

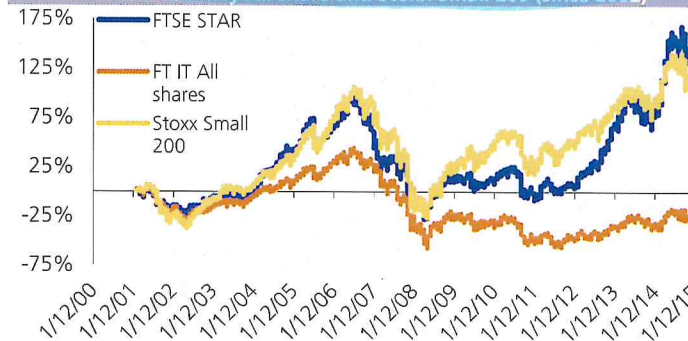
## Italian Small Caps Selected List

The FTSE STAR index, our reference index for the Italian Mid & Small Caps universe, grew by around 127% from 2013 to date and by around 33% in 2015. We now view the FTSE STAR as only moderately appealing compared to its 2009-14 average P/E values and equally attractive versus the Stoxx Small 200 on a PEG basis. We recommend some Italian small caps stocks for low valuations, recovery trends, and appeal for "extraordinary" events.

- Strong FTSE STAR outperformance since 2013.** After the "Italy risk" period (mid-2009 to 2012), when the Italian equity risk premium hit 12.0%, the FTSE STAR index grew by around 127%, strongly outperforming the Stoxx Small 200 (around +38% in the same period) and the FTSE IT All Shares (around +29% in the same period). In 2015, the FTSE STAR has grown by around 33.1%, once again outperforming the Stoxx Small 200 (+9.2%) and the FTSE IT All Shares (+10.4%).
- FTSE STAR only moderately appealing.** We see now the FTSE STAR as being only moderately appealing compared to its average 2009-14 P/E values (2015E P/E at 16.9x vs. a 2009-14 average of 17.0x) and as appealing as the Stoxx Small 200 on a PEG basis (FTSE STAR at 1.41x vs. Stoxx Small 200 at 1.21x).
- Banca IMI Small Caps Universe.** Our universe includes 62 covered companies, vs. 60 in the July document, with a market cap up to EUR 3.0Bn. Over 1/3 of the companies has a market cap greater than EUR 1Bn, as in the July document, but with an average market cap higher by around 13% vs. the July document. Approximately 50% of our universe have market caps below EUR 0.5Bn vs. around 51% in the July document.
- Macro assumptions.** After the 2015 reversal in Italy (average annual growth should level-off at 0.7%), 2016 could be the year in which growth "normalises", returning to levels broadly in line with potential. In particular, we forecast an acceleration to 1.2% in 2016.

- Selected list.** We recommend some Italian small caps characterised by relatively low valuations (**Biesse, Elica, Salini Impregilo, SeSa**), in a recovery trend of volumes or in a re-launch phase (**IVS and Safilo**) and potentially subject to "extraordinary" events (consolidation/releveraging potential for **EI Towers**, synergies' extraction and M&A for **Iren**, M&A opportunities for **F.I.L.A.**).

FTSE STAR vs. FTSE Italy All share and Stoxx Small 200 (since 2002)



Source: FactSet

Banca IMI Italian Small Caps Selected List

	Price (EUR)	Mkt. Cap (EUR M)	Rating	TP (EUR/share)
Biesse	13.74	376	Buy	20.20
EI Towers	56.05	1,581	Add	63.37
Elica	1.85	117	Buy	2.73
F.I.L.A.	10.45	404	Buy	13.87
Iren	1.46	1,861	Buy	1.81
IVS	8.57	334	Buy	12.00
Safilo	9.96	623	Buy	13.24
Salini Impregilo	3.68	1,811	Buy	5.40
SeSa	14.90	233	Buy	20.58

Source: Intesa Sanpaolo Research estimates

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Italy Small Caps

Equity Sector Report

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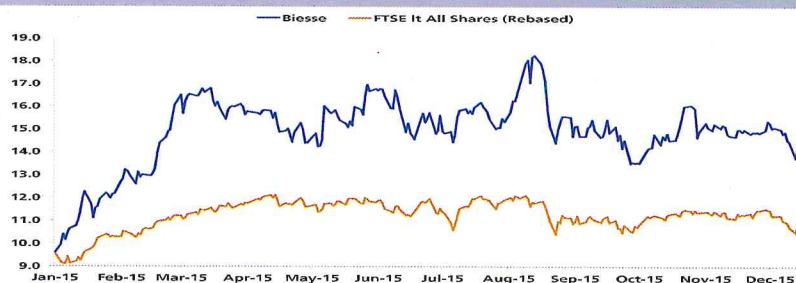
Equity Research

## Biesse (BUY/TP EUR 20.20/share)

### Investment case

- **Leadership positions in a highly fragmented market.** Biesse ranks 2nd worldwide in the woodworking machinery market and is a worldwide leader in the Glass and Stone machinery markets. We highlight that the group has recently entered the plastic market whose reference segment has a EUR 2.5Bn value and where Biesse sees significant potential for expansion. Potential acquisitions could be considered in the plastic/glass and stone segments.
- **Biesse expects a positive economic cycle** in the next three years, (Global GDP growth of 4% in FY15-17, source IMF), which should support Biesse's export oriented growth (currently 90% of its total revenues are from abroad) and improve its profitability thanks to operating leverage. Ongoing sales performance points to an ongoing strong trend in all countries (with the exception of Brazil and Russia), with solid growth in North America, Europe and Asia. Going forward, expansion plans have been confirmed, particularly, the acceleration in the commercial and infrastructure investments worldwide.
- **Good visibility ahead.** Order intake was up by 18% in October. The order backlog at September 2015 was up by 34.7% to EUR 146M vs. September 2014 and confirms the improving demand in the US, Western Europe, Asia and Australia.
- **Reference market is supportive.** We highlight that reference sector statistics (i.e. Ucimo and Acimall) confirm an ongoing improved market context, according to management, while VDMA has more cautious expectations for 2015.

### Share price performance vs. FTSE IT All index



Source: FactSet

### Valuation

Based on the average between the multiples comparison and our DCF model, **we set a EUR 20.20/share target price and a BUY rating.** Biesse trades at a 28% and 19% discount vs. peers on average FY15E-16E EV/EBITDA and P/E, respectively.

### Risks

Biesse operates in global markets and is therefore highly exposed to international macroeconomic factors, which could affect the group's activities. Biesse invests substantially in R&D and its products have an advanced technological content, implying a high exposure to technological developments. Lastly, the group's dominant fixed-cost structure results in a high operating leverage that suffers during economic downturns.

### Peers multiples

x	Mkt Price	Mkt Cap	P/E		EV/EBITDA		Div. yield (%)
	(EUR)	(EUR M)	2016E	2017E	2016E	2017E	2016E
DMG Mori Seiki	36.83	2,903	22.7	19.9	9.6	8.5	1.7
IMA	45.23	1,697	21.6	18.6	10.6	9.4	3.2
Prima Industrie*	13.20	138	10.4	7.8	5.5	4.4	1.9
<b>Average</b>			<b>18.2</b>	<b>15.4</b>	<b>8.6</b>	<b>7.4</b>	<b>2.3</b>
<b>Biesse*</b>	<b>13.74</b>	<b>376</b>	<b>14.5</b>	<b>12.6</b>	<b>6.0</b>	<b>5.5</b>	<b>2.6</b>
Var vs. average (%)			-20.4	-18.2	-30.0	-26.1	14.3

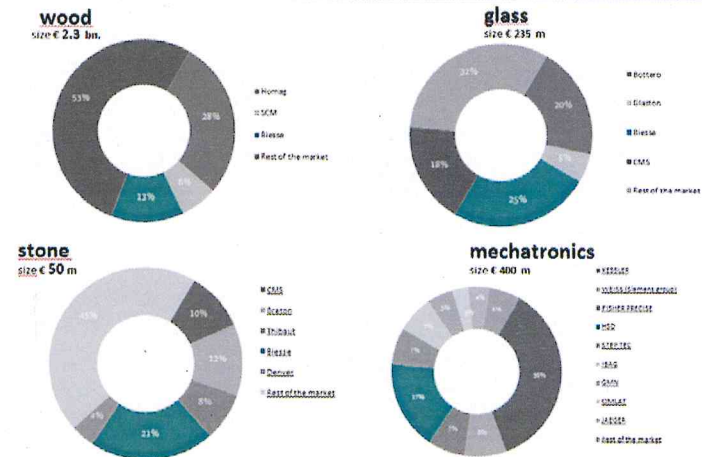
E: estimates; Source: FactSet and Intesa Sanpaolo Research\*

**Business description**

Biesse operates through the following business segments: Wood, Glass and Stone, Mechatronics, Tooling, and Components: 1) the Wood segment involves the production, distribution, installation, and after-sales service of machines and systems for processing panels; 2) the Glass and Stone segment specialises in the development of computer numerical control machines for their mechanical removal using diamond tools; 3) the Mechatronics segment manufactures electronic and mechanical components; 4) the Tooling segment produces grinding wheels and tools under the Diamut brand; and 5) the Components segment makes mechanical parts for wood, glass, and stone machinery.

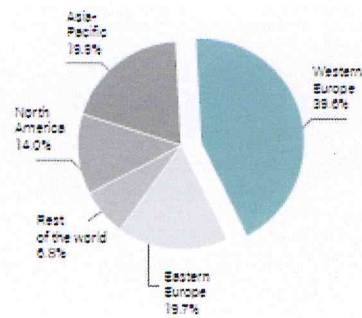
Around 60% of revenues in 2014 were generated in Europe (around 10% in Italy), about 14% in US/Canada, approximately 20% in Asia Pacific, and around 7% in the rest of the world.

**Biesse - Global Market Shares and Sizes by division FY14**



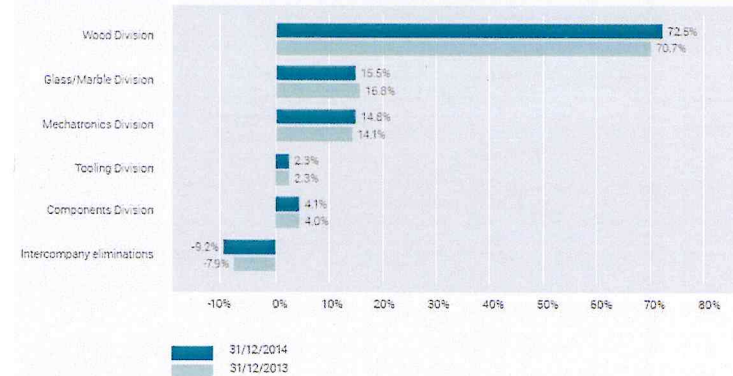
Source: Company data

**Biesse - Revenue breakdown by country (FY14)**



Source: Company data

**Biesse - Revenue breakdown by division**



Source: Company data

Our estimates vs. consensus

Banca IMI estimates are broadly aligned to consensus in terms of revenue and EBITDA, while at a discount on EPS since we used a more conservative tax rate in our estimates.

Consensus trend

In the charts below, we report:

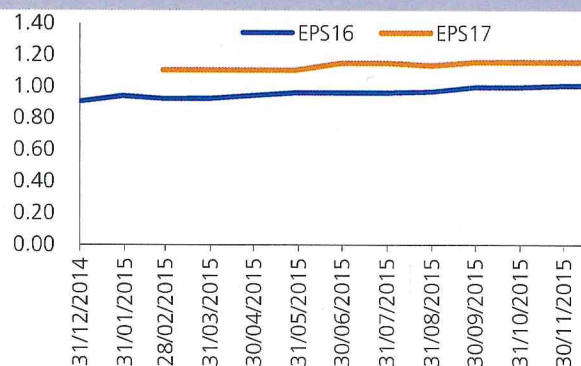
- The 2016 and 2017 EPS trends in the last 12 months;
- The 2016-17 net EPS revisions made by brokers, calculated as the difference between the upwards and downwards revisions at a specific date, divided by the number of brokers' estimates at the same date.

Our estimates vs. consensus

EUR M	EPS			2015-17E CAGR %	Revenues		2015-17E CAGR %	EBITDA		2015-17E CAGR %
	2016E	2017E			2016E	2017E		2016E	2017E	
Banca IMI	0.947	1.090		15.2	544.1	570.1	5.9	64.5	70.7	8.7
Consensus	1.002	1.152		16.1	529.6	554.7	5.2	62.5	68.6	9.6
chg %	-5.4	-5.4			2.7	2.8		3.2	3.1	

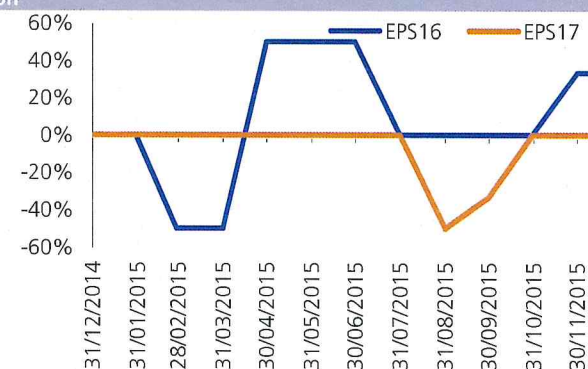
E: estimates; Source: FactSet and Intesa Sanpaolo Research

EPS trend



Source: FactSet

Net EPS revision\*



\* Net EPS revision is calculated as the difference between upwards revisions and downwards revisions at a specific date, divided by the number of brokers estimates at the same date; Source: FactSet