

16 June 2006

Mondadori

Reuters: **MNDI.MI** Bloomberg: **MN IM** Exchange: **MIL** Ticker: **MNDI**

Going to France

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Emap France @E560m, Mondadori '07 EPS up 23.9%

On 12 June, MN announced the exclusive negotiation with Emap for the acquisition of Emap France (EF). In the note published on Emap on 28 Feb '06, we valued EF at £400m–E588m (10x EBITDA). According to an article published by FT on 13 June, Mondadori is understood to have to put in a binding offer of E560m (£380m). At Euro 560m, EF would be acquired on 2006/07E EV/EBITDA multiple of 9.4x and 15.4x P/E. On our '07E MN numbers, the acquisition of EF @E560m would increase MN's EPS by 23.9%, deriving a P/E of 10.5x vs. 13.1x currently.

EF 3rd player in France, with the highest profitability

EF is the third largest player in the French magazine market calculated on circulation, with a market share of 12% and a portfolio of 43 magazines. On our forecast this business will generate revenues of Euro 461.4m (£313.7m), Euro55.9m (£38m) EBIT in the year to March 2007.

Even if EF will be acquire, no changes in DVD policy: 2006E yield 5.8%

MN management said that even if they are successful in acquiring EF, there is unlikely to be a drastic change in MN dividend policy. MN currently offers an attractive '06 dividend yield of 5.8%. At the current share price and on a stand alone basis, the stock now trades on a 2006E EV/EBITDA of 7.2x and a P/E of 14.2x and on a 2007E EV/EBITDA of 6.5x and a P/E of 13.1x.

Valuation & risks

On a stand-alone basis, our DCF implies a TP of E8.8 per share, with an upside potential of 28.8% (WACC of 8.24%, equity risk premium of 4%, beta 1.0 and g=1.5%). On our 2007E numbers, the acquisition of Emap at Euro 560m should enhance MN's EPS by 23.9%. Our DCF implies a fair value target price for Mondadori of Euro 10.3 per share, with an upside potential of 50.6% (WACC of 7.18%, an equity risk premium of 4%, beta 1.0 and g=1.5%). Risks: anemic recovery in adspend, increased competition in the magazine market, and future acquisitions made at value-destructive prices.

Forecasts and ratios

Year End Dec 31	2004A	2005A	2006E	2007E	2008E
Revenue (EURm)	1,650	1,657	1,706	1,770	1,821
EBITDA (EURm)	236	224	229	249	259
DB EPS (EUR)	0.44	0.47	0.48	0.52	0.55
DB EPS growth (%)	0.6	8.2	1.3	9.1	4.6
P/E (DB EPS) (x)	17.7	17.2	14.2	13.1	12.5
EV/EBITDA (x)	7.2	8.3	7.2	6.5	6.1
DPS (EUR)	0.35	0.60	0.40	0.43	0.45
Yield (%)	4.5	7.4	5.8	6.3	6.6

Source: Deutsche Bank estimates, company data

Deutsche Bank AG/London

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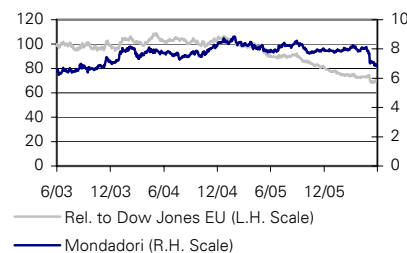
DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

Company Announcement

Buy

Price at 15 Jun 2006 (EUR)	6.85
Price Target (EUR)	8.80
52-week range (EUR)	8.56 - 6.83

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-12.8	-14.2	-12.5
Dow Jones EURO STOXX Price	-6.8	-8.8	

Stock data

Market cap (EUR)(m)	1,777.1
Shares outstanding (m)	242
Free float (%)	50
Dow Jones EURO STOXX Price	328.3

Key indicators

ROE (%)	19.7
ROA (%)	9.0
Net debt/equity (x)	-1.6
Book value/share (EUR)	2.2
Price/book (x)	3.1
Net interest cover (x)	33.7
EBIT margin (%)	11.3

Model updated: 16 June 2006

Running the Numbers**Europe****Italy****Publishing****Mondadori**

Reuters: MNDI.MI

Bloomberg: MN IM

Buy

Price as of 15 June EUR 6.91

Target price EUR 8.80

Company website

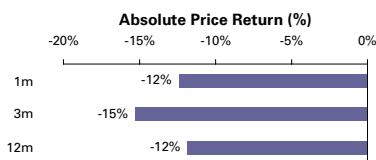
http://www.mondadori.com

Company description

Mondadori (Arnoldo) Editore S.p.A. is a publisher and printer in Italy. The Company's publications include books, magazines, newspapers, advertising, business information, graphics, direct marketing and on-line information services. The Company generates 80% of its business in Italy.

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52-week Range: EUR 6.83 - 8.56

Market Cap (m) EUR 1,792

USD 2,262

Company identifiers

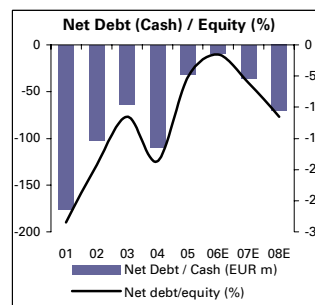
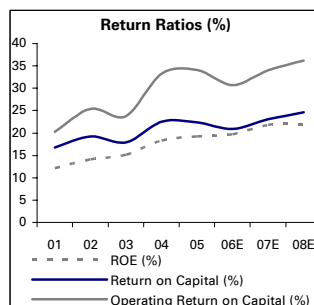
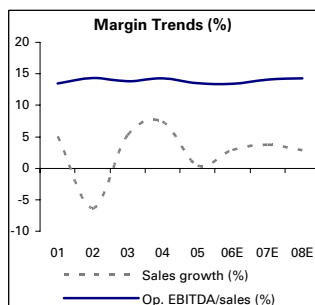
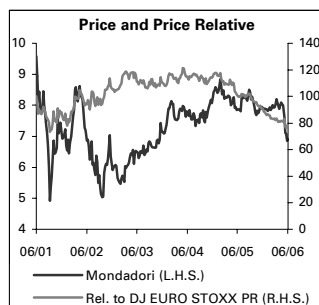
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Year Ending 31 December	2001	2002	2003	2004	2005	2006E	2007E	2008E
SUMMARY								
Headline EPS (EUR)	0.33	0.42	0.44	0.44	0.47	0.48	0.52	0.55
P/E ratio Headline (x)	25.9	16.2	14.6	17.7	17.2	14.4	13.2	12.6
Headline EPS growth (%)	-0.9	27.4	4.8	0.6	8.2	1.3	9.1	4.6
EPS FD (EUR)	0.29	0.32	0.34	0.43	0.47	0.48	0.52	0.55
P/E ratio FD (x)	28.7	20.8	18.8	18.0	17.2	14.4	13.2	12.6
Operating CFPS (EUR)	0.72	0.51	0.60	0.71	0.52	0.64	0.62	0.68
Free CFPS (EUR)	0.44	0.36	0.40	0.45	0.20	0.51	0.51	0.56
P/CFPS (x)	11.7	13.1	10.6	10.9	15.7	10.8	11.1	10.2
DPS (EUR)	1.25	0.51	0.30	0.35	0.60	0.40	0.43	0.45
Dividend Yield (%)	14.7	7.5	4.7	4.5	7.4	5.8	6.2	6.5
BV/Share (EUR)	2.38	2.05	2.13	2.25	2.35	2.19	2.28	2.36
Price/BV (x)	2.99	2.87	3.34	3.76	3.35	3.15	3.03	2.92
Weighted average shares (m)	259	259	259	259	259	259	259	259
Average market cap (EUR m)	2,192	1,750	1,657	2,015	2,116	1,792	1,792	1,792
Enterprise value (EUR m)	1,880	1,522	1,410	1,689	1,865	1,662	1,635	1,600
EV/Sales	1.21	1.04	0.92	1.02	1.13	0.97	0.92	0.88
EV/EBITDA	9.0	7.3	6.6	7.2	8.3	7.3	6.6	6.2
EV/EBIT	12.3	10.2	9.4	9.8	10.0	8.7	7.7	7.2
EV/Operating Capital	5.2	4.3	4.1	5.6	4.6	4.3	4.3	4.3
INCOME STATEMENT (EUR m)								
Sales revenue	1,558	1,459	1,536	1,650	1,657	1,706	1,770	1,821
Operating EBITDA	210	209	212	236	224	229	249	259
Depreciation	33	36	38	34	36	37	38	38
Amortisation	23	23	23	28	0	0	0	0
EBIT	153	149	151	173	187	192	211	221
Net interest income(expense)	1	-5	-1	-9	-6	-6	-5	-5
Associates/affiliates	-10	-4	3	2	0	0	0	0
Investment/other income(expense)	0	0	0	0	0	0	0	0
Exceptionals/extraordinaries	4	-8	-3	3	0	0	0	0
Income tax expense	74	52	68	65	65	69	78	82
Minorities/preference dividends	0	0	1	1	1	1	1	1
Net income	74	81	82	104	115	116	127	133
CASH FLOW (EUR m)								
Cash flow from operations	188	133	157	184	135	165	161	176
Movement in net working capital	37	-27	7	-1	-20	7	-9	0
Capex	-77	-41	-53	-67	-82	-33	-30	-30
Free cash flow	114	93	104	117	53	133	131	146
Other investing activities	-52	0	-80	0	-40	0	0	0
Equity raised(bought back)	0	0	0	0	0	0	0	0
Dividends paid	-54	-161	-65	-78	-91	-156	-104	-112
Net inc(dec) in borrowings	0	0	0	0	0	0	0	0
Other financing cash flows	1	-5	3	6	0	0	0	0
Total cash flows from financing	-52	-166	-62	-72	-91	-156	-104	-112
Net cash flow	6	-74	-38	46	-78	-23	27	34
Movement in net debt(cash)	-6	74	38	-46	78	23	-27	-34
BALANCE SHEET (EUR m)								
Cash and other liquid assets	550	493	623	634	591	579	593	611
Tangible fixed assets	211	203	200	184	220	211	203	195
Goodwill	186	164	158	254	254	254	254	254
Other intangible assets	0	0	0	-120	-70	-65	-65	-65
Associates/investments	138	126	193	228	228	228	228	228
Other assets	618	636	670	674	700	691	702	702
Total assets	1,702	1,622	1,844	1,854	1,923	1,897	1,915	1,925
Interest bearing debt	374	391	559	524	559	570	557	540
Other liabilities	711	699	729	742	752	755	763	768
Total liabilities	1,085	1,090	1,289	1,267	1,312	1,325	1,320	1,309
Shareholders' equity	617	532	552	584	608	569	592	613
Minorities	1	0	3	3	3	3	3	3
Total shareholders' equity	617	532	555	588	611	572	595	616
Net working capital	64	91	84	84	105	98	107	107
Net debt(cash)	-176	-102	-64	-110	-32	-9	-36	-71
Capital	442	430	491	478	580	563	559	545
RATIO ANALYSIS								
Sales growth (%)	5.1	-6.3	5.3	7.4	0.4	2.9	3.8	2.9
Op. EBITDA/sales (%)	13.5	14.3	13.8	14.3	13.5	13.4	14.1	14.2
EBIT/sales (%)	9.8	10.2	9.8	10.5	11.3	11.3	11.9	12.1
Payout ratio (%)	437.1	161.6	94.8	87.2	135.7	89.3	88.0	88.1
ROE (%)	12.2	14.1	15.1	18.3	19.2	19.7	21.8	22.0
Return on Capital (%)	16.8	19.2	18.0	22.6	22.4	21.0	23.2	24.6
Operating Return on Capital (%)	20.3	25.4	23.8	33.3	34.1	30.7	34.0	36.2
Capex/sales (%)	4.9	2.8	3.4	4.1	4.9	1.9	1.7	1.6
Capex/depreciation (x)	2.3	1.1	1.4	1.9	2.3	0.9	0.8	0.8
Net debt/equity (%)	-28.5	-19.2	-11.5	-18.7	-5.2	-1.6	-6.1	-11.5
Net interest cover (x)	nm	33.2	136.9	20.3	31.2	33.7	42.3	42.5



Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

On 28 February 2006 Emap announced its intention to sell Emap France (EF). On our forecasts this business will generate revenues of Euro 461.4m (£313.7m), Euro55.9m (£38m) EBIT in the year to March 2007. In the note we published on Emap on 28 February 2006, we valued it at £400m – Euro 588m (10x EBITDA). EF is the third largest player in the French magazine market based on circulation, with a market share of 12% and a portfolio of 43 magazines.

On Monday 12 June, Mondadori (MN) announced the initiation of exclusive negotiations with Emap Plc for acquiring the entire share capital of EF. According to an article published by the FT on 13 June, Mondadori, which put in an initial indicative bid of around Euro 632m - £430m, is understood to have to put in a binding offer of Euro 551-566m (£375-385m). At Euro 560m (£380), the exit multiple for EF would be 2006/07E EV/Sales 1.21x, 9.4x EV/EBITDA and 15.4x P/E.

Valuation

We value Mondadori using three different methodologies: 1) **On a stand-alone basis:** our DCF implies a TP of E8.8 per share, with an upside potential of 28.8% (WACC of 8.24%, which is equal to its cost of equity, due to the positive cash position of Euro 9m at the end of '06, equity risk premium of 4%, beta 1.0 and g=1.5%). From our SOP, based on EV/EBITDA and EV/EBITA peer multiples, we derive a price per share of E9.2 (potential upside 34.1%). 2) **On a leverage basis:** starting from '06 we have used a capital structure for MN with a Net Debt/EBITDA ratio of 3x and with a Net Debt/Enterprise Value ratio of 27.8%. In this case, our DCF implies a fair value target price for Mondadori of Euro 10.8 per share, with upside potential of 58.2% (WACC of 6.86%, an equity risk premium of 4%, a beta 1.0 and g=1.5%). 3) **Mondadori fully consolidating EF:** given Mondadori's limited cost of debt (around 3.2% per year), the Emap acquisition would be clearly earning enhancing. On our 2007E numbers, the acquisition of Emap at Euro 560m should increase MN's EPS by 23.9% and by 21.7% if acquired at Euro 700m. If Emap France were to be acquired at Euro 560m, our DCF implies a fair value target price for Mondadori of Euro 10.3 per share, with an upside potential of 50.6% (WACC of 7.18%, an equity risk premium of 4%, beta 1.0 and g=1.5%).

In consolidating Emap France in the Mondadori numbers, we have not included any potential revenue or cost synergies. However, we estimate if the paper & printing is brought inhouse this could generate potential cost savings of around E16m per year, which means an actualized value of Euro 143.6m, Euro 0.56 per share.

At the current share price and on a stand alone basis, the stock now trades on a 2006E EV/EBITDA of 7.2x and a P/E of 14.2x and on a 2007E EV/EBITDA of 6.5x and a P/E of 13.1x. MN management said that even if they are successful in acquiring EF, there is unlikely to be a drastic change in Mondadori's dividend policy. MN currently offers an attractive '06 dividend yield of 5.8%.

Risks

The main risks are a disappointment in the recovery of the ad market, greater competition in the magazine market, a disappointment in the add-on sales and future acquisitions made at value destructive prices.

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French acquisition

Emap France (EF)

Emap France is the third largest player in the French magazine market calculated on circulation, with a market share of 12%, after Lagardere HFM with 22% and Prisma Press (Bertelsmann) with 13%. Emap France currently has a portfolio of 43 magazines.

Figure 1: French magazine: evolution of the circulation market in value (%)

	2003	2004	2005
Hachette	15.0%	15.6%	16.0%
Prisma	12.2%	12.2%	12.3%
Emap (inc. Excelsior)	12.8%	12.8%	12.1%
Socpresse	3.6%	3.1%	3.1%
Others	56.4%	56.3%	56.5%

Source: ODJ

Figure 2: French magazine: evolution of advertising market share %

	2004	2005
Emap	11.2%	10.0%
Hachette	18.5%	17.2%
Prisma	10.0%	10.6%
Socpresse	16.7%	18.4%
Others	43.6%	43.8%

Source: TNS Media Intelligence

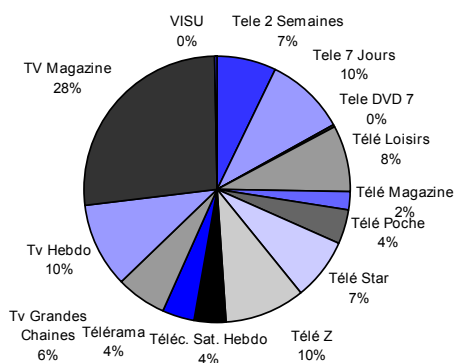
Emap entered the French market in 1990 in alliance with Bayard Presse publishing the jointly owned hunting magazine, *Le Chasseur Francais*. Its involvement in French magazines expanded in 1994/1995 with the acquisition of Groupe Hersant (28 magazine titles) and Edition Mondiales (10 titles). Emap further increased its share in the French magazine market through acquiring: CLT TV titles in 1996, *Pleine Vie* in 1998, the 50% of Media Nature which did not own in 1999, and Excelsior in 2003.

Emap's strategy in France has traditionally been to grow its portfolio through acquisitions. Since 1994 Emap has invested around £400m on acquisitions in France. However, as the French consumer magazine began to liberalize in 2004, the focus shifted to new title launches.

In 2004 there was a radical change in the French magazine market, with advertising of consumer magazines allowed on TV. The decree of 8 October 2003 gave press groups the right to advertise on free-TV and thematic channels from 1 January 2004.

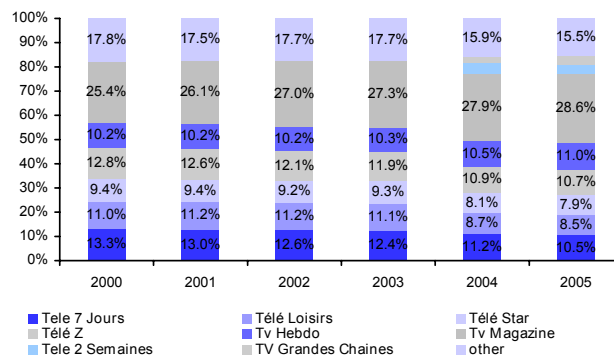
Following this deregulation, Prisma Presse began an aggressive TV campaign to enter the TV listings magazine market, breaking the oligopoly of SocPress, HFM, EMAP and EPM TeleZ.

Figure 3: France TV listing titles' market share in 2005



Source: OJD

Figure 4: French TV listing titles' market share evolution 2000-2005



Source: OJD

At the beginning of 2004 Prisma Presse launched an aggressive initiative in Germany: two bi-weekly guides listing two weeks of television programming: 1) Tele 2 Semaines in January 2004, 2) TV Grandes Chaines in April 2004, listing the programming of the major channels exclusively. These two titles have been extremely successful, especially as they are sold at the same price as the weekly TV programming guides. In FY05, the two titles together reached a market share in the TV segment of 7.2% (after a 6.9% obtained in FY04), at the expense of all the other players.

The net impact was more severe for Emap due its heavy exposure in the TV listing segment both in term of sales (in 2003 equal to 39% of group revenues) and EBIT.

Figure 5: Emap France: sales breakdown by markets (%)

	2003	2004	2005
TV Listing	39%	36%	32%
Women's	17%	20%	20%
Special interest	13%	12%	13%
Automotive	13%	12%	14%
Seniors	16%	10%	10%
Science & Discovery	0%	6%	7%
Men's	2%	4%	4%

Source: Emap

In the 1994-2005 period Emap France strategy was mostly focused on the acquisition of magazine companies and less in new launches.

Figure 6: Emap France – 1997-2005 major magazines launches

1997	Nintendo Magazine, Neptune Moteur
1998	Broadcast, Telemax (subsequently closed)
1999	FHM France
2000	Vivre au Jardin
2001	Addx (Car magazine)
2002	Auto Journal 4x4
2005	Closer - launched in June

Source: Emap

In the 1999-2005 period EF's new launches were only five magazines against 23 launched by Mondadori in the same period in the Italian market. In June 2005 the French version of Closer was launched in the French market, with an initial investment of around £9m. The launch has been very successful, with average sales between the launch and December 2005 of around 400k per week.

Figure 7: 1999-2005 Mondadori new launches

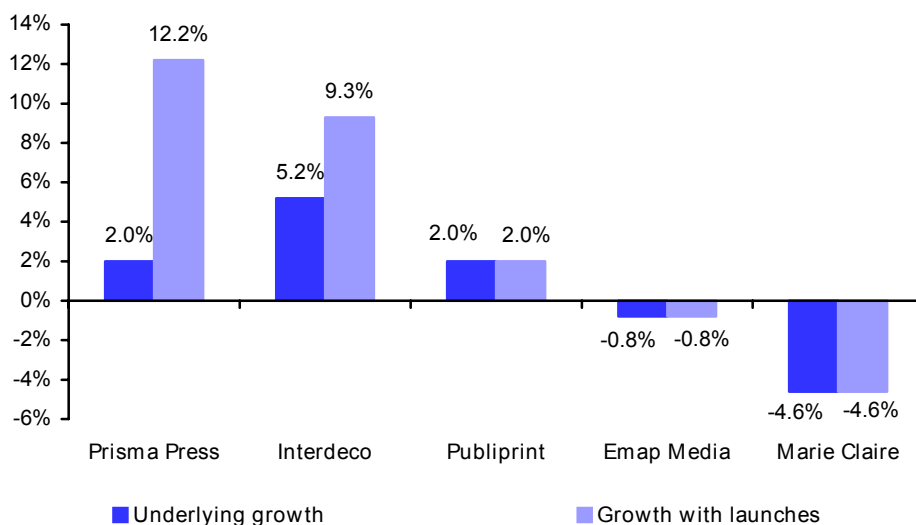
Year	Number of launches	Titles
1999	3	Y&S - Cento Cose, Tu, Creare
2000	5	Macchina del Tempo, Cosmopolitan, Men's Health, Jack, eBusiness Trade
2001	1	Cambio
2002	2	Contro Campo, Cucina no problem
2003	4	Flair, Flair living, Evo, Economy
2004	4	Easy shop, Per Me, Focus storia, Focus Junior
2005	4	Star + TV, 2TV, Geo, Top of the Pop

Source: Mondadori

We believe that Emap's heavy exposure to TV listings together with its lack of new launches are the main causes behind the substantial decrease in EF's EBIT in the last two years – in 2003/4 EF's EBIT margin was 19.8%, falling to 12.7% in 2005/06.

The impact of lack of new launches is clearly shown in the figure below. This slide shows the positive impact of advertising revenues of new launch activity for the period Jan-Oct 2004 vs. Jan-Oct 2003. New launches generate market share gains and create sales momentum.

Figure 8: Correlation between launch activity and adspend growth



Source: Emap

Emap France FY05 results – year to 31 March '06 – showed revenues of Euro 440m (£300m), flat year-on-year, benefiting from the launch of Closer, but declining by 3% like-for-like. EBIT fell 25% YoY to Euro 56m (£38m). This was mainly due to the anticipated drop in contribution from TV listings advertising, a reduction in contribution from the remainder of the portfolio due to weak newstand performance and Euro 11.7m (£8m) investment in the launch of Closer. As a consequence, EBIT margins dropped from 17% to 13%. Excluding the investment in Closer, EBIT was 15%.

Figure 9: Emap France historical revenues and EBIT (Euro m)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Sales	198	307	316	318	371	389	425	425	464	441	439.8
- YoY sales growth		55.1%	2.9%	0.6%	16.7%	4.9%	9.3%	0.0%	9.2%	-5.0%	-0.3%
Costs	182	265	257	260	312	319	351	344	372	358	384.0797
EBIT	16	42	59	58	59	70	74	81	92	75	55.7
- YoY EBIT growth		162.5%	40.5%	-1.7%	1.7%	18.6%	5.7%	9.5%	13.6%	-18.5%	-25.7%
- EBIT margin	8.1%	13.7%	18.7%	18.2%	15.9%	18.0%	17.4%	19.1%	19.8%	17.0%	12.7%

Source: Emap

On 28 February 2006 Emap announced its intention to sell Emap France. On our forecasts this business will generate revenues of Euro 461.4m (£313.7m), Euro55.9m (£38m) EBIT in the year to March 2007. Within this, we assume TV listings accounts for 35% of revenues and 30% of profit.

We have previously valued Emap France at £400m – Euro588m (10x EBITDA). Although there are some attractive brands and properties in here, the business has underperformed markedly in the past 12m. TV listings have stabilized, but remain under longer term structural pressure; equally, French magazine advertising is likely to remain subdued in the current macro environment.

At the beginning of the auction, seven companies presented a non binding offer, but only four were in the short list: Mondadori, RCS MediaGroup, Prisma Press (Bertelsmann) and the VCs Carlyle-Apax. On Monday 12 June Mondadori announced exclusive negotiations with Emap for the acquisition.

Figure 10: Emap France P&L – year end March (Euro m)

	2005	2006	2007E	2008E	2009E	2010E
Revenue	441.0	440.8	461.4	486.6	501.8	517.1
- YoY growth		-0.0%	+4.7%	+5.5%	+3.1%	+3.1%
EBITDA	78.7	59.6	59.6	64.6	67.7	70.7
- YoY growth		-24.3%	-	+8.5%	+4.7%	+4.5%
- EBITDA margin	17.8%	13.5%	12.9%	13.3%	13.5%	13.7%
EBIT	75.0	55.9	55.9	60.9	64.0	67.0
- YoY growth		-25.5%	-	+9.0%	+5.0%	+4.8%
- EBIT margin	17.0%	12.7%	12.1%	12.5%	12.7%	13.0%
Net Profit (tax @34.9%)	48.8	36.4	36.4	39.7	41.6	43.6

Source: Emap, Deutsche Bank

According to an article published by the FT on 13 June, Mondadori, which put in an initial indicative bid of around Euro 632m - £430m, is understood to have to put in a binding offer of Euro551-566m (£375-385m). Furthermore, according to an article published by Finanza Mercati - an Italian financial daily - on 12 June 2006, Mondadori offer is not likely to over Euro 570 or £388m.

Figure 11: Emap France implied multiples at different acquisition prices

	2004	2005	2006E	2007E	2008E	2009E
Valuation @ Euro 550m (£374m)						
EV/Sales	1.25	1.25	1.19	1.13	1.10	1.06
EV/EBITDA	7.0	9.2	9.2	8.5	8.1	7.8
P/E	11.3	15.1	15.1	13.9	13.2	12.6
Valuation @ Euro 600m (£408m)						
EV/Sales	1.36	1.36	1.30	1.23	1.20	1.16
EV/EBITDA	7.6	10.1	10.1	9.3	8.9	8.5
P/E	12.3	16.5	16.5	15.1	14.4	13.8
Valuation @ Euro 650m (£442m)						
EV/Sales	1.47	1.47	1.41	1.34	1.30	1.26
EV/EBITDA	8.3	10.9	10.9	10.1	9.6	9.2
P/E	13.3	17.9	17.9	16.4	15.6	14.9
Valuation @ Euro 700m (£476m)						
EV/Sales	1.59	1.59	1.52	1.44	1.39	1.35
EV/EBITDA	8.9	11.7	11.7	10.8	10.3	9.9
P/E	14.3	19.2	19.2	17.6	16.8	16.0
Valuation @ Euro 560m (£380m)						
EV/Sales	1.27	1.27	1.21	1.15	1.12	1.08
EV/EBITDA	7.1	9.4	9.4	8.7	8.3	7.9
P/E	11.5	15.4	15.4	14.1	13.4	12.8

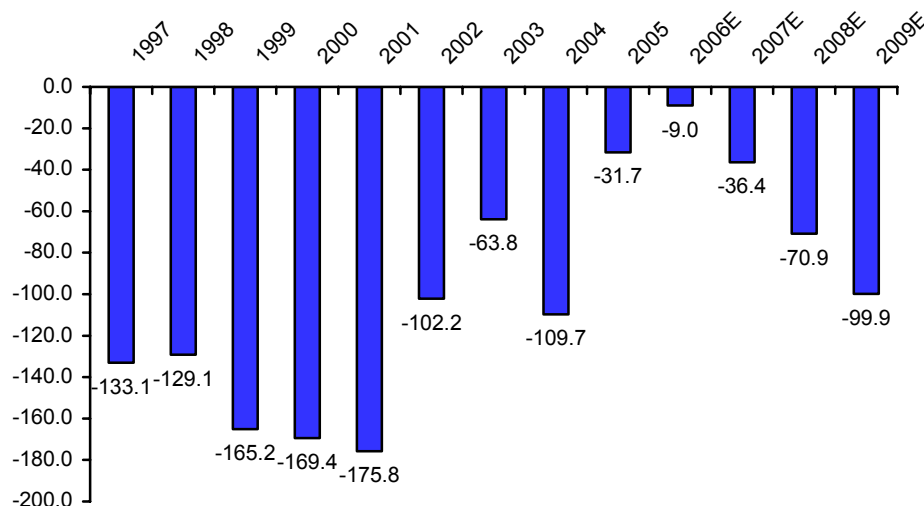
Source: Deutsche Bank

At Euro 560m (£380), the exit multiple for Emap France would be 2006/07E EV/Sales 1.2x, 9.4x EV/EBITDA and 15.4x P/E. We would stress that some important Emap France magazines (like FHM and Closer) are published under license from Emap plc, so part of the value is linked to the length of these contracts.

Mondadori valuation on a stand-alone base

Although Mondadori offers less cyclical growth than some of its peers – only 23% of the total revenues are related to advertising – the company has attractive multiples and offers an attractive yield.

Our discounted cashflow analysis implies a fair value target price for Mondadori of Euro 8.8 per share, with an upside potential of 28.8%. Our model assumes a WACC of 8.24%, which is equal to its cost of equity, due to the positive cash position of Euro 9m at the end of 2006. Our central assumptions are an equity risk premium of 4%, a beta of 1.0 and a perpetuity growth rate of 1.5%.

Figure 12: Mondadori 1997-2009E cash position (Euro m)

Source: Mondadori, Deutsche Bank

From our sum-of-the parts valuation, based on EV/EBITDA and EV/EBITA peer multiples, we derive a total group valuation of Euro 2,277m, which corresponds to a price per share of Euro 9.2 (potential upside 34.1%).

Figure 13: Mondadori SOP valuation

		2006E (Euro m)	2006E Multiple	Implied Value
Magazines	EBITDA	131.1	9.0	1,180.1
Books	EBITDA	74.9	7.6	570.9
Advertising	EBITDA	3.2	8.7	28.0
Printing	EBITDA	42.4	4.2	177.9
Direct Marketing	EBITDA	3.1	8.5	26.1
Retail	Sales	162.2	0.4	64.9
Radio	Cost	146.7		146.7
Intercompany	EBITDA	-16.4	8.5	-139.2
Peripheral assets	Valuation	318.2		318.2
Cash		9.0		9.0
Total Group Value				2,382.6
Mondadori shares (m)				259.4
Target Price				9.2
Current share price				6.85
Upside				34.1%

Source: Deutsche Bank

In our SOP, we also included Mondadori's peripheral assets, which are represented by 7.2% of Mondadori's treasury shares, a 41.7% stake in Attica, a 50% stake owned in Gruner und Jahr/Mondadori, Grupo Editorial Random House Mondadori and Mondolibri, and 31.3% stake in Società Europea di Edizioni, which publishes "Il Giornale", the fourth most popular national newspaper with an average circulation of 215 copies per day.

Figure 14: Mondadori peripheral asset valuation (Euro m)

	Valuation	Mondadori stake %	Total value (Euro m)	MNDI value (Euro m)
Treasury stocks	Market value	7.2%	131.6	131.6
Attica Group	Cost	41.7%	42.2	42.2
Gruner und Jahr/Mondadori	EV/EBITDA	50.0%	71.9	36.0
Grupo Editorial Random House Mondadori	EV/EBITDA	50.0%	84.1	42.0
Mondolibri	EV/Sales	50.0%	34.9	17.5
Società Europea di Edizioni	EV/Sales	31.3%	156.3	48.9
Total value (Euro m)			521.1	318.2

Source: Mondadori, Deutsche Bank

The stock now trades on a 2006E EV/EBITDA of 7.2x and a P/E of 14.2x and on a 2007E EV/EBITDA of 6.5x and a P/E of 13.1x. Mondadori currently offers a yield of 5.8% on 2006E dividend, which we estimate of Euro 0.40 per share.

Figure 15: Mondadori stand-alone multiples (x)

	2005	2006E	2007E	2008E	2009E
EV/sales	0.92	0.97	0.92	0.87	0.78
EV/EBITDA	6.8	7.2	6.5	6.1	5.5
Adj. P/E	14.4	14.2	13.1	12.5	12.2
Yield ord. (%)	8.8	5.8	6.3	6.6	6.9

Source: Deutsche Bank

Figure 16: Mondadori stand-alone P&L (Euro m)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006E	2007E	2008E	2009E
Consolidated revenues	1,188.3	1,259.8	1,360.4	1,482.6	1,557.6	1,458.8	1,536.0	1,650.2	1,657.3	1,705.9	1,769.9	1,821.1	1,873.3
Production costs	-814.0	-874.9	-957.6	-1,044.7	-1,109.3	-1,009.6	-1,073.5	-1,156.9	-1,164.8	-1,199.2	-1,234.0	-1,265.3	-1,302.1
Personnel costs	-240.6	-231.8	-235.9	-245.0	-238.8	-240.7	-250.3	-257.8	-268.9	-277.8	-286.9	-296.4	-306.2
EBITDA	133.7	153.1	166.9	192.9	209.5	208.5	212.2	235.5	223.6	229.0	249.0	259.4	265.0
Depreciation & Provisions	-32.8	-32.4	-35.2	-32.8	-33.0	-36.1	-38.3	-34.4	-36.2	-36.9	-37.7	-38.4	-38.4
EBITA	100.9	120.7	131.7	160.2	176.5	172.4	173.9	201.1	187.4	192.0	211.3	221.0	226.6
Goodwill amortization	-29.1	-29.6	-27.1	-22.5	-23.1	-23.1	-23.3	-28.2	0.0	0.0	0.0	0.0	0.0
Other income (costs)	1.3	5.2	6.2	6.4	-10.0	-3.9	3.2	2.3	0.0	0.0	0.0	0.0	0.0
Net Financial income (charges)	2.2	0.1	-0.3	3.9	0.7	-4.5	-1.1	-8.5	-6.0	-5.7	-5.0	-5.2	-5.1
Extraordinary Items / Internet	10.1	0.9	19.6	-13.6	4.0	-7.7	-2.5	2.8	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit (loss)	85.4	97.2	130.3	134.3	148.1	133.2	150.2	169.5	181.4	186.3	206.3	215.8	221.5
Tax	-40.7	-47.4	-52.0	-63.0	-74.2	-52.1	-67.5	-64.9	-65.5	-68.9	-78.4	-82.0	-84.2
Tax-rate	47.7%	48.7%	39.9%	46.9%	50.1%	39.1%	44.9%	38.3%	36.1%	37.0%	38.0%	38.0%	38.0%
Minorities	0.5	-0.1	0.6	-0.4	0.0	0.0	-0.6	-0.5	-1.2	-1.2	-1.2	-1.2	-1.2
Net Profit	45.1	49.7	78.9	70.9	73.9	81.1	82.1	104.1	114.7	116.2	126.7	132.6	136.1

Source: Mondadori, Deutsche Bank

Mondadori valuation with leverage

Through the years Mondadori has always had a non-optimized financial structure with net cash. In 1999, 2001 and 2005 Mondadori distributed an extraordinary dividend due to its continually growing cash position. During the 1997-2005 period, MN has distributed total Euro 735m to shareholders with a yearly average pay-out ratio of 111% calculated on the group net profit or 116% calculated on the parent company net profit.

During Mondadori's FY05 results presentation, the management declared that the company could be leveraged to more than 3x Net Debt/EBITDA. Starting from 2006 we have used a capital structure for Mondadori with Net Debt/EBITDA of 3x and therefore with a Net Debt/Enterprise Value ratio of 27.8%.

In this case, our discounted cashflow analysis implies a fair value target price for Mondadori of Euro 10.8 per share, with an upside potential of 58.2%. Our model assumes a WACC of 6.86%, an equity risk premium of 4%, a beta of 1.0 and a perpetuity growth rate of 1.5%.

Figure 17: Sensitivity analysis of Mondadori leveraged

WACC	Perpetual Growth Rate		
	1.00%	1.50%	2.00%
6.36%	10.8	11.7	12.8
6.86%	10.1	10.8	11.7
7.36%	9.5	10.1	10.9

Source: Deutsche Bank

Mondadori valuation with the full consolidation of EF

Since 1999, Mondadori has been looking to expand abroad. In the past they have looked closely at France and were close to acquiring Marie Claire, which in February 2001 was sold to Hachette. In recent years Mondadori acquired 41.6% of Attica, a Greek publisher listed on the Athens stock exchange for a total cash-out of Euro 42.2m. Through Attica and its platform in Eastern Europe, so far MN has been able to launch Grazia in Greece and Bulgaria.

The acquisition of Emap France will be financed by through debt. As of today, Mondadori has credit facilities for up to Euro 1bn. This includes a convertible bond for Euro 110m, expiring in October 2008 on which the company pays a 2% fixed interest rate; a private placement of Euro 296.4m (\$350m), expiring in three tranches in 2013/2015/2018 with a cost of Euribor +67bp; and credit facilities lines for around Euro 600m, on which the company pays Euribor + 25bp, only if utilized.

Figure 18: MN's credit facilities

	Euro m	Interest rate (%)	Spread (b.p)	Cost of debt (%)
Convertible bond exp. Oct 2008	109.9	2.000%	0.0	2.000%
Private placement (Euribor +67bp)	296.4	2.961%	67	3.628%
Credit facilities (Euribor + 25bp)	593.7	2.961%	25	3.211%
MN's total credit facilities	1,000.0			

Source: Mondadori, Deutsche Bank

Therefore, at the current 3M Euribor rate of 2.961%, if Emap France were acquired @ Euro 560m through debt, this would cost Mondadori around Euro 17.9m of interest charges for the first year, with implied interest rate of 3.2%.

Figure 19: Mondadori cost of debt with Emap France acquired at Euro 560m

	Euro m	Interest rate (%)	Spread (b.p.)	Cost of debt (%)	Interest charges (Euro m)
Convertible bond exp. Oct 2008	109.9	2.000%	0.0	2.000%	2.2
Private placement	296.4	2.961%	0.0067	3.628%	10.8
Credit facilities (Euribor + 25bp)	153.7	2.961%	0.0025	3.211%	4.9
Total cash out for Emap France	560.0			3.194%	17.9

Source: Deutsche Bank

Figure 20: Mondadori: interest charges sensitivity (Euro m)

Euribor (%)	Emap acquisition (Euro m)			
	560	600	650	700
2.961%	17.9	19.2	20.8	22.4
3.211%	19.0	20.4	22.1	23.9
3.461%	20.1	21.6	23.5	25.3
3.711%	21.3	22.8	24.8	26.8
3.961%	22.4	24.1	26.2	28.3

Source: Deutsche Bank

Even if 3M Euribor increases by 100 b.p., Mondadori's yearly interest charges for acquiring Emap France at Euro 560m should grow from Euro 17.9m to Euro 22.4m.

We assume that MN's cash-out for Emap France acquisition will be done after the H1 2005, since Emap Plc expects to complete the sale of its French consumer magazine business by the first half of its 2006-7 fiscal year (30 Sept 2006).

We estimate that Emap France will be consolidated in Mondadori's accounts starting from beginning of FY 2007.

Figure 21: 2007E Mondadori P&L and Net Debt sensitivity with Emap France acquisition (Euro m)

	MN stand alone	With Emap	With Emap	With Emap	With Emap
	2007E	@Euro 560	@Euro 600	@Euro 650	@Euro 700
Sales	1769.9	2556.6	2556.6	2556.6	2556.6
EBITDA	249.0	313.6	313.6	313.6	313.6
EBIT	211.3	272.2	272.2	272.2	272.2
Financial charges	-5.0	-17.0	-18.3	-20.0	-21.6
Pre-tax profit	206.3	255.2	253.9	252.3	250.7
Net profit	126.7	157.0	156.2	155.2	154.2
Net debt (- net cash)	-36.4	510.1	551.4	602.9	654.5

Source: Deutsche Bank

Figure 22: Mondadori 2007E debt ratio sensitivity

	With Emap	With Emap	With Emap	With Emap
	@ Euro 560m	@ Euro 600m	@ Euro 650m	@ Euro 700m
Debt at year end 2007E (Euro m)	510.1	551.3	602.9	654.5
EBITDA (Euro m)	313.6	313.6	313.6	313.6
Debt/EBITDA (x)	1.6	1.7	1.9	2.1
Fin. Charges (Euro m)	17	18.3	20.0	21.6
EBITDA/Fin. Charges (x)	18.4	17.1	15.7	14.5

Source: Deutsche Bank

We also run a sensitivity of Emap France acquisition on 2006E-2009E Mondadori EPS. Given Mondadori's limited cost of debt, the Emap acquisition is clearly earning enouncing. On our 2007E numbers, the acquisition of Emap at Euro 560m should increase MN's EPS by 23.9% and by 21.7% if acquired at Euro 700m.

Figure 23: Mondadori EPS sensitivity with Emap France acquisition

	2006E	2007E	2008E	2009E
MN stand alone EPS	0.481	0.524	0.549	0.563
MN EPS w. EF @ Euro 560	0.472	0.650	0.687	0.714
MN EPS w. EF @ Euro 600	0.470	0.646	0.683	0.711
MN EPS w. EF @ Euro 650	0.468	0.642	0.679	0.707
MN EPS w. EF @ Euro 700	0.466	0.638	0.675	0.702
ESP % increase @ Euro 560	-1.8%	23.9%	25.2%	26.9%
ESP % increase @ Euro 600	-2.2%	23.3%	24.6%	26.2%
ESP % increase @ Euro 650	-2.6%	22.5%	23.8%	25.5%
ESP % increase @ Euro 700	-3.1%	21.7%	23.0%	24.7%

Source: Deutsche Bank

Figure 24: Mondadori's multiples sensitivity (x)

	EV/EBITDA	P/E	EV/EBITDA	P/E
	2007E	2007E	2008E	2008E
MN stand alone	6.6	13.3	6.2	12.7
MN w. EF @ Euro 560	6.9	10.5	6.4	9.9
MN w. EF @ Euro 600	7.0	10.6	6.5	10.0
MN w. EF @ Euro 650	7.2	10.6	6.7	10.0
MN w. EF @ Euro 700	7.3	10.7	6.8	10.1

Source: Deutsche Bank

If Emap France is acquired at Euro 560m, our discounted cashflow analysis implies a value for Mondadori of Euro 10.3 per share. Our model assumes a WACC of 7.18%, an equity risk premium of 4%, a beta of 1.0 and a perpetuity growth rate of 1.5%.

Figure 25: Sensitivity analysis of Mondadori with Emap France acquired @ Euro 560m

WACC	Perpetual Growth Rate		
	1.00%	1.50%	2.00%
6.68%	10.3	11.2	12.4
7.18%	9.5	10.3	11.3
7.68%	8.8	9.5	10.4

Source: Deutsche Bank

We have also done the DCF sensitivity based on the different assumptions for the Emap France acquisition price. Therefore we decide to add(+) / subtract(-) the delta between DB 's Emap France fair value, equal to Euro 588m - £400m, and the final price paid by Mondadori. If EF is acquired at Euro 560m, our fair TP is Euro 10.4 per share, with a potential upside of 52%.

Figure 26: DCF sensitivity of Mondadori with Emap France

	WACC	DCF TP	Delta on DB Emap fair value	Fair TP
With Emap @ Euro 560m	7.18%	10.3	0.11	10.4
With Emap @ Euro 600m	7.08%	10.4	-0.05	10.4
With Emap @ Euro 650m	6.97%	10.4	-0.24	10.2
With Emap @ Euro 700m	6.86%	10.5	-0.43	10.1

Source: Deutsche Bank

Mondadori and Emap France – potential synergies

In the consolidation of Emap France in Mondadori numbers, we adopted a conservative approach and we do not include any potential synergies, both in revenues and costs.

Magazines can be international products, with the international edition of several magazine brands serving as examples of this: Cosmopolitan, Elle, Marie Claire, Men's Health, Vanity Fair, Instyle, and Grazia are just a few examples. Cross-border limitations are language, country specific logistic and sometimes cultural and specific tastes.

Emap's strategy in France has traditionally been to grow the portfolio through acquisition. We believe, given the liberalization and the French magazine market, the focus is now on launching new titles. This is clearly the strategy that Mondadori has adopted to maintain and strengthen its leadership in the Italian market. In the last nine years, Mondadori has launched on average three magazines per year in Italy.

Figure 27: 1997-2005 Mondadori new launches

Year	N. of launches per year	Titles
1997	1	Casa Facile
1998	1	Top Girl
1999	3	Y&S - Cento Cose, Tu, Creare
2000	5	Macchina del Tempo, Cosmopolitan, Men's Health, Jack, eBusiness Trade
2001	1	Cambio
2002	2	Contro Campo, Cucina no problem
2003	4	Flair, Flair living, Evo, Economy
2004	4	Easy shop, Per Me, Focus storia, Focus Junior
2005	4	Star + TV, 2TV, Geo, Top of the Pop

Source: Mondadori, Deutsche Bank

Given Mondadori's strategy in the Italian market, we believe that the company will focus on new launches of "high-quality – high-end" target magazines and not on "low-quality – cheap-price" products. It will not engage in price competition, as happened with the TV listing segment in 2004.

Given their success both in terms of circulation and advertising, some Mondadori magazines could be easily exported to France. A clear example is Grazia, which has been successfully launched in UK, Bulgaria, Greece, Portugal, Croatia Serbia and United Arab Emirates.

Furthermore in our opinion there are some other titles that can be easily and successfully launched internationally and specifically in France, associated with the Italian style: cookery (with the magazines "Sale & Pepe", "Cucina Moderna" and "Cucina no problem"), interior ("Casaviva" – recently launched in Thailand, "VilleGiardini") and internal design ("Interni").

Figure 28: MN magazine portfolio & main titles

Segment	MN Market share	MN Main Titles
Women	53%	Grazia, Donna, Cosmopolitan, Confidenze
TV Guides and Entertainment	61%	TV Sorrisi e Canzoni, Guida TV, Telegiù
Auto	17%	Auto Oggi, Cambio, Evo
Science	74%	Focus, Jack, La macchina del tempo
Health	29%	Starbene, Men's Health
News	58%	Panorama
Home and decoration	41%	CasaViva, Casa Felice, Ville & Giardini, Interni
Cookery	53%	Sale & Pepe, Cucina Moderna, Cucina no problem

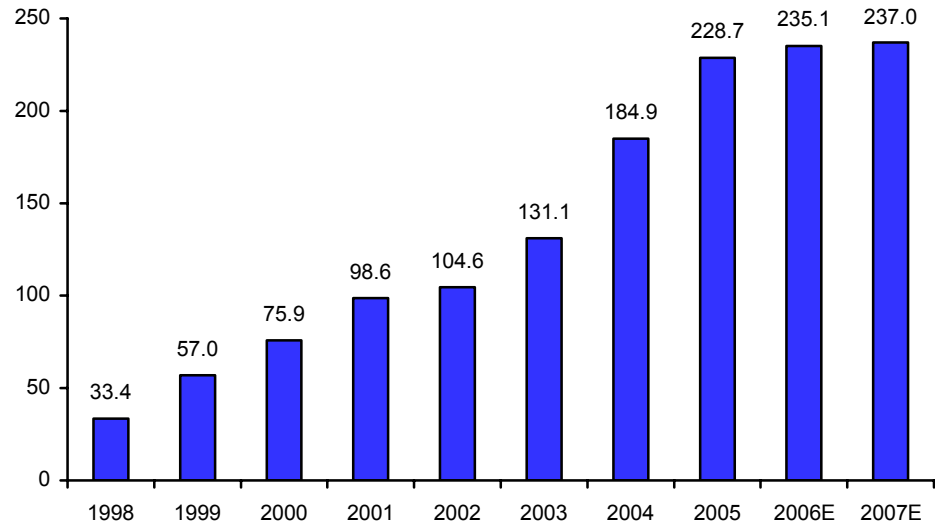
Source: Mondadori, Deutsche Bank

Figure 29: EF magazine portfolio and market position

Segment	Market share of top 4 Player	EF Positioning	EF Main Titles
Women	81%	3rd	Plein Vie, Top Sante, Mods & Travaux, Nous Deux
TV Guides and Entertainment	78%	4th	Telestar, Tele Poche, Tele Star Jeux
Auto	85%	1st	Auto Plus, L'Auto Journal, Sport Auto
Science	96%	1st	Science & Vie, Science & Vie Junior
Men	98%	2nd	FHM, Max
Sports	97%	3rd	Cycle, Bateaux, Golf
Leisure/Others	46%	1st	Reponses Photo, Camera Video & Multimedia

Source: Emap

Another additional source of revenues that can be exploited in France by Mondadori, is add-on sales, given the group's successful expertise in this segment in the competitive Italian market. On our 2006 numbers, add-ons are equal to 29.4% of the revenues generated by the Mondadori's magazine divisions.

Figure 30: Mondadori 1998-2007E add-on sales (Euro m)

Source: Mondadori, Deutsche Bank

Furthermore, we believe that some EF magazines can be easily exported in Italy.

On the costs side, Mondadori currently owns one of the biggest and most competitive printing companies in Europe, with five plants, which originally were intended for printing Mondadori products, now producing more than 40% of their output for third-parties, mainly foreign clients and offer a complete service for books, magazines, catalogues and other commercial products.

In 2005 Mondadori Printing produced 96m trade books, 30m illustrated books, 554m magazines, 61m catalogues and 9m directories. On 27 April 2006, a new 3.62-metre rotary printing machine was been installed in Verona. The Verona printing facilities are the most advanced rotogravure plants in Europe for automation and technology innovation.

Currently, printing of all Emap France magazines is outsourced. We estimate around 25-28% of EF total costs are related to paper & printing or Euro 106.5m on 2007E numbers. We estimate if the printing is taken inhouse it could lead to potential synergies (cost saving and margins) of around 16m per year, which means an actualized value of Euro 143.6m (Euro 0.56 per share) equal to 8% of current Mondadori's market cap.

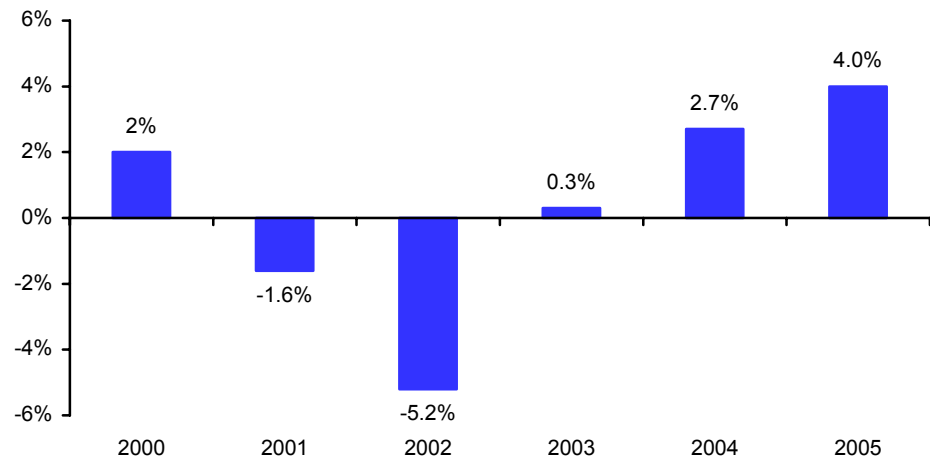
The Mondadori Group

Mondadori is the leading Italian consumer magazine and book publishing operator with market shares of around 38.6% and 27.8% respectively. The company is active in printing, direct marketing, retail business and owns a national radio station, R101. Advertising revenues contribute around 20.6% of group net sales. We estimate that in FY 2006 the magazine and book divisions will account for 89.1% of group EBITDA.

Italian magazine market

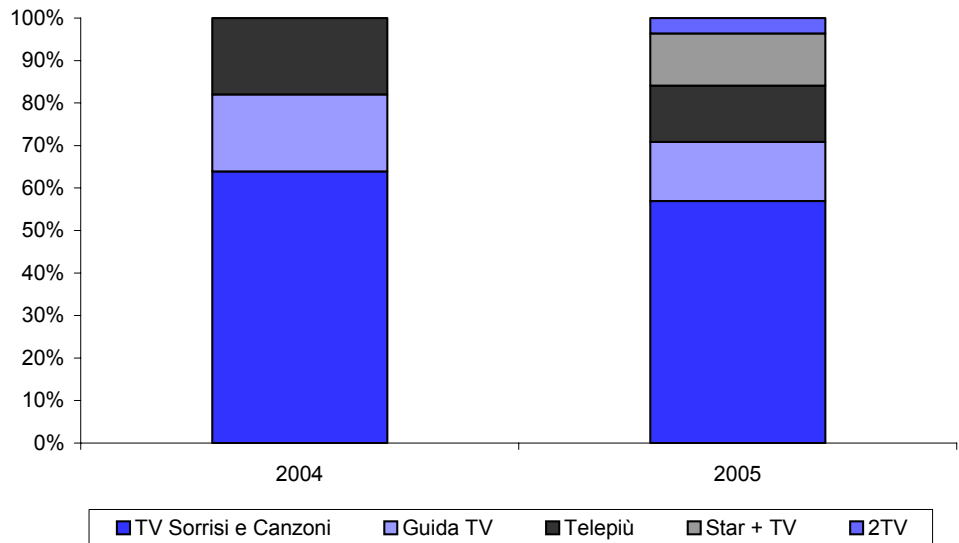
In 2005 the Italian magazine market was characterized by modest growth in circulation and by a general reduction in the magazines cover prices. Regarding the circulation growth, the market experienced a 4% increase YoY, however this result should be considered in the context of new launches. Stripping out the growth related to the new launches, the magazine market declined 4% YoY.

Figure 31: 2000-2005 Italian magazine market circulation (%)



Source: Mondadori

Figure 32: MN TV listing magazines

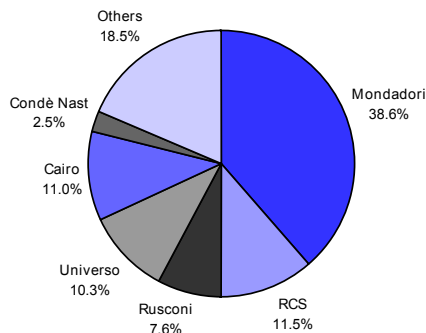


Source: Mondadori, Deutsche Bank

Mondadori's magazine business

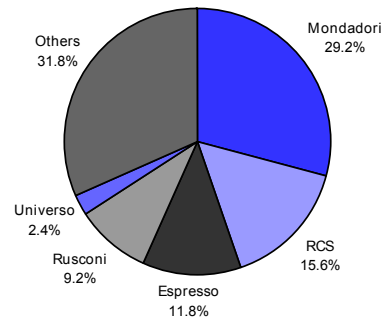
With a market share of 38.6% and more than 50 titles published in FY05, Mondadori is Italy's biggest publisher of consumer magazine and one of the leading operators in Europe.

Figure 33: Italian magazine market – 2005 mkt share in term of volumes (%)



Source: ADS, Mondadori

Figure 34: Italian Magazine market – 2005 market share in term of advertising (%)



Source: Nielsen

In FY05 Mondadori's magazine division registered sales of Euro 778m, up 2.3% YoY, with net circulation revenues declining 7.1% YoY, add-on sales up 23.7% YoY and adspend sales practically flat. In '05 Mondadori launched four new titles of which two in the TV listing segment (Star+TV and 2TV).

There are three main revenue streams for Mondadori's magazine division: net circulation (42.8% of the 2005 division's total sales), of which subscriptions account for around 14.4% of sales (around 48m in 2005), add-on revenues (29.4% of total sales) and advertising (27.8% of the sales).

FY05 EBITDA was Euro 130.2m, with a margin of 16.7%. In FY05 the magazine division benefited from Euro 5.5m of paper contribution. Without this benefit the 2005 EBITDA would have been Euro 124.7m, registering a margin of 16.0%.

For FY 2006 we estimate the magazine division will achieve sales of Euro 775.9m, with an EBITDA margin of 16.9% vs. 16.7% in FY05. EBIT should reach Euro 128.1m, up 0.7% YoY. According to our forecast, in 2006 the magazine division will account for around 57.3% of Mondadori consolidated EBITDA.

Figure 35: Mondadori 2004-2009E magazine division performance (Euro m)

MAGAZINE	FY 2004	FY 2005	FY 2006E	FY 2007E	FY 2008E	FY 2009E
Total circulation	531.7	550.8	540.5	544.8	542.5	538.2
- Growth YoY %		3.6%	-1.9%	0.8%	-0.4%	-0.8%
Net circulation	346.8	322.1	305.4	307.8	308.4	306.9
- Growth YoY %		-7.1%	-5.2%	0.8%	0.2%	-0.5%
Add-on sales	184.9	228.7	235.1	237.0	234.1	231.3
- Growth YoY %		23.7%	2.8%	0.8%	-1.2%	-1.2%
Advertising	216.5	216.7	224.7	233.7	243.1	252.8
- Growth YoY %		0.1%	3.7%	4.0%	4.0%	4.0%
Others	12.3	10.6	10.7	10.8	10.9	11.0
Total revenues	760.6	778.0	775.9	789.3	796.5	802.0
- YoY growth %		2.3%	-0.3%	1.7%	0.9%	0.7%
EBITDA	134.2	130.2	131.1	138.9	140.2	141.2
- EBITDA margin %	17.6%	16.7%	16.9%	17.6%	17.6%	17.6%
- EBITDA YoY %		-3.0%	0.7%	5.9%	0.9%	0.7%
Depreciation	11.3	3.0	3	3	3	3
EBIT	122.9	127.2	128.1	135.9	137.2	138.2
- EBIT margin %	16.2%	16.3%	16.5%	17.2%	17.2%	17.2%
- EBIT YoY %		3.5%	0.7%	6.1%	0.9%	0.7%

Source: Mondadori, Deutsche Bank

Mondadori's magazine portfolio can be divided in three major areas:

- Mass-market titles composed mainly of women's magazines, news magazines and TV guides/entertainment.
- Services and thematic titles: home & decoration, travel, auto, cookery, health, science, business, psychology.
- Professional magazines: PC Professionale.

Like all magazine publishers, Mondadori's circulation growth in a stable/declining market is largely driven by 1) new launches, 2) a program focusing on the launch of several innovative niches 3) a restyle of old magazines, 4) forming alliances with international publishers in order to publish their magazines in Italy, 5) signing content agreements with Italian publishers to strengthen Mondadori's market position.

Overview of the French magazine market

In 2004 the French magazine market generated Euro 4.1bn, decreasing 1% YoY, with circulation sales down 1.7% YoY and adspend increasing by 0.9% YoY (for further details please refer to the report published on Lagardere on 18 April 2005).

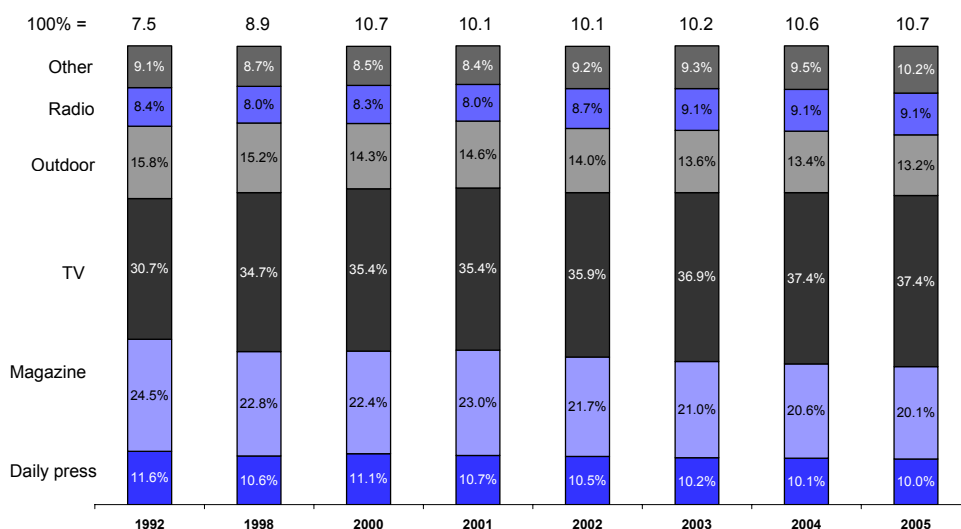
Figure 36: French magazine market (Euro bn)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Circulation	2.11	2.27	2.37	2.43	2.43	2.52	2.6	2.61	2.63	2.79	2.83	2.9	2.86	2.91	2.86
- YoY %		7.6%	4.4%	2.5%	0.0%	3.7%	3.2%	0.4%	0.8%	6.1%	1.4%	2.5%	-1.4%	1.7%	-1.7%
Advertising	0.95	0.91	0.91	0.83	0.85	0.92	0.95	1.02	1.06	1.19	1.32	1.31	1.25	1.23	1.24
- YoY %		-4.2%	0.0%	-8.8%	2.4%	8.2%	3.3%	7.4%	3.9%	12.3%	10.9%	-0.8%	-4.6%	-1.6%	0.8%
Total	3.06	3.18	3.28	3.26	3.28	3.44	3.55	3.63	3.69	3.98	4.15	4.21	4.11	4.14	4.10
- YoY %		3.9%	3.1%	-0.6%	0.6%	4.9%	3.2%	2.3%	1.7%	7.9%	4.3%	1.4%	-2.4%	0.7%	-1.0%

Source: DDM

In France, editorial content is highly valued by readers and advertising revenues make up 30% of total revenues, in line with the Italian market. In France, the majority of the industry's circulation revenue (70% of the total magazine revenues) comes from single copy sales - around 70% - while subscription accounts for around 30% of total circulation sales. Magazines represent the largest sub-segment within press in France (65% of Press adspend).

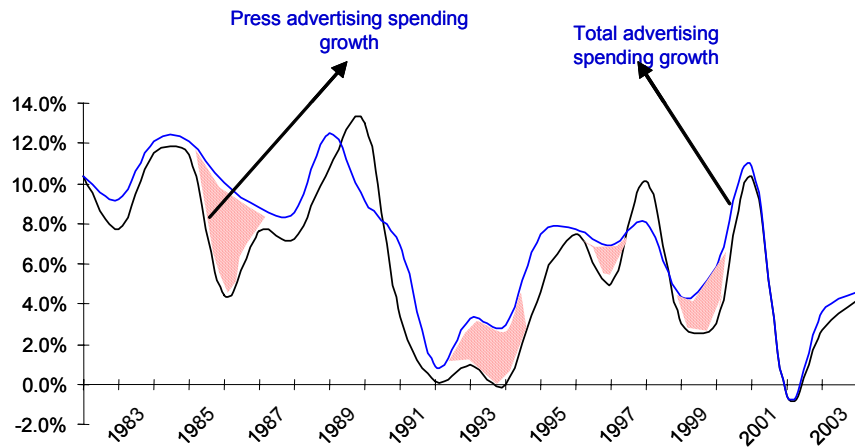
Figure 37: French adspend market



Source: IREP

Adspend in magazines and newspapers generally underperforms overall advertising expenditure when overall adspend enters a crisis period.

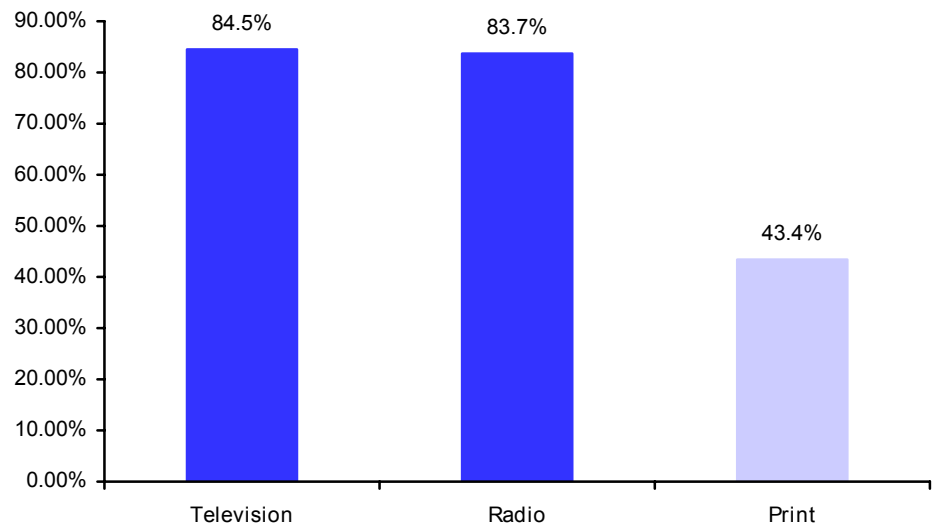
Figure 38: Press adspend vs. total adspend



Source: Zenith Optimedia

Press is less resilient than other media during downturns because of its smaller reach. In simple terms, during economic slowdowns, advertisers have generally tended to trim their advertising budgets, becoming more cautious and selective in their choice of medium. Magazine and newspaper advertising spending is typically cut early, to concentrate remaining spend on the media with the greatest penetration: television and radio.

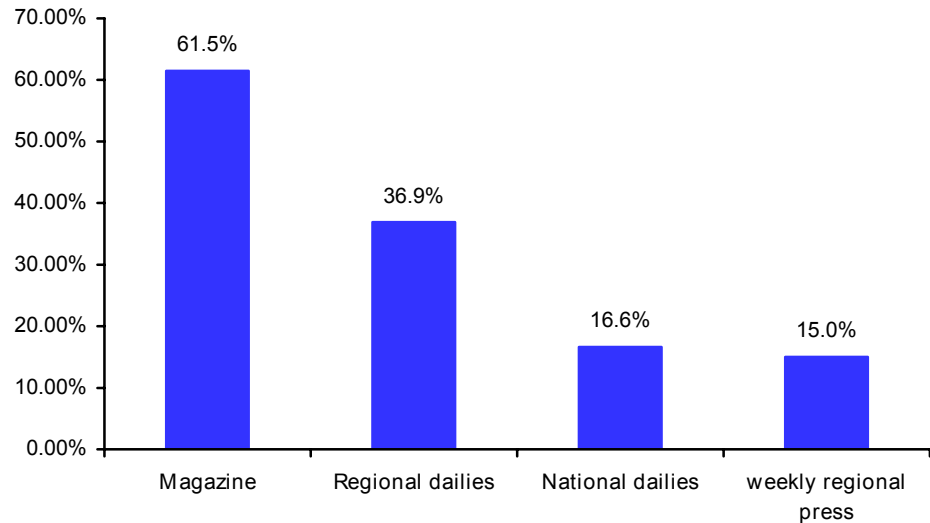
Figure 39: Daily media penetration in France, 2005



Source: Nielsen Media, Radio Advertising Bureau and Scarborough Research

Magazines: the strongest segment in press

Magazines enjoy the greatest daily readership in France. An analysis of studies by publishers' associations on audience levels in the various press categories shows that magazines were the only growth medium in France in 2003. In the more mature US market where audiences declined, magazines' decline was weaker than that of the dailies.

Figure 40: Press readership in France, 2005

Source: AEMP, SPQR, AEPHR, Europaqn

Reasons for magazines' outperformance vs. press

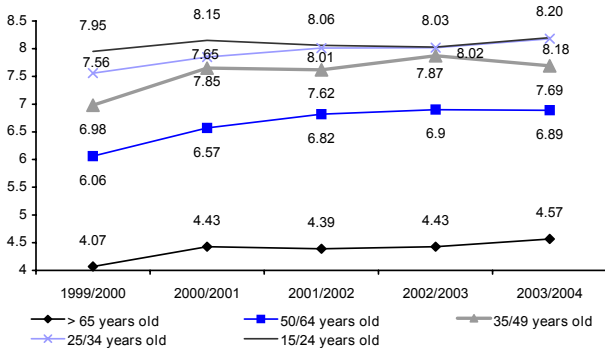
Magazines have been protected within the press sector, having been less impacted by the Internet and by the launch of free press, which compete mainly with newspapers. Additionally, they have less exposure to classified advertising (property, cars and jobs).

- **Free press**, for example, does not really pose a threat to magazines. In 2003, the free press mainly affected daily publications, while magazines represented just 14% of free press circulation in France.
- **Internet** also appears to be a threat mainly for dailies, most of whom have created their own Internet websites where users can access all the daily news for free. This is not the case for magazines. Although some magazines do have websites, the sites do not provide access to the same information that appears in the print versions.

A better quality and better targeted audience

- **The younger generation, which are relatively uninterested in daily newspapers, are keen readers of magazines.** Surveys by the CSA and INSEE confirm that young people are increasingly uninterested in newspapers. However, 15 to 24 year olds tend to read more magazines than the older population: young people read an average of eight different magazines per year, which is almost four more than the number read by French people over the age of 65.
- Also, heavy magazine readers appear to be more affluent, better educated and employed in more professional positions than heavy television viewers.

Figure 41: Average number of magazines read by age group



Source: AEMP

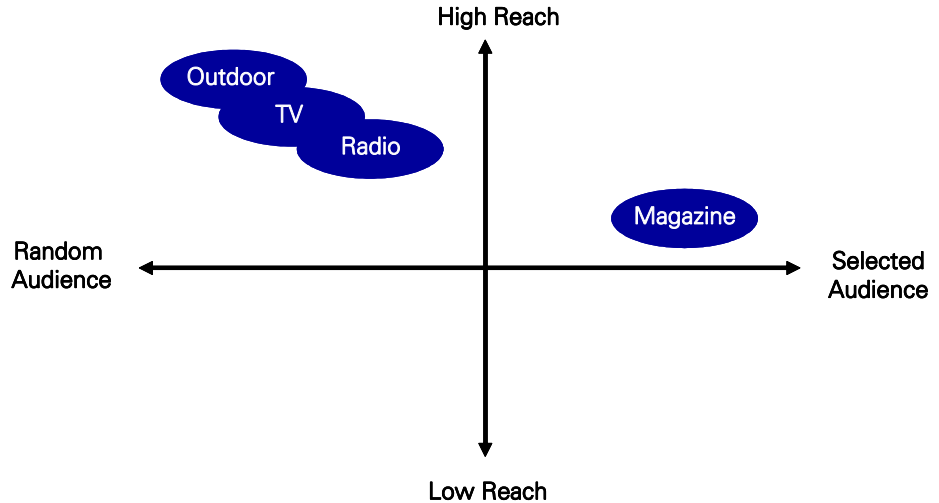
Figure 42: Heavy magazine readers vs. heavy TV viewers

	Heavy magazine readers	Heavy television viewers
Average age	42	50
Average household income	\$72,949	\$53,179
Average value of owned home	\$221,143	\$177,544
Graduate college	119	74
Household income \$75,000+	124	72
Employed	109	78
Professional/manager	120	60
Top management	120	58
Use Internet 3+ Times a week	120	81

Source: MRI Fall 2003

- Finally, magazines offer a major advantage: their audiences are targeted:** Magazines specialize in key areas of interest, and demographics (Television, Women’s, Current Events, Leisure, Youth, Family, etc), which means that advertisers can reach a specific group more easily than they can by advertising in newspapers, which address mass market demographics. Magazines offer the advantage of reaching an audience that enjoys a great deal of affinity but with relatively low power, while the other medias (TV, Radio, Outdoor, etc) present the opposite picture: they reach a vast but random audience with a high degree of power. Magazines (and radio) are typically the most appropriate media to reach a targeted audience.

Figure 43: Media characteristics



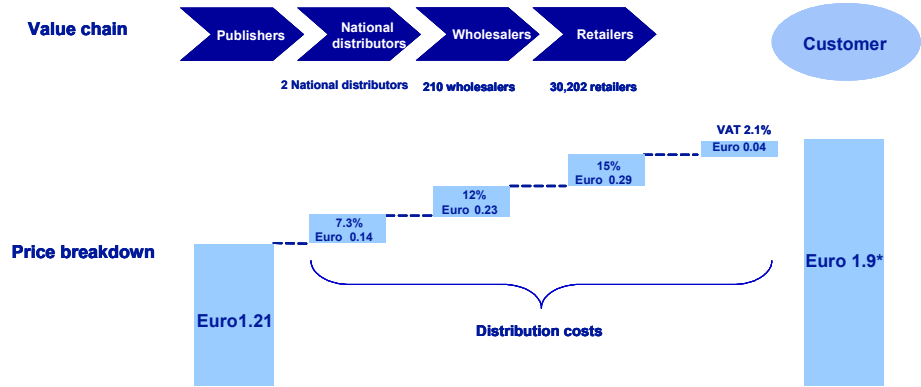
Source: Deutsche Bank

The press value chain

There are four links in the press value chain. Before a magazine arrives in the hands of consumers, the publisher prints the copies and delivers them to distributors, who in turn supply the wholesalers and export agents. Wholesalers then distribute the copies to retailers.

Each entity in the supply chain receives a percentage of the full cover price of sold copies that we estimate breaks down as shown in Figure 43:

Figure 44: Value chain in the French magazine industry



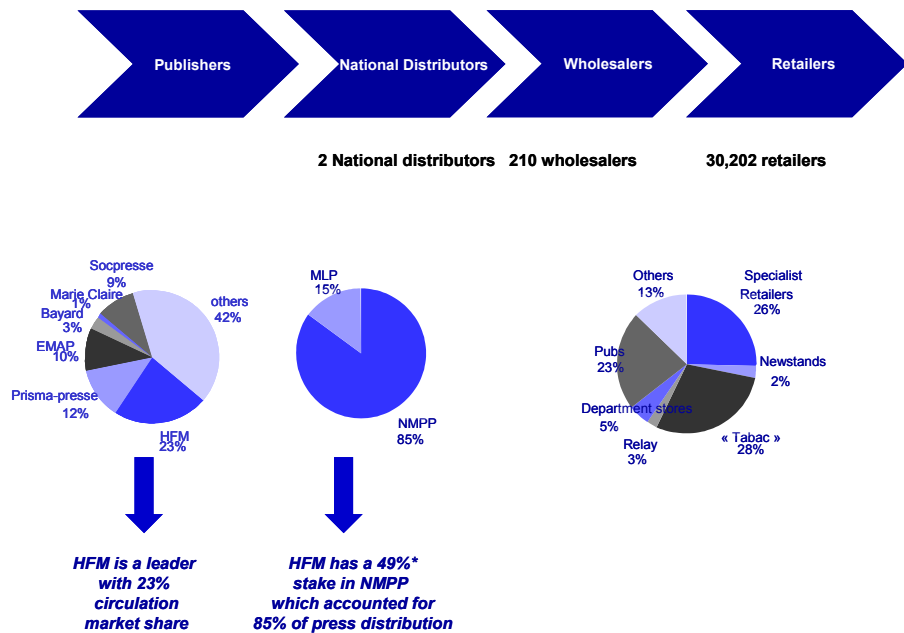
Source: Deutsche Bank estimates *NMPP

Within the press value chain, the retail and wholesale ends of the press industry are highly fragmented, which leaves room for distributors to play a central role.

In the French magazine publishing sector, HFM is market leader, capturing 15.5% of circulation. Hachette SA (fully owned by Lagardere) has a 49% stake in NMPP, the main national distributor in France, with 85% market share. Although NMPP is now exclusively controlled by HFM, we believe the group enjoys a commanding presence in the entire value chain of the French press industry.

Within the press value chain, the retail and wholesale ends of the press industry are highly fragmented, which leaves room for distributors to play a central role.

Figure 45: Press value chain, 2003



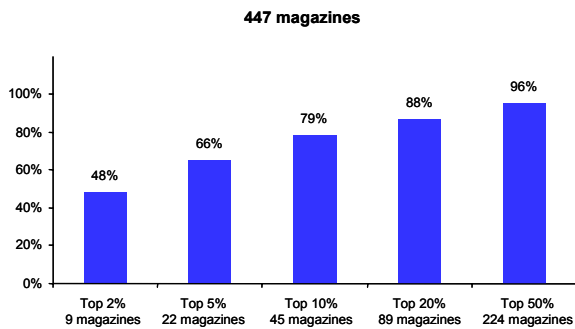
Source: NMPP, Observatoire de la Presse and Deutsche Bank estimates *NMPP is not consolidated in Lagardere's accounts

The sector depends on the success of just a few titles

Concentration of profitability is high

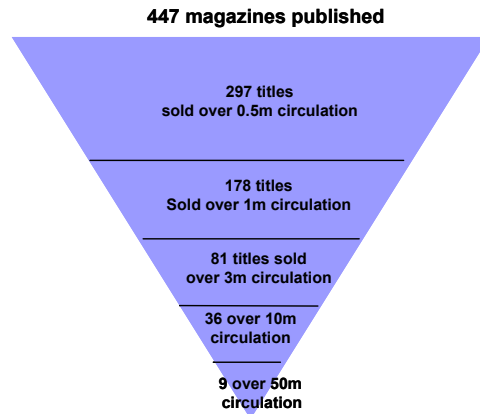
The magazine segment is concentrated, as the lion's share of sales and profit is made by just a few titles. In France, for example, 2% of the 447 titles published account for 48% of copies sold.

Figure 46: Portion of revenues generated by the top French magazines, 2003



Source: Observatoire de la Presse, Deutsche Bank estimates

Figure 47: Circulation concentration

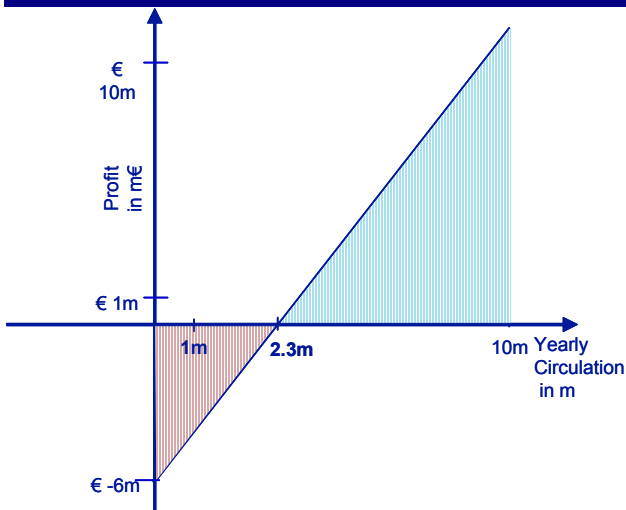


Source: Observatoire de la Presse, Deutsche Bank estimates

Only 23% of magazines break even!

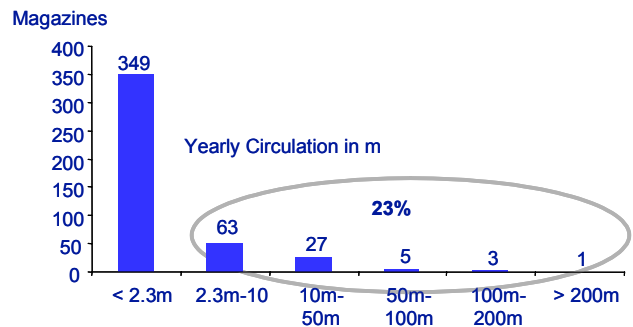
When we analysed the 447 magazines published in France, only 23% of them broke even in 2003.

Figure 48: Profitability of a magazine



Source: Deutsche Bank estimates, Diffusion Contrôle

Figure 49: Yearly circulation of magazines



Source: Deutsche Bank estimates, Observatoire de la Presse

Although risky, the magazine business is protected and stable

The main risk inherent to the magazine sector - that so few titles are actually profitable - has a positive flipside: it creates high barriers to entry. Only those companies already active in the field can take the risk of launching new titles, for they have deep enough financial pockets to pay for the marketing costs of a new launch and shoulder potentially years of losses before the title can break even.

Appendix 1

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Company	Ticker	Recent price	Disclosure
Mondadori	MNDI.MI	6.88 (EUR) 16 Jun 06	6,8

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Historical recommendations and target price: Mondadori (MNDI.MI)

(as of 6/16/2006)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

- | | |
|---|--|
| 1. 17/11/2003: Buy, Target Price Change EUR8.00 | 3. 21/3/2005: Buy, Target Price Change EUR9.20 |
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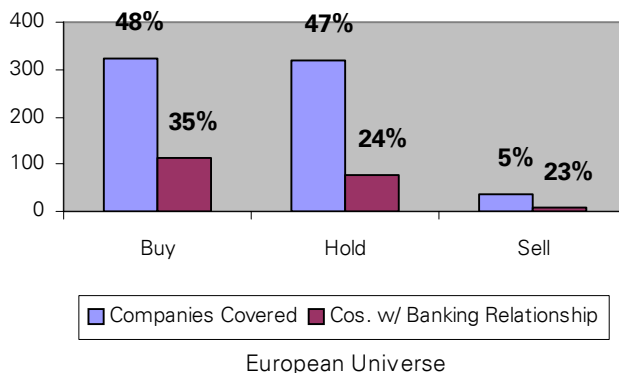
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