

# Biesse

## Further Implementing Expansion Abroad

Biesse - Key estimates and data					
Y/E December		2011A	2012E	2013E	2014E
Revenues	EUR M	388.53	408.30	438.70	467.50
EBITDA	EUR M	22.42	32.01	45.90	60.37
EBIT	EUR M	7.07	15.10	28.80	43.60
Net income	EUR M	-2.45	3.99	14.14	25.98
Dividend ord.	EUR	0.00	0.00	0.00	0.00
Adj. EPS	EUR	Neg.	0.17	0.54	0.97
EV/EBITDA	x	5.44	3.8	2.6	2.0
Adj. P/E	x	Neg.	15.6	4.8	2.7

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

- Company description.** Biesse is the world's largest manufacturer of computer numerically controlled (CNC) centres for wood, glass and stone working. Biesse produces and distributes machine tools and systems for the secondary processing of wood, glass and stone, together with associated numerical controls, motors, software and precision components. The group has global presence through a network of 30 branches and commercial offices located in strategic markets, generating 44% of FY11 revenues in Western Europe (14% in Italy), 19% in Asia Oceania, and 18% in Eastern Europe.
- Strategy.** Management plans to improve its market share and profitability with an increased focus towards Anglo-Saxon and emerging countries, which are recording substantially higher growth rates than the domestic market. Indeed, market demand is more polarised towards the upper and the lower end of the range, as a result of: 1) Anglo-Saxon countries' preference for low cost, simple technological machines made in China; and 2) other countries' preference for more complex and technological machines. In 2011 the group renewed 40% of its products' base and delivered a more focused production structure.
- FY12E-14E estimates.** Our top-line forecasts are in line with management's guidance, while we took a more conservative stance on FY13E-14E profitability. Overall, we expect a 3.7% FY11A-14E revenue CAGR and an EBITDA margin improvement reaching 12.9% in FY14E and 7.8% in FY12E vs. 5.8% in FY11. Our FY12E-14E EBITDA margin forecasts reflect: 1) our expected revenue growth, due to the predominant fixed-cost structure; 2) higher contribution from the Indian and Chinese production plants expected to reach by FY14E, a 50% value added margin vs. the group's 36% average in FY11; and 3) the group's constant strict focus on operating efficiencies. Overall, we expect the group to generate cash flow starting in FY12E and turning cash positive in FY14E with a EUR 23M net financial position.
- Backlog orders.** We believe our FY12E top line is supported by the recent disclosed intake orders of EUR 68.9M in 1Q12, which the group expects to jump to EUR 100M in 2Q12 (+45% vs. 1Q12). On a same perimeter basis, the 1H12 intake orders should be up by 6%. The 1Q12 backlog orders at EUR 85M should improve in 2Q due to the expected intake orders upturn.
- Valuation.** Our DCF and multiples based valuation points to our **EUR 5.40/share target price**, implying a **BUY rating**. Our valuation incorporates a significant turnaround, despite being more conservative than the BP, as the group further implements its expansion abroad. As the execution risk hinges on management's development plan, we believe visibility on the turnaround will be important to narrow the valuation gap.
- Key risks.** Biesse operates in global markets and it is therefore highly exposed to international macroeconomic factors, which could affect the group's activities. Although Biesse invests significantly in R&D, its products have an advanced technological content, implying a high exposure to technological developments. Lastly, the group's dominant fixed-costs structure results in a high operating leverage suffering from economic downturns.

See page 21 for full disclosures and analyst certification

Banca IMI is Specialist to Biesse

5 June 2012

**BUY**

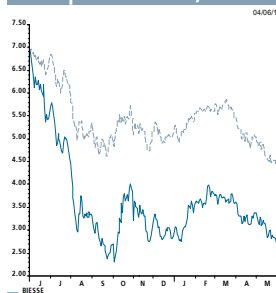
Target Price: EUR 5.40

Industrial  
Initiation of Coverage

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### Price performance, -1Y



Source: Thomson Reuters

### Data priced on 01.06.2012

Target price (€)	5.40
Target upside (%)	108.82
Market price (€)	2.59
52-week range (€)	6.9/2.3
Market cap (€M)	70.84
No. of shares (M)	27.39
Free float (%)	41.5
Major shareholder (%)	Selci G, 58.5
Reuters	BSS.MI
Bloomberg	BSS IM
FTSE It All Shares	13681

Performance %			
	Absolute	Rel. to FTSE All Sh	
-1M	-23.5	-1M	-11.0
-3M	-31.1	-3M	-7.9
-12M	-63.0	-12M	-26.1

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

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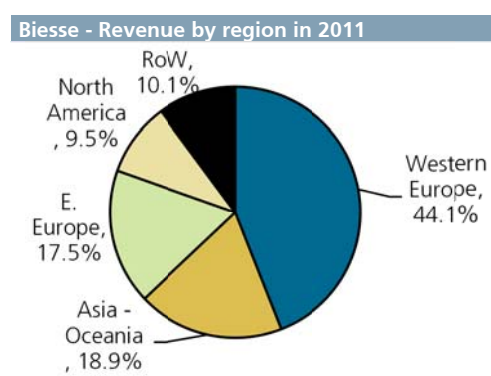
## Company Description

Biesse produces and distributes machine tools and systems for the secondary processing of wood, glass and stone, together with associated numerical controls, motors, software and precision components.

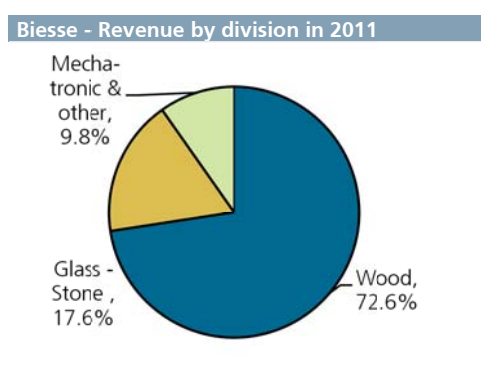
Biesse is the world's largest manufacturer of computer numerically controlled (CNC) centres for wood, glass and stone working. The group ranks second amongst Italian producers of automated woodworking machinery and is the second-largest worldwide provider of turnkey systems for major companies. The group is also the largest manufacturer of woodworking machinery worldwide (source: company elaboration on reference sector).

The group has global presence through a network of 30 branches and commercial offices located in strategic markets. Indeed, in FY11 the group generated 44% of total revenues in Western Europe, 19% in Asia Oceania, and 18% in Eastern Europe. In 1Q12, Italy accounted for only 10% vs. 14% in FY11, reflecting the increasingly lower exposure to the domestic market.

### A worldwide leader



Source: Company data



Note: 'Mechatronic & other' includes Tooling, Components and intercompanies; Source: Company data

The group guarantees also specialised after-sales assistance to clients and, at the same time, thanks to its direct presence abroad, provides key information on local markets' specific needs, preparing the ground for new product development. As a result, market demand is anticipated and clients' needs are met with value-added services and products.

### Extensive direct sales network worldwide

Biesse brands		Glass & Stone division	Mechanics
<b>Wood division</b>			
Biesse	RBO	Intermac	HSD
Biesseedge	Selco	Busetti	
Biesse sand	Brema	Diamut	
Biesseartech	Viet Italia		
Comil	Biesse systems		

Source: Company data

The constant drive for technological improvement, innovation and research has allowed Biesse to develop modular solutions capable of meeting all the production requirements of its clients. As a result, on average the group invests approx. EUR 15M in R&D annually.

### Strong commitment and investments in R&D

Overall, in 2011, 85% of the group's production was based in Italy (Pesaro), while the remaining 15% in India and China. The production structure is thus predominantly located in Italy. Starting from 2006, the group expanded its production structure in India (start-up) and from 2011 in China (with the Centre Gain Ltd acquisition) with the aim to develop potential markets abroad, while positioning its product mix at the lower end of the market segment. In 2011 Biesse acquired Centre Gain Group, Hong Kong-based, for HKD 105M (EUR 10M at transaction date), specialised in the production and distribution of low-end woodworking machinery in the production plant of the southern Chinese Dongguan city (60% production capacity utilisation at acquisition).

### Production mainly in Italy, but also in India and in China

With this acquisition, Biesse group plans to exploit the possible growth opportunities in the world's third-largest economy, particularly flourishing, due to a consistent increase in demand for new commercial and residential premises, thus expected to lead to domestic demand for furniture (hence for woodworking machineries) in mainland China. According to management, in China, demand for woodworking machineries rose by approx. 10% to over EUR 10Trn. In 2011, Biesse group's global competitor, Homag, achieved more than EUR 100M revenues in China, thus representing a high growth opportunity for the group.

#### Centre Gain in China

The group applied the 'lean production' principle, which is based on: 1) Just In Time (flow, cadence, pull, zero errors); and 2) the elimination of waste, with the aim of reducing lead times. Overall, it has 65-70% factory utilisation, without recurring to second shifts. A level which we believe is set to increase in view of the group's expansion plan.

#### 65-70% factory utilisation

With more than 30k total clients, Biesse group has a low client concentration, with the biggest client (i.e. IKEA) accounting for 3.5% of total revenues. The remaining part is therefore highly fragmented. Also on the suppliers' side (the group purchases raw materials, semi-finished goods and components from other companies), the group shows a low concentration.

#### A low concentration of clients and supplier

Biesse - Key clients by division					
<b>Wood</b>	IKEA	Howdens	Pino	Sauder	Elt
	Lube	LAS	Hermanos Vaquer	Lemet	
	FEG	ARAN group	Gruppo Spagnol	Haier Global	
	SICC Cucine	Snaidero	Symphony	RSI	
	Knoll	Scavolini	Todeschini	Boytag	
	Gruppo Doimo	Nobilis	The Home Depot	Havelock	
<b>Glass &amp; stone</b>	AGC Glass	Seele			
	Glastrosch	Fuyao Group			
	Saint Gobain Glass	Flachglas wernberg			
<b>Mechatronic</b>	MAKA	Onsrud	Bornemann	Shoda	
	dubus	Heian	Thermwood	Zimmermann	
	Weinig	MKM Intl	IMA	Belotti	
	Handtmann	Mecal	Creno		

Source: Company data

#### A Brief History

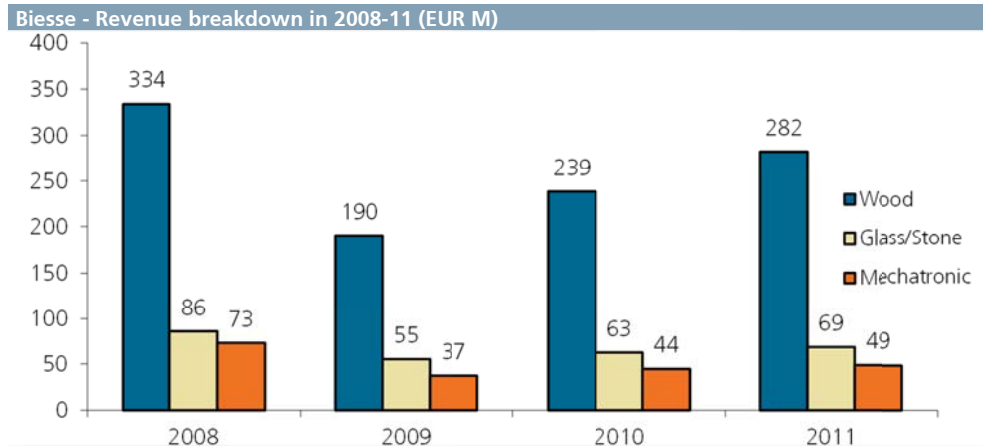
Biesse was founded by Giancarlo Selci in 1969 and is headquartered in Pesaro, Italy. In the 80s and 90s, the group started an intense expansion phase and diversification of activities.

Biesse - A Brief History	
1978	Realised the first numerical control boring machine for wood: Logic Control
1983	Rover: the first machining centre for the processing of wood is built
1987	Intermac is established, producing machining centres for processing and engineering glass and stone
1991	HSD is established: produces and sells mechanical components and numerical controls
1991	Biesse becomes international: the first foreign branches are opened
1992	Biesse starts 'the acquisition period': aimed deals in wood/glass & stone/components and distribution network areas
1994	Biesse Engineering is established: new business unit fully dedicated to project and realise entire lines and integrated systems
1998	Biesse group is formed: composed of three divisions: wood, mechatronic, glass and stone
2001	Listing on the stock market
2006	Bre.Ma. is acquired: designs and creates vertical numerical control boring inserting machine for the processing of wood
2007	AGM Inc (US) is acquired: former distributor for glass & stone machinery becomes InterMac US subsidiary
2008	New plants for the wood division: Bangalore (India) first foreign production site
2009	Digipac brand: packaging technology is incorporated
2009	Switzerland and Dubai subsidiaries are opened
2011	VIET: historic wood brand for calibration and sanding machines added to the group
2011	Biesse acquires Centre Gain Ltd Hong Kong/Korex Machinery Dongguan (China)

Source: Company data

## The Three Divisions

Biesse operations are carried out through three specific divisions: Wood, Glass & Stone, and Mechatronics. No divisional EBITDA is disclosed by the group, however, both the Wood and the Glass & Stone divisions show similar profitability, while Mechatronics has a higher than average EBITDA margin, mostly due to the software production and third-party sales in the division.



Source: Company data

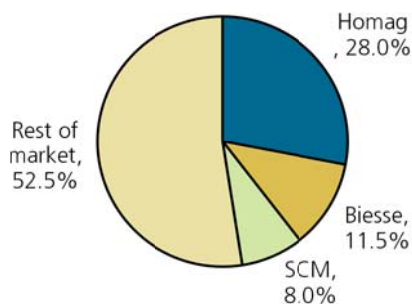
### Biesse wood division: 73% of total revenues

With the current 2,700 labour force, the wood division ranks second worldwide in the woodworking machines production, based on an estimated highly fragmented reference market valued at EUR 2.1Bn (source: Company data).

Ranked second worldwide

The wood division offers a full range of technological solutions covering the entire industrial processing cycle for wood, wood derivatives, composite materials and non-ferrous alloys. The wood division offers standalone machines or complete processing lines for sizing, edgbanding, boring, sanding, routing, inserting, assembling, and handling. Target clients operate in the furniture and carpentry industry.

### Biesse wood division - worldwide market share



Source: Company data, based on Biesse Group elaborations and on competitors presence in the same product segment

### Wood - Panel Sizing Centre WNT 630



Source: Company data

Indeed, machines can be programmed through numerically controlled electronic devices, composed by one or more central units and from several interfaces, which can automatize the machine functioning. Based on the automation level, numerically controlled machines and work centres allow for panels' movements and automated alimentation for medium to large production lots and the execution of complex works with several utensils.

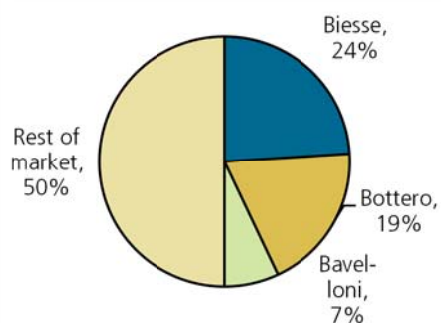
Machines are multifunctional, allowing for different phases and work types of the panels. The wood division offers both standard models and highly personalised ones with a higher (or lower) degree of execution speed and productivity.

## Biesse glass and stone division: 18% of total revenues

Biesse is leader worldwide in the glass machinery production, with a 24% market share in a highly fragmented reference market valued at EUR 235M. The group is also leader worldwide in the stone machinery production with an 18% market share in the reference market, highly fragmented, which the group estimates at EUR 45M (source: company elaboration of 2011 market shares).

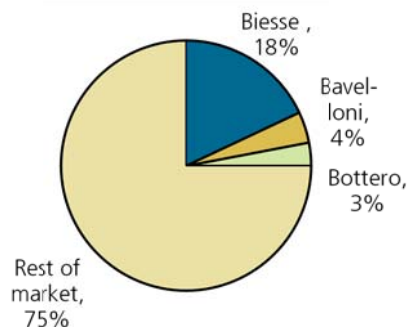
**Worldwide leader in glass and stone**

Biesse glass division - worldwide market share



Source: Company data

Biesse stone division - worldwide market share



Source: Company data

The glass and stone division develops and distributes machinery for flat glass processors, stone and marble. Main target client is in the furniture, architecture and automotive industries. The division offers a wide range of products and technological solutions for the glass and stone/marble processing. It has over 250 employees with production units located in Pesaro and Lugo (Ravenna), in central Italy.

The industrial processing phases of glass, stone and wood are very similar among each other and similar technologies can therefore be applied. The differences apply only in the specific material working (i.e. for glass and marble: tools and motors watercooling during the cutting and grinding process).

Glass - Genius LM-A for building



Source: Company data

Stone - Master series



Source: Company data

## Mechatronic division: 10% of total revenues

The mechatronic division supplies and manufactures high precision mechanical and electronic components for machines and systems designed for both the Biesse group and for third parties. The division operates through the HSD production and develops autonomously software which is installed to program the group's own numerical controlled machines.

**Integration of machine and electronics**

"Mechatronics" means the integration of machine and electronics. The division stems from the need of Biesse to secure a complete autonomy in the supply of certain strategic components (i.e. software). Indeed, software production is the group's competitive advantage, showing a higher than average profitability vs. the group.

**Software production: a key advantage**

According to management, approx. 50% of the total division sales are from third parties (among which direct competitors), counter dilutive vs. the group's average margin and showing a 20% growth in FY11.

**50% of total sales are from third parties**

### Mechatronic division: the technological advantage

The electrospindles, designed and manufactured by mechatronics, are high-speed engines that allow, through an interface, industrial processing of wood, glass, marble and light alloys.

These engines are composed of three parts: 1) an electrical; 2) a mechanical part (spindle); and 3) pneumatic parts (cylinder) which, through an interface automatically blocks the mechanical part of the utensils processing. Except for the spindles, which are sometimes produced externally from third-party vendors and subsequently assembled and tested, the mechatronics division designs and manufactures all the parts that make up the electrospindle.

### Electrospindles

Smart, Brushless and Rotor/Stator Motors



Source: Company data

Automatic and manual electrospindle



Source: Company data

There are two types of numeric controls designed by Biesse: 1) equipment interfaced to a personal computer that is installed directly in the machine; and 2) simpler equipment, which do not require this interface. The two models are aimed at different market segments and vary depending on the size of the machine and its degree of complexity.

### Numeric controls

The mechatronics division develops its own software applications that are installed on the its numeric controls to program the processing of machines.

### Software

The other segment includes the production and distribution of tools and components and other precision machining accessories, as well as production and distribution of packaging equipment. The group also engages in other activities, such as the production of precision mechanical, electrical, electronic, and pneumodynamic industrial components.

### Other segments

## Strategy

Management plans to improve its market share and profitability with more focus on Anglo-Saxon and emerging countries, which are recording substantially higher growth rates than the domestic market.

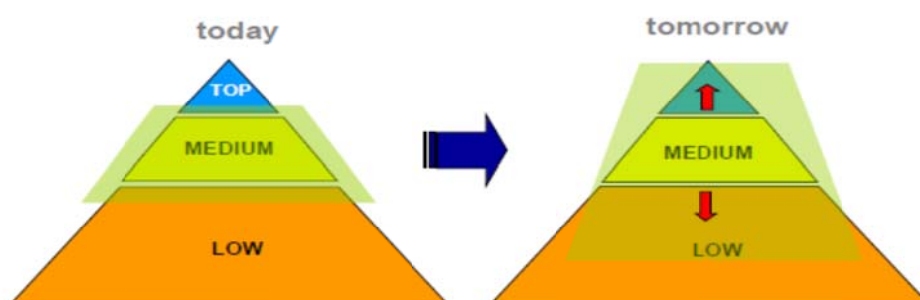
Indeed, market demand is increasingly polarised towards the upper and the lower end of the range as a result of: 1) Anglo-Saxon countries' preference for low cost, simple technological machines made in China; and 2) other countries' preference for more complex and technological machines (other western European countries and China). Italy is more positioned in the middle part of the market, denoted by weaker growth, and going forward should have a lower strategic importance than abroad. In FY11, Italy accounted for 14% of total sales compared with 17.5% in Eastern Europe and 18.9% in Asia Oceania. In 1Q12 Italy accounted for only 10%.

As a result, in 2011 the group has renewed 40% of its products base and has focused its production structure by raising the sourcing of components from China and the manufacturing from India towards Anglo-Saxons countries, while more complex machines will be manufactures in Italy.

**Higher and lower end polarization**

**40% of the group's product base already renewed**

### Biesse - Strategic positioning



Source: Company data

The most important competitive advantage is its technology and product innovation (average product life is 4/5 years for wood and 3/4 years for glass, however product improvements are carried out every 1.5/2 years on average), implying significant research and development. Thus, R&D investments are a key priority in the long term, with management guidance of EUR 15M annually in FY12-14, divided amongst prototypes development and dedicated personnel.

**R&D a priority**

Overall, Biesse's strategic top-line objectives are to:

- Boost revenues deriving from emerging countries (i.e. BRIC);
- Reinforce the worldwide sale and distribution network (APAC and Americas), also in the United States, which is witnessing a significant recovery starting in 4Q11;

**Top-line expansion abroad**

On the operating costs front, the group targets:

- A strict control on operating costs to improve the level of efficiency and profitability, despite the significant cost-cutting actions already carried out, which limit room for further cost cutting, thus the group sees further scope in simplifying the engineering process for a better standardisation of the offer range;
- To develop the Indian and Chinese production plants, driven by local demand, in order to speed up and lower the products/production costs, while keeping the same level of the products' final prices. We estimate at regime that these production sites could reach an average 50% value-added margin vs. the group's 36% average in FY11.

**Cost efficiencies**



## The FY12-14 business plan

In the table below, we report management's FY12-14 business plan targets, which foresee a CAGR of 6.4% for net sales and 13% for value added. The EBITDA margin reaches 14.6% in FY14 vs. 5.8% in FY11. The EBIT margin should reach 11% by FY14 vs. 1.8% in FY11.

Biesse - Consolidated business plan: profit and loss				
EUR M	2011A	2012	2013	2014
Net sales	389	408	439	468
growth %	18.6	5.1	7.4	6.6
Value added	138	152	178	199
Value added margin %	35.5	37.2	40.6	42.6
EBITDA	22.4	32.0	51.4	68.2
EBITDA margin %	5.8	7.8	11.7	14.6
EBIT	7.1	15.1	34.3	51.4
EBIT margin %	1.8	3.7	7.8	11.0

Source: Company data

On the cash flow front, Biesse should show a significant cash flow generation already in FY12 (EUR 13M), but should reach net financial breakeven in FY13 (EUR 34M cash flow generated) vs. EUR 50M net debt reported at YE11.

**Almost at breakeven in  
FY13**

Biesse - Consolidated business plan: cash flow generation				
EUR M	2011A	2012	2013	2014
Capital expenditure	-5.0	-20.2	-14.5	-14.0
Net funds inflow	-31	13	34	51
Net cash/-debt	-50	-37	-3	48

Source: Company data

Below, we show the business plan targets related to the Chinese activities and before the planned synergies. In particular, the group aims to benefit from the utilisation of China for sourcing of components and production, and in detail from: 1) the enlargement of the product range made in China, thanks to a higher utilisation of the Biesse technology; 2) the improvement of the products' quality; and 3) the use the high potential distribution networks.

Biesse - Chinese activities business plan (pre-synergies exploitation)							
EUR M	2010A	2011	2012	2013	2014	2015	2016
Net sales	17.8	20.7	25.0	32.5	42.2	54.9	65.9
growth %	NA	NA	21	30	30	30	20
Value added	3.7	5.0	6.6	9.3	12.8	17.5	21.4
Margin %	24.1	24.1	26.2	28.6	30.4	31.9	32.5
EBITDA	1.5	1.5	2.2	4.6	7.8	12.2	15.7
Margin %	-	7.2	8.8	14.2	18.5	22.2	23.8
EBIT	0.7	0.7	1.4	3.7	6.8	11.1	14.5
Margin %	-	3.4	5.6	11.4	16.1	20.2	22.0

Source: Company data

## The Reference Market

2012 is still showing an uncertain and fragile recovery, due to a still difficult macroeconomic scenario, mainly stemming from the sharp financial crisis experienced in the previous years and with western economies and emerging markets reacting differently based on the country specific exit strategies. In particular: 1) in the EU, the expected 2012 growth rate is close to zero and economies are standing still in a substantial economic recession; 2) the US expected growth rate is around 2%, supported by a light fiscal policy and low to stable interest rate curve; and 3) emerging countries are still steadily expanding albeit at a slower pace due to weaker domestic and foreign demand (i.e. China). (Source: Intesa Sanpaolo Research)

GDP growth - 2012-13 forecasts					
%	2009	2010	2011	2012E	2013E
United States	-3.5	3.0	1.7	2.2	1.8
Japan	-5.5	4.5	-0.7	1.7	1.8
Euro countries	-4.2	1.8	1.5	-0.3	0.7
Eastern Europe	-5.6	0.9	3.8	3.5	3.0
Latin America	-2.3	4.6	4.7	3.4	4.2
OPEC	1.0	3.8	4.0	4.6	5.0
Asia	5.4	9.0	7.0	6.5	7.6
Africa	1.8	3.7	3.6	3.5	4.6
World growth	-0.7	5.2	3.8	2.8	4.0

Source: Intesa Sanpaolo Research

In 1Q12 the machine tools order index rose by 10.5% yoy, confirming a positive trend started in the last eight quarters and the positive performance of Italian companies, despite growth was driven by foreign orders (12%), while domestic orders were flat (0.1%) as demand was still stagnant (source: Research Centre UCIMO).

According to the Research Office of Acimall (the Italian woodworking machinery and tools manufacturers' association), the production of woodworking machinery should be flat in FY12, with foreign demand supporting production, while domestic production should show a more uncertain situation with manufacturers reluctant in investing to upgrade their machines.

VDMA (German Engineering Federation's Association for Constructions Equipment and Building Material Machinery) is a reference statistics in the industry released for German producers. After a 12% growth in 2011 in the German plant and machinery manufacturing industry, the association expects a +5% in 2012, based on the orders trend.

**GDP growth (%)**

**UCIMO research centre – Italian orders index**

**ACIMALL – on production in Italy**

**VDMA – German Association**

## 1Q12 Results

1Q is structurally a weak quarter with a relatively lower weighting than 2Q and 4Q. 1Q12 was also impacted by extraordinary events, such as: 1) suppliers' late deliveries due to labour unrest in transportation and adverse weather conditions in Italy; and 2) the launch of the new ERP management system, which led to some inefficiency in the spare parts management. As a result, the group recorded a strong top-line performance (revenues rose by 15% in 1Q12), driven by volume, and value added improved substantially by 14%, albeit at a slightly lower rate than the top line, reflecting a lower efficiency in production, as mentioned above.

**1Q usually low weighting in FY**

Overall, the strong top-line performance was driven by the wood division (22.5%), which benefited from a solid organic growth and the consolidation of Centre Gain (EUR 2.5M). While the glass division decrease by 8% yoy was mainly a cyclical effect which the group expects to recover in the next quarter. The group continued to show a higher impact from the entry level/low tech and from the high complex customised plants market segments, in line with 4Q11, thus reducing the weighting of the mid-market segment.

**Top-line upturn**

Biesse - 1Q12 revenue breakdown			
EUR M	1Q11	1Q12	yoy %
Wood	52.8	64.7	23
Glass/Stone	13.3	12.2	-8
Mechatronic	12.4	12.2	-1
Tooling	2.0	2.2	11
Components	6.6	3.8	-42
Intercompanies	-11.8	-8.3	NM
<b>Total</b>	<b>75.3</b>	<b>86.9</b>	<b>15</b>
Western Europe	32.6	44.2	36
Asia - Oceania	13.9	14.5	5
Eastern Europe	12.2	12.1	0
North America	7.1	8.6	21
Rest of the World	9.5	7.3	-23
<b>Total</b>	<b>75.3</b>	<b>86.9</b>	<b>15</b>

Source: Company data

The EBITDA margin jumped to EUR 2.5M in 1Q12 vs. EUR 0.4M in 1Q11, thanks to operating leverage. Net loss improved to EUR -3M vs. EUR -4.2M in 1Q11. The 1Q12 net debt of EUR 61.9M (a 53% net debt to equity) increased by EUR 11.5M vs. FY11 and by EUR 25M vs. 1Q11, reflecting higher volumes growth and investments in the launches of products in the period. Compared to FY11, the net debt increase reflected: 1) a EUR 2.5M higher working capital requirement; 2) EUR 3.7M higher investments; and 3) EUR 3.6M third tranche related to the Centre Gain acquisition.

**The EBITDA margin enhancement**

Biesse - 1Q12 results			
EUR M	1Q11	1Q12	yoy %
Turnover	75.3	86.9	15
Value of production	89.7	97.1	8
Value added	29.8	33.9	14
EBITDA	0.4	2.5	615
EBIT	-2.9	-1.1	NM
Pre-tax profit	-4.2	-2.4	NM
Net profit	-4.2	-3.0	NM
Value-added margin %	39.5	39.0	
EBITDA margin %	0.5	2.9	
EBIT margin %	-3.9	-1.2	
Net margin %	-5.5	-3.4	

Source: Company data

## Earnings Outlook

### FY12E-14E financial forecasts

Our top-line forecasts are in line with management's guidance and foresee a 3.7% FY11A-14E revenue CAGR. We expect key drivers to be the expansion abroad, particularly in the BRIC and APAC countries, and in the United States, where the group has experienced a recovery starting from 4Q11. We expect all divisions to contribute to growth, in particular, we expect wood to remain the driver with a 6.0% FY12E-14E revenue CAGR, benefiting from organic growth and the recently-acquired Chinese Centre Gain.

### Revenue forecasts

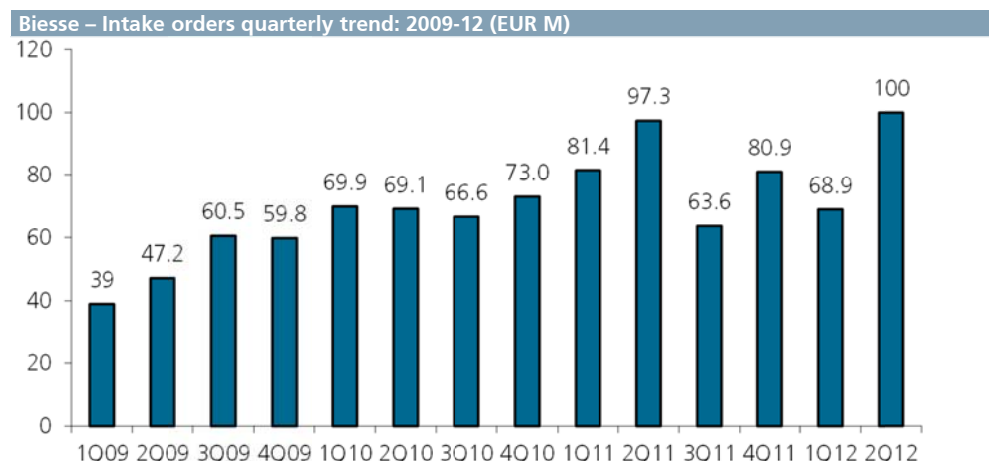
Biesse - FY12E-14E revenue forecasts					
EUR M	2011A	2012E	2013E	2014E	FY11-14E CAGR
Wood	282.2	290.6	316.8	336.3	6.0
Glass/Stone	68.5	69.2	73.3	75.5	3.3
Mechatronic	48.8	53.7	58.0	63.8	9.3
Tooling	8.5	8.5	9.5	10.5	7.3
Components	26.1	27.1	28.1	29.1	3.7
Intercompanies	-45.5	-40.8	-46.9	-47.6	NM
<b>Total</b>	<b>388.5</b>	<b>408.3</b>	<b>438.7</b>	<b>467.5</b>	<b>3.7</b>

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

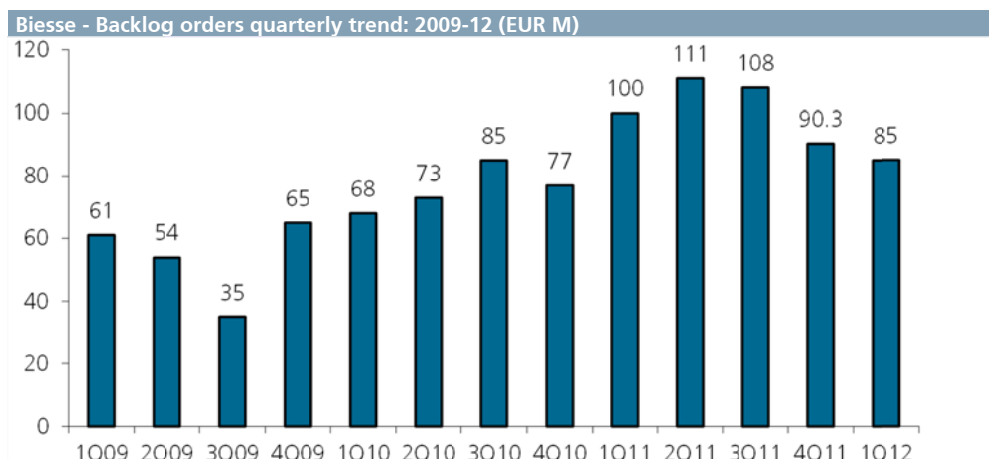
In FY12E we expect a 5.1% revenue growth, which we believe is supported by the recent disclosed intake orders which on a same perimeter basis, should be up by 6% in 1H12. Indeed, the intake orders were EUR 68.9M in 1Q12 (-15% decrease), rebalancing the +11% recorded in 4Q11. In addition, management assumes a significant improvement in 2Q12 with an intake orders upturn targeted at EUR 100M (+3% vs. 2Q11 and +45% vs. 1Q12).

### 1Q12 backlog and intake orders

We are conservative on backlog orders, as based on a 30% advance payment and/or bank guarantee, shedding approx. 3 to 4 months visibility to the group's top line. 1Q12 pointed to a significant decrease to EUR 85M backlog (-6% vs. 4Q11 and -15% vs. 1Q11). However, we expect a strong recovery in the backlog, resulting from the 45% intake orders boost forecasted by the group in 2Q12.



Source: Company data



Source: Company data

Our FY12E EBITDA assumptions are in line with management's BP, while our FY13E-14E estimates are approximately 15% more conservative than the business plan. Our estimates still imply a strong FY12E-14E margin improvement. Indeed, in FY12E, we expect the group to reach a 7.8% EBITDA margin vs. 5.8% in FY11, and 10.5% and 12.9% in FY13E-14E, respectively (170bps below the FY14 margin guidance).

#### EBITDA forecasts

Our FY12E-14E EBITDA margin forecasts reflect: 1) our expected revenue growth, as Biesse has a predominant fixed-cost structure, implying a high operating leverage, benefiting from economies expansion, while suffering from economic downturns; 2) greater contribution from the Indian and Chinese production plants, which we expect to reach by FY14E a 50% value-added margin vs. the group's 36% average in FY11; and 3) the group's constant strict focus on operating efficiencies.

<b>Biesse - Profit and Loss</b>					
EUR M	2010	2011	2012E	2013E	2014E
<b>Net sales</b>	<b>328</b>	<b>389</b>	<b>408</b>	<b>439</b>	<b>468</b>
Other revenues	10	4	4	4	4
<b>Value of production</b>	<b>338</b>	<b>392</b>	<b>412</b>	<b>442</b>	<b>471</b>
Operating costs	-214	-254	-260	-270	-280
<b>Value added</b>	<b>123</b>	<b>138</b>	<b>152</b>	<b>173</b>	<b>191</b>
Cost of labour	-108	-116	-120.1	-126.9	-130.8
<b>EBITDA</b>	<b>15.7</b>	<b>22.4</b>	<b>32.0</b>	<b>45.9</b>	<b>60.4</b>
Depreciation & Amortisation	-15.0	-15.4	-16.9	-17.1	-16.8
<b>EBIT</b>	<b>0.7</b>	<b>7.1</b>	<b>15.1</b>	<b>28.8</b>	<b>43.6</b>
Net interest	-2.2	-2.4	-2.2	-1.3	0.3
Extraordinary items	-0.6	-1.3	-1	-1	-1
<b>Pre-tax profit</b>	<b>-2.5</b>	<b>2.5</b>	<b>12.0</b>	<b>26.3</b>	<b>42.9</b>
Tax	-3.2	-4.9	-8.0	-12.2	-16.9
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>-5.7</b>	<b>-2.4</b>	<b>4.0</b>	<b>14.1</b>	<b>26.0</b>
%	2010	2011	2012E	2013E	2014E
Turnover growth	22.2	18.6	5.1	7.4	6.6
Value added growth	41.5	11.8	10.2	13.6	10.7
EBITDA growth	NM	42.8	42.8	43.4	31.5
EBIT growth	NM	NM	NM	90.7	51.4
Pre-tax profit growth	-93.0	NM	NM	NM	62.9
Net profit growth	-78.9	-57.4	NM	NM	83.8
Value added margin	37.7	35.5	37.3	39.4	40.9
EBITDA margin	4.8	5.8	7.8	10.5	12.9
EBIT margin	0.2	1.8	3.7	6.6	9.3
Pre-tax margin	-0.8	0.6	2.9	6.0	9.2
Net margin	-1.8	-0.6	1.0	3.2	5.6
Tax rate	NM	NM	66.7	46.3	39.5

NM: Not meaningful; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Despite the EUR 31M increase in net debt in FY11 to EUR 50M (a 42% net debt to equity), mainly due to new products' investments, acquisitions and working capital absorption reflecting higher revenues, the group still has a solid balance sheet, in our view.

**Solid balance sheet**

We expect the group to generate cash flow starting from FY12E, in line with the disclosed BP, while our cash flow forecast for FY13E-14E is approx. EUR 24M more prudent than the business plan. Overall, we forecast a EUR 38M net debt at YE12E, EUR 11M at YE13E and to turn positive at YE14E with a EUR 23M net cash position.

**Cash positive in FY14E**

Our key cash flow assumptions are:

- Capital expenditure of EUR 20M in FY12E, EUR 14.5M in FY13E and EUR 14M in FY14E. 70% of the total capex are R&D costs, while the remaining part are tangible investments;
- Our working capital assumptions imply a significant improvement in the working capital ratios, from 22.5% in FY11 to 18.5% in FY12E and 13.0% in FY14E;
- The group has not disclosed a dividend policy yet, we are therefore assuming a zero dividend in our estimates.

**Capex**

**Working capital**

**No dividend policy yet**

Biesse - Cash flow					
EUR M	2010A	2011A	2012E	2013E	2014E
<b>Net profit</b>	-6	-2	4	14	26
Non-cash items	15	15	17	17	17
<b>Funds from operations</b>	9	13	21	31	43
Working capital	15	-27	12	10	5
<b>Free cash flow</b>	24	-14	33	41	48
Capital expenditure	-11.3	-19.4	-20.2	-14.5	-14.0
<b>Surplus after capex</b>	13	-33	13	26	34
Dividends paid	0	0	0	0	0
Other	17	2	0	0	0
<b>Net funds inflow</b>	29	-31	13	26	34
Net cash/-debt	-19	-50	-37.7	-11	23
Net debt / equity (%)	15	42	30	8	-14

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

## Valuation

We value Biesse with a multiples comparison and a Discounted Cash Flow methodology. Based on the average between the multiples comparison, which points to EUR 4.14/share, and our DCF model, which points to EUR 6.70/share, we obtain **our EUR 5.40/share target price**, implying a **BUY recommendation**.

### Discounted cash flow

We believe our DCF valuation fully incorporates Biesse's turnaround plan as the group further expands abroad. We highlight that our estimates are significantly more conservative than the business plan. However, they still imply a strong recovery in profitability.

In our equity valuation model, we use a 6.0% risk premium (based on a three-stage DDM, which calculates the equity premium implied in the Euro Stoxx index) and a 5.5% risk free rate (based on a six-month average for the BTP 10Y for Jun-Dec 2011). We get a 9.2% WACC, based on a 1.1x beta (source Bloomberg), and 42% gearing ratio (D/EV).

Our other key 2012E-22E DCF assumptions are: 1) a 2.2% sales CAGR and a 1% perpetual growth rate; 2) an 8.1% EBIT CAGR with an average 6.5% EBIT margin; and 3) a 16% working capital on sales, in line with the expected 2012E-14E average. From our DCF model, we derive a EUR 6.70/share fair value.

Biesse - WACC calculation (%)		Biesse - Key assumptions (%)	
Gearing ratio	42	2012E-22E sales CAGR	2.2
Risk-free rate	5.5	Perpetual growth rate	1.0
Risk premium	6.0	2012E-22E EBIT margin avg	6.5
Beta (x)*	1.1	2012E-22E EBIT CAGR	8.1
Required return	12.1	2012E-22E tax rate avg	39.4
WACC	9.2	2012E-22E capex to sales avg	3
		Working capital to sales	16.1

Source: Intesa Sanpaolo Research estimates and \*Bloomberg

Source: Intesa Sanpaolo Research estimates

Biesse - DCF valuation (EUR M)	
Forecast cashflow	135
Terminal value	98
<b>Enterprise value</b>	<b>234</b>
Net cash / -debt	-50
<b>Equity value</b>	<b>183</b>
Number of shares (M)	27.4
<b>Equity value per share</b>	<b>6.7</b>

Source: Intesa Sanpaolo Research Estimates

Biesse - Sensitivity analysis					
EUR/share	Perpetual growth rate %				
Discount rate %	0.0	0.5	1.0	1.5	2.0
8.2	7.2	7.4	7.7	8.1	8.5
8.7	6.7	6.9	7.2	7.5	7.8
9.2	6.3	6.5	<b>6.7</b>	6.9	7.2
9.7	5.9	6.1	6.3	6.5	6.7
10.2	5.6	5.7	5.9	6.0	6.2

Source: Intesa Sanpaolo Research estimates

## Multiples comparison

There is only one direct listed competitor which fits Biesse's description and business model, Homag. In our peers basket panel, we have however included other European players, such as, Gildemeister, IMA, and Prima Industrie, which are involved in the production of industrial machines, although destined to other markets (i.e. metal, pharmaceutical, cosmetics, food).

Homag Group AG manufactures machines and equipment for the wood processing industry. The group supplies machines, cells and factory installations for the panel processing furniture, structural element and timber frame house construction industries. It is headquartered in Schopfloch, Germany.

**Homag Group AG**

Gildemeister AG is involved in the manufacturing and marketing of metal cutting machine tools worldwide. It also offers solutions in milling and turning technologies, for controls and services, and for regenerative energies. The company is headquartered in Bielefeld, Germany.

**Gildemeister AG**

Industria Macchine Automatiche SpA manufactures and designs automatic machines for processing and packaging of pharmaceuticals, cosmetics, tea, coffee and food. The company was founded in 1961 and is headquartered in Ozzano dell'Emilia, Italy.

**IMA Spa**

Prima Industrie SpA is involved in the developing, manufacturing, and marketing of laser systems for industrial applications, sheet metal processing machinery, and opto-electronic components. It operates via the following segments: Laser Systems, Electronics, and Sheet Metal Processing Equipment. The company was founded in 1977 and is headquartered in Collegno, Italy.

**Prima Industrie Spa**

Biesse in 2013, when the group runs at regime with its turnaround plan, shows a similar EBITDA margin vs. peers and higher than its key competitor Homag. Biesse also shows a 2011-13E EBITDA CAGR of 43%, higher than the 18% average for its peers and 23% for Homag, according to consensus figures.

**Higher expected growth and margin vs. peers**

Revenue CAGR and EBITDA margin comparison					
%	EBITDA margin			2011A-13E sales CAGR	2011A-13E EBITDA CAGR
	2011A	2012E	2013E		
Biesse S.p.A.*	5.8	7.8	10.5	6	43
Gildemeister AG	8.7	8.8	9.4	11	16
Homag Group AG	6.0	8.2	9.1	-1	23
Industria Macchine Automatiche	13.7	13.6	14.1	4	6
Prima Industrie S.p.A.	7.2	9.3	10.1	9	28
<b>Average (excl. Biesse)</b>	<b>8.9</b>	<b>10.0</b>	<b>10.7</b>	<b>5.8</b>	<b>18.1</b>

Source: Factset \*Intesa Sanpaolo Research estimates

While in terms of FY12E P/E, the stock trades at a significant premium vs. its peers, as the turnaround is not fully executed, in FY13E, the stock trades at a strong discount in terms of both EV/EBITDA and P/E (44% and 46%, respectively), as we expect the group to consistently improve profitability and the bottom line. In our multiples-derived target price calculation, we use the average peers of FY12E and FY13E EV/EBITDA and P/E multiples and derive a EUR 4.14/share target price.

**A strong discount to peers in FY13E**

Multiples comparison								
x	Price Mkt Cap		P/E			EV/EBITDA		
	EUR	EUR M	2012E	2013E	2014E	2012E	2013E	2014E
Gildemeister AG	12.48	750.90	9.3	8.3	8.3	3.8	3.5	3.5
Homag Group AG	9.91	155.47	13.8	9.5	7.1	4.0	3.5	3.1
Industria Macchine Automatiche	13.24	487.60	12.8	11.6	10.0	6.7	6.3	5.7
Prima Industrie S.p.A.	7.94	68.61	8.7	6.1	NA	6.5	5.6	NA
<b>Avg</b>			11.2	8.9	8.5	5.3	4.7	4.1
Biesse*			15.6	4.8	2.7	3.8	2.6	2.0
<b>Premium/-discount (%)</b>			40	-46	-69	-28	-44	-51

NM: not meaningful; Source: Factset, \* Intesa Sanpaolo Research estimates



In the following table, we show our multiples-based target price calculation.

Biesse - Implicit multiples target price calculation		
Avg multiples + premium	P/E	EV/EBITDA
2012E	11.2	5.3
2013E	8.9	4.7
Average 2012E–13E equity value	85.0	141.9
Average target (EUR/share)	3.1	5.2
<b>Multiple derived target price</b>	<b>4.14</b>	

Source: Factset, Intesa Sanpaolo Research estimates

## Share price performance

Since the beginning of the year, Biesse has underperformed its reference peers, thus widening the valuation gap.

Share Price Performance				
% change	1M	3M	6M	YTD
Biesse S.p.A.	-23.5	-31.1	-17.9	-9.5
Gildemeister AG	-19.3	2.9	25.5	28.0
Homag Group AG	-2.7	-9.7	17.5	27.1
Industria Macchine Automatiche	-4.5	2.1	4.0	0.2
Prima Industrie S.p.A.	-22.5	-6.9	24.1	19.4
Average excl. Biesse	-12.2	-2.9	17.8	18.7

Source: Factset

Biesse - Key figures

Sector	Industrial	Mkt price EUR/Share	Ordinary		Rating
REUTERS CODE	BSS.MI	Target price EUR/Share	2.59		BUY
Values per share (EUR)	2010A	2011A	2012E	2013E	2014E
No. ordinary shares (M)	27.39	27.39	27.39	27.39	27.39
No. NC saving/preferred shares (M)	-	-	-	-	-
Total no. of shares (M)	27.39	27.39	27.39	27.39	27.39
Adj. EPS	Neg.	Neg.	0.17	0.54	0.97
CFPS	0.34	0.47	0.76	1.14	1.56
BVPS	4.47	4.38	4.55	5.07	6.02
Dividend Ord	-	-	-	-	-
Dividend SAV Nc	-	-	-	-	-
Income statement (EUR M)	2010A	2011A	2012E	2013E	2014E
Sales	327.52	388.53	408.30	438.70	467.50
EBITDA	15.70	22.42	32.01	45.90	60.37
EBIT	0.67	7.07	15.10	28.80	43.60
Pre-tax income	-2.53	2.50	11.96	26.33	42.88
Net income	-5.74	-2.45	3.99	14.14	25.98
Adj. net income	-5.40	-1.66	4.55	14.82	26.60
Cash flow (EUR M)	2010A	2011A	2012E	2013E	2014E
Net income before minorities	-5.74	-2.45	3.99	14.14	25.98
Depreciation and provisions	15.03	15.35	16.91	17.10	16.77
Change in working capital	14.81	-26.96	12.01	9.73	5.03
Operating cash flow	24.09	-14.06	32.90	40.97	47.79
Capital expenditure	-11.31	-19.41	-20.20	-14.50	-14.00
Other (uses of Funds)	-	-	-	-	-
Free cash flow	12.79	-33.46	12.70	26.47	33.79
Dividends and equity changes	-	-	-	-	-
Net cash flow	12.79	-33.46	12.70	26.47	33.79
Balance sheet (EUR M)	2010A	2011A	2012E	2013E	2014E
Net capital employed	141.68	171.04	162.32	149.99	142.19
of which associates	-	-	-	-	-
Net debt/-cash	18.92	50.38	37.67	11.20	-22.58
Minorities	0.22	0.68	-	-	-
Net equity	122.54	119.98	124.65	138.79	164.77
Market cap	70.84	70.84	70.84	70.84	70.84
Minorities value	0.22	0.68	-	-	-
Enterprise value (*)	89.98	121.89	108.51	82.04	48.25
Stock market ratios (x)	2010A	2011A	2012E	2013E	2014E
Adj. P/E	-13.12	-42.68	15.6	4.8	2.7
P/CEPS	7.63	5.49	3.39	2.27	1.66
P/BVPS	0.58	0.59	0.57	0.51	0.43
Dividend yield (% ord)	-	-	-	-	-
Dividend yield (% sav)	-	-	-	-	-
EV/sales	0.27	0.31	0.27	0.19	0.10
EV/EBITDA	5.73	5.44	3.8	2.6	2.0
EV/EBIT	NM	17.25	7.19	2.85	1.11
EV/CE	0.64	0.71	0.67	0.55	0.34
D/EBITDA	1.21	2.25	1.18	0.24	-0.37
D/EBIT	28.11	7.13	2.49	0.39	-0.52
Profitability & financial ratios (%)	2010A	2011A	2012E	2013E	2014E
EBITDA margin	4.79	5.77	7.84	10.46	12.91
EBIT margin	0.21	1.82	3.70	6.56	9.33
Tax rate	NM	NM	66.67	46.30	39.40
Net income margin	-1.75	-0.63	0.98	3.22	5.56
ROE	-4.69	-2.04	3.20	10.19	15.77
Debt/equity ratio	0.15	0.42	0.30	0.08	-0.14
Growth (%)		2011A	2012E	2013E	2014E
Sales		18.63	5.09	7.45	6.56
EBITDA		42.80	42.78	43.39	31.53
EBIT		NM	NM	90.73	51.39
Pre-tax income		NM	NM	NM	62.86
Net income		57.36	NM	NM	83.78
Adj. net income		69.27	NM	NM	79.58

(\*) EV = Mkt cap+ Net Debt + Minorities Value – Associates; Neg.: Negative; NM: Not meaningful; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

## Notes

## Notes

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The Intesa Sanpaolo SpA Equity Research Department values the companies for which it assigns recommendations as follows: We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (ie, holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

### 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)
NA	NA

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

Intesa Sanpaolo Research Rating Distribution (at May 2012)					
Number of companies subject to recommendations: 84 (**)	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage %	42	14	42	2	-
of which Intesa Sanpaolo's Clients % (*)	69	75	63	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. (\*\*) The total number of companies covered is 94

### 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 The Intesa Sanpaolo Group is one of the main financial lenders of BIESSE S.p.A. and its parent and group companies.
- 3 Banca IMI is a specialist relative to securities issued by BIESSE S.p.A.

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