BANCA IMI

Equity Company Note

Poligrafici Ed.

Debt Restructuring Agreement a Mid-Term Help

Poligrafici Ed. - Key estimates and data					
Y/E December		2013A	2014E	2015E	2016E
Revenues	EUR M	189.22	194.13	198.86	211.37
EBITDA	EUR M	5.64	10.63	15.68	24.38
EBIT	EUR M	-8.82	-1.37	3.83	13.43
Net income	EUR M	-12.23	-6.62	-2.75	6.12
Dividend ord.	EUR	0.00	0.00	0.00	0.00
Adj. EPS	EUR	-0.09	-0.05	-0.02	0.05
EV/EBITDA	x	23.36	12.27	8.07	4.73
Adj. P/E	x	-4.37	-8.08	-19.46	8.74

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

- **FY13A results**. Consolidated revenues were EUR 189.2M, down 8.4% yoy and slightly below our forecast of EUR 192.7M. On a divisional basis, the contribution from the different units was: 1) revenues from circulation slightly increased by 0.3% yoy to EUR 88.6M, mainly benefiting from a EUR 0.10 increase in all newspaper prices; 2) advertising revenues were EUR 65.7M, -19.5% yoy. The decrease was mainly attributable to the tough reference market in Italy, where newspaper advertising decreased by around 19.4% in 2013 (Source: FCP/FIEG); 3) add-on sales reported revenues at EUR 3.0M (-3.8% yoy); and 4) printing for third parties generated revenues of EUR 24.4M, up by 0.4% vs. FY12A. Group EBITDA came in at EUR 5.6M vs. EUR 7.9M in FY12A, while the net loss was EUR 12.2M vs. a EUR 4.2M net loss in FY12A. Net debt came in at EUR 78.4M (EUR 85.4M at FY12A) positively impacted by the sale of part of the stake in Mediobanca for a cash-in of around EUR 5.8M and by the reclassification of the residual shares as current financial assets. Lastly, in the period, the group registered a non-recurring outflow of EUR 5.1M for the payment of incentives, liquidation and employees indemnity.
- **Debt restructuring**. Poligrafici Editoriale (together with Monrif and Poligrafici Printing) announced the signing of a restructuring agreement with the lending banks and leasing companies, which entails the rescheduling of medium-term facilities and the consolidation on more favourable terms of short-term facilities in compliance with some financial covenants consistent with the consolidated plan for 2013-16.
- **Outlook**. Management is maintaining a cautious FY14 outlook due to the still uncertain context in Italy, the decline in consumer spending and the lack of specific regulatory measures in support of publishing in Italy. As a result, the advertising market in Italy should continue to remain under pressure in 2014.
- **Estimates revision.** Following the FY13A results we revised downwards our FY14E estimates. We now expect revenues of EUR 194.1M and EBITDA of EUR 10.6M, with an EBITDA margin of 5.5%, 250bps higher than FY13A, but still impacted by some non-recurring costs related to personnel right-sizing. We forecast a FY14E net loss of EUR 6.6M. For the following years, we expect the possible recovery in advertising spending could allow the company to chart a more stable growth path.
- **Valuation**. Following the periodical revision of our risk-free rate and equity risk premium parameters (at 3.50% and 5.50% vs. the previous 4.25% and 6.00%, respectively), our updated DCF model points to a **target price of EUR 0.52/share** (from the previous EUR 0.33/share) and **we confirm our BUY recommendation on the stock**.
- **Key risks**. In our view, the key risks to the stock are: 1) the negative outlook on advertising expenditure and newspaper circulation in Italy; along with the still very low visibility on advertising budgets; and 2) the execution risk related to the further restructuring, which we believe is necessary to recover and protect the company's profitability.

2 April 2014

BUY

Target Price: EUR 0.52 (from EUR 0.33)

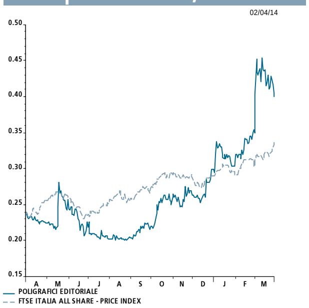
Media
Company Update

Intesa Sanpaolo Research Department

Gabriele Berti
Research Analyst
+39 02 8794 9821

Corporate Broking Team
Alberto Francese
Gabriele Berti
Marta Caprini

Price performance, -1Y



Source: Thomson Reuters

Data priced on 31.03.2014	
Target price (€)	0.52
Target upside (%)	29.27
Market price (€)	0.41
52-week range (€)	0.5/0.2
Market cap (€ M)	53.46
No. of shares (M)	132.00
Free float (%)	23.4
Major shareholder (%)	Monti Riffeser,62
Reuters	POLI.MI
Bloomberg	POL IM
FTSE It All Shares	23143

Performance %			
Absolute		Rel. to FTSE All Sh	
-1M	14.4	-1M	8.3
-3M	35.5	-3M	20.9
-12M	72.0	-12M	30.8

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

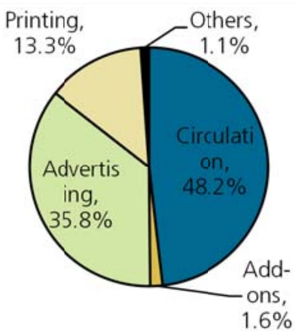
See page 9 for full disclosures and analyst certification

4Q/FY13A Results

Poligrafici Ed. FY13A consolidated revenues came in at EUR 189.2M, down 8.4% yoy and slightly below our forecast of EUR 192.7M. On a divisional basis, the contribution of the different units was:

- **Circulation:** Revenues from circulation slightly increased by 0.3% yoy to EUR 88.6M, mainly benefiting from a EUR 0.10 increase in all newspaper prices. We highlight that, according to the latest Audipress research, "QN Quotidiano Nazionale" was the third-most read newspaper in Italy, with an average readership of more than 2.4M;
- **Advertising:** Advertising revenues were EUR 65.7M, -19.5% yoy. The decrease was mainly attributable to the tough reference market in Italy, where newspaper advertising decreased by around 19.4% in 2013 (Source: FCP/FIEG). Note that EUR 4.6M (+13% yoy) of total advertising revenues were from the Quotidiano.net and related websites, which is the fourth-largest Italian online website in the 'current events & global news' segment, thanks to 5.1M unique visitors and 51.38M page views (Source: Audiweb, January 2014);
- **Add-on sales:** Reported revenues of EUR 3.0M (-3.8% yoy);
- **Printing for third parties:** The unit generated revenues of EUR 24.4M, up by 0.4% vs. FY12A.

Poligrafici Ed. - FY13A revenues breakdown



Source: Company data

Poligrafici Ed. - FY12A-13A costs breakdown

EUR M	FY12A	FY13A	% yoy
Operating costs	105.9	100.7	-4.9
Labour costs	88.1	78.1	-11.3
Other costs	4.6	4.8	3.9
D&A	11.4	12.6	10.9
Provisions	0.2	1.9	NM
Total	210.1	198.0	-5.8

NM: not meaningful; A: actual; Source: Company data

Group EBITDA came in at EUR 5.6M vs. EUR 7.9M in FY12A, with an EBITDA margin of 3.0%, which included negative non-recurring items for EUR 4.8M. The margin was 80bps lower than FY12A, which included non-recurring items for EUR 4.6M. Personnel costs decreased by around 11.3% to EUR 78.1M, as a result of the on-going reorganisation plan.

Poligrafici Ed. reported a FY13A net loss of EUR 12.2M vs. a EUR 4.2M net loss in FY12A.

Poligrafici Ed. - 4Q/FY13A results

EUR M	4Q12A	4Q13A	% chg.	FY12A	FY13E	FY13A	% chg.
Circulation	21.4	21.3	-0.6	88.3	89.2	88.6	0.3
Add-ons	0.9	0.8	-7.7	3.2	3.2	3.0	-3.8
Advertising	21.5	18.3	-15.0	81.6	68.5	65.7	-19.5
Printing	6.3	6.8	8.8	24.3	23.8	24.4	0.4
Others	3.0	2.6	-14.7	9.2	7.9	7.5	-18.3
Total revenues	53.0	49.7	-6.2	206.5	192.7	189.2	-8.4
EBITDA	1.3	-0.2	NM	7.9	8.4	5.6	-28.6
EBITDA margin %	2.4	NM		3.8	4.4	3.0	
EBIT	-0.8	-5.1	NM	-3.6	-3.5	-8.8	NM
Net profit	2.0	-5.1	NM	-4.2	-7.1	-12.2	NM
Net debt	85.4	78.4	-8.3	85.4	88.1	78.4	-8.3

NM: not meaningful; A: actual; E: estimates; Source: Company data

Net debt came in at EUR 78.4M (EUR 85.4M at FY12A) positively impacted by the sale of part of the stake in Mediobanca for a cash-in of around EUR 5.8M and by the reclassification of the residual shares as current financial assets. Lastly, in the period, the group registered a non-recurring outflow of EUR 5.1M for the payment of incentives, liquidation and employees indemnity.

Debt restructuring agreement

On 17 March 2014, Poligrafici Editoriale (together with Monrif and Poligrafici Printing) announced the signing of a restructuring agreement with the lending banks and leasing companies, which entails:

- **Rescheduling of medium/long-term credit facilities** for around EUR 58.6M with a moratorium until 30 June 2015;
- **Consolidation of short-term credit facilities** on more favourable conditions in terms of pricing until 31 December 2016;
- **Financial covenants** consistent with the consolidated plan for 2013-16.

The agreement also provides for a ban on the distribution of dividends until the expiry date of the agreement.

Earnings Outlook

Management is maintaining a cautious FY14 outlook due to the still uncertain context in Italy, the decline in consumer spending and the lack of specific regulatory measures in support of publishing in Italy. As a result, the Italian advertising market should continue to remain under pressure in 2014.

However, in light of the weak results and the still tough reference market, we highlight that management is implementing several actions to recover and protect the company's profitability:

- A reorganisation plan, started in 2012, to structurally reduce both personnel costs (-11.3% yoy, net of non-recurring items) and operating costs (-4.9% yoy);
- The two agreements with RCS, which since September 2013 has the exclusive management of the national press advertising sales for the daily newspapers of the Group, while SPE, Poligrafici Ed. Group's advertising agency, manages local printing advertising sales for the Bologna and Florence editions of the newspaper Il Corriere della Sera (RCS Group);
- The previously mentioned restructuring agreement signed with the lending banks and leasing companies, should provide financial stability for the group in the short term.

Earnings estimates

Mixed contribution at top line

For 2014E-16E, we assumed mixed top-line performances, reflecting the different contributions from the main subsidiaries:

- **Circulation**: We still expect a slight negative performance by circulation in 2014E and 2015E, following the downwards trend already seen in 2010-13, partly offset by the increase in all newspaper prices (EUR 0.10) in FY13A. On the other hand, in 2016E we assume another increase in newspaper prices, thus we project a positive performance of around 5%;
- **Add-ons**: In light of the declining trend registered from 2008, we expect a weak performance in 2014E-16E (CAGR -6.0%);
- **Advertising**: We prefer to maintain a cautious approach on 2014E, the year in which we forecast only a 3% upside vs. 2013, mainly driven by digital advertising and local advertising, that are usually more resilient than national. We then expect a better performance in the following years (+7% in 2015E and +9.5% in 2016E, respectively);
- **Printing for third parties**: We forecast a positive trend in 2014E-16E with an estimated CAGR of about 4%.

Overall, we project consolidated revenues of EUR 194.1M, EUR 198.9M and EUR 211.4M respectively in FY14E, FY15E and FY16E. Our forecasts are shown in the table below:

Poligrafici Editoriale – Revenues breakdown estimates (2014E-16E)

EUR M	2014E Old	2014E New	%chg	2015E New	2016E New
Circulation	90.1	87.7	-2.7	86.8	91.1
Add-ons	3.4	2.9	-12.5	2.8	2.6
Advertising	70.2	67.7	-3.6	72.4	79.3
Printing	23.9	26.3	10.1	27.1	28.5
Others	8.7	9.5	9.2	9.8	9.9
Revenues	196.4	194.1	-1.1	198.9	211.4
EBITDA	15.3	10.6	-30.5	15.7	24.4
EBITDA margin (%)	7.8	5.5		7.9	11.5
EBIT	4.0	-1.4	-134.4	3.8	13.4
EBIT margin (%)	2.0	-0.7		1.9	6.4
Net income	1.0	-6.6	NM	-2.7	6.1
Net debt	82.7	76.9	-7.0	73.1	61.9

Source: Intesa Sanpaolo Research estimates

Profitability and bottom line

Looking at profitability, we expect that, thanks to the abovementioned reorganisation process, the group could reach a 2014E EBITDA of EUR 10.6M, with an EBITDA margin at 5.5%, 250bps higher than FY13A, but still impacted by some non-recurring costs related to personnel rightsizing. We forecast a net loss of EUR 6.6M.

For the following years, we expect that a possible recovery in advertising spending could allow the company to chart a more stable growth path. In 2015E, we see EBITDA at EUR 15.7M, with an EBITDA margin at 7.9%, while in 2016E, we forecast an EBITDA of EUR 24.4M, with an EBITDA margin at 11.5%, reflecting the expected top-line increase. As a result, we expect the company to return to a net profit (EUR 6.1M).

Valuation

We base our valuation of Poligrafici Editoriale on a DCF model to reflect the group's specific long-term prospects and the benefits expected by the reorganisation plan. **Our DCF model points to a target price of EUR 0.52/share (EUR 0.33/share previously) and we confirm our BUY rating.**

DCF model

Key assumptions

The main assumptions of our DCF model are:

- Explicit forecast period of 2014E-16E;
- For the terminal value (2017E) we confirm 2016E figures, given the lack of visibility and the still fragile reference market, while we assume that capex equals depreciation. We take a conservative stance, also assuming a perpetuity growth rate of 0%;
- We added treasury shares at market value;
- For the WACC calculation, we incorporated our updated risk-free rate of 3.50% (4.25% previously), a risk premium of 5.50% (6.00% previously) and a Beta of 1x (source: Bloomberg; 0.9x previously). Lastly, we consider a D/D+E ratio at 68% in line with the 2013A data.

In the table below, we show our WACC calculations.

Poligrafici Editoriale – WACC calculations

%	
Risk free rate	3.50
Risk premium	5.50
Beta (x)*	1.0
Cost of equity	9.0
Gross debt rate	6.0
Tax rate	27.5
Tax shielded cost of debt	4.4
Gearing	68.0
WACC	5.8

Source: *Bloomberg and Intesa Sanpaolo Research estimates

The table below summarises our DCF model.

Poligrafici Editoriale – DCF model (2014E-16E)

EUR M	2014E	2015E	2016E	LT
EBIT	-1.4	3.8	13.4	13.4
Tax	-3.0	-3.5	-4.4	-4.4
Depreciation	-4.3	0.4	9.0	9.0
NOPAT	12.0	11.9	11.0	
WC	0.4	-2.5	-3.3	
Capex	-4.0	-3.0	-3.0	
FCF	4.1	6.7	13.7	9.0
Discounted FCF	3.9	6.0	11.6	7.2
WACC (%)	5.8			
TV growth (%)	0.0			
Sum	21			
TV	124			
EV	145			
Debt 2013A	78.4			
Treasury shares	1.2			
Equity	67.8			
Shares (M)	132.0			
Target price (EUR/share)	0.52			

Source: Intesa Sanpaolo Research estimates

Poligrafici Ed. - Key figures					
			Ordinary		Rating
Sector	Media	Mkt price EUR/Share	0.41		**BUY**
REUTERS CODE	POLI.MI	Target price EUR/Share	0.52		
Values per share (EUR)	2012A	2013A	2014E	2015E	2016E
No. ordinary shares (M)	132.00	132.00	132.00	132.00	132.00
No. NC saving/preferred shares (M)	-	-	-	-	-
Total no. of shares (M)	132.00	132.00	132.00	132.00	132.00
Adj. EPS	-0.03	-0.09	-0.05	-0.02	0.05
CFPS	0.06	0.02	0.04	0.07	0.13
BVPS	0.33	0.23	0.18	0.16	0.21
Dividend Ord	-	-	-	-	-
Dividend SAV Nc	-	-	-	-	-
Income statement (EUR M)	2012A	2013A	2014E	2015E	2016E
Sales	206.5	189.2	194.1	198.9	211.4
EBITDA	7.9	5.6	10.6	15.7	24.4
EBIT	-3.6	-8.8	-1.4	3.8	13.4
Pre-tax income	-7.0	-10.9	-4.1	0.9	11.0
Net income	-4.2	-12.2	-6.6	-2.7	6.1
Adj. net income	-4.2	-12.2	-6.6	-2.7	6.1
Cash flow (EUR M)	2012A	2013A	2014E	2015E	2016E
Net income before minorities	-4.2	-12.8	-7.0	-2.5	6.6
Depreciation and provisions	11.5	14.5	12.0	11.9	11.0
Change in working capital	3.0	11.1	0.4	-2.5	-3.3
Operating cash flow	10.4	12.8	5.4	6.8	14.2
Capital expenditure	-10.2	-5.8	-4.0	-3.0	-3.0
Other (uses of Funds)	0.0	0.0	0.0	0.0	0.0
Free cash flow	0.2	7.0	1.4	3.8	11.2
Dividends and equity changes	-5.3	0.0	0.0	0.0	0.0
Net cash flow	-5.1	7.0	1.4	3.8	11.2
Balance sheet (EUR M)	2012A	2013A	2014E	2015E	2016E
Net capital employed	134.7	115.1	107.1	100.5	95.5
of which associates	-	-	-	-	-
Net debt/-cash	85.4	78.4	76.9	73.1	61.9
Minorities	6.4	6.4	6.4	6.4	6.4
Net equity	42.9	30.4	23.8	21.0	27.1
Market cap	53.5	53.5	53.5	53.5	53.5
Minorities value	-	-	-	-	-
Enterprise value (*)	138.8	131.8	130.4	126.6	115.3
Stock market ratios (x)	2012A	2013A	2014E	2015E	2016E
Adj. P/E	-12.8	-4.4	-8.1	-19.5	8.7
P/CEPS	7.2	24.0	9.9	5.9	3.1
P/BVPS	1.2	1.8	2.2	2.5	2.0
Dividend yield (% ord)	0.0	0.0	0.0	0.0	0.0
Dividend yield (% sav)	-	-	-	-	-
EV/sales	0.7	0.7	0.67	0.64	0.55
EV/EBITDA	17.6	23.4	12.27	8.07	4.73
EV/EBIT	-38.2	-14.9	-94.99	33.01	8.59
EV/CE	1.0	1.1	1.22	1.26	1.21
D/EBITDA	10.8	13.9	7.24	4.66	2.54
D/EBIT	-23.5	-8.9	-56.04	19.07	4.61
Profitability & financial ratios (%)	2012A	2013A	2014E	2015E	2016E
EBITDA margin	3.8	3.0	5.5	7.9	11.5
EBIT margin	-1.8	-4.7	-0.7	1.9	6.4
Tax rate	40.3	-17.3	-72.7	380.0	40.0
Net income margin	-2.0	-6.5	-3.4	-1.4	2.9
ROE	-9.7	-40.2	-27.8	-13.1	22.5
Debt/equity ratio	1.7	2.1	2.5	2.7	1.8
Growth (%)		2013A	2014E	2015E	2016E
Sales		-8.4	2.6	2.4	6.3
EBITDA		-28.6	88.3	47.6	55.4
EBIT		-142.4	84.4	379.3	250.2
Pre-tax income		-56.6	62.7	122.4	1104.5
Net income		-193.7	45.9	58.5	322.7
Adj. net income		-193.7	45.9	58.5	322.7

(*) EV = Mkt cap+ Net Debt + Minorities Value - Associates A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Notes

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Valuation methodology (long-term horizon: 12M)

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

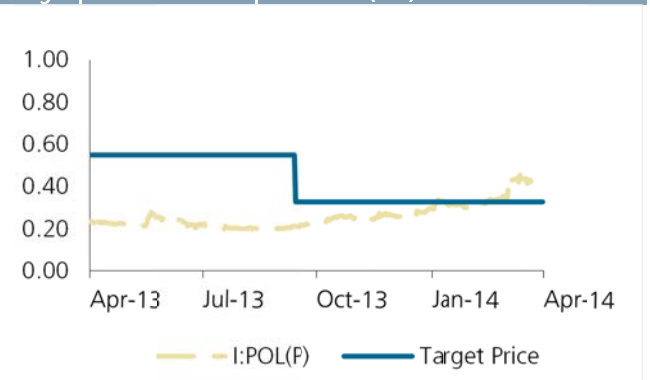
In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, which is not related to market performance and whose key is reported below:

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

Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances, including when Intesa Sanpaolo is acting in an advisory capacity in a merger or strategic transaction involving the company.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

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

Target price and market price trend (-1Y)



Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
12-Sep-13	BUY	0.33	0.21
20-Mar-14	U/R	U/R	0.42

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

Intesa Sanpaolo Research Rating Distribution (at February 2014)

Number of companies considered: 83	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage %	29	35	31	2	2
of which Intesa Sanpaolo's Clients % (*)	54	52	42	50	50

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

Valuation methodology (short-term horizon: 3M)

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

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

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

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

Company specific disclosures

Banca IMI discloses interests and conflicts of interest, as defined by: Articles 69-quater and 69-quinquies, of Consob Resolution No.11971 of 14.05.1999, as subsequently amended and supplemented; the NYSE's Rule 472 and the NASD's Rule 2711; the FSA Policy Statement 04/06 "Conflicts of Interest in Investment Research – March 2004 and the Policy Statement 05/03 "Implementation of Market Abuse Directive", March 2005. The Intesa Sanpaolo Group maintains procedures and organisational mechanisms (Information barriers) to professionally manage conflicts of interest in relation to investment research. We provide the following information on Intesa Sanpaolo Group's conflicts of interest:

1 The Intesa Sanpaolo Group has a conflict of interest inasmuch as it plans to solicit investment banking business or intends to seek compensation from the Company in the next three months.

2 Banca IMI is a corporate broker relative to securities issued by POLIGRAFICI EDITORIALE S.p.A.

Intesa Sanpaolo Research Department – Head of Research: Gregorio De Felice		
Head of Equity & Credit Research		
Giampaolo Trasi	+39 02 8794 9803	giampaolo.trasi@intesasanpaolo.com
Equity Research		
Monica Bosio	+39 02 8794 9809	monica.bosio@intesasanpaolo.com
Luca Bacoccoli	+39 02 8794 9810	luca.bacoccoli@intesasanpaolo.com
Manuela Meroni	+39 02 8794 9817	manuela.meroni@intesasanpaolo.com
Gian Luca Pacini	+39 02 8794 9818	gianluca.pacini@intesasanpaolo.com
Elena Perini	+39 02 8794 9814	elena.perini@intesasanpaolo.com
Bruno Permutti	+39 02 8794 9819	bruno.permutti@intesasanpaolo.com
Roberto Ranieri	+39 02 8794 9822	roberto.ranieri@intesasanpaolo.com
Meris Tonin	+39 02 8794 1119	meris.tonin@intesasanpaolo.com
Corporate Broking Research		
Alberto Francese	+39 02 8794 9815	alberto.francese@intesasanpaolo.com
Gabriele Berti	+39 02 8794 9821	gabriele.berti@intesasanpaolo.com
Marta Caprini	+39 02 8794 9812	marta.caprini@intesasanpaolo.com
Research Production		
Anna Whatley	+39 02 8794 9824	anna.whatley@intesasanpaolo.com
Bruce Marshall	+39 02 8794 9816	robert.marshall@intesasanpaolo.com
Annita Ricci	+39 02 8794 9823	annita.ricci@intesasanpaolo.com
Wendy Ruggeri	+39 02 8794 9811	wendy.ruggeri@intesasanpaolo.com

Banca IMI SpA - Head of Equity Derivative Sales, Trading, Cash Sales: Andrea Sozzi Sabatini		
Institutional Sales		
Catherine d'Aragon	+39 02 7261 5929	catherine.daragon@bancaimi.com
Carlo Cavalieri	+39 02 7261 2722	carlo.cavalieri@bancaimi.com
Stefan Gess	+39 02 7261 5927	stefan.gess@bancaimi.com
Francesca Guadagni	+39 02 7261 5817	francesca.guadagni@bancaimi.com
Federica Repetto	+39 02 7261 5517	federica.repetto@bancaimi.com
Daniela Stucchi	+39 02 7261 5708	daniela.stucchi@bancaimi.com
Marco Tinessa	+ 39 02 7261 2158	marco.tinessa@bancaimi.com
Mark Wilson	+39 02 7261 2758	mark.wilson@bancaimi.com
Corporate Broking		
Carlo Castellari	+39 02 7261 2122	carlo.castellari@bancaimi.com
Laura Spinella	+39 02 7261 5782	laura.spinella@bancaimi.com
Sales Trading		
Emanuele Mastroddi	+39 02 7261 5880	emanuele.mastroddi@bancaimi.com
Lorenzo Pennati	+39 02 7261 5647	lorenzo.pennati@bancaimi.com
Equity Derivatives Institutional Sales		
Andrea Martini	+39 02 7261 5977	andrea.martini@bancaimi.com
Umberto De Paoli	+39 02 7261 5821	umberto.depaoli@bancaimi.com
Enrico Ferrari	+39 02 7261 2806	enrico.ferrari@bancaimi.com
Emanuele Manini	+39 02 7261 5936	emanuele.manini@bancaimi.com
Massimiliano Murgino	+39 02 7261 2247	massimiliano.murgino@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
Francesco Riccardi (Retail e-commerce)	+39 02 7261 2089	francesco.riccardi@bancaimi.com
Umberto Menconi (Institutional e-commerce)	+39 02 7261 5492	umberto.menconi@bancaimi.com
Giovanni Spotti (E-sales)	+39 02 7261 2339	giovanni.spotti@bancaimi.com
Brokerage & Execution		
Sergio Francolini	+39 02 7261 5859	sergio.francolini@bancaimi.com

Banca IMI Securities Corp.		
US Institutional Sales		
Stephane Ventilato	+1 212 326 1233	stephane.ventilato@bancaimi.com
Barbara Leonardi	+1 212 326 1232	barbara.leonardi@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 1230

Banca IMI London Branch

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