

Cellularline

1H18 Results

Cellularline - Key estimates and data					
Y/E December		2017PF	2018E	2019E	2020E
Revenues	EUR M	166	159	176	185
adj. EBITDA	EUR M	39.7	36.3	40.0	42.1
adj. EBIT	EUR M	35.6	33.2	36.9	39.0
adj. group's net income	EUR M	23.3	26.5	29.2	29.1
Dividend ord.	EUR	2.8	0.0	0.0	0.0
adj. EPS	EUR	1.08	1.22	1.35	1.34
adj. EV/EBITDA	x	7.3	5.5	4.2	3.4
adj. P/E	x	9.6	6.6	5.9	6.0

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

- 1H18A results.** Cellularline reported weak 1H18 results, mainly due to non-recurring factors derived from the de-stocking activities of some Italian clients in the consumer electronics distribution channel. In particular, value of production was down by 9.9% yoy to EUR 59.3M (vs. EUR 65.8M in 1H17). Adj. EBITDA was down by 29.2% yoy to EUR 8M vs. EUR 11.3M in 1H17. Adj. net income was EUR 3.9M vs. EUR 5.0M in 1H17. The NFP was EUR 30.5M vs. EUR 65M at YE17, benefiting from the completion of the Business Combination for EUR 20.3M and the positive trend in operating cash flow, which came in at EUR 15.6M (vs. EUR 18.6M in 1H17).
- Outlook.** The negative impact deriving from de-stocking activities by some Italian clients in the consumer electronics distribution channel should be substantially absorbed in 3Q18, and, according to management, turnover and EBITDA are expected broadly stable yoy in 2H18. Overall, we appreciate the announcement by management of the various actions implemented to reverse the 1H declining trend already by the following quarters. Lastly, management stated that the MTA listing (STAR segment) is expected by 1H19 and that it will present the Guidelines of the Group's Strategic Plan in February/March 2019 to the financial community. We appreciate the news, which we believe should boost the stock liquidity.
- Estimates and valuation.** Following 1H18A results we revised downwards our 2018-21E estimates. We now foresee revenues decreasing by 4.5% yoy in FY18E (broadly in line yoy in 2H), while the EBITDA margin is expected to decrease by 100bps to reach 22.9%. Lastly, we expect net debt to close 2018 at around EUR 25.1M. In 2019-21 we expect revenue growth to remain sustained (+7% yoy on average) mainly thanks to the ongoing implementation of the group's strategy, a rebound in the consumer electronics distribution channel in Italy and the new distribution partnerships which should increase the space dedicated to Cellularline for both the group's Core and Audio products in the Consumer Electronics and Mass Merchandise channels. Following our estimates revision and the periodical update of our risk-free parameter (which rose to 3% vs. the previous 2.25%) our updated DCF model points to a **new target price of EUR 12.6/share** (from EUR 13.3/share). Our target price is at a premium of around 58% on current prices, implying a **BUY rating on the stock**.
- Key risks.** In our view, the key risks are: 1) an increase in competition from the main competitors and a potential higher penetration of private labels and online competitors; 2) potentially rapid changes in consumer trends and needs, also given the fast-technological evolution of electronics' components and accessories, with a possible impact on the group's strategy and brand awareness; and 3) we see a potential dilution and overhang risk due to the conversion of special shares and warrants. We also believe that the group's limited size and low liquidity on the AIM market should be taken into consideration. However, we highlight that after the listing on the AIM, management intends to then move its listing to the STAR segment.

1 October 2018: 13:03 CET
Date and time of production

BUY

Target Price: EUR 12.6
(from EUR 13.3)

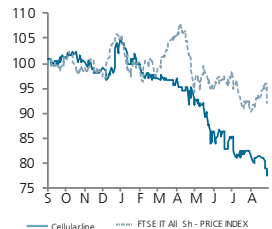
Italy/IT Distributors
Company Update

Intesa Sanpaolo
Research Department

Gabriele Berti
Research Analyst
+39 02 8794 9821
gabriele.berti@intesasanpaolo.com

Corporate Brokerage Team
Alberto Francese
Gabriele Berti

Price performance, -1Y
28/09/2018



Source: FactSet

Date and time of first circulation:
1 October 2018: 13:05 CET

Priced at market close on 28/09/2018*

Target price (€)	12.6
Target upside (%)	57.98
Market price (€)	8.00
52Wk range (€)	10.7/7.9
Market cap (€ M)	165.10
No. of shares	20.64
Free float (%)	80.6
Major shr (%)	S.L.M.K. SA 11.1
Reuters	CELL.MI
Bloomberg	CELL IM
FTSE IT All Sh	22918

Performance %			
Absolute	Rel. to FTSE IT All		
-1M	-4.8	-1M	-5.1
-3M	-7.5	-3M	-4.7
-12M	-21.6	-12M	-14.7

*unless otherwise indicated within report. Source: FactSet and Intesa Sanpaolo Research estimates

See page 9 for full disclosures and analyst certification
Banca IMI is Specialist to Cellularline

Contents

1H18A Results	3
Earnings Outlook	4
Buy-back plan	4
Estimates Revision	5
Valuation	6
Discounted cash flow	6

1H18A Results

Cellularline reported weak 1H18 results, mainly due to non-recurring factors derived from de-stocking activities of some Italian clients in the consumer electronics distribution channel. The key points of the results were:

- **Value of production was down by 9.9% yoy to EUR 59.3M** (vs. EUR 65.8M in 1H17). The EUR 5.9M decrease is particularly attributable to: i) EUR 4M due to an important Italian retailer who began restructuring activities in 2018 by reducing the stock levels, with a consequent significant, but temporary, decline in sell-in for the main suppliers, including Cellularline; ii) EUR 2M due to orders switching between 1H18 and 2H18; and iii) EUR 1.5M due to the insolvency procedures that occurred to some Italian retailers, started in 2H17. The negative factors mentioned above were partly offset by approximately EUR 1M of positive growth in some foreign markets, above all Spain and France;
- **Adj. EBITDA was down by 29.2% yoy to EUR 8M**, vs. EUR 11.3M in 1H17, mainly due to the abovementioned decrease in volumes;
- **Adj. net income was EUR 3.9M**, vs. EUR 5.0M in 1H17. The result does not take into consideration EUR 10.1M of tax benefits (related to 2015-17) thanks to the Patent Box agreement signed in March 2018, which will also reduce the group's tax rate in 2018 and 2019;
- **NFP was EUR 30.5M** vs. EUR 65M at 31 December 2017, benefiting from the completion of the Business Combination for EUR 20.3M, and from the positive trend in Operating Cash Flow, which came out at EUR 15.6M (vs. EUR 18.6M in 1H17).

Cellularline – 1H18A results			
EUR M	1H17A	1H18A	yoy %
Value of production	65.8	59.3	-10
Adj. EBITDA	11.3	8.0	-29
Adj. EBITDA margin (%)	17.2	13.5	
Adj. net income	5.0	3.9	-22

A: actual; Source: Company data

Earnings Outlook

The negative impact arising from deriving from the de-stocking activities of some Italian clients in the consumer electronics distribution channel should be substantially absorbed in 3Q18, and, according to management, turnover and EBITDA are expected broadly stable yoy in 2H18.

Overall, we appreciate the various actions implemented by management to reverse the declining 1H trend in the coming quarters. In particular:

- In Italy, some important agreements are being formalised, particularly regarding strategic distribution partnerships of complementary products with important international brands, which should be effective from 2019, with a potential increase in annual turnover of approximately EUR 15M in the Consumer Electronics and Mass Merchandise channels;
- In Spain, the group recently reached an agreement with a new customer (an important retailer of the Telco channel) for the supply of all 'Ricarica & Utilità' products in 200 shops starting from September and having a potential impact on turnover of around EUR 1.5M;
- In Switzerland, the group signed an agreement with an important retailer which should increase the annual turnover by EUR 1-2M, according to management;
- Furthermore, the international launch of the AQL brand, and the presentation of the new value added services Glass & Go and Case & Go, should lead to an improvement in turnover in the second half of the year, also thanks to a higher weighting of the international markets on sales.

Lastly, the group announced that the MTA listing (STAR segment) is expected by 1H19 and that it will present the Guidelines of the Group's Strategic Plan to the financial community in February/March 2019. We appreciate the news, which we believe should boost the stock liquidity.

We recall that Cellularline's strategy is based on the following five key pillars:

- **Product development.** The headphones segment represents a strong opportunity for the expansion of the product portfolio (the segment is shifting from the Hi-Fi accessories' market to the smartphone one). Furthermore, new products such as wearables and wireless chargers and portable speakers are an additional growth opportunity;
- **International expansion.** Thanks to the proven leadership in Italy and Austria and its 'Top 3' position in other countries, such as Germany, Belgium and the Netherlands, the company plans to exploit its competitive positioning. For example, in Germany, it intends to improve the distribution channels for the audio products' sector and several new initiatives are being implemented to support growth in foreign countries, such as France, Spain, the Middle East and Eastern Europe;
- **Online channel development.** Growth is to be pursued through the enhancement of: (i) the strategic relationships with Consumer Electronics operators; and (ii) sales also through third parties' marketplaces;
- **Sales channels' development.** In the Travel & Retail channel, Cellularline is strengthening its partnerships with the main airport operators while the Telco channel's growth will be supported by sales in TIM stores;
- **Growth through external lines.** The company is considering some acquisitions in the same or similar sectors.

Buy-back plan

The group's BoD will propose a buy-back plan to the shareholders meeting, to serve the incentive plan called the "Stock Grant Plan 2018-20", (up to a maximum of 915,000 ordinary shares) and any investment as consideration of extraordinary operations of interest to the company.

Estimates Revision

Following 1H18A results we revised downwards our 2018-21E estimates. We now foresee revenues decreasing by 4.5% yoy in FY18 (broadly in line yoy in 2H), while the EBITDA margin is expected to decrease by 100bps to 22.9%. Lastly, we expect net debt to close 2018 at around EUR 25.1M.

In 2019-21 we expect revenues growth to remain sustained (+7% yoy on average) mainly thanks to the ongoing implementation of the abovementioned group strategy, a rebound in the consumer electronics distribution channel in Italy and the new distribution partnerships which will increase the space dedicated to Cellularline for both group's Core and Audio products in the Consumer Electronics and Mass Merchandise channels.

We recall that we included positive effects on the group's tax rate coming from the patent box (which is retroactive from 2015). In particular, in the adjusted figures below we take into consideration:

- Tax benefits in FY18E which we estimate at EUR 4M related to 2018 (with a cash effect in FY19E);
- Tax benefits of EUR 4M; EUR 2M and EUR 2M in 2019, 2020 and 2021, respectively.

Cellularline – Estimates revision (2018E-21E)												
EUR M	2018E Old	2018E New	yoy %	2019E Old	2019E New	yoy %	2020E Old	2020E New	yoy %	2021E Old	2021E New	yoy %
Value of production	169.5	158.9	-6.3	179.3	176.4	-1.7	190.3	185.2	-2.7	202.1	194.5	-3.8
Adj. EBITDA	39.8	36.3	-8.7	41.5	40.0	-3.6	43.7	42.1	-3.7	46.2	44.2	-4.3
Adj. EBITDA margin (%)	23.5	22.9		23.1	22.7		23.0	22.7		22.9	22.7	
Adj. EBIT	36.7	33.2	-9.4	38.4	36.9	-3.9	40.6	39.0	-3.9	43.1	41.1	-4.6
Adj. EBITDA margin (%)	21.6	20.9		21.4	20.9		21.3	21.1		21.3	21.1	
Adj. net income	28.9	26.5	-8.5	30.3	29.2	-3.5	30.2	29.1	-3.8	32.3	30.9	-4.4
NFP	20.4	25.1		-9.5	-4.2		-37.2	-30.8		-66.0	-58.1	

E: estimates; Source: Intesa Sanpaolo Research

Valuation

We valued Cellularline using a DCF approach. We highlight that our valuation does not include any potential opportunities arising from external growth which, according to management, should be a key strategic pillar for the group in the next few years.

Following our estimates revision and the periodical update of our risk-free parameter (which rose to 3% vs. the previous 2.25%) our updated DCF model points to a new **target price of EUR 12.6/share (from EUR 13.3/share)**. Our target price is at a premium of around 58% on current prices, implying a **BUY rating on the stock**.

EUR 12.6/share TP; BUY

Overall, we believe that Cellularline can leverage on some company-specific positives, including: 1) a strong positioning and consolidated market shares in both Italy and in Europe; 2) a wide and an extensive product range; 3) a positive growth track record, outperforming all the major EU markets; 4) strong product innovation ability, capturing consumers' needs and trends; we highlight that the company's inventory obsolescence rate stands below 2%; 5) an experienced management team; 6) solid cash flow generation; and 7) a strong brand awareness, particularly in Italy.

Discounted cash flow

We used the following key assumptions in our valuation:

- A 7.8% WACC, incorporating a risk-free rate of 3.0%, an equity risk premium of 5.75%, levered beta of 1.2 (based on an average beta of our peers' panel; Source: Intesa Sanpaolo Research elaboration on Bloomberg data) and a long-term target gearing ratio of 30%;

Cellularline - WACC calculation (%)	
Risk-free rate	3.0
Equity risk premium	5.75
Beta (x)*	1.2
<u>Cost of equity</u>	<u>9.6</u>
Net cost of debt	3.5
Gross cost of debt	5.0
Tax rate	30
Gearing	30
WACC	7.8

* Intesa Sanpaolo Research elaboration on Bloomberg data; Source: Intesa Sanpaolo Research estimates

- Terminal value growth is prudentially set at 0%, while in calculating the LT, we applied the average of 2017A-21E for revenues and the level of EBIT margin we estimate for FY21E. As usual, LT depreciation equals capex;
- We adjusted 2017 NFP to include the EUR 17M of transaction costs and the cash-in of about EUR 37M arising from the merger with Crescita;
- We also adjusted the number of shares to include the effects arising from the potential conversion and warrants.

Cellularline - DCF model (2018-21E)					
EUR M	2018E	2019E	2020E	2021E	LT
Sales	158.9	176.4	185.2	194.5	176.1
yoy %	-4.0	11.0	5.0	5.0	NM
EBIT	33.2	36.9	39.0	41.1	37.2
EBIT margin (%)	20.9	20.9	21.1	21.1	21.1
Taxes	-5.2	-6.3	-8.9	-9.6	-10.8
NOPAT	28.1	30.6	30.1	31.5	26.4
D&A	3.1	3.1	3.1	3.1	
Capex	-3.5	-3.5	-3.5	-3.5	
NWC changes	-4.2	-4.0	-2.1	-3.2	
Others	0.0	0.0	0.0	0.0	
FCF	23.5	26.2	27.6	27.9	26.4
Discounted FCF	23.5	24.3	23.7	22.3	19.6
WACC (%)	7.8				
Perpetuity growth rate (%)	0.0				
NPV of cash flows	93.8				
NPV of terminal value (2022E)	250.1				
EV	343.9				
Adj. net debt 2017	45.0				
Equity value	298.9				
No. of shares fully diluted (M)	23.6				
Value per share (EUR)	12.6				

Source: Intesa Sanpaolo Research estimates

Cellularline - Sensitivity analysis					
EUR/share	Growth (%)				
WACC (%)	-1.0	-0.5	0.0	0.5	1.0
6.82	13.1	13.8	14.7	15.7	16.9
7.32	12.2	12.9	13.6	14.4	15.4
7.82	11.4	12.0	12.6	13.4	14.2
8.32	10.7	11.2	11.8	12.4	13.1
8.82	10.1	10.6	11.0	11.6	12.2

Source: Intesa Sanpaolo Research estimates

Cellularline - Key data							
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector		Free float (%)	Reuters Code	
BUY	Ord 12.6	Ord 8.00	IT Distributors		80.6	CELL.MI	
Values per share (EUR)				2017PF	2018E	2019E	2020E
No. ordinary shares (M)				21.67	21.67	21.67	21.67
No. NC saving/preferred shares (M)				0.00	0.00	0.00	0.00
Total no. of shares (M)				21.67	21.67	21.67	21.67
Market cap (EUR M)				223.17	173.39	173.39	173.39
Adj. EPS				1.08	1.22	1.35	1.34
CFPS				1.3	1.0	1.5	1.5
BVPS				4.8	6.9	8.2	9.6
Dividend ord				2.76	0	0	0
Income statement (EUR M)				2017PF	2018E	2019E	2020E
Revenues				165.6	158.9	176.4	185.2
Adj. EBITDA				39.70	36.34	40.00	42.10
Adj. EBIT				35.60	33.24	36.90	39.00
Adj. Pre-tax income				33.12	14.64	35.50	38.00
Adj. Net income				23.30	26.46	29.24	29.06
Cash flow (EUR M)				2017PF	2018E	2019E	2020E
Net income before minorities				23.3	19.5	29.2	29.1
Depreciation and provisions				4.1	3.1	3.1	3.1
Others/Uses of funds				0	0	0	0
Change in working capital				-3.2	-4.2	-4.0	-2.1
Operating cash flow				24.2	18.4	28.3	30.1
Capital expenditure				-1.4	-3.5	-3.5	-3.5
Financial investments				0	0	0	0
Acquisitions and disposals				0	0	0	0
Free cash flow				22.8	14.9	24.8	26.6
Dividends				-59.8	0	0	0
Equity changes & Other non-operating items				-1.9	25.0	4.5	0
Net cash flow				-38.9	39.9	29.3	26.6
Balance sheet (EUR M)				2017PF	2018E	2019E	2020E
Net capital employed				169.9	174.5	174.9	177.4
of which associates				0	0	0	0
Net debt/-cash				65.0	25.1	-4.2	-30.8
Minorities				0	0	0	0
Net equity				104.9	149.4	178.6	207.7
Minorities value				0	0	0	0
Enterprise value				288.2	198.5	169.2	142.6
Stock market ratios (x)				2017PF	2018E	2019E	2020E
Adj. P/E				9.6	6.6	5.9	6.0
P/CFPS				8.1	7.7	5.4	5.4
P/BVPS				2.1	1.2	0.97	0.83
Payout (%)				0	0	0	100
Dividend yield (% ord)				26.8	0	0	0
FCF yield (%)				10.2	8.6	14.3	15.3
EV/sales				1.7	1.2	0.96	0.77
EV/EBITDA				7.3	5.5	4.2	3.4
EV/EBIT				8.1	6.0	4.6	3.7
EV/CE				1.7	1.1	0.97	0.80
D/EBITDA				1.6	0.69	Neg.	Neg.
D/EBIT				1.8	0.76	Neg.	Neg.
Profitability & financial ratios (%)				2017PF	2018E	2019E	2020E
EBITDA margin				24.0	22.9	22.7	22.7
EBIT margin				21.5	20.9	20.9	21.1
Tax rate				29.9	35.4	17.6	23.5
Net income margin				14.1	12.2	16.6	15.7
ROCE				20.9	19.0	21.1	22.0
ROE				21.2	15.3	17.8	15.0
Interest cover				16.7	20.8	36.9	65.0
Debt/equity ratio				62.0	16.8	-2.4	-14.8
Growth (%)				2017PF	2018E	2019E	2020E
Sales					-4.0	11.0	5.0
EBITDA					-8.5	10.1	5.3
EBIT					-6.6	11.0	5.7
Pre-tax income					-55.8	NM	7.0
Adj. net income					13.6	10.5	-0.6

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

Disclaimer

Analyst certification

The financial analysts who prepared this report, and whose names and roles appear within the document, certify that:

1. The views expressed on the company mentioned herein accurately reflect independent, fair and balanced personal views; 2. No direct or indirect compensation has been or will be received in exchange for any views expressed.

Specific disclosures

1. Neither the analysts nor any persons closely associated with the analysts have a financial interest in the securities of the Company.
2. Neither the analysts nor any persons closely associated with the analysts serve as an officer, director or advisory board member of the Company.
3. Some of the analysts named in the document are members of AIAF
4. The analysts named in this document are not registered with or qualified by FINRA, the U.S. regulatory body with oversight over Banca IMI Securities Corp. Accordingly, the analysts may not be subject to FINRA Rule 2241 and NYSE Rule 472 with respect to communications with a subject company, public appearances and trading securities in a personal account. For additional information, please contact the Compliance Department of Banca IMI Securities Corp at 212-326-1133.
5. The analysts of this report do not receive bonuses, salaries, or any other form of compensation that is based upon specific investment banking transactions.
6. The research department supervisors do not have a financial interest in the securities of the Company.

This research has been prepared by Intesa Sanpaolo SpA and distributed by Banca IMI SpA Milan, Banca IMI SpA-London Branch (a member of the London Stock Exchange) and Banca IMI Securities Corp (a member of the NYSE and FINRA). Intesa Sanpaolo SpA accepts full responsibility for the contents of this report and also reserves the right to issue this document to its own clients. Banca IMI SpA and Intesa Sanpaolo SpA, which are both part of the Intesa Sanpaolo Group, are both authorised by the Banca d'Italia and are both regulated by the Financial Conduct Authority in the conduct of designated investment business in the UK and by the SEC for the conduct of US business.

Opinions and estimates in this research are as at the date of this material and are subject to change without notice to the recipient. Information and opinions have been obtained from sources believed to be reliable, but no representation or warranty is made as to their accuracy or correctness. Past performance is not a guarantee of future results. The investments and strategies discussed in this research may not be suitable for all investors. If you are in any doubt you should consult your investment advisor.

This report has been prepared solely for information purposes and is not intended as an offer or solicitation with respect to the purchase or sale of any financial products. It should not be regarded as a substitute for the exercise of the recipient's own judgment. No Intesa Sanpaolo SpA or Banca IMI SpA entities accept any liability whatsoever for any direct, consequential or indirect loss arising from any use of material contained in this report. This document may only be reproduced or published together with the name of Intesa Sanpaolo SpA and Banca IMI SpA.

Intesa Sanpaolo SpA and Banca IMI SpA have in place the Conflicts of Interest Management Rules for managing effectively the conflicts of interest which might affect the impartiality of all investment research which is held out, or where it is reasonable for the user to rely on the research, as being an impartial assessment of the value or prospects of its subject matter. A copy of these Rules is available to the recipient of this research upon making a written request to the Compliance Officer, Intesa Sanpaolo SpA, C.so Matteotti n° 1, 20121 Milan (MI) Italy. Intesa Sanpaolo SpA has formalised a set of principles and procedures for dealing with conflicts of interest ("Rules for Research"). The Rules for Research is clearly explained in the relevant section of Intesa Sanpaolo's web site (www.intesaspa.com).

Member companies of the Intesa Sanpaolo Group, or their directors and/or representatives and/or employees and/or persons closely associated with them, may have a long or short position in any securities mentioned at any time, and may make a purchase and/or sale, or offer to make a purchase and/or sale, of any of the securities from time to time in the open market or otherwise.

Intesa Sanpaolo SpA issues and circulates research to Major Institutional Investors in the USA only through Banca IMI Securities Corp., 1 William Street, New York, NY 10004, USA, Tel: (1) 212 326 1150.

Residents in Italy: This document is intended for distribution only to professional clients and qualified counterparties as defined in Consob Regulation no. 20307 of 15.02.2018, as subsequently amended and supplemented, either as a printed document and/or in electronic form.

Person and residents in the UK: This document is not for distribution in the United Kingdom to persons who would be defined as private customers under rules of the FCA.

US persons: This document is intended for distribution in the United States only to Major US Institutional Investors as defined in SEC Rule 15a-6. US Customers wishing to effect a transaction should do so only by contacting a representative at Banca IMI Securities Corp. in the US (see contact details above).

Method of distribution

This document is for the exclusive use of the person to whom it is delivered by Banca IMI and Intesa Sanpaolo and may not be reproduced, redistributed, directly or indirectly, to third parties or published, in whole or in part, for any reason, without prior consent expressed by Banca IMI and/or Intesa Sanpaolo. The copyright and all other intellectual property rights on the data, information, opinions and assessments referred to in this information document are the exclusive domain of the Intesa Sanpaolo banking group, unless otherwise indicated. Such data, information, opinions and assessments cannot be the subject of further distribution or reproduction in any form and using any technique, even partially, except with express written consent by Banca IMI and/or Intesa Sanpaolo.

Persons who receive this document are obliged to comply with the above indications.

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 and Weekly Preview report 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) or by contacting your sales representative.

Equity Research Publications in Last 12M

The list of all recommendations on any financial instrument or issuer produced by Intesa Sanpaolo Research Department and distributed during the preceding 12-month period is available on the Intesa Sanpaolo website at the following address:

http://www.group.intesasanpaolo.com/scripts/sir0/si09/studi/eng_archivio_racc_equity.jsp

Valuation methodology (long-term horizon: 12M)

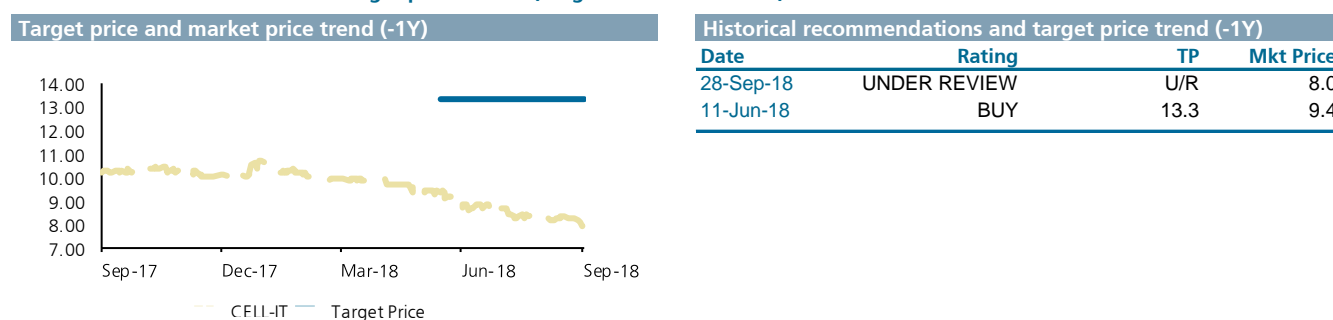
The Intesa Sanpaolo SpA Equity Research Department values the companies for which it assigns recommendations as follows: We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on 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)



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

Intesa Sanpaolo Research Rating Distribution (at August 2018)					
Number of companies considered: 105	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)	42	29	27	2	1
of which Intesa Sanpaolo's Clients (%) (*)	75	73	29	50	100

(*) 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

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (jointly also the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Modello di Organizzazione, Gestione e Controllo" pursuant to Legislative Decree 8 June, 2001 no. 231 (available at the Intesa Sanpaolo website, webpage http://www.group.intesasanpaolo.com/scriptlsir0/si09/governance/eng_wp_governance.jsp, along with a summary sheet, webpage <https://www.bancaimi.com/en/bancaimi/chisiamo/documentazione/normative>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, the FINRA Rule 2241, as well as the FCA Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo S.p.A. is available in the "Rules for Research " and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A.

At the Intesa Sanpaolo website, webpage http://www.group.intesasanpaolo.com/scriptlsir0/si09/studi/eng_archivio_conflitti_mad.jsp you can find the archive of disclosure of interests or conflicts of interest of the Intesa Sanpaolo Banking Group in compliance with the applicable laws and regulations.

Furthermore, we disclose the following information on the Intesa Sanpaolo Banking Group's conflicts of interest:

- 1 One or more of the companies of the Intesa Sanpaolo Banking Group plan to solicit investment banking business or intends to seek compensation from Cellularline in the next three months
- 2 One or more of the companies of the Intesa Sanpaolo Banking Group have an equity stake of 3% or more in Cellularline S.P.A. or in the Company that has a controlling interest in Cellularline S.P.A. or are a major shareholder of Cellularline S.P.A.
- 3 Banca IMI acts as Nominated Advisor relative to securities issued by Cellularline S.P.A.
- 4 Banca IMI acts as Specialist relative to securities issued by Cellularline S.P.A.
- 5 One or more of the companies of the Intesa Sanpaolo Banking Group have a long position larger than the 0.5% of the issued share capital of Cellularline S.P.A.

Intesa Sanpaolo Research Department – Head of Research Department: Gregorio De Felice

Head of Equity & Credit Research

Giampaolo Trasi +39 02 8794 9803 giampaolo.trasi@intesasnpaolo.com

Equity Research

Monica Bosio +39 02 8794 9809 monica.bosio@intesasnpaolo.com
 Luca Bacocoli +39 02 8794 9810 luca.bacocoli@intesasnpaolo.com
 Antonella Frongillo +39 02 8794 9688 antonella.frongillo@intesasnpaolo.com
 Inti Salvador Merino Rimini +39 02 8794 9813 inti.merino@intesasnpaolo.com
 Manuela Meroni +39 02 8794 9817 manuela.meroni@intesasnpaolo.com
 Gian Luca Pacini +39 02 8794 9818 gianluca.pacini@intesasnpaolo.com
 Elena Perini +39 02 8794 9814 elena.perini@intesasnpaolo.com
 Bruno Permutti +39 02 8794 9819 bruno.permutti@intesasnpaolo.com
 Roberto Ranieri +39 02 8794 9822 roberto.ranieri@intesasnpaolo.com

Corporate Broking Research

Alberto Francese +39 02 8794 9815 alberto.francese@intesasnpaolo.com
 Gabriele Berti +39 02 8794 9821 gabriele.berti@intesasnpaolo.com

Technical Analysis

Corrado Binda +39 02 8021 5763 corrado.binda@intesasnpaolo.com
 Sergio Mingolla +39 02 8021 5843 antonio.mingolla@intesasnpaolo.com

Research Clearing & Production

Anna Whatley +39 02 8794 9824 anna.whatley@intesasnpaolo.com
 Bruce Marshall +39 02 8794 9816 robert.marshall@intesasnpaolo.com
 Annita Ricci +39 02 8794 9823 annita.ricci@intesasnpaolo.com
 Wendy Ruggeri +39 02 8794 9811 wendy.ruggeri@intesasnpaolo.com
 Elisabetta Bugliesi (IT support) +39 02 8794 9877 elisabetta.bugliesi@intesasnpaolo.com

Banca IMI SpA

Institutional Sales

Catherine d'Aragon +39 02 7261 5929 catherine.daragon@bancaimi.com
 Carlo Cavalieri +39 02 7261 2722 carlo.cavalieri@bancaimi.com
 Stefan Gess +39 02 7261 5927 stefan.gess@bancaimi.com
 Francesca Guadagni +39 02 7261 5817 francesca.guadagni@bancaimi.com
 Federica Repetto +39 02 7261 5517 federica.repetto@bancaimi.com
 Daniela Stucchi +39 02 7261 5708 daniela.stucchi@bancaimi.com
 Marco Tinessa +39 02 7261 2158 marco.tinessa@bancaimi.com
 Mark Wilson +39 02 7261 2758 mark.wilson@bancaimi.com

Corporate Broking

Carlo Castellari +39 02 7261 2122 carlo.castellari@bancaimi.com
 Laura Spinella +39 02 7261 5782 laura.spinella@bancaimi.com

Sales Trading

Lorenzo Pennati +39 02 7261 5647 lorenzo.pennati@bancaimi.com
 Alessandro Bevacqua +39 02 7261 2904 alessandro.bevacqua@bancaimi.com

Equity Derivatives Institutional Sales

Emanuele Manini +39 02 7261 5936 emanuele.manini@bancaimi.com
 Andrea Cisolotto +39 02 7261 5975 andrea.cisolotto@bancaimi.com
 Francesca Dizione +39 02 7261 2759 francesca.dizione@bancaimi.com
 Enrico Ferrari +39 02 7261 2806 enrico.ferrari@bancaimi.com
 Alessandro Monti +44 207 894 2412 alessandro.monti@bancaimi.com
 Umberto De Paoli +44 207 894 2456 umberto.depaoli@bancaimi.com

Banca IMI SpA – Head of Market Hub: Gherardo Lenti Capoduri

E-commerce Distribution

Alessandra Minghetti +39 02 7261 2973 alessandra.minghetti@bancaimi.com
 Alessia Galluccio +39 02 7261 2339 alessia.galluccio@bancaimi.com
 Umberto Menconi +39 02 7261 5492 umberto.menconi@bancaimi.com
 Filippo Besozzi +39 02 7261 5922 filippo.besozzi@bancaimi.com
 Lawrence Peirson (London Office) +44 207 894 2476 lawrence.peirson@bancaimi.com

Brokerage & Execution

Carmine Calamello +39 02 7261 2194 carmine.calamello@bancaimi.com

Platform Service

Sergio Francolini +39 02 7261 5859 sergio.francolini@bancaimi.com

Banca IMI Securities Corp.

US Institutional Sales

Barbara Leonardi +1 212 326 1232 barbara.leonardi@bancaimi.com
 Greg Principe +1 212 326 1233 greg.principe@bancaimi.com

Banca IMI SpA

Largo Mattioli, 3
20121 Milan, Italy
Tel: +39 02 7261 1

Banca IMI Securities Corp.

1 William Street
10004 New York, NY, USA
Tel: (1) 212 326 1100

Banca IMI London Branch

90 Queen Street
London EC4N 1SA, UK
Tel +44 207 894 2600