

ILBE Spa

Sector: Media content production



Analyst

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Not just a value stock

Iervolino & Lady Bacardi Entertainment (ILBE) is an Italian cinema, TV and web content production company with a *Hollywood* footprint and strong focus on OTTs contents, listed on Euronext Growth Milan and Paris. It produces diversified contents for an international audience, focusing on core production and IPs.

FY2021 overall in line with expectations, strong backlog

ILBE announced FY2021 broadly in line with our expectations: slightly lower top line, EBIT a touch above, net debt again slightly higher than expected. In terms of outlook, the size of the production portfolio and of projects under 2022-24E development, add up to €490mn compared to ca. €395mn at the end of 1H21. Also the mix has improved, as backlog has swelled thanks to the new sequel to the animated series of Arctic Friends and Puffins, for revenues of ca €117mn over 2022-24E.

2022-24E forecasts confirmed: little growth and FCF

We updated our model on the back of FY2021 results, delivery plans over the next quarters and new production targets, as well as a minor acquisition recently announced. Yet, the earnings outlook is overall confirmed and does not show material growth (2022-24E CAGR of 3% for Revenues and nil for net profit). The same could be said as for free cash flow: we forecast net debt to decrease by €6mn only into 2024E. We see this element as a key driver (or cap) for the stock rating.

ILBE to become disciplined

We expect ILBE to follow a strict financial discipline in 2022, as leverage ratios are very close to loans' covenants: either management stick to production plans, focus on NWC, avoid further M&A and start deleverage, or they may seek new partners/investors providing fresh capital to fund more aggressive content production and corporate strategies. In the meantime, we believe the stock re-rating may be less marked than previously expected, as the actual return on ILBE business model in the post-pandemic world is not clearly visible yet.

Fair value cut to €4.2 but upside still material

Following the recent share price weakness, the stock is close to its all time lows and discount to peers' multiples has widened to 32% relative to Italian names and 66% to peers focused on animation. Our revised fair value of €4.2 p/s (from €5.0), does factor the poor FCF generation but still allow for a material upside. Fair price implies 7.8-7.7x 2022-23E EV/EBIT, i.e. ca 25% premium to domestic peers and ca. 40% discount to international animation names.

Fair Value (€) **4.20**
Market Price (€) **2.08**
Market Cap. (€m) **73.4**

KEY FINANCIALS	2021A	2022E	2023E
REVENUES	152.3	157.3	161.0
EBITDA	138.2	126.1	121.4
EBIT	23.5	22.4	22.6
NET PROFIT	18.4	19.6	18.5
EQUITY	85.6	105.2	123.7
NET FIN. POS.	-29.3	-27.0	-24.7
EPS ADJ. (€)	0.53	0.56	0.53
DPS (€)	0.00	0.00	0.00

Source: Company (historical figures),
Value Track (2021E-22E estimates)

RATIOS & MULTIPLES	2021A	2022E	2023E
EBITDA MARGIN (%)	90.8	80.2	75.4
EBIT MARGIN (%)	15.4	14.2	14.0
NET DEBT / EBIT (x)	1.2	1.2	1.1
NET DEBT / EQUITY (x)	0.3	0.3	0.2
EV/SALES (x)	0.7	0.7	0.6
EV/EBIT (x)	4.5	4.6	4.5
P/E ADJ. (x)	4.1	3.9	4.1
DIV YIELD (%)	0.0	0.0	0.0

Source: Company (historical figures),
Value Track (2021E-22E estimates)

STOCK DATA

FAIR VALUE (€)	4.2
MARKET PRICE (€)	2.08
SHS. OUT. (m)	35.3
MARKET CAP. (€m)	73.4
FREE FLOAT (%)	21.1
AVG. -20D VOL. (#)	12,541
RIC / BBG	IE.MI / IE.IM
52 WK RANGE	1.67-4.16

Source: Stock Market Data



Business Description

ILBE (Iervolino & Lady Bacardi Entertainment, ex Iervolino Entertainment) is an Italian cinematographic production company with a global footprint that, through its headquarters in Rome and thanks to its founder and CEO's relationships and experience in the world of Cinema, is able to produce "Hollywood Style" movies and web series. It produces diversified contents for an international audience, focusing on the core production phases and IP ownership and exploitation. The company was listed in 2019 on Euronext Growth Milan and recently got a dual listing in Paris. The 2019 IPO proceeds have funded the accelerating growth in high quality and innovative contents for cinema, TV, and streaming platforms, and the entrance of post-production/encoding and celebrity management businesses

Key Financials

€mn	2021A	2022E	2023E	2024E
Total Revenues	152.3	157.3	161.0	165.3
Chg. % YoY	26.2%	3.3%	2.4%	2.7%
EBITDA	138.2	126.1	121.4	95.0
EBITDA Margin (%)	90.8%	80.2%	75.4%	57.5%
EBIT	23.5	22.4	22.6	23.1
EBIT Margin (%)	15.4%	14.2%	14.0%	13.9%
Net Profit	18.4	19.6	18.5	17.7
Chg. % YoY	-5.6%	6.5%	-5.5%	-4.5%
Adjusted Net Profit	18.4	19.6	18.5	17.7
Chg. % YoY	-5.6%	6.5%	-5.5%	-4.5%
Net Fin. Position	-29.3	-27.0	-24.7	-23.4
Net Fin. Debt/ EBIT (x)	1.2	1.2	1.1	1.0
Capex	-147.4	-115.7	-114.5	-88.0
OpFCF b.t.	-7.5	5.7	6.4	6.6
OpFCF b.t. as % of EBITDA	-5.4%	4.5%	5.2%	7.0%

Source: ILBE SpA (historical figures), Value Track (estimates)

Investment case

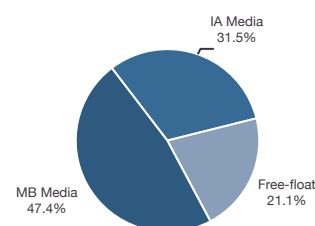
Strengths / Opportunities

- ILBE is set to benefit from the rising global demand for audio-visual content, as it produces content with international appeal, ranging from movies to animation;
- The company has recently focused on short content, i.e. short animation content for web series with hundreds of episodes (of 5-8') and a time horizon of many years;
- ILBE focuses on the core production phases and IP ownership and exploitation, with a risk-averse approach: it gets funding for new productions ahead of kick-off.

Weaknesses / Risks

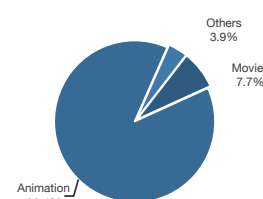
- In the content production industry, the FCF lags behind revenues recognition. This implies a small and fast-growing producer faces material ST funding needs;
- The Company is highly dependent upon its founder, CEO, and Chairman Mr. Iervolino, given the lean structure and his key relationships in the industry;
- The Covid-19 outbreak and OTTs boom may challenge the media & content industry driven by the box office and advertising spending and change industry rules.

Shareholders Structure



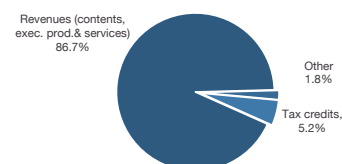
Source: ILBE SpA

Revenues breakdown by product 2021



Source: ILBE SpA

Revenues Split 2021



Source: ILBE SpA

Stock multiples @ €4.20 Fair Value

	2022E	2023E
EV / SALES (x)	1.1	1.1
EV / EBIT (x)	7.8	7.7
EV / CAP.EMP. (x)	1.3	1.2
OpFCF Yield (%)	3.2	3.6
P / E (x)	9.0	9.5
P / BV (x)	1.4	1.2
Div. Yield. (%)	0.0	0.0

Source: Value Track

Recent events

Since the publication of our latest research:

- ◆ In **January** the company has announced the start of the production of the film **In the Fire**. The project includes an agreement with Saban Film LLC for distribution rights worth \$1.5mn for territories including the US, Canada, the UK, Australia, France, and Germany. Additional revenues are expected from agreements being finalized with other customers. The production also benefits from government grants passed by lawmakers.
- ◆ In **February** the company has signed an agreement to acquire a 60% stake in **SoBe Sport**, a leading sports communication and marketing company for professional athletes and coaches. The operation strengthens the company's position in the rapidly growing celebrity management, communication & marketing segment. The agreement involves a cash payment of €658k for 31.4% of share capital, plus the issuance of new shares for a total value of €600k (including share premium) for an additional 28.6% stake. The deal also contains call & put options for ILBE and the seller for the acquisition of the remaining 40% share, for a total value of €1mn, which ILBE can activate for two years starting from the completion date, and the seller in July-Sept 2023.
- ◆ In **March** ILBE has signed an agreement with the international distribution company **WWPS.TV** for the sale of the rights to the new sequel to the animated series Arctic Friends and Puffins entitled Baby Puffins & Bunny, which will comprise a total of 405 five-minute episodes, divided into five seasons between 2022 and 2024. WWPS.tv will be in charge of the distribution worldwide in over 80 countries including Amazon prime video and Apple TV.

The three-year contract envisages producing five 27-episode series a year, for a total of up to 405 episodes, and will generate total revenues from the sale of the rights up to €117mn, with a production plan that calls for non-stop deliveries throughout the duration of the contract.

- ◆ In **March** ILBE has signed an agreement granting the programming rights of the Puffins animated series with **KidsMe**, the Children Content Factory of De Agostini Spa Group specialized in the development, production, and distribution of Italian and European content for kids and families. This move implies a marginal marketing investment for ILBE, but it is aimed at strengthening the appeal and popularity of these characters and paving the way for the new series launch on OTTs.

ILBE FY2021 results

The key outcomes of FY2021 results are the following:

- ◆ **Total revenues** increased by 26% to €152.3mn. The key contributors, including government grants recognized on an accrual basis for the productions they pertain to, are the productions of Arctic Friends (€47.5mn), Puffins (€36.3mn), and Dakota (€5.1mn). Revenues from licenses for use of the pipeline and animated characters amounted instead to €37.1mn.
- ◆ The **EBIT** at the end of FY2021, including non-recurring expenses of €0.9mn, reached €23.5mn, up 7% compared to the same period of FY2020. In contrast, the **EBIT margin** decreased from 18% in FY2020 to 15% at the end of FY2021.
- ◆ **Net profit** decreased by 5% with respect to FY2020, reaching a value of €18.4mn at the end of FY2021. The main reason for this is due to the greater weight of net finance costs arising from new debt structure and exchange rate differences on foreign currency contracts.
- ◆ **Net Debt** at the end of FY2021 reached €29.3mn compared to the December 31, 2020 balance of €15.7mn. An increase mainly due to some payments for investments in films (including the movies *Lamborghini* and *Muti*) in H2 2021, supported by new financing.
- ◆ The December 2021 level of **net debt corresponds to 1.25x EBIT** (1.20x to adj. EBIT), and this ratio compares to a Net Debt/EBIT limit of 1.25x, set as one of current debt covenants.

ILBE: FY2020 vs FY2021 Profit & Loss

€mn	2020 A	2021 A	Chg. %
Revenues from Sales	94.5	132.1	40%
Other Revenues	11.8	5.4	-58%
Tax credits	14.3	14.8	3%
Value of Production	120.7	152.3	26%
EBITDA	112.5	138.2	23%
EBITDA margin	93%	91%	
EBIT	22.0	23.5	7%
EBIT margin	18%	15%	
Pre tax profit	21.4	20.4	-5%
Tax	-1.9	-1.9	3%
Apparent Tax Rate	9%	10%	
Net Profit	19.5	18.4	-5%
OpFCF after tax	-8.9	-2.9	68%
Net Financial Position	-15.7	-29.3	-87%

Source: Value-Track Analysis

ILBE: FY 2020 vs FY2021 Balance Sheet

€mn	2020 A	2021 A
Net Working Capital	5.9	4.6
As a % of sales	6.3%	3.5%
Net Fixed Assets	77.2	111.0
Provisions	-0.5	-0.7
Capital Employed	82.7	114.9
Group Net Equity	67.0	85.6
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	-15.7	-29.3

Source: Value-Track Analysis

Key messages

In our view, the key messages of the FY2021 figures are the following:

- ◆ Overall, ILBE **2021 operations met our expectations**, with
 - 1) revenues slightly below our expectations, due to lower deliveries for the series *Puffin* and executive production of *Puffin: Impossible*, as well as to the delayed delivery of *State of Consciousness* (now planned in early 2022);
 - 2) good performance of minor businesses (i.e. Arte Video and celebrity management, where demand has restarted after Covi-19 phase);
 - 3) slightly better margins (EBIT and 15% vs 13% expected), due to higher contribution of more profitable projects (licenses on pipeline and IPs for Arctic Justice in particular).
- ◆ We estimate that animations contributed to 88% of total 2021 revenues (including their related tax credits);
- ◆ ILBE's management, however, has not started yet delivering on its commitment to a progressive **reduction of debt**, with a net financial position stable at €29.3mn compared to 2021 Q3;
- ◆ At the moment the size of contracts and target projects is much stronger than the interim update of Sep 2021 (1H21 results):
 - The **contracted production portfolio** totalled €152.4mn and is spread over three financial years 2022-2024 with ca. €75mn due in 2022 with ca 70% represented by animations (*Puffin* series, see below);
 - The backlog expansion is mostly due to the agreement announced in March 2022, when the Group **began the production** of a new sequel entitled *Baby Puffins & Bunny*. The **backlog** of the new animated series is €116.8mn, with a constant production plan spread over the years 2022, 2023 and 2024;
 - Further **projects under development** which the Group will reasonably take on in the next three years amount, according to management, to estimated €338mn, of which one quarter due to productions and the rest to services, IP licensing, post production and other activities - including the executive production of animations in Serbia (cumulated €88mn) and €35mn of cumulated revenues coming from the celebrity management business (RED Carpet and the recently acquired Sobe Sport).

ILBE: FY2021 - Expected vs Actual - Profit & Loss

€mn	2021		
	Expected	Actual	Chg. %
Revenues from Sales	141.6	132.3	-7%
Other Revenues	5.0	5.0	0%
Tax credits	16.3	14.8	-9%
Value of Production	162.9	152.0	-7%
EBITDA	149.0	138.2	-7%
EBITDA margin	91%	91%	-1%
EBIT	21.8	23.5	8%
EBIT margin	13%	15%	203%
Pre tax profit	19.6	20.2	3%
Tax	-0.9	-1.9	108%
Apparent Tax Rate	-5%	-10%	-5%
Net Profit	18.7	18.3	-2%
Net Financial Position	-28.8	-29.3	2%

Source: Value-Track Analysis

Updated forecasts 2022-24E

Following the release of FY2021, we updated our forecast model, with revenues and margin outlook broadly unchanged and slightly worsened net debt projections.

ILBE: New vs. Old 2022E-23E estimates

€mn	2022E			2023E		
	Old	New	Δ	Old	New	Δ
Total Group Revenues (VoP)	157.4	157.3	0%	160.4	151.0	0%
EBITDA	113.6	126.1	11%	111.8	121.4	9%
EBIT	22.2	22.4	1%	22.3	22.6	1%
Net Profit	19.5	19.6	1%	18.5	18.5	0%
OpFCF after tax	6.2	4.0	-36%	7.0	3.3	-53%
Net Financial Position	-23.4	-27.0	15%	-17.1	-24.7	45%

Source: Value Track Analysis

Our forecasts are based on the indications provided by management in terms of a) **contracted production portfolio** for €152.4mn, and b) **projects under development** for an estimated value of €338mn - i.e. around €490mn of total projects to be finalized by 2024.

According to management, however, profitability is likely to reduce slightly, also due to an increasing contribution of executive productions, thinner back-end revenues flows compared to pre-Covid, slightly decreasing profitability of projects as well as the development efforts carried internally to feed the medium term new projects' slate.

As reported in the tables below, we expect

- ◆ flattening top line and EBIT over 2022-24E;
- ◆ increasing contributions from executive productions and distribution rights;
- ◆ investments in new productions and rights to reduce from €147mn of 2021E to average €106mn in 2022-24E, despite the increasing investments in distribution rights;
- ◆ net debt to start reducing, albeit very gradually, thanks to decreasing investments in new contents and despite we cautiously assume a further increase in NWC requirements;
- ◆ leverage in 2022E-23E at 1.2x and 1.1x Net Debt/EBIT respectively, suggesting that the company will have to stick to a very disciplined strategy in terms of contents, production and M&A, as loans' covenants do leave very little room of manoeuvre.

ILBE 2021A-24E Revenues breakdown by title (€mn)

Title	2021A	2022E	2023E	2024E
Arctic Friends	85.6	3.1		
Puffins Web Series	37.9	30.1	40.7	5.0
Baby Puffin & Bunny		38.5	38.5	38.5
Tell it like a woman	2.6			
Giving back		3.5	0.2	
Film for Paradox	1.2	7.7	7.9	0.2
Muti		13.9	1.4	1.4
Film for WWPS/Universal	5.1	0.0	0.2	0.2
Puffin Impossible (Exec. Prod.)	10.8	20.2	25.2	25.2
Executive Prod. (Xmas Movies & others)	2.2	32.3	38.0	84.7
Revenues (incl. tax credits)	145.9	149.3	152.0	155.1
R&D Tax Credit	0.6			
Others (post prod., celebrity mngt)	5.4	8.0	9.0	10.0
Total Revenues	151.8	157.3	161.0	165.1

Source: Value-Track Analysis

ILBE: 2020-2024E Profit & Loss

(€mn)	2020A	2021A	2022E	2023E	2024E
Revenues from Sales	94.5	132.1	134.0	141.3	149.1
Other Revenues	11.8	5.4	8.0	9.0	10.0
Tax credits	14.3	14.8	15.3	10.6	6.3
Total Revenues i.e. VoP	120.7	152.3	157.3	161.0	165.3
Cost of Sales	-6.5	-10.6	-26.6	-34.8	-65.4
Labour Costs	-1.7	-3.4	-4.6	-4.8	-4.9
EBITDA	112.5	138.2	126.1	121.4	95.0
EBITDA Margin (%)	93.2%	90.8%	80.2%	75.4%	57.5%
Depreciation / Provisions	0.0	-0.1	-0.2	-0.3	-0.3
Amortization	-90.4	-114.7	-103.5	-98.6	-71.7
EBIT	22.0	23.5	22.4	22.6	23.1
EBIT Margin (%)	18.3%	15.4%	14.2%	14.0%	13.9%
Net Fin. charges & others	-0.6	-3.1	-1.1	-1.0	-0.9
Pre-Tax Profit	21.4	20.4	21.3	21.6	22.1
Taxes	-1.9	-1.9	-1.7	-3.1	-4.4
Net Profit	19.5	18.4	19.6	18.5	17.7

Source: Value-Track Analysis

ILBE: 2020A-24E Cash Flow Statement

(€mn)	2020A	2021A	2022E	2023E	2024E
EBITDA	112.5	138.2	126.1	121.4	95.0
Op. WC Requirements	-10.6	1.4	-4.8	-0.6	-0.5
Capex	-109.1	-147.4	-115.7	-114.5	-88.0
Change in Provisions	0.1	0.2	0.1	0.1	0.1
Cash Taxes	-1.9	-1.9	-1.7	-3.1	-4.4
OpFCF a.t.	-8.9	-9.5	4.0	3.3	2.2
Capital Injection	0.0	0.0	0.0	0.0	0.0
Other (Incl. Fin. Inv.)	-5.7	-2.4	-0.6	0.0	0.0
Net Financial Charges	-0.4	-1.8	-1.1	-1.0	-0.9
Change in Net Fin. Position	-15.1	-13.7	2.3	2.3	1.3

Source: Value-Track Analysis

ILBE: 2020A-24E Balance Sheet

(€mn)	2020A	2021E	2022E	2023E	2024E
Net Working Capital	5.9	4.6	9.3	9.9	10.4
Net Fixed Assets	77.2	111.0	123.7	139.4	155.5
Provisions	0.5	0.7	0.8	0.9	1.0
Capital Employed	82.7	114.9	132.2	148.5	164.9
Group Net Equity	67.0	85.6	105.2	123.7	141.5
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	-15.7	-29.3	-27.0	-24.7	-23.4

Source: Value-Track Analysis

ILBE: 2020A-24E Key ratios

(€mn)	2020A	2021A	2022E	2023E	2024E
NWC / Sales (%)	6.3%	3.5%	7.0%	7.0%	7.0%
ROE	34.0%	24.1%	20.6%	16.2%	13.4%
RoCE (before taxes)	33.7%	23.8%	18.1%	16.1%	14.7%
Net Debt / adj. EBIT	0.69	1.20	1.21	1.09	1.02

Source: Value-Track Analysis

Valuation

We cut our fair value for the stock from €5 per share to €4.2, due to i) the impact of slightly lower forecasts in terms of FCF and ii) less bullish assumptions in term of fair relative multiples, following a less attractive outlook for ILBE returns and cash flow generation. The fair value still comes as an average of relative multiples - supported also by a valuation based on relative EFCF yield on “normalised” / medium term FCF - and DCF.

The key point for ILBE investment case is in our view more related to the need of potential trigger for the stock rerating, rather than value in itself, which is there and visible since sometime. Our reduced fair value hence factors this element of uncertainty and the potential longer term horizon to get to a positive free cash flow, which we see as the potential trigger, i.e. the evidence of the actual return and sustainability of ILBE business model. Despite the more cautious approach and the related cut in fair value the stock still offers a material upside of more than 90%.

ILBE: Sensitivity of multiples to share price

Sh. Price	Mkt Cap (€mn)	EV (€mn)		EV / Sales (x)		EV / EBIT (x)		P / E (x)	
		2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
€ 2.2	77	106.4	104.5	0.7	0.6	4.7	4.6	3.9	4.2
€ 2.7	95	123.9	122.0	0.8	0.8	5.4	5.3	4.8	5.1
€ 3.2	112	141.4	139.5	0.9	0.9	6.2	6.1	5.7	6.0
€ 3.7	130	158.9	157.0	1.0	1.0	7.0	6.9	6.6	7.0
€ 4.2	147	176.4	174.5	1.1	1.1	7.8	7.7	7.5	7.9

Source: Value-Track Analysis

Revisiting fair multiples for ILBE

In terms of market multiples, the stock is currently trading at deep discount to peers, following a lacklustre performance YTD (-18% vs -1% for Euronext Growth YTD, with only Mondo TV witnessing a weaker performance).

As shown in the table below ILBE trades on 4.6x-4.5x 2022-23E EV/EBIT, compared to a median for Italian names of 6.9x-6.7x and to average 11.8x-8.4x for the three peers focused on production of animation. It is worth to underline also that

- ◆ all the **Italian players have significantly changed their revenues mix in 2021** as, following the pandemic, they all pushed on the production/executive production activities in order to offset the collapse in the revenues stream from film distribution and/or cinema management. As a result, all the peers considered now run also a production/executive production business and compete to some extent with ILBE;
- ◆ we may say that **momentum on cinema business/theatrical revenues has bottomed** in most Western countries, following the gradual re-openings, and in a few cases the streaming / OTTs platforms have replaced cinemas in assuring a good return for content libraries in 2021.
- ◆ in 2021 ILBE has started to **strengthen investments**, including **in-house development** of new productions / IPs and rights of **distribution** as part of the executive production and service activity. The corollary of the latter is that a) distribution has a different risk profile and b) it tends to dilute the benefits of executive productions in terms of financial cycle; albeit we reckon it may prove a favourable bet in the medium term.

ILBE: Peers' stock trading multiples

Company	EV / EBIT (x)			P / E (x)		
	2021A	2022E	2023E	2021A	2022E	2023E
Notorious Pictures SpA	15.6	7.7	6.3	10.1	6.3	5.1
Leone Film Group SpA	12.4	12.3	7.4	6.3	6.7	3.8
Lucisano Media Group	12.9	6.1	7.0	5.3	3.9	nm
Mondo TV	8.4	4.2	2.6	8.3	7.0	5.2
Xilam Animation	24.8	21.6	15.1	30.1	30.2	20.3
Thunderbird Entertainment Group	14.7	11.8	8.4	32.9	27.9	14.0
Average	14.8	10.6	7.8	15.5	13.7	9.7
Median	13.8	9.8	7.2	9.2	6.8	5.2
ILBE	4.5	4.6	4.5	4.1	3.9	4.1

Source: Value Track Analysis

At this point it is worth to understand why a young company, whose top line has grown by 4.4x in the last three years, trades at such a deep value both in absolute and relative terms. We believe that the key reason for such a growing discount is the poor FCF generation of ILBE, as it is no longer justified by a buoyant top line growth: in short the question is related to the actual return of ILBE business model, beyond its start-up phase and post pandemic.

These concerns come as a consequence of a few trends which are becoming evident, also due to the pandemic effects in our view:

- lower margins on new productions;

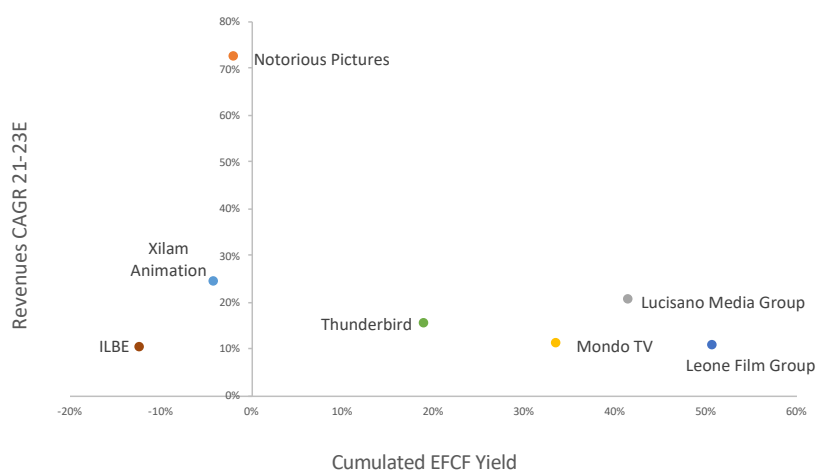
- weakening stream of back-end revenues from recent productions compared to initial expectations;
- increasing capital requirements of productions;
- increasing NWC requirements.

In short the pandemic outbreak has definitely accelerated the OTTs penetration and has triggered a strong content demand at worldwide level, benefitting also small producers as ILBE, but it seems also it has triggered competition, changed the rules and terms of content provisioning, as well as the contents’ “life cycle” and hence their economic return. In financial terms all this seems to translate for ILBE into decreasing return on capital and an increasing capital requirement to support growth, with a few key effects:

- 1) it may take a few years for the company to “digest” these changes and reach a balanced combination of free cash flow and growth and in the meantime margins deteriorate limiting EBIT and EPS growth;
- 2) ILBE is unlikely to generate material FCF over our forecast horizon (2022-2024), also because all the above combines with its status of independent and young company, and since its listing in 2018 it is investing a lot to build its slate, i.e. capex on new contents and rights has always been much higher than D&A;
- 3) it is reasonable to assume that ILBE should start generate a “normalized” cash flow from 2025 onwards, when the bulk of the business put in place over 2020-2021 will be not only mirrored in the P&L, but also turned into cash in order to fund new business.

The chart below shows all the peers considered on the back of i) their cumulated EFCF yield (over 2021-23E) and ii) the expected top line growth (CAGR 2021-23E) and it suggests that most names are expected to deliver sound free cash flow generation and/or strong top line growth, while ILBE is positioned in the lower quartile, with a weaker combination of the two.

ILBE: EFCF Yield vs Revenue Growth



Source: Value Track

Due to this feature, which we expect to persist until 2024 according to our forecasts, we assume ILBE fair multiples do not deserve any premium to peers’, at least until it proves what is the sustainable return of its business model.

In terms of multiples, we keep considering EV/EBIT and P/E our preferred ones for this industry, being EBITDA not very meaningful for the industry.

Hence, we assume as fair market multiples for ILBE, the median 2022-23E EV/EBIT and P/E of the whole peers group, i.e. 9.8x-7.2x and 6.8x-5.2x respectively, which imply a discount to international names (Xilam and Thunderbird) and a premium to domestic peers, all well below their target price, according to consensus.

The **fair value per share** indicated in the table below, and based on the assumptions above, is **€4.0**.

ILBE: Fair Value based on peer's multiples

	EV / EBIT (x)			P / E (x)		
	2021A	2022E	2023E	2021A	2022E	2023E
Total Peers' Average	14.8	10.6	7.8	15.5	13.7	9.7
Total Peers' Median	13.8	9.8	7.2	9.2	6.8	5.2
Fair Multiple ILBE (x)		9.8	7.2		6.8	5.2
Fair Value ILBE (€mn)		191	138		134	97
Fair Value ILBE (€ p/sh.)		5.4	3.9		3.8	2.8
Average (€ p/sh.)				4.0		

Source: Value Track Analysis

The €5 fair value per share is still at reach, but it may take much longer

If the main hurdle to the stock rerating is the weak cash flow generation, how much could the stock value improve, should ILBE start generating a positive free cash flow? Is the fair EV/EBIT multiple indicated above factoring the below-average free cash flow generation of ILBE relative to peers?

In order to answer the questions above, we make the following two assumptions:

- ◆ after year 2024 ILBE could generate ca €16mn per year in terms of EFCF - in line with net profit, assuming D&A equal capex and NWC is normalised:
- ◆ “fair” EFCF yield is equal to 9% (i.e. the current FY22E average of the peers' group), which is a relatively cautious assumption, considering all stocks are trading well below their consensus target prices.

Based on these assumptions, we get to a “fair” equity value of €5.0 (per share), with a 3-year horizon.

Hence, provided the company at a certain moment in time starts generating a FCF consistent with its turnover and industry standards, we could see a valuation in line with our previous fair value. However, this will take longer than expected and translates into a lower current value: €4.0 per share (discounted at WACC), which implies a rating in line with peers, as from our relative multiples valuation.

ILBE: Fair Value based on normalized EFCF yield

€mn	
Normalized EFCF (2025E)	€16mn
Fair EFCF Yield (2022E of peers)	9.0%
Normalized Equity Medium Term	€177.5
Equity Medium Term Per Share	€5.0
Current Value (2022 NPV @ WACC)	€4.0

Source: Value-Track Analysis

DCF

We have update our DCF model on the back of revised forecasts and moving valuation date to December 2022: it gives back an equity value p/share of €4.4, in line with the past and still very much dependent upon terminal value, as free cash flow remains thin until 2025E, as discussed above.

ILBE: WACC calculation

Risk free	2.0%
Risk Premium	6.4%
Credit spread	3.0%
Beta Levered	0.88
Small Cap Mkt Risk Premium	1.00%
Cost of Equity	8.64%
Cost of Debt a.t.	3.80%
D/D+E	10.0%
WACC	8.15%

Source: Value Track Analysis

ILBE: DCF valuation

	€mn
PV of future cash flows (2022-2027E)	43.2
PV of Terminal value	137.8
Fair Enterprise value	181.1
Fair Equity value	153.6
Shares (mn)	35.3
Fair Equity Value p.s.	4.36

Source: Value Track Analysis

Sensitivity analysis of price p/s from DCF

	WACC (%)	PGR (%)				
		-1.00%	-0.50%	0.00%	0.50%	1.00%
	7.7%	4.3	4.5	4.8	5.0	5.4
	7.9%	4.1	4.3	4.5	4.8	5.1
	8.2%	3.9	4.1	4.4	4.6	4.9
	8.4%	3.8	4.0	4.2	4.4	4.7
	8.7%	3.6	3.8	4.0	4.2	4.5

Source: Value Track Analysis

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