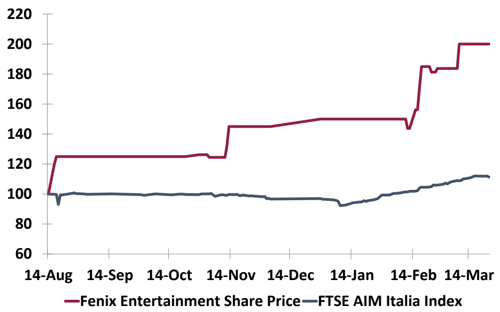
FENIX entertainment

OUTPERFORM

Current Share Price (€): 8.20
Target Price (€): 11.36

Fenix Entertainment - Performance since IPO



Source: S&P Capital IQ - Note: 14/8/2020 Offer Price =100

Company data

ISIN number	IT0005403495
Bloomberg code	FNX IM
Reuters code	FNX.IM
Industry	Movies and entertainment
Stock market	AIM PRO Italia
Share Price (€)	8.20
Date of Price	27/04/2021
Shares Outstanding (m)	2.6
Market Cap (€m)	21.4
Market Float (%)	23.2%
Daily Volume	0
Avg Daily Volume YTD	n.a.
Target Price (€)	11.36
Upside (%)	39%
Recommendation	OUTPERFORM

Share price performance

	1M	3M	IPO
Fenix - Absolute (%)	2%	37%	105%
FTSE AIM Italia (%)	8%	21%	36%
1Y Range H/L (€)		8.20	4.00
YTD Change (€) / %		2.20	37%

Source: S&P Capital IQ

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2020 momentum: jump into stardom

FY20: quantum leap in production

Value of production €16.2m in 2020, of which €9.7m changes in work in progress, compared to €7.5m and €3.6m work in progress in 2019. EBIT was €3.0m vs. €1.7m in 2019 (18.6% margin vs. 23.1%). Intangibles, i.e. distribution rights, up to €14.6m from €4.3m, negative NWC €5.7m mainly due to €6.5m deferred revenue. Increase in net debt up to €3.0m (vs. €0.9 in 2019).

Production and distribution postponement due to Covid-19, no harm to revenues

The pandemic led to delays in production and distribution during 2020 resulting in a revenue delay which will be recovered by releases scheduled in 2021. Working capital, paid-in capital, co-producers and bank financing sustained the increased investment in productions. Advertising&Marketing full activity and increase in revenues contributed to the excellent 2020 performance despite market turmoil.

Increasing library and movie production pipeline

Sales reached €2.0m in 2020 (vs. €1.3m in 2019), sustained by the distribution of *Burraco Fatale*. Sales and distribution rights of the 2020 main production *Christmas Thieves* are shifted in 2021. Pipeline update: acquisition of *Spycam*, thriller script which will be produced in English targeting international audience; setup of 2 productions in March 2021 -*I Nostri Fantasmi* and *Toilet*-; agreement with Vanessa Incontrada for the realization of three productions: the first one, *La sposa in rosso,* will start in 2021; shooting of *C'è scappato il morto* starting in June 2021.

Outlook: back to normal outside driving change of pace

Movie production and distribution sooner or later will benefit from a post-Covid rebound, putting Fenix back on track to deliver its projects. 2020 constraints have forced deferral of major revenues to 2021 and pipeline is increasingly rich and diversified. Fenix lean and multidisciplinary business model has helped to deal with the industry disruptions without harm. Now Fenix has what it takes to seek the extended opportunities arising from the accelerated change in the global entertainment ecosystem.

Target Price €11.36 per share (from €7.53), OUTPERFORM rating (from OUTPERFORM)

Fenix 2020 achievements confirm that the international and domestic market trends are boosting local content production and that the appeal of its offer works.

Our valuation indicates a Target Price per share of €11.36, with a potential upside of 39% on the current share price and +184% on the IPO price of €4.00. As a consequence, we confirm an OUTPERFORM rating on the Fenix Entertainment stock.

Key financials and estimates

€m	2017	2018	2019	2020	2021E	2022E	2023E
Revenues	**0.8**	**1.2**	**7.5**	**16.2**	**23.6**	**28.3**	**29.6**
EBIT	**0.1**	**0.2**	**1.7**	**3.0**	**3.1**	**4.9**	**14.6**
Margin	*12.6%*	*18.3%*	*23.1%*	*18.6%*	*13.0%*	*17.3%*	*49.3%*
Net (Debt) Cash	**(0.3)**	**(0.4)**	**(0.9)**	**(3.0)**	**(7.8)**	**(10.9)**	**(12.5)**
Equity	**0.1**	**0.2**	**1.4**	**6.0**	**8.0**	**11.4**	**15.0**

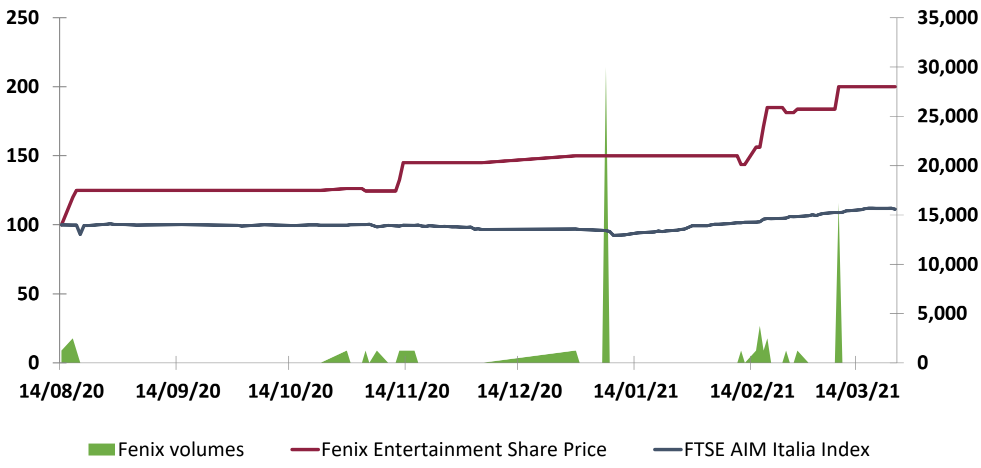
Source: Company data 2017-20, EnVent Research 2021-23E

Market update

Share price performance since IPO +105% up to €8.2 per share

In the same period, the AIM Italia Index increased by +36%

Fenix- Share price performance and trading volumes since IPO



Source: EnVent Research on S&P Capital IQ - Note: 14/08/2020 Offer Price=100

FY 2020: growth in workflow, productions and sales

Doubling key measures versus 2019

Fenix for 2020 doubled value of production of €16.2m compared to €7.5m in 2019. Movies production in progress at year end was €9.7m over prior year. EBIT was €3.0m vs. €1.7m in 2019 (18.6% margin vs. 23.1%) and net income €2.1m. Intangibles, i.e. distribution rights, increased from €4.3m in 2019 to €14.6m. Net debt at year end of €3.0m from €0.9m in 2019, after IPO proceeds.

Production and distribution postponement due to Covid-19

The Pandemic led to delays in production and distribution during 2020. Operating expenses totalled €12.9m (vs. €5.6m in 2019, +130% YoY) of which €8.8m of direct production costs and €1.3m for personnel. Working capital, paid-in capital, co-producers and bank financing sustained the investment in productions.

Revenue dynamics: the relevance of changes in work in progress

FY20 sales of distribution rights +52% YoY

In 2020 Fenix reported value of production of €16.2m:

- €2.0m (vs. €1.3m in 2019,+52% YoY) for sales relative to distribution of rights of movies and music.
- €3.0m for advertising and marketing campaigns. This segment represents a business unit generating regular revenues.
- €9.7m changes in work in progress. This figure represents the corresponding increase in intangible assets for productions still under development at the end of 2020.
- €1.5m of other income, mainly related to a €1.0m gain due to breach of contractual obligations by certain partners.

- Tax credits and grants, accounted as deferred revenue in the balance sheet according to the useful life of productions, will concur to next years revenues.

Net working capital as financing logic

Net working capital imbalance of €5.7m due to €6.5m of deferred income.

Trade working capital is made of €5.2m accounts payable and €2.9m accounts receivable. The €2.2m imbalance is explained by the fact that receivables and payables may have different nature. Receivables may come from current advertising and marketing customers and from sales of distribution rights of productions completed in previous years. Payables include costs incurred for projects under development in the current year.

Net working capital also has an imbalance of €5.7m thanks to €6.5m of deferred income from grants and others. It also includes tax credits for €0.7m, grants receivable for €2.6m and loans from co-producers and investors for €0.2m. We expect an increasing portion of financing coming from co-producers participating to the enterprise risk.

Business update

Movie production and distribution

- Movies sales reached €2.0m in 2020 (vs. €1.3m in 2019) thanks to the distribution of *Burraco Fatale*, whose success at the box office has driven sale of broadcasting rights. Most revenues of 2020 productions will be recognized starting from 2021 after release.
- Acquisition of *Spycam*, thriller script which will be produced in English targeting international audience.
- Beginning of 2 productions in March 2021*: I Nostri Fantasmi* and *Toilet*.
- Agreement with Vanessa Incontrada for the realization of three productions: the first one, *La sposa in rosso,* will start in 2021.
- Shooting of *C'è scappato il morto* starting in June 2021.

Outlook: back to normal driving change of pace

High visibility of future revenues thanks to enlarging library

Despite the pandemic, Fenix is enlarging its library and working on new projects. A significant portion of forward revenues has high visibility being recognition of cash-in from sale of distribution rights portfolio and of deferred revenues. These come also from tax credits and grants received for productions still under development at year end, with expected release in the following year.

Our estimates

Brilliant 2020 better than expected leads to estimates revision

In 2020 Fenix has outperformed its expected production budget together with our estimates. Thus, we take the current pipeline as a new sustainable level of activity which should furtherly increase in the mid-term, accompanied by a continuing expansion of advertising and marketing revenues. For 2021 we consider a combined effect of the expected recovery trend of the Italian entertainment industry and the difficulties still occurring in H1. For the following years we assume a faster growth and we extend the horizon up to 2023E.

Implicit value drivers:
• Artistic accomplishments, as already happened with first productions
• Investments to expand its distribution library with Italian Character contents
• Market opportunity for small-mid size producers to distribute and co-produce with popular streaming platforms (e.g. Netflix and Amazon Prime Video)
• Tax incentives, public grants and other investors financing consistent with industry standards
• Production starts only when financial coverage is ensured

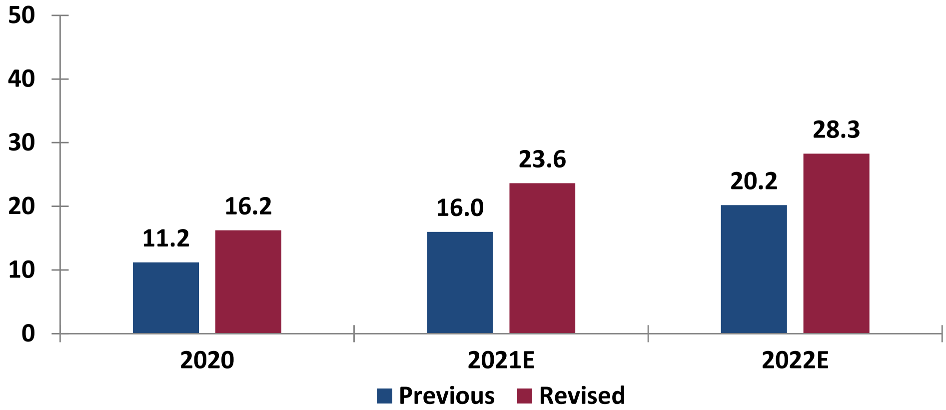
Our estimates assume no changes within the regulatory framework (i.e. tax incentives and grants).

Key assumptions

Revenues	Sales 82% CAGR 2021E-2023E Advertising and Marketing 25% CAGR 2021E-2023E Movie production pipeline: overall at 2020 level
Operating charges	Direct production costs: 80%-70% of full production cost Overheads: +20% CAGR 2021E-2023E Personnel: +15% CAGR 2021E-2023E Other operating costs: 1.5% of Value of Production
Income taxes	Corporate tax (IRES): 24% Regional tax (IRAP): 3.90%
Working Capital	Deferred income from grants and tax credit as function of movie production Loans from co-producers and other investors payback in 3 years with new loans equal to 30% of investments in production
Production Capex	Capital expenditure: total of €39m over 2021E-2023E
Equity	No dividend distribution

Change in estimates

Revenues (€m) - Previous vs. Revised estimates



	Revised			Previous			Change %		
€m	2020	2021E	2022E	2020	2021E	2022E	2020	2021E	2022E
Revenues	16.2	23.6	28.3	11.2	16.0	20.2	45%	48%	40%
EBITDA	3.4	7.4	11.9	3.4	4.7	5.5	0%	58%	117%
Margin	*21%*	*31%*	*42%*	*30%*	*29%*	*27%*			
EBIT	3.0	3.1	4.9	2.4	2.2	1.6	26%	39%	205%
Margin	*19%*	*13%*	*17%*	*21%*	*14%*	*8%*			
Net Income (Loss)	2.1	2.1	3.4	1.7	1.5	1.1	25%	39%	208%
Net (Debt) Cash	(3.0)	(7.8)	(10.9)	(10.1)	(6.7)	(3.2)			
Net Debt / EBITDA	*0.9x*	*1.0x*	*0.9x*	*2.0x*	*1.4x*	*0.6x*			

Source: EnVent Research

Financial projections

Consolidated Profit and Loss

€m	2017	2018	2019	2020	2021E	2022E	2023E
Sales	0.8	0.6	1.6	2.0	7.9	11.1	12.3
Advertising & marketing	0.0	0.0	2.3	3.0	4.2	5.0	5.8
Other production income (grants)	0.0	0.3	0.0	0.0	2.5	3.7	3.8
Production in progress	0.0	0.2	3.6	9.7	9.1	8.5	7.8
Other income (non recurring)	0.0	0.0	0.0	1.5	0.0	0.0	0.0
Total Revenues	**0.8**	**1.2**	**7.5**	**16.2**	**23.6**	**28.3**	**29.6**
YoY %	*-*	*55.4%*	*535.8%*	*116.5%*	*45.5%*	*19.7%*	*4.8%*
Direct production cost	(0.5)	(0.0)	(2.4)	(8.8)	(11.2)	(10.4)	(8.4)
Overheads	(0.1)	(0.8)	(1.6)	(2.5)	(3.2)	(3.8)	(4.2)
Personnel	(0.0)	(0.0)	(1.4)	(1.3)	(1.5)	(1.7)	(2.0)
Other operating costs	(0.0)	(0.1)	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)
Operating charges	**(0.6)**	**(0.9)**	**(5.6)**	**(12.9)**	**(16.2)**	**(16.4)**	**(15.0)**
EBITDA	**0.1**	**0.3**	**1.9**	**3.4**	**7.4**	**11.9**	**14.6**
Margin	*17.4%*	*24.5%*	*25.4%*	*20.9%*	*31.3%*	*42.1%*	*49.3%*
D&A	(0.0)	(0.1)	(0.2)	(0.4)	(4.3)	(7.0)	(9.5)
EBIT	**0.1**	**0.2**	**1.7**	**3.0**	**3.1**	**4.9**	**5.1**
Margin	*12.6%*	*18.3%*	*23.1%*	*18.6%*	*13.0%*	*17.3%*	*17.1%*
Non-recurring items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	(0.0)	(0.0)	(0.0)	(0.1)	(0.2)	(0.2)	(0.2)
EBT	**0.1**	**0.2**	**1.7**	**2.9**	**2.9**	**4.7**	**4.9**
Margin	*12.1%*	*16.7%*	*22.4%*	*18.1%*	*12.3%*	*16.7%*	*16.6%*
Income taxes	(0.0)	(0.1)	(0.6)	(0.8)	(0.8)	(1.3)	(1.4)
Net Income (Loss)	**0.1**	**0.1**	**1.1**	**2.1**	**2.1**	**3.4**	**3.5**
Margin	*8.5%*	*10.9%*	*14.7%*	*13.1%*	*8.8%*	*12.0%*	*11.9%*

Source: Company data 2017-2020, EnVent Research 2021-23E

Consolidated Balance Sheet

€m	2017	2018	2019	2020	2021E	2022E	2023E
Accounts receivable	0.6	0.9	2.2	2.8	6.4	8.6	9.6
Accounts payable	(0.6)	(0.4)	(1.8)	(5.2)	(6.4)	(6.4)	(5.7)
Working Capital	**0.0**	**0.5**	**0.4**	**(2.3)**	**0.0**	**2.3**	**4.0**
Grants receivable and other credits	0.2	1.4	2.1	2.6	3.9	3.6	3.3
Deferred income	0.0	(1.4)	(1.6)	(6.6)	(8.4)	(7.8)	(7.2)
Loans from co-producers and investors	0.0	0.0	(2.0)	(0.2)	(4.3)	(6.0)	(5.3)
Other assets (liabilities)	(0.0)	(0.5)	(1.1)	0.8	0.3	(0.1)	(0.2)
Working Capital	**0.2**	**0.1**	**(2.2)**	**(5.7)**	**(8.6)**	**(8.0)**	**(5.4)**
Intangible assets	0.1	0.4	4.3	14.6	24.2	30.2	32.7
Property and equipment	0.0	0.0	0.1	0.1	0.1	0.2	0.2
Non-current assets	**0.2**	**0.5**	**4.4**	**14.7**	**24.4**	**30.4**	**32.9**
Provisions	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**
Net Invested Capital	**0.4**	**0.6**	**2.2**	**8.9**	**15.8**	**22.4**	**27.5**
Net Debt (Cash)	**0.3**	**0.4**	**0.9**	**3.0**	**7.8**	**10.9**	**12.5**
Equity	**0.1**	**0.2**	**1.4**	**6.0**	**8.0**	**11.4**	**15.0**
Sources	**0.4**	**0.6**	**2.2**	**8.9**	**15.8**	**22.4**	**27.5**

Source: Company data 2017-2020, EnVent Research 2021-23E

Consolidated Cash Flow

€m	2018	2019	2020	2021E	2022E	2023E
EBIT	**0.2**	**1.7**	**3.0**	**3.1**	**4.9**	**5.1**
Current taxes	(0.1)	(0.6)	(0.8)	(0.8)	(1.3)	(1.4)
D&A	0.1	0.2	0.4	4.3	7.0	9.5
Provisions	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from P&L operations	**0.2**	**1.3**	**2.6**	**6.6**	**10.6**	**13.2**
Accounts receivable and payable	(0.5)	0.1	2.7	(2.3)	(2.2)	(1.7)
Grants and tax credits receivable	(1.2)	(0.7)	(0.5)	(1.2)	0.3	0.3
Change in deferred income	1.4	0.2	5.0	1.8	(0.6)	(0.6)
Change in loans from co-producers and investors	0.0	2.0	(1.8)	4.1	1.7	(0.7)
Other assets and liabilities	0.5	0.6	(2.0)	0.5	0.3	0.1
Capex	(0.4)	(4.1)	(10.6)	(14.0)	(13.0)	(12.0)
Operating cash flow after working capital and capex	**(0.1)**	**(0.5)**	**(4.5)**	**(4.6)**	**(3.0)**	**(1.4)**
Interest	(0.0)	(0.0)	(0.1)	(0.2)	(0.2)	(0.2)
Charges on co-producers financing	0.0	0.0	0.0	0.0	0.0	0.0
IPO + warrants proceeds	0.0	0.0	2.5	0.0	0.0	0.0
Capex - IPO cost	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	**(0.1)**	**(0.5)**	**(2.1)**	**(4.8)**	**(3.1)**	**(1.6)**
Net Debt (Beginning)	(0.3)	(0.4)	(0.9)	(3.0)	(7.8)	(10.9)
Net Debt (End)	(0.4)	(0.9)	(3.0)	(7.8)	(10.9)	(12.5)
Change in Net Debt	**(0.1)**	**(0.5)**	**(2.1)**	**(4.8)**	**(3.1)**	**(1.6)**

Source: Company data 2017-2020, EnVent Research 2021-23E

Recalling accounting issues: limited matching of revenues and costs

Timing misalignments between economic records and financial flows, due to the hybrid nature of revenues and costs

Accumulation of D&A leads to meaningless EBITDA margin

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.

Warning on fluctuation of profit margins

Fenix, due to the brief history of operations, had and still has limited charges for amortization in its income statement, which results in initial profit margins higher than industry average when matched with growing production, which in turn will charge for each production heavier amortization in the 3 following years and apparently reduce operating margins. This shift effect is due to the peculiarities of the entertainment production accounting, whose details are described in the previous section dedicated to Industry accounting issues.

Valuation

Key valuation topics

Value of production originates deferred cash inflows but immediate outflows

Illiquidity of operating assets

Value of production means immediate cash out and deferred cash in which must be financed during a variable period of time according to the success of the movie. Major consequences are inconsistent liquidity of operating assets and liabilities within balance sheet and the mentioned temporal misalignment between production revenue, which may last over five years although with a first jumping and then declining pace, and cost charged by five years amortization. Another consequence is the permanent irrelevance of EBITDA which accounts for movie revenue but not movie cost.

How to deal with hybrid backend financing investments from co-producers/other investors which participate to movies income

The loans from co-producers and other investors are classified among other debts and not included in net financial position in our financial statements format, following the industry accounting practice. However, given that the income or losses from movies are shared with this type of co-producers/investors, we have to deal with the hybrid nature of subordinated financing accordingly: under the initial assumption of full cost coverage, and thus fully repayable to lenders, they are treated as loans to calculate equity values. Should they be offset by losses on an individual production, they would be written off from financial debts and recognized as other income.

Discounted Cash Flows

Updated assumptions:

- Risk free rate: 1.5% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, April 2021)
- Market return: 12.7% (3Y average. Source: Bloomberg, April 2021)
- Market risk premium: 11.1%
- Beta: 1
- Cost of equity: 12.7%
- Cost of debt: 3% (Source: implicit L/T bank debt rate, assumed stable)
- Tax rate: 24% (IRES)
- 40% debt/(debt + equity)
- WACC 8.5%
- Perpetual growth rate after explicit projections: 2%
- Terminal Value assumes an EBIT margin of 18%

DCF Valuation

€m		2018	2019	2020	2021E	2022E	2023E	Perpetuity
Revenues		**1.2**	**7.5**	**16.2**	**23.6**	**28.3**	**29.6**	**30.2**
EBITDA		**0.3**	**1.9**	**3.4**	**7.4**	**11.9**	**14.6**	**13.6**
Margin		*24.5%*	*25.4%*	*20.9%*	*31.3%*	*42.1%*	*49.3%*	*45.0%*
EBIT		**0.2**	**1.7**	**3.0**	**3.1**	**4.9**	**5.1**	**5.4**
Margin		*18.3%*	*23.1%*	*18.6%*	*13.0%*	*17.3%*	*17.1%*	*18.0%*
Taxes		(0.1)	(0.5)	(0.8)	(0.9)	(1.4)	(1.4)	(1.5)
NOPAT		**0.2**	**1.2**	**2.2**	**2.2**	**3.5**	**3.7**	**3.9**
D&A		0.1	0.2	0.4	4.3	7.0	9.5	10.0
Provisions		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from operations		**0.2**	**1.4**	**2.6**	**6.6**	**10.6**	**13.2**	**13.9**
Accounts receivable and payable		(0.5)	0.1	2.7	(2.3)	(2.2)	(1.7)	(0.1)
Grants and tax credits receivable		(1.2)	(0.7)	(0.5)	(1.2)	0.3	0.3	(0.1)
Change in deferred income		1.4	0.2	5.0	1.8	(0.6)	(0.6)	0.1
Other assets and liabilities		0.5	0.6	(2.0)	0.5	0.3	0.1	(0.2)
Capex		(0.4)	(4.1)	(10.6)	(14.0)	(13.0)	(12.0)	(10.0)
Unlevered free cash flow		**(0.0)**	**(2.4)**	**(2.7)**	**(8.7)**	**(4.7)**	**(0.8)**	**3.8**
WACC	8.5%							
Long-term growth (G)	2.0%							
Discounted Cash Flows					**(8.1)**	**(4.0)**	**(0.6)**	
Sum of Discounted Cash Flows	(12.6)							
Terminal Value								**58.0**
Discounted TV	45.4							
Enterprise Value	**32.8**							
Net Debt as of 31/12/20	(3.0)							
Loans from co-producers and investors	(0.2)							
Equity Value	**29.6**							

DCF - Implied multiples	2018	2019	2020	2021E	2022E	2023E
EV/Revenues	27.8x	4.4x	2.0x	1.4x	1.2x	1.1x
EV/EBITDA	113.3x	17.2x	9.7x	4.4x	2.8x	2.2x
EV/EBIT	151.7x	18.9x	10.8x	10.7x	6.7x	6.5x
P/E	230.3x	26.8x	13.9x	14.2x	8.7x	8.4x

Source: EnVent Research

Valuation based on market multiples

We recall that the mismatch between period revenues, production costs and amortization inherent to the entertainment industry practice, leads to distortions in accounting measures, especially for EBITDA. Therefore, EBIT is preferred as a more reliable measure, at least as a period operating cost indicator. As such, we exclude EV/EBITDA from our valuation models in this industry and use EV/EBIT as a substitute. We applied market multiples indicated in the market metrics table. Looking at the inconsistency of performances and multiples - no surprise given the mentioned accounting peculiarities within the industry and the low comparability of many peers - we preferred to rely on average multiples rather than median.

We note that the inconsistency of performances and multiples, and the related low reliability, is confirmed by the sudden drop of forward years operating profit multiples, while revenue based multiples have a more consistent behavior.

Application of market multiples

€m

Fenix		Multiple	EV	Net Debt	Equity Value
2020 Revenues	**16.2**	1.8x	29.7	(3.0)	26.8
2021E Revenues	**23.6**	1.4x	32.8	(3.0)	29.8
2022E Revenues	**28.3**	1.3x	35.6	(3.0)	27.7
Mean					***28.1***
2020 EBIT	**3.0**	12.9x	39.1	(3.0)	36.1
2021E EBIT	**3.1**	9.1x	28.0	(3.0)	25.0
2022E EBIT	**4.9**	7.1x	34.5	(3.0)	26.8
Mean					***29.3***

Source: EnVent Research and S&P Capital IQ
Note: Multiples are calculated as average value of market metrics

Target Price

Fenix 2020 achievements confirm that the international and domestic market trends are boosting local content production and that the appeal of its offer works.
Our DCF valuation indicates a Target Price per share of €11.36, with a potential upside of 39% on the current share price and +184% on the IPO price of €4.00. As a consequence, we confirm an OUTPERFORM rating on the Fenix Entertainment stock.

Please refer to important disclosures at the end of this report.

Fenix Entertainment Price per Share	€
Target Price	11.36
Current Share Price (27/04/2021)	8.20
Premium (Discount)	**39%**
Premium (Discount) from IPO	**184%**

Source: EnVent Research

Annex

Peer Group - Market Multiples

Company	EV/REVENUES				EV/EBITDA				EV/EBIT				P/E			
	2019	2020	2021E	2022E	2019	2020	2021E	2022E	2019	2020	2021E	2022E	2019	2020	2021E	2022E
Comparability: High-medium																
Leone Film Group	1.8x	1.7x	1.2x	1.0x	n.m.	3.8x	2.2x	2.0x	n.m.	n.m.	20.6x	11.6x	n.m.	neg.	12.4x	6.0x
Iervolino Entertainment	1.7x	1.2x	0.9x	1.2x	1.8x	1.2x	1.1x	n.a.	5.9x	6.1x	6.1x	7.5x	6.7x	6.4x	6.5x	8.1x
Notorious Pictures	1.6x	3.8x	1.7x	0.9x	10.6x	-18.9x	4.2x	3.0x	10.8x	neg.	9.5x	7.7x	10.4x	neg.	8.3x	7.1x
Lucisano Media Group	1.5x	1.5x	1.1x	n.a.	13.7x	3.8x	2.7x	n.a.	16.8x	19.6x	8.6x	n.a.	9.7x	14.9x	5.0x	n.a.
Comparability: Low-medium																
Mondo TV	3.4x	2.1x	2.2x	2.0x	5.7x	3.6x	2.6x	2.3x	14.1x	7.7x	5.8x	5.2x	22.7x	13.5x	9.7x	7.9x
NVP	3.2x	2.8x	2.1x	1.9x	12.6x	7.0x	4.8x	4.3x	n.m.	21.4x	8.4x	6.8x	n.m.	30.0x	9.1x	7.0x
Casta Diva Group	0.4x	0.2x	0.2x	0.2x	n.m.	3.8x	2.7x	2.2x	neg.	9.8x	4.8x	3.7x	neg.	neg.	14.9x	9.1x
International																
Lions Gate Ent.	1.4x	1.4x	1.8x	1.7x	n.m.	15.5x	12.0x	13.0x	neg.	n.m.	n.m.	n.m.	neg.	neg.	15.0x	16.0x
Mean	**1.9x**	**1.8x**	**1.4x**	**1.3x**	**8.9x**	**2.5x**	**4.0x**	**4.5x**	**11.9x**	**12.9x**	**9.1x**	**7.1x**	**12.4x**	**16.2x**	**10.1x**	**8.7x**
Median	**1.7x**	**1.6x**	**1.4x**	**1.2x**	**10.6x**	**3.8x**	**2.7x**	**2.7x**	**12.5x**	**9.8x**	**8.4x**	**7.1x**	**10.0x**	**14.2x**	**9.4x**	**7.9x**

Source: S&P Capital IQ, April 2021

Investment case

Company

Cinema

TV movies – series

Music

Advertising

Fenix Entertainment S.p.A. (Fenix) is an Italian motion picture and musical content producer and distributor, listed on AIM PRO Italia since August 2020. Its productions range from movies, TV programs and series to music and soundtracks. Operations also include marketing services for the wider Entertainment & Media (E&M) industry, such as advertising spaces and campaigns, digital PR and artist promotion. Production is in the low-to-medium budget range and is focused on high quality Italian-only 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 (IP) rights through the distribution channels, like traditional theatrical, Pay-Per-View, Free TV and streaming on Video-On-Demand platforms.

Fenix has been recognized as innovative SME, a status that allows tax incentives for investors, and is also eligible as a target for investments under the PIR scheme.

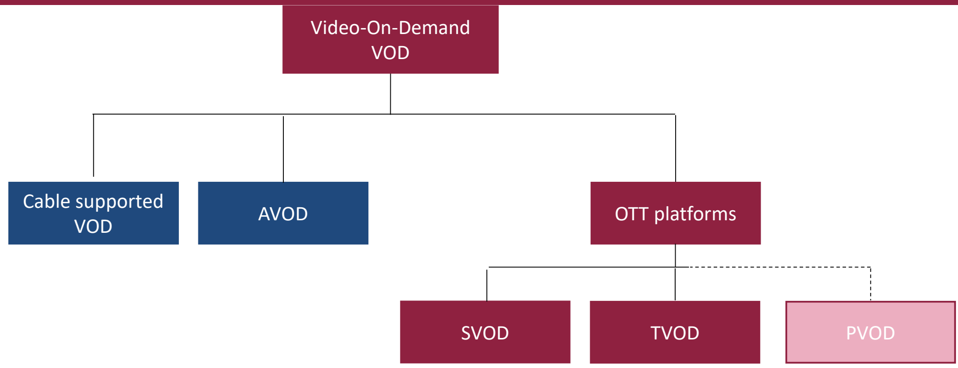
Glossary of E&M digital industry terms

Over-the-Top (OTT) defines the new streaming segment, which is covered through agreements with providers such as Netflix, Sky, Apple, Google, Chili. OTT is used for the delivery of film and TV content via the internet bypassing TV subscription providers, viewable on a PC, TV, tablet, smartphone or other devices. OTT platforms are all Video-On-Demand (VOD) services, including Subscription VOD (**SVOD**), such as Netflix, and Transactional VOD (**TVOD**), such as Apple TV+, Chili and Sky Box Office; Advertisement VOD (**AVOD**), such as Youtube, is not included in OTT services.

Premium VOD **(PVOD)** describes movies directly available on streaming while still in theatres.

Linear television refers to traditional TV whose access requires subscription to cable or satellite services, or through over-the-air broadcasts. In order to watch a show, the viewer must tune in to a specific channel on a television at an appointed time.

Video-On-Demand and OTT services



Source: EnVent Research

Drivers

Industry drivers

Disrupting technologies and new media open doors to independent producers. The entertainment industry's future will continue to evolve relentlessly and radically. After the fairly slow digital technology revolution of the end of the last century, which made easier to produce and access media contents, the convergence of communication and entertainment has revolutionized the production industries, changing radically the market channels. With streaming becoming an increasingly powerful market force, the investment cycles and payback strategies also are changing, shifting from financing the traditional oligopoly of large producers to opening doors to emerging local entrepreneurs and talents.

Millennials driving the move to OTT and SVODs. Millennials switching to OTT streaming services and ready to dive into Virtual Reality are driving the change and are dragging the industry into a major move that is making streaming the exponentially growing media.

SVODs need local production. Large SVODs strategies to attract new subscribers and to increase traffic with customers are heavily based on investing in original programming and content. Their global reach attitude requires to look at local productions to attract local audiences, mainly focusing on high quality niche talents able to communicate properly with the local environment. For independent producers and emerging talents, all-in-one SVOD deals may be very attractive, since lump-sum agreements cut budget risk and stabilize profitability, although conversely would reduce profits from successful projects exploitation of rights.

Virtual Reality, the next disruptive experience. VR technology is still in a development, investment and trial stage, but history tells that new media may be expected to explode suddenly and call for huge resources to further develop and produce of dedicated content, including broadcasting of sports, concerts and other shows. Building a library of live events requires the availability of skilled producers linked to teams of talented affiliates.

Tax incentives and subsidies make the film industry appealing. Industry players, mainly production companies, benefit from State contributions in the form of tax credits and other subsidies to support domestic productions, thus representing a competitive advantage within the industry. More and more jurisdictions have launched their own propositions in order to attract film productions to their country, including most EU members.

Company drivers

Italian characters for an Italian audience. Fenix dedication to high-quality Italian motion pictures stands for both creativity and tradition, based on Italy's historical cultural diversity and heritage.

Team of industry experts and talents. Fenix counts on a young and committed team of industry-passionate experts. Key managers are also shareholders, directly involved in the Company's operations and execution of the growth strategy.

Cost-coverage business model. Motion pictures productions start once the financial coverage (through co-production, investing companies, state and regional subsidies and tax credit) is ensured.

Marketing and artist promotion as additional revenue stream. The promotional activity for third parties' works and artists, accounting for over 30% of 2019 revenues, represents an additional stream contributing to revenue diversification and concentration risk reduction.

Lean organization, light overheads. Fenix is a lean company, with direct management and control over the entire film and music industry value chain. The revenue model is made mainly of variable costs, the organization and the cost structure are lean, with limited overheads.

Challenges

Entertainment production cost forecast may increase for unexpected events. The entertainment production is based essentially on the work of hardly replaceable skilled and talented professionals and thus inherently subject to unpredictable events such as interruptions and delays or other inconveniences. Consequently, the expected operating margins would be more subject to fluctuations than in other industries.

Which future for box offices? Younger audiences often disregard TV, while they watch movies in streaming or no movies at all. The Covid pandemic is just accelerating the process of leaving nearly empty the cinemas. How much this will cost to the industry as still organized is a too subjective exercise, but the likely outcome is negative and substitute products will come from other investors.

Cybersecurity and piracy continue to be an issue. Video has always been subject to piracy. Even the legal copies may be a serious challenge, since hackers' ability is limitless and new techniques may spread again to permit digital copies of protected material. Producers will have to invest to protect their libraries. The music industry has seen its royalties collapsing dramatically, which has caused an equally drop of investments and disappearing of most artist compensation perspectives. The entire music industry is regressing to sales levels which do not justify substantial investments. The value of video libraries too might be materially impaired in the near future.

Keeping up with the industry frenetic pace. The entertainment production and distribution landscape is living with restless changes: technology, innovation, cultural trends. A permanently changing environment creates opportunities, but it is also a challenge to cope with disrupting evolutions. An emerging company must dedicate time and resources to identify, control and mitigate risks and focus on protections, to navigate a world where contractual obligations are complex and changing too.

Public incentives to movie productions. Incentives such as tax credits and other grants or financing give a substantial contribution to the payback of a domestic production budget, which, together with the demand from the diversified distribution channels and differently from the past, has very good chances of reaching breakeven regardless a top theatrical performance. Although other European countries subsidies to the entertainment industry, to reduce the dimensional gap with Hollywood majors and support the work of regional talents and professionals, a change of the regulatory environment is possible and its effect could be material.

Revenues depend on a limited number of individuals and projects. Fenix relies on a limited team composed of key managers, artists and industry professionals. The industry relationships of the founder and CEO and other key members are crucial to development and operations, especially considering the lean structure of the Company, with several activities and responsibilities on single individuals. In addition, operations and revenue are concentrated on a limited number of projects and customers.

Keeping up with competition. The fragmented competitive arena, with low/average barriers to entry, together with the subsidized industry, are permanent feeders of fierce competition.

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Date	Recommendation	Target Price (€)	Share Price (€)
16/12/2020	OUTPERFORM	7.53	5.80
27/04/2021	OUTPERFORM	11.36	8.20

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