

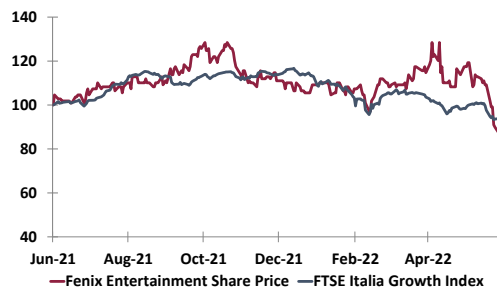
FENIX entertainment

OUTPERFORM

Current Share Price (€): 4.76

Target Price (€): 9.38

Fenix Entertainment - 1Y Performance



Source: S&P Capital IQ - Note: 24/06/2021=100

Company data

ISIN number	IT0005403495
Bloomberg code	FNX IM
Reuters code	FNX.IM
Industry	Media and entertainment
Stock market	Euronext Growth Milan
Share Price (€)	4.76
Date of Price	20/06/2022
Shares Outstanding (m)	3.8
Market Cap (€m)	18.0
Market Float (%)	36.9%
Daily Volume	2,500
Avg Daily Volume YTD	3,960
Target Price (€)	9.38
Upside (%)	97%
Recommendation	OUTPERFORM

Share price performance

	1M	3M	1Y
Fenix - Absolute (%)	-23%	-21%	-13%
FTSE Italia Growth (%)	-4%	-11%	-6%
1Y Range H/L (€)		7.00	4.76
YTD Change (€) / %		-1.24	-21%

Source: S&P Capital IQ

Analysts

Franco Gaudenti - Head of Research
fgaudenti@enventcapitalmarkets.co.uk

Luigi Tardella - Co-Head of Research
ltardella@enventcapitalmarkets.uk

EnVent Capital Markets Limited

42, Berkeley Square - London W1J 5AW (UK)
Phone +44 (0) 20 35198451

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Movie production up, further revenue mix diversification, rights issue

Stock performance: fairly similar to Italia Growth index

After June 2021 share price drop to €5.45, the share price mostly traded between €5.00-6.50, with a few peaks above €6.50, and under €5.00 in the last few days.

FY21 driven by increasing movie workflow and related financial commitment

Value of production was €43.8m in FY21, of which €22.6m production in progress (more than doubling FY20), compared to €16.2m in FY20. Intangibles - distribution rights, went up to €35.7m, from €14.6m, implying rise of amortization reflected into EBIT at €1.5m, vs €3.0m in FY20. Net income was €0.5m, vs €2.1m in FY20. Working capital, paid-in capital and bank financing sustained the investment in production and the acquisition of Laser Film. Net financial debt went up from €1.8m as of June 30th to €14.1m as of year-end 2021. FY21 P&L does not include Laser results.

Acquisition of Verve Media Company, adding TV content production to Fenix

Fenix announced the acquisition of 60% of Verve Media Company, Italian TV and multimedia content producer. FY21 financials of Verve are €2.1m VoP, €0.7m EBITDA, €1.7m net financial debt. The deal consideration is €1.2m.

Rights issue

Fenix announced a rights issue up to €4.2m at a price of €5.50 per share to finance current operations and growth strategy. The exercise period is June 20-July 7, 2022. The maximum dilution on TP would be approximately 7%.

Q1 2022 trading update

Q1 2022 consolidated key figures including Laser Film: Value of production €5m, including €0.5m work in progress; Net financial debt €16.1m, as of March 2022.

Our updated estimates

We have factored FY21 accounts within our estimates, acknowledging Laser consolidation B/S items. We maintain unchanged the main assumptions of our last estimates, with Laser inclusion and sustainable production financing, in continuity with the path traced of Fenix evolving towards an integrated media company, with additional services contributing to the revenue mix balance.

Target Price €9.38 per share (from €10.95), OUTPERFORM rating confirmed

From the analysis of FY21 accounts and recent Company facts, we confirm our view on Fenix with core business operations on track, evolving towards an integrated multimedia company model after the integration with Laser Film. We remain cautious about the balance between operations and cash uses. Our revised target price of €9.38 (from €10.95) reflects both operations growth and the related financing needs. Given the 97% upside potential on current price, we confirm the OUTPERFORM rating on Fenix stock.

KEY FINANCIALS AND ESTIMATES

€m	2018	2019	2020	2021	2022E	2023E
Sales and other income	1.0	3.9	6.6	21.2	33.2	38.4
Capitalization of production in progress	0.2	3.6	9.7	22.6	9.8	9.8
Value of Production	1.2	7.5	16.2	43.8	42.9	48.1
EBIT	0.2	1.7	3.0	1.5	4.9	3.7
Margin	18%	23%	19%	3%	11%	8%
Net (Debt) Cash	(0.4)	(0.9)	(3.0)	(14.1)	(18.6)	(16.1)
Equity	0.2	1.4	6.0	12.3	15.5	17.7

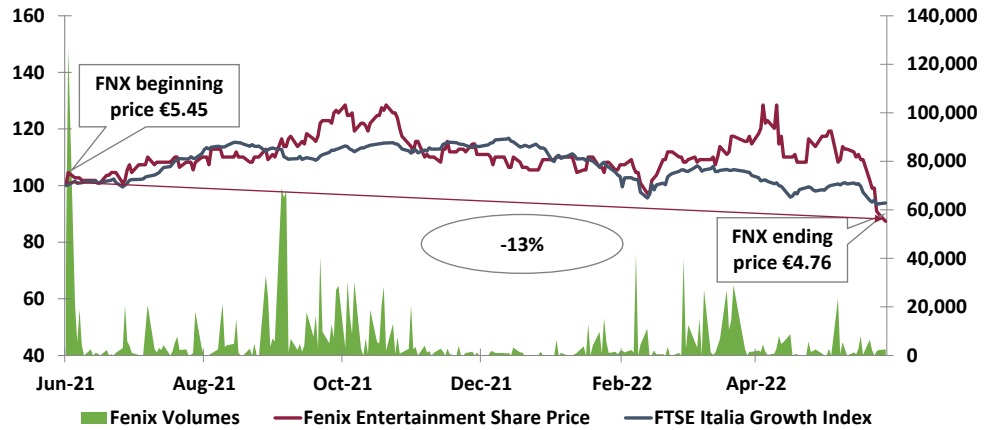
Source: Company data 2018-21, EnVent Research 2022-23E

Market update

Trading price range €4.76-7.00 per share

LTM performance -13%, vs -6% of Italia Growth index, excluding the June 2021 one off drop

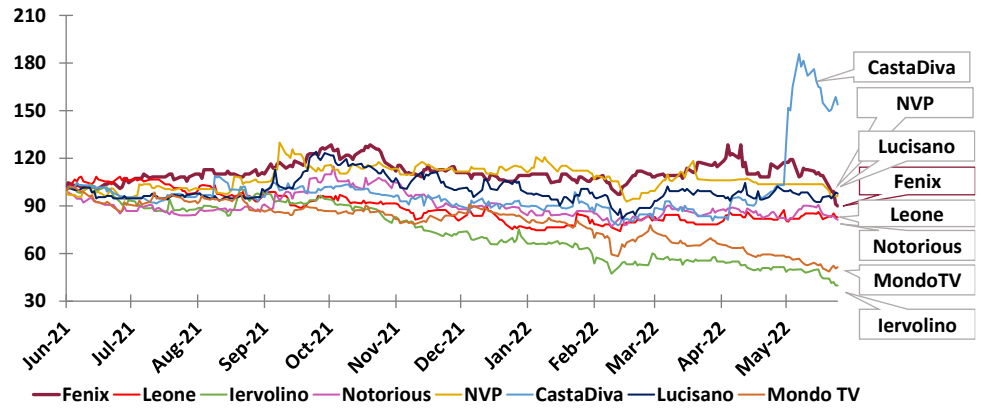
Fenix Entertainment - 1Y Share price performance and trading volumes



Source: EnVent Research on S&P Capital IQ - Note: 24/06/2021=100

Standstills and drops while waiting for the *new normal* of entertainment

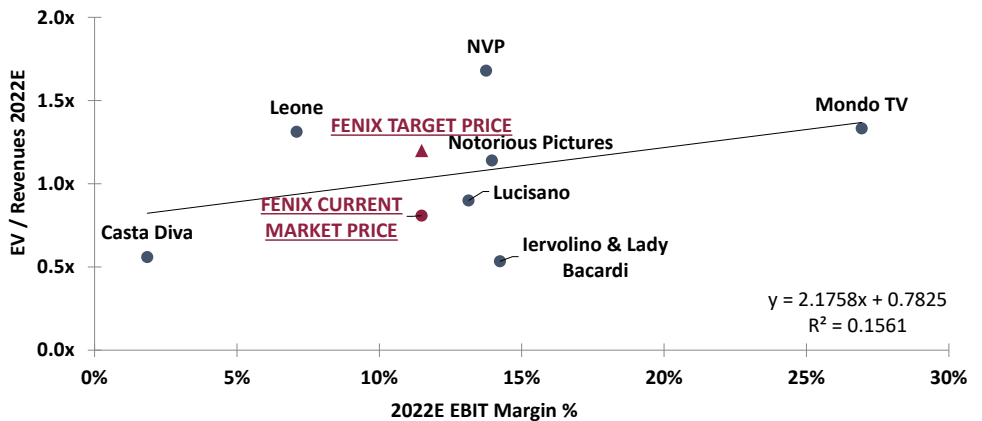
EGM Media stocks - 1Y Market performance



Source: EnVent Research on S&P Capital IQ - Note: 24/06/2021=100

Again no correlation, thus irrelevance of profits

EGM Media stocks - Regression analysis and Fenix target positioning



Source: EnVent Research on S&P Capital IQ, June 2022

Investment case

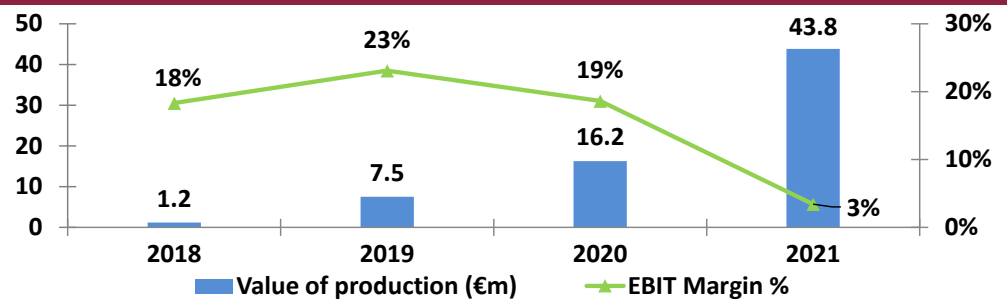
Fenix Entertainment is an Italian motion picture and musical content producer and distributor, listed on Euronext Growth Milan. Its productions range from movies, TV programs and series to music and soundtracks. Operations also include marketing services for the wider Entertainment & Media industry, such as advertising spaces and campaigns, digital PR and artist promotion, post-production (through Laser Film). Production is in the low-to-medium budget range and is focused on high quality Italian content. Fenix has direct management and control over the entire film and music industry value chain, from the choice of the movie characters to the exploitation of content Intellectual Property rights through distribution channels such as traditional theatrical, Pay-Per-View, Free TV and streaming on Video-On-Demand platforms.

Through the acquisition of Laser S Film and Laser Digital Film, Fenix has integrated into its business model inhouse management and control of quality and timing of last production phase.

Leveraging on Italian creativity and culture, to produce quality content

M&A for service offering expansion

Historical value of production and EBIT



Source: Company data

Industry and Company drivers

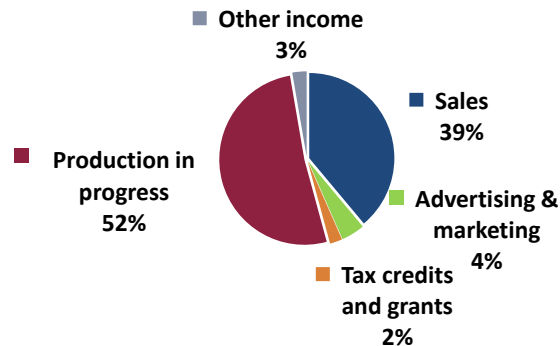
- Disrupting technologies and new media open doors to independent producers
- Millennials driving the move to OTT and SVODs
- SVODs need local production
- Virtual Reality, the next disruptive experience
- Tax incentives and subsidies make the film industry appealing
- Italian characters for an Italian audience
- Team of industry experts and talents
- Cost-coverage business model
- Marketing and artist promotion, and established post-production BU as additional revenue stream

Challenges

- Which future for box offices?
- Keeping up with the industry frenetic pace
- Revision of public incentives to movie productions
- Revenues depend on a limited number of projects

- High variability of size and timing of cash income
- Sensitivity of finance management and balance between cash discipline and new production financing

Value of production breakdown, 2021



Source: Company data

Business update: increasing workflow in 2021, after delays in production and distribution during 2020 due to pandemic

FY21 Value of production and revenue dynamics

FY21 €43.8m value of production build up:

- €17.1m for revenues from production, distribution or sales of rights, from €2.0m in FY20
- €2.0m for advertising and marketing campaigns, vs €3.0m in FY20
- €22.6m movies production in progress, from €9.7m in FY20, representing the increase in library rights for productions ongoing at the end of 2021
- €1.0m tax credits and grants
- €1.2m other income

Library and production pipeline

- 2021 pipeline has been substantial and diversified. Sales of movie productions were sustained by the release of *Dietro la Notte*, *Ostaggi*, *DNA - Le radici dell'amore*, *I Nostri Fantasmi*, *One Second*, *Ladri di Natale*
- Productions started in H2 2021 are in the delivery phase

Other 2021 facts

- Controlling stake in Lovit, a multimedia content and brand influencer factory
- Addition to the management team of film-TV industry experts Filippo Cipriani and Fausto Brizzi

Rights and warrants issues

- In June 2022 Fenix announced a rights issue up to €4.2m at a price of €5.50 per share to finance current operations and growth strategy. One new share will be offered to existing shareholders each 5 shares held. The exercise period is June 20-July 7, 2022.
- A free warrants assignment (1 warrant per share) will be proposed to the shareholders' meeting
- In May 2022 capital increase of €1.3m reserved to Andrea Di Nardo (Laser Film

seller) as provided by the Laser transaction terms

Verve Media Company transaction details

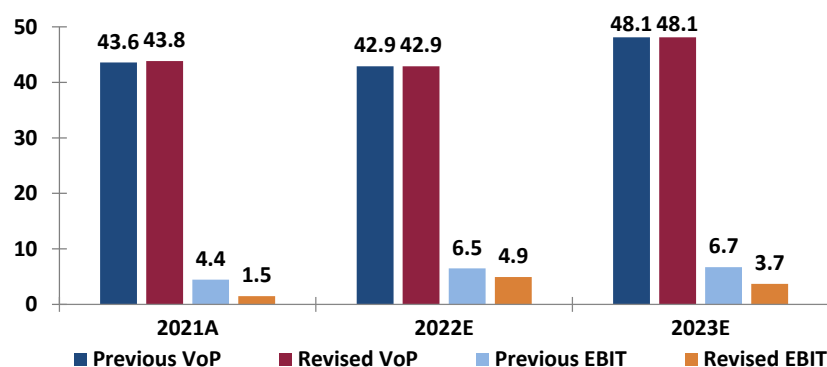
The consideration for the acquisition of 60% of Verve Media Company is €1.2m, of which €0.365m cash, €0.835m by Fenix shares to be assigned to sellers (subject to 36 months lock-up). Call and put options for the remaining 40% of the target company will be exercisable within 2025, with consideration depending on Verve FY24 performance (with a cap of €1.2m). The deal closing is subject to Verve FY21 financial statements approval and due diligence.

Estimates revision

We maintain unchanged the main assumptions of our last revenue estimates, including since 2022E Laser services contribution to Fenix revenue mix. We have factored FY21 accounts within our estimates and fine-tuned intangibles amortization, with effect on EBIT as shown below, and interest on financial debt.

Change in estimates

Previous vs Revised Value of production and EBIT estimates (€m)



Source: EnVent Research

€m	Revised			Previous			Change %		
	2021A	2022E	2023E	2021E	2022E	2023E	2021A	2022E	2023E
Value of production	43.8	42.9	48.1	43.6	42.9	48.1	1%	0%	0%
EBITDA	7.0	15.9	18.5	9.4	14.8	17.2	-25%	8%	8%
<i>Margin</i>	16%	37%	38%	22%	34%	36%			
EBIT	1.5	4.9	3.7	4.4	6.5	6.7	-66%	-24%	-45%
<i>Margin</i>	3%	11%	8%	10%	15%	14%			
Net Income (Loss)	0.5	3.1	2.3	3.1	4.6	4.7	-83%	-31%	-51%
Net (Debt) Cash	(14.1)	(18.6)	(16.1)	(11.4)	(12.6)	(12.1)			
<i>Net Debt / EBITDA</i>	2.0x	1.2x	0.9x	1.2x	0.8x	0.7x			

Source: EnVent Research

Financial projections

Consolidated Profit and Loss

€m	2018	2019	2020	2021	2022E	2023E
Sales and other income	1.0	3.9	6.6	21.2	33.2	38.4
Capitalization of production in progress	0.2	3.6	9.7	22.6	9.8	9.8
Value of production	1.2	7.5	16.2	43.8	42.9	48.1
YoY %	55.4%	535.8%	116.5%	169.7%	-2.1%	12.1%
Operating charges	(0.9)	(5.6)	(12.9)	(36.8)	(27.0)	(29.6)
EBITDA	0.3	1.9	3.4	7.0	15.9	18.5
Margin	24.5%	25.4%	20.9%	16.0%	37.2%	38.4%
D&A	(0.1)	(0.2)	(0.4)	(5.5)	(11.0)	(14.8)
EBIT	0.2	1.7	3.0	1.5	4.9	3.7
Margin	18.3%	23.1%	18.6%	3.4%	11.5%	7.7%
Interest	(0.0)	(0.0)	(0.1)	(0.3)	(0.5)	(0.5)
EBT	0.2	1.7	2.9	1.2	4.4	3.2
Margin	16.7%	22.4%	18.1%	2.7%	10.2%	6.6%
Income taxes	(0.1)	(0.6)	(0.8)	(0.6)	(1.2)	(0.9)
Net Income (Loss)	0.1	1.1	2.1	0.5	3.1	2.3
Margin	10.9%	14.7%	13.1%	1.2%	7.3%	4.7%

Source: Company data 2018-21A, EnVent Research 2022-23E - Note: consolidated P&L since 2022E

Consolidated Balance Sheet

€m	2018	2019	2020	2021	2022E	2023E
Inventory	0.0	0.0	0.0	0.2	0.0	0.0
Accounts receivable	0.9	2.2	2.8	31.1	12.2	14.1
Accounts payable	(0.4)	(1.8)	(5.2)	(30.2)	(9.0)	(10.1)
Working Capital	0.5	0.4	(2.3)	1.0	3.1	3.9
Grants receivable and other credits	1.4	2.1	2.6	5.8	4.1	4.2
Deferred income	(1.4)	(1.6)	(6.6)	(18.3)	(12.0)	(12.0)
Loans from co-producers and investors	0.0	(2.0)	(0.2)	(2.1)	(4.0)	(4.3)
Other assets (liabilities)	(0.5)	(1.1)	0.8	(1.5)	(2.1)	(2.4)
Net Working Capital	0.1	(2.2)	(5.7)	(15.1)	(10.8)	(10.6)
Intangible assets	0.4	4.3	14.6	35.7	39.7	40.0
Goodwill	0.0	0.0	0.0	4.4	3.5	2.6
Property and equipment	0.0	0.1	0.1	2.1	2.3	2.5
Equity investments and financial assets	0.1	0.0	0.1	0.1	0.1	0.1
Non-current assets	0.5	4.4	14.7	42.2	45.6	45.3
Provisions	(0.0)	(0.0)	(0.0)	(0.7)	(0.8)	(0.8)
Net Invested Capital	0.6	2.2	8.9	26.4	34.0	33.9
Net Debt (Cash)	0.4	0.9	3.0	14.1	18.6	16.1
Equity	0.2	1.4	6.0	12.3	15.5	17.7
Sources	0.6	2.2	8.9	26.4	34.0	33.9

Source: Company data 2018-21A, EnVent Research 2022-23E - Note: consolidated B/S since 2021A

Consolidated Cash Flow

€m	2018	2019	2020	2021	2022E	2023E
EBIT	0.2	1.7	3.0	1.5	4.9	3.7
Current taxes	(0.1)	(0.6)	(0.8)	(0.6)	(1.2)	(0.9)
D&A	0.1	0.2	0.4	5.5	11.0	14.8
Provisions	0.0	0.0	0.0	0.7	0.0	0.0
Cash flow from P&L operations	0.2	1.3	2.6	7.1	14.7	17.6
Accounts receivable and payable	(0.5)	0.1	2.7	(3.3)	(2.1)	(0.8)
Grants and tax credits	(1.2)	(0.7)	(0.5)	(3.2)	1.6	(0.0)
Change in deferred income	1.4	0.2	5.0	11.7	(6.3)	0.0
Loans from co-producers and investors	0.0	2.0	(1.8)	1.8	1.9	0.3
Other assets and liabilities	0.5	0.6	(2.0)	2.3	0.7	0.3
Capex	(0.4)	(4.1)	(9.8)	(27.7)	(14.4)	(14.4)
Acquisition investment	0.0	0.0	0.0	(5.2)	0.0	0.0
Operating cash flow after WC and capex	(0.1)	(0.5)	(3.6)	(16.5)	(4.0)	3.0
Interest	(0.0)	(0.0)	(0.1)	(0.3)	(0.5)	(0.5)
Equity investments and financial assets	(0.0)	0.0	(0.0)	(0.1)	0.0	0.0
IPO & warrants proceeds (2020) - Paid-in capital (2021)	0.0	0.0	2.5	5.0	0.0	0.0
Capex - IPO cost	0.0	0.0	(0.9)	0.0	0.0	0.0
Equity adjustments	(0.0)	0.0	0.0	0.8	0.0	0.0
Net cash flow	(0.1)	(0.5)	(2.1)	(11.1)	(4.5)	2.4
Net Debt (Beginning)	(0.3)	(0.4)	(0.9)	(3.0)	(14.1)	(18.6)
Net Debt (End)	(0.4)	(0.9)	(3.0)	(14.1)	(18.6)	(16.1)
Change in Net Debt	(0.1)	(0.5)	(2.1)	(11.1)	(4.5)	2.4

Source: Company data 2018-21A, EnVent Research 2022-23E

Ratio analysis

KPIs	2018	2019	2020	2021	2022E	2023E
ROE	54%	81%	36%	4%	20%	13%
EBIT/Revenues	18%	23%	19%	3%	11%	25%
ROIC (NOPAT/Invested Capital)	25%	56%	24%	4%	10%	8%
Net Debt / Equity	1.6x	0.6x	0.5x	1.1x	1.2x	0.9x
Net Debt / (Net Debt+Equity)	0.6x	0.4x	0.3x	0.5x	0.5x	0.5x
Basic Earnings per Share (€)	na	na	0.82	0.15	0.83	0.60

Source: Company data 2018-21A, EnVent Research 2022-23E

Recalling accounting issues: limited matching of revenues and costs

The accounting of the entertainment production industry is conditioned by a concurring mix of circumstances that cause inconsistencies and timing misalignments between economic records and financial flows, due to the hybrid nature of revenues and costs. Each accounting period records revenues whose costs come from the same period production activity mixed with costs of several previous accounting periods through amortization. This leads to an accumulation effect for D&A since the increase of the proprietary library will produce a consequent stratification of the amortization of productions completed in previous years. For these reasons, operating profit measured by EBITDA misses a key portion of cost, losing most of its meaning as sustainable margin measure. EBIT is a better measure, at least as a period operating cost indicator.

Valuation

We have run our valuation of Fenix through the DCF methodology.

We have also updated the market multiples, which we do not deem suitable as

valuation methodology for the following reasons: i) revenue recognition includes production in progress, representing the corresponding increase in library rights for productions ongoing, accounted within value of production; ii) impracticability of EBITDA, missing a key portion of cost; iii) EBIT can not be normalized during an expansion of production cycle; iv) library is mainly composed of recent productions carrying high amortization; v) net income is not significant at this stage.

Discounted Cash Flows

Updated assumptions:

- Risk free rate: 1.0% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, June 2022)
- Market return: 12.6% (3Y average. Source: Bloomberg, June 2022)
- Market risk premium: 11.5%
- Beta: 1.0 (EnVent analysis)
- Cost of equity: 12.6%
- Cost of debt: 3% (Implicit L/T bank debt rate, assumed stable)
- Tax rate: 24% (IRES)
- 50% debt/(debt + equity)
- WACC 7.4%
- Perpetual growth rate after explicit projections 2.0%
- Terminal Value assumes an EBIT margin of 10%

DCF Valuation

€m	2018	2019	2020	2021	2022E	2023E	Perpetuity	
Value of production	1.2	7.5	16.2	43.8	42.9	48.1	49.1	
EBIT	0.2	1.7	3.0	1.5	4.9	3.7	4.9	
<i>Margin</i>	<i>18.3%</i>	<i>23.1%</i>	<i>18.6%</i>	<i>3.4%</i>	<i>11.5%</i>	<i>7.7%</i>	<i>10.0%</i>	
Taxes	(0.1)	(0.5)	(0.8)	(0.4)	(1.4)	(1.0)	(1.4)	
NOPAT	0.2	1.2	2.2	1.1	3.6	2.7	3.5	
D&A	0.1	0.2	0.4	5.5	11.0	14.8	10.0	
Provisions	0.0	0.0	0.0	0.7	0.0	0.0	0.0	
Cash flow from operations	0.2	1.4	2.6	7.3	14.6	17.5	13.6	
Accounts receivable and payable	(0.5)	0.1	2.7	(3.3)	(2.1)	(0.8)	(0.1)	
Grants and tax credits receivable	(1.2)	(0.7)	(0.5)	(3.2)	1.6	(0.0)	0.0	
Change in deferred income	1.4	0.2	5.0	11.7	(6.3)	0.0	0.0	
Other assets and liabilities	0.5	0.6	(2.0)	2.3	0.7	0.3	0.0	
Capex	(0.4)	(4.1)	(9.8)	(27.7)	(14.4)	(14.4)	(10.0)	
Yearly unlevered free cash flow	(0.0)	(2.4)	(1.9)	(13.0)	(6.0)	2.5	3.5	
Free cash Flow to be discounted					(6.0)	2.5	3.5	
WACC	7.4%							
Long-term growth (G)	2.0%							
Discounted Cash Flows							(5.6)	2.2
Sum of Discounted Cash Flows	(3.4)							
Terminal Value								64.1
Discounted TV	55.6							
Enterprise Value	52.1							
Net Debt as of 31/12/21	(14.1)							
Loans from co-producers and investors 2021A	(2.1)							
Minorities	(0.6)							
Equity Value	35.4							

Source: EnVent Research

DCF - Implied multiples	2020	2021	2022E	2023E
EV/Revenues	3.2x	1.2x	1.2x	1.1x
EV/EBIT	17.2x	34.8x	10.6x	14.1x
P/E	16.6x	67.1x	11.3x	15.5x
Discount of current valuation vs DCF	-33%			
Current market price - Implied multiples	2020	2021	2022E	2023E
EV/Revenues	2.1x	0.8x	0.8x	0.7x
EV/EBIT	11.5x	23.2x	7.0x	9.4x
P/E	8.4x	34.1x	5.7x	7.9x

Source: EnVent Research

Market multiples

Company	EV/REVENUES			EV/EBIT			P/E		
	2021	2022E	2023E	2021	2022E	2022E	2021	2022E	2022E
Comparability: High-medium									
Lucisano Media Group	1.2x	0.9x	0.7x	12.8x	6.8x	5.1x	7.7x	3.5x	2.5x
Leone Film Group	1.2x	1.3x	1.0x	11.5x	18.5x	14.1x	6.7x	10.5x	7.5x
Iervolino & Lady Bacardi Entertainment	0.8x	0.5x	0.6x	5.2x	3.8x	4.1x	4.9x	2.7x	3.1x
Notorious Pictures	2.6x	1.1x	0.8x	16.7x	8.2x	6.1x	10.0x	6.5x	5.4x
Comparability: Low-medium									
Mondo TV	2.0x	1.3x	1.3x	10.5x	4.9x	3.4x	11.0x	5.3x	3.6x
NVP	2.7x	1.7x	1.5x	926.4x	12.2x	7.3x	80.8x	17.1x	9.6x
Casta Diva Group	0.3x	na	na	17.2x	na	na	16.1x	na	na
International									
Lions Gate Entertainment	2.1x	1.7x	1.5x	31.8x	112.3x	72.9x	neg	21.1x	14.0x
Mean	1.6x	1.2x	1.1x	129.0x	23.8x	16.2x	19.6x	9.5x	6.5x
Median	1.6x	1.3x	1.0x	14.7x	8.2x	6.1x	10.0x	6.5x	5.4x
Fenix Entertainment	0.8x	0.8x	0.7x	24.1x	7.0x	9.4x	40.5x	5.7x	7.9x

Source: EnVent Research on S&P Capital IQ, June 2022

Target Price

Our revised target price of €9.38 (from €10.95) reflects both operations growth and the related financing needs. Given the 97% upside potential on current price, we confirm the OUTPERFORM rating on Fenix stock.

Fenix Entertainment Price per Share	€
Target Price	9.38
Current Share Price (20/06/2022)	4.76
Premium (Discount)	97%

Source: EnVent Research

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OUTPERFORM: stocks are expected to have a total return above 10%;

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The stock price indicated in the report is the last closing price on the day of Production.

Date and time of Production: 20/06/2022 h. 7.05pm

Date and time of Distribution: 20/06/2022 h. 7.30pm

DETAILS ON STOCK RECOMMENDATION AND TARGET PRICE

Date	Recommendation	Target Price (€)	Share Price (€)
16/12/2020	OUTPERFORM	7.53	5.80
27/04/2021	OUTPERFORM	11.36	8.20
04/08/2021	OUTPERFORM	11.36	5.90
07/10/2021	OUTPERFORM	11.38	6.25
09/11/2021	OUTPERFORM	11.38	6.80
05/04/2022	OUTPERFORM	10.95	5.95
20/06/2022	OUTPERFORM	9.38	4.76

ENVENTCM RECOMMENDATION DISTRIBUTION (June 20th, 2022)

Number of companies covered:	19	OUTPERFORM	NEUTRAL	UNDERPERFORM	SUSPENDED	UNDER REVIEW	NOT RATED
Total Equity Research Coverage %		95%	0%	0%	5%	0%	0%
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