

Cellularline

1H19E Results Preview

Cellularline - Key estimates and data					
Y/E December		2018PF	2019E	2020E	2021E
Revenues	EUR M	129.7	148.1	158.2	164.5
Adj. EBITDA	EUR M	33.9	35.1	37.5	39.5
Adj. EBIT	EUR M	31.0	31.8	34.0	36.0
Adj. Net Income	EUR M	23.1	23.4	23.9	25.3
Dividend ord.	EUR	0.30	0.32	0.33	0.35
Adj. EPS	EUR	1.05	1.07	1.09	1.16
Adj. EV/EBITDA	x	6.5	5.0	4.3	3.6
Adj. P/E	x	6.8	6.5	6.4	6.1

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

- 1H19E top-line & adj. EBITDA preview.** Results are due on 12 September. We expect Cellularline to post revenues of around EUR 54.7M, up by around 13% yoy vs. our 1H18PF estimates figure (+7% on an organic basis, thus excluding the impact of the consolidation of Systemaitalia) and adj. EBITDA at EUR 9.1M. Overall we expect a positive growth trend in the first half of the year, confirming that the issues seen last year in the Consumer Electronics segment of the Italian market were related to one-off factors. Furthermore, we underline that 1H results should also benefit from the commercial agreements in Italy, Spain and Switzerland signed in 2018 and the integration of Systemaitalia which is proceeding according to management's expectations.
- Entry to STAR segment.** We recall that the group's shares and warrants started to trade on MTA market of Italian stock exchange (STAR segment) as of 22 July. We believe that the listing on the main market of the Italian Stock Exchange should increase the stock liquidity.
- Outlook.** Going forward, we expect the group to continue to focus on the following key pillars: i) sales channels' development. Cellularline aims to grow in the Travel Retail, Telco and Mass Merchandise channels. The company also seeks to penetrate alternative channels such as supermarkets and is continuing to work on the enhancement of the online channel; ii) product development. Cellularline has recently introduced two value-added service lines for smartphone owners (Glass & Go and Case & Go); iii) international expansion. Cellularline expects to increase its international presence also through the international launch of the AQL brand (end of 2018). We underline that AQL is performing very well in the Italian market where, according to management, it has become the third largest player in terms of market share; and iv) growth through external lines. The company is considering some acquisitions in the same or similar sectors both in Italy and/or abroad, mainly to reinforce the group's products portfolio or to reinforce sales channels with higher growth potential.
- Estimates revision.** We slightly revised our forecasts mainly to include an expected weaker profitability due to a less favourable product mix as we expect a higher weighting of the AQL business line, distribution channel mix and higher structural costs to satisfy the MTA listing requirements. We also included our expectations arising from the impact of the new IFRS 16.
- Valuation.** Following our estimates revision and the periodical update of our equity risk premium parameters **our updated DCF model points to a new target price of EUR 10.8/share** (from EUR 12.0/share). Our target price is at a premium of around 54% on current prices, therefore **we confirm our 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 potentially 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.

3 September 2019: 12:47 CET
Date and time of production

BUY

Target Price: EUR 10.8
(from EUR 12.0)

Italy/IT Distributors
Results Preview

Intesa Sanpaolo
Research Department

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

Corporate Broking Research
Alberto Francese
Gabriele Berti
Sebastiano Grisetti

Price performance, -1Y



Source: FactSet

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MTA-STAR

Priced at market close on 02/09/2019*	
Target price (€)	10.8
Target upside (%)	54.29
Market price (€)	7.00
52Wk range (€)	8.50/6.72
Market cap (€ M)	153.08
No. of shares	21.87
Free float (%)	75.0
Major shr	S.L.M.K. SA
(%)	10.4
Reuters	CELL.MI
Bloomberg	CELL IM
FTSE IT All Sh	23315
Performance %	
Absolute	Rel. to FTSE IT All
-1M	0.0 -1M -1.5
-3M	-1.4 -3M -8.2
-12M	-15.7 -12M -18.7

*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

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Estimates Revision

We slightly revised our forecasts mainly to include an expected weaker profitability due to a less favourable product mix as we expect a higher weighting of the AQL business line, distribution channel mix and higher structural costs to satisfy the MTA listing requirements.

We also included our expectations arising from the impact of the new IFRS 16: a) EUR +0.5M on EBITDA; b) EUR +0.4M in terms of D&A; c) EUR +EUR 0.1M in financial charges and d) EUR +2M on NFP and Assets. Thus, we expect no significant effect below the EBITDA line.

As regards the NFP, in addition to the abovementioned impact arising from IFRS 16, we also included: i) an approx. EUR 4M cash-out related to the group's buy-back program; ii) the value related to the put&call options on the 40% remaining minority interest of Systemaitalia (around EUR 2.7M); and iii) a higher NWC absorption.

We also highlight that in our adjusted data we did not take into consideration:

- An expected impact of PPA amortisation of EUR 5.8M per year on EBIT and of EUR 4M on the group's net income;
- The potential impact on P&L arising from the change of the Warrant's fair value;
- Extraordinary costs in FY19E related to both the STAR listing and the last M&A deal for about EUR 2M.

Cellularlinegroup – Estimates revision 2019E-21E									
EUR M	2019E Old	2019E New	yoy %	2020E Old	2020E New	yoy %	2021 Old	2021 New	yoy %
Revenues	150.9	148.1	-1.9	167.9	158.2	-5.8	173.5	164.5	-5.2
Adj. EBITDA	37.0	35.1	-5.1	41.1	37.5	-8.7	42.5	39.5	-7.1
Adj. EBITDA margin (%)	24.5	23.7		24.5	23.7		24.5	24.0	
Adj. EBIT	34.0	31.8	-6.5	38.1	34.0	-10.7	39.5	36.0	-8.9
Adj. EBITDA margin (%)	22.5	21.5		22.7	21.5		22.8	21.9	
Adj. net income	25.5	23.4	-8.2	26.6	23.9	-10.0	27.6	25.3	-8.4
NFP	10.2	23.9		-3.4	7.0		-18.3	-12.8	

Source: Intesa Sanpaolo Research estimates

Cellularlinegroup – Adjusted vs. reported figures (EUR M)			
EUR M	2019E	2020E	2021E
Adj. EBITDA	35.1	37.5	39.5
margin on revenues %	23.7	23.7	24.0
Reported EBITDA	33.1	39.5	40.8
margin on revenues %	22.3	24.0	24.0
Adj. EBIT	31.8	34.0	36.0
margin on revenues %	21.5	21.5	21.9
Reported EBIT	24.1	28.2	30.2
margin on revenues %	16.3	17.8	18.3
Adj. Net income	23.4	23.9	25.3
Reported Net income	17.8	20.2	21.6

Source: Intesa Sanpaolo Research estimates

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 equity risk premium parameters our updated DCF model points to a new **target price of EUR 10.8/share (from EUR 12.0/share)**. Our target price is at a premium of around 54% on current prices, implying a **BUY rating on the stock**.

EUR 10.8/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 Europe; 2) a wide and 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:

- An 8.1% WACC, incorporating a risk-free rate of 2.75%, an equity risk premium of 6.75% (vs. 6.5%), re-levered beta of 1.1 (Source: Intesa Sanpaolo Research elaboration on Bloomberg data) and a long-term target gearing ratio of 30%;

Cellularline - WACC calculation (%)	
Risk-free rate	2.75
Equity risk premium	6.75
Beta (x)*	1.1
<u>Cost of equity</u>	<u>10.1</u>
Net cost of debt	3.5
Gross cost of debt	5.0
Tax rate	30
Gearing	30
WACC	8.1

* 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 2017 restated-2021E for revenues and the level of EBIT margin we estimate for FY21E. As usual, LT depreciation equals capex;
- We adjusted the number of shares to include the effects arising from the potential conversion and warrants.

Cellularline - DCF model (2019E-21E)				
EUR M	2019E	2020E	2021E	LT
Sales	148.1	158.2	164.5	148.0
yoy %	14.2	6.8	4.0	
EBIT	31.8	34.0	36.0	32.4
EBIT margin (%)	21.5	21.5	21.9	21.9
Taxes	-4.5	-6.2	-6.8	-9.1
NOPAT	27.3	27.8	29.2	23.3
Non-cash items	2.9	3.1	3.1	
Investments	-8.2	-3.0	-3.0	
NWC changes	-8.3	-4.6	-2.9	
Others	0.0	0.0	0.0	
FCF	13.7	23.3	26.4	23.3
Discounted FCF	13.4	21.0	22.0	18.0
WACC (%)	8.1			
Perpetuity growth rate (%)	0.0			
NPV of cash flows	56.3			
NPV of terminal value (2022E)	221.1			
EV	277.4			
Net debt 2018	22.0			
Equity value	255.4			
No. of shares fully diluted (M)	23.6			
Value per share (EUR)	10.8			

Source: Intesa Sanpaolo Research estimates

Cellularline - Sensitivity analysis					
EUR/share	Growth (%)				
WACC (%)	-1.0	-0.5	0.0	0.5	1.0
7.1	11.1	11.8	12.5	13.3	14.3
7.6	10.4	11.0	11.6	12.3	13.1
8.1	9.8	10.3	10.8	11.4	12.1
8.6	9.2	9.6	10.1	10.6	11.2
9.1	8.7	9.1	9.5	10.0	10.5

Source: Intesa Sanpaolo Research estimates

Cellularline - Key data						
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)	Reuters Code	
BUY	Ord 10.8	Ord 7.00	IT Distributors	75.0	CELL.MI	
Values per share (EUR)						
		2017 Restated	2018PF	2019E	2020E	2021E
No. ordinary shares (M)		21.67	21.67	21.67	21.67	21.67
No. NC saving/preferred shares (M)		0.20	0.20	0.20	0.20	0.20
Total no. of shares (M)		21.87	21.87	21.87	21.87	21.87
Market cap (EUR M)		225.18	196.75	153.08	153.08	153.08
Adj. EPS		1.08	1.05	1.07	1.09	1.16
CFPS		1.2	0.90	0.96	1.1	1.1
BVPS		4.8	8.8	9.3	10.0	10.8
Dividend ord		2.73	0.30	0.32	0.33	0.35
Income statement (EUR M)						
		2017 Restated	2018PF	2019E	2020E	2021E
Revenues		139.5	129.7	148.1	158.2	164.5
Adj. EBITDA		39.5	33.9	35.1	37.5	39.5
Adj. EBIT		36.5	31.0	31.8	34.0	36.0
Adj. net income		23.7	23.1	23.4	23.9	25.3
Cash flow (EUR M)						
		2017 Restated	2018PF	2019E	2020E	2021E
Net income before minorities		23.7	16.9	17.8	20.2	21.6
Depreciation and provisions		3.0	2.9	3.3	3.5	3.5
Others/Uses of funds		0	0	5.3	5.3	5.3
Change in working capital		-3.2	3.3	-8.3	-4.6	-2.9
Operating cash flow		23.5	23.1	18.1	24.4	27.5
Capital expenditure		-1.4	-3.0	-3.0	-3.0	-3.0
Financial investments		0	0	-5.2	0	0
Acquisitions and disposals		0	0	0	0	0
Free cash flow		22.1	20.1	9.9	21.4	24.5
Dividends		-59.8	0	-6.1	-7.0	-7.2
Equity changes & Other non-operating items		-1.2	22.9	-5.7	2.5	2.5
Net cash flow		-38.9	43.0	-1.9	16.9	19.8
Balance sheet (EUR M)						
		2017 Restated	2018PF	2019E	2020E	2021E
Net capital employed		169.9	214.0	227.5	226.4	223.5
of which associates		0	0	0	0	0
Net debt/-cash		65.0	22.0	23.9	7.0	-12.8
Minorities		0	0	0	0	0
Net equity		104.9	192.0	203.7	219.4	236.3
Minorities value		0	0	0	0	0
Enterprise value		290.2	218.7	176.9	160.1	140.3
Stock market ratios (x)						
		2017 Restated	2018PF	2019E	2020E	2021E
Adj. P/E		6.6	6.8	6.5	6.4	6.1
P/CFPS		5.9	7.9	7.3	6.5	6.1
P/BVPS		1.5	0.8	0.8	0.7	0.6
Payout (%)		0	26	30	30	30
Dividend yield (% ord)		26.6	3.3	4.6	4.7	5.0
FCF yield (%)		14.1	12.9	6.5	14.0	16.0
EV/sales		2.1	1.7	1.2	1.0	0.9
Adj. EV/EBITDA		7.4	6.5	5.0	4.3	3.6
Adj. EV/EBIT		8.0	7.1	5.6	4.7	3.9
EV/CE		1.7	1.0	0.8	0.7	0.6
D/Adj. EBITDA		1.6	0.6	0.7	0.2	Neg.
D/Adj. EBIT		1.8	0.7	0.8	0.2	Neg.
Profitability & financial ratios (%)						
		2017 Restated	2018PF	2019E	2020E	2021E
Adj. EBITDA margin		28.3	26.1	23.7	23.7	24.0
Adj. EBIT margin		26.1	23.9	21.5	21.5	21.9
Tax rate		28.7	NM	20.2	23.4	24.3
Adj. Net income margin		17.0	17.8	15.8	15.1	15.4
ROCE		21.0	8.8	10.6	12.5	13.5
ROE		21.6	11.4	9.0	9.6	9.5
Interest cover		NM	NM	24.1	28.2	30.2
Debt/equity ratio		62.0	11.5	11.7	3.2	Neg.
Growth (%)						
			2018PF	2019E	2020E	2021E
Sales			-7.0	14.2	6.8	4.0
Adj. EBITDA			-14.1	3.6	6.8	5.3
Adj. EBIT			-15.0	2.6	6.9	5.9
Adj. net income			-2.5	1.4	2.1	5.9

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

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Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies have revenues ranging from EUR 50M-EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation below EUR 1Bn.

Notes

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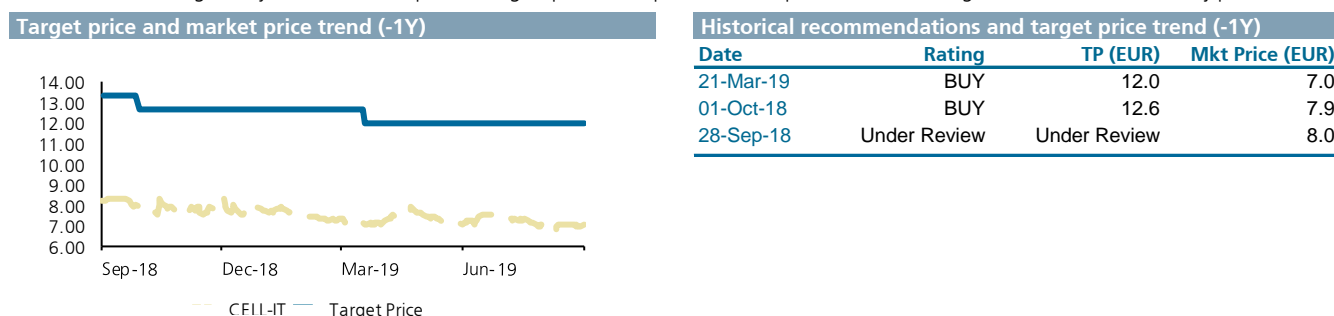
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Long-term rating	Definition
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ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
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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

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Total Equity Research Coverage relating to last rating (%)	47	19	33	1	0
of which Intesa Sanpaolo's Clients (%) (*)	79	41	43	0	0

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

Valuation methodology (short-term horizon: 3M)

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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.intesasnpaolo.com/scripts/lir0/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 Financial Conduct Authority's 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.intesasnpaolo.com/scripts/lir0/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 or in the Company that has a controlling interest in Cellularline or are a major shareholder of Cellularline
- 3 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
- 4 Banca IMI acts as Nominated Advisor, Specialist relative to securities issued by Cellularline

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 Bacoccoli +39 02 8794 9810 luca.bacoccoli@intesasnpaolo.com
 Davide Candela +39 02 8794 9813 davide.candela@intesasnpaolo.com
 Antonella Frongillo +39 02 8794 9688 antonella.frongillo@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
 Sebastiano Grisetti +39 02 8794 3187 sebastiano.grisetti@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 – Head of Global Markets Sales: Bernardo Bailo

Head of Equity Sales

Giorgio Pozzobon +39 02 7261 5616 giorgio.pozzobon@bancaimi.com

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
 Francesco Riccardi +39 02 7261 5966 francesco.riccardi@bancaimi.com
 Laura Spinella +39 02 7261 5782 laura.spinella@bancaimi.com

Sales Trading

Lorenzo Pennati +39 02 7261 5647 lorenzo.pennati@bancaimi.com

Equity Derivatives Institutional Sales

Emanuele Manini +39 02 7261 5936 emanuele.manini@bancaimi.com
 Matteo Buratti +39 02 7261 5335 matteo.buratti@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

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