

## PORTOBELLO

### A circular business model between retail and media

## Retail & Media

IRTOP RESEARCH

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#### COMPANY DESCRIPTION

PORTOBELLO, listed on AIM Italia since July 2018, provides retail home goods and electronics to B2B and B2C clients in Italy through its web portal ([www.portobello-club.com](http://www.portobello-club.com)) and 6 physical stores. The Company operates with a business model, unique for the Italian market and **based on three integrated business units**: (i) media & advertising, (ii) B2C and (iii) B2B.

Founded in 2016, PORTOBELLO currently has 25 employees and recorded FY 2017 revenues of 10 Eu m. Although its recent foundation, the Company recorded net profit of 0.3 Eu m.

#### INNOVATION

PORTOBELLO distinguishes itself from other players in the industry for its **circular and scalable business model**.

The model is self-sustainable and based on three integrated business lines. The media & advertising department barter advertising spaces for branded home and personal hygiene, house wares, beauty products, toys, textiles, clothing, household appliances, jewellery, and electronics, that the Company sells through its own channels (B2B and B2C) at discounted prices. Investments aimed at increasing the offer of advertising spaces allows PORTOBELLO to obtain and wider product range. This, in turn allows growth of the retail network, closing the circular model.

#### FY 2017 AND 1H 2018 RESULTS

PORTOBELLO closed 2017, the first full year of the Company, with revenues of 10 Eu m, EBITDA of 0.5 Eu m, net profit of 0.3 Eu m and net cash for 0.5 Eu m. In the first half of 2018 the Company reported revenues of 8.2 Eu m, 0.8 Eu m of EBITDA and EBIT and a Net financial Debt of 0.01 Eu m.

#### STRATEGY

- Widen product range of branded products.
- Expand the retail network through the opening of new stores and mini-stores and the launch of a franchising network in Italy.
- Increase brand awareness through investments in marketing and communication.
- Focus on main marketplace websites as new sales channel.
- Increase media spaces, both owned and under management.

#### 2018-2020 ESTIMATES

- Main revenue growth driver is represented by the opening of new stores, creation of franchise network and increase in advertising spaces.
- Estimated revenue and EBITDA 2017-2020 CAGR of +51% and 98% respectively.
- EBITDA margin of c. 12% at year end 2020 (vs. 5% in FY 2017).
- EPS should grow at a 2017-2020 CAGR of 75%.
- The Company should remain cash positive in the period considered (expected 2020 Net Cash of 3.8 Eu m).

#### VALUATION

We set a **target price of 6.33 Eu p.s.** obtained by applying 2 different approaches, equally weighted:

- 2018-2019 EV/EBITDA and P/E multiples comparison with Italian and foreign retail peers discounted by 27.75% as of AIM Positioning;
- a DCF model (with WACC= 8.42% and g=2%).

#### Target Price (Eu)

Target Price (Eu)	<b>6.33</b>
Market Price (Eu)	5.28
Capitalisation (Eu m)	14
Enterprise Value (Eu m)	14

(as of September 19<sup>th</sup>, 2018)

#### AIM Positioning

FY 2017 (Eu m)	Company	AIM Italia
Revenues	10	42
Revenues YoY growth	n.m.	12%
EBITDA Margin	5%	14%
NFP (Cash)	(0.5)	11.1
NFP/EBITDA (x)	-0.9	1.6
Market Data (Eu m)	Company	AIM Italia
Capitalisation	14	69
Perf. from IPO	+20%	+1%
Free Float	16%	40%
ADTT YTD (Eu)	75,882	104,391

Source: Osservatorio AIM Italia and FactSet data as of September 19<sup>th</sup>, 2018  
n.m. = not meaningful

#### Results & Estimates

Key Figures (Eu m)	16A	17A	18E	19E	20E
Value of Production (VoP)	2.7	10.0	19.5	25.4	34.2
VoP YoY % growth	n.a.	n.m.	95%	30%	35%
EBITDA	0.1	0.5	2.0	2.9	4.2
EBITDA%	3%	5%	10%	11%	12%
EBIT	0.1	0.5	1.9	2.6	3.7
EBIT%	3%	5%	10%	10%	11%
Net Profit	0.1	0.3	1.3	1.8	2.5
Net Debt (Cash)	(0.01)	(0.5)	(3.0)	(3.2)	(3.8)
EPS (Eu)	0.03	0.17	0.47	0.65	0.92

Source: Company data (Italian accounting principles OIC) for FY 2016-2017 and IRTop Research estimates for FY 2018-2020  
n.a. = not available  
n.m. = not meaningful

#### Peers Comparison

EV/EBITDA (x)	18E	19E	20E
PORTOBELLO	5.8	3.9	2.5
Peers' median	8.5	6.7	5.6
Discount/Premium to peers	-31%	-43%	-55%

#### P/E (x)

	18E	19E	20E
PORTOBELLO	11.3	8.1	5.7
Peers' median	15.2	12.4	11.1
Discount/Premium to peers	-26%	-35%	-48%

Source: IRTop Research estimates for PORTOBELLO and FactSet data as of September 19<sup>th</sup>, 2018 for peers

#### Performance

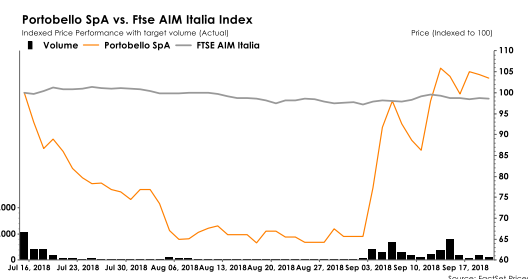
	1M	3M	1Y
Absolute	+54.5%	n.a.	n.a.
Relative (FTSE AIM Italia)	+53.8%	n.a.	n.a.
52-week High / Low (Eu)*	5.69 / 3.08		

Source: FactSet data as of September 19<sup>th</sup>, 2018  
\* Intraday

Please, read important disclaimer on the last page of this report.

#### SHARE DATA

Market	AIM Italia
Ticker Bloomberg / Reuters	POR IM / POR.MI
ISIN	IT0005337495
N. of outstanding shares	2,715,800
Free float	16.36%
Main shareholder	Simone Prete, Fimmat Fiduciaria, Nettuno Fiduciaria (66.28% together)
CEO	Simone Prete



**AIM ITALIA**

**Dimension**

114 companies  
7.9 Eu bn of capitalisation

**Growth**

79 IPOs in 2015-18  
4.1 Eu bn of capital raised since 2009

**Performance**

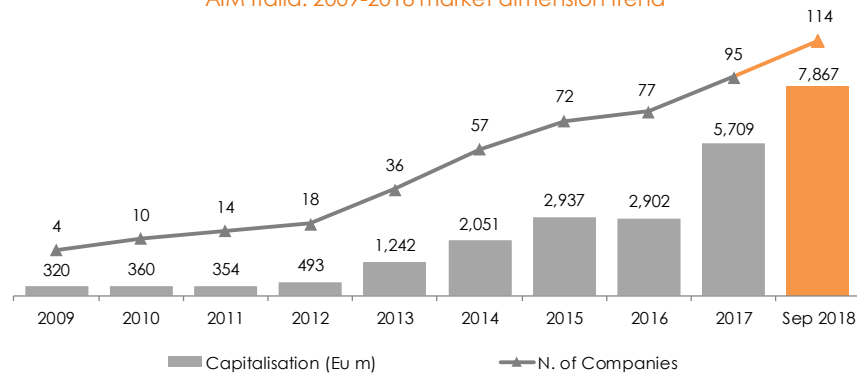
FTSE AIM Italia +22% since 2017

**Liquidity**

ADTT in 2017 was 120 Eu k vs. 24 Eu k in 2016

AIM Italia, the Italian equity capital market dedicated to small growing companies, has shown a significant growth since 2013 and counted, as of September 19<sup>th</sup>, 114 companies for a total capitalisation of 7.9 Eu bnn.

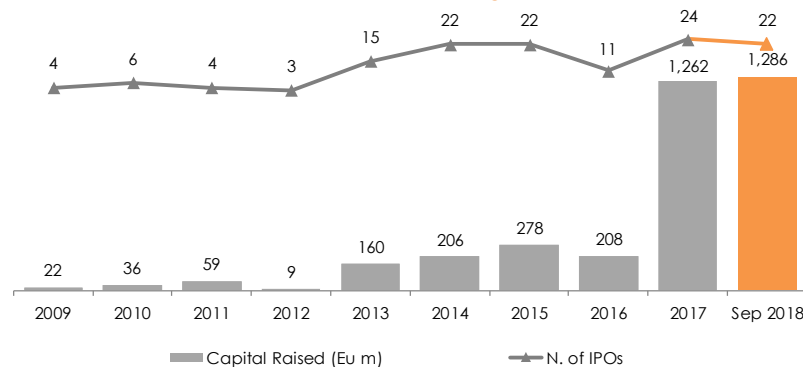
AIM Italia: 2009-2018 market dimension trend



Over the years, the number of IPOs and the amount raised has increased significantly with a peak registered in 2017, with the listing of 24 new companies. So far, 2018 has seen 22 IPOs. When compared to the Italian main market (MTA), AIM Italia has been far more dynamic with 79 listings vs. 20 on MTA in the 2015-2018 period.

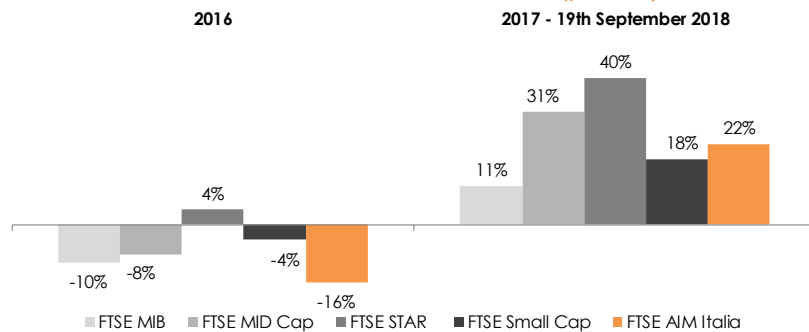
Since 2009, total equity raised in IPO on AIM Italia is 3.5 Eu bn, if including capital increases, warrant exercise and bond subscription, total capital raised is 4.1 Eu bn.

AIM Italia: 2009-2018 market growth trend



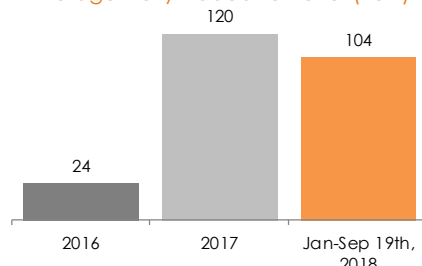
After the introduction of PIR (Piani Individuali di Risparmio, the Italian equivalent of UK Individual Savings Accounts) in 2017, all Italian indices showed positive trends. FTSE AIM Italia, in particular, grew by +22% in 2017-2018 vs. -16% in 2016.

FTSE Indices: 2016 vs. 2017-2018 trend (post PIR)

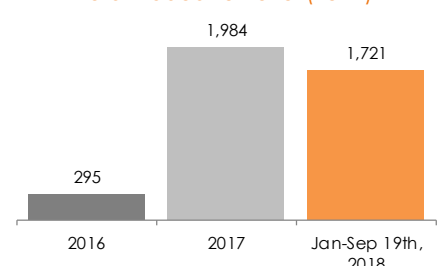


Also market liquidity improved significantly in 2017 thanks to PIRs, with Average Daily Traded Turnover (ADTT) increases to 120 Eu k (5.1x the 24 Eu k registered in 2016). Total Traded Turnover (TTT) in 2017 amounted to 2.0 Eu b, 6.7x the 295 Eu m in 2016.

Average Daily Traded Turnover (Eu k)



Total Traded Turnover (Eu m)



AIM ITALIA BY SECTOR

Finance is the main sector in terms of n. of companies (23%) and capitalisation (33%)

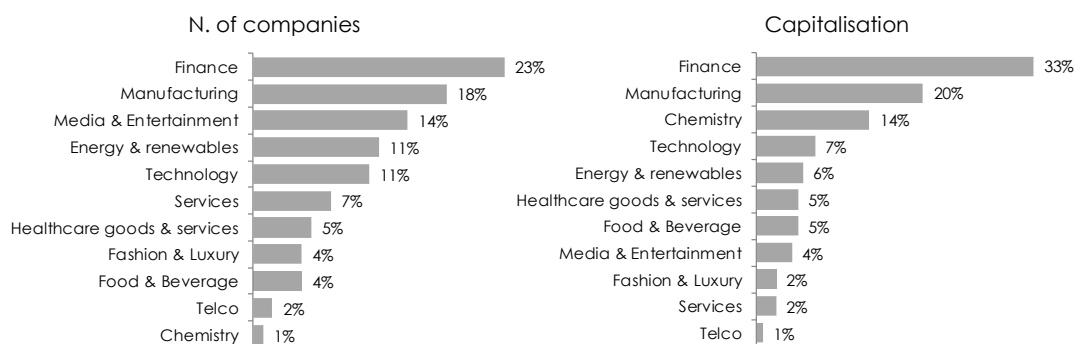
Best share performance 2017-2018: Chemistry (+286%)

Highest 2017 revenues yoy growth, excluding Chemistry: Healthcare (+25%)

Average 2017 EV/EBITDA multiple: 15.0x

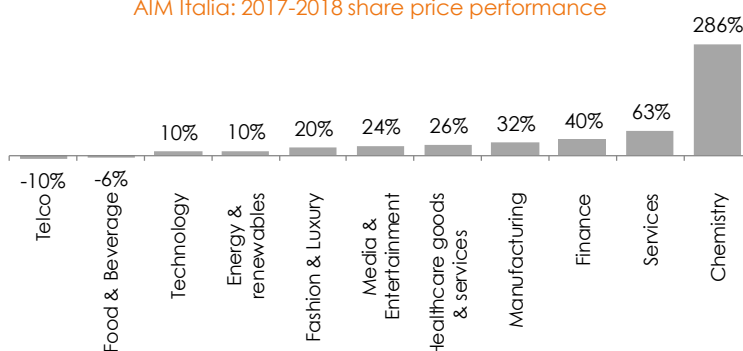
The most important sectors in terms of number of companies are: Finance including SPACs (23%), Manufacturing (18%) and Media & Entertainment (14%); main sectors in terms of capitalisation are Finance (33%), Manufacturing (20%) and Chemistry (14%).

AIM Italia: breakdown by Sector



Chemistry is the sector that has shown best share performance in 2017-2018 (+286%), followed by Services (+63%).

AIM Italia: 2017-2018 share price performance



In 2017 Manufacturing registered the highest level of average revenues (82 Eu m), followed by Food & Beverage (73 Eu m). Excluding Chemistry, which is represented only by 1 single company, the highest yoy growth was realised by Healthcare goods & services (+25%). The sector that registered the highest level of average indebtedness (34.4 Eu m) was Energy & renewables.

AIM Italia: average 2017 financial data

Sector	Revenues (Eu m)	Revenue YoY % change (%)	EBITDA margin (%)	NFP (Cash) (Eu m)	NFP/EBITDA (x)
Chemistry	11	+114%	62%	(24.2)	-3.6
Energy & renewables	36	+19%	23%	34.4	6.7
Fashion & Luxury	39	+7%	10%	6.4	0.8
Food & Beverage	73	+3%	8%	13.8	0.9
Healthcare goods & services	66	+25%	18%	12.9	1.5
Manufacturing	82	+8%	13%	17.7	1.3
Media & Entertainment	22	-1%	2.2%	6.3	1.1
Services	15	+21%	19%	(0.8)	0.1
Technology	23	+18%	16%	(1.1)	1.2
Telco	11	+14%	40%	4.3	1.2
<b>AIM Italia</b>	<b>42</b>	<b>+12%</b>	<b>14%</b>	<b>11.1</b>	<b>1.6</b>

Looking at average capitalization and, again, excluding Chemistry, the first sector is Finance (101 Eu m), followed by Manufacturing and Food & Beverage (both 79 Eu m). In terms of 2017 EV/EBITDA multiples, Technology shows the highest value (17.3x), followed by Energy & renewables (17.2x).

AIM Italia: average market data

Sector	N. of companies	Market Cap (Eu m)	Free Float (%)	ADTT YTD (Eu)	2017 EV/EBITDA (x)
Chemistry	1	1,071	37%	3,577,172	n.m.
Energy & renewables	13	34	24%	34,025	17.2
Fashion & Luxury	5	38	22%	40,096	9.7
Finance	26	101	72%	98,088	n.m.
Food & Beverage	5	79	42%	106,352	10.7
Healthcare goods & services	6	66	31%	59,544	12.1
Manufacturing	20	79	32%	101,901	14.2
Media & Entertainment	16	21	29%	38,152	11.3
Services	8	24	25%	49,001	14.4
Technology	12	47	38%	85,967	17.3
Telco	2	34	31%	78,241	8.8
<b>AIM Italia</b>	<b>114</b>	<b>69</b>	<b>40%*</b>	<b>104,391</b>	<b>15.0</b>

Source: Osservatorio AIM Italia and FactSet data as of September 19<sup>th</sup> 2018  
 \* 30% as median value  
 n.m. = not meaningful

## REFERENCE MARKETS

## MEDIA, ADVERTISING SERVICES

Over the last 20 year the Media & Advertising market went through an important consolidation process resulting in a dominance of large multinational player and a reduction of margins which has been further accelerated by the arrival of Internet as a sales channel for advertising. Despite a negative trend in 2017, this market is however still led by traditional media (press and TV together c. 70% of total market), with Internet coming in third with a market share of c. 7% (+1.7% yoy growth).

## Italian advertising market 2016 - 2017

Eu k	2016	2017	% Change YoY	% weight on total
Mediaset	2,162,845	2,146,120	-0.8%	34.1%
RAI	798,273	733,222	-8.1%	11.7%
SKY	484,512	486,473	0.4%	7.8%
Discovery	234,500	257,090	9.6%	4.1%
La7	157,023	153,411	-2.3%	2.5%
TV	3,837,153	3,776,316	-1.6%	60.4%
Newspapers	690,951	637,442	-7.7%	10.2%
Internet	448,480	456,171	+1.7%	7.3%
Periodicals	456,478	428,052	-6.2%	6.8%
Radio	384,541	405,151	+5.4%	6.5%
Direct mail	310,470	294,447	-5.2%	4.7%
Transit	130,605	137,009	+4.9%	2.2%
Outdoor	87,466	77,669	-11.2%	1.2%
Cinema	19,936	20,417	+2.4%	0.3%
Go TV	16,066	18,036	+12.3%	0.3%
<b>Total advertising</b>	<b>6,382,146</b>	<b>6,250,711</b>	<b>-2.1%</b>	<b>100.0%</b>

Source: The Nielsen Company Italy Srl: estimate of advertising market in Italy in 2017

According to a report by market research company Nielsen, **the advertising investment market in Italy grew slightly in 2017, +0.4% vs. 2016 to 8.25 Eu bn. Excluding Nielsen's estimates on search and social media (principally Google and Facebook), the 2017 trend shows a decline of 2.1% to 6.25 Eu b** caused by the cyclical trend typical of the years without major sports media events.

Looking at individual channels, TV closed 2017 down by 1.6%. **The trend of advertising on press continues to be negative:** with investments in 2017 for newspapers and magazines down by 7.7% and 6.2% respectively compared to 2016. Radio closed 2017 with a growth vs. previous year of 5.4%. Based on Nielsen's estimates, **total investments in web advertising grew by 7.7% vs. 2016 (+1.7% excluding search and social media).** The performance of Go TV (+12.3%) and **transit (+4.9%)** was also positive. Also cinema maintained a positive trend (+2.4%). **Outdoor** and Direct mail remained negative, respectively **down by 11.2%** and 5.2%.

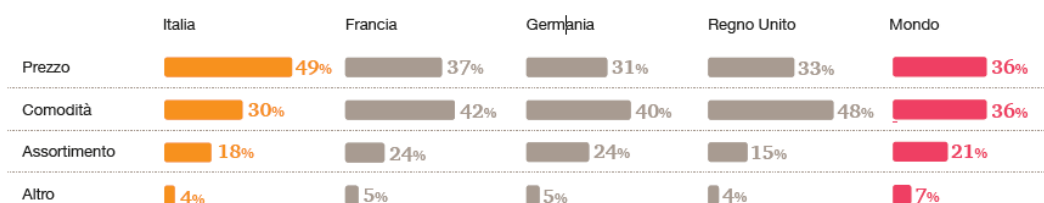
## B2C

The Retail market is **highly fragmented, especially in Italy. The market is currently characterized by a consolidation trend (shopping centres organised distribution), and a strong competition with the online channel and the omni-channel trends.** End users are becoming more and more sensitive to offers, want quality goods and look for shops that can offer the most possible product categories.

The growing online channel is putting a great pressure on prices. Amazon, the e-commerce website with the largest number of users (17.7 million), has set new standards in the retail world, with a strategy that has radically changed the way of shopping, making it easy, cheap and even fun.

A recent report by Price Waterhouse Coopers Italia clearly shows how **price, offer, service and brand are the four factors that mostly influence the selection of the retailer by consumers.** Unlike other European countries, in Italy the main driver for online purchases is the price (49%) and not convenience (only 30%), followed by the vastness of the assortment (18%) and other reasons (4%).

D: Qual è stata la motivazione principale che l'ha spinto a effettuare acquisti online?



Source: Price Waterhouse Coopers Italia – Total retail 2017

**The online channel is particularly suited for the search and price comparison phase, but it is not necessarily the channel on which the purchases are made, while the physical store remains the favorite channel for many product categories.** These data clearly demonstrate two consumption trends in Italy:

- propensity to purchase in the physical channel compared to online channel;
- price driver and "trust" in the retailer are among the main discriminants in the choice of channels on which to make purchases.

Given the strong pressure on prices made by competitors of the online channel and of global players like Amazon, many physical retailers aren't able to obtain enough margins to remain competitive.

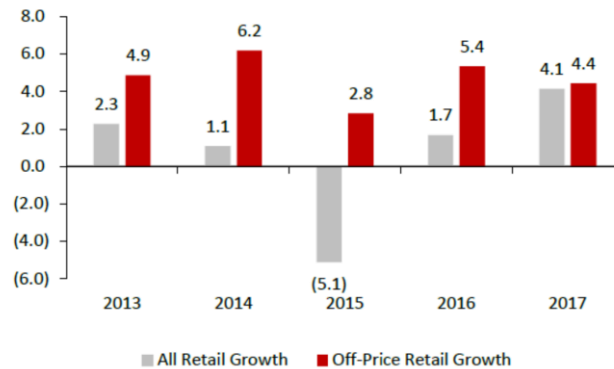
**FOCUS ON RETAIL OFF-PRICE STORES**

Off-price retailers are retailers who provide high quality goods at cheap prices. They usually sell second-hand goods, off-the-season items, ... etc. and typically purchase overstocked goods or goods that are at the low end of a demand cycle, such as seasonal goods, in order to lower expenses enough to sustain lower average prices. Apparel & Footwear is the most represented merchant category among off-price stores, however other sectors such as home goods, beauty and electronics are becoming more and more frequent.

Between 2012 and 2017 the global off-price market grew more than 30% to 62 \$ bn annually (The NPD Group in July 2016), and according to a JP Morgan report another 18 \$ bn to 19 \$ bn of incremental sales for off-price stores is expected by 2021. In 2016 two-thirds of shoppers in the United States shopped at an off-price retail store.

As shown in the figure below, the global off-price retail market has grown at a significantly higher rate than the global retail market as a whole in each of the past five years.

**Global total retail sales growth vs. off-price retail sales growth (%)**



Source: Euromonitor International/Coresight Research

The European off-price retail remains underdeveloped. While the segment accounts for 1.70% of all retail in the US, it represents only 0.16% of the total European retail market, according to Euromonitor. Since off-price retail in Europe is still in its infancy, there is an opportunity for new players to enter the market.

**COMPETITIVE ARENA AND PORTOBELLO'S POSITIONING**

The disadvantages that PORTOBELLO's competitors present vs. PORTOBELLO in the three segments where the Company operates are summarized below.



- Non-competitive prices
- Slow and bureaucratic

- Less competitive prices
- Limited number of product categories
- Lower product rotation

- Slow valuation of barter goods
- Lower product rotation
- Not able to acquire different types of product categories
- Difficulties in guaranteeing destocking

Source: PORTOBELLO's Information Memorandum

BUSINESS UNIT	COMPETITOR	PORTOBELLO's POSITIONING
Media, advertising services	Carat WPP Starcom	Thanks to the barter system, PORTOBELLO is able to obtain very competitive prices, by offering property media (magazines, advertising in the newsstands and digital wall in railway stations).
B2C	Satur Kasanova Acqua e Sapone Dmail Amazon	PORTOBELLO's business model allows to offer products at advantageous prices compared to on and off-line competitors. Furthermore, only branded products and products with high turnover create recurring and loyal traffic.
B2B	Secom Publmethod Atlas ADVD	Competitors are pure barter media players, that is, companies that sell advertising space in exchange for products that they then sell to other companies or in limited "shop" centres for members. Having a proprietary B2C channel, PORTOBELLO is able to optimize margins and obtain fast monetization.

Source: PORTOBELLO's Admission Document

COMPANY PROFILE

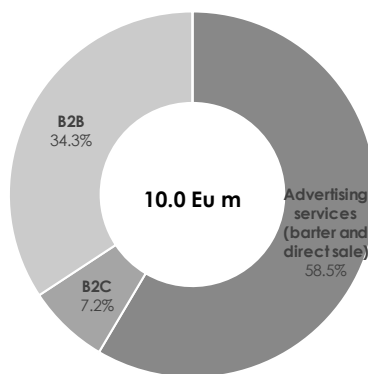
PORTOBELLO, listed on AIM Italia market since July 13<sup>th</sup> 2018, operates in the retail business with a unique business model for the Italian market **based on three integrated business units:** (i) media & advertising, (ii) B2C and (iii) B2B.

The Company provides retail home goods and electronics to B2B and B2C clients in Italy through its web portal and 6 physical stores at **discounted prices**. The goods sold are acquired by bartering proprietary media (i.e. video-walls placed on the walls of mini-stores, magazines, newsstands' rotor circuits) or third parties' (digital outdoor - citywall and mall circuit) advertising spaces.

The Company has currently **4 retail stores in Lazio** (2 of which in Rome), **2 mini-stores** (1 in Rome Fiumicino and 1 in Milan Porta Garibaldi) and **a proprietary e-commerce channel** ([www.portobello-club.com](http://www.portobello-club.com)).

**Founded in 2016**, PORTOBELLO closed FY 2017 with revenues of 10 Eu m, an EBITDA of 0.5 Eu m, a net profit above 0.3 million and Net Cash of 0.5 million. Currently the Company has 25 employees.

FY 2017 revenue breakdown by business units



BUSINESS MODEL

PORTOBELLO is characterised by a **scalable and self-sustaining business model**, based on three **highly integrated business lines**.

**MEDIA, ADVERTISING SERVICES (58.5% of FY 2017 revenues)**

PORTOBELLO's Media division deals with the resale of proprietary (for example, external video wall 3x2 in the mini-stores with h24/d7 shows of video and advertising images) and third parties' advertising spaces (for example, outdoor, newsagents, press, ... etc.). The media spaces are sold directly against monetary payment (3.0 Eu m) or in exchange for goods (barter 2.9 Eu m) at very convenient prices.

**B2C (7.2% of 2017 revenue)**

The products bartered by PORTOBELLO are resold through proprietary on and off-line channels: PORTOBELLO's stores with an average size of 200-250 sqms and high turnover of products, mini-stores in traffic-intensive locations, proprietary e-commerce portal [www.portobello-club.com](http://www.portobello-club.com) and resale on the main marketplaces. The Company is currently planning to introduce a franchising affiliation program, with the opening of various stores in the next three years, in order to spread the brand at a national level,

PORTOBELLO's stores offer a wide range product categories. All products are branded, with trademarks well know to consumers. The PORTOBELLO stores displays the following product categories:

- household;
- personal hygiene and home care;
- small appliances with consumer electronics;
- clothing;
- gift and costume jewellery.

#### **B2B (34.3% of 2017 revenue)**

In order to guarantee an adequate turnover of goods, part of the inventories are sold through the B2B channel. This activity makes it possible to improve margins on products sold in other channels, improve the cash-flow cycle and make agreements with international players. Currently, most of the B2B distribution is directed to structured companies of the various product sectors (both direct sales and barter) to which *ad hoc* offers are proposed in order to better enhance inventories and ensure the right turnover of goods that PORTOBELLO acquired through advertising barter.

#### **PUBLISHING HOUSE (0% of 2017 revenue)**

In addition to traditional advertising channels, PORTOBELLO manages a Publishing House that offers advertising spaces in its property magazines that are distributed through newsstands all-over Italy and that focus on thematic and gossip articles, custom in-depth articles, boxes containing purchase advice and advertising. PORTOBELLO is already registered as Editor and has launched two magazines («Ora»), a fortnightly magazine of gossip and entertainment, and the monthly magazine («Lei») through which it manages its own advertising pages.

#### **CIRCULAR BUSINESS MODEL**

The model is self-sustainable and based on three integrated business lines. The media & advertising department barter advertising spaces for home and personal hygiene, house wares, beauty products, toys, textiles, clothing, household appliances, jewelry, and electronics. The goods is successively sold through the Company's own channels (B2B or B2C). Investments aimed at increasing the offer of advertising spaces, allows PORTOBELLO to obtain a wider product range to be sold through its on and off-line stores. This, in turn, allows growth of the retail network, closing the circular model.

This circularity allows PORTOBELLO to obtain a **virtuous cash conversion cycle**. In the barter agreements, the Company is expected to provide advertising services over a period of time, while it immediately collects bartered products and resells them in the stores within a time much shorter than the one required by the provision of advertising services. Revenues are therefore realized before related expense occur. This **virtuous management of working capital** allows PORTOBELLO to grow in volumes while minimizing the risk of financial stress.

## **STRATEGY**

**Main strategic guide lines: expand stores and mini-stores network and acquire new media spaces**

In the next three years PORTOBELLO intends to grow through the following strategic lines:

- **expansion of retail network** through the opening of new stores and mini-stores located in areas with high pedestrian traffic in municipalities with a population over 100,000 inhabitants, with a particular focus on Milan and Rome;
- **Widening of product range offered through the offering of new media spaces (proprietary and under management) to attract new clients.**
- **Increase media spaces through the opening of new stores** (the external walls of the stores are sold as advertising spaces, publication of magazines **and new media spaces under management** with long-term concessions.
- Launch of a **franchising network** throughout Italy; the area of development of the network will be mainly the Centre-North of the country, with stores of 200-250 sqm.
- **Strengthen the brand awareness with investments in marketing and communication.**
- Increase presence on the main marketplace websites in order to broaden the customer both in the domestic market and abroad.
- Develop the «Portobello Club» membership program to **increase customer loyalty**.

## OPPORTUNITIES

- **Development of new sales channels** (online and offline), in particular the expansion of the retail network with the opening of new stores and mini-stores and the opportunity to launch a **franchise network**.
- Expand potential customer base on both the domestic and the foreign markets, thanks to sales through marketplaces.
- The business model of PORTOBELLO, where the media are often sold in barter transactions, means that, against a crisis of traditional players, the Company can quickly conquer a slice of the market by managing or generating new advertising spaces.
- Growth of barter and media markets thanks to tax incentives on advertising (Decree Law n. 50/2017). Starting from June 24<sup>th</sup>, 2017 the tax credit is equal to 75% of the incremental value of advertising investments and to 90% in the case of micro-enterprises, SMEs and Innovative start-ups.
- **International growth** in European market for the B2B and B2C segments.

## MAIN RISKS

- **Limited operational history and limited awareness of PORTOBELLO brand.**
- Absence of track-record in the **implementation of development strategies and future plans, especially those related to new stores.**
- **Strong competition** to secure commercial spaces located in strategic positions. The two mini-stores of the Company are currently rented through Related Parties.
- **Dependence on key figures:** PORTOBELLO is managed by managers who have gained significant experience in the business sector. In particular, founding shareholders have contributed and contribute significantly to the development and success of the Company's strategies.
- Momentary situations of **increase in net working capital due to non-timely sale of the goods acquired through the barter activity**, as well as the characteristic of the goods, that may have longer rotation times, with effects on working capital and financial needs.
- Risk of entrance of new players in the market.

## OWNERSHIP

Free float is 16.4%

PORTOBELLO is owned by the CEO Simone Prete, Finnat Fiduciaria and Nettuno Fiduciaria, that together hold overall 66.28% of outstanding shares. The share capital subscribed and paid up is 50,000 Eu, made up by n. 2,715,800 ordinary shares.

There is a lock-up agreement on all the shares excluding free float (2,271,500) for 36 months after the IPO.

Free float is 16.36%.

Shareholder	N° of shares	%
Simone Prete*	600,000	22.09%
Finnat Fiduciaria SpA (Stefano Caporicci)	600,000	22.09%
Nettuno Fiduciaria Srl (Patrizia Amicucci)	600,000	22.09%
HI Capital Advisor Ltd	271,500	10.00%
Luca Nardi	200,000	7.36%
Market	444,300	16.36%
<b>Total</b>	<b>2,715,800</b>	<b>100.00%</b>

\* Of which 50% in option in favour of Roberto Panfili (Direttore Generale) as management incentive  
Source: Company data as of July 11<sup>th</sup>, 2018

## GOVERNANCE &amp; KEY PEOPLE

4 Board members, 1 Independent

List vote: 5% of share capital.  
Board of Directors has 4 components, 1 of them is Independent.

**Roberto Panfili – Co-founder and COO**

Founder of the first (in terms of turnover and exhibition size) Apple Center in Italy. Since 2008 Managing Director for a leading Italian distributor of Information Technology & Consumer Electronics Goods. In 2016 he took part in the start-up of Portobello where he currently holds the role of General Manager.

**Simone Prete – Co-founder and CEO**

After completing his studies at "Gioberti – Sella" Commercial Technical Institute, SP has covered the position of business developer at LGM Srl in Central Italy for primary international brands (Jacuzzi, Gessi, Ariston, Ideal Standard, etc.). In 2015 he founded Wins Srl, today primary retail of Apple products, where he still holds the position of sole director. Co-founder of Portobello Srl, where he initially was sole director and, more recently, director with mandates for administrative, financial and legal matters.



**Roberto Bacchi – Chairman**

Roberto Bacchi has consolidated experience in Finance Management and Process Reengineering/Change Management matured primarily from an experience in American Express, both in Italy and in the UK. In 1998 he assumed the role of General Manager for Carlson Wagonlit. Since 2014 he collaborates with a wide range of corporation, including Seneca SpA, Airplus and Diners Club, in strategic and business development issues.

**Pietro Peligra – Board member**

After achieving a degree in electronic engineering in 2002, Pietro Pelligra worked in Vodafone from 2003 to 2006 as a marketing manager. From 2006 to 2008 he attended an MBA at the Harvard Business School in Boston, while also collaborating the the the Anglo-American venture capital fund DN Capital (whose he is still advisor for Southern Europe). In 2008 he joined Italia Independent Group SpA as managing partner, and responsible for corporate development which later resulted in the listing on the Italian Stock Exchange. He has been on the Board of several Italian companies. In Portobello he is director with mandates for business development and investor relations.

**FY 2017 RESULTS**

Financial statements in FY 2017 represent the first full-year financial statements for the Company. **Revenues**, in the year considered came in at 10 Eu m, of which 5.85 Eu m from the Advertising & Media division (58%), 3.43 Eu m in wholesale (B2B) and 0.7 Eu m in retail segment (B2C).

With an **EBITDA** of 0.5 Eu m, the **EBITDA margin** stood at 5.4%, up by 196 bps vs. 2016. In terms of operating costs, raw materials (goods and advertising spaces acquired) represent the most important cost item (9.7 Eu m, 84% on revenues). Personnel costs, with a total impact of 5.6% on revenues (0.65 Eu m) registered and increase vs. 2016 after hiring of personnel for new store openings in FY 2017 and the first months of 2018.

Notwithstanding the start up status of the Company, both FY 2016 and FY 2017 ended with **net profit**, after a tax rate around 34%.

<b>Eu k – OIC</b>	<b>FY 2016</b>	<b>FY 2017</b>
Advertising services (barter or direct sale)	346	5,851
B2C	14	723
B2B	613	3,428
Publishing house	0	0
Revenues	973	10,002
Value of Production (VoP)	2,709	10,003
	VoP YoY % growth	n.a.
EBITDA	92	535
	EBITDA margin	5.4%
EBIT	82	509
	EBIT margin	5.1%
Pre-tax profit	82	509
	EBT margin	5.1%
Net Profit	54	343
	Net margin	3.4%

Source: Company data (Italian accounting principles OIC)  
n.a. = not available  
n.m. = not meaningful

**Net Working Capital** was negative of 0.2 Eu m at the end of December 2018. Trade payables include the item of deposits related to advance payments invoiced to client firms according to the barter contracts for advertising still to be supplied at the end of the fiscal year (1 Eu m). Other current liabilities refer to personnel liabilities for amounts accrued but not yet paid.

<b>Eu k – OIC</b>	<b>12/31/2016</b>	<b>12/31/2017</b>
Trade receivables	324	1,580
	Days Sales Outstanding (DSO)	57
Inventory	1,737	3,311
	Days Inventory Outstanding (DIO)	119
Trade payables	(2,142)	(5,675)
	Days Payable Outstanding (DPO)	232
<b>Operating Working Capital</b>	<b>(81)</b>	<b>(784)</b>
Other current assets	169	1,740
Other current liabilities	(49)	(1,177)
<b>Net Working Capital</b>	<b>38</b>	<b>(220)</b>

Source: Company data (Italian accounting principles OIC)

The business model allows a virtuous management of working capital with average DSOs (57) significantly lower than DPOs (232) as advertising payment terms are longer than the time it takes for the Company to monetize the products acquired and resold in PORTOBELLO's stores.

As of December 31<sup>st</sup>, 2017 PORTOBELLO had **Net Cash** of 0.5 Eu m, composed almost exclusively of financial liquidity.

Eu k – OIC	12/31/2016	12/31/2017
Net working capital (NWC)	38	(220)
Fixed net assets	16	145
Funds	3	27
<b>Net Capital Employed</b>	<b>51</b>	<b>(102)</b>
Net financial Debt (Cash)	(12)	(508)
Equity	64	406
<b>Sources</b>	<b>51</b>	<b>(102)</b>

Source: Company data (Italian accounting principles OIC)

## 1H 2018 RESULTS

PORTOBELLO presented a strong set of results in 1H 2018 with **revenues** of 8.2 Eu m, +196% vs. 1H 2017. The good results were generalized along all business lines with Advertising growing by +249% to 5.3 Eu m (vs. 1.5 Eu m in 1H 2017 and 5.9 in FY 2017) and B2B by +123% to 2.1 Eu m (vs. 1.0 Eu m in 1H 2017 and 3.4 Eu m in FY 2017). The B2C business unit increased revenues by +123% to 0.6 Eu m as all the existing stores become fully operational.

**EBITDA** came in at 849 Eu k, (36 E k in 1 H 2017) representing 10.4% on total revenues. With almost no D&As and financial charges, the Company generated **Net Profit** of 575 Eu k.

On the balance sheet side, inventory decreased significantly to 2.1 Eu vs. 3.3 Eu m at year-end 2017, despite the important growth in revenues and thanks mainly to better management of goods sold through the good performance of the B2B and B2C channels.

The Company closed the first half of 2018 with a **Net Debt** of 97 Eu k (not considering the 1.95 Eu m of capital increase from the IPO on AIM Italia in July 2018).

Eu k – OIC	1H 2017	FY 2017	1H 2018
Advertising services (barter or direct sale)	1,512	5,851	5,284
B2C	290	723	646
B2B	953	3,428	2,131
Publishing house	-	0	91
Other	0.6	1.2	12
Value of Production (VoP)	2,756	10,003	8,163
VoP YoY % growth	n.a.	n.m.	+198%
EBITDA	36	535	849
EBITDA margin	1.3%	5.3%	10.4%
EBIT	22	509	826
EBIT margin	0.8%	5.1%	10.1%
Pre-tax profit	22	509	826
EBT margin	0.8%	5.1%	10.1%
Net Profit	22	343	575
Net margin	0.8%	3.4%	7.0%

Eu k – OIC	06/30/2018
Net working capital (NWC)	845
Fixed net assets	272
Funds	(40)
<b>Net Capital Employed</b>	<b>1,077</b>
Net financial Debt (Cash)	97
Equity	981
<b>Sources</b>	<b>1,077</b>

Source: Company data (Italian accounting principles OIC)

## 2018-2020 ESTIMATES

We believe that the key growth drivers for PORTOBELLO in the text three years are the opening of new stores in Italy, implementation of a franchising network and the increase in advertising spaces. Based on the above we estimate:

- 2017-2020 **revenue** CAGR of 51%. FY 2018 revenues of 19.5 Eu m, +95% vs. FY 2017 (8.2 Eu m in 1H 2018) considering that the business should continue to grow, and the seasonality for the Media business unit in favor of the second quarter.
- **EBITDA** should grow at a CAGR of 98% with an increase in EBITDA margin of 680 bps to 12.2% in 2020 (5.4% in FY 2017), above all thanks to the business model evolution, with greater bargaining power and impact of property media.
- With stable tax rate of c. 33%, **Net profit** is expected to increase to 2.5 Eu m in 2020, with a net margin of 7.3%, and an EPS CAGR of 75%.
- We assumed **net capex in the period equal to 2.3 Eu m** related to investments in **intangible assets**, which include costs **aimed at opening new stores**.
- Thanks to the high free cash flow generation, we estimate that PORTOBELLO will remain cash positive over the next three years, with a **net cash** of 3.8 Eu m at year end 2020.
- **Our estimates do not include M&A transactions.**

Eu m – OIC	2016A	2017A	2018E	2019E	2020E
<b>Value of Production (VoP)</b>	<b>2.7</b>	<b>10.0</b>	<b>19.5</b>	<b>25.4</b>	<b>34.2</b>
VoP YoY % growth	n.a.	n.m.	+94.9%	+30.0%	+35.0%
<b>EBITDA</b>	<b>0.1</b>	<b>0.5</b>	<b>2.0</b>	<b>2.9</b>	<b>4.2</b>
EBITDA margin	3.4%	5.4%	10.0%	11.4%	12.2%
<b>EBIT</b>	<b>0.1</b>	<b>0.5</b>	<b>1.9</b>	<b>2.6</b>	<b>3.7</b>
EBIT margin	3.0%	5.1%	9.7%	10.4%	10.9%
<b>Pre-tax profit</b>	<b>0.1</b>	<b>0.5</b>	<b>1.9</b>	<b>2.6</b>	<b>3.7</b>
EBT margin	3.0%	5.1%	9.7%	10.4%	10.9%
<b>Net Profit</b>	<b>0.1</b>	<b>0.3</b>	<b>1.3</b>	<b>1.8</b>	<b>2.5</b>
Net margin	2.0%	3.4%	6.5%	7.0%	7.3%
EPS (Eu)	0.03	0.17	0.47	0.65	0.92

Eu m – OIC	2016A	2017A	2018E	2019E	2020E
Net working capital (NWC)	0.04	(0.2)	0.3	1.3	2.8
Fixed net assets	0.02	0.1	0.4	1.1	1.7
Funds	0.003	0.03	0.1	0.2	0.4
<b>Net Capital Employed</b>	<b>0.1</b>	<b>(0.1)</b>	<b>0.6</b>	<b>2.2</b>	<b>4.1</b>
Net financial Debt (Cash)	(0.01)	(0.5)	(3.0)	(3.2)	(3.8)
Equity	0.1	0.4	3.6	5.4	7.9
<b>Sources</b>	<b>0.1</b>	<b>(0.1)</b>	<b>0.6</b>	<b>2.2</b>	<b>4.1</b>

Source: Company data (Italian accounting principles OIC) and IRTop Research estimates  
n.a. = not available  
n.m. = not meaningful

## VALUATION

We value PORTOBELLO through two different approaches, equally weighted:

- market multiples comparison (adjusted by AIM positioning) with Italian and foreign peers operating in the retail industry;
- Discounted Cash Flow (DCF) model.

## AIM POSITIONING DISCOUNT/PREMIUM

When using market multiples to determine the fair value of an AIM Italia listed company, we apply a discount on the average peer multiple based on an algorithm that measures the positioning of the company compared to the AIM Italia market as a whole and to the relevant AIM Sector .

In partnership with "Osservatorio AIM" (IR Top proprietary database) all companies listed on AIM Italia have been analysed over 4 dimensions:

1. Market Data (capitalisation, liquidity, free float)
2. Financials (growth and profitability)
3. Sustainability (ESG)
4. Transparency (strategic plan)

The Market Data establishes a base discount that runs from 20% to 30%. According to a scoring system, the other 3 dimensions (Financials, Sustainability and Transparency) determine an additional discount/premium in a range of +/- 5%.

Applying the algorithm on PORTOBELLO, we consider fair a discount of 27.75% to peers based on:

- Market Data discount of 27.50%;
- an additional 0.25% discount as a sum of the scoring for Financials, Sustainability and Transparency.

The figure below summarizes PORTOBELLO's relative positioning for the items considered.

PORTOBELLO's AIM Positioning	AIM Italia		YES	NO
	<AVG	>AVG		
<b>Market Data</b>				
Capitalisation	X			
Liquidity (ADTT YTD)	X			
Free Float	X			
<b>Financials</b>				
YoY Revenues growth		X		
EBITDA Margin	X			
Dividend policy				X
<b>Sustainability (ESG)</b>				
Independent Directors			X	
List vote			X	
Relevant Environmental Data				X
Relevant Social Data				X
<b>Transparency</b>				
Strategic Plan				X

Source: Osservatorio AIM Italia and FactSet data as of September 19<sup>th</sup>, 2018

**27.75% discount to peers' multiples according to AIM Positioning**

**RELATIVE VALUATION (MARKET MULTIPLES)**

We used a peer group consisting of both foreign and Italian companies active in the retail sector (traditional and «off-price»).

Applying a 27.75% discount -as determined above- on 2018-2019 EV/EBITDA and P/E medians, the market multiples comparison yields a fair value of **5.71 Eu per share**.

	Country	Market Cap (Eu m)	2017 revenue (Eu m)	Revenue % change 2017/2016	2018E revenue (Eu m)	2017 EBITDA margin	2018E EBITDA margin
Big Lots, Inc.	USA	1,417	4,620	-1.9%	4,481	7.9%	7.2%
Debenhams plc	UK	143	2,690	-11.3%	3,285	9.5%	5.5%
Dollar General Corporation	USA	24,878	20,571	+3.3%	21,899	10.5%	10.3%
Dollar Tree, Inc.	USA	17,181	19,497	+3.9%	19,603	11.8%	11.0%
Maisons du Monde SA	France	1,112	1,042	+14.5%	1,128	13.7%	13.3%
Marks and Spencer Group	UK	5,115	12,131	-3.8%	11,947	10.8%	11.1%
Mr Bricolage SA	France	110	486	-7.2%	434	4.4%	4.6%
OVS SpA	Italy	608	1,526	+12.0%	1,520	6.9%	13.5%
Ross Stores, Inc.	France	31,019	12,389	+6.3%	12,802	16.7%	16.0%
Target Corporation	France	39,313	62,999	+0.1%	64,101	8.6%	8.8%
TJX Companies Inc	France	58,776	31,434	+4.6%	32,900	13.3%	13.0%
Unieuro SpA	Italy	218	1,874	+12.8%	1,997	1.9%	3.4%
<b>Peers's median</b>		<b>3,266</b>	<b>8,376</b>	<b>+3.6%</b>	<b>8,214</b>	<b>10.0%</b>	<b>10.6%</b>
<b>PORTOBELLO</b>	Italy		10.0	n.m.	19.5	5.4%	10.0%

Source: FactSet data as of September 19<sup>th</sup>, 2018 for peers, Company data (Italian accounting principles OIC) and IRTop Research estimates for PORTOBELLO

	EV/EBITDA (x)			P/E (x)		
	18E	19E	20E	18E	19E	20E
Big Lots, Inc.	4.9	4.8	4.6	9.2	8.6	7.9
Debenhams plc	2.8	2.4	2.1	4.3	4.1	3.7
Dollar General Corporation	12.0	11.1	10.3	17.9	16.2	14.8
Dollar Tree, Inc.	9.4	8.3	7.6	15.3	13.8	12.5
Maisons du Monde SA	8.4	7.0	5.9	15.0	13.4	11.7
Marks and Spencer Group	5.3	5.3	5.2	10.7	10.7	10.5
Mr Bricolage SA	9.2	6.5	5.2	32.0	11.4	8.2
OVS SpA	4.6	4.2	3.8	6.1	5.9	5.7
Ross Stores, Inc.	14.7	13.5	12.6	23.5	21.3	19.2
Target Corporation	8.5	8.5	8.6	16.1	15.5	15.2
TJX Companies Inc	13.7	12.8	12.0	22.2	20.2	18.5
Unieuro SpA	3.1	2.8	2.0	5.9	5.8	5.5
<b>Peers's median</b>	<b>8.5</b>	<b>6.7</b>	<b>5.6</b>	<b>15.2</b>	<b>12.4</b>	<b>11.1</b>
<b>PORTOBELLO</b>	<b>5.8</b>	<b>3.9</b>	<b>2.5</b>	<b>11.3</b>	<b>8.1</b>	<b>5.7</b>
<i>Discount/Premium to peers</i>	-31%	-43%	-55%	-26%	-35%	-48%

Source: IRTop Research estimates for PORTOBELLO and FactSet data as of September 19<sup>th</sup>, 2018 for peers  
n.a. = not available  
n.m. = not meaningful

**DCF**

Main assumptions are:

- Risk-free interest rate: 2.843% (3-month average of Italian 10y BTP yield as of September 19<sup>th</sup>, 2018)
- WACC: 8.42%
- Perpetual growth: 2%

Our DCF valuation yields a fair value of **6.96 Eu per share**.

+ Sum of PV 2018-2021 FCFs (Eu m)	2.19
+ Discounted Terminal Value (Eu m)	14.84
<b>= Enterprise Value (Eu m)</b>	<b>17.03</b>
- Net financial Debt (Cash) as of June 30 <sup>th</sup> , 2018 (Eu m)	0.10
+ IPO proceeds (Eu m)	1.95
<b>= Equity Value (Eu m)</b>	<b>18.89</b>
+ Number of outstanding shares after IPO (m)	2.72
<b>= Fair Value per share (Eu)</b>	<b>6.96</b>

Source: Company data (Italian accounting principles OIC) and IRTop Research estimates as of September 19<sup>th</sup>, 2018

**DCF sensitivity analysis**

		WACC				
		8.0%	8.5%	9.0%	9.5%	10.0%
<b>g</b>	1.5%	7.0	6.5	6.0	5.7	5.3
	2.0%	7.4	6.9	6.4	6.0	5.6
	2.5%	8.0	7.3	6.8	6.3	5.9

Our valuation yields a Target Price of 6.33 Eu

**VALUATION SUMMARY**

Weighting the two approaches equally, we set a **target price of 6.33 Eu**, implying an upside of 20% and an implicit 2018 EV/EBITDA multiple of 8.6x.

Method	Weight	Price (Eu)
Multiple analysis (2018-2019 EV/EBITDA and P/E)	50.00%	5.71
DCF	50.00%	6.96
<b>Target Price</b>	<b>100.00%</b>	<b>6.33</b>

**PORTOBELLO ON AIM ITALIA**

+20% from IPO

**IPO**

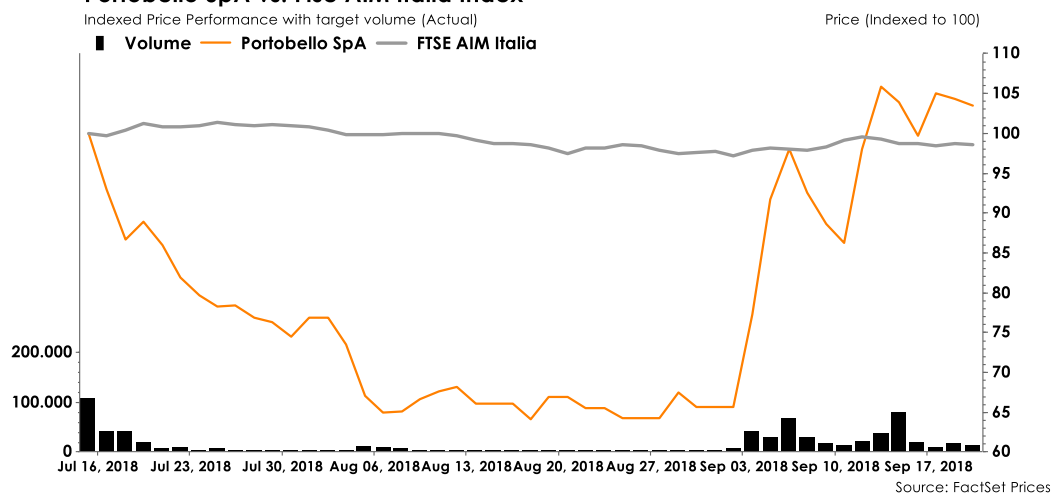
Trading Market: AIM Italia – Borsa Italiana  
 Date: July 13<sup>th</sup>, 2018  
 Price: 4.40 Eu  
 Capital raised: 1.95 Eu m  
 Capitalisation: 11.9 Eu m

**SHARE DATA** (as of September 19<sup>th</sup>, 2018)

Alphanumeric Code: POR  
 Ticker Bloomberg: POR IM  
 Ticker Reuters: POR.MI  
 ISIN: IT0005337495  
 Outstanding shares: 2,715,800  
 Share capital: 50,000 Eu  
 Price: 5.28 Eu  
 Performance from IPO: **+19.9%**  
 Capitalisation: 14.3 Eu m  
 Free Float: 16.36%  
 Nominated Adviser (NomAd): Integrae SIM SpA  
 Specialist: Banca Finnat Euramerica SpA  
 Auditing firm: Audirevi Srl

**Portobello SpA vs. Ftse AIM Italia Index**

Indexed Price Performance with target volume (Actual)



## KEY FIGURES

Eu m	2016A	2017A	2018E	2019E	2020E
<b>Profit &amp; Loss Statement</b>					
Value of Production (VoP)	2.7	10.0	19.5	25.4	34.2
EBITDA	0.1	0.5	2.0	2.9	4.2
EBIT	0.1	0.5	1.9	2.6	3.7
Financial income (charges)	0.0	(0.0)	0.0	0.0	0.0
Pre-tax profit (loss)	0.1	0.5	1.9	2.6	3.7
Taxes	(0.0)	(0.2)	(0.6)	(0.9)	(1.2)
Net Profit (Loss)	0.1	0.3	1.3	1.8	2.5
<b>Balance Sheet</b>					
Net working capital (NWC)	0.04	(0.2)	0.3	1.3	2.8
Net fixed assets	0.02	0.1	0.4	1.1	1.7
M/L Funds	0.003	0.03	0.1	0.2	0.4
Net Capital Employed	0.1	(0.1)	0.6	2.2	4.1
Net financial Debt (Cash)	(0.01)	(0.5)	(3.0)	(3.2)	(3.8)
Equity	0.1	0.4	3.6	5.4	7.9
<b>Cash Flow</b>					
EBIT		0.5	1.9	2.6	3.7
D&A		0.03	0.1	0.3	0.5
Taxes		(0.2)	(0.6)	(0.9)	(1.2)
Change in M/L Funds		0.02	0.1	0.1	0.2
Gross Cash Flow		0.4	1.4	2.1	3.1
Change in NWC		0.3	(0.6)	(1.0)	(1.5)
Operating Cash Flow		0.7	0.8	1.2	1.6
Net Capex		(0.2)	(0.3)	(1.0)	(1.0)
Financial income (charges)		(0.0003)	0.000	0.0	0.0
Free Cash Flow		0.5	0.5	0.2	0.6
Dividends		0.0	0.0	0.0	0.0
Change in Equity		(0.0)	1.95	0.0	0.0
Change in Net financial Debt (Cash)		0.5	2.5	0.2	0.6
<b>Per Share Data</b>					
Current Price			€ 4.40		
Total outstanding shares (m)	2.00	2.00	2.72	2.72	2.72
EPS	0.03	0.17	0.47	0.65	0.92
DPS	0.00	0.00	0.00	0.00	0.00
FCF		0.25	0.20	0.07	0.21
Pay-out ratio	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Ratios</b>					
EBITDA margin	3.4%	5.4%	10.0%	11.4%	12.2%
EBIT margin	3.0%	5.1%	9.7%	10.4%	10.9%
Net Debt/Equity (Gearing)	-19.2%	-125.1%	-82.6%	-59.0%	-47.7%
Net Debt/EBITDA	-0.1x	-0.9x	-1.5x	-1.1x	-0.9x
Interest cover EBIT	0.0x	-0.001x	0.0x	0.0x	0.0x
ROE	84.3%	84.4%	35.0%	32.8%	31.6%
Free Cash Flow Yield		5.6%	4.5%	1.6%	4.9%
<b>Growth Rates</b>					
Value of Production (VoP)		n.m.	94.9%	30.0%	35.0%
EBITDA		n.m.	n.m.	48.2%	44.5%
EBIT		n.m.	n.m.	39.1%	41.3%
Net Profit (Loss)		n.m.	n.m.	39.1%	41.3%

Source: Company data (Italian accounting principles OIC) for FY 2016-2017 and IRTop Research estimates for FY 2018-2020  
n.a. = not available  
n.m. = not meaningful

**DISCLAIMER****UPDATES**

This Research is the first coverage made by IRTop Consulting S.r.l. (IRTop) on PORTOBELLO (the "Company"). Update frequency might depend on circumstances considered to be important (corporate events and changes of recommendation, etc.) or on further advisory commitment.

Opinions and estimates of this Research are as of the date of this material and are subject to change. Information and opinions have been obtained from sources public and believed to be reliable, but no warranty is made as to their accuracy or correctness. Past performances of the Company are not guarantee of future results.

**VALUATION METHODOLOGY (HORIZON: 12M)**

IRTop obtained a fair value using different valuation methodologies including Discounted Cash Flow method and Multiple-based models.

Detailed information about the valuation or methodology and the underlying assumptions and information about the proprietary model used is accessible at IRTop premises.

**RESEARCH TEAM**

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