EDISON

MONDO TV

FY19 results

Screening well

Media

Good traction on key properties, such as *MeteoHeroes* and *BatPat 2*, helped drive a 19% increase in production value for Q120 over the prior year, with an 8% uplift in EBIT to €1.9m. The Toon2Tango collaboration is already generating interesting properties and distribution opportunities. Global appetite for children's TV content remains good, if anything strengthened by the impact of COVID-19. Mondo's multi-territory operations allow production to continue without significant interruption. Our profit and earnings forecast for FY20 are lifted by around 10% to a little below management's published business plan.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	EV/EBIT (x)	P/E (x)
12/18	18.9	(30.1)	(56.3)	0.0	N/A	N/A
12/19	23.1	6.2	11.3	0.0	7.4	16.4
12/20e	28.6	8.6	14.3	0.0	5.4	12.9
12/21e	32.0	9.7	15.6	0.0	4.8	11.9

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Strong revenue growth continued in Q120

The good top-line growth recorded in FY19, when production value increased 20%, has continued into FY20. Revenues were ahead by 26% Q120 on Q119, with reduced capitalisation of internally generated content diluting the growth in overall production value to 19%. Strong deal flow has carried on into Q220. In April, a new co-production deal was signed by Mondo TV Producciones Canarias to develop 52 episodes of *Nina and Olga* and in May a licence agreement with TIM in Italy was reached for six properties to be broadcast on TIMVISION, including *Sissi, Invention Story* and *Robot Trains*. We raise our FY20 PBT forecast, based on management's business plan (less a contingency increasing over time), by 10% and we now initiate forecasts for FY21, showing further good progress.

Limited COVID-19 impact

With children's opportunity for viewing content even higher due to the crisis, and live action filming suspended, the value in high-quality animation has been thrown into even clearer relief. Mondo has continued to trade with little interruption, with the transition to remote working quickly implemented and production in the Canary Islands continuing. There has been some short-term impact on working capital as customers moved into lockdown, but this is now correcting as business, particularly in Asia, revert to a more normal trading pattern.

Valuation: Discount persists despite good trading

Mondo TV's share price climbed steeply in December 2019 then lost most of the gain over Q1, since when it has partly recovered along with the market and continuing positive newsflow. Nevertheless, the valuation is still at a substantial discount to global peers. Parity on averaged earnings' multiples across FY19–21 suggests a value of €2.96/share. A DCF (WACC of 11.5%, terminal growth 2%) suggests a price of €2.18. The mid-point of these is €2.70 (€2.10 in November), well ahead of the current price.

20 May 2020

Price	**€1.85**
Market cap	**€67m**
Net debt (€m) at end December 2019, adjusted for IFRS 16	0.1
Shares in issue	36.4m
Free float	62%
Code	MTVI
Primary exchange	Borsa Italiana Star
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	14.4	(1.8)	74.1
Rel (local)	14.7	45.8	115.1
52-week high/low		€2.70	€0.93

Business description

Mondo TV is a global media group with a focus on the production, acquisition and monetisation of animated children's television series. Headquartered in Rome, it also holds controlling stakes in listed subsidiaries Mondo TV France (21%), Mondo TV Suisse (56%) and Mondo TV Iberoamerica (79%). It owns the rights to over 1,600 TV episodes and films, which it distributes across 75 markets. In total, 74% of revenues are generated in Asia, with the remainder from Europe and South America.

Next events

H1 figures	August 2020

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Investment case

Mondo TV's investment case for centres on its ability to develop, produce and monetise children's animated content for the global market. The following factors should also be considered:

- **COVID-19** has had relatively little financial impact on the group's operations, with a relatively swift adjustment to remote working for most operating territories and the studios located in the Canary Islands able to continue producing animated content. There has been some impact on working capital in Q1, but management reports that the situation is normalising.
- **Structural changes to the market mean strong demand in the short to medium term**. The rapid take-up of video on demand (VoD) and streaming VoD (SVoD) globally has fuelled a well-documented thirst for content from the major players, with new entrants continuing. This has heightened the appetite for content, particularly for high-quality animated series, that can drive new subscription and stimulate viewer loyalty. Children's content is a key element of the various providers' offerings.
- **Well-established player in the children's scripted market with reputation for quality animation**. Mondo TV was founded in 1985, bringing Japanese cartoons to European markets, before starting to produce its own content based on classic characters. Its production capabilities and distribution network are well recognised by the market and it has a strong presence at the relevant trade fairs, although these have moved to virtual events for now.
- **Animation suitable for wide geographic distribution.** Mondo TV's core offering suits the international market well. Animated content is more easily dubbed into other languages and (generally) has less cultural sensitivity.
- **Management experienced and committed.** The death of co-founder Orlando Corradi in 2018 forced a generational change at the group. His son, Matteo, joined the company on graduating in 1996 and has been CEO since 2012. Monica Corradi is also an executive director. Carlo Marchetti, CFO, has been with the group for 12 years. The Corradi family hold 38% of the equity.
- **Secure balance sheet.** The balance sheet was transformed in FY18 through a convertible bond issue. Despite a working capital outflow in FY19, year-end net debt was limited to €1.4m.
- **Toon2Tango collaboration broadens geographic mix.** Asian customers remain an important part of the mix, but the June 2019 Toon2Tango deal accelerates the group's exposure to new markets in Northern Europe and English-speaking countries on a lower-risk basis. It also gives access to a diverse range of new projects and customers.
- **Growing licensing and merchandising business streams.** Licensing and merchandising have always formed an element of sales, but the group is now able to strike deals where there is no associated TV content.

Our forecasts, which are based on management's published business plan less a small contingency that expands over time, are revised as follows.

Exhibit 1: Revisions to forecasts

	EPS (c)			PBT (€m)			EBITDA (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2019	10.3	11.3	+10	6.0	6.2	+3	14.4	16.4	+14
2020e	12.8	14.3	+12	7.8	8.6	+10	19.1	20.0	+5
2021e	-	15.6	N/A	-	9.7	N/A	-	24.2	N/A

Source: Company accounts, Edison Investment Research

Company description: Children's animated content

Mondo TV is a leading Italian producer and distributor of children's animated television series, with additional interests in live teen fiction. It has one of the largest animation libraries in Europe, with more than 2,000 episodes of television series and more than 75 feature-length animated films. Its production investment and sales strategy is focused on:

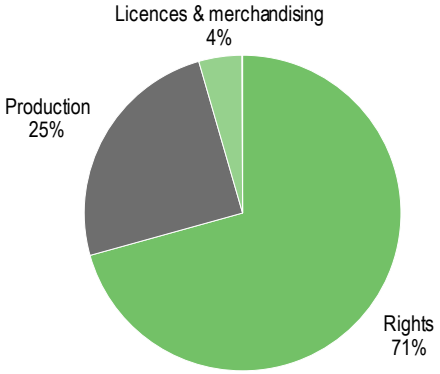
- new productions with high licensing potential, co-produced with third parties; and
- the distribution of third-party libraries.

Its properties (both owned and licensed) are predominantly character based. Mondo rarely uses its own IP, as this requires far greater levels of upfront investment to familiarise the market to the characters. The collaboration with German partner Toon2Tango, described below, is giving it early access to pre-qualified properties from a highly experienced developer. Mondo typically co-produces TV series where the brand is already known through toys (eg *YooHoo*), comic strips (eg *Sissi*), or books (eg *Treasure Island*) and brings them to life with animation. Partners would typically be:

- toy companies looking to develop an existing toy brand (eg Aurora World Corporation);
- broadcasters (for instance its partnership with TF1 in France on *Lulu Vroumette*); and
- third-party producers looking to market an asset internationally.

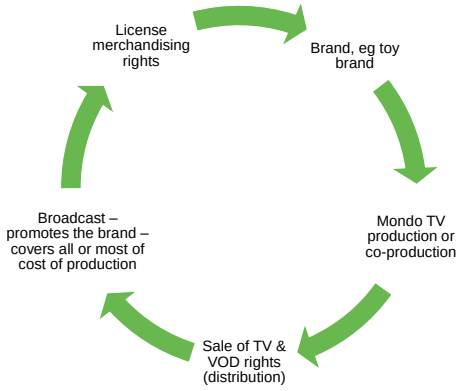
This approach gives Mondo an edge in a very competitive marketplace, de-risks its investment in production and supports a more rapid exploitation of higher-margin licensing and merchandising revenues. Individual properties are described and illustrated below.

Exhibit 2: Revenues by type, FY20e



Source: Mondo TV report and accounts

Exhibit 3: Business model



Source: Edison Investment Research

Revenues are generated from production services, rights sales, and licensing and merchandising, although often a single brand will drive revenues across all three categories. The group has commercial relationships with over 150 TV networks and digital platforms worldwide. In digital media, it works with all the US-based major platforms, including Netflix, YouTube, Facebook, Apple and Amazon, as well as with global players such as Huawei (China), ICFlix (Middle East and North Africa) and Megogo.net (CIS) and dominant platforms in local markets, such as TIM in Italy.

Mondo TVs revenues derive from three categories:

- **Production services**: Production is done under the supervision of management but using third-party designers, screenwriters and directors, thus keeping its cost base flexible. However, in FY16 Mondo established its own in-house pre-production team in the Canary Islands to work on the development of concepts and storyboards. Mondo will either work for a fee or will be involved in co-productions, retaining a share of the worldwide distribution rights. Co-productions

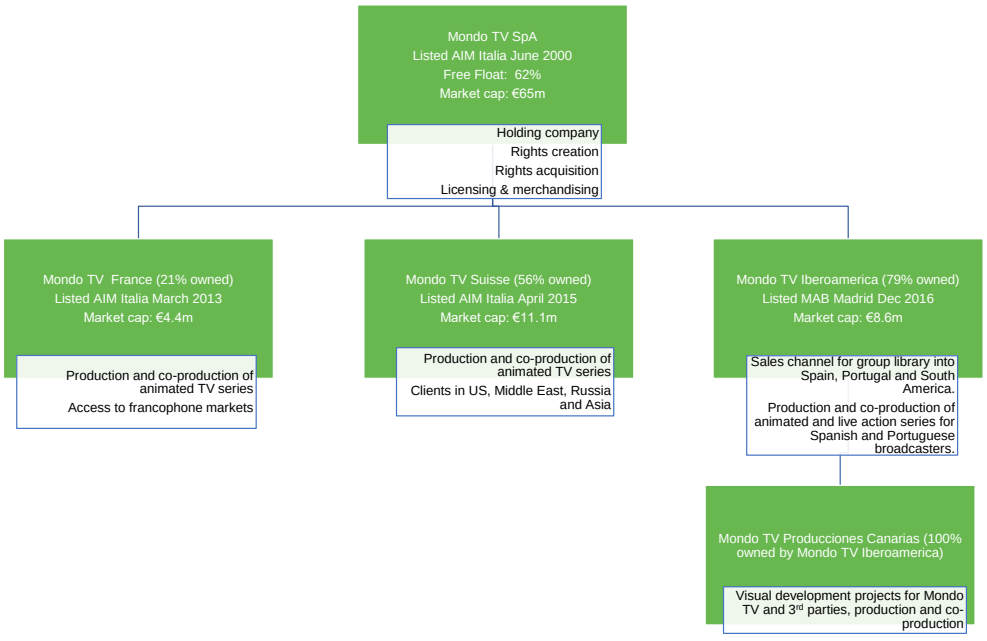
support some of the financing of a production or part of the organisational requirements. Most of Mondo's productions target the under-10 audience, although its live fiction with the co-production of *Heidi, Bienvenida a Casa* is aimed at a teen audience. Production revenues comprise a mix of recurring series and revenues from new shows, with new shows becoming a more important part of the mix through the next five-year business plan.

- **Distribution**: Mondo's sales team was boosted in Spring 2019 with the appointment of Luana Perrero as head of content sales, who joined from Rainbow SpA. She heads a team of nine employees involved in the sale of rights plus a number of sub-agents, which gives it permanent representation across Southern Europe, France, the Middle East, Latin America and Russia. Successful animations have enduring appeal and as the children's audience is replenished yearly, can be re-sold to a new generation of kids over and over again. We estimate that approximately €3.0m of Mondo's licence sales are from its library and the remainder from more recent titles. Although Mondo is very conscious of regional tastes, most animations are dubbed into a number of languages and are marketable in multiple territories. As well as selling its own library, Mondo has a number of distribution deals, for instance with Turner, Cake and Your Family Entertainment.
- **Licensing brands**: Mondo TV handles both its own brands and third-party properties for which it is the representative, where it receives a commission. Rights are sold to merchandisers and toy manufacturers and there is therefore no physical stock risk. In December 2018, Mondo became the sub-licensee for *Feisty Pets* in Italy and the Iberian Peninsula, the first brand it represents not linked to a TV series. In October 2019, it was appointed the licensing agent in Italy, Spain and Portugal for the classic Julia Donaldson/Axel Scheffler property, *The Gruffalo*.

Structured to address geographic markets

The group has a geographically distributed structure. Mondo TV Group, based and quoted in Italy, is the main operation, but it has operating subsidiaries in Iberia, France and Switzerland, with local stock market quotes. Mondo TV Gran Canarias is a wholly owned subsidiary of Mondo TV Iberoamerica.

Exhibit 4: Group organisational structure – four listed entities



Source: Edison Investment Research

The group structure, market capitalisations and brief details of each of these elements are shown above. Matteo Corradi, Mondo TV's president and CEO, sits on the boards of each of these companies, alongside local executive and independent directors, with Carlo Marchetti, the group CFO, also on the board of Mondo TV France and Mondo TV Iberoamerica. Mondo TV Group's key properties are *Disco Dragon, Invention Story, Robot Trains* and *MeteoHeroes*, which recently premiered on Boing's Cartoonito channel on World Earth Day.

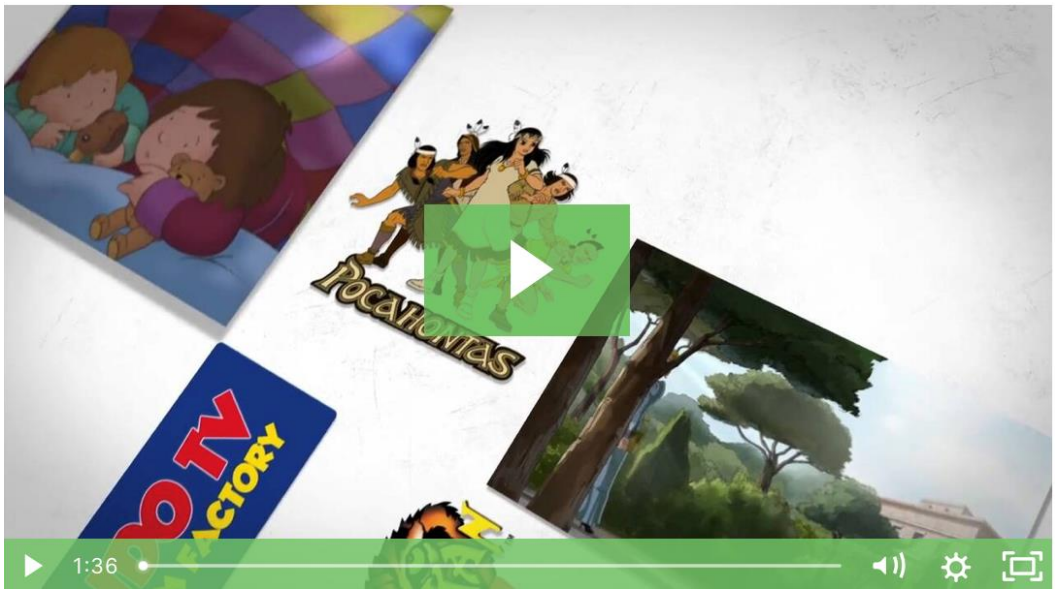
The flagship deal with Netflix/Aurora for *YooHoo and Friends* was struck via Mondo TV Suisse, with the property becoming a Netflix Original series. It was co-produced with Aurora and Netflix and premiered in spring 2019 globally. The deal was particularly important as it launched Mondo TV as a serious global player, raising its profile in the important US market.

In April 2019, Mondo TV Iberoamerica announced a major deal with Amazon for Latin America for a large proportion of the Mondo TV library to be distributed on the Amazon Prime Video Direct platform. The deal includes animated properties including *The Treasure Island*, *The Drakers* and *The Jungle Book*. In Q120, it renewed the sale of the first two series of *Yo Soy Franky* to Turner Italia.

Mondo TV Iberoamerica, founded as Mondo TV Spain in 2008, is not just active in distributing Mondo TV's animated catalogue in the region is now producing, and co-producing, original series. The production and visual development for the group is predominantly carried out at the group's studios located in Tenerife as part of Mondo TV Producciones Canarias. The government of the Canary Islands has sought to attract animation companies to establish a centre of excellence, helped by providing generous tax incentives of up to 45%, subject to minimum spend and language. Mondo's modern studios here, with a highly skilled workforce, has been able to transition to remote working during the COVID-19 pandemic and work on the group's various productions has continued more or less uninterrupted. Most of Mondo TV Iberoamerica's Q120 revenue reflected the sale of part of the IP of *Bat Pat 2* to RTVE. More recently, it has signed a co-production agreement with Enanimation to develop 52 episodes of *Nina and Olga*, based on the book by Nicoletta Costa.

In May, the group agreed a licence with Italian VoD broadcaster TIMVISION for six of its core titles, including Invention Story, Robot Trains and Sissi.

Exhibit 5: Mondo show reel



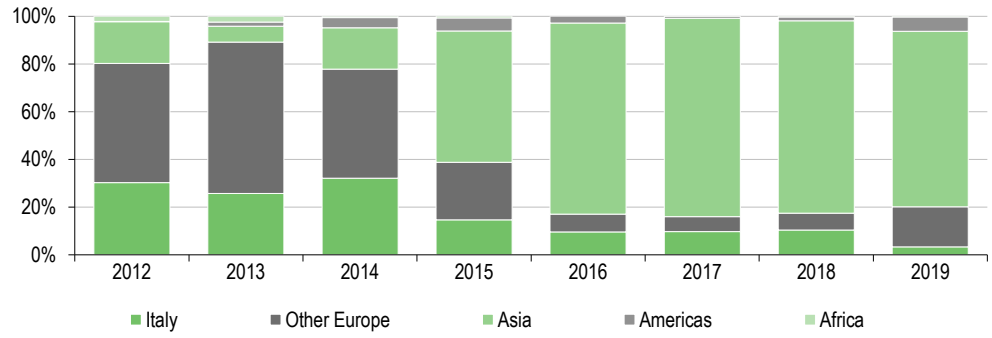
Source: Company

Second generation at the helm

Matteo Corradi is the son of the founder and is president and CEO of the group, having joined after graduating in 1996. He was appointed CEO in 2012. The CFO is Carlo Marchetti, an accountant who joined the group in 2008 and was appointed a director the following year. The other executive director is Monica Corradi and the board is completed with two independent directors. This team's strategy, honed and published in late 2018, broadened the revenue generation model. It looks to:

- Focus on higher-yield properties with support from pre-sales, particularly before the production phase. Emphasis is on selectivity, based on thorough market research and working with more internationally credible partners and broadcasters on co-productions. Digital opportunities are preferred.
- Achieve a better balance between Asia and other territories to reduce the overall risk levels within the business. Asia accounted for 74% of revenues in FY19, down from 83% in FY17 and 81% in FY18. No specific target has been set, but we understand that having half group revenues from Asia and the balance from the rest of the world would be a more comfortable position for management.

Exhibit 6: Revenue split by customer location



Source: Company accounts

- Increase the exposure to licensing and merchandising, with a strengthening of internal resource.
- Diversify the range of products offered through a greater volume of third-party deals, including those where Mondo is not involved in production. The *Feisty Pets* deal, which has no associated TV series, was the first example of this strategy being implemented. This should deliver increased margin without major requirements for funding investment or working capital.
- Increase the volume of live action fiction properties in the portfolio, in response to high levels of demand from the SVoD platforms. Having European production facilities and experience is a major advantage in local (eg. European) markets, where the North American (NA) platforms are seeking locally generated content to meet the appetite for such from regional (non-NA) audiences (and, at least in part, to appease local regulators who may have certain local content requirements). Mondo Iberoamerica is the subsidiary with the greatest strengths here.
- Improve cash generation, with our modelling showing free cash flow turning positive in FY20, a year later than previously hoped due to a working capital outflow in FY19.

Exhibit 7: Key Mondo content properties





















Source: Mondo TV. Note: Clockwise from top left – *Bat Pat, Invention Story, Disco Dragon, YooHoo and Friends, House of Talent, Nina & Olga, Grisù, Robot Trains, Sissi the Young Empress, MeteoHeroes.*

Collaboration with Toon2Tango

In June 2019, Mondo announced a formal collaboration arrangement the German company, Toon2Tango. This was a newly instituted children's and family entertainment venture founded by Ulli Stoef, a well-known and established figure in the industry, now working independently. The alliance was set up to focus on developing, producing and distributing unique and high-quality programmes with strong merchandise appeal.

The agreement targeted Toon2Tango developing at least eight new animated TV series over the following four years, which the two groups would co-produce and distribute. These are to be targeted at the international market, with Mondo concentrating on its strongest regions across Southern Europe and Asia and Toon2Tango managing Germany, Austria, Switzerland, the United Kingdom and Ireland, Scandinavia and Benelux. Distribution, licensing and merchandising rights vary by territory, with the two groups co-operating on some multi-territory deals. Under the terms of the agreement, Mondo and Toon2Tango co-own the underlying IP and revenues accruing from the projects will be divided equally.

The first project from the collaboration, the animated series *Agent203* was launched in FY19, along with four other projects. Development has begun on three further projects in Q120, which will strengthen the group's positioning in Northern Europe. Two other series from third-party producers have been negotiated in Q120, with Mondo handling worldwide distribution, TV rights and licensing.

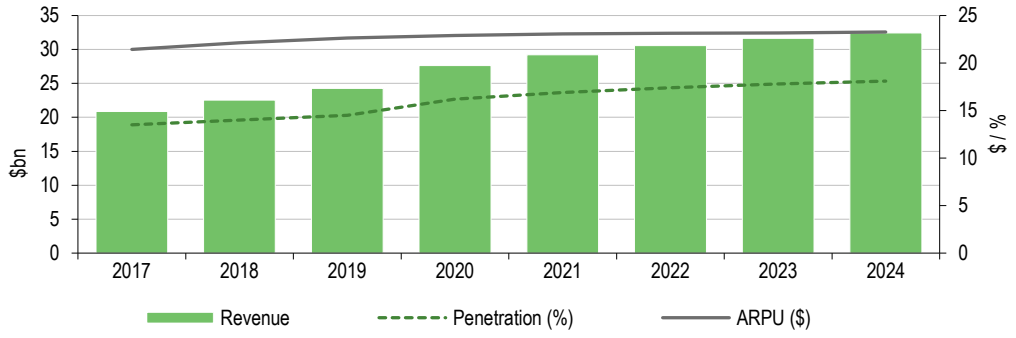
The group also has a long-standing collaboration with Henan York Animation in China, with which it developed Invention Story. This property has recently extended its distribution to Russia and Hungary.

Growth market hungry for content

The market for the consumption of video content continues to adapt, with new entrants into the streaming sector giving renewed impetus to the pace of change.

- Terrestrial broadcasters initially found themselves competing with the pay TV cable and satellite channels. Over the last decade, over the top models of AVoD (advertising-funded video on demand, as epitomised by YouTube) and SVoD (streaming video on demand, as epitomised by Netflix) have come increasingly to the fore.

Exhibit 8: SVOD global revenues, penetration and ARPU



Source: Statista

- The changing demand is being driven by a combination of content and convenience, with original content particularly important in driving the success of the subscription models. However, it should be noted that SVoD tends to be taken by households in addition to terrestrial and traditional pay TV content. Different requirements for individuals and within households mean it is common to have more than one subscription (known as stacking). Research from

industry BARB in the UK market indicates over half of households had an SVoD subscription. Of these, 36% had two subscriptions, while 6% took three. US prevalence of stacking is slightly higher.

- Outside China, which is not open to the major global platforms, Netflix remains the largest player in the SVoD market. Amazon is in second position for now (with the Prime offering obscuring some of the metrics) but is likely to be overtaken by Disney+ in the next couple of years. Disney content was withdrawn from other providers, including Netflix, ahead of the launch. Apple TV launched in November 2019, with a commitment to a menu of original content with a budget of US$1bn. The quality and breadth of content is perhaps more of a differentiator than pricing alone, although the competitive pricing environment does facilitate stacking for those households where budget allows.
- The COVID-19 pandemic has accentuated existing trends for cord-cutting from traditional cable and pay TV providers in the US, where these operators are more prevalent. With families restricted in their entertainment options to those available within the home and a need for children to be occupied quietly, the value equation for adoption has shifted favourably. With a simultaneous downturn in advertising spend for traditional TV as consumer confidence and opportunities for spending have diminished, the SVoD land-grab has been accelerated. These platforms have a major requirement for original content, driving demand from providers such as Mondo.
- The market for acquiring content, licensing and distribution rights has been disrupted by the COVID-19 situation, as many of the deals are struck at various industry trade fairs and events that have been postponed or virtualised over recent weeks and for several weeks to come. June's edition of MIFA has moved online. MIPJunior and MIPCOM are still scheduled to take place in France in October. Licensing Expo 2020 has been postponed until 2021, with October's Brand Licensing Europe still expected to run in London.

Sensitivities

Mondo TV has more than 50 years' experience in animation and knows its markets well. However, it has invested considerable resources in developing new titles for licensing, which may be less successful than it hopes depending on how it they are received by their target audience of children. Our estimates consider management's business plan (allowing for contingencies) and the final outturn could be higher or lower depending on both internal and external factors.

- COVID-19 is providing a net benefit to the group's activities by stimulating demand for animated content due to increased consumption of entertainment content and the lack of live filming alternatives. It is, however, making it more difficult to transact the relevant deals as trade fairs are cancelled and postponed. Closed and curtailed retail trading conditions are also hampering the sell-through of licensed and merchandised materials. The concern is that this will have repercussions in the important Christmas trading period, making retailers more reluctant to commit to orders. Further outbreaks of the disease and consequent lockdowns may also hamper the group's ability to continue to produce content.
- Mondo's ability to forge partnerships with broadcasters and toy companies is key to securing access to quality brands to develop. The group has a broad spread of customers and partners and the shift in strategy to focus less on Asia should reduce risk further.
- There is a risk that animations may take longer than expected to produce and hence deliveries will be delayed, although Mondo is highly experienced at managing animation projects.
- The long-term success of a series is ultimately determined by children's tastes. We assume moderate success across Mondo's portfolio. A significant success or flop could have a considerable impact on forecasts.

- Mondo TV operates in international markets and many of its transactions are denominated in US dollars, whereas it reports in euros.
- Credit risk. Most of Mondo's larger customers are established groups and many are repeat customers. However, some of the largest can be relatively aggressive over payment terms and are increasingly seeking to push working capital back up the supply chain.
- There are a significant number of warrants (1.52m) attached to the Atlas convertibles. Given the current share price we have not reflected these in our forecasts, as they are set with exercise prices ranging from €6.5 to €10. However, if the shares appreciate, these warrants could be triggered. A total of 1.07m of the Atlas warrants expire on 1 April 2021 with the final 0.45m running out to 19 April 2023.
- Margins on library sales are high so any variance from the business plan has a significant effect on profits. Sales of new titles are harder to predict although a significant proportion is pre-sold before production commences. The character licensing market is to some extent 'hit' driven, which makes forecasting medium-term licensing revenues difficult.

The group has a specific financial sensitivity in terms of an ongoing taxation dispute with the Italian financial authorities. This type of dispute, relating to deferred tax assets, is relatively common in the sector and country. The view of management and its professional advisers on the matter is that 'the risk of losing the case is considered unlikely' and no provision has therefore been made despite the scale of the potential claim, being €2.3m plus penalties and interest.

Valuation

The share price substantially increased over the Christmas period, from €1.24 up to €2.64 on 3 January 2020, having traded in a fairly narrow range of €0.99 to €1.34 over the previous six months. Since the turn of the year, this gain unwound back to €1.11 in mid-March as the COVID pandemic took hold. The share price has now recovered to a range of €1.90–2.00 as Asian economies have started to reopen and the background flow of deals published by Mondo has continued in a positive vein.

Substantial discount to peers

Exhibit 9: Peer group summary valuation ratings

Name	Share price	Market cap (m)	ytd perf (%)	PE last (x)	PE 1FY (x)	PE 2FY (x)	EV/ Sales last (x)	EV/ EBITDA last (x)	EV/ EBITDA 1FY (x)	EV/ EBITDA 2FY (x)	EV /EBIT last (x)	EV/ EBIT 1FY (x)	EV/ EBIT 2FY (x)	Div yield 1FY (x)
Xilam Animation (€)	39.40	193	-11.3	27.9	33.3	22.5	6.8	7.4	9.4	6.8	23.0	25.6	17.0	0.0
Mediawan (€)	7.75	247	-25.8	10.2	15.6	9.5	1.6	9.8	11.5	8.4	12.4	13.6	10.4	0.0
Lions Gate Ent (US$)	73.30	1574	-30.3				1.3	9.0	10.2	10.7	28.5	103.5	45.2	2.4
Toei (¥)	5450	228900	-2.7	19.5	20.5	19.0	3.5	11.3	11.4	10.5				1.3
Corus Ent (CA$)	2.81	582	-47.2	3.3	4.1	4.1	1.4	4.0	4.6	4.6	5.8	6.9	6.8	6.4
Spin Master (US$)	12.27	1779	-56.2	13.6	37.3	14.1	0.8	5.8	8.9	5.6	8.9	22.3	9.1	0.0
Amuse (¥)	2238	41679	-25.7	12.9			0.2							1.6
Average			-28.5	14.6	22.2	13.8	2.2	7.9	9.3	7.8	15.7	34.4	17.7	1.7
Median			-25.8	13.3	20.5	14.1	1.4	8.2	9.8	7.6	12.4	18.0	10.4	1.3
Mondo TV (€)	1.946	71	--19.4	17.3	13.6	12.5	2.2	3.1	2.6	2.2	7.9	5.7	5.1	0
Discount to Median				-30%	34%	12%	-60%	62%	74%	71%	36%	74%	51%	100%

Source: Refinitiv, Edison Investment Research. Note: Priced at 18 May 2020; median excludes Lions Gate for FY1, Mondo TV numbers are Edison estimates.

We note that EntertainmentOne, which was previously included in the international peer table because of its family entertainment content production, distribution and licensing, was bid for by Hasbro in a deal that completed in December 2019. The cash take-out price of 560p represented a multiple of 3.6x our forecasts FY19 sales (EntertainmentOne was an Edison client) and 16.9x

EBITDA, 17.3x EBIT. This is a clear premium to where other companies with overlapping business models are now valued, given share prices have fallen around 26% year to date.

Despite the rebound in the share price described above, Mondo TV is still clearly trading at a substantial discount to the global peer set across averaged relevant metrics. EBITDA ratios are difficult to compare in this peer group due to the varying treatments of capitalisation of production costs, which is less of an issue for Mondo TV than for some of the others. We would therefore prefer to compare on EV/EBIT. Parity on this basis (excluding Lions Gate from the median value for FY1 due to the outlying nature of the value) would imply a share price of €3.70, 90% higher than the current level. On a P/E basis, again averaged across one-year historic plus years one and two and applied to our estimates, parity equates to a share price of €2.21.

DCF valuation

Exhibit 10: DCF (€/share)

		Terminal growth rate				
		0.00%	1.00%	2.00%	3.00%	4.00%
WACC	13.00%	1.55	1.66	1.78	1.92	2.10
	12.50%	1.65	1.76	1.90	2.06	2.26
	12.00%	1.75	1.88	2.03	2.22	2.45
	11.50%	1.86	2.00	**2.18**	2.39	2.66
	11.00%	1.98	2.14	2.34	2.58	2.90
	10.50%	2.12	2.30	2.52	2.81	3.18
	10.00%	2.26	2.47	2.73	3.06	3.50
	9.50%	2.43	2.66	2.96	3.35	3.89
	9.00%	2.61	2.88	3.23	3.69	4.35
	8.50%	2.81	3.13	3.54	4.10	4.91

Source: Edison Investment Research

The company's report and accounts show management's calculation of the group's WACC at 11.6%. Using 11.5% and a terminal growth rate of 2%, our DCF shows a suggested share price of €2.18, based on our medium-term modelling, which builds in a level of contingency against the published management five-year business plan. This compares with a figure of €2.02 at the time of our last published report in November 2019.

Financials

Mondo TV publishes its five-year business plan targets to the market to facilitate understanding of the business model. It last revised these numbers in December 2018, when it significantly rebased expectations in light of the changed strategy, lowering forecast revenues by 50–60% to FY23. It has since confirmed the business plan is unchanged.

Results for FY19 outstripped the business plan, as shown in Exhibits 11 and 12 below, with revenue of €23.1m 19% better than the prior year. As well as the revenue number, the group also discloses the value of production, which includes the total revenue from rights sales, production plus licensing and merchandising revenues together with the capitalised production costs. These capitalised production costs relate to Mondo TV's own productions. For FY19, this figure was €26.7m, up 20% on the prior year. This reflects a rebuilding in both third-party revenues and in capitalised costs of internally generated animated series. Contributors included the successful completion and delivery of *Invention Story*, *Bat Pat 2*, *Robot Trains Series 2* (all illustrated above) at the group level and of the completion of *Rocky Kwaternaire*. Progress was made on *Disco Dragon* in Mondo TV France, and on *Robot Trains Series 3* and *MeteoHeroes* elsewhere.

Exhibit 11: FY19 vs forecasts (€m)

	2019 (forecast)	2019 (actual)	difference
Revenue	20.8	23.1	11%
EBITDA	14.4	16.4	14%
D&A	(8.1)	(9.9)	22%
EBIT	6.3	6.3	-
Net profit	3.6	3.8	6%

Source: Mondo TV accounts, Edison Investment Research

Earnings prospects set out in business plan

FY19 showed a marked recovery from FY18, which was a particularly difficult year for the group in trading and with the death of the founder (who still played a strong role in the business), which led to a significantly poorer financial outcome. The consequent root-and-branch reappraisal of the existing business and its prospects resulted in the rebased five-year plan (FY19–23), as published in December 2018. The shift in emphasis to other regions apart from Asia (74% of FY19 revenue) is shown in Exhibit 6 although we do not model the group on a geographic basis.

Exhibit 12: Key earnings metrics (€m) of most recent published business plan

	2017	2018	2019	2020e	2021e	2022e	2023e
Value of production	34.0	22.2	24.5	34.0	38.5	40.8	44.4
EBITDA	23.7	11.2	14.3	19.9	24.2	28.2	31.5
EBITDA mgn to prod. value	*69.7%*	*50.5%*	*58.4%*	*58.6%*	*62.8%*	*69.2%*	*71.1%*
EBIT	17.6	(30.6)	6.3	9.0	11.7	14.0	16.9
EBIT mgn to prod. value	*51.8%*	*N/A*	*25.7%*	*26.4%*	*30.3%*	*34.2%*	*38.2%*
Net profit	12.3	(42.5)	4.1	5.4	7.0	8.4	10.5

Source: Mondo TV accounts, Mondo TV business plan, Edison Investment Research

The exhibit above clearly shows the rebasing of the group, with FY18 set to have been the nadir of its fortunes. Given that these numbers are issued directly from the company, we have reviewed them for reasonableness and compiled our thoughts on how revenues and costs break down in light of historical reports and comments made in various management statements.

Q120 results build on FY19 progress

Financial results for the first quarter of FY20 show further revenue gains, as would be expected given the production and delivery schedules, particularly from Mondo TV SpA and Mondo TV Iberoamerica. Revenue of €5.2m was 26% ahead of Q119's figure of €4.2m, although a lower level of capitalisation of internally generated animated series gives a production value 19% ahead at €6.0m from €5.0m.

With operating costs a shade lower, the impact is very positive at the EBITDA level, which is also boosted by the adoption of IFRS 16, pushing the EBITDA margin to production value to 67% from 60%. When this effect is tripped out through the higher depreciation charge, the increase in EBIT was limited to 8%. The net result benefited from a lower tax charge and a reduced profit attributable to third parties, coming out at €1.39m against €0.97m for Q119.

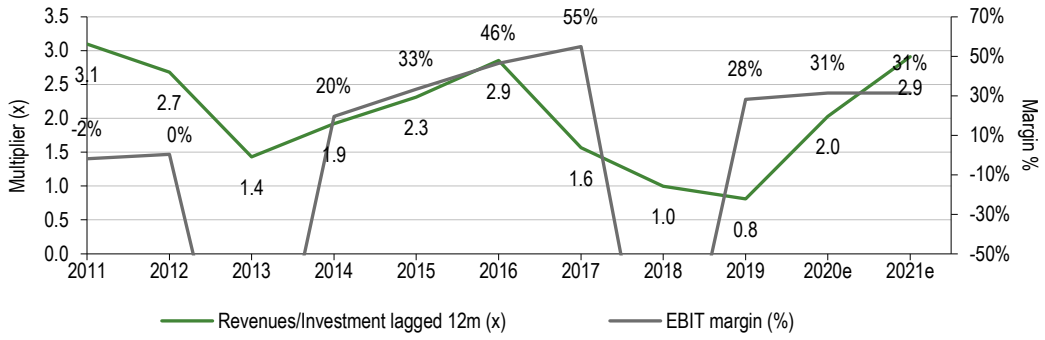
Timing lifts FY20 and FY21 forecasts

Our forecasts for Mondo TV Group are drawn up and predicated on the company's published business plan, rather than from our assumptions on segmental or geographical prospects. However, as in previous years, we include an inbuilt contingency, with an assumption of sales 2% below business plan in FY20, and this sales discount increasing up to 10% by FY22, to reflect the execution risk. While the FY19 results were better than management's projections, we retain this approach but will revisit these discount factors over time. The effect of this is a small uplift in our projections as the time frame for the discounts that we apply move back by one year, so the FY20 contingency falls from 5% to 2% and for FY21 from 10% to 5%. The strong start to the year shown

in the Q1 results, together with the limited impact from COVID-19, with key contracts for the year already in place for the remainder of the year, gives a good level of confidence in the FY20 projection. It is possible the impact of the pandemic will be more strongly felt in FY21 if broadcasters and platforms are reluctant to commit and merchandising opportunities are more restrained. At this juncture therefore, we would regard the risk to be on the upside for FY20 forecasts and the downside for FY21, but all contained within the context of the published business plan.

Investment in content remains a key lead indicator and we demonstrate that here. Without investment in production, there is nothing to sell in future periods. The shift towards greater pre-sales should mean the risk profile associated with the investment improves.

Exhibit 13: Earnings and investment



Source: Mondo TV accounts, Edison Investment Research

Exhibit 13 above shows there is a fair degree of inbuilt visibility of earnings from new productions over the short to medium term, but individual contract values are not disclosed for reasons of commercial sensitivity. Library sales, which we estimate at around 15% of revenues, are fairly steady, with growth across management's business plan forecast period of a little over 10%.

Cash flow set to strengthen

Operating cash flow in FY19 was characterised by stronger EBITDA performance, as described above, but with a substantial absorption of working capital - a large swing from the release of working capital in the prior year. Our modelling suggests a far smoother pattern in the current and subsequent years, always assuming the broadcasters and platforms with which the group deals do not particularly alter their payment terms. The balance of customers does make a difference here, with some of the larger platforms well known for drawing out their settlement terms.

Exhibit 14: Summary cash flow

Cash flow (€m)	FY18	FY19	FY20e	FY21e
EBITDA	11.2	16.4	20.0	23.2
Operating cashflow before WC movements	11.7	15.7	17.2	20.1
Changes in working capital	6.0	(10.6)	(1.3)	(2.1)
Operating cash flows	17.6	5.1	16.2	18.0
Investing cash flows	(28.6)	(14.1)	(11.0)	(11.0)
Financing cash flows	20.9	4.7	(0.3)	(0.3)
Net change in cash	10.0	(4.5)	4.8	6.6

Source: Company accounts, Edison Investment Research

Balance sheet set to move to net cash

The group's balance sheet was transformed in FY18 by the subscription and subsequent conversion of bonds issued to Atlas, raising €20.9m in FY18 and putting the balance sheet into a cash positive position. This facilitated the funding of investment in IP, which has put the group into

its current strong trading position. There are a significant number of warrants (1.52m) attached to the Atlas convertibles. Given the current share price, we have not reflected these in our forecasts, as they are set with exercise prices ranging from €6.5 to €10. However, should the shares appreciate, these warrants could be triggered. 1.07m of the Atlas warrants expire on 1 April 2021 with the final 0.45m running out to 19 April 2023.

We had earlier expected Mondo to stay net cash positive, but the working capital outflow described above tipped the balance sheet into a modest year-end net debt position of €1.4m, being €8m of cash, less €3.3m of short-term bank debt and €1.5m of convertible bond debt, €3.0m of longer-term financial debt. The adoption of IFRS 16 adds €0.4m and €1.1m of short- and longer-term lease debt to the equation. There has been a further outflow in Q120 of €2.2m, including €1.4m of investment. This increase in net debt is mainly again due to working capital outflow. In this instance the outflow relates to the lockdown initially in Asia and then in Europe, partially offset by a reduction in the level of investment cash outflows from €4.3m in Q119 to €1.4m in Q120. Management indicates that from April and then more consistently in May, the volume of collections is reverting to the normal trends as economies and customers are resuming business operations.

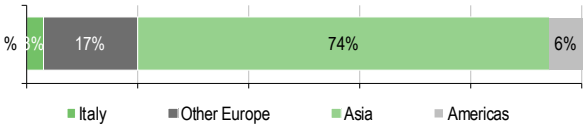
The library assets were heavily written down in the FY18 accounts by a total of €56.8m at the consolidated level. This represents a write-down of the library value of €32.9m, with a further adjustment to working capital in trade receivables (mainly from advance sales on these projects) of €23.9m. Net of the related tax offset, this made a total extraordinary non-recurring charge in FY18 of €43.8m. Further information on this is contained in our May 2019 outlook report.

Our modelling indicates net cash at the end of FY20 of €3.1m, rising to €9.5m by end FY21, assuming capital investment of €11.0m in each year.

Exhibit 15: Financial summary

€'m	2017	2018	2019	2020e	2021e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	32.0	18.9	23.1	28.6	32.0
Cost of Sales	(8.3)	(7.7)	(6.6)	(8.7)	(8.9)
Gross Profit	23.7	11.2	16.4	20.0	23.2
EBITDA	23.7	11.2	16.4	20.0	23.2
Operating Profit (before amort. and except.)	17.6	(30.6)	6.5	9.0	10.1
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	(23.9)	(0.2)	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0	0.0
Reported operating profit	17.6	(54.5)	6.3	9.0	10.1
Net Interest	(2.2)	0.5	(0.3)	(0.3)	(0.3)
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	15.4	(30.1)	6.2	8.6	9.7
Profit Before Tax (reported)	15.4	(54.0)	6.0	8.6	9.7
Reported tax	(3.1)	11.5	(2.1)	(2.4)	(2.7)
Profit After Tax (norm)	12.3	(22.0)	4.1	6.2	7.0
Profit After Tax (reported)	12.3	(42.5)	3.9	6.2	7.0
Minority interests	0.5	3.0	(0.1)	(1.0)	(1.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net income (normalised)	12.8	(19.0)	4.0	5.2	5.7
Net income (reported)	12.8	(39.5)	3.8	5.2	5.7
Average Number of Shares Outstanding (m)	30	34	35	36	36
EPS - normalised (c)	43.0	(56.3)	11.3	14.3	15.6
EPS - normalised fully diluted (c)	43.0	(56.3)	11.3	14.3	15.6
EPS - (c)	43.0	(117.0)	10.8	14.3	15.6
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Revenue growth (%)	16.8	(40.9)	21.9	24.2	11.8
Gross Margin (%)	74.0	59.2	71.3	69.7	72.3
EBITDA Margin (%)	74.0	59.2	71.3	69.7	72.3
Normalised Operating Margin	54.9	(162.0)	28.2	31.3	31.4
BALANCE SHEET					
Fixed Assets	47.9	46.0	50.5	51.5	50.1
Intangible Assets	44.1	30.9	35.8	36.5	35.0
Tangible Assets	0.4	0.4	1.6	1.9	1.9
Investments & other	3.4	14.7	13.1	13.1	13.1
Current Assets	53.6	37.2	35.7	46.1	57.0
Stocks	0.0	0.0	0.0	0.0	0.0
Debtors	47.9	20.6	24.9	30.9	35.2
Cash & cash equivalents	2.4	12.5	8.0	12.4	19.0
Other	3.3	4.2	2.9	2.8	2.8
Current Liabilities	(22.6)	(25.2)	(19.9)	(24.8)	(27.0)
Creditors	(15.0)	(21.6)	(13.8)	(18.4)	(20.7)
Tax and social security	(0.4)	(0.5)	(0.8)	(0.8)	(0.8)
Short term borrowings	(3.6)	(3.0)	(5.3)	(5.5)	(5.5)
Other	(3.7)	(0.1)	(0.0)	(0.0)	(0.0)
Long Term Liabilities	(1.2)	(1.9)	(4.7)	(4.7)	(4.7)
Long term borrowings	(0.7)	(1.3)	(4.1)	(4.1)	(4.1)
Other long term liabilities	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Net Assets	77.7	56.1	61.6	68.1	75.3
Minority interests	(0.6)	2.1	(1.2)	1.0	1.4
Shareholders' equity	77.1	58.2	60.4	69.1	76.7
CASH FLOW					
Op Cash Flow before WC and tax	23.7	11.2	16.4	20.0	23.2
Working capital	(11.2)	6.0	(10.6)	(1.3)	(2.1)
Exceptional & other	(0.8)	(11.0)	1.4	0.0	(0.3)
Tax	(3.1)	11.5	(2.1)	(2.4)	(2.7)
Net operating cash flow	8.7	17.6	5.1	16.2	18.0
Capex	(19.2)	(28.6)	(14.2)	(11.1)	(11.1)
Acquisitions/disposals	0.0	0.0	(0.1)	0.0	0.0
Net interest	(0.2)	0.0	2.9	(0.3)	(0.3)
Equity financing	9.4	20.9	1.8	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Other	0.1	0.0	0.0	0.0	0.0
Net Cash Flow	(1.2)	10.0	(4.5)	4.8	6.6
Opening net debt/(cash)	0.9	2.0	(8.0)	1.4	(3.1)
FX	0.1	0.0	0.0	0.0	0.0
Other non-cash movements	0.0	0.0	(4.9)	(0.3)	0.0
Closing net debt/(cash)	2.0	(8.0)	1.4	(3.1)	(9.5)

Source: Company accounts, Edison Investment Research

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Management team

CEO: Matteo Corradi	CFO: Carlo Marchetti
Matteo Corradi is the son of the late founder, Orlando Corradi, and has worked at Mondo TV since completing his studies in 1996. He has held various management positions in the group. He took over as CEO in 2012 and is responsible for investor relations.	Carlo Marchetti joined Mondo TV in 2007. For 10 years before that, he was chief accountant at Datamat SpA, a listed Italian software and services group. Carlo is a chartered certified accountant and worked at Ernst & Young from 1994‑97.

Principal shareholders	(%)
Giuliana Bertozzi	20.03
Matteo Corradi	7.26
Ricardo Corradi	5.85

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