

COMPANY UPDATE



Fair Value: €2.99
(Prev. €2.97)

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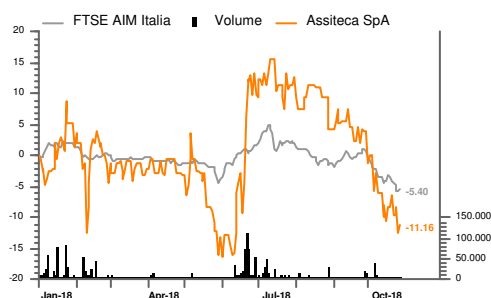
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Assiteca Relative Performance Chart YTD



Market Data:

Price (€)	2.23
Market Cap (€/mn)	72.86
Free Float (%)	20.8
52 Wk. High/Low (€)	2.06-3.40
Avg. Daily Vol. 90-day	8,742
Shares out (mn)	32.67
Price Change YTD (%)	-11.16
Price Change 6M (%)	-8.61
Price Change 1Y (%)	-25.17
P/E 2019	12.94
P/E 2020	11.74

Solid growth and dividend increasing

In FY18 (Jun 2017- Jun 2018), Assiteca recorded +4.0% top line growth, outperforming the Italian non-life insurance market by 1.99pp. Significant performance was also registered by EBITDA margin and EBIT margin which increased by ca. 100bps with respect to FY17. Here are the key 1H18 financial results:

- Revenues at €67.4mn vs €64.8mn in FY17, up 4.0% YoY;
- EBITDA at €9.9mn vs €9.0mn in FY17, up 10.3% YoY;
- Net income at €4.6mn vs €3.6mn in FY17, up 29.4% YoY;
- Net financial position came in at €23.7mn vs €27.1mn in FY17.

Results summary. FY18 Assiteca's total revenues reached €67.4mn (+4.0%YoY), kept outperforming the Italian non-life insurance market which grew by 2.04% over the same period. Despite total revenues were 2.9% lower than expected, net revenues resulted in line with our previous forecasts (€60.4mn actual vs €60.3mn expected) thanks to the lower incidence of commission expenses (10.3% in FY18 vs 11.9% in FY17). EBITDA stood at €9.9mn, up 10.3% YoY but 6.8% lower than our forecast as a result of the higher than expected operating and personnel costs. The growth in net income was solid (+29.4% YoY) but 12.5% lower than our projections, mainly due to the lower EBITDA coupled with the higher than expected financial, extraordinary expenses and minorities. On the capital structure side, net debt went from €27.1mn to €23.7mn. Assiteca board approved a €0.07 dividend per shares increasing it by 40% YoY and 133% since the IPO, at current price Assiteca dividend yield is 3%+.

Non-life insurance market overview. As we expected, in the 1H18 the Italian non-life insurance market kept experiencing good performance, strengthening the positive trend registered during 2017. In particular, for the first time after six years the motor insurance segment has shown a recover in the premiums written which should remain stable at the end of 2018. As for other non-life insurance segments, in 2018 the positive Italian macroeconomic environment should continue supporting the positive trend observed over the last six years.

Estimates review. Considering the weaker than expected FY18 top-line increase, we slightly revised downward FY19 and FY20 total revenues estimates. Nevertheless, the top line downward revision is offset by the decrease in commission expenses incidence, thus leaving net revenues projections unchanged. FY19 and FY20 EBITDA were reduced by ca. 5% due to an increase in operating and personnel costs. As for the bottom line, FY19 net income is expected to amount to €5.6mn, increasing to €6.2mn by the end of FY20 (-7.0% and -8.0% below our previous estimates, respectively).

Target Price Confirmed. We slightly revised upward the target price from €2.97p.s. to €2.99p.s, mainly as a result of multiples expansion. The target price was obtained by averaging the price arising from the market multiple method (€2.80p.s.) and the one derived from the DCF method (€3.18p.s.).

€ thousand	Total Revenues	EBITDA	EBITDA Margin	EBIT	Group Earnings	Net Margin	EPS
2017A	64,783	8,965	13.8%	7,785	3,580	5.5%	0.11
2018A	67,363	9,885	14.7%	8,738	4,632	6.9%	0.14
2019E	72,019	11,067	15.4%	11,067	5,629	7.8%	0.17
2020E	74,257	12,011	16.2%	12,011	6,209	8.4%	0.19
2021E	76,533	13,050	17.1%	13,050	6,881	9.0%	0.21

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

Table 1: Assiteca S.p.A. - Key Figures

Current price (€)	Fair Value (€)	Sector			Free Float (%)
2.23	2.99	Insurance Brokerage			20.80
Per Share Data					
	2016A	2017A	2018A	2019E	2020E
Total shares outstanding (mn)	32.67	32.67	32.67	32.67	32.67
EPS	0.10	0.11	0.14	0.17	0.19
Dividend per share (ord)	0.03	0.05	0.07	0.07	0.08
Dividend pay out ratio (%)	30%	46%	49%	40%	40%
Profit and Loss (EUR thousand)					
Revenues	60,692	64,783	67,363	72,019	74,257
EBITDA	8,675	8,965	9,885	11,067	12,011
EBIT	7,422	7,785	8,738	9,709	10,465
EBT	5,903	6,070	7,329	8,883	9,750
Taxes	- 2,251 -	- 2,381 -	- 2,362 -	- 3,005 -	- 3,248
Tax rate	38%	39%	32%	34%	33%
Net profit attributable to minority	350	109	334	248	294
Net profit after minorities	3,302	3,580	4,632	5,629	6,209
Net profit margin	5.44%	5.53%	6.88%	7.82%	8.36%
Balance Sheet (EUR thousand)					
Total fixed assets	32,271	43,398	44,354	44,235	43,941
Net Working Capital (NWC)	12,154	16,368	16,584	17,794	17,885
Provisions	- 9,724 -	- 10,345 -	- 12,111 -	- 13,053 -	- 14,020
Other asset and liabilities	9,987	14,065	13,210	15,768	15,759
Total Net capital employed	34,701	49,421	48,827	48,976	47,805
Net financial position (NFP)	17,950	27,107	23,722	20,280	14,840
Group Shareholder's Equity	15,567	22,081	24,519	27,860	31,835
Minorities	1,184	233	586	834	1,128
Total Shareholder's Equity	16,751	22,314	25,105	28,695	32,963
Cash Flow (EUR thousand)					
Net operating cash flow	6,118	6,370	7,201	7,702	8,392
Change in NWC	3,619 -	- 4,214 -	- 216 -	- 1,210 -	91
Capital expenditure	- 616 -	- 1,014 -	- 680 -	- 680 -	680
Other cash items/Uses of funds	1,072	621	1,766	942	967
Free cash flow	1,729 -	9,316	6,970	6,555	8,388
Enterprise Value (EUR thousand)					
Market Cap	n.a.	n.a.	72,862	72,862	72,862
Minorities	1,184	233	586	834	1,128
Net financial position	17,950	27,107	23,722	20,280	14,840
Enterprise value	n.m.	n.m.	97,170	93,976	88,830
Ratios (%)					
EBITDA margin	14.3%	13.8%	14.7%	15.4%	16.2%
EBIT margin	12.2%	12.0%	13.0%	13.5%	14.1%
Gearing - Debt/equity	115.3%	122.8%	96.7%	72.8%	46.6%
Interest cover on EBIT	14.0%	11.6%	11.0%	8.0%	6.4%
NFP/EBITDA	206.9%	302.4%	240.0%	183.2%	123.6%
ROCE	21.4%	15.8%	17.9%	19.8%	21.9%
ROE	21.2%	16.2%	18.9%	20.2%	19.5%
EV/Sales	n.m.	n.m.	1.44	1.30	1.20
EV/EBITDA	n.m.	n.m.	9.83	8.49	7.40
P/E	n.m.	n.m.	15.73	12.94	11.74
Free cash flow yield	n.m.	n.m.	9.6%	9.0%	11.5%
Growth Rates (%)					
Sales	11.1%	6.7%	4.0%	6.9%	3.1%
EBITDA	24.5%	3.3%	10.3%	12.0%	8.5%
EBIT	20.1%	4.9%	12.2%	11.1%	7.8%
Net profit	14.3%	8.4%	29.4%	21.5%	10.3%

1H2018 Results Summary

Company Description

Assiteca is the largest Italian independent insurance broker and the fourth largest group in Italy based on the amount of revenue and brokered premiums.

Assiteca closed FY18 with sound results, recording positive top line and margins growth. In particular, total revenues reached €67.4mn, up by 4.04% YoY but 2.9% below our projections. The company kept outperforming the Italian non-life insurance market, which grew by 2.04% over the same period.

Despite lower than expected total revenues, net revenues were in line with our previous estimates (€60.4mn actual vs €60.3mn expected) thanks to the lower incidence of commission expenses (10.3% in FY18 vs 11.9% in FY17). The decrease in commission expenses is also related to the fact that over FY18 Assiteca hired several people that up to that moment have acted as commercial agents. Taking everything into account, we note that FY18 net revenues to total revenues ratio increased by 160bps to 89.7%.

FY18 EBITDA came in at €9.9mn, up by 10.3% YoY but 6.8% below our forecast as a result of higher than expected operating and personnel costs. FY18 EBIT grew by 12.2% YoY to €8.7mn, 5.6% lower than our projections. EBITDA margin stood at 14.7% (+90bps YoY and 60bps below than expected), whereas in line with our expectations EBIT margin came in at 13.0% (+100bps YoY).

The bottom line registered a solid growth of 29.4% YoY, moving from €3.6mn to €4.6mn. However, group net profit was 12.5% below our estimates mainly due to the combined effect of lower EBITDA and higher than expected financial, extraordinary expenses and minorities.

As we expected, FY18 Net Financial Position decreased to €23.7mn, €3.4mn below with respect to FY17.

Table 2: Assiteca FY2018 Results

	FY16A	FY17A	FY18A	YoY growth	FY18E	A vs E%
Commissions and fees	-	64,037	66,126	3.3%	68,588	-3.6%
Other revenues and income	-	746	1,237	65.8%	780	58.6%
Total Revenues	60,692	64,783	67,362	4.0%	69,368	-2.9%
Commission expenses	- 8,438	- 7,738	- 6,957	-10.1%	- 9,074	-23.3%
Net Revenues	52,254	57,045	60,405	5.9%	60,294	0.2%
<i>Net Revenues on Total Revenues</i>	86.1%	88.1%	89.7%	1.6%	86.9%	2.8%
Operating costs	- 19,535	- 21,643	- 22,513	4.0%	- 22,249	1.2%
Personnel costs	- 24,044	- 26,437	- 28,007	5.9%	- 27,435	2.1%
EBITDA	8,675	8,965	9,885	10.3%	10,611	-6.8%
<i>EBITDA margin %</i>	14.3%	13.8%	14.7%	0.8%	15.3%	-0.6%
D&A	- 1,253	- 1,180	- 1,147	-2.8%	- 1,352	-15.2%
EBIT	7,422	7,785	8,738	12.2%	9,259	-5.6%
<i>EBIT margin %</i>	12.2%	12.0%	13.0%	1.0%	13.3%	-0.4%
Financial income and expenses	- 1,039	- 904	- 959	6.1%	- 865	10.9%
Extraordinary income and expenses	- 480	- 811	- 450	-44.5%	- 300	50.0%
EBT	5,903	6,070	7,329	20.7%	8,094	-9.4%
Income taxes	- 2,251	- 2,381	- 2,362	-0.8%	- 2,682	-11.9%
Net profit	3,652	3,689	4,967	34.6%	5,412	-8.2%
<i>Net margin</i>	6.0%	5.7%	7.4%	1.7%	7.8%	-0.4%
Minorities interest	350	109	334	206.4%	115	190.4%
Group Net profit	3,302	3,580	4,633	29.4%	5,297	-12.5%
<i>Group Net profit</i>	5.4%	5.5%	6.9%	1.4%	7.6%	-0.8%

Source: Company Data and KT&Partners' elaborations

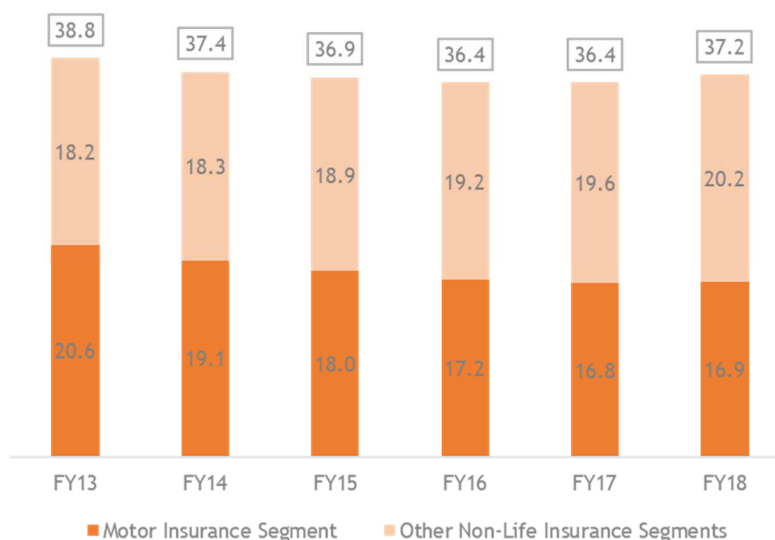
Non-Life Insurance Market Overview

In the first half of 2018, the Italian non-life insurance market¹ reached €18.6bln, up by 2.14% compared to 1H17, strengthening the positive trend registered during 2017. This is due to: i) a recover in the motor insurance segment which for the first time after six years registered a flat performance (+1.0%) with respect to the first half of 2017; and ii) other than motor insurance segments that kept recording a positive performance, growing by 3.14% with respect to 1H17 and reaching €9.8bln.

According to ANIA's estimates, by the end of 2018 the Italian non-life insurance market (excluding representatives of UE insurance companies) should reach €33bln (+1.7% compared with 2017). In detail, premiums written by the motor insurance segment should remain stable, whereas the positive Italian macroeconomic environment should continue to support the good trend of other non-life insurance segments which however should grow at the lower pace of 2.9%, reaching €19.7bln.

We analyzed the annual growth of the market considering not the calendar year (January-December) but the fiscal year of Assiteca (July-June). We note that during FY18 Assiteca's turnover grew by 4.04%, overperforming the non-life insurance market by 1.99pp.

Chart 1: Non-Life Insurance Performance in Italy



Source: ANIA, KT&Partners' Elaborations

Note: Non-life insurance market data include premiums written by Italian and extra UE insurance companies and by representatives of UE insurance companies

¹ Non-life insurance market data include premiums written by Italian and extra UE insurance companies and by representatives of UE insurance companies

Estimates Revision

Following the release of FY18 results, we slightly revised our estimates for the coming years. We reduced our expectation on FY19 and FY20 total revenues to €72.0mn in 2019 and €74.3mn, ca. 3% below our previous projections. On the other hand, we left unchanged our estimates of net revenues for the next two years thanks to the downward revision of commission expenses.

EBITDA is now expected to amount to €12.0mn by the end of 2020, decreasing by ca. 5.0% in FY19 and in FY20 due to the increase in personnel expenses. As for EBIT, we now forecast a growth of 9.4% CAGR18-20, reaching €10.5mn in FY20.

With regard to the bottom line, we projected FY19 net income to amount to €5.6mn, increasing by 10.3% to €6.0mn in FY20 (-7.0% and -8.0% below our previous estimates, respectively).

The key points of our forecast are as follow:

- FY19E total revenues at €72.0mn, reaching €74.3mn in FY20 (5.0% CAGR FY18A-FY20);
- FY19E net revenues at €64.5mn, reaching €66.5mn in FY20 (5.0% CAGR FY18A-FY20);
- FY19E EBITDA at €11.1mn, reaching €12.0mn in FY20 (10.2% CAGR FY18A-FY20);
- FY19E group net income at €5.6mn, reaching €6.2mn in FY20 (15.8% CAGR FY18A-FY20).

Table 3: Assiteca Estimates Revisions

€ thousand	2018A	2019E Old	2019E New	Change New vs Old	2020E Old	2020E New	Change New vs Old
Total Revenues	67,363	74,303	72,019	-3.1%	76,564	74,257	-3.0%
YoY Change (%)		10.3%	6.9%		3.0%	3.1%	
Net Revenues	60,406	64,589	64,539	-0.1%	66,550	66,542	0.0%
YoY Change (%)		6.9%	6.8%		3.0%	3.1%	
EBITDA	9,885	11,711	11,067	-5.5%	12,669	12,011	-5.2%
YoY Change (%)		18.5%	12.0%		8.2%	8.5%	
EBIT	8,738	10,274	9,709	-5.5%	11,161	10,465	-6.2%
YoY Change (%)		17.6%	11.1%		8.6%	7.8%	
Group Net Income	4,632	6,052	5,629	-7.0%	6,750	6,209	-8.0%
YoY Change (%)		30.7%	21.5%		11.5%	10.3%	

Source: Company data, KT&Partners' elaborations.

Valuation

Based on a simple average of our DCF model and peer group analysis, we project a Fair Value of €2.99 per share.

Our Fair Value takes the average of the following methods:

- DCF analysis based on WACC of 8.5% and 1.5% perpetual growth, which returns a value of €3.18 per share;
- P/E multiple, which returns a value of €2.80 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 an 8.45% WACC (risk-free rate 2.55%, market risk premium of 7.89% based on July 2018 estimates by Damodaran, beta of 0.76, size premium of 2.0% implying a cost of equity of 10.51%, and a marginal cost of debt of 3.0%). Furthermore, considering the sector and Italian growth outlook, we set a terminal growth rate (g) of 1.5%, which has been left unchanged with regards to our previous research. The DCF analysis results in an equity value of €103.8mn, or €3.18 per share.

Table 4: Cash Flow Estimates

€ thousand	2019E	2020E	2021E	2022E
EBIT	9,709	10,465	11,357	11,964
Taxes	- 3,005	- 3,248	- 3,519	- 3,710
D&A	999	1,175	1,311	1,447
Change in Net Working Capital	- 1,210	- 91	- 223	- 601
Net Operating Cash Flow	6,493	8,301	8,926	9,099
Capex	- 880	- 880	- 880	- 880
Provisions	942	967	990	1,024
FCFO	6,555	8,388	9,035	9,243
g	1.5%			
Wacc	8.5%			
FCFO (discounted)	6,199.6	7,314	7,264	6,851
Discounted Cumulated FCFO	27,629			
TV				134,760
TV (discounted)	99,891			
Enterprise Value	127,520			
Net Debt	23,722			
Equity Value	103,798			
Current number of shares (000)	32,673			
Value per share (€)	3.18			

Source: KT&P estimates

Peer Comparison

To evaluate Assiteca, we have also identified a series of listed comparables. 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 our 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 2019 and 2020 P/E multiples and our estimate of earnings for the next two years. The multiple is obtained by applying a 10% liquidity discount to the 2019 and 2020 P/E peer average. This leads to an equity value of €91.5mn or €2.80 per share.

Table 5: Multiple Valuation

Multiple Valuation (€mn)	2019E	2020E
<u>P/E multiple comparison</u>	18.04	16.41
Peer Group P/E netted from 10% liquidity discount	16.24	14.77
Assiteca earnings	5.63	6.21
Equity Value	91.42	91.70
Number of shares (mn)	32.67	32.67
Value per share	2.80	2.81
Fair Value (Avg) - € ps	2.80	
Target Price (Avg.) - € ps	2.80	

Source: KT&Partners' elaboration on Factset data

Table 6: Peer Group Valuation Table - 2018 Multiples

Company Name	Exchange	Market Cap	EV/SALES 2019	EV/EBITDA 2019	EV/EBIT 2019	P/E 2019
Aon plc	NYSE	31,982	3.66	13.78	14.54	16.63
Marsh & McLennan Companies, Inc.	NYSE	36,194	2.94	11.81	14.33	17.32
Willis Towers Watson Public Limited Company	NASDAQ	15,871	2.46	10.01	11.60	13.18
Arthur J. Gallagher & Co.	NYSE	11,710	2.00	11.71	21.31	18.04
Brown & Brown, Inc.	NYSE	6,890	3.53	11.67	14.41	20.45
Jardine Lloyd Thompson Group plc	London	4,647	2.39	10.52	14.06	25.33
Steadfast Group Limited	ASX	1,431	3.40	11.56	12.58	20.86
Average peer group		15,532	2.91	11.58	14.69	18.83
Median peer group		11,710	2.94	11.67	14.33	18.04
Assiteca SpA	Milan	73	1.35	8.78	10.01	12.94

Source: KT&Partners' elaboration on Factset data

Table 7: Peer Group Valuation Table - 2019 Multiples

Company Name	Exchange	Market Cap	EV/SALES 2020	EV/EBITDA 2020	EV/EBIT 2020	P/E 2020
Aon plc	NYSE	31,982	3.50	12.76	13.51	15.51
Marsh & McLennan Companies, Inc.	NYSE	36,194	2.71	10.89	13.25	15.68
Willis Towers Watson Public Limited Company	NASDAQ	15,871	2.36	9.47	11.48	12.45
Arthur J. Gallagher & Co.	NYSE	11,710	1.89	10.49	19.08	15.99
Brown & Brown, Inc.	NYSE	6,890	3.36	10.93	14.03	18.91
Jardine Lloyd Thompson Group plc	London	4,647	2.25	9.52	12.55	21.99
Steadfast Group Limited	ASX	1,431	3.16	10.52	11.39	19.03
Average peer group		15,532	2.75	10.65	13.61	17.08
Median peer group		11,710	2.71	10.52	13.25	15.99
Assiteca SpA	Milan	73	1.31	8.78	9.29	11.74

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 Companies, Inc. 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 commercial, public entity, professional and individual customers. The National

Programs segment provides professional liability and related package products for certain professionals delivered through nationwide networks of independent agents, and markets targeted products and services designed for specific industries, trade groups, public and quasi-public entities, and market niches. The Wholesale Brokerage segment markets and sells excess and surplus commercial and personal insurance and reinsurance, primarily through independent agents and brokers. The Services segment provides insurance-related services. The company was founded by J. Adrian Brown and Charles Covington Owen in 1939 and has its headquarters in Daytona Beach, FL.

Jardine Lloyd Thompson Group Plc provides insurance and employee benefits-related advice, brokerage and associated services. It operates through three business segments: Risk & Insurance, Employee Benefits and Head Office & Other operations. The Risk & Insurance business segment comprises global specialist, wholesale, reinsurance broking, personal lines and SME activities. The Employee Benefits business segment consists of pension administration, outsourcing and employee benefits consultancy, healthcare and wealth management activities. The Head Office & Other business segment consists mainly of holding companies, central administration functions, the company's captive insurance companies and its principal investments in associates. The company was founded in February 1997 and has its headquarters in London, the United Kingdom.

Steadfast Group Ltd operates as an Australian independent insurance broker, which provides services to its network of insurance brokers. It provides professional services and advice to its insurance broker network, including ongoing education programs, support services, compliance support, customer service tools and staff benefits. Steadfast Group was founded by Robert Bernard Kelly on April 17, 1996 and has its headquarters in Sydney, Australia.

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