

## EARNINGS RELEASE



**Fair Value: €2.96**  
(Prev. €2.45)

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### Assiteca Relative Performance Chart YTD



Market Data:	
Price (€)	2.67
Market Cap (€/mn)	87.23
Free Float (%)	15.94
52 Wk. High/Low (€)	3.40/1.55
Avg. Daily Vol. 90-day	29,008
Shares out (mn)	32.67
Price Change YTD (%)	46.86
Price Change 6M (%)	34.31
Price Change 1Y (%)	61.33
P/E 2018	24.28
P/E 2019	15.60

## Macroeconomics & Acquisitions: Sparks in Sight

On October 26, Assiteca released sound FY17 results (Assiteca's Fiscal Year end is on June 30), showing significant top line and income growth, despite extraordinary expenses.

- Revenue rose 6.7% YoY to €64.8mn vs €60.7mn in FY16
- EBITDA rose 3.4% YoY to €9.0mn vs €8.7mn in FY16
- Net income rose 8.4% YoY to €3.6mn vs €3.3mn in FY16
- Net financial position came in at €27.1mn vs €22.5mn in FY16

**Results summary.** M&As have been the main growth driver of revenues in FY2017 which stands at €64.8mn with 6.7% YoY growth, of which around 4.2% comes from acquisitions and 2.5% from organic growth. Assiteca continued to outperform the Italian non-life insurance market that over the same period grew by 0.01%. The company also saw an improvement in terms of EBITDA (+3.4% YoY) and net income (+8.4% YoY). Nevertheless, the results could have been even better by considering the full year contribution of the acquired C.D.M. Insurance Broker that accounted for only six months of FY17 results. The increase in net debt from €22.4mn to €27.1mn was mainly due to the acquisition of Lertora F.lli & Courtman SpA, which produced an increase in net debt of €4.6mn.

**FY17 Extraordinary Operations.** During the last fiscal year, Assiteca has been involved in three M&A deals, acquiring: 1) Lertora F.lli & Courtman SpA, which has been the main contributor to FY17 YoY growth; 2) C.D.M. Insurance Brokers, a broker specialized in the transportation sector, the acquisition of which should lead to an increase in EBITDA of €0.3mn starting in FY18; 3) Socuopa S.A., a Swiss-based company which holds, as a single asset, an 82.24% stake in Grupo Muntadas S.A., a Spanish insurance broker. This last acquisition should sustain the recovery of the Spanish subsidiary Assiteca S.A., which experienced negative performance in FY17. Furthermore, Assiteca acquired a control stake in Artigian Broker S.r.l. and founded Assiteca Sicurezza Informatica and Assiteca Consulting. We expect that the consulting divisions will help to increase customers retention and sustain revenues through cross selling.

**Estimates review.** We increase our estimates on the back of the recent acquisitions and the inversion of trends in the insurance market driven by a positive Italian macroeconomic environment. The main driver of our estimate changes is the upward revision of Italian macroeconomic projections, which in turn shifted up our turnover forecasts of the entire insurance market. The key points are: FY18E sales at €69.4mn reaching €73.8mn in FY20 (4.4% CAGR FY17A-FY20E); FY18E EBITDA at €10.6mn reaching €12.3mn in FY20 (11.2% CAGR FY17A-FY20E); FY18E group income at €5.6mn reaching €6.5mn in FY20 (22.2% CAGR FY17A-FY20E).

**Fair Value increased from €2.45 to €2.96.** We increased the fair value on the back of a reduction in the cost of capital in our DCF model and a reduction of the liquidity discount applied to our multiple valuation. The lower cost of capital is mainly the result of a reduction in the country risk premium related to the improved Italian economic outlook. On liquidity side during 10M17 the daily turnover of AIM Italia increased by 526% YoY while Assiteca's experienced an impressive +794%, therefore we reduced the liquidity discount to 10% from 20%. All these supporting trends, along with the positive results presented by the company in FY17, led to an increase of the Fair Value of the company to €2.96 ps.

€ thousand	Total Revenues	EBITDA	EBITDA Margin	EBIT	Group Earnings	Net Margin	EPS
2016A	60,692	8,674	14.3%	7,421	3,301	5.4%	0.10
2017A	64,783	8,965	13.8%	7,785	3,579	5.7%	0.10
2018E	69,368	10,611	15.3%	9,195	5,569	8.0%	0.17
2019E	71,569	11,394	15.9%	9,864	5,903	8.2%	0.18
2020E	73,807	12,334	16.7%	10,690	6,544	8.9%	0.20

Source: Company data, KT&Partners estimates. Note that fiscal year ends on 30 June.

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**Table 1: Assiteca - Key Figures**

Current price (€)	Fair Value (€)	Sector			Free Float (%)
2.67	2.96	Insurance Brokerage			15.94
<b>Per Share Data</b>					
	2015A	2016A	2017A	2018E	2019E
Total shares outstanding (mn)	n.a.	32.67	32.67	32.67	32.67
EPS	n.a.	0.09	0.10	0.11	0.17
Dividend per share (ord)	-	0.03	0.03	0.05	0.06
Dividend pay out ratio (%)	0%	34%	33%	47%	32%
<b>Profit and Loss (EUR thousand)</b>					
Revenues	54,630	60,692	64,783	69,368	71,569
EBITDA	6,966	8,675	8,965	10,611	11,394
EBIT	6,182	7,422	7,785	9,195	9,864
EBT	5,274	5,903	6,070	8,447	9,210
Taxes	- 2,333	- 2,251	- 2,381	- 2,763	- 3,142
Tax rate	44%	38%	39%	33%	34%
Net profit attributable to minority	53	350	109	115	165
Net profit after minorities	2,888	3,302	3,580	5,569	5,903
Net profit margin	5.29%	5.44%	5.53%	8.03%	8.25%
<b>Balance Sheet (EUR thousand)</b>					
Total fixed assets	24,138	32,271	43,398	43,650	43,492
Net Working Capital (NWC)	15,772	12,154	16,368	17,071	17,656
Provisions	- 8,652	- 9,724	- 10,345	- 11,201	- 12,079
Other asset and liabilities	12,800	9,987	14,065	14,557	15,035
Total Net capital employed	31,258	34,701	49,420	49,520	49,069
Net financial position (NFP)	22,808	22,474	27,107	22,618	17,787
Group Shareholder's Equity	7,554	15,567	22,081	26,555	30,770
Minorities	897	1,184	233	348	513
Total Shareholder's Equity	8,451	16,751	22,314	26,903	31,283
<b>Cash Flow (EUR thousand)</b>					
Net operating cash flow	4,579	6,118	6,370	7,500	7,894
Change in NWC	- 8,876	- 3,619	- 4,214	- 703	- 585
Capital expenditure	- 615	- 616	- 1,014	- 1,014	- 1,014
Other cash items/Uses of funds	1,952	1,072	621	856	877
Free cash flow	- 9,529	- 1,729	- 9,316	- 6,332	- 7,172
<b>Enterprise Value (EUR thousand)</b>					
Market Cap	n.a.	59,459	87,229	87,229	87,229
Minorities	897	1,184	233	348	513
Net financial position	22,808	22,474	27,107	22,618	17,787
Enterprise value	n.m.	83,117	114,569	110,195	105,529
<b>Ratios (%)</b>					
EBITDA margin	12.8%	14.3%	13.8%	15.3%	15.9%
EBIT margin	11.3%	12.2%	12.0%	13.3%	13.8%
Gearing - Debt/equity	301.9%	144.4%	122.8%	85.2%	57.8%
Interest cover on EBIT	13.8%	14.0%	11.6%	7.6%	6.1%
NFP/EBITDA	327.4%	259.1%	302.4%	213.2%	156.1%
ROCE	19.8%	21.4%	15.8%	18.6%	20.1%
ROE	38.2%	21.2%	16.2%	21.0%	19.2%
EV/Sales	n.m.	1.37	1.77	1.59	1.47
EV/EBITDA	n.m.	9.58	12.78	10.39	9.26
P/E	n.m.	18.01	24.37	15.66	14.78
Free cash flow yield	n.m.	2.9%	-10.7%	7.3%	8.2%
<b>Growth Rates (%)</b>					
Sales	4.6%	11.1%	6.7%	7.1%	3.2%
EBITDA	0.1%	24.5%	3.3%	18.4%	7.4%
EBIT	-1.9%	20.1%	4.9%	18.1%	7.3%
Net profit	-1.7%	14.3%	8.4%	55.6%	6.0%

## FY2017 Results Summary

Assiteca kept growing in FY2017. Total Revenues were up 6.7% YoY, mainly due to the acquisition of Lertora F.lli & Courtman S.p.A., closed in July 2016, and of C.D.M Insurance Brokers S.r.l, closed in February 2017. Furthermore, Net Revenues experienced a growth of 6.4% YoY.

Both Total Revenues and Net Revenues came in 1.9% below our forecast, mostly due to two effects: a) the contraction of €0.7mn of revenues produced by Assiteca S.A. (the Spanish subsidiary), due to the dismissal of a business unit entirely dedicated to a client involved in insolvency proceedings; b) the contribution of C.D.M. Insurance Brokers S.r.l. for only six months to the FY2017 results with an estimated negative impact of €0.4mn on the top line with respect to 2017PF. These factors, along with the delay in expected synergies, led to a lower than expected increase in EBITDA (+3.4% YoY). Finally, the company faced extraordinary expenses related to the dismissal of a business unit in Spain (€0.5mn) and to the costs faced in acquisition procedures. Despite these higher than expected expenses, Net Profit presented a positive growth of 8.4%, reaching the level of €3.6mn.

**Table 2: Assiteca FY2017 results**

€ thousand	FY2015A	FY2016A	FY2017A	YoY growth	FY2017E	A vs E%
Commissions and fees		59,760	64,037		64,936	-1.4%
Other revenues and income		932	746		1,087	-31.4%
<b>Total Revenues</b>	<b>54,630</b>	<b>60,692</b>	<b>64,783</b>	<b>6.7%</b>	<b>66,023</b>	<b>-1.9%</b>
Commission expenses	- 6,972	- 7,738	- 8,438		- 8,614	-2.0%
<b>Net Revenues</b>	<b>47,658</b>	<b>52,954</b>	<b>56,345</b>	<b>6.4%</b>	<b>57,409</b>	<b>-1.9%</b>
Net Revenues on Total Revenues	87.2%	87.3%	87.0%		87.0%	
Operating costs	- 18,279	- 20,236	- 20,943		- 21,236	-1.4%
Personnel costs	- 22,413	- 24,044	- 26,437		- 26,510	-0.3%
<b>EBITDA</b>	<b>6,966</b>	<b>8,674</b>	<b>8,965</b>	<b>3.4%</b>	<b>9,663</b>	<b>-7.2%</b>
EBITDA margin %	12.8%	14.3%	13.8%		14.6%	-5.4%
D&A	- 784	- 1,253	- 1,180		- 1,314	-10.2%
<b>EBIT</b>	<b>6,182</b>	<b>7,421</b>	<b>7,785</b>	<b>4.9%</b>	<b>8,349</b>	<b>-6.8%</b>
EBIT margin %	11.3%	12.2%	12.0%		12.6%	-5.0%
Financial income and expenses	- 856	- 1,039	- 904		- 732	23.5%
Extraordinary income and expenses	- 52	- 480	- 811		- 52	1459.6%
<b>EBT</b>	<b>5,274</b>	<b>5,902</b>	<b>6,070</b>		<b>7,565</b>	<b>-19.8%</b>
EBT margin %	9.7%	9.7%	9.4%		11.5%	
Income taxes	- 2,333	- 2,251	- 2,382		- 2,503	-4.8%
<b>Net profit</b>	<b>2,941</b>	<b>3,651</b>	<b>3,688</b>	<b>1.0%</b>	<b>5,062</b>	<b>-27.1%</b>
Net margin %	5.4%	6.0%	5.7%		7.7%	-25.7%
Minorities interest	53	350	109		100	9.0%
<b>Group Net profit</b>	<b>2,888</b>	<b>3,301</b>	<b>3,579</b>	<b>8.4%</b>	<b>4,962</b>	<b>-27.9%</b>
Group Net profit	5.3%	5.4%	5.5%		7.5%	

Source: Company data, KT&Partners elaborations.

## Estimates Revision

Following the release of FY17 results and considering the two recently completed acquisitions (C.D.M. Insurance Brokers and Grupo Muntadas SA) along with the positive outlook of the Italian economy, we have slightly fine-tuned our estimates.

We expect Assiteca to keep growing over the coming years, thanks to the combination of the company's M&A consolidation and to the positive outlook on Italian macroeconomic factors (confirmed by the upward revision by IMF, OECD, WEO, and Banca d'Italia). Indeed, a positive correlation exists between the insurance market and macroeconomic indicators<sup>1</sup>. Furthermore, we believe that macroeconomic performance will also drive the growth of SMEs; since SMEs are Assiteca's main clients, this positive effect should amplify Assiteca's growth.

Regarding FY18 Total Revenues, we increased our expectations by 1.5%, thanks to our upward revision of the non-life insurance market growth. In terms of FY18 EBITDA, we revised downwards our estimates by 0.5% due to a delay in synergies. On the other hand, we expect that for 2019 the synergies will start to pay off so we revised upward our 2019 estimates on EBITDA (+0.7%). The delay of synergies and its subsequent recovery also affects Net Profit estimates. Looking at the bottom line, we lowered our estimates for 2018 by 1.7% mainly due to a higher than expected NFP which will also affect FY19 Net Income.

The key points of our forecast are as follow:

- FY18E total revenue at €69.3mn, reaching €71.6mn in FY19 (5.1% CAGR FY17E-FY19);
- FY18E net revenue at €60.3mn, reaching €62.2mn in FY19 (5.1% CAGR FY17E-FY19);
- FY18E EBITDA at €10.6, reaching €11.4mn in FY19 (12.7% CAGR FY17E-19);
- FY18E group net income at €5.6mn, reaching €5.9mn in FY19 (28.4% CAGR FY17E-FY19).

**Table 3: Assiteca 1H2017 results**

€ thousand	2017A	2018E		Change New vs Old	2019E		Change New vs Old
		Old	New		Old	New	
Total Revenues	64,783	68,345	69,368	1.5%	70,284	71,569	1.8%
YoY Change (%)		5.5%	7.1%		2.8%	3.2%	
Net Revenues	56,345	59,372	60,294	1.6%	61,020	62,203	1.9%
YoY Change (%)		5.4%	7.0%		2.8%	3.2%	
EBITDA	8,965	10,661	10,611	-0.5%	11,319	11,394	0.7%
YoY Change (%)		18.9%	18.4%		6.2%	7.4%	
EBIT	7,785	9,235	9,195	-0.4%	9,783	9,864	0.8%
YoY Change (%)		18.6%	18.1%		5.9%	7.3%	
Group Net Income	3,579	5,664	5,569	-1.7%	5,961	5,903	-1.0%
YoY Change (%)		58.3%	55.6%		5.2%	6.0%	

Source: Company data, KT&Partners elaborations.

<sup>1</sup> As suggested by studies conducted by Cristina Dorofiti and Petr Jakubik "Insurance Sector Profitability and the Macroeconomic Environment" (2015) and by Lenka Cepel Akov "The Impact of the Macroeconomic Environment on Insurance Companies" (2015).

## Valuation

Based on a simple average of our DCF model and peer group analysis, we project a Fair Value of €2.96 per share.

Our Fair Value takes the average of the following methods:

- DCF analysis based on WACC of 7.8% and 1.5% perpetual growth, which returns a value of €3.04 per share;
- P/E multiple, which returns a value of €2.88 per share. We believe this valuation captures the expected earnings growth.

### DCF Valuation

We believe that DCF analysis is a great way to highlight the company's positive and visible cash flow generation for the forthcoming years. Our DCF analysis is based on a 7.8% WACC (risk-free rate 1.8%, market risk premium of 7.14% based on June 2017 estimates by Damodaran, beta of 0.8, size premium of 2.0% implying a cost of equity of 9.48%, and a marginal cost of debt of 3.0%). Furthermore, considering the sector, we set a terminal growth rate (g) of 1.5%. The growth rate has been increased with regards to our previous research after taking into account the improved Italian growth outlook and the usual outperformance of Assiteca with respect to its reference market. As a matter of fact, the non-life insurance market experienced negative growth in 2016<sup>2</sup> (-1.29%) and immaterial growth in 2017 (0.01%)<sup>3</sup>, while Assiteca showed organic growth of 3.5% and 2.5% in these years, respectively. The DCF analysis results in an equity value of €99.33mn, or €3.04 per share.

**Table 4: Cash Flow Estimates**

€ thousand	2018E	2019E	2020E	2021E
EBIT	9,195	9,864	10,690	11,557
Taxes	- 2,763	- 3,142	- 3,410	- 3,679
D&A	1,069	1,172	1,275	1,378
Change in Net Working Capital	- 703	- 585	- 605	- 616
<b>Net Operating Cash Flow</b>	<b>6,798</b>	<b>7,309</b>	<b>7,950</b>	<b>8,640</b>
Capex	- 1,000	- 1,000	- 1,000	- 1,000
Provisions	556	577	601	624
<b>FCFO</b>	<b>6,354</b>	<b>6,886</b>	<b>7,551</b>	<b>8,264</b>
g	1.5%			
Wacc	7.8%			
FCFO (discounted)	6,095	6,127	6,231	6,325
Discounted Cumulated FCFO	24,778			
TV				132,817
TV (discounted)	101,660			
<b>Enterprise Value</b>	<b>126,438</b>			
Net Debt	27,107			
<b>Equity Value</b>	<b>99,331</b>			
Current number of shares (000)	32,673			
<b>Value per share (€)</b>	<b>3.04</b>			

Source: KT&P estimates

<sup>2</sup> Note that in order to have a fair comparison of data, both 2016 and 2017 have been set as the Fiscal Year of Assiteca.

<sup>3</sup> Trends premi trimestrali danni, ANIA, settembre 2017.

### Peer Comparison

To evaluate Assiteca, we have also identified a series of listed comparable companies. We believe another relevant way to provide a fair multiple-based evaluation for Assiteca is to focus on P/E multiples coming from the average of its peer group. This valuation captures the expected earnings growth.

However, we should note that selected companies are quite different in terms of liquidity compared with Assiteca. Our fair value is based upon the average of 2018 and 2019 P/E multiples and our estimate of earnings for the next two years. We lowered the liquidity discount applied to the peer multiple to 10% from the 20% of our previous research. In our opinion, the reduction is justified by the outstanding improvement in liquidity experienced by both the AIM Italia market and Assiteca itself. The comparison of daily turnover of 10M17 with respect to 10M16 highlights an increase in liquidity of AIM Italia (+526%) and an even better performance by Assiteca (+794%). The discount has been applied to the 2018 and 2019 P/E peer average. This leads to an equity value of €94.16mn, or €2.88 per share.

**Table 5: Multiple Valuation**

Multiple Valuation (€mn)	2018E	2019E
<b>P/E multiple comparison</b>	19.24	17.29
Peer Group P/E netted from 10% liquidity discount	17.32	15.56
<b>Assiteca earnings</b>	5.57	5.90
Equity Value	96.44	91.87
<b>Number of shares (mn)</b>	32.67	32.67
Value per share	2.95	2.81
<b>Fair Value (Avg) - € ps</b>	<b>2.88</b>	

Source: KT&Partners' elaboration on Factset data.

**Table 6: Peer Group Valuation Table - 2018 Multiples**

Company Name	Exchange	Market Cap	EV/SALES 2018	EV/EBITDA 2018	EV/EBIT 2018	P/E 2018
Aon plc	NYSE	29,508	3.64	13.51	14.20	17.43
Marsh & McLennan Companies, Inc.	NYSE	36,832	3.27	12.94	14.96	20.20
Willis Towers Watson Public Limited Company	NASDAQ	17,471	2.90	11.58	12.63	15.98
Arthur J. Gallagher & Co.	NYSE	9,987	1.94	10.83	20.70	19.33
Brown & Brown, Inc.	NYSE	6,140	3.79	12.15	13.81	25.31
Jardine Lloyd Thompson Group plc	London	3,408	1.91	8.59	11.46	19.69
Steadfast Group Limited	ASX	1,460	3.98	12.77	13.83	22.76
<b>Average peer group</b>		17,224	3.06	11.77	14.51	20.10
<b>Median peer group</b>		13,729	3.27	12.15	13.83	19.69
<b>Assiteca SpA</b>	<b>Milan</b>	<b>86</b>	<b>1.52</b>	<b>9.97</b>	<b>11.50</b>	<b>15.43</b>

Source: KT&Partners' elaboration on Factset data.

**Table 7: Peer Group Valuation Table - 2019 Multiples**

Company Name	Exchange	Market Cap	EV/SALES 2019	EV/EBITDA 2019	EV/EBIT 2019	P/E 2019
Aon plc	NYSE	29,508	3.47	12.39	13.05	15.72
Marsh & McLennan Companies, Inc.	NYSE	36,832	3.11	12.02	13.78	18.52
Willis Towers Watson Public Limited Company	NASDAQ	17,471	2.80	11.07	13.54	15.05
Arthur J. Gallagher & Co.	NYSE	9,987	1.80	10.09	17.87	16.94
Brown & Brown, Inc.	NYSE	6,140	3.59	11.20	12.69	23.21
Jardine Lloyd Thompson Group plc	London	3,408	1.77	7.56	9.93	16.93
Steadfast Group Limited	ASX	1,460	3.65	11.20	11.91	19.55
<b>Average peer group</b>		14,972	2.88	10.79	13.25	17.99
<b>Median peer group</b>		9,987	3.11	11.20	13.05	16.94
<b>Assiteca SpA</b>	<b>Milan</b>	<b>86</b>	<b>1.48</b>	<b>9.28</b>	<b>10.72</b>	<b>14.56</b>

Source: KT&Partners' elaboration on Factset data.

We have chosen our peers taking into account the business activity and the services provided, although we should note that some of the selected companies are slightly different in terms of geographical exposure and/or size. However, looking at the overall picture, the following represents a reliable panel.

**Aon Plc** provides insurance brokerage, risk management and human capital consulting services. The company operates through the following reportable business segments: Risk Solutions and HR Solutions. The Risk Solutions segment acts as an advisor and insurance and reinsurance broker, helping clients manage their risks via consultation, as well as negotiation and placement of insurance risk with insurance carriers through its global distribution network. The HR Solutions segment partners with organizations to solve their most complex benefits, talent and related financial challenges, and improve business performance by designing, implementing, communicating and administering a wide range of human capital, retirement, investment management, healthcare, compensation and talent management strategies. The company's clients include corporations and businesses, insurance companies, professional organizations, independent agents and brokers, governments, and other entities. Aon was founded in 1979 and has its headquarters in London, the United Kingdom.

**Marsh & McLennan Cos.**, engages in the provision of advice and solutions in the areas of risk, strategy, and human capital. It operates through the Risk and Insurance Services, and Consulting segments. The Risk and Insurance Services segment includes risk management activities, such as risk advice, risk transfer, risk control and mitigation solutions. The Consulting segment comprises retirement, health, talent, and investments consulting and services. The company was founded by Henry W. Marsh and Donald R. McLennan in 1871 and has its headquarters in New York, NY.

**Willis Towers Watson Plc** provides advisory and broking solutions. It also provides exchange solutions, investment, risk and reinsurance services. The company Willis Towers Watson was formed as a merger of equals between London based Willis Group Holdings plc and Arlington, VA based Towers Watson & Co. and has its headquarters in London, the United Kingdom.

**Arthur J. Gallagher & Co.** engages in the provision of insurance brokerage and risk management services to a wide variety of commercial, industrial, institutional and governmental organizations. It operates through the following business segments: Brokerage, Risk Management, and Corporate. The Brokerage segment is primarily comprised of retail and wholesale insurance brokerage operations. The Risk Management segment provides contract claim settlement and administration services for enterprises that choose to self-insure some or all of their property or casualty coverage and for insurance companies that choose to outsource some or all of their property or casualty claims departments. The Corporate segment includes the financial information related to its debt, clean energy investments, external acquisition-related expenses and other corporate costs. The company was founded by Arthur J. Gallagher on October 1, 1927 and has its headquarters in Itasca, IL.

**Brown & Brown, Inc.** provides insurance brokerage services and casualty insurance underwriting services. It operates through the following segments: Retail, National Programs, Wholesale Brokerage and Services. The Retail segment provides a broad range of insurance products and services to

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