

Company Note

Equita Group

A Nice Start to the Year

Equita Group reported a solid set of 1Q21 results with double-digit revenues' growth across all divisions not always supported by a positive market backdrop (see Sales & Trading). The company seems to be harvesting on its past diversification strategy.

1Q21: revenues +57% yoy and net income + 132% yoy

Revenues stood at EUR 20.3M or + 57% yoy, well above our EUR 16.9M estimate (we were looking for +30.6% yoy) with all divisions posting sound yoy growth. In detail: **Global Markets** revenues stood at EUR 12.5M or +38% yoy vs. our EUR 10.4M estimate or +15.0% yoy. Sales & Trading posted a -10% (for lower market volumes) but the major driver here was Directional Trading which was negative in 1Q20 (due to the pandemic) while it booked EUR 2.8M this quarter; **Investment Banking** revenues stood at EUR 6.1M or +55% yoy, also thanks to the consolidation of K Finance, vs. our estimate of EUR 5.1M or +30.0% yoy; **Alternative Asset Management** revenues stood at EUR 1.6M and compared to a negative figure in 1Q20 (m-t-m of Blueglen) vs. our estimate of EUR 1.3M. The usual control on costs lead to a net profit at +132% yoy (EUR 4.5M), 40% above our EUR 3.2M estimate.

Estimates increased

Sales & Trading should have an easier comparison ahead vs. 1Q21. Investment Banking should benefit from the pipeline which management described as extremely solid while AAM should benefit from the 4Q21 onwards from the fees coming from the first ELTIF fund. All in all, we raise our 2021-23E EPS estimates by an aggregate 5%.

BUY confirmed, TP fine tuned to EUR 3.9/sh.

We believe Equita displays sound growth rates (12.5% at the net income level for 2021-23E) an attractive valuation (30% discount to peers on 2022 P/E) coupled with a 7.2% dividend yield. Note that our model does not take into account possible external growth. **We confirm our BUY rating on the stock with a EUR 3.9/sh TP** (from EUR 3.8/sh previously).

Note: Intesa Sanpaolo took over equity coverage of **Equita Group** on 12/4/2021; the ISP-UBI Equity Ratings Reconciliation Table and the archive of ex-UBI's previously published research reports are available at the following link: <https://group.intesasanpaolo.com/it/research/equity---credit-research/equity>

17 May 2021: 7:41 CET
Date and time of production

BUY

Target Price: EUR 3.9
(from EUR 3.8)

Italy/Financials
Update

MTA-STAR

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



Equita Group - Key Data

Price date (market close)	13/05/2021		
Target price (EUR)	3.9		
Target upside (%)	31.31		
Market price (EUR)	2.97		
Market cap (EUR M)	136.47		
52Wk range (EUR)	3.04/1.98		
Price performance %	1M	3M	12M
Absolute	-0.7	3.8	30.8
Rel. to FTSE IT All Sh	-0.5	-1.1	-8.3

Y/E Dec (EUR M)	FY20A	FY21E	FY22E
Total income	68	74	78
Gross op profit	18	20	23
Pre-tax income	18	20	23
Net income	12	14	15
Adj EPS (EUR)	0.27	0.30	0.33
TBV PS (EUR)	1.4	1.3	1.4
Adj P/E (x)	8.9	10.0	8.9
P/TBV (x)	1.7	2.3	2.2
Div ord (EUR)	0.20	0.22	0.23
Div ord yield (%)	8.3	7.2	7.6

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

Intesa Sanpaolo Research Dept.

Massimo Vecchio - Research Analyst
+39 02 6275 3016
massimiliano.vecchio@intesasanpaolo.com

Elena Perini, CFA - Research Analyst
+39 02 8794 9814
elena.perini@intesasanpaolo.com

1Q21: A Solid Start to the Year

■ **Global Markets.** yoy growth was significantly impacted by the negative-to-positive switch in Directional Trading:

- **Sales & Trading** posted a -10% yoy on the back of volumes on equities at -3% yoy and -17% on fixed income. When compared to 1Q19, revenues were up 10%. Market shares held up well: 7% on MTA, 8% on AIM, 8% on fixed income, 9% on equities options and 7% on ETFPus;
- **Client Driven Trading & Market Making** revenues grew 2% yoy mostly thanks to market making while volumes on fixed income did not match last year's records. Again, when compared to 1Q19, revenues grew significantly (+70% yoy);
- **Directional Trading** posted EUR 2.8M revenues, which compared to a EUR -1.2M loss last year when it was impacted by the Covid-driven market decline.

Traded countervalues on markets were down in both equities and fixed income in 1Q21

■ **Investment Banking** grew nicely in the quarter in a positive market backdrop (ECM deals doubled, DCM tripled) and with only a marginal impact from K Finance consolidation. Equita completed several mandates: Prysmian and Garofalo Health Care accelerated book building; BFF Group reverse accelerated book building; Newlat EUR 200M senior unsecured notes and WeBuild EUR 200M senior unsecured notes. It also assisted as financial advisor Ferrovie Nord Milano in the acquisition of Milano Serravalle – Milano Tangenziali; MagMa Holding in the sale of a majority stake of MagMa to Ravago Group; Alperia, Dolomiti Energia and Finest in the sale of a majority stake of PVB Power Bulgaria; and the Related Parties Committee of Astaldi in the partial and proportional demerger of Astaldi in favour of WeBuild. Equita also assisted Crédit Agricole Italia as financial advisor in the tender offer for all shares of Credito Valtellinese. Equita's FIG team market positioning was recently strengthened by appointing Fabrizio Viola as senior advisor;

Several deals closed in 1Q21

■ **Alternative Asset Management** posted EUR 1.6M revenues compared to a loss in 1Q20 when the division was impacted by the m-t-m of its portfolio (Blueglenn and the SPAC in particular). Asset management fees grew 30% yoy to EUR 1.3M while AuM reached the EUR 974M mark (from EUR 944M at YE20) thanks to the second Private Debt fund. The investment portfolio recorded a EUR 0.3M positive m-t-m.

Asset management fees up 30% yoy in 1Q21

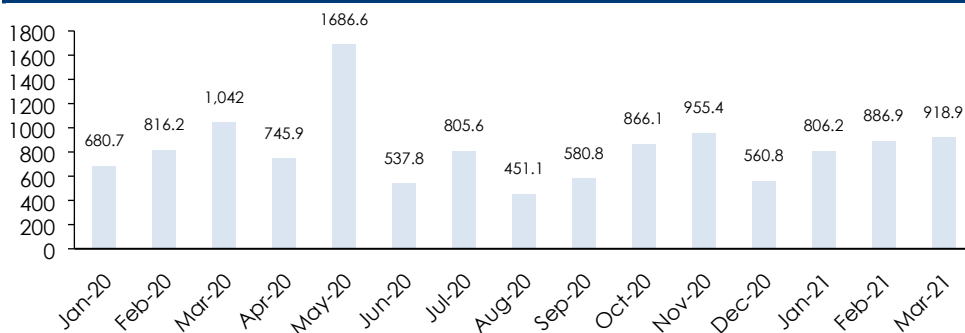
Equita Group – 1Q21 results

EUR M	1Q20A	FY20	3Q20A	4Q20A	1Q21A	1Q21E	1Q21C	1Q A/E %	1Q A/C %	1Q qoq %	1Q yoy %	FY21E	FY21C
Global Markets	9.1	33.7	6.5	8.9	12.5	10.4	NA	19.7	NA	39.7	37.7	36.4	NA
Inv Banking	4.0	28.0	10.9	8.1	6.1	5.1	NA	19.6	NA	-24.2	55.4	30.8	NA
AAM	-0.1	6.5	1.1	3.5	1.6	1.3	NA	26.2	NA	-52.9	-1740.0	6.6	NA
Net Revenues	12.9	68.2	18.5	20.5	20.3	16.9	NA	20.1	NA	-1.2	56.8	73.8	NA
Personnel Costs	5.9	32.3	9.3	9.7	9.7	7.9	NA	21.8	NA	-0.9	63.7	34.7	NA
Administ. expenses	4.3	18.2	4.1	5.5	4.4	4.4	NA	0.8	NA	-20.8	2.1	18.6	NA
Profit before Taxes	2.7	17.6	5.2	5.2	6.2	4.6	NA	35.7	NA	18.8	128.2	20.4	NA
Group Net profit	1.9	12.3	3.6	3.6	4.5	3.2	NA	40.1	NA	22.6	131.6	13.6	NA
Margin %	14.9	18.1	19.3	17.8	0.2	18.9	NA	-98.8	NA	-98.8	-98.5	18.5	NA
Group Net profit adj.	1.9	12.3	3.6	3.6	4.5	3.2	NA	40.1	NA	22.6	131.6	13.6	NA
Margin %	14.9	18.1	19.3	17.8	0.2	18.9	NA	-98.8	NA	-98.8	-98.5	18.5	NA
Group Net Equity	82.2	90.2	81.4	85.7	90.2	88.9	NA	1.4	NA	5.2	9.7	90.2	NA

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

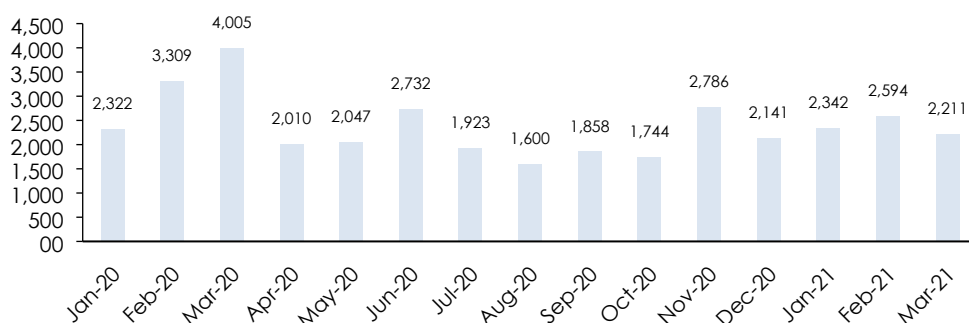
The Sales & Trading results were solid above all when compared to the traded volumes on the MTA, both for equities and for fixed income (as shown in the next two charts).

Borsa Italiana – Fixed Income daily traded countervalues (EUR M)



Source: Borsa Italiana and Intesa Sanpaolo Research

Borsa Italiana – Equities daily traded countervalues on MTA (EUR M)



Borsa Italiana and Intesa Sanpaolo Research

On the cost side, the yoy increase in personnel expenses is linked to the consolidation of K Finance and the 47% comp/revenues ratio is still in-check. By contrast, other operating expenses surprised us on the positive side as they were in line with last year despite the enlargement of the structure. Some optimization subsequent to the K Finance integration coupled with some Covid-related cost savings (travelling, marketing expenses, etc.) explained the solid performance.

K Finance's contribution in the quarter was extremely marginal and this is evident when looking at the positive figure booked in the "minorities" line in the quarter.

1Q21 closed with a net profit of EUR 4.5M, well above last year's EUR 1.9M and 40% above our EUR 3.2M estimate.

Costs under control in 1Q21

Earnings Outlook: Revising our EPS Estimates by 5%

Sales & Trading should have an easier comparison ahead vs. 1Q21 (see the previous two charts) and we now expect a flattish 2Q-3Q21 and a positive 4Q21 (on easy comps, as 4Q20 volumes were particularly weak). For both trading activities, we expect positive developments in the coming quarters although not at the same level of 1Q21. On Directional Trading, in particular, after the sound 1Q21 performance, we expect the company to reduce risk a bit.

Investment Banking should benefit from the pipeline, which management described as extremely solid. Some deals have already been announced: advisory to CDP Equity on its entry into Euronext, Antares Vision equity issuance and move to the MTA, IWB bond issuance. K Finance was consolidated only from 3Q20, so we expect a strong yoy growth in 2Q21, a negative 3Q21, and again a solid growth in 4Q21. We recall that the IB business is usually skewed towards the last part of the year.

AAM should benefit from the fees of the second PD fund and, probably, from 4Q21 of the fees coming from the first ELTIF fund (which we now include in our estimates from 2022). Note that our estimates do not include any performance fees, which are eventually booked in 4Q (EUR 1.8M in 2020 and EUR 3.7M in 2019).

All in all, we are increasing 2021E EPS by 4.7%, 2022E by 2.5% and 2023E (thanks to ELTIF being at full speed) by 7.8%. In aggregate, we raise our EPS estimates by 5%.

Easy comparison going forward for Sales & Trading but the target remains to hold current levels

IB pipeline defined good, some of it already public

ELTIF could contribute to revenues in 4Q21. In our estimates from 2022

Equita Group – Estimate revisions (2021-23E)

EUR M	2021E			2022E			2023E		
	Old	New	New/Old %	Old	New	New/Old %	Old	New	New/Old %
Total Income	71.9	73.8	2.5	77.0	78.4	1.8	80.8	82.8	2.4
Profit before taxes	19.5	20.4	4.7	22.4	22.9	2.6	23.3	25.1	7.8
Group Net profit	13.0	13.6	4.7	15.0	15.4	2.5	16.3	17.6	7.8
Group Net profit - Adj.	13.0	13.6	4.7	15.0	15.4	2.5	16.3	17.6	7.8
Adj. EPS (EUR)	0.3	0.30	4.7	0.3	0.33	2.5	0.4	0.38	7.8

E: estimates; Source: Intesa Sanpaolo Research

Valuation: Raising our TP on Earnings Upgrade

We raise our TP from EUR 3.8/sh to EUR 3.9/sh, on the back of our upwards earnings revision, partially balanced by an increase in the cost of capital (both equity and debt):

Equita Group – Summary valuation (EUR/sh.)

	New	Old	Change %
P/BV	4.2	4.0	5
DDM	3.5	3.5	0
Average	3.9	3.8	3

E: estimates; Source: Intesa Sanpaolo Research

Our valuation approach for Equita is the following:

- The P/BV valuation compares the Return on Equity with the Cost of Equity and then applies this ratio to Equita's BVPS;
- The Dividend Discount Model values the stream of dividends that the company should pay. The valuation is based on the 2021 expected dividend discounted, with the perpetual formula, at the CoE less the expected growth rate of the dividend.

P/BV valuation

	2021E
RoE	15.1
Cost of Equity	7.0
RoE/CoE ratio	2.16
Equita BVPS (ex-treasury shares)	1.96
Fair value (EUR)	4.23

DDM valuation

	2021E
DPS (EUR)	0.215
Cost of Equity %	7.0
Dividend growth rate %	1.0
Fair value (EUR)	3.58

E: estimates; Source: Intesa Sanpaolo Research

E: estimates; Source: Intesa Sanpaolo Research

At our target price, the stock would still trade at a discount to the Tier 1 peer group (with the exception of 2021 P/E):

Multiples at target price and premium/(discount) to peers

x	2021E	2022E	2023E
P/E Adj	13.2	11.7	10.2
Premium/(discount) to Tier 1 %	13.2	0.3	-12.3
P/BV	2.0	1.9	1.7
Premium/(discount) to Tier 1 %	-30.7	-34.7	-39.3
Dividend Yield (%)	5.5	5.8	6.2
Premium/(discount) to Tier 1 %	-49.1	-56.1	-66.5

E: estimates; Source: Intesa Sanpaolo Research

The peer group we selected is composed of companies that do not perfectly match Equita's profile:

- The majority of those companies have much larger market capitalizations and/or daily trading volumes;
- None of them has a business mix comparable to Equita: some are pure brokerage businesses (Numis Corporation for instance) while others (DeA Capital and Azimut for instance) are more on the AM side or pure IB players (Houlihan Lokey for instance, which is also skewed towards the US market).

For these reasons we opt for absolute valuation methods. Nevertheless, we show the peers' multiples in the table below as a cross-check.

Peers group multiples

x	TIER	Price	Currency	Mkt Cap	P/Sales			P/E			P/BV			Div Yield %		
					M	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E
Piper Sandler	I	101.1	USD	1,846	1.6	1.6		10.3	11.8		2.0			1.3	1.4	
Numis Corp.	I	4.4	GBP	475	2.1			10.2			2.3			3.2		
Evli Pankki Oyj	I	18.3	EUR	441	4.4	4.4	4.2	14.3	13.7	13.2	4.2	4.1	4.0	6.6	7.0	7.2
Moelis & Co.	II	43.4	USD	3,005	3.4	3.3	3.1	15.5	16.2	15.1	8.0	9.3	10.8	9.5	8.3	6.1
Evercore Inc	II	118.4	USD	4,850	2.2	2.2	2.1	12.3	12.0	11.2	4.1	3.3	2.8	1.9	2.1	2.4
Houlihan Lokey	II	59.9	USD	4,098	3.3	3.2	3.2	17.2	16.7	15.4	3.5	3.4	3.4	2.4	2.6	3.0
DeA Capital	II	1.5	EUR	392	5.5			42.9	27.5		0.9	0.9		6.1	4.1	
Tikehau Capital	II	25.0	EUR	3,408	6.5	5.7	5.2	19.7	14.1	12.0	1.1	1.1	1.1	2.2	2.6	3.0
Azimut Holding	II	20.3	EUR	2,964	2.9	2.7	2.7	10.4	9.8	9.3	2.7	2.3	2.1	5.3	5.5	5.6
Average					3.3	3.2	3.1	14.3	13.9	12.6	2.7	3.3	3.1	4.3	4.2	4.5
Equita Group*		3.0	EUR	137	1.9	1.7	1.7	10.1	8.9	7.8	1.5	1.4	1.3	7.2	7.6	8.1
Tier I					2.7	3.0	4.2	11.6	12.7	13.2	2.9	4.1	4.0	3.7	4.2	7.2
Tier II					4.0	3.4	3.2	19.7	16.0	12.6	3.4	3.4	4.0	4.6	4.2	4.0
Pre/(disc) Tier I %					-31	-42	-61	-13	-30	-41	-47	-65	-67	95	80	12

Priced at market close on 13/5/2021; E: estimates; Source: Factset and *Intesa Sanpaolo Research

All in all, we confirm our positive stance on Equita and our investment case is based on:

- A sound growth profile: high single digit top-line growth, well diversified across all divisions, should return double digit net income growth in the 2021-23E period, in our estimates;
- An appealing dividend yield: 7.1% in 2021E, growing to 7.5% in 2022E;
- A solid balance sheet (RoTE at 31% and TCR at 18% in 1Q21);
- The option of accelerating the growth trajectory by deploying the excess capital through external growth (ideally in the AAM business so as to make this division more robust).

Equita Group – Key Data

Rating BUY	Target price (EUR/sh) Ord 3.9	Mkt price (EUR/sh) Ord 2.97			Sector Financials
Values per share (EUR)	2019A	2020A	2021E	2022E	2023E
No. of outstanding shares (M)	45.45	45.66	45.95	45.95	45.95
No. of f.d. shares (M)	46.95	46.95	46.95	46.95	46.95
Market cap (EUR M)	128.38	110.44	136.47	136.47	136.47
Adj. EPS	0.210	0.270	0.296	0.334	0.382
TBV PS	1.4	1.4	1.3	1.4	1.5
PPP PS	0	0	0	0	0
Dividend ord	0.19	0.20	0.22	0.23	0.24
Income statement (EUR M)	2019A	2020A	2021E	2022E	2023E
Total income	58	68	74	78	83
Total operating expenses	45	51	53	55	58
Gross operating income	14	18	20	23	25
Provisions for loan losses	0	0	0	0	0
Pre-tax income	14	18	20	23	25
Net income	10	12	14	15	18
Adj. net income	10	12	14	15	18
Composition of total income (%)	2019A	2020A	2021E	2022E	2023E
Global Markets	54.1	49.4	49.3	46.9	45.5
Alternative asset management	14.8	9.6	8.9	9.9	11.5
Investment banking	31.1	41.0	41.8	43.2	43.0
Balance sheet (EUR M)	2019A	2020A	2021E	2022E	2023E
Total assets	309.4	285.7	298.5	313.4	329.3
Customer loans	215.1	203.3	214.9	227.0	242.9
Total customer deposits	194.0	157.0	164.9	173.1	181.7
Shareholders' equity	80.1	85.7	90.2	95.7	102.9
Tangible equity	65.1	58.2	62.7	68.2	75.4
Risk weighted assets	221.9	218.5	231.8	245.0	258.5
Stock market ratios (X)	2019A	2020A	2021E	2022E	2023E
Adj. P/E	13.5	8.9	10.0	8.9	7.8
P/TBV	1.97	1.70	2.35	2.18	2.00
P/PPP	NA	NA	NA	NA	NA
Dividend yield (% ord)	6.7	8.3	7.2	7.6	8.1
Profitability & financial ratios (%)	2019A	2020A	2021E	2022E	2023E
ROE	12	15	15	17	18
Adj. ROTE	15	20	23	23	24
RoRWA	4	6	6	6	7
Leverage	22	23	23	24	25
Cost income ratio	76	74	72	71	70
Cost of risk (bps)	0	0	0	0	0
Tax rate	31	27	30	30	30
Dividend payout	90	74	73	67	63
Other (%)	2019A	2020A	2021E	2022E	2023E
CET1 ratio	25	21	21	22	24
CET1 ratio fully loaded	25	21	21	22	24
Net impaired loans ratio	0	0	0	0	0
Net impaired loans on TBV	0	0	0	0	0
Growth (%)	2019A	2020A	2021E	2022E	2023E
Total income	-2.4	17.0	8.1	6.2	5.6
Gross operating income	-11.9	28.4	15.9	12.1	9.5
Net income	-13.5	29.4	10.3	12.8	14.4
Adj. net income	-20.1	29.4	10.3	12.8	14.4
BS growth (%)	2019A	2020A	2021E	2022E	2023E
Customers' loans	0.0	-5.5	5.7	5.6	7.0
Customers' deposits	5.0	-19.1	5.0	5.0	5.0
Shareholders' funds	0.0	7.0	5.2	6.1	7.6
Structure (no. of)	2019A	2020A	2021E	2022E	2023E
Branches	NA	NA	NA	NA	NA
Employees	156	164	167	169	171

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

Company Snapshot

Company Description

Equita is an Italian boutique active in the investment banking market. Listed on the STAR segment of the Italian Stock Exchange and founded more than 45 years ago, Equita operates 3 divisions: Global Markets, Investment Banking and Alternative Asset Management.

Key Risks

Company specific risks:

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

Sector generic risks:

- Geopolitical risk
- Technology risks
- Regulatory risks

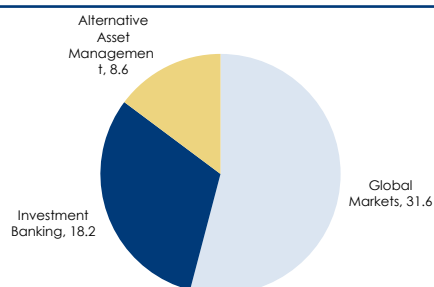
Key data

Mkt price (EUR)	2.97	Free float (%)	37.0
No. of shares	45.95	Major shr	Perilli F.
52Wk range (EUR)	3.04/1.98	(%)	11.4
Reuters	EQUI.MI	Bloomberg	EQUI IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	-0.7	-1M	-0.5
-3M	3.8	-3M	-1.1
-12M	30.8	-12M	-8.3

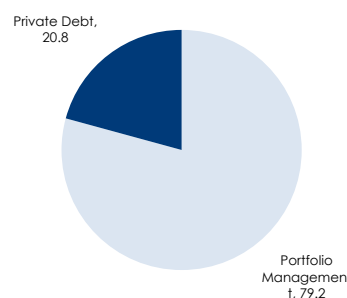
Estimates vs. consensus

EUR M (Y/E Dec)	2020A	2021E	2021C	2022E	2022C	2023E	2023C
Total income	68.23	73.76	NM	78.36	NM	82.78	NM
Operating costs	50.59	53.31	NM	55.44	NM	57.67	NM
Gross op. inc.	17.65	20.45	NM	22.93	NM	25.11	NM
LLP	0.00	0.00	NM	0.00	NM	0.00	NM
Net income	12.35	13.62	NM	15.37	NM	17.57	NM
EPS (€)	0.27	0.30	NM	0.33	NM	0.38	NM

Revenues breakdown by division (%)



AAM AuM breakdown (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 13/05/2021)

Our Mid Corporate Definition

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.

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

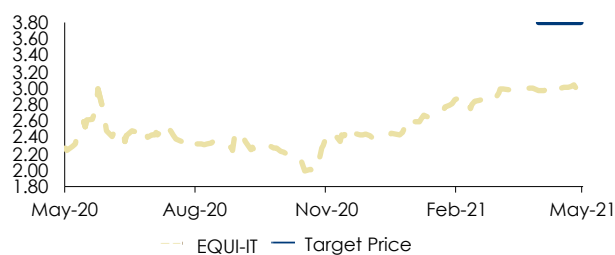
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Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is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

Historical recommendations and target price trends (long-term horizon: 12M)

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

Date	Rating	TP (EUR)	Mkt Price (EUR)
12-Apr-21	BUY	3.8	3.0

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at 12 April 2021)**

Number of companies considered: 127	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%) (*)	46	27	26	1	0
of which Intesa Sanpaolo's Clients (%) (**)	82	71	64	100	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

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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

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Intesa Sanpaolo Research Dept.

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

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
Oriana Cardani +39 02 6275 3017 oriana.cardani@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
Massimo Vecchio +39 02 6275 3016 massimiliano.vecchio@intesasnpaolo.com

Corporate Broking Research

Alberto Francese +39 02 8794 9815 alberto.francese@intesasnpaolo.com
Gabriele Berfi +39 02 8794 9821 gabriele.berfi@intesasnpaolo.com
Marco Cristofori +39 02 6275 3015 marco.cristofori@intesasnpaolo.com
Youness Nour El Alaoui +39 02 8794 9812 youness.alaoui@intesasnpaolo.com
Arianna Terazzi +39 02 8794 3187 arianna.terazzi@intesasnpaolo.com

Credit Research

Maria Grazia Antola (Banks) +39 02 8794 1114 maria.antola@intesasnpaolo.com
Alessandro Chiodini (Utilities) +39 02 8794 1115 alessandro.chiodini@intesasnpaolo.com
Dario Fasani (Industrials) +39 334 1189282 dario.fasani@intesasnpaolo.com
Melanie Gavin (Telecoms, Industrials) +39 02 8794 1118 melanie.gavin@intesasnpaolo.com
Maria Gabriella Tronconi (Industrials) +39 02 8794 1117 maria.tronconi@intesasnpaolo.com
Barbara Pizzarelli (Clearing & Data Processing) +39 02 8794 1116 barbara.pizzarelli@intesasnpaolo.com

Technical Analysis

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

Clearing & Data Processing

Anna Whatley +39 02 8794 9824 anna.whatley@intesasnpaolo.com
Stefano Breviglieri +39 02 8794 9816 stefano.breviglieri@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 Cavaliere +39 02 7261 2722 carlo.cavaliere@intesasnpaolo.com
Francesca Guadagni +39 02 7261 5817 francesca.guadagni@intesasnpaolo.com
Paolo Maria Lenzi +39 02 7261 5114 paolo.lenzi@intesasnpaolo.com
Stefano Ottavi +39 02 7261 2095 stefano.ottavi@intesasnpaolo.com
Federica Repetto +39 02 7261 5517 federica.repetto@intesasnpaolo.com
Daniela Stucchi +39 02 7261 5708 daniela.stucchi@intesasnpaolo.com
Mark Wilson +39 02 7261 2758 mark.wilson@intesasnpaolo.com
Carlo Castellari (Corporate Broking) +39 02 7261 2122 carlo.castellari@intesasnpaolo.com
Roberta Pupeschi (Corporate Broking) +39 02 72616363 roberta.pupeschi@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
Alessandro Bevacqua +39 02 7261 5114 alessandro.bevacqua@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
Francesca Dizione +39 02 7261 2759 francesca.dizione@intesasnpaolo.com
Enrico Ferrari +39 02 7261 2806 enrico.ferrari@intesasnpaolo.com
Stefan Gess +39 02 7261 5927 stefan.gess@intesasnpaolo.com
Edward Lythe +44 207 894 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.

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