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EQUITY RESEARCH

CASTA DIVA GROUP S.P.A

INITIATION OF COVERAGE

BUY

TP 2.50€

Up/Downside: 58%

Ready, Action !

An Italian multinational

Founded in 2005 by Andrea De Micheli and Luca Oddo, Casta Diva Group (CDG) is active in the live communications sector, organising corporate and luxury events, and in the branded content sector, producing viral videos, digital content, film and live music entertainment. The group is currently listed on the Euronext Growth Milan and is present in 11 different countries. Casta Diva Group operates through two main divisions: Live Communication (86% of FY 2022 revenues) and Creative Content Production (14% of FY 2022 revenues).

Favourable market conditions…

Operating within two fragmented markets, the Covid-19 pandemic left a plethora of operators in financial turmoil. In fact, within the Live Communications market (and events in particular), approximately 60% of companies active therein saw their turnover decrease by more than -75% (source: Astra Ricerche, Casta Diva Group). Such market conditions led Casta Diva Group to play an active role in the consolidation of the market, having finalised three acquisitions (Genius Progetti, Akita Film and E-Motion) since 2022.

…to generate a double-digit revenue CAGR

Having deployed more than €16 million in M&A since 2022, the group is now a leader in two different markets, granting them access to all tenders which go to market. Going forward, we believe the group will be able to generate a 15.3% CAGR (2022 - 2026) in revenues, while also improving their EBITDA margin by roughly 3 percentage points (to reach 11% by 2026E) driven by solid organic growth opportunities, a premium clients base and a proven track record.

Valuation leaving an attractive upside potential

We hereby initiate the coverage of Casta Diva Group with a target price of €2.5. Our valuation is solely based on a DCF model. At this valuation, the company would trade @ a 2024 EV/EBIT multiple of >4x and P/E of >7x, particularly attractive for a growth stock in a developing market.

Please find here a short video in which Andrea De Micheli presents the Group

Key data	
Price (€)	1.6
Industry	Advertising/Marketing Services
Ticker	CDG-IT
Shares Out (m)	20.045
Market Cap (m €)	31.7
Average trading volumes (k shares / day)	204.525
Next event	FY 2023 - 28/05

Source: FactSet

Ownership (%)	
Reload S.p.A.	47.2
Greenbone S.r.l.	5.7
Andrea De Micheli	5.1
Free float	42.1

Source: TPICAP Midcap estimates

EPS (€)	12/23e	12/24e	12/25e
Estimates	0.19	0.20	0.28
Change vs previous estimates (%)	0.00	0.00	0.00

Source: TPICAP Midcap estimates

Performance (%)	1D	1M	YTD
Price Perf	1.9	4.6	21.5
Rel FTSE Italy	1.8	6.6	8.5

Source: FactSet

TP ICAP Midcap Estimates	12/22	12/23e	12/24e	12/25e
Sales (m €)	84.0	111.3	125.0	137.7
Current Op Inc (m €)	4.4	6.7	7.2	9.7
Current op. Margin (%)	5.3	6.0	5.8	7.0
EPS (€)	0.08	0.19	0.20	0.28
DPS (€)	0.00	0.00	0.00	0.00
Yield (%)	0.0	0.0	0.0	0.0
FCF (m €)	5.4	3.9	4.7	6.7

Valuation Ratio	12/23e	12/24e	12/25e
EV/Sales	0.3	0.3	0.2
EV/EBITDA	3.7	2.7	1.8
EV/EBIT	5.6	4.5	2.7
PE	8.4	7.8	5.7

Source: TPICAP Midcap

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Description

Casta Diva Group (CDG-IM) is a multinational company listed on Euronext Growth Milan specialising in Creative Content Production (14% of 2022 revenues) i.e. the production of branded content, viral videos, digital content, film, and Live Communication (86% of 2022 revenues) i.e. organisation of corporate events, live music entertainment, product launches and press conferences. The group operates through Akita Film, E-Motion (not yet finalised), Casta Diva Ideas, Casta Diva Pictures, G.2 Events, Genius Progetti, We Are Live and Blue Note Milano, and is present in 13 cities, of which: Milan, Rome, Modena, London, Prague, Beirut, Istanbul, New York, Los Angeles, Buenos Aires, Montevideo, Cape Town and Dubai.

Since its inception, Casta Diva Group has produced innovative and creative communication strategies to over 100 major multinational brands, won more than 120 international awards (including several Lion awards at the Cannes International Film Festival of Creativity, Mobius Award, LIA – London International Awards and EuBEA – European Best Event Awards).

Through a mix of organic growth and a significant M&A activity (14 acquisitions since 2005), the group reached €114M in revenues in 2023, generating a +21% CAGR (2005 – 2023).

SWOT Analysis

Strengths

- Premium client portfolio (>150 clients with a €150k project budget) ;
- International reach ;
- Leading position in two recovering markets ;
- Strong M&A track record (3 acquisitions finalised since 2022).

Weaknesses

- Business lumpiness (45% of FY 2022 generated by Genius Progetti) ;
- Limited size (market cap < €50M) ;
- Limited long-term visibility.

Opportunities

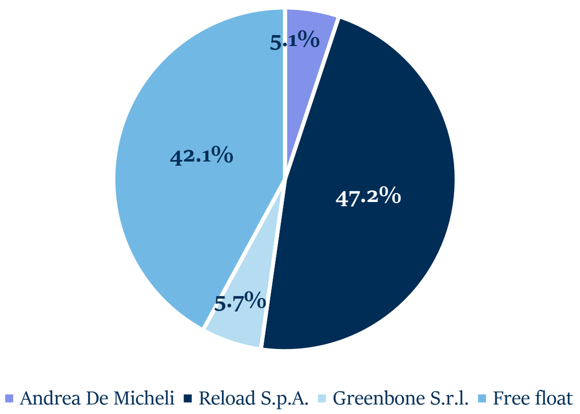
- Live Communication: Penetrating new sectors such as ceremonies, large events, fashion shows and medical conferences ;
- Creative Content Production: entering the scripted programs sector for new clients (such as RAI) ;
- Active role in the consolidation within their reference markets.

Threats

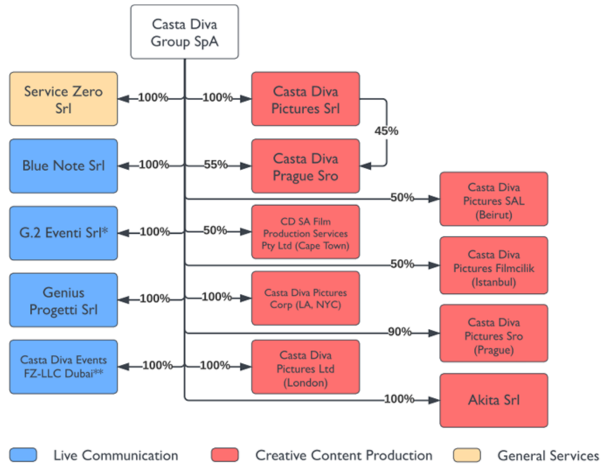
- Large multinationals aggressively consolidating the market ;

Company snapshot

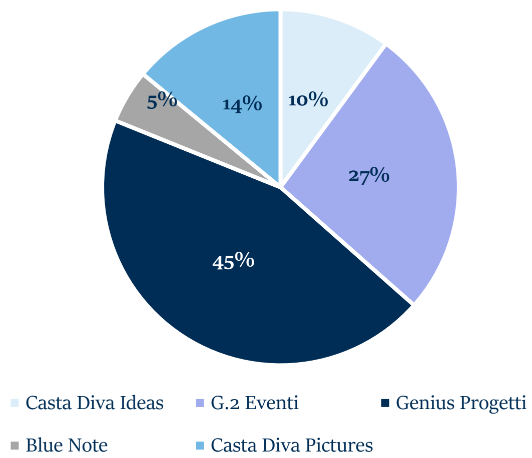
Shareholder structure



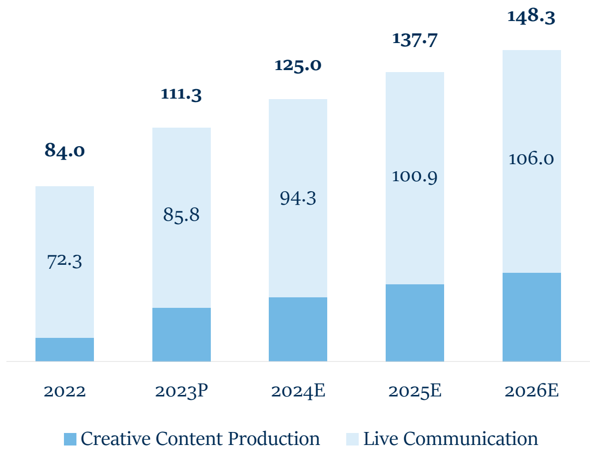
Group structure



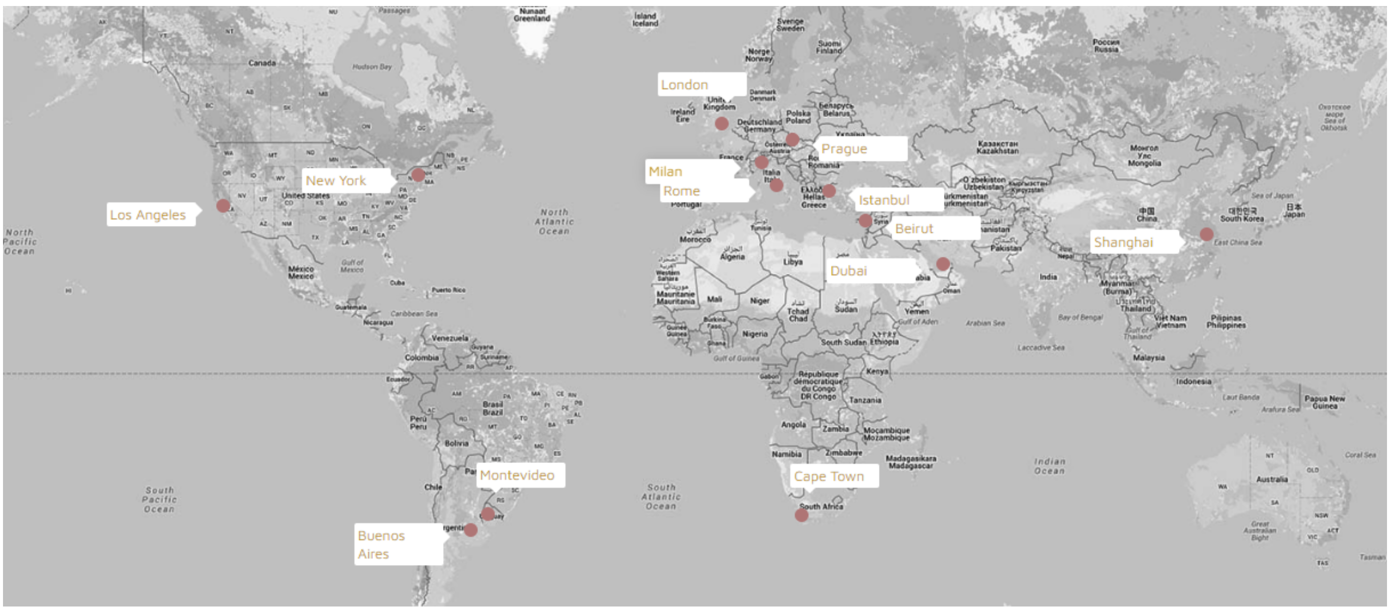
Estimated revenue split by subsidiary (2022)



Group revenue estimates (2023P – 2026E)



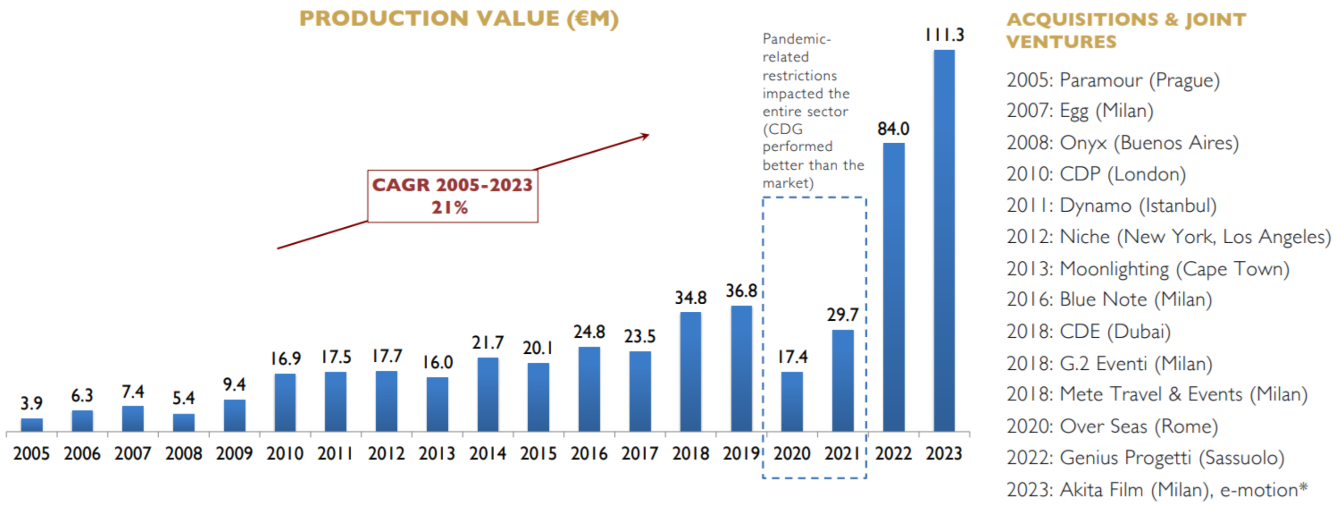
CDG's International Footprint



Source: Casta Diva Group Presentation

(I) Casta Diva Group overview

CDG revenue and M&A track record – in €M (2005 – 2023)



Source : Casta Diva Group

Founded in 2005 by Andrea De Micheli and Luca Oddo, Casta Diva Group (CDG-MIL) is active in the communications sector, producing branded content, viral videos, digital content, film and live music entertainment. The group is currently listed on Euronext Growth Milan and is present in 11 different countries. Casta Diva Group operates through two main divisions, namely:

1. Live Communication – 86% of FY 2022 revenues

The **Live Communication** division primarily revolves around the organisation of corporate events, conventions, web events, road shows, trade fair stands, team building events, product launches, press conferences, motivational experiences, festivals and concerts (both live and digital). Within this division, CDG targets both the B2B and B2C markets.

Live Communication – brands and respective clients

Source : Casta Diva Group

Within this sector, CDG operates through a plethora of subsidiaries, such as: *G.2 Events S.r.l.* (which also controls *WeAreLive*, a company specialised in events for B2B clients in the luxury industry, such as Moncler, Bulgari, Fendi and Zegna), *Casta Diva Ideas S.r.l.* (which will merge into G.2 Eventi at a later stage) in Milan and Rome (for corporate events), *Genius Progetti S.r.l.* in Milan and Sassuolo for luxury and fashion events, and *Blue Note S.r.l.* in Milan for live concerts. Through their *Service Zero S.r.l.* subsidiary, CDG also provides general administrative, financial, HR and IT services to other subsidiaries and the parent company.

Live Communication – M&A track record

2016: Blue Note Milano

On March 30th, 2016, Reload SpA (Andrea de Micheli and Luca Oddo as majority shareholders) and Blue Note (Paolo Colucci as majority shareholder) signed the Framework Agreement for a reverse take-over of Casta Diva Group into Blue Note, a famous Jazz Club and restaurant in Milan, operating within the B2C and B2B Live Communications market. Blue Note conducted the take-over following a capital increase of 9 035 540 no par value Shares (countervalue of €3 562 618), with the subsequent cancellation of the share capital and consolidated revenues of the Merged Company equal to €111 000 and €3 441 891, respectively.

2018: G.2 Eventi and MeTe Travel and Events Srl

On September 27th, 2018 Casta Diva Group announced the signing of a binding agreement with Matteo Valcelli, reference shareholder of G.2 Eventi Srl and proxy for the shareholders of MeTe Travel and Events Srl, for the creation of DISTRICT Srl. MeTe Travel and Events Srl, DISTRICT (reverse merger) and Casta Diva Ideas were subsequently merged into G.2 Eventi Srl. Casta Diva Group ended up becoming the majority shareholder (51%) in the latter. After having exercised their put/call options, Casta Diva Group now owns 100% of G.2 Eventi and MeTe Travel and Events Srl. The former will be fully integrated into Casta Diva Ideas in 2024.

2020: Casta Diva Ideas

In 2020, this entity was created following the purchase of the last 49% of District S.r.l., the CDG's sub holding operating within the Live Communication market. The minority share, held by Fiducia S.r.l., was valued at €485k and was subsequently paid by CDG in 4 equal instalments between 2020 and 2023. In order to simplify the group structure, Casta Diva Ideas will be incorporated into G.2 Events at a later stage.

2022: Genius Progetti

On February 15th, 2022 CDG announced the acquisition of 90% of Genius Progetti S.p.A., an events company with a focus on "luxury events" and based in Sassuolo (IT). The acquisition was later closed at the end of March. Casta Diva Group paid approximately €5.2M in cash for 90% of the target (total EV amounting to €5.8M), which generated €25M in revenues and a 14% EBITDA margin in FY 2021. CDG managed to rapidly increase revenues to €38M in less than 12 months, again highlighting the group's integration and management capabilities. The group later acquired the remaining 10% in the autumn 2023.

2022: We Are Live

Casta Diva Group acquired the right to use the brand *We Are Live* on July 20th, 2022 for an undisclosed fee (we estimate >€100k). Founded in 2019 by Attilio Manassero, the brand is specialised in the planning and execution of events for the luxury sector and multinationals operating in the industry. Since its inception, the brand organises events for brands such as Moncler, Bulgari, Fendi and Zegna. CDG's management estimates We Are Live to contribute roughly €9M in revenues across the 2022 – 2024 period, with an EBITDA margin of approximately 9%, channelled directly into Casta Diva Ideas.

For the B2B market, CDG creates and organises events, conventions, web events, roadshows, trade fair stands, team building activities, product launches, press conferences, motivational trips and experiences (such as test drives for auto companies). Such events are based on four main pillars, namely: creativity, technology, sustainability and results. CDG is present along the entire value chain, offering communication services (conception, recruitment of key personnel and artists, video, lighting management, etc.) and associated event logistics (secretarial services, travel and hotel bookings, catering, etc.).

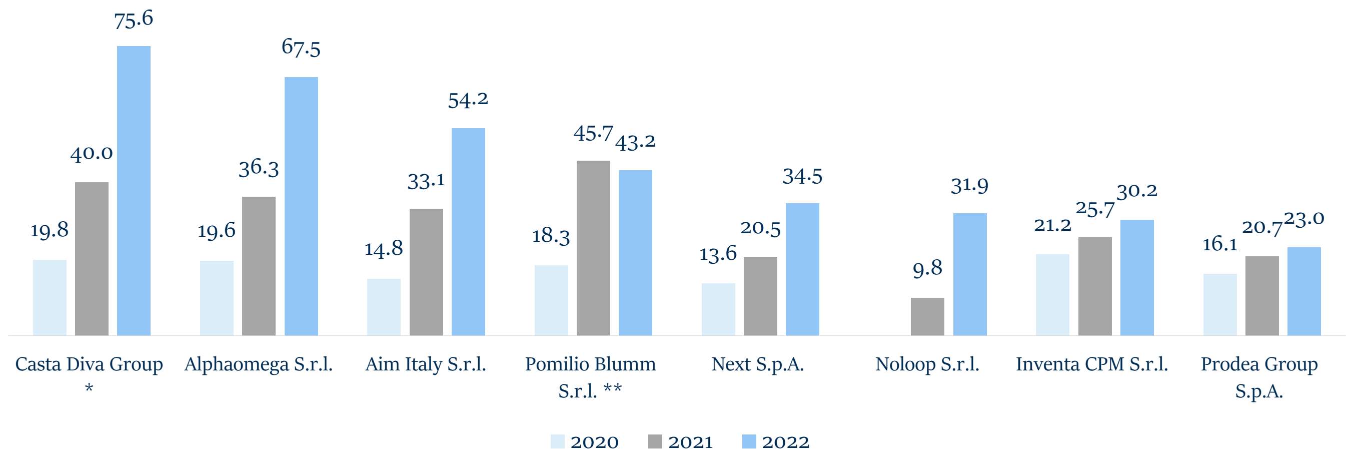
Blue Note Milano

Source : Blue Note Milano website

Through their subsidiary called *Blue Note S.r.l.*, a famous Jazz Club and restaurant in Milan, the group targets the B2C and B2B market. This icon of the Italian music scene invoices approximately 25% of all Italian Jazz revenue every year (source: SIAE, Casta Diva Group), and has, over the past 20 years, organised more than 6 000 live events and hosted more than 10 000 artists and 1.3 million visitors. In addition, through the *Blue Note Off* brand, CDG organises proprietary events and content music events in various other locations, including (in collaboration with *Teatro dell'Arte e Ponderosa Music & Art* and the *Jazzmi* festival) the *Jazzmi* festival has organised more than 200+ events, including concerts, exhibitions, seminars and presentations, in 80+ locations in Milan and neighbouring municipalities for approximately 50 000 participants each year.

With a proven track record in the commercials' market, the most demanding activity within the world of communication, CDG can exploit important synergies and apply them to the world of events, thanks to their quality, creativity and value perception. CDG is one of two operators with experience in the commercials world in Italy. Today, **CDG is a market leader and ranks first among Italian corporate events agencies and is the only one with its own high-quality venues (*Blue Note S.r.l.*)**, addressing both B2B and B2C clients. Taking into account the entire market (comprised approximately by 230 companies), the median sales lie at roughly €2.2 million. Just as the advertising market in Italy, the Live Communication market is very fragmented, composed primarily of small private operators with less than €10M of annual turnover.

Live Communication market in Italy – in €M (2020 – 2022)



Note: (*) proforma 2022 and (**) turnover estimated net of their "institutional communication" component

Source : Plimsoll, Casta Diva Group, TP ICAP Midcap

2. Creative Content Production – 14% of FY 2022 revenues

The **Creative Content Production** division, which focuses on the production of commercials, TV programmes, digital and viral videos, films, branded content, web and TV series. Within this activity, CDG operates through their subsidiaries *Casta Diva Pictures*, present in several countries (headquartered in Milan), *Akita* and *E-Motion*.

Creative Content Production **– brands and respective clients**

Source : Casta Diva Group

Present in several countries, Casta Diva Group (CDG) has an extensive advertising production network worldwide. This allows the group to exploit opportunities with a high degree of flexibility and know-how, having now successfully worked on projects for more than 100 international brands in more than 30 different countries. Within this division, the group's *Casta Diva Entertainment* (CDE – which is part of *Casta Diva Pictures*) produces TV programmes for Italian and foreign broadcasters and OTT platforms ("Over the Top", refers to technology that delivers streamed content via internet-connected devices). The production of commercials is one of the most premium products within the advertising market. In fact, clients invest significant resources for the production of commercials, which typically last a few seconds, and 10x – 20x as much for TV broadcasting space. CDG also provides branded content to expand the commercials' reach on social media platforms.

To consolidate their position within this market in Italy, CDG two important acquisitions over 2023: *Akita S.r.l.* and *E-Motion*. The first was acquired in November 2023, when CDG announced the **agreement to acquire 100% of *Akita S.r.l.***, the parent company of *Akita Off S.r.l.*, one of Italy's leading commercials production companies. Founded in 2004, the target is highly strategic for the group, boasting a highly flexible structure and a large pool of loyal and high-profile freelancers. With the integration of *Akita S.r.l.*, the group aims to exploit approximately €300k in economies of scale and further strengthens their *Creative Content Production* business unit's positioning on the Italian market. For this transaction, CDG paid €8.3M (3.5x EBITDA – three year average). In 2022, *Akita S.r.l.* reported €14.7M in revenues and €2.8M in EBITDA (19% margin). Thanks to this acquisition, CDG's *Creative Content Production* business unit revenues buoyed to more than €25M (vs €11.4M in 2022).

A month later, in December 2023, CDG announced the **acquisition of 70% of *E-Motion*** for approximately €0.8M (total EV amounting to €1.2M). The company is expected to close 2023 with a turnover of €3.1M and an EBITDA of €0.3M (10% EBITDA margin). The latter is a Genoa-based production house specialising in industrial and event videos, offering an integrated and agile structure. This acquisition further enlarges CDG's value chain, integrating one of the first companies in the world to adopt the shooting system based on Red Digital Cinema technology.

Commercials produced by Akita

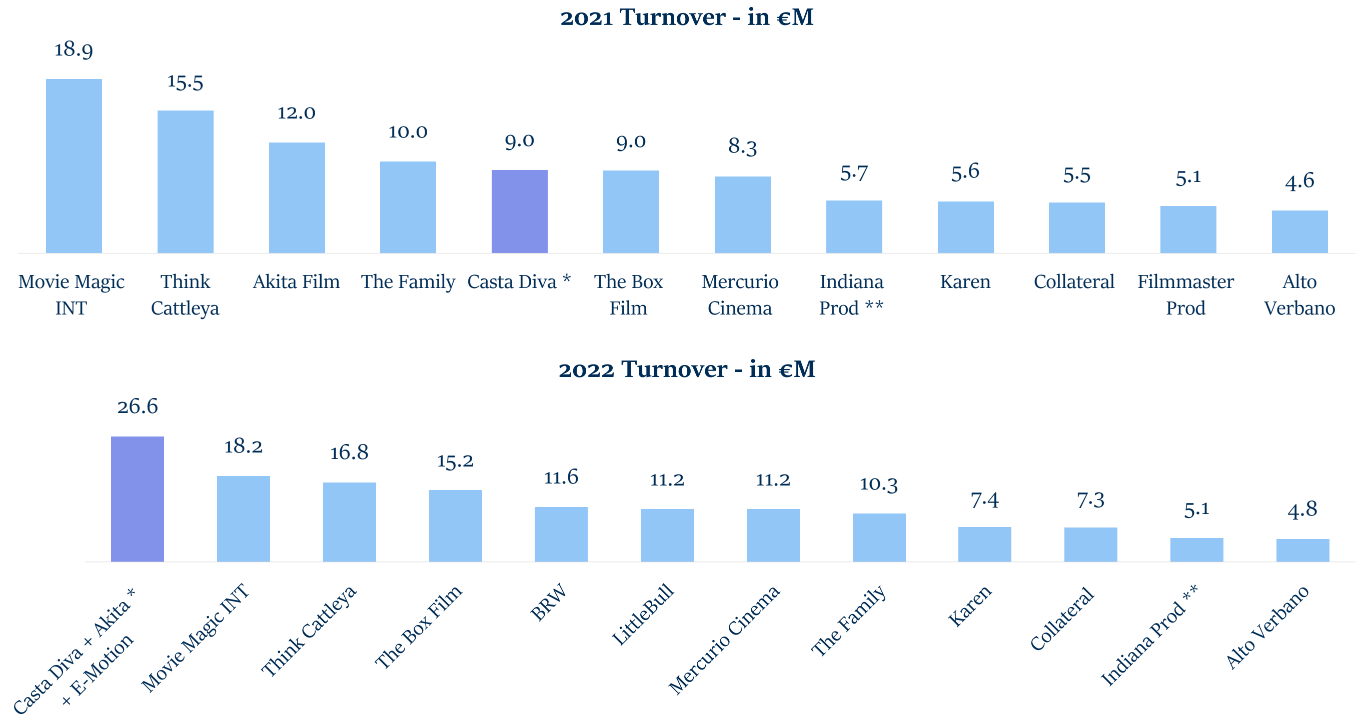
Source : Casta Diva Group

The advertisement video content market in Italy is highly fragmented, comprised primarily of small operators in specific market niches. With the pandemic leaving scars in the market, Casta Diva Group was quick to take advantage and rapidly increase their market share. **Through their consolidation efforts, Casta Diva Group is now the market leader in Video Content Advertisement in Italy**, especially following the acquisition and integration of Akita and E-Motion.

Thanks to their market leading position, the Group is always called to the table for premium tenders. This reasoning does not only apply to the market tenders, however also concerning talent acquisition, as key personnel see higher growth opportunities within CDG compared to other regional/local players. This has reflected positively on their client pool, which has improved significantly over the past years. For example, in 2018, the group went from announcing contracts worth approximately €500k (with Alibaba) and €400k (with a client operating within the consumer goods industry), to boasting a plethora of market leading clients with a budget above €150k (over the past 18 months), such as: (i) Bayer, Discovery, Gillette, Warner Bros and Pandora for **Casta Diva Pictures**; (ii) Geox, Stellantis, Ferrero, Sky and Vodafone for **Akita**; and (iii) Leonardo, Costa Crociere, Edison, Racing Force Group and CNH Industrial for **E-Motion**.

Compared to other Italian competitors, CDG is amongst the top five operators, and boasts one of the most extensive international reaches, thanks to their experience and presence in more than 10 countries worldwide (source: Casta Diva Group, TV Key). **Following the acquisition of Akita Film and E-Motion, CDG jumped from 5th in terms of turnover in Italy to the top of the table within 12 months.** Within this division, the group can rely upon a vast network of subsidiaries in Prague (Czech Republic), Istanbul (Turkey), London (UK), Cape Town (South Africa), Beirut (Lebanon) and Dubai (United Arab Emirates).

Advertisement Video Content market in Italy – in €M (2021 – 2022)



Note: (*) proforma 2022 and (**) excluding Feature Films part

Source : MediaKey, Casta Diva Group, TP ICAP Midcap

(II) The advertising market

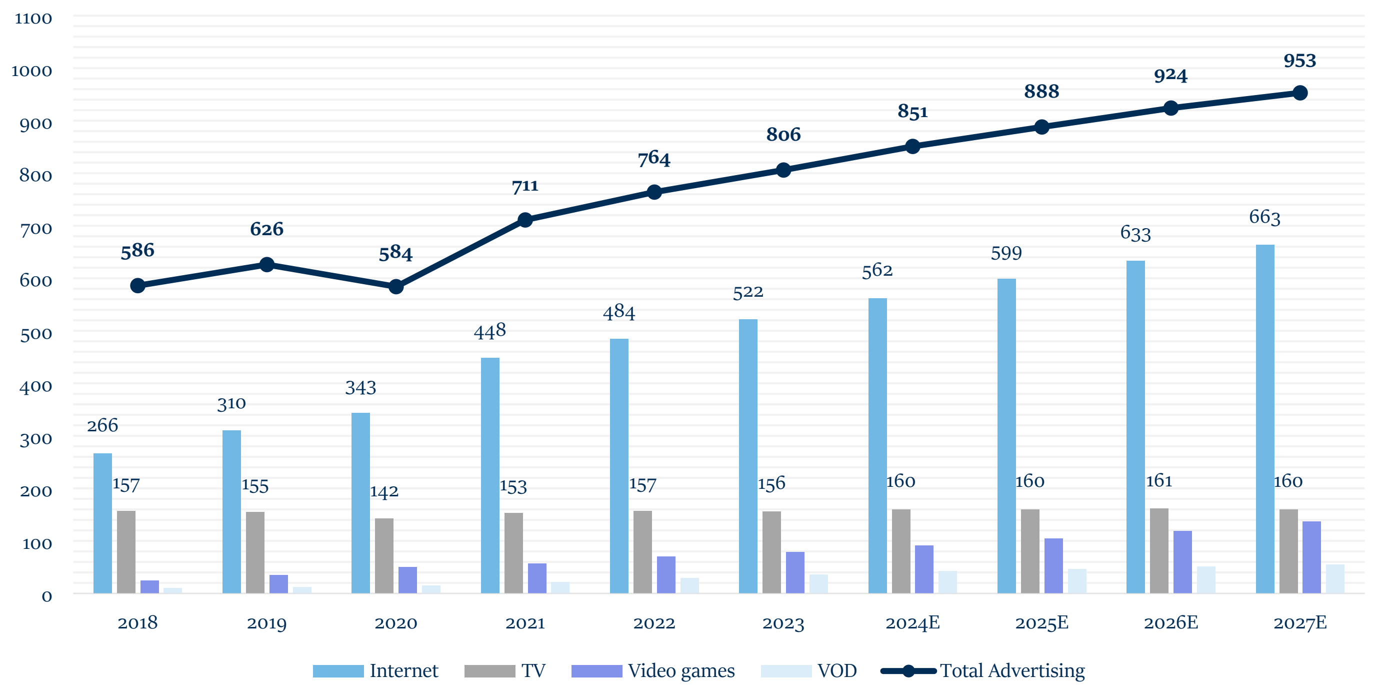
James McDonald, Director of Data, Intelligence, and Forecasting at WARC, observes that the advertising market has demonstrated resilience in the face of a challenging context marked by high interest rates, escalating inflation, geopolitical instability and natural disasters over the past 12 months. For 2023, global advertising spending is expected to reach $963.5 billion, marking a +4.4% growth. While Europe as a whole is forecasted for slow growth at +0.6% in 2023, the UK, holding a 4.6% share as the largest single ad market in Europe, stands as an anomaly with a projected decline in 2023. Contrasting this, other major markets in the region are anticipated to witness growth, with Spain expected to grow by +5.6%, Italy by +3.2%, and Germany by +2.7%.

Looking ahead to 2024, projections from WARC indicate that global ad spending is poised to surge by +8.2% to reach the significant milestone of $1 trillion, riding on the resurgence of the world economy following a challenging context. The European region is also expected to experience a more robust growth rate compared to 2023, with a +3.6% increase as economic conditions improve. In terms of distribution of the expanding global ad spend, five key companies continue to exert dominance. E-commerce giant Alibaba, Alphabet, Amazon, Bytedance and Meta, are projected to capture over half of global ad spend this year. With growth ahead of the market, these five companies are expected to see ad revenue rise more than +9% in 2023 and more than +10% in 2024. Propelled by a positive momentum into the next year, these companies are forecasted to increase their combined market share to 51.9%.

It will be important to keep an eye on the US and Chinese markets, as both represent approximately 44% of the total market share. Examining the numbers, it is interesting to note that in the US, advertising investments surpass the €300 billion mark for a population of roughly 300 million people, while in Italy – with a population of roughly 60 million – advertising investments amount to €9 billion (source: GroupM). This again provides insight on the different market dynamics. **In fact, in the US, advertising investments amount to roughly €1000 per capita, whilst in Italy the number stops at €150 per capita. The advertising market in Italy would grow 6.7x if the same per capita spend was applied, leaving a significant upside potential…**

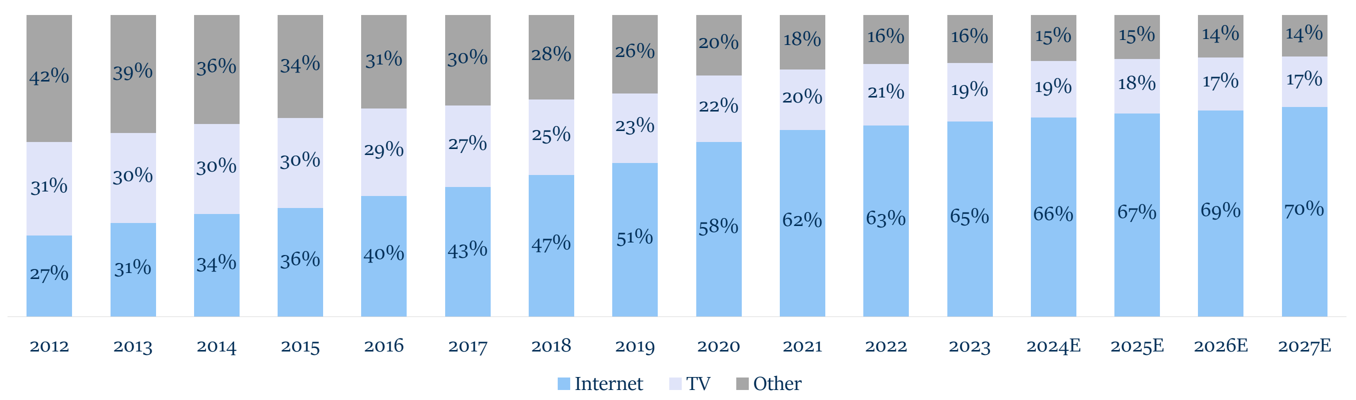
Over the next few years, major events such as the US presidential election, the Olympics and the UEFA men's Euros in 2024 will spur growth in the global advertising market. The Internet and TV channels will benefit the most from these global events. In fact, WARC estimates the Connected TV segment to grow by +12.1% in 2024, retail media to grow by +10.5% and social media to receive a fifth of total advertising spend for the year. According to Confindustria, WARC, PwC and Omdia, the share of advertisements investments in Internet and TV will continue to grow, estimated to account for more than 87% of the global market by 2027.

Global advertisement investments – in €M (2018 – 2027E)



Source : PwC Global Entertainment & Media Outlook, Omdia, TP ICAP Midcap

Global advertisement investments – in % (2012 – 2027E)

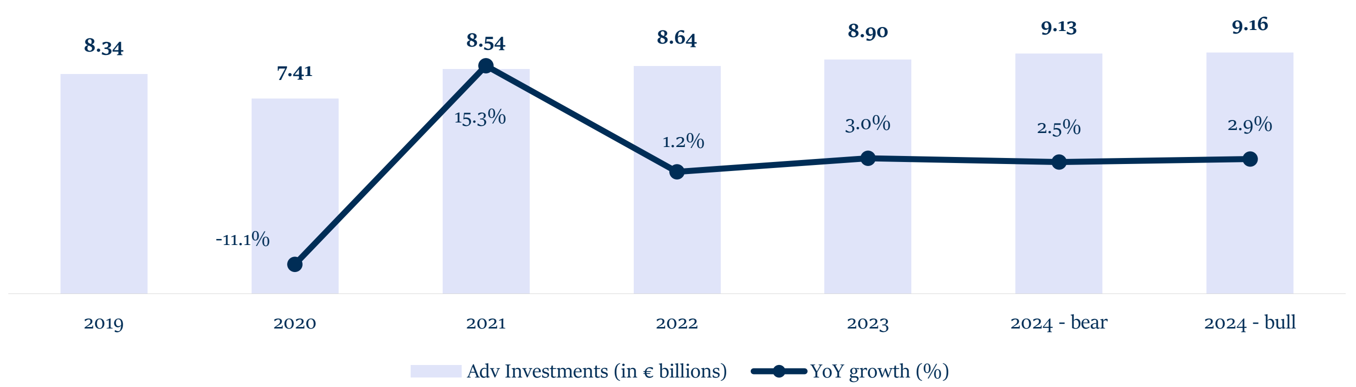


Source : Confindustria, Nielsen, PwC Global Entertainment & Media Outlook, Omdia, TP ICAP Midcap

Advertising in Italy

Following a grotesque pandemic which scarred various industries, the sky seems to be clearing out for the advertising market in Italy. A study from *Centro Studi UNA* estimates an advertising market to reach €8.9 billion in value (optimistic scenario), with a growth rate of +3% compared to 2022. The Digital sector continues to be the main growth driver, accounting for over €4 billion, with a market share of approximately 46.5%. Television follows, with a collection exceeding €3.4 billion, of which Mediaset collected €2 billion (+1.8%), followed by Rai with €713 million (+1.3%); Sky with €422 million (+4.5%); Discovery with €255 million (+6.2%); La7 with €173 million (+0.7%) and the Kids K2 and Fresbee with €22 million (-21%) (source: ilSole24Ore). UNA's report further highlights the current advertising trends, which see Out of Home (OOH) advertisement slowly regaining a pre-pandemic growth rhythm, whilst Radio and Newspaper & Magazines again decreasing (-3% and -2% respectively). In this scenario, UNA has highlighted how the context is increasingly driving total video-planning, with omnichannel strategies now representing a fundamental part of the media mix. In fact, the figures again confirm this trend, with Video standing out as the dominant format, accumulating nearly €5 billion. More than one investment out of two is, in fact, allocated to TV (40.2%), Online Video (14.4%), Out of Home Video (0.9%), and Cinema (0.1%).

Advertisement investments in Italy – in € billions and % growth



Source : Centro Studi UNA, TP ICAP Midcap

Taking it a step further, UNA also mentions that the Experiential Market (hereby Casta Diva Group's other area of expertise) is increasingly prominent to the traditional advertising market. Going forward, UNA claims that sponsorships, events, branded content and influencer marketing should also be included in the market scope, as more and more advertising / marketing budget funds are being redirected towards more interactive experiences, in order to have more direct contact with their potential customers. UNA estimates the Experiential market at €3.7 billion in 2023, with sponsorships accounting for more than half (50.6%), events accounting for 20.9%, branded content with 17.6% and influencer marketing with 10.9% of the market share (source: UNA Media Hub, Nielsen, Astraricerche, Osservatorio Branded Entertainment).

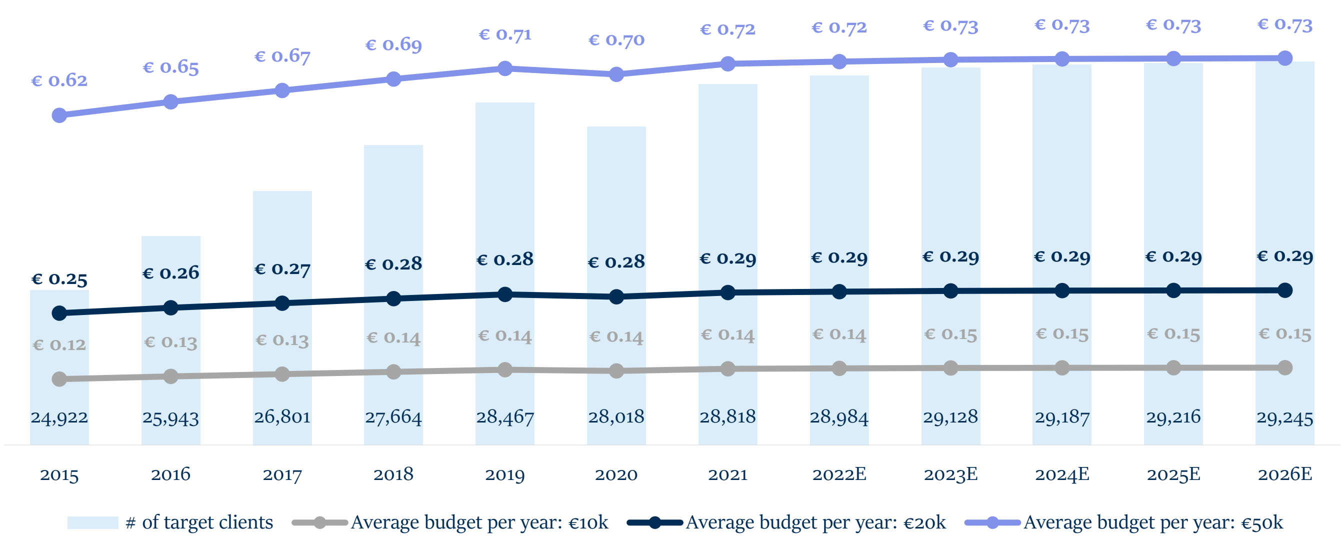
According to WARC, another significant improvement was in the 'mobile content and apps' (+10.3%), as Italians are becoming increasingly *Smart Device* and *App* addicted. There is a profound transformation with regards to how content is accessed: "*Everywhere, Anytime and Any Device*" being the key dimensions of entertainment and content use, in which Digital devices are the enabling channel. This in turn has increased Internet connectivity in Italy over the years, so much that in 2023, more than 50.8 million Italians were connected to the Internet, representing roughly 86.1% of the population. Of these, almost 44 million use social networks for 1h48m per day on average (source: Anitec-Assinform).

Growth in digital music (+7.9%) and digital publishing (+8.9%) also continued, thanks to subscription revenues from newspapers and magazines. Readers of digital content also continued to increase (+6.2%), reaching 7 million by 2023. The paid video component grew by +2.5%; a trend that is gaining momentum, following the exceptional trend than occurred during the pandemic, with an increasing number of people enjoying streaming/online demand video content. As far as advertising investments are concerned, the ever more central role of Digital Advertising should be emphasised: against an advertising market that closed 2022 in substantial parity, recording total investments similar to those of 2021 (+0.1%), digital advertising continues to drive investments, riding a positive trend (+3.9%). While the traditional advertising market recorded the most significant contractions, digital advertising reached a 43.9% share of total investments, surpassing the market share of TV advertising for the second year in a row (source: WARC).

CDG addressable market estimate

In order to have an idea of the addressable advertising market in Italy for Casta Diva Group, we have estimated three different scenarios based on the total number of companies in Italy. Based on the Italian National Institute of Statistics (ISTAT) latest publication, there were a total of 4 540 634 in Italy in 2021, of which: 4 314 961 companies with 0-9 employees, 196 855 companies with 10-49 employees, 24 526 companies with 50-249 employees and 4 292 companies with 250+ employees (source: ISTAT).

Italian advertising market outlook: CDG addressable market – in € bn (2015 – 2026E)



Source : ISTAT, TP ICAP Midcap estimates

To calculate the addressable market, we hereby assume that Casta Diva Group will primarily focus on clients with more than 50 employees and with an average advertising budget of approximately €20k. As ISTAT's dataset only extends until 2021, we also assume (i) a stable growth rate of +1% (in 2022 and 2023) of the total number of companies in Italy, and (ii) that 50% of the addressable companies in Italy actively allocate at least €10k, €20k and €50k to their advertising budgets. Based on these assumptions, the 'base-case' scenario yields a total addressable market at roughly €290 million, in line with the management's estimate of €300 million (as indicated in their 2023 – 2026 Industrial Plan).

The impact of AI

As aforementioned, digital advertising and 'mobile content and apps' are at the centre of the growth of the advertising market, both on an international and national level. However, hand in hand with the development of the digital realm arises Artificial Intelligence (AI), which will play an important role in the shaping the future of the advertising industry. Big brands such as Coca-Cola first experimented with AI platforms in March 2023, using GPT-4 and DALL-E, which allowed people to generate artwork which eventually featured on digital billboards in Times Square (NYC) and Piccadilly Circus (London). Even though the end result is similar, using AI extensively often implies a compromise on quality. When comparing Coca-Cola's original advertising in the 1950s and their AI ad from last year, they both clearly display Santa Claus and a Christmas theme, however the first echoes a more original and creative approach: essential building blocks for brand building.

Coca-Cola advertisement (1950 - left vs 2023 - centre) and CDG advertisement with AI (right)

Source : Financial Times, Coca-Cola, RetroAd Archives, Casta Diva Group, TP ICAP Midcap

Last year, also Casta Diva Group introduced an advertisement using AI: "*Questo lo abbiamo fatto domani*" ("We made this tomorrow"). CDG used the same platforms Coca-Cola experimented with (DALL-E – OpenAI) to promote the creative and digital side of the company, in anticipation of new projects dedicated to web3, metaverse and martech. Even though AI will change the world of communication going forward, technology alone will not replace the artistic and human contributions in creative projects. For low budget and short term solutions, AI presents itself as a viable and cost-effective option. However, when dealing with premium campaigns and higher budgets, 'traditional' video production still guarantees optimal quality. For the above reasons, **we believe AI should be interpreted as a tool to support advertising campaigns** (such as ad placement strategies, performance analytics, market research etc.), and not a substitute for premium spot video content.

Even though we do not see AI a real threat to CDG, this technology could potentially lower barriers to entry. An overall greater reliance on digital media will act as a facilitator/enabler for both emerging marketers and in-house developers, potentially disrupting the market going forward. **Nonetheless, leveraging upon a market leading position, a proven track record and a premium client portfolio, we believe CDG is well positioned to benefit from this new emerging trend**.

(III) Live Communication market

Following abrupt halts two years earlier, the Italian events industry saw a remarkable resurgence in 2022, stimulated by investments in technological innovation, sustainability, and communication. In fact, within the world of *Live Communication* (including B2B and B2C corporate events as well as cultural, sporting, and musical gatherings), **the MICE Industry (Meetings, Incentives, Conferences and Events) generated around $876 billion in revenue in 2022, and is projected to exhibit a CAGR of +7.5% until 2030** (source: Grand View Research).

As a result, the Italian business tourism market, ascended in the global rankings of the International Congress and Convention Association (ICCA), jumping from the fifth to the third position worldwide, behind the USA and Spain (source: Associazione Italiana Food & Beverage – AIFBM). In fact, over 2022, there were over 303k conferences and business events in Italy, reflecting a significant market reprisal (+251%) following a difficult pandemic. The number of participants reached 21 215 934, marking a substantial surge of +363% compared to 2021, while the overall attendance reached 31 706 600, increasing +366% compared to 2021. These figures confirm that in 2022, conference tourism recovered more than 70% of the events held in 2019, the last reference year before the outbreak of the Covid-19 pandemic. This strong recovery, which took place despite some lockdowns in the Q1 and a complex geopolitical context, further underline the vital role conferences and events play for associations and businesses, providing indispensable opportunities for networking, commercial promotion and brand awareness.

In 2022, around 85% of meetings were held face to face, with Rome and Milan now ranking 14th and 18th in the European rankings (source: ITB Berlin). Throughout the Peninsula, events were primarily held in Northern Italy (59%), an area in which over half of the actual venues (53%) are located. With more than 96 000 events held in 2022, the North-West recorded the largest increase compared to 2022 (+222%), also recovering more than 74% of the events held in 2019. The North-East also posted strong YoY growth (+214%) holding more than 82 000 events (approximately 70% of events held in 2019) (source: ENIT, ICCA).

Across 2022, event venues continued to invest to boost their competitiveness and respond to changing market dynamics, a trend which will spill over to 2023 and 2024. According to the "*Osservatorio Italiano dei Congressi e degli Eventi*" – OICE, investments deployed by venues in 2022 were primarily aimed at optimizing interior spaces (planned by 30.4% of responding venues), installing audio-visual equipment (27.9%), staff training (26.2%), development of promotion and/or communication tools (24%), upgrading exterior spaces (20.9%) and energy efficiency measures (20.9%).

Future trends

Going forward, travel will increasingly combine business and leisure. This combination is reflected in the ENIT survey based on Forward Keys, WTTC (Euromonitor forecasts), Bank of Italy, Deloitte and WTTC (Trip.com) data during the IMEX 2023 international trade fair. In fact, according to a survey by Skyscanner, one in six respondents is willing to accept combined travel. Having 'hybrid' holidays is a strategic choice, giving visitors "more time to spend at the destination" (55%) and is "less expensive, with flights at quieter times" (51%) (source: ITB Berlin). In the USA, this phenomenon was reportedly observed among 90% of 30-40 year olds (source: State of Business Travel Survey). According to Euromonitor forecasts, this particular market spending was estimated at roughly $200 billion in 2022, projected to reach $360 billion by 2027 (source: Euromonitor).

The popularity of this phenomenon is also highlighted when observing payment data. In fact, on Trip.Biz travellers are increasingly opting for "Mixed Payments" (supplementing company budgets with personal funds). The number of bookings with "Mixed Payments" increased significantly by +954% in 2022 (source: ITB Berlin, ENIT). Supported by this growing trend, around 70% of companies (participating in ITB Berlin's survey) expect business travel spending to fully re-achieve 2019 levels by the end of 2024. According to Deloitte, business trips almost doubled in 2022, with European and US travel managers expecting this upward trend to continue in the short and medium term.

(IV) Financial analysis

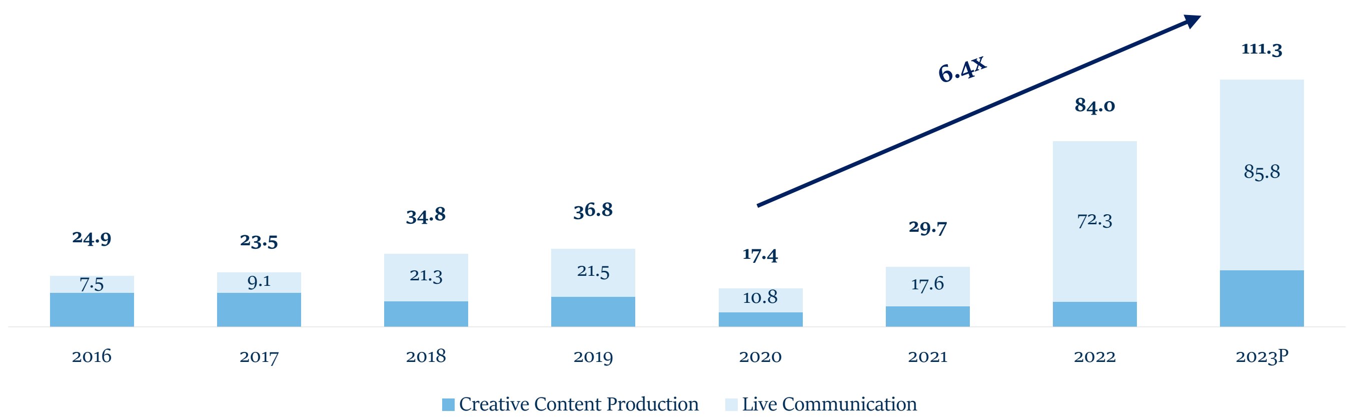
Top line growth stimulated by organic growth and active M&A track record

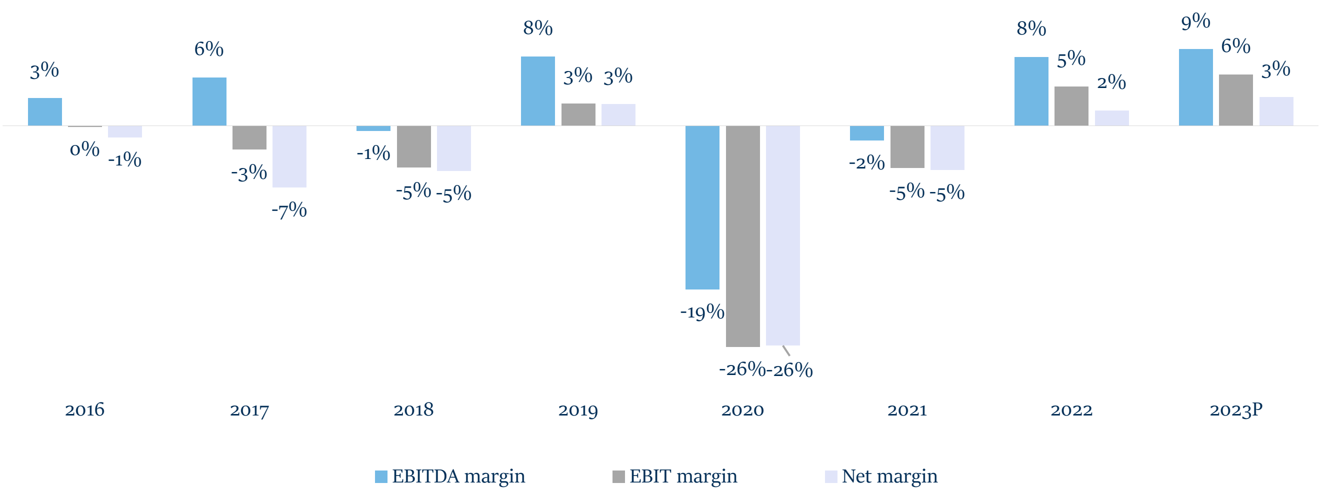
The group's history is marked by a significant M&A activity over the years. In fact, since 2017, the group has invested more than €16 million (of which €11 million in 2023) to acquire small operators in the Live Communication and Digital Video Content Production markets in Italy and abroad. This activity, coupled with strong organic growth, enabled Casta Diva Group to rapidly position themselves as a market leader. The acquisition of G.2 Eventi in 2018 significantly optimised CDG's market share and revenues in 2018, increasing +48% YoY. This operation also boosted their adjusted EBITDA margin, which jumped to 7% (vs 4% in 2017).

With the Covid-19 pandemic entering in 2019, CDG was agile and quick to introduce new projects to uphold activity levels in a market where approximately 60% of companies active in the Communications market (and events in particular), saw revenues decrease by more than -75% (source: Casta Diva Group, Astra Ricerche). In fact, the "*Club degli Eventi*", an association of Italian event agencies (which CDG helped establish around a decade ago), estimated the Live Communications market in Italy at approximately €900 million in 2019, a figure which decreased significantly in 2020 to €440 million, rebounding by +11% in 2021 to €486 million, and finally nearly returning to pre-pandemic levels in 2022, with a value of €804 million (source: Astra Research, Club degli Eventi, Casta Diva Group).

Throughout the 2019 – 2021 period, marked by Covid-19 related lockdowns, CDG introduced specific measures to control costs and guarantee operational continuity. Some examples include: "*Stream in Jazz*" – a Jazz concert streaming service, "*Virtual Promoter*" – an online consulting offering for consumers, "*Back to Office*" – a virtual meeting room, "*Virtual Set and Virtual Show*" – virtual sets for shooting advertisements, among others. The significant Live Communication market reprisal in 2022 brought to light struggling players. **While the pandemic weakened the event market on one hand, it highlighted the need for consolidation**. CDG was in fact quick to anticipate this trend, and adopted an offensive strategy rather than a defensive one.

Revenue and margin breakdown – in €M and % (2016 – 2023P)





Source : TP ICAP Midcap estimates

Condensed income statement – in €M and % (2016 – H1 2023)

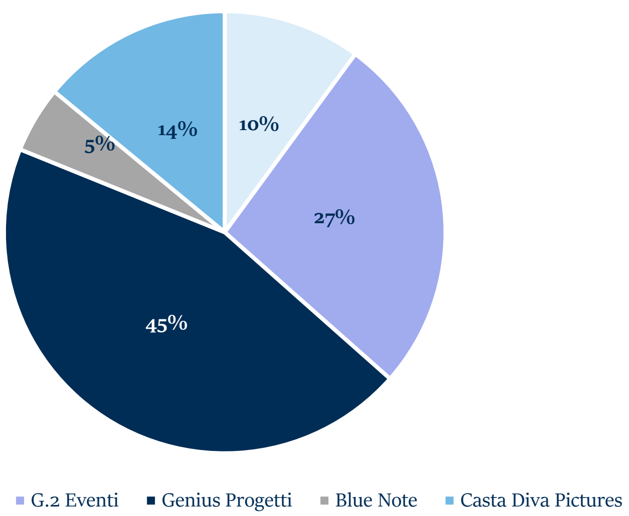
in €M	2016	2017	2018	2019	2020	2021	2022	H1-22	H1-23
Total revenues	24.9	23.5	34.8	36.8	17.4	29.7	84.0	41.7	50.5
% change		*-5.6%*	*48.1%*	*5.5%*	*-52.6%*	*70.7%*	*182.5%*		*21.2%*
Creative Content Production	15.3	15.3	11.6	13.5	6.6	9.4	11.3	6.4	5.7
Live Communication	7.5	9.1	21.3	21.5	10.8	17.6	72.3	35.4	44.8
Other revenues	2.1	(0.9)	1.9	1.7	(0.0)	2.7	0.3		
COGS	(20.6)	(18.8)	(30.5)	(30.5)	(16.5)	(23.9)	(70.9)	(35.1)	(43.2)
Personnel costs	(3.5)	(3.4)	(4.6)	(3.2)	(4.3)	(6.3)	(6.3)	(3.3)	(3.9)
EBITDA	**0.8**	**1.3**	**(0.2)**	**3.0**	**(3.4)**	**(0.5)**	**6.8**	**3.3**	**3.5**
% change			*-115.9%*	*1511.7%*	*-211.5%*	*84.9%*	*1445.5%*		*4.7%*
EBITDA margin %	*3.2%*	*5.7%*	*-0.6%*	*8.2%*	*-19.2%*	*-1.7%*	*8.1%*	*7.9%*	*6.8%*
D&A, writedowns and provisions	(0.8)	(2.0)	(1.5)	(2.0)	(1.2)	(1.0)	(2.9)	(1.0)	(1.3)
EBIT	**(0.0)**	**(0.7)**	**(1.7)**	**1.0**	**(4.5)**	**(1.5)**	**3.9**	**2.4**	**2.2**
% change			*-159.6%*	*155.6%*	*-573.7%*	*67.2%*	*361.1%*		*-7.5%*
EBIT margin %	*-0.1%*	*-2.8%*	*-4.9%*	*2.6%*	*-26.0%*	*-5.0%*	*4.6%*	*5.6%*	*4.3%*
Financial result	(0.1)	(0.4)	(0.6)	(0.3)	(0.3)	(0.2)	(0.5)	(0.1)	(0.4)
Tax expenses	0.3	(0.3)	0.6	0.4	0.3	0.1	(1.6)	(0.0)	0.0
Profit (Loss) third parties	0.5	0.4	0.2	0.0	(0.0)	(0.0)	0.3	0.3	0.2
Net Profit (group share)	**(0.3)**	**(1.7)**	**(1.9)**	**0.9**	**(4.5)**	**(1.5)**	**1.5**	**1.9**	**1.5**
% change			*-8.4%*	*151.0%*	*-577.0%*	*65.8%*	*198.2%*		*-17.8%*
Net margin %	*-1.4%*	*-7.3%*	*-5.3%*	*2.6%*	*-25.9%*	*-5.2%*	*1.8%*	*4.5%*	*3.1%*

Source : Casta Diva Group, TP ICAP Midcap

The most significant YoY revenue increase in fact occurred in 2022, as revenues jumped +183% (of which 40% organic growth) to €84M. The acquisition of Genius Progetti, had a notable impact on the group's revenue growth, the former rapidly increasing revenues to from €25M in FY 2021 to €38M in less than 12 months. In fact, Genius Progetti and the *WeAreLive* brand (active in luxury and fashion events – two sector in which Casta Diva Group was not present before), accounted for roughly +143% revenue growth.

Even though the group does not provide the revenue split between their subsidiaries, we were able to retrieve historic data from FactSet, in order to paint a more accurate picture regarding their specific contribution to the group. From the latest FY (2022) data available on FactSet, Genius Progetti (€38M in revenues) and G.2 Eventi (€22.5M in revenues) accounted for approximately 72% of the CDG's total revenues in 2022, confirming the strong *Live Communications* market demand and important order backlog (with important clients such as Ferrari, Poste Italiane and Ferrovie dello Stato).

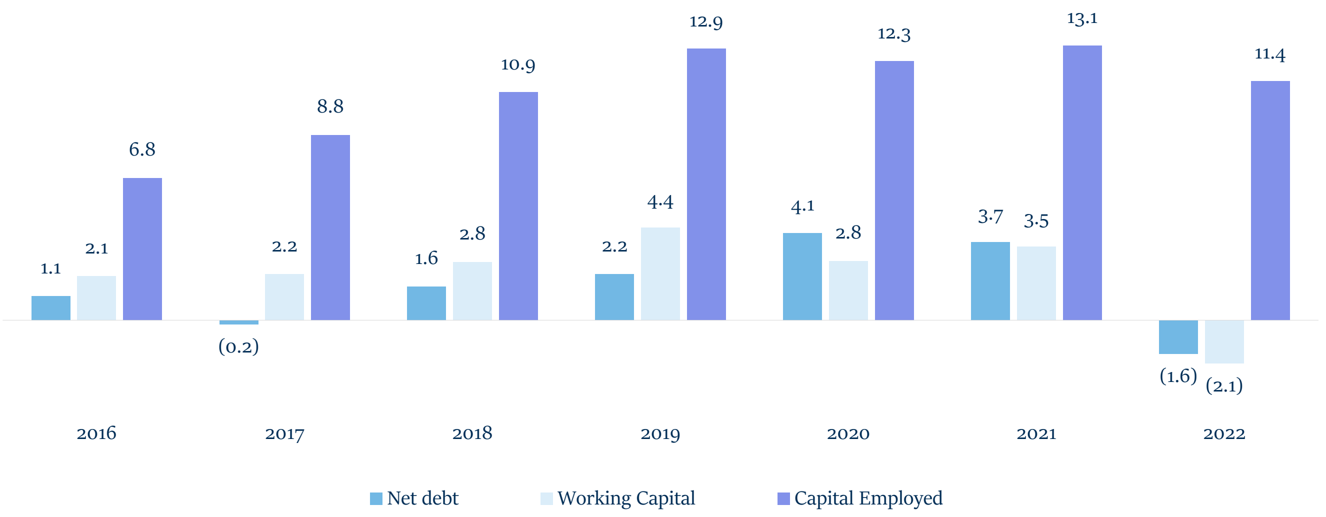
Revenue split by subsidiary – in % (2022)



Source : FactSet, Company websites, TP ICAP Midcap estimates

Further down the latter, even though the integration of Genius Progetti S.r.l. and We Are Live triggered a +211% increase in the group's service costs (to €66M) in 2022, of which approximately 85% are associated with the *Live Communications* business unit. Regardless, CDG still managed to generate significant margin improvements. In fact, in 2022, the EBITDA margin bounced to 8.1% (vs 5% in 2021), the EBIT margin increased to 4.6% (vs 1.7% in 2021) and the Net Profit increased to 2.2% (vs 1.4% in 2021). For 2023 and 2024, we believe this trend should pursue, as CDG unlocks synergies from their M&A activities. During FY 2023, CDG also acquired 99% of *Akita Film S.r.l.*, contributing approximately +18% to CDG's top line growth. Total revenues were in fact up +36%, reaching €111M, well above their previous 2023 – 2025 Industrial Plan objective (€87M).

CDG's Working Capital, Capital Employed and Net Debt – in €M (2016 – 2022)



Source : Casta Diva Group. TP ICAP Midcap

Due to a significant M&A activity over the past years, CDG's balance sheet also underwent some changes. In fact, in 2022, CDG's fixed assets jumped to €13.4M (of which €7.4M of Goodwill), compared to €9.6M in 2021, reflecting the integration of Genius Progetti into the group perimeter. The Capital Employed (CE) however, decreased to €11.4M as the Net Working Capital significantly optimised, resorting to -€2.1M. The latter had a significant impact on CDG's cash generation in FY 2022, as the net debt decreased to -€1.6M, despite the group taking on €8.9M of new financing throughout the year.

H1 2023: a strong start to the year

Across the first semester of 2023, CDG as a whole demonstrated significant improvements compared to the same period in 2022, highlighted by: a +21% increase in revenues and a +5% increase in EBITDA. Moreover, the Group's net financial position decreased by approximately -€1.9M, to €0.9M, mainly due to an increased working capital absorption following robust growth across the first six months. According to the management, all the subsidiaries performed well across the H1, with the exception of Casta Diva Pictures, which experienced a less brilliant period. This pause is mainly attributable to the significant time and capital deployed in order to penetrate the scripted TV program business (such as scripted fiction and films).

To date, Casta Diva Group boasts an important track record in the production of unscripted content, such as reality TV and entertainment. The Group's Blue Note brand returned to pre-pandemic numbers across the first five months of 2023 (club is operational until the end of May, and closes during the traditional summer break in June, July and August). After hosting world-renowned figures such as Woody Allen and Jeff Goldblum, the subsidiary achieved its best September month ever. The Casta Diva Ideas subsidiary made a powerful entry into the grand show industry – a new sector for CDG. The latter also extended their framework agreement with Poste Italiane, continuing its incentive activities for various clients with events in London, Paris, Berlin, Lisbon, Kuala Lumpur, Mexico City, Cape Town, Cairo and other major cities. Finally, G.2. Eventi saw both their recurring and new contract revenues increase across the first semester. This encouraging performance will prepare the brand to later integrate Casta Diva Ideas (through a scheduled merger), to position itself as one of the largest corporate event companies in the market.

(V) Estimates: double-digit CAGR

CDG's 2024 – 2026 objectives and growth drivers

Leveraging upon a proven and successful M&A track record, a global footprint (14 offices in 4 different continents), an important and loyal client portfolio (comprised of more than 130 clients, of which 31 have multi-year partnerships) and a lean and diversified model, the group was able to successfully navigate a difficult context and is now perfectly positioned to benefit from the reprisal of the Italian Live Communication and Video Content Production markets. In fact, during the FY 2022 and the latest H1 2023 results**, the management have stressed their intention to play a crucial role in the consolidation of the events market in Italy** (currently composed of around 250 small operators with a low average turnover).

CDG's 2024 – 2026 objectives and growth drivers

Live Communication	Video Content Production	Creator Economy
Rationalise the structure through corporate mergers	M&A growth (not included in financial plan)	M&A growth (not included in financial plan)
Partnerships with event agencies abroad	Expand customer base with other OTTs and broadcasters	Acquisition of target skills
Seek opportunities in sectors complementary to those already covered, such as: *Cultural events* · *Fashion shows* *Medical conferences* · *Ceremonies and events*	Penetrate scripted content sector, i.e. TV Dramas and Films	Cross-selling other BUs' offerings
	Exploit international network for organic growth opportunities	
Holding		
Flatten chain of command to simplify the Group's functions	Merge the service company *Service Zero* into Casta Diva Group	Unify ERP and CRM systems across the Group and spread ESG culture

Assets	Relevant trends
Loyal (31 multi-year partnerships) and diversified client base (130+ big spenders)	High demand for consolidation
Global reach (14 offices)	Use of digital components into clients' marketing strategies
Successfull M&A track record	Video playing a central role in advertising communication
Lean organisational model (over €700k production value per employee)	OTT sector growth (11% CAGR 2018-2022)
11 proprietary formats	Digital marketing (creator economy) transformation

Growth drivers
LiveCom: penetrating new sectors such as ceremonies, large events, fashion shows and medical conferences
Video production: entering the scripted programs sector for new clients (such as RAI)
Creator economy: mix of organic and inorganic growth

Source : Casta Diva Group, TP ICAP Midcap

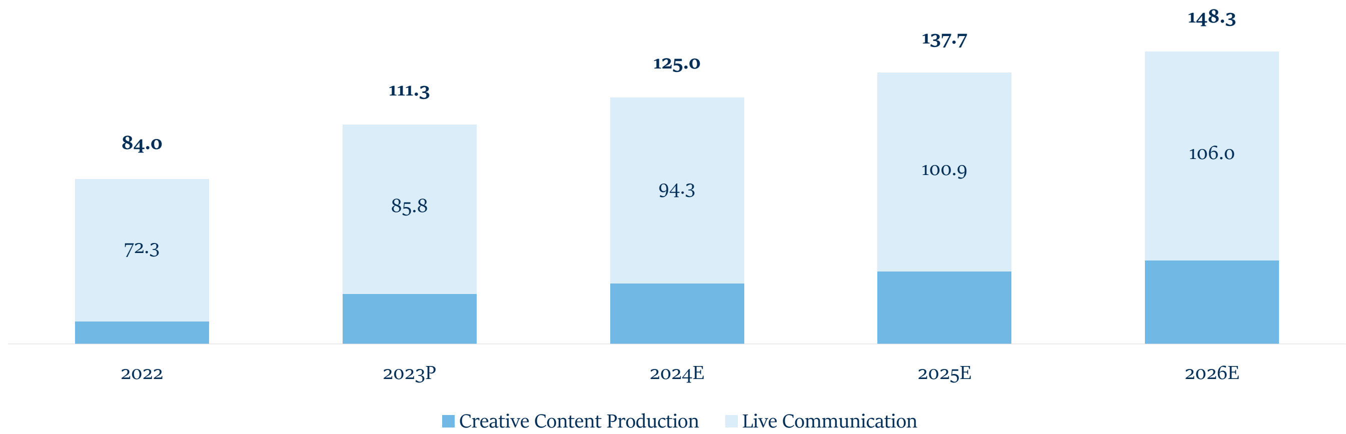
Over the past years, the group encountered various acquisition opportunities (CDG's management currently faces a dozen proposals from other agencies and production houses), however decided to pursue only two: the We Are Live brand, operating in the fashion events sector, and Genius Progetti, specialised in luxury events – both sectors previously untapped by Casta Diva Group. The group however is continuously analysing opportunities on this front. Following the integration of the target companies, CDG managed to nearly double their turnover compared to 2021. In fact, for the latter, Casta Diva Group managed to rapidly increase revenues to €38M from €25M in less than 12 months. This trend echoes previous acquisitions, such as G.2 Eventi, which saw its turnover surge to €21M in 2022, compared to €12M in 2018. Casta Diva Group's current status and achievements over the past years have strengthened their position as a market leader.

The listing on Euronext Milan and heightened visibility compared to their competitors fosters greater trust among their clients, which in turn brings Casta Diva Group to participate in more contract bids. At a level playing field in terms of quality and price, CDG's offer often prevails thanks to their enhanced reliability and visibility.

As smaller operators are struggling to get back to their feet following a brutal Covid-19 pandemic in Italy, CDG's management finds themselves in a buyers' market. With market conditions in their favour, CDG has no intention of slowing down their M&A track record as valuations are particularly attractive. **The management's long term ambition is to create a national champion, with a turnover in excess of €200M – €300M, that can compete with major European players**. Overall, the management's 2023 – 2026 Industrial Plan aims to (i) further stimulate volumes in their core businesses, and (ii) to expand into complementary market segments. Even though the acquisition of E-Motion is expected to finalised in 2024, our estimates spanning to 2026E do not take into account potential M&A contributions. However, our estimates do reflect organic growth and synergies from past acquisitions. Our scenario, spanning to 2026, is broadly in line with the management's new 2023 – 2026 Industrial Plan, in which the group aims for: €153M in revenues, ~€18M in EBITDA (implying an EBITDA margin at ~12%), and a net cash position of ~€6M.

We estimate **revenues to grow at a 15.3% CAGR (2022 – 2026) to reach €148.3M by 2026**. Throughout the period, we do expect the two business units to maintain double-digit growth rates, with the *Creative Content* Production business unit accounting for increasing to 28.5% of total revenues by 2026E and the *Live Communication* business unit accounting for approximately 71.5% of total revenues b 2026E.

CDG revenue estimates – in €M (2022 – 2026E)



Source : TP ICAP Midcap estimates

(i) *Creative Content Production* – 38.9% CAGR (2022 – 2026) in revenues

Leveraging upon a leading market position, a proven track record and a strong client base, the group's *Creative Content Production* business unit (representing approximately 13.5% of 2022 revenues) should benefit from the recent M&A activity (Akita and E-Motion especially, the latter will be completed in 2024) to generate important double digit growth in the short/medium term. **We estimate this business unit to generate €42.3M in revenues by 2026E (28.5% of total revenues)**. Our scenario reflects the group's efforts to enter new sectors (such as scripted content) and organic growth (expanding customer base – both domestic and international markets). Due to limited visibility, we estimate this division to maintain a 1% - 3% organic growth rate (on a normalised basis), in line with our addressable market growth estimates outlined in chapter II.

(ii) *Live Communication* – 10.1% CAGR (2022 – 2026) in revenues

As outlined in chapter (I), Casta Diva Group targets both the B2B (Casta Diva Ideas, G.2 Eventi and Genius Progetti) and B2C (Blue Note) markets within this division. An integrated value chain and diversified client pool give the group a key competitive advantage. Within the B2B market, as of the H1 2023, the group's order book is secured with major clients, of which :

- Framework agreement with **Ferrari Auto** for three years starting in 2022 for a predetermined (undisclosed) number of events each year. For 2023 alone, the agreement should yield approximately €30M in revenues;
- Framework agreement with **ENEL** to organise events from 2022 to 2024. The contract is worth €4.4M in total;
- Framework agreement with **Poste Italiane** to organise events until the end of 2024 (was originally due to end in 2021, however was extended). The contract is worth over €6.5M in total;
- Framework agreement with **Ferrovie dello Stato** to organise events, worth €6.1M in total;

Going forward, the group aims to grow the Live Communication division by entering new market such as :

(i) **Fashion shows**: the group will seek to acquire an Italian operator specialised in this field (with over 30 years of experience) and with the ownership approaching retirement;

(ii) **In-Store promotion**: there are interesting and lucrative opportunities within this activity, especially through collaborations with companies in the alcohol and tobacco industries, as they are not able to adopt traditional advertising strategies. Casta Diva Group has conducted several meetings to acquire potential targets, but these efforts have not materialised due to various reasons, including size constraints and suboptimal organisation;

(iii) **Large Events / Ceremonies**: Casta Diva Group aims to acquire a team from a small company with a strong presence abroad. CDG's management is currently targeting a team with whom they have previously worked with in the past, assisting in organizing the Festival of Lights ;

(iv) **Medical Conferences**: Casta Diva Group is currently seeking to hire a manager with experience in this field, aiming to expand the group's client base. To enter this sector, CDG is actively searching for a small company to acquire.

On the other hand, with regards to the Blue Note subsidiary, we expect the latter to broadly maintain the same visitor average (75k – 80k per year) going forward and the total # of private and corporate events (more than 60 per year). We do not foresee any extraordinary volume increases in for this subsidiary. Overall, boasting a leading market position and an important order book, **we estimate the *Live Communication* division to generate €106M in revenues by 2026E (71.5% of total revenues)**.

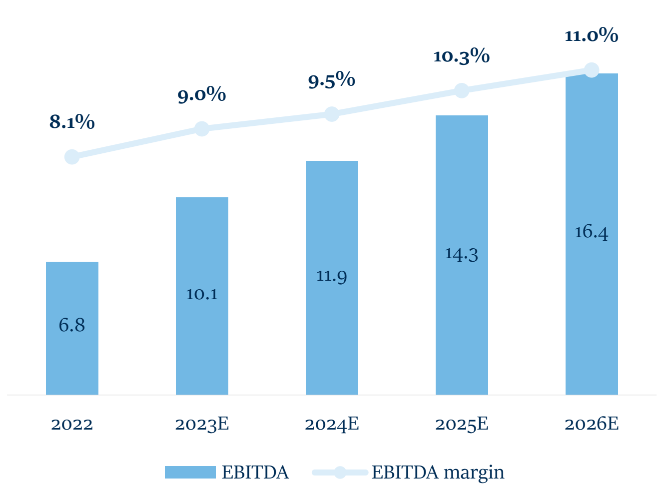
Margin and FCF growth

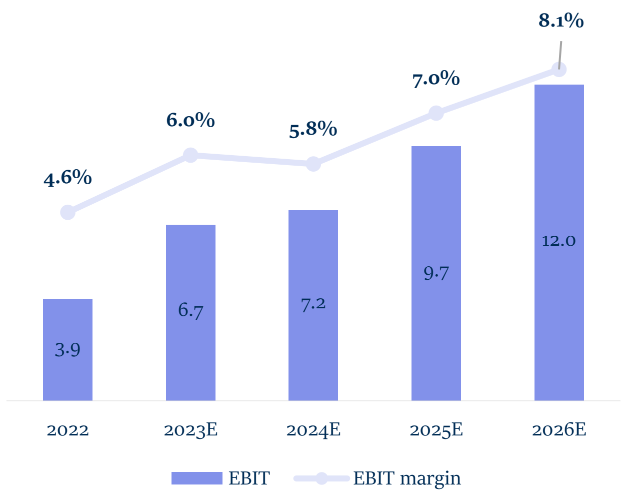
Driven by a solid revenue growth (CAGR 2022 – 2026 @ 15.3%) and an optimised product mix, we believe the EBITDA margin will follow suit, reaching 11% by 2026E. We expect costs to grow slightly slower than the top line, further optimising the group's margins going forward. Thanks to market leading positions in both markets, we believe the group will be able to leverage their size to reduce their service costs (as a % of total revenue), which gradually decreased from 84% of revenue in FY 2018 to 79% of revenue in FY 2022, reflecting a higher degree of operational leverage as the group rapidly increased in size.

Across our 2023 – 2026 forecasts, we believe services costs will continue to decrease (by roughly 2 percentage points - as a % of total revenue) to 77% by 2026E. We expect both raw material and personnel costs to remain relatively stable throughout our estimates (8-9% of total revenues). It is worth noting that our estimates do not take into account potential synergies deriving from the M&A activity conducted in 2023 (Akita Film and E-Motion), which should further optimise CDG's profitability.

Following €11.3M deployed in CAPEX since 2017 (of which ~€6M in FY 2022), we estimate a hike D&A levels in 2024E, driving the EBIT margin down to 5.8% (vs 6% in 2023E), to then rapidly bounce back and reach 8.1% by 2026E. To facilitate integration processes, penetrate new sectors (such as the scripted content sector) and unify ERP and CRM systems across the group, we estimate the group to spend roughly €4-5M in CAPEX per year across our 2023 – 2026 scenario, remaining between 3-4% of total revenues across the period.

EBITDA and EBIT estimates – in €M and % (2022 – 2026E)

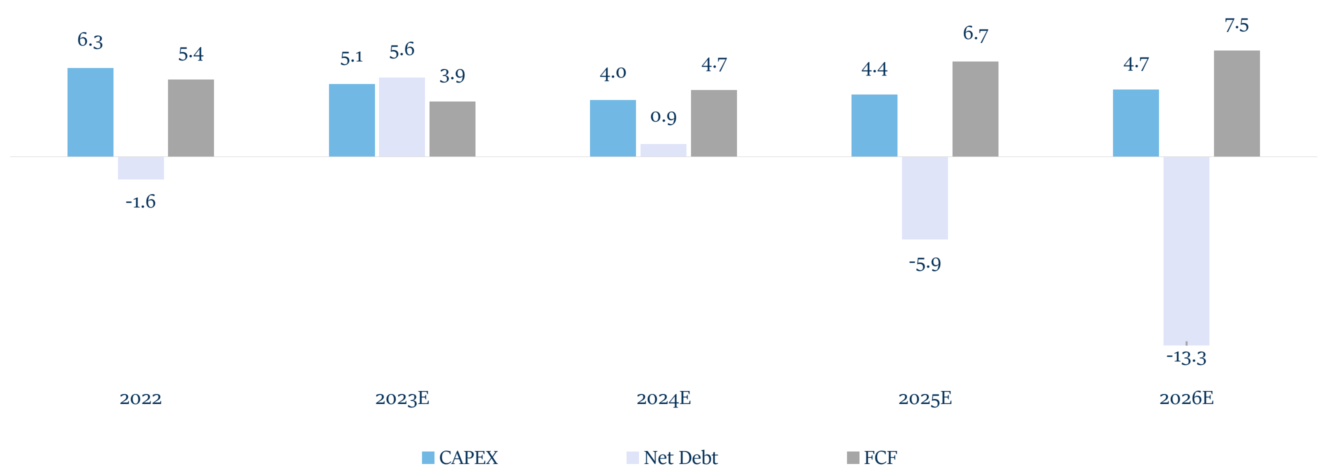




Source : TP ICAP Midcap estimates

Going forward, not including any potential M&A activity, we believe the management will continue to balance a solid cash generation (between €5-7M per year), significantly reducing their net debt position, estimating a net cash position of >€13M by 2026E, leaving ample room for external growth. **Since 2018, and excluding the Covid years, the group has always maintained a leverage ratio > 2x, whilst being active on the M&A front**. Overall, net of an annual recurring CAPEX (which we estimate at 3-4% of total revenues), we believe the group will be able to maintain a solid <40% FCF/EBITDA conversion rate, funding potential M&A going forward.

CAPEX, Net Debt and FCF estimates – in €M (2022 – 2026E)



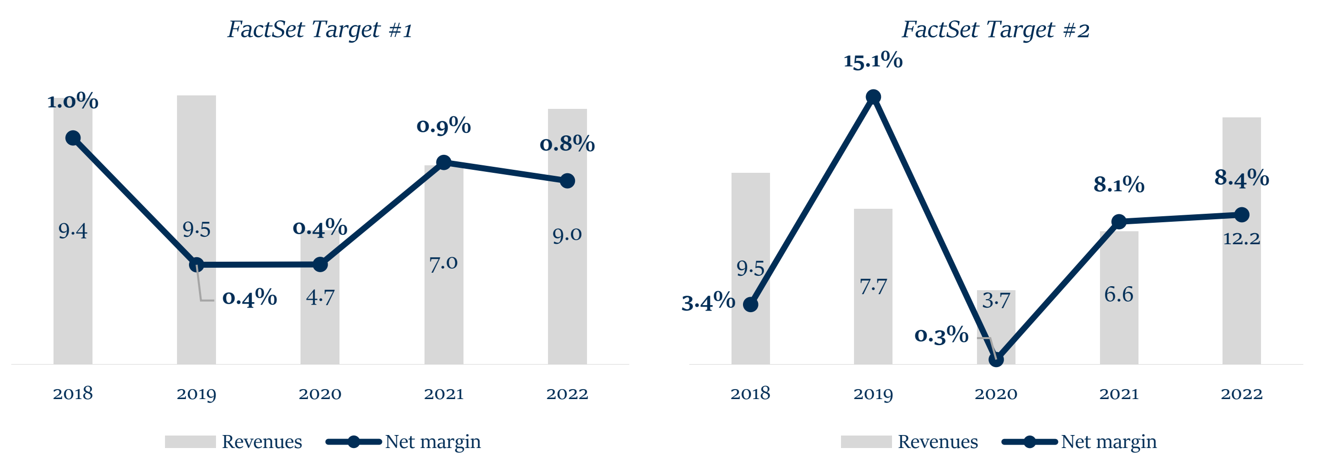
Source : TP ICAP Midcap estimates

Potential M&A – scenario analysis

Bolstered by a highly diversified offer (ADV, commercials, TV programmes, live communication, concerts, festivals, etc.), their international reach and visibility following their listing on Euronext Milan, Casta Diva Group appears as a top choice for both potential clients and competitors themselves (seeking integration opportunities). In fact, during the 2023 – 2026 Industrial Plan presentation (in Dec 2023) and their latest results (both Q1 2024 and H1 2023), the management has repeatedly mentioned their rich M&A pipeline. This ambition was again confirmed by Andrea De Micheli (Group CEO) in an interview for *Corriere della Sera* ("*Casta Diva è compratore*" dated 22/04/2024).

As outlined on the previous page, CDG's management has clear guidelines for external growth for their *Live Communications* business unit. In fact, based on those criteria, we have outlined below two potential targets which in our view present interesting operational synergies and attractive valuations.

Potential M&A targets: revenue and net margin – in €M and % (2018 - 2022)

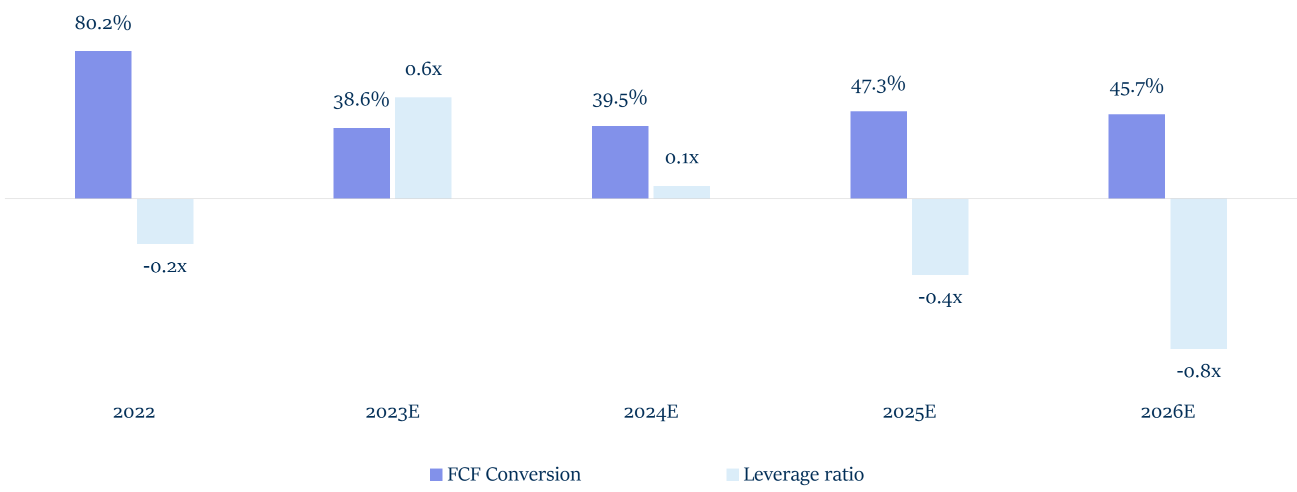


Source : FactSet, TP ICAP Midcap estimates

Looking back at CDG's past transactions within the *Live Communication* market in Italy, **we found that the targets are paid roughly 2.5x – 3x P/E**. Applying the same multiple (3x) on the above companies' FY 2022 net income, would result in a €200k and €3.1M EV for *FactSet Target #1* and *FactSet Target #2* respectively, two valuations well within CDG's reach. The latter two operations could in fact be executed relying solely on CDG's cash generation.

However, should CDG choose to target larger profiles, the group does have the capacity to stretch their leverage ratio. In fact, according to our estimates, **the group could in fact increase their gross debt position by roughly €20M in 2024 whilst still maintaining a leverage ratio below 2x** (historical maximum excluding Covid years).

FCF Conversion and Leverage ratio estimates (2022 – 2026E)



Source : TP ICAP Midcap estimates

(VI) Conclusion & valuation

To determine the intrinsic value of Casta Diva Group S.p.A., we have used the discounted free cash flow (DCF) method. We have opted for a 5 year term due to the limited visibility of the group's backlog and the overall market characteristics.

We hereby initiate the coverage of Casta Diva Group with a target price of €2.5, implying a 60% upside potential. At our target price, the group would trade @ 2024E EV/EBIT multiple of >4x and P/E multiple of >7x, representing an attractive entry point for a growth idea with a premium client portfolio, an experienced management team and active on the M&A front within a market in full reprisal.

Normative flows	Discount rate
• EBIT margin of 8.1% by 2027E	• A risk-free rate of 3.8% (Italian 10-year BTP)
• Capital expenditure (CAPEX) at 3.2% of revenues	• A market premium of 8.5%
• A corporate tax rate of 35%	• A specific (size) risk premium of 4%
	• An adjusted 3Y beta (FactSet) of 1x
	• A long-term growth rate of 2%

Valuation summary

VALUATION SUMMARY			
Sum of discounted FCF	26.4	Net debt (excl. *IFRS 16*)	5.5
Terminal Value	61.8	Provisions	0.4
TGR	*2.0%*	Minorities	0.3
Discounted TV	30.5		
Enterprise Value	**56.9**	**Equity Value**	**50.6**
# of shares (millions)		*20.0*	
TARGET PRICE =		**2.5**	

WACC Calculation			
Risk free rate (BTP 10Y)	3.8%	Beta (5Y adjusted)	1.0x
Size premium	4.0%	Market premium	8.5%
Cost of Equity		**16.3%**	
Interest rate	4.0%	Tax rate	27.9%
Cost of Debt		**2.9%**	
% equity	100%	% net debt	0%
WACC =		**16.3%**	

TGR \ WACC	15.3%	15.8%	16.3%	16.8%	17.3%
1.0%	2.6	2.5	2.4	2.3	2.2
1.5%	2.7	2.6	2.5	2.4	2.3
2.0%	2.7	2.6	2.5	2.4	2.3
2.5%	2.8	2.7	2.6	2.5	2.4
3.0%	2.9	2.8	2.7	2.6	2.5

Source : TP ICAP Midcap estimates

DCF method and multiples

DCF (M€)	2024E	2025E	2026E	2027E	2028E
Sales	125.0	137.7	148.3	154.1	157.1
Variation	*12.3%*	*10.2%*	*7.7%*	*3.9%*	*2.0%*
EBITDA	**11.9**	**14.3**	**16.4**	**17.2**	**17.5**
Margin	*9.5%*	*10.3%*	*11.0%*	*11.1%*	*11.1%*
D&A	(4.7)	(4.6)	(4.4)	(4.7)	(4.9)
% of sales	*3.8%*	*3.3%*	*2.9%*	*3.0%*	*3.1%*
EBIT	**7.2**	**9.7**	**12.0**	**12.5**	**12.7**
Margin	*5.8%*	*7.0%*	*8.1%*	*8.1%*	*8.1%*
Taxes	(2.2)	(3.0)	(3.8)	(3.9)	(4.0)
Tax rate	*35.0%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*
CAPEX	(4.0)	(4.4)	(4.7)	(4.9)	(4.9)
% of sales	*-3.2%*	*-3.2%*	*-3.2%*	*-3.2%*	*-3.1%*
ΔWC	0.0	(1.0)	(0.8)	(0.5)	(0.2)
% of sales	*0.0%*	*-0.7%*	*-0.6%*	*-0.3%*	*-0.2%*
FCF	5.7	7.8	8.7	8.8	8.8
Discounted FCF	**5.2**	**6.1**	**5.8**	**5.0**	**4.3**

Current & *Target* Multiples	2024E	2025E	2026E	2027E	2028E
Sales	125.0	137.7	148.3	154.1	157.1
EV/Sales	0.3 x	0.2 x	0.1 x	0.1 x	0.0 x
Target EV/Sales	0.4 x	0.4 x	0.3 x	0.3 x	0.3 x
EBITDA	11.9	14.3	16.4	17.2	17.5
EV/EBITDA	2.8 x	1.9 x	1.2 x	0.7 x	0.0 x
Target EV/EBITDA	4.3 x	3.6 x	3.1 x	3.0 x	2.9 x
EBIT	7.2	9.7	12.0	12.5	12.7
EV/EBIT	4.6 x	2.8 x	1.6 x	0.9 x	0.0 x
Target EV/EBIT	7.0 x	5.3 x	4.2 x	4.1 x	4.0 x
Net Income	3.8	4.1	5.6	7.0	7.3
P/E	8.9 x	6.6 x	3.5 x	1.7 x	0.0 x
Target P/E	15.2 x	14.1 x	10.2 x	8.1 x	7.8 x

Source : TP ICAP Midcap estimates

Potential M&A – scenario analysis

Boasting a rich M&A pipeline, we do expect the group to announce some acquisitions in the near future. As a result, we have also examined how a potential acquisition could potentially influence our valuation and target price. Using the target multiple assumptions outlined in the previous chapter (roughly 2x – 3x EV/EBITDA), we hereby illustrate the difference between two different acquisitions (€6M and €30M EV). We also assume that both potential targets exhibit the same working capital (as a % of total revenue) as Casta Diva Group and a neutral net debt position.

M&A scenario analysis

	Organic growth	M&A Scenario #1	M&A Scenario #2
Revenues		€20M	€50M
EBITDA margin		15%	20%
EV/EBITDA multiple		2x	3x
EV		EV: €6M	EV: €30M
Implied leverage (2025)*	-0.4x	0.1x	1.7x
New target price	**€2.5**	**€3.6**	**€4.8**

**Casta Diva Group leverage following the acquisition*

Source : TP ICAP Midcap estimates

Assuming that either of these acquisitions are integrated into the group perimeter in 2025, our DCF yields impressive upside potential. M&A Scenario #1, represents a more 'realistic' acquisition, with a EV (€6M) well within CDG's capabilities, as our estimated leverage would stand at 0.1x. This scenario implies a +50% additional upside. On the other hand, our second M&A scenario, represents a potential acquisition at CDG's full leverage limits. Overall we find this scenario to be less likely, however such an operation would add more than 120% to our target price upside.

Obviously, for our final valuation we have opted for a 'neutral' organic growth scenario, which still yields an important upside potential (60%). However, as the group boasts an important M&A pipeline, we do expect positive surprises going forward, which (as illustrated above) would reflect positively on our model and overall view on the stock.

Appendix #1: Different types of advertising mediums

The progression of advertising reflects the changes in society and technological advancements. It has transitioned from papyrus scripts in Ancient Egypt and graffiti in Pompeii, to legacy media such as print, outdoor and broadcast advertising in the mid-1400s, followed by radio in the 1920s and TV in the 1940s. Following the inception of the Internet, a whole world of opportunities revolutionised the marketing industry, with the first digital banner ads introduced in the 1990s. The transition to the digital domain, characterised by targeted advertisements and active participation on social media, has turned advertising into a vibrant and engaging landscape. Today, advertisements are portrayed across different mediums, which in our view can be boiled down to 5 different categories:

- **Print Advertising**: this medium is one of the oldest and most popular media of advertising, using physically printed materials to connect with a wide audience. Such advertisements are often distributed in hard-copy format across various types of publications such as newspapers, magazines, brochures, direct mail or fliers. Between 2015 and 2019, businesses in the USA allocated an average of $25 billion per year towards print advertising. Despite experiencing some decline in recent years, print advertising remains a relevant and effective marketing tool, particularly in specific market segments. This medium's unique ability to engage directly and tangibly with potential customers sets it apart from digital marketing strategies.

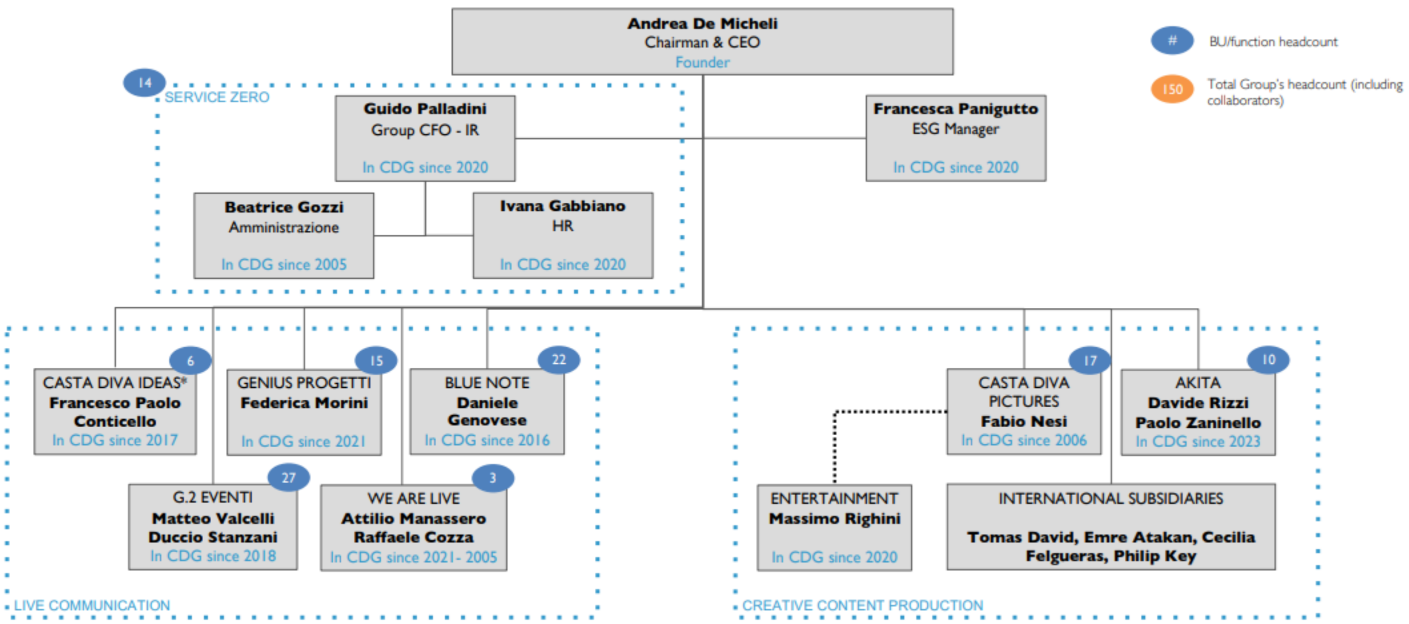
- **Digital and Broadcast Advertising**: this medium encompasses radio, television and Internet advertising, with commercials (aired both on radio and TV) being a vital component. These commercials fall under the category of mass marketing, capable of reaching both national and global audiences. The cost of advertising on broadcast channels varies depending on factors such as the timing of the commercial and placement (specific slot which it airs for radio and/television, or specific location on a web page on the Internet). At the pinnacle of the spectrum are Super Bowl ads. In 2024, advertisers and companies paid an average of $7 million for a 30-second unit on CBS, on par with the 2023 game on Fox. For prime slots and high quality-production, it is not unusual for advertisers to exceed the $20 million threshold for ads lasting between 30-100 seconds.

- **Outdoor Advertising**: also known as out-of-home (OOH) advertising, refers to the practice of promoting brands, products, or messages on physical structures and spaces in the public environment. OHH has a variety of formats such as billboards, transit ads (on trains, buses, and subway stations), street furniture ads (benches, kiosks, etc.), and more. The fundamental feature of outdoor advertising lies in its display in outdoor settings, aiming to engage a broad and diverse audience as they go about their daily activities. These campaigns present targeted messages, ensuring limitless exposure to the public. A rising phenomenon within this domain is the Digital-OHH (DOOH), in which billboard optimise their exposure to various advertising and also adapts based on the time of day.

- **Digital Advertising**: arguably one of the most important advertising mediums today, Digital Advertising is rapidly growing, fuelled by online platforms, mobile devices, video, display and email marketing. The dominance of major tech companies, including Google and Meta, plays a pivotal role in shaping the landscape. The industry witnesses a significant focus on mobile advertising, driven by the widespread use of smartphones. Programmatic advertising, characterised by automated data trading, is increasingly prevalent, facilitating efficient and targeted ad placements (sources: eMarketer, IDGadvertising, WARC).

- **Product/Brand Integration and other**: also known as product placement, is a marketing strategy where a brand's product or logo are seamlessly incorporated into non-advertising content such as TV shows, video games, movies or other forms of media. Instead of traditional advertising methods like commercials, the brand or product becomes a natural part of the storyline or scene, allowing it to be organically featured within the entertainment content. This approach aims to enhance brand visibility and recognition by associating the product with the narrative context, potentially creating a more memorable and engaging experience for the audience.

Appendix #2: CDG's management structure



Source : Casta Diva Group

FINANCIAL DATA

Income Statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
Sales	17.4	29.7	84.0	111.3	125.0	137.7
Changes (%)	-52.6	70.7	182.5	32.5	12.3	10.2
Gross profit	1.0	5.8	13.1	18.1	20.9	23.9
% of Sales	5.5	19.4	15.6	16.2	16.7	17.3
EBITDA	**-2.2**	**1.5**	**6.8**	**10.1**	**11.9**	**14.3**
% of Sales	-12.9	5.0	8.1	9.0	9.5	10.3
Current operating profit	**-2.7**	**0.8**	**4.4**	**6.7**	**7.2**	**9.7**
% of Sales	-15.2	2.6	5.3	6.0	5.8	7.0
Non-recurring items	-0.8	-0.3	-0.6	0.0	0.0	0.0
EBIT	-3.4	0.5	3.9	6.7	7.2	9.7
Net financial result	-0.3	-0.2	-0.5	-0.9	-1.0	-1.1
Income Tax	0.3	0.1	-1.6	-2.0	-2.2	-3.0
Net profit, group share	**-3.4**	**0.4**	**2.1**	**3.8**	**4.1**	**5.6**
EPS	na	0.02	0.08	0.19	0.20	0.28

Financial Statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
Goodwill	1.4	2.6	7.4	7.4	7.4	7.4
Tangible and intangible assets	7.2	6.2	5.2	7.0	6.3	6.1
Right of Use	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	0.9	0.8	0.8	0.8	0.8	0.8
Working capital	2.8	3.5	-2.1	-3.9	-3.9	-4.9
Other Assets	1.6	1.6	2.7	13.8	13.8	13.8
Assets	13.9	14.7	14.1	25.1	24.4	23.3
Shareholders equity group	5.3	6.1	7.8	11.5	15.6	21.2
Minorities	0.6	0.6	0.7	0.7	0.7	0.7
LT & ST provisions and others	0.0	0.2	0.4	0.4	0.4	0.4
Net debt	4.1	3.7	-1.6	5.6	0.9	-5.9
Other liabilities	2.8	2.7	3.0	3.0	3.0	3.0
Liabilities	13.9	14.7	14.1	25.1	24.4	23.3
Net debt excl. IFRS 16	4.1	3.7	-1.6	5.6	0.9	-5.9
Gearing net	0.7	0.6	-0.2	0.5	0.1	-0.3
Leverage	-1.8	2.5	-0.2	0.6	0.1	-0.4

Cash flow statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
CF after elimination of net borrowing costs and taxes	-3.0	1.3	4.3	7.2	8.7	10.1
ΔWCR	2.1	-0.5	7.4	1.9	-0.0	1.0
Operating cash flow	-0.9	0.8	11.7	9.0	8.7	11.1
Net capex	-1.1	-0.8	-6.3	-5.1	-4.0	-4.4
FCF	-2.0	-0.1	5.4	3.9	4.7	6.7
Acquisitions/Disposals of subsidiaries	0.0	0.0	0.0	-11.1	0.0	0.0
Other investments	-0.6	0.2	-0.1	0.0	0.0	0.0
Change in borrowings	1.6	0.3	8.9	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of leasing debt	0.0	0.0	0.0	0.0	0.0	0.0
Equity Transaction	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.7	0.7	0.1	0.0	0.0	0.0
Change in net cash over the year	-0.3	1.2	14.4	-7.2	4.7	6.7

ROA (%)	na	1.4%	2.4%	5.1%	5.0%	6.2%
ROE (%)	na	6.6%	17.8%	30.7%	24.8%	25.5%
ROCE (%)	na	3.8%	33.4%	38.6%	44.4%	66.6%

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This Report may mention evaluation methods defined as follows:
1. DCF method: discounting of future cash flows generated by the company's operations. Cash flows are determined by the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined as the weighted average cost of the company's debt and the theoretical cost of its equity as estimated by the analyst.
2. Comparable method: application of market valuation multiples or those observed in recent transactions. These multiples can be used as references and applied to the company's financial aggregates to deduce its valuation. The sample is selected by the analyst based on the characteristics of the company (size, growth, profitability, etc.). The analyst may also apply a premium/discount depending on his perception of the company's characteristics.
3. Assets and liabilities method: estimate of the value of equity capital based on revalued assets adjusted for the value of the debt.
4. Discounted dividend method: discounting of estimated future dividend flows. The discount rate used is generally the cost of capital.
5. Sum of the parts: this method consists of estimating the various activities of a company using the most appropriate valuation method for each of them, then realizing the sum of the parts.

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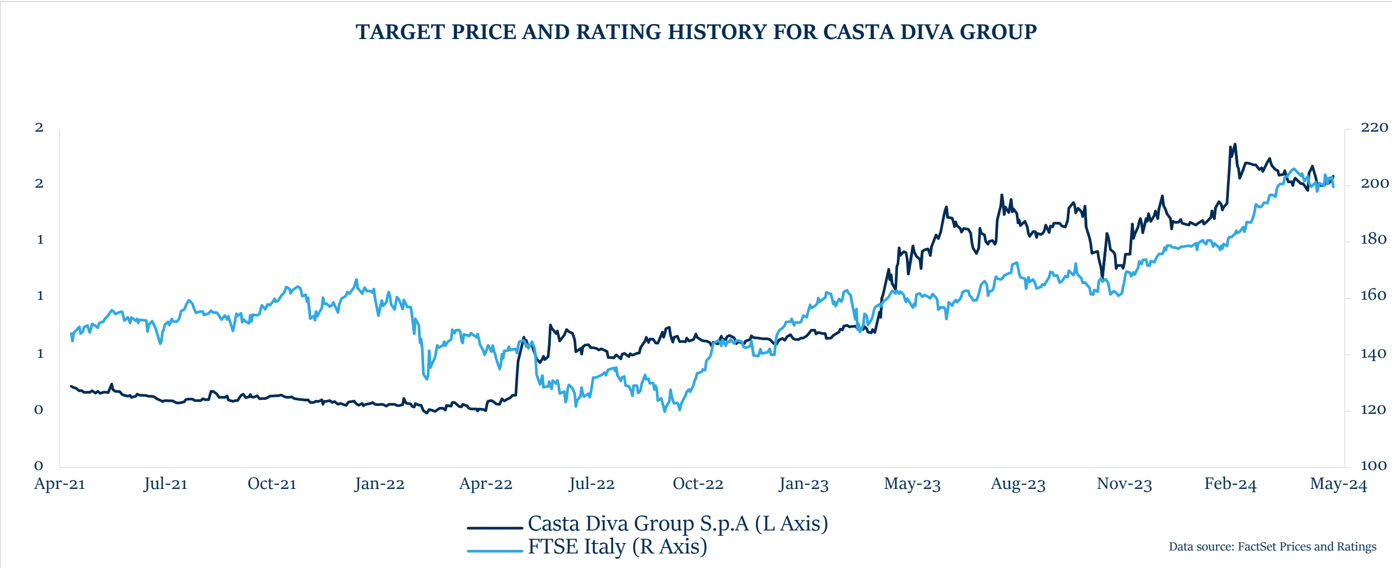

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Rating	Recommendation Universe*	Portion of these provided with investment banking services**
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Hold	15%	52%
Sell	2%	33%
Under review	1%	100%

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