

## SERVIZI ITALIA

## OUTPERFORM

Price (Eu):

3.38

Target Price (Eu):

5.20

SECTOR: Industrials

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## Stronger Turnover Growth Hampered by Higher Integration Expenses

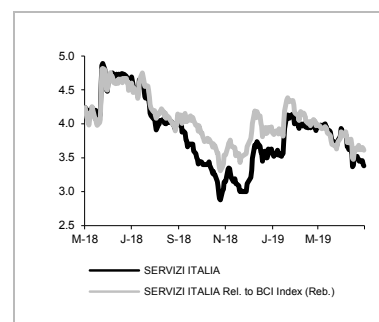
- 1Q19 results a touch higher at top line, while higher costs reduced profitability.** Servizi Italia reported quarterly results that saw revenues increase by +3.4% YoY to €65.1mn, slightly above expectations, thanks to a good performance by the linen hire and laundry division, and despite the negative forex effect on both Brazilian and Turkish sales. In particular, the division benefitted from healthy organic growth of foreign sales (Brazil up +10% YoY and Turkey up +12% YoY, both in local currencies), more than offsetting local currency depreciation compared to 1Q18. In addition, there were positive contributions from recently acquired companies Wash Service and Lavanderia Bolognini's business unit. At the sterilisation business, surgical sterilisation reported softer-than-expected growth of +3% YoY, while linen sterilisation was in line with weak expectations at €5.3mn, down -6% YoY mainly due to the termination of a number of contracts. The cost base increased more than expected due to higher personnel and energy costs deriving from the slow integration of the acquired companies. Operating profitability therefore fell, and EBITDA (ex-IFRS16) came to €15.7mn (-8% YoY), while reported EBITDA was €17mn. EBIT was also affected, decreasing to €3.2mn. D&A ex-IFRS16 remained stable YoY. A lower tax rate benefitted the bottom line, which registered net income of Eu2.7mn, below our estimate, after a 5% tax rate supported by hyper-depreciation. Net debt, adjusted for the impact of IFRS16, was in line at €98mn (vs €95mn exp.): there was an increase in the quarter due to a higher level of DSO, which is expected to recover in the following quarters. The impact of IFRS on net debt was €33.7mn, leading to reported net debt as at end-1Q19 of €132mn.
- Management confident of recovering operating profitability in the coming quarters.** Despite the good performance of the top line, up +3.4% YoY, the quarter saw weak figures due to higher, unexpected costs related to the slow integration of the linen hire and laundry companies acquired last year. As a consequence, the weaker sales mix driven by the traditionally less profitable linen hire and laundry activities was further affected. However, management considers this cost increase as non-recurring, and is confident that 2019 operating profitability should recover in the coming quarters.
- Estimates reduced at operating level and adjusted for IFRS16.** On the back of a weak performance at profitability level that started in 4Q18 and continued in 1Q19, we have reduced our estimates at operating level, while leaving sales unchanged to account for a weaker sales mix. In addition, we have taken into account a lower-than-expected tax rate in FY19, which benefits from hyper-depreciation dynamics.
- OUTPERFORM confirmed, target price trimmed to €5.20.** Following the new estimates, we have decreased our target price from €6 to €5.20, resulting from a simple average of a DCF model and two peer multiple models comparing both industry peers and small Italian STAR companies. On the back of an attractive valuation showing a clear discount, we reiterate our positive view with an OUTPERFORM recommendation.

Key Figures	2017A	2018A	2019E	2020E	2021E
Sales (Eu mn)	252	251	258	265	269
Ebitda (Eu mn)	70	64	72	75	76
Net profit (Eu mn)	14	12	12	13	13
EPS - New Adj.(Eu)	0.464	0.365	0.386	0.421	0.421
EPS - Old Adj.(Eu)	0.464	0.365	0.411	0.488	0.496
DPS (Eu)	0.000	0.160	0.151	0.164	0.164
Ratios & Multiples	2017A	2018A	2019E	2020E	2021E
P/E Adj.	7.3	9.3	8.7	8.0	8.0
Div. Yield	0.0%	4.7%	4.5%	4.9%	4.9%
EV/Ebitda Adj.	2.6	2.9	3.2	2.9	2.7
ROCE	7.5%	6.5%	6.6%	7.5%	8.2%

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 Next event:  
 2Q19 results out August 8<sup>th</sup> 2019

## SERVIZI ITALIA - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 6.00 to 5.20

 Ch. in Adj.EPS est: 2019E 2020E  
 -5.9% -13.8%

## STOCK DATA

 Reuters code: SERIT.MI  
 Bloomberg code: SRI IM

Performance	1m	3m	12m
Absolute	-14.0%	-15.5%	-20.3%
Relative	-6.5%	-13.2%	-13.9%
12 months H/L:	4.89/2.88		

## SHAREHOLDER DATA

No. of Ord. shares (mn):	32
Total No. of shares (mn):	32
Mkt Cap Ord (Eu mn):	108
Total Mkt Cap (Eu mn):	108
Mkt Float - ord (Eu mn):	37
Mkt Float (in %):	34.1%
Main shareholder:	
Coopservice SpA	55.3%

## BALANCE SHEET DATA

	2019
Book value (Eu mn):	108
BVPS (Eu):	3.48
P/BV:	1.0
Net Financial Position (Eu mn):	-120
Enterprise value (Eu mn):	227

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 on the last page of this report

**SERVIZI ITALIA - KEY FIGURES**

		2017A	2018A	2019E	2020E	2021E
	Fiscal year end	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	252	251	258	265	269
	EBITDA	70	64	72	75	76
	EBIT	16	14	15	17	18
	Financial income (charges)	1	(2)	(1)	(1)	(1)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	18	13	15	16	18
	Taxes	(3)	(1)	(2)	(2)	(4)
	Tax rate (%)	19.1%	4.4%	12.0%	15.0%	20.0%
	Minorities & discontinue activities	(1)	(1)	(1)	(1)	(1)
	Net profit	14	12	12	13	13
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	71	64	72	75	76
	Ebit excl. extraordinary items	18	14	15	17	18
	Net profit restated	15	12	12	13	13
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	32	32	32	32	32
	EPS stated fd	0.433	0.365	0.386	0.421	0.421
	EPS restated fd	0.464	0.365	0.386	0.421	0.421
	BVPS fd	4.453	4.549	3.479	3.658	3.781
	Dividend per share (ord)	0.000	0.160	0.151	0.164	0.164
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	39.3%	43.9%	39.0%	39.0%	39.0%
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	67	62	69	71	71
	Change in NWC	2	(2)	(9)	2	1
	Capital expenditure	(49)	(58)	(54)	(53)	(54)
	Other cash items	0	(1)	(2)	(2)	(2)
	Free cash flow (FCF)	11	12	19	17	15
	Acquisitions, divestments & others	(4)	(2)	(2)	0	0
	Dividend	(5)	(5)	(5)	(5)	(5)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	4	(7)	(37)	12	11	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	240	249	247	243	239
	Net working capital	(1)	(0)	7	5	3
	Long term liabilities	(21)	(22)	(24)	(24)	(25)
	Net capital employed	217	227	230	224	217
	Net financial position	(76)	(82)	(120)	(108)	(97)
	Group equity	142	145	111	116	120
	Minorities	3	3	3	3	3
Net equity	139	142	108	114	118	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	108	108	108	108	108
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(76)	(82)	(120)	(108)	(97)
	Enterprise value	183	190	227	215	205
<b>RATIOS(%)</b>	EBITDA margin*	28.2%	25.7%	28.0%	28.2%	28.3%
	EBIT margin*	7.0%	5.7%	5.9%	6.4%	6.7%
	Gearing - Debt/equity	53.4%	56.8%	108.1%	92.6%	80.8%
	Interest cover on EBIT	nm	8.6	30.2	33.9	36.0
	Debt/Ebitda	1.08	1.28	1.66	1.44	1.28
	ROCE*	7.5%	6.5%	6.6%	7.5%	8.2%
	ROE*	10.0%	8.2%	9.8%	12.1%	11.6%
	EV/CE	0.8	0.9	1.0	0.9	0.9
	EV/Sales	0.7	0.8	0.9	0.8	0.8
	EV/Ebit	10.3	13.2	15.1	12.7	11.4
Free Cash Flow Yield	9.9%	11.0%	17.8%	15.9%	13.7%	
<b>GROWTH RATES (%)</b>	Sales	6.1%	-0.5%	2.8%	2.7%	1.4%
	EBITDA*	11.1%	-9.5%	11.9%	3.6%	1.8%
	EBIT*	28.8%	-18.9%	5.2%	12.4%	6.1%
	Net profit	31.8%	-15.8%	6.0%	8.9%	0.1%
	EPS restated	36.2%	-21.4%	6.0%	8.9%	0.1%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## 1Q19 Results

**1Q19 results a touch higher at top line, while higher costs reduced profitability.** Servizi Italia reported quarterly results that saw revenues increase by +3.4% YoY to €65.1mn, slightly above expectations, thanks to a good performance by the linen hire and laundry division, and despite the negative forex effect on both Brazilian and Turkish sales. In particular, the division benefitted from healthy organic growth of foreign sales (Brazil up +10% YoY and Turkey up +12% YoY, both in local currencies), even allowing for local currency depreciation compared to 1Q18. In addition, there were positive contributions from recently acquired companies Wash Service and Lavanderia Bolognini's business unit. At the sterilisation business, surgical sterilisation reported softer-than-expected growth of +3% YoY, while linen sterilisation was in line with weak expectations at €5.3mn, down -6% YoY mainly due to the termination of a number of contracts. The cost base increased more than expected due to higher personnel and energy costs deriving from the slow integration of the acquired companies. Operating profitability therefore fell, and EBITDA (ex-IFRS16) came to €15.7mn (-8% YoY), while reported EBITDA was €17mn. EBIT was also affected, decreasing to €3.2mn. D&A ex-IFRS16 remained stable YoY. A lower tax rate benefitted the bottom line, which registered net income of €2.7mn, below our estimate, after a 5% tax rate supported by hyper-depreciation. Net debt, adjusted for the impact of IFRS16, was in line at €98mn (vs €95mn exp.): there was an increase in the quarter due to a higher level of DSO, which is expected to recover in the following quarters. The impact of IFRS on net debt was €33.7mn, leading to reported net debt as at end-1Q19 of €132mn.

### Servizi Italia – 1Q19 results

(Eu mn)	1Q18A	1Q19A	YoY chg %	1Q19E	A vs E
<b>REVENUES</b>	<b>63.0</b>	<b>65.1</b>	<b>3.4%</b>	<b>64.5</b>	<b>1.0%</b>
YoY change (%)					
o/w surgical instruments	11.5	11.8	3.0%	13.0	(9.1%)
o/w linen sterilization	5.7	5.4	(6.1%)	5.3	0.2%
o/w wash-hire	45.8	48.0	4.7%	46.2	3.9%
<b>EBITDA</b>	<b>17.0</b>	<b>16.9</b>	<b>(0.8%)</b>	<b>16.7</b>	<b>1.4%</b>
% of sales	27.05%	25.94%		25.8%	
<b>EBITDA (ex. IFRS16)</b>		<b>15.7</b>	<b>(8.1%)</b>	<b>16.7</b>	<b>(6.1%)</b>
% of sales		24.0%		25.8%	
D&A	(12.4)	(13.7)	10.0%	(12.6)	8.5%
<b>EBIT</b>	<b>4.6</b>	<b>3.2</b>	<b>(30.1%)</b>	<b>4.1</b>	<b>(20.8%)</b>
% of sales	7.30%	4.94%		6.3%	
Pretax Profit	4.2	2.9	(31.6%)	4.1	(28.9%)
tax rate	(16.0%)	(5.4%)		(12.3%)	
<b>Cons. Net Profit</b>	<b>3.5</b>	<b>2.7</b>	<b>(22.9%)</b>	<b>3.6</b>	<b>(23.3%)</b>
% of sales	5.62%	4.19%		5.5%	
<b>Net debt (exl. IFRS16)</b>	<b>79.1</b>	<b>98.4</b>		<b>95.0</b>	<b>4%</b>
Net debt		132.0			

Source: Company data and Intermonte estimates

## Change in estimates

**Management confident of recovering operating profitability in the coming quarters.** Despite the good performance of the top line, up +3.4% YoY, the quarter saw weak figures due to higher, unexpected costs related to the slow integration of the linen hire and laundry companies acquired last year. As a consequence, the weaker sales mix driven by the traditionally less profitable linen hire and laundry activities was further affected. However, management considers this cost increase as non-recurring, and is confident that 2019 operating profitability should recover in the coming quarters.

**Estimates reduced at operating level and adjusted for IFRS16.** On the back of a weak performance at profitability level that started in 4Q18 and continued in 1Q19, we have reduced our estimates at operating level, while leaving sales unchanged to account for a weaker sales mix. In addition, we have taken into account a lower-than-expected tax rate in FY19, which benefits from hyper-depreciation dynamics.

### Servizi Italia – Change in estimates

(Eu mn)	2016	2017	2018A	2019E	2020E	2021E	CAGR '18-'20
Sales New	237.7	252.1	250.9	258.0	265.0	268.7	1.8%
Sales Old			252.3	258.0	265.0	268.7	1.7%
<b>Chg %</b>				<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	
EBITDA New	64.0	69.8	64.4	72.1	74.7	76.0	5.1%
EBITDA Old			68.2	68.5	73.1	74.2	2.3%
<b>Chg %</b>				<b>5.3%</b>	<b>2.2%</b>	<b>2.5%</b>	
EBIT New	13.7	16.4	14.3	15.1	17.0	18.0	5.7%
EBIT Old			17.8	16.9	20.7	21.0	5.1%
<b>Chg %</b>				<b>(10.7%)</b>	<b>(17.9%)</b>	<b>(14.1%)</b>	
Net profit New	10.5	13.8	11.6	12.3	13.4	13.4	4.9%
Net profit Old			13.8	13.1	15.5	15.8	4.1%
<b>Chg %</b>				<b>(5.9%)</b>	<b>(13.8%)</b>	<b>(15.0%)</b>	

Source: Company data and Intermonte estimates

### Servizi Italia – Breakdown of revenues and margins

	2012	2013	2014	2015	2016	2017	2018	% on 2018 revenues
<b>Revenues by business line (Eu mn)</b>								
Wash-hire	162	164	177	173	180	190	183	73%
Linen sterilization	21	20	20	19	19	20	22	9%
Surgical sterilization	27	31	37	38	38	41	47	19%
<b>TOTAL</b>	<b>211</b>	<b>215</b>	<b>234</b>	<b>230</b>	<b>238</b>	<b>252</b>	<b>251</b>	
<b>EBITDA Margin by business line</b>								
Wash-hire	28.0%	27.9%	28.3%	27.4%	26.2%	26.9%	na	
Linen sterilization	27.0%	27.0%	25.4%	22.3%	20.3%	19.8%	na	
Surgical sterilization	34.5%	31.3%	31.4%	31.6%	33.4%	35.2%	na	
<b>EBIT Margin by business line</b>								
Wash-hire	5.1%	6.3%	8.1%	5.4%	3.6%	3.8%	na	
Linen sterilization	16.9%	16.8%	15.4%	10.8%	10.2%	10.1%	na	
Surgical sterilization	19.3%	16.8%	15.4%	13.7%	13.7%	17.3%	na	

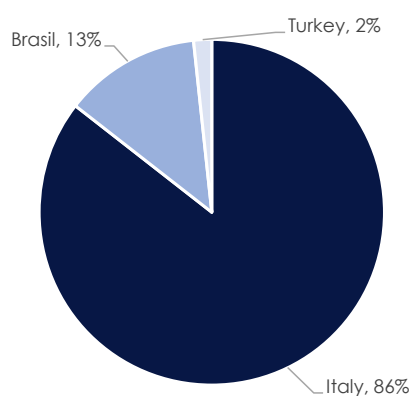
Source: Company data

### Servizi Italia – Geographical breakdown

Revenues by main geographic areas (Eu '000)	2015 % share	2016 % share	2017 % share	2018 % share
Italy	209 91%	210 88%	216 86%	215 86%
Brasil	21 9%	27 11%	32 13%	29 12%
Turkey		0.2 0%	4 2%	7 3%
<b>TOTAL</b>	<b>230 100%</b>	<b>238 100%</b>	<b>252 100%</b>	<b>251 100%</b>

Source: Company data

### Servizi Italia – Revenue breakdown by geography (FY18)



Source: Company data

**Servizi Italia – Geographical presence**



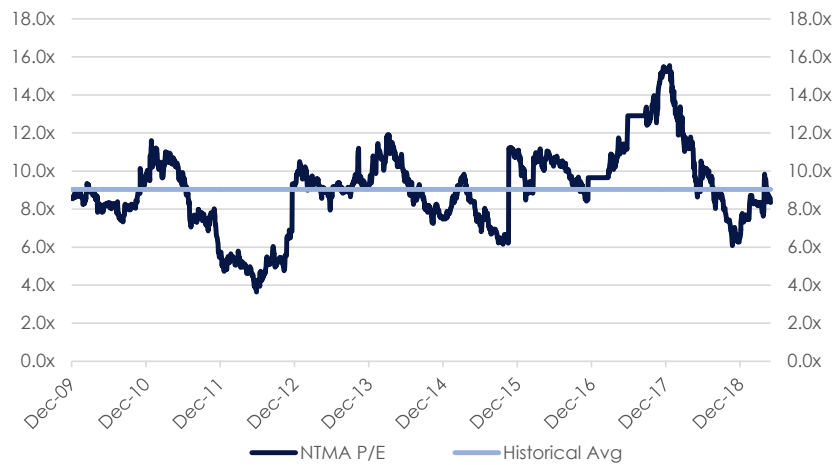
Source: Company presentation

**Servizi Italia - Share price since April 5<sup>th</sup> 2007**



Source: Factset

**Servizi Italia – NTM P/E**



Source: Factset

## Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>SERVIZI ITALIA</b>	<b>3.38</b>	<b>EUR</b>	<b>108</b>	<b>-14.0%</b>	<b>-15.5%</b>	<b>7.3%</b>	<b>8.3%</b>	<b>-20.3%</b>	<b>-26.6%</b>
CINTAS CORP.	223.60	USD	23,382	3.0%	8.2%	19.3%	33.1%	22.1%	79.2%
ELIS	15.05	EUR	3,305	-5.3%	9.2%	-13.0%	3.4%	-19.0%	-22.6%
HEALTHCARE SERVICE	31.34	USD	2,321	-7.4%	-17.9%	-33.6%	-22.0%	-15.1%	-33.5%
JOHNSON SERVICE	1.60	GBP	590	5.5%	25.3%	33.7%	37.1%	21.7%	23.6%
STERIS	133.35	USD	11,280	1.8%	10.2%	12.0%	24.8%	27.5%	73.0%
<b>Mean performance</b>				<b>-2.7%</b>	<b>3.3%</b>	<b>4.3%</b>	<b>14.1%</b>	<b>2.8%</b>	<b>15.5%</b>
<b>Italy FTSE Mib</b>	19,947.9	EUR		-8.8%	-3.4%	4.0%	8.9%	-8.5%	-4.2%

Source: FactSet

## Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
<b>SERVIZI ITALIA</b>	<b>3.38</b>	<b>EUR</b>	<b>108</b>	<b>0.9</b>	<b>0.8</b>	<b>3.2</b>	<b>2.9</b>	<b>15.1</b>	<b>12.7</b>	<b>8.7</b>	<b>8.0</b>	<b>4.5%</b>	<b>4.9%</b>
CINTAS CORP.	223.60	USD	23,382	3.5	3.2	15.5	14.3	20.0	18.0	26.8	23.7	0.8%	0.9%
ELIS	15.05	EUR	3,305	2.0	1.9	6.5	6.0	15.7	14.3	14.4	12.9	2.7%	2.9%
HEALTHCARE SERVICE	31.34	USD	2,321	1.1	1.1	17.2	13.3	18.8	14.2	23.1	19.5	2.5%	2.6%
JOHNSON SERVICE	1.60	GBP	590	2.0	1.9	6.3	5.9	13.9	13.2	16.2	15.5	2.0%	2.1%
STERIS	133.35	USD	11,280							24.6	22.5	1.1%	1.1%
<b>Median</b>				<b>2.0</b>	<b>1.9</b>	<b>11.0</b>	<b>9.6</b>	<b>17.3</b>	<b>14.3</b>	<b>23.1</b>	<b>19.5</b>	<b>2.0%</b>	<b>2.1%</b>

Source: Intermonete SIM estimates for covered companies, FactSet consensus estimates for peer group

## SERVIZI ITALIA - Estimates Comparison with Consensus

(Eu mn)	2019			2020		
	Intermonete	Consensus	%diff	Intermonete	Consensus	%diff
<b>Revenues</b>	258.0	260.4	-0.9%	265.0	263.6	0.5%
<b>Ebitda</b>	72.1		#DIV/0!	74.7		#DIV/0!
<b>Net Profit</b>	12.3	12.2	0.8%	13.4	13.9	-3.7%
<b>EPS</b>	0.386	0.380	1.7%	0.421	0.440	-4.3%
<b>Net Debt</b>	(119.6)	(85.1)	40.6%	(107.8)	(73.4)	46.8%

Source: Intermonete SIM estimates and Factset consensus estimates

## DETAILS ON STOCKS RECOMMENDATION

Stock NAME	SERVIZI ITALIA		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	5.20	Previous Target (Eu):	5.20
Current Price (Eu):	3.38	Previous Price (Eu):	3.38
Date of report:	31/05/2019	Date of last report:	31/05/2019

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P/IB40 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

- BUY: stock expected to outperform the market by over 25% over a 12 month period;
- OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
- NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period ;
- UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;
- SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

**CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS**

IntermonTE SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 31 March 2019 IntermonTE's Research Department covered 135 companies. IntermonTE's distribution of stock ratings is as follows:

BUY:	14,89 %
OUTPERFORM:	42,55 %
NEUTRAL:	36,89 %
UNDERPERFORM	05,67 %
SELL:	00,00 %

The distribution of stock ratings for companies which have received corporate finance services from IntermonTE in the last 12 months (50 in total) is as follows:

BUY:	20,00 %
OUTPERFORM:	56,00 %
NEUTRAL:	24,00 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

**CONFLICT OF INTEREST**

In order to disclose its possible conflicts of interest IntermonTE SIM states that:

within the last year, **IntermonTE SIM** managed or co-managed/is managing or is co-managing an Institutional Offering and/or managed or co-managed/is managing or is co-managing an offering with firm commitment underwriting of the securities of the following Companies: Alkemy, Banca Ifis, Banca Sistema, Cattolica Assicurazioni, Capital For Progress 2, Emak, Nova RE, Space4, Somec, Techedge.

**IntermonTE SIM** is acting as placement agent in Il Sole 24 Ore's capital increase with an agreement with the company for the publication of an equity research regarding the company and the transaction. IntermonTE will receive fees from the company for its activity as placement agent.

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**IntermonTE SIM** has a contractual commitment to act as liquidity provider on behalf of third parties for the following companies: Aedes, Banca Sistema, Cattolica.

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IntermonTE SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short
CAPITAL FOR PROGRESS 2	0,98	LONG
EPS EQUITA PEP2	0,51	LONG
SPACTIV	0,64	LONG
THESPAC	0,91	LONG
VEI 1	0,65	LONG
WASTE ITALIA	0,65	SHORT

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