

# Casta Diva

Sector: Business Services



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## Combining M&A and organic growth

Casta Diva Group (CDG) is active in Digital & Live Communication and in Video Content Production, mainly focusing on corporate clients, but with an exposure also to individual target audience.

### M&A deal in video content production: Akita Film

After widening its digital and live communication offer with Genius Progetti and We Are Live in 2022, CDG has recently finalized the acquisition of 100% stake of Akita Film, a leading Italian company active in the production of TV commercials. In FY22 Akita Film group recorded €14.7mn Value of Production and €2.8mn EBITDA. CDG is paying €8.3mn, i.e. 3.5x the last three years average EBITDA. In our calculations, the deal is earnings enhancing and value accretive.

### Other minor M&A moves recently finalized

In the latest couple of months CDG has finalized further moves related to M&A deals of the recent past: 1) Squeeze out of Genius minorities (€1mn cash out) and, 2) Ultimate acquisition of Overseas business (previously managed on a leasing basis, €2mn cash out).

### FY23E l-f-l more than on track

We feel that CDG is continuing to outperform the competition. Indeed, news flow on current business trading remains healthy:

- ◆ VoP 1H23 was €50.5mn, +21% (all organic) vs. €41.7mn in 1H22;
- ◆ VoP 9M23 was ca. €71mn, +28% y/y (all organic) vs. €56mn in 9M22;
- ◆ Backlog as of end of September stood of ca. €15mn, thus meaning that 99% of FY23E targeted revenues was already secured at that date.

### 2024E-25E obviously dependent on macro evolution

We're revising 2024E onwards estimates mainly to take into account the impact of M&A activity, and also to fine tune l-f-l estimates. In 2024E, we now expect CDG to post ca. €115mn Value of Production and €11.1mn EBITDA, with less than €2mn of Net Debt. The M&A driven snowball effect is definitively taking place.

### Fair Value at €2.00 p/s (from €1.85)

We are revising upward CDG fair value to €2.00 p.s. (from €1.85) on the back of (i) Akita deal value accretion, (ii) roll-out of fair multiples from FY23E to FY24E. At fair value CDG would trade at 4.0x EV/EBITDA 2024E, in line with peers', while still at large discount with respect to EV/Sales and EV/EBIT multiples.

<b>Fair Value (€)</b>	<b>2.00</b>
<b>Market Price (€)(*)</b>	<b>1.25</b>
<b>Market Cap. (€m)(*)</b>	<b>25.1</b>

KEY FINANCIALS (€mn)	2022A	2023EPF	2024E
VALUE OF PRODUCTION	84.0	107.0	114.9
EBITDA	6.3	8.7	11.1
EBIT	3.9	5.4	7.0
NET PROFIT	1.5	2.5	3.6
EQUITY	8.2	10.1	13.0
NET FIN. POS.	2.8	-5.9	-1.3
EPS ADJ. (€)	0.09	0.14	0.25
DPS (€)	0.03	0.04	0.06

Source: Casta Diva (historical figures)

Value Track (2023EPF-24E), 2023EPF with Akita for 12 months

KEY RATIOS (*)	2022A	2023E	2024E
EBITDA MARGIN (%)	7.5	8.1	9.7
NET DEBT / EBITDA (x)	nm	0.7	0.1
ROE (%)	19.5	23.4	29.6
EV/SALES (x)	0.09	0.32	0.25
EV/EBITDA (x)	1.2	3.9	2.6
EV/EBIT (x)	2.0	6.3	4.1
P/E ADJ. (x)	5.8	8.8	5.1
DIV YIELD (%)	5.2	3.1	5.1

Source: Casta Diva (historical figures)

Value Track (2023EPF-24E), 2023EPF with Akita for 12 months

### STOCK DATA (\*)

MARKET PRICE (€)	1.25
SHS. OUT. (m)	20.0
MARKET CAP. (€m)	25.1
ENTERPRISE VALUE (€m)	33.8
FREE FLOAT (%)	42.1
AVG. -20D VOL. ('000)	85,250
RIC / BBG	CDG.MI / CDG.IM
52 WK RANGE	0.64 - 1.49

Source: Stock Market Data

(\*) Stock price as of 20/11/2023 market open



## Business Description

Casta Diva Group is a communication company operating in branded content, advertising productions, films, tv programming, corporate events, viral videos, digital content and live music shows. A pocket-sized multinational with a presence in fourteen cities across four continents. Casta Diva Group team has worked successfully with over 100 of the world's top brands.

In August 2016 Casta Diva Group went public and is currently listed on the EGM under the ticker CDG.

## Key Financials

€mn	2022A	2023EPF	2024E	2025E
<b>Value of Production</b>	<b>84.0</b>	<b>107.0</b>	<b>114.9</b>	<b>122.3</b>
y/y (%)	nm	27.4%	7.4%	6.4%
<b>EBITDA</b>	<b>6.3</b>	<b>8.7</b>	<b>11.1</b>	<b>12.6</b>
EBITDA Margin (% of VoP)	7.5%	8.1%	9.7%	10.3%
<b>EBIT</b>	<b>3.9</b>	<b>5.4</b>	<b>7.0</b>	<b>8.4</b>
EBIT Margin (% of VoP)	4.6%	5.0%	6.1%	6.8%
<b>Net Profit</b>	<b>1.5</b>	<b>2.5</b>	<b>3.6</b>	<b>4.7</b>
y/y (%)	nm	65.2%	65.0%	29.9%
<b>Adjusted Net Profit</b>	<b>1.9</b>	<b>2.8</b>	<b>4.9</b>	<b>6.0</b>
y/y (%)	nm	53.2%	94.9%	21.9%
<b>Net Fin. Position</b>	<b>2.8</b>	<b>-5.9</b>	<b>-1.3</b>	<b>1.6</b>
Net Fin. Pos. / EBITDA (x)	nm	0.7	0.1	nm
Capex	-2.1	-1.5	-2.3	-2.4
<b>OpFCF b.t.</b>	<b>10.9</b>	<b>3.3</b>	<b>8.8</b>	<b>10.7</b>
OpFCF b.t. as % of EBITDA	174.3%	38.0%	78.8%	84.8%

Source: Casta Diva (historical figures), Value Track (estimates, 2023EPF Akita for 12 months)

## Investment Case

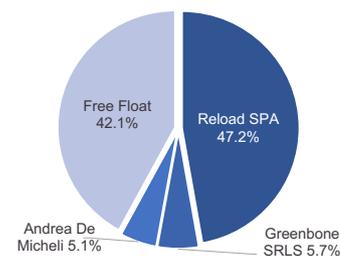
### Strengths / Opportunities

- ◆ Among top three players in Italy in its sector;
- ◆ Long-lasting retention of highly spending clients;
- ◆ Opportunity to act as consolidator of a fragmented market thanks to stock market listing.

### Weaknesses / Risks

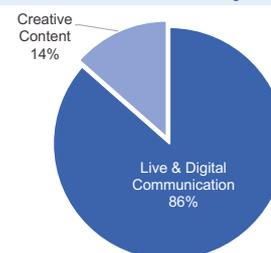
- ◆ Highly competitive market environment with players from neighbouring industries;
- ◆ Market exposed to macroeconomic shocks.

## Shareholders Structure



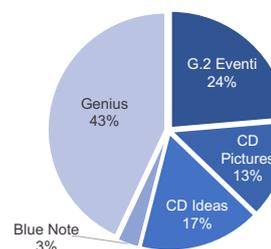
Source: Casta Diva, Value Track Analysis

## Revenues from Sales by BU



Source: Casta Diva, Value Track Analysis, FY22

## Revenues from Sales by Legal Entity



Source: Casta Diva, Value Track Analysis, FY22

## Stock multiples @ €2.00 Fair Value

	2023EPF	2024E
EV / SALES (x)	0.46	0.39
EV / EBITDA (x)	5.6	4.0
EV / EBIT (x)	9.1	6.3
EV / CAP.EMP. (x)	3.1	3.1
OpFCF Yield (%)	6.7	19.9
P / E Adj. (x)	14.1	8.1
P / BV (x)	4.3	3.3
Div. Yield. (%)	1.9	3.2

Source: Value Track

## M&A activity: Akita Film SRL and more

After widening its digital and live communication offer with the acquisitions of Genius Progetti and We Are Live in 2022, Casta Diva Group on November 7<sup>th</sup>, 2023 announced the acquisition of 100% of the share capital of **Akita Film Srl**, one of the leading Italian TV commercial production companies.

### Akita Deal at a glance

**Akita Film Srl** (owner of the 100% of Akita Off Srl, together now as “Akita”) is an Italian company active in the production of TV commercials/spots worldwide for major brands and top spenders in the fast mover consumer goods, automotive, telco and entertainment industries. Examples of the brands served in the recent years range from Ferrero to Stellantis, CNH, Vodafone, Sky and more.

Akita is a well-structured production house with technical and logistical skills that have granted the creation of successful commercials for nearly two decades (Akita was founded back in 2004).

More, Akita has been able to establish preferential relationships with leading Italian and international filmmakers as well as partnerships with other European production companies.

In FY22 Akita reported €14.7mn Value of Production of (ca. 8% CAGR<sub>2019-22</sub>), €2.8mn EBITDA (EBITDA Margin at ca. 19% and EBITDA CAGR<sub>2019-22</sub> at ca. 84%), €2.7mn EBIT, €2.2mn Net Profit and ca. €300k Net Cash Position.

### Terms of the Akita deal

We believe the financial terms agreed by CDG are value enhancing. Indeed, **total consideration** for the 100% stake of Akita Film was agreed at ca. **€8.3mn**, out of which 65% (approximately €5.4mn) already cashed out at closing, while the remaining 35% (ca. €2.9mn) will be cashed out after 18 months from the closing date (June 2025). The entire consideration will be paid by Casta Diva without signing to new debt.

Based on FY22 financials, we calculate 0.45x EV/Sales, 2.4x EV/EBITDA (3.5x the last three years average EBITDA), 2.4x EV/EBIT and 3.7x P/E implicit transaction multiples. As such, the deal appears to be accretive from year one.

As part of the deal, Akita former shareholders (Paolo Zaninello and Davide Rizzi) will continue to manage the company as directors with proxies. Fabio Nesi (current CDG shareholder and CEO of Casta Diva Pictures SRL) will also become chairman of Akita BoD.

### Akita deal rationale

We see three main industrial positives in the deal:

- ◆ It materially strengthens CDG competitive positioning in the video content production market. Indeed, the size of CDG in this business nearly doubles;
- ◆ It brings additional strong expertise and connections in the advertising film production area;
- ◆ It should unlock some cross selling synergies with clients currently served by Akita that from now could be addressed also by the Live Event BU.

### Other minor M&A moves recently finalized

We flag that in the latest couple of months CDG has finalized further moves related to M&A deals of the recent past:

- ◆ Squeeze out of Genius minorities (10% stake, €1mn cash out, in line with our estimates);
- ◆ Ultimate acquisition of Overseas business (previously managed on a leasing basis, €2mn cash out, some €0.5mn higher than our estimates).

## FY23E: Business more than on track

We feel that CDG is continuing to outperform the competition. Indeed, news flow on current business trading remains healthy.

### 1H23 results

- ◆ VoP 1H23 was €50.5mn, +21% (all organic) vs. €41.7mn in 1H22;
- ◆ Profitability ratios in 1H23 flat y/y (EBITDA Margin at 8.2%, stable y/y);
- ◆ Net Cash end of June 2023 at €0.9mn, well under control despite €5mn cash absorption of Net Working Capital (and, more specifically the reduction of ca. €7mn Trade Payables).

### Casta Diva Group: Key Financials 1H21-1H23

(IT GAAP, €mn)	1H21	1H22	1H23	y/y
Value of Production	10.2	41.7	50.5	21%
EBITDA Adj.	-0.3	3.4	4.1	21%
EBITDA Adj. Margin (%)	-2.7%	8.2%	8.2%	0bps
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	//	2.8 (*)	0.9	-1.9

Source: Casta Diva, Value Track Analysis, (\*) FY22

In terms of 1H23 Revenues breakdown, we highlight:

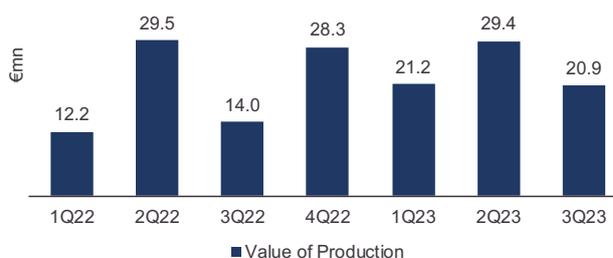
- ◆ **Digital & Live Communication** business unit at €44.9mn, +21% y/y vs. €35.3mn in 1H22, referred to corporate events and, in a smaller part, to the Blue Note venue (B2C);
- ◆ **Video Content Production** at €5.6mn, -11% y/y because of the Company effort (time and money) to enter the new field of scripted TV programs (e.g., movies, tv series, fictions), which should bear fruit from 4Q23 onwards (new partnership with RAI already in place).

Please see Appendix for more details on 1H23 financial results.

### 9M23 Update

- ◆ VoP 9M23 was ca. €71mn, +28% y/y (all organic) vs. €56mn in 9M22. In 3Q23, VoP was up +49% y/y;
- ◆ Backlog as of end of September at ca. €15mn, thus meaning that 99% of FY23E targeted revenues was already secured at that date.

### Casta Diva Group: Value of Production evolution quarter by quarter 2022-2023



Source: Casta Diva, Value Track Analysis

## Forecasts 2023E-25E

We are reviewing our 2023E-25E estimates to take into account:

- ◆ The impact of Akita acquisition, i.e. Akita's financials plus the €5.4mn cash out for the deal plus amortization charges related to goodwill arising from deal accounting;
- ◆ The higher cash out of other minor M&A deals vs. our estimates, i.e. ca. €3mn cash out for Genius and Overseas vs. our €2.5mn estimate, and the subsequent abatement of minorities from 2023E onwards;
- ◆ Fine tuning of "old perimeter" estimates, with a bit more cautious approach related to uncertainties to macroeconomic evolution.

We underline that our 2023E estimates are now on a pro-forma basis as they take into account Akita's financials for twelve months. However, it's not clear yet if it will be officially possible to consolidate Akita 2023E financials retroactively as of January 1<sup>st</sup> (as it was with Genius deal back in 2022).

### Casta Diva Group: Value Track Old vs. New Estimates

(IT GAAP, €mn)	2023PFE			2024E			2025E		
	Old	Old I-f-I	New	Old	Old I-f-I	New	Old	Old I-f-I	New
Value of Production	93.8	93.8	107.0	100.4	100.4	114.9	106.3	106.3	122.3
EBITDA	7.0	6.7	8.7	8.9	8.5	11.1	10.2	10.0	12.6
EBITDA Margin (%)	7.5%	7.1%	8.1%	8.9%	8.5%	9.7%	9.6%	9.4%	10.3%
<b>EBITDA Adj.</b>	<b>7.7</b>	<b>7.3</b>	<b>9.3</b>	<b>8.9</b>	<b>8.5</b>	<b>11.1</b>	<b>10.2</b>	<b>10.0</b>	<b>12.6</b>
EBITDA Adj. Margin (%)	8.2%	7.8%	8.7%	8.9%	8.5%	9.7%	9.6%	9.4%	10.3%
EBIT Adj.	5.1	4.7	6.0	7.1	6.0	7.0	8.2	7.4	8.4
EBIT Adj. Margin (%)	5.4%	5.0%	5.6%	7.0%	6.0%	6.1%	7.8%	7.0%	6.8%
<b>Net Financial Position</b>	<b>0.4</b>	<b>0.0</b>	<b>-5.9</b>	<b>5.5</b>	<b>4.6</b>	<b>-1.3</b>	<b>8.6</b>	<b>7.5</b>	<b>1.6</b>

Source: Value Track Analysis

After our estimates revision that takes into account Akita deal, it's straightforward that the existing Industrial Plan released by CDG back in April 2023 is no more valid. Indeed, CDG has announced that it will update the Industrial Plan financial targets soon.

### Casta Diva Group: Business Plan Targets vs. Value Track Estimates

(IT GAAP, €mn)	2023EPF			2024E			2025E		
	CDG	VT	Δ	CDG	VT	Δ	CDG	VT	Δ
Value of Production	87.2	107.0	23%	94.4	114.9	22%	105.3	122.3	16%
EBITDA Adj.	6.7	9.3	38%	7.9	11.1	41%	11.1	12.6	14%
EBITDA Adj. Margin (%)	7.7%	8.7%	99bps	8.4%	9.7%	130bps	10.5%	10.3%	-21bps
EBIT Adj.	4.7	6.0	28%	5.9	7.0	19%	9.0	8.4	-7%
EBIT Adj. Margin (%)	5.4%	5.6%	23bps	6.3%	6.1%	-15bps	8.5%	6.8%	-171bps
<b>Net Financial Position</b>	<b>3.3</b>	<b>-5.9</b>	<b>-9.2</b>	<b>3.9</b>	<b>-1.3</b>	<b>-5.2</b>	<b>4.5</b>	<b>1.6</b>	<b>-2.9</b>

Source: Value Track Analysis

## Financial Statements 2022A-25E

### Casta Diva Group: P&L 2022A-25E

(IT GAAP, €mn)	2022A	2023EPF	2024E	2025E
<b>Value of Production</b>	<b>84.0</b>	<b>107.0</b>	<b>114.9</b>	<b>122.3</b>
Operating Expenses	-77.7	-98.3	-103.8	-109.6
<b>EBITDA</b>	<b>6.3</b>	<b>8.7</b>	<b>11.1</b>	<b>12.6</b>
<i>EBITDA Margin (%)</i>	<i>7.5%</i>	<i>8.1%</i>	<i>9.7%</i>	<i>10.3%</i>
D&A	-2.4	-3.3	-4.1	-4.3
<b>EBIT</b>	<b>3.9</b>	<b>5.4</b>	<b>7.0</b>	<b>8.4</b>
<i>EBIT Margin (%)</i>	<i>4.6%</i>	<i>5.0%</i>	<i>6.1%</i>	<i>6.8%</i>
Net Financial Charges	-0.5	-1.1	-1.2	-1.1
Taxes	-1.6	-1.8	-2.2	-2.5
Minorities	-0.3	-0.0	0.0	0.0
<b>Net Profit</b>	<b>1.5</b>	<b>2.5</b>	<b>3.6</b>	<b>4.7</b>

Source: Casta Diva, Value Track Analysis

### Casta Diva Group: Balance Sheet 2022A-25E

(IT GAAP, €mn)	2022A	2023EPF	2024E	2025E
Net Fixed Assets	13.4	20.1	18.3	19.4
Net Working Capital	-6.9	-2.9	-2.8	-3.3
Provisions	1.1	1.2	1.3	1.3
<b>Total Capital Employed</b>	<b>5.4</b>	<b>16.0</b>	<b>14.3</b>	<b>14.8</b>
<b>Group Net Equity</b>	<b>8.2</b>	<b>10.1</b>	<b>13.0</b>	<b>16.4</b>
<b>Net Fin. Position [i.e. Net Debt (-) Cash (+)]</b>	<b>2.8</b>	<b>-5.9</b>	<b>-1.3</b>	<b>1.6</b>

Source: Casta Diva, Value Track Analysis

### Casta Diva Group: Cash Flow Statement 2022A-25E

(IT GAAP, €mn)	2022A	2023EPF	2024E	2025E
EBITDA	6.3	8.7	11.1	12.6
Capex	-2.1	-1.5	-2.3	-2.4
Δ Net Working Capital, Provisions	6.7	-3.9	-0.1	0.5
<b>OpFCF b.t.</b>	<b>10.9</b>	<b>3.3</b>	<b>8.8</b>	<b>10.7</b>
<i>As a % of EBITDA</i>	<i>174%</i>	<i>38%</i>	<i>79%</i>	<i>85%</i>
Cash Taxes	-1.6	-1.8	-2.2	-2.5
<b>OpFCF a.t.</b>	<b>9.4</b>	<b>1.5</b>	<b>6.6</b>	<b>8.2</b>
Net Financial Charges	-0.4	-1.0	-1.1	-1.0
Dividends Paid	0.0	-0.6	-0.8	-1.3
Financial Investments	-4.2	-8.5	0.0	-2.9
Others (incl. Financial Investments)	-0.3	-0.1	-0.1	-0.1
<b>Δ Net Financial Position</b>	<b>4.4</b>	<b>-8.6</b>	<b>4.6</b>	<b>2.9</b>

Source: Casta Diva, Value Track Analysis

## Valuation

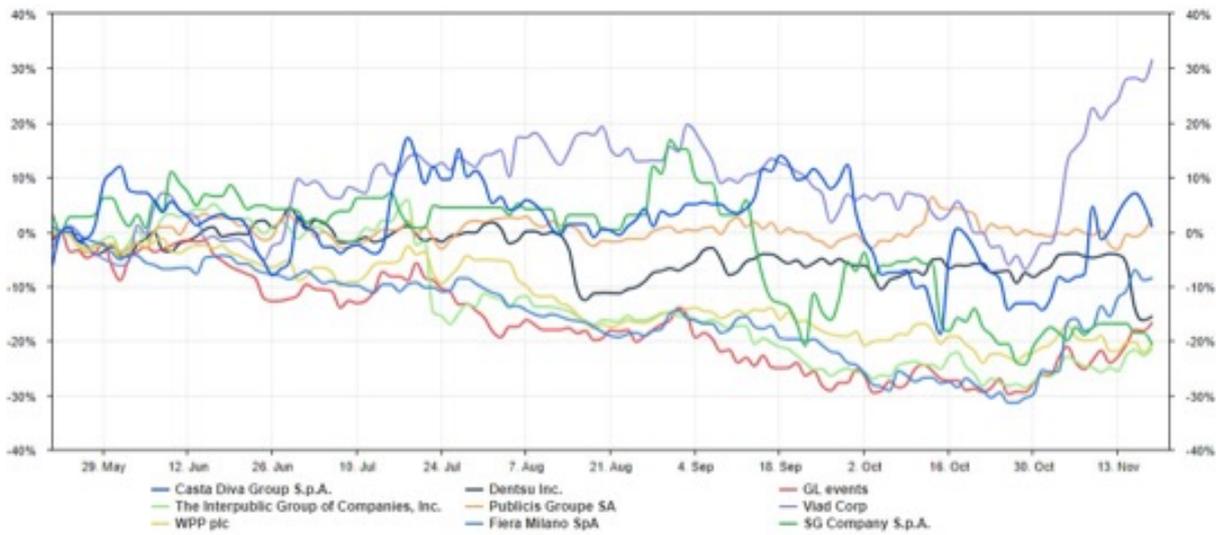
We revise CDG Fair Equity Value upwards to €2.00 p.s. (from €1.85 p.s.) on the back of Akita deal value accretion and of roll-out of fair multiples from FY23E to FY24E.

At our €2.00 p/s fair value, CDG would trade at 4.0x EV/EBITDA 2024E, in line with peers', while still at large discount with respect to EV/Sales and EV/EBIT multiples.

We flag that the mood on the sector is mixed, as stock multiples suffered a derating in the latest six months but stock prices in the latest month have experienced a small rebound. We hint that CDG is outperforming peers in terms of business stance.

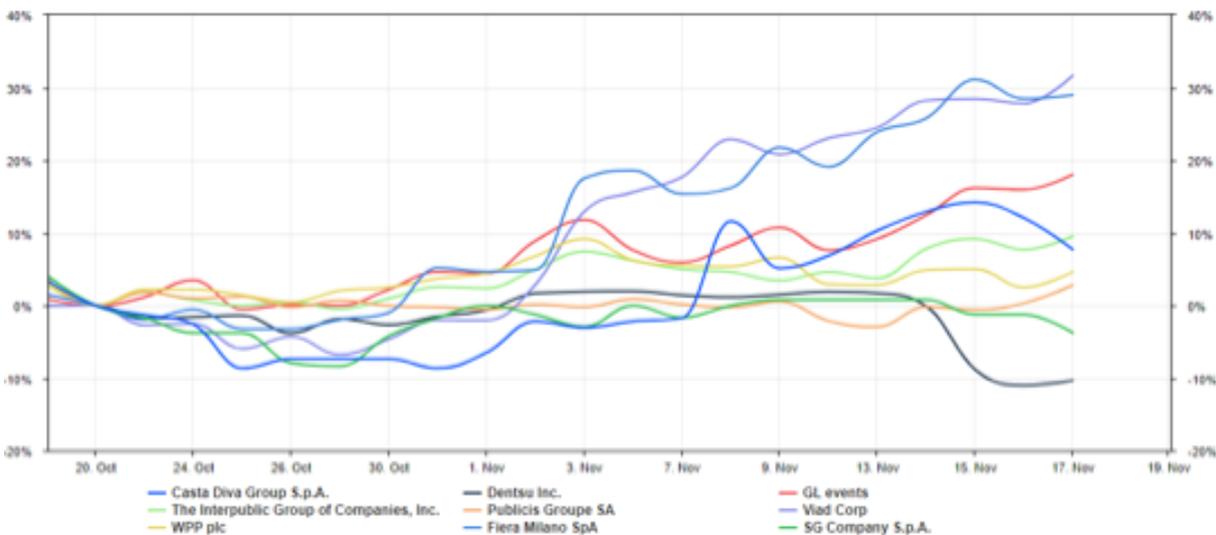
Last but not least, DCF cross check (obviously, not the best valuation tool to address companies heavily exposed to macroeconomic swings) returns a €2.91 fair value per share.

### Casta Diva Group: Daily Stock Performance vs. Peers -6M



Source: S&P Capital IQ, Value Track Analysis

### Casta Diva Group: Daily Stock Performance vs. Peers -1M



Source: S&P Capital IQ, Value Track Analysis

**Casta Diva Group: Multiples Sensitivity at Various Stock Price Levels**

Fair Equity Value p/s (€)	EV/Sales (x)			EV/EBITDA (x)			EV/EBIT (x)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
€ 1.25	0.32	0.25	0.19	3.9	2.6	1.9	6.3	4.1	2.8
€ 1.40	0.34	0.28	0.22	4.3	2.9	2.1	6.8	4.6	3.2
€ 1.55	0.37	0.31	0.24	4.6	3.2	2.3	7.4	5.0	3.5
€ 1.70	0.40	0.33	0.27	4.9	3.4	2.6	8.0	5.4	3.9
€ 1.85	0.43	0.36	0.29	5.3	3.7	2.8	8.5	5.9	4.2
€ 2.00	0.46	0.39	0.31	5.6	4.0	3.0	9.1	6.3	4.6

Source: Value Track Analysis

**Casta Diva Group: Peers Trading Multiples**

Peers	EV/Sales (x)			EV/EBITDA (x)			EV/EBIT (x)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
<b>Digital &amp; Live Communication</b>									
Dentsu	0.60	0.56	0.51	3.8	3.2	2.7	6.2	4.4	3.8
GL Events	0.76	0.69	0.63	4.6	4.0	3.6	7.8	6.5	5.6
Interpublic	1.25	1.15	1.07	6.7	6.1	5.7	7.5	6.9	6.3
Publicis	1.36	1.25	1.15	6.1	5.6	5.1	7.6	6.9	6.4
Viad	0.70	0.66	0.63	6.1	4.9	4.6	10.0	7.6	7.1
WPP	0.85	0.80	0.74	4.4	4.3	4.0	5.6	5.2	4.7
Fiera Milano	1.82	1.70	1.13	6.2	6.0	3.1	17.8	23.7	5.9
SG Company	0.34	0.24	nm	5.7	2.4	nm	6.8	3.0	nm
<b>Average</b>	<b>0.96</b>	<b>0.88</b>	<b>0.84</b>	<b>5.4</b>	<b>4.6</b>	<b>4.1</b>	<b>8.7</b>	<b>8.0</b>	<b>5.7</b>
<b>Median</b>	<b>0.80</b>	<b>0.74</b>	<b>0.74</b>	<b>5.9</b>	<b>4.6</b>	<b>4.0</b>	<b>7.5</b>	<b>6.7</b>	<b>5.9</b>
<b>Video Content Production</b>									
Notorious Pictures	1.15	0.87	0.44	2.4	1.8	0.7	7.5	5.1	2.5
Leone Film Group	0.87	0.67	nm	1.6	1.2	nm	10.7	8.2	nm
Lucisano Media Group	1.01	0.80	nm	2.6	2.1	nm	12.1	9.5	nm
Lions Gate Entertainment	0.91	0.86	0.82	8.7	7.5	7.0	nm	19.6	17.2
Thunderbird Entertainment	0.32	0.30	nm	2.9	2.7	nm	nm	nm	nm
<b>Average</b>	<b>0.85</b>	<b>0.70</b>	<b>0.63</b>	<b>3.7</b>	<b>3.1</b>	<b>3.9</b>	<b>10.1</b>	<b>10.6</b>	<b>9.8</b>
<b>Median</b>	<b>0.91</b>	<b>0.80</b>	<b>0.63</b>	<b>2.6</b>	<b>2.1</b>	<b>3.9</b>	<b>10.7</b>	<b>8.9</b>	<b>9.8</b>
<b>Total Average</b>	<b>0.92</b>	<b>0.81</b>	<b>0.79</b>	<b>4.8</b>	<b>4.0</b>	<b>4.1</b>	<b>9.1</b>	<b>8.9</b>	<b>6.6</b>
<b>Total Median</b>	<b>0.87</b>	<b>0.80</b>	<b>0.74</b>	<b>4.6</b>	<b>4.0</b>	<b>4.0</b>	<b>7.6</b>	<b>6.9</b>	<b>5.9</b>
<b>Casta Diva Group</b>	<b>0.32</b>	<b>0.25</b>	<b>0.19</b>	<b>3.9</b>	<b>2.6</b>	<b>1.9</b>	<b>6.3</b>	<b>4.1</b>	<b>2.8</b>
<i>Discount vs. Total Average (%)</i>	-65%	-68%	-76%	-18%	-34%	-54%	-31%	-53%	-58%

Source: Market Consensus, Value Track Analysis

## Discounted Cash Flow Model

We always note that DCF model is, in our view, not the best valuation tool to address companies such as Casta Diva Group so heavily exposed to macroeconomic swings. That said, we can utilize it as a sanitary cross check by taking into account some sector specific adjustment.

### WACC and other assumptions

We calculate a “fair” 12.6% Rolling WACC for CDG (equal to the cost of equity) as a result of:

- ◆ 2.0% risk free rate in line with medium term target inflation;
- ◆ Implied Italian Equity Risk premium ERP at 6.44% (Source: Damodaran online web site);
- ◆ Unlevered Beta at 1.1x, and levered one at ca. 1.3x value that we deem fair for companies with such high volatility of economic and financial results;
- ◆ 2.5% Small Size Risk Premium, appropriate when dealing with small sized companies;
- ◆ 1.0% Macroeconomic Scenario Risk Premium;
- ◆ 4.0% pre-tax cost of debt;
- ◆ 0% debt / equity ratio.

Last but not least, Terminal value is calculated at 2030YE and obtained by applying a 1.0% Perpetuity Growth Rate, that we think consistent with average long term annual growth expectations for Italy.

### Casta Diva Group DCF based Fair Equity Value

We calculate a “fair” DCF based **€2.91 equity value per CDG share**, which is the result of:

- ◆ €67.0mn fair Enterprise Value, almost equally split between the present value of future explicit 2024E-30E cash flows and of Terminal Value at 2030E (implicit 5.1x TV/EBITDA30E);
- ◆ €5.9mn Net Debt, €2.9mn adjustment for Treasury shares and Akita vendor loan.

#### Casta Diva: DCF model

€mn	g=1.0%
PV of future cash flows (2023E-30E, €mn)	34.6
PV of Terminal value (€mn)	32.4
TV / EBITDA 2030E (x)	5.1x
<b>Fair Enterprise value (€mn)</b>	<b>67.0</b>
Net Fin. Position 2022E	-5.9
Adjustments (e.g. Treasury shares, Akita vendor loan)	-2.9
<b>Casta Diva Group Fair Equity value (€mn)</b>	<b>58.2</b>
Number of shares (mn)	20.0
<b>Casta Diva Group Fair Equity value per share (€)</b>	<b>2.91</b>

Source: Value Track Analysis

## Appendix: recap of 1H23 results

CDG reported the following results for 1H23:

- ◆ **Value of Production 1H23 at €50.5mn**, +21% (all organic) vs. €41.7mn in 1H22;
- ◆ **Value of Production 9M23 at ca. €71mn**, +28% y/y (all organic) vs. €56mn in 9M22;
- ◆ **EBITDA Adj. 1H23** (for extraordinary expenses of €641k) at **€4.1mn**, +21% y/y;
- ◆ **EBITDA Adj. Margin 1H23 at 8.2%**, in line with 1H22;
- ◆ **Net Cash of €0.9mn** as of June 30<sup>th</sup>, ca. €2mn down vs. €2.8mn of December 2022.

### Casta Diva Group: Key Financials 1H21-1H23

(IT GAAP, €mn)	1H21	1H22	1H23	y/y
Value of Production	10.2	41.7	50.5	21%
EBITDA Adj.	-0.3	3.4	4.1	21%
EBITDA Adj. Margin (%)	-2.7%	8.2%	8.2%	0bps
EBIT Adj.	-0.7	2.5	2.8	14%
EBIT Adj. Margin (%)	-6.9%	5.9%	5.6%	-30bps
Net Fin. Position [i.e. Net Debt (-) Cash (+)]	//	2.8 (*)	0.9	-1.9

Source: Casta Diva, Value Track Analysis, (\*) FY22

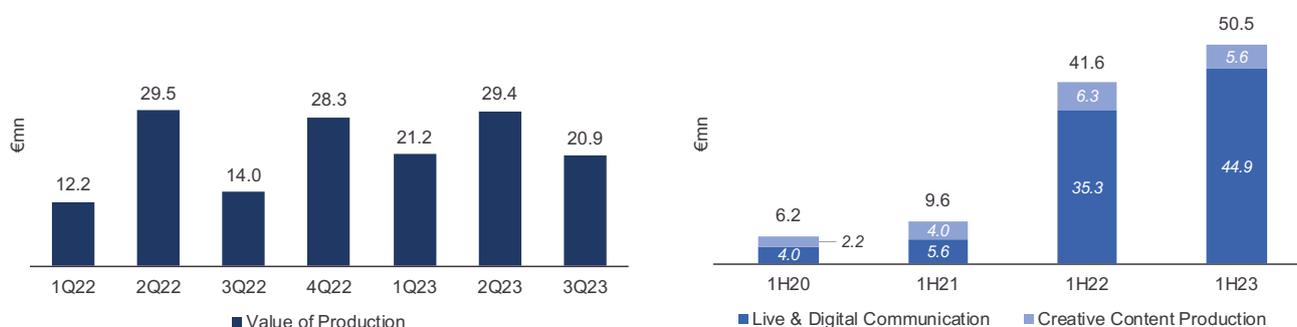
### Key message # 1: Top Line continuing to grow healthy

CDG reported 1H23 **Value of Production** at €50.5mn (+21 y/y). Brilliant results considering that is all organic growth and that FY22 has been the best year in the history of the Group.

In terms of 1H23 Revenues breakdown, we highlight:

- ◆ **Digital & Live Communication** business unit at €44.9mn, +21% y/y vs. €35.3mn in 1H22, referred to corporate events (organized by G2 Eventi, Casta Diva Ideas and Genius Progetti, which also includes the brand We Are Live) and, in a smaller part, to the Blue Note venue (B2C);
- ◆ **Video Content Production** at €5.6mn, -11% y/y because of the Company dedication (time and money) to enter the new field of scripted TV programs (e.g., movies, tv series, fictions), which should bear fruit from 4Q23 onwards (new partnership with RAI already in place).

### Casta Diva Group: Value of Production Evolution by Quarters and Revenues from Sales Breakdown by Semesters

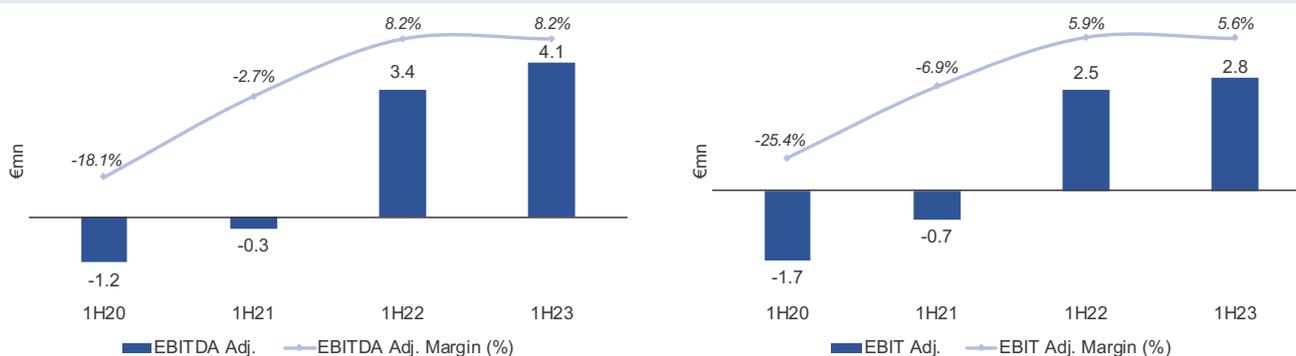


Source: Casta Diva, Value Track Analysis

### Key message # 2: (Adjusted) profitability levels confirmed

- ◆ EBITDA at €3.5mn, growing by only 5.5% y/y (€3.3mn in 1H22) primarily affected by extraordinary expenses of €641k relative to due diligence and legal fees, year-end bonuses to employees and non-recurring corporate welfare.  
Thus, 1H23 **EBITDA Adj.** came out at **€4.1mn** vs. €3.4mn in 1H22, implying a flat **EBITDA Adj. Margin at 8.2%**;
- ◆ EBIT at €2.2mn vs. €2.4mn in 1H22 (-8% y/y). After subtracting by the same €641k expenses, **EBIT Adj.** was at **€2.8mn** vs. €2.5mn in 1H22, with **EBIT Adj. Margin at 5.6%** vs. 5.9% in 1H22.
- ◆ After rising Net Financial Charges y/y, **Net Profit** was reported at **€1.5mn** (€1.9mn in 1H22). Management also outlined that **9M23 Net Profit** amounted to **€2.4mn**, i.e. +4% y/y;

#### Casta Diva Group: EBITDA Adj and EBIT Adj. Evolution by Semesters

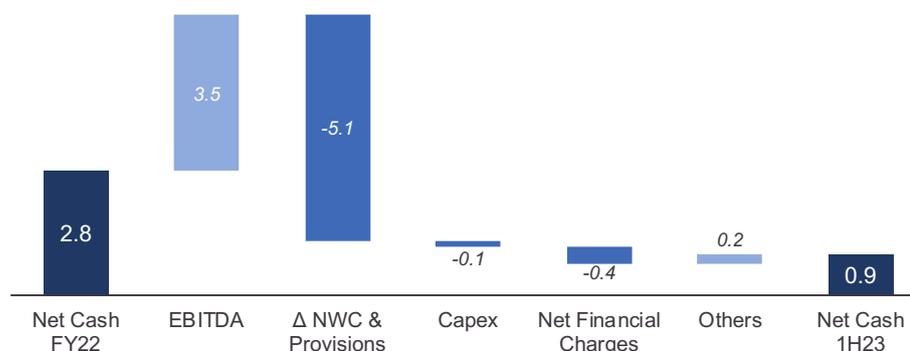


Source: Casta Diva, Value Track Analysis

### Key message # 3: Net Financial Position impaired by Net Working Capital

CDG **Net Cash** totaled **€0.9mn** as of the end of June 2023, i.e. €1.9mn lower than €2.8mn of December 2022. As it can be derived from the chart below, the main reason was the ca. €5mn cash absorption of Net Working Capital and, more specifically the reduction of ca. €7mn Trade Payables.

#### Casta Diva Group: Cash Flow Statement FY22-1H23



Source: Casta Diva, Value Track Analysis

## Interim Financial Statements 1H21-1H23

### Casta Diva Group: P&L 1H21-1H23

(IT GAAP, €mn)	1H21	1H22	1H23	y/y
<b>Revenues from Sales</b>	<b>9.6</b>	<b>41.6</b>	<b>50.5</b>	<b>21%</b>
Others	0.6	0.0	0.1	-45%
<b>Value of Production</b>	<b>10.2</b>	<b>41.7</b>	<b>50.5</b>	<b>21%</b>
Raw Materials (incl. Δ Inventory)	-0.4	-0.8	-0.9	13%
Costs of Services	-8.0	-33.0	-40.5	23%
Costs of Rent	-0.3	-1.0	-1.5	47%
Labour Costs	-1.6	-3.3	-3.9	17%
G&A	-0.2	-0.3	-0.3	-2%
<b>EBITDA</b>	<b>-0.4</b>	<b>3.3</b>	<b>3.5</b>	<b>5%</b>
<i>EBITDA Margin (%)</i>	<i>-3.7%</i>	<i>7.9%</i>	<i>6.9%</i>	<i>-100bps</i>
D&A & Provisions	-0.4	-1.0	-1.3	37%
<b>EBIT</b>	<b>-0.8</b>	<b>2.4</b>	<b>2.2</b>	<b>-8%</b>
<i>EBIT Margin (%)</i>	<i>-7.9%</i>	<i>5.6%</i>	<i>4.3%</i>	<i>-130bps</i>
Net Financial Charges	-0.1	-0.1	-0.4	199%
Taxes	0.0	0.0	0.0	-100%
Minorities	0.0	-0.3	-0.2	-28%
<b>Net Profit</b>	<b>-0.9</b>	<b>1.9</b>	<b>1.5</b>	<b>-18%</b>

Source: Casta Diva, Value Track Analysis

### Casta Diva Group: Balance Sheet FY21-1H23

(IT GAAP, €mn)	FY21	1H22	FY22	1H23
Net Fixed Assets	9.6	14.7	13.4	12.3
Net Working Capital	-0.2	-7.3	-6.9	-1.7
Provisions	1.0	1.0	1.1	1.2
<b>Total Capital Employed</b>	<b>8.3</b>	<b>6.3</b>	<b>5.4</b>	<b>9.3</b>
<b>Group Net Equity</b>	<b>6.7</b>	<b>9.1</b>	<b>8.2</b>	<b>10.2</b>
<b>Net Fin. Position [i.e. Net Debt (-) Cash (+)]</b>	<b>-1.6</b>	<b>2.8</b>	<b>2.8</b>	<b>0.9</b>

Source: Casta Diva, Value Track Analysis

### Casta Diva Group: Net Working Capital FY21-1H23

(IT GAAP, €mn)	FY21	1H22	FY22	1H23
Inventory	0.0	0.0	0.0	0.0
Trade Receivables	10.9	21.0	18.5	18.1
Trade Payables	10.9	28.1	26.6	19.3
Other Current Assets	4.4	6.4	9.8	11.4
Other Current Liabilities	4.8	6.6	8.6	12.0
<b>Net Working Capital</b>	<b>-0.2</b>	<b>-7.3</b>	<b>-6.9</b>	<b>-1.7</b>
<b>As a % of VoP</b>	<b>-1%</b>	<b>-18%</b>	<b>-8%</b>	<b>-3%</b>

Source: Casta Diva, Value Track Analysis

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