

INTRED

Sector: Tech

Growing at The Speed of Light

We initiate coverage on Intred with a BUY rating and a Target Price of Eu7.0 per share, providing >40% upside to the current share price. Revenue CAGR of ca 20% in FY18-21 period, EBITDA margin above 40% and solid operating cash flow fully covering an ambitious capex plan (ca Eu30mn in the next three years): this is the outstanding outlook for Intred, a mid-sized provider of ultrabroadband connectivity based in Lombardy. Leveraging on a proprietary network, Intred benefits from a first mover advantage by bringing fiber to areas with a high concentration of SMEs and a low penetration of ultrabroadband connectivity. Growth plans point to a consolidation inside Brescia province (where the company already boasts a leading market share) and to an expansion into other areas where to replicate its scalable and successful business model. We believe the stock deserves a re-rating given its attractive risk-return profile (high visibility of future cash flow, double digit growth profile) and its exposure to a compelling long-term growth opportunity. Intred is trading at discount relative to peers with similar characteristics.

- Leadership built on a proprietary fiber network.** Intred provides ultrabroadband connectivity to corporates and residential customers leveraging on a proprietary fiber network built in Lombardy region. Up to date, Intred has invested about Eu25mn for the creation of its network, which at the end of 1H19 reached 2,400km length. This turned to be a key competitive advantage for Intred, allowing the company to compete on price and on quality of the service and to achieve outstanding profitability levels (>40% adj. EBITDA margin) as the customer base increased (25.6k customers at YE18, +33.2% FY14-18CAGR). As of today, Intred boasts a significant mkt share in the Brescia province.
- First mover advantage in a large addressable market.** Recent data collected by the Italian Government show that Italy is far behind the targets of its ultrabroadband strategy and that current penetration of ultrabroadband connectivity in Italy is low compared to the European average. Intred wants to play a key role in the way towards the creation of the "Gigabit society": while large national operators are slowly working to cover Tier 1 cities with fiber networks, Intred is fastly and efficiently spreading its proprietary network into smaller towns, suburban and rural areas that give access to a sizable number of SMEs. Local focus, lean organization, direct sales force and high service level give Intred a further edge over large players when dealing with mid-sized customers.
- High-visibility, solid cash generation, ambitious capex plan.** Given the recurring nature of fees (>90% of turnover is recurring), the high visibility over revenues (85% of anticipated invoices paid within 30 days), and the very low churn rate (about 4% historically), Intred boasts an attractive risk-return profile. Solid cash generation is expected to finance an ambitious capex plan (ca Eu10mn capex per year for the next three years, >40% capex/sales), which should allow Intred to consolidate its market share in the province of Brescia and to expand in new rich areas of Lombardy such as Bergamo, Mantua, Milan, Lodi, Como, Lecco and Monza. The launch of a residential offer outside Brescia province and M&A could be further potential growth catalysts.
- Estimates.** We expect revenues to grow from Eu17.2mn to Eu29.1mn in FY18-21E, (+19.1% CAGR) with customers rising from ca 26k at YE18 to ca 40k at YE21 (+16% CAGR18-21E). We forecast EBITDA adj. to grow from Eu6.8mn to Eu11.8mn in FY18-21E, (+17.5% CAGR) Adj. EBITDA margin is seen slightly declining from 41.7% in FY18 to 40% in FY21 due to Increasing marketing cost to support EIR brand awareness and hiring of new personnel. Net Profit adj. is forecast to post a 14.3% CAGR in FY18-21E. Operating cash flow is expected to fully cover capex over the next 3 years (Eu28.7mn over the period).
- Recommendation and valuation.** We initiate coverage on Intred with a BUY rating and a Target Price of Eu7.0 per share, providing >40% upside to the current share price. Our valuation is the result of a DCF method. At our target price the stock would be trading at 12.1x/10.6x EV/EBITDA FY19/20 and 26.3x/23.6x P/E FY19/20.

BUY

New Coverage

TP 7.00

New Coverage

Target price upside 41%

Ticker (BBG, Reut)	ITD IM	ITD MI
Share price Ord. (Eu)		5.1
N. of Ord. shares (mn)		15.9
Total N. of shares (mn)		15.9
Market cap (Eu mn)		80
Total Market Cap (EU mn)		80
Free Float Ord. (%)		20%
Free Float Ord. (Eu mn)		16
Daily AVG liquidity Ord. (Eu k)		27

	1M	3M	12M
Absolute Perf.	0.4%	0.2%	62.2%
Rel.to FTSEMidCap	-4.0%	-0.3%	72.6%
52 weeks range		2.9	5.3



	FY18A	FY19E	FY20E
Sales	17	21	25
EBITDA adj.	7.3	8.7	10.1
Net profit adj.	3.6	4.2	4.7
EPS adj.	0.225	0.267	0.297
DPS - Ord.	0.020	0.026	0.029
EV/EBITDA adj.	6.6x	8.4x	7.3x
P/E adj.	15.1x	18.6x	16.7x
Dividend yield	0.6%	0.5%	0.6%
FCF yield	1.9%	-0.8%	-0.5%
Net debt/(Net cash)	(6.6)	(5.6)	(4.8)
Net debt/EBITDA	nm	nm	nm

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Key Data

P&L account (Eu mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Sales	14.8	17.5	21.0	24.9	29.5
Added Value	8.0	9.9	11.9	14.1	16.5
EBITDA reported	5.7	6.8	8.7	10.1	11.8
D&A	(2.2)	(2.6)	(3.2)	(4.0)	(4.8)
EBIT reported	3.5	4.2	5.5	6.1	7.0
Net financial charges	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Associates	0.0	0.0	0.0	0.0	0.0
Extraordinary items	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	3.5	4.2	5.5	6.1	6.9
Taxes	(0.9)	(0.9)	(1.3)	(1.4)	(1.6)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued activities	0.0	0.0	0.0	0.0	0.0
Net profit reported	2.5	3.2	4.2	4.7	5.3
EBITDA adjusted	5.7	7.3	8.7	10.1	11.8
EBIT adjusted	3.5	4.7	5.5	6.1	7.0
Net profit adjusted	2.5	3.6	4.2	4.7	5.3

Margins (%)	FY17A	FY18A	FY19E	FY20E	FY21E
Added Value margin	54.3%	56.5%	56.5%	56.5%	56.0%
EBITDA margin (adj)	38.6%	41.7%	41.5%	40.5%	40.0%
EBIT margin (adj)	23.9%	26.7%	26.2%	24.6%	23.6%
Pre-tax margin	23.5%	23.8%	26.0%	24.5%	23.5%
Net profit margin (adj)	17.2%	20.5%	20.1%	18.9%	18.1%

Growth rates (%)	FY17A	FY18A	FY19E	FY20E	FY21E
Sales	24.4%	18.2%	20.5%	18.5%	18.3%
EBITDA	41.5%	19.5%	28.3%	15.6%	16.8%
EBITDA adjusted	41.5%	27.8%	20.0%	15.6%	16.8%
EBIT	48.6%	18.9%	31.4%	11.4%	13.4%
EBIT adjusted	48.6%	32.3%	18.1%	11.4%	13.4%
Pre-tax	49.7%	19.8%	31.7%	11.4%	13.4%
Net profit	55.1%	26.4%	31.7%	11.4%	13.4%
Net profit adjusted	55.1%	40.8%	18.3%	11.4%	13.4%

Per share data	FY17A	FY18A	FY19E	FY20E	FY21E
N. of shares AVG	15.851	15.851	15.851	15.851	15.851
N. of shares diluted AVG	15.851	15.851	15.851	15.851	15.851
EPS	0.160	0.202	0.267	0.297	0.337
EPS adjusted	0.160	0.225	0.267	0.297	0.337
DPS - Ord.	0.000	0.020	0.026	0.029	0.033
DPS - Sav.	0.000	0.000	0.000	0.000	0.000
BVPS	0.596	1.429	1.676	1.946	2.254

Enterprise value (Eu m)	FY17A	FY18A	FY19E	FY20E	FY21E
Share price Ord. (Eu)	3.4	3.4	5.0	5.0	5.0
Market cap	53.9	53.9	78.5	78.5	78.5
Net debt/(Net cash)	4.1	(6.6)	(5.6)	(4.8)	(5.2)
Adjustments	0.5	0.5	0.5	0.5	0.5
Enterprise value	58.4	47.8	73.3	74.1	73.7

Cash flow (Eu mn)	FY17A	FY18A	FY19E	FY20E	FY21E
EBITDA adjusted	5.7	7.3	8.7	10.1	11.8
Net financial charges	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Cash taxes	(0.9)	(0.9)	(1.3)	(1.4)	(1.6)
Ch. in Working Capital	(0.9)	1.1	0.3	1.2	0.7
Operating cash flow	3.8	7.4	7.8	9.9	10.9
Capex	(5.5)	(6.4)	(8.4)	(10.2)	(10.0)
FCF	(1.7)	1.0	(0.6)	(0.4)	0.9
Disposals/Acquisitions	0.0	0.0	0.0	0.0	0.0
Changes in Equity	0.0	9.5	0.0	0.0	0.0
Others	0.1	0.1	0.0	0.0	0.0
Dividends	0.0	0.0	(0.3)	(0.4)	(0.5)
Ch. in NFP	(1.6)	10.7	(1.0)	(0.8)	0.4

Ratios (%)	FY17A	FY18A	FY19E	FY20E	FY21E
Capex/Sales	37.2%	36.4%	40.0%	41.0%	34.0%
Capex/D&A	2.5x	2.4x	2.6x	2.6x	2.1x
FCF/EBITDA	-29.1%	14.3%	-7.4%	-3.6%	7.4%
FCF/Net profit	-65.3%	32.3%	-15.3%	-7.8%	16.3%
Dividend pay-out	0.0%	-9.9%	-9.9%	-9.9%	-9.9%

Balance sheet (Eu mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Working capital	(4.2)	(5.3)	(5.6)	(6.8)	(7.5)
Fixed assets	18.2	22.0	27.2	33.4	38.6
Provisions & others	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Net capital employed	13.5	16.1	20.9	26.0	30.5
Net debt/(Net cash)	4.1	(6.6)	(5.6)	(4.8)	(5.2)
Equity	9.4	22.7	26.6	30.8	35.7
Minority interests	0.0	0.0	0.0	0.0	0.0

Ratios (%)	FY17A	FY18A	FY19E	FY20E	FY21E
Working capital/Sales	-28.7%	-30.5%	-26.8%	-27.4%	-25.6%
Net debt/Equity	43.2%	nm	nm	nm	nm
Net debt/EBITDA	0.7x	nm	nm	nm	nm

Valuation	FY17A	FY18A	FY19E	FY20E	FY21E
EV/CE	4.2x	2.9x	3.4x	2.8x	2.4x
P/BV	5.7x	2.4x	3.0x	2.5x	2.2x
EV/Sales	4.0x	2.7x	3.5x	3.0x	2.5x
EV/EBITDA	10.3x	7.0x	8.4x	7.3x	6.2x
EV/EBITDA adjusted	10.3x	6.6x	8.4x	7.3x	6.2x
EV/EBIT	16.6x	11.4x	13.3x	12.1x	10.6x
EV/EBIT adjusted	16.6x	10.2x	13.3x	12.1x	10.6x
P/E	21.2x	16.8x	18.6x	16.7x	14.7x
P/E adjusted	21.2x	15.1x	18.6x	16.7x	14.7x
ROCE pre-tax	29.6%	30.5%	28.9%	25.5%	24.1%
ROE	26.9%	15.8%	15.9%	15.3%	15.0%
EV/FCF	-35.3x	46.0x	-113.3x	-201.3x	84.6x
FCF yield	-3.1%	1.9%	-0.8%	-0.5%	1.1%
Dividend yield	0.0%	0.6%	0.5%	0.6%	0.7%

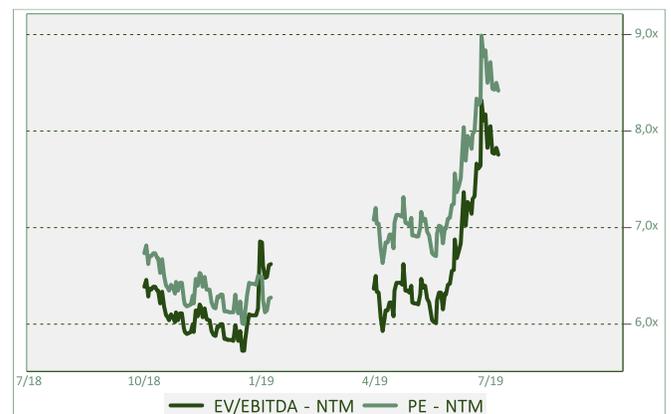
Share price performance

Strong performance since listing in July 2018...



Valuation

...resulting in a stock re-rating



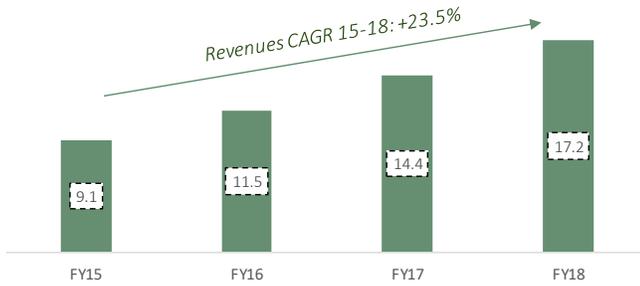
ALANTRA

Italian Equity Research

Key Charts

Revenue trend (FY15-FY18A)

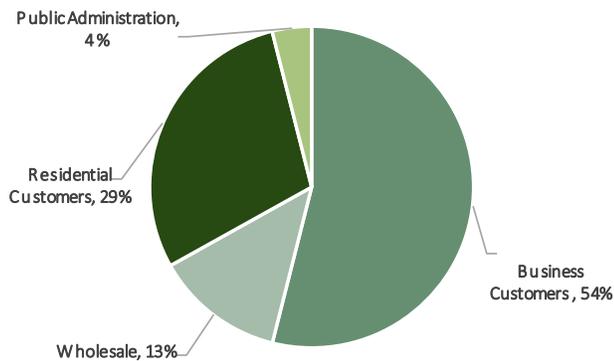
Strong revenues CAGR over the period (+23.5%)



Source: company data

Revenue breakdown by segment (FY18A)

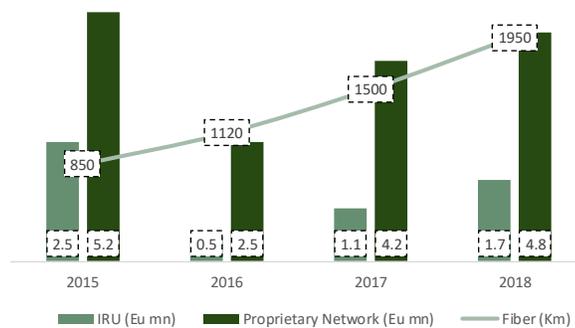
Business customers represent the largest share of Intred's revenues



Source: company data

Capex (FY15A-FY18A)

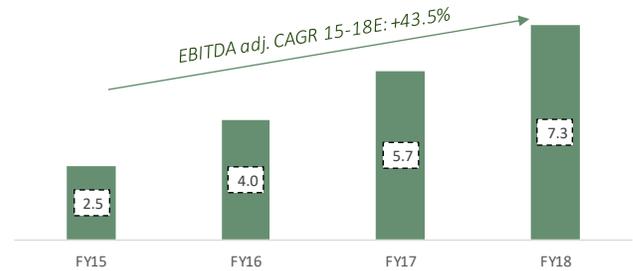
Both IRU and Proprietary Network to expand coverage in Lombardy



Source: company data

EBITDA margin (FY15A-FY18A)

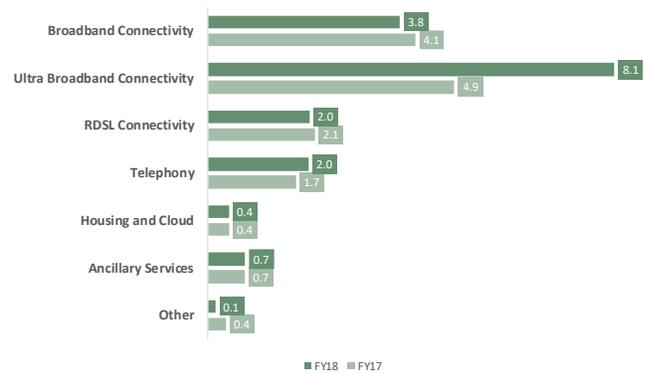
EBITDA margin grew from 26.2% in FY15 to 41.7% in FY18



Source: Company data

Revenue breakdown by service provided (FY17A-18A)

Growth came from Ultra Broadband connectivity (FTTH and FTTC)



Source: company data

Customers (FY14A-FY18A)

Customers grew 33.2% CAGR over the period



Source: company data

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Company at a glance

Intred, established in 1996, is a medium-sized telecommunications operator and supplier of data and voice services through a proprietary network. Based in Brescia, the company offers a wide range of services. Thanks to its 2,400km fiber optic network, 142 POPs (Points of Presence), 2 Data Centers, a 42 radio station wireless network and a national telephone network, Intred provides broadband, ultra-broadband and wireless connectivity, land line telephone, cloud and ancillary services to Business and Retail customers. Its business area extends to the territory of Lombardy.

As of today, Intred fully exploits its network by offering its services to corporates, residential users and public administration. Intred also rent its network to other TLC operators through wholesale contracts.

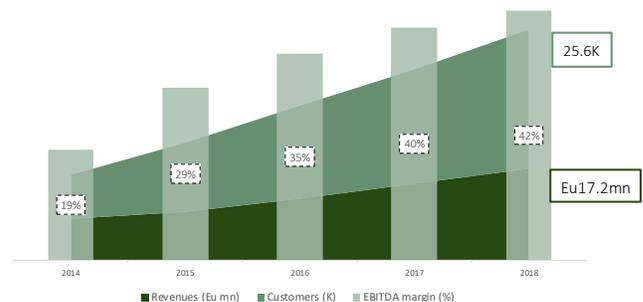
At YE18 Intred's active customers amounted to ca 25,600. Intred's commercial activity determined a constant increase in the customer base: on average, in the last three-year period the company added approximately >4,000 users over 12 months. The most relevant driver of users' growth was demand of ultra-broadband connectivity: FTTC and FTTH users accounted for most of new customers. Churn rate amounted to 4% in 2018.

Intred - At a glance

Intred's Geographical Focus



Revenues, customers and EBITDA margin evolution



Source: company data

SWOT

Strengths

- Proprietary fiber network
- Significant market share in Brescia province
- High revenues visibility and strong cash generation

Opportunities

- Target SMEs in Lombardy
- FTTH/GPON technologies development
- Export residential offer outside Brescia

Weaknesses

- Small size of the company
- High dependence on key managerial figures
- Low pricing power

Risks

- Failure to efficiently deploy capital
- Technological disruptions
- Failure in managing strong growth

Management

Key managerial roles are covered by the co-founder and by experienced professionals:

- **Daniele Peli (Chairman, CEO and founder):** Born in Lodrino (BS), on 23 October 1959, he got a diploma as Industrial Expert in 1979. In 1984 he joined the SOL S.p.A. group, a listed company, as technical sales engineer in Brescia subsidiary. In 1996 he left the SOL group to find Intred with two other founders.
- **Filippo Leone (CFO):** Born in Turin on October 14 1976, he graduated in Economics and Management of Industrial Companies at Bocconi University. He worked for PricewaterhouseCoopers in the audit department developing a deep experience in Finance and Accounting sector. From 2018 he is a part of INTRED.
- **Adalberto Salvi (Director):** Born in Brescia (BS), on 11 December 1963, he got a diploma as accountant in 1982. He provides corporate, financial, accounting, and fiscal advice. He was Managing director of Colmark S.p.A. (superstores and supermarkets), legal representative of Sangemini S.p.A., CEO of European Fashion Center S.r.l.. From November 2007 to 5 April 2018 he was President of the Board of auditors of Intred S.p.A.. Since 13 June 2018 he has been a member of the Board of directors of the Company.

Milestones

1996 – **Intred S.r.l. was founded in Milan.** There are three founding members. These include Daniele Peli, current Chairman and majority shareholder of the company.

1997 – **Daniele Peli acquires the shares of the other two co-founders.** The growth of the company is constant, first in the province of Brescia, then also in the neighboring territories of Bergamo and Mantua.

2010 – **management took the strategic decision of creating, in the province of Brescia, a widespread new-generation fixed network based on optic fiber.** Construction of a proprietary cable network begins. Establishment of a new office in Brescia, capable of accommodating 60 employees, a warehouse and two data centers.

2012 – **Intred enters the market of residential users with the EIR brand,** in order to optimise the substantial investments required for the creation of such proprietary network. Two years later this initiative led INTRED to enter the unexplored TLC residential market with the dedicated EIR brand.

2018 – On 16 July 2018, following a placement of 2.5 times the offering performed by Italian and foreign investors, **Borsa Italiana (the Italian Stock Exchange) grants the company access to the trading of ordinary shares on the AIM Italia** (code: ITD.MI), Alternative Capital Market organised and managed by Borsa Italiana S.p.A. On 18 July, Intred Telecomunicazioni S.p.A. rings the bell on Borsa Italiana.

Intred - Stock Performance

Intred strongly overperformed FTSE Italy Small Caps since listing in July 2018.



Source: Factset

Shareholding structure

In July 2018, the Company successfully completed its listing on the AIM market of Borsa Italiana, placing 30.7% of the share capital with institutional and private investors at an initial price of Eu2.27 per share. The listing was carried out through a capital increase and the value of the placement was Eu11.0mn, of which the greenshoe option accounted for approx. Eu1mn.

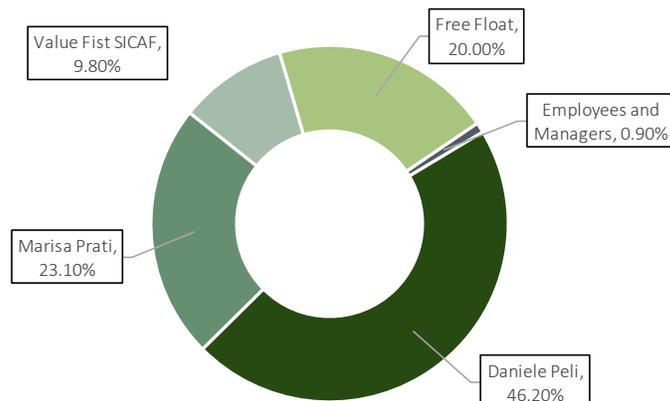
The placement generated total demand from leading Italian investors of more than 2.5x the quantity offered. In particular, First Capital, through the vehicle Value First Sicaf S.p.A., has entered Intred's capital as Anchor Investor with a shareholding of 8.34%, thus becoming a Significant Shareholder pursuant to the AIM Italia Regulation.

Lock-up agreements exist (36 month from IPO) on Peli, Prati and First Capital shares (79% of the share capital).

As of today, the share capital is made up of 15,850,500 ordinary shares.

Intred - Shareholding structure

Daniele Peli is CEO and largest shareholder of the company



Source: company data

Leadership Built on Proprietary Fiber Network

Intred, established in 1996, is a medium-sized telecommunications operator and supplier of data and voice services based in Brescia. Intred provides broadband, ultra-broadband and wireless connectivity, land line telephone, cloud and ancillary services to Business and Residential customers. Its business area extends to the territory of Lombardy.

Proprietary Fiber Network: Key for the Success of Intred's Business Model

In the first phase of its development Intred was basically a reseller, developing sales on a wider territory (coinciding with northern Italy) through the support of commercial agencies and / or individual agents and using network infrastructures of third parties (above all of Telecom Italia) for the provision of services.

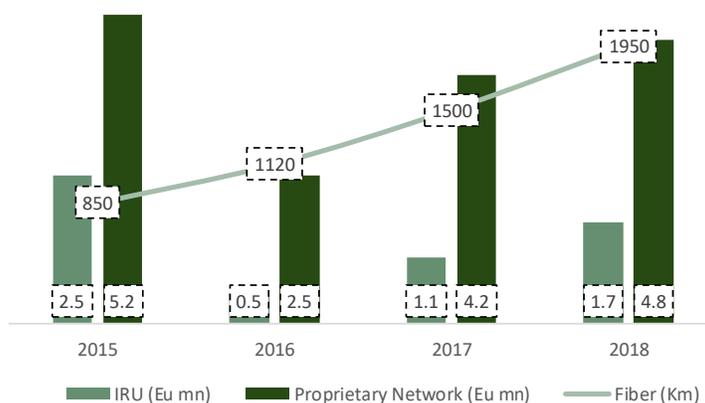
From 2010 the Company has started a radical change of strategy by developing a proprietary fiber optic network in the province of Brescia. Between 2015-2018 Intred invested about Eu25mn for the creation of the network, reaching 2,400km fiber optic at the end of 1H19 (142 Points of Presence, 2 Data Centers, a 42 radio station wireless network and a national telephone network).

To own the network is a key competitive advantage for Intred: the company is not just a reseller anymore, it can compete on price and quality of the service and it can achieve attractive profitability levels as the customer base increases (>40% adj. EBITDA margin at YE18).

The network that Intred makes available to its customers meets the criteria of utmost modernity and innovation and offer the highest level of performance. The network is highly redundant in terms of geography and active equipment used; access points to the network are reached by optic fiber with different geographical routes.

Intred - Capex to support Network expansion

In FY15-18 period Intred invested Eu5.8mn in IRU connection and Eu16.7mn to build its proprietary network



Source: XXX

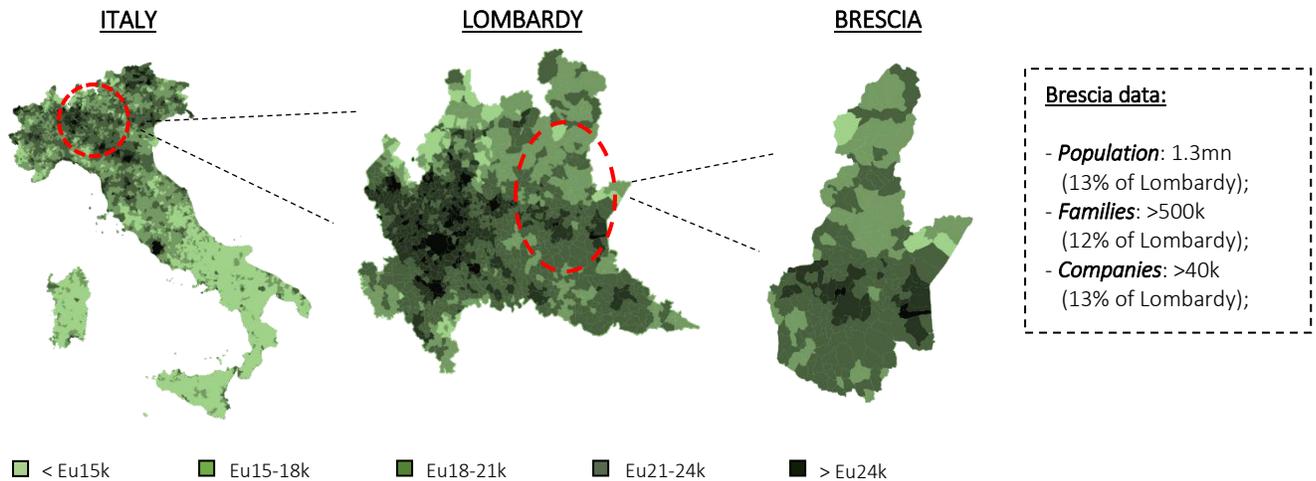
Focus on a Defined (and Rich) Area to Efficiently Deploy Capital

The core of Intred's network is located in the province of Brescia, a rich geographical area with a significant economic potential.

Intred has chosen to be present with its activities within a localized geographical perimeter, so as to optimize every operational effort and monitor infrastructure investments in the best possible way, thanks to the rational use of resources and the careful profiling of the user base addressed by the company. The operational focus on a deliberately defined territorial area also ensures an assistance service that suits the needs of business customers and that create a competitive advantage versus larger players

Intred – Proprietary network located in the richest area of the Country

Per-capita income data show how Brescia is among the richest Provinces in Italy

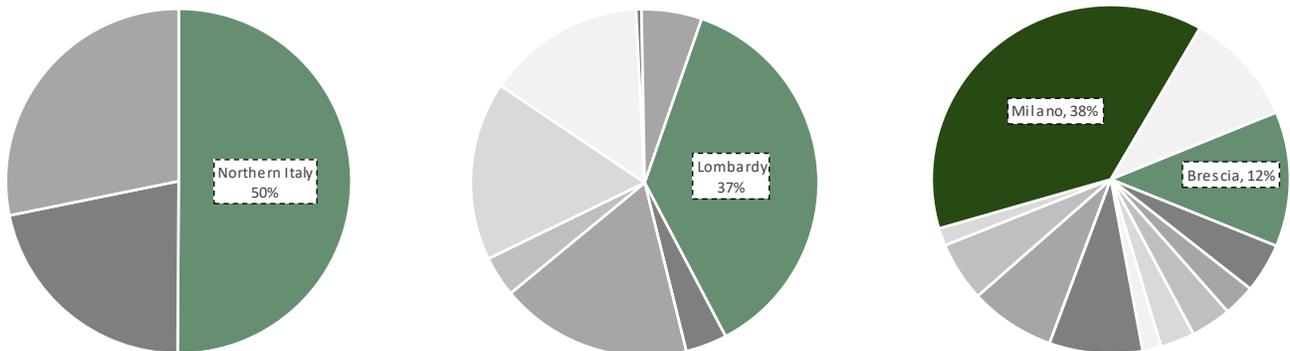


Source: MEF data

Italy - Companies concentration

Brescia ranks second as of number of companies in Lombardy, the region with the highest number in Italy

In Brescia province there are >40k SMEs and >60k individual companies



Source: ISTAT

Maximizing Return on Investment by Combining Business and Residential Offerings

In 2012 **Intred entered the market of residential users with the EIR brand** in order to maximize the return on investment of its proprietary network.

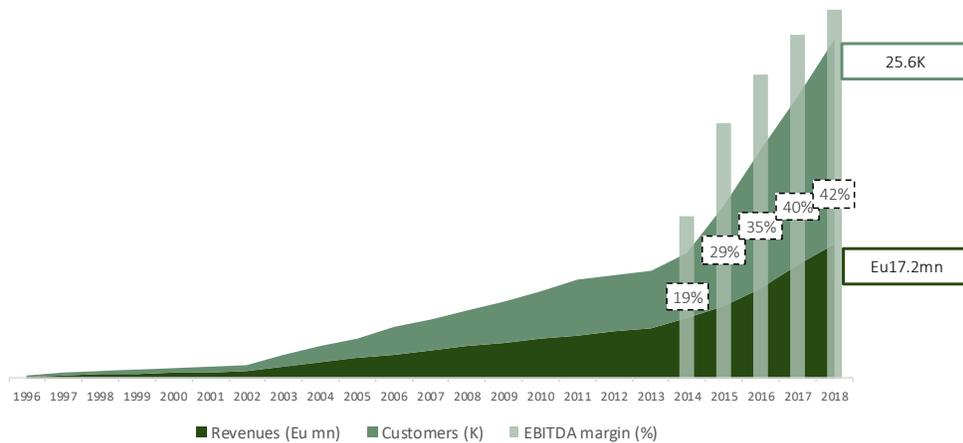
Important resources have been dedicated to marketing activities on traditional local media and on social media aimed at spreading the EIR brand in the residential-user market. Intred focused EIR positioning on characteristics that can differentiate it from national competitors, such as territoriality and transparency of contractual conditions. The company also pursued the objective of increasing Intred brand awareness, not only in the province of Brescia but also by expanding its range of action in Lombardy, positioning the company as a solid, specialized and modern entity that is able to deserve the market's trust, highlighting how the laying of proprietary optic fiber is a distinctive strategic element.

The launch of EIR accelerated growth both in customers (33.2% CAGR in FY14-18 period) and in revenues (22.2% CAGR). Top line growth was coupled with a significant improvement in profitability: adj. EBITDA margin rose from 19% to 42% in the period, demonstrating the significant potential for value creation out of the proprietary network.

Given the recurring nature of fees (>90% of turnover is recurring), the high visibility over revenues (85% of anticipated invoices paid within 30 days), and the very low churn rate (about 4% historically), Intred also boasts an attractive risk-return profile.

Intred – Revenues, Customers and adj. EBITDA growth (1996-2018)

In the last five years customer CAGR was 33.2%, revenue CAGR was 22.2% while margins expanded from 19% to 42%



Source: company presentation

Significant Market Share in the Province of Brescia

As of today, Intred fully exploits its network by offering its services to corporates, residential users and public administration. Intred also rent its network to other TLC operators through wholesale contracts.

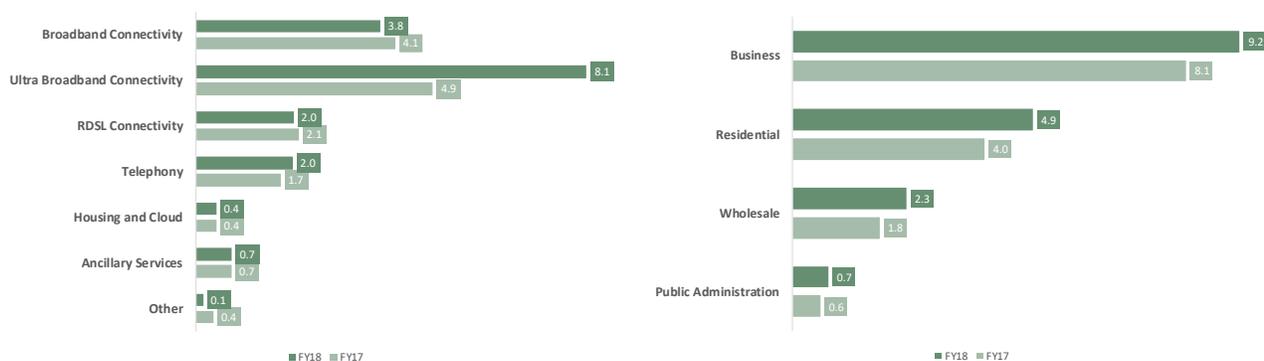
At YE18 Intred's active customers amounted to ca 25,600. Intred's commercial activity determined a constant increase in the customer base: on average, in the last three-year period the company added approximately >4,000 users over 12 months. The most relevant driver of users' growth was demand of ultra-broadband connectivity: FTTC and FTTH users accounted for most of new customers. Churn rate amounted to 4% in 2018.

Over the years, Intred has succeeded in creating a consolidated customer base and in reaching a significant market share in the province of Brescia. We estimate Intred currently holds:

- approx. a 9% market share as for Business customer: ca 4,000 customers over a population of ca 45,000 companies according AIDA database;
- approx. 4.5% market share as for Residential customers: ca 22,000 customers over a population of ca 512,000 families according to ISTAT database.

Intred - Continuous shift from Broadband to Ultra-broadband

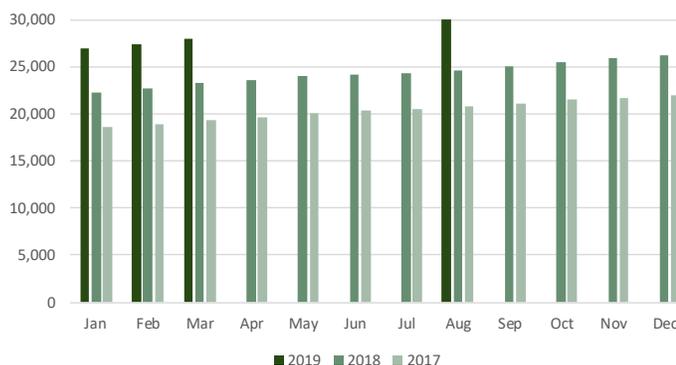
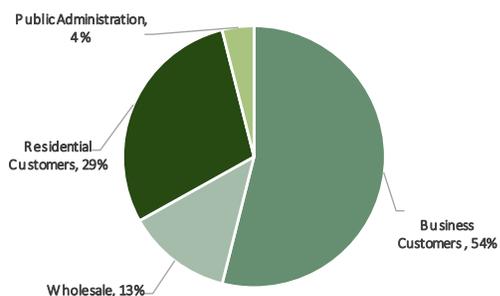
Ultra-Broadband connectivity growth is driving Intred results both on Business and Residential segments...



Source: Company presentation

Intred - Breakdown by Type of Customer and Lines growth

Growth in Residential segment resulted in almost doubled active lines over the last 3 years



Source: Company presentation

Business Customers

Business customers are mainly companies operating in Brescia province, but also in the province of Bergamo, Mantua and Milan. Business customers acquisition is carried by a direct sales team of 10 employees. Contracts typically have a fixed term with automatic renewal: one year for less complex services (ADSL, HDSL, RDSL and VDSL), three to five years for FTTH connections since significant investments are required to activate the connection (not entirely covered by activation price).

Residential Customers

Intred's residential customers are mainly private individuals and families. Residential customers acquisition is established through two main channels: online subscription (60% of total residential contracts) and distributors (40%). Distributors are generally multi-brand phone shops. The duration of contracts with residential customers is indefinite, as required by law.

Wholesale Customers

These customers are other TLC operators to which Intred rent its proprietary network. The relationship with wholesale customers is generally regulated by framework agreements for the resale of the Issuer's services, generally with an indefinite duration for less complex services (such as ADSL, HDSL, RDSL and VDSL) and with a duration of three years for FTTH and RDSL SDH fiber optic services.

Public Administration

Intred's public administration customers are mainly municipalities located in the Province of Brescia and in the Province of Bergamo. Public administration customers acquisition is established by electronic public tender or direct assignment. The duration of the contracts with this type of user has an average duration of three years.

First Mover Advantage in a Large Addressable Market

Serving SMEs: Large and Unserved Market with rather Low Competitive Pressures

Intred's offering targets micro-businesses (<Eu1mn) and SMEs (>Eu1mn). The largest share of its business division's revenues is generated by companies with an annual turnover in the range Eu1mn-Eu20mn. We believe this cluster of companies represents a very interesting addressable market for the following reasons:

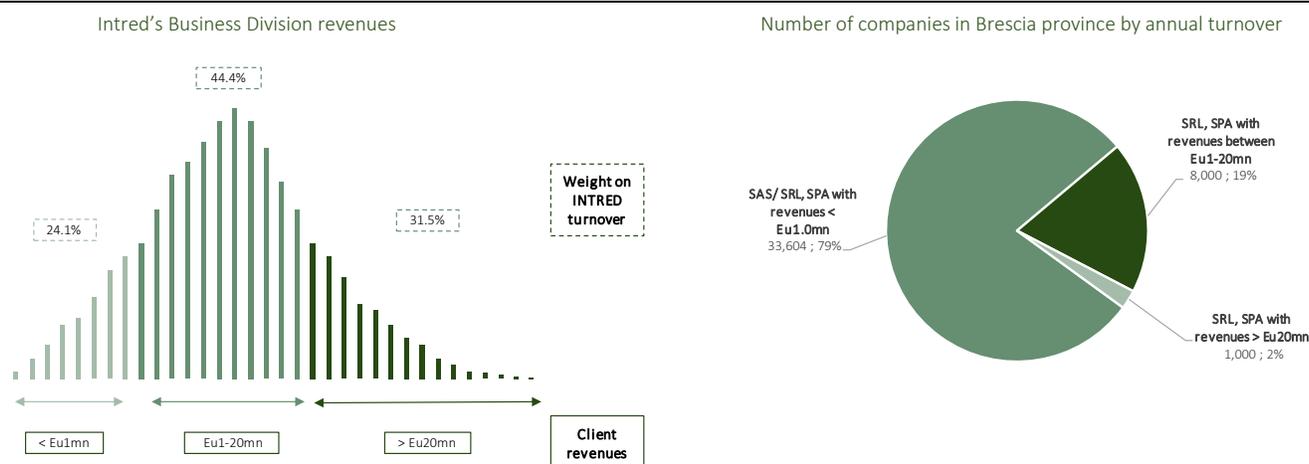
- Large addressable market: according to AIDA database there are ca 8,000 companies of this size in the province of Brescia (9,000 companies if including also those with turnover >Eu20mn)
- Still low penetration of ultra-broadband in Brescia province: we estimate that <50% of the addressable market is already reached by an FTTH connection.
- Low competitive pressures: large national TLC players are less capable of serving this fragmented customer base and they are typically more focused on large companies (e.g. TIM 2019-2021 business plan envisages a decline of SMEs customer base over the period / Retelit's business customers are much bigger than Intred's in terms of annual turnover).

Intred is well positioned to increase its already significant share in micro-businesses / SMEs markets thanks to the following competitive advantages:

- Local focus;
- Proprietary fiber network in areas still not well-reached by fiber (more details in the following pages);
- Light and lean organization, strong use of business intelligence tools;
- Direct sales force (10 employees): qualified and dedicated sales team that comprises adequately trained resources, motivated by the prospect of a long-term relationship with the company;
- Higher quality of customer care and assistance service (internal structure not outsourced) thanks to the operational focus on a deliberately defined territorial area;

Intred's Business Division – Revenues generated by micro-business (annual turnover <Eu1mn) and SMEs (>Eu1mn)

Intred's largest share of revenues is generated by companies with an annual turnover in the range Eu1mn-Eu20mn



Source: AIDA, Alantra elaborations on company data

The competitive landscape is characterized by the presence of other small local TLC players. We have identified some of them and localized them in the area they mainly operate in. All the players we have identified are smaller in size and show lower margins compared to Intred. We do not believe the presence of these players should put at risk Intred's future growth. We do not believe that players that provide FWA connectivity could pose any significant risk to Intred's growth: FWA connectivity is typically successful for small businesses with max 12 employees located in areas where FTTC is unavailable.

Local players with proprietary fiber network

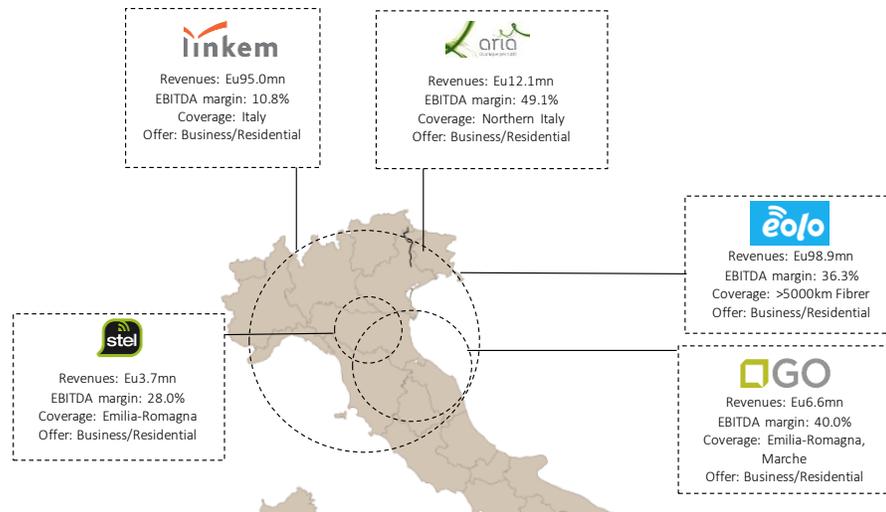
All the players we have identified are smaller in size and show lower margins compared to Intred.



Source: Alantra

Players offering FWA connectivity

We do not believe that players providing FWA connectivity could pose any significant risk to Intred's growth



Fixed Wireless Access (FWA) is an alternative means of providing internet connectivity that uses wireless network technology rather than fixed lines. An access unit is attached to street furniture - like a lamppost - which then wirelessly connects to a receiver placed inside a home or business property; the receiver then feeds a router (often integrated into the same form factor) which provides WiFi signal into the building, enabling users to connect their numerous everyday devices.

Source: Alantra

First-Mover Advantage: Offering Ultrabroadband Connectivity Outside Main Cities

Recent data collected by the Italian Government show that Italy is far behind the targets set in its ultrabroadband strategy and that current penetration of ultrabroadband connectivity in Italy is low compared to the European average. Intred could benefit from a first mover advantage: the development of FTTC-FTTH network in the areas targeted by Intred is still at its first phase, since large TLCs are focusing their efforts on larger cities, where they are anyway behind schedule. A significant capex plan (ca Eu10mn capex per year for the next three years, >40% capex/sales) should allow Intred to consolidate its market share in the province of Brescia and to expand in new rich areas of Lombardy.

Some basic concepts

Broadband connectivity - ADSL and HDSL connections on copper cable:

- Details: Today it is still the most widespread method of connection in Italy, used for about 15 years and with a coverage close to 99% of the national territory. Over the next few years, fiber-based connections (FTTC and FTTH) are expected to almost completely replace XDSL connections.
- Download speed: up to 20 Mbps;

Ultra-broadband connectivity - Fiber to The Cabinet (FTTC):

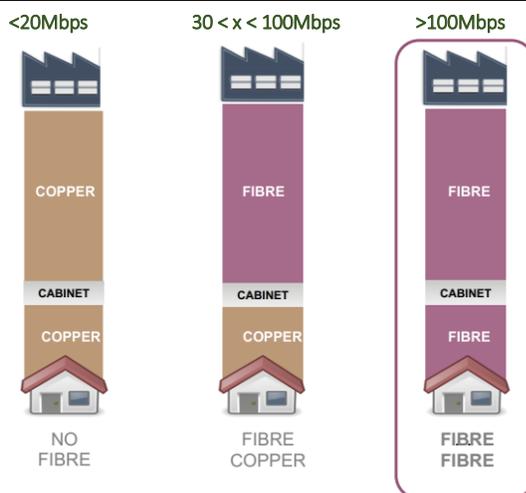
- Details: A fiber-optic connection reaches the street cabinet; a copper connection goes from the street cabinet to the customer. Ideal to address the demand of residential customers and small business customers.
- Download speed: from 30 Mbps up to 100-200 Mbps, depending on the length of the copper section and the utilization of new-generation transmission technologies.

Ultra-broadband connectivity - Fiber to The Home (FTTH):

- Details: the entire section from the street cabinet to the customer premise is made by fiber-optic. It could be a) a Point-to-Multipoint connection (GPON) that is ideal for small businesses and residential customers; b) a dedicated Point-to-Point fiber connection from the network to the customer that is ideal for SMEs and large companies that manage large amounts of data and need high-performance and stable connections with guaranteed continuity of service.
- Download speed: from 100 Mbps to up to 1 Gbps

New generation network allows for higher download speed

There is rising demand of ultrabroadband connectivity from both business and residential customers



Source: Alantra

Still Low Penetration of Fiber Connectivity in Italy

In its “Digital Agenda for Europe” the European Commission set ambitious targets to be achieved by 2020:

- the entire population shall be connected at no less than 30 Mbps
- at least 50% of the population shall use services at 100 Mbps.

The European Commission also set new targets for 2025, aimed at achieving a true “Gigabit Society”:

- 1 Gbps in 100% of railway stations, airports, businesses and the main Public Administrations;
- 100 Mbps for 100% of European households, including rural households, with an option to upgrade up to 1 Gbps.

The Italian ultra-broadband strategy launched by the Government in 2015 targets by 2020:

- 100 Mbps coverage for 85% of the population;
- at least 30 Mbps coverage for all the population

Recent data collected by the Italian Government show that Italy is far behind the targets set in its ultrabroadband strategy and that current penetration of ultrabroadband connectivity in Italy is low compared to the European average.

Ultrabroadband connectivity in Italy and in Europe

Italy is far behind the targets set in its ultrabroadband strategy and that current penetration of ultrabroadband connectivity in Italy is low compared to the European average



NGA (Next Generation Access): download speed >30 Mbit/s.

NGA-VHCN (Very High Capacity Networks) download speed >100Mbit/s up to 1Gbit/s.

% real estate units

Source: <http://bandaultralarga.italia.it/>

To define its ultrabroadband strategy the Italian Government divided the Italian territory into clusters:

- cluster A (so-called “black” areas): most urbanized areas where there will be at least one fiber network infrastructure that guarantees at least 100 Mbps in download
- cluster B (so-called “grey” areas): areas in which there will be at least one infrastructure that guarantees at least 30 Mbps in download
- cluster C and D (so-called “white” areas): areas of market failure where connections >30 Mbps will not be provided. The difference between cluster C and D lies in the amount of public intervention allowed, which in cluster C is limited to 70% of the total investments for that cluster, while in cluster D it has no limits.

TLCs are Lagging on their Fiber Coverage Plans

Despite national players are focusing their investments on large cities in black and grey areas, according to Invitalia, the level of ultrabroadband coverage in these areas at YE18 was lower than previously forecasted by network operators, indicating a delay in the development of the network.

Open Fiber (wholesale-only player, jointly owned by Enel and CDP) launched its plan to cover large cities and most urbanized areas in clusters A and B. As of today, in Lombardy, Open Fiber has completed the deployment of its network only in few large cities. In more details, Open Fiber announced a plan for the development of FTTH-GPON connections in 271 large Italian towns by 2022, reaching around 9.6mn homes through an investment of Eu3.8bn. As of today, Open Fiber should have completed its FTTH deployment in 91 cities in A and B clusters, including many major Italian cities, such as Milan, Turin and Bologna, besides other cities such as Bari, Cagliari, Catania, Naples, Padova, Perugia, Venice, Genoa, Palermo and Florence, and other small towns that are mainly satellite areas of Milan, Turin and Bologna.

TIM, the incumbent network operator in Italy, is completing its FTTC deployment: according to company presentations, TIM's FTTC network currently reaches about 80% of Italian households (commercial active service in 2,558 cities). For what regards FTTH network, TIM aims to accelerate investments giving priority to areas "with higher take-up rate" (commercial active service in 118 cities).

As for white areas, the delay in the deployment of the fiber network is even bigger. Open Fiber won all the public tenders held by Infratel (public agency) for the development of a ultrabroadband network to deliver services to around 7,500 municipalities across 19 regions.

During a parliament audition in July 2019, network deployment's state of play in C and D areas was disclosed. According to the parliament audition:

- from the end of 2018 a commercial trial has been started in 4 Municipalities, in these days in the course of extension to further 100 Municipalities.
- In the areas of the Infratel tenders, there are over 1,350 municipalities in which work is underway.
- The Municipalities completed to date are around 250, the ones with a certificate of completion work are 170.

National Network Operator – Lagging on coverage targets

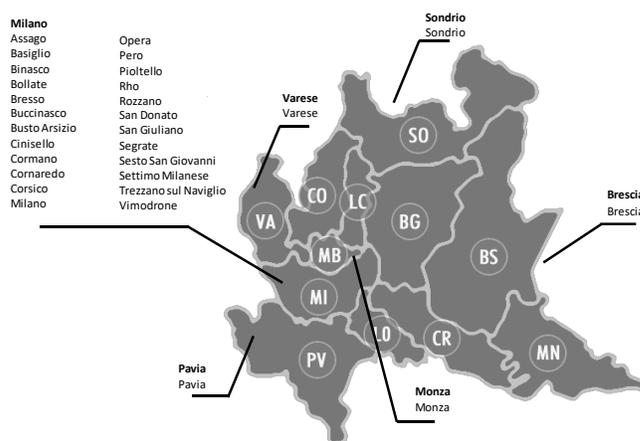
Fiber coverage is below targets set in 2017

2018	FTTH	FTTC
Coverage 2018 (planned in 2017)	2,464,805	12,790,160
Coverage 2018 (actual in 2019)	2,018,613	11,559,359
<i>Difference actual vs planned</i>	-446,192	-1,230,801
<i>% difference actual vs planned</i>	-18.1%	-9.6%

Source: Invitalia "Esito Consultazione Aree Grigie e nere 2019"

OF – Gray and Black areas coverage

Only few cities (mainly in Milan province) have been reached by OF plans



Source: Open Fiber website

Brescia Province Still Offer Plenty of Room to Grow in the Short Term...

Intred already reached a relevant market share in the province of Brescia, both in the business segment (we estimate 9%) and in the residential segment (4%) by leveraging on its proprietary fiber optic network. Despite the entire Brescia Province is one of the most advanced area in terms of ultrabroadband coverage in Italy (68% of population has access to connectivity with speed download of >30Mbit/s), we still believe Intred has still an attractive market to address. Growth will be partially organic and partially capex-driven (we expect the company to deploy 40% of its planned capex in the province of Brescia).

Levers for growth in the province of Brescia are the following:

- development capex to deploy FTTH-Point-to-Point connections to address connectivity demand of business customers in specific areas (typically SMEs with a turnover > Eu1mn).
- development capex to deploy FTTH-GPON networks to address connectivity demand of micro-business and residential customers in specific areas;
- commercial effort to gain new FTTC customers exploiting the existing proprietary fiber network;
- we also highlight that Intred has recently signed an agreement for the use of Open Fiber's FTTH-GPON network in the city of Brescia. This agreement, which envisages capex of about Eu3mn over 5 years, allows Intred to activate FTTH connections on a potential of 70,000 real estate.

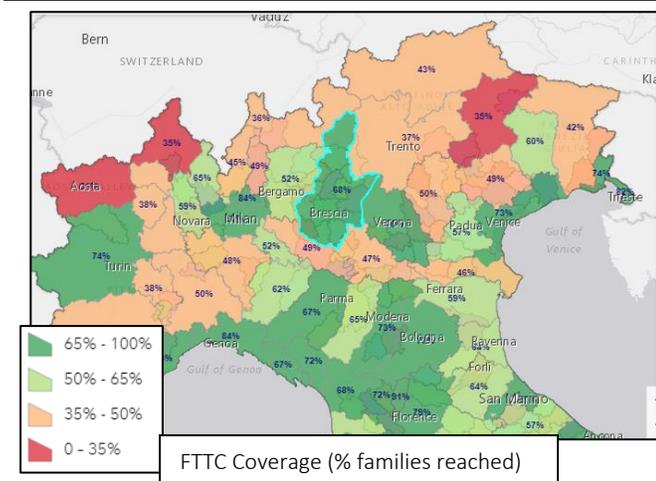
The most relevant growth opportunity for Intred is represented by the demand of FTTH-Point-to-Point connections for business customers. As of today, we estimate that:

- less than 50% of the overall population of SMEs with an annual turnover of >Eu1mn (ca 9,000) is already provided with a FTTH-Point-to-Point connection.
- with ca 1,100 FTTH-Point-to-Point connections, Intred holds currently about 30% of SMEs with an active FTTH-Point-to-Point connection.
- we expect Intred to keep its leading market share as the number of SMEs provided with an FTTH-Point-to-Point connection increases. We expect a full coverage in the next 3-5 years.

By analyzing available public data, we tried to find evidences for the idea that still many SMEs currently need to be provided with fast connectivity (FTTH). To do this we counted the number of SMEs with an annual turnover comprised between Eu1mn-Eu20mn (AIDA database) that are located in municipalities where a low number of families is reached by FTTC (AGCOM database). Excluding the city of Brescia, we calculated that about 40% of considered SMEs are located in municipalities with no FTTC full coverage of residential users (i.e municipalities where the FTTC connection reaches less than 75% of local families). This confirms the assumption that still many SMEs still need to be reached by a fiber connection.

Northern Italy – FTTC coverage

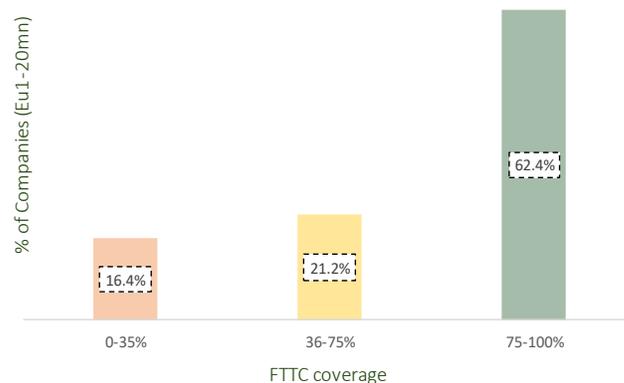
Brescia is among the most covered areas in northern Italy as of fiber connection



Source: AGCOM

Brescia Province – SMEs (Eu1-20mn turnover) coverage

Despite a good coverage, there is still room to grow on SMEs



Source: Alantra elaboration on AIDA, ISTAT, AGCOM data

...While Future Growth Comes from the Expansion in Lombardy

Intred has started to enlarge its network outside Brescia with the aim of gaining new customers in the areas of Bergamo, Mantua, Milan, Lodi, Como, Lecco and Monza.

The focus will be, at least initially, on business customers. The new areas targeted by Intred offer a large addressable market in terms of small businesses and SMEs: according to ISTAT and AIDA database those areas (excluding Milan province) host approx. 105k entities. If we consider only SMEs with annual turnover ranging between Eu1mn-Eu20mn (AIDA database) in the provinces of Bergamo, Mantova, Lecco, Como, Monza and Lodi (excluding those located in the chief town) we identify ca 11.6k entities. We calculated that about >50% of considered SMEs (i.e. 5.8k out of 11.6k SMEs) are located in municipalities with no FTTC full coverage of residential users (i.e municipalities where the FTTC connection reaches less than 75% of local families). This confirms the assumption that still many SMEs still need to be reached by a fiber connection.

As we already highlighted in the previous sections:

- Intred could benefit from a first mover advantage: the development of FTTC-FTTH network in targeted areas is still at its first phase, since large TLCs are focusing their efforts on larger cities, where they are anyway behind schedule.
- Intred business model is focused on SMEs: local focus, light and lean organization, strong use of business intelligence tools, direct sales force, higher quality of customer care and assistance service make Intred a more competitive player compared to national players.

We expect the company to deploy 60% of its planned capex for the development of the network outside Brescia. Capex will be dedicated to the implementation of the main network routes to reach targeted areas (mainly through IRU) and for the construction of FTTH-Point-to-Point connections for newly acquired business customers (Intred is expected to expand its direct sales team to cover the new areas).

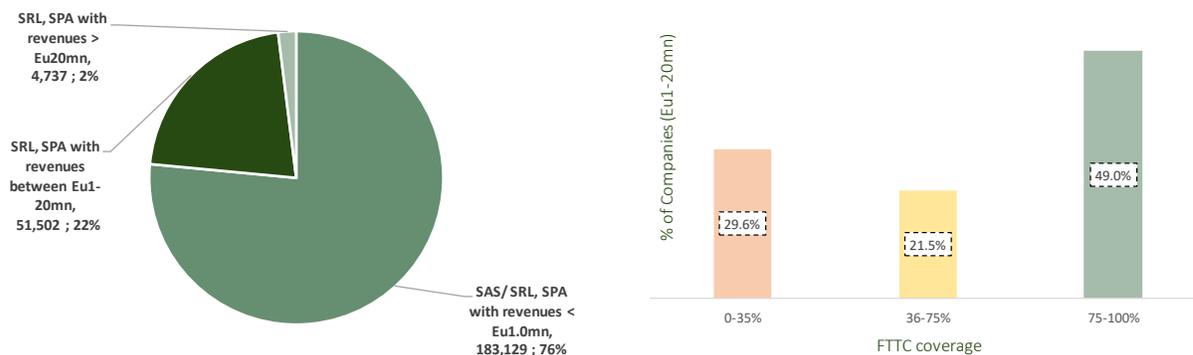
In line with its plans of geographical expansion in Lombardy, Intred recently signed some IRU agreements (i.e. indefeasible right of use: contractual agreement that gives the right to use a certain amount of the capacity of dull fiber for a specified number of years) with other network providers.

In more details Intred signed the following agreements:

- 15 years IRU with TIM to buy approx. 500k of dull fiber, that will allow Intred to reach 90 municipalities in the provinces of Milan, Monza e Brianza, Lecco and Bergamo (total capex Eu3mn o/w Eu1mn for the purchase of transmission equipment)
- 15 years IRU with GTT and Retelit to buy approx. 300km of dull fiber, that will allow Intred to further develop its network in the provinces of Milan, Monza e Brianza, Pavia and Como (total capex Eu1mn)

Outside Brescia – Number of companies and Coverage

Significant number of SMEs between Eu1-20mn turnover with still low FTTC coverage...



Launch of a Residential Offer Outside the Province of Brescia and M&A could further accelerate Growth

Intred has recently started its expansion out of the province of Brescia, targeting business customers. The company has not yet planned to bring its residential offering (EIR brand) in the new targeted areas. We believe that a move in this direction could represent a strong catalyst for future growth.

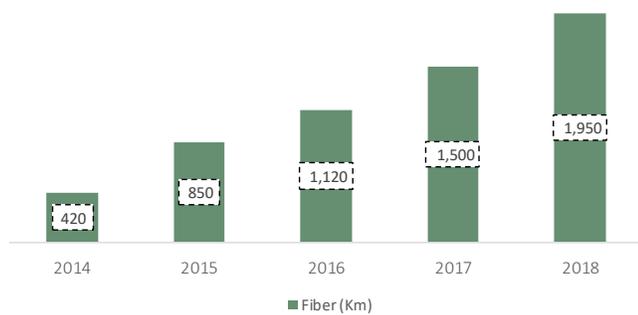
M&A could represent a catalyst too: the company could leverage on its ungeared balance sheet and solid cash generation to finance the acquisition of other small players offering connectivity services to both business and residential customers.

Financials

Intred has built an history of outstanding growth: revenues grew organically from Eu7.7mn in FY14 to Eu17.2mn in FY18, posting a 22.2% 5Y CAGR. Growth was mainly driven by investments made to expand proprietary fiber network and by the launch of the residential offering under the brand EIR. This resulted in a sharp increase in the number of customers which more than tripled over the period

Intred – Proprietary Fiber Network (Km)

Intred invested to expand its fiber network all across Brescia Province



Intred – Customer Development

Customers grew at 33.2% CAGR over FY14-18 period



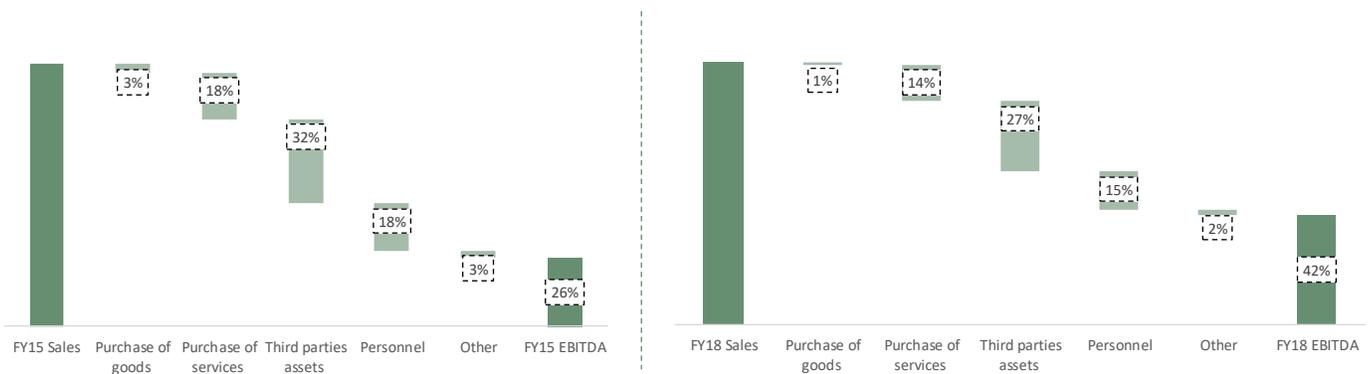
Source: company data

*calculated on 43 PoS active in the period 1/1/16 – 31/12/18

EBITDA adj. grew faster than revenues and went from Eu1.4mn in FY14 to Eu7.3mn in FY18, posting a 49.9% 5Y CAGR. Residential segment launch allowed to exploit a positive operating leverage on fixed costs related to existing proprietary network. Adj. EBITDA margin expanded from 18.7% in FY14 to 41.7% in FY18.

Intred - Cost Breakdown (FY15-FY18)

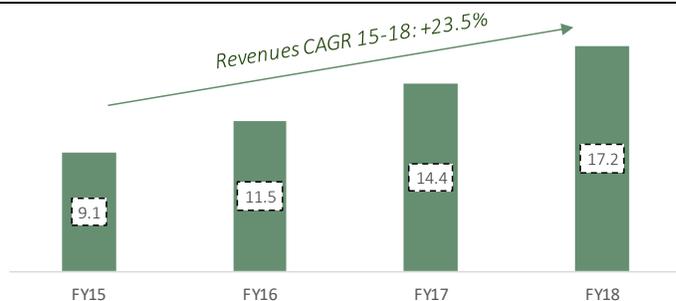
Residential business allowed to gain efficiencies on existing costs base driving margins up



Source: company data

Intred - Revenues

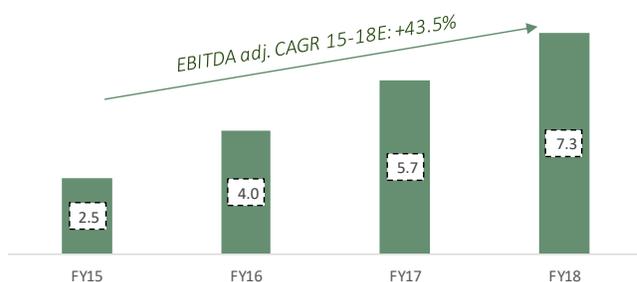
Revenues posted a 23.5% CAGR over the period



Source: company data

Intred - EBITDA Adj.

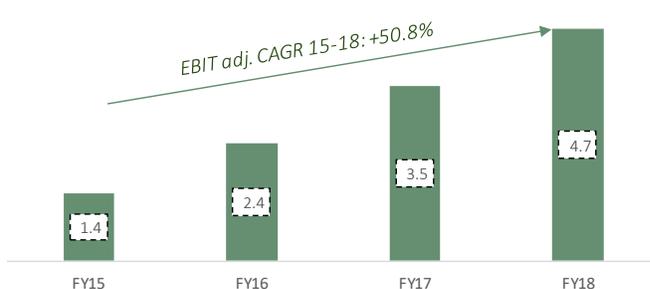
Adj. EBITDA margin went from 26.2% to 41.7% over the period



Source: company data

Intred - EBIT Adj.

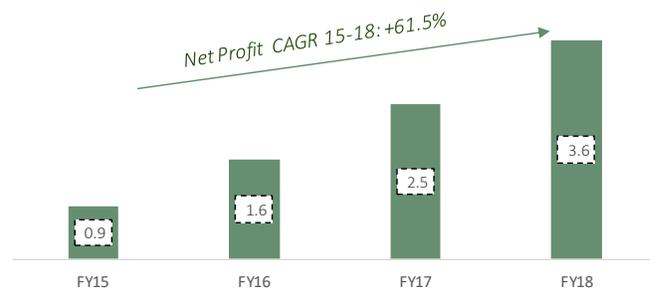
EBIT margin went from 14.5% to 26.7% over the period



Source: company data

Intred - Adjusted Net Profit

Net Profit grew 61.5% CAGR over the period



Source: company data

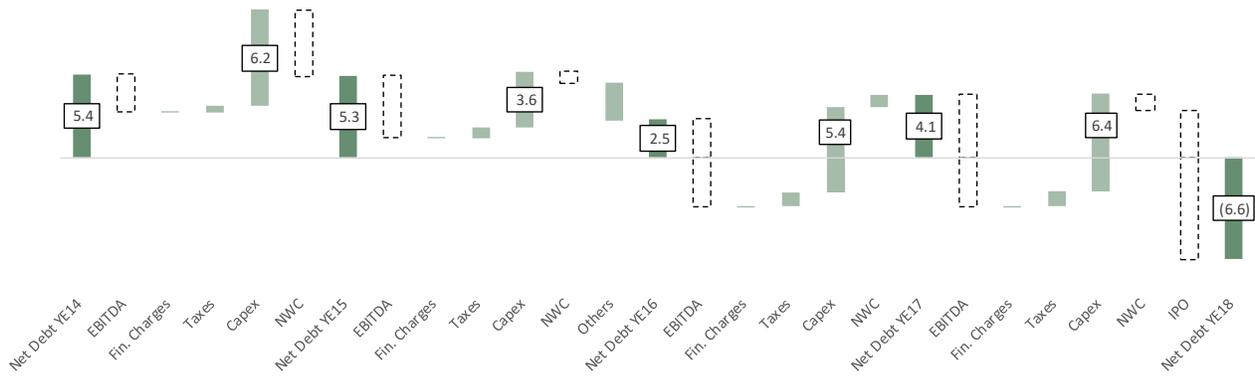
EBIT Adj. went from Eu1.4mn in FY15 to Eu4.7mn in FY18, posting a 50.8% CAGR; over the same period EBIT margin improved from 14.5% to 26.7%.

Adjusted Net Profit went from Eu0.9mn in FY15 to Eu3.7mn in FY18, posting a 61.5% CAGR.

Net Financial position went from Eu5.3mn debt (2.1x EBITDA) at YE15 to Eu6.6mn cash at YE18 after Eu9.5mn net IPO proceeds and Eu21.7mn Capex (on average 43.0% of revenues in the period FY15-FY18) for the expansion of its proprietary network (more than doubled over the period).

Intred - Net debt Bridge

Significant Capex for the expansion of proprietary network



Source: company data and Alantra estimates

1H19 Results

In 1H19 revenues were up 21.4% YoY to Eu10.0mn, from Eu8.2mn in 1H18. In greater detail, ultra-broadband connections continued to drive growth reaching Eu5.4mn (+48% YoY) while Broadband and RDSL connections declined 9% and 7% respectively. Recurring fees represented 94% of revenues in the first half; churn rate was equal to 4.5%. All business segments grew in the quarter with Business (+22% YoY, 53.9% of 1H19 revenues) and Residential (+25% YoY, 29.2% of 1H19 revenues) being the largest contributor to growth.

EBITDA was up 24.1% YoY reaching Eu4.1mn, with a 40.9% margin (+90bps YoY). EBIT was up 32.8% YoY reaching Eu2.8mn, with a 27.3% margin (+240bps YoY). Net Profit was up 35.8% YoY reaching Eu2.1mn, with a 20.3% margin (+220bps YoY).

Net cash stood at Eu5.7mn 1H19, slightly down from YE18 due to capex and a slight working capital absorption. Capex in 1H19 totaled Eu3.3mn (o/w Eu0.6mn IRU and Eu2.3mn proprietary network) and was mainly addressed to expand company's network in Bergamo, Monza, Lecco, Lodi and Milan provinces and consolidate its presence in Brescia.

Intred – 1H19 Results

Intred posted solid results in 1H19 giving full of visibility to FY results

Eu mn	1H18A	1H19A	YoY %	2H18A	2H19E	YoY %	FY18A	FY19E	YoY %
Business	4.4	5.4	21.7%	4.8	6.1	28.5%	9.2	11.5	25.2%
<i>On sales %</i>	53.8%	53.9%		53.2%	57.1%		53.5%	55.6%	
Residential	2.3	2.9	25.0%	2.6	2.9	13.2%	4.9	5.9	18.8%
<i>On sales %</i>	28.4%	29.2%		29.0%	27.5%		28.7%	28.3%	
Wholesale & PA	1.5	1.7	15.1%	1.6	1.7	3.4%	3.1	3.4	9.0%
<i>On sales %</i>	17.8%	16.9%		18.0%	15.5%		17.9%	16.2%	
Eu mn	1H18A	1H19A	YoY %	2H18A	2H19E	YoY %	FY18A	FY19E	YoY %
Revenues	8.2	10.0	21.4%	9.0	10.7	19.7%	17.2	20.7	20.5%
<i>on sales %</i>	98.8%	98.8%		98.2%	98.2%		98.5%	98.5%	
Total Revenues / Value of Producti	8.3	10.1	21.4%	9.1	10.9	19.7%	17.5	21.0	20.5%
<i>on sales %</i>	100.0%	100.0%		100.0%	100.0%		100.0%	100.0%	
EBITDA Adjusted	3.3	4.1	24.1%	3.9	4.6	16.5%	7.3	8.7	20.0%
<i>Ebitda Margin %</i>	40.0%	40.9%		43.2%	42.0%		41.7%	41.5%	
EBIT Adjusted	2.1	2.8	32.8%	2.6	2.7	6.3%	4.7	5.5	18.1%
<i>Ebit Margin %</i>	24.9%	27.3%		28.3%	25.1%		26.7%	26.2%	
Restated Net Profit	1.5	2.1	35.8%	2.1	2.2	5.3%	3.6	4.2	18.3%
<i>Net Profit Margin %</i>	18.1%	20.3%		18.6%	19.9%		18.4%	20.1%	
NFP end of the period	6.6	5.7		6.6	5.6		6.6	5.6	

Source: company data, Alantra estimates

Estimates

FY18-21 forecasts

We expect revenues to achieve a 19.1% CAGR in FY18-21E with customers rising from 26,268 at YE18 to 40,316 at YE21 (+15.7% CAGR18-21E).

Business segment

We expect:

- Revenues to grow CAGR 18-21 of 23.6% from Eu9.2mn to Eu17.4mn.
- Customers rising from ca 4,000 at YE18 to ca 6,500 at YE21,

In greater detail:

- FTTH fiber connection for larger accounts (companies with an annual turnover >Eu1.0mn): with ca 1,100 FTTH-Point-to-Point connections, Intred holds currently about 30% of SMEs with an active FTTH-Point-to-Point connection. We expect Intred to keep its leading market share as the number of SMEs provided with an FTTH-Point-to-Point connection increases (we expect to add ca 1,000 new lines in the next 3 years); in areas outside Brescia Province we expect Intred to add ca 450 new lines.
- FTTC/GPON fiber connection for smaller accounts (companies with an annual turnover <Eu1.0mn): we expect growth to come only from Brescia province. According to AIDA approx. 33.5k companies with this size are based in Brescia Province; we expect Intred to grow from today 9% market share (2,900 companies) up to ca 12% (4,000 companies) by FY21.
- Churn rate of 4%.

Residential segment

We expect:

- Revenues to grow CAGR 18-21 of 16.6% from Eu4.9mn to Eu7.8mn.
- Customers rising from ca 22,000 at YE18 to ca 34,000 at YE21;

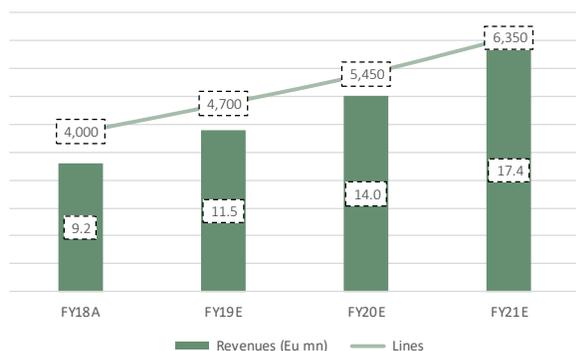
In greater detail:

- FTTC/GPON fiber connection for residential customers in Brescia Province: we expect Intred to grow from today 4% market share (ca 22,000 customers) up to 7% (ca 34,000 customers) by FY21.
- Churn rate of 4%.

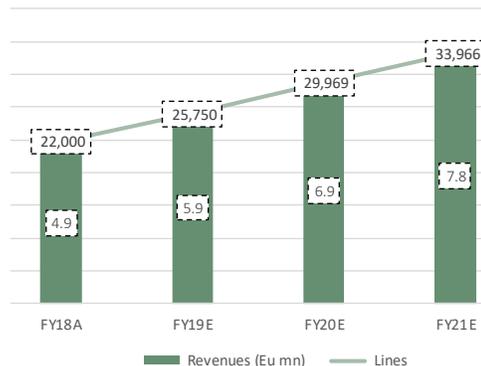
Wholesale and PA segments are expected to account for approx. 5% of FY19-21 revenues growth.

Intred - Growth by Business segment

Revenues and Lines growth – Business segment



Revenues and Lines growth – Residential segment



Source: company data and Alantra estimates

We forecast EBITDA adj. to post a 17.5% FY18-21 CAGR. Adj. EBITDA margin is seen slightly declining from 41.7% in FY18 to 40% in FY21 due to:

- Increasing marketing cost to support EIR brand awareness
- Hiring of new personnel (sales, customer care, technical support) to support the expansion outside Brescia Province

EBIT adj. is forecast to post a 14.3% CAGR in FY18-21E. We assume increasing depreciation due to expansion Capex.

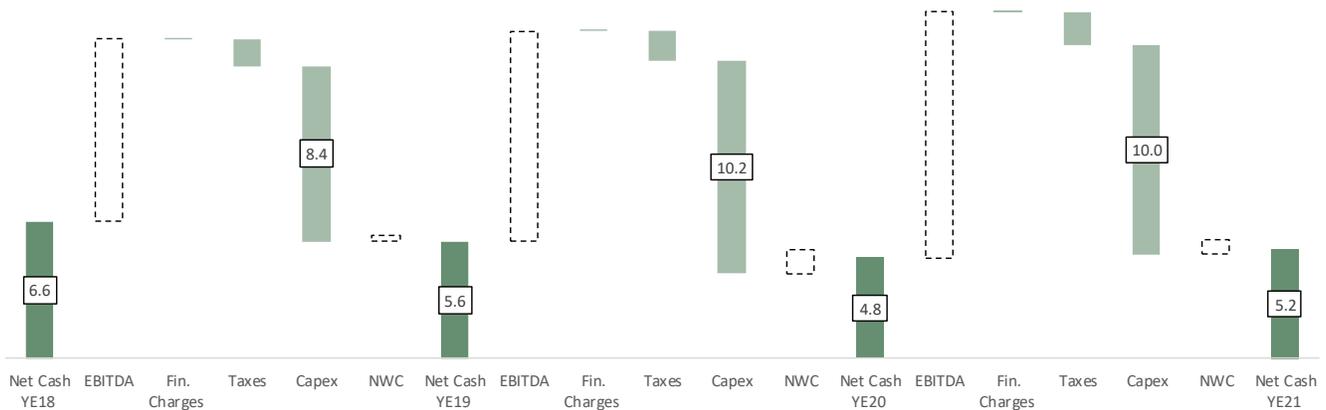
Net Profit adj. is forecast to post a 14.3% CAGR in FY18-21E. We assume an average 23% tax rate over the period.

Net cash at YE18 (Eu6.6mn including Eu9.5mn capital increase from the IPO) is seen decreasing to Eu5.2mn at YE21, after total Capex of Eu28.7mn over the period.

Intred's business benefits from a very high visibility on future revenues allowing the company to efficiently plan expansion capex. We expect Intred to finance Capex for the expansion of its proprietary network entirely through its operating cash flow. In greater detail, we expect the company to deploy 60% of its planned capex for the development of the network outside Brescia: capex will be dedicated to the implementation of the main network routes to reach targeted areas (mainly through IRU) and for the construction of FTTH-Point-to-Point. The remaining capex is expected to be deployed for FTTH-GPON networks to address connectivity demand of micro-business and residential customers in Brescia Province.

Intred - Net Debt Bridge

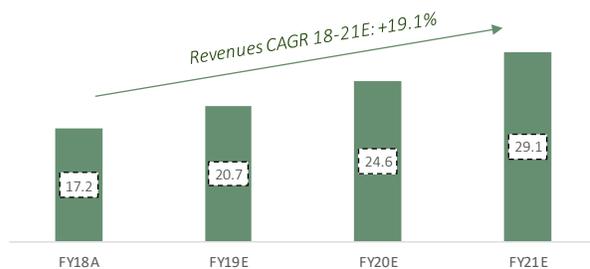
Operating cash flow is expected to finance Capex over next years leaving room for a consistent cash generation after FY21



Source: company data and Alantra estimates

Intred – Revenues

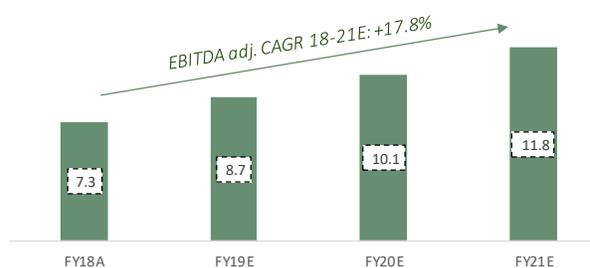
Revenues are expected to grow 19.1% CAGR over the period



Source: company data and Alantra estimates

Intred – EBITDA adj.

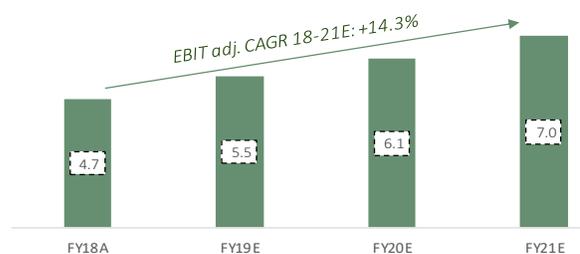
EBITDA adj. margin is expected to slightly decrease from 41.7% to 40.0% over the period



Source: company data and Alantra estimates

Intred – EBIT adj.

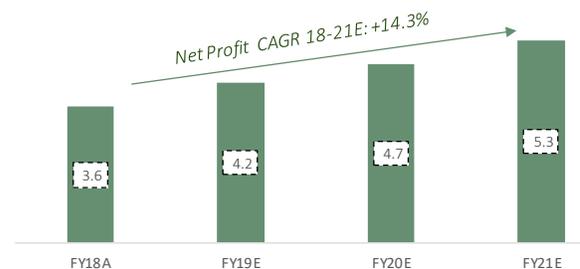
EBIT adj. margin is expected to slightly decrease from 26.7% to 23.6% over the period



Source: company data and Alantra estimates

Intred - Adjusted Net Profit

Adjusted net profit is expected to grow 14.3% CAGR over the period



Source: company data and Alantra estimates

Peers

CenturyLink, Inc: CenturyLink, Inc. is an investment holding company, which engages in the provision of integrated communications to residential and business customers. It operates through the Business and Consumer segment. The Business segment offers local and long-distance voice, VPN data network, private line, Ethernet, information technology, wavelength, broadband, colocation and data center services, managed services, professional and other services provided in connection with selling equipment, network security, and various other ancillary services to small, medium and enterprise business, wholesale and government customers, and other communication providers. The Consumer segment provides broadband, local and long-distance voice, video, and other ancillary services to residential customers. The company was founded in 1930 and is headquartered in Monroe, LA.

Cogent Communications Holdings Inc: Cogent Communications Holdings, Inc. engages in the provision of internet access and Internet Protocol communications services. It offers internet access and data transport through its fiber optic, IP data-only network, ethernet transport, and colocation services. The company was founded by David Schaeffer in August 1999 and is headquartered in Washington, DC.

Zayo Group Holdings, Inc: Zayo Group Holdings, Inc. engages in the provision of communications and bandwidth infrastructure services in the United States, Canada, and Europe. It operates through the following segments: Zayo Networks, Zayo Colocation (zColo), Allstream, and Other. The Zayo Networks segment includes access to bandwidth infrastructure. The Zayo Colocation segment refers to data center and cloud infrastructure solutions to a range of enterprise, carrier, cloud, and content customers. The Allstream segment consist of cloud volp and data solutions. The Other segment comprises of zayo professional services (ZPS), which provides network and technical resources to customers. The company was founded by John Louis Scarano, Sandi Mays, and Daniel P. Caruso on November 13, 2007 and is headquartered in Boulder, CO.

United Internet AG: United Internet AG engages in the provision of telecommunication and information technology solutions, such as Internet, data processing, and other related products. It operates through the following segments: Consumer Access, Business Access, Consumer Applications, and Business Applications. The Consumer and Business Access segments comprise of broadband and mobile access products with the respective applications such as home networks, online storage, telephony and entertainment. The Consumer and Business Applications segments include ad-financed and fee-based subscriptions such as domains, home pages, webhosting and e-shops, personal information management applications, group work, online storage and office software. The company was founded by Ralph Dommermuth on January 29, 1998 and is headquartered in Montabaur, Germany.

Bredband2 i Skandinavien AB: Bredband2 i Skandinavien AB engages in the provision of communication services. It offers internet, telephone, data centers, virtual private network, and mobile broadband services to residential and business customers. The company was founded in 1989 and is headquartered in Stockholm, Sweden.

Retelit Spa: Retelit provides data services and infrastructure for the telecommunications market. Its services include telecommunications infrastructure, data center (Colocation, Cloud, Cyber Security e APM), data transmission, and managed network. The company was founded on August 31, 1999 and is headquartered in Milan, Italy.

WIIT Spa: WIIT engages in the provision of hosted private and hybrid cloud services. It offers cloud computing, critical applications, business continuity and disaster recovery, cyber security, technology migrations, service desk, and digital transformation solutions. The company was founded by Alessandro Cozzi in 2001 and is headquartered in Milan, Italy.

Trading multiples

The stock is trading at discount to selected peers

Company	Country	Mkt Cap (Eu mn)	EV/EBITDA			EV/EBIT			PE			EV/Sales			
			FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	
INTRED	ITALY	78	8.4 x	7.3 x	6.2 x	13.3 x	12.1 x	10.6 x	18.6 x	16.7 x	14.7 x	3.5 x	3.0 x	2.5 x	
Premium (discount) to Peers' Median			-15%	-17%	-19%	-35%	-29%	-23%	-42%	-38%	-34%	-1%	-7%	-13%	
PEERS			Average	9.8 x	8.8 x	7.7 x	20.4 x	17.0 x	13.7 x	31.8 x	26.7 x	22.2 x	3.5 x	3.2 x	2.9 x
CenturyLink, Inc.	UNITED STATES	12,627	5.2 x	5.0 x	4.8 x	11.9 x	11.2 x	10.7 x	9.4 x	9.2 x	8.5 x	2.1 x	2.1 x	2.0 x	
Cogent Communications Holdings Inc	UNITED STATES	2,324	16.0 x	14.8 x	12.6 x	32.0 x	27.8 x	20.3 x	72.0 x	60.0 x	40.7 x	5.7 x	5.5 x	4.8 x	
Zayo Group Holdings, Inc.	UNITED STATES	7,296	10.8 x	10.5 x	9.9 x	26.6 x	25.0 x	22.8 x	54.8 x	47.8 x	50.7 x	5.4 x	5.3 x	5.0 x	
United Internet AG	GERMANY	6,650	6.6 x	6.1 x	5.7 x	9.9 x	8.8 x	8.0 x	13.6 x	12.6 x	11.8 x	1.7 x	1.5 x	1.4 x	
Bredband2 i Skandinavien AB	SWEDEN	72	8.8 x	7.3 x	6.5 x	13.5 x	10.2 x	8.8 x	21.3 x	16.4 x	14.2 x	0.9 x	0.8 x	0.7 x	
PEERS International			Average	9.5 x	8.7 x	7.9 x	18.8 x	16.6 x	14.1 x	34.2 x	29.2 x	25.2 x	3.2 x	3.0 x	2.8 x
Retelit S.p.A.	ITALY	246	8.6 x	7.4 x	5.7 x	25.0 x	17.7 x	10.8 x	26.0 x	18.6 x	11.8 x	3.6 x	3.2 x	2.6 x	
WIIT SpA	ITALY	158	12.9 x	10.8 x	8.8 x	23.5 x	18.6 x	14.2 x	25.6 x	22.2 x	17.4 x	5.2 x	4.0 x	3.6 x	
PEERS Italy			Average	10.7 x	9.1 x	7.2 x	24.2 x	18.1 x	12.5 x	25.8 x	20.4 x	14.6 x	4.4 x	3.6 x	3.1 x

Company	Country	Mkt Cap (Eu mn)	Dividend Yield			FCF Yield			Net Debt/EBITDA			P/BV			
			FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	
INTRED	ITALY		0.5%	0.6%	0.7%	-0.8%	-0.5%	1.1%	nm	nm	nm	3.0 x	2.5 x	2.2 x	
PEERS			Average	3.4%	3.7%	4.0%	6.5%	7.5%	8.4%	3.2 x	3.0 x	2.5 x	4.3 x	4.0 x	7.0 x
CenturyLink, Inc.	UNITED STATES	12,627	7.9%	7.9%	7.9%	23.2%	23.1%	24.1%	3.7 x	3.5 x	3.2 x	1.0 x	1.0 x	1.0 x	
Cogent Communications Holdings Inc	UNITED STATES	2,324	4.5%	5.1%	5.6%	3.3%	3.7%	4.2%	2.8 x	2.8 x	1.6 x	na	na	27.6 x	
Zayo Group Holdings, Inc.	UNITED STATES	7,296	0.0%	0.0%	0.0%	2.1%	2.5%	4.0%	4.6 x	4.4 x	4.0 x	6.0 x	5.0 x	4.3 x	
United Internet AG	GERMANY	6,650	0.2%	0.8%	1.1%	6.5%	7.5%	6.6%	1.7 x	1.3 x	1.1 x	1.4 x	1.3 x	1.2 x	
Bredband2 i Skandinavien AB	SWEDEN	72	7.5%	8.0%	8.0%	6.8%	7.8%	8.3%	nm	nm	nm	9.7 x	9.7 x	8.9 x	
PEERS International			Average	4.0%	4.3%	4.5%	8.4%	8.9%	9.4%	3.2 x	3.0 x	2.5 x	4.5 x	4.2 x	8.6 x
Retelit S.p.A.	ITALY	246	1.3%	1.9%	3.0%	1.0%	5.3%	8.5%	nm	nm	nm	1.4 x	1.3 x	1.2 x	
WIIT SpA	ITALY	158	2.2%	2.5%	2.8%	2.6%	2.8%	3.1%	nm	nm	nm	6.5 x	5.5 x	4.7 x	
PEERS Italy			Average	1.8%	2.2%	2.9%	1.8%	4.0%	5.8%	nm	nm	nm	3.9 x	3.4 x	3.0 x

Source: Alantra estimates and Factset

Financials

Higher profitability and CAGR as compared to selected peers

Company	Country	Mkt Cap (Eu mn)	FY19E - FY21E average margins					CAGR FY18A - FY21E				
			EBITDA Margin	EBIT Margin	Net Income Margin	Capex / Sales	Dividend Payout	Sales	EBITDA	EBIT	EPS	
INTRED	ITALY	78	40.7%	24.8%	19.0%	38.3%	9.9%	19.1%	20.1%	18.4%	18.5%	
PEERS			Average	33.2%	18.1%	9.9%	13.4%	83.4%	7.0%	7.4%	14.1%	16.6%
CenturyLink, Inc.	UNITED STATES	12,627	41.3%	18.3%	7.4%	16.4%	70.9%	-3.5%	-0.8%	6.3%	8.0%	
Cogent Communications Holdings Inc	UNITED STATES	2,324	36.9%	20.3%	8.5%	8.7%	284.9%	5.8%	8.0%	18.6%	28.6%	
Zayo Group Holdings, Inc.	UNITED STATES	7,296	50.1%	21.1%	6.3%	30.1%	0.0%	0.8%	1.6%	11.4%	17.8%	
United Internet AG	GERMANY	6,650	25.0%	17.3%	8.6%	6.6%	8.3%	3.3%	5.9%	7.5%	3.0%	
Bredband2 i Skandinavien AB	SWEDEN	72	11.0%	7.8%	6.1%	2.9%	134.7%	8.8%	10.7%	16.8%	16.4%	
PEERS International			Average	32.9%	17.0%	7.4%	12.9%	99.8%	3.0%	5.1%	12.1%	14.8%
Retelit S.p.A.	ITALY	239	43.6%	18.8%	16.5%	23.7%	35.0%	17.3%	10.7%	23.2%	26.9%	
WIIT SpA	ITALY	158	24.7%	23.1%	15.8%	5.5%	50.0%	16.4%	15.5%	14.9%	15.4%	
PEERS Italy			Average	34.1%	20.9%	16.2%	14.6%	42.5%	16.8%	13.1%	19.1%	21.1%

Source: Alantra estimates and Factset

Performance

Solid performance over the last 12 months

Company	Country	Mkt Cap (Eu mn)	Performance						
			1M	3M	6M	1YR	3YR	5YR	
INTRED	ITALY	78	0.4%	0.2%	30.3%	62.2%	na	na	
PEERS			Average	4.3%	8.1%	7.7%	-7.3%	20.1%	55.5%
			Median	0.4%	11.0%	6.2%	-5.8%	21.2%	67.6%
CenturyLink, Inc.	UNITED STATES	12,817	15.3%	13.9%	6.2%	-43.7%	-52.9%	-68.1%	
Cogent Communications Holdings Inc	UNITED STATES	2,324	-3.2%	-6.1%	8.2%	2.6%	51.4%	67.6%	
Zayo Group Holdings, Inc.	UNITED STATES	7,308	0.4%	2.9%	20.2%	-3.2%	13.1%	na	
United Internet AG	GERMANY	6,636	14.1%	11.0%	-5.2%	-21.2%	-18.3%	-0.5%	
Bredband2 i Skandinavien AB	SWEDEN	71	5.8%	13.7%	-3.5%	-10.2%	29.3%	141.9%	
PEERS International			Average	6.5%	7.1%	5.2%	-15.1%	4.5%	35.2%
			Median	5.8%	11.0%	6.2%	-10.2%	13.1%	33.6%
Retelit S.p.A.	ITALY	246	-0.1%	3.2%	-3.4%	-5.8%	97.8%	136.7%	
WIIT SpA	ITALY	158	-2.3%	17.8%	31.6%	30.7%	na	na	
PEERS Italy			Average	-1.2%	10.5%	14.1%	12.5%	97.8%	136.7%
			Median	-1.2%	10.5%	14.1%	12.5%	97.8%	136.7%

Source: Alantra estimates and Factset

Valuation

We set a target price of Eu7.0 per share. Our valuation is based on the outcome of a DCF method.

At our target price Intred would trade at an EV/EBITDA of 12.1x/10.6x on our 2019/2020 estimates and at a P/E of 26.3x/23.8x on our 2019/2020 estimates.

Our discounted cashflow model is based on the following assumptions:

- Stronger growth for FY19-21E period:
 - o Business segment: we expect Intred to keep its 30% market share on larger accounts (FTTH connection) but on a growing market base, while on smaller accounts (FTTC/GPON) we expect Intred market share to reach ca 12% from today 9%; we expect Intred to add ca 450 new FTTH lines outside Brescia Province.
 - o Residential segment: we expect Intred to grow from today 4% market share up to 7% by FY21 thanks to both organic growth and new capex.
- A period of slower growth until 2028:
 - o Business segment: we expect Intred to keep its 30% market share in the Province of Brescia as of larger accounts on a stable market base and to reach 15% as of smaller accounts; we expect market share outside Brescia Province (FTTH connections) to reach approx. 15%.
 - o Residential segment: we expect Intred to reach approx. 15% market share resulting from a higher recognition of EIR brand and new investments for GPON development.
- In terms of profitability we assume adj. EBITDA margin to slightly decline over time from 41.5% peak reached in FY18 mainly due to (i) increasing marketing and personnel costs in the short-run (40.0% margin in FY21) and (ii) rising competitive pressure in a maturing market in the long-run (38.1% margin in FY28).
- Cash generation should improve as the company decrease its yearly Capex after FY21. We expect Eu28.7mn Capex in FY19-21 period; Eu46.0mn Capex in FY22-28 period.
- WACC at 8.7% (2.5% risk-free rate / 8.0% small-cap risk premium / 0.77 beta / 100.0% equity weighting).
- Long-terminal growth rate of 2.0%, justified by long term demand of connectivity.

Potential upside to valuation could come from the launch of a Residential offering outside Brescia and from M&A.

Valuation - DCF

Our DCF model yields a target price of Eu7.0

We have run a sensitivity analysis on WACC and Terminal growth rate. The result is a Target Price ranging between Eu6.3ps and Eu7.8ps.

(Eu mn)	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	TV
Value of Production	17.5	21.0	24.9	29.5	33.3	37.0	40.1	42.4	44.9	47.1	49.2	50.1
EBITDA	7.3	8.7	10.1	11.8	13.3	14.7	15.7	16.4	17.1	17.9	18.7	19.1
EBITDA Margin	42%	42%	41%	40%	40%	40%	39%	39%	38%	38%	38%	38%
taxes on EBIT	(1.0)	(1.3)	(1.4)	(1.6)	(1.9)	(2.1)	(2.3)	(2.5)	(2.6)	(2.8)	(3.0)	(3.2)
Non recurring Cash-out	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
NWC Change	1.1	0.3	1.2	0.7	0.1	0.4	0.2	0.4	0.5	0.4	0.4	
Capex	(6.4)	(8.4)	(10.2)	(10.0)	(8.3)	(7.4)	(6.0)	(5.9)	(5.8)	(6.1)	(6.4)	(5.0)
Capex/Revenues	-36%	-40%	-41%	-34%	-25%	-20%	-15%	-14%	-13%	-13%	-13%	-10%
Free cash flow	1.1	(0.6)	(0.3)	0.9	3.3	5.5	7.5	8.4	9.1	9.4	9.8	163.7
Disc. Free Cash Flow	1.1	(0.6)	(0.3)	0.7	2.5	3.8	4.8	4.9	4.9	4.7	4.5	74.4
Year	0	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	9.5

Total Disc. FCF	29.7
Terminal value	74.4
Total EV (Eu mn)	104.1
NFP FY18	6.6
Adjustments	(0.5)
TOTAL Equity Value	110.2
# of shares (mn)	15.9
Fair Value per share (Eu)	7.0

Term. Growth		Wacc				
		9.3%	9.0%	8.7%	8.4%	8.1%
	3.0%	7.0	7.4	7.9	8.4	8.9
	2.5%	6.6	7.0	7.4	7.8	8.3
	2.0%	6.3	6.6	7.0	7.3	7.8
	1.5%	6.0	6.3	6.6	6.9	7.3
	1.0%	5.7	6.0	6.3	6.6	6.9

WACC	8.7%
Terminal Growth	2.0%

Source: Alantra estimates

Double-check on Peers' Multiples

In order to test the consistency of our DCF method we have run a peers' multiple valuation using the EV/EBITDA, EV/EBIT and PE metrics.

This method yields an average Equity value of Eu109.4mn on average over FY19-21 period. This result is consistent with our DCF result of Eu110.5mn.

Peer comparison

Peer's multiples comparison yields an average Equity value of Eu109.4mn

Eu mn	Peer Group Average multiples		
	FY19E	FY20E	FY21E
Average Peers' Multiple valuation	114.3	109.4	104.7
Eu Per Share	7.2	6.9	6.6
EBITDA reported	8.7	10.1	11.8
EV/EBITDA Peer Group	9.8x	8.8x	7.7x
EV based on multiples	86.0	89.2	91.0
Net Financial Position	5.6	4.8	5.2
Adjustments	(0.5)	(0.5)	(0.5)
Equity Value on EV/EBITDA	91.2	93.6	95.8
Eu Per Share	5.8	5.9	6.0
EBIT reported	5.5	6.1	7.0
EV/EBIT Peer Group	20.4x	17.0x	13.7x
EV based on multiples	112.1	104.5	95.1
Net Financial Position	5.6	4.8	5.2
Adjustments	(0.5)	(0.5)	(0.5)
Equity Value on EV/EBIT	117.3	108.8	99.9
Eu Per Share	7.4	6.9	6.3
Net profit reported	4.2	4.7	5.3
P/E Peer Group	31.8x	26.7x	22.2x
Equity Value on PE	134.3	125.7	118.4
Eu Per Share	8.5	7.9	7.5

Source: Alantra estimates

Disclaimer

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BUY: The stock is expected to generate returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative returns during the next 12 months.

NOT RATED: The stock is not covered.

UNDER REVIEW: An event occurred with an expected significant impact on our target price and we cannot issue a recommendation before having processed that new information and/or without a new share price reference.

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