

# Italian Mid Small Caps Monthly

- **Performance (-).** The Italian equity market (prices as at 13<sup>th</sup> January 2021) has risen 4.9% in the last month and is up 2.4% YTD. The FTSE Italy Mid-Cap index (+3.8% in the last month) has underperformed the main index by 1.1% (-1.1% YTD on a relative basis), while the FTSE Italy Small Caps index (+4.4% in the last month) has underperformed the market by 0.5% in the last month and is in line with the main index in relative terms since the beginning of 2021. Looking at mid/small cap performances across Europe, the MSCI Europe Small Caps index has risen 8.5% in the last month, performing better than Italian mid-caps.
- **Estimates (+).** Since the beginning of the year we have slightly raised our 2020E EPS estimates (+0.7%), while we have implemented a more significant revision for 2021E (+1.8%). Our overall estimate revision for mid-caps (-0.1%/-0.5% YTD) has been almost negligible, while our revision for small caps only relates to 2020E (+4.6% YTD). Recent newsflow has on average been better than expected because the measures put in place to limit the virus should have had a much milder impact on the economy than those in April-May, so we have taken a more positive view in the last month.
- **Valuations (-).** The year has just begun but if we compare YTD performance to the change in FY21 estimates over the same period, we can see that the multiple re-rating has continued for mid and small caps. Specifically, FTSE MIB stocks have recorded a negligible 0.2% re-rating YTD, while the figures for mid-caps and small caps are 1.8% and 2.3% respectively. This re-rating is consistent with the view that central banks will continue their dovish approach and that vaccines will trigger a global recovery. On a P/E basis, our panel is trading at a 20.8% premium to large caps, below the historical average premium (23%) and the level of one month ago (24.1%).
- **Liquidity (+).** Looking at official Italian index trends, we note that liquidity for large caps in the last month (as measured by average volumes multiplied by average prices in a specific period) has decreased compared to one month ago, coming in 13% lower than the 1Y average (it was -2.4% one month ago). Interestingly, liquidity for mid-caps has witnessed a better trend, showing a -8.4% change, while for small caps the same metric has significantly improved compared to the 1Y average, by 9.1%. It is worth noting the weak seasonality of the period under observation: average daily liquidity for our mid/small cap coverage has been 2,071k in the last month, up 18.8% on the corresponding period one year ago.
- **Investment strategy.** The market has continued its positive trajectory and investor sentiment remains fairly positive. This positive mood is proving stronger than a number of negative news items, not only related to the outbreak (the pandemic is not under control in Europe or in the US, the timetable for rolling out the vaccination campaign is still very uncertain) but also regarding political uncertainty (above all, the ongoing government crisis in Italy). The positive drivers are the dovish approach by central banks, which is sustaining liquidity, and the expansionary fiscal policy that Europe and the United States are setting up. Throughout this report we therefore confirm our investment preference for companies whose businesses are related to digital transformation or ESG themes, expected to be the main beneficiaries of these policies. In addition, we recommend stocks with visible revenue trends (and dividend yields), and selected names to play the post-vaccine scenario. Regarding mid-small cap liquidity, although 2020 was a negative year for PIR funds, in 2021 we expect interest in this product to regain momentum, as we see the mid-small equity class well positioned in investors' strategies, which should also translate into greater commercial and distribution efforts by asset gatherers. Notably, Alternative PIRs (also called PIR SME) could be another important instrument also thanks to the additional fiscal incentive recently introduced by the Budget Law (a tax credit on capital losses accrued on new investments during 2021).

by Intermonte Research Team

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## Performance

### Mid/Small caps prolonged a positive performance, but underperformed European peers

The Italian equity market (prices as at 13<sup>th</sup> January 2021) has risen 4.9% in the last month and is up 2.4% YTD. The FTSE Italy Mid-Cap index (+3.8% in the last month) has underperformed the main index by 1.1% (-1.1% YTD on a relative basis), while the FTSE Italy Small Caps index (+4.4% in the last month) has underperformed the market by 0.5% in the last month and is in line with the main index in relative terms since the beginning of 2021.

#### Italian Market Indexes – performance analysis (prices as of 13<sup>th</sup> January 2021)

Index	Price (Eu)	% Change 1 Month	% Change 3 Months	% Change 6 Months	% Change YTD	% Change 1 Year	% Change 2 Years	% Change 3 Years	% Change 5 Years
FTSE Italia Mid Cap	38,598	3.8%	12.6%	15.6%	1.3%	-5.8%	7.4%	-13.0%	16.8%
FTSE Italia Small Cap	21,976	4.4%	14.3%	17.2%	2.3%	-4.1%	16.7%	-11.0%	19.2%
FTSE Italia Star	45,491	7.1%	12.2%	26.8%	2.0%	14.6%	37.6%	17.2%	85.5%
FTSE AIM ITALIA	7,479	6.6%	14.0%	9.1%	2.6%	-5.5%	-11.9%	-22.2%	-16.3%
FTSE Italia All-Share	24,784	4.9%	15.8%	13.7%	2.4%	-4.9%	16.8%	-4.1%	13.2%
FTSE MIB	22,744	4.8%	16.3%	13.7%	2.3%	-4.8%	17.9%	-2.9%	12.9%
Relative Performance vs FTSE Italy All Share		% Change 1 Month	% Change 3 Months	% Change 6 Months	% Change YTD	% Change 1 Year	% Change 2 Years	% Change 3 Years	% Change 5 Years
FTSE Italia Mid Cap		-1.1%	-3.2%	1.9%	-1.1%	-1.0%	-9.5%	-8.9%	3.6%
FTSE Italia Small Cap		-0.5%	-1.5%	3.5%	-0.1%	0.8%	-0.2%	-6.9%	5.9%
FTSE Italia Star		2.2%	-3.7%	13.1%	-0.4%	19.5%	20.8%	21.3%	72.2%

Source: Factset

Looking at mid/small cap performances across Europe, the MSCI Europe Small Caps index has risen 8.5% in the last month, performing better than Italian mid-caps.

#### European Market Indexes – performance analysis

Index	Price (Eu)	% Change 1 Month	% Change 3 Months	% Change 6 Months	% Change YTD	% Change 1 Year	% Change 2 Years	% Change 3 Years	% Change 5 Years
MSCI Europe	136	4.7%	10.4%	10.0%	2.3%	-3.5%	14.9%	0.7%	17.0%
MSCI Europe Small Cap	422	8.5%	15.7%	23.0%	2.4%	5.5%	27.9%	8.7%	36.8%

Source: Factset

For individual stocks, in the following tables we rank the best and worst performers over two periods: the last month and the year to date.

**Intermonte Mid & Small Cap Coverage – best and worst performers, 1M**

<b>Best Performers</b>	<b>Price (Eu)</b>	<b>Market Cap (Eu mn)</b>	<b>Perf. 1M (%)</b>
CYBEROO	6.0	58	39%
ELES	4.0	43	32%
FALCK RENEWABLES	6.9	1,999	29%
ERG	25.2	3,785	23%
SOMECC	19.9	137	23%
SAFILO	0.9	256	22%
DANIELI	17.2	1,155	20%
GEFRAN	6.1	88	18%
MARR	17.4	1,158	17%
ANIMA	4.1	1,527	17%
MAIRE TECNIMONT	2.0	663	16%
OVS GROUP	1.2	262	14%
ELEN.	28.5	559	11%
FILA	9.5	407	11%
TIP	7.1	1,309	9%
GPI	8.2	130	9%
ASCOPIAVE	3.7	878	9%
PIAGGIO	2.9	1,035	9%
SESA	98.7	1,529	9%
SERVIZI ITALIA	2.3	73	9%
<b>FTSE Italia Mid Cap</b>			4%
<b>FTSE Italia Small Cap</b>			4%
<b>FTSE MIB</b>			5%
<b>Worst Performers</b>	<b>Price (Eu)</b>	<b>Market Cap (Eu mn)</b>	<b>Perf. 1M (%)</b>
TOD'S	26.4	875	-12%
IEG	2.5	76	-11%
FINCANTIERI	0.6	958	-10%
AUTOGRILL	5.0	1,265	-9%
CATTOLICA	4.4	767	-8%
IERVOLINO ENTERTAINMENT	4.0	96	-7%
FOS	2.4	15	-7%
ePRICE	0.1	23	-5%
MONDADORI	1.4	378	-5%
JUVENTUS	0.8	1,049	-5%
DE' LONGHI	26.1	3,932	-5%
AQUAFIL	4.5	193	-5%
CERVED	7.2	1,400	-4%
RAI WAY	5.3	1,452	-4%
ALKEMY	6.9	39	-3%
ENAV	3.6	1,938	-3%
WIIT	154.0	408	-3%
CREDITO EMILIANO	4.5	1,502	-3%
B&C SPEAKERS	10.3	113	-2%
BANCA IFIS	9.3	498	-2%

Source: Factset

**Intermonte Mid & Small Cap Coverage – best and worst performers YTD**

<b>Best Performers</b>	<b>Price (Eu)</b>	<b>Market Cap (Eu mn)</b>	<b>Perf. YTD (%)</b>
DANIELI	17.2	1,155	20%
ELES	4.0	43	19%
SAFILO	0.9	256	17%
SOMEK	19.9	137	11%
MAIRE TECNIMONT	2.0	663	11%
OVS GROUP	1.2	262	10%
GPI	8.2	130	10%
TESMEC	0.1	53	9%
CEMENTIR	7.3	1,158	9%
SERVIZI ITALIA	2.3	73	8%
ERG	25.2	3,785	8%
ELEN.	28.5	559	7%
PIAGGIO	2.9	1,035	7%
ANIMA	4.1	1,527	7%
RENO DE MEDICI	1.0	390	7%
WEBUILD	1.3	1,131	6%
EMAK	1.2	191	6%
AMBIENTHESIS	0.7	67	6%
RETELIT	2.3	381	5%
SARAS	0.6	592	5%
<b>FTSE Italia Mid Cap</b>			1%
<b>FTSE Italia Small Cap</b>			2%
<b>FTSE MIB</b>			2%
<b>Worst Performers</b>	<b>Price (Eu)</b>	<b>Market Cap (Eu mn)</b>	<b>Perf. YTD (%)</b>
AUTOGRILL	5.0	1,265	-9%
FOS	2.4	15	-9%
ESPRINET	10.0	507	-8%
AQUAFIL	4.5	193	-7%
TOD'S	26.4	875	-7%
ePRICE	0.1	23	-7%
IEG	2.5	76	-6%
WIIT	154.0	408	-6%
TINEXTA	19.9	940	-5%
CELLULARLINE	4.7	101	-5%
MONDADORI	1.4	378	-4%
SESA	98.7	1,529	-4%
CATTOLICA	4.4	767	-4%
CERVED	7.2	1,400	-4%
FERRAGAMO	15.3	2,586	-3%
JUVENTUS	0.8	1,049	-3%
TECHNOGYM	9.0	1,803	-3%
TXT E-SOLUTIONS	7.7	99	-3%
RAI WAY	5.3	1,452	-2%
ALKEMY	6.9	39	-2%

Source: Factset

## Earnings Momentum

### Overall estimates for 2021 slightly up in the last month

Since the beginning of the year we have slightly raised our 2020E EPS estimates (+0.7%), while we have implemented a more significant revision for 2021E (+1.8%). Our overall estimate revision for mid-caps (-0.1%/-0.5% YTD) has been almost negligible, while our revision for small caps only relates to 2020E (+4.6% YTD). Recent newsflow has on average been better than expected because the measures put in place to limit the virus should have had a much milder impact on the economy than those in April-May, so we have taken a more positive view in the last month.

#### Italian Market – Intermonte changes to 2020 and 2021 estimates

EPS REVISION	Since January 1st 2021		Since 15/12/2020	
	% chg in EPS FY20	% chg in EPS FY21	% chg in EPS FY20	% chg in EPS FY21
<b>Total Market</b>	<b>0.7%</b>	<b>1.8%</b>	<b>0.9%</b>	<b>2.0%</b>
<b>Total Market - Ex Energy</b>	<b>0.8%</b>	<b>2.0%</b>	<b>0.9%</b>	<b>2.1%</b>
Domestic	1.5%	0.1%	1.8%	0.4%
Non domestic	-0.3%	4.3%	-0.3%	4.3%
Non domestic - Ex Energy	-0.1%	5.0%	-0.1%	5.0%
<b>FTSE MIB</b>	<b>0.9%</b>	<b>2.1%</b>	<b>0.9%</b>	<b>2.1%</b>
<b>Mid Caps (our coverage)</b>	<b>-0.1%</b>	<b>-0.5%</b>	<b>1.6%</b>	<b>1.2%</b>
<b>Small Caps (our coverage)</b>	<b>4.6%</b>	<b>0.0%</b>	<b>-4.1%</b>	<b>-0.3%</b>
Intermonte Mid&Small Caps coverage	0.0%	-0.4%	1.5%	1.0%

Source: Intermonte SIM

## Valuation

### Mid and Small Caps are trading at a lower premium to Large Caps compared to one month ago

The year has just begun but if we compare YTD performance to the change in FY21 estimates over the same period, we can see that multiple re-rating has continued for mid and small caps. Specifically, FTSE MIB stocks have recorded a negligible 0.2% re-rating YTD while the figures for mid-caps and small caps are 1.8% and 2.3% respectively. This re-rating is consistent with the view that central banks will continue their dovish approach and that vaccines will trigger a global recovery.

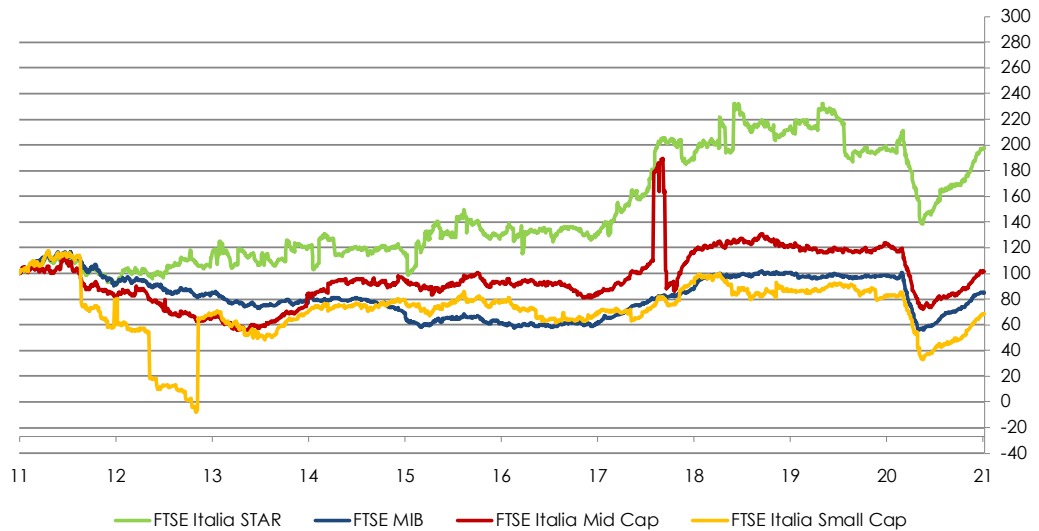
#### Italian Market – re/de-rating by index

Index	% Change YTD	on FY21 estimates	
		Chg in estimates	Re/De-rating
FTSE MIB	2.3%	2.1%	0.2%
FTSE Italia Mid Cap	1.3%	-0.5%	1.8%
FTSE Italia Small Cap	2.3%	0.0%	2.3%

Source: Intermonte SIM and Factset

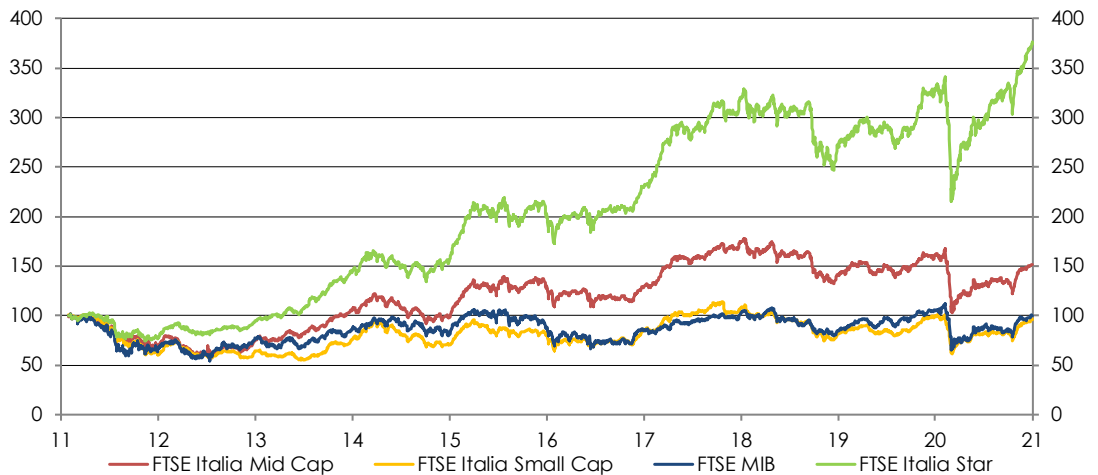
The following graph shows earnings direction over the last 10 years.

#### Italian Market Indices – EPS estimates for the last 10 years (base 100)



Source: Factset

#### Italian Market Indices – performances for the last 10 years (base 100)

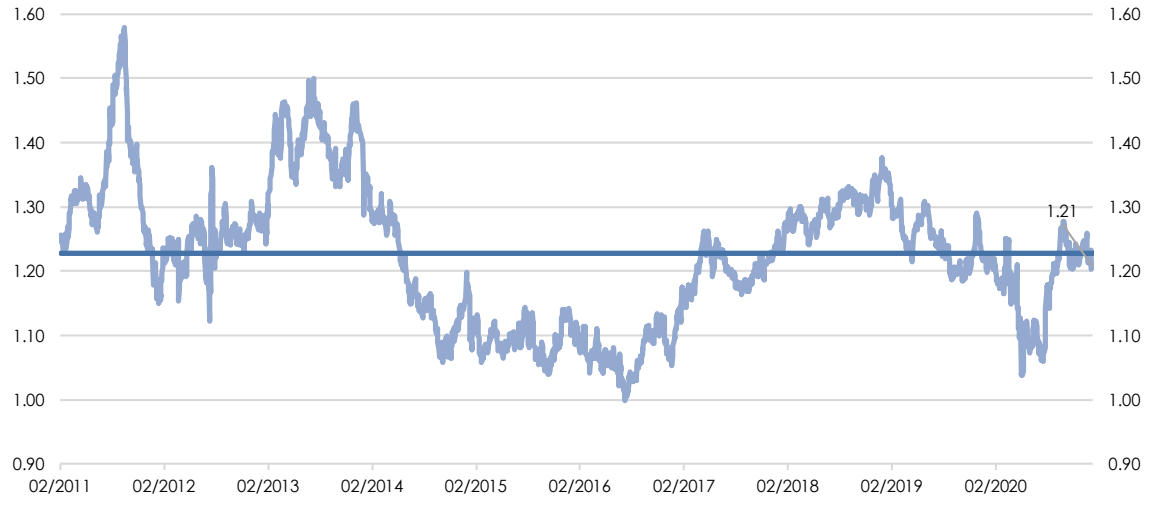


Source: Factset

In addition to our analysis of the main Italian market indices, we have also compared valuations for our panel of Italian mid/small caps against the main FTSE MIB index.

**On a P/E basis, our panel is trading at a 20.8% premium to large caps, below the historical average premium (23%) and the level of one month ago (24.1%).**

**Intermonte Mid & Small Cap Panel – next twelve months' P/E relative to FTSE MIB, last 10 years**



Source: Intermonte SIM and Factset

The table on the next page shows the stocks in our mid/small cap coverage that have posted the largest re-ratings/de-ratings since January 2020, based on 2021 estimates.

#### European Market – valuations

	P/E 09	P/E 10	P/E 11	P/E 12	P/E 13	P/E 14	P/E 15	P/E 16	P/E 17	P/E 18	P/E 19	P/E 20	P/E 21	P/E21 vs Italian Equivalent	Last 10Y Avg	Premium vs Avg
<b>FTSE MIB</b>	14.5 x	14.9 x	12.8 x	11.4 x	11.4 x	18.8 x	19.7 x	16.7 x	n.m.	15.7 x	11.9 x	24.0 x	15.1 x	-	16.1 x	-6.3%
<b>FTSE Italy Mid Cap</b>	9.5 x	18.0 x	17.3 x	15.4 x	15.4 x	22.0 x	20.2 x	16.6 x	18.4 x	19.2 x	19.5 x	34.3 x	18.3 x	-	19.9 x	-8.1%
<b>FTSE Italy Small Cap</b>	11.8 x	35.8 x	23.9 x	66.6 x	63.7 x	nm	nm	23.8 x	22.2 x	nm	13.9 x	66.3 x	16.2 x	-	38.9 x	-58.4%
<b>Germany DAX (TR)</b>	15.3 x	12.7 x	11.6 x	11.6 x	14.6 x	16.6 x	12.6 x	15.0 x	13.9 x	13.8 x	14.8 x	20.5 x	15.8 x	5.0%	14.9 x	6.0%
<b>Germany MDAX</b>	-75.5 x	15.1 x	17.1 x	28.4 x	26.6 x	23.7 x	18.0 x	23.0 x	22.4 x	18.8 x	21.0 x	47.3 x	30.7 x	67.8%	26.0 x	18.2%
<b>France CAC 40</b>	15.8 x	12.3 x	11.3 x	15.4 x	16.5 x	17.7 x	16.0 x	16.0 x	15.9 x	15.0 x	15.6 x	30.9 x	19.2 x	27.7%	17.8 x	7.9%
<b>France CAC Mid Cap</b>	54.8 x	17.0 x	13.9 x	17.5 x	22.2 x	24.6 x	19.4 x	19.3 x	29.2 x	15.2 x	14.6 x	344.2 x	20.4 x	11.5%	52.7 x	-61.2%
<b>France CAC Small Cap</b>	41.4 x	n.m.	12.9 x	21.2 x	27.2 x	25.2 x	23.0 x	25.8 x	29.2 x	24.4 x	26.4 x	-90.0 x	32.5 x	100.8%	14.5 x	124.4%
<b>FTSE 100</b>	15.8 x	12.3 x	10.9 x	12.1 x	15.0 x	14.6 x	15.3 x	18.6 x	14.7 x	13.1 x	12.6 x	21.7 x	15.4 x	2.4%	15.3 x	0.8%
<b>FTSE 250</b>	14.4 x	13.6 x	12.6 x	14.7 x	17.5 x	17.2 x	15.4 x	15.4 x	14.0 x	12.8 x	13.3 x	66.2 x	18.4 x	0.5%	20.5 x	-10.2%
<b>IBEX 35</b>	12.5 x	12.0 x	10.7 x	29.3 x	19.9 x	19.9 x	19.0 x	15.9 x	13.5 x	13.8 x	13.1 x	41.8 x	19.1 x	26.9%	20.5 x	-6.8%
<b>IBEX MEDIUM</b>	19.1 x	17.4 x	11.2 x	18.3 x	28.6 x	18.1 x	20.5 x	18.9 x	20.9 x	17.0 x	13.8 x	20.2 x	14.9 x	-18.9%	19.1 x	-22.3%

Source: Intermonte SIM and Factset



**Intermonte Mid & Small Cap Coverage – YTD de-rating/re-rating on 2021 estimates**

Stock	Restated Net Profit 21 as of 31/12/20	Restated net profit 21 last estimate	% Chg in Net Profit 21	Share Price perf. YTD	De-rating(-) Re-rating(+)
SARAS	-59.3	-78.5	-32%	5%	37.2%
DANIELI	69.6	69.6	0%	20%	19.7%
ELES	1.3	1.3	0%	19%	18.9%
SAFILO	-28.4	-28.4	0%	17%	16.6%
SOMECC	7.0	7.0	0%	11%	11.3%
MAIRE TECNIMONT	54.7	54.7	0%	11%	10.8%
OVS GROUP	24.1	24.1	0%	10%	10.1%
GPI	8.0	8.0	0%	10%	9.7%
TESMEC	5.6	5.6	0%	9%	9.5%
CEMENTIR	91.6	91.6	0%	9%	9.5%
SERVIZI ITALIA	6.6	6.6	0%	8%	8.0%
ERG	112.3	112.3	0%	8%	7.6%
ELLEN.	25.7	25.7	0%	7%	7.3%
PIAGGIO	65.6	65.6	0%	7%	7.2%
ANIMA	169.1	169.2	0%	7%	6.6%
RENO DE MEDICI	33.6	33.6	0%	7%	6.6%
WEBUILD	106.7	106.7	0%	6%	6.4%
EMAK	19.7	19.7	0%	6%	6.0%
AMBIENTHESIS	5.0	5.0	0%	6%	5.5%
RETELIT	17.1	17.1	0%	5%	5.2%
DATALOGIC	36.8	36.8	0%	5%	4.8%
FALCK RENEWABLES	40.1	40.1	0%	4%	4.1%
IREN	247.8	247.8	0%	4%	3.7%
UNIPOLSAI	680.7	680.7	0%	4%	3.5%
IGD	60.2	60.2	0%	3%	3.5%
FINE FOODS	11.9	11.9	0%	3%	3.3%
FILA	42.8	42.8	0%	3%	3.3%
MARR	56.3	56.3	0%	3%	3.2%
REPLY	127.8	127.8	0%	3%	3.1%
BANCA SISTEMA	30.4	30.4	0%	3%	3.1%
ASCOPIAVE	44.3	44.3	0%	3%	3.0%
FINCANTIERI	85.3	85.3	0%	3%	2.7%
SOGEFI	7.5	7.5	0%	3%	2.7%
NOTORIOUS PICTURES	3.6	3.6	0%	3%	2.6%
CREDITO EMILIANO	175.2	175.2	0%	2%	2.5%
SAES GETTERS	20.4	20.4	0%	2%	2.0%
BE	11.9	11.9	0%	2%	1.8%
INDEL B	11.0	11.0	0%	2%	1.8%
CREDITO VALTELLINESE	43.1	43.1	0%	1%	1.4%
AVIO	25.1	25.1	0%	1%	1.4%
IERVOLINO ENTERTAINMENT	24.7	24.7	0%	1%	1.4%
CYBEROO	2.2	2.2	0%	1%	1.3%
DE' LONGHI	224.4	224.4	0%	1%	1.3%
SALCEF GROUP	49.4	49.4	0%	1%	1.3%
ACEA	294.3	294.3	0%	1%	1.2%
BANCA IFIS	64.6	64.6	0%	1%	0.9%
LU-VE	23.1	23.1	0%	0%	0.4%
CFT	1.1	1.1	0%	0%	0.2%
GEOX	-27.0	-27.0	0%	0%	0.1%
GUALA CLOSURES	15.4	15.4	0%	0%	0.1%
BRUNELLO CUCINELLI	26.4	26.4	0%	(1%)	(0.5%)
IMA	101.1	101.1	0%	(1%)	(0.5%)
ENAV	101.6	101.6	0%	(1%)	(0.6%)
B&C SPEAKERS	6.0	6.0	0%	(1%)	(1.0%)
GEFRAN	7.7	7.7	0%	(1%)	(1.1%)
MEDIASET	207.7	207.7	0%	(1%)	(1.2%)
ELICA	10.5	10.6	0%	(1%)	(1.2%)
BREMBO	192.3	192.3	0%	(1%)	(1.3%)
ASTM	207.6	207.6	0%	(1%)	(1.5%)
DOVALUE	57.6	57.6	0%	(2%)	(1.6%)
SERI INDUSTRIAL	8.9	8.9	0%	(2%)	(1.8%)
ALKEMY	2.8	2.8	0%	(2%)	(2.0%)
RAI WAY	65.7	65.7	0%	(2%)	(2.2%)
TXT E-SOLUTIONS	5.0	5.0	0%	(3%)	(2.9%)
TECHNOGYM	66.5	66.5	0%	(3%)	(3.1%)

Source: Intermonte SIM

## Liquidity

### Average trading volumes up in the last month for mid and small caps

Looking at official Italian index trends, we note that liquidity for large caps in the last month (as measured by average volumes multiplied by average prices in a specific period) has decreased compared to one month ago, coming in 13% lower than the 1Y average (it was -2.4% one month ago). Interestingly, liquidity for mid-caps has witnessed a better trend, showing a -8.4% change, while for small caps the same metric has improved significantly compared to the 1Y average, by 9.1%.

It is worth noting the weak seasonality of the period under observation: average daily liquidity for our mid/small cap coverage has been 2,071k in the last month, up 18.8% on the corresponding period one year ago.

#### Italian Market – liquidity analysis

	Avg Daily Volume * Avg Price (Eu mn)					% Changes	
	1M	3M	6M	1Y	3Y	1M vs 1Y	3M vs 1Y
FTSE MIB							
All stocks	44.69	48.31	42.85	51.41	50.35	(13.1%)	(6.0%)
Top 20% by market cap	133.56	138.72	122.46	150.18	149.66	(11.1%)	(7.6%)
FTSE Italia Mid Cap							
All stocks	2.98	3.49	2.98	3.25	3.35	(8.4%)	7.2%
Top 20% by market cap	4.06	5.40	5.22	5.57	5.83	(27.2%)	(2.9%)
FTSE Italia Small Cap							
All stocks	0.38	0.40	0.34	0.35	0.35	9.1%	14.5%
Top 20% by market cap	1.10	0.94	0.79	0.79	0.84	39.8%	19.5%

Source: Factset

For individual stocks, the following table ranks liquidity in our mid/small cap coverage.

#### Intermonte Mid & Small Cap Coverage – most liquid stocks

Stock	Market Cap (Eu mn)	6M Avg Volume * Avg Price (Eu)
IMA	2,919	15,904,498
AUTOGRILL	1,265	8,562,126
FERRAGAMO	2,586	6,592,461
TECHNOGYM	1,803	5,639,537
FALCK RENEWABLES	1,999	5,608,857
SARAS	592	5,298,431
BREMBO	3,560	5,174,099
CREDITO VALTELLINESE	821	4,918,061
REPLY	3,678	4,818,436
ERG	3,785	4,644,658
UNIPOLSAI	6,356	4,511,006
ANIMA	1,527	4,232,663
DE' LONGHI	3,932	4,037,942
MEDIASET	2,436	3,920,541
IREN	2,867	3,828,099
CERVED	1,400	3,573,582
BRUNELLO CUCINELLI	2,415	3,524,519
JUVENTUS	1,049	3,285,485
TINEXTA	940	3,053,882
ASTM	2,852	2,936,625
ENAV	1,938	2,886,910
ACEA	3,697	2,740,957
CATTOLICA	767	2,701,388
MARR	1,158	2,587,801
PIAGGIO	1,035	2,472,418
OVS GROUP	262	2,413,354
TOD'S	875	2,316,370
ESPRINET	507	2,208,371
SESA	1,529	2,154,725
MAIRE TECNIMONT	663	2,153,315

Source: Factset

## Criteria for investing in mid/small caps

### Italian Mid & Small Cap Coverage - geographical breakdown of sales (FY20)

Stock	Italy	Europe (incl. Russia, UK, Turkey)	North America (incl. Mexico)	South America	Asia (incl. China, India, South East Asia)	RoW (Africa, Middle East, Australia, Japan)
<b>Intermonte Coverage</b>	52.9%	22.9%	10.0%	1.0%	5.9%	7.3%

Source: Company data and Intermonte SIM (financial companies excluded from the sample)

A ranking of stocks with the highest expected earnings growth for 2021 vs 2020, and the highest 2020 dividend yields can be found in the following tables.

### Intermonte Mid & Small Cap Coverage – dividend yield 2020

Stock	Price (Eu)	Mkt Cap (Eu mn)	EPS 20	DPS 20	Yield 20 %	PayOut 20 %	Net Debt/EBITDA 20
IEG	2.5	76	-0.223	0.180	7.3%	-81%	-23.1x
UNIPOLSAI	2.2	6,356	0.283	0.160	7.1%	57%	
CELLULARLINE	4.7	101	0.334	0.300	6.4%	90%	-3.6x
IGD	3.7	411	0.500	0.228	6.1%	46%	-11.2x
BANCA IFIS	9.3	498	0.164	0.500	5.4%	306%	
DEA CAPITAL	1.2	313		0.060	5.1%		
ANIMA	4.1	1,527	0.479	0.205	4.9%	43%	
ASCOPIAVE	3.7	878	0.184	0.180	4.8%	98%	-4.9x
CREDITO VALTELLINESE	11.7	821	0.359	0.560	4.8%	156%	
BANCA SISTEMA	1.7	141	0.323	0.083	4.8%	26%	
ENAV	3.6	1,938	0.127	0.170	4.8%	134%	-1.3x
ACEA	17.4	3,697	1.332	0.820	4.7%	62%	-3.1x
RAI WAY	5.3	1,452	0.243	0.240	4.5%	99%	-0.5x
CREDITO EMILIANO	4.5	1,502	0.522	0.200	4.4%	38%	
SERVIZI ITALIA	2.3	73	-0.064	0.100	4.4%	-157%	-2.5x
IREN	2.2	2,867	0.164	0.095	4.3%	58%	-3.5x
WEBUILD	1.3	1,131	0.213	0.048	3.8%	22%	-1.8x
SALCEF GROUP	11.8	493	0.903	0.406	3.4%	45%	-0.1x
EMAK	1.2	191	0.119	0.039	3.4%	33%	-2.6x
AMBIENTHESIS	0.7	67	0.049	0.024	3.3%	48%	-1.0x
ERG	25.2	3,785	0.697	0.750	3.0%	108%	-2.9x
CERVED	7.2	1,400	0.506	0.203	2.8%	40%	-2.9x
AVIO	11.5	303	0.871	0.306	2.7%	35%	1.3x
PIAGGIO	2.9	1,035	0.095	0.071	2.5%	75%	-2.3x
ASTM	20.3	2,852	0.830	0.500	2.5%	60%	-2.2x
IMA	67.6	2,919	2.145	1.500	2.2%	70%	-2.5x
SAES GETTERS	23.5	467	0.367	0.500	2.1%	136%	3.5x
BE	1.5	200	0.077	0.031	2.1%	40%	-0.3x
DATALOGIC	14.7	857	0.310	0.300	2.0%	97%	-0.5x
LU-VE	14.0	311	0.633	0.270	1.9%	43%	-2.6x

Source: Intermonte SIM and Factset

**Intermonte Mid & Small Cap Coverage – EPS growth, 2021 vs 2020**

Stock	Price (Eu)	Mkt Cap (Eu mn)	P/E 20	P/E 21	EPS Growth
MARR	17.4	1,158	nm	20.6	926%
BANCA IFIS	9.3	498	56.6	7.7	634%
AQUAFIL	4.5	193	68.1	14.9	357%
ELICA	3.1	194	72.9	18.4	296%
DOVALUE	9.5	760	46.3	13.2	251%
CYBEROO	6.0	58	90.4	28.4	218%
SAES GETTERS	23.5	467	64.0	25.4	152%
SOMEK	19.9	137	42.0	19.5	116%
GEFRAN	6.1	88	24.2	11.4	112%
ELES	4.0	43	70.8	34.3	106%
DATALOGIC	14.7	857	47.3	23.3	103%
CELLULARLINE	4.7	101	14.0	7.0	101%
PIAGGIO	2.9	1,035	30.4	15.7	93%
CATTOLICA	4.4	767	9.3	4.8	92%
B&C SPEAKERS	10.3	113	35.7	18.7	91%
ASTM	20.3	2,852	24.5	13.7	78%
CREDITO VALTELLINESE	11.7	821	32.6	19.1	71%
TECHNOGYM	9.0	1,803	45.4	27.1	68%
LU-VE	14.0	311	22.1	13.5	64%
BREMBO	10.7	3,560	28.6	18.1	58%
DANIELI	17.2	1,155	31.4	20.1	56%
ALKEMY	6.9	39	21.4	13.7	56%
FILA	9.5	407	17.5	11.3	55%
ENAV	3.6	1,938	28.2	19.1	48%
ELEN.	28.5	559	31.9	21.7	47%
TXT E-SOLUTIONS	7.7	99	25.8	17.9	44%
CEMENTIR	7.3	1,158	18.2	12.6	44%
RETELIT	2.3	381	31.6	22.3	42%
SESA	98.7	1,529	37.1	26.6	40%
MEDIASET	2.1	2,436	16.3	11.7	39%
SALCEF GROUP	11.8	493	13.1	10.1	29%
IERVOLINO ENTERTAINMENT	4.0	96	7.2	5.7	28%
FOS	2.4	15	14.6	11.6	26%
FALCK RENEWABLES	6.9	1,999	62.8	49.9	26%
INDEL B	23.1	135	15.2	12.3	24%
ESPRINET	10.0	507	17.7	14.4	23%
MONDADORI	1.4	378	16.3	13.3	22%
FINE FOODS	10.9	204	25.2	21.4	18%
DE' LONGHI	26.1	3,932	20.4	17.4	18%

Source: Intermonte SIM and Factset

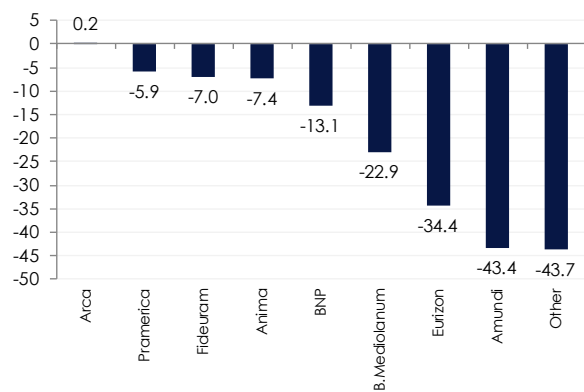
## Update on the Individual Savings Plan (PIR)

PIR: official figures for 3Q20

	Net Inflows								Nr. Of Funds		Invested Capital	
	3Q20 (Eu mn)	2Q20 (Eu mn)	1Q20 (Eu mn)	4Q19 (Eu mn)	3Q19 (Eu mn)	FY19 (Eu mn)	FY18 (Eu mn)	FY17 (Eu mn)	at September 2020 # Funds	%	at September 2020 (Eu mn)	in %
<b>Total</b>	(178)	59	(234)	(380)	(354)	(1,097)	3,950	10,903	70	100.0%	16,843	100.0%
<b>Newly established funds</b>	(74)	29	(83)	(333)	(256)	(760)	3,403	7,864	45	64.3%	10,071	59.8%
<b>Pre-existing funds</b>	(104)	30	(151)	(48)	(98)	(337)	547	3,039	25	35.7%	6,773	40.2%
<b>EQUITY FUNDS</b>	(37)	(14)	(153)	(48)	(105)	(369)	349	2,260	28	40.0%	4,258	25.3%
o/w Italy Equity	(37)	(14)	(153)	(48)	(105)	(369)	349	2,260	28	40.0%	4,258	25.3%
<b>BALANCED FUNDS</b>	(107)	13	(33)	(237)	(218)	(587)	2,525	5,962	25	35.7%	7,765	46.1%
o/w Balanced Equity	(3)	6	(2)	(33)	(22)	(63)	181	279	2	2.9%	397	2.4%
o/w Balanced	(30)	9	(34)	(105)	(92)	(258)	752	1,849	9	12.9%	2,285	13.6%
o/w Balanced bonds	(74)	(1)	2	(99)	(104)	(267)	1,592	3,834	14	20.0%	5,083	30.2%
<b>FIXED INCOME FUNDS</b>	(1)	2	1	(3)	4	(20)	10	75	4	5.7%	215	1.3%
o/w Italy Bonds	(2)	(3)	1	(4)	5	1	(9)	13	2	2.9%	71	0.4%
o/w Europe Bonds	2	5	0	1	(1)	(21)	19	62	1	1.4%	50	0.3%
o/w Mixed	(1)	(0)	1						1	1.4%	95	0.6%
<b>FLEXIBLE FUNDS</b>	(32)	58	(50)	(92)	(35)	(121)	1,067	2,605	13	18.6%	4,605	27.3%

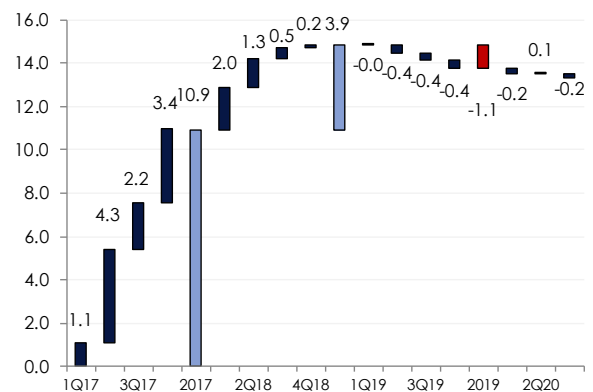
Source: Assogestioni, Quarterly Report, September 2020

### PIR - Net inflows by asset manager (Eu mn, 3Q20)



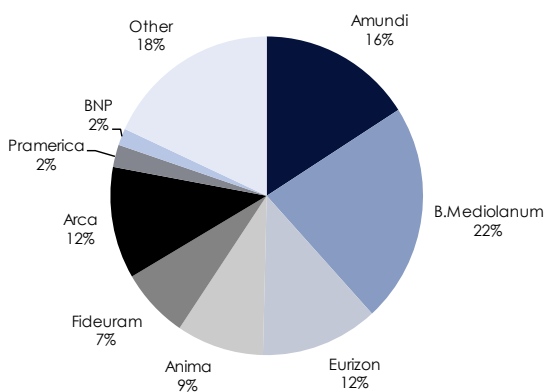
Source: Assogestioni

### PIR - Inflows by quarter (Eu bn)



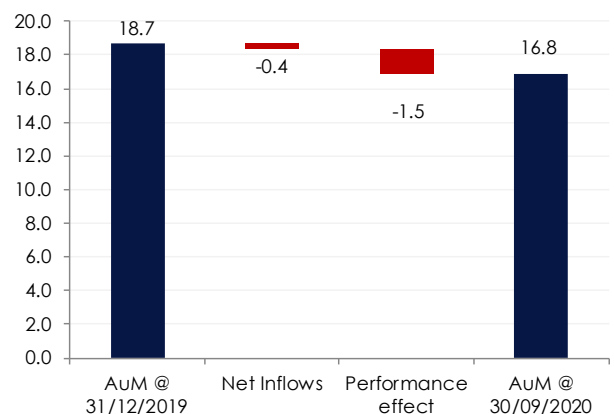
Source: Intermonte SIM estimates, Assogestioni

### PIR - Market share by asset manager (on AuM at 30/09/20)



Source: Assogestioni

### PIR - Inflows and total AuM (Eu bn)



Source: Assogestioni

## PIR inflows in negative territory again in 3Q20, as anticipated

As shown on the previous page, **Assogestioni released updated figures on 3Q20 PIR inflows** in its quarterly review on 19<sup>th</sup> November 2020. Net inflows amounted to negative Eu178mn (outflows) in 3Q20, with all the major players reporting negative numbers. The quarter therefore again showed negative numbers, following positive inflows in 2Q20. In the year to end-3Q20, outflows reached Eu353mn.

The negative 3Q20 figures were partly anticipated by Sole 24 Ore's 'Osservatorio PIR', which reported outflows in the quarter of about Eu130mn. **Initial indications on October and November are even less favourable**, as 'Osservatorio PIR' reports outflows of Eu126mn and Eu135mn respectively, which would make November the worst month of the year.

As a reminder, the features of PIR 3.0 are as follows: at least 70% of the fund must be invested in securities issued by listed Italian or EU companies having stable organisation in Italy; of this 70%, 25% (i.e. 17.5% of the total fund) must be invested in securities that are not on the main index (FTSE MIB in the case of Italian-listed stocks). The principal novelty in the new regulation is a mandatory minimum investment of 5% of the 70% (or 3.5% of the total fund) in small caps that are not listed on either the FTSEMIB or the FTSE MID indexes. This measure is likely to channel flows into a universe of small companies that are expected to obtain particular benefits from renewed investor interest. The new regulation also allows Italian pension funds to invest up to 10% of their assets in PIR funds. The fiscal benefit (unchanged) still relates to the elimination of capital gains tax after the investment is maintained in the fund for at least 5 years.

A recent report published by Assogestioni (October 2020) gave its findings on PIR fund subscriptions by small retail investors: as at YE19, the average/median cumulative investment per capita was only Eu16,383/Eu10,553, with only 3% of total subscribers reaching the maximum annual allowance of Eu30,000 per year.

### **"Alternative PIR" officially launched, August decree increased maximum investment per annum from Eu150k to Eu300k:**

the Alternative PIR is a wrapper with tax benefits similar to PIR (i.e. tax exemption of capital gains for investments held for at least 5 years) and in turn is capable of investing in ELTIFs, private equity funds or private debt funds. Because of the investments in illiquid assets (closer to the real economy but riskier), affluent investors are the target clients. The maximum investible amount per year is Eu300k per person (vs Eu30k for PIR) up to a cumulative maximum of Eu1.5mn per person. Moreover, the concentration limit (i.e. max cumulative investment in a single stock) has been set at 20% (10% being the limit for regular PIR funds).

Investor interest is likely to be high (inflows of Eu3-5bn a year estimated by Assogestioni). These alternative instruments would indeed be suitable for overcoming market volatility given their long-term commitment and are complementary to PIR funds in a broader sense (they are designed for semi-professional rather than retail investors). We believe the introduction of Alternative PIRs could also represent a smart solution to the current impasse at EU level over ELTIF, as the new Alternative PIRs are entitled to buy ELTIF funds, thereby indirectly benefitting ELTIFs.

### ALTERNATIVE PIR vs. PIR 3.0

	PIR 3.0	Alternative PIR
<b>Investor Target</b>	Retail Investors	Semi-institutional investors
<b>Main Investment Focus</b>	Mid and Small Caps	Small and Micro Caps, Privately held SMEs
<b>Type of Fund</b>	Open-end Funds	Closed-End Funds, such as ELTIF, private equity funds, private debt funds
<b>Max per capita investment</b>	Eu30,000 a year (max Eu150,000)	Eu300,000 a year (max Eu1.5mn)
<b>Concentration limit</b>	Up to 10%	Up to 20%
<b>Investment Criteria</b>	At least 70% of the fund must be invested in securities issued by listed Italian or EU companies having stable organisation in Italy; of this 70%, 25% (i.e. 17.5% of the total fund) must be invested in securities that are not on the main index (FTSE MIB in the case of Italian-listed stocks) and 5% (or 3.5% of the total fund) in small caps that not listed on either the FTSEMIB or the FTSE MID indexes.	At least 70% of the fund must be invested in securities issued by Italian or EU companies having stable organisation in Italy that are small caps not listed on either the FTSEMIB or the FTSE MID indexes.
<b>Fiscal benefits</b>	Zeroing capital gains tax after maintaining the investment in the fund for at least 5 years	Zeroing capital gains tax after maintaining the investment in the fund for at least 5 years

Source: Intermonte SIM

### Our Estimates for PIRs

In this report we are leaving our estimates unchanged after revising our 2020 net inflow assumption downward in the report published in December. In the long term, our assumptions are based on expectations that interest in this product will remain fairly high thanks to the fiscal benefit and, from a distributor point of view, to the fact that it can count on long-term commitment from the investor. In particular, we continue to expect a strong 2021 in terms of inflows, as we see the mid-small equity class well positioned in investors' strategies, which should also translate into greater commercial and distribution efforts by investment houses.

Our main assumptions are as follows:

- For 2020, we assume Eu50mn of gross inflows from new PIR subscribers (down from Eu150mn), followed by Eu1000mn for 2021 (up from Eu850mn) and Eu2.4bn for 2022;
- For continuing subscribers, we expect that overall inflows in year two will amount to a portion of the sum set aside in the first year (from 35% to 40% in our model); in the remaining years (i.e. from the third to the fifth year) we expect stable inflows, equivalent on average to 60% of the investments made in the second year;
- Finally, we calculate the amount of capital that will be withdrawn by investors who decide to exit the fund before the five-year time limit (for whatever reason) at ~8% of Assets under Management in 2020 (previously 7%) and 3.5% in the following years.

### PIR – Our assumptions

	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E
<b>Mutual Funds AUM (Eu mn)</b>	<b>887,408</b>	<b>900,318</b>	<b>1,011,183</b>	<b>955,114</b>	<b>1,071,299</b>			
<b>PIR Net Inflows (Eu mn)</b>			<b>10,903</b>	<b>3,950</b>	<b>(1,097)</b>	<b>(499)</b>	<b>1,212</b>	<b>2,913</b>
<i>YoY Growth</i>				-63.8%	<i>nm</i>	<i>nm</i>	<i>nm</i>	140.4%
<i>o/w From Continuing Subs.</i>			-	3,414	989	754	764	1,158
<i>o/w From New Subscribers</i>			10,903	1,325	-	50	1,000	2,350
<i>o/w Transformation of Existing Funds/Exit from PIR</i>			4,867	(788)	(2,086)	(1,303)	(553)	(595)

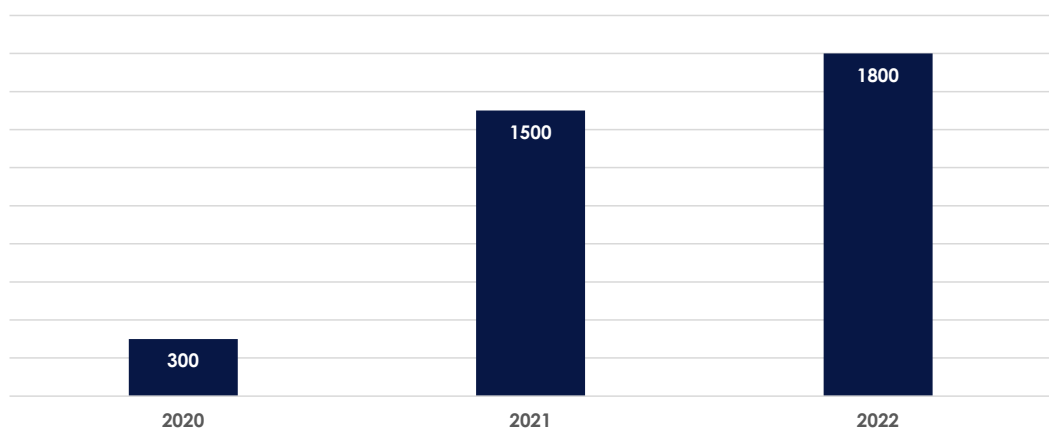
Source: Intermonte SIM

### Our Estimates for Alternative PIRs

On publication of the June report, we also added our estimates on the inflows expected for Alternative PIRs. Several important Italian asset managers have now launched their new funds, mostly ELTIF, compliant with the Alternative PIR regulation and definition (and subject therefore to the fiscal benefits). Based on our expectations for ELTIF, we foresee inflows of Eu300mn in 2020, Eu1.5bn in 2021, and Eu1.8bn in 2022, thus reaching cumulative AuM of Eu3.6bn by YE22. For the moment, our estimates are more cautious than the Assogestioni forecast for this product, which is for inflows of between Eu3bn and Eu5bn per year.

We flag up an important piece of news for Alternative PIRs: in the final days of December, an amendment was added to the budget law giving subscribers of PIR funds set up from 1 January 2021 the right to a tax credit on any capital losses accrued on investments made by 31 December 2021. This credit has a ceiling of 20% of the amount invested and is usable over a 10-year period. We think the tax credit could represent a further important marketing instrument for PIR, improving visibility on our estimates for 2021.

### Alternative PIRs – Our estimates (Eu mn)



Source: Intermonte SIM

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
  - Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
  - Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
  - For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)
- Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

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OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and - 10% compared to the market over a 12 month period ;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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