

Biesse

Ongoing Positive Market Mood

Biesse - Key estimates and data					
Y/E December		2014A	2015E	2016E	2017E
Revenues	EUR M	427.1	478.2	514.1	540.1
EBITDA	EUR M	40.08	52.80	63.70	70.70
EBIT	EUR M	24.77	36.20	47.00	54.00
Net Income	EUR M	13.81	17.40	24.76	28.99
Dividend ord.	EUR	0.36	0.36	0.36	0.36
Adj. EPS	EUR	0.50	0.64	0.90	1.1
EV/EBITDA	x	5.3	8.7	7.2	6.5
Adj. P/E	x	14.7	25.8	18.1	15.5

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

- 1Q15A results.** Biesse posted a strong set of results in 1Q15, confirming the group's revenue upturn and benefiting from operating leverage. The key points of the 1Q15A results are: a 23% revenue upturn to EUR 112.8M driven by all regions (Western Europe up by 20%, Asia and North America +33%, ROW +54%). Eastern Europe recorded a 2% increase. A 220bps increase in the EBITDA margin which reached 10.30% in 1Q15A benefiting from operating leverage and taking into account that the opex increase did not yet include the costs related to the widening of the commercial force worldwide. Net profit increased by 143% to EUR 3.9M. 1Q15A net debt of EUR 12.7M improved significantly vs. EUR 33.1M in 1Q14A.
- Outlook.** Although 1Q is usually the weakest quarter for the group (4Q being the strongest), 1Q15 still delivered good visibility on the positive cycle we expect from Biesse in FY15E. According to management, the FY15 BP net debt of EUR 11M, might be excessive in view of the cash flow generated in 1Q15A. Expansion plans were confirmed, particularly, the hiring of approx. 80 people worldwide, 40 of which in China alone in 2H15. We highlight that Biesse currently derives approximately EUR 15M revenues from China in a wood machinery market, which has a value of approximately EUR 400M and in which its main competitor Homag records around EUR 100M revenues.
- Strong pre-orders and backlog.** Pre-orders were up by 25.7% and the total order backlog up by 36.7%. The strong order intake points to a potentially higher growth vs. the one expected in the FY15 BP (in FY15E we expect a 12% revenue increase). The Ligna Fair in Hanover in May confirmed the positive market sentiment and recorded strong orders and an increase in presences at the group's stand, according to the company.
- Reference sector data** in 1Q15 points to an improved market context, with Acimall (Italian woodworking machinery and tools manufacturers' trade association) showing a 13.5% rise in orders, UCIMO (the Italian machine tools producers' trade association) orders entry up 2.2%, and VDMA (the German mechanical engineering trade association) a 2%.
- Estimates and valuation.** We confirm our forecasts for the time being. The focus is now on Biesse's pre-orders to be disclosed in June 2015, which should shed more light on the FY15 trend. Based on the average between the updated multiples comparison, which points to EUR 16.38/share, and our DCF model, which points to EUR 21.02/share, **we obtained a EUR 18.70/share target price.** Given the current upside (around 14%), **we confirm our ADD rating.**
- Key risks.** Biesse operates in global markets and is therefore highly exposed to international macroeconomic factors, which could affect the group's activities. Biesse invests substantially in R&D and its products have an advanced technological content, implying a high exposure to technological developments. Lastly, the group's dominant fixed-cost structure results in a high operating leverage, suffering from economic downturns.

See page 9 for full disclosures and analyst certification

Banca IMI is Specialist to Biesse

29 May 2015

ADD

Target Price: EUR 18.70
(from EUR 17.11)

Italy/Engineering &
Machinery
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Price performance, -1Y

27/05/2015



Source: FactSet

Data priced on 27.05.2015

Target price (€)	18.70
Target upside (%)	14.02
Market price (€)	16.40
52Wk range (€)	16.8/6.7
Market cap (€ M)	449.25
No. of shares	27.39
Free float (%)	39.6
Major shr (%)	Selci G. 58.5
Reuters	BSS.MI
Bloomberg	BSS IM
FTSE IT All Sh	25421

Performance %

	Absolute	Rel. to FTSE IT All
-1M	7.4	-1M 7.3
-3M	2.2	-3M -4.5
-12M	115.2	-12M 92.5

Source: FactSet and Intesa Sanpaolo Research estimates

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1Q15 Results

Biesse posted a strong set of results in 1Q15 confirming the group's revenue upturn in an improved economic context and benefiting from operating leverage.

The key points of the 1Q15A results are:

A 23% revenue upturn to EUR 112.8M was driven by all regions (Western Europe up by 20%; Asia and North America +33%; Rest of world +54% with a particularly strong performance by Turkey) with the exception of Eastern Europe, which recorded a 2% increase, penalised by the Russian effect. By division, all recorded a double-digit growth. We highlight the significant turnaround of the Glass/stone division (+35% increase vs. low single digit in the past two years), which benefited from new product entries and the capillarity of the group's worldwide presence. We also highlight that while Biesse does not have a direct accounting effect from the exchange rate, it is favoured by the weak euro, as it is a potential stimulus to consumption/demand.

Top line up by 23%

Biesse - 1Q15 revenue breakdown			
EUR M	1Q14A	1Q15A	yoy %
Wood	65.4	79.9	22.3
Glass/Stone	13.7	18.5	35.0
Mechatronic	15.7	18.3	16.8
Tooling	2.1	2.5	17.1
Components	4.3	5.4	26.1
Intercompanies	-9.5	-11.8	24.2
Total	91.6	112.8	23.1
Western Europe	37.6	44.9	19.6
Asia - Oceania	16.2	21.7	33.7
Eastern Europe	17.7	18.0	1.8
North America	13.8	18.5	33.3
Rest of the World	6.3	9.7	53.9
Total	91.6	112.8	23.1

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

Value added margin increased by 30bps to 42.20% in 1Q15A benefiting from an improved sales mix towards the highest market range. The 1Q15A EBITDA margin increased by 220bps to 10.30% benefiting from operating leverage and taking into account that the opex increase did not include the costs related to the widening of the commercial force worldwide.

**Value added margin
increased by 30bps**

The net profit increase of 143% to EUR 3.9M was impacted by a EUR 0.8M increase in foreign exchange losses to EUR 1.1M and benefited from an improved tax rate of 40% in 1Q15, from 52.2% previously.

The 1Q15A net debt was EUR 12.7M vs. EUR 11.3M reported in FY14A and improved by approx. EUR 20M vs. EUR 33.1M in 1Q14A, approx. in line with our FY15E estimate of EUR 11.4M.

Net debt at EUR 12.7M

Biesse - 1Q15 results			
EUR M	1Q14A	1Q15A	chg %
Net sales	91.6	112.8	23.1
Value of production	99.8	120.5	20.7
Value added	38.4	47.6	24.0
EBITDA	7.4	11.6	56.8
EBIT	3.9	7.6	94.9
Net profit	1.6	3.9	143.8
Value added margin %	41.90	42.20	
EBITDA margin %	8.10	10.30	
EBIT margin %	4.30	6.70	
Net margin %	1.70	3.40	

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

Earnings Outlook

We confirm our FY15E-17E estimates, which are in line with management's disclosed business plan.

In its business plan, Biesse expects a positive economic cycle in the next three years (global GDP growth of 4% in FY15-17, source IMF), which should support its export-oriented growth (currently 90% of total revenues are from abroad) and significantly boost its profitability (the FY15-17 BP points to an 8.1% revenues CAGR and an EBITDA margin improving from 9.4% in FY14 to 11% in FY15, 12.4% in FY16 and 13.1% in FY17) thanks to operating leverage.

The key drivers are:

- Investments in product innovation and expansion of the sales force (88 sales and marketing personnel hired in 2014A, mostly abroad), to enhance its presence in foreign countries;
- Open new showrooms in North America and Australia, double its production capacity in China, and open a new branch in Malaysia;
- Reference sector data points to an improved market context, with Acimall (Italian woodworking machinery and tools manufacturers' trade association), UCIMO (the Italian machine tools producers' trade association), and VDMA (the German mechanical engineering trade association) showing an increase in orders;
- According to management, it is recording growth in all countries and it is particularly strong in North America. A key region remains China, where the group targets increasing its market share as it sees ample growth potential. In China, the reference Wood segment has a market size of EUR 400M, of which Biesse has achieved approx. EUR 15M revenues to date. In China, Biesse targets a 25% FY15-19 revenue CAGR thanks to its investments in the sales network and organisation;
- The company is seeking to gradually enter the plastic market segment (after the wood, glass and stone segments), where Biesse' global reference market is approx. EUR 2.5Bn and is highly synergic for Biesse operations, as it requires similar machinery to those used in the wood division.

The key guidelines of the FY15-17 business plan are shown in the table below:

Biesse - FY15-17 business plan					
EUR M	2014A	2015BP	2016BP	2017BP	CAGR %
Net sales	427	478	514	540	8
Value added	168	192	207	229	11
EBITDA	40.1	52.8	63.7	70.7	21
EBITDA margin %	9.4	11.0	12.4	13.1	
EBIT	24.8	36.2	47.0	54.0	30
Net debt (-net cash)	11.3	11.4	-4.9	-28.2	
Net debt/equity %	9	9	-3	-17	

A: actual; BP: Business Plan; Source: Company data and Intesa Sanpaolo Research

Valuation

Based on the average between the updated multiples comparison, which points to EUR 16.38/share, and our DCF model, which points to EUR 21.02/share, **we obtained a EUR 18.70/share target price** (vs. our previous EUR 17.11/share). Given the current upside (around 14%), **we confirm our ADD rating**.

Discounted cash flow

In our equity valuation model, we confirm our assumption of risk-free rate at 2.00%, a 5.50% risk premium and derived a 6.8% WACC. Other WACC assumptions include a 0.9x beta (source: Bloomberg) and a 3% gearing ratio (D/EV), with an average FY14A-15E net debt at EUR 11M (vs. EUR 13M previously).

WACC assumption

Our other key 2014E-24E DCF assumptions are: 1) a 3.5% sales CAGR and a 1% perpetual growth rate; 2) an average 7.7% EBIT margin; and 3) a 10.2% working capital to sales.

From our DCF model, we derive a EUR 21.02/share fair value (EUR 20.70/share previously).

Biese - WACC calculation (%)		Biese - Key assumptions (%)	
Gearing ratio	3	2014A-25E sales CAGR	3.5
Risk-free rate	2.0	Perpetual growth rate	1.0
Risk premium	5.5	2014A-25E EBIT margin avg	7.7
Beta (x)*	0.90	2014A-25E EBIT CAGR	6.4
Required return	7.0	2014A-25E tax rate avg	42
WACC	6.8	2014A-25E capex to sales avg	3
		2014A-25E working capital to sales	10.2

Source: Intesa Sanpaolo Research estimates and *Bloomberg

Source: Intesa Sanpaolo Research estimates

Biese - DCF valuation (EUR M)	
Forecast cash flow	175
Terminal value	412
Enterprise value	587
Net cash/-debt (average 2014E-15E)	-11
Equity value	576
Number of shares (M)	27.4
Equity value per share (EUR)	21.02

Source: Intesa Sanpaolo Research estimates

Biese - Sensitivity analysis					
EUR/share	Perpetual growth rate %				
Discount rate %	0.0	0.5	1.0	1.5	2.0
5.8%	22.8	24.3	26.2	28.5	31.4
6.3%	20.6	21.9	23.3	25.1	27.3
6.8%	18.8	19.8	21.02	22.4	24.1
7.3%	17.3	18.1	19.1	20.2	21.6
7.8%	15.9	16.6	17.4	18.4	19.4

Source: Intesa Sanpaolo Research estimates

Multiples comparison

In our multiples comparison, we include the Homag Group, being the only directly-listed competitor, which fits Biese's description and business model.

Homag

We also included other European players, such as DMG, IMA, and Prima Industrie, which are involved in the production of industrial machines, albeit destined for other markets (i.e. metal, pharmaceutical, cosmetics and food).

DMG Mori Seiki Aktiengesellschaft (former Gildemeister AG) is involved in the manufacturing and marketing of metal cutting machine tools worldwide. The range of products includes innovative high-tech machines and services, as well as software and energy solutions. The

DMG Mori Seiki Aktiengesellschaft

company also offers solutions in milling and turning technologies, for controls and services, and regenerative energies. The company's new name was derived from a worldwide leading partnership between Gildemeister and Mori Seiki. The company is headquartered in Bielefeld, Germany.

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 manufactures and markets laser systems for industrial applications, sheet metal processing machinery, as well as industrial electronics and laser technologies. With 35 years of experience, the group is among the main worldwide manufacturers in its own reference market.

Prima Industrie

In the peers' comparison, Biesse shows a higher than average EBITDA margin in FY16E and a FY14A-16E higher than average net profit CAGR (34% for Biesse vs. 28% average).

Peers comparison						
%	EBITDA margin			Sales CAGR 2014-16E	EBITDA CAGR 2014-16E	Net profit CAGR 2014-16E
	2014E	2015E	2016E			
Biesse *	9.4	11.0	12.4	9.7	26	34
Homag Group AG	10.2	10.4	10.9	3.8	7	36
DMG Mori Seiki Aktien	10.4	10.3	11.1	4.5	8	10
IMA	15.3	14.8	14.9	16.7	15	25
Prima Industrie	9.6	10.9	11.8	10.2	22	42
Average	11.4	11.6	12.1	8.8	13.0	28.2

E: estimates; Source: FactSet and *Intesa Sanpaolo Research

Biesse is currently trading at a 13% discount in terms of a 2017E PE. We obtained a EUR 16.38/share fair value (vs. our previous EUR 13.63/share) based on the average FY15E-17E EV/EBITDA and P/E.

At a discount to peers

Multiples comparison								
x			PE			EV/EBITDA		
	Price	Mkt Cap	2015E	2016E	2017E	2015E	2016E	2017E
Homag Group AG	34.50	541.2	17.4	15.5	NA	6.06	5.43	NA
DMG Mori Seiki	32.60	2,569.5	22.7	19.1	17.7	9.30	7.93	7.40
I.M.A.	47.32	1,775.0	23.8	21.4	19.1	12.09	10.96	9.82
Prima Industrie	18.80	197.1	13.8	9.9	7.4	6.88	5.52	4.32
Median			20.1	17.3	17.7	8.09	6.72	7.40
Biesse*	16.40	449.2	25.8	18.1	15.5	8.72	7.23	6.51
Premium/discount (%)			28.7	4.7	-12.6	7.8	7.6	-12.0

NA: not available; E: estimates; Source: Factset and *Intesa Sanpaolo Research

Share price performances				
% chg	1 Month	3 Months	6 Months	YTD
Biesse S.p.A.	7.4	2.2	96.3	75.2
Homag Group AG	-1.1	-5.0	17.4	15.0
DMG Mori Seiki Aktiengesellschaft	2.2	10.5	53.8	38.7
IMA (Industria Macchine Automatiche S.p.A.)	-1.4	9.0	41.0	30.4
Prima Industrie S.p.A.	-2.0	6.7	38.7	39.4
Average excl. Biesse	-0.6	5.3	37.8	28.0

Source: FactSet

Biese - Key data							
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector	Free float (%)		Reuters Code	
ADD	Ord 18.70	Ord 16.40	Engineering & Machinery	39.6		BSS.MI	
Values per share (EUR)			2013A	2014A	2015E	2016E	2017E
No. ordinary shares (M)			27.39	27.39	27.39	27.39	27.39
No. NC saving/preferred shares (M)			0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)			27.39	27.39	27.39	27.39	27.39
Market cap			89.66	203.02	449.25	449.25	449.25
Adj. EPS			0.17	0.50	0.64	0.90	1.1
CFPS			0.82	1.1	1.2	1.5	1.7
BVPS			4.1	4.5	4.8	5.3	6.0
Dividend ord			0.18	0.36	0.36	0.36	0.36
Dividend SAV Nc			0	0	0	0	0
Income statement (EUR M)			2013A	2014A	2015E	2016E	2017E
Sales			378.4	427.1	478.2	514.1	540.1
EBITDA			34.30	40.08	52.80	63.70	70.70
EBIT			18.15	24.77	36.20	47.00	54.00
Pre-tax income			14.62	22.68	34.80	45.78	52.80
Net income			6.41	13.81	17.40	24.76	28.99
Adj. net income			4.61	13.81	17.40	24.76	28.99
Cash flow (EUR M)			2013A	2014A	2015E	2016E	2017E
Net income before minorities			6.4	13.8	17.4	24.8	29.0
Depreciation and provisions			16.2	15.3	16.6	16.7	16.7
Others/Uses of funds			0	0	0	0	0
Change in working capital			31.2	-4.4	-0.4	-0.9	1.9
Operating cash flow			53.8	24.7	33.6	40.5	47.6
Capital expenditure			-12.0	-17.9	-23.8	-14.4	-14.4
Financial investments			0	-2.9	0	0	0
Acquisitions and disposals			0	0	0	0	0
Free cash flow			41.8	3.8	9.8	26.1	33.2
Dividends			0	-4.9	-9.9	-9.9	-9.9
Equity changes & Other non-operating items			-9.6	13.8	0	0	0
Net cash flow			32.3	12.7	-0.1	16.3	23.3
Balance sheet (EUR M)			2013A	2014A	2015E	2016E	2017E
Net capital employed			137.0	134.5	142.1	140.7	136.5
of which associates			0	0	0	0	0
Net debt/-cash			23.9	11.3	11.4	-4.9	-28.2
Minorities			0.2	0	0	0	0
Net equity			112.9	123.2	130.7	145.6	164.8
Minorities value			0	0	0	0	0
Enterprise value			113.7	214.3	460.5	460.5	460.5
Stock market ratios (x)			2013A	2014A	2015E	2016E	2017E
Adj. P/E			19.4	14.7	25.8	18.1	15.5
P/CFPS			4.0	7.0	13.2	10.8	9.8
P/BVPS			0.79	1.6	3.4	3.1	2.7
Payout (%)			77	71	57	40	34
Dividend yield (% ord)			5.5	4.9	2.2	2.2	2.2
FCF yield (%)			46.7	1.9	2.2	5.8	7.4
EV/sales			0.30	0.50	0.96	0.90	0.85
EV/EBITDA			3.3	5.3	8.7	7.2	6.5
EV/EBIT			6.3	8.7	12.7	9.8	8.5
EV/CE			0.83	1.6	3.2	3.3	3.4
D/EBITDA			0.70	0.28	0.22	Neg.	Neg.
D/EBIT			1.3	0.46	0.31	Neg.	Neg.
Profitability & financial ratios (%)			2013A	2014A	2015E	2016E	2017E
EBITDA margin			9.1	9.4	11.0	12.4	13.1
EBIT margin			4.8	5.8	7.6	9.1	10.0
Tax rate			56.1	39.1	50.0	45.9	45.1
Net income margin			1.7	3.2	3.6	4.8	5.4
ROCE			13.2	18.4	25.5	33.4	39.5
ROE			5.8	11.7	13.7	17.9	18.7
Interest cover			7.2	16.0	25.9	38.5	45.0
Debt/equity ratio			21.2	9.1	8.7	-3.4	-17.1
Growth (%)			2014A	2015E	2016E	2017E	
Sales			12.9	12.0	7.5	5.1	
EBITDA			16.8	31.7	20.6	11.0	
EBIT			36.5	46.2	29.8	14.9	
Pre-tax income			55.1	53.5	31.6	15.3	
Net income			NM	26.0	42.3	17.1	
Adj. net income			NM	26.0	42.3	17.1	

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

Notes

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Valuation methodology (long-term horizon: 12M)

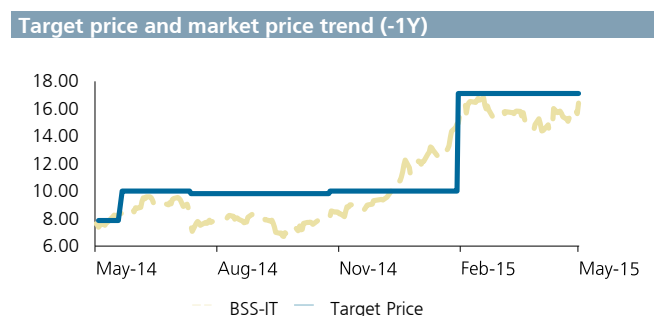
The Intesa Sanpaolo SpA Equity Research Department values the companies for which it assigns recommendations as follows: We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on 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)



Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
24-Feb-15	ADD	17.11	14.89
19-Feb-15	UNDER REVIEW	U/R	13.89
19-Nov-14	BUY	10.00	8.02
06-Aug-14	HOLD	9.81	8.07

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

Intesa Sanpaolo Research Rating Distribution (at May 2015)					
Number of companies considered: 96	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage %	41	25	33	1	0
of which Intesa Sanpaolo's Clients % (*)	79	75	50	0	0

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

Valuation methodology (short-term horizon: 3M)

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

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

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

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

Company specific disclosures

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

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