

# Rai Way

## You Have Your Way, I Have "Rai" Way

Rai Way - Key estimates and data					
Y/E December		2013A	2014E	2015E	2016E
Revenues	EUR M	208.4	207.2	212.5	217.2
EBITDA	EUR M	104.4	104.0	106.5	110.4
EBIT	EUR M	51.09	52.98	58.45	65.11
Net Income	EUR M	30.81	32.48	37.43	41.81
Dividend ord.	EUR	0	0.12	0.14	0.15
Adj. EPS	EUR	0.11	0.12	0.14	0.15
EV/EBITDA	x	NA	9.2	8.9	8.6
Adj. P/E	x	NA	26.9	23.3	20.9

NA: not available; NM: not meaningful; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- A leading irreplicable infrastructure operator.** Born in 2000 from a spin-off of Rai, the exclusive concessionaire of public TV/radio service broadcasting in Italy, Rai Way is Rai's captive network and therefore the leading Italian player in the transmission of free-to-air TV signals, together with its listed twin EI Towers (spin-off of the Mediaset group). With around 2,300 sites and a wide multi-platform transmission infrastructure, Rai Way provides telecommunications and media services to large account customers, which include TV and radio broadcasters, telecom companies and public authorities.
- Visible cash flows, high returns.** The recently-renewed agreement with Rai grants Rai Way an exclusive supply of turn-key broadcasting and transmission services for a EUR 175M fee in 2015, increasing in line with the Italian CPI thereafter. Moreover, we forecast that tower hosting services (mostly MNOs) and potential new services vs. Rai and third parties should bring EUR 40M annual sales on average over 2014E-18E. Considering the cost perimeter (mostly comprising labour, utilities and rental costs) and high operating leverage, we expect an EBITDA margin at  $\geq 50.0\%$  over the forecast period. We estimate an EBITDA to free cash flow conversion of approx. 40% in 2015-16 (peak of development capex) and above 50% thereafter. The post-tax ROCE should range from 17.6% in 2015E to 25.5% in 2018E, well above its 5.8% WACC.
- Rapid deleveraging even incorporating a 100% dividend pay-out.** Even after having assumed a 100% dividend pay-out, we expect the net debt/EBITDA ratio to stand at  $\leq 0.5x$  in 2014E-18E, thus leaving financial flexibility for both extraordinary dividends and potential external growth opportunities, albeit strategy is likely to remain focused on organic growth in the short term.
- Initiating with a BUY rating and a target price of EUR 3.88/share.** We value Rai Way based on a DCF model, given its stable and visible cash flows, and using a multiples comparison with its pure comparable EI Towers (ADD; target price EUR 46.33/share) as a cross-check. At current market prices Rai Way trades at a  $>20\%$  discount on EV/EBITDA and P/E multiples and offers a higher dividend yield compared to EI Towers. The valuation gap narrows when looking at the comparison in terms of EV/(EBITDA-capex) and free cash flow yield, given Rai Way's higher maintenance and development capex. At our DCF-derived target prices, the two stocks would trade in line in terms of free cash flow yield from 2017E. However, similarly to that experienced by EI Towers after the 2012 reverse merger, Rai Way's capex plan could be aggressive. For the time being, with an approx. 4% dividend yield in 2014E-15E, we think the equity story can be viewed as a bond-like story.
- Key risks.** We believe that the main risks are: i) a deflationary environment; ii) regulatory risk on Rai's service agreement; iii) sales concentration; iv) public shareholder and overhang risk; v) long-term threats from satellite and IPTV/OTT on DTT.

26 January 2015

**BUY**

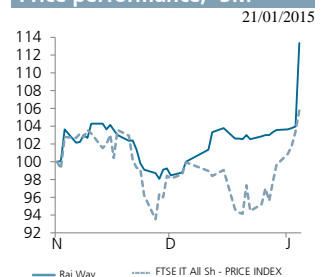
Target Price: EUR 3.88

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### Price performance, -3M



Source: FactSet

### Data priced on 21.01.2015

Target price (€)	3.88
Target upside (%)	20.96
Market price (€)	3.21
52-week range (€)	NA/NA
Market cap (€ M)	873.12
No. of shares	272.0
Free float (%)	34.9
Major shr	Rai
(%)	65.1
Reuters	RWAY.MI
Bloomberg	RWAY.IM
FTSE IT All Sh	21158

Performance %			
Absolute	Rel. to FTSE IT All		
-1M	5.6	-1M	0.2
-3M	NA	-3M	NA
-12M	NA	-12M	NA

Source: FactSet and Intesa Sanpaolo Research estimates

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## Positives and Negatives

### Positives

#### Leading broadcasting tower network thanks to a unique asset base

Born in 2000 from a spin-off of Rai, Rai Way is the leading Italian player in the transmission of free-to-air TV signals, together with its listed twin EI Towers (spin-off of the Mediaset group). Thanks to a service agreement with Rai, renewed in July 2014 for a period of seven years and automatically renewable up to a maximum 7+7 years, Rai is Rai Way's first client with an 83% weighting in its core 2014E sales. Its leadership position is due to an irreplicable asset base, which represents high entry barriers. During 2008-12, Rai Way played a crucial role in the digitalisation of the Digital Terrestrial Platform (DTT) in Italy, the so-called "switch-off".

#### Fully integrated service portfolio for broadcasting and mobile operators

With around 2,300 sites and a wide multi-platform transmission infrastructure, Rai Way provides crucial telecommunications and media services to large account customers, which include TV and radio broadcasters, telecom companies and public authorities. It operates as a one-stop shop to meet customer needs leveraging on its active and passive infrastructure ownership. Its offering includes TV and radio broadcasting services, transmission services, tower hosting and network services. The group generally operates based on multi-year contracts, which guarantee high business visibility. Moreover, the churn rate is low given Rai Way's leadership and the high switching costs.

#### Room for some organic growth

The recently renewed service agreement with Rai grants Rai Way an exclusive supply of turn-key TV broadcasting and transmission services for an annual fee of EUR 175M in 2015, increasing in line with the Italian CPI from 2016 onwards. It also grants Rai Way a right of first offer with respect to potential new services related to the development of new networks, standards and technologies. For the next few years, Rai Way expects a potential expansion of services required by Rai in relation to possible frequency reallocations and HDTV multiplex coverage extension. Further organic growth potential should be offered by the increase of the MNO tenancy ratio through the scalability of the network also via incentivising price offering for selected sites. Lastly, Rai Way expects a potential upside of services versus third parties from consulting services to foreign regulators and public authorities in rolling-out digital broadcasting networks and new opportunities in intelligent connectivity. We have incorporated these organic growth drivers into our forecasts, which combined with cautious assumptions in terms of inflation rate result in a 1.6% sales CAGR for 2013PF-18E.

#### High operating leverage and low financial leverage

We expect Rai Way to deliver an approx. 50% EBITDA margin in 2014E, which should increase to 52% by 2018E, thanks to its operating leverage (approximately 20% of costs are CPI indexed). The increasing profitability coupled with declining D&A costs, due to a recent extension of the tangible assets' expected useful life, should lead to a 10% bottom line CAGR over the forecast period. After accounting for both maintenance and development capex, we estimate an EBITDA to free cash flow conversion of approx. 40% in 2015E-16E (peak of development capex) and above 50% thereafter.

#### Attractive returns and dividends

Even after having assumed a 100% dividend pay-out, we expect the net debt/EBITDA ratio to stand at  $\leq 0.5x$  in 2014E-18E, thus leaving financial flexibility for both extraordinary dividends (EUR 60M distributable reserves and retained earnings as at 30 June 2014) and potential external growth opportunities, albeit strategy is likely to remain focused on organic growth. The company's high profitability translates into a return on average capital employed gradually improving from 17.6% in 2015E to 25.5% in 2018E, well above its 5.8% WACC.

### **IPO and spin-off projects currently putting the Italian tower sector in the spotlight**

The listing of Rai Way occurred almost two years after the spin-off of EI Towers, Mediaset's tower operator, and its merger by incorporation in DMT, a small independent tower operator listed on the Italian Stock Exchange since 2004. The spin-off of Mobile Network Operators' (MNOs) tower networks in Italy has also been a long-debated theme. It is usually pursued by TLC operators to unlock the value of their tower network and to pay down their debt at the cost of long-term lease contracts. Telecom Italia (TI) has just completed the spin-off of its approximately 10,000 sites and there are press rumours (Bloomberg, Il Sole 24 Ore, etc.) that they are evaluating an IPO. On the other hand, Wind has started an auction, which according to the press (Il Sole 24 Ore, La Repubblica, etc.) regards 6,300-8,000 out-of-town towers. According to the same sources, binding offers were presented on 22 December and the main bidders are mentioned to be EI Towers, Abertis, American Tower and the Italian infrastructure fund F2i in partnership with Providence.

### **Negatives/risks**

#### **Risks from a deflationary scenario**

Rai Way offers a visible and resilient earnings profile. However, given that its revenues are CPI-linked, it is exposed to the risk of a persisting deflationary scenario. Our model incorporates Intesa Sanpaolo Macroeconomic Research's CPI estimates of 0.2% and 0.3% for 2014E-15E, respectively, and conservatively assumes a 1% inflation rate from 2016E onwards. According to our sensitivity analysis, every 50bps change in the inflation rate implies a 1% fluctuation of the company's net income, considering that approx. 20% of its costs are also CPI-linked.

#### **Regulatory risk**

Given the infrastructure nature of the business, we would not rule out the introduction of a regulatory framework for the sector that may imply a revision of the financial terms of the currently in place service agreement with Rai.

#### **Lack of client and geographical diversification**

With an 83% sales exposure to Rai and 100% sales concentration on Italy, Rai Way lacks any diversification.

#### **Golden Power and overhang risk**

Being an infrastructure company with a state-owned majority shareholder, Rai Way falls within those companies with reference to which the Italian state is entitled to avail itself of the "Golden Power" option as outlined by Law Decree 15 March 2012, number 21, and subsequent amendments. The Golden Power entitles the Italian government to veto or put conditions on any change in the company's ownership that could threaten public interests. Moreover, should the Italian government require a further contribution from Rai on top of the EUR 150M requested in 2014, Rai could decide to sell a further minority stake in Rai Way to cover such a potential financial need.

#### **Potential threat from satellite penetration and fibre development**

Given the lack of cable competition, DTT is the main digital platform for linear TV in Italy. Alternative platforms are represented by satellite and IPTV. Satellite penetration is currently limited to 32%. We believe that IPTV/OTT has a strong growth potential. However, it would require the full deployment of Next Generation Networks (still uncertain at the moment) and improving ICT literacy to become a serious threat to DTT.

#### **Reduced bandwidth due to technology migration from DVB-T1 to DVB-T2**

We envisage limited risks given that capacity made available from migration to DVB-T2 should be replaced by increased offering of HD channels.

**Relocation of the 694-790MHz frequencies from TV broadcasters to mobile TLC operators**

On 1 September 2014, the former Commissioner Pascal Lamy presented a report to the European Commission on how to use the 700MHz band most effectively in the coming decades, including a possible reallocation from TV broadcasters to mobile TLC operators. The report contains the following non-mandatory proposals: i) to guarantee sufficient lead time to ensure a transition path that minimises cost for spectrum users and citizens, the 700MHz band (694-790MHz) should not be reallocated from TV to mobile operators before 2020 (with a +/- two years tolerance); ii) any reallocation below 700MHz cannot take place before 2030; and iii) a review has been scheduled by 2025 to assess technology and market developments. We see limited risk for Rai, which operates below these frequencies. Moreover, to be approved, the Lamy report requires cross-border coordination that is likely to be lengthy.

Sample

## Valuation

Given its stable and visible cash flows, we believe that a DCF model is the most appropriate method to value Rai Way. We also ran a peers multiples' comparison based on EI Towers, which we consider Rai Way's closest comparable, and a sample comprising the listed US tower operators as a cross-check.

### DCF model

Our DCF model covers a ten-year time horizon and incorporates the explicit estimates for 2014E-18E as outlined in the Earnings Outlook section. From 2019E onwards, we assume a steady growth, with sales and maintenance capex increasing by 1% (in line with the estimated inflation rate) and the EBITDA margin increasing by 20bps per year due to operating leverage. In order to calculate the NOPAT, we apply a corporate tax rate of 35%.

In calculating the terminal value, we take our 2024E estimates, assume a 1.0% perpetuity growth rate (inflation rate) and expect the assets to be completely amortised (hence, D&A is aligned to capex). In order to account for the replacement of the network over the perpetual period, from the NPVs of the operating free cash flows, in addition to net debt and termination indemnities, we deduct the NPV of the replacement cost of the tower network, assumed to be equal to its estimated gross value increased by the inflation rate and discounted over a period of 40 years (around 2x its estimated average accounting life).

Given Rai Way's cash flow generation potential, our rolling WACC coincides with the cost of equity at 5.8% from 2019E, which is calculated on a risk-free rate of 2.5%, a risk premium of 5.50% and a beta of 0.60x (in turn based on Bloomberg's projection for EI Towers).

Rai Way - WACC calculation										
%	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Risk-free rate	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Risk premium	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Unlevered Beta * - $\beta$	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Levered Beta - $\beta$	0.75	0.74	0.69	0.64	0.60	0.60	0.60	0.60	0.60	0.60
Cost of equity	6.6	6.6	6.3	6.0	5.8	5.8	5.8	5.8	5.8	5.8
Loan margin	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Pre-tax cost of debt	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Tax rate	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5
After tax cost of debt	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Equity proportion	74	76	83	91	100	100	100	100	100	100
Debt proportion	26	24	17	9	0	0	0	0	0	0
<b>WACC</b>	<b>5.58</b>	<b>5.59</b>	<b>5.65</b>	<b>5.72</b>	<b>5.80</b>	<b>5.80</b>	<b>5.80</b>	<b>5.80</b>	<b>5.80</b>	<b>5.80</b>

Source: \*Bloomberg and Intesa Sanpaolo Research estimates

**We derive a target price of EUR 3.88/share** with an average sensitivity of 10% to a 50bps change in the cost of equity and an average 12% sensitivity to a 50bps change in the inflation rate.

Rai Way - DCF sensitivity to WACC and perpetuity					
EUR/share	Perpetuity		Perpetuity		
	0.0%	0.5%	1.0%	1.5%	2.0%
5.0%	3.5	4.0	4.6	5.4	6.4
5.5%	3.2	3.6	4.1	4.7	5.5
<b>WACC 5.8%</b>	3.1	3.5	<b>3.9</b>	4.4	5.1
6.3%	2.9	3.2	3.5	4.0	4.5
6.8%	2.7	3.0	3.3	3.6	4.0

Source: Intesa Sanpaolo Research estimates

Rai Way – DCF model											
EUR M	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	Beyond
<b>Total sales</b>	<b>212.5</b>	<b>217.2</b>	<b>222.0</b>	<b>225.5</b>	<b>227.7</b>	<b>229.9</b>	<b>232.1</b>	<b>234.3</b>	<b>236.6</b>	<b>238.8</b>	<b>238.8</b>
yoy % change		2.2	2.2	1.6	1.0	1.0	1.0	1.0	1.0	1.0	
<b>EBITDA</b>	<b>106.5</b>	<b>110.4</b>	<b>114.4</b>	<b>117.2</b>	<b>118.8</b>	<b>120.3</b>	<b>121.9</b>	<b>123.5</b>	<b>125.1</b>	<b>126.8</b>	<b>126.8</b>
EBITDA margin %	50.1	50.8	51.5	52.0	52.2	52.4	52.5	52.7	52.9	53.1	53.1
D&A	-48.1	-45.3	-42.4	-41.3	-41.6	-41.9	-42.2	-42.4	-42.7	-43.0	-26.3
<b>EBIT</b>	<b>58.5</b>	<b>65.1</b>	<b>71.9</b>	<b>75.9</b>	<b>77.2</b>	<b>78.5</b>	<b>79.8</b>	<b>81.1</b>	<b>82.4</b>	<b>83.8</b>	<b>100.5</b>
EBIT margin %	27.5	30.0	32.4	33.7	33.9	34.1	34.4	34.6	34.8	35.1	42.1
Taxes	-20.5	-22.8	-25.2	-26.6	-27.0	-27.5	-27.9	-28.4	-28.8	-29.3	-35.2
<b>NOPAT</b>	<b>38.0</b>	<b>42.3</b>	<b>46.8</b>	<b>49.3</b>	<b>50.2</b>	<b>51.0</b>	<b>51.8</b>	<b>52.7</b>	<b>53.6</b>	<b>54.4</b>	<b>65.3</b>
D&A	48.1	45.3	42.4	41.3	41.6	41.9	42.2	42.4	42.7	43.0	26.3
Change in working capital	4.0	-0.9	-4.5	-0.7	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Change in funds	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
<b>Operating cash flow</b>	<b>89.5</b>	<b>86.2</b>	<b>84.2</b>	<b>89.5</b>	<b>90.9</b>	<b>92.1</b>	<b>93.2</b>	<b>94.3</b>	<b>95.5</b>	<b>96.6</b>	<b>90.8</b>
Maintenance and development capex	-45.0	-45.0	-25.0	-25.0	-25.0	-25.3	-25.5	-25.8	-26.0	-26.3	-26.3
<b>Operating free cash flow</b>	<b>44.5</b>	<b>41.1</b>	<b>59.2</b>	<b>64.5</b>	<b>65.8</b>	<b>66.8</b>	<b>67.7</b>	<b>68.6</b>	<b>69.5</b>	<b>70.4</b>	<b>64.5</b>
Terminal value											1,344
<b>NPV of OFCF</b>	<b>42.1</b>	<b>36.9</b>	<b>50.2</b>	<b>51.6</b>	<b>49.7</b>	<b>47.6</b>	<b>45.6</b>	<b>43.7</b>	<b>41.8</b>	<b>40.0</b>	<b>765</b>
NPV of OFCF (2015E-24E)	449										
NPV of terminal value	765										
NPV of network replacement cost	-71										
<b>Sum of NPVs</b>	<b>1,143</b>										
NFP 2014E	-66										
Termination indemnities 2014E	-21										
<b>Equity value</b>	<b>1,056</b>										
No of shares (M)	272.0										
<b>Target price (EUR)</b>	<b>3.88</b>										

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

## Peers multiples comparison

### El Towers

El Towers is Rai Way's pure comparable peer, due to their similarities in terms of profile and financials. At current market prices, Rai Way trades at a >20% discount on EV/EBITDA and P/E multiples and offers a higher dividend yield compared to El Towers.

Rai Way vs. El Towers – Peers multiples comparison at current market prices										
	Price EUR	EV/EBITDA (x)			P/E (x)			Div yield (%)		
		2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Rai Way	3.20	8.9	8.5	8.1	23.3	20.8	18.8	4.3	4.8	5.3
El Towers	42.84	11.6	11.0	10.1	29.7	28.8	25.5	3.2	3.3	3.7
Premium/Discount (%)		-23	-23	-20	-22	-28	-26	35	45	43

A: actual; E: estimates; Source: Intesa Sanpaolo Research estimates

As shown in the following section "Benchmarking El Towers", this valuation gap is justified by a different capex and external growth strategy. In detail:

- Rai Way has a higher level of maintenance capex;
- Rai Way has planned a higher level of development capex: EUR 40M over 2015E-16E to develop new services vs. Rai vs. EUR 22M estimated for El Towers to finance the new contract with Cairo and small M&A;
- El Towers pays higher financial charges due to the outstanding 2018 bond issued to finance large-size acquisitions or special dividends;
- Rai Way offers a higher profitability but a lower growth profit.

Rai Way vs. El Towers – Key financials comparison

EUR M	Rai Way				El Towers			
	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E
EBITDA	107	110	114	117	113	117	124	131
Capex	-45	-45	-25	-25	-35	-17	-15	-15
EBITDA-Capex	61	65	89	92	79	100	109	116
EBITDA margin (%)	50.1	50.8	51.5	52.0	47.2	47.6	49.0	49.7
EBITDA yoy % growth	2.4	3.6	3.6	2.5	3.7	2.7	6.5	5.6
Operating cash flow	90	86	84	90	89	91	96	98
Maintenance capex	-25	-25	-25	-25	-15	-15	-15	-15
Development capex	-20	-20	0	0	-20	-2	0	0
Net financial charges	-0.9	-0.8	-0.6	-0.3	-8	-8	-8	-3
<b>Free cash flow before dividends</b>	<b>44</b>	<b>41</b>	<b>59</b>	<b>64</b>	<b>46</b>	<b>66</b>	<b>73</b>	<b>80</b>
Dividend pay-out	37	42	46	49	39	40	45	53

A: actual; E: estimates; Source: Intesa Sanpaolo Research estimates

For all the above reasons we believe that the free cash flow yield and the EV/(EBITDA-capex) multiple are more appropriate ratios for a comparison.

Rai Way vs. El Towers – Peers multiples comparison at current market prices

	Price	EV/(EBITDA-capex) (x)				FCF yield (%)			
	EUR	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E
Rai Way	3.20	15.4	14.4	10.4	9.8	5.0	4.7	6.8	7.4
El Towers	42.84	16.6	12.9	11.5	10.5	3.8	5.4	6.0	6.6
Premium/Discount (%)		-8	12	10	-6	33	-14	12	11

A: actual; E: estimates; Source: Intesa Sanpaolo Research estimates

We replicate the same comparisons at our target prices for both stocks. On our valuation the discount on EV/EBITDA, P/E and dividend yield would narrow, while the two stocks would trade aligned in terms of free cash flow yield after Rai Way's 2016E development capex peak.

Rai Way vs. El Towers – Peers multiples comparison at our target prices

	Price	EV/EBITDA (x)			P/E (x)			Div yield (%)		
	EUR	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Rai Way	3.88	10.6	10.2	9.7	28.2	25.3	22.8	3.5	4.0	4.4
El Towers	46.33	12.4	11.9	10.9	32.2	31.1	27.6	3.0	3.1	3.4
Premium/Discount (%)		-15	-14	-11	-12	-19	-17	20	30	27

A: actual; E: estimates; Source: Intesa Sanpaolo Research estimates

Rai Way vs. El Towers – Peers multiples comparison at our target prices

	Price	EV/(EBITDA-capex) (x)				FCF yield (%)			
	EUR	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E
Rai Way	3.88	18.4	17.3	12.4	11.9	4.2	3.8	5.6	6.1
El Towers	46.33	17.9	13.9	12.4	11.3	3.5	5.0	5.6	6.1
Premium/Discount (%)		3	24	0	5	19	-24	0	-1

A: actual; E: estimates; Source: Intesa Sanpaolo Research estimates

US peers

We cross-checked our valuation by analysing the basket of US tower operators, represented by American Tower, Crown Castle and SBA. In our opinion, Rai Way's discount to these tower operators is justified by the following points:

- The US tower market is much more evolved than the Italian one and more exposed to mobile telecommunications than broadcasting, due to cable TV dominance in the US;

- US tower companies have a strong track record in international expansion;
- The US players are usually Real Estate Investment Trusts (REITs);
- Their multiples reflect higher margins and expected growth.

**Rai Way – Peer multiples-comparison vs. US tower operators**

	Price	EV/EBITDA (x)		P/E (x)		EV/(EBITDA-capex) (x)	
		2015E	2016E	2015E	2016E	2015E	2016E
American Towers*	USD96.8	18.0	16.3	35.8	30.7	24.3	21.9
Crowne Castle*	USD81.4	18.0	17.4	NM	50.6	24.4	22.7
SBA*	USD111.4	19.6	18.0	NM	NM	24.8	21.6
<b>US peers average</b>		<b>18.5</b>	<b>17.2</b>	<b>35.8</b>	<b>40.7</b>	<b>24.5</b>	<b>22.1</b>
<b>Rai Way @ market price</b>	<b>EUR 3.20</b>	<b>8.9</b>	<b>8.5</b>	<b>23.3</b>	<b>20.8</b>	<b>15.4</b>	<b>14.4</b>
Premium/Discount to US peers		-52.1	-50.5	-35.1	-48.8	-37.3	-34.6
<b>Rai Way @ target price</b>	<b>EUR 3.88</b>	<b>10.6</b>	<b>10.2</b>	<b>28.2</b>	<b>25.3</b>	<b>18.4</b>	<b>17.3</b>
Premium/Discount to US peers		-42.7	-40.7	-21.2	-37.9	-25.0	-21.7

NM: not meaningful; A: actual; E: estimates; Source: Intesa Sanpaolo Research estimates and \*Factset

**Rai Way vs. US peers – Key profitability and growth indicators**

	EBITDA margin (%)			EBITDA growth (yoy)		Adj. Net income growth (yoy)	
	2014E	2015E	2016E	2015E	2016E	2015E	2016E
American Towers*	64.6	64.3	64.9	11.0	9.7	25.4	21.3
Crowne Castle*	57.6	57.5	58.4	0.7	3.6	39.6	25.1
SBA*	65.2	66.3	67.7	12.2	7.5	NM	140.1
<b>US peers average</b>	<b>62.5</b>	<b>62.7</b>	<b>63.7</b>	<b>8.0</b>	<b>7.0</b>	<b>32.5</b>	<b>62.1</b>
<b>Rai Way</b>	<b>50.2</b>	<b>50.1</b>	<b>50.8</b>	<b>2.4</b>	<b>3.6</b>	<b>15.3</b>	<b>11.7</b>

NM: not meaningful; A: actual; E: estimates; Source: Intesa Sanpaolo Research estimates and \*Factset

## Benchmarking EI Towers

EI Towers is the only listed tower operator in Europe. Its profile is also quite specular to Rai Way in terms of business and financials. In this section, we compare the two companies in detail.

### Shareholding structure

Rai Way and EI Towers are the two leading broadcasting tower operators in Italy, thanks to their contract services agreement with Rai and Mediaset respectively, which in turn are also their reference shareholders. Being the state-owned exclusive concessionaire of public service broadcasting, Rai's sales are currently 64% represented by licence fees, while Mediaset's majority of revenues come from advertising (70%).

### Two spin-off companies

From a technological standpoint, the key difference between the two networks resides on the fact that Rai Way owns both the active (transmitters, etc.) and passive infrastructures (lands, towers, shelters, etc.), while EI Towers only the passive one. This derives from a different choice of Rai and Mediaset at the time of the network spin-off (2000 for Rai Way and 2012 for EI Towers): we think that for opportunistic reasons Mediaset preferred to keep the active infrastructure closer to the frequencies.

Rai Way vs. EI Towers – Key shareholder and customers		
	Rai Way	EI Towers
Shareholding structure (as of today)	Rai (state-owned) 65% Free float 35%	Mediaset (through Elettronica Industriale) 40% Free float 60%
Key customer (2013A)	Rai (83% of sales)	Mediaset (77% of sales)
Key customer sales breakdown (2013A)	Licence fees 64% Advertising 25% other 11%	Advertising 70% Pay TV 22% other 8%
Business model	- Rai: media service provider (frequencies) - Rai Way: network and tower operator (active and passive infrastructures)	- Mediaset: media service provider - Elettronica Industriale: network operator (frequencies and active infrastructure) - EI Towers: tower operator (passive infrastructure)

Source: Intesa Sanpaolo Research elaboration on Companies' data

### Business profile and strategy

The two operators both guarantee a close to 100% population coverage thanks to approx. 2,300 broadcasting towers each. Thanks to its public service mission, Rai Way's network was the first to be developed, while EI Towers network is the result of the combination of regional networks. We note that, while broadly overlapping, in some areas the two portfolio sites are complementary, with Rai Way sites hosting Mediaset's transmitters (e.g. Roma Monte Mario) and some EI Towers' sites hosting Rai Way's transmitters (e.g. in the Liguria region). Over time, both signed hosting contract services with mobile network operators (MNOs). However, while Rai Way has no dedicated TLC sites, EI Towers manages approx. 400 telecom-only sites, mostly derived from DMT following the merger by incorporation realised in 2012. Strategy-wise, while EI Towers is committed to both organic and external growth, Rai Way is mostly focused on organic growth.

### Twin networks

Rai Way vs. EI Towers – Business profile on 2013A data unless otherwise stated		
	Rai Way	EI Towers
Revenues by service	83.7% broadcasting service, 16.0% tower hosting, 0.3% other	84.5% broadcasting service, 14.9% tower hosting, 0.6% other
Geographic exposure	100% Italy	100% Italy
Number of broadcasting sites	approx. 2,300	approx. 2,300
Number of telecom sites	No dedicated sites, 690 broadcasting sites	approx. 400 dedicated sites, approx. 1/5 of broadcasting sites
Number of fully owned sites	approx. 900	approx. 350
Network coverage	99%	96%
Number of employees (Jun-14)	622	590
Strategy	Focus on organic growth. opportunistic M&A	Organic growth + small M&A + transformational M&A

Source: Intesa Sanpaolo Research elaboration on Companies' data

## Contract portfolio

In terms of client portfolio, they have similar contract features and duration. As for the main contract signed with their reference clients, Rai and Mediaset, we highlight that they have a similar size (EUR 175M in 2015 and EUR 181M in 2015E, respectively) even if the mix is slightly different as shown in the table below.

Long contracts with large customers

Rai Way vs. EI Towers – Contract portfolio on 2013A data unless otherwise stated		
	Rai Way	EI Towers
Contract duration	Rai 7+7+7 (2021-2028-2035)  MNOs 6+(1 to 6)	Mediaset 7+7 (2018-2025) Other national TV broadcasters 6+6 Local TV Broadcaster 3+3 MNOs 9+6 WiMax 9+6 Radio 3+3
Key customer contract	Rai service agreement: EUR 172.1M in 2013, EUR 171.5M in 2014, EUR 175M in 2015 Inflation-linked thereafter - 5 MUXes  - Radio broadcasting - Broadcasting, transmission and back-up services (fibre and satellite) - Active and passive infrastructures	Mediaset service agreement: EUR 178.5M in 2013 Inflation-linked thereafter - 7 MUXes (of which 5 Mediaset, H3G, D Free) - No radio - Broadcasting, transmission and back-up services (fibre and satellite) - Passive infrastructure
TLC customers (MNOs)	EUR 25M	EUR 19M (excl. Wifi-WiMax)
MNO tenancy ratio	NA	approx. 1.7x
Other TV broadcasters	< EUR 5M*	EUR 17.2M (TIMB, Rete A, Cairo, Infront)

NA: not available; Source: Companies' data and \* Intesa Sanpaolo Research estimates

## Historical financials

Looking at the historical financials, we note only minor differences between the two companies, mostly related to their distinguishing business features or accounting factors.

Rai Way has a higher profitability...

Rai Way vs. EI Towers – P&L data (2013A)			
EUR M	Rai Way*	EI Towers	Comment
Revenues vs. RAI/Mediaset	172.1	178.5	See table above
Mobile revenues (MNOs)	24.7	18.8	See table above
Other clients' revenues	11.6	34.3	
<b>Core revenues</b>	<b>208.4</b>	<b>231.6</b>	
Other revenues	2.5	1.6	
<b>Total revenues</b>	<b>210.9</b>	<b>233.2</b>	
Purchases	-1.9	-2.6	
Personnel costs	-46.1	-41.1	Partly justified by different no. of employees
Maintenance	-6.3	-12.3	EI Towers manages c. 400 TLC sites
Utilities	-16.0	-14.0	
Rents and leases	-11.3	-43.3	Rai Way's fully owned sites 900 vs. EIT's 350
Infra-group services	-12.5	-2.0	
Other costs	-8.7	-11.9	
<b>Total costs</b>	<b>-102.8</b>	<b>-127.2</b>	
<b>EBITDA before non-recurring items</b>	<b>108.0</b>	<b>106.0</b>	
EBITDA margin before non-rec. items (%)	51.8	45.8	
Non-recurring items	-3.6	-0.4	
<b>EBITDA</b>	<b>104.5</b>	<b>105.6</b>	
EBITDA margin (%)	50.1	45.6	
Depreciation & amortisation	-52.2	-45.8	
Provisions	-1.2	-1.5	
<b>EBIT</b>	<b>51.1</b>	<b>58.4</b>	
EBIT margin (%)	24.5	25.2	
Net financial items	-3.1	-7.8	EI Towers' outstanding bond
<b>Pre-tax profit</b>	<b>48.0</b>	<b>50.5</b>	
Taxes	-17.2	-17.6	
Tax rate (%)	35.8	34.8	
<b>Net profit</b>	<b>30.8</b>	<b>32.9</b>	
<b>Capex</b>	<b>-23.0</b>	<b>-10.8</b>	Includes active infrastructure for Rai Way

\*Pro-forma data; Source: Intesa Sanpaolo Research elaboration on Companies' data

Rai Way vs. El Towers – Balance Sheet data (9M14A)			
EUR M	Rai Way*	El Towers	Comment
Fixed assets	247.1	756.5	El Towers' merger goodwill (EUR 458M)
Net working capital	8.1	-12.4	
Total funds	-34.7	-51.6	
<b>Net capital employed</b>	<b>220.5</b>	<b>692.5</b>	
<b>Total equity</b>	<b>147.5</b>	<b>585.0</b>	
<b>Net financial position</b>	<b>-73.0</b>	<b>-107.5</b>	

\*Pro-forma data; Source: Intesa Sanpaolo Research elaboration on Companies' data

### Earnings outlook

Thanks to long-term inflation linked contracts, both companies enjoy high visibility on the revenues stream. Moreover, given the high weighting of fixed costs (primarily rents, labour and service costs) both benefit from strong operating leverage. Rai Way shows a higher EBITDA margin in 2013 (51.8% vs. El Towers' 45.8%), however, we see the gap narrowing in the next years. These profitability levels are also due to cost efficiencies achieved by both companies in the past few years. Going forward, Rai Way's growth drivers mostly depend on the development of new services versus Rai and third parties, while El Towers' targets are driven by volumes growth from telecom operators (in turn due to the optimisation of the current portfolio and development of 100 new mobile sites), the gradual coming on stream of the Cairo Communication agreement and the integration of the recent "Mom and Pop" acquisitions. Overall, El Towers enjoys a higher cash flow generation (EBITDA – capex) due to high EBITDA in absolute terms and lower capex requirements, related to its smaller asset base (i.e. no active infrastructure).

...El Towers has a higher cash generation

Rai Way vs. El Towers – Key financial data (2013-18E)						
EUR M	2013PF/A*	2014E	2015E	2016E	2017E	2018E
<b>Rai Way - ISP estimates</b>						
Core sales	208	207	212	217	222	225
EBITDA **	108	104	107	110	114	117
EBITDA margin** (%)	51.8	50.2	50.1	50.8	51.5	52.0
EBIT	51	53	58	65	72	76
Ordinary capex	-23	-22	-25	-25	-25	-25
Development capex	NA	0	-20	-20	0	0
M&A capex	0	0	0	0	0	0
Total capex	-23	-22	-45	-45	-25	-25
EBITDA-Total capex	85	82	61	65	89	92
EBITDA-Ordinary capex	85	82	81	85	89	92
<b>El Towers - ISP estimates</b>						
Core sales	232	234	241	245	253	264
EBITDA**	106	110	114	117	124	131
EBITDA margin** (%)	45.8	47.0	47.4	47.8	49.0	49.7
EBIT	58	65	72	74	82	90
Ordinary capex	-11	-12	-15	-15	-15	-15
Development capex	0	0	-16	0	0	0
M&A capex	0	-23	-4	0	0	0
Total capex	-10	-35	-35	-15	-15	-15
EBITDA-Total capex	96	75	80	102	109	116
EBITDA-Ordinary capex	95	98	99	102	109	116
<b>El Towers 2014-18 BP targets*</b>						
Core sales	232	234	241	244	253	264
EBITDA**	106	110	114	116	127	136
EBITDA margin** (%)	45.8	47.0	47.3	47.5	50.2	51.5
EBIT	58	67	73	76	89	101
Ordinary capex	-10	-11	-12	-12	-12	-11
Development capex	0	0	-7	-1	0	0
M&A capex	0	-22	-11	0	0	0
Total capex	-10	-34	-30	-13	-12	-11
EBITDA-Total capex	96	76	84	103	115	125
EBITDA-Ordinary capex	96	99	102	104	115	125

NA: not available; A: actual; E: estimates; PF: pro-forma for Rai Way; Source: \*Companies' data and Intesa Sanpaolo Research estimates; \*\*before non-recurring items

## Rai Group Overview

### Rai history's milestones

Rai is the exclusive concessionaire of public TV/radio broadcasting services in Italy. While the radio operations started in early 1920s, the TV broadcasting service was launched on 3 January 1954 with Rai 1 channel. The geographical coverage achieved 97% by 1961, while the number of subscribers increased sharply from 24,000 in 1954 to over 6M in 1965. Today, with 17 TV channels over both DTT (through 5 multiplexes) and satellite, 7 national radios, 3 web only stations and 3 websites, Rai is the leading multi-platform and multi-channel operator in Italy.

90-year old history

Rai Group – History milestones	
Date	Event
1924	Start-up of radio broadcasting operations
1954	Start-up of TV broadcasting operations: launch of Rai 1
1957	Launch of "Carosello" TV programme (mix of advertising and entertainment)
1962	Launch of Rai 2; Start-up of the first satellite connections with the US
1977	Start-up of colour transmissions
1979	Start-up of regional transmissions
1979	Launch of Rai 3
1984	Start-up of Televideo and Auditel's audience measure
1996	Launch of www.rai.it
1997	Launch of first specialised satellite digital channels
2004	Start-up of the DTT platform
2009	Launch of Tivù Sat
2012	Switch-off completion

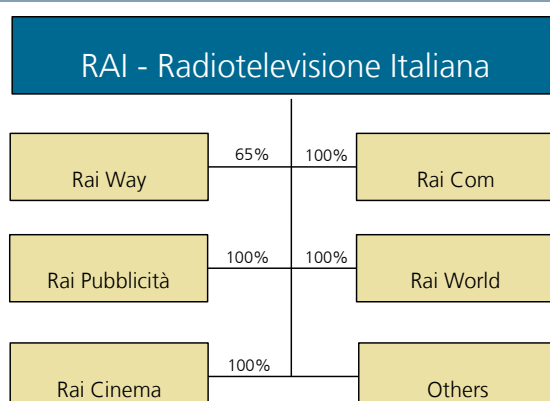
Source: Intesa Sanpaolo Research elaboration on www.rai.it

### Group organisational structure

Since the 1980s, Rai has managed some of its business areas through separate legal entities. Aside from Rai Way, spun-off in 2000, the group structure includes:

- **Rai Pubblicità**: management of the advertising slots for all Rai channels (radio, TV and web);
- **Rai Cinema**: production, acquisition (in Italy and abroad) and management of rights for cinema production;
- **Rai Com**: management of intellectual property rights for Rai and other clients;
- **Rai World**: production, distribution and broadcasting of programmes outside of Italy;
- Stakes in other business-related companies, among which: Auditel (33.0%), Euronews (20.56%), Tivù (48.16%), and San Marino RTV (50.0%).

### Rai Group – Organisational structure



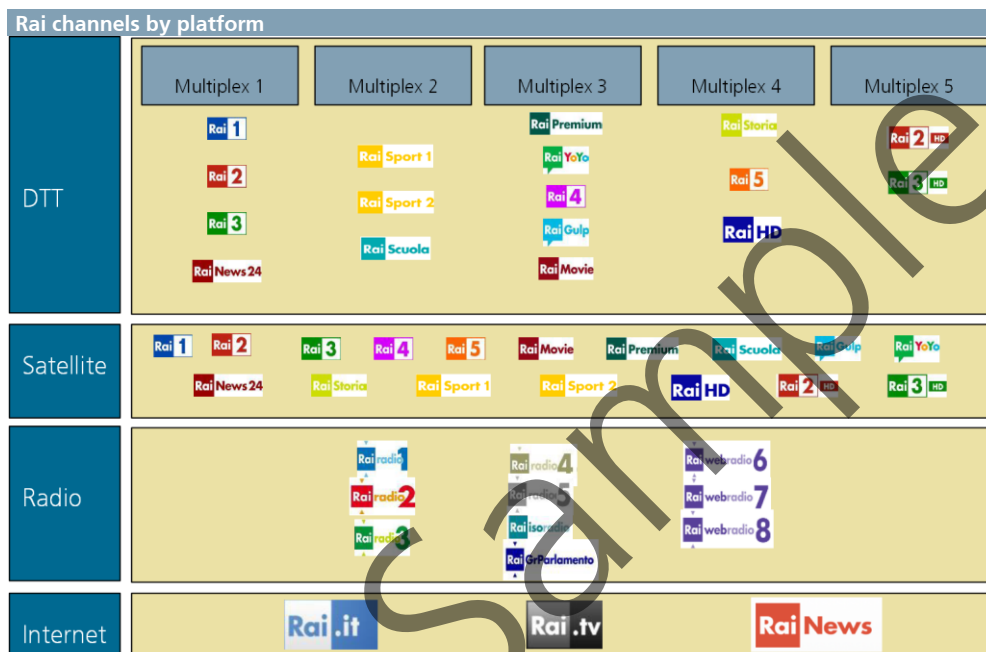
Source: Company data

## Editorial offering

Rai provides its television and radio offering on all the platforms of the communication market: digital, satellite and Internet.

DTT is Rai's TV reference platform, while satellite is complementarily aimed at reaching areas not served by DTT. In this respect, Rai in cooperation with Mediaset and Telecom Italia Media have developed the free satellite platform Tivù Sat. At a national level, Rai's TV offering, available on both DTT and satellite platforms, includes: 3 general-interest channels (Rai 1, Rai 2 and Rai 3, which are also available in HD); 4 semi-general-interest channels (Rai 4, Rai 5, Rai Movie and Rai Premium) and 7 specialised channels (Rai News 24, Rai Storia, Rai Scuola, Rai Sport 1, Rai Sport 2, Rai Gulp and Rai YoYo).

Radio broadcasting is mostly through the analogue platform (FM and AM), with DAB network currently including 18 sites. Rai's radio offering includes: 1) 3 radio stations (Radio 1, Radio 2 and Radio 3); 2 specialised channels (Gr Parlamento, dedicated to the institutions, and Isoradio dedicated to infomobility); and 3) 2 specialised music stations (Radio FD4 and Radio FD5). All radio stations can be used on DTT, satellite channels and Internet



Source: Intesa Sanpaolo Research elaboration on [www.rai.it](http://www.rai.it)

## Audience

### Digital television

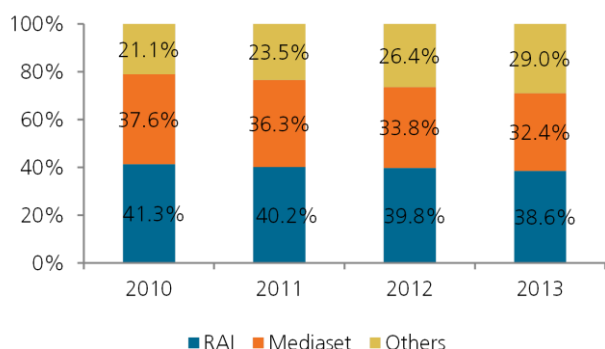
According to Auditel data, during 1990-2013 digital TV consumption has grown at a compound rate of 1.6% in terms of audience on the average day (2.00 am – 2.00 pm) and 0.4% on prime time (8.30 pm-10.30 pm) to 10.5M and 26M viewers respectively. The average time dedicated to the viewing of TV has reached 310 minutes a day in 2013. In recent years, TV consumption has been driven by the digital transition and the increase of specialised digital channels, which are gradually eroding market shares to general-interest networks.

In 2013 Rai and Mediaset confirmed their leadership, albeit declining compared to previous years due to the growth of free specialised channels. Rai 1 was confirmed as the most popular TV channel (17.8% on the average day and 19.1% in prime time), ahead of Mediaset's Canale 5, Rai 3 and Rai 2.

**Specialised digital channels gradually eroding market shares to general-interest channels**

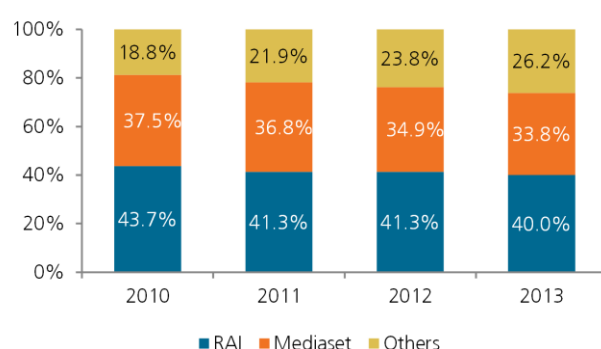
**Audience data characterised by the Rai-Mediaset duopoly**

Audience on the average day market shares (2010-13)



Source: Intesa Sanpaolo Research elaboration on Rai data, in turn based on Auditel data

Audience in prime time market shares (2010-13)



Source: Intesa Sanpaolo Research elaboration on Rai data, in turn based on Auditel data

### Radio

With 35M listeners and a 66% population penetration, the Italian radio market is quite mature. RadioRai is the second-largest radio group in Italy, with an audience share of 11.8% on the average day and 19% during peak time (from 6.00 am to 9.00 am).

Rai is well positioned in the radio segment too

Radio audience – Top players			
	Station	Full day (%)	Peak time, 6:00 am – 9:00 am (%)
RCS - Finelco	Radio 105, RMC, Virgin	13.0	13.3
Rai	see page 18	11.8	19.0
L'Espresso	Deejay, Capital, M20	11.1	9.4
Openspace	RTL 102.5	10.1	8.2

Source: Intesa Sanpaolo Research elaboration on Rai data, in turn based on Eurisko Radiomonitor

### Key strategic and financial drivers

Key highlights on Rai's 2013 accounts are detailed below:

- Licence fee.** Licence fee revenues were broadly stable at EUR 1.75Bn in 2013. The inflation-linked increase in the per-unit licence fee was offset by the drop in the number of paying licence holders due to the ongoing economic crisis. Moreover, although the per-unit licence fee continues to be the lowest among Western European countries, the rate of evasion is estimated by Rai at 27% compared to a European average of around 10%;
- TV advertising.** While the TV advertising spending continued to decrease at a double digit rate (-12.4% yoy in 2013 on top of -14.3% yoy in 2012), in 2013 Rai regained some of the market share losses recorded in the previous year, with an 8.5% yoy decline vs. -22.8% yoy in 2012. This result was driven by the relaunching of Rai Pubblicità and was achieved despite tough comps related to the 2012 European Football Championships and London Olympic Games. Net of big sports events, the decline would have been 5.2% yoy.

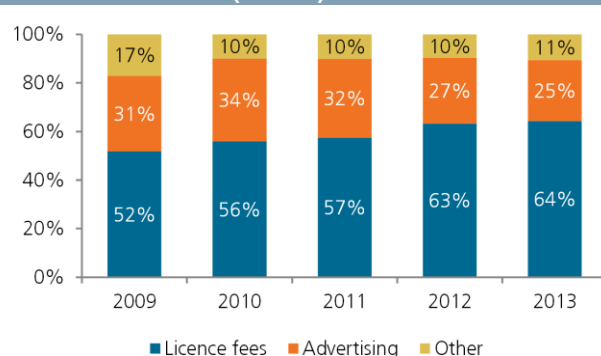
Spending review implied restructuring measures and increasing efficiency in 2013 in spite of a still weak macro-driven top line

Per unit licence fee in Western Europe (EUR)

Switzerland	376.67
Denmark	324.00
Austria	282.15
Sweden	225.00
Germany	215.76
United Kingdom	174.52
Ireland	160.00
France	131.00
Italy	113.50

Source: www.rai.it

Rai – Sales breakdown (2009-13)



Source: Intesa Sanpaolo Research elaboration of Rai accounts available on www.rai.it

- **Cost-saving measures:** internalisation of production activities and staff reduction. 2013 was also influenced by the absence of costs for big sporting events that characterised 2012 (European Football Championships and London Olympic Games).

Despite the improvement in the operating performance, the net financial position peaked at EUR 441M in 2013, due to the disbursements regarding the renewal of the white and blue collar labour agreement (which expired several years ago), staff resignation incentives and advance payments for sporting events. In the following tables, we report Rai's key 2009-13 historical financials, as per the consolidated accounts published on [www.rai.it](http://www.rai.it). 2014 accounts are not yet available but they should benefit from the capital gain of Rai Way's listing, in our view.

Rai – Key income statement data (2009-13), Italian GAAP						
EUR M	2009	2010	2011	2012	2013	Comment
Licence fee per unit (EUR)	107.5	109.0	110.5	112.0	113.5	
yoy change %		1.4	1.4	1.4	1.3	Driven by the inflation rate
Licence fees	1,645	1,685	1,708	1,748	1,756	
yoy change %		2.4	1.4	2.3	0.4	In 2013 lower no. of subscribers due to weak macros
Advertising	989	1,029	965	745	682	
yoy change %		4.1	-6.2	-22.8	-8.5	Unsupportive advertising market and loss of market shares in 2012, then recovered in 2013
Other revenues	544	298	301	268	291	In 2009 one-off proceeds from the sale of pay-TV rights on 2010-14 World Football Championship
yoy change %		-45.3	1.0	-10.8	8.4	
<b>Core sales</b>	<b>3,178</b>	<b>3,012</b>	<b>2,974</b>	<b>2,761</b>	<b>2,729</b>	
yoy change %		-5.2	-1.3	-7.2	-1.2	
Other revenues	30	28	24	25	19	
<b>Total sales</b>	<b>3,208</b>	<b>3,040</b>	<b>2,998</b>	<b>2,786</b>	<b>2,747</b>	
External goods & services	-1,531	-1,384	-1,251	-1,285	-1,102	In even years, acquisition of rights for 4Y sporting events (World & Europe Football Championship, Summer & Winter Olympic Games)
Personnel costs	-1,010	-1,015	-1,028	-1,015	-995	Staff reduction in 2013
<b>EBITDA</b>	<b>668</b>	<b>642</b>	<b>720</b>	<b>486</b>	<b>651</b>	
as % of sales	21.0	21.3	24.2	17.6	23.9	
D&A	-703	-661	-657	-651	-585	Reduction in programmes amortisation in 2010 and 2013
<b>EBIT</b>	<b>-35</b>	<b>-19</b>	<b>63</b>	<b>-165</b>	<b>66</b>	
as % of sales	-1.1	-0.6	2.1	-6.0	2.4	
Net financial items	-4	1	-15	-10	-13	Reflects net debt trend and in 2011 unfavourable interest and FX rates
Net extraordinary items	-1	-46	-7	-51	-12	Layoffs expenses in 2010 and 2012
Taxes	-22	-34	-37	-19	-36	
<b>Net income</b>	<b>-62</b>	<b>-98</b>	<b>4</b>	<b>-245</b>	<b>5</b>	

Source: Intesa Sanpaolo Research elaboration of Rai accounts available on [www.rai.it](http://www.rai.it)

Rai – Key balance sheet data (2009-13), Italian GAAP						
EUR M	2009	2010	2011	2012	2013	Comment
Fixed assets	1,617	1,598	1,640	1,611	1,542	
Working capital	-63	-175	-92	-132	-158	
Severance provisions	-358	-339	-327	-319	-284	Staff reduction in 2103
Risk funds	-413	-403	-413	-503	-363	In 2013 use of layoff provisions allocated in 2012
<b>Net invested capital</b>	<b>783</b>	<b>681</b>	<b>808</b>	<b>657</b>	<b>737</b>	
<b>Net equity</b>	<b>632</b>	<b>531</b>	<b>535</b>	<b>291</b>	<b>296</b>	Reflects net income trend
<b>Net financial position</b>	<b>-152</b>	<b>-150</b>	<b>-272</b>	<b>-366</b>	<b>-441</b>	Bank loans

Source: Intesa Sanpaolo Research elaboration of Rai accounts available on [www.rai.it](http://www.rai.it)

Rai – Key cash flow data (2009-13), Italian GAAP						
EUR M	2009	2010	2011	2012	2013	Comment
Net income		-98	4	-245	5	
D&A		661	657	651	585	
Non cash items		15	-6	-7	21	
Change in working capital		112	-82	40	26	
Change in funds		-29	-2	82	-175	Staff reduction in 2103
Capex		-660	-693	-614	-538	Investments in programmes and assets
<b>Cash flow for the year</b>		<b>1</b>	<b>-122</b>	<b>-94</b>	<b>-75</b>	
<b>NFP - beg year</b>		<b>-152</b>	<b>-150</b>	<b>-272</b>	<b>-366</b>	
<b>NFP - end year</b>		<b>-152</b>	<b>-150</b>	<b>-272</b>	<b>-441</b>	

Source: Intesa Sanpaolo Research elaboration of Rai accounts available on [www.rai.it](http://www.rai.it)

## Regulatory framework

### General framework

Rai is the exclusive concessionaire of public TV/radio broadcasting services in Italy, in virtue of:

- A ten-year public service licence contract to be renewed in May 2016;
- Rights of Use of digital frequencies, assigned by the Ministry of Economic Development (MISE), following the completion of the switch-off process for a period of twenty years (until 2032);
- A three-year service agreement regarding the guidelines of Rai's service and editorial offering, whose renewal for 2013-15 is still under negotiation.

We highlight that under the 2014 Spending Review programme announced in May 2014 the Italian government required Rai to contribute EUR 150M. Whether it was a one-off or not is still unclear. This issue is part of the wider reform regarding the TV licence fee, currently under political debate in Italy.

### Digital terrestrial television

In 2014 the Italian communications regulator (AGCOM) has reviewed the framework for the national planning of television frequencies (PNAF), which envisages the evolution of the frequency arrangement of Rai's multiplexes 1 and 5 to be implemented by 2016 (for the Veneto and Abruzzo regions by 2018). In this regard Rai, the Ministry of Economic Development and AGCOM signed a procedural agreement concerning the completion of the regionalised network (MUX1) and of MUX 5.

Under the PNAF programme, AGCOM also defined new frequencies to be assigned via competitive auction. Three lots of frequencies were auctioned, corresponding to three national television networks with twenty-year usage rights. Rai, Mediaset and Telecom Italia Media could not take part in the auction, given that it was reserved to new comers and players managing less than three multiplexes. It is worth noticing that only Cairo Communication submitted a binding offer for one multiplex and at the end of June 2014 secured it at a price of EUR 30M.

**Right of use digital frequencies until 2032**

**Potential licence fee reform**

**Rai's MUX 5 and regionalised MUX 1 under completion**

**Poor participation to AGCOM's recent MUX auction**

## Rai Way within Rai Group

### Rai's heritage

Effective from March 2000, Rai contributed all the assets, liabilities and employees related to its audio/video transmission/broadcasting network to Rai Way, which therefore started to operate as a separate legal entity. As a result of the spin-off, Rai and Rai Way signed a service agreement covering 2000-14, through which Rai granted to Rai Way the exclusive supply of planning, installing, operating, managing and maintaining its audio/video transmission/broadcasting network in compliance with the quality standards and coverage requirements set in the service agreement between Rai and MEF. As part of the service agreement, Rai Way has supported Rai in the full transition of the television-broadcasting signal from analogue to digital. The switch-off, begun in 2008, was completed in 2012, as per the regulated deadline.

15-year old history

In addition to the services provided to Rai, Rai Way also continued to supply other smaller national and regional broadcasters and offer tower rental services to mobile telecom companies. In 2002 it signed an agreement with 3 Italia, thus completing its MNO client portfolio, which already included TIM, Vodafone and Wind prior to 2000.

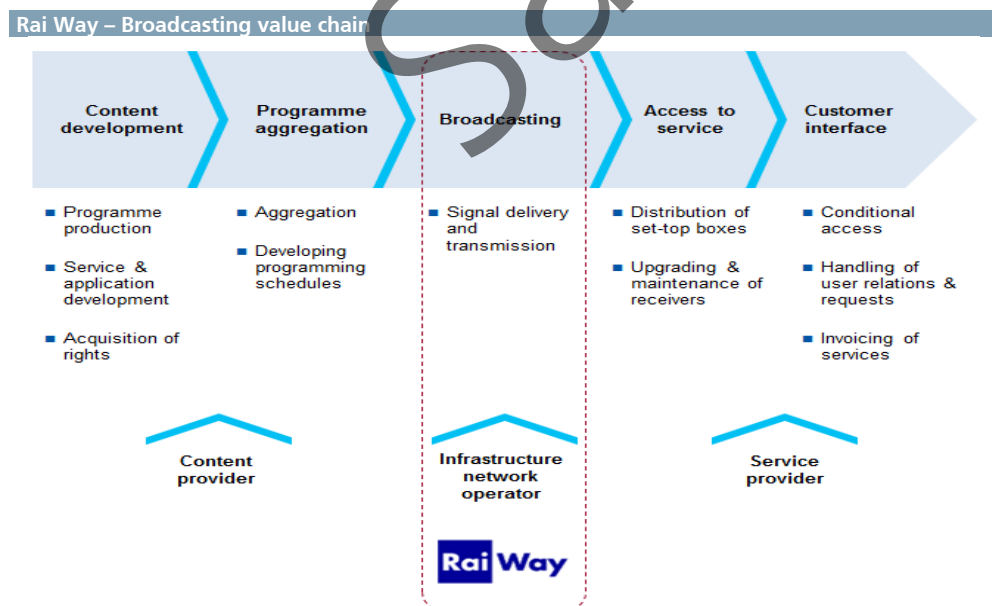
Rai Way – History milestones			
Spin-off of Rai Way in 2000			
Operating milestones		Commercial milestones	
Date	Event	Date	Event
2003	Waynet completion	2002	Agreement with 3 Italia
2006	DTT tests	2007	Co-siting agreement at Roma M.Mario
2007	Initial HDTV tests	2008	Broadcasting of local multiplex DAB+ for local consortium in Venice and Bologna
2008-12	Analogue TV switch-off	2014	Renewal of Rai service agreement
2013	DAB+ broadcasting in Trentino	2014	Renewal of Wind and Vodafone contracts
2013	Full service contract for Digiloc		

Source: Intesa Sanpaolo Research elaboration on Company data

### Rai Way in Rai's value chain

Being Rai's infrastructure operator, Rai Way provides crucial services to Rai in a unique position between content and service providers within the broadcasting value chain.

Provider of crucial services



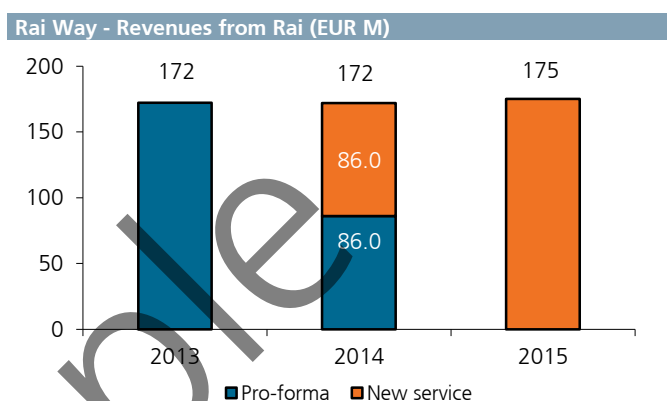
Source: Company data

## New "active" service agreement

The service agreement between Rai and Rai Way has been renewed, effective from 1 July 2014. The contract duration is 7 years, automatically renewable up to 7+7 years, with intermediate maturities 2021-28 and final maturity 2035. A 12-month termination notice is envisaged from the end of year 7 onwards. In terms of offering, the new contract grants Rai Way an exclusive supply of turn-key TV broadcasting and transmission services to Rai and a right of first offer with respect to potential new services related to the development of new networks, standards and technologies. In terms of consideration, it set a fee of EUR 86M for 2H14 and EUR 175M in FY15, increasing in line with the Italian CPI from 2016 onwards. The reference CPI rate is represented by the October yoy data of the year n-1. On a pro-forma basis, this consideration would compare with EUR 172.1M in FY13 and EUR 86M in 1H14. From an accounting standpoint, while the old contract was partially treated as a financial lease, the new service agreement qualifies as an operating lease.

**Improved economics and change in the accounting policy**

Rai Way- New vs. old "active" service agreement vs. Rai		
	Old	New
Duration	2000-14	2014-35 (7+7+7)
Scope	Turn-key solution	Turn-key solution Right of first offer on new services
Fees	Cost plus mark up	EUR 86M in 2H14, EUR 175M in 2015, inflation linked thereafter
Accounting	Financial lease	Operating lease



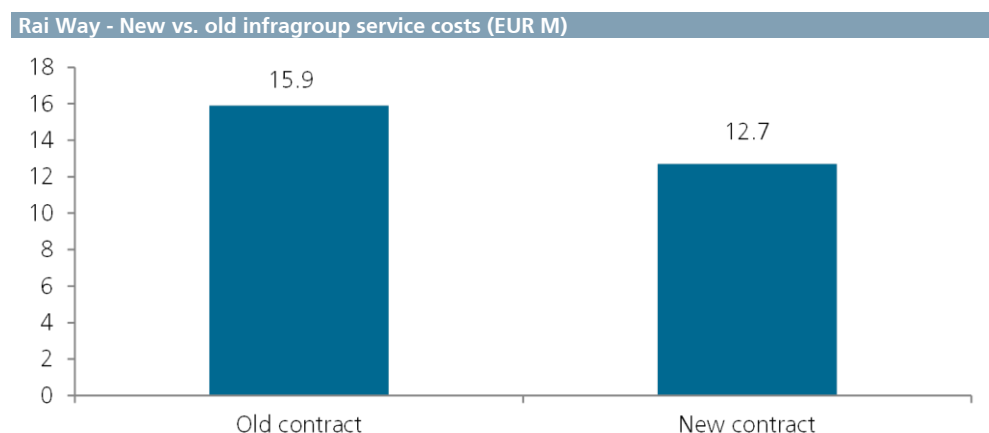
Source: Intesa Sanpaolo Research elaboration on Company data

Source: Company data

## New "passive" service agreement

Together with the new "active" service agreement, Rai and Rai Way signed a passive service agreement under which Rai will provide HR, administration, inter-company bank account, corporate IT and personnel services to Rai Way, on an exclusive basis, at a price of EUR 5.7M per year. The contract duration is 7+7 years for a maximum length of 14 years. The contract can be terminated with a 12-month notice. Rai Way also renewed a rental agreement with Rai for an annual CPI-linked rate of EUR 7M starting from 1 July 2014. According to company indications, the pricing of intercompany service costs is aligned to market standards and imply EUR 3.2M savings versus the previous contract on a recurring basis.

**Improved economics**



Source: Company data

## Business Model

### A unique asset base

Rai Way's asset portfolio consists of around 2,300 sites over the national territory, managed through 23 regional centres and 21 operating units. As at 30 June 2014, the number of employees is around 622, of which more than 60% on the field.

### An articulate organisation

Rai Way – Map of regional centres and operating units



Source: www.raiway.it

The sites contain both the passive and active infrastructures:

- Passive infrastructure consists of: i) land where the infrastructure is positioned; ii) towers, poles and masts, where radiant systems are installed; and iii) site shelters, which host transmitters and are equipped with power supply, generators, batteries, air-conditioners and fire extinguishers;
- Active infrastructure includes DVB-T/DAB/FM transmitters, switches, transceivers and microwave equipment.

### Ownership of active and passive infrastructures

Rai Way – State-of-the-art broadcasting equipment



Source: Company data

Rai Way's network guarantees a unique capillarity all over the country by covering 99% of the population. The sites' map reflects Italy's orography, with a low density of sites in flat areas, such as the "pianura padana", in the Lombardy region.

Highly capillary network...

As regards site ownership, out of the 2,300 sites:

- Approximately 900 (39% of total) are fully owned;
- Approximately 600 (25% of total) are owned in terms of passive and active infrastructures, but not land, whose landlords are represented by local municipalities or private entities;
- Approximately 800 (36% of total) are pure hosting plants, owned by national or local tower and telecom operators, where Rai Way only owns active infrastructure.

...broadly half owned and half rented

Considering that one site may contain more than one tower, Rai Way directly owns a total of 1,800 towers.

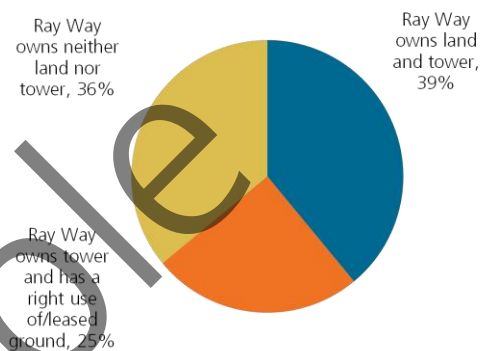
#### Rai Way – Network capillarity



Legend: ● Rai Way's sites.

Source: Company data

#### Rai Way – Real estate footprint



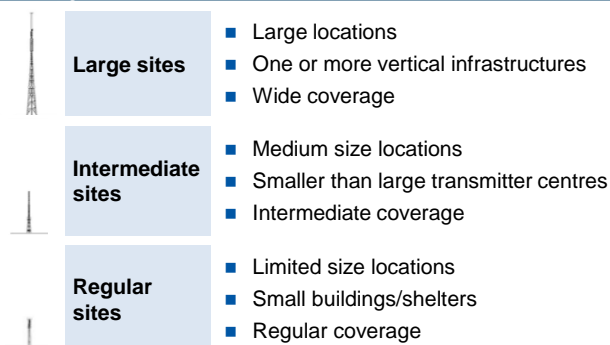
Source: Company data

In terms of size, Rai Way's sites can be reclassified into the following three categories:

- Large sites, composing Rai Way's backbone, which are non-replicable sites, located on top of hills and mountains, in dominant positions to achieve a wide customer base: accounting for only 6% of total sites and guaranteeing an 80% population coverage;
- Intermediate sites, corresponding to the second level of backbone and represented by medium-size locations: accounting for 11% of total sites and covering 10% of population;
- Regular sites, characterised by small dimensions in order to achieve capillary geographical niches: accounting for 83% of total sites and covering 9% of population.

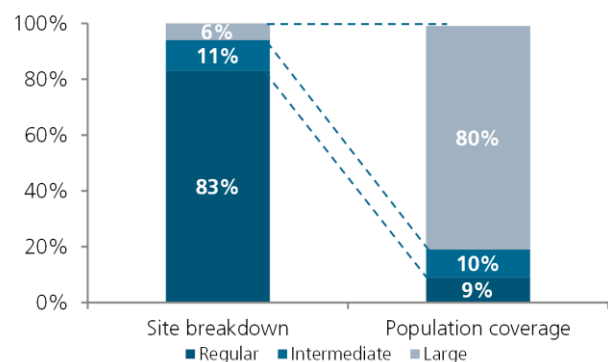
Irreplaceable sites

#### Rai Way – Site breakdown



Source: Company data

#### Rai Way – Network coverage



Source: Company data

Some examples of large sites are Monte Mario, which covers Rome's metropolitan and neighbouring area, and Monte Venda, which is located in a protected park and covers most of Veneto and surrounding regions.

Rai Way large sites – Monte Mario (Rome)



Source: Company data

Rai Way large sites – Monte Venda (Veneto)



Source: Company data

### Fully-integrated service offering

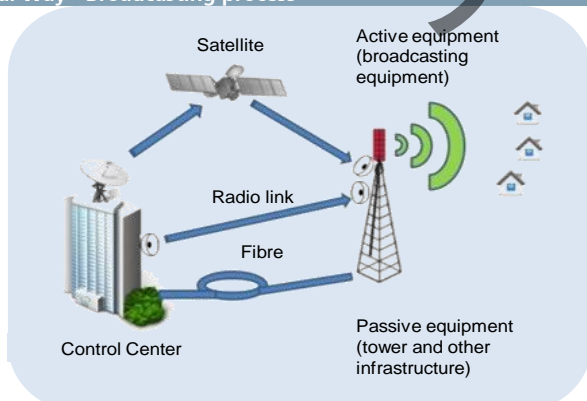
Rai Way's offering includes four service categories:

- **TV and radio broadcasting services** consist in the delivery of client's TV and radio signals to end-users through both DTT and satellite platforms. These services are provided at local, national and international levels. They contain everything necessary for transmission from studios to customers. Radio broadcasting is currently being extended from analogue (FM and AM) to digital (DAB), with the DAB network currently including 18 sites,
- **Transmission services** consist in transferring video and audio signal from specific locations by interconnecting major event venues with clients' newsrooms and offices. The offer ranges between permanent services (based on fibre optic and radio-link connections) and occasional transmissions (e.g. Venice Film Festival, Italian National Football League, FIFA World Cup).

One-stop shop to meet customer needs

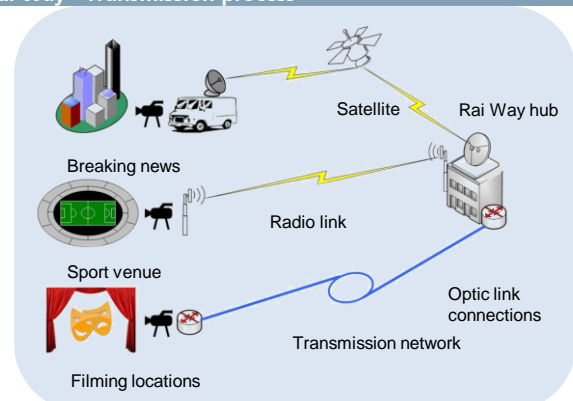
Broadcasting and transmission revenues together account for 83.7% of Rai Way's 2013PF sales, largely derived from Rai (82.6%) in relation to Rai's five MUXes (full broadcasting). Other broadcasting and transmission clients are minor (0.7% and 0.4% of sales, respectively). Transmission services are mostly based on the same infrastructure as broadcasting services;

Rai Way - Broadcasting process



Source: Company data

Rai Way - Transmission process

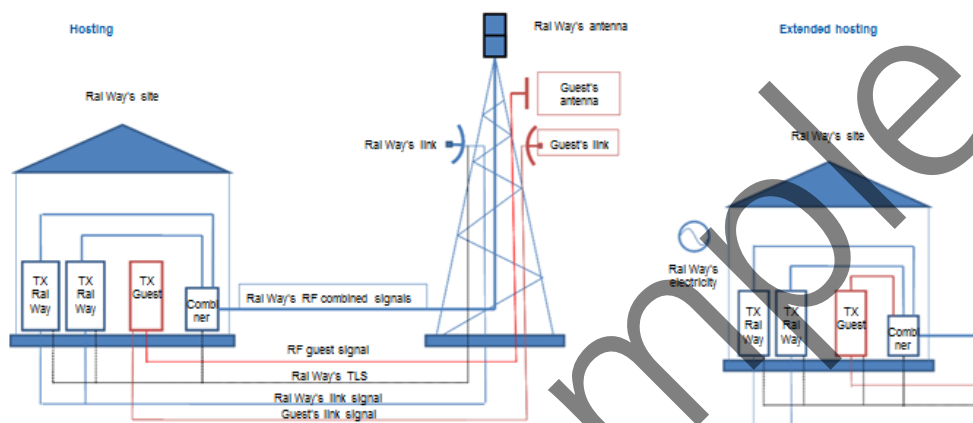


Source: Company data

In particular, Rai Way offers a transportation of content service from remote sources (e.g. from TV studio production facilities or remote areas for live news) by using fibre optic infrastructure and satellite capacity. As regards DTH, Rai Way leases from Telespazio three transponders on Eutelsat hot bird satellite 13° east, on the basis of contracts expiring between 2017 and 2020. As for TV contribution, Rai Way signed a contract with both Telespazio (satellite capacity from mobile SNG) and Globcast (point to point transportation of DTT Mux to Rai Way's terrestrial sites). Fibre infrastructure is also mostly leased, except for some Metropolitan Area Networks (MAN) such as Rome, Milan and Turin;

- **Tower hosting** provides availability of tower infrastructures for radio frequencies transmitters. The offer ranges between pure hosting, which is typical of telecom, public administration and corporate customers, and extended hosting, which includes additional services (installation, management and maintenance of customer equipment) and is typical of TV and radio broadcasting customers. These services are mostly provided through top-of-the-hill sites (not roof-top sites commonly used by telecom operators) and therefore represent ideal sites to build a backbone. Tower hosting accounts for 16.0% of Rai Way's 2013PF sales, mostly derived from big four MNOs (11.9%).

#### Rai Way - Tower hosting and extended tower hosting



Source: Company data

- **Network services** include technical studies related to new tower hosting projects, measurement of electromagnetic emissions and their compliance to regulations, interference assessment in the context of new tower hosting projects, design and building of technical and electrical infrastructure, installation and maintenance of active equipment. Network services versus third parties account for 0.3% of Rai Way's 2013PF sales.

### High standing long-term client portfolio

The tower market demand is concentrated because there is a small number of large national clients, mostly represented by television and telephone operators as well as a large number of small clients (local TV and radio operators). With an 82.6% weighting in 2013PF sales, Rai is Rai Way's first client, while the mobile TLC operators (TIM, Vodafone, Wind, and 3) account for 11.9%. Other customers (5.6% of total) are represented by small TV broadcasters (Telecom Italia Media Broadcasting being the main one), public administration and corporates.

The group generally operates on the basis of multi-year contracts, which guarantee high business visibility. Moreover, the churn rate is low given Rai Way's leadership and the high switching costs. Most of the contracts are indexed to the Italian CPI.





All of the 2,300 sites are dedicated to Rai, whereas the MNO tenancy ratio is not disclosed. Overall, Rai Way hosts 1,900 pieces of third-party equipment on 850 Rai Way sites (including Telco and other equipment), while on the remaining 1,450 sites there is no third-party equipment. Considering Rai Way's significant spare capacity for tower hosting, there is a

Long-term visibility from multi-year contracts

Gradually expanding a captive network to telecom customers

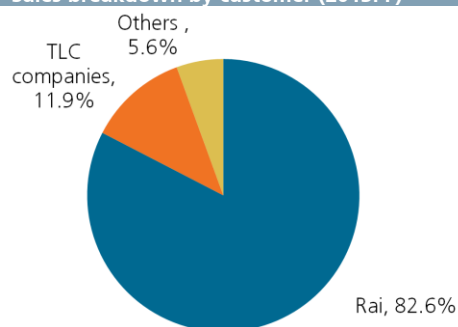
significant potential for an increase in the tenancy ratio, which the company is exploiting by offering attractive pricing for selected sites that are not yet used by the MNOs.

Rai Way – Service and client portfolio

	Broad-casting	Trans-mission	Tower hosting	Network services
				
Rai	✓	✓		
Other broadcasters	✓	✓	✓	✓
Telecom operators			✓	
Public Administration	✓		✓	✓

Source: Company data

Rai Way - Sales breakdown by customer (2013PF)



Source: Intesa Sanpaolo elaboration on Company data

Below, we detail the key features of the contracts' portfolio:

- **Mobile operators:** typical six-year contracts, tacitly renewable at maturity on a yearly basis, up to a maximum of six years. Three MNO contracts have been recently renewed, while the residual one is under negotiation at conditions in line with the others. Renewed contracts with MNOs contain a new commercial proposition based on: a) a minimum guarantee amount for the majority of the equipments installed at the date of starting of the new agreement; b) extra-fees for incremental equipment to be installed on sites where the MNO is already present; and c) incentives to add volumes to both sites where there is already an MNO tenant, and sites which are new for telco usage. In terms of prices, according to Company's indications, the recent contract renewal confirms the previous annual fee for equipment already installed at the starting date of the agreement, while new equipment to be installed by MNOs should be priced competitively;
- **TV and radio broadcasters:** ad-hoc contracts with single broadcasters, whose pricing depends on sites, client equipment installed, maintenance contract, etc;
- **Public administration:** contracts are similar to mobile operators' agreements, with pricing based on fixed plus variable components.

## Reference Markets and Competitive Positioning

### Broadcasting

#### Access TV technology platforms in Italy

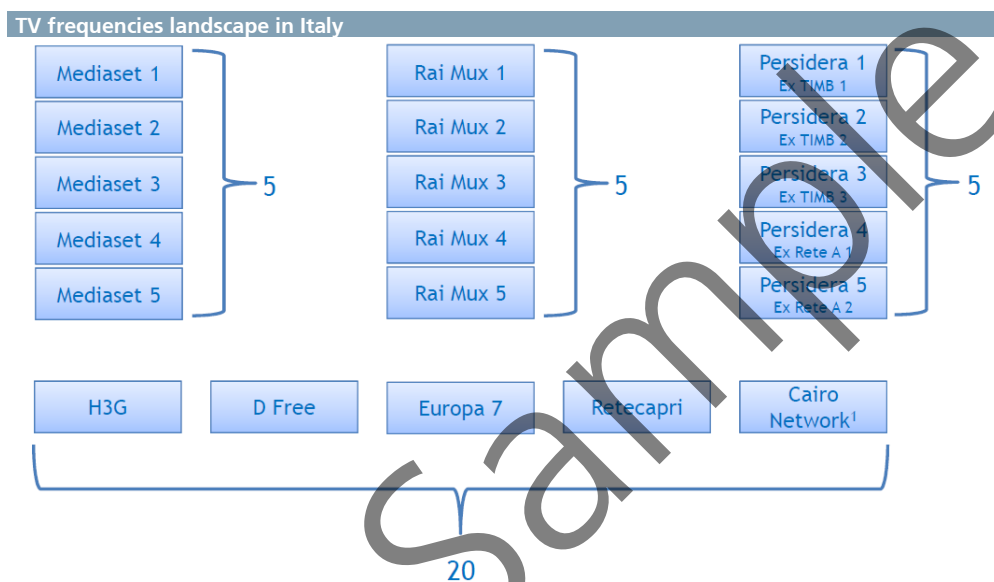
According to Rai Way's data based on Auditel, with a 99% penetration DTT virtually represents the only platform for free-to-air (FTA) television broadcasting in Italy. Unlike the other Western European countries, there is no cable TV platform and no plans to build one in the near future. Satellite penetration is currently at 32%. Most of the satellite households are also covered by DTT, whereas households only covered by satellite are negligible. IPTV has a close to 1% penetration due to a slow roll-out of fibre broadband and threats from Over-The-Top (OTT) services are limited by insufficient bandwidth speeds.

**DTT is the key TV broadcasting technology in Italy**

#### Italian TV frequencies landscape

In Italy, the frequencies allocation process is managed by the Ministry of Economic Development: broadcasters receive a licence to use MUXes for a set number of years, in exchange for an annual fee. DTT licences issued by the Italian government expire between 2032 and 2034. The following chart shows the current landscape of TV frequencies in Italy.

**20 MUXes, expiring in 2032-34**



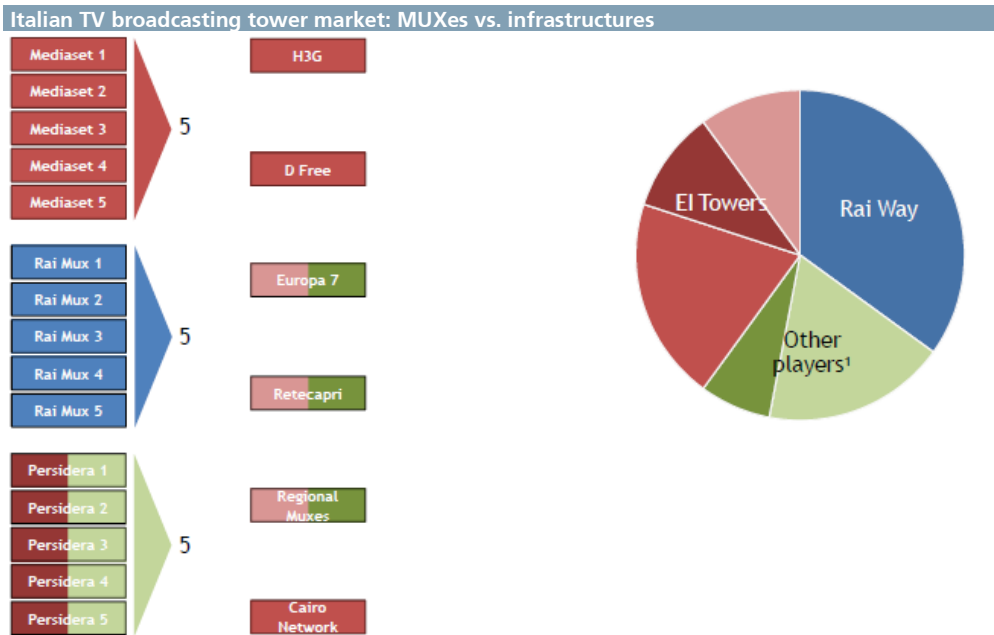
(1) At regime after 2016/17; Source: EI Towers' Investor Day 30 September 2014

#### Italian broadcasting tower market

The broadcasting tower market in Italy is characterised by around 6,000 towers on a national basis, of which Rai Way and EI Towers each manage around 2,300. The rest of the market is highly fragmented into a number of local and regional players spread across the territory. The market is characterised by high barriers to entry due to:

**Rai and EI Towers are the leading players in a concentrated market**

- Scarcity of strategic sites, given that the majority of sites with high population coverage are already owned by the two main operators;
- High entry capital requirements and maintenance costs, requiring sizeable operations to achieve economies of scale;
- Strict regulatory framework in terms of both transmitting infrastructures and building activities;
- High switching costs for network operators.



(1) Including TIMB/Persidera owned infrastructure; Source: EI Towers' Investor Day 30 September 2014

### European overview

As in Italy, also in other Western European countries, the broadcasting infrastructure market is concentrated and characterised by local champions.

European broadcasting tower market

Country	Tower operator	Sector
Belgium		Telecoms
Finland		Independent
France		Independent
Germany		Independent
Ireland		Broadcasting
Norway		Telecoms
Spain		Independent
Sweden		Independent
Switzerland		Telecoms
UK		Independent

Source: Rai Way

### Access radio technology platforms in Italy

The radio sector has been quite resilient to technological evolution. Radio transmission is still mainly analogue. Digital Audio Broadcasting (DAB) is being deployed, but no switchover is foreseen. DAB has been implemented in most of the Northern regions of Italy. It uses VHF frequencies, already extensively developed and currently in use by Rai Way, which represents a clear competitive advantage for Rai Way compared to its peers.

Transition to DAB currently ongoing

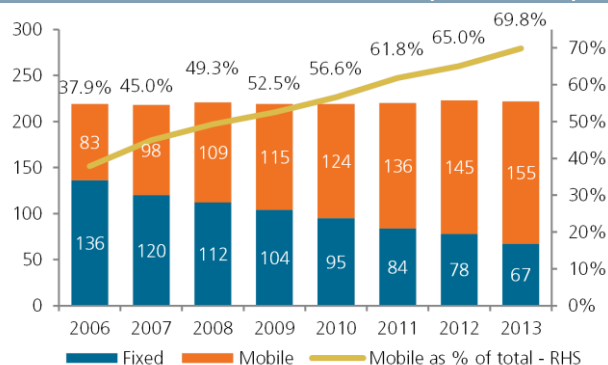
## Telecoms

### Italian mobile market overview

With a penetration of approximately 160% in terms of number of SIM cards in 2013A, the Italian mobile market is quite mature. Mobile traffic in terms of minutes rose by a 9.3% CAGR over 2006-13, mostly thanks to the fixed-mobile substitution. However, this was not reflected into mobile revenues, which declined by a 4.4% compound rate during the same period due to weak macros, increasing price competition, cuts of mobile termination rates and OTT gradual replacement of messaging services. This contributed to declining margins for mobile operators with consequent pressure on suppliers, including tower operators. According to El Towers', pressure for contract renegotiations resulted in a rebalancing of price discounts, volumes growth and long-term duration.

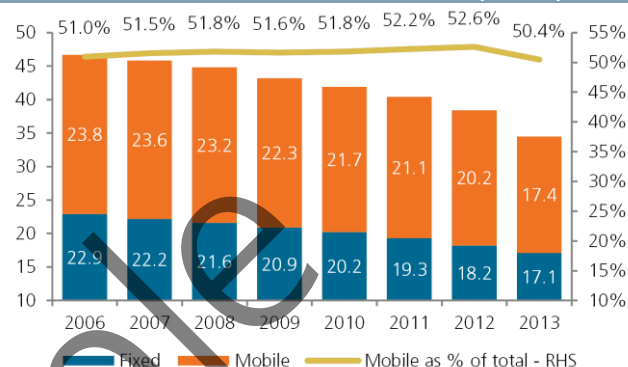
**Price competition driving ARPU dilution**

Italian mobile market – Voice traffic trend (minutes in Bn)



Source: Agcom

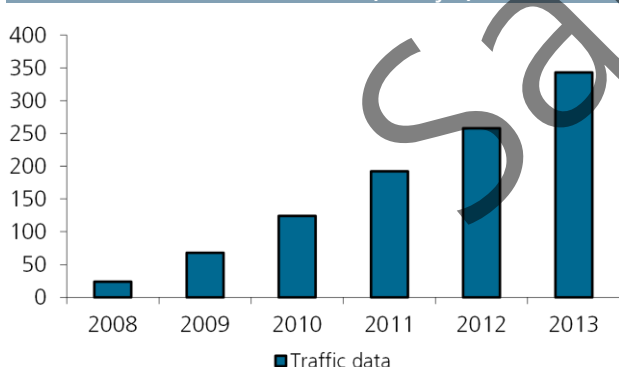
Italian mobile market – Mobile revenues trend (EUR Bn)



Source: El Towers on Osservatori digital Innovation Politecnico di Milano

Conversely, mobile data consumption recorded a strong growth, driven by video demand and higher penetration of smartphones and tablets. The ongoing deployment of 4G networks should further support data consumption.

Italian mobile market – Data traffic (Petabyte)



Source: El Towers on Osservatori digital Innovation Politecnico di Milano om

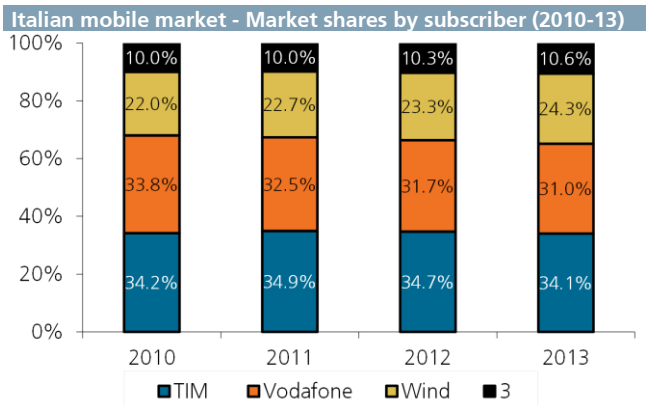
Italian mobile market – 4G network roll-out

	Actual	Target
TIM	74% as at 7 Nov 2014	>80% by 2016
Vodafone	64% as at 30 Sept 2014	>90% by March 2016
Wind	24.4% as at 30 Sept 2014	35% by end-2014
3 Italia	NA	40% by end-2014

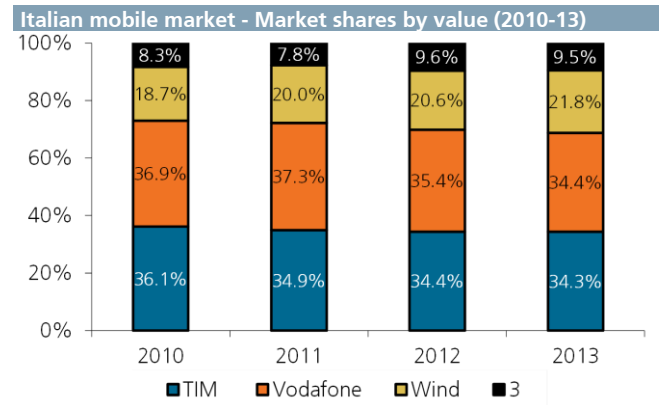
NA: not available; Source: Companies' data

As for market shares, TIM and Vodafone are the largest mobile operators, followed by Wind and 3 Italia. The long-debated market consolidation (e.g. Wind-3) could result in potential pressure on infrastructure operators, which on the other hand might be offset by softening price competition and consequent margin relief.

**Potential MNOs consolidation: trade-off between impact on infrastructure and margin relief**



Note: data excluding MVNOs; Source: Intesa Sanpaolo Research elaboration on AGCOM data

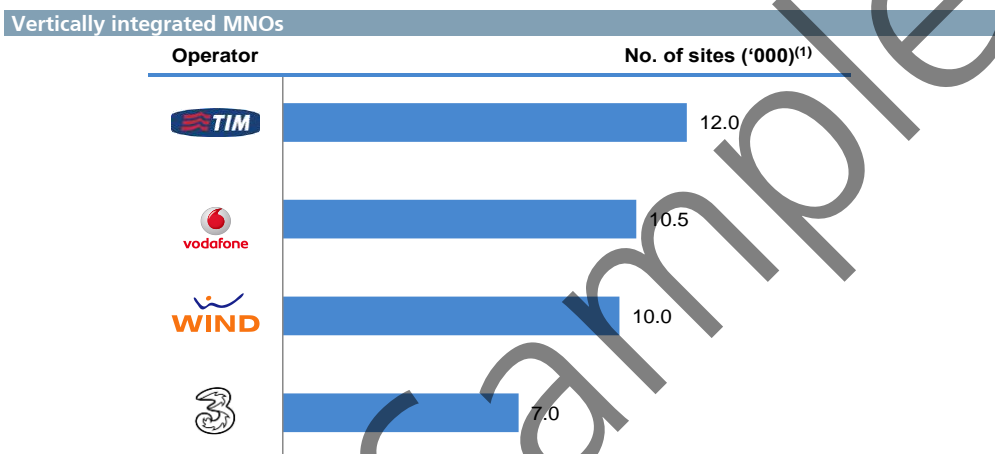


Note: data excluding MVNOs; Source: Intesa Sanpaolo Research elaboration on AGCOM data

### Mobile tower networks

The mobile tower market is mostly captive, with all four MNOs managing an extensive proprietary tower network. Furthermore, mobile operators have signed co-siting agreements in order to reduce costs. For example, TIM and Vodafone agreed in 2013 to share 4G towers and antennas in small cities and rural areas.

Vertically-integrated MNOs...



Source: Rai Way on mobile operators' data

Despite well-developed MNO networks, rural coverage is not as extensive as in the cities. Hence, hosting on independent operators' sites is required to complete footprint. The independent operators include:

...and independent operators

- EI Towers (approximately 400 dedicated telco sites);
- Abertis (around 300 telco sites recently acquired from Atlantia along the Italian motorway network and managed under concession);
- Rai Way hosts telco equipment on its broadcasting sites;
- "Mom and Pop" tower operators.

The ongoing auction regarding a portion of Wind's rural sites (6,300-8,000 according Il Sole 24 Ore, Il Corriere della Sera, etc.) could pave the way for the birth of a non-captive telecom tower market in Italy. According to the same press sources, TI has also finalised the spin-off of its telecommunication towers and is evaluating an IPO. We do not rule out that these deals, if completed, could lead to sector consolidation over the medium/long term.

Consolidation in sight?

## Strategy

Rai Way's strategy is focused on organic growth, based on four pillars.

### Enrich the relationship with Rai through an expansion of the service offering

Under the service agreement between Rai and Rai Way, Rai Way operates as a one-stop shop for Rai's infrastructure needs and holds a right of first offer with respect to potential new services related to the development of new networks, standards and technologies. Moreover, the digitalisation of the terrestrial networks intrinsically implies evolution and innovations over the years. More specifically, new potential service requests from Rai should relate to:

- Frequency reallocations. Although no significant change in spectrum allocation is envisaged before 2020 in Italy, the compatibility with spectrum utilisation in neighbouring countries may imply moderate changes to UHF DTT channels. For example, the need to avoid/mitigate cross-border interferences could imply a frequency redistribution between national and local broadcasters, through the possible replacement of MUXes currently allocated to single local broadcasters with a new single MUX granted to a local broadcasting consortium;
- Extension of the HDTV multiplex coverage, through both the replacement of some Standard Definition channels with one HDTV channel and a higher population coverage.

### Consolidate partnerships with third parties in tower hosting, thanks to:

- Increasing the MNO tenancy ratio thanks to the scalability of the network also via the recently adopted attractive price offering for selected sites, as explained in the previous section;
- Valorisation of key non-replicable sites as hubs to interconnect customers' sites, by leveraging on Rai Way network's features (position, distance from surrounding sites, height) in order to roll-out local/regional/national radio backbones;
- Leveraging on frequency regulations: one-stop shop for local DTT/DAB+ broadcasters, requiring a "neutral" infrastructure operator to manage multiplexes, also used by competitors;
- Leveraging on environmental regulations to exploit co-siting opportunities.

### Extend service portfolio versus third parties to:

- Consulting services to foreign regulators and public authorities in implementing the analogue-digital transition process and therefore in rolling-out digital broadcasting networks abroad;
- New opportunities in intelligent connectivity, such as Machine-to-Machine, smart metering, and public safety.

### Focus on cash flow generation thanks to higher efficiencies and operating leverage

The key cost control actions are:

- Monitoring of energy consumption in network plans;
- Optimisation of internal resources, through the adoption of new technologies for the broadcasting infrastructure management, allowing it to operate in remote mode to reduce time-to-market and costs.

### Four strategy pillars:

#### 1. New services vs. Rai

#### 2. Increase in MNO tenancy ratio

#### 3. New services vs. third parties

#### 4. Cost control actions

## Historical Financial Results

Rai Way has traditionally published its accounts under the Italian GAAP, available on the website [www.raiway.it](http://www.raiway.it). Ahead of the IPO, the 2011-13 accounts and 1H14 accounts were translated into IFRS.

**Accounts recently translated from IT GAAP to IFRS...**

Moreover, historical data are all based on the previous active and passive service agreements, which were terminated at the end of June 2014. As described in the section "Rai Way within Rai Group", the transition from the previous to the new service agreements implied on the one hand improved economics and on the other hand a change in the accounting policy of the active contract from financial to operating lease.

In order to capture these changes and provide a homogeneous historical comparable base, pro-forma data for 2013 P&L and 9M14 accounts were prepared. Pro-forma data for 2013 balance sheet and 9M13 accounts are not available. The following tables summarise the trends of key IFRS P&L and balance sheet data for the available periods.

**...to pro-forma data to account for the new active service agreement**

Rai Way – Key historical data (2011-13 and 2013PF)				
EUR M	2011	2012	2013	2013PF
Core sales	130.8	118.7	118.3	208.4
yoy % change		-9.2	-0.3	
EBITDA*	26.7	6.8	14.6	108.0
EBITDA margin %*	20.4	5.7	12.3	51.8
Net income	16.6	5.8	8.5	30.8
Net capital employed	227.6	207.4	-49.7	NA
Equity	128.0	132.7	141.7	NA
Net financial position	-99.6	-74.8	191.4	NA

\*before non-recurring items occurred in 2013; NA: not available; Source: Intesa Sanpaolo Research elaboration on Company data

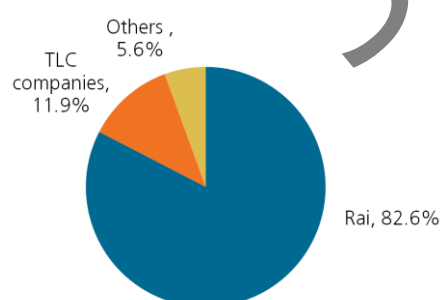
Rai Way – Key historical data (9M13, 9M14 and 9M14PF)			
EUR M	9M13	9M14	9M14PF
Core sales	95.1	115.1	155.2
yoy % change		21.0	
EBITDA*	12.8	38.7	80.4
EBITDA margin %*	13.5	33.6	51.8
Net income	7.7	17.9	26.9
Net capital employed	NA	NA	220.5
Equity	NA	NA	147.5
Net financial position	NA	NA	-73.0

\*before non-recurring items occurred in 2013; NA: not available; Source: Intesa Sanpaolo Research elaboration on Company data

### Top line

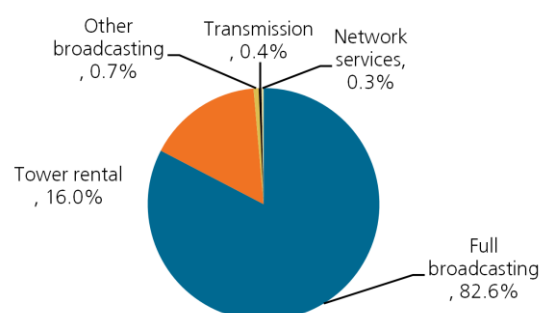
As aforementioned, Rai is Rai Way's main customer with an 82.6% weighting in total sales related to full broadcasting services, while 16% of total sales is represented by tower hosting services, mostly vs. TLC companies (11.9% of total sales). Other services include communications services to smaller national and regional TV/radio broadcasters, WiMax players, public authorities (civil defence force and law enforcement authorities) and other corporate customers.

Rai Way – Core sales by customer (2013PF)



Source: Intesa Sanpaolo Research elaboration on Company data

Rai Way – Core sales by service (2013PF)

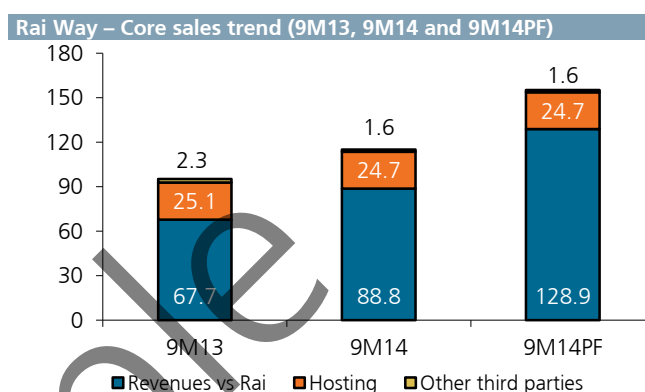
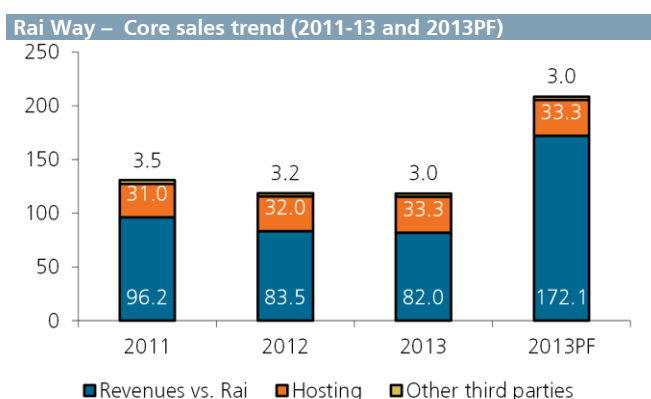


Source: Intesa Sanpaolo Research elaboration on Company data

We detailed below the key highlights of the historical top-line trend:

- **Revenues vs. Rai** decreased by 13.2% yoy in 2012 and 1.8% yoy in 2013, due to the completion of the analogue switch-off. The new active service agreement signed in June 2014 implied pro-forma sales of EUR 172.1M in 2013 vs. EUR 82.0M on a not pro-forma basis, i.e. a difference of EUR 90.1M, of which EUR 78.7M due to the change in the accounting policy and EUR 11.4M to improved economics. As for 9M14, the new active service agreement led to pro-forma sales of EUR 128.9M vs. EUR 88.8M on a non pro-forma basis;
- **Hosting revenues** grew by a 2011-13 CAGR of 3.6%, driven by increasing TV broadcasting co-siting with telecom operators;
- **Other third-party revenues** declined by a 2011-13 CAGR of 7.4% and 28.8% yoy in 9M14, mainly due to the expiry of one satellite broadcasting contract;

In the last three years declining revenues vs. Rai (due to the switch-off) and stable revenues vs. other clients



Source: Intesa Sanpaolo Research elaboration on Company data

Source: Intesa Sanpaolo Research elaboration on Company data

- **Other revenues:** the P&L also includes other sales for EUR 5.5M in 2011, EUR 1.7M in 2012, EUR 2.5M in 2013 and EUR 2.9M in 9M14. These sales are mostly related to extraordinary items, such as reversal of previous year provisions related to litigations and amounting to EUR 2.0M in 2011, EUR 1.0M in 2012, EUR 1.6M in 2013 and EUR 2.1M in 9M14.

## Cost structure

Below are the details on the costs structure:

- **Personnel costs:** in 2013 Rai Way carried out an incentive-based workforce reduction concerning 43 headcounts. This implied EUR 3.6M non-recurring layoff costs and a EUR 3.2M reduction of not pro-forma severance indemnity provisions;
- **Maintenance costs** were broadly stable in 2011-13. In terms of seasonality, they are mostly accrued in the second half of the year;
- **Utilities costs** rose during 2011-13, mainly due to higher electricity costs per unit, while they were broadly stable yoy in 9M14;
- **Rents** refer to building on passive infrastructure and equipment rental costs, including fibre and satellite. They recorded a significant decline in 2013 due to an one-off positive impact from reversal of costs already accrued in the past in relation to the rent of occasional circuits. They slightly decreased in 1H14 compared to 1H13 due to cost optimisation initiatives;
- **Infragroup costs.** As shown in the "Rai Way within Rai Group" section, these costs include HR, administration and inter-company banking accounts, corporate IT and personnel services provided by Rai to Rai Way on an exclusive basis. They also include infragroup rents. The recently signed passive service agreement implies EUR 3.2M savings versus the previous contract on a recurring basis;

In the past three years, margins suffered from lower revenues vs. Rai and higher electricity costs, partly offset by restructuring actions and one-off items

- **Other costs** include purchase of consumables, travel costs, board remuneration, legal fees, property taxes, consulting fees and other residual costs. They increased in 2012 due to a loss on sale of assets and decreased in 2013 below the 2011 level thanks to cost efficiencies.

Rai Way – Costs structure (2011-13 and 2013F)				
EUR M	2011	2012	2013	2013PF
Personnel costs	47.2	47.6	49.7	49.7
Maintenance	6.0	6.0	6.3	6.3
Utilities	13.0	14.8	16.0	16.0
Rents and leases	14.4	14.4	11.3	11.3
Infragroup costs	15.3	15.7	15.9	12.5
Other costs	13.6	15.1	10.6	10.6
<b>Total</b>	<b>109.6</b>	<b>113.6</b>	<b>109.8</b>	<b>106.4</b>

Source: Intesa Sanpaolo Research elaboration on Company data after non-recurring items

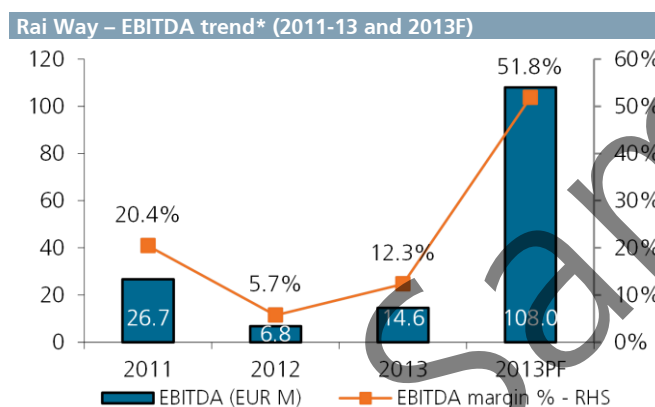
Rai Way – Costs structure (9M13, 9M14 and 9M14PF)			
EUR M	9M13	9M14	9M14PF
Personnel costs	37.6	33.1	33.1
Maintenance	4.6	3.8	3.8
Utilities	11.8	11.7	11.7
Rents and leases	11.3	11.0	11.0
Infragroup costs	12.0	11.2	9.6
Other costs	9.6	8.6	8.6
<b>Total</b>	<b>86.8</b>	<b>79.3</b>	<b>77.8</b>

Source: Intesa Sanpaolo Research elaboration on Company data after non-recurring items

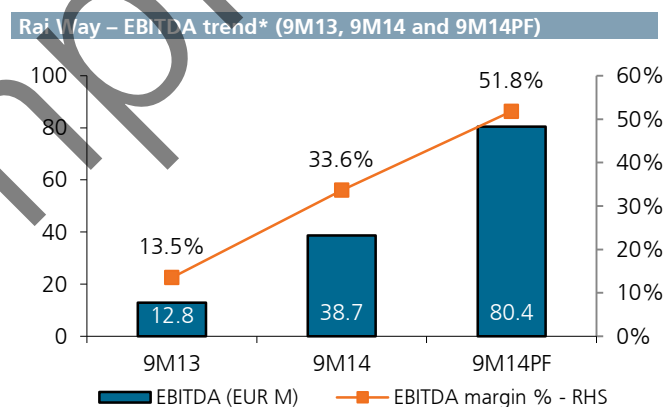
Overall, the EBITDA decline in 2012 reflects the decrease of broadcasting revenues vs. Rai and the increase of utilities and other costs, while in 2013 there was a recovery on a both recurring and non-recurring basis and in spite of stable sales, thanks to the decrease of rents and other costs that more than offset the increase of utilities costs. In 1H14 EBITDA benefited from higher sales and costs reduction, the latter mostly due to one-off items.

The 2013 pro-forma EBITDA is higher than the reported figure by EUR 93.4M, of which EUR 78.7M due to the change in the accounting policy, EUR 11.4M to improved economics and EUR 3.4M to cost savings. The 1H14 pro-forma EBITDA is higher than the reported figure by EUR 41.7M, of which EUR 35.1M due to the change in the accounting policy, EUR 5.0M to improved economics and EUR 1.6M to cost savings.

**EBITDA margin at 51.8% on 2013 pro-forma data**



\*before non-recurring items occurred in 2013; Source: Intesa Sanpaolo Research elaboration on Company data



\*before non-recurring items occurred in 2013; Source: Intesa Sanpaolo Research elaboration on Company data

## Bottom line

Group net income decreased from EUR 16.6M in 2011 to EUR 5.8M in 2012 and then recovered to EUR 8.5M in 2013. On a pro-forma basis, 2013 net income shifted to EUR 30.8M, i.e. 14.8% of sales. In addition to the operating performance, this trend was driven by the following factors:

**14.8% net margin on 2013 pro-forma data**

- **Depreciation & amortisation.** Under the previous contract agreement with Rai, D&A were not material given the financial lease treatment of the assets, while on a pro-forma basis amounted to EUR 52.2M, a level significantly higher than capex (EUR 23M in FY13) due to the switch-off investments in the previous years. D&A include allowance for bad debt, which historically has not been material, except for 2013 (EUR 1.3M);
- **Provisions** mainly related to litigations.

- **Financial items** moved from a EUR 6.7M income in 2013 to EUR 3.1M charges in 2013PF, as a result of the change of the accounting policy of the service contract with Rai. Note that Rai Way was financially managed through a cash-pooling system in place with Rai. Ahead of the IPO, the company has become financially independent as explained in the “Earnings Outlook” section;
- **Tax rate:** during 2011-13, P&L taxes included corporate taxes (IRES and IRAP), adjusted for previous years’ accrued taxes. The 35% tax rate in 9M14PF is a reasonable proxy of its effective tax rate, in our view.

Rai Way - Income Statement (FY11-9M14PF)							
EUR M	2011A	2012A	2013A	2013PF	9M13A	9M14A	9M14PF
<b>Core revenues</b>	<b>130.8</b>	<b>118.7</b>	<b>118.3</b>	<b>208.4</b>	<b>95.1</b>	<b>115.1</b>	<b>155.2</b>
yoy % change		-9.2	-0.3			21.0	
Other revenues	5.5	1.7	2.5	2.5	1.0	2.9	2.9
<b>Total revenues</b>	<b>136.3</b>	<b>120.4</b>	<b>120.8</b>	<b>210.9</b>	<b>96.1</b>	<b>118.0</b>	<b>158.2</b>
yoy % change		-11.6	0.4			22.8	
Purchase of consumables	-2.2	-2.4	-1.9	-1.9	-1.2	-1.2	-1.2
as % of sales	1.7	2.0	1.6	0.9	1.3	1.0	0.8
Service costs	-56.7	-58.2	-55.2	-51.8	-45.1	-42.8	-41.2
as % of sales	43.4	49.0	46.6	24.9	47.4	37.2	26.6
Personnel costs	-47.2	-47.6	-46.1	-46.1	-34.1	-33.1	-33.1
as % of sales	36.1	40.1	39.0	22.1	35.8	28.8	21.3
Other costs	-3.5	-5.4	-3.0	-3.0	-2.9	-2.2	-2.2
as % of sales	2.6	4.5	2.5	1.4	3.1	1.9	1.4
<b>Total operating costs</b>	<b>-109.6</b>	<b>-113.6</b>	<b>-106.2</b>	<b>-102.8</b>	<b>-83.3</b>	<b>-79.3</b>	<b>-77.8</b>
as % of sales	83.8	95.7	89.7	49.3	87.6	68.9	50.1
<b>EBITDA before non-recurring items</b>	<b>26.7</b>	<b>6.8</b>	<b>14.6</b>	<b>108.0</b>	<b>12.8</b>	<b>38.7</b>	<b>80.4</b>
EBITDA margin before non-recurring items (%)	20.4	5.7	12.3	51.8	13.5	33.6	51.8
Non-recurring items	0.0	0.0	-3.6	-3.6	-3.6	0.0	0.0
<b>EBITDA</b>	<b>26.7</b>	<b>6.8</b>	<b>11.0</b>	<b>104.5</b>	<b>9.3</b>	<b>38.7</b>	<b>80.4</b>
EBITDA margin (%)	20.4	5.7	9.3	50.1	9.8	33.6	51.8
Depreciation and amortisation	-0.7	-0.3	-1.5	-52.2	-0.3	-13.0	-37.6
Provisions	-2.6	-3.8	-1.2	-1.2	0.0	0.0	0.0
<b>EBIT</b>	<b>23.3</b>	<b>2.7</b>	<b>8.4</b>	<b>51.1</b>	<b>9.0</b>	<b>25.7</b>	<b>42.8</b>
EBIT margin (%)	17.9	2.2	7.1	24.5	9.5	22.3	27.6
Net financial items	5.2	6.1	6.7	-3.1	4.2	2.6	-1.4
<b>Pre-tax profit</b>	<b>28.6</b>	<b>8.7</b>	<b>15.1</b>	<b>48.0</b>	<b>13.2</b>	<b>28.3</b>	<b>41.4</b>
as % of sales	21.9	7.3	12.7	23.0	13.8	24.6	26.7
Taxes	-12.0	-2.9	-6.6	-17.2	-5.5	-10.4	-14.5
Tax rate (%)	42.0	33.0	43.9	35.8	41.8	36.6	35.0
<b>Net profit/loss</b>	<b>16.6</b>	<b>5.8</b>	<b>8.5</b>	<b>30.8</b>	<b>7.7</b>	<b>17.9</b>	<b>26.9</b>
as % of sales		4.9	7.1	14.8	8.0	15.6	17.3

PF: pro-forma; A: actual; Source: Intesa Sanpaolo Research elaboration on Company data

## Balance sheet

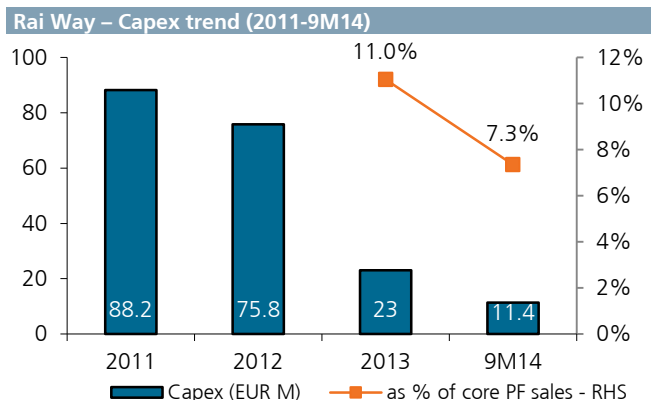
During 2011-13, the balance sheet data reflect the financial lease accounting policy of the service agreement with Rai, which is visible in the items “financial assets” and “cash and cash equivalent”. More specifically, the financial assets contained the financial receivables from Rai corresponding to the present value of the minimum lease payments to Rai for the network infrastructure. In 2013 this item was reclassified in the current financial receivables, because the expiry date of the previous service agreement was 31 December 2014.

9M14 pro-forma figures represent a more realistic representation of the company's current financial structure. The key highlights are:

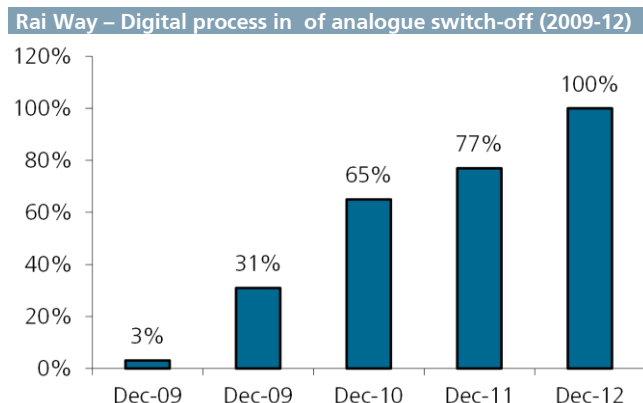
- Value of the tangible assets at EUR 247.1M;
- Working capital of EUR 8.1M, equal to 5.2% of 9M14 sales. Trade receivables were mainly related to Rai active contract, while trade payables were related to third-party suppliers.

We also underline the significant capex investments in 2011 and 2012, due to the digitalisation process.

**Solid balance sheet thanks to high cash flow generation and capex reduction after digitalisation-driven peaks**



Source: Company data



Source: Company data

Overall, as at 30 September 2014, Rai Way recorded a net debt of EUR 73M, corresponding to a solid net debt/EBITDA ratio of 0.9x and a gearing ratio of 0.5x.

**Rai Way – Balance Sheet Statement (2011-13 and 9M14PF)**

EUR M	2011A	2012A	2013A	9M14PF
Tangible assets	0.4	0.4	0.3	246.1
Intangible assets	0.0	0.0	0.0	0.6
Financial assets	191.9	217.9	0.2	0.3
<b>Fixed assets</b>	<b>192.3</b>	<b>218.2</b>	<b>0.5</b>	<b>247.1</b>
Inventories	62.2	34.7	21.1	0.9
Commercial receivables	105.5	73.9	50.4	70.7
Commercial payables	-85.4	-79.0	-83.0	-39.8
<b>Organic working capital</b>	<b>82.4</b>	<b>29.6</b>	<b>-11.5</b>	<b>31.8</b>
Other current assets/liabilities	-17.0	-7.0	-11.7	-23.7
<b>Net working capital</b>	<b>65.4</b>	<b>22.6</b>	<b>-23.2</b>	<b>8.1</b>
Severance provisions	-21.1	-22.7	-19.5	-21.2
Risk funds	-12.8	-16.6	-12.8	-18.9
Deferred tax assets	3.8	5.8	5.3	5.3
<b>Total funds</b>	<b>-30.1</b>	<b>-33.4</b>	<b>-27.0</b>	<b>-34.7</b>
<b>Net capital employed</b>	<b>227.6</b>	<b>207.4</b>	<b>-49.7</b>	<b>220.5</b>
Shareholders' equity	128.0	132.7	141.7	147.5
Minorities	0.0	0.0	0.0	0.0
<b>Total equity</b>	<b>128.0</b>	<b>132.7</b>	<b>141.7</b>	<b>147.5</b>
Cash and cash equivalent	54.2	60.3	250.0	0.0
Short-term debt	-152.4	-133.8	-57.4	-1.1
Medium/long-term debt	-1.5	-1.3	-1.2	-71.8
<b>Net financial position</b>	<b>-99.6</b>	<b>-74.8</b>	<b>191.4</b>	<b>-73.0</b>

PF: pro-forma; A: actual; Source: Intesa Sanpaolo Research elaboration on Company data

## Earnings Outlook

Our estimates include organic assumptions and the potential from new services vs. Rai and third parties. Given the long duration of contracts and the stability of the business, we see limited downside risks to our forecasts and high visibility on cash flows.

### Sales assumptions

In 2013PF-18E, we expect Rai Way's core sales to grow at a 1.7% CAGR, based on both the current perimeter and new services.

**Sales organic growth to be driven by inflation and new services vs. Rai and third parties**

Rai Way - Core sales estimates (2013PF-18E)						
EUR M	2013PF	2014E	2015E	2016E	2017E	2018E
Rai core sales	172.1	172.0	176.0	176.5	178.3	180.1
yoy % change		0.0	2.3	0.3	1.0	1.0
Mobile TLC: 4 MNOs	24.7	24.0	23.9	23.7	23.9	24.2
yoy change		-2.8	-0.8	-0.7	1.0	1.0
Others	11.6	11.2	10.7	10.5	10.6	10.6
yoy % change		-3.3	-4.6	-1.6	0.6	0.6
Rai - new services			1.7	5.8	7.6	7.6
Others - new services			0.2	0.8	1.6	3.0
<b>Core sales</b>	<b>208.4</b>	<b>207.2</b>	<b>212.5</b>	<b>217.2</b>	<b>222.0</b>	<b>225.5</b>
yoy % change		-0.5	2.5	2.2	2.2	1.6
Estimated inflation rate (%)		0.2	0.3	1.0	1.0	1.0

PF: pro-forma; E: estimates; Source: Company data and Intesa Sanpaolo Research

### Current perimeter

Our sales estimates are based on the following assumptions:

- Inflation rate at 0.2% in FY14E, 0.3% in FY15E and 1.0% thereafter, in line with Intesa Sanpaolo Macroeconomic Research indications. We highlight that the inflation rate is applied to the inflation-linked contracts for the calendar years n+1;
- Revenues vs. RAI as per the new active service agreement, i.e. EUR 175M annual fee in 2015 (plus an annual EUR 1M for recurring services) increasing in line with the CPI rate thereafter;
- Sales vs. telecom companies broadly stable over the forecast period, as a result of a mixed combination of LTE deployment, inflation, new sites and churn rate;
- Sales vs. other broadcasters declining in 2014E-15E due to the financial troubles of some operators, and growing in line with inflation thereafter;
- Sales vs. other clients broadly stable over the forecast period.

### New services vs. Rai

Our estimates take into account a potential expansion of services required by Rai on an exclusive basis in relation to possible frequency reallocations and HDTV multiplex coverage extension. In terms of timing, we assume they are included from mid-2015E. According to management's indications, these new services should require dedicated capex equal to EUR 20M per year over 2015E-16. Moreover, according to the company's sensitivity, every EUR 1M additional capex should generate an additional EUR 0.2M EBITDA. Our estimates are broadly aligned to this indication considering that we forecast sales for new services vs. Rai at approximately EUR 7.6M on stream (2017E) and almost zero additional costs. We also highlight that transmission services for special events (such as Football Championship and Olympic Games) are not included in the base-contract and therefore should also contribute to generate additional revenues.

### New services vs. third parties

In order to reflect the company's strategy to expand the service offering versus third parties, we incorporate additional revenues vs. third parties in our estimates equal to EUR 3M per year on stream (2018E). This should come from: i) consulting services to foreign regulators and public authorities in rolling-out digital broadcasting networks; and ii) new opportunities in intelligent

connectivity, such as Machine-to-Machine, smart metering, and public safety. We forecast the development of these additional services to require negligible additional capex and opex.

## Cost structure

Given the high percentage of fixed costs and considering that around 20% of opex is subject to inflationary trends (namely external and infragroup leases), Rai Way benefits from a strong operating leverage. This should not be visible in 2014-15 due to a peak in maintenance and other costs, while going forward we forecast the EBITDA margin to stabilise at >50%. In detail, our estimates are based on the following assumptions:

### High operating leverage

- **Personnel costs:** going forward, we forecast a slight increase of labour costs in absolute terms, driven by some minor headcount additions and a post-IPO management incentive scheme. However, in terms of weighting in core sales, they are expected to decrease from 22.1% in 2013PF to 21.2% in 2018E thanks to operating leverage;
- **Maintenance costs:** almost flat over the forecast period, except for some minor non-recurring maintenance on the sites (such as painting);
- **Utilities costs:** broadly flat over the forecast period despite increasing sales, thanks to expected improvements in usage efficiency;
- **Rents** should amount to EUR 14.6M in 2014E, consistently with EUR 11.0M in 9M14PF. This forecast is higher than EUR 11.3M in 2013PF, which benefited from a reversal of costs already accrued in the past in relation to the rent of occasional circuits. Adjusted for this one-off figure, 2013PF rents amounted to EUR 15.2M. Our 2014E projection of EUR 14.6M therefore implies a yoy improvement due to cost optimisation initiatives. Going forward, we expect rents to grow in line with the inflation rate;
- **Infragroup costs** to evolve as per the passive and rental service agreements;

Rai Way – Cost structure (2013PF-18E)						
EUR M	2013PF	2014E	2015E	2016E	2017E	2018E
Personnel costs*	46.1	45.8	46.0	46.7	47.4	47.8
Maintenance	6.3	6.5	6.5	6.7	6.7	6.7
Utilities	16.0	15.9	15.9	15.9	15.9	15.9
Rents and leases	11.3	14.6	14.6	14.7	14.8	14.9
Infra-group services	12.5	12.5	12.5	12.5	12.5	12.5
Other costs	10.6	10.9	10.9	10.9	10.9	10.9
<b>Total opex</b>	<b>102.8</b>	<b>106.2</b>	<b>106.4</b>	<b>107.4</b>	<b>108.1</b>	<b>108.8</b>

\*In 2013 before non-recurring costs; PF: pro-forma; E: estimates; Source: Company data and Intesa Sanpaolo Research

## Bottom line and balance sheet assumptions

In terms of bottom line and balance sheet, the key assumptions of our model are:

### Low financial leverage

- **Capex plan** driven by maintenance capex at approx. EUR 25M per year and additional capex at the service of the development of new services as described above;

Rai Way – Capex assumptions (2013PF-18E)						
EUR M	2013PF	2014E	2015E	2016E	2017E	2018E
Maintenance capex		21.5	25.0	25.0	25.0	25.0
as % of organic sales		10.4	11.9	11.9	11.7	11.6
New services		0.0	20.0	20.0	0.0	0.0
<b>Total capex</b>	<b>23.0</b>	<b>21.5</b>	<b>45.0</b>	<b>45.0</b>	<b>25.0</b>	<b>25.0</b>
as % of total sales	11.0	10.4	21.1	20.6	11.2	11.0

Source: PF: Pro Forma; E: estimates; Source: Company data and Intesa Sanpaolo Research

- **D&A** to decrease along the forecast horizon, despite the capex peak in 2015E-17E, as a result of the new accounting policy and consequent alignment of expected useful life for fixed assets to market benchmarks;
- **Tax rate** at 35% over the forecast period;

- **Financial charges** to decline as a result of the recent new financing and a decreasing indebtedness. Last October Rai Way completed a refinancing of its infragroup loan. The new financing consisted of two five-year committed credit facilities: i) a EUR 120M fixed-term line, with amortising reimbursement (eight semi-annual instalments from 31 March 2016) and a cost of 100bps over Euribor; and ii) a EUR 50M revolving line, with a bullet reimbursement at maturity and a cost of 120 bps over Euribor;
- **Working capital** at 4.7% of sales in 2014E, broadly in line with 5.2% in 9M14PF. Going forward, we forecast the working capital/core sales ratio to decrease to approx. 3% in 2015E-16E, mostly as a result of the expected capex peak, and to gradually return to approx. 5% by 2017E;
- **Dividend distribution:** 100% ordinary dividend pay-out from 2014E onwards. As at 30 September 2014, the company has around EUR 60M distributable reserves, which could represent further potential dividend firepower, in our view, currently not included in our estimates.

Overall, we expect Rai Way's net profit to grow at a 9.8% 2013PF-18E CAGR. After accounting for both maintenance and development capex, we estimate an EBITDA to free cash flow conversion of approx. 40% in 2014E-15E (capex peak) and above 50% thereafter.

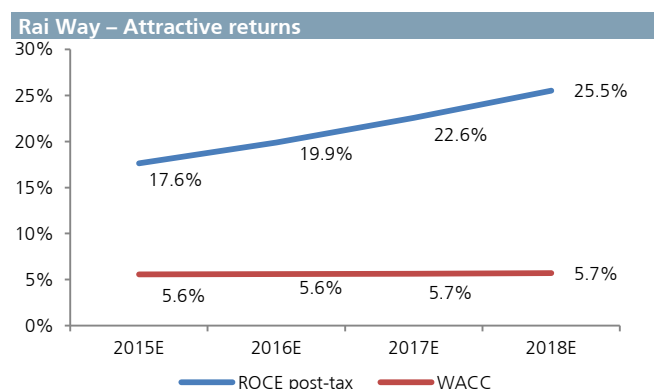
### Key performance indicators

Its high profitability (EBIT margin from 25.6% in 2014E to 33.7% in 2018E) translates into a return on average capital employed gradually improving from 17.6% in 2015E to 25.5% in 2018E, well above its 5.8% WACC. Even assuming a 100 dividend pay-out, we expect the net debt/EBITDA ratio to remain below 0.5x, thus leaving financial flexibility for both extraordinary dividends and potential external growth opportunities, albeit strategy is likely to remain focused on organic growth.

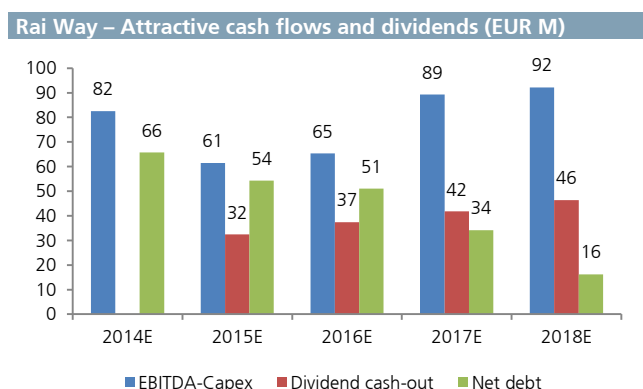
Expected attractive cash flows, returns and dividends

Rai Way – Key performance indicators (2014E-18E)					
%	2014E	2015E	2016E	2017E	2018E
EBITDA-Total capex (EUR M)	82	61	65	89	92
EBITDA-Maintenance capex (EUR M)	82	81	85	89	92
EBITDA to free cash flow conversion	NA	42	38	52	55
NFP/EBITDA (x)	0.6	0.5	0.5	0.3	0.1
NFP/Equity (x)	0.4	0.3	0.3	0.2	0.1
Dividend payout	100	100	100	100	100
ROE	NA	24.1	26.1	28.2	29.2
ROCE pre-tax	NA	27.1	30.6	34.7	39.2
ROCE post-tax	NA	17.6	19.9	22.6	25.5

NA: not available; Source: Intesa Sanpaolo Research estimates



Source: Intesa Sanpaolo Research estimates



Source: Intesa Sanpaolo Research estimates

## Financial Statements

Rai Way – Income statement (2011A-18E)									
EUR M	2011	2012	2013	2013PF	2014E	2015E	2016E	2017E	2018E
<b>Core revenues</b>	<b>130.8</b>	<b>118.7</b>	<b>118.3</b>	<b>208.4</b>	<b>207.2</b>	<b>212.5</b>	<b>217.2</b>	<b>222.0</b>	<b>225.5</b>
yoy % change		-9.2	-0.3		-0.5	2.5	2.2	2.2	1.6
Other revenues	5.5	1.7	2.5	2.5	3.0	0.5	0.5	0.5	0.5
<b>Total revenues</b>	<b>136.3</b>	<b>120.4</b>	<b>120.8</b>	<b>210.9</b>	<b>210.2</b>	<b>213.0</b>	<b>217.7</b>	<b>222.5</b>	<b>226.0</b>
yoy % change		-11.6	0.4		-0.3	1.3	2.2	2.2	1.6
Purchase of consumables	-2.2	-2.4	-1.9	-1.9	-1.7	-1.7	-1.7	-1.8	-1.8
as % of sales	1.7	2.0	1.6	0.9	0.8	0.8	0.8	0.8	0.8
Service costs	-56.7	-58.2	-55.2	-51.8	-55.5	-55.5	-55.7	-55.8	-55.9
as % of sales	43.4	49.0	46.6	24.9	26.8	26.1	25.6	25.1	24.8
Personnel expenses	-47.2	-47.6	-46.1	-46.1	-45.8	-46.0	-46.7	-47.4	-47.8
as % of sales	36.1	40.1	39.0	22.1	22.1	21.7	21.5	21.3	21.2
Other costs	-3.5	-5.4	-3.0	-3.0	-3.2	-3.2	-3.2	-3.2	-3.2
as % of sales	2.6	4.5	2.5	1.4	1.6	1.5	1.5	1.5	1.4
<b>Total operating costs</b>	<b>-109.6</b>	<b>-113.6</b>	<b>-106.2</b>	<b>-102.8</b>	<b>-106.2</b>	<b>-106.4</b>	<b>-107.4</b>	<b>-108.1</b>	<b>-108.8</b>
as % of sales	83.8	95.7	89.7	49.3	51.2	50.1	49.4	48.7	48.2
<b>EBITDA before non recurring items</b>	<b>26.7</b>	<b>6.8</b>	<b>14.6</b>	<b>108.0</b>	<b>104.0</b>	<b>106.5</b>	<b>110.4</b>	<b>114.4</b>	<b>117.2</b>
EBITDA margin before non recurring items (%)	20.4	5.7	12.4	51.8	50.2	50.1	50.8	51.5	52.0
yoy % change		-74.5	115.6		-3.7	2.4	3.6	3.6	2.5
Non recurring items	0.0	0.0	-3.6	-3.6	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>26.7</b>	<b>6.8</b>	<b>11.0</b>	<b>104.4</b>	<b>104.0</b>	<b>106.5</b>	<b>110.4</b>	<b>114.4</b>	<b>117.2</b>
EBITDA margin (%)	20.4	5.7	9.3	50.1	50.2	50.1	50.8	51.5	52.0
yoy % change		-74.5	62.6		-0.4	2.4	3.6	3.6	2.5
Depreciation and amortisation	-0.7	-0.3	-1.5	-52.2	-50.5	-47.6	-44.8	-41.9	-40.8
Provisions	-2.6	-3.8	-1.2	-1.2	-0.5	-0.5	-0.5	-0.5	-0.5
<b>EBIT</b>	<b>23.3</b>	<b>2.7</b>	<b>8.4</b>	<b>51.1</b>	<b>53.0</b>	<b>58.5</b>	<b>65.1</b>	<b>71.9</b>	<b>75.9</b>
EBIT margin (%)	17.9	2.2	7.1	24.5	25.6	27.5	30.0	32.4	33.7
yoy % change		NM	NM		3.7	10.3	11.4	10.5	5.5
Net financial items	5.2	6.1	6.7	-3.1	-2.7	-0.9	-0.8	-0.6	-0.3
<b>Pre-tax profit</b>	<b>28.6</b>	<b>8.7</b>	<b>15.1</b>	<b>48.0</b>	<b>50.3</b>	<b>57.6</b>	<b>64.3</b>	<b>71.4</b>	<b>75.6</b>
as % of sales	21.9	7.3	12.7	23.0	24.3	27.1	29.6	32.1	33.5
yoy % change		-69.5	73.0		4.8	14.6	11.7	10.9	5.9
Taxes	-12.0	-2.9	-6.6	-17.2	-17.8	-20.2	-22.5	-25.0	-26.5
Tax rate (%)	42.0	33.0	43.9	35.8	35.4	35.0	35.0	35.0	35.0
<b>Net profit</b>	<b>16.6</b>	<b>5.8</b>	<b>8.5</b>	<b>30.8</b>	<b>32.5</b>	<b>37.4</b>	<b>41.8</b>	<b>46.4</b>	<b>49.1</b>
as % of sales		4.9	7.1	14.8	15.7	17.6	19.2	20.9	21.8
yoy % change		-64.8	44.8		5.4	15.3	11.7	10.9	5.9

NM: not meaningful; PF: pro-forma; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Rai Way – Balance sheet statement (2011A-18E)									
EUR M	2011	2012	2013	9M14PF	2014E	2015E	2016E	2017E	2018E
Tangible assets	0.4	0.4	0.3	246.1	242.8	240.3	240.5	223.7	207.9
Intangible assets	0.0	0.0	0.0	0.6	0.6	0.6	0.6	0.6	0.6
Financial assets	191.9	217.9	0.2	0.3	0.3	0.3	0.3	0.3	0.3
<b>Fixed assets</b>	<b>192.3</b>	<b>218.2</b>	<b>0.5</b>	<b>247.1</b>	<b>243.7</b>	<b>241.2</b>	<b>241.4</b>	<b>224.6</b>	<b>208.8</b>
Inventories	62.2	34.7	21.1	0.9	0.7	0.7	0.7	0.7	0.8
Commercial receivables	105.5	73.9	50.4	70.7	55.8	57.3	58.5	59.8	60.8
Commercial payables	-85.4	-79.0	-83.0	-39.8	-33.0	-38.1	-38.2	-34.7	-34.7
<b>Organic working capital</b>	<b>82.4</b>	<b>29.6</b>	<b>-11.5</b>	<b>31.8</b>	<b>23.5</b>	<b>19.9</b>	<b>21.1</b>	<b>25.9</b>	<b>26.8</b>
Other current assets/liabilities	-17.0	-7.0	-11.7	-23.7	-13.7	-14.0	-14.3	-14.6	-14.9
<b>Net working capital</b>	<b>65.4</b>	<b>22.6</b>	<b>-23.2</b>	<b>8.1</b>	<b>9.8</b>	<b>5.9</b>	<b>6.8</b>	<b>11.3</b>	<b>11.9</b>
Severance provisions	-21.1	-22.7	-19.5	-21.2	-21.2	-21.2	-21.2	-21.2	-21.2
Risk funds	-12.8	-16.6	-12.8	-18.9	-18.9	-18.9	-18.9	-18.9	-18.9
Deferred tax assets	3.8	5.8	5.3	5.3	5.3	5.3	5.3	5.3	5.3
<b>Total funds</b>	<b>-30.1</b>	<b>-33.4</b>	<b>-27.0</b>	<b>-34.7</b>	<b>-34.7</b>	<b>-34.7</b>	<b>-34.7</b>	<b>-34.7</b>	<b>-34.7</b>
<b>Net capital employed</b>	<b>227.6</b>	<b>207.4</b>	<b>-49.7</b>	<b>220.5</b>	<b>218.8</b>	<b>212.3</b>	<b>213.5</b>	<b>201.1</b>	<b>186.0</b>
Shareholders' equity	128.0	132.7	141.7	147.5	153.1	158.0	162.4	167.0	169.7
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total equity</b>	<b>128.0</b>	<b>132.7</b>	<b>141.7</b>	<b>147.5</b>	<b>153.1</b>	<b>158.0</b>	<b>162.4</b>	<b>167.0</b>	<b>169.7</b>
Cash and cash equivalent	54.2	60.3	250.0	0.0	14.3	25.7	15.6	5.9	2.1
Short term debt	-152.4	-133.8	-57.4	-71.8	0.0	-13.3	-26.7	-26.7	-18.3
Medium/long term debt	-1.5	-1.3	-1.2	-1.1	-80.0	-66.7	-40.0	-13.3	0.0
<b>Net Financial Position</b>	<b>-99.6</b>	<b>-74.8</b>	<b>191.4</b>	<b>-73.0</b>	<b>-65.7</b>	<b>-54.3</b>	<b>-51.1</b>	<b>-34.1</b>	<b>-16.2</b>

PF: pro-forma; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Rai Way – Cash flow statement (2011A-18E)									
EUR M	2011	2012	2013	9M14PF	4Q14E	2015E	2016E	2017E	2018E
EBITDA		6.8	11.0		23.6	106.5	110.4	114.4	117.2
Taxes		-13.8	-4.5		-3.3	-20.2	-22.5	-25.0	-26.5
Change in net working capital		20.2	24.9		-1.7	4.0	-0.9	-4.5	-0.7
Change in cash funds		-0.3	-3.7		0.0	-0.5	-0.5	-0.5	-0.5
<b>Operating cash flow</b>		<b>12.9</b>	<b>27.7</b>		<b>18.6</b>	<b>89.8</b>	<b>86.5</b>	<b>84.4</b>	<b>89.6</b>
Capex (Financial lease cash-out in 2011-2013)	-88.2	-75.8	-23.0	-11.4	-10.1	-25.0	-25.0	-25.0	-25.0
Development capex		NA	NA		0.0	-20.0	-20.0	0.0	0.0
Financial lease cash-in in 2011-2013		69.8	64.2		0.0	0.0	0.0	0.0	0.0
<b>Operating free cash flow</b>		<b>6.9</b>	<b>68.9</b>		<b>8.5</b>	<b>44.8</b>	<b>41.4</b>	<b>59.4</b>	<b>64.6</b>
Dividends	-20.7	0.0	0.0		0.0	-32.5	-37.4	-41.8	-46.4
Capital increase		0.0	0.0		0.0	0.0	0.0	0.0	0.0
Other cash items		11.2	190.0		0.0	0.0	0.0	0.0	0.0
<b>Free cash flow</b>		<b>18.1</b>	<b>258.9</b>		<b>8.5</b>	<b>12.3</b>	<b>4.0</b>	<b>17.6</b>	<b>18.2</b>
Net financial items paid/received		6.8	7.2		-1.3	-0.9	-0.8	-0.6	-0.3
<b>Change in net financial position</b>		<b>24.9</b>	<b>266.1</b>		<b>7.2</b>	<b>11.5</b>	<b>3.2</b>	<b>17.0</b>	<b>17.9</b>
<b>Net Financial Position - year end</b>	<b>-99.6</b>	<b>-74.7</b>	<b>191.4</b>	<b>-73.0</b>	<b>-65.7</b>	<b>-54.3</b>	<b>-51.1</b>	<b>-34.1</b>	<b>-16.2</b>

NA: not available; PF: pro-forma; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Rai Way - Key data							
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code		
BUY	Ord 3.88	Ord 3.21	Telecommunication Services	34.9	RWAY.MI		
Values per share (EUR)			2012A	2013A	2014E	2015E	2016E
No. ordinary shares (M)			0.00	0.00	272.0	272.0	272.0
No. NC saving/preferred shares (M)			0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)			0.00	0.00	272.0	272.0	272.0
Market cap			NA	NA	873.12	873.12	873.12
Adj. EPS			0	0.11	0.12	0.14	0.15
CFPS			0	0	0	0.33	0.32
BVPS			0	0	0.56	0.58	0.60
Dividend ord			0	0	0.12	0.14	0.15
Dividend SAV Nc			0	NA	NA	NA	NA
Income statement (EUR M)			2012A	2013A	2014E	2015E	2016E
Sales			0.00	208.4	207.2	212.5	217.2
EBITDA			0.00	104.4	104.0	106.5	110.4
EBIT			0.00	51.09	52.98	58.45	65.11
Pre-tax income			0.00	47.97	50.28	57.59	64.33
Net income			0.00	30.81	32.48	37.43	41.81
Adj. net income			0.00	30.81	32.48	37.43	41.81
Cash flow (EUR M)			2012A	2013A	2014E	2015E	2016E
Net income before minorities			0	30.8	32.5	37.4	41.8
Depreciation and provisions			0	53.3	51.0	48.1	45.3
Others/Uses of funds			0	0	0	0	0
Change in working capital			0	0	0	4.0	-0.9
Operating cash flow			0	0	0	89.5	86.2
Capital expenditure			0	0	0	-45.0	-45.0
Financial investments			0	0	0	0	0
Acquisitions and disposals			0	0	0	0	0
Free cash flow			0	0	0	44.4	41.1
Dividends			0	0	0	-32.5	-37.4
Equity changes & Other non-operating items			0	0	0	-0.5	-0.5
Net cash flow			0	0	0	11.5	3.2
Balance sheet (EUR M)			2012A	2013A	2014E	2015E	2016E
Net capital employed			0	0	218.8	212.3	213.5
of which associates			0	0	0	0	0
Net debt/-cash			0	0	65.7	54.3	51.1
Minorities			0	0	0	0	0
Net equity			0	0	153.1	158.0	162.4
Minorities value			0	0	0	0	0
Enterprise value			NA	NA	960.0	948.6	945.4
Stock market ratios (x)			2012A	2013A	2014E	2015E	2016E
Adj. P/E			NA	NA	26.9	23.3	20.9
P/CFPS			NA	NA	NM	9.8	10.2
P/BVPS			NA	NA	5.7	5.5	5.4
Payout (%)			0	0	100	100	100
Dividend yield (% ord)			NA	NA	3.7	4.3	4.8
FCF yield (%)			NA	NA	0	5.1	4.7
EV/sales			NA	NA	4.6	4.5	4.4
EV/EBITDA			NA	NA	9.2	8.9	8.6
EV/EBIT			NA	NA	18.1	16.2	14.5
EV/CE			NA	NA	4.4	4.5	4.4
D/EBITDA			NM	0.00	0.63	0.51	0.46
D/EBIT			NM	0.00	1.2	0.93	0.78
Profitability & financial ratios (%)			2012A	2013A	2014E	2015E	2016E
EBITDA margin			NM	50.1	50.2	50.1	50.8
EBIT margin			NM	24.5	25.6	27.5	30.0
Tax rate			NM	35.8	35.4	35.0	35.0
Net income margin			NM	14.8	15.7	17.6	19.2
ROCE			NM	NM	24.2	27.5	30.5
ROE			NM	NM	42.4	24.1	26.1
Interest cover			NM	16.3	19.6	67.9	83.7
Debt/equity ratio			NM	NM	43.0	34.4	31.5
Growth (%)			2013A	2014E	2015E	2016E	
Sales			NA	-0.5	2.5	2.2	
EBITDA			NA	-0.4	2.4	3.6	
EBIT			NA	3.7	10.3	11.4	
Pre-tax income			NA	4.8	14.6	11.7	
Net income			NA	5.4	15.3	11.7	
Adj. net income			NA	5.4	15.3	11.7	

NM: not meaningful; NA: not available; A: actual; E: estimates; Pro-forma 2012 data not available; Pro-forma balance sheet data 2013 and 2014 not available. Source: Company data and Intesa Sanpaolo Research

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### Coverage policy and frequency of research reports

The list of companies covered by the Research Department is available upon request. Intesa Sanpaolo SpA aims to provide continuous coverage of the companies on the list in conjunction with the timing of periodical accounting reports and any exceptional event that affects the issuer's operations. The companies for which Banca IMI acts as sponsor or specialist or other regulated roles are covered in compliance with regulations issued by regulatory bodies with jurisdiction. In the case of a short note, we advise investors to refer to the most recent company report published by Intesa Sanpaolo SpA's Research Department for a full analysis of valuation methodology, earnings assumptions, risks and the historical of recommendation and target price. In the Equity Daily note the Research Department reconfirms the previously published ratings and target prices on the covered companies (or alternatively such ratings and target prices may be placed Under Review). Research is available on Banca IMI's web site ([www.bancaimi.com](http://www.bancaimi.com)) or by contacting your sales representative.

### Valuation methodology (long-term horizon: 12M)

The Intesa Sanpaolo SpA Equity Research Department values the companies for which it assigns recommendations as follows: We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods

alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (ie, holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

**Equity rating key: (long-term horizon: 12M)**

In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, which is not related to market performance and whose key is reported below:

Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances, including when Intesa Sanpaolo is acting in an advisory capacity in a merger or strategic transaction involving the company.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

**Historical recommendations and target price trends (long-term horizon: 12M)**

Target price and market price trend (-1Y)	Historical recommendations and target price trend (-1Y)
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**INITIATION OF COVERAGE**

**INITIATION OF COVERAGE**

**Equity rating allocations (long-term horizon: 12M)**

Intesa Sanpaolo Research Rating Distribution (at November 2014)					
Number of companies considered: 95	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage %	40	33	27	0	0
of which Intesa Sanpaolo's Clients % (*)	76	68	54	0	0

(\*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category

### Valuation methodology (short-term horizon: 3M)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

### Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

### Company specific disclosures

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