# Acquisition of Laser Film and movie production boost

FENIX entertainment

## FLASH NOTE

## OUTPERFORM

**Current Share Price (€): 6.80**
**Target Price (€): 11.38**

### Acquisition of Laser Film, bringing in €8m revenues and widening service offer

Fenix announced the acquisition of 60% of Laser S Film and Laser Digital Film, a business operating in movie post-production in Italy. Disclosed aggregate financials of the acquired companies are: FY20 revenues €7.9m, €1.6m EBITDA and €3.8m net financial debt. Laser provides dubbing, mixing, visual effects, graphics etc. to movie and TV producers. This vertical addition integrates Fenix business model with inhouse management and control of quality and timing of last production phase. We see in this deal the value of expanding and enriching content and service offerings, a “must have” of the producers’ industry to face the ever-changing M&E ecosystem needs.

### Structure of the transaction

The deal consideration is €5.2m: €1m cash as advance, €0.3m at closing (Nov 2021), €2.6m cash in six tranches from Jan 2022 until Mar 2023, €1.3m by Fenix shares to be assigned to the seller. The dedicated capital increase will be executed issuing 216,666 Fenix shares at €6 per share, subject to 24-month lock-up. Put and call options for the remaining 40% of the target companies will be exercisable after 2023 within H1 2027, subject to earnout depending on performance. The total consideration will be in any event subject to a floor of €8.67m and to a cap of €13.5m.

### 9M 2021 Revenues at €15m, movie production pipeline boost at year-end

- 9M Value of production/Total Revenues at €15.1m
- Net financial debt at €5.8m as of Sept 30th from €1.8m as of June 30th, after €1m cash advance for Laser deal, €2m for the completion of H1 2021 productions and €1.5m for productions to be completed in 2022.
- New productions: *Detective Santa* and *A day with Santa* are two new chapters of the Christmas saga started with *Christmas Thieves*. Production budget is €13m and international distribution rights contracted sales are worth €10.5m.

### Laser revenues stabilize cash flow and balance mix, Xmas saga supports forecasts

Full consolidation of Laser is necessary for a comprehensive assessment, however, we note that the additional financial debt would be under 3x reported Laser EBITDA, 20% of revenues increasing the recurring portion of the P&L, and that the substantial increase of production pipeline looks beyond our 2021E and anticipates the following periods volumes. As such, the related financial impacts could at least confirm our estimates, as long as Fenix will maintain a sound capex financing and payback for movie production.

### Target Price €11.38 per share and OUTPERFORM rating confirmed

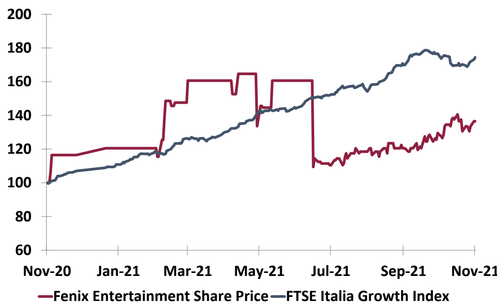
Given our preliminary assessment of a deal consistent with management strategy to grow the Company and of an inherent balance between Laser consideration and expected return, plus the updated size of the pipeline, we do not envisage a short-term restatement on estimates and value assessment. We confirm our estimates and the target price at €11.38 per share. Given the 67% upside potential on current share price, we carry forward the OUTPERFORM rating.

### Key financials and estimates

| €m | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|
| **Revenues** | 1.2 | 7.5 | 16.2 | 26.5 | 29.8 | 30.5 |
| **EBIT** | 0.2 | 1.7 | 3.0 | 1.9 | 5.7 | 5.3 |
| *Margin* | *18%* | *23%* | *19%* | *7%* | *19%* | *17%* |
| **Net (Debt) Cash** | (0.4) | (0.9) | (3.0) | (8.1) | (12.3) | (12.8) |
| **Equity** | 0.2 | 1.4 | 6.0 | 12.2 | 16.2 | 19.9 |

Source: Company data 2018-20, EnVent Research 2021-23E

### Fenix Entertainment - 1Y Performance




Source: S&P Capital IQ - Note: 9/11/2020=100

### Company data

| | |
|---|---|
| ISIN number | IT0005403495 |
| Bloomberg code | FNX IM |
| Reuters code | FNX.IM |
| Industry | Movies and entertainment |
| Stock market | Euronext Growth Milan |
| Share Price (€) | 6.80 |
| Date of Price | 09/11/2021 |
| Shares Outstanding (m) | 3.6 |
| Market Cap (€m) | 24.2 |
| Market Float (%) | 38.3% |
| Daily Volume | 5,000 |
| Avg Daily Volume YTD | 5,140 |
| Target Price (€) | 11.38 |
| Upside (%) | 67% |
| Recommendation | OUTPERFORM |

### Share price performance

| | 1M | 3M | 1Y |
|---|---|---|---|
| Fenix Ent. - Absolute (%) | 5% | 13% | 37% |
| FTSE Italia Growth (%) | 4% | 6% | 78% |
| 1Y Range H/L (€) | | 8.20 | 4.98 |
| YTD Change (€) / % | | 0.80 | 13% |

Source: S&P Capital IQ

### Analysts

Franco Gaudenti - Head of Research
fgaudenti@enventcapitalmarkets.co.uk
Luigi Tardella - Co-Head of Research
ltardella@enventcapitalmarkets.co.uk

**EnVent Capital Markets Limited**
42, Berkeley Square - London W1J 5AW (UK)
Phone +44 (0) 20 35198451

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## Investment Case

### Company

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. 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.

### 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 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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NEUTRAL: stocks are expected to have a performance consistent with market or industry trend and appear less attractive than Outperform rated stocks;

UNDERPERFORM: stocks are among the least attractive in a peer group;

UNDER REVIEW: target price under review, waiting for updated financial data, or other key information such as material transactions involving share capital or financing;

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The stock price indicated is the reference price on the day indicated as "Date of Price" in the table on the front page of this publication.

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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 |
| 04/08/2021 | OUTPERFORM | 11.36 | 5.90 |
| 07/10/2021 | OUTPERFORM | 11.38 | 6.25 |
| 09/11/2021 | OUTPERFORM | 11.38 | 6.80 |

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