

Company Note

Cellularline

Covid Second Wave to Impact 4Q

Despite the tough market environment, we appreciate the group's capability to post a positive adjusted EBITDA in all quarters, also thanks to an incisive cost-cutting plan implemented by management. We also appreciate the good resilience of cash generation. We expect Covid-19 second wave to impact 4Q.

3Q trend

Starting at the end of June and throughout 3Q, Cellularline registered a progressive recovery of demand for its products in the main markets in which it operates. However, this trend was not enough to return to the levels of the period of the previous year, although it marked a sharp improvement from the 52.1% decline in sales recorded in 2Q, which had been severely penalised by the lockdown. Excluding the effects arising from the acquisition of Worldconnect, the group's net financial position improved by EUR 0.8M vs. the result at 30 June. Furthermore, we recall that the group recently announced a new loan agreement that envisages a 3-year extension of its financial debt maturities, which should allow the group to benefit from higher financial flexibility, in addition to a new line for acquisitions, totalling EUR 20M to support the group's M&A strategy.

Outlook and estimates

Despite the rebound trend registered in 3Q, management disclosed a cautious outlook for the final part of the year (October was 'slightly weaker' than 3Q, according to management), due to the most recent developments of the pandemic in Europe. Overall, we revise downwards our FY20E estimates to factor in the latest lockdown measures taken in the group's main geographies. We also take a more cautious stance on our 2021 and 2022 projections, as we expect both some restrictions to be still in place in the first part of 2021, and a slower rebound of Skross/travel retail channel.

Valuation

Following our estimates revision and the periodical update of our risk free and equity risk premium parameters, our updated DCF model points to a **new target price of EUR 7.6/share** (from EUR 9.4/share), implying **a BUY rating on the stock**.

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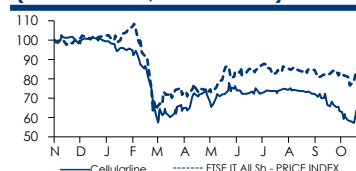
BUY

Target Price: EUR 7.6
(from EUR 9.4)

Italy/Consumer Services
Update

MTA-STAR

Price Performance
(RIC: CELL.MI, BB: CELL IM)



Cellularline - Key Data

Price date (market close)	16/11/2020
Target price (EUR)	7.6
Target upside (%)	80.52
Market price (EUR)	4.21
Market cap (EUR M)	91.24
52Wk range (EUR)	7.10/3.96

Price performance %	1M	3M	12M
Absolute	-3.9	-17.8	-38.1
Rel. to FTSE IT All Sh	-12.1	-22.4	-31.4

Y/E Dec (EUR M)	FY19A	FY20E	FY21E
Revenues	140.4	107.0	137.0
Adj. EBITDA	33.06	16.05	26.03
Adj. EBIT	29.36	12.05	22.03
Adj. Net income	23.31	7.50	14.73
EPS (EUR)	1.07	0.34	0.67
Net debt/-cash	24.60	48.43	40.28
Adj P/E (x)	6.7	12.3	6.3
EV/EBITDA (x)	5.5	8.8	5.1
EV/EBIT (x)	9.0	34.7	8.3
Div ord yield (%)	4.6	2.4	4.8

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

Intesa Sanpaolo Research Dept.

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

Corporate Broking Research

Alberto Francese, Gabriele Berti
Arianna Terazzi

3Q/9M20 Results

Revenues came in at EUR 70.7M in 9M20 vs. EUR 93.2M in 9M19A, strongly impacted by the health emergency linked to the global spread of Covid-19. However, the group recorded a recovery of demand in 3Q, which declined by 10.1% yoy. Looking at the business lines, the Red line (82% of the total), which includes smartphone and tablet accessories and audio products, was severely penalised, recording a decrease for the period of 26.7%. The Blue Line decreased by 6.6% yoy, while the Black Line decreased by 12.1%.

Looking at geographies, around 73.4% of the drop in revenues was attributable to the negative performance of Italy, where the group has a market share of around 40% and which is the group's main geography (51% of total sales in 9M20). International markets recorded a slightly less negative performance, according to management. The main foreign markets (Germany, Austria, France, Spain, Portugal, Benelux and Switzerland) together accounted for around 36% of total revenues.

Adjusted EBITDA was EUR 7.8M (vs. EUR 19.0M in 9M19), of which EUR 6.6M generated in 3Q, thanks to both the rising sales volume and the significant cost rationalisation actions implemented by management to mitigate the economic and financial impact of the Covid-19 emergency.

Adjusted net profit at EUR 2.7M in 9M20 (vs. a net profit of EUR 12.8M in 9M19), turning to black after a negative bottom line of EUR 0.7M posted in 1H20.

Net debt was EUR 56.6M vs. EUR 24.6M posted at YE19, mainly impacted by the acquisition of Worldconnect in July 2020 for EUR 24.0M.

Revenues came in at EUR 70.7M

Geographic sales breakdown

Adjusted EBITDA was EUR 7.8M

Adjusted net profit at EUR 2.7M

Net debt was EUR 56.6M

Cellularline - 3Q/9M20 results

EUR M	3Q19A	3Q20A	yoy %	9M19A	9M20A	yoy %
Revenues	38.0	34.1	-10.1	93.2	70.7	-24.1
Adj. EBITDA	9.8	6.6	-33.2	19.0	7.8	-59.0
Adj. EBITDA margin %	25.8	19.2		20.4	11.0	
Reported EBIT	6.8	3.4	-49.8	10.0	-2.7	-127.2
Adj. net income	6.6	3.4	-48.6	12.8	2.7	-78.7
Reported net income	6.7	2.1	-69.0	9.2	-1.9	-120.1

A: actual; Source: Company data

New loan agreement

Cellularline recently announced that it has entered into a new loan agreement with a pool of banks for a total of EUR 70M, of which EUR 50M represents an extension to 20 June 2025 of the pre-existing medium/long-term loan (equal to EUR 45M). The new agreement also includes a line for acquisitions totalling EUR 20M to support the group's M&A strategy. Thanks to the agreement, Cellularline obtained a 3-year extension of its financial debt maturities, which should allow the group to benefit from higher financial flexibility.

Estimates Revision

Cellularline – Estimates revision 2020E-22E

EUR M	2020E Old	2020E New	yoy %	2021 Old	2021 New	yoy %	2022 Old	2022 New	yoy %
Revenues	117.0	107.0	-8.5	149.8	137.0	-8.5	170.3	156.0	-8.4
Adj. EBITDA	20.0	16.1	-19.8	31.4	26.0	-17.1	35.8	31.4	-12.4
Adj. EBITDA margin (%)	17.1	15.0		21.0	19.0		21.0	20.1	
Adj. EBIT	16.0	12.1	-24.7	27.4	22.0	-19.6	31.8	27.4	-14.0
Adj. EBIT margin (%)	13.7	11.3		18.3	16.1		18.7	17.5	
Adj. net income	10.4	7.5	-27.8	18.2	14.7	-19.1	22.9	18.5	-19.2
NFP	44.3	48.4		31.6	40.3		17.4	30.0	

E: estimates; Source: Intesa Sanpaolo Research

Valuation

Following our estimates revision and the periodical update of our risk free and equity risk premium parameters, our updated DCF model points to a **new target price of EUR 7.6/share** (from EUR 9.4/share), implying a **BUY rating on the stock**. We used the following key assumptions in our valuation:

New EUR 7.6/share; BUY

- A 7.9% WACC, incorporating a risk-free rate of 1.0% (vs. 1.5% used in our previous report), an equity risk premium of 7.25% (vs. 7.5%), re-levered beta of 1.2x (vs. 1.1x Source: Intesa Sanpaolo Research elaboration on Bloomberg data) and a long-term target gearing ratio of 30%;

Cellularline - WACC calculation (%)

Risk-free rate	1.0
Equity risk premium	7.25
Beta (x)	1.2
Cost of equity	10.1
Net cost of debt	2.8
Gross cost of debt	4.0
Tax rate	30
Gearing	30
WACC (%)	7.9

Source: Intesa Sanpaolo Research estimates

- Terminal value growth is prudentially set at 0%, while in calculating the LT, we applied the same level of revenues and EBIT margin we expect in 2022E. As usual, LT depreciation equals capex;
- We adjusted FY19A net debt to include our expectations of the effects that should arise from the latest acquisition and the market value of the treasury shares;
- Lastly, we adjusted the number of shares to include the effects arising from the potential conversion and warrants (we recall that the warrants have a strike price of EUR 9.5 and a mandatory exercise price of EUR 13, and will expire in 2023).

Cellularline - DCF model (2020E-22E)

EUR M	2020E	2021E	2022E	LT
Sales	107.0	137.0	156.0	156.0
yoy %	-23.8	28.0	13.9	-
Adj. EBIT	12.1	22.0	27.4	27.4
Adj. EBIT margin (%)	11.3	16.1	17.5	17.5
Taxes	-0.9	-2.5	-4.2	-8.2
NOPAT	11.1	19.5	23.2	19.1
Non-cash items	3.6	3.6	3.6	
Investments	-3.5	-3.5	-3.5	
NWC changes	5.0	-7.4	-6.8	
Others	0.0	0.0	0.0	
FCF	16.2	12.2	16.5	19.1
Discounted FCF	16.2	11.3	14.2	15.3
WACC (%)	7.9			
Perpetuity growth rate (%)	0.0			
NPV of cash flows	41.7			
NPV of terminal value (2022E)	193.6			
EV	235.3			
Net debt excl. IFRS 16 @ 2019A	46.0			
Equity value	189.3			
No. of shares fully diluted (M)	24.9			
Value per share (EUR)	7.6			

Source: Intesa Sanpaolo Research estimates

Cellularline - Sensitivity analysis

EUR/share WACC (%)	-1.0	-0.5	Growth (%) 0	0.5	1.0
6.9	7.8	8.4	9.0	9.7	10.6
7.4	7.3	7.7	8.3	8.9	9.6
7.9	6.7	7.1	7.6	8.1	8.7
8.4	6.3	6.6	7.0	7.5	8.0
8.9	5.8	6.2	6.5	6.9	7.4

Source: Intesa Sanpaolo Research estimates

Cellularline – Key Data

Rating BUY	Target price (EUR/sh) Ord 7.6	Mkt price (EUR/sh) Ord 4.21			Sector Consumer Services
Values per share (EUR)	2018A	2019A	2020E	2021E	2022E
No. ordinary shares (M)	21.87	21.87	21.87	21.87	21.87
Total no. of shares (M)	21.87	21.87	21.87	21.87	21.87
Market cap (EUR M)	196.75	157.02	92.07	92.07	92.07
Adj. EPS	1.05	1.07	0.34	0.67	0.85
CFPS	0.90	1.0	0.28	0.73	0.90
BVPS	8.8	9.3	9.0	9.5	10.0
Dividend ord	0.30	0.33	0.10	0.20	0.25
Income statement (EUR M)	2018A	2019A	2020E	2021E	2022E
Revenues	129.7	140.4	107.0	137.0	156.0
EBITDA	33.89	33.06	16.05	26.03	31.36
EBIT	18.89	20.26	4.05	16.03	21.36
Pre-tax income	11.61	20.08	3.05	14.53	19.86
Net income	16.87	18.21	2.10	12.03	15.70
Adj. net income	23.07	23.31	7.50	14.73	18.50
Cash flow (EUR M)	2018A	2019A	2020E	2021E	2022E
Net income before minorities	16.9	18.2	2.1	12.0	15.7
Depreciation and provisions	2.9	3.7	4.0	4.0	4.0
Others/Uses of funds	0	0	0	0	0
Change in working capital	3.3	-4.9	5.0	-7.4	-6.8
Operating cash flow	23.1	17.0	11.1	8.6	12.9
Capital expenditure	-3.0	-3.4	-33.0	-3.5	-3.5
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	-4.9	0	0	0
Free cash flow	20.1	8.7	-21.9	5.1	9.4
Dividends	0	-6.1	-7.2	-2.3	-4.4
Equity changes & Other non-operating items	22.9	-8.7	0	0	0
Net cash flow	43.0	-6.1	-29.1	2.9	5.0
Balance sheet (EUR M)	2018A	2019A	2020E	2021E	2022E
Net capital employed	214.0	227.1	245.8	247.4	248.4
of which associates	0	0	0	0	1.0
Net debt/-cash	22.0	24.6	48.4	40.3	30.0
Minorities	0	0	0	0	0
Net equity	192.0	202.5	197.4	207.2	218.5
Minorities value	0	0	0	0	0
Enterprise value	218.7	181.6	140.5	132.3	121.1
Stock market ratios (x)	2018A	2019A	2020E	2021E	2022E
Adj. P/E	8.5	6.7	12.3	6.3	5.0
P/CFPS	10.0	7.2	15.1	5.7	4.7
P/BVPS	1.0	0.78	0.47	0.44	0.42
Payout (%)	26	31	30	30	30
Dividend yield (% ord)	3.3	4.6	2.4	4.8	6.0
FCF yield (%)	10.2	7.7	-18.0	11.3	16.0
EV/sales	1.7	1.3	1.3	0.97	0.78
EV/EBITDA	6.5	5.5	8.8	5.1	3.9
EV/EBIT	11.6	9.0	34.7	8.3	5.7
EV/CE	1.0	0.80	0.57	0.53	0.49
D/EBITDA	0.65	0.74	3.0	1.5	0.96
D/EBIT	1.2	1.2	12.0	2.5	1.4
Profitability & financial ratios (%)	2018A	2019A	2020E	2021E	2022E
EBITDA margin	26.1	23.5	15.0	19.0	20.1
EBIT margin	14.6	14.4	3.8	11.7	13.7
Tax rate	NM	9.3	31.0	17.2	20.9
Net income margin	13.0	13.0	2.0	8.8	10.1
ROCE	8.8	8.9	1.6	6.5	8.6
ROE	11.4	9.2	1.1	5.9	7.4
Interest cover	2.6	76.5	4.1	10.7	14.2
Debt/equity ratio	11.5	12.1	24.5	19.4	13.7
Growth (%)		2019A	2020E	2021E	2022E
Sales		8.3	-23.8	28.0	13.9
EBITDA		-2.4	-51.5	62.2	20.5
EBIT		7.3	-80.0	NM	33.2
Pre-tax income		73.0	-84.8	NM	36.7
Net income		7.9	-88.4	NM	30.6
Adj. net income		1.0	-67.8	96.2	25.6

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

Company Snapshot

Company Description

Cellularline is the European market leader in the design, manufacturing and distribution of accessories for connectivity devices. Leveraging on more than 5,000 points of sales, the company reaches more than 60 countries in the world and covers all the major distribution channels (CE, Telco, Travel Retail, Mass Merchandise, Sport stores as well as other retailers). Cellularline has a wide product portfolio composed of three major categories: (i) Protection & Style (cases and screen protectors); (ii) Charge & Utilities (battery chargers, powerbanks, car accessories and cables); and (iii) Voice & Sport (earphones and sports accessories). Moreover, the company recently launched the AQL brand (AudioQuality Lab), the product line dedicated to the world of music. Cellularline currently employs around 220 people.

Key Risks

Company specific risks:

- We see a potential dilution and overhang risk due to the conversion of special shares and warrants.

Sector generic risks:

- An increase in competition from the main competitors and a potentially higher penetration of private labels and online competitors;
- 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.

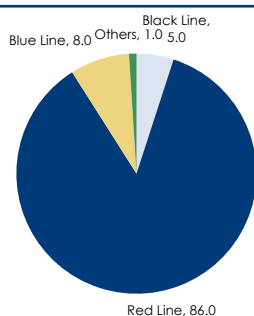
Key data

Mkt price (EUR)	4.21	Free float (%)	75.0
No. of shares	21.67	Major shr	S.L.M.K. SA
52Wk range (EUR)	7.10/3.96	(%)	10.4
Reuters	CELL.MI	Bloomberg	CELL IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	-3.9	-1M	-12.1
-3M	-17.8	-3M	-22.4
-12M	-38.1	-12M	-31.4

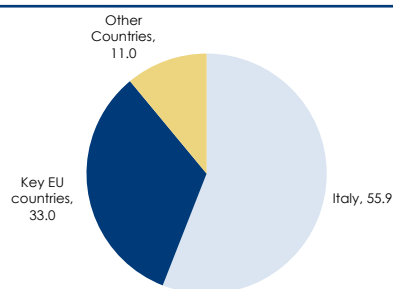
Estimates vs. consensus

EUR M (Y/E Dec)	2019A	2020E	2020C	2021E	2021C	2022E	2022C
Sales	140.4	107.0	113.5	137.0	139.7	156.0	158.4
EBITDA	33.06	16.05	17.66	26.03	26.75	31.36	32.25
EBIT	20.26	4.05	9.80	16.03	20.48	21.36	23.95
Pre-tax income	20.08	3.05	5.20	14.53	15.32	19.86	21.42
Net income	18.21	2.10	3.86	12.03	11.92	15.70	16.25
EPS	1.07	0.34	0.44	0.67	0.70	0.85	0.90

FY19A revenues by product line (%)



FY19A revenues by geography (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 16/11/2020)

Our Mid Corporate Definition

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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)

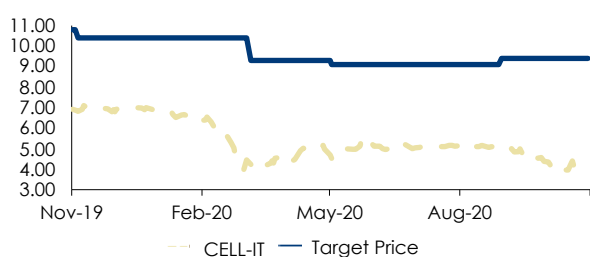
In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, which is not related to market performance and whose key is reported below:

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.
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)

The 12M rating and target price history chart(s) for the companies currently under our coverage can also be found at Intesa Sanpaolo's website/Research/Regulatory disclosures: <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/tp-and-rating-history-12-months->

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

Date	Rating	TP (EUR)	Mkt Price (EUR)
16-Sep-20	BUY	9.4	5.0
19-May-20	BUY	9.1	4.5
23-Mar-20	BUY	9.3	4.2
22-Nov-19	BUY	10.4	6.8

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at October 2020)**

Number of companies considered: 103	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)	44	26	30	0	0
of which Intesa Sanpaolo's Clients (%) (*)	84	70	61	0	0

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

Valuation methodology (short-term horizon: 3M)

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

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

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

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 (hereafter the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Organisational, Management and Control Model" pursuant to Legislative Decree 8 June 2001 no. 231 (available at the Intesa Sanpaolo website, <https://group.intesasanpaolo.com/en/governance/leg-decree-231-2001>) 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 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 <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest> 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.

- 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
- 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
- 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
- One or more of the companies of the Intesa Sanpaolo Banking Group are one of the main financial lenders to Cellularline and its parent and group companies
- Intesa Sanpaolo acts as Specialist relative to securities issued by Cellularline
- One or more of the companies of the Intesa Sanpaolo Banking Group provide/have provided investment banking services to and/or concerning Cellularline in the last twelve months

Intesa Sanpaolo Research Dept.

Gregorio De Felice - Head of Research	+39 02 8796 2012	gregorio.defelice@intesasnpaolo.com
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Equity & Credit Research

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

Monica Bosio	+39 02 8794 9809	monica.bosio@intesasnpaolo.com
Luca Bacoccoli	+39 02 8794 9810	luca.bacoccoli@intesasnpaolo.com
Eleonora Basso	+39 02 8794 2913	eleonora.basso@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
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
Arianna Terazzi	+39 02 8794 3187	arianna.terazzi@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
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

Intesa Sanpaolo – IMI Corporate & Investment Banking Division

Bernardo Bailo - Head of Global Markets Sales	+39 02 7261 2308	bernardo.bailo@intesasnpaolo.com
--	------------------	----------------------------------

Equity Sales

Giorgio Pozzobon	+39 02 72615616	giorgio.pozzobon@intesasnpaolo.com
-------------------------	-----------------	------------------------------------

Institutional Sales

Catherine d'Aragon	+39 02 7261 5929	catherine.daragon@intesasnpaolo.com
Carlo Cavalieri	+39 02 7261 2722	carlo.cavalieri@intesasnpaolo.com
Stefan Gess	+39 02 7261 5927	stefan.gess@intesasnpaolo.com
Francesca Guadagni	+39 02 7261 5817	francesca.guadagni@intesasnpaolo.com
Paolo Maria Lenzi	+39 02 7261 5114	paolo.lenzi@intesasnpaolo.com
Federica Repetto	+39 02 7261 5517	federica.repetto@intesasnpaolo.com
Daniela Stucchi	+39 02 7261 5708	daniela.stucchi@intesasnpaolo.com
Marco Tinessa	+39 02 7261 2158	marco.tinessa@intesasnpaolo.com
Mark Wilson	+39 02 7261 2758	mark.wilson@intesasnpaolo.com
Carlo Castellari (Corporate Broking)	+39 02 7261 2122	carlo.castellari@intesasnpaolo.com
Francesco Riccardi (Corporate Broking)	+39 02 7261 5966	francesco.riccardi@intesasnpaolo.com
Laura Spinella (Corporate Broking)	+39 02 7261 5782	laura.spinella@intesasnpaolo.com
Lorenzo Pennati (Sales Trading)	+39 02 7261 5647	lorenzo.pennati@intesasnpaolo.com

Equity Derivatives Institutional Sales

Emanuele Manini	+39 02 7261 5936	emanuele.manini@intesasnpaolo.com
Matteo Buratti	+39 02 7261 5335	matteo.buratti@intesasnpaolo.com
Francesca Dizione	+39 02 7261 2759	francesca.dizione@intesasnpaolo.com
Enrico Ferrari	+39 02 7261 2806	enrico.ferrari@intesasnpaolo.com
Edward Lythe	+44 207 894 2456	edward.lythe@intesasnpaolo.com
Alessandro Monti	+44 207 894 2412	alessandro.monti@intesasnpaolo.com

Gherardo Lenti Capoduri – Head of Market Hub	+39 02 7261 2051	gherardo.lenticapoduri@intesasnpaolo.com
---	------------------	--

E-commerce Distribution

Massimiliano Raposio	+39 02 7261 5388	massimiliano.raposio@intesasnpaolo.com
Filippo Besozzi	+39 02 7261 5922	filippo.besozzi@intesasnpaolo.com
Raffaella Bisio	+39 02 7261 5481	raffaella.bisio@intesasnpaolo.com
Michele Galeota	+39 02 7261 2193	michele.galeota@intesasnpaolo.com
Alessia Galluccio	+39 02 7261 2339	alessia.galluccio@intesasnpaolo.com
Serge Alexandre (London office)	+44 207 894 2462	serge.alexandre@intesasnpaolo.com
Natalia Villanueva Beltramini (London office)	+44 207 894 2432	natalia.villanuevabeltramini@intesasnpaolo.com
Lisa Tellia (Market Hub PIT)	+39 02 7261 5756	lisa.tellia@intesasnpaolo.com
Carmine Calamello (Brokerage & Execution)	+39 02 7261 2194	carmine.calamello@intesasnpaolo.com

Intesa Sanpaolo IMI Securities Corp.

Barbara Leonardi (Equity institutional Sales)	+1 212 326 1232	barbara.leonardi@intesasnpaolo.com
Greg Principe (Equity Institutional Sales)	+1 212 326 1233	greg.principe@intesasnpaolo.com