KT&PARTNERS

Market Research Update

AIM Italia: What a Signal!

July 18, 2017

Contents

AIM Italia: the start of a virtuous circle?

We would like to start where we ended our previous report ("AIM Italia: Waiting for a Signal", November 2016), where we noted that "*the introduction of a favorable tax regime to encourage investors to invest in financial instruments in support of Italian SMEs could have a very positive effect on the AIM market. This could also stimulate the launch of new funds specialized in small and mid-caps and generate a virtuous circle*".

The approval of the Stability Act brought at the end of 2016 the "Piani Individuali di Risparmio" (PIR) into the Italian legislation; thanks to this, the Italian Government introduced tax benefits for individual people oriented towards **investing in Italian SMEs over the long term.** At the end of April, the fundraising related to the PIR amounted to €3bn.[1] Moreover, according to Ministry of Economy and Finance estimates, it is expected to reach approximately €50bn over five years.

As a matter of fact, Italian Equity markets performance differed both in terms of returns and liquidity. During the first half of 2017, the main Italian market (FTSE MIB) was up by 7.02% YTD,[2] outperforming European equities (STOXX Europe 50) by 3.31%. However, the FTSE MIB underperformed the Emerging Market (MSCI EM) by 6.65% and US (S&P 500) by 1.22%. The MTA (ex. the STAR segment) experienced also a feeble reduction in liquidity: the year-to-date total turnover traded on the MTA was down by 4.08% to €318bn, compared with €331bn a year ago.

The small cap universe, instead, experienced an extraordinary performance: the FTSE Italia STAR was one of the best-performing markets globally in 1H17 (up by 24.28%), outdoing US small cap (Russell 2000) by 19.99%, European small cap (STOXX Europe Small 200) by 15.44% and Emerging Market small cap (MSCI EM small cap) by 10.66%. This strong trend is confirmed **- for the very first time - by the AIM Italia market, which closed 1H17 up by 23.67%. Liquidity also dramatically improved:** the year-to-date total turnover traded on **the domestic STAR underwent 69.86% YoY growth, while the AIM market experienced a remarkable increase (+517.39% YoY growth).**

Moreover, during the first half of 2017, the AIM Italia primary market saw a recovery from the slowdown experienced during 2016: excluding 1 SPAC and 1 business combination, **6 companies went public on AIM Italia**, whilst during 1H16 just 4 companies went public (excluding SPACs).

In terms of fundamentals, FY16 showed a positive trend for the top line of the majority of the AIM companies: 62% of our sample, which is comprised of 66 companies, reported a significant increase in revenues, which, in most cases, **was higher than 30%** YoY. 52% of the sample significantly increased the EBITDA and 50% of the companies experienced a substantial growth in the net income. 58% of selected companies reported a decrease in their Net Financial Position.

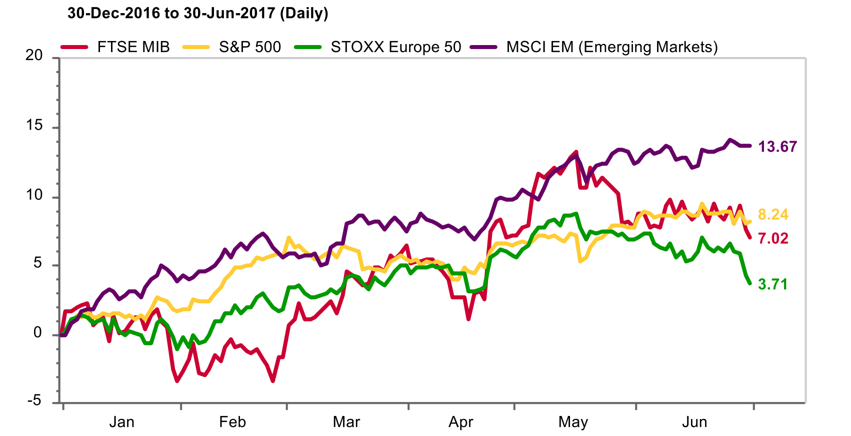
Taking everything into consideration, it makes sense to expect that these trends outlined in the first half of 2017 will consolidate in the second half; in other words, the worst may be over for AIM Italia and the future of this market looks now brighter both in terms of fundamentals as well as in terms of possible new listings.

[1] *Source: Assogestioni.*
[2] *As of June 30, 2017. Henceforth, we assume each Year-To-Date data as of June 30, 2017 (unless otherwise stated).*

1H17 Italian Equity Market Performance

Globally, stock markets registered positive performances during the first half of 2017. The FTSE MIB was up by 7.02% YTD, outperforming European equities (STOXX Europe 50) by 3.31% and underperforming US (S&P 500) by 1.22% and Emerging Market (MSCI EM) equities by 6.65%.

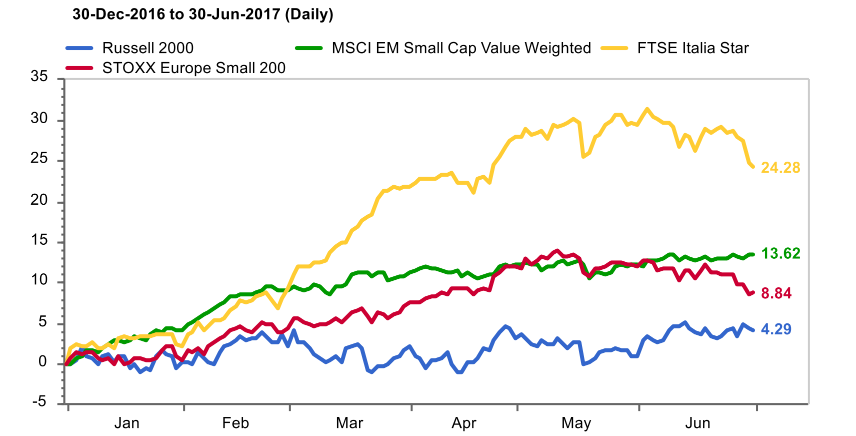
Chart 1: 2017 YTD performance of the main stock markets



Source: FactSet Prices

Positive performances were also recorded in the small caps segments. However, when comparing the Italian small cap index (FTSE Italia Star), we note that there is a significant gap between its performance and the other major economies' indexes. The FTSE Italia Star at June 30, 2017 was up by 24.28% YTD, outperforming the Emerging Market small cap (MSCI EM small cap) by 10.66%, European small cap (STOXX Europe Small 200) by 15.44% and US small cap (Russell 2000) by 19.99%.

Chart 2: 2017 YTD performance of the main small cap markets

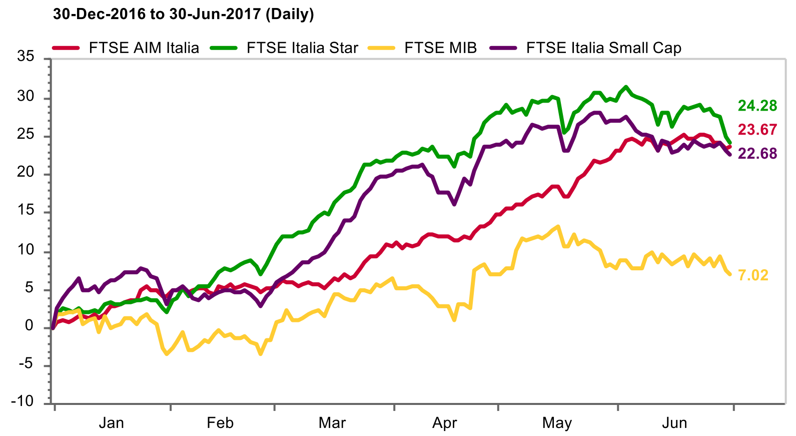


Source: FactSet Prices

Focusing on the Italian reality, the first half of 2017 showed a positive picture of the small cap equities: **small cap indexes are, again, outperforming the overall Italian market.** Indeed, the FTSE Italia STAR and the FTSE Italia Small

Cap at June 30, 2017 were up by 24.28% and 22.68%, respectively (outperforming the FTSE MIB by 17.26% and 15.66%, respectively).
Moreover, the first half of 2017 showed the strong recovery of the FTSE AIM Italia, which – after a depressed 2016 – closed 1H17 up by 23.67%, outperforming the FTSE MIB by 16.65%.

Chart 3: 2017 YTD performance of the main Italian stock market segments



Source: FactSet Prices

Looking at the AIM Italia YTD performance (+23.67%), the main contributions come from: (i) S.M.R.E. (+2.8% contribution), Bio-On (+1.9% contribution) and LU-VE (+1.6% contribution). We note that the contribution of each single company included in the FTSE AIM Index is calculated by taking into account the market capitalization at the beginning of the period.

On the other hand, Gala, Italia Independent and Blue Financial Communication were among the worst performers in 1H17. Nevertheless, their weight on the AIM Index and their individual performance (much smaller, in absolute value, than the top performers' ones) avoided a significant and negative impact on the AIM Index performance.

Table 1: AIM companies' 1H17 market performance

	Company Name	Market Cap 30/06/2017 (€mn)	Market Cap 31/12/2016 (€mn)	Weight on the AIM Index (31/12/2016)	1H17 Return (%)	1H17 AIM Italia Index return contribution (%)	1H2017 average daily volume	1H2017 average daily turnover (€)
1	Clabo	28.8	4.87	0.15%	491.23	0.75	133,024	230,403
2	Safe Bag	56.6	12.25	0.38%	355.45	1.37	126,373	278,818
3	Visibilia Editore	5.8	1.81	0.06%	221.72	0.13	137,706	17,115
4	S.M.R.E.	133.8	45.81	1.44%	192.02	2.76	46,075	263,444
5	Innovatec	8.7	3.03	0.10%	187.00	0.18	2,183,090	119,015
6	MC-link	46.0	16.50	0.52%	178.43	0.93	7,057	49,536
7	Gambero Rosso	15.8	5.94	0.19%	166.67	0.31	121,587	79,473
8	Gruppo Green Power	22.1	9.04	0.28%	144.72	0.41	4,199	20,683
9	Ecosuntek	12.7	5.61	0.18%	125.93	0.22	4,263	24,037
10	Lucisano Media Group	44.0	21.28	0.67%	106.85	0.71	20,397	41,286
11	Giglio Group	89.0	42.59	1.34%	93.11	1.25	54,548	241,548
12	Leone Film Group	68.6	37.63	1.18%	82.25	0.97	6,483	25,501
13	MailUp	32.7	19.72	0.62%	65.60	0.41	22,725	45,030
14	Softec	7.0	4.46	0.14%	56.54	0.08	5,846	21,292
15	IMVEST	28.2	16.83	0.53%	51.51	0.27	86,533	30,280
16	TPS (1)	27.6	18.90	0.59%	46.38	0.28	24,642	122,915
17	Finlogic (1)	35.5	24.30	0.76%	46.11	0.35	64,344	289,985
18	Siti - B&T Group	141.9	97.31	3.06%	45.79	1.40	25,124	210,535
19	TBS Group	92.0	64.04	2.01%	43.74	0.88	29,043	52,661
20	FOPE	19.4	13.66	0.43%	42.28	0.18	3,183	11,576
21	Abitare In	53.2	34.48	1.08%	42.06	0.46	136	34,729
22	Digital Magics	35.8	19.14	0.60%	40.65	0.24	16,566	87,141
23	CdR Advance Capital	10.4	7.38	0.23%	40.42	0.09	26,214	20,149
24	Poligrafici Printing	10.7	7.68	0.24%	38.89	0.09	33,714	11,551
25	Notorious Pictures	25.9	18.87	0.59%	37.31	0.22	84,870	85,438
26	Elettra Investimenti	27.4	19.40	0.61%	36.71	0.22	3,647	21,382
27	Industrial Stars of Italy 2	66.1	49.69	1.56%	32.93	0.51	11,649	128,489
28	Cover 50	50.8	39.38	1.24%	29.05	0.36	5,684	56,198
29	Bomi Italia	33.5	25.96	0.82%	29.03	0.24	29,710	60,783
30	Orsero (2)	193.2	83.20	2.61%	28.17	0.74	42,600	504,857
31	Bio On	354.1	216.25	6.80%	27.53	1.87	36,196	613,133
32	Italian Wine Brands	62.7	49.37	1.55%	27.01	0.42	21,502	208,816
33	4AIM SICAF	7.4	5.64	0.18%	26.60	0.05	10	3,675
34	Energy Lab	7.1	5.66	0.18%	26.23	0.05	67,690	42,417
35	Digital360 (1)	22.0	17.70	0.56%	24.35	0.14	196,929	286,686
36	Piteco	95.9	78.12	2.46%	22.74	0.56	21,020	100,989
37	LU-VE*	303.5	220.81	6.94%	22.42	1.56	19,675	253,588
38	Axélero	48.3	39.77	1.25%	21.48	0.27	35,008	133,362
39	Ki Group	18.3	15.31	0.48%	19.34	0.09	3,790	10,952
40	PLT Energia	69.6	58.50	1.84%	18.89	0.35	18,560	48,955
41	BioDue	55.6	47.05	1.48%	18.25	0.27	11,012	53,523
42	Vetrya	34.8	29.44	0.93%	18.23	0.17	7,939	47,762
43	H-FARM	70.9	60.24	1.89%	17.70	0.34	46,726	35,868
44	Health Italia (1)	58.1	49.50	1.56%	17.50	0.27	12,303	49,477
45	DigiTouch	18.7	16.20	0.51%	15.52	0.08	46,563	65,372
46	Frendy Energy	18.6	16.22	0.51%	14.33	0.07	247,397	70,842
47	Triboo	88.6	77.83	2.45%	13.81	0.34	31,992	100,416
48	GPI	63.2	53.40	1.68%	12.54	0.21	14,403	150,882
49	WIIT (1)	129.1	31.90	1.00%	11.78	0.12	4,720	239,103
50	First Capital	24.3	21.71	0.68%	11.76	0.08	541	4,978

	Company Name	Market Cap 30/06/2017 (€mn)	Market Cap 31/12/2016 (€mn)	Weight on the AIM Index (31/12/2016)	1H17 Return (%)	1H17 AIM Italia Index return contribution (%)	1H2017 average daily volume	1H2017 average daily turnover (€)
51	GO Internet	17.8	15.91	0.50%	11.67	0.06	76,202	130,129
52	Assiteca	65.3	59.40	1.87%	10.01	0.19	9,607	17,468
53	Tech-Value	10.9	10.03	0.32%	8.92	0.03	1,991	6,500
54	Innova Italy 1	104.7	97.50	3.06%	7.38	0.23	6,568	66,861
55	Energica Motor Company	39.8	33.92	1.07%	7.22	0.08	21,829	70,800
56	Ambromobiliare	7.8	10.58	0.33%	6.91	0.02	8,148	22,842
57	Caleido Group	4.7	4.44	0.14%	6.48	0.01	4,409	8,026
58	Crescita (1)	137.8	130.00	4.09%	6.00	0.25	4,647	47,518
59	Modellerie Brambilla	13.3	12.76	0.40%	4.11	0.02	4,690	17,089
60	Casta Diva Group	25.4	23.61	0.74%	3.90	0.03	7,726	16,671
61	Dominion Hosting Holding	13.8	13.49	0.42%	2.53	0.01	108	1,022
62	Masi Agricola	141.5	140.76	4.42%	0.50	0.02	12,542	55,474
63	S.C.M. SIM	20.9	21.01	0.66%	-0.36	0.00	67	706
64	Rosetti Marino	137.4	138.68	4.36%	-0.95	-0.04	3	94
65	Giorgio Fedon	25.2	25.55	0.80%	-1.26	-0.01	75	980
66	Net Insurance	29.7	30.09	0.95%	-1.37	-0.01	8,438	31,968
67	WM capital	2.8	2.86	0.09%	-1.39	0.00	89,571	20,673
68	Zephyro	68.2	70.38	2.21%	-3.04	-0.07	4,402	31,965
69	Mondo TV France	11.6	12.37	0.39%	-5.98	-0.02	586,341	66,469
70	Iniziative Bresciane	65.7	70.16	2.21%	-6.32	-0.14	647	11,198
71	Mondo TV Suisse	11.8	12.73	0.40%	-7.31	-0.03	26,790	31,205
72	Expert System	48.4	52.30	1.64%	-7.41	-0.12	59,667	109,745
73	Primi sui motori	11.6	9.14	0.29%	-7.61	-0.02	17,769	31,711
74	Enertronica	12.9	14.05	0.44%	-7.95	-0.04	13,962	46,773
75	Fintel	102.1	116.43	3.66%	-12.32	-0.45	1,650	6,751
76	Neurosoft	58.9	69.26	2.18%	-14.91	-0.32	17,008	52,913
77	Agatos	20.4	4.79	0.15%	-16.31	-0.02	14,119	5,208
78	Blue Financial Communication	5.2	6.29	0.20%	-17.07	-0.03	2,518	4,565
79	Italia Independent	26.1	32.05	1.01%	-18.48	-0.19	7,725	36,521
80	Telesia (1)	13.5	17.50	0.55%	-23.05	-0.13	3,160	27,551
81	Gala	19.5	42.23	1.33%	-53.80	-0.71	84,829	140,022

** We note that LU-VE moved from AIM to MTA on June 20, 2017. Nevertheless, we decided to take into account LU-VE's performance since its transition occurred, approximately, at the end of the first half of 2017.*

(1) Companies that went public during 1H17. Therefore, we considered the Market Cap observed on the IPO day instead of on December 31, 2016. All values reported refer to the period from the IPO day to June 30, 2017.

(2) We note that Orsero became listed thanks to the business combination with Glenalta SPAC.

Source: FactSet Data at June 30, 2017

AIM and STAR: Very Different Investor Bases

AIM and STAR have very different investor bases: AIM Italia's main investors are Italian, while STAR's main investors are international. Among the top 40 STAR institutional investors, only seven are Italian – Eurizon Capital SGR, Arca Fondi SGR and Fideuram Investimenti SGR are among the main players.

Overall, considering the number of owned stakes, the share of Italian institutional investors on AIM is greater than the contribution that comes from foreign investors (currently, Italian asset management companies own shares of approximately 60% of all AIM companies). On the other hand, if we consider the main market (MTA), the share of Italian investors is clearly much smaller than the share of foreign investors, as the latter take the lion's share of the market. Thus, this data may indicate that foreign institutional investors would prefer to put their money into other markets, seeking higher returns in the short term. As a result, the lack of foreign investors willing to invest in AIM Italia companies affects the market's liquidity.

Finally, we note that the first half of 2017 showed the entrance of a new major player within the "Top 40 Institutional Investors" of the STAR segment: Lyxor International Asset Management SAS. Lyxor became the first "PIR-compliant" ETF fund in Italy and, over the first six months of 2017, it considerably increased its position, reaching €207.6mn in AUM and becoming the sixth biggest institutional investor on the STAR Italia.

Table 2: Top 40 institutional investors in STAR segment

	Name	# Securities Held	Value of Securities Held	Value Change	%Port	Equity Assets	Report Date
1	Norges Bank Investment Management	31	479,153,838	358,726,391	0.08	628,670,727,132	2016-12-31
2	Fidelity Management & Research Co.	11	419,700,604	19,858,088	0.05	857,204,477,241	2017-03-31
3	Elliott Management Corp.	1	389,596,161	39,171,561	3.00	12,805,695,253	2017-03-31
4	The Vanguard Group, Inc.	23	251,433,141	8,077,512	0.01	2,512,390,449,993	2017-03-31
5	Dimensional Fund Advisors LP	41	214,856,400	119,776,161	0.06	345,423,605,624	2017-03-31
6	Lyxor International Asset Management SAS	21	207,588,543	23,268,055	0.05	53,136,764,787	2017-05-31
7	Threadneedle Asset Management Ltd.	3	187,835,939	57,944,029	0.31	61,025,933,172	2017-03-31
8	Groupama Asset Management SA	5	171,380,865	24,917,145	1.98	4,475,939,463	2017-04-28
9	JPMorgan Asset Management (UK) Ltd.	17	169,414,529	-7,240,674	0.13	104,485,304,547	2017-03-31
10	Artemis Investment Management LLP	2	142,085,594	3,023,310	0.50	27,833,187,384	2017-03-31
11	UBS AG (Investment Management)	20	140,283,132	-32,359,776	0.11	102,350,508,515	2017-03-31
12	BlackRock Investment Management LLC	2	140,055,083	4,070,813	0.11	127,998,234,974	2017-03-31
13	Amber Capital (UK) LLP	2	128,585,039	-13,995,786	20.49	627,552,795	2017-05-29
14	Eurizon Capital SGR SpA	32	122,803,097	29,274,953	0.67	7,144,052,939	2017-05-31
15	Allianz Global Investors GmbH	7	115,750,871	631,372	0.16	71,074,857,634	2017-03-31
16	Henderson Global Investors Ltd.	10	109,941,694	30,786,690	0.18	59,900,253,318	2017-03-31
17	Arca Fondi SGR SpA	32	109,929,172	26,186,742	1.03	3,315,862,044	2017-03-31
18	Fideuram Investimenti SGR SpA	41	104,983,599	-10,406,848	1.45	2,071,676,284	2017-05-31
19	Shareholder Value Management AG	4	98,933,678	-208,700	4.98	1,778,201,483	2016-12-30
20	BlackRock Advisors LLC	1	98,344,282	0	0.09	106,885,663,903	2017-03-31
21	Amundi Asset Management SA (Investment Management)	15	95,559,681	10,175,625	0.13	67,465,109,738	2017-03-31
22	Azimut Capital Management SGR SpA	21	93,300,824	8,927,910	1.68	5,234,572,468	2017-05-30
23	GMT Capital Corp.	1	87,609,409	-1,640,051	1.58	5,543,784,158	2017-03-31
24	Mellon Capital Management Corp.	20	87,328,363	505,273	0.05	175,769,607,221	2017-03-31
25	CDC Entreprises Valeurs Moyennes SAS	1	84,576,653	-6,907,292	33.11	255,467,531	2017-07-03
26	F&C Asset Managers Ltd.	3	82,515,204	44,582,482	0.47	16,811,909,380	2017-03-31
27	Standard Life Investments Ltd.	2	81,155,492	689,729	0.12	64,608,359,902	2017-03-31
28	Acadian Asset Management LLC	28	80,422,613	19,635	0.21	37,580,948,305	2017-03-31
29	Quaestio Capital Management SGR SpA	4	80,018,621	-232,308	18.13	438,142,663	2016-06-30
30	Lazard Freres Gestion SAS	7	78,456,996	4,069,687	1.11	5,941,898,629	2017-03-31
31	ANIMA Sgr SpA	28	77,194,858	-5,874,984	0.39	10,336,279,449	2017-05-31
32	BNP Paribas Investment Partners Belgium SA	4	73,125,010	330,800	0.73	4,351,364,083	2017-04-28
33	BlackRock Fund Advisors	22	71,813,538	51,864	0.00	1,666,202,608,214	2017-03-31
34	Kairos Partners SGR SpA	21	70,603,265	-3,209,263	4.95	1,102,250,748	2017-05-31
35	Baring Asset Management Ltd.	3	69,884,749	7,465,461	0.94	7,312,153,315	2017-03-31
36	Schroder Investment Management Ltd.	11	68,032,903	14,183,936	0.05	126,561,419,956	2017-03-31
37	Augustus Advisors LLC	1	67,797,671	0	100.00	67,797,671	2016-04-21
38	NNIP Advisors BV	8	65,711,804	-760,116	0.17	29,486,512,371	2017-03-31
39	SEB Investment Management AB	3	63,412,932	-24,334,509	0.20	31,448,465,073	2017-03-31
40	FIAM LLC	5	63,081,315	291,122	0.15	41,765,140,670	2017-03-31

Source: FactSet Data at June 30, 2017

Table 3: Top 40 institutional investors in AIM Italia segment

	Name	# Securities Held	Value of Securities Held	Value Change	%Port	Equity Assets	Report Date
1	Patrimony 1873 SA	19	32,694,527	-3,807,261	3.45	405,361,342	2017-05-31
2	Azimut Capital Management SGR SpA	18	22,759,741	1,933,298	0.42	5,126,311,006	2017-05-30
3	Arca Fondi SGR SpA	18	21,005,658	7,360,263	0.20	3,316,534,155	2017-03-31
4	Kairos Partners SGR SpA	14	20,162,160	1,942,180	1.41	1,102,330,911	2017-05-31
5	MOMentum Alternative Investments SA	11	14,102,349	-18,102	5.13	188,105,775	2017-02-28
6	Norges Bank Investment Management	5	10,123,795	10,123,795	0.00	630,430,478,600	2016-12-31
7	ZENIT SGR SpA	23	8,848,859	471,655	6.85	92,536,119	2017-05-31
8	ANIMA Sgr SpA	7	7,419,330	-1,316,001	0.04	10,343,655,833	2017-05-31
9	Compass Asset Management SA	10	7,286,345	3,719,726	5.80	121,583,087	2017-05-31
10	AcomeA SGR SpA	27	7,242,602	34,602	0.91	418,468,965	2016-07-31
11	Banca Ifigest SpA (Investment Management)	11	6,915,620	-12,204	8.81	71,192,767	2017-02-28
12	FIL Investments International (Italy)	2	4,932,632	3,331,196	0.39	1,211,575,799	2017-04-30
13	Fideuram Investimenti SGR SpA	8	4,826,945	1,119,490	0.07	2,074,471,037	2017-05-31
14	GAM Investment Management (Switzerland) AG	1	4,645,545	0	0.04	11,152,780,971	2017-03-31
15	BG Fund Management Luxembourg SA	7	4,324,247	-79,575	0.16	986,427,474	2017-05-31
16	Oddo Meriten Asset Management SAS	1	3,879,137	2,507,820	0.04	7,398,232,798	2017-05-31
17	HSBC Global Asset Management (France) SA	3	3,680,561	2,076,361	0.04	5,655,410,831	2017-05-31
18	Lemanik SA	26	3,385,174	544,820	0.57	295,211,139	2017-05-31
19	Sycomore Asset Management SA	2	3,076,192	-356,381	0.12	2,493,979,034	2016-12-30
20	March Asset Management SGIIC SAU	1	2,843,690	0	0.09	1,847,497,464	2017-03-31
21	Nextam Partners SGR SpA	7	2,657,863	261,219	2.03	85,780,908	2017-05-31
22	Kairos Investment Management Ltd.	6	2,556,053	-94,080	0.34	680,833,994	2016-12-31
23	Sella Gestioni SGR SpA	14	2,542,256	-296,408	0.37	302,297,444	2017-05-31
24	AXA Investment Managers (Paris) SA	1	2,356,802	2,356,802	0.01	16,687,668,470	2017-03-31
25	Schroder Investment Management Ltd.	1	2,311,135	0	0.00	127,264,083,144	2017-03-31
26	Generali Investments Europe SpA SGR (France)	1	2,240,451	0	0.06	3,306,898,918	2017-04-28
27	Pioneer Investment Management Ltd.	2	2,208,628	737,809	0.02	8,477,574,536	2017-04-28
28	Investitori SGR SpA	5	2,147,527	0	0.54	195,230,130	2016-09-30
29	Banor Capital Ltd.	4	1,570,310	580,364	0.55	230,219,218	2017-04-30
30	Symphonia SGR SpA	2	1,525,609	-165,776	0.15	577,128,403	2016-06-30
31	Eurizon Capital SGR SpA	4	1,494,920	383,753	0.01	7,136,728,172	2017-05-31
32	PKB PRIVATBANK SA	5	1,385,572	49,427	0.35	195,294,806	2017-05-31
33	Futura Investment Management Ltd.	1	1,255,740	0	100.00	1,255,740	2016-05-26
34	Casa 4 Funds SA	6	1,194,560	-31,159	1.36	45,649,961	2017-05-31
35	Pharus Management SA	4	1,056,037	0	0.25	254,850,476	2017-04-28
36	Decalia Asset Management SA	2	948,024	-19,741	0.95	93,405,798	2017-02-28
37	Gruppo ITAS Assicurazioni SpA	1	894,009	894,009	0.01	45,798,664	2015-12-31
38	AXA France Assurance SAS	1	888,933	0	0.01	9,465,440,381	2015-12-31
39	Mediolanum Gestione Fondi SGRpA	3	825,603	0	0.01	1,636,025,104	2017-03-31
40	GAM (Italia) SGR SpA	1	671,570	0	0.29	25,014,402	2017-05-31

Source: FactSet Data at June 30, 2017

Italian Equity Market Liquidity Structure

As for volumes traded, according to the Borsa Italiana June Monthly Update, during 1H17 the Italian market's total turnover was €339bn and the FTSE MIB shares accounted for 88.7% of that total. On the other hand, the year-to-date turnover on AIM Italia was €852mn, or 0.25% of the Italian market's total turnover, showing a significant improvement (+517.39% YoY).

During the first half of 2017, the MTA (ex. the STAR segment) suffered a feeble reduction in liquidity, as it decreased by 4.08% to €318bn, from €331bn a year ago. **Contrary to this trend, the small cap universe went through an important increase in liquidity.** The Domestic STAR underwent 69.86% growth YoY, while the AIM market experienced a remarkable boom (+517.39% YoY) reaching a turnover at the end of June 2017 of €852mn, much higher than a year ago (€138mn).

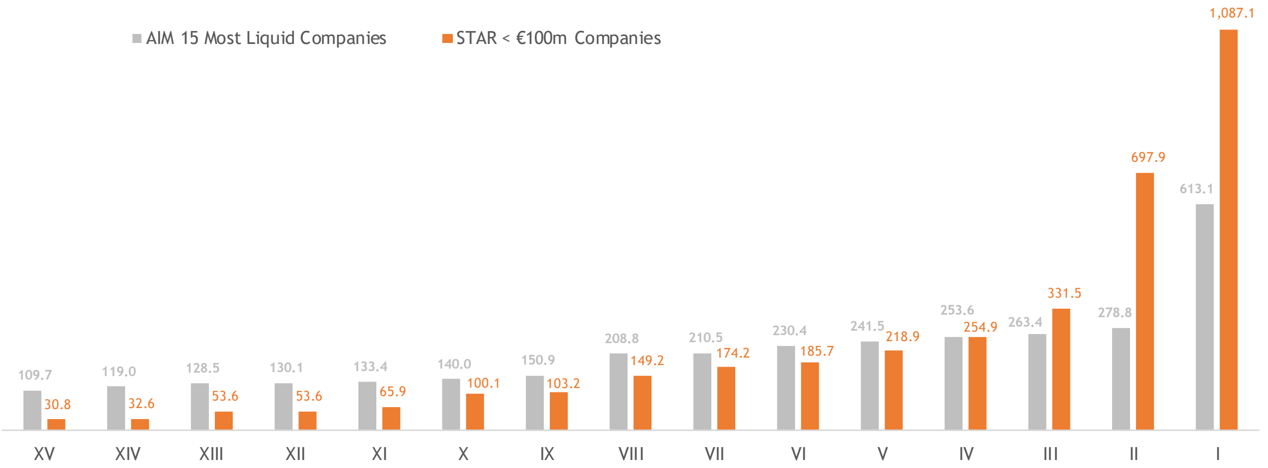
Table 4: Italian markets' trading volumes and turnover

	Trades Number Jan-Jun 2016	Trades Number Jan-Jun 2017	YoY %	Turnover (Eur Mn) Jan-Jun 2016	Turnover (Eur Mn) Jan-Jun 2017	YoY %
MTA Domestic	37,654,895	32,946,233	-12.50%	331,246	317,736	-4.08%
STAR Domestic	2,160,098	3,222,183	49.17%	6,268	10,647	69.86%
MTA Foreign	581,334	875,561	50.61%	3,354	8,986	167.92%
STAR Foreign	33,735	35,776	6.05%	191	149	-21.99%
AIM	64,223	268,738	318.45%	138	852	517.39%
MIV Invest. Companies	6,862	15,129	120.48%	13	58	346.15%
Global Equity Market	105,303	117,301	11.39%	659	665	0.91%
Total	**40,606,450**	**37,480,921**	**-7.70%**	**341,869**	**339,093**	**-0.81%**

Source: Borsa Italiana, KT&P's elaborations

Moreover, the comparison between AIM and STAR companies with market capitalization €100mn during 2017 - i.e. those that ideally can be considered the closest comparable to AIM companies - **shows that 11 AIM companies (out of 15) had a higher level of liquidity than the STAR ones.**

Chart 4: STAR companies with liquidity level of under €100mn (€ thousand)

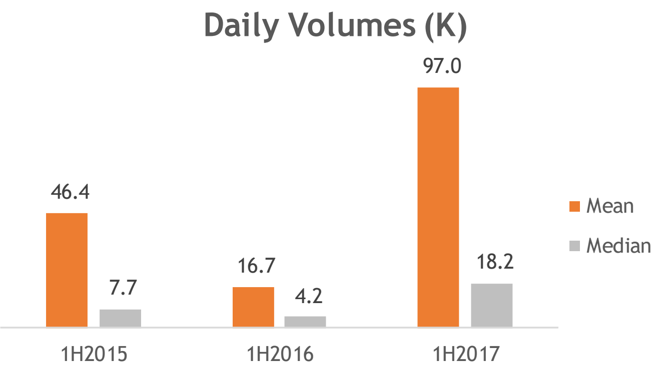


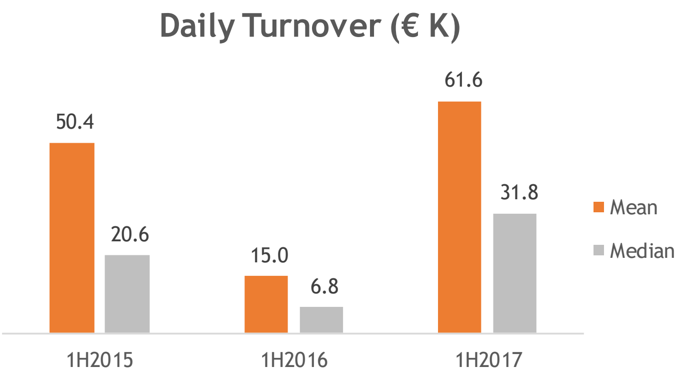
Source: FactSet Data at June 30, 2017

In our previous report, we divided the AIM Italia liquidity structure into three segments: (i) the most liquid segment, with an average daily turnover above €80,000; (ii) the liquid segment, with an average daily turnover between €10,000 and €80,000; and (iii) the less liquid segment, with an average daily turnover under €10,000; we came to the conclusion that the AIM market was rather illiquid (1 company belonging to the first segment, 35 companies belonging to the second one and 41 belonging to the last one).

By applying the same partition, it looks as though the situation has changed considerably. As of June 30, 2017, there were 19 companies with an average daily turnover higher than €80,000, 43 companies with an average daily turnover between €10,000 and €80,000, and only 11 companies with an average daily turnover lower than €10,000.[3] This shift - the majority of the companies are now positioned into the two most liquid segments – shows again the significant improvement in terms of liquidity.

Chart 5: Liquidity on the AIM market



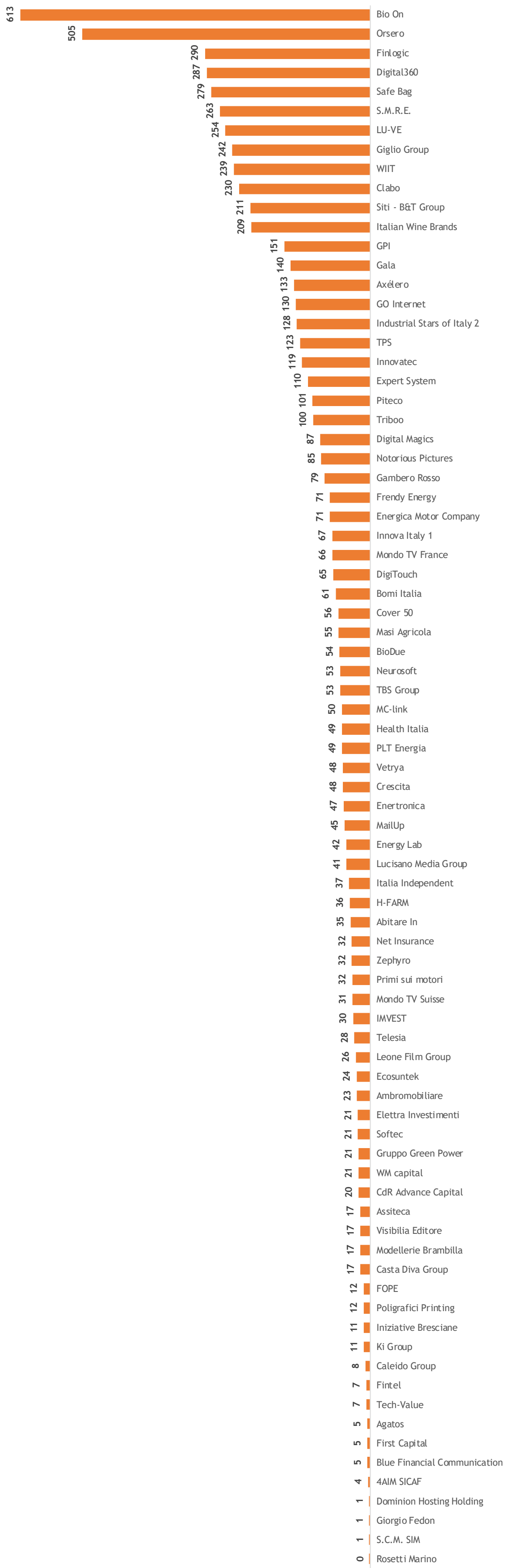


Source: FactSet, KT&P's elaborations
Note: in order to avoid biases related to possible seasonality effects, we considered only 1H data

[3] *In our work, we considered a sample of 73 companies formed by taking into account companies already listed at the beginning of 2017, in order to avoid possible biases related to the IPOs.*

The first half of 2017 also showed a sharp increase in the average daily traded volumes and in the average daily turnover of AIM Italia. On average, during 1H16, the daily traded volumes were 16.7K per stock; the same measure observed during 1H17 was equal to 97.0K per stock **(+581% YoY)**. At the same time, the average daily turnover observed during the first half of 2016 was equal to €15K per stock, whereas, during 1H17, it was €61.6K per stock **(+411% YoY).**

Chart 6: AIM Italia turnover (€ thousand)



Source: FactSet, Data at June 30, 2017

AIM Companies: FY16 Results

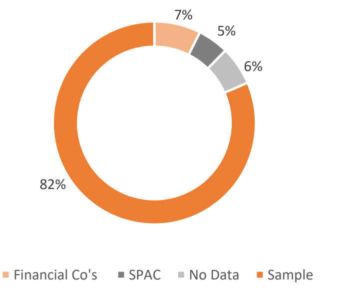
In this section, we present our analysis of the FY16 results of the AIM companies. We looked at the most relevant financial data (i.e. revenues, EBITDA, net income and net financial position), comparing the year-on-year change between FY16 and FY15.

We did our analysis by considering 81 companies (those that were listed on the AIM market as at June 30, 2017 + LU-VE) and by subtracting the following:

- Financial or investment companies;
- SPACs (Special Purpose Acquisition Companies);
- Other companies for which the comparison between FY16 and FY15 is not meaningful or comparison data are not provided.

Our sample takes into account 66 companies and represents 81.5% of the total market.

Chart 7: Sample of AIM Italia companies



	June 2017
Tot. AIM	81
Financial Co's	6
SPAC	4
No Data	5
Sample	**66**
% of tot. AIM	*81.5%*

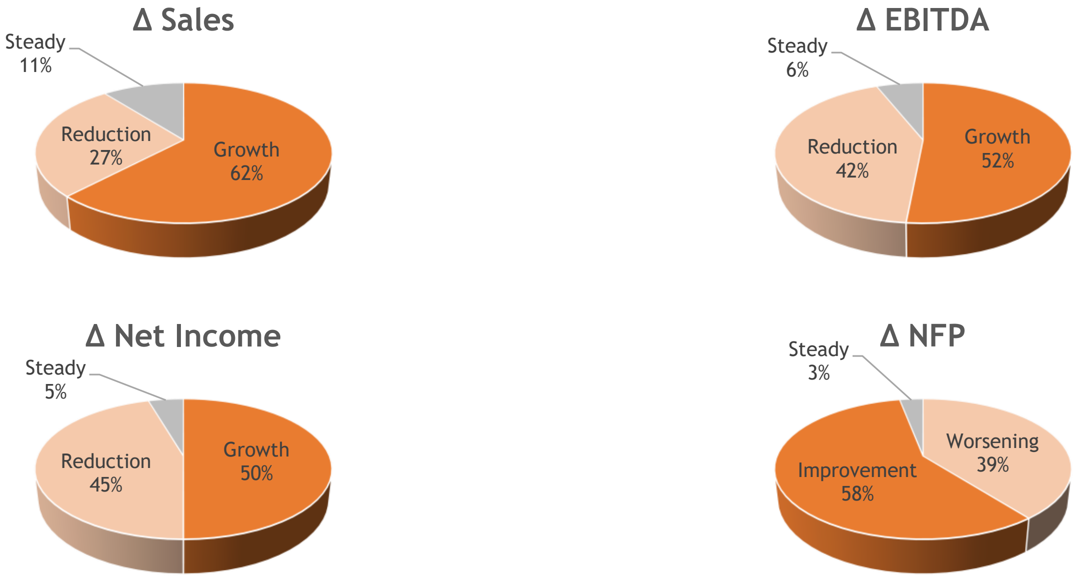
Source: KT&Partners' Elaboration on AIM Companies' Data

As shown in the charts below, FY16 shows a positive trend for the top line of the majority of the AIM companies: 62% of the sample (i.e. 41 companies out of 66) reported a significant increase in revenues, which, in most cases, was **higher than 30%** YoY (21 companies out of 41).

Looking at the EBITDA and the net income, we found positive results as well: 52% of the sample significantly increased the EBITDA and 50% of the companies experienced a substantial growth in the net income.

Finally, as for the capital structure, 58% of selected companies reported a decrease in their Net Financial Position.

Chart 8: Sample's YoY change (FY16-FY15)



Keys: Reduction (Δ<-3%), Steady (-3%<=Δ<=3%), Growth (Δ>3%); Improvement (Δ<-3%), Steady (-3%<=Δ<=3%), Worsening (Δ>3%).
Source: KT&Partners' Elaboration on AIM Companies' Data

Five Years of ELITE

ELITE, Borsa Italiana's program designed to help SMEs with a high development potential to create value through innovation and access to long-term financing opportunities, reached its fifth birthday during 2017.

So far, over 380 Italian companies (out of ca. 600 from different countries) have acknowledged the strength and the underlying opportunities presented by this initiative and enjoyed the program.

In five years of activity, 8 companies chose to go public on the AIM Italia market after gaining the "ELITE Certificate". **The first half of 2017 was a particularly "hot" period: if we do not consider SPAC IPOs and Business Combinations, 1H17 saw 3 ELITE companies going public on AIM Italia out of 6 new IPOs.** These companies (TPS, WIIT and Finlogic) registered a good market performance IPO-to-date: TPS +46.38%, WIIT +11.78% and Finlogic +46.11%. The remaining ELITE companies had a positive YTD market performance as well, with Giglio Group heading the table (+93.11%), followed by Bomi Italia (+29.03%), GPI (+12.54%), Tech-Value (+10.01%) and Masi Agricola (+0.50%).

This positive market performance is surely legitimated by sound and strong financial results. If we consider, once again, the comparison between FY15 and FY16 results, we note that **the entirety of ELITE public companies increased their revenues during the last fiscal year**. Good outcomes were also achieved for EBITDA and the net profit, which increased for 5 companies out of 8 (62%). As for the capital structure, 50% of ELITE companies registered an improvement in their net debt.

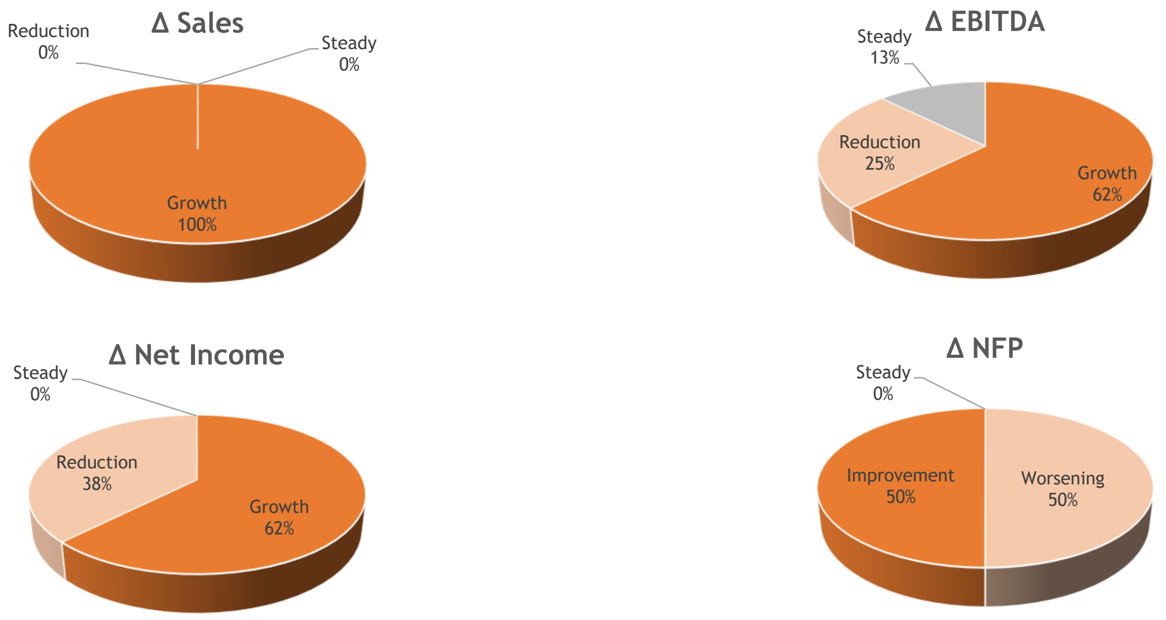
Table 5: Elite 1H17 performance

Company	1H17 Performance
Giglio Group	93.1%
TPS*	46.4%
Finlogic*	46.1%
Bomi Italia	29.0%
GPI	12.5%
WIIT*	11.8%
Tech-Value	8.9%
Masi Agricola	0.5%
AIM Italia	**23.7%**

** Companies that went public during 2017. The 1H17 performance corresponds to the performance observed during the period from the IPO day to June 30, 2017.*

Source: FactSet, Data at June 30, 2017

Chart 9: ELITE's YoY change (FY16-FY15)



Keys: Reduction (Δ<-3%), Steady (-3%<=Δ<=3%), Growth (Δ>3%); Improvement (Δ<-3%), Steady (-3%<=Δ<=3%), Worsening (Δ>3%).
Source: KT&Partners' Elaborations on AIM Companies' Data

AIM Multiples

In order to take into account future projections related to the AIM market, we considered the actual and forecasted market multiples of the AIM companies. To do so, we built a sample of 32 companies by considering the overall market (80 companies) and excluding the following:

- 4 SPACs;
- 6 Financial and Investment companies;
- 5 recently listed companies (blackout period);
- 33 companies for which data related to future estimates (broker consensus) are neither available nor meaningful.

According to data as of June 30, 2017, the overall market capitalization of the sample amounts to €1.8bn, making the sample representative of 43.5% of the AIM market capitalization (€4.2bn on June 30, 2017).

For each company, we calculated actual and projected market multiples by extracting data for some major financials (i.e. Sales, EBITDA, EBIT and Net Income) and by considering the available market data. Afterwards, we averaged the data in order to have concise results, which can be considered as a representative proxy of the overall market.

Table 6: AIM market multiples

	2016A	2017E	2018E
EV/Sales	2.2 x	1.5 x	1.4 x
EV/EBITDA	10.6 x	7.5 x	6.2 x
EV/EBIT	18.6 x	12.3 x	9.7 x
P/E	22.6 x	18.7 x	14.7 x

In our calculations we excluded outlier values in order to avoid possible biases.

Source: FactSet, KT&Partners' Elaboration

Consistently with our expectations, we observe a diminishing trend for market multiples.

Assuming the fairness of actual data, the existence of a diminishing trend for foreseen multiples implies that companies are expected to improve their financials - everything held constant - and, in turn, increase their value over time.

Italian Market Structure

The Italian equity market is highly concentrated, with the 40 largest companies (the FTSE MIB companies) accounting for most of its market capitalization and most of its trading volume.

At the end of June 2017, there were 316 Italian companies listed on the Italian stock market: 166 in the MTA (excluding the STAR segment), 70 in the STAR segment and 80 in the AIM market.[4]

The MTA Market and its STAR segment, as Italy's regulated markets, present strict requirements in terms of transparency, disclosure, liquidity and governance. While the main market has a higher presence of financial companies, the STAR segment, established in the year 2000, is the most appropriate proxy of the best Italian industrial companies, whose market cap ranges between €40 million and €1 billion. Over the years, the Borsa Italiana has continuously supported the visibility of STAR companies to institutional investors, especially through several roadshows, which bring the companies to the leading financial marketplaces.

AIM Italia is the Borsa Italiana's unregulated market for small and mid-sized growing Italian companies. The market was created in March 2012 through the merger of AIM Italia and MAC,[5] with a view to rationalizing the offering of the markets dedicated to SMEs and proposing a single market designed for Italy's more dynamic and competitive SMEs. Specifically, it was developed to serve Italian companies that were ambitious to grow and needed access to external capital, but were too small to be listed on the Milan Stock Exchange's main market. AIM offers a regulatory framework designed specifically for smaller growing companies, with fewer requirements than for companies listing on the main market.

The main differences between the STAR segment of the Italian Stock Exchange and the AIM market include the minimum float required, which is only 10% for AIM but 35% for STAR companies, and the scarcity of retail investors at the IPO for the AIM market.

[4] *There were also 70 foreign companies listed on the MTA International segment and 5 investment companies listed on the Italian markets, which have not been taken into account for the purpose of this report.*

[5] *MAC (Alternative Capital Market) was born in 2007 and was the alternative trading system dedicated to small enterprises organized and managed by the Borsa Italiana before the merger with the AIM Italia Market.*

Table 7: Listing requirements

KEY ELIGIBILITY CRITERIA		AIM ITALIA	MTA	STAR
	Free float	10%	25%	35%
	Audited fin. statements	1 (if existing)	3	3
	GAAP	Italian or International	International	International
	Investors	Institutional	Institutional/Retail	Institutional/Retail
	Other documents	Admission document	Prospectus/MIS/Business Plan/QMAT	Prospectus/MIS/Business Plan/QMAT
	Market cap (€)	No formal requirements	Min. €40mn	Min €40mn - Max €1bn
	BOD (n. independent directors)	No formal requirements	Recommended (Corp. Gov. Code)	Mandatory (Rules)
	Internal audit committee	No formal requirements	Recommended (Corp. Gov. Code)	Mandatory
	Remuneration committee	No formal requirements	Recommended (Corp. Gov. Code)	Mandatory
	Incentives to the top management	No formal requirements	Recommended (Corp. Gov. Code)	Mandatory (performance-related remuneration)
	Investor relator	Not mandatory	Recommended	Mandatory
	Web site	Mandatory	Mandatory	Mandatory
	Main advisor	Nomad	Sponsor/Global co-ordinator	Sponsor/Global co-ordinator

Source: Borsa Italiana

On an ongoing basis, it is worth noting that companies listed on the AIM market do not need to publish their quarterly results, but only half-year and year-end results, and the timing of required reporting is generally much more flexible for AIM companies, compared with STAR companies.

Table 8: Key continuing obligations

KEY CONTINUING OBLIGATIONS		AIM ITALIA	MTA	STAR
	Corporate governance	Optional	Comply or explain	Partly mandatory
	Specialist	Mandatory (liquidity provider)	Optional (liquidity provider)	Mandatory (liquidity provider/2 researches/ meetings with investors)
	Disclosure	Price-sensitive and extraordinary operations required	Price-sensitive information and M&A (TUF and Consob Rules on Issuers)	
	Related parties	Easy procedures and disclosure obligations	Procedures and reporting requirements	
	Quarterly* data	No	Optional	I-III quarterly report within 45 days from quarter end
	Half-year data	Yes - within 3 months from the closing half	Yes - within 60 days from half-year end	Yes - within 60 days from half-year end
	Annual report	Yes - publication within 6 months from the exercise closing	Yes - within 120 days from year end	Yes - if within 90 days from year end no need for IV quarter report

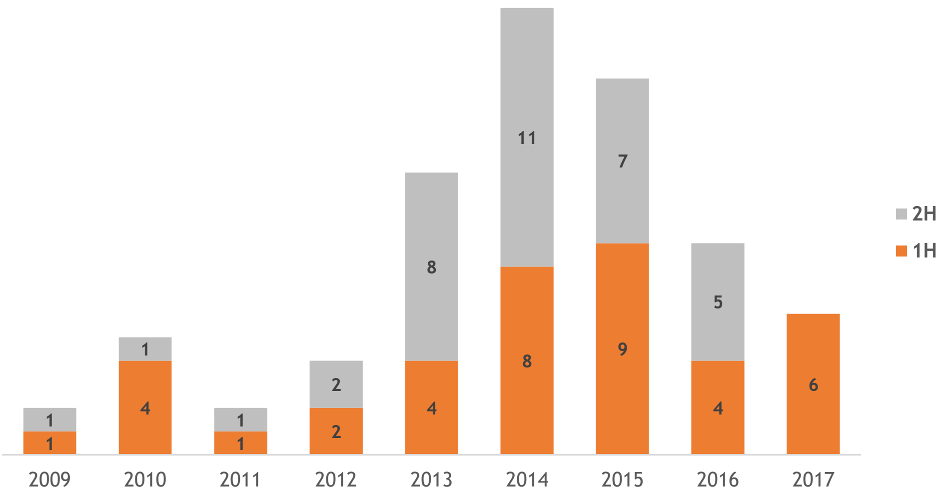
** It is worth noting that the Italian Legislative Decree no. 25 of February 15, 2016 has eliminated the obligation to publish interim management statements, in order to reduce the administrative costs of listed issuers, and to curb issuers' and investors' focus on short-term results. With regard to issuers whose securities are traded on the STAR segment, the provisions of the Borsa Italiana Rules governing publication of interim management statements shall continue to apply.*

Source: Borsa Italiana

With 80 companies listed at the end of June 2017, the AIM market represents 25.3% of the Italian listed companies. At the same time, the total market capitalization of the domestic listed companies is €589bn, with the AIM Italia market accounting for €3.8bn or 0.65%. AIM Italia is therefore an important growing market in terms of number of companies listed, but with a very limited contribution to total market capitalization.

During the first half of 2017, the AIM Italia primary market saw a recovery from the slowdown experienced during 2016: excluding 1 SPAC and 1 business combination, 6 companies went public on AIM Italia. This shows a sound improvement, if we consider that during 1H16 just 4 companies went public (excluding SPACs). By including SPACs, AIM Italia has totaled 7 IPOs so far.

Chart 10: AIM Italia IPO (excluding SPACs and SICAFs)



Source: Borsa Italiana

Disclaimer

THIS DOCUMENT WAS PREPARED BY KT&PARTNERS S.R.L., WITH REGISTERED OFFICE AT VIA DELLA POSTA 10, MILAN, ITALY, MILAN COMPANY REGISTER NO. 1926922, SPECIALIZING IN FINANCIAL RESEARCH AND ANALYSIS (HEREINAFTER, “KT&PARTNERS”).

THIS DOCUMENT IS A SOURCE OF INFORMATION ONLY, AND IS NOT PART OF, AND IN NO WAY MUST IT BE CONSIDERED, AN OFFER TO SELL, SUBSCRIBE OR TRADE, OR A SOLICITATION TO PURCHASE, SUBSCRIBE OR TRADE, FINANCIAL INSTRUMENTS/PRODUCTS, OR IN GENERAL TO INVEST, NOR MUST IT BE CONSIDERED ANY FORM OF CONSULTING FOR AN INVESTMENT IN FINANCIAL INSTRUMENTS.

THE INFORMATION PROVIDED IN THIS DOCUMENT MUST NOT BE UNDERSTOOD AS A REQUEST OR SUGGESTION TO CONDUCT OR CARRY OUT A SPECIFIC TRANSACTION.

EACH INVESTOR MUST FORM HIS/HER OWN OPINION BASED EXCLUSIVELY ON HIS/HER ASSESSMENT OF THE ADVISABILITY OF INVESTING. ANY INVESTMENT DECISION MADE ON THE BASIS OF THE INFORMATION AND ANALYSES IN THIS DOCUMENT IS THE EXCLUSIVE RESPONSIBILITY OF THE RECIPIENTS OF THIS DOCUMENT, WHO MUST CONSIDER THIS DOCUMENT MERELY AS A SOURCE OF INFORMATION AND ANALYSIS TO SUPPORT SUCH DECISION.

ANY OPINIONS, FORECAST OR ESTIMATES CONTAINED HEREIN CONSTITUTE A JUDGEMENT AS AT THE DATE OF THIS DOCUMENT, AND THERE CAN BE NO ASSURANCE THAT THE FUTURE RESULTS OF THE COMPANIES AND/OR ANY FUTURE EVENTS WILL BE CONSISTENT WITH ANY OF SUCH OPINIONS, FORECAST OR ESTIMATES.

THEREFORE, KT&PARTNERS, ITS REPRESENTATIVES AND/OR EMPLOYEES WILL NOT BE LIABLE FOR ANY EFFECT DERIVING FROM THE USE OF THIS DOCUMENT, AND HEREBY DECLINE ALL LIABILITY FOR ANY DIRECT OR INDIRECT DAMAGES, FINANCIAL OR OTHERWISE, DERIVING FROM ANY USE OF THE INFORMATION IT CONTAINS.

KT&PARTNERS

Via della Posta, 10 - Piazza Affari, 20123 Milano - Italy
Tel: +39.02.83424007   Fax: +39.02.83424011
segreteria@ktepartners.com