

Italian Mid Small Caps Monthly

Valuations Are Demanding But Estimate Direction Supportive

by Intermonte Research Team

Italian Equity Market

- **Performance (+).** The Italian equity market (prices as at 16th June 2021) has risen 4.3% in the last month and is up 16.8% YtD. The FTSE Italy Mid-Cap index (+6.1% in the last month) has outperformed the main index by 1.8% (+10.4% YTD on a relative basis), with the FTSE Italy Small Caps index (+10.3% in the last month) outperforming the market by 6.0% in the last month, or 18.0% since the beginning of 2021. Looking at mid/small cap performances across Europe, the MSCI Europe Small Caps index has risen 3.0% in the last month, performing worse than Italian mid-caps.
- **Estimates (+).** Since the beginning of the year, we have raised our 2021 EPS estimates (+10.5%), while we have implemented a milder revision for 2022E (+6.2%). On 2021, our overall estimate revision for mid-caps has turned positive (3.7% YTD), as has our revision for small caps (3.5% YTD), with significant upward revisions for a number of stocks after 1Q21 results. Also looking at 2022, overall estimate revisions on our mid/small cap coverage have been positive (+6.4% YTD). In the last month, estimate revisions on 2021/22 have remained positive for mid-caps (+0.2%/+0.1%) and, to a greater extent, for small caps (+1.7%/1.4%).
- **Valuations (+).** If we compare YTD performance to the change in FY21 estimates over the same period, we can see that mid and small caps have continued to re-rate. Specifically, FTSE MIB stocks have recorded a 9.7% re-rating YTD, while mid-caps and small caps have re-rated by 20.7% and 29.2% respectively. On a P/E basis, our panel is trading at a 37% premium to large caps, well above the historical average premium (17%) and the level of one month ago (33%).
- **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) is slightly below the yearly average, coming in 1.5% lower than the 1Y average, further decelerating on one month ago when the same metric was +4% (and +9% the month before). Interestingly, liquidity for mid-caps has witnessed a much better trend, showing a +41.6% change, while for small caps the same metric has improved by 77.7%. It is worth noting that average daily liquidity for our mid/small cap coverage has been Eu3.3mn in the last month, up 11% on the corresponding period one year ago.
- **Investment strategy.** Italian Mid and Small Caps have enjoyed another very strong monthly performance supported by estimate direction that remains positive and by increasing confidence in the Draghi government among international investors (Italy is outperforming the rest of Europe). Valuations are demanding, but estimate directions should remain supportive, with some themes such as digital and infrastructure, increasingly represented within our selected list, expected to benefit from the imminent start of the Recovery Fund. On the other hand, market concerns remain focused on possible monetary policy implications if the recent rise in inflation turns out not to be a short-term effect. We have tried to include, or highlight, a number of equities in our portfolio that could experience improving business momentum that is still not fully reflected in the price. Regarding mid/small cap liquidity, the year started badly for PIR funds, but the situation is gradually improving and should regain momentum in the coming months, as we believe the mid/small equity class is well positioned in investors' strategies. Notably, Alternative PIRs (also called PIR SME) could be another important instrument: no official inflow data are available yet but a number of funds have started operating with good signals in terms of collection.

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Performance

Small and Mid-caps extended their overperformance in a very positive month

The Italian equity market (prices as at 16th June 2021) has risen 4.3% in the last month and is up 16.8% YTD. The FTSE Italy Mid-Cap index (+6.1% in the last month) has outperformed the main index by 1.8% (+10.4% YTD on a relative basis), with the FTSE Italy Small Caps index (+10.3% in the last month) outperforming the market by 6.0% in the last month, or 18.0% since the beginning of 2021.

Italian Market Indexes – performance analysis (prices as at 16th June 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	48,452	6.1%	13.0%	28.9%	27.2%	45.0%	31.4%	16.2%	65.7%
FTSE Italia Small Cap	28,951	10.3%	20.1%	35.4%	34.7%	52.7%	54.2%	29.6%	81.0%
FTSE Italia Star	56,413	10.9%	15.8%	29.9%	26.4%	59.8%	62.4%	49.8%	143.5%
FTSE AIM ITALIA	9,692	6.1%	17.9%	36.9%	33.0%	38.5%	9.6%	1.9%	25.9%
FTSE Italia All-Share	28,264	4.3%	7.0%	18.1%	16.8%	32.1%	25.4%	15.7%	57.5%
FTSE MIB	25,768	4.0%	6.2%	17.2%	15.9%	31.3%	25.0%	16.1%	57.6%
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		1.8%	6.1%	10.8%	10.4%	12.9%	6.0%	0.5%	8.2%
FTSE Italia Small Cap		6.0%	13.1%	17.3%	18.0%	20.6%	28.8%	13.9%	23.4%
FTSE Italia Star		6.6%	8.9%	11.7%	9.7%	27.7%	37.1%	34.2%	86.0%

Source: Factset

Looking at mid/small cap performances across Europe, the MSCI Europe Small Caps index has risen 3.0% in the last month, performing worse 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	152	4.0%	7.8%	16.0%	15.0%	26.0%	19.4%	16.3%	40.7%
MSCI Europe Small Cap	479	3.0%	5.8%	19.6%	16.0%	40.4%	36.7%	22.2%	63.3%

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

Best Performers	Price (Eu)	Market Cap (Eu mn)	Perf. 1M (%)
CATTOLICA	7.03	1,605	40%
GEFRAN	10.60	153	33%
TINEXTA	30.26	1,428	29%
GEOX	1.19	309	27%
EL.EN.	44.85	891	26%
ALKEMY	15.60	88	24%
SARAS	0.84	794	23%
PHARMANUTRA	44.90	435	23%
GPI	13.80	220	23%
SAFILO	1.64	452	19%
RETELIT	3.00	493	19%
REPLY	137.60	5,148	18%
ABITARE IN	60.40	157	18%
FOS	3.91	24	17%
WEBUILD	2.14	1,916	17%
EMAK	1.84	302	17%
FINCANTIERI	0.81	1,370	16%
SERI INDUSTRIAL	8.08	382	16%
CYBEROO	6.02	58	15%
SESA	138.40	2,144	15%
FTSE Italia Mid Cap			6%
FTSE Italia Small Cap			10%
FTSE MIB			4%
Worst Performers	Price (Eu)	Market Cap (Eu mn)	Perf. 1M (%)
UNIPOLSAI	2.47	6,989	-9%
NOTORIOUS PICTURES	1.67	37	-8%
IEG	3.20	99	-7%
TECHNOGYM	10.65	2,144	-5%
SALCEF GROUP	13.30	712	-4%
DOVALUE	10.00	800	-3%
CREDITO EMILIANO	5.35	1,778	-3%
DEA CAPITAL	1.35	360	-3%
RELATECH	2.60	85	-2%
ELICA	3.49	221	-2%
CEMENTIR	9.35	1,488	-2%
GUALA CLOSURES	8.19	574	-1%
MONDADORI	1.65	430	-1%
ANIMA	4.47	1,649	0%
MEDIASET	2.88	3,407	0%
FERRAGAMO	19.13	3,229	0%
AQUAFIL	6.29	269	0%
ASCOPIAVE	3.76	880	0%
CERVED	9.78	1,909	0%
FINE FOODS	13.60	291	1%

Source: Factset

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

Best Performers	Price (Eu)	Market Cap (Eu mn)	Perf. YTD (%)
ALKEMY	15.60	88	120%
SAFILO	1.64	452	106%
SERI INDUSTRIAL	8.08	382	89%
TOD'S	52.90	1,751	86%
OVS GROUP	1.95	442	86%
GPI	13.80	220	85%
WEBUILD	2.14	1,916	81%
MAIRE TECNIMONT	3.18	1,045	75%
GEFRAN	10.60	153	72%
EL.EN.	44.85	891	69%
EMAK	1.84	302	68%
DANIELI	22.65	1,523	58%
DE' LONGHI	39.96	6,016	55%
CATTOLICA	7.03	1,605	53%
DATALOGIC	21.24	1,241	52%
SOMEK	27.00	186	51%
TESMEC	0.12	73	51%
GEOX	1.19	309	50%
FINCANTIERI	0.81	1,370	47%
FOS	3.91	24	46%
FTSE Italia Mid Cap			27%
FTSE Italia Small Cap			35%
FTSE MIB			16%
Worst Performers	Price (Eu)	Market Cap (Eu mn)	Perf. YTD (%)
FALCK RENEWABLES	5.54	1,613	-16%
CELLULARLINE	4.50	98	-9%
JUVENTUS	0.76	1,010	-7%
RAI WAY	5.20	1,414	-5%
NOTORIOUS PICTURES	1.67	37	-4%
IERVOLINO ENTERTAINMENT	3.85	92	-2%
BREMBO	10.61	3,543	-2%
GUALA CLOSURES	8.19	574	0%
SAES GETTERS	23.25	468	1%
CYBEROO	6.02	58	1%
TXT E-SOLUTIONS	8.11	105	3%
ASCOPIAVE	3.76	880	3%
DOVALUE	10.00	800	4%
RELATECH	2.60	85	4%
CY4GATE	9.14	137	6%
MONDADORI	1.65	430	9%
WIIT	18.02	478	11%
ERG	25.88	3,890	11%
ELICA	3.49	221	13%
SERVIZI ITALIA	2.40	76	13%

Source: Factset

Earnings Momentum

Mid/Small Cap estimate revisions for 2021 still positive in the last month

Since the beginning of the year, we have raised our 2021E EPS estimates (+10.5%), while we have implemented a milder revision for 2022E (+6.2%). On 2021, our overall estimate revision for mid-caps has turned positive (3.7% YTD), as it has for small caps (3.5% YTD), with significant upward revisions for a number of stocks in the wake of 1Q21 results. Overall revisions to 2022 estimates for our mid/small cap coverage have also been positive (+6.4% YTD). In the last month, estimate revisions on 2021/22 have remained positive for mid-caps (+0.2%/+0.1%) and, to a greater extent, for small caps (+1.7%/1.4%).

Italian Market – Intermonte changes to 2021 and 2022 estimates

EPS REVISION	Since January 1st 2021		Since 18/5/2021	
	% chg in EPS FY21	% chg in EPS FY22	% chg in EPS FY21	% chg in EPS FY22
Total Market	10.5%	6.2%	0.4%	0.7%
Total Market - Ex Energy	8.7%	6.5%	0.4%	0.7%
Domestic	8.3%	4.3%	0.7%	1.1%
Non domestic	13.2%	8.6%	0.1%	0.2%
Non domestic - Ex Energy	9.3%	9.7%	0.1%	0.2%
FTSE MIB	11.3%	6.2%	0.4%	0.7%
Mid Caps (our coverage)	3.7%	6.5%	0.2%	0.1%
Small Caps (our coverage)	3.5%	5.5%	1.7%	1.4%
Intermonte Mid&Small Caps coverage	3.7%	6.4%	0.3%	0.3%

Source: Intermonte SIM

For individual stocks, the following tables rank the biggest changes to our 2021 adjusted net profit estimates YTD.

Intermonte Mid & Small Cap Coverage - largest changes to 2021 est. (up/down) YTD

Stock	Restated Net Profit 21 as of 31/12/20	Restated net profit 21 last estimate	% chg from 31/12/20
Upward Revision			
FERRAGAMO	-21	17	182.6%
SAFILO	-28	22	179.1%
SOGEFI	7	16	108.1%
EMAK	20	28	43.7%
EL.EN.	26	36	41.2%
ALKEMY	3	4	38.4%
MAIRE TECNIMONT	55	74	35.7%
GPI	8	11	35.3%
NOTORIOUS PICTURES	4	5	29.4%
CEMENTIR	92	117	28.0%
Downward Revision			
IEG	5	-22	-528.5%
AUTOGRILL	-106	-224	-111.5%
SARAS	-59	-121	-104.6%
SAES GETTERS	20	9	-54.8%
ENAV	102	56	-45.3%
SERVIZI ITALIA	7	4	-37.8%
AMBIENTHESIS	5	3	-37.4%
CYBEROO	2	1	-34.0%
MARR	56	39	-30.8%
CELLULARLINE	15	10	-30.6%

Source: Intermonte SIM

Valuation

Mid and Small Caps confirms larger YtD re-rating than Large Caps

If we compare YTD performance to the change in FY21 estimates over the same period, we can see that mid and small caps have continued to re-rate. Specifically, FTSE MIB stocks have recorded a 9.7% re-rating YTD, while mid-caps and small caps have re-rated by 20.7% and 29.2% respectively.

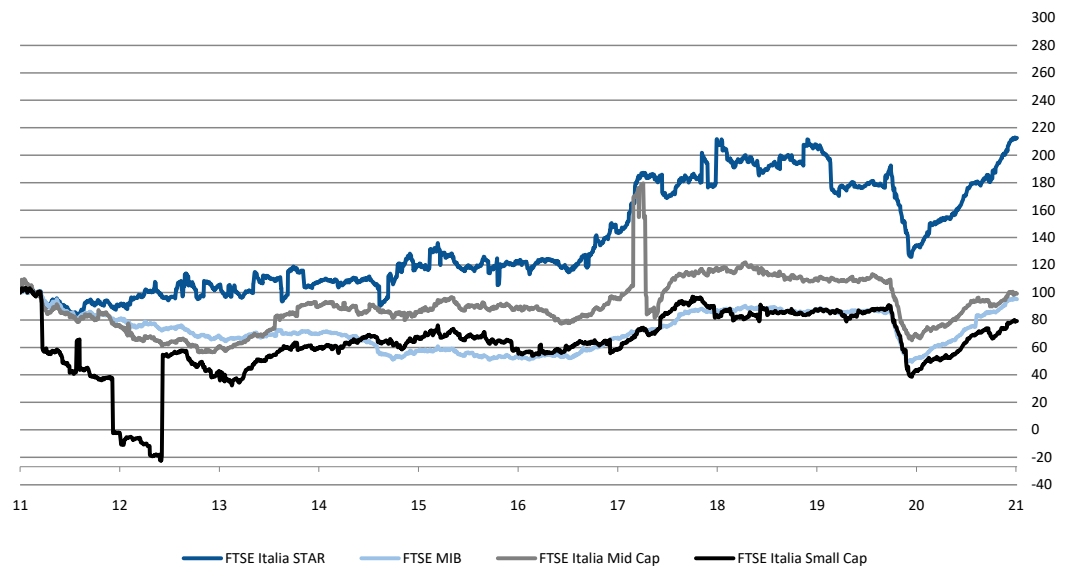
Italian Market – re/de-rating by index

Index	% Change YTD	on FY21 estimates	
		Chg in estimates	Re/De-rating
FTSE MIB	15.9%	6.2%	9.7%
FTSE Italia Mid Cap	27.2%	6.5%	20.7%
FTSE Italia Small Cap	34.7%	5.5%	29.2%

Source: Intermonte SIM and Factset

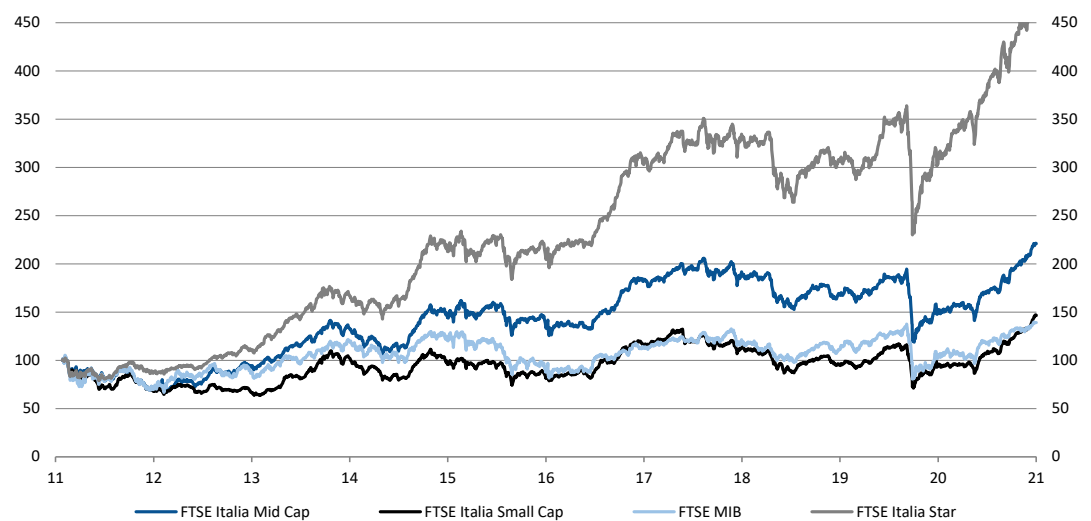
The following graph shows earnings direction over the last 10 years.

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 37% premium to large caps, well above the historical average premium (17%) and the level of one month ago (33%).

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 2021, based on 2021 estimates.

European Market – valuations

	P/E09	P/E10	P/E11	P/E12	P/E13	P/E14	P/E15	P/E16	P/E17	P/E18	P/E19	P/E20	P/E21	P/E21 vs Italian Equivalent	Last 10Y Avg	Premium vs Avg
FTSE MIB	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	21.6 x	14.8 x	-	15.8 x	-6.3%
FTSE Italy Mid Cap	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	56.8 x	24.2 x	-	22.8 x	6.3%
FTSE Italy Small Caps	11.8 x	35.8 x	23.9 x	-276.1 x	197.2 x	nm	nm	31.0 x	27.2 x	nm	14.5 x	51.5 x	23.4 x	-	9.8 x	138.4%
Germany DAX (TR)	15.1 x	12.6 x	11.5 x	11.4 x	14.4 x	16.4 x	12.5 x	14.9 x	13.8 x	13.7 x	14.6 x	19.5 x	15.2 x	3.0%	14.6 x	4.0%
Germany MDAX	-73.0 x	16.3 x	16.9 x	18.1 x	24.0 x	22.4 x	18.0 x	22.5 x	21.8 x	18.3 x	19.6 x	40.9 x	31.2 x	28.9%	23.7 x	31.8%
France CAC 40	15.3 x	12.4 x	11.3 x	14.1 x	15.9 x	17.4 x	16.0 x	16.2 x	16.0 x	15.2 x	15.9 x	28.4 x	19.6 x	32.4%	17.5 x	12.0%
France CAC Mid 60	43.8 x	17.1 x	14.2 x	17.8 x	22.2 x	24.9 x	20.1 x	19.8 x	31.0 x	16.1 x	15.4 x	-383.0 x	26.9 x	11.0%	-18.9 x	-242.2%
France CAC Small	43.3 x	n.m.	12.5 x	20.0 x	25.2 x	22.8 x	21.2 x	23.0 x	24.9 x	20.5 x	19.9 x	-10.1 x	31.4 x	34.3%	19.9 x	57.9%
FTSE 100	15.8 x	12.3 x	10.9 x	12.1 x	14.9 x	14.6 x	15.3 x	18.6 x	14.7 x	13.1 x	12.6 x	21.0 x	14.2 x	-3.6%	15.1 x	-5.7%
FTSE 250	15.1 x	14.8 x	13.5 x	15.1 x	17.7 x	18.9 x	16.1 x	16.0 x	14.2 x	13.0 x	13.5 x	41.2 x	23.3 x	-3.9%	18.9 x	23.1%
IBEX 35	12.5 x	12.0 x	10.7 x	18.9 x	19.6 x	20.0 x	19.4 x	15.9 x	13.5 x	13.9 x	13.2 x	34.6 x	18.1 x	22.2%	18.7 x	-3.5%
IBEX MEDIUM	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	20.3 x	14.6 x	-39.8%	19.1 x	-23.6%

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(+)
IEG	5.1	-21.9	-529%	23%	551.1%
SARAS	-59.3	-121.4	-105%	40%	145.1%
AUTOGRILL	-106.1	-224.4	-111%	33%	144.8%
SERI INDUSTRIAL	8.9	8.0	-10%	89%	99.2%
OVS GROUP	24.1	24.7	3%	86%	82.8%
ALKEMY	2.8	3.9	38%	120%	81.9%
GEFRAN	7.7	7.2	-6%	72%	78.5%
GEOX	-27.0	-31.7	-17%	50%	67.7%
WEBUILD	106.7	126.5	19%	81%	62.1%
ENAV	101.6	55.6	-45%	15%	60.7%
AMBIENTHESIS	5.0	3.1	-37%	22%	59.9%
TOD'S	-59.8	-43.5	27%	86%	58.7%
DANIELI	69.6	69.6	0%	58%	57.5%
SAES GETTERS	20.4	9.2	-55%	1%	55.7%
CATTOLICA	158.7	158.7	0%	53%	53.3%
MARR	56.3	39.0	-31%	22%	52.7%
TESMEC	5.6	5.6	0%	51%	50.9%
SERVIZI ITALIA	6.6	4.1	-38%	13%	50.7%
GPI	8.0	10.9	35%	85%	49.7%
FOS	1.3	1.3	-1%	46%	47.7%
SOMEK	7.0	7.4	5%	51%	46.0%
DATALOGIC	36.8	40.6	10%	52%	41.4%
BANCA SISTEMA	30.4	25.1	-17%	23%	40.7%
MAIRE TECNIMONT	54.7	74.2	36%	75%	38.9%
BANCA IFIS	64.6	66.3	3%	41%	38.4%
REPLY	127.8	135.6	6%	44%	38.3%
AQUAFIL	15.4	14.1	-9%	30%	38.2%
TINEXTA	49.8	52.7	6%	44%	38.2%
RETELIT	17.1	16.9	-1%	36%	37.2%
CYBEROO	2.2	1.5	-34%	1%	35.0%
FINCANTIERI	85.3	96.8	13%	47%	33.5%
SESA	57.5	58.2	1%	34%	33.1%
DE' LONGHI	224.4	273.7	22%	55%	33.0%
ELES	1.3	1.4	5%	37%	32.3%
PIAGGIO	65.6	64.6	-2%	31%	32.1%
CERVED	108.0	108.0	0%	31%	31.3%
AVIO	25.1	21.8	-13%	17%	30.3%
FILA	42.8	39.5	-8%	22%	29.8%
BRUNELLO CUCINELLI	26.4	28.3	7%	37%	29.6%
MEDIASET	207.7	227.5	10%	38%	28.7%
EL.EN.	25.7	36.3	41%	69%	27.7%
IGD	60.2	61.1	2%	27%	25.7%
LU-VE	23.1	22.5	-3%	23%	25.5%
FINE FOODS	11.9	12.4	5%	30%	24.9%
EMAK	19.7	28.3	44%	68%	24.1%
INDEL B	11.0	10.0	-9%	15%	23.9%
IREN	247.8	248.8	0%	24%	23.4%
IERVOLINO ENTERTAINMENT	24.7	18.7	-24%	(2%)	22.0%
CELLULARLINE	14.9	10.3	-31%	(9%)	22.0%
WIIT	10.6	9.7	-9%	11%	19.1%
SALCEF GROUP	49.4	47.3	-4%	14%	18.3%
TECHNOGYM	66.5	65.9	-1%	15%	16.1%
ACEA	294.3	316.6	8%	23%	15.8%
ESPRINET	35.3	44.8	27%	40%	13.1%
CEMENTIR	91.6	117.3	28%	41%	12.6%
CREDITO EMILIANO	175.2	195.0	11%	21%	10.0%
MONDADORI	28.4	28.4	0%	9%	9.0%
TXT E-SOLUTIONS	5.0	4.8	-3%	3%	5.5%
FALCK RENEWABLES	40.1	31.9	-20%	(16%)	4.3%
UNIPOLSAI	680.7	751.8	10%	14%	3.4%
ELICA	10.5	11.6	10%	13%	2.4%
ANIMA	169.1	193.7	15%	15%	0.7%
DOVALUE	57.6	60.0	4%	4%	(0.4%)
GUALA CLOSURES	15.4	15.4	0%	(0%)	(0.6%)
RAI WAY	65.7	63.3	-4%	(5%)	(1.1%)
ASCOPIAVE	44.3	46.3	5%	3%	(1.2%)
ERG	112.3	125.9	12%	11%	(1.5%)
JUVENTUS	-30.8	-30.8	0%	(7%)	(6.8%)
BREMBO	192.3	206.1	7%	(2%)	(8.9%)
NOTORIOUS PICTURES	3.6	4.6	29%	(4%)	(33.2%)
SAFILO	-28.4	22.5	179%	106%	(73.3%)
SOGEFI	7.5	15.5	108%	30%	(77.6%)

Source: Intermonte SIM

Liquidity

Average trading volumes extend positive run

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) is slightly below the yearly average, coming in 1.5% lower than the 1Y average, further decelerating on one month ago when the same metric was +4% (and +9% the month before). Interestingly, liquidity for mid-caps has witnessed a much better trend, showing a +41.6% change, while for small caps the same metric has improved by 77.7%. It is worth noting that average daily liquidity for our mid/small cap coverage has been Eu3.3mn in the last month, up 11% 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	46.45	50.22	51.80	47.16	49.36	(1.5%)	6.5%
Top 20% by market cap	134.35	146.23	152.23	135.95	145.56	(1.2%)	7.6%
FTSE Italia Mid Cap							
All stocks	4.52	4.01	3.73	3.19	3.26	41.6%	25.9%
Top 20% by market cap	8.37	7.79	7.71	6.94	7.08	20.6%	12.3%
FTSE Italia Small Cap							
All stocks	0.72	0.59	0.49	0.40	0.35	77.7%	47.3%
Top 20% by market cap	2.04	1.68	1.39	1.03	0.85	97.4%	62.1%

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)
AUTOGRILL	1,832	11,475,947
CERVED	1,907	7,355,503
ERG	3,614	7,294,222
TECHNOGYM	2,094	7,148,246
FALCK RENEWABLES	1,595	6,680,654
FERRAGAMO	3,187	6,134,297
SARAS	649	5,971,129
UNIPOLSAI	7,629	5,834,927
BREMBO	3,406	5,316,115
IREN	3,325	5,107,952
ANIMA	1,657	4,971,964
TOD'S	1,607	4,963,149
ESPRINET	694	4,640,946
REPLY	4,430	4,439,697
MEDIASET	3,366	4,317,435
DE' LONGHI	5,450	4,106,939
JUVENTUS	974	3,898,345
MAIRE TECNIMONT	935	3,871,767
WEBUILD	1,631	3,680,273
SESA	1,881	3,557,770
TINEXTA	1,153	3,419,613
CATTOLICA	866	3,303,907
ENAV	2,059	3,271,290
BRUNELLO CUCINELLI	3,016	3,119,686
OVS GROUP	390	2,926,483
FINCANTIERI	1,156	2,821,445
ACEA	4,093	2,639,620
PIAGGIO	1,136	2,573,590
MARR	1,321	2,152,123
RAI WAY	1,357	2,145,772

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)
Intermonte Coverage	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 2022 vs 2021, and the highest 2021 dividend yields can be found in the following tables.

Intermonte Mid & Small Cap Coverage – dividend yield 2021

Stock	Price (Eu)	Mkt Cap (Eu mn)	EPS 21	DPS 21	Yield 21 %	PayOut 20 %	Net Debt/EBITDA 20
UNIPOLSAI	2.5	7,629	0.271	0.160	6.5%	59%	
CATTOLICA	7.0	866	0.911	0.450	6.4%	49%	
BANCA IFIS	12.9	704	1.232	0.800	6.2%	65%	
NOTORIOUS PICTURES	1.7	41	0.206	0.082	4.9%	40%	1.2x
ANIMA	4.5	1,657	0.498	0.220	4.9%	44%	
DOVALUE	10.0	798	0.750	0.487	4.9%	65%	1.5x
IGD	4.6	445	0.554	0.218	4.7%	39%	10.7x
RAI WAY	5.2	1,357	0.233	0.236	4.5%	102%	0.8x
DEA CAPITAL	1.4	393		0.060	4.4%		
ASCOPIAVE	3.8	863	0.198	0.165	4.4%	84%	4.8x
ACEA	21.2	4,093	1.487	0.841	4.0%	57%	3.0x
CREDITO EMILIANO	5.4	1,748	0.587	0.210	3.9%	36%	
IREN	2.6	3,325	0.191	0.100	3.8%	52%	3.3x
EMAK	1.8	275	0.173	0.069	3.8%	40%	1.7x
BANCA SISTEMA	2.1	163	0.312	0.078	3.7%	25%	
MAIRE TECNIMONT	3.2	935	0.226	0.116	3.6%	51%	0.9x
ENAV	4.2	2,059	0.103	0.150	3.6%	146%	2.5x
PIAGGIO	3.5	1,136	0.181	0.127	3.6%	70%	1.6x
CELLULARLINE	4.5	97	0.473	0.142	3.2%	30%	2.1x
ERG	25.9	3,614	0.838	0.750	2.9%	90%	3.0x
CERVED	9.8	1,907	0.553	0.276	2.8%	50%	2.4x
GEFRAN	10.6	111	0.498	0.299	2.8%	60%	0.1x
AVIO	13.3	346	0.804	0.372	2.8%	46%	1.2x
SERVIZI ITALIA	2.4	70	0.128	0.064	2.7%	50%	2.0x
SALCEF GROUP	13.3	683	0.781	0.351	2.6%	45%	0.9x
INDEL B	26.1	147	1.712	0.685	2.6%	40%	0.0x
WEBUILD	2.1	1,631	0.127	0.055	2.6%	43%	0.6x
MONDADORI	1.6	426	0.109	0.037	2.3%	34%	0.7x
MARR	20.5	1,321	0.586	0.456	2.2%	78%	2.0x
AMBIENTHESIS	0.8	74	0.034	0.018	2.1%	53%	1.7x

Source: Intermonte SIM and Factset

Intermonte Mid & Small Cap Coverage – EPS growth, 2022 vs 2021

Stock	Price (Eu)	Mkt Cap (Eu mn)	P/E 21	P/E 22	EPS Growth
FERRAGAMO	19.1	3,229	nm	54.4	239%
SAES GETTERS	23.3	468	55.6	23.6	135%
TESMEC	0.1	73	13.0	5.5	135%
SERI INDUSTRIAL	8.1	382	47.5	21.5	121%
SOGEFI	1.5	185	11.7	5.7	104%
ENAV	4.2	2,249	40.5	20.5	97%
SERVIZI ITALIA	2.4	76	18.7	9.8	91%
OVS GROUP	1.9	442	17.9	9.4	91%
ABITARE IN	60.4	157	9.2	5.2	77%
SOMEK	27.0	186	25.2	14.3	76%
ELES	4.6	50	37.9	21.7	74%
CY4GATE	9.1	137	39.1	22.7	72%
BRUNELLO CUCINELLI	48.8	3,318	nm	71.0	65%
BANCA IFIS	12.9	696	10.5	6.4	64%
INDEL B	26.1	152	15.2	9.4	63%
ELICA	3.5	221	19.0	12.0	59%
MARR	20.5	1,366	35.1	23.1	52%
FINCANTIERI	0.8	1,370	14.2	9.4	51%
DOVALUE	10.0	800	13.3	8.9	49%
GUALA CLOSURES	8.2	574	35.7	24.4	47%
FALCK RENEWABLES	5.5	1,613	50.5	35.4	43%
CELLULARLINE	4.5	98	9.5	6.7	43%
TECHNOGYM	10.7	2,144	32.5	23.4	39%
WIIT	18.0	478	49.1	35.7	37%
AQUAFIL	6.3	269	22.8	17.2	33%
ALKEMY	15.6	88	22.2	16.8	33%
AMBIENTHESIS	0.8	78	24.9	18.8	32%
RELATECH	2.6	85	20.9	16.0	31%
FILA	11.2	481	14.5	11.1	30%
BANCA SISTEMA	2.1	168	6.7	5.2	29%
WEBUILD	2.1	1,916	16.8	13.5	25%
LU-VE	17.2	381	16.9	13.6	24%
PIAGGIO	3.5	1,261	19.4	15.6	24%
RETELIT	3.0	493	29.1	23.6	23%
SESA	138.4	2,144	36.8	29.9	23%
FINE FOODS	13.6	291	25.6	21.1	21%
FOS	3.9	24	18.8	15.7	20%
CATTOLICA	7.0	1,605	7.7	6.4	20%

Source: Intermonte SIM and Factset

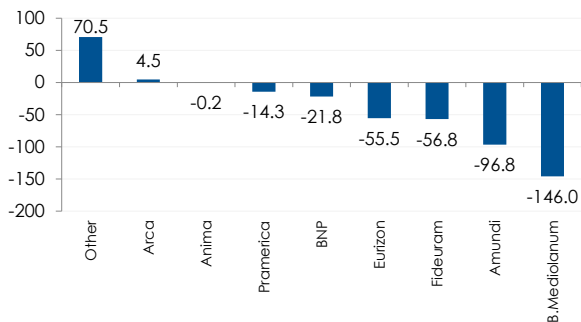
Update on the Individual Savings Plan (PIR)

PIR: official figures for 1Q21

	Net Inflows									Nr. Of Funds		Invested Capital	
	1Q21 (Eu mn)	4Q20 (Eu mn)	3Q20 (Eu mn)	2Q20 (Eu mn)	1Q20 (Eu mn)	FY20 (Eu mn)	FY19 (Eu mn)	FY18 (Eu mn)	FY17 (Eu mn)	# Funds	%	(Eu mn)	in %
Total	(316)	(403)	(178)	59	(234)	(759)	(1,097)	3,950	10,903	70	100.0%	18,578	100.0%
Newly established funds	(200)	(245)	(74)	29	(83)	(373)	(760)	3,403	7,864	46	65.7%	10,980	59.1%
Pre-existing funds	(117)	(158)	(104)	30	(151)	(386)	(337)	547	3,039	24	34.3%	7,598	40.9%
EQUITY FUNDS	(23)	(74)	(37)	(14)	(153)	(281)	(369)	349	2,260	27	38.6%	5,126	27.6%
o/w Italy Equity	(23)	(74)	(37)	(14)	(153)	(281)	(369)	349	2,260	27	38.6%	5,126	27.6%
BALANCED FUNDS	(109)	(194)	(107)	13	(33)	(321)	(587)	2,525	5,962	26	37.1%	8,275	44.5%
o/w Balanced Equity	(10)	(11)	(3)	6	(2)	(10)	(63)	181	279	2	2.9%	448	2.4%
o/w Balanced	(51)	(66)	(30)	9	(34)	(120)	(258)	752	1,849	9	12.9%	2,441	13.1%
o/w Balanced bonds	(47)	(117)	(74)	(1)	2	(191)	(267)	1,592	3,834	15	21.4%	5,385	29.0%
FIXED INCOME FUNDS	(1)	(3)	(1)	2	1	(1)	(20)	10	75	4	5.7%	218	1.2%
o/w Italy Bonds	(6)	(2)	(2)	(3)	1	(6)	1	(9)	13	2	2.9%	67	0.4%
o/w Europe Bonds	8	0	2	5	0	7	(21)	19	62	1	1.4%	59	0.3%
o/w Mixed	(3)	(2)	(1)	(0)	1	(2)				1	1.4%	92	0.5%
FLEXIBLE FUNDS	(184)	(132)	(32)	58	(50)	(160)	(121)	1,067	2,605	13	18.6%	4,959	26.7%

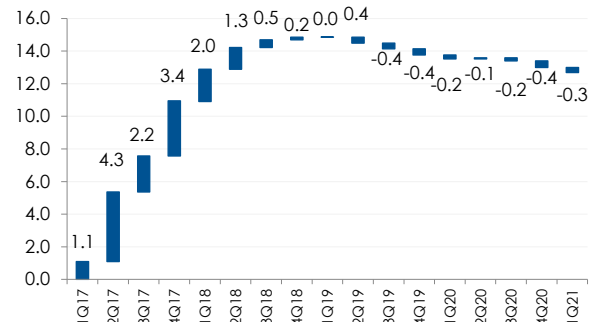
Source: Assogestioni, Quarterly Report, May 2021

PIR - Net inflows by asset manager (Eu mn, 1Q21)



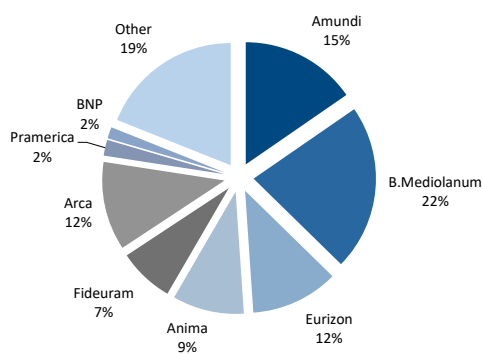
Source: Assogestioni

PIR - Inflows by quarter (Eu bn)



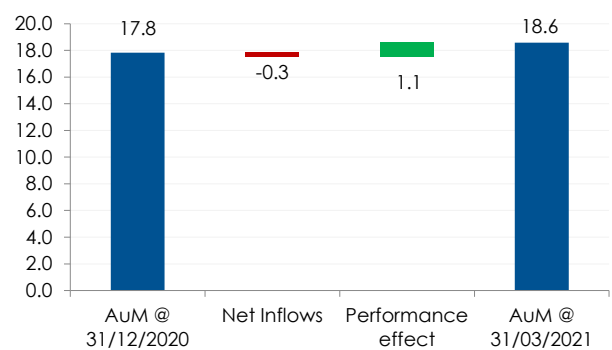
Source: Intermonte SIM estimates, Assogestioni

PIR - Market share by asset manager (on AuM at 31/03/21)



Source: Assogestioni

PIR - Inflows and total AuM (Eu bn)



Source: Assogestioni

PIR inflows started 2021 in negative territory, but good prospects remain thanks to fiscal incentives

Assogestioni released updated figures on 1Q21 PIR inflows in its quarterly review on 20th May 2021. Net inflows amounted to a negative Eu316mn (i.e. outflows) in 1Q21, with all the major players reporting negative numbers. The figure was broadly in line with data released by *Sole 24 Ore's* 'Osservatorio PIR', which estimated Eu342mn outflows. Interestingly though, some smaller players (in terms of PIR AuM) have reported positive inflows.

Moreover, according to the monthly figure released by *Sole 24 Ore's* 'Osservatorio PIR', **there was a progressive improvement in outflows, with Eu161mn in January 2021, Eu113mn in February, Eu68mn in March and just Eu56mn in April** (preliminary figures related to May should be released in the coming days). Given the progression, we remain confident that interest in this product will increase in the coming months, as we believe the mid/small equity class is well positioned in investors' strategies, which should also translate into greater commercial and distribution efforts by asset gatherers.

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
Investor Target	Retail Investors	Semi-institutional investors
Main Investment Focus	Mid and Small Caps	Small and Micro Caps, Privately held SMEs
Type of Fund	Open-end Funds	Closed-End Funds, such as ELTIF, private equity funds, private debt funds
Max per capita investment	Eu30,000 a year (max Eu150,000)	Eu300,000 a year (max Eu1.5mn)
Concentration limit	Up to 10%	Up to 20%
Investment Criteria	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.
Fiscal benefits	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 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 (although more challenging on the back of weak 1Q21 numbers), as we consider the mid/small equity class to be 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 2021, we assume Eu0.8bn of gross inflows from new PIR subscribers, followed by 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 ~4% of Assets under Management in 2021 and beyond.

PIR – Our assumptions

	2015A	2016A	2017A	2018A	2019A	2020A	2021E	2022E
Mutual Funds AUM (Eu mn)	887,408	900,318	1,011,183	955,114	1,071,299			
PIR Net Inflows (Eu mn)			10,903	3,950	(1,097)	(759)	1,001	2,836
<i>YoY Growth</i>				<i>-63.8%</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>183.4%</i>
o/w From Continuing Subs.			-	3,414	989	754	744	1,064
o/w From New Subscribers			10,903	1,325	-	-	800	2,350
o/w Transformation of Existing Funds/Exit from PIR			4,867	(788)	(2,086)	(1,513)	(543)	(578)

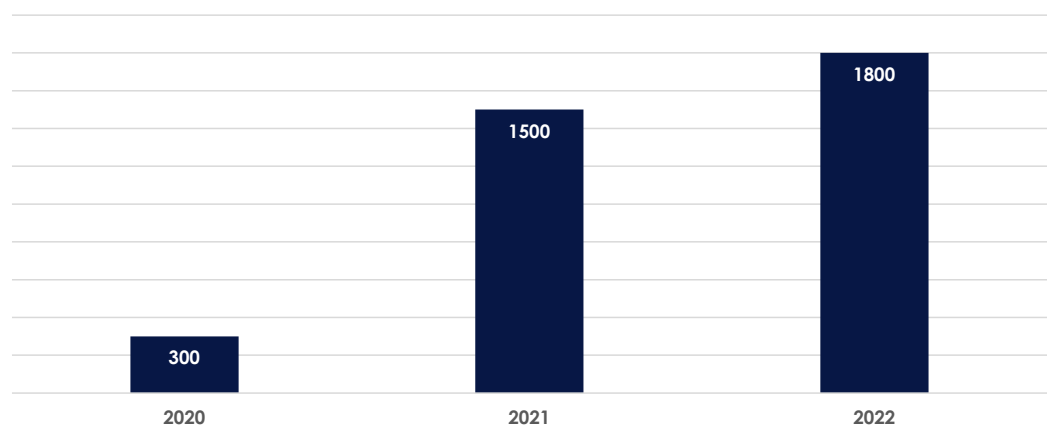
Source: Intermonte SIM

Our Estimates for Alternative PIRs

On publication of the June 2020 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 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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BUY: stock expected to outperform the market by over 25% over a 12 month period;

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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