

Exprivia

Exposure to the Healthcare Sector: a Solid Strategy

Exprivia - Key estimates and data					
Y/E December		2008A	2009E	2010E	2011E
Revenues	EUR M	95.93	97.06	102.57	107.70
EBITDA	EUR M	15.23	15.34	16.72	17.56
EBIT	EUR M	12.24	12.31	12.74	13.38
Net income	EUR M	6.88	7.35	7.92	6.89
Dividend ord.	EUR	0.04	0.04	0.04	0.04
Adj. EPS	EUR	0.14	0.15	0.16	0.14
EV/EBITDA	x	6.13	5.90	5.09	4.58
Adj. P/E	x	8.44	7.90	7.33	8.42

A: actual; E: estimates; source: company data and Intesa Sanpaolo Research

- Solid 1H09 results.** Exprivia's 1H09 results, reported yesterday, showed an increase in EBITDA and substantially stable PBT. In particular, value of production declined by only 1%, supported by the Healthcare and P.A. sectors, which continued to prove resilient in the current weak macro environment. The EBITDA margin improved in 1H09, as did the EBIT margin, albeit to a lesser degree due to the larger investments made in 2008. Net financial charges declined sharply, leaving 1H09 PBT substantially unchanged in absolute terms. The NFP was EUR 36.56M in 1H09 (vs. EUR 35.27 in FY08), as a result of positive organic cash flow generation (around EUR 5.1M) on the one side, and the negative contribution of investments (around EUR 5.1M) and dividend payments (around EUR 2M) in the period on the other. The good quality of 1H09 results is evident, especially when compared to the weak 1Q09 (EBITDA down by EUR 0.6M, partly following the renewal of some agreements with strategic clients, and NFP on the rise to EUR 38.11M, also as a result of a temporary extension on payments). At the same time, we highlight that the 4Q continues to be the most important in seasonal terms, for both sales and EBITDA.
- Resilient outlook.** In the press release, CEO Domenico Favuzzi highlighted that reported 1H09 results confirm the company's expectations of FY09 economic results in line with those achieved in 2008. Increasing presence in the high-growth Healthcare segment provides Exprivia with more resilient and visible demand, allowing it to outperform the Italian Software and IT sector.
- Estimates and valuation.** We have adjusted our 2009E-11E estimates to take into account the reported 1H09 results, the management's indications, and the integration of Aurora, the Healthcare business division of Siemens S.p.A., acquired in May and consolidated as of 1 June. Aurora's customer base includes 30 top healthcare companies, present throughout the country, allowing diversification from Svmservice's client base, traditionally concentrated in the south of Italy. Our valuation of Exprivia remains based on a multiples comparison, to reflect the sector's mid-term outlook and corresponding valuations, and on a DCF model, to better capture the company's specific long-term prospects. We appreciate the positive set of results and our **target price rises to EUR 1.04/share** (from our previous target of EUR 0.89/share), mainly based on multiples in line with peers'. Therefore, we **confirm our HOLD rating of the stock**, given the potential downside of 9.57%.
- Key risks.** We continue to believe that the main risks to our valuation are a worse-than-expected industry trend in the IT sector in 2009E, and potential difficulties in integrating the acquired companies.

7 August 2009

HOLD

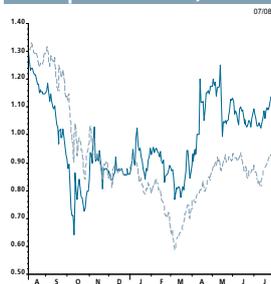
Target Price: EUR 1.04
(from EUR 0.89)

IT & Technology
Results Note

Intesa Sanpaolo
Research Department

Laura Carmignani
Research Analyst
+39 02 8021 2742

Price performance, -1Y



Source: Thomson Reuters

Data priced on 05.08.2009

Target price (€)	1.04
Target upside (%)	-9.57
Market price (€)	1.15
52-week range (€)	1.3/0.6
Market cap (€ M)	58.06
No. of shares (M)	50.71
Free float (%)	38
Major shareholder (%)	Abaco Systems, 51
Reuters	XPR.MI
Bloomberg	XPR IM
FTSE It All Shares	21485

Performance %			
	Absolute	Rel. to FTSE All Sh	
-1M	8.0	-1M	-1.2
-3M	-2.4	-3M	-9.4
-12M	-5.7	-12M	21.0

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

See page 7 for full disclosures and analyst certification

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1H09 Results and Outlook

Increasing presence in Healthcare: the right strategy

Exprivia's 1H09 results, reported yesterday, showed increasing EBITDA and substantially stable PBT, as shown in the tables below. In particular, value of production declined by only 1%, supported by the Healthcare and P.A. sectors, which continued to prove resilient in the current weak macro environment. The higher 1H09 EBITDA margin was the result of cost-control measures put in place after 1Q09. The EBIT margin also improved, albeit to a lesser degree and not in absolute terms, due to the larger investments made in 2008. Net financial charges declined sharply, leaving 1H09 PBT substantially unchanged in absolute terms. Net financial position was EUR 36.56M in 1H09 (vs. EUR 35.27 in FY08), as a result of positive organic cash flow generation (around EUR 5.1M) on the one side, and the negative contribution of investments (around EUR 4.5M) and dividend payments (around EUR 2M) in the period on the other.

Solid 1H09 results

The good quality of 1H09 results is evident, especially when compared to the weak 1Q09 (EBITDA down by EUR 0.6M, partly following the renewal of some agreements with strategic clients, and NFP on the rise to EUR 38.11M, also as a result of a temporary extension on payments). At the same time, we highlight that the 4Q continues to be the most important in seasonal terms, for both sales and EBITDA.

Exprivia – 1H09 P&L key results			
EUR M	1H08	1H2009	yoy (%)
Sales	39.50	36.81	-6.83
Value of production	44.28	43.81	-1.08
EBITDA	6.15	6.34	3.17
EBITDA margin (%)	15.57	17.24	
EBIT	5.01	4.92	-1.70
EBIT margin (%)	12.67	13.37	
Financial items	1.29	1.21	-6.72
Pre-tax income	3.71	3.71	0.03
Taxes	1.12	1.38	
Tax rate	30.18	37.28	
Net profit	2.57	2.31	-10.07

A: actual; source: Company data

The 1H09 revenue breakdown was as follows:

Exprivia – 1H09 Revenue breakdown			
EUR M	Revenue		
	1H09	1H08	Chg %
Banks, Finance, Insurance	4.42	5.60	-21.08
Industry, Media	5.79	5.42	6.85
PA, Transportation, Utilities	7.18	8.51	-15.65
Oil, Gas and Telco	6.23	7.80	-20.08
Healthcare	17.14	14.95	14.68
Other	0.75	0.02	NM

NM: not meaningful; A: actual; source: Company data

Management remains confident on 2009 prospects

In the press release, CEO Domenico Favuzzi stressed that reported 1H09 results confirm the company's expectations of FY09 economic results in line with those achieved in 2008. The increasing presence in the high-growth Healthcare segment provides Exprivia with more resilient and visible demand, allowing it to outperform the Italian Software and IT sector.

Resilient outlook confirmed

In the long run, the company's strategy continues to rely on both organic and external growth, maintaining the same business model. The wide range of high-quality services and near-shoring will remain the key pillars of Exprivia's business model, characterised by high profitability and financial solidity.

Estimates Revision

We have fine-tuned our 2009E-11E estimates to take into account 1H09 results and the integration of Aurora, the Healthcare business division of Siemens Spa, acquired in May and consolidated as of 1 June. Aurora has a customer base that includes 30 top healthcare companies, present throughout the country, and reported revenues of EUR 3.6M and an EBITDA margin around 14% in 2008. Its customer base allows diversification from Svmservice's client base, traditionally concentrated in the south of Italy, thus we expect the deal to prove accretive. In detail:

- We have stepped up 09E-11E revenues proportionally to the integration of Aurora;
- We have slightly adjusted net financial charges in 2009E to EUR 2.0M (from the previous EUR 1.77) to better reflect the rate of decline incorporated in 1H09 results;
- We have increased our 2009E capex forecast to EUR 4M (from EUR 2.6M) to reflect Svmservice's R&D investments tied to the new "Regione Puglie" software;
- As a result of the above estimate revisions, and on the back of the payment made for the acquisition of Aurora (EUR 2.1M in cash, drawn exclusively from internal cash flow generation, with no recourse to new financing), we have raised NFP to EUR 32.4M in 2009E (from EUR 29.2M previously). The balance sheet clearly remains solid, with an NFP/EBITDA ratio of around 2x in 2009E.

A comparison of new and old estimates is shown in the table below.

Exprivia - Main estimate revisions						
		NEW			OLD	
EUR M	2009E	2010E	2011E	2009E	2010E	2011E
Total revenues	97.06	102.57	107.70	95.02	96.92	101.76
Growth (%)	1.18	5.68	5.00	-0.95	2.00	5.00
EBITDA	15.34	16.72	17.56	15.01	15.80	16.59
EBITDA margin (%)	15.80	16.30	16.30	15.80	16.30	16.30
EBIT	12.31	12.74	13.38	12.05	12.04	12.64
EBIT margin (%)	12.68	12.4	12.42	12.68	12.4	12.42
Financial items	-2.00	-1.63	-1.36	-1.77	-1.46	-1.21
Pre-tax income	10.31	11.11	12.02	10.27	10.57	11.43
Taxes	-2.89	-3.11	-5.05	-2.88	-2.96	-4.80
Minorities	0.07	0.07	0.08	0.07	0.07	0.08
Net income	7.35	7.92	6.89	7.47	7.68	6.70
NFP	-32.42	-26.95	-22.34	-29.23	-24.01	-20.01
Diff (%)						
Total revenues	2.15	5.83	5.83			
EBITDA	2.15	5.83	5.83			
EBIT	2.15	5.83	5.83			
Pre-tax income	0.32	5.04	5.18			
Net income	-1.51	3.13	2.81			

E: estimates; source: Intesa Sanpaolo Research

We have fine-tuned our 09E-11E estimates, mostly on the back of the integration of Aurora

Valuation

Our valuation of Exprivia remains based on a multiples comparison, to reflect the sector's mid-term outlook and corresponding valuations, and on a DCF model, to better capture the company's specific long-term prospects.

Multiples comparison

As regards multiples, we think the two Italian system integrators (Engineering and Reply) are Exprivia's closest peers in terms of business model. As shown in the table below, Exprivia is trading at much higher 2009E and 2010E EV/EBITDA ratios vs. peers, and the premium has increased in recent months.

Multiples comparison

Exprivia - Multiples comparison - Prices as at 05.08.2009						
	Price EUR	MKT Cap EUR M	EV/EBITDA		P/E	
			2009E	2010E	2009E	2010E
Engineering Ingegneria Informati	22.25	278.13	3.50	3.13	8.44	7.57
Reply SPA	14.8	136.50	3.13	2.66	7.71	7.12
Average			3.31	2.89	8.07	7.34
Exprivia S.p.A. *	1.15	58.06	5.90	5.09	7.90	7.33
vs. average (%)			78.12	75.86	-2.14	-0.15

E: estimates; source: *Intesa Sanpaolo Research and Factset

Exprivia - Multiples comparison - Prices as at 26.03.2009						
	Price EUR	MKT Cap EUR M	EV/EBITDA		P/E	
			2009E	2010E	2009E	2010E
Engineering Ingegneria Informati	15.26	190.75	3.19	2.65	6.64	5.52
Reply SPA	14.74	135.94	NA	NA	7.65	NA
Average			3.19	2.65	7.15	5.52
Exprivia S.p.A. *	0.95	47.92	5.14	4.55	6.42	6.24
vs. average (%)			61.18	72.02	-10.19	12.98

NA: not available; Source: FactSet and *Intesa Sanpaolo Research estimates

Despite Exprivia's riskier profile vs. its peers (lower critical mass), we now think that the stock should trade in line with its peers, rather than at a discount. Our view is supported by easing risk aversion on the equity market and, more specifically, by the fact that Exprivia's latest results confirm that the company's strategy and business model consistently offer positive cash flow generation. Based on peer average 2009-10 EV/EBITDA and P/E multiples (the multiples we consider most meaningful in factoring in the group's ability to create value for its shareholders), we obtain a value of approx. EUR 0.79/share.

Relative valuation shows no discount vs. peers

Exprivia – Multiples-based valuation (2009-10E)				
EUR M	EV/EBITDA (x)		P/E (x)	
	2009E	2010E	2009E	2010E
Peer average multiples	3.31	2.89	8.07	7.34
Exprivia implied EV	50.81	48.39		
NPF	32.42	26.95		
Equity value	18.39	21.44		
Value/share (EUR)	0.36	0.42	1.21	1.17
Average (EUR)	0.79			

Source: FactSet and Intesa Sanpaolo Research estimates

DCF model

Our updated DCF model yields a fair value of EUR 1.28/share (from EUR 1.27/share), after incorporating our earnings revision and on the back of the following key basic assumptions:

DCF approach

- A WACC of 8.10%, replacing the previous 7.94%, as a result of a higher equity risk premium (from 5.75% to 6.00%);
- Explicit forecast period through 2012E;
- Long-term sustainable EBITDA margin of 13.5% (below Exprivia's 2008 level of 15%, but slightly above the average 2008 and 2009E levels achieved by Engineering and Reply, according to Factset estimates).

Exprivia - WACC calculation	
	%
Risk-free rate	4.50
Equity risk premium	6.00
Beta (x)*	1.00
Cost of equity	10.5
Net cost of debt	4.2
Gearing 08E	0.33
WACC	8.10

* Bloomberg. Source: company data and Intesa Sanpaolo Research estimates

Exprivia - DCF model						
EUR M	2008A	2009E	2010E	2011E	2012E	LT
Revenues	95.93	97.06	102.57	107.70	111.47	111.47
yoy (%)	45.73	1.18	5.68	5.00	3.50	0.00
EBITDA	15.23	15.34	16.72	17.56	17.84	15.05
EBITDA margin (%)	15.88	15.80	16.30	16.30	16.00	13.50
Taxes on EBIT	-2.95	-3.45	-3.57	-5.62	-5.67	-4.50
Provision	-0.60	0.40	-0.05	-0.12	-0.12	-0.12
Change in NWC	-11.28	-1.72	0.94	1.17	-0.92	0.00
Net Operating cash flow	0.40	10.57	14.04	12.99	11.12	10.42
Capex (incl. acquisitions)	-5.29	-4.00	-2.82	-2.96	-1.67	-1.67
Free cash flow	-4.89	6.57	11.22	10.03	9.45	8.75
Perpetuity growth rate (%)		0.0				
Terminal value		108.0				
PV of terminal value		67.7				
PV of cash flows		33.0				
EV		100.7				
Net debt 2008E		-35.3				
Minorities		-0.4				
Equity value		65.1				
No. of shares (M)		50.7				
Value per share (EUR)		1.28				

E: estimates; Source: Intesa Sanpaolo Research

By averaging our DCF and multiples-based valuations, **we set a target price of EUR 1.04/share** (up from EUR 0.89/share), 9.57% below the current share price. Therefore, **we confirm our HOLD rating.**

TP at EUR 1.04/share and HOLD rating confirmed

Exprivia - Key figures

Sector	IT & Technology	Mkt price EUR/Share	Ordinary	Rating	
REUTERS CODE	XPR.MI	Target price EUR/Share	1.15 1.04	HOLD	
Value per share (EUR)	2007A	2008A	2009E	2010E	2011E
No. ordinary shares (M)	41.93	50.71	50.71	50.71	50.71
No. NC saving/preferred shares (M)	0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)	41.93	50.71	50.71	50.71	50.71
Adj. EPS	0.08	0.14	0.15	0.16	0.14
CFPS	0.21	0.19	0.25	0.27	0.25
BVPS	1.08	1.14	1.25	1.36	1.46
Dividend Ord	0.00	0.04	0.04	0.04	0.04
Dividend SAV Nc	0.00	0.04	0.04	0.04	0.04
Income statement (EUR M)	2007A	2008A	2009E	2010E	2011E
Sales	65.83	95.93	97.06	102.57	107.70
EBITDA	10.10	15.23	15.34	16.72	17.56
EBIT	7.86	12.24	12.31	12.74	13.38
Pre-tax income	6.40	9.08	10.31	11.11	12.02
Net income	3.43	6.88	7.35	7.92	6.89
Adj. net income	3.43	6.88	7.35	7.92	6.89
Cash flow (EUR M)	2007A	2008A	2009E	2010E	2011E
Net income before minorities	3.36	6.86	7.28	7.85	6.81
Depreciation and provisions	5.28	2.69	5.51	5.63	5.58
Change in working capital	-2.68	-11.28	-0.31	-1.53	-1.43
Operating cash flow	5.96	-1.73	12.48	11.95	10.96
Capital expenditure	-1.40	-1.02	-4.00	-2.82	-2.96
Other (uses of Funds)	-33.48	-5.31	0.00	0.00	0.00
Free cash flow	-28.93	-8.06	8.48	9.13	8.00
Dividends and equity changes	11.65	-2.12	-2.12	-2.12	-2.12
Net cash flow	-17.28	-10.18	6.36	7.01	5.88
Balance sheet (EUR M)	2007A	2008A	2009E	2010E	2011E
Net capital employed	79.62	93.25	95.71	96.14	96.39
of which associates	0.00	0.00	0.00	0.00	0.00
Net debt/-cash	33.96	35.28	32.42	26.95	22.34
Minorities	0.25	0.37	0.38	0.38	0.38
Net equity	45.42	57.98	63.29	69.19	74.05
Market cap	48.01	58.06	58.06	58.06	58.06
Minorities value	0.00	0.00	0.00	0.00	0.00
Enterprise value (*)	81.96	93.34	90.48	85.02	80.40
Stock market ratios (x)	2007A	2008A	2009E	2010E	2011E
Adj. P/E	14.00	8.44	7.90	7.33	8.42
P/CEPS	5.51	6.07	4.51	4.28	4.66
P/BVPS	1.06	1.00	0.92	0.84	0.78
Dividend yield (% ord)	0.00	3.65	3.57	3.85	3.35
Dividend yield (% sav)					
EV/sales	1.25	0.97	0.93	0.83	0.75
EV/EBITDA	8.12	6.13	5.90	5.09	4.58
EV/EBIT	10.42	7.63	7.35	6.67	6.01
EV/CE	1.03	1.00	0.95	0.88	0.83
D/EBITDA	3.36	2.32	2.11	1.61	1.27
D/EBIT	4.32	2.88	2.63	2.12	1.67
Profitability & financial ratios (%)	2007A	2008A	2009E	2010E	2011E
EBITDA margin	15.34	15.88	15.80	16.30	16.30
EBIT margin	11.95	12.76	12.68	12.42	12.42
Tax rate	47.56	24.46	29.32	29.32	43.32
Net income margin	5.21	7.17	7.58	7.72	6.40
ROE	7.55	11.86	11.62	11.45	9.31
Debt/equity ratio	0.74	0.60	0.51	0.39	0.30
Growth (%)		2008A	2009E	2010E	2011E
Sales		45.72	1.18	5.68	5.00
EBITDA		50.83	0.68	9.02	5.00
EBIT		55.60	0.58	3.51	5.00
Pre-tax income		41.92	13.48	7.75	8.23
Net income		100.52	6.91	7.75	-13.01
Adj. net income		100.52	6.91	7.75	-13.01

(*) EV = Mkt cap + Net Debt + Minorities Value - Associates A: actual; E: estimates; source: company data and Intesa Sanpaolo Equity Research

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Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances, including when Intesa Sanpaolo is acting in an advisory capacity in a merger or strategic transaction involving the company.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)



Equity rating allocations (long-term horizon: 12M)

Intesa Sanpaolo Research Rating Distribution (at 1 May 2009)					
Number of companies covered: 109 (**)	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage %	24	29	40	6	1
of which Intesa Sanpaolo's Clients % (*)	61	46	45	17	--

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category. (**) of which 96 subject to the above recommendations.

Valuation methodology (short-term horizon: 3M)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may

differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

Company specific disclosures

Banca IMI discloses interests and conflicts of interest, as defined by: Articles 69-quater and 69-quinquies, of Consob Resolution No.11971 of 14.05.1999, as subsequently amended and supplemented; the NYSE's Rule 472 and the NASD's Rule 2711; the FSA Policy Statement 04/06 "Conflicts of Interest in Investment Research – March 2004 and the Policy Statement 05/03 "Implementation of Market Abuse Directive", March 2005. The Intesa Sanpaolo Group maintains procedures and organisational mechanisms (Information barriers) to professionally manage conflicts of interest in relation to investment research. We provide the following information on Intesa Sanpaolo Group's conflicts of interest:

- 1 The Intesa Sanpaolo Group has a conflict of interest inasmuch as it plans to solicit investment banking business or intends to seek compensation from the Company in the next three months.
- 2 Banca IMI is a specialist relative to securities issued by EXPRIVIA SpA.

Intesa Sanpaolo Research Department – Head of Research Gregorio De Felice

Head of Equity & Credit Research

Giampaolo Trasi +39 02 7261 2297 giampaolo.trasi@intesasnpaolo.com

Equity Research

Monica Bosio +39 02 7261 2725 monica.bosio@intesasnpaolo.com
 Luca Bacoccoli +39 02 7261 5026 luca.bacoccoli@intesasnpaolo.com
 Marta Caprini +39 02 7261 5607 marta.caprini@intesasnpaolo.com
 Sergio Ciaramella +39 02 7261 5688 sergio.ciaramella@intesasnpaolo.com
 Alberto Francese +39 02 7261 2707 alberto.francese@intesasnpaolo.com
 Manuela Meroni +39 02 7261 5937 manuela.meroni@intesasnpaolo.com
 Gian Luca Pacini +39 02 7261 2971 gianluca.pacini@intesasnpaolo.com
 Bruno Permutti +39 02 7261 5772 bruno.permutti@intesasnpaolo.com
 Fabio M. Picardi +39 02 7261 2972 fabio.picardi@intesasnpaolo.com
 Roberto Ranieri +39 02 7261 5011 roberto.ranieri@intesasnpaolo.com
 Lorenzo Re +39 02 7261 2387 lorenzo.re@intesasnpaolo.com

Corporate Broking & MAC Research

Laura Carmignani +39 02 8021 2742 laura.carmignani@intesasnpaolo.com
 Serena Polini +39 02 7261 2292 serena.polini@intesasnpaolo.com

Research Production

Anna Whatley +39 02 7261 2763 anna.whatley@intesasnpaolo.com
 Cinzia Bovina +39 02 7261 5437 cinzia.bovina@intesasnpaolo.com
 Bruce Marshall +39 02 7261 2278 robert.marshall@intesasnpaolo.com
 Annita Ricci +39 02 7261 2279 annita.ricci@intesasnpaolo.com

Banca IMI

Institutional Sales

Nicola Maccario +39 02 7261 5517 nicola.maccario@bancaimi.com
 Carlo Cavalieri +39 02 7261 2722 carlo.cavalieri@bancaimi.com
 Francesca Guadagni +39 02 7261 5817 francesca.guadagni@bancaimi.com
 Gregory Halvorsen +39 02 7261 5857 gregory.halvorsen@bancaimi.com
 Claudio Manes +39 02 7261 5542 claudio.manes@bancaimi.com
 Nicola Mastrototaro +39 02 7261 2976 nicola.mastrototaro@bancaimi.com
 Robert Meier +39 02 7261 2158 robert.meier@bancaimi.com
 Daniela Stucchi +39 02 7261 5708 daniela.stucchi@bancaimi.com

US Institutional Sales

Jack Del Duca +1 212 326 1234 DelDucaJ@bancaimius.com
 Barbara Leonardi +1 212 326 1232 LeonardiB@bancaimius.com

Sales Trading

Roberto Gussoni +39 02 7261 5929 roberto.gussoni@bancaimi.com
 Adele Marchetti +39 02 7261 5880 adele.marchetti@bancaimi.com
 Lorenzo Pennati +39 02 7261 5647 lorenzo.pennati@bancaimi.com
 Stefano Rivarola +39 02 7261 5420 stefano.rivarola@bancaimi.com
 Mark Wilson +39 02 7261 2758 mark.wilson@bancaimi.com

Securities Lending

Carlo Antonioli +44 207 894 2444 carlo.antonioli@bancaimi.co.uk

Corporate Brokerage

Danilo Brusa +39 02 7261 5917 danilo.brusa@bancaimi.com
 Fabrizio Speroni +39 02 7261 5894 fabrizio.speroni@bancaimi.com

Market Hub – Brokerage & Execution

Italian Equities - Sergio Francolini +39 02 7261 5859 sergio.francolini@bancaimi.com
 Foreign Equities - Francesco Riccardi +39 02 7261 2901 francesco.riccardi@bancaimi.com

Market Hub – Exchange Traded Derivatives

Matteo Massardi +39 02 7261 2407 matteo.massardi@bancaimi.co.uk
 Biagio Merola - Milan +39 02 7261 2420 biagio.merola@bancaimi.com
 Duncan Barker - London +39 02 7261 2427 duncan.barker@bancaimi.co.uk

Market Hub – @ sales

Giovanni Spotti +39 02 7261 2339 giovanni.spotti@bancaimi.com

Banca IMI SpA

Piazzetta Giordano Dell'Amore, 3
20121 Milan, Italy
Tel: +39 02 7261 1

**Banca IMI
Securities Corp.**

1 William Street
10004 New York, NY, USA
Tel: (1) 212 326 1230

**Banca IMI
London Branch**

90 Queen Street
London EC4N 1SA, UK
Tel +44 207 894 2600