

Equita Group

Good Start to 4Q Supports Strong Message on DPS

3Q/9M23 results in line with estimates, a positive start to 4Q and expected future support from the recent significant investments led management to propose a 2023 dividend proposal (payable in 2024) of EUR 0.35/share (a 9.7% yield at current share price), in line with 2022. Our new estimates incorporate the cumulated 2022-24E dividend payout of more than EUR 50M, in line with the BP target, with an average yield of 10%.

3Q/9M23 results broadly in line

Equita reported a 3Q23 net profit of EUR 1.8M vs. EUR 2.8M recorded in 3Q22, slightly lower than our estimate of EUR 2.0M, despite better-than-expected revenues (EUR 16.6M vs. EUR 16.0 forecast), driven by Investment Banking. 3Q client-related revenues were down 7% yoy to EUR 14.3M, leading to -13% yoy in 9M23A (EUR 53.4M).

Positive 4Q23 outlook and beyond

Despite the macroeconomic uncertainties, management confirmed a positive start to the 4Q, especially in Investment Banking. The recent material investments in all three divisions (Global markets, Investment Banking, AAM) together with some cautiously positive expectations on the brokerage volumes and capital markets' transactions led management to foresee a gradual improvement in the market.

Estimates updated

We confirm our 2023E and 2024E P&L estimates, while raising our 2023E dividend forecast to EUR 0.35/share (from EUR 0.34/sh. previously), in line with the company's guidance, assuming the use of approx. EUR 1.5M from reserves accumulated since the listing (EUR 10M). Those reserves offer solidity to the future dividends, enhancing visibility on the confirmed 2022-24 BP target of distributing more than EUR 50M in cumulated dividends.

BUY rating confirmed; new TP EUR 4.2

We set a new target price of EUR 4.2, down from EUR 4.3. Our upgraded 2023 dividend estimates are more than offset by the negative impact from a higher cost of equity (11% from 10.5% after incorporating our updated 4.5% risk-free rate) in our DDM valuation. Given an upside potential of over 16%, we confirm our BUY rating. Our positive view relies on: i) a sound growth profile; and ii) a solid balance sheet, allowing both a rewarding dividend policy (10% average 2022-24E yield at the current share price, 9.7% 2023E) and the possibility to accelerate the company's growth trajectory by deploying the excess capital for potential acquisitions.

Equita Group – Key data

Y/E Dec (EUR)	2021A	2022A	2023E	2024E	2025E
Adj EPS	0.47	0.34	0.32	0.39	0.48
EPS	0.47	0.32	0.32	0.39	0.48
DPS	0.35	0.35	0.35	0.38	0.45
TBV PS	1.6	1.7	1.6	1.6	1.7
PPS PS	0	0	0	0	0
Adj. ROTE (%)	33.1	21.6	20.2	24.0	28.6
Adj P/E (x)	6.9	10.6	11.1	9.3	7.5
P/TBV (x)	2.1	2.2	2.3	2.2	2.1
Div yield (%)	10.8	9.7	9.7	10.6	12.5

Source: Company data, FactSet and Intesa Sanpaolo Research estimates. Priced at 10/11/2023

14 November 2023: 7:59 CET
Date and time of production

BUY

Target Price: EUR 4.2
(from EUR 4.3)

Italy/Brokerage & Investment
Banking

Company Results

EXM-STAR

Equita Group - Key Data

Price date (market close)	10/11/2023
Target price (€)	4.2
Target upside (%)	16.99
Market price (€)	3.59
Market cap (EUR M)	182.73
52Wk range (€)	4.06/3.37

EPS – DPS changes

(€)	2023E	2024E	2023	2024
EPS =	0.323	0.385	0	0
Prev.	0.323	0.385	-	-
DPS ▲	0.350	0.380	2.94	0
Prev.	0.340	0.380	-	-

Price Perf. (RIC: EQUI.MI BB: EQUI IM)



Source: Company data, FactSet and Intesa Sanpaolo Research estimates

Intesa Sanpaolo Research Dept.

Daide Rimini - Research Analyst
daide.rimini@intesasnpaolo.com

3Q/9M23 Results Broadly in Line

In 3Q23, Equita reported a net profit of EUR 1.8M, lower than the EUR 2.8M recorded in 3Q22 and slightly lower than our assumption of EUR 2.0M. Despite the challenging market conditions, net revenues in 3Q were up yoy to EUR 16.6M, better than our EUR 16.0M forecast, and showed the following breakdown:

3Q23 net profit broadly in line with estimates; 3Q23 revenue up yoy

- Global Markets.** The segment's 3Q revenues amounted to EUR 8.3M, better than our EUR 7.8M estimate, thanks to the positive contribution of Directional Trading which more than offset the performance of the Sales & Trading and the Client-Driven Trading & Market Making. Directional Trading performance included EUR 0.6M income contribution from a EUR 38M fixed-income portfolio built between July and September 2022 (to profit from the market opportunity offered by some corporate bonds) and to be held till maturity. By division, we highlight that: (i) Sales & Trading recorded EUR 4.2M revenues (-6% yoy improving from -11% at 1H23 thanks to some trading volumes' improvement and market share gains, especially on the Euronext Milan and Equity Options); and (ii) Client Driven Trading & Market Making posted EUR 2.2M revenue (-17% yoy vs +14% at 1H23);
- Investment Banking.** 3Q revenues came in at EUR 6.2M vs. EUR 6.0M forecast (down -12% yoy vs. -27% yoy in 1H23), mainly driven by the contribution of M&A Advisory, which includes the very positive performance of EQUITA K Finance;
- Alternative Asset Management.** The segment reported quarterly revenues of EUR 2.1M, vs. EUR 1.9M in 3Q22A and our EUR 2.2M estimate. Asset management fees (Liquid Strategies, Private Debt and Private Equity) increased by more than 30% yoy in the quarter (EUR 5.3M in 9M23 vs. EUR 5.0M yoy), helped by fees from management of the new private EQUITA Smart Capital – ELTIF that closed fundraising in June 2023 with EUR 98.4M. This offset the decrease in fees from liquid products due to the lower yoy AuM, especially from the closed-end UCITS funds which are subject to drawdowns in volatile market environments and are not allowed to receive inflows after closing. We note that AuM was broadly stable at EUR 917M (vs. EUR 937M at 1H23), with an increasing mix towards proprietary, illiquid and more profitable assets (42% of total AuM).

We highlight that 3Q client-related revenues fell by 7% yoy to EUR 14.3M, leading to a -13% yoy decline in 9M23A to EUR 53.4M.

3Q23 operating costs rose 9% yoy (to EUR 13.2M, slightly above our estimates of EUR 12.7M), mainly reflecting the return to in-presence marketing activity with clients, with 9M23A total operating costs almost unchanged (+1% yoy).

3Q23 operating costs' development

Equita Group - 3Q/9M23 results

EUR M	1Q22A	2Q22A	3Q22A	9M22A	4Q22A	FY22A	2Q23A	3Q23A	3Q22E	9M23A	qoq %	yoy %	yoy %
Global Markets	9.9	9.9	7.0	26.7	10.7	37.4	9.5	8.3	7.8	29.0	-12.4	18	9
Inv. Banking	6.7	17.7	7.1	31.5	9.8	41.3	11.5	6.2	6.0	24.0	-45.9	-12	-24
AAM	1.8	2.2	1.9	5.9	1.9	7.9	2.5	2.1	2.2	6.5	-16.0	12	9
Net revenues	18.4	29.9	16.0	64.2	22.4	86.6	23.5	16.6	16.0	59.5	-29.2	4	-7
Personnel costs	8.5	14.0	7.5	30.0	12.1	42.2	11.2	8.0	7.6	28.1	-27.9	6.9	-7
Administrative expenses	4.5	4.7	4.5	13.7	5.4	19.1	6.2	5.2	5.1	16.3	-16.3	13.4	19
Total operating costs	12.9	18.8	12.1	43.7	17.6	61.3	17.3	13.2	12.7	44.3	-23.8	9.3	1
Profit before taxes	5.5	10.9	4.1	20.5	4.9	25.3	6.2	3.4	3.3	15.1	-44.4	-15.3	-26
Group net profit	3.8	6.4	2.8	13.1	4.9	16.2	4.3	1.8	2.0	10.0	-57.7	-34.5	-24

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

The capital position was strong with an IFR ratio at over 5.8x the minimum requirement vs. 5.4x at 1H23. The company has approved the launch of the first tranche of a buyback for up to 300K shares, equal to approx. 0.6% of the share capital, for a maximum total value of EUR 1.26M.

Earnings Outlook

Management highlighted that October and the initial days of November's have been positive, especially in Investment Banking, thanks to several mandates closed after the end of 3Q. The company sees a gradual improvement in the market, with cautiously positive expectations for brokerage volumes and capital market transactions, despite macroeconomic uncertainties. M&A volumes in Italy are also expected to return to normal levels at some point, considering the severe contraction recorded so far vs. recent history (M&A transactions in Italy totaled EUR 17Bn at 9M23 vs. EUR 47Bn on average over the past five years, according to KPMG).

Considering 9M23 results and taking into account the positive expectations for 4Q23, the Board of Directors is confident in proposing a 2023 dividend (payable in 2024) of EUR 0.35/share (9.7% yield at current share price), in line with 2022, confirming the target to distribute a cumulative dividend exceeding EUR 50M over the 2022-24 period, also taking into account the undistributed resources set aside since IPO (approx. EUR 10M of net profit).

Following 3Q/9M23 results, we leave our 2023E P&L estimates unchanged, which incorporate: (i) EUR 85M revenue forecasts made up of EUR 38M in Global Markets (implying 4Q23E EUR 9M vs. 4Q22A EUR 10.7M), EUR 37.9M in Investment Banking (implying a 4Q23 at EUR 13.9M vs. 4Q22A EUR 9.8M), and EUR 9.1M in AAM (implying a 4Q23 at EUR 2.6M vs. 4Q22A EUR 1.9M); and (ii) net profit after minorities' estimate of EUR 15.3M (implying 4Q23E at EUR 5.3M vs. 4Q22A EUR 4.9M).

Our unchanged 2024E estimates assume total net revenues growing by 11.9% to EUR 95.1M, with all three divisional businesses contributing positively, and net profit expected at EUR 18.5M, assuming the Equita Group will reach its 2022-24 Business Plan targets (revenue >EUR 110M and net profit >EUR 25M) with a one-year delay (2025E) due to the weaker macroconditions. Our FY24E revenue mix projections incorporate a 43% contribution from Global Markets, 44% from Investment Banking and 13% from AAM vs. the Business Plan target of 35-40%, 40-45% and 15-20%, respectively. In 9M23A, the Global Markets' weighting on total revenues increased to 49% (vs. 42% in 9M22A), AAM weighting rose to 11% (vs. 9% in 9M22A), whereas Investment Banking was down to 40% (vs. 49% in the same period last year).

Equita – 9M23 vs. 9M22 divisional breakdown



Source: Company data and Intesa Sanpaolo Research

On the back of the management's 2023 DPS confirmation, we revise upwards our dividend assumption to EUR 0.35/share (vs. previous EUR 0.34/sh), assuming the use of approx. EUR 1.5M from reserves accumulated since the listing and still available today (EUR 10M). Cumulated 2022-24E dividends of approx. EUR 52M remain consistent with the company's BP targets.

4Q23 positive outlook

2023 DPS in line with 2022

2023 estimates unchanged

2024E P&L estimates vs. BP targets

Valuation and Key Risks

Valuation basis

We value Equita through a three-stage dividend discount model (DDM), based on our explicit 2023-25E estimates, followed by a 7-year transitional period with adj. net profit and tangible net equity gradually developing consistently with our terminal pay-out ratio assumption of around 100%. Our valuation model incorporates a 11% cost of equity (4.5% RFR, 6.5% ERP). We also add the second tranche (EUR 0.15/sh.) of 2023 dividend, payable next 22 November.

Key Risks

Company specific risks:

- Very focused on a single geography (Italy)
- Its end-markets are volatile in nature
- Limited stock liquidity

Sector generic risks:

- Regulatory risks
- Technology risks
- Geopolitical risk

Company Snapshot

Company Description

Equita is an Italian boutique active in the investment banking market. Listed on the Euronext STAR segment and founded 50 years ago, Equita, which currently has 196 employees, operates 3 divisions: Global Markets, Investment Banking and Alternative Asset Management, all supported by a high-quality Research team.

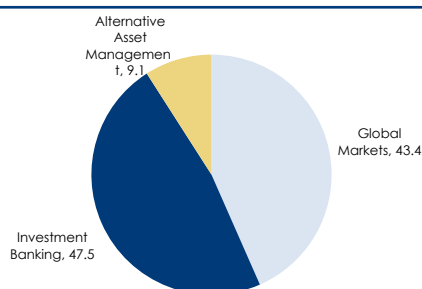
Key data

Mkt price (€)	3.59	Free float (%)	34.0
No. of shares	50.90	Major shr	Mgmt Pact
52Wk range (€)	4.06/3.37	(%)	33.0
Reuters	EQUI.MI	Bloomberg	EQUI IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	5.0	-1M	4.1
-3M	-3.2	-3M	-2.7
-12M	-2.7	-12M	-15.5

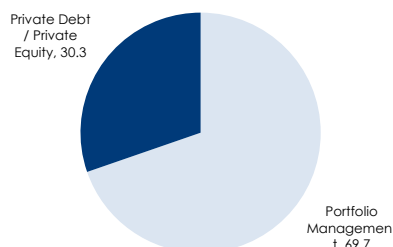
Estimates vs. consensus

EUR M (Y/E Dec)	2022A	2023E	2023C	2024E	2024C	2025E	2025C
Total income	86.87	85.03	NM	95.13	NM	107.4	NM
Operating costs	61.56	62.60	NM	67.90	NM	74.01	NM
Gross op. inc.	25.31	22.43	NM	27.23	NM	33.36	NM
LLP	0.00	0.00	NM	0.00	NM	0.00	NM
Net income	15.23	15.33	NM	18.53	NM	23.00	NM
Adj. EPS (€)	0.34	0.32	NM	0.39	NM	0.48	NM

Revenues breakdown by division (%)



AAM AuM breakdown (%)



NM: Not Meaningful; Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 10/11/2023)

Equita Group – Key Data

Rating BUY	Target price (€/sh) Ord 4.2		Mkt price (€/sh) Ord 3.59			Sector Brokerage & Investment
Values per share (EUR)	2020A	2021A	2022A	2023E	2024E	2025E
No. of outstanding shares (M)	45.66	46.16	46.77	48.10	48.10	48.10
Adj. EPS	0.270	0.47	0.341	0.323	0.385	0.48
TBV PS	1.3	1.6	1.7	1.6	1.6	1.7
PPP PS	0	0	0	0	0	0
Dividend ord	0.20	0.35	0.35	0.35	0.38	0.45
Income statement (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Total income	68	90	87	85	95	107
Total operating expenses	51	61	62	63	68	74
Gross operating income	18	29	25	22	27	33
Provisions for loan losses	0	0	0	0	0	0
Pre-tax income	18	29	25	22	27	33
Net income	12	22	15	15	19	23
Shareholders' earnings	0.00	0.00	0.00	0.00	0.00	0.00
Adj. shareholders' earnings	12	22	16	16	19	23
Composition of total income (%)	2020A	2021A	2022A	2023E	2024E	2025E
Global Markets	49.4	45.1	43.4	44.7	42.7	40.1
Alternative asset management	9.6	12.1	9.1	10.7	13.5	13.3
Investment banking	41.1	42.8	47.5	44.6	43.9	46.6
Balance sheet (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Total assets	285.8	315.6	399.5	408.8	421.3	437.3
Customer loans	86.1	91.4	99.6	97.6	100.2	107.2
Total customer deposits	157.0	166.5	205.7	216.0	226.8	238.2
Shareholders' equity	85.7	99.4	104.3	103.3	105.0	109.7
Tangible equity	58.2	72.2	77.4	76.4	78.1	82.8
Risk weighted assets	159.9	193.1	243.0	236.7	255.5	278.9
Stock market ratios (X)	2020A	2021A	2022A	2023E	2024E	2025E
Adj. P/E	9.0	6.9	10.6	11.1	9.3	7.5
P/TBV	1.90	2.07	2.19	2.26	2.21	2.09
P/PPP	NA	NA	NA	NA	NA	NA
Dividend yield (% ord)	8.3	10.8	9.7	9.7	10.6	12.5
Profitability & financial ratios (%)	2020A	2021A	2022A	2023E	2024E	2025E
ROE	15	23	15	15	18	21
Adj. ROTE	20	33	22	20	24	29
RoRWA	6	12	7	6	8	9
Leverage	23	25	21	20	20	20
Cost income ratio	74	68	71	74	71	69
Tax rate	27	24	28	29	29	28
Dividend payout	75	76	103	110	100	96
Other (%)	2020A	2021A	2022A	2023E	2024E	2025E
CET1 ratio	28	26	24	26	24	22
CET1 ratio fully loaded	28	26	24	26	24	22
Net impaired loans ratio	0	0	0	0	0	0
Net impaired loans on TBV	0	0	0	0	0	0
Growth (%)	2020A	2021A	2022A	2023E	2024E	2025E
Total income	16.9	32.6	-3.9	-2.1	11.9	12.9
Gross operating income	28.2	66.0	-13.4	-11.4	21.4	22.5
Net income	29.1	74.9	-29.3	0.6	20.9	24.1
Adj. net income	29.1	74.9	-24.9	-4.0	19.4	24.1
BS growth (%)	2020A	2021A	2022A	2023E	2024E	2025E
Customers' loans	-60.0	6.2	8.9	-2.0	2.7	6.9
Customers' deposits	-19.1	6.0	23.6	5.0	5.0	5.0
Shareholders' funds	7.0	16.0	4.9	-1.0	1.6	4.5
Structure (no. of)	2020A	2021A	2022A	2023E	2024E	2025E
Employees	164	170	188	192	195	200

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

Notes

Notes

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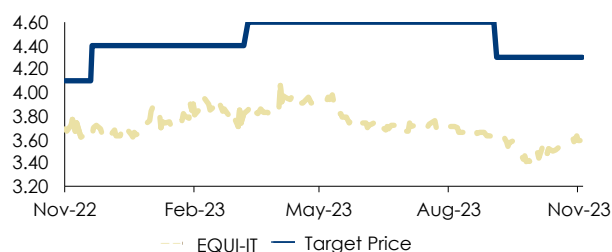
In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, whose key is reported below:

Equity Rating Key (long-term horizon: 12M)

Long-term rating	Definition
BUY	If the target price is 10% higher than the market price.
HOLD	If the target price is in a range 10% below or 10% above the market price.
SELL	If the target price is 10% 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 to determine an investment rating or target price. 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.
TENDER SHARES	We advise investors to tender the shares to the offer.
TARGET PRICE	The market price that the analyst believes the share may reach within a 12M 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.
Note	Intesa Sanpaolo assigns ratings to stocks on a 12M horizon based on a number of fundamental drivers including, among others, updates to earnings and/or valuation models; short-term price movements alone do not imply a reassessment of the rating by the analyst.

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->. Intesa Sanpaolo changed its long-term 12M horizon rating key on 3 April 2023; please refer to the ISP Equity Rating Reconciliation Table for further details at the following link: <https://group.intesasanpaolo.com/it/research/equity-credit-research>.

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

Date	Rating	TP (EUR)	Mkt Price (EUR)
13-Sep-23	BUY	4.3	3.7
20-Mar-23	BUY	4.6	3.9
29-Nov-22	BUY	4.4	3.6

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at October 2023)**

Number of companies considered: 132	BUY	HOLD	SELL
Total Equity Research Coverage relating to last rating (%)*	76	24	0
of which Intesa Sanpaolo's Clients (%)**	70	53	0

* Last rating refers to rating as at end of the previous quarter; ** 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

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 Equita Group in the next three months
- One or more of the companies of the Intesa Sanpaolo Banking Group have granted significant financing to Equita Group and its parent and group companies
- One or more of the companies of the Intesa Sanpaolo Banking Group are one of the main financial lenders to Equita Group and its parent and group companies
- Intesa Sanpaolo acts as Specialist relative to securities issued by Equita Group

Intesa Sanpaolo Research Dept.

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

Equity&Credit Research

Alberto Cordara +39 02 4127 8647 alberto.cordara@intesasnpaolo.com
Giampaolo Trasi +39 02 8794 9803 giampaolo.trasi@intesasnpaolo.com

Equity Research

Monica Bosio (Head) monica.bosio@intesasnpaolo.com
Alberto Artoni alberto.artoni@intesasnpaolo.com
Luca Bacoccoli luca.bacoccoli@intesasnpaolo.com
Davide Candela davide.candela@intesasnpaolo.com
Oriana Cardani oriana.cardani@intesasnpaolo.com
Marco Cristofori marco.cristofori@intesasnpaolo.com
Andrea Devita andrea.devita@intesasnpaolo.com
Antonella Frongillo antonella.frongillo@intesasnpaolo.com
Renato Gargiulo renato.gargiulo@intesasnpaolo.com
Manuela Meroni manuela.meroni@intesasnpaolo.com
Elena Perini elena.perini@intesasnpaolo.com
Bruno Permutti bruno.permutti@intesasnpaolo.com

Corporate Broking Research

Alberto Francese (Head) alberto.francese@intesasnpaolo.com
Gabriele Berti gabriele.beriti@intesasnpaolo.com
Giada Cabrino giada.cabrino@intesasnpaolo.com
Davide Rimini davide.rimini@intesasnpaolo.com
Arianna Terazzi arianna.terazzi@intesasnpaolo.com

Credit Research

Maria Grazia Antola (Head) maria.antola@intesasnpaolo.com
Alessandro Chiodini alessandro.chiodini@intesasnpaolo.com
Dario Fasani dario.fasani@intesasnpaolo.com
Melanie Gavin melanie.gavin@intesasnpaolo.com
Maria Gabriella Tronconi maria.tronconi@intesasnpaolo.com
Barbara Pizzarelli (Research Support) barbara.pizzarelli@intesasnpaolo.com

Technical Analysis

Corrado Binda corrado.binda@intesasnpaolo.com
Sergio Mingolla antonio.mingolla@intesasnpaolo.com

Clearing & Data Processing

Anna Whatley (Head) anna.whatley@intesasnpaolo.com
Stefano Breviglieri stefano.breviglieri@intesasnpaolo.com
Maria Ermakova maria.ermakova@intesasnpaolo.com
Annita Ricci annita.ricci@intesasnpaolo.com
Wendy Ruggeri wendy.ruggeri@intesasnpaolo.com
Elisabetta Bugliesi (IT support) 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 7261 5616 giorgio.pozzobon@intesasnpaolo.com

Institutional Sales

Catherine d'Aragon +39 02 7261 5929 catherine.daragon@intesasnpaolo.com
Francesca Bonacina francesca.bonacina1@intesasnpaolo.com
Carlo Cavallieri carlo.cavallieri@intesasnpaolo.com
Laurent Kieffer +39 02 7261 2722 laurent.kieffer@intesasnpaolo.com
Roberta Pupeschi +44 20 7651 3653 roberta.pupeschi@intesasnpaolo.com
Federica Repetto +39 02 7261 6363 federica.repetto@intesasnpaolo.com
Fabrizio Tito +39 02 7261 5517 fabrizio.tito@intesasnpaolo.com
Mark Wilson +39 02 7261 7152 mark.wilson@intesasnpaolo.com
Paola Parenti (Corporate Broking) +39 02 7261 2758 paola.parenti@intesasnpaolo.com
Francesco Riccardi (Corporate Broking) +39 02 7265 6530 francesco.riccardi@intesasnpaolo.com
Laura Spinella (Corporate Broking) +39 02 7261 5966 laura.spinella@intesasnpaolo.com
Alessandro Bevacqua +39 02 7261 5782 alessandro.bevacqua@intesasnpaolo.com
Lorenzo Pennati (Sales Trading) +39 02 7261 5114 lorenzo.pennati@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
Enrico Ferrari +39 02 7261 2806 enrico.ferrari@intesasnpaolo.com
Stefan Gess +39 02 7261 5927 stefan.gess@intesasnpaolo.com
Edward Lythe +44 20 7894 2456 edward.lythe@intesasnpaolo.com
Ferdinando Zamprota +39 02 7261 5577 ferdinando.zamprota@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

Intesa Sanpaolo IMI Securities Corp.

Greg Principe (Equity Institutional Sales) +1 212 326 1233 greg.principe@intesasnpaolo.com