EDISON

Mondo TV

Q1 update

MeteoHeroes are go for gaming

Media

Mondo TV Group has had a strong start to the year, with continuing deals on its key properties, including *MeteoHeroes*, *Grisù* and *Agent 203*. New contracts include a first to develop, produce and distribute a video game based on *MeteoHeroes* for Sony from the group's upgraded studio subsidiary in the Canary Islands. The funding round from Atlas, completed in Q121, has put the group on a sound financial footing. With its extensive library and a strong front list, Mondo TV is in a good position to benefit from the continued appetite for content from broadcasters and streamers.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	EV/EBIT (x)	P/E (x)
12/19	23.1	6.2	11.3	0.0	8.6	14.7
12/20	24.7	6.4	13.2	0.0	7.6	12.6
12/21e	29.2	10.5	15.0	0.0	5.2	11.1
12/22e	31.3	12.8	17.3	0.0	4.8	9.6

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

Strong Q121 performance

Mondo TV's first quarter production value of €8.02m was 35% ahead of the prior year, boosted by agreed sales of new series. The gain at EBITDA level was slightly offset by higher operating and production costs, reflecting the scaling up of operations, with an EBITDA margin to production value of 64.7% from 66.9% in Q120. Italian state broadcaster RAI has agreed the pre-purchase of *Grisù*, with a seven-year licence from production completion, which significantly de-risks the project. Work on this is underway, along with the second series of *MeteoHeroes* (with strong eco themes resonating well with audiences) and *Agent 203*, being produced under the joint venture with Toon2Tango. The agreement for *MeteoHeroes* PlayStation (then PC and Mac) games may herald another important licensing avenue. There is no change to management guidance for FY21e for €34.9m of production value, up 15% on the prior year, generating EBITDA of €24.6m. Given the strength of the order book, we have edged our FY22e production value estimate up 2% to €36.9m.

Atlas funding underwrites growth

All the corporate bonds issued to Atlas Special Opportunities in FY20 have now been converted, bringing in a total of €10.5m, of which the final €4.25m fell in Q121. Net debt at the end of March was €0.9m, including €0.8m of IFRS 16 lease liabilities. Stripping these out, the position is effectively net cash neutral. Our modelling suggests end-FY21 (IFRS) net cash of €2.1m, assuming investment in animated and live series of €20.2m in the year, with a further small accretion in FY22e.

Valuation: Deep discount persists

Parity to global peers on averaged earnings multiples across FY20–22e would imply a value of €3.84/share (April 2021: €3.81). A DCF (WACC of 11.5%, terminal growth 2%) suggests a price of €2.10. The midpoint of these is €2.97 (April 2021: €2.91). We would expect Mondo's valuation discount to close further as the financial benefit of recent deals flows through to revenues.

9 June 2021

Price	**€1.66**
Market cap	**€72m**
Net debt (€m) at 31 March 2021 (IFRS)	0.9
Shares in issue	43.6m
Free float	71.6%
Code	MTVI
Primary exchange	Borsa Italiana Star
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	18.7	26.8	(25.7)
Rel (local)	13.1	15.2	(42.0)
52-week high/low	€2.15		€1.21

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 (63%) and Mondo TV Iberoamerica (78%). It owns the rights to more than 1,600 TV episodes and films, which it distributes across global markets.

Next events

Interim results	14 September 2021
Q3 results	12 November 2021

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Edison profile page

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Investment case

Mondo TV's investment case 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** had relatively little operational impact on the group, with swift adjustment to remote working for most operating territories and the studios located in the Canary Islands able to continue producing animated content. There was some disruption from the lack of trade fairs, where distribution and licensing deals are negotiated, but necessity ensured that deal-making continued.
- **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. Consolidation among the larger US and global players highlights the need for quality content for regional broadcasters and streamers. High-quality animated series can drive new subscriptions 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 most are still virtual or hybrid currently.
- **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 13 years. The Corradi family holds 33.5% of the equity.
- **Secure balance sheet.** The balance sheet has been significantly strengthened by the FY20 convertible bond issue by Atlas Special Opportunities (see our update notes published in September 2020 and November 2020) (similar to the exercise carried out in FY18). This has given a cash injection of €10.5m, with all bonds now converted, allowing the group to press ahead with investment both in properties and in enhancing its in-house production facilities in the Canary Islands. Net debt at end Q121 was €0.9m.
- **Broadening geographic mix.** Asian customers remain a very important part of the mix, but the June 2019 Toon2Tango deal accelerated the group's exposure to new markets in Northern Europe and English-speaking countries on a lower-risk basis. Recently announced deals are primarily in Italy, Spain and Germany.
- **Potential for growth in licensing and merchandising.** 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. This aspect of the business has been more difficult to pursue in COVID conditions, but we would expect it to start growing more strongly once trade and toy fairs restart.

Description: Production and exploitation of 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, owning the rights to over 1,600 TV episodes and films, which it distributes across global markets. Its production investment and sales strategy is focused on:

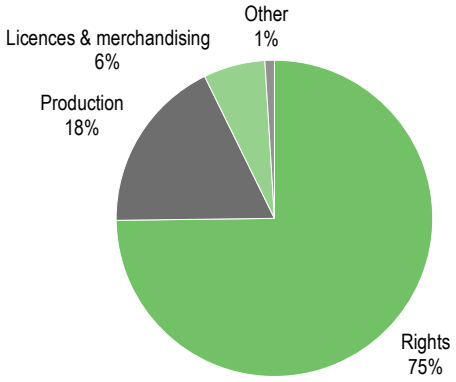
- new productions with high licensing potential, co-produced with third parties; and
- the distribution of third-party libraries.

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, gives 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 RAI in Italy on *Grisù*); and
- third-party producers looking to market an asset internationally.

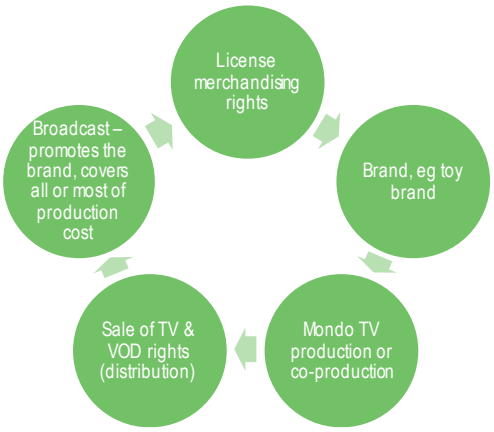
This approach gives Mondo an edge in a very competitive marketplace, de-risks its investment in production and supports a more rapid exploitation of higher-margin licensing and merchandising revenues. Individual properties are described and illustrated below.

Exhibit 1: Split of production value by activity FY20



Source: Mondo TV accounts

Exhibit 2: Business model summary



Source: Edison Investment Research

Mondo TVs revenues derive from three categories: production services, distribution and brand licensing.

Production services

Production has historically been mostly done under the supervision of management but using third-party designers, screenwriters and directors, keeping its cost base flexible. In FY16, Mondo established its own in-house pre-production team in the Canary Islands (Producciones Canarias) to work on the development of concepts and storyboards. This facility has now been upgraded and expanded to take on more of the group's production work (and thereby retain more margin), with additional capability in 3D CGI. Generally, Mondo either works 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.

Exhibit 3: Key Mondo content properties















Source: Mondo TV. Note: Clockwise from top left – *Grisù, MeteoHeroes, Sissi the Young Empress, Invention Story, Nina & Olga, Annie & Carola, Robot Trains, Bat Pat, House of Talent, Agent 203.*

The joint venture with Toon2Tango was set up in June 2019. Toon2Tango was at that stage a newly established German 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. Three further animated series have since been added. 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 *Agent 203* was launched in FY19, along with four other projects. The increasing scale of the partnership strengthens the group's positioning in Northern Europe.

The group also has a longstanding collaboration with Henan York Animation in China, with which it developed *Invention Story*.

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. *House of Talent* is also live action, but reality, featuring social media influencers with younger followers. Production of these was obviously limited by the conditions of the pandemic in FY20.

Production revenues comprise a mix of recurring series and revenues from new shows, with new shows becoming a more important part of the mix over the course of the five-year business plan.

Distribution

Mondo has a sales team of nine 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 €3.5m of Mondo's annual 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.

While most sales are of series, the mindset of the distribution is more firmly on building franchises around the properties that help with a broader monetisation strategy.

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. These are not necessarily linked to a TV series (although most are). In October 2019, it was appointed the licensing agent in Italy, Spain and Portugal for the classic Julia Donaldson/Axel Scheffler property, *The Gruffalo*.

The recently announced deal with Sony Interactive to develop and promote video games for *MeteoHeroes* indicates another potential licensing avenue.

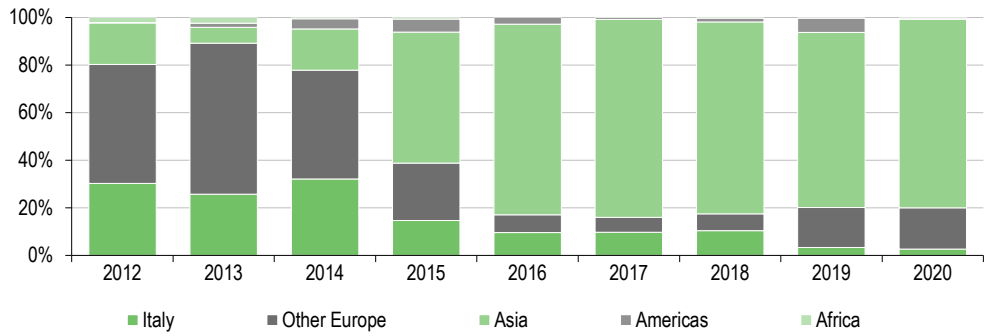
Second generation at the helm

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 by 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.
  - Progress: this aspect of the strategy is working well, evidenced by the strong performance of key properties such as *MeteoHeroes* and *Grisù* and the interest that they are generating with mainstream distributors such as RAI with the pre-funding in place.
- Expand the range of third-party product, both in cartoons and live action targeted at young audiences.

Exhibit 4: Revenue by geography development



Source: Mondo TV accounts

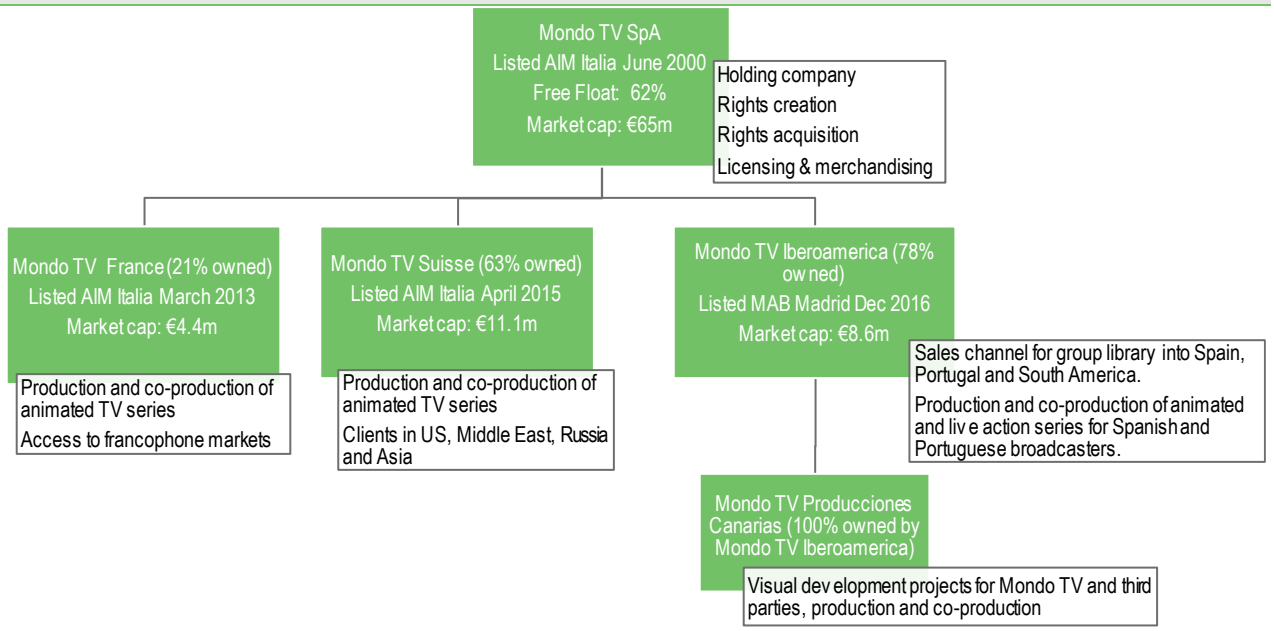
- Achieve a better balance between Asia and other territories to reduce the overall risk levels within the business. Asia accounted for 79% of revenues in FY20, from 74% in FY19, 83% in FY17 and 81% in FY18. Management is especially keen to build exposure to the US market and wants to increase market share in Northern Europe and Russia to counter the traditional revenue bias to Asia and Southern Europe. 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.
  - Progress: we would expect that there will be a more significant shift over the next couple of years as the newer contracts start coming through.

As at 31 December 2020, the group had 53 employees, of whom four are executives, up two employees compared to 31 December 2019. The Italian operation is the largest within the group, with 25 employees, while the scale-up in the production facility in Gran Canaria has taken the number at Mondo TV Producciones Canarias to 15, with the intention to build staffing up to 50 over time by:

- optimising synergies; and
- reorganising internal work, particularly in Production.

The current group structure is shown below. It has just been announced (26th May link: https://www.mondotv.it/wp/wp-content/uploads/2021/05/COS52.0-Progetto-fusione-inversa-Mondo-Iberoamerica-con-Mondo-Canarias-26.05.2021.pdf) that Mondo TV Producciones Canarias will reverse takeover the Spanish entity, Mondo TV Iberoamerica. This will simplify the group structure and help towards the objectives outlined above.

Exhibit 5: Group structure



Source: Mondo TV, Edison Investment Research

Key properties and recent deals

Exhibit 6: Key deals Q120 to date

Date	Partner/ customer	Country	Property	Rights, contract	Comments
Q120	Toon2Tango			TV, Licensing	Extension with three additional properties
Feb-20	RSI	Switz	*Sissi, MeteoHeroes*		
Mar-20	Turner Italia	Italy	*Yo Soy Franky* (S1 and S2)		
	RTVE	Spain	*BatPat 2*	Part of IP	
Apr-20		Italy	*MeteoHeroes, Invention Story*		Launched
	Enanimation	Spain	*Nina Y Olga*		Co-production contract
May-20	TIMVISION	Italy	6 properties including *Invention Story, Robot Trains, Sissi*		Licensing from broadcast
	Samsung	Italy	50 movies plus 20 series	1-yr initial contract	Mondo TV channel on Samsung TV Plus, launched Q320
Jun-20	Huawei	26 countries globally	58 series	2-yr (initially) rev-share model	Airing on Huawei online platform
Jul-20	HK Tianhai Culture Tech		*Invention Story*		Contract transferred post change of ownership
Jul-20	RTVE	Spain	*Annie e Carola*	Co-production contract	First to be completely handled by Canary Islands subsidiary, for release H222
Nov-20	Toon2Tango/ZDF Enterprises		*Grisù*	Co-production with ZDF	Being produced in-house in Canary Islands, completion scheduled H222
Jan-21	RAI	Italy	*Grisù*	7-yr licence from completion date	Effectively underwrites the project
	Minerva Pictures	Italy	8 classic series and 22 animated films from library	AVOD, SVOD and TVOD to 12/23	Flat licence fee
	VlogBox	US	4 classic series	AVOD & SVOD rights	2/23 to 8/23, minimum guarantee + rev share
	SUPER RTL	Germany	*Agent 203*	Commissioning broadcaster	With Toon2Tango, de-risks project
Apr-21	Sony Interactive	Spain	*MeteoHeroes*	Video game licence	Development, promotion and distribution

Source: Mondo TV, Edison Investment Research. Note: AVOD, SVOD and TVOD specifically excludes YouTube.

The deal flow has been coming through regularly and covers an encouraging range of properties, as well as further monetisation of the library assets. We have selected some of the key transactions and summarised them here. We would note that most relate to European distribution, but that it is

worth highlighting the appearance of the US in the list with the VlogBox contract, as Mondo's management has long had ambitions to make more significant inroads into that important market.

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 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.

- There has been resilience within the business model to the net effects of COVID-19 on the group's activities, although it is inherently unquantifiable. Increased consumption of entertainment content and the lack of live filming alternatives have stimulated demand for animated content. Initially, it made it more difficult to transact the relevant deals, with trade fairs cancelled or postponed, but inevitably new methodologies are developing. Closed and curtailed retail trading conditions also hampered the sell-through of licensed and merchandised materials. Content production continued broadly uninterrupted.
- 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 attached to the Atlas convertibles (1.95m). Given the current share price, we have not reflected these in our forecasts, as 0.45m are exercisable at €7.5 with an expiry date of June 2023 and the balance of 1.5m are exercisable at €3.0, expiring in October 2025.
- 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.

Valuation

Having recovered from a low of €1.19 at the onset of the pandemic, the share price climbed to €2.19 in early June 2020 and then lost nearly all of that gain over the subsequent eight months. Having bottomed out at €1.21 at the end of January, it has staged a good recovery to reach current levels.

Substantial discount to peers

Despite the recent rebound, the share price remains at a substantial discount to global peers, as shown in Exhibit 7 below. At least some of this discount will be attributable to the limited liquidity in the stock. We have added Boat Rocker, which listed on the Toronto Stock Exchange in Canada in March this year, to the list of relevant peers. While it has a broader business model than Mondo TV, it does have a strong focus on children's content.

If the valuation gap with these peers were to be closed, on averaged earnings multiples across FY20–22e, the implied share price would be €3.84/share (April 2021: €3.81).

Exhibit 7: Peer group summary valuation ratings

Name	Ccy	Price	Market cap (m)	Ytd perf (%)	P/E last (x)	P/E 1FY (x)	P/E 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)
Xilam Animation	EUR	43.90	213	(6)	86.0	26.3	21.5	10.7	15.4	5.5	5.2	55.4	19.2	15.9
Mediawan	EUR	12.00	370	0	17.3			1.9	12.1			15.2		
Lions Gate Ent	USD	20.79	4,240	83			339.4	2.2	13.4	16.1	12.6		73.3	32.7
Toei	JPY	12,020	491,603	49	44.4	45.8	43.3	8.9	28.7	28.1	26.9			
Corus Ent	CAD	6.30	1,295	47	9.1	7.2	7.0	1.9	5.5	5.3	5.2	8.1	6.7	6.4
Spin Master	CAD	38.72	3,973	34	62.7	21.9	19.1	2.0	17.1	9.6	8.8	35.9	15.1	13.4
Amuse	JPY	2,353	40,987	(9)	24.5			0.5	4.5					
Boat Rocker	CAD	7.00	241	(20)		15.2	13.2	1.1		9.3	3.1			4.4
Average				22	40.7	23.3	73.9	3.6	13.8	12.3	10.3	28.6	28.6	14.6
Median				17	34.5	21.9	20.3	1.9	13.4	9.5	7.0	25.6	17.1	13.4
Mondo TV	EUR	1.68	73	26	12.6	11.1	9.6	2.5	3.3	2.5	2.3	7.2	5.2	4.8
Discount to median					63%	49%	53%	-31%	75%	73%	67%	72%	70%	64%

Source: Refinitiv. Note: Prices as at 09 June 2021.

DCF valuation

We have also looked at a DCF approach, under varying WACC and terminal growth assumptions.

Exhibit 8: DCF (€/share)

		Terminal growth rate				
		0.00%	1.00%	2.00%	3.00%	4.00%
WACC	13.00%	1.74	1.79	1.85	1.92	2.01
	12.50%	1.80	1.86	1.93	2.01	2.11
	12.00%	1.87	1.93	2.01	2.10	2.22
	11.50%	1.95	2.02	**2.10**	2.21	2.35
	11.00%	2.03	2.11	2.21	2.33	2.49
	10.50%	2.11	2.21	2.32	2.47	2.66
	10.00%	2.21	2.32	2.45	2.63	2.86
	9.50%	2.32	2.45	2.60	2.81	3.09
	9.00%	2.44	2.59	2.77	3.02	3.37
	8.50%	2.58	2.75	2.97	3.28	3.72

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 €2.10, based on our medium-term modelling, which builds in a level of contingency against management's published five-year business plan. This compares with a figure of €2.01 at the time of our last update in April.

The midpoint of these two valuation approaches is €2.97. It is also worth noting that the balance sheet value of the group's library is €44.7m, equivalent to €1.03/share.

Financials

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 (79% of FY20 revenue) was made more difficult in the year by the pandemic conditions, as shown in Exhibit 4, although we do not model the group on a geographic basis. Given that the deals announced over the last year have predominantly been for European customers, we would expect this reorientation to show more strongly from FY21.

Exhibit 9: Key earnings metrics (€m) of most recent published business plan forecasts

	2017	2018	2019	2020	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 projections are issued directly by the company, we have reviewed them for reasonableness and compiled our thoughts on how revenues and costs break down considering the historical reports and comments made in various management statements.

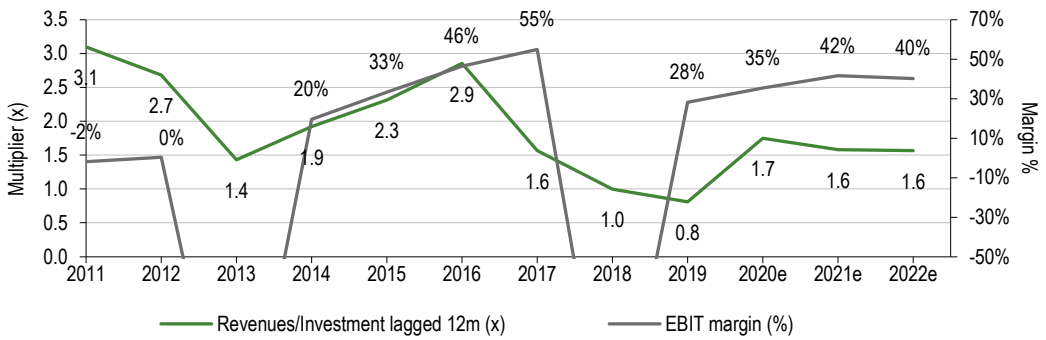
Exhibit 10: FY20 versus business plan forecasts (€m)

	2020 (forecast)	2020 (actual)	difference
Revenue	29.2	25.3	(13%)
Production value	34.0	30.3	(11%)
EBITDA	19.9	18.8	(6%)
D&A	(10.9)	(10.5)	(4%)
EBIT	9.0	8.3	(8%)
Net profit	5.4	4.4	(19%)

Source: Mondo TV accounts, Edison Investment Research

At the time the business plan was drawn up, there was obviously no foresight of the disruption reaped by the pandemic. However, as shown here, the impact on the business was well contained, partly reflecting the longer-term nature of the client relationships, partly reflecting the resilience of demand.

Exhibit 11: Earnings and investment



Source: Mondo TV accounts, Edison Investment Research

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 investment improves.

Exhibit 11 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 steady, with growth across management's business plan forecast period at a little over 10%.

In terms on margin, the progression is set to accelerate from FY21 as more production is carried out in-house at Producciones Canarias, rather than subcontracted to third parties. Margin is also driven by the balance of licensing and merchandising income in the mix. Again, we would expect this to increase in light of the deals announced over the last year or two. Our modelling indicates EBITDA margin to production value increasing from 61.8% in FY20 to 70.5% for the current year and 74.2% for FY22e.

Contingency slightly reduced for FY22e

Following the strong start to the year reported in the Q121 update, with production value of €8m, up 35% on Q120 (pre-pandemic onset), we leave our full year FY21 estimates unchanged for now given the unaltered previous management guidance and the upgrades that we put in place after publication of the FY20 figures in April. At that juncture, we introduced forecasts for FY22e and we have now edged these up slightly by reducing the contingency against the business plan forecasts. The effect is to raise our projected production value from €36.2m to €36.9m, which lifts FY22e EBITDA from €26.9m to €27.4m, still some way below the management plan to deliver €28.2m.

Cash flow boosted by Atlas cash injection

Operating cash flow in FY20 benefited from relatively modest absorption of working capital as payment terms with the major platforms and broadcasters stayed more stable than many had anticipated (some have poor reputations for stringing out settlement).

Investment stepped up over FY19 as new series went into production, but with an increasing element of pre-sales, the risk associated with this investment is considerably lower than it was for the group prior to FY18. The other element of investment is in scaling up the production facility within Producciones Canarias, with an initial investment of around €0.3m in offices and equipment.

The key item of note is on the financing line, bolstered by the funding from Atlas Special Opportunities in the form of a €10.5m issue of convertible bonds in FY20, €6.25m of which was issued in that year with the balance of €4.25m coming through in Q121.

By the year-end, €4.5m of the convertible bonds had already been converted into shares. Since then, the balance of €4.25m of convertible bonds have now also issued and the outstanding €6.0m (being the €1.75m issued but unconverted from FY20 and the €4.25m issued in Q121) have been converted (no further related share issuance outstanding).

Exhibit 12: Summary cash flow

Cash flow (€m)	FY19	FY20	FY21e	FY22e
EBITDA	16.4	18.8	24.6	27.4
Operating cash flow before WC movements	15.7	14.6	19.1	22.6
Changes in working capital	(10.6)	(2.5)	(3.4)	(1.4)
Operating cash flows	5.1	12.1	15.7	21.3
Investing cash flows	(14.1)	(18.6)	(20.2)	(20.2)
Financing cash flows	4.7	8.4	6.5	(0.5)
Net change in cash	(4.5)	1.9	2.0	0.5

Source: Mondo TV accounts, Edison Investment Research

The historical dispute with the Italian financial authorities, relating to deferred tax assets for the years FY12-19, was resolved in December 2020. Settlement was agreed at payment of €2.8m in several instalments over four years. We have assumed in our modelling that these are equal payments.

Balance sheet also strengthened

The cash inflow from the issue and conversion of the Atlas bonds put the balance sheet into a much-improved position. At the year-end, net debt was €4.1m, but this included €1.75m of debt related to the bonds, since converted. By end March, net debt was €0.9m. Excluding lease liabilities of €0.8m, the balance sheet was effectively ungeared at that point.

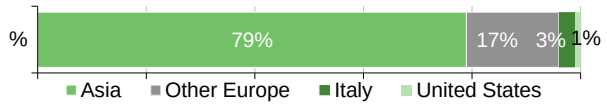
Total warrants outstanding to Atlas now number 1.95m, of which 0.45m are exercisable at €7.5 with an expiry date of 21 June 2023 and 1.5m are exercisable at €3.0, expiring on 31 October 2025.

The group's library is now valued at €44.7m (as at end FY20 and tested annually), an increase of €9.0m, up 25% on the prior year. While 81% of this value rests with Mondo Italy, the increase in business through Mondo TV France swelled the value of its library from €2.4m to €5.7m.

Exhibit 13: Financial summary

€m	2019	2020	2021e	2022e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT				
Revenue	23.1	24.7	29.2	31.3
Production value	26.7	30.4	34.9	36.9
Cost of Sales	(6.6)	(5.9)	(4.6)	(3.9)
Gross Profit	16.4	18.8	24.6	27.4
EBITDA	16.4	18.8	24.6	27.4
Operating Profit (before amort. and except.)	6.5	8.7	12.1	12.9
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0
Exceptionals	(0.2)	(0.4)	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0
Reported operating profit	6.3	8.3	12.1	12.9
Net Interest	(0.3)	(2.4)	(1.6)	(0.1)
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	6.2	6.4	10.5	12.8
Profit Before Tax (reported)	6.0	6.0	10.5	12.8
Reported tax	(2.1)	(2.0)	(3.3)	(4.0)
Profit After Tax (norm)	4.1	4.6	7.6	9.3
Profit After Tax (reported)	3.9	3.9	7.3	8.9
Minority interests	(0.1)	0.4	(1.4)	(1.7)
Discontinued operations	0.0	0.0	0.0	0.0
Net income (normalised)	4.0	5.0	6.2	7.5
Net income (reported)	3.8	4.4	5.9	7.1
Average Number of Shares Outstanding (m)	35	38	42	44
EPS - normalised (c)	11.3	13.2	15.0	17.3
EPS - normalised fully diluted (c)	11.3	13.2	15.0	17.3
EPS - (c)	10.8	11.4	14.2	16.4
Dividend per share (c)	0.0	0.0	0.0	0.0
Revenue growth (%)	21.9	7.1	18.3	7.1
EBITDA Margin on production value (%)	61.4	61.8	70.5	74.2
Normalised Operating Margin on production value (%)	24.4	28.7	34.8	35.1
BALANCE SHEET				
Fixed Assets	50.5	59.1	66.8	73.1
Intangible Assets	35.8	44.8	53.0	59.2
Tangible Assets	1.6	1.2	1.2	1.3
Investments & other	13.1	13.1	12.6	12.6
Current Assets	35.7	43.6	51.2	54.3
Stocks	0.0	0.0	0.0	0.0
Debtors	24.9	30.7	36.3	38.9
Cash & cash equivalents	8.0	9.9	11.9	12.4
Other	2.8	3.0	3.0	3.0
Current Liabilities	(19.9)	(23.7)	(23.1)	(24.1)
Creditors	(13.8)	(14.6)	(16.9)	(18.0)
Tax and social security	(0.8)	(3.6)	(3.2)	(3.1)
Short term borrowings	(5.3)	(5.3)	(2.8)	(2.8)
Other	(0.0)	(0.2)	(0.2)	(0.2)
Long Term Liabilities	(4.7)	(9.6)	(7.9)	(7.9)
Long term borrowings	(4.1)	(8.8)	(7.0)	(7.0)
Other long-term liabilities	(0.6)	(0.8)	(0.8)	(0.8)
Net Assets	61.6	69.3	87.0	95.3
Minority interests	(1.2)	(0.7)	(0.6)	(0.7)
Shareholders' equity	60.4	68.6	86.4	94.6
CASH FLOW				
Op Cash Flow before WC and tax	16.4	17.0	26.9	27.4
Working capital	(10.6)	(2.5)	(3.4)	(1.4)
Exceptional & other	1.4	(0.4)	(3.9)	0.0
Tax	(2.1)	(2.0)	(3.9)	(4.7)
Operating cash flow	5.1	12.1	15.7	21.3
Capex	(14.2)	(18.7)	(20.2)	(20.2)
Acquisitions/disposals	(0.1)	0.0	0.0	0.0
Net interest	2.9	4.8	2.3	(0.5)
Equity financing	1.8	3.8	4.3	0.0
Dividends	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Net Cash Flow	(4.5)	2.0	2.0	0.6
Opening net debt/(cash)	(8.0)	1.4	4.1	(2.1)
FX	0.0	0.0	0.0	0.0
Other non-cash movements	(4.9)	(4.7)	4.2	0.0
Closing net debt/(cash)	1.4	4.1	(2.1)	(2.7)

Source: Mondo TV 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, 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	17.37
Matteo Corradi	6.58
Ricardo Corradi	4.89
Monica Corradi	4.62
Invesco	3.75

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