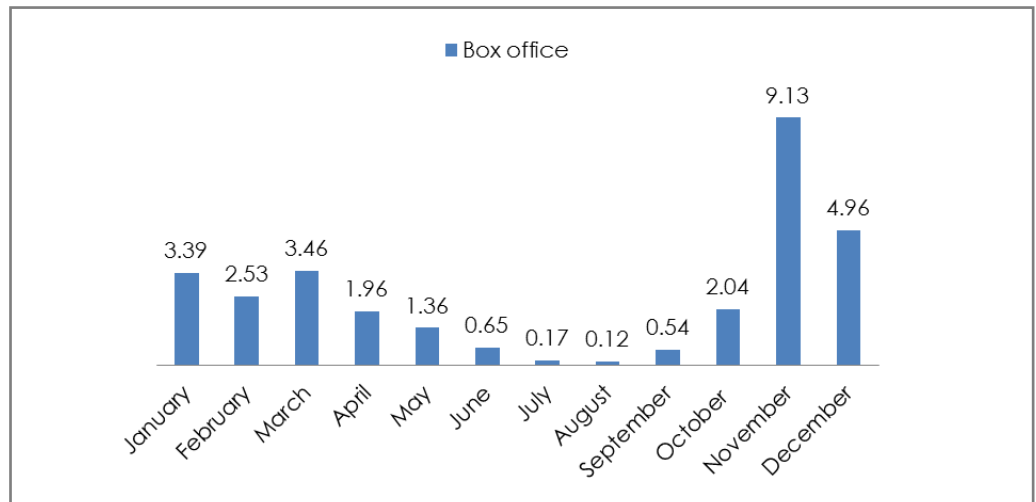
Despite the ongoing economic crisis in Italy, the film market posted positive YoY trends in 2013 in terms of attendance, box office receipts and the number of cinematic releases. According to CINETEL, which covers 90% of the market, box office proceeds came to Eu618.3mn (up 1.45% from the Eu609.5mn posted in 2012) from a total of 97.3 million tickets sold (91.4 million in 2012; +6.56% YoY).

According to the same source, the average ticket price in 2013 was Eu6.08, a 2.1% drop on 2012 (Eu6.21). This was partly affected by "Festa del Cinema", a month-long promotion in May 2013 in which ticket prices for all Italian cinemas were reduced to Eu3.

In 2013, 453 films were released in cinemas, compared to 364 in 2012 (+24.4% YoY), including 148 American movies (130 in 2012), 145 Italian movies (112 in 2012), 46 French movies (35 in 2012) and 30 English movies (27 in 2012). These data demonstrate that the market share of American and English movies decreased due to the slight increase in the share of Italian (from 30.8% to 32.0% in 2013) and French films (from 9.6% to 10.2%).

Seasonality (in terms of cinema attendance) remains a key aspect of the film industry. Indeed, as well as fluctuating during any given week, cinema attendance varies widely over different periods of the year. The third quarter of the year is the weakest, accounting for 14.6% of total filmgoers, while thanks to the Christmas period fourth quarter figures are always the strongest, with 35.2% of the annual total. However Lucisano present a less seasonal business, indeed 48% of the total revenues are generated in the first semester, while the 52% in the second part of the year

Seasonality of the Italian Movies' Box Office 2013



Source: ANICA, Tutti I numeri del cinema italiano 2013

On a weekly basis, weekend screenings continue to be the most heavily attended, generating 49.8% of total proceeds. Overall sector performance continues to depend on a relatively small number of films: in 2013, the top ten films accounted for 26.49% of total admissions and the leading thirty were responsible for 48.47% of all filmgoers.

Tax credits provide a great opportunity for the entire Italian cinema industry. In just three years since the full implementation of the existing mechanism, tax incentives have driven a significant increase in investments into both Italian film productions and joint venture operations.

The Italian film production market

Total investments in the Italian film industry came to Eu357.6mn in 2013. A total of 167 films were produced in Italy (tracking a rising trend from 166 and 155 films produced in 2012 and 2011 in respectively).

These investments were split equally between domestic and international products, with most of the co-production agreements being signed with French (15 movies) and Swiss (5 movies) operators.

Number of Italian productions and co-productions

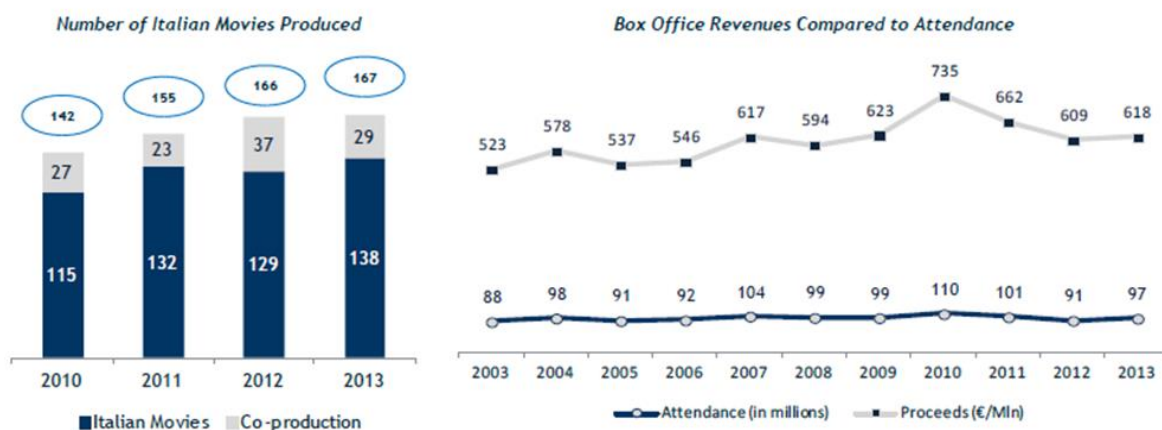
	2010	2011	2012	2013	CAGR 2010-13
Productions	114	132	129	138	6.6%
Co-productions	27	23	37	29	2.4%
Total	141	155	166	167	6%

Source: ANICA, Tutti I numeri del cinema italiano 2013

The film distribution market

In the last 10 years the box office revenues showed a pattern of stable growth, sometimes interrupted by some shocks due to the release of blockbuster movies. The 2010's peak for example is due to the release of Avatar, the highest-grossing film of all time, which cashed-in more than Eu65.0mn only in Italy and caused an increase in the average cost of the ticket due to the fact that the movie was released in 3D. Then, it is normal that the following year showed a quite significant decrease in revenues.

LMG - Number of Italian movies produced and Box Office revenues compared to attendance



Source: ANICA and Company presentation

The Italian TV market

According to Nielsen, the ongoing economic crisis is reflected in the development of free and pay television, which witnessed a 13% YoY downturn in advertising investment in the first nine months of 2013. Consequently, many broadcasters' investment capacity has either been greatly reduced, or at best focused on selected films with the broadest possible appeal, and this is important for Lucisano, which has a strong track record and could gain shares compared to other producers.

The Italian TV film market has been relatively stable despite a downward trend in the level of the offer and in production efforts. RAI and Mediaset broadcast 462 hours of Italian films and series in 2012-2013. RAI bolstered its position as the main industry buyer, gaining market share over Mediaset. The total level of investment by broadcasters has remained stable over the last three years.

Italian Advertising Market

(Eu 000)	2012	weight on total TV	2013	weight on total TV	2014 E	on total TV	2015 E	weight on total TV	CAGR 12-15 %
Total Italian Advertising	7.304.790		6.408.584		6.296.011		6.570.641		-3,5%
YoY growth	-15,9%		-12,3%		-1,8%		4,4%		
Total TV	3.917.531		3.526.829		3.535.577		3.707.247		-1,8%
YoY growth	-15,3%		-10,0%		0,2%		4,9%		
TV net SAT	3.518.081		3.153.835		3.136.933		3.288.189		-2,2%
YoY growth	-17,9%		-10,4%		-0,5%		4,8%		
Rai	830.426	21%	768.069	22%	775.750	22%	806.780	22%	-1,0%
YoY growth	-23,5%		-7,5%		1,0%		4,0%		
Mediaset	2.443.760	62%	2.166.190	61%	2.133.697	60%	2.231.700	60%	-3,0%
YoY growth	-16,0%		-11,4%		-1,5%		4,6%		
La7	175.725	4%	158.159	4%	164.485	5%	180.934	5%	1,0%
YoY growth	-2,6%		-10,0%		4,0%		10,0%		
Mtv	54.671	1%	49.980	1%	52.479	1%	57.727	2%	1,8%
YoY growth	-26,4%		-8,6%		5%		10%		
TV All Music	13.499	0%	11.437	0%	10.522	0%	11.048	0%	-6,5%
YoY growth	-1,2%		-15,3%		-8%		5%		
Satellite	371.026	9%	350.004	10%	374.504	11%	393.229	11%	2,0%
YoY growth	-2%		-5,7%		7%		5%		
Switchover media	0	0%	22.990	1%	24.140	1%	25.829	1%	nm
YoY growth									

Source: Intermonte SIM

Movie theatres

In recent years there has been a remarkable trend in the movie theatre arena: the startling decline in single-screen cinemas. On the CINETEL circuit, which covers 90% of the industry, 183 facilities have disappeared off the radar in the last eight years (and over 228 since 2005). At the same time the number of small multi-screen facilities – with from 2 to 4 screens - also decreased, while large multiplexes with more than 5 screens increased by 56 units.

According to real estate market data, 64 large complexes were built between 2005 and 2012: 33 of these had 5 to 7 screens and a further 31 had more than 7. The overall investment was in excess of Eu1.0bn. Of these 64 complexes, 15 are the result of existing sites being renovated.

LMG - Multiplex in Italy

Year	Single screen		2 to 4 screens		5 to 7 screens		Multiplex (7 or more screens)	
	Facilities	Screens	Facilities	Screens	Facilities	Screens	Facilities	Screens
2007	-55	-55	4	20	2	13	5	52
2008	-46	-46	-5	-9	9	52	5	52
2009	-30	-30	-12	-30	11	66	6	62
2010	-34	-34	-4	1	2	15	3	26
2011	0	0	0	-5	3	5	0	0
2012	-16	-16	0	-9	3	29	2	19
2013	-2	-2	0	3	3	20	-1	-5
Total 2007/2013	-183	-183	-17	-29	33	200	20	206

Source: Fondazione Ente dello Spettacolo, Rapporto Cinema 2013

Fiscal Framework

Italy

The Italian government provide different forms of fiscal incentives to motion pictures producers and distributors. In 2013 the domestic industry received EU19.3mn euros in direct investment from the public administration, Eu32,1mn in Internal tax credit for production and Eu16.9mn in tax credit for external investors, totalizing Eu68,3mn incentives. At the present day 3 different kind of incentives exist and have an impact on total revenues:

At present, there are 3 different kinds of incentives:

1. National and local subsidies

Both the central government and local bodies may subsidise film productions that meet certain criteria, such as that they are produced in Italy, in the Italian language, have an Italian director, and so on. The aim of these direct subsidies is to promote Italian culture, both in Italy and abroad.

2. Tax credits

Film producers are allowed to use their investments required for film production as tax credits, for up to 15% of the total cost of production of cinematographic works of recognised Italian nationality, up to a maximum annual amount of Eu3.5mn. Italian film distributors are also granted tax credits in the amount of 20% of their expenses, up to a maximum of Eu1.0mn per fiscal year. This tax credit is granted if the following conditions are met: (a) the distribution costs do not exceed 49% of the film's production costs, and (b) at least 80% of the sum received is spent in Italy. Cinema exhibitors are also currently granted a tax deduction on expenses sustained for the digitalisation of screening rooms. The incentive is equal to 30% of total expenses sustained to purchase and install systems and equipment destined for digital projection, up to an annual limit of Eu50,000 per screen.

3. Additional subsidies linked to box office revenue

As per Legislative Decree 28/2004, direct incentives are provided to Italian movie producers if at least Eu50,000 in box office revenues are generated within 18 months of the release date. For films eligible for this subsidy, the cash conceded is calculated as follows:

Box office revenues (Eu)	Subsidy
1-1,000,000	22.5%
1,000,000-2,000,000	20.0%
2,000,000-3,000,000	17.5%
3,000,000-4,000,000	15.0%
4,000,000-5,000,000	12.5%
. 5,000,000-10,000,000	10.0%

Source: Company presentation

The incentives have a direct impact on total revenues. In 2012 the company received Eu3.9mn, while in 2013 the subsidies increased to Eu5.6mn, or 15.9% of total revenues.

LMG - Subsidies

Incentives	2012	2013
Box Office relative incentives	1,3	2,3
Tax credit	3,6	3,2
National and local subsidies	0,4	0,7
Total	5,3	6,2

Source: company data

Other European Countries

In almost every country there exist some sort of fiscal incentives provided by central governments and local authorities. For an easier comparison we analyzed the tax incentives in the 3 main European markets (UK, France, and Germany). According to studies Cineuropa and KPMG "Film & Television Tax Guide":

France

How does it work: Producers have the choice between a cash rebate and a rebate against corporation tax for up to 20% of below-the-line costs:

- eligible costs taken in account must be <80% of the total budget (or the French part)
- the credit will always be <1 M €, <1150 €/min for TV and Docs ; <1200 €/min for animation
- the tax credit for one work cannot make the total amount of public money granted to that film represent more than 50% of the budget (60% for difficult or low-budget films, defined by decree).

What productions are eligible:

- Film & TV > 45 min, costing > 5000 €/min
- Animation >24min, costing>3000 €/min shot in France, French speaking

What about TV: TV projects are eligible.

Germany

How does it work: There are no specific incentives for investors, while for producers there are federal incentives. The main incentive at the federal level is the "Filmförderungsgesetz" (FFG), which is intended to promote the production and marketing of German films. The incentives are funded by a film levy ("Filmabgabe"), which is payable by theatres, by the video industry and by broadcasting companies. In addition, the DFFF funds German film productions. Furthermore, there are a number of incentives provided at the state and local level to promote the cinematographic infrastructure of the respective region

UK

How does it work:

- Tax credit payable directly to producers
- For films up to 20M £ the rate will be a net 20% (you can claim for 100% of your UK expenditure by the UK co-producer)
- For bigger budgets, the rate will be a net 16% (you can claim for 80% of your UK expenditure by the UK co-producer)
- Minimum expenditure is 25% (including non UK co-producer spend) to have access to the credit
- the production company responsible for the film needs to be within the UK corporation tax net
- Completion bonds are always needed in the UK to attract investors.

What are the productions eligible:

- Films must have a British distributor
- Films must have passed the British Cultural test or be a British co-production
- reach a minimum of 25% of UK expenditures.

What about TV: Not available for TV projects.

Market Positioning

Lucisano Media Group is the only completely vertically integrated group in the Italian audiovisual sector. As shown in the chart below, most of the other main Italian players operate only in film production and distribution (not cinema management), while Notorius Pictures is a pure distributor.

LMG comparisons with Italian movie operators

Services Matrix	Lucisano Media Group	Leone Film Group	Notorius Pictures	FilmAuro	01 Distribution	Medusa
Cinema Production	Y	Y	N	Y	Y	Y
TV Production	Y	N	N	N	N	N
Movie Distribution	Y	Y	Y	Y	Y	Y
Multiplex Management	Y	N	N	N	N	N

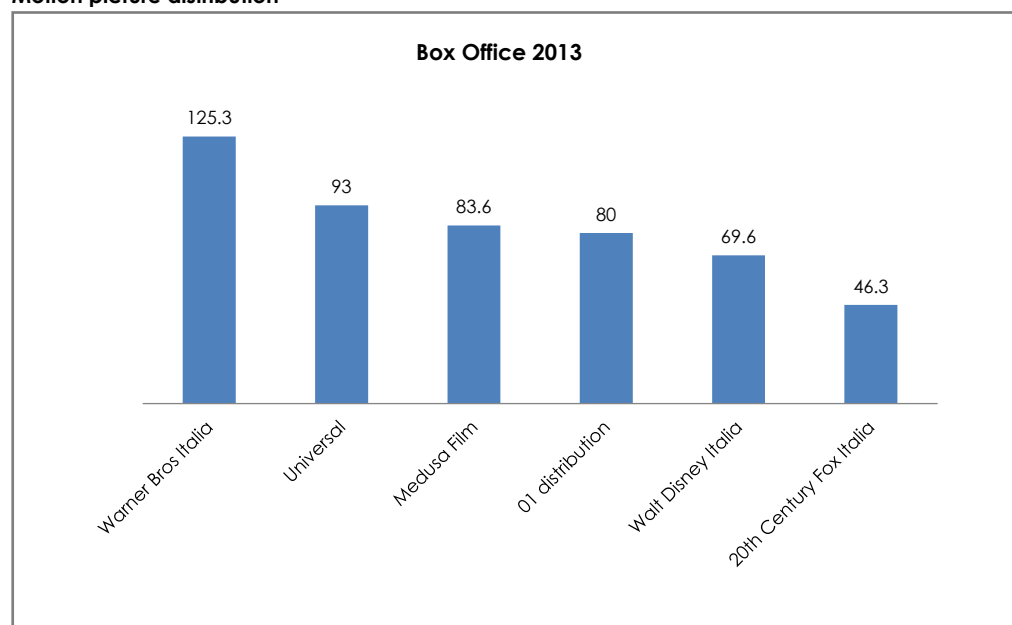
Source: Intemonte SIM

LMG in the Italian film distribution market

The major international and domestic leaders generate 81% of the total box office receipts in Italy, while independent distributors account for the remaining 19%.

Sub-distributors like Lucisano Media Group usually sell distribution rights of their films to the majors, which dominates the distribution market in Italy. The company has agreements with 3 of the first four distributors (Warner Bros, Medusa and 01 Distribution). As a consequence, the Eu10.0mn box office revenues produced by Lucisano's movies are included in their figures.

Motion picture distribution



Source: CINETEL

LMG in the Italian multiplex market

The multiplex cinema market in Italy is quite concentrated, with the two biggest players accounting for most of the viewers and the screens. However, Lucisano Media Group, through its subsidiary Stella Film, is the third leading player overall and the biggest independent player in the market, running 55 screens at 7 theatres in southern and central Italy, for a national market share of about 2%.

Stella Film is the promoter of a consortium of independent players created to lower the costs of the projection rights and to sell the advertising spaces on the screens. The exhibitors that compose the consortium have a total attendance of almost 10.5 million viewers, placing it in third position, and closing the gap with the two leading players in the market (The Space Cinema and UCI).

Multiplex market in Italy

Company	Viewers (mn)	Screens	Theatres
The Space Cinema	18.96	362	36
UCI	18.92	442	42
Stella Film (LMG)	1.79	55	7
Ferrero Cinemas	1.71	44	5
Giometti Cinema	1.6	46	5
Bernaschi & Co.	1.47	44	5
Movie Planet	1.43	38	7
CIN CIN	1.43	26	4
Cinelandia	1.32	44	6
Cinestar - Starplex	1.28	47	6
Circuito Malucelli	1.15	18	2

Source: Boxoffice.it

LMG in the Italian film and TV production industry

The Italian film and television programme production market is dominated by two large players, RAI and Mediaset, which control a huge portion of the entire industry through their subsidiaries. The market share of independent producers varies each year depending on the number of films they shoot and on these films' box office revenues. As a consequence, these players usually register high volatility in terms of both market share and income. LMG's market share in the last five years has fluctuated between 3% and 15%, averaging 8%.

The TV production business earned LMG Eu3.8mn in 2013, accounting for 11% of the company's total revenues. Looking ahead, LMG has two fictional TV series projects to be aired in the 2014-2015 season, both with the potential to be continued in the years to come.

Company Strategy

The company believes that the recent listing of its shares on the AIM Italia market will allow it to attain a higher profile. The IPO proceeds will be used to pursue its growth strategy; specifically, the company's goals are to consolidate its market position in the areas in which it already operates and to expand its presence in foreign markets.

Internal Growth

The group is aiming to reduce overall business risk and to strengthen its competitive position in the various sectors in which it operates, by:

- producing more films each year;
- developing international co-productions for European and other international markets;
- developing subsidiary IIF's factory, by forming new exclusive partnerships with young talent, consolidating existing artistic ties and cultivating ongoing relationships with major actors and directors;
- co-producing movies featuring foreign directors.

External Growth

The group aims to improve its existing library by taking advantage of opportunities to acquire existing libraries from other players. At present time, the company plans to purchase a library for around Eu5.0mn in 2015.

Key Financials

Financials 2012-2013

Income statement and Balance Sheet

(Eu mn)	2012A	2013A	(Eu mn)	2012A	2013A
Total Revenues	39.9	35.2			
YoY growth		-11.8%	Intangible assets	23.1	20.1
Operating costs	22.4	20.6	Tangible Assets	32.5	30.8
on revenues	-56.2%	-58.4%	Financial assets	2.6	0.5
YoY growth		-8%	Others	8.9	0.6
EBITDA	17.5	14.6	Fixed Assets	67.0	52.0
on revenues	43.8%	41.6%	Inventories	0.1	0.1
YoY growth		-16.3%	Receivables	19.8	11.7
D&A	-14.7	-13.1	Payables	-15.7	-12.4
on revenues	-37%	-37%	Net deferred revenues	0.0	0.0
YoY growth		-11.2%	Operating Working Capital	4.2	-0.6
EBIT	2.8	1.6	on sales	10.5%	-1.8%
on revenues	7.0%	4.5%	Tax Payables	-3.8	-3.0
YoY growth		-43.1%	Other current assets	5.5	15.6
Net financial expenses	-1.6	-1.2	Other current liabilities	-5.3	-6.7
Extraordinaries	0	0	Net Working Capital	0.7	5.3
Pretax Profit	1.2	0.4	Provisions for risks and charges	-0.1	0.0
Taxes	-0.2	0.1	Other long-term liabilities	-8.1	-2.9
tax rate	-18.1%	26.3%	Employees' leaving indemnity	-0.9	-1.0
Net profit	1.0	0.5	Total Capital Employed	58.6	53.4
on revenues	2.4%	1.4%	Shareholders equity	12.2	12.6
YoY growth		-47.2%	Minorities	1.0	1.1
Minorities	-0.2	-0.2	Total equity	13.2	13.6
Group net profit	0.8	0.3	Net Financial Position	-45.5	-39.7
Net margin	1.9%	1.0%	Gearing %	nm	nm

Source: company data

From 2012 to 2013, Lucisano Media Group's total revenues decreased due to a change in the accounting policy for "other revenues". In addition, the company decided to postpone the release of two films to 2014. EBITDA and the bottom line accordingly followed the same trend.

Looking at the balance sheet, we notice that working capital increased due to a remarkable increase in current assets and a drop in financial assets and receivables. Equity remained quite stable, while net debt decreased thanks to the cash generated.

In 2006, LMG received a Eu40mn credit line from a pool of banks (Mediocredito Italiano, Unicredit and Intesa Sanpaolo). Eu25mn of this financing may be used for film rights acquisitions and film production, while the remaining Eu15mn will be used for invoice discounting. Both amounts can be drawn until October 2016 and must be reimbursed by October 2019, at an interest rate equal to the Euribor plus 3.75%. The credit line was re-negotiated in 2013 and its expiration was postponed, similar operations would be possible in the future.

1H14 results**LMG - 1H14 results**

	1H13	2H13	FY2013	1H14
Total revenues	14.3	21.0	35.2	15.7
<i>YoY Growth</i>				10.2%
EBITDA	5.2	9.4	14.6	6.8
<i>Margin</i>	36.6%	44.9%	41.6%	43.2%
<i>YoY Growth</i>				29.7%
EBIT	1.4	0.2	1.6	2.4
<i>Margin</i>	9.5%	1.2%	4.5%	15.2%
<i>YoY Growth</i>				77.0%
Pre-tax Profit	0.6	-0.2	0.4	1.7
Taxes	0.1	0.0	0.1	-0.3
<i>Tax rate</i>	12.3%	nm		-19.1%
Net Income	0.7	-0.3	0.3	1.3
<i>Margin</i>	4.8%	-1.7%	4.8%	8.5%
<i>YoY Growth</i>				95%

Source: Company Data

The company closed the first half of the year with total revenues at Eu15.7mn (+10.2% YoY), thanks to both an increase in revenues and in subsidies. The EBITDA came in at Eu6.8mn (+29.7% YoY) thanks to a decrease in the incidence of operative costs on revenues.

Net income increased by 95% YoY at Eu1.3mn, with the net margin that increased from the 4.8% registered in the first half of last year, to the 8.5% registered in the first six months of 2014.

The net financial position decreased from Eu39.7mn at the end of 2013 to Eu37.5mn, despite total investments for almost Eu8.3mn.

2014-2016 Estimates

Income statement

Lucisano Media Group - Income statement					
(Eu mn)	2012A	2013A	2014E	2015E	2016E
Total Revenues	39.9	35.2	48	53.4	59.6
YoY growth		-11.8%	36.2%	11.3%	11.6%
Operating costs	22.4	20.6	25.9	27.6	28.8
on revenues	-56.2%	-58.4%	-54.0%	-51.7%	-48.3%
YoY growth		-8%	26%	7%	4%
EBITDA	17.5	14.6	22.1	25.8	30.8
on revenues	43.8%	41.6%	46.0%	48.3%	51.7%
YoY growth		-16.3%	50.9%	16.7%	19.4%
D&A	-14.7	-13.1	-14.8	-14.8	-15
on revenues	-37%	-37%	-30.8%	-27.7%	-25.2%
YoY growth		-11.2%	13.4%	0.0%	1.4%
EBIT	2.8	1.6	7.3	11.0	15.8
on revenues	7.0%	4.5%	15.2%	20.6%	26.5%
YoY growth		-43.1%	358.1%	50.7%	43.6%
Net financial expenses	-1.6	-1.2	-1.28	-1.1	-0.8
Extraordinaries	0	0	0	0	0
Pretax Profit	1.2	0.4	6.0	9.9	15.0
Taxes	-0.2	0.1	-1.2	-2.7	-4
tax rate	-18.1%	26.3%	-19.4%	-27.3%	-26.7%
Net profit	1.0	0.5	4.9	7.2	11.0
on revenues	2.4%	1.4%	10%	13%	18%
YoY growth		-47.2%	866%	48%	53%
Minorities	-0.2	-0.2	0	0	0
Group net profit	0.8	0.3	4.9	7.2	11.0
Net margin	1.9%	1.0%	10.1%	13.5%	18.5%

Source: Company data (A) and Intermonte SIM estimates (E)

We assume a 19% CAGR in revenues from 2013 to 2016, driven by both strong growth in the production business (27% CAGR) as the average number of films produced in the next few years is expected to increase to 5 or 6 per year (compared to 3-4 currently) and rapid growth in the distribution business (44% CAGR). On the other hand, the multiplex cinema business trend is expected to remain flatish over the next few years.

Lucisano Media Group - Revenues breakdown

(Eu mn)	2012A	2013A	2014E	2015E	2016E
Film distribution	1.5	2.4	2.6	4.8	7.2
on total revenues	3.8%	6.9%	5.4%	9.0%	12.1%
YoY		58.0%	7.4%	84.6%	50.0%
Productions	25.6	18.9	32.0	35.0	38.5
on total revenues	64.1%	53.6%	66.7%	65.5%	64.6%
YoY		-26.2%	69.4%	9.4%	10.0%
Multiplex (Stella Film)	12.8	13.9	13.4	13.6	13.9
on total revenues	32.0%	39.5%	27.9%	25.5%	23.3%
YoY		8.8%	-3.7%	1.5%	2.2%
Total Revenues	39.9	35.2	48.0	53.4	59.6

Source: Company data and Intermonte estimates

Distribution		1,9	2,1	3,9	5,9	
	on revenues	78,5%	80,8%	81,3%	81,3%	
	yoy		10,5%	85,7%	50,0%	21
Multiplex		2,9	2,8	2,8	2,8	
	on revenues	20,8%	20,5%	20,6%	20,1%	
	yoy		-5,2%	1,8%	0,0%	
Unallocated costs		-2,8	-4,4	-4,6	-4,4	
	on revenues	-7,9%	-9,1%	-8,6%	-7,3%	with thanks to a
	yoy		55,4%	5,7%	-5,4%	o some labour
						EBITDA margin is
Total		14,7	22,1	25,8	30,8	

Source: Intermonte SIM estimates and company data

Lucisano Media Group - EBITDA breakdown

(Eu mn)		2013A	2014E	2015E	2016E
Production		12,7	21,6	23,7	26,5
	on revenues	67,2%	67,5%	67,7%	68,8%
	yoy		70,1%	9,7%	11,8%
Distribution		1,9	2,1	3,9	5,9
	on revenues	78,5%	80,8%	81,3%	81,3%
	yoy		10,5%	85,7%	50,0%
Multiplex		2,9	2,8	2,8	2,8
	on revenues	20,8%	20,5%	20,6%	20,1%
	yoy		-5,2%	1,8%	0,0%
Unallocated costs		-2,8	-4,4	-4,6	-4,4
	on revenues	-7,9%	-9,1%	-8,6%	-7,3%
	yoy		55,4%	5,7%	-5,4%
Total		14,7	22,1	25,8	30,8

Source: Intermonte SIM estimates and company data

Pre-tax profit is expected to register massive growth thanks to a decrease in the incidence of depreciations and amortizations, since both the library and film productions have in large measure already been amortized in the past years. At the same time, financial charges will decrease slightly as existing debts are repaid.

The tax rate is expected to reach a "normal" 27% from 2015, when the deductibility of D&A and previous years' losses will disappear.

On the bottom line, the group's net profit is expected to reach Eu11.0mn in 2016, up from Eu0.3mn last year.

Balance Sheet

Lucisano Media Group - Balance Sheet

(Eu mn)	2012A	2013A	2014E	2015E	2016E
Intangible assets	23.1	20.1	20.8	21.8	26.4
Tangible Assets	32.5	30.8	26.6	21.8	16.2
Financial assets	2.6	0.5	0.5	0.5	0.5
Others	8.9	0.6	-2.5	-3.5	-4.5
Fixed Assets	67.0	52.0	45.4	40.6	38.6
Inventories	0.1	0.1	0.1	0.1	0.1
Receivables	19.8	11.7	15.6	17.1	18.7
Payables	-15.7	-12.4	-14.3	-13.9	-12.4
Net deferred revenues	0.0	0.0	2.0	4.0	5.0
Operating Working Capital	4.2	-0.6	3.4	7.2	11.4
<i>on sales</i>	10.5%	-1.8%	7.1%	13.6%	19.2%
Tax Payables	-3.8	-3.0	-3.0	-3.0	-3.0
Other current assets	5.5	15.6	13.6	11.6	7.4
Other current liabilities	-5.3	-6.7	-7.5	-6.0	-3.0
Net Working Capital	0.7	5.3	6.5	9.9	12.8
Provisions for risks and charges	-0.1	0.0	0.0	0.0	0.0
Other long-term liabilities	-8.1	-2.9	-2.7	-2.6	-2.6
Employees' leaving indemnity	-0.9	-1.0	-1.0	-1.0	-1.0
Total Capital Employed	58.6	53.4	48.3	46.8	47.8
Shareholders equity	12.2	12.6	21.0	20.9	28.7
Minorities	1.0	1.1	1.1	1.1	1.1
Total equity	13.2	13.6	22.1	22.0	29.8
Net Financial Position	-45.5	-39.7	-26.1	-24.8	-18.0
Gearing %	nm	nm	118.0%	112.8%	60.4%

Source: Intermonte SIM estimates

Cash Flow

We expect the company to generate Eu8.5mn of free cash flow before dividends for the years 2014-2016 (average). Free cash flow would be on average the 32% of EBITDA in the period 2014-2016.

Capex for the same timeframe period (2014-2016) is expected to be on average of Eu12.1mn and its weight on sales will be of around 23%.

Despite the company has not yet communicated a dividend policy, we assume a 30% dividend payout ratio.

Lucisano Media Group - Cash flow statement

(Eu mn)	2012A	2013A	2014E	2015E	2016E
Net Profit	1.0	0.5	4.9	7.2	11.0
D&A	14.7	13.1	14.8	14.8	15.0
Change in Working Capital	-5.3	1.5	-1.2	-3.3	-3.0
Change in funds	0.1	-0.1	0.0	0.0	0.0
Others	0.1	-1.1	0.2	0.1	0.0
Operating Cash Flow	10.6	13.9	18.7	18.7	23.0
Capex	-8.3	-8.2	-11.3	-11.0	-14.0
Disposals	0	0	0	0	0
Acquisition	0	0	0	-5	0
Dividends	-0.1	-0.1	-0.1	-1.5	-2.2
Capital Increase	0.0	0.0	6.4	0.0	0.0
Change in financial credits	0.0	0.1	0	0	0
Cash Flow	2.2	5.7	13.7	1.3	6.8
NFP at the beg. of the year: Cash/(Debt)	(47.7)	(45.5)	(39.8)	(26.1)	(24.8)
Cash Flow: Cash/(Debt)	2.2	5.7	13.7	1.3	6.8
NFP at year end: Cash/(Debt)	(45.5)	(39.8)	(26)	(25)	(18)

Source: Company data (A) and Intermonete SIM estimates (E)

2H14 Estimates**LMG - 1H14 results**

	1H13A	2H13A	FY2013A	1H14E	2H14E	FY14E
Total revenues	14,3	21,0	35,2	15,7	32,3	48
YoY Growth				10,2%	54,0%	36,2%
EBITDA	5,2	9,4	14,6	6,8	15,3	22,1
Margin	36,6%	44,9%	41,6%	43,2%	47,5%	46,0%
YoY Growth				29,7%	62,6%	50,9%
EBIT	1,4	0,2	1,6	2,4	4,9	7,3
Margin	9,5%	1,2%	4,5%	15,2%	15,2%	15,2%
YoY Growth				77,0%	1915,7%	358,1%
Pre-tax Profit	0,6	-0,2	0,4	1,7	4,4	6,0
Taxes	0,1	0,0	0,1	-0,3	-0,9	-1,2
Tax rate	12,3%	nm		-19,1%	-19,5%	-19,4%
Net Income	0,7	-0,3	0,3	1,3	3,5	4,9
Margin	4,8%	-1,7%	4,8%	8,5%	10,9%	10,1%
YoY Growth				95%	nm	1342%

Source: Company Data (A) and Intermonete SIM estimates (E)

We estimate that the second half of the year will be much better than last years' one, because the second semester of 2013 was impacted by the rescheduling in the first months of 2014 of two movies which were supposed to be released in late 2013. This decision it is translated in a 54% increase YoY of the total revenues, a +62.6% YoY in EBITDA and in the return of a positive income at the bottom line level.

Valuation

Our valuation combines several analysis methodologies.
In more detail:

- 1) Fair value calculation based on DCF, EV/ROACE and peer multiples:
 - Our DCF model on the company's overall business yields a fair equity value of Eu5.6 per share (assuming 7.9% WACC and terminal growth of 1.5%).

Lucisano Media Group - DCF model

(Eu mn)	2013A	2014E	2015E	2016E	2017E	2018E	2019E	TV
Revenues	35,2	48,0	53,4	59,6	60,2	60,8	61,4	62,0
		1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%
EBITDA	14,6	22,1	25,8	30,8	30,1	30,4	30,7	31,0
Margin	42%	46,0%	48,3%	51,7%	50,0%	50,0%	50,0%	50,0%
DA	(13,1)	(14,8)	(14,8)	(15,0)	(15,0)	(15,0)	(15,0)	(15,0)
EBIT	1,6	7,3	11,0	15,8	15,1	15,4	15,7	16,0
Taxes	(0,4)	(2,0)	(3,0)	(4,3)	(4,2)	(4,2)	(4,3)	(4,4)
tax rate	-27,5%	-27,5%	-27,5%	-27,5%	-27,5%	-27,5%	-27,5%	-27,5%
NOPAT	1,2	5,3	8,0	11,5	10,9	11,2	11,4	11,6
Change in WC	1,5	(1,2)	(3,3)	(3,0)	(3,0)	(3,0)	(3,0)	(3,0)
Capex	(8,2)	(11,3)	(11,0)	(14,0)	(14,1)	(14,3)	(14,4)	(14,6)
Capex/Sales	-23,4%	-23,5%	-20,6%	-23,5%	-23,5%	-23,5%	-23,5%	-23,5%
FCF	7,5	7,6	8,5	9,5	8,8	8,9	9,0	9,0
YoY growth								
TV								140,45
year	0	1	2	3	4	5	6	7
Discounted WACC	-	0,94	0,88	0,80	0,74	0,68	0,63	0,59
Discounted Free cash flow	0,0	7,1	7,4	7,6	6,5	6,1	5,7	82,3

Discounted Free cash flows	40,4
Terminal value	82,3
Total EV (with DCF)	122,7
Net financial position 2013	-39,7
Total Equity Value	83,0
Per share	5,6

TV / Total EV	67,1%
---------------	-------

WACC	7,9%
Terminal growth	1,5%

Source: Intermonte SIM

- The EV/ROACE analysis is based on a 2-year period (2014-2015). The fair equity value emerging from this analysis is Eu5.4 per share .

Lucisano Media Group- EV / ROACE model

	2014 E	2015 E
EV / CE	1,5	1,6
Roceat/Waccadj.	2,0	2,8
Ratio	0,78	0,57
<hr/>		
Average Price or Spot Price (€)	3,50	3,50
<hr/>		
N. of shares	14,8	14,8
Market Cap	51,9	51,9
(+) net debt (cash)	26,1	24,8
(+) other	0,0	0,0
Enterprise Value	78,0	76,7
<hr/>		
Capital Employed - year average	50,8	47,5
<hr/>		
Ebit	7,3	11,0
<hr/>		
ROCE	14,4%	23,1%
tax load ratio	<u>-19,4%</u>	<u>-27,3%</u>
ROCEAT	11,6%	16,8%
ROCEAT ave 2Y	14,2%	20,7%
<hr/>		
free risk	4,0%	4,0%
risk premium	5,0%	5,0%
beta levered	1,4	1,4
<hr/>		
cost of debt after tax	2,9%	2,9%
d/(d+e)	33,5%	32,4%
WACC	8,3%	8,3%
terminal growth (g)	1,0%	1,0%
WACC adjusted	7,3%	7,3%
<hr/>		
Equity value p.s.	4,9	7,4
Discounted Equity value p.s.	4,6	6,3
2Y avg Equity value p.s.		5,4

Source: Intermonte SIM estimates

- The peer multiples comparison (based on analysis of the main comparable European companies) delivered an equity value of Eu3.9 per share.

Peers Multiple Comparison	Price	Ccy	Mkt cap	P/E 2014	P/E 2015	P/E 2016	EV/Ebitda 2014	EV/Ebitda 2015	EV/Ebitda 2016	EV/Ebit 2014	EV/Ebit 2015	EV/Ebit 2016
Highlight Communications AG	3,3	EUR	155	17,9	10,3	8,9	11,4	8,8	8,1	16,1	9,5	8,2
EuropaCorp SA	4,0	EUR	118	3,8	3,0	4,8	4,1	3,6	5,2	5,9	4,9	5,2
Constantin Medien AG	1,3	EUR	119	nm	38,6	10,7	2,8	2,3	3,1	nm	11,7	8,5
Splendid Medien AG	2,4	EUR	23	6,5	5,0	4,5	2,2	2,1	2,0	5,9	5,0	4,6
Mondo TV	1,8	EUR	53	57,7	15,7	9,6	6,1	4,2	2,8	0,0	9,6	6,0
Notorious	2,5	EUR	56	6,9	5,6	4,7	4,1	3,6	3,4	5,2	4,4	4,3
Median			87	6,9	8,0	6,8	4,1	3,6	3,2	5,9	7,3	5,6

Source: Intermonte SIM estimates and Factset

The average of these three valuation models yields a final equity value of Eu3.5 per share after application of a 30% liquidity discount.

LMG - Valuation summary

(Eu per share)	DCF	EV/ROACE	Multiples comparison
Equity Value	5,6	5,4	3,9
30% liquidity discount	1,7	1,6	1,2
Fair Equity Value	3,9	3,8	2,8
Avg. Equity value		3,5	
Current Price		2,9	
Potential Upside		0,2	

Source: Intermonte SIM

2) Asset-based valuation (SOP):

Our SOP analysis provided a value of Eu4.8 per share. We considered the Book Value 2013 of Eu13.6mn and added Goodwill negative for Eu1.1 to which we have added Value of Library for Eu33.6mn and Value of Multiplex of Eu25.3mn (both valued with DCF model) and we reached a Total value of Eu71.5mn that divided by the number of shares gave a value of Eu4.8

SOP valuation (Eu mn)

BV end 2013	13,6
Goodwill	-1,1
Value of library	33,6
Value of Multiplex	25,3
TOT	71,5
P.s.	4,8

Source: Intermonte SIM

Our overall valuation of the company is derived from a weighted average of the two approaches outlined above. We assign a 70% weighting to the first approach (which incorporates the DCF model, EV/ROACE analysis and peer comparison), as it provides a better reflection of the specific characteristics of the business, while the SOP analysis has been weighted at 30%. This process yielded a fair value of Eu3.8 per share, indicating 33.4% upside to the current stock price.

Fair Value Calculation

Valuation method	(Eu per share)	% weight
Fair value based on DCF/EV-Roace/Multiples	3,5	70%
SOP	4,8	30%
Weighted fair value	3,80	100%
Current price	2,9	
% upside	33%	

Source: Intermonte SIM

At our target price, LMG would implicitly be trading at 11.9x 2014 P/E, vs. a median of 6.9x for European peers, and at 8.0x 2015 P/E vs. a median of 8.0 for the peers median. Similarly, at target price the stock would be trading at 11.3x 2014 EV/EBIT compared to a median of 5.9x for peers, whereas LMG's multiple on 2015 would be of 7.4x vs. a median of 7.3x for peers.

LMG - Implicit multiples (at target price)

	2014	2015	2016
P/E	11,9x	8,0x	5,2x
EV/SALES	1,7x	1,5x	1,3x
EV/EBITDA	3,7x	3,2x	2,4x
EV/EBIT	11,3x	7,4x	4,7x
Div. yield	2,5%	3,7%	5,7%

Source: Intermonte SIM estimates

Appendix

SWOT Analysis

Strengths

- Industry not correlated to economic cycles
- Successful track record in Italian comedy films
- Very committed, young management team
- Cost-coverage business model
- Integrated along the value chain

Weaknesses:

- Local business, fully connected to the domestic market
- As a family-run business, it is a smaller company than its major competitors
- Only 2 main customers (Mediaset and RAI)

Opportunities:

- Exploit new platforms or potential ones such as iTunes, Netflix (once introduced in Italy), Cubovision, Amazon, etc., riding the digital revolution to increase revenue flows
- Turn multiplex cinemas into multi-functional areas, using the space for events, meetings, etc.
- Co-productions with international players
- Productions with local celebrities/talents and star actors
- Fully exploit governmental subsidies, credits and funds that are expected to support the industry (for both motion pictures and TV productions)

Threats:

- Unpredictability of box office success for each movie production
- Local competition
- Piracy
- Delays in film production and completion

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Stock NAME	LUCISANO MEDIA	
Current Recomm:	OUTPERFORM	Previous Recomm:
Current Target (Eu):	3.80	Previous Target (Eu):
Current Price (Eu):	2.85	Previous Price (Eu):
Date of report:	27/10/2014	Date of last report:

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