

EL.EN.

BUY

SECTOR: Industrials

Price (Eu):

9.36

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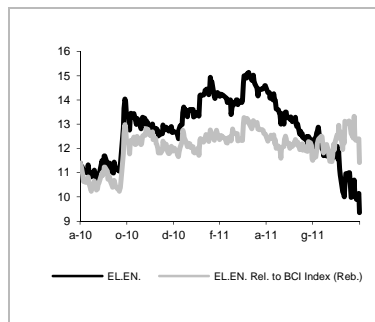
Target Price (Eu):

16.70

## Tougher Environment Ahead

- El.En Group's 2Q11 results were below our expectations.** El.En Group posted sales of Eu52.9mn in 2Q11, up 4.2% YoY (growth in 1Q11 was 10.4%). The service business did well, with sales up 8.2% YoY; the industrial division reported sales up 4.5% YoY boosted by strong demand in emerging markets; sales for medical systems showed a modest increase (+2.9% YoY) reflecting the difficulties of the sector. EBITDA increased by 1.1% YoY to Eu5.7mn; the margin went down by 30bps due to non-recurrent costs at Cynosure for the acquisition of HOYA ConBio. EBIT was penalised by higher risk provisions, and came out at Eu1.0mn, down 47.1% and 15.6% below our estimate.
- Bottom line penalised by high tax rate and negative forex in 1H11.** The company posted a pre-tax loss of Eu0.5mn, down from a profit of Eu1.1mn in 1H10, due to unfavourable changes in the USD/EUR rate. El.En Group reported a net loss of Eu1.6mn after Eu1.7mn in taxes (losses incurred from equity participations were non-deductible) and Eu0.7mn in minorities. Net cash decreased to Eu40.3mn at the end of June 2011 (from Eu61.4mn at March 2011) as a result of Cynosure's purchase of HOYA ConBio for USD 24.5mn.
- El.En ex Cynosure posted lower growth but higher profitability.** In 2Q11 sales grew by +2.7% YoY (vs. +4.2% YoY for the group as a whole); the EBITDA margin was 10.1% (vs. 6.7% for the Group as a whole). In 1H11 pre-tax profit was Eu2.0mn, down 46% YoY due to unfavourable exchange rate changes. The net loss was Eu0.6mn, compared to a profit of Eu1.0mn in 1H10. The net financial position went negative to the tune of Eu2.7mn as at June 2011 due to an increase in net working capital as a consequence of higher inventory and receivables.
- Guidance downward revised.** Management stated that in view of 1H results and its general expectations for 2H, less favourable compared to 1H, the annual goals (limited to El.En ex Cynosure) of growing revenues by 10% and increasing EBIT will now be difficult to achieve.
- Estimates cut.** We have revised our sales and EBITDA estimates only marginally, by 2.5% and 4.6% on average for 2011-13. The main change to our estimates was for D&A: we now factor in higher risk provisions as the economic environment is forcing El.En to take a cautious stance on its receivables. As a result, our cuts in pre-tax and net profit are significant: 24.5% and 57.3% on average, respectively, for 2011 to 2013. Nevertheless, we expect a group net profit CAGR of 33.2% from 2010 to 2013.
- BUY reiterated.** We have lowered our fair value by 10.6% (base on a SoP) to Eu16.7/share, yet our new target price still suggests there is over 70% upside. El.En should benefit from high exposure to the medical and aesthetic treatment sector, which enjoys sustainable growth drivers. The Cynosure turnaround, sustained by the acquisitions of Eleme Medical and HOYA ConBio and by the launch of new products starting from 2H11, should provide a further boost. Finally, El.En excluding Cynosure is trading at 2.0x EV/EVITDA and at 0.2x EV/sales on 2011, with a 2010-13 EPS CAGR of 14.7%, which makes the valuation undemanding.
- Risks.** The main risks to our recommendation are: a worsening macroeconomic environment (which is only partially factored into our new estimates), limited credit availability, increasing competitive pressure in the medical sector and finally, high USD/EUR volatility.

### EL.EN. - 12m Performance



Eu/USD: 1.33 2010; 1.40 2011/12

RATING: Unchanged

TARGET PRICE (Eu): from 18.70 to 16.70

Change in EPS est:	2011E	2012E
	-83.4%	-60.0%

#### STOCK DATA

Reuters code:	ELEN.MI
Bloomberg code:	ELN IM

Performance	1m	3m	12m
Absolute	-21.5%	-29.6%	-17.9%
Relative	-5.8%	-4.9%	0.1%
12 months H/L:	15.14/9.36		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	5
Total No. of shares (mn):	5
Mkt Cap Ord (Eu mn):	45
Total Mkt Cap (Eu mn):	45
Mkt Float - ord (Eu mn):	21
Mkt Float (in %):	46.3%
Main shareholder:	
Cangiolli Andrea	13.5%

#### BALANCE SHEET DATA

	2011
Book value (Eu mn):	94
BVPS (Eu):	19.53
P/BV:	0.5
Net Financial Position (Eu mn):	43
Enterprise value (Eu mn):	72

Key Figures	2009A	2010A	2011E	2012E	2013E
Sales (Eu mn)	149	190	209	231	251
Ebitda (Eu mn)	-4	14	19	22	25
Net profit (Eu mn)	-5	1	0	1	3
EPS - New (Eu)	-1.09	0.27	0.10	0.29	0.62
EPS - Old (Eu)	-1.09	0.27	0.62	0.73	0.87
DPS (Eu)	0.00	0.20	0.08	0.23	0.50

Ratios & Multiples	2009A	2010A	2011E	2012E	2013E
P/E	nm	34.8	90.7	32.3	15.1
Div. Yield	0.0%	2.1%	0.9%	2.4%	5.3%
EV/Ebitda	nm	4.0	3.8	3.1	2.7
ROCE	-12.1%	5.7%	6.0%	7.6%	10.6%

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**EL.EN. - KEY FIGURES**

		2009A	2010A	2011E	2012E	2013E
	Fiscal year end	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	149	190	209	231	251
	EBITDA	(4)	14	19	22	25
	EBIT	(13)	5	7	10	13
	Financial income (charges)	1	0	0	0	0
	Associates & Others	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit (Loss)	(12)	5	6	9	13
	Taxes	(4)	(4)	(4)	(5)	(6)
	Tax rate (%)	32.9%	-90.7%	-64.2%	-51.1%	-46.8%
	Minorities & discontinue activities	(11)	(1)	(2)	(3)	(4)
	Net profit	-5	1	0	1	3
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	(4)	14	19	22	25
Ebit excl. extraordinary items	(13)	5	7	10	13	
Net profit restated	(5)	1	0	1	3	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	5	5	5	5	5
	EPS stated fd	-1.09	0.27	0.10	0.29	0.62
	EPS restated fd	-1.09	0.27	0.10	0.29	0.62
	BVPS fd	18.71	19.94	19.53	19.60	19.72
	Dividend per share (ord)	0.00	0.20	0.08	0.23	0.50
	Dividend per share (sav)					
Dividend pay out ratio (%)	0.0%	76.0%	80.3%	78.6%	80.0%	
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	(19)	8	13	14	14
	Change in NWC	12	(5)	(9)	(8)	(8)
	Capital expenditure	(10)	(6)	(7)	(8)	(8)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(18)	(3)	(4)	(1)	(2)
	Acquisitions, divestments & others	2	1	(18)	0	0
	Dividend	(1)	(0)	(1)	(0)	(1)
	Equity financing/Buy-back	1	(1)	0	0	0
Change in Net Financial Position	1	6	(32)	3	2	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	38	37	37	38	39
	Net working capital	52	56	65	73	81
	Long term liabilities	5	4	27	15	5
	Net capital employed	94	97	129	126	125
	Net financial position	69	75	43	46	48
	Group equity	163	172	172	172	173
	Minorities	73	78	78	78	78
Net equity	90	94	94	95	95	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	45	45	45	45	45
	Adjustments (associate & minorities)	(87)	(87)	(69)	(69)	(69)
	Net financial position	69	75	43	46	48
	Enterprise value	63	57	72	68	66
<b>RATIOS(%)</b>	EBITDA margin*	nm	7.5%	9.0%	9.6%	9.8%
	EBIT margin*	nm	2.9%	3.3%	4.2%	5.3%
	Gearing - Debt/equity	-42.2%	-43.6%	-24.7%	-26.6%	-27.7%
	Interest cover on EBIT	13.3	nm	nm	nm	nm
	Debt/Ebitda	17.11	nm	nm	nm	nm
	ROCE*	-12.1%	5.7%	6.0%	7.6%	10.6%
	ROE*	-5.6%	1.4%	0.5%	1.5%	3.2%
	EV/CE	0.6	0.6	0.6	0.5	0.5
	EV/Sales	0.4	0.3	0.3	0.3	0.3
	EV/Ebit	nm	10.6	10.5	7.0	5.0
Free Cash Flow Yield	-13.2%	-1.9%	-3.4%	-1.2%	-1.6%	
<b>GROWTH RATES (%)</b>	Sales	-32.7%	27.3%	10.1%	10.8%	8.4%
	EBITDA*	nm	nm	32.2%	17.5%	10.8%
	EBIT*	nm	nm	25.4%	42.6%	37.1%
	Net profit	nm	nm	-60.8%	181.1%	114.3%
	EPS restated	nm	nm	-61.6%	181.1%	114.3%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## 2Q11 results

### El.En Group: below estimates

The El.En Group posted sales of Eu52.9mn in 2Q11, up 4.2% YoY (growth in 1Q11 was 10.4%) but below the company's guidance (sales up 10% in 2011). The service business did well, with sales up 8.2% YoY to Eu10.4mn. The industrial division reported sales up 4.5% YoY (with marking lasers sales up 22.1% YoY), boosted by higher sales in emerging markets (mainly China and Brazil).

Sales for medical systems showed only a modest increase (+2.9% YoY) reflecting a gradual transition both in overall demand (considerably reduced compared to the years preceding the crisis) and in supply (new system launches are skewed towards the second half of 2011). The consolidation of Eleme Medical into Cynosure from March also helped.

EBITDA increased only by 1.1% YoY to Eu5.7mn; the margin on sales decreased 30bps (while we were expecting a flat trend) due to non-recurrent costs at Cynosure for the acquisition of HOYA ConBio. EBIT was penalised by higher risk provisions, and came in at Eu1.0mn, down 47.1% and 15.6% below our estimate.

In 1H11 the company posted a pre-tax loss of Eu0.5mn, down from a profit of Eu1.1mn in 1H10, due to unfavourable changes in the USD/EUR exchange rate. El.En Group reported a net loss of Eu1.6mn after taxes of Eu1.7mn (losses from equity participations were non-deductible) and minorities to the tune of Eu0.7mn.

The group's net cash decreased to Eu40.3mn as at the end of June 2011 (from Eu61.4mn as at March 2011) mainly due to subsidiary Cynosure's purchase of HOYA ConBio for USD24.5mn, as well as to an increase in net working capital, as El.En excluding Cynosure lengthened the number of days for the payment of receivables and increased stocks to sustain sales in a tougher environment.

#### El.En Group 2Q11 results

(€ mn)	1Q10A	1Q11A	2Q10A	2Q11A	2Q11E	A v E	1H10A	1H11A	1H11E	A v E	2H10A	2H11E	2010A	2011E
Sales	41.1	45.3	50.8	52.9	53.7	-1.4%	91.9	98.3	99.0	-0.8%	97.9	110.6	189.8	208.9
YoY growth %		10.4%		4.2%	5.6%			7.0%	7.8%			13.0%		10.1%
EBITDA	1.4	2.1	4.2	3.5	3.9	-8.7%	5.6	5.7	6.0	-5.6%	8.7	13.2	14.3	18.9
Ebitda margin %	3.4%	4.7%	8.3%	6.7%	7.2%		6.1%	5.8%	6.1%		8.9%	12.0%	7.5%	9.0%
YoY growth %		54.7%		-16.3%	-8.4%			1.1%	7.1%			52.2%		32.2%
Total D&A	(1.9)	(2.6)	(2.4)	(2.5)	(2.7)		(4.2)	(5.1)	(5.3)		(4.6)	(7.0)	(8.9)	(12.1)
EBIT	(0.5)	(0.5)	1.9	1.0	1.2	-15.6%	1.4	0.5	0.7	-26.1%	4.0	6.3	5.4	6.8
Ebit margin %	-1.2%	-1.0%	3.7%	1.9%	2.2%		1.5%	0.5%	0.7%		4.1%	5.7%	2.9%	3.3%
YoY growth %		-4.5%		-47.1%	-37.3%			-62.3%	-49.0%			55.1%		25.4%
Net financials & Participations	0.1	(0.8)	(0.4)	(0.2)	(0.2)		(0.3)	(1.0)	(1.0)		(0.4)	0.2	(0.7)	(0.8)
Pretax Profit	(0.4)	(1.3)	1.5	0.8	1.0	-23.0%	1.1	-0.5	-0.3	-77.3%	3.6	6.5	4.7	6.0
Taxes							(2.0)	(1.7)	(0.4)		(2.2)	(2.1)	(4.3)	(3.9)
Minorities							(1.2)	(0.7)	(0.6)		0.4	(1.0)	(0.8)	(1.7)
<b>Group Net Profit</b>							<b>0.3</b>	<b>-1.6</b>	<b>-1.3</b>	<b>-20.8%</b>	<b>1.0</b>	<b>2.1</b>	<b>1.3</b>	<b>0.5</b>
Net margin %							0.3%	-1.6%	-1.3%		1.0%	1.9%	0.7%	0.2%
YoY growth %								nm	nm			103.5%		-60.8%

Source: Intermonte Sim

### El.En ex Cynosure: lower growth but with higher profitability

In 2Q11 El.En excluding Cynosure posted a lower growth rate than the group overall, (+2.7% YoY vs. +4.2% YoY for the Group as a whole) but higher profitability: EBITDA margin was 10.1% compared to 6.7% for the Group as a whole in 2Q11. EBIT went down by 14.0% YoY.

In 1H11 Pre-tax was equal to Eu2.0mn, down 46% YoY due to negative exchange rate changes. El.En ex Cynosure reported a net loss of Eu0.6mn compared to a profit of Eu1.0mn in 1H10.

NFP went negative for the tune of Eu2.7mn at June 2011 from Eu3.6mn at March 2011 due to the increase in net working capital as a consequence of higher sales QoQ (+17.8%) and the effort made by El.En to sustain its clients.

#### El.En ex Cynosure 2Q11 results

(€ mn)	1Q10A	1Q11A	2Q10A	2Q11A	1H10A	1H11A	2H10A	2H11E	2010A	2011E
<b>Sales</b>	<b>28.4</b>	<b>30.9</b>	<b>35.5</b>	<b>36.4</b>	<b>65.4</b>	<b>67.3</b>	<b>67.2</b>	<b>74.2</b>	<b>132.6</b>	<b>141.5</b>
YoY growth %		8.8%		2.7%		2.9%		10.4%		6.7%
<b>EBITDA</b>	<b>1.7</b>	<b>2.4</b>	<b>3.9</b>	<b>3.7</b>	<b>5.6</b>	<b>6.1</b>	<b>7.7</b>	<b>8.7</b>	<b>13.3</b>	<b>14.8</b>
Ebitda margin %	6.0%	7.8%	11.1%	10.1%	8.6%	9.0%	11.5%	11.8%	10.1%	10.5%
YoY growth %		41.7%		-6.7%		7.9%		13.4%		11.1%
Total D&A	(0.7)	(1.4)	(1.4)	(1.5)	(2.1)	(2.9)	(2.9)	(4.4)	(5.0)	(7.3)
<b>EBIT</b>	<b>1.0</b>	<b>1.0</b>	<b>2.5</b>	<b>2.2</b>	<b>3.5</b>	<b>3.2</b>	<b>4.9</b>	<b>4.3</b>	<b>8.4</b>	<b>7.5</b>
Ebit margin %	3.4%	3.3%	7.2%	6.0%	5.4%	4.7%	7.2%	5.8%	6.3%	5.3%
YoY growth %		3.9%		-14.0%		-9.0%		-11.2%		-10.3%
Net financials & Participations	0.1	(1.0)	(0.0)	(0.2)	0.1	(1.2)	(0.8)	(0.1)	(0.7)	(1.3)
<b>Pretax Profit</b>	<b>1.1</b>	<b>0.0</b>	<b>2.5</b>	<b>2.0</b>	<b>3.7</b>	<b>2.0</b>	<b>4.0</b>	<b>4.2</b>	<b>7.7</b>	<b>6.2</b>
Taxes	0.0	0.0	0.0	0.0	(1.9)	(1.6)	(1.8)	(1.6)	(3.7)	(3.2)
Minorities					(0.8)	(1.0)	(1.0)	(1.0)	(1.8)	(2.0)
<b>Group Net Profit</b>					<b>1.0</b>	<b>-0.6</b>	<b>1.2</b>	<b>1.6</b>	<b>2.2</b>	<b>1.0</b>
Net margin %					1.5%	-1.0%	1.8%	2.2%	1.7%	0.7%
YoY growth %						-167.1%		32.4%		-55.2%

Source: Intermonte Sim

### Guidance

In the press release management stated: "The results were satisfactory in the first half - though slightly lower than management's expectations - in terms of operations; they were penalized by the provisions of risks, foreign exchange losses and high taxation. In view of the six months result and of the general conditions and expectations for the second half, even less favourable than the first, the annual goals (limited to the consolidated financials drafted with the exclusion of Cynosure) of revenue growth of 10% and improved EBIT are difficult to achieve. The management believes it can indicate as target for the second half the improvement of the operating results registered in the first half, and does not expect the provisions of risks and high tax rate that affected the profitability in the first semester to take place again."

## Cynosure 2Q11 results

In 2Q11, Cynosure's sales grew by 22.6% in USD (results were already disclosed on 26 July), and the company was able to further reduce its net loss (to USD 1.3mn in 2Q11 from USD 1.5mn in 2Q10). On an adjusted basis, excluding the expenses (USD 1.2mn) linked to the acquisition of HOYA ConBio, the net loss would have been just USD 151,000. By geographical area, internationals sales grew by 42% YoY and North American sales by 9% YoY; pricing was stable in both areas.

### Cynosure 2Q11 results

(USD mn)	2Q10A	2Q11A	1H10A	1H11A
<b>Sales</b>	<b>21.5</b>	<b>26.3</b>	<b>40.4</b>	<b>48.2</b>
YoY growth %		22.6%		19.4%
<b>EBIT</b>	<b>-0.9</b>	<b>-1.2</b>	<b>-3.4</b>	<b>-3.1</b>
Ebit margin %	-4.2%	-4.5%	-8.4%	-6.4%
YoY growth %		-32.4%		9.0%
<b>Net Profit</b>	<b>-1.5</b>	<b>-1.3</b>	<b>-4.3</b>	<b>-3.2</b>
Net margin %	-6.9%	-4.9%	-10.6%	-6.6%
YoY growth %		12.0%		25.2%

Source: Intermonte Sim

### Cynosure 2Q11 results

(Eu mn)	2Q10A	2Q11A	1H10A	1H11A
<b>Sales</b>	<b>16.2</b>	<b>18.8</b>	<b>30.4</b>	<b>34.5</b>
YoY growth %		16.2%		13.2%
<b>EBIT</b>	<b>-0.7</b>	<b>-0.9</b>	<b>-2.6</b>	<b>-2.2</b>
Ebit margin %	-4.2%	-4.5%	-8.4%	-6.4%
YoY growth %		-25.5%		13.8%
<b>Net Profit</b>	<b>-1.1</b>	<b>-0.9</b>	<b>-3.2</b>	<b>-2.3</b>
Net margin %	-6.9%	-4.9%	-10.6%	-6.6%
YoY growth %		16.6%		29.1%

Source: Intermonte Sim

## Estimates

### El.En Group

Following 2Q11 results, we have revised our forecasts. El.En Group sales should reach Eu250.9mn in 2013, posting a 2010-13 CAGR of 9.7% (we were previously estimating 10.4%). We have revised EBITDA estimates by 4.6% on average for 2011-13: we still foresee good operating leverage, as the EBITDA CAGR for 2010-13 should be 19.8% (twice the sales CAGR).

The main change to our estimates has been made in depreciations and amortisations (D&A). We now factor in higher risk provisions as the economic environment is forcing El.En to take a cautious stance on its receivables. The EBIT margin should be 40bps higher in 2011 compared to 2010, growing by a further 100bps both in 2012 and 2013 thanks to the contribution of Cynosure.

As a result of higher D&A, we have cut pre-tax and net profit significantly, by respective averages of 24.5% and 57.3% for 2011-13. Nevertheless, we expect group net profit to post a CAGR of 33.2% from 2010 to 2013, assuming a USD/EUR exchange rate of 1.40.

El.En Group Change in estimates				
(€ mn)	2010A	2011E	2012E	2013E
<b>Sales new</b>	<b>189.8</b>	<b>208.9</b>	<b>231.4</b>	<b>250.9</b>
Sales old		214.0	239.6	255.5
		<b>% change</b>	<b>-2.4%</b>	<b>-3.4%</b>
			<b>-1.8%</b>	
<b>EBITDA new</b>	<b>14.3</b>	<b>18.9</b>	<b>22.2</b>	<b>24.6</b>
EBITDA old		19.3	23.7	26.0
		<b>% change</b>	<b>-2.1%</b>	<b>-6.3%</b>
			<b>-5.4%</b>	
<b>EBIT new</b>	<b>5.4</b>	<b>6.8</b>	<b>9.7</b>	<b>13.3</b>
EBIT old		9.5	13.5	16.0
		<b>% change</b>	<b>-28.4%</b>	<b>-28.1%</b>
			<b>-16.9%</b>	
<b>Pretax Profit new</b>	<b>4.7</b>	<b>6.0</b>	<b>9.0</b>	<b>12.6</b>
Pretax Profit old		10.0	13.1	15.5
		<b>% change</b>	<b>-40.0%</b>	<b>-31.3%</b>
			<b>-18.7%</b>	
<b>Group net profit new</b>	<b>1.3</b>	<b>0.5</b>	<b>1.4</b>	<b>3.0</b>
Group Net Profit old		3.0	3.5	4.2
		<b>% change</b>	<b>-83.4%</b>	<b>-60.0%</b>
			<b>-28.6%</b>	

Source: Intermonte Sim

### El.En Group P&L

(€ mn)	2007A	2008A	2009A	2010A	2011E	2012E	2013E	CAGR10-13E
<b>Sales</b>	<b>193.4</b>	<b>221.7</b>	<b>149.1</b>	<b>189.8</b>	<b>208.9</b>	<b>231.4</b>	<b>250.9</b>	<b>9.7%</b>
YoY growth %		14.6%	-32.7%	27.3%	10.1%	10.8%	8.4%	
<b>EBITDA</b>	<b>26.3</b>	<b>28.8</b>	<b>-4.0</b>	<b>14.3</b>	<b>18.9</b>	<b>22.2</b>	<b>24.6</b>	<b>19.8%</b>
Ebitda margin %	13.6%	13.0%	-2.7%	7.5%	9.0%	9.6%	9.8%	
YoY growth %		9.4%	-114.0%	-455.1%	32.2%	17.5%	10.8%	
Total D&A	(5.0)	(8.3)	(8.6)	(8.9)	(12.1)	(12.5)	(11.3)	
<b>EBIT</b>	<b>21.3</b>	<b>20.6</b>	<b>-12.6</b>	<b>5.4</b>	<b>6.8</b>	<b>9.7</b>	<b>13.3</b>	<b>34.9%</b>
Ebit margin %	11.0%	9.3%	-8.4%	2.9%	3.3%	4.2%	5.3%	
YoY growth %		-3.5%	-161.3%	-143.0%	25.4%	42.6%	37.1%	
Net financials & Participations	14.1	1.5	0.3	(0.7)	(0.8)	(0.7)	(0.7)	
<b>Pretax Profit</b>	<b>35.4</b>	<b>22.1</b>	<b>-12.3</b>	<b>4.7</b>	<b>6.0</b>	<b>9.0</b>	<b>12.6</b>	<b>39.0%</b>
Taxes	(10.5)	(7.9)	(4.1)	(4.3)	(3.9)	(4.6)	(5.9)	
Minorities	(7.3)	(5.9)	11.1	0.8	1.7	3.0	3.7	
<b>Group Net Profit</b>	<b>17.7</b>	<b>8.3</b>	<b>-5.3</b>	<b>1.3</b>	<b>0.5</b>	<b>1.4</b>	<b>3.0</b>	<b>33.2%</b>
Net margin %	9.1%	3.8%	-3.5%	0.7%	0.2%	0.6%	1.2%	
YoY growth %		-52.8%	-163.1%	-124.1%	-60.8%	181.1%	114.3%	

Source: Intermonte Sim

### El.En ex Cynosure

We have cut our sales estimates by 4.0% on average for 2011-13 to account for some difficulties in the European market for medical and aesthetic treatments. According to our new forecasts, El.En ex Cynosure sales should reach Eu163.5mn in 2013, posting a 2010-13 CAGR of 7.2%.

As far as profitability is concerned, we cut El.En ex Cynosure EBITDA by 7.3% on average for 2011-13 to factor in some price pressure. EBITDA is expected to come to Eu18.6mn in 2013, or 10.4% of sales, still 280bps below the peak level reached in 2008 mainly due to a negative mix (industrial sales have lower margins compared to medical sales).

As mentioned above, EBIT and pre-tax profit have been cut considerably as a result of higher risk provisions. Finally, we expect group net profit to show a CAGR of 14.7% from 2010 to 2013, half the growth rate compared to our previous estimate of 28.7%, but still an appealing earnings trend.

#### El.En ex Cynosure Change in estimates

(€ mn)	2010A	2011E	2012E	2013E
<b>Sales new</b>	<b>132.6</b>	<b>141.5</b>	<b>150.0</b>	<b>163.5</b>
Sales old		146.8	158.6	168.3
<b>% change</b>		<b>-3.6%</b>	<b>-5.4%</b>	<b>-2.9%</b>
<b>EBITDA new</b>	<b>13.3</b>	<b>14.8</b>	<b>15.3</b>	<b>17.0</b>
EBITDA old		15.3	17.0	18.6
<b>% change</b>		<b>-3.3%</b>	<b>-10.0%</b>	<b>-8.6%</b>
<b>EBIT new</b>	<b>8.4</b>	<b>7.5</b>	<b>8.0</b>	<b>10.7</b>
EBIT old		10.3	12.0	13.6
<b>% change</b>		<b>-27.2%</b>	<b>-33.3%</b>	<b>-21.3%</b>
<b>Pretax Profit new</b>	<b>7.7</b>	<b>6.2</b>	<b>7.0</b>	<b>9.9</b>
Pretax Profit old		10.3	11.3	13.0
<b>% change</b>		<b>-39.8%</b>	<b>-38.1%</b>	<b>-23.8%</b>
<b>Group net profit new</b>	<b>2.2</b>	<b>1.0</b>	<b>1.7</b>	<b>3.3</b>
Group Net Profit old		3.6	4.0	4.7
<b>% change</b>		<b>-72.6%</b>	<b>-57.9%</b>	<b>-29.4%</b>

Source: Intermonte Sim

#### El.En ex Cynosure P&L

(€ mn)	2007A	2008A	2009A	2010A	2011E	2012E	2013E	CAGR10-13E
<b>Sales</b>	<b>110.3</b>	<b>140.0</b>	<b>101.8</b>	<b>132.6</b>	<b>141.5</b>	<b>150.0</b>	<b>163.5</b>	<b>7.2%</b>
YoY growth %		26.9%	-27.3%	30.3%	6.7%	6.0%	9.0%	
<b>EBITDA</b>	<b>12.3</b>	<b>18.5</b>	<b>2.3</b>	<b>13.3</b>	<b>14.8</b>	<b>15.3</b>	<b>17.0</b>	<b>8.5%</b>
Ebitda margin %	11.1%	13.2%	2.2%	10.1%	10.5%	10.2%	10.4%	
YoY growth %		50.2%	-87.6%	484.2%	11.1%	3.4%	11.1%	
Total D&A	(2.7)	(4.6)	(3.7)	(5.0)	(7.3)	(7.3)	(6.3)	
<b>EBIT</b>	<b>9.6</b>	<b>13.8</b>	<b>-1.5</b>	<b>8.4</b>	<b>7.5</b>	<b>8.0</b>	<b>10.7</b>	<b>8.6%</b>
Ebit margin %	8.7%	9.9%	-1.4%	6.3%	5.3%	5.3%	6.5%	
YoY growth %		44.7%	-110.5%	-674.6%	-10.3%	6.7%	33.8%	
Net financials & Participations	17.7	(0.1)	(0.6)	(0.7)	(1.3)	(1.0)	(0.8)	
<b>Pretax Profit</b>	<b>27.3</b>	<b>13.8</b>	<b>-2.0</b>	<b>7.7</b>	<b>6.2</b>	<b>7.0</b>	<b>9.9</b>	<b>8.8%</b>
Taxes	(4.6)	(5.1)	(0.9)	(3.7)	(3.2)	(3.1)	(4.1)	
Minorities	1.0	0.6	0.2	1.8	2.0	2.2	2.5	
<b>Group Net Profit</b>	<b>21.6</b>	<b>8.1</b>	<b>-3.1</b>	<b>2.2</b>	<b>1.0</b>	<b>1.7</b>	<b>3.3</b>	<b>14.7%</b>
Net margin %	19.6%	5.8%	-3.0%	1.7%	0.7%	1.1%	2.0%	
YoY growth %		-62.5%	-137.9%	-171.6%	-55.2%	70.9%	97.0%	

Source: Intermonte Sim

## Cynosure

Following the release of 2Q11 results, we have left our forecasts for Cynosure unchanged. For completeness, we report our estimates in both USD and in €.

### Cynosure Profit & Loss, in € and in USD

(€ mn)	2007A	2008A	2009A	2010A	2011E	2012E	2013E	CAGR10-13E
<b>Sales</b>	<b>90.3</b>	<b>94.5</b>	<b>52.0</b>	<b>61.5</b>	<b>76.2</b>	<b>91.0</b>	<b>97.8</b>	<b>16.7%</b>
YoY growth %		4.7%	-45.0%	18.3%	23.8%	19.5%	7.5%	
<b>EBITDA</b>	<b>14.8</b>	<b>12.1</b>	<b>(8.0)</b>	<b>1.2</b>	<b>4.5</b>	<b>7.4</b>	<b>8.3</b>	<b>92.7%</b>
Ebitda margin %	16.3%	12.8%	-15.4%	1.9%	5.9%	8.1%	8.5%	
YoY growth %		-18.0%			287.4%	64.9%	12.0%	
Total D&A	(2.3)	(3.7)	(4.8)	(3.9)	(4.8)	(5.2)	(5.0)	
<b>EBIT</b>	<b>12.5</b>	<b>8.5</b>	<b>(12.9)</b>	<b>(2.7)</b>	<b>(0.3)</b>	<b>2.2</b>	<b>3.3</b>	
Ebit margin %	13.8%	9.0%	-24.7%	-4.4%	-0.4%	2.4%	3.4%	
YoY growth %		-31.7%		78.8%	88.8%		49.2%	
Net financials & Participations	2.3	1.7	0.8	(0.1)	0.5	0.3	0.1	
<b>Pretax Profit</b>	<b>14.8</b>	<b>10.1</b>	<b>(12.1)</b>	<b>(2.8)</b>	<b>0.2</b>	<b>2.5</b>	<b>3.4</b>	
Taxes	(6.0)	(3.2)	(2.6)	(0.6)	(0.6)	(1.5)	(1.8)	
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Group Net Profit</b>	<b>8.7</b>	<b>6.9</b>	<b>(14.7)</b>	<b>(3.4)</b>	<b>(0.4)</b>	<b>1.0</b>	<b>1.6</b>	
Net margin %	9.7%	7.3%	-28.3%	-5.5%	-0.6%	1.2%	1.6%	
YoY growth %		-20.4%		77.1%	86.9%		53.3%	

(USD mn)	2007A	2008A	2009A	2010A	2011E	2012E	2013E	CAGR10-13E
<b>Sales</b>	<b>123.8</b>	<b>139.0</b>	<b>72.5</b>	<b>81.5</b>	<b>106.6</b>	<b>127.4</b>	<b>137.0</b>	<b>18.9%</b>
YoY growth %		12.3%	-47.8%	12.4%	30.8%	19.5%	7.5%	
<b>EBITDA</b>	<b>20.2</b>	<b>17.8</b>	<b>(11.1)</b>	<b>1.5</b>	<b>6.3</b>	<b>10.4</b>	<b>11.6</b>	<b>96.2%</b>
Ebitda margin %	16.3%	12.8%	-15.4%	1.9%	5.9%	8.1%	8.5%	
YoY growth %		-12.0%			309.1%	64.9%	12.0%	
Total D&A	(3.2)	(5.4)	(6.8)	(5.2)	(6.7)	(7.3)	(7.0)	
<b>EBIT</b>	<b>17.1</b>	<b>12.5</b>	<b>(17.9)</b>	<b>(3.6)</b>	<b>(0.4)</b>	<b>3.1</b>	<b>4.6</b>	
Ebit margin %	13.8%	9.0%	-24.7%	-4.4%	-0.4%	2.4%	3.4%	
YoY growth %		-26.7%			88.2%	-822.4%	49.2%	
Net financials & Participations	3.2	2.5	1.1	-0.1	0.7	0.4	0.1	
<b>Pretax Profit</b>	<b>20.2</b>	<b>14.9</b>	<b>(16.8)</b>	<b>(3.7)</b>	<b>0.3</b>	<b>3.5</b>	<b>4.8</b>	
Taxes	(8.3)	(4.8)	(3.7)	(0.8)	(0.9)	(2.0)	(2.5)	
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Group Net Profit</b>	<b>12.0</b>	<b>10.2</b>	<b>(20.5)</b>	<b>(4.5)</b>	<b>(0.6)</b>	<b>1.5</b>	<b>2.2</b>	
Net margin %	9.7%	7.3%	-28.3%	-5.5%	-0.6%	1.2%	1.6%	
YoY growth %		-14.6%		78.2%	86.1%		53.3%	

Source: Intermonte SIM estimates



## Valuation

To value El.En, we have used a sum of the parts (SoP) model, adding the value of El.En without Cynosure (based on a discounted cash flow model) to the market value of El.En's 23.37% stake in Cynosure.

Once we incorporate our new estimates for El.En ex Cynosure into our model, the SoP value decreases by 10.9% from Eu18.7 to Eu16.7 per share. The better part of this decrease reflects a lower market value for value of Cynosure rather than our cut in the value of El.En ex Cynosure.

### El.En Group - SOP (€ mn)

	Method	€ mn per share		previous	change
El.En ex Cynosure	DCF	59.4	12.3	13.3	-7.4%
El.En stake in Cynosure (23.37%)	market value	21.0	4.4	5.5	-20.9%
<b>Total Equity Value</b>		<b>80.4</b>	<b>16.7</b>	<b>18.7</b>	<b>-10.9%</b>
El.En Share Price			9.9	11.8	-16.2%
potential upside			69.0%	59.0%	

Source: Intermonte Sim

### DCF

Our model, based on a WACC of 11.5%, 1.2x beta, a 2.0% terminal growth rate and a capital structure with no debt points to a fair value of Eu12.3 per share.

### El.En ex Cynosure - DCF model

(€ mn)	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	TV
EBITDA	14.8	15.3	17.0	17.9	18.6	19.1	19.7	20.3	20.7
EBIT	7.5	8.0	10.7	11.3	11.7	12.0	12.4	12.7	13.0
Taxes	(2.5)	(2.6)	(3.5)	(3.7)	(3.9)	(4.0)	(4.1)	(4.2)	(4.3)
Change in WC	<i>taxrate</i> (10.5)	(3.0)	(4.8)	(1.7)	(2.4)	(1.9)	(1.9)	(2.0)	(1.4)
Capex	(5.1)	(5.5)	(5.7)	(6.0)	(6.2)	(6.4)	(6.6)	(6.8)	(7.7)
<b>FCF</b>	<b>-3.3</b>	<b>4.2</b>	<b>3.0</b>	<b>6.4</b>	<b>6.1</b>	<b>6.9</b>	<b>7.1</b>	<b>7.4</b>	<b>7.4</b>
YoY growth		-227%	-28%	115%	-5%	13%	3%	3%	0%
<b>TV</b>									<b>77.5</b>
Discounted factor	0.90	0.80	0.72	0.65	0.58	0.52	0.47	0.42	0.38
WACC	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%
<b>Discounted Free cash flow</b>	<b>-2.9</b>	<b>3.3</b>	<b>2.2</b>	<b>4.2</b>	<b>3.6</b>	<b>3.6</b>	<b>3.3</b>	<b>3.1</b>	<b>29.1</b>
Discounted Free cash flows	20.3	41.1%							
Discounted Terminal value	29.1	58.9%							
<b>Total EV (with DCF)</b>	<b>49.4</b>	100.0%							
Net Cash 2010A	10.0								
Financial Assets									
Minorities									
<b>Total EQUITY</b>	<b>59.4</b>								
N. of shares (mn)	4.8								
<b>TARGET PRICE (€)</b>	<b>12.32</b>								

WACC	11.5%
Terminal growth	2.0%

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	TV
<b>WACC</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>
Free Risk	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Equity Premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Equity weighting	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Debt	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Tax rate	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%
Debt Weighting	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Intermonte Sim

Once we restate EI.En's EV for the value of its stake in Cynosure (Eu21mn based on market prices) we can see that EI.En ex-Cynosure is trading at really undemanding multiples, even at our DCF fair value.

#### EI.En ex Cynosure multiples at our DCF fair value

	2010	2011	2012	2013
P/E	16.0	38.4	22.8	11.6
EV/Sales	0.29	0.27	0.26	0.24
EV/Ebitda	2.8	2.6	2.5	2.3
EV/Ebit	4.5	5.1	4.8	3.6

Source: Intermonte Sim

#### EI.En ex Cynosure multiples at current market price

	2010	2011	2012	2013
P/E	17.2	26.9	15.8	8.0
EV/Sales	0.22	0.21	0.21	0.22
EV/Ebitda	2.2	2.0	2.1	2.1
EV/Ebit	3.4	4.0	4.0	3.3

Source: Intermonte Sim

## Multiples

As a sanity check, we have compared EI.En's multiples with those of two peer groups, one made of companies operating in the medical lasers sector, the other in industrial lasers. As shown in the table, EI.En is trading at a huge discount to peers. Even Cynosure is trading at a discount to its US medical peers.

#### EI.En - Industrial peer comparison

Company	EV/Sales			EV/EBITDA			EV/EBIT			P/E			P/BV		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Rofin Sinar	0.8x	0.8x	0.7x	5.8x	4.5x	3.5x	6.7x	5.1x	3.9x	11.6x	10.5x	9.2x	1.4x	1.2x	1.1x
Cymer	1.6x	1.6x		8.7x	6.9x		10.1x	9.1x		16.4x	13.4x		1.9x	1.8x	
Amada	0.7x	0.7x	0.7x	6.7x	5.4x	4.5x	11.2x	7.9x	7.9x	19.8x	14.5x	13.2x	0.5x	0.5x	0.5x
Coherent	0.9x	0.9x	0.7x	5.6x	4.7x	3.5x	7.2x	5.8x	4.2x	12.7x	11.5x	9.9x	1.8x	1.6x	1.4x
GSI	0.6x	0.6x					4.7x	3.6x		13.7x	10.1x				
Prima Industrie	0.6x	0.6x	0.5x	8.5x	6.0x	5.1x	14.7x	8.9x	7.2x	18.4x	6.1x	5.8x	0.7x	0.7x	0.7x
Mean	0.9x	0.9x	0.6x	7.0x	5.5x	4.1x	9.1x	6.7x	5.8x	15.4x	11.0x	9.5x	1.3x	1.2x	0.9x
Median	0.8x	0.8x	0.7x	6.7x	5.4x	4.0x	8.7x	6.8x	5.7x	15.0x	11.0x	9.6x	1.4x	1.2x	0.9x
EI.En ex Cynosure*	0.2x	0.2x	0.2x	2.0x	2.1x	2.1x	4.0x	4.0x	3.3x	26.9x	15.8x	8.0x	0.4x	0.4x	0.4x
EI.En Group*	0.4x	0.3x	0.3x	3.9x	3.2x	2.9x	10.9x	7.4x	5.3x	95.5x	34x	15.9x	0.7x	0.7x	0.7x

Source: Factset data and (\*) Intermonte SIM estimates

#### EI.En - Medical peer comparison

Company	P/Sales			P/BV		
	2011	2012	2013	2011	2012	2013
Syneron	1.8x	1.6x		1.3x	1.3x	
Palomar	2.8x	2.4x		1.2x	1.2x	
Cutera	2.1x	1.9x		1.3x	1.5x	
Biolase	2.0x	1.4x				
Solta Medical	1.3x	1.1x		0.9x	0.8x	
Mean	2.0x	1.7x		1.2x	1.2x	
Median	2.0x	1.6x		1.2x	1.2x	
EI.En ex Cynosure*	0.2x	0.2x	0.2x	0.4x	0.4x	
Cynosure	1.5x	1.2x		1.2x	1.2x	

Source: Factset data and (\*) Intermonte SIM estimates

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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;

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The stock price indicated is the reference price on the day prior to the publication of the report.

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**DETAILS ON STOCKS RECOMMENDATION**

Stock NAME	ELEN.		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	16.70	Previous Target (Eu):	18.70
Current Price (Eu):	9.36	Previous Price (Eu):	10.0
Date of report:	31/08/2011	Date of last report:	16/08/11

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