

# Centrale del Latte d'Italia

## FY17 Results

Centrale del Latte d'Italia - Key estimates and data					
Y/E December		2017A	2018E	2019E	2020E
Revenues	EUR M	183.4	187.1	190.9	194.7
EBITDA	EUR M	7.25	8.42	9.35	10.12
EBIT	EUR M	0.66	2.04	2.97	3.74
Net Income	EUR M	-0.26	0.59	1.28	1.89
Dividend ord.	EUR	0	0	0	0
Adj. EPS	EUR	-0.01	0.04	0.09	0.14
EV/EBITDA	x	14.5	13.0	11.8	10.5
Adj. P/E	x	Neg.	77.1	35.5	24.0

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

- FY17: reinforcing market share and top-line growth.** Centrale del Latte d'Italia's (CLI) FY17 results reflected the merger of Centrale del Latte di Firenze, Pistoia e Livorno into Centrale del Latte di Torino (effective from 30 September 2016). In FY17, CLI reinforced its market positioning, as the third-largest milk and dairy hub in Italy, increasing its market share in terms of value to 7.6% (from 7.3%) in the Fresh and Extended Shelf Life (ESL) milk sector and a stable share at 3.7% in the long-life (UHT) milk sector. Consolidated net revenue grew by 55.7% yoy to EUR 183.4M. On a like-for-like basis, revenue grew by 6%.
- Raw material costs mitigated by economies of scale.** The milk price, which increased substantially in 4Q16, stabilised in 1H17, and was again affected by inflationary trends in the last part of 2017. This price trend has allowed the company to maintain an adequate remuneration, also thanks to the economies of scale triggered by the merger. Indeed, the raw materials weighting on revenue grew by 190bps, offset by the improvement of service costs (weighting on revenue -180bps), and labour costs (weighting on revenue -120bps). EBITDA amounted to EUR 7.2M +149.5%, with an increase in margin of 140bps yoy to 3.9%. Adjusted for non-recurring items, adj. EBITDA would have been EUR 7.5M, with a 4.1% margin. The bottom line was negative for EUR 0.3M vs. a EUR 12M profit in FY16 which was characterised by the completion of the business combination with Centrale del Latte della Toscana. Net debt stood at EUR 62.4M vs. EUR 60.2M in FY16, an increase driven by the investment programmes being implemented at the group's factories in Florence and Vicenza, and for the redevelopment and implementation of the operating offices in Turin.
- Outlook** In light of the operating acceleration recorded in 2017 (confirmed by a 3% sales growth in January 2018) and considering the strong positioning in the market, as well as the benefits expected to be derived from the full application of the new price lists and the synergies deriving from increasing integration, management believes it is on track to meet its targets for 2018, given the moderate recovery in the reference market.
- Estimates and valuation.** Following FY17 results, and in light of the trend of the first couple months of 2018, we assumed a 2% revenue growth per year in FY18E-20E, thus raising our previous revenue estimate in FY18E .by 1.6%. We maintained the EBITDA margin at 4.5% in FY18E, while we raised depreciation following the investment in Turin, thus leading to a 54.7% cut in FY18E net income vs. previous estimates. In FY19E-20E we projected an improvement in EBITDA margin of 40bps and 30bps, respectively. We value CLI with a DCF model, **pointing to a EUR 3.9/share target price and we rate the company a ADD.**
- Key risks.** A key risk relates to the execution of the merger process. Other company risks relate to, in our view, potentially lower volumes sold for a possible increase in the raw milk price. We also view the increasing competition from private labels as a risk, especially in the fresh milk product category, despite the group's overall defensive key brand.

13 March 2018: 7:46 CET  
Date and time of production

**ADD** (from Hold)

Target Price: EUR 3.9  
(from EUR 3.0)

Italy/Food Producers &  
Processors  
Company Update

Intesa Sanpaolo  
Research Department

**Alberto Francese**

Research Analyst  
+39 02 8794 9815

alberto.francese@intesasanpaolo.com

**Vanessa Colangelo**

Research Analyst  
+39 02 8794 9821

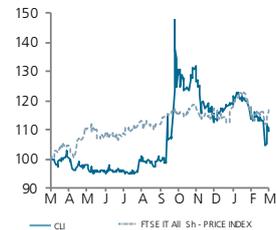
vanessa.colangelo@intesasanpaolo.com

**Corporate Brokerage Team**

Alberto Francese  
Gabriele Berti  
Vanessa Colangelo

Price performance, -1Y

09/03/2018



Source: FactSet

Date and time of first circulation:  
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Priced at market close on 09/03/2018\*

Target price (€)	3.9
Target upside (%)	19.64
Market price (€)	3.24
52Wk range (€)	4.34/2.78
Market cap (€ M)	45.36
No. of shares	14.00
Free float (%)	59.1
Major shr	Fin. CLT
(%)	37.0
Reuters	CLII.MI
Bloomberg	CLI IM
FTSE IT All Sh	25038

Performance %			
Absolute	Rel. to FTSE IT All		
-1M	-2.1	-1M	-4.6
-3M	-2.9	-3M	-2.5
-12M	10.4	-12M	-5.3

\*unless otherwise indicated within report. Source: FactSet and Intesa Sanpaolo Research estimates

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## FY17 Results

Centrale del Latte d'Italia's FY17 results highlighted a significant growth and consolidation of the new structure of the Group, with an increase in margins and profitability.

The results are not comparable to the previous year due to the change in consolidation scope: we remember that the merger of Centrale del Latte di Firenze, Pistoia e Livorno into Centrale del Latte di Torino was effective from 30 September 2016 and Centrale del Latte della Toscana's balance sheet is consolidated in the CLI Group from 1 January 2016 while the profit and loss is consolidated from 1 October 2016.

In FY17, Centrale del Latte d'Italia (CLI) reinforced its market positioning, as the third-largest milk and dairy hub in Italy, increasing its market share in terms of value to 7.6% (from 7.3%) in the Fresh and Extended Shelf Life (ESL) milk sector and a stable share at 3.7% in the long-life (UHT) milk sector. In the reference geographic areas (Piedmont, Liguria, Tuscany and Veneto regions), CLI confirmed its leadership in the Fresh and ESL milk sector, with a market share of 28.5%, vs. the 27.4% share recorded in 2016, while its share in the long-life milk sector rose to 14.5%, from 13.4% in 2016.

### Market share

The key points of FY17 results were:

- Consolidated net revenue grew by 55.7% yoy to EUR 183.4M;
- EBITDA amounted to EUR 7.2M +149.5%, with an increase in margin of 140bps yoy to 3.9%. Adjusted for non-recurring items, adj. EBITDA would have been EUR 7.5M, with a 4.1% margin;
- The bottom line was negative for EUR 0.3M vs. a EUR 12M profit in FY16 which was characterised by the completion of the business combination with Centrale del Latte della Toscana;
- Net debt stood at EUR 62.4M vs. EUR 60.2M in FY16, an increase driven by the investment programmes being implemented in the group's factories in Florence and Vicenza, and for the redevelopment and implementation of the operating offices in Turin.

We point out the successful execution of EUR 15M bond, with an average cost of 1.1% and maturity at 2024. The funding will finance the upgrade of the main operating offices in Turin (planned for 2019-21), that should increase the average profitability of the plant in the long-term.

We highlight that the milk price, which increased substantially in the last quarter of 2016, stabilised in 1H17, and was again affected by inflationary trends in the last part of 2017. This price trend has allowed the company to maintain an adequate remuneration taking into account the high quality of the raw milk.

Centrale del Latte d'Italia – FY17 results			
EUR M	FY16*	FY17A	chg %
Revenues	117.8	183.4	55.7
EBITDA	2.9	7.2	149.5
EBITDA margin (%)	2.5	3.9	
EBITDA adj.	2.9	7.5	157.1
EBITDA adj. margin (%)	2.5	4.1	
EBIT	-1.6	0.7	NM
Net profit/loss	12.0	-0.3	NM
Net debt/-cash	60.2	62.4	3.6

\* FY16A; are statutory results not including the full consolidation of Centrale del Latte di Firenze, Pistoia e Livorno; NM: not meaningful; Source: Company data

In the following table, we show the revenue breakdown for the main product lines. Also in this case the results are not comparable to the previous year, due to the change in consolidation scope.

In particular, UHT milk (+60.5% to EUR 38.7M) and other products (+87.5% to EUR 48.7M), grew faster than the total revenue.

Centrale del Latte d'Italia – Revenue breakdown				
EUR M	FY16*	FY17A	chg %	% of total
Fresh milk	49.1	72.9	48.5	39.7
UHT milk	24.1	38.7	60.5	21.1
Yogurt	7.0	8.5	20.7	4.6
IV gamma products	5.9	6.3	5.9	3.4
Cream and milk	3.2	3.9	21.9	2.1
Vegetable drinks	1.8	2.6	47.4	1.4
Other products	26.0	48.7	87.5	26.6
<b>Total</b>	<b>117.8</b>	<b>183.4</b>	<b>55.7</b>	<b>100.0</b>

\* FY16A; are statutory results not including the full consolidation of Centrale del Latte di Firenze, Pistoia e Livorno; Source: Company data

Looking at costs, we highlight that:

- Services grew by 46.7% to EUR 53.4M, with a weighting on revenue improving by 180bps;
- Raw materials grew by 62% to EUR 98.7M, with a weighting on revenue deteriorating by 190bps;
- Labour costs grew by 44.4% to EUR 26.3M, with a weighting on revenue improving by 120bps.

Centrale del Latte d'Italia – Revenue breakdown			
EUR M	FY16*	FY17A	chg %
Services	36.4	53.4	46.7
Raw materials and consumables	60.9	98.7	62.0
Cost of labour	18.2	26.3	44.4
Other	1.3	1.9	39.5
<b>Weighting on revenue</b>			
Services	30.9	29.1	
Raw materials and consumables	51.7	53.8	
Cost of labour	15.5	14.3	
Other	1.1	1.0	

\* FY16A; are statutory results not including the full consolidation of Centrale del Latte di Firenze, Pistoia e Livorno; Source: Company data

## Outlook

In July 2017, CLI also completed the sale of the facility in Carmagnola (Turin), inactive for some time following the transfer of production from Carmagnola to Vicenza.

The group's 50% equity investment in Odilla Chocolat was sold, as the strategic and operating conditions behind the acquisition of this equity investment were no longer valid.

As already mentioned, the company has started an important investment programme for the redevelopment and implementation of the operating offices in Turin, for a total amount of EUR 14.9M over three years. In detail, the programme will include the building of a new automated warehouse for storing finished products and the acquisition of highly innovative new systems for the processing and packaging of milk.

In the light of the operating acceleration recorded in 2017 (confirmed by a 3% sales growth in January 2018) and considering its strong position in the market, as well as the benefits expected to be derived from the full application of the new price lists and the synergies deriving from increasing integration (i.e. cost rationalisation), management believes it is on track to meet its 2018 targets, due to the moderate recovery of the reference market.

## Estimates Revision

Following FY17 results, and in light of the trend of the first couple of months of 2018, we assumed a 2% revenue growth per year in FY18E-20E, thus raising our previous revenue estimate in FY18E by 1.6%.

We maintained the EBITDA margin at 4.5% in FY18E, while we raised depreciation following the investment in Turin, thus leading to a cut of FY18E net income by 54.7% vs. our previous estimates.

In FY19E-20E we projected an EBITDA improvement of 40bps and 30bps, respectively.

We set our capex at EUR 8.6M per year in FY18E-19E, to incorporate the investments in Turin, while we lowered it to a physiological EUR 4M in FY20E.

CLI - Estimates revision (2018E-20E)						
EUR M	Old	FY18E		%	FY19E	FY20E
		New	New		New	New
Revenues	184.2	187.1	1.6	190.9	194.7	
EBITDA	8.2	8.4	2.7	9.4	10.1	
EBITDA margin %	4.5	4.5		4.9	5.2	
Net profit	1.3	0.6	-54.7	1.3	1.9	
Net debt	69.3	64.1	-7.5	64.9	60.5	

E: estimates; Source: Intesa Sanpaolo Research

## Valuation

We valued CLI with a DCF model, using a 4.7% WACC (5.1% previously), incorporating a risk-free rate of 2.0%, an equity risk premium of 5.50% and a gearing of 49.7%.

MARR - WACC calculation	
%	
Gross debt rate	2.5
Tax rate	24
Net debt rate	1.9
Beta levered*	1.00
Gearing	49.7
Beta relevered*	1.00
Risk-free rate	2.00
Equity risk premium	5.50
<b>WACC</b>	<b>4.7</b>

Source: Intesa Sanpaolo Research estimates and \*Bloomberg

Moreover, we used a 1% terminal value growth and LT EBIT is calculated by assuming capex equal to depreciation.

**Our DCF model continues to return a EUR 3.9/share fair value and we set an ADD recommendation.**

**ADD rating; TP at EUR 3.9/share**

Centrale del Latte d'Italia - DCF calculation (2018E-20E)				
EUR M	2018E	2019E	2020E	LT
EBIT	2.0	3.0	3.7	5.9
Tax	-0.2	-0.4	-0.6	-1.1
Depreciation	6.4	6.4	6.4	
NOPAT	8.2	8.9	9.5	4.8
WC	-0.1	0.1	0.1	
Capex	-8.6	-8.6	-4.0	
FCF	-0.4	0.5	5.7	4.8
Discounted FCF	-0.4	0.5	5.2	4.1
WACC (%)	4.7			
TV growth (%)	1.0			
Sum	5.2			
TV	111.5			
EV	116.7			
Debt 2017A	62.4			
Equity	54.3			
Shares	14.0			
Target price	3.9			

Source: Intesa Sanpaolo Research estimates

Centrale del Latte d'Italia - Key data							
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector		Free float (%)	Reuters Code	
ADD	Ord 3.9	Ord 3.24	Food Producers & Processors		59.1	CLII.MI	
Values per share (EUR)			2016A	2017A	2018E	2019E	2020E
No. ordinary shares (M)			14.00	14.00	14.00	14.00	14.00
No. NC saving/preferred shares (M)			0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)			14.00	14.00	14.00	14.00	14.00
Market cap (EUR M)			40.44	42.87	45.36	45.36	45.36
Adj. EPS			0.21	-0.01	0.04	0.09	0.14
CFPS			1.2	0.44	0.50	0.55	0.59
BVPS			4.5	4.5	4.5	4.6	4.8
Dividend ord			0	0	0	0	0
Income statement (EUR M)			2016A	2017A	2018E	2019E	2020E
Revenues			117.8	183.4	187.1	190.9	194.7
EBITDA			2.90	7.25	8.42	9.35	10.12
EBIT			-1.61	0.66	2.04	2.97	3.74
Pre-tax income			11.46	-0.31	0.77	1.68	2.49
Net income			12.02	-0.26	0.59	1.28	1.89
Adj. net income			2.99	-0.21	0.59	1.28	1.89
Cash flow (EUR M)			2016A	2017A	2018E	2019E	2020E
Net income before minorities			12.0	-0.3	0.6	1.3	1.9
Depreciation and provisions			4.5	6.6	6.4	6.4	6.4
Others/Uses of funds			0	0	0	0	0
Change in working capital			1.8	1.9	-0.1	0.1	0.1
Operating cash flow			18.4	8.2	6.9	7.8	8.4
Capital expenditure			-4.3	-8.6	-8.6	-8.6	-4.0
Financial investments			0	0	0	0	0
Acquisitions and disposals			0	0	0	0	0
Free cash flow			14.1	-0.4	-1.7	-0.8	4.4
Dividends			-0.8	0	0	0	0
Equity changes & Other non-operating items			-52.9	-1.8	0	0	0
Net cash flow			-39.7	-2.2	-1.7	-0.8	4.4
Balance sheet (EUR M)			2016A	2017A	2018E	2019E	2020E
Net capital employed			123.8	125.5	127.8	129.9	127.3
of which associates			0	0	0	0	0
Net debt/-cash			60.2	62.4	64.1	64.9	60.5
Minorities			0	0	0	0	0
Net equity			63.5	63.1	63.7	65.0	66.9
Minorities value			0	0	0	0	0
Enterprise value			100.7	105.3	109.4	110.3	105.8
Stock market ratios (x)			2016A	2017A	2018E	2019E	2020E
Adj. P/E			13.5	Neg.	77.1	35.5	24.0
P/CFPS			2.5	7.0	6.5	5.9	5.5
P/BVPS			0.64	0.68	0.71	0.70	0.68
Payout (%)			0	0	0	0	0
Dividend yield (% ord)			0	0	0	0	0
FCF yield (%)			34.8	-0.8	-3.8	-1.8	9.7
EV/sales			0.85	0.57	0.58	0.58	0.54
EV/EBITDA			34.7	14.5	13.0	11.8	10.5
EV/EBIT			Neg.	NM	53.7	37.1	28.3
EV/CE			0.81	0.84	0.86	0.85	0.83
D/EBITDA			20.7	8.6	7.6	6.9	6.0
D/EBIT			Neg.	94.2	31.4	21.8	16.2
Profitability & financial ratios (%)			2016A	2017A	2018E	2019E	2020E
EBITDA margin			2.5	3.9	4.5	4.9	5.2
EBIT margin			-1.4	0.4	1.1	1.6	1.9
Tax rate			NM	15.9	24.0	24.0	24.0
Net income margin			10.2	-0.1	0.3	0.7	1.0
ROCE			-1.3	0.5	1.6	2.3	2.9
ROE			23.0	-0.4	0.9	2.0	2.9
Interest cover			-1.9	0.7	1.6	2.3	3.0
Debt/equity ratio			94.8	98.9	100.6	99.9	90.5
Growth (%)				2017A	2018E	2019E	2020E
Sales				55.7	2.0	2.0	2.0
EBITDA				NM	16.2	11.1	8.2
EBIT				NM	NM	45.7	26.0
Pre-tax income				NM	NM	NM	48.0
Net income				NM	NM	NM	48.0
Adj. net income				NM	NM	NM	48.0

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

**Notes**

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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)



Historical recommendations and target price trend (-1Y)			
Date	Rating	TP	Mkt Price
07-Aug-17	HOLD	3.04	2.90
13-Mar-17	HOLD	3.00	2.93

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

Intesa Sanpaolo Research Rating Distribution (at February 2018)					
Number of companies considered: 109	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)	34	34	29	2	1
of which Intesa Sanpaolo's Clients (%) (*)	70	70	44	50	100

(\*) 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

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (jointly also the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Modello di Organizzazione, Gestione e Controllo" pursuant to Legislative Decree 8 June, 2001 no. 231 (available at the Intesa Sanpaolo website, webpage [http://www.group.intesasanpaolo.com/script/sir0/si09/governance/eng\\_wp\\_governance.jsp](http://www.group.intesasanpaolo.com/script/sir0/si09/governance/eng_wp_governance.jsp), along with a summary sheet, webpage <https://www.bancaimi.com/en/bancaimi/chisiamo/documentazione/normative>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, Article 24 of Regulation on the Organisation and Procedures of Intermediaries providing investment services or collective portfolio management jointly adopted by the Bank of Italy and Consob, FINRA Rule 2241 and NYSE Rule 472, as well as the FCA Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo S.p.A. is available in the "Rules for Research " and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A.

At the Intesa Sanpaolo website, webpage [http://www.group.intesasanpaolo.com/script/sir0/si09/studi/eng\\_archivio\\_conflitti\\_mad.jsp](http://www.group.intesasanpaolo.com/script/sir0/si09/studi/eng_archivio_conflitti_mad.jsp) you can find the archive of disclosure of interests or conflicts of interest of the Intesa Sanpaolo Banking Group in compliance with the applicable laws and regulations.

Furthermore, we disclose the following information on the Intesa Sanpaolo Banking Group's conflicts of interest:

- 1 One or more of the companies of the Intesa Sanpaolo Banking Group plan to solicit investment banking business or intends to seek compensation from Centrale del Latte d'Italia in the next three months
- 2 Banca IMI acts as Specialist relative to securities issued by Centrale del Latte d'Italia

**Intesa Sanpaolo Research Department – Head of Research Department: Gregorio De Felice****Head of Equity & Credit Research**

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

Monica Bosio	+39 02 8794 9809	monica.bosio@intesaspaolo.com
Luca Bacoccoli	+39 02 8794 9810	luca.bacoccoli@intesaspaolo.com
Antonella Frongillo	+39 02 8794 9688	antonella.frongillo@intesaspaolo.com
Inti Salvador Merino Rimini	+39 02 8794 9813	inti.merino@intesaspaolo.com
Manuela Meroni	+39 02 8794 9817	manuela.meroni@intesaspaolo.com
Gian Luca Pacini	+39 02 8794 9818	gianluca.pacini@intesaspaolo.com
Elena Perini	+39 02 8794 9814	elena.perini@intesaspaolo.com
Bruno Permutti	+39 02 8794 9819	bruno.permutti@intesaspaolo.com
Roberto Ranieri	+39 02 8794 9822	roberto.ranieri@intesaspaolo.com

**Corporate Broking Research**

Alberto Francese	+39 02 8794 9815	alberto.francese@intesaspaolo.com
Gabriele Berti	+39 02 8794 9821	gabriele.berti@intesaspaolo.com
Vanessa Colangelo	+39 02 8794 3187	vanessa.colangelo@intesaspaolo.com

**Technical Analysis**

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

**Research Clearing & Production**

Anna Whatley	+39 02 8794 9824	anna.whatley@intesaspaolo.com
Bruce Marshall	+39 02 8794 9816	robert.marshall@intesaspaolo.com
Annita Ricci	+39 02 8794 9823	annita.ricci@intesaspaolo.com
Wendy Ruggeri	+39 02 8794 9811	wendy.ruggeri@intesaspaolo.com
Elisabetta Bugliesi (IT support)	+39 02 8794 9877	elisabetta.bugliesi@intesaspaolo.com

**Banca IMI SpA****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**

Lorenzo Pennati	+39 02 7261 5647	lorenzo.pennati@bancaimi.com
Alessandro Bevacqua	+39 02 7261 2904	alessandro.bevacqua@bancaimi.com

**Equity Derivatives Institutional Sales**

Emanuele Manini	+39 02 7261 5936	emanuele.manini@bancaimi.com
Andrea Cisolotto	+39 02 7261 5975	andrea.cisolotto@bancaimi.com
Francesca Dizione	+39 02 7261 2759	francesca.dizione@bancaimi.com
Enrico Ferrari	+39 02 7261 2806	enrico.ferrari@bancaimi.com
Alessandro Monti	+44 207 894 2412	alessandro.monti@bancaimi.com
Umberto De Paoli	+44 207 894 2456	umberto.depaoli@bancaimi.com

**Banca IMI SpA – Head of Market Hub: Gherardo Lenti Capoduri****E-commerce Distribution**

Alessandra Minghetti	+39 02 7261 2973	alessandra.minghetti@bancaimi.com
Alessia Galluccio	+39 02 7261 2339	alessia.galluccio@bancaimi.com
Umberto Menconi	+39 02 7261 5492	umberto.menconi@bancaimi.com
Filippo Besozzi	+39 02 7261 5922	filippo.besozzi@bancaimi.com
Lawrence Peirson (London Office)	+44 207 894 2476	lawrence.peirson@bancaimi.com

**Brokerage & Execution**

Carmine Calamello	+39 02 7261 2194	carmine.calamello@bancaimi.com
-------------------	------------------	--------------------------------

**Customer Service**

Sergio Francolini	+39 02 7261 5859	sergio.francolini@bancaimi.com
-------------------	------------------	--------------------------------

**Banca IMI Securities Corp.****US Institutional Sales**

Barbara Leonardi	+1 212 326 1232	barbara.leonardi@bancaimi.com
Greg Principe	+1 212 326 1233	greg.principe@bancaimi.com

**Banca IMI SpA**

Largo Mattioli, 3  
20121 Milan, Italy  
Tel: +39 02 7261 1

**Banca IMI Securities Corp.**

1 William Street  
10004 New York, NY, USA  
Tel: (1) 212 326 1100

**Banca IMI London Branch**

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