

Grifal

Resilient during Tough Times

Interim results show that Grifal sales keep growing (+4% yoy), despite a declining market, still driven by innovative product cArtù (now 34% of group revenues) and international sales (27% of group revenues). Progressive moderation in raw material pricing allowed the EBITDA margin to expand to a record level.

Revenues growth slows in a challenging market; margin expands to a record level

Despite tough conditions recorded in the first part of the year across every major European corrugated cardboard market, Grifal has been capable to further expand its revenues line by 4% yoy, thanks to still good demand for cArtù, where new line of productions will be completed before year-end, and better sales of Tieng equipment machines. Profitability margin increased accordingly, with EBITDA growing by 37% yoy to EUR 2.7M, also thanks to raw material prices normalisation. NFP deteriorated slightly to EUR 20.8M, mostly due to EUR 4.3M investment to raise production capacity.

Positive outlook for cardboard maintained, but macroeconomic scenario makes us revise our estimates downwards

Management maintained a positive outlook on the years to come, both on the packaging and the equipment machine unit (Tieng Srl). Given a challenging macroeconomic environment, we decide to take a more conservative view, reducing our 2023E and 2024E revenue estimates by 20.7% and 24.3% respectively, while introducing a first explicit forecast for FY25E. Given the good performance recorded in 1H23 on profitability (EBITDA), we decide to reduce our 2023E less proportionately and more so for 2024E EBITDA, suggesting that the margin further narrows the gap vs. international peers.

Fine-tuning target price

Following our estimates' revision and our WACC assumptions (7.4% vs. 7.1% previously), our DCF model points to a **new target price of EUR 2.8/share** (vs. EUR 3.5/share previously). Given more than a 15% upside, we **confirm our BUY rating**.

Grifal – Key data

Y/E Dec (EUR M)	2021A	2022A	2023E	2024E	2025E
Revenues	26.07	36.88	38.50	47.96	58.06
EBITDA	2.11	4.37	5.25	6.95	8.74
EBIT	-0.72	1.30	2.17	3.85	5.50
Net income	-0.84	0.42	0.91	2.51	3.72
EPS (EUR)	-0.07	0.04	0.08	0.22	0.33
Net debt/-cash	12.24	18.85	22.50	22.89	16.84
Adj P/E (x)	Neg.	76.1	29.3	10.7	7.2
EV/EBITDA (x)	25.8	11.7	9.4	7.2	5.0
EV/EBIT (x)	Neg.	39.3	22.7	12.9	7.9
Div ord yield (%)	0	0	2.1	3.4	46.0
FCF Yield (%)	-16.4	-20.3	-14.0	0.7	24.7

Source: Company data, FactSet and Intesa Sanpaolo Research estimates. Priced at 23/10/2023

25 October 2023: 8:09 CET

Date and time of production

BUY

Target Price: EUR 2.8
(from EUR 3.5)

Italy/Containers & Packaging
Company Results

EGM

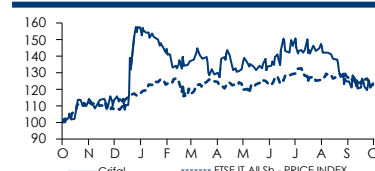
Grifal – Key Data

Price date (market close)	23/10/2023
Target price (€)	2.8
Target upside (%)	19.15
Market price (€)	2.35
Market cap (EUR M)	26.84
52Wk range (€)	2.99/1.90

EPS – DPS changes

(€)	2023E	2024E	2023	2024
EPS ▼	EPS ▼	chg%	chg%	
Curr.	0.080	0.220	57.52	35.19
Prev.	0.189	0.339	-	-
DPS =	DPS =	chg%	chg%	
Curr.	0.050	0.080	0.00	0.00
Prev.	0.050	0.080	-	-

Price Perf. (RIC: GRALA.MI BB: GRAL IM)



Source: Company data, FactSet and Intesa Sanpaolo Research estimates

Intesa Sanpaolo Research Dept.

Davide Rimini - Research Analyst
davide.rimini@intesasnpaolo.com

Corporate Broking Research

A. Francese, G. Berti, G. Cabrino
D. Rimini, A. Terazzi

Revenues Growth Slows, Margin Accelerates

1H23 results

- **Revenues grew by 4.5% yoy to EUR 19.4M** (vs. EUR 18.6M in 1H22), better than the underlying market of reference which, according to the European Federation of Corrugated Board Manufacturers (FEFCO), suffered a decline in terms of both volumes and value; growth has still been driven by main product cArtù, which now represents 34% of group revenues, and by the strength of international markets (now 27% of group revenues);
- **EBITDA rose by 37% yoy to EUR 2.7M** (vs. EUR 1.9M in 1H22), which corresponds to a margin of 13.8% vs. 10.5% in 1H22 and 11.9% in FY22;
- **EBIT rose to EUR 1.2M** (more than doubling vs. EUR 0.5M in 1H22), also thanks to a similar level of amortisation vs. 1H22;
- **NFP rose to EUR 20.8M** (vs. EUR 18.9M at YE22), also due to EUR 4.3M investments in expanding production capacity. The net debt/EBITDA ratio declined to 4.1x (vs. 4.3x at YE22).

Grifal - 1H23 results

EUR M	FY22A	1H22A	1H23A	1H23E	A/E %	yoy %
Revenues	36.9	18.6	19.4	19.4	0.0	4.5
Value of production	41.4	20.7	20.9	21.6	-3.1	1.2
EBITDA	4.4	1.9	2.7	2.4	11.3	37.2
Margin (%)	11.9	10.5	13.8	12.4		31.3
EBIT	1.3	0.5	1.2	0.7	71.9	145.9
Margin (%)	0.0	2.6	6.2	3.6		135.4
Pre-tax	0.8	0.2	0.8	0.3	151.4	208.5
Net Result	0.4	0.1	0.6	0.4	42.5	370.3
Net debt/-cash	18.9	18.0	20.8	18.6	12.1	

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

Looking more in detail at the revenues' performance, we highlight:

- Packaging products grew by 2.8% yoy in 1H23 to EUR 17.8M, representing 91.8% of group revenue (vs. 93.2% in 1H22);
- Equipment machine increased by 46% yoy in 1H23 to EUR 1.2M (vs. EUR 0.8M in 1H22), representing 6.4% of group revenue (vs. 4.6% in 1H22);
- Services rose by 87% yoy to EUR 0.1M, representing 0.6% of group revenue (vs. 0.3% in 1H22)

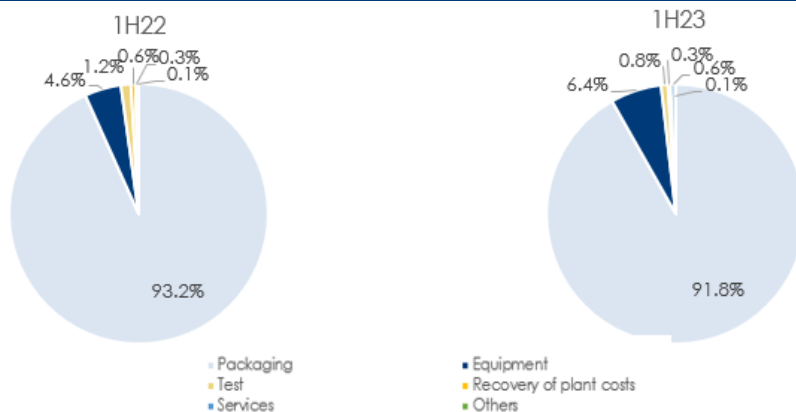
Revenues growth led by equipment machine and services

Grifal - 1H23 revenues products' breakdown

EUR M	1H22	1H23	yoy %
Packaging	17.3	17.8	2.8
Equipment	0.8	1.2	46.2
Test	0.2	0.2	-28.5
Recovery of plant costs	0.1	0.1	-36.2
Services	0.1	0.1	87.5
Others	0.0	0.0	3.5
Total	18.6	19.4	4.5

Source: Company data

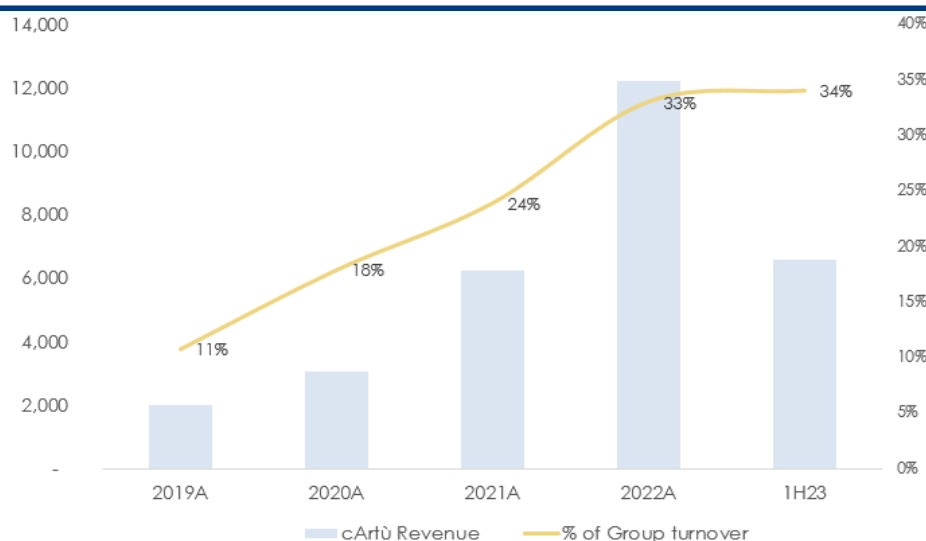
Grifal – 1H23 revenue products' breakdown



Source: Company data

Within Packaging products, cArtù share improved to 34% vs. 33% at YE22.

Grifal - cArtù revenue 2019-1H23 evolution



Source: Company data

From a regional perspective, we highlight:

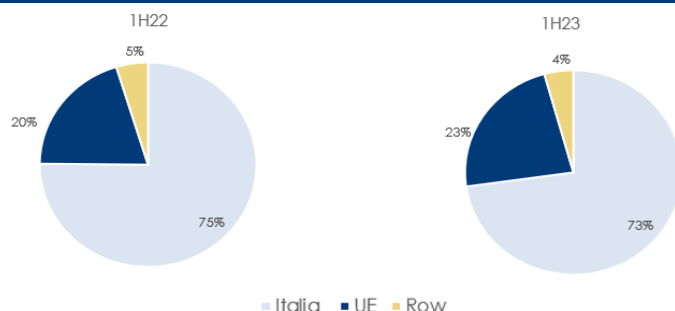
- Revenues in Italy grew by 1.2% yoy to EUR 14.1M, representing 73% of group revenues (from 75% in 1H22);
- Revenue in EU rose by 18.8% yoy to EUR 4.4M, representing 23% of group revenues (from 20% in 1H22);
- Revenue in rest of world declined by 4.5% yoy to EUR 0.8M, representing 4% of group revenues (from 5% in 1H22).

Geographically, good growth contribution from European markets

Grifal – 1H23 Revenue regional breakdown

EUR M	1H22	1H23	yoy %
Italia	14.0	14.1	1.2
EU	3.7	4.4	18.8
ROW	0.9	0.8	-4.5
Total	18.6	19.4	4.5

Source: Company data

Grifal – 1H23 revenues regional breakdown

Source: Company data

After a 2022 characterised by significant increases in the cost of production factors, which was not possible to pass on to customers in a timely manner, the progressive reduction in the price of raw materials allowed the group to significantly increase margins. More in detail:

- Raw material costs declined by 13.9% yoy to EUR 7.82M, having an incidence on revenues of 40.3% vs. 48.9% in 1H22;
- Services and rental costs rose by 6.2% yoy to EUR 5.26M, having an incidence of 27.1% on group revenues, largely unchanged vs. 1H22;
- Personnel costs rose by 11.1% yoy to EUR 5.13M, having an incidence on group revenues of 26.5% vs. 24.9% in 1H22.

Grifal - 1H23 Costs breakdown

EUR M	1H22	1H23	yoy %
Raw material	9.09	7.82	-13.9
Services and Rental cost	4.95	5.26	6.2
Personnel cost	4.62	5.13	11.1
Other management cost	0.07	0.05	-31.1
Weighting in revenues %			
Raw material	48.9	40.3	
Services and Rental cost	26.7	27.1	
Personnel cost	24.9	26.5	
Other management cost	0.4	0.2	

Source: Company data

The group EBITDA margin expanded to 13.8%, a record level in Grifal's recent history, thanks to EUR 2.6M contribution from Packaging (which corresponds a 14.3% margin) – growing by 36.8% yoy - and EUR 0.1M from Equipment (which corresponds a 7.1% margin), growing by 47.9% yoy.

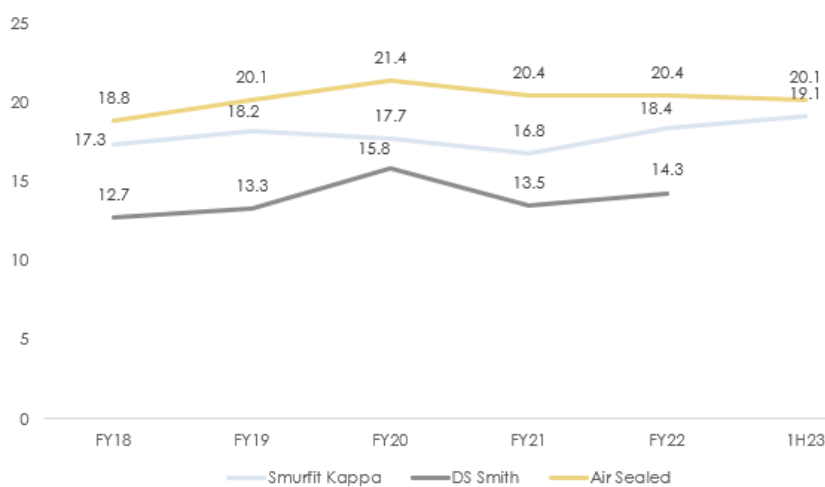
Grifal - EBITDA margin 2017-1H23 evolution



Source: Company data

Despite acknowledging the remarkable improvement in profitability margin recorded so far, we note there is a still significant gap potentially to close vs. some international players' performance.

Grifal - International peers EBITDA margin evolution (%)

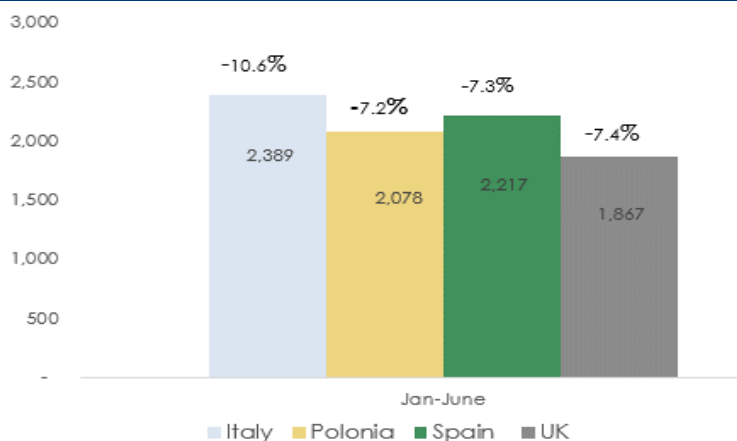


Source: Company data

Italian and European Corrugated Cardboard Markets Update

According to the European Federation of Corrugated Board Manufacturers (FEFCO), the Italian market has suffered more than 10.6% decline in volumes shipments in 1H23, underperforming most of the other significant European markets.

European Corrugated cardboard markets in 1H23 (M² x1.000)



Source: European Federation of Corrugated Board Manufacturers (FEFCO)

We do not find many reasons behind 1H23 worse performance of the Italian Corrugated Board market, aside perhaps a more general macroeconomic weakness of Italian GDP.

GDP qoq evolution in 2023

%	1Q	2Q
Italy	0.6	-0.4
Polonia	3.9	-3.7
Spain	0.6	0.5
UK	2.4	0.8

Source: Bloomberg

Given the still high reliance on domestic market (73% of group revenue), we view Grifal 1H23 revenue performance solid, witnessing the good appetite for its innovative and sustainable products. Looking at the last seven years' history, we see that Italian corrugated cardboard market grew by almost twice as much as the European average.

Corrugated packaging market growth - Italy vs. Europe

Total shipments in M in m2	2016	2017	2018	2019	2020	2021	2022	2016-22 CAGR %
Italy	6574	6759	7004	7136	7354	8306	8006	3.3
Total Europe	43417	47052	48177	49437	51496	55722	48443	1.8

Source: Company data

Earnings Outlook

Management has maintained a positive outlook on the years to come, both on the packaging activity (where production capacity of cArtù will be expanded in Italy and in Romania with the addition of new lines of production), and on the equipment business unit (Tieng Srl), where management expects an improvement in margins.

Given a challenging macroeconomic environment, we decide to take a more conservative view, reducing our 2023E and 2024E revenues estimates by 20.7% and 24.3% respectively.

Given the good performance recorded in 1H23 on profitability, we decide to reduce our 2023E EBITDA less proportionately and more so for 2024E EBITDA, suggesting that the margin further narrows the gap vs. international peers. We take the opportunity to introduce our first explicit 2025E estimates.

Grifal – 2023E-2025E estimates revision

EUR M	FY23E old	FY23E new	Var. (%)	FY24E old	FY24E new	Var. (%)	FY25E new
Sales	48.6	38.5	-20.7	63.4	48	-24.3	58
EBITDA	6.6	5.2	-20.2	8.9	6.9	-22.2	8.7
% margin	13.5	13.6		14.1	14.5		15.0
EBIT	3.4	2.2	-36.3	5.7	3.8	-32.6	5.5
% margin	7.0	5.6		9.0	8.0		9.5
Pre-tax	2.9	1.6	-43.1	5.2	3.3	-35.2	5.0
Net result	2.2	0.9	-57.5	3.9	2.5	-35.2	3.7
Net Debt/(Cash)	18.6	22.5	21.1	18.5	22.9	23.9	16.8

E: estimates; Source: Intesa Sanpaolo Research

Valuation

We value Grifal with a DCF model based on our estimates and the following key assumptions:

- A 7.4% WACC (vs. 7.1% previously), incorporating a 4.5% risk-free rate (vs. 4.0% previously) and an equity risk premium of 6.5% (unchanged);
- A 1.5% terminal value growth.

Grifal - WACC calculation (%)

Gross Debt Rate	5.0
Tax rate	24
Net Debt Rate	3.8
Beta Levered	1.0
Gearing	52.4
Beta Re-Levered	1.0
Risk Free Rate	4.50
Equity Risk Premium	6.50
Cost of equity	11.3
WACC	7.4

Source: Intesa Sanpaolo Research estimates

We obtain **a target price of EUR 2.8/share** and, given the over 15% upside, **we rate the company a BUY**.

Grifal - DCF calculation (2023E-25E)

EUR M	2023E	2024E	2025E	LT
EBIT	2.2	3.8	5.5	4.2
Tax	-0.7	-0.8	-1.2	-0.8
Depreciation	3.1	3.1	3.2	
NOPAT	4.5	6.1	7.5	3.4
WC	-1.2	-2.4	2.7	
Capex	-6.6	-3.0	-3.0	
FCF	-3.2	0.7	7.2	3.4
Discounted FCF	-3.2	0.6	6.2	2.7
WACC (%)	7.4			
TV growth (%)	1.5			
Sum	3.6			
TV	46.6			
EV	50.3			
Debt 2022A	18.9			
Equity	31.4			
Shares (M)	11.4			
Target price (EUR/share)	2.8			

E: estimates; Source: Intesa Sanpaolo Research

Valuation and Key Risks

Valuation basis

We value Grifal Group with a DCF model, based on our estimates and the following key assumptions: a 4.5% risk-free rate (vs. 4.0% previously), a 6.50% equity risk premium (unchanged), a beta of 1.0x and a gearing of 52%. We calculate a WACC of 7.4% (vs 7.1% previously) with a 1.5% long term value growth.

Key Risks

Company specific risks:

- Limited production capacity and production constraints.
- Potential alternative products launched by large international companies;
- Negative impact from rising raw material and energy prices;

Sector generic risks:

- Paper/cardboard and EPE price fluctuations could reduce profitability;
- Technological breakthrough in the packaging technology, particularly for the material used;
- Increasing competition in the packaging industry.

Company Snapshot

Company Description

Grifal is a leading industrial company providing innovative packaging solutions to >1000 automotive, white goods, electronics, furniture and medical companies. The company will leverage on a disruptive corrugated cardboard product, called cArtù, which offers lower weight, lower cost and is 100% recyclable. In other word, cArtù is ecological and economical and, we believe, could rapidly replace other packaging commodity products. The company also produces packaging materials, mostly based on polyethylene foam. Grifal is 63.2% controlled by the founder's family, which still manages the company, was listed in 2018 at EUR 2.60/sh raising EUR 4.7M.

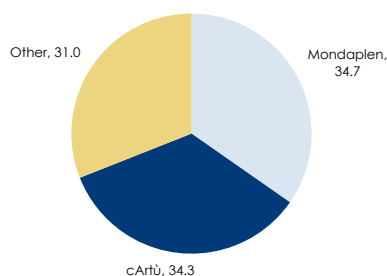
Key data

Mkt price (€)	2.35	Free float (%)	36.6
No. of shares	11.42	Major shr	G-Quattronove
52Wk range (€)	2.99/1.90	(%)	63.2
Reuters	GRALA.MI	Bloomberg	GRAL IM
Performance (%)	Absolute	Rel. FTSE IT All Sh	
-1M	-0.8	-1M	3.0
-3M	-15.5	-3M	-11.1
-12M	23.4	-12M	-1.4

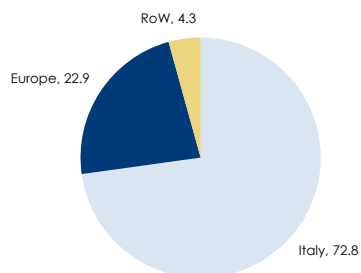
Estimates vs. consensus

EUR M (Y/E Dec)	2022A	2023E	2023C	2024E	2024C	2025E	2025C
Sales	36.88	38.50	NA	47.96	NA	58.06	NA
EBITDA	4.37	5.25	NA	6.95	NA	8.74	NA
EBIT	1.30	2.17	NA	3.85	NA	5.50	NA
Pre-tax income	0.76	1.63	NA	3.35	NA	4.96	NA
Net income	0.42	0.91	NA	2.51	NA	3.72	NA
Adj. EPS	0.04	0.08	NA	0.22	NA	0.33	NA

1H23A Sales breakdown by product (%)



1H23A Sales breakdown by geography (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 23/10/2023)

Grifal – Key Data

Rating BUY	Target price (€/sh) Ord 2.8		Mkt price (€/sh) Ord 2.35		Sector Containers & Packaging	
Values per share (EUR)	2020A	2021A	2022A	2023E	2024E	2025E
No. ordinary shares (M)	11.42	11.42	11.42	11.42	11.42	11.42
Total no. of shares (M)	11.42	11.42	11.42	11.42	11.42	11.42
Market cap (EUR M)	29.29	42.12	32.12	26.84	26.84	26.84
Adj. EPS	-0.08	-0.07	0.04	0.08	0.22	0.33
BVPS	1.3	1.5	1.5	1.6	1.8	2.0
Dividend ord	0	0	0	0.05	0.08	1.08
Dividend SAV Nc	NA	NA	NA	NA	NA	1.00
Income statement (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Revenues	16.76	26.07	36.88	38.50	47.96	58.06
EBITDA	0.95	2.11	4.37	5.25	6.95	8.74
EBIT	-1.00	-0.72	1.30	2.17	3.85	5.50
Pre-tax income	-1.19	-0.98	0.76	1.63	3.35	4.96
Net income	-0.89	-0.84	0.42	0.91	2.51	3.72
Adj. net income	-0.89	-0.84	0.42	0.91	2.51	3.72
Cash flow (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Net income before minorities	-0.9	-0.8	0.4	0.9	2.5	3.7
Depreciation and provisions	2.0	2.8	3.1	3.1	3.1	3.2
Others/Uses of funds	0.0	1.2	0.6	0.3	0.4	0
Change in working capital	0.0	-2.2	-3.6	-1.5	-2.8	2.7
Operating cash flow	1.1	0.9	0.5	2.8	3.2	9.6
Capital expenditure	-3.0	-6.8	-7.0	-6.6	-3.0	-3.0
Financial investments	0	-1.1	0	0	0	0
Acquisitions and disposals	0	0	0	0	0	0
Free cash flow	-1.9	-6.9	-6.5	-3.7	0.2	6.6
Dividends	0	0	0	0	-0.6	-0.6
Equity changes & Non-op items	-0.4	1.4	-0.1	0.1	0	1.0
Net change in cash	-2.2	-5.6	-6.6	-3.6	-0.4	7.1
Balance sheet (EUR M)	2020A	2021A	2022A	2023E	2024E	2025E
Net capital employed	21.1	28.9	36.0	40.6	43.0	40.1
of which associates	0	0	0	0	0	1.0
Net debt/-cash	6.7	12.2	18.9	22.5	22.9	16.8
Minorities	0	0	0	0	0	0
Net equity	14.4	16.7	17.1	18.1	20.1	23.2
Minorities value	0	0	0	0	0	1.0
Enterprise value	36.0	54.4	51.0	49.3	49.7	43.7
Stock market ratios (x)	2020A	2021A	2022A	2023E	2024E	2025E
Adj. P/E	Neg.	Neg.	76.1	29.3	10.7	7.2
P/CFPS	27.6	21.2	9.2	6.7	4.8	3.9
P/BVPS	2.0	2.5	1.9	1.5	1.3	1.2
Payout (%)	0	0	0	62	36	331
Dividend yield (% ord)	0	0	0	2.1	3.4	46.0
FCF yield (%)	-6.4	-16.4	-20.3	-14.0	0.7	24.7
EV/sales	2.1	2.1	1.4	1.3	1.0	0.75
EV/EBITDA	37.8	25.8	11.7	9.4	7.2	5.0
EV/EBIT	Neg.	Neg.	39.3	22.7	12.9	7.9
EV/CE	1.7	1.9	1.4	1.2	1.2	1.1
D/EBITDA	7.0	5.8	4.3	4.3	3.3	1.9
D/EBIT	Neg.	Neg.	14.6	10.4	5.9	3.1
Profitability & financial ratios (%)	2020A	2021A	2022A	2023E	2024E	2025E
EBITDA margin	5.7	8.1	11.9	13.6	14.5	15.0
EBIT margin	-6.0	-2.7	3.5	5.6	8.0	9.5
Tax rate	24.9	14.2	44.1	44.0	25.0	25.0
Net income margin	-5.3	-3.2	1.1	2.4	5.2	6.4
ROCE	-4.8	-2.5	3.6	5.3	9.0	13.7
ROE	-7.2	-5.4	2.5	5.2	13.1	17.2
Interest cover	-5.3	-2.7	2.4	4.0	7.7	10.2
Debt/equity ratio	46.1	73.4	110.1	124.1	114.0	72.5
Growth (%)		2021A	2022A	2023E	2024E	2025E
Sales		55.5	41.5	4.4	24.6	21.1
EBITDA		NM	NM	20.1	32.4	25.7
EBIT		28.7	NM	67.7	77.1	43.1
Pre-tax income		18.1	NM	NM	NM	48.3
Net income		6.4	NM	NM	NM	48.3
Adj. net income		6.4	NM	NM	NM	48.3

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

ESG Matrix

Grifal - ESG Matrix

	Main KPIs	2020	2021	2022	Target	Trend
E	Emissions					
	Scope 1	5,563	6,735	NA	//	NA
	Scope 2	NA	NA	376.7	NA	NA
	CO2 intensity index	276.7	259.4	224.2	66.0	+
	Circular Economy					
	Waste recycled rate (%)	89.0	90.0	98.0	91.0	+
	Wastes (tons)	34.7	23.6	38.9	//	-
	Packaging materials from recyclable sources (%)	100.0	100.0	100.0	//	=
	Renewables Ratio					
	Electricity from renewables on total consumption (%)	0.0	0.0	33.6	50.0	+
S	Energy Consumption (GWhj)	0.9	1.0	1.3	1.1	-
	Water withdrawals (m3/ton)	1,791	1,991	3,790	//	-
	Women in leadership roles (%)	20.0	16.7	21.4	25.0	+
	Training hrs per capita (No.)	37.3	20.7	23.0	21.0	+
	Turnover ratio (%)	4.0	3.7	25.8	NA	-
G	Work-related injuries	0.0	0.0	3.3	NA	-
	Ethical code	No	No	No	Yes	=
	Independent directors' rate (%)	29.0	29.0	29.0	30.0	=
	Women in BoD (%)	43.0	43.0	43.0	50.0	=
	Anti-corruption	No	No	No	Yes	=
	Management Remuneration Policy linked to ESG goals	No	No	No	Yes	=
	ESG Report	Yes	Yes	Yes	Yes	=
	Shareholders'/Consulting Agreement	NA	NA	NA	//	NA

Note: the indicators +/- refer to how the company, in ISP view, is progressing towards its targets and/or vs. its historic trend; //: no explicit targets; Source: Company data and Intesa Sanpaolo Research elaboration

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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 eligible for listing have revenues below 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 of around EUR 1Bn.

Equity Research Publications in Last 12M

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

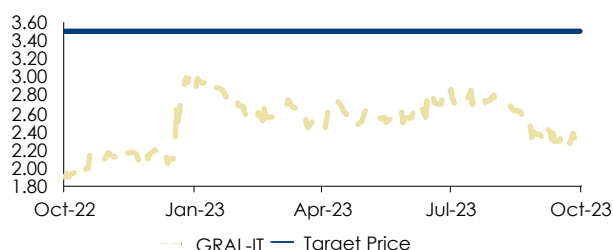
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Equity Rating Key (long-term horizon: 12M)

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.
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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.
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TENDER SHARES	We advise investors to tender the shares to the offer.
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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)
19-Oct-22	BUY	3.5	1.93

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

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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

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
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.berti@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	fancesca.bonacina1@intesasnpaolo.com	
Carlo Cavalieri	+39 02 7261 2722	carlo.cavalieri@intesasnpaolo.com
Laurent Kieffer	+44 20 7651 3653	laurent.kieffer@intesasnpaolo.com
Roberta Papeschi	+39 02 7261 6363	roberta.papeschi@intesasnpaolo.com
Federica Repetto	+39 02 7261 5517	federica.repetto@intesasnpaolo.com
Fabrizio Tito	+39 02 7261 7152	fabrizio.tito@intesasnpaolo.com
Mark Wilson	+39 02 7261 2758	mark.wilson@intesasnpaolo.com
Paola Parenti (Corporate Broking)	+39 02 7265 6530	paola.parenti@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
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 Zamprotta	+39 02 7261 5577	ferdinando.zamprotta@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
---	-----------------	---------------------------------