

New Highs in 2020... 2021–23 Business Plan's Target on Track

ADD | Fair Value: €8.49 (€7.31) | Current Price: €5.85 | Upside: 45.1%

€ Million	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E
Gross Written Premiums	62.3	84.4	117.7	142.7	164.6	185.8	202.1
Underwriting Result	11.4	16.6	21.2	30.0	36.3	43.9	49.3
Combined Ratio	80%	85%	89%	89%	88%	86%	84%
Net Profit	4.1	12.5	6.5	13.6	19.1	21.7	23.7
EPS	0.3	0.8	0.4	0.9	1.2	1.4	1.6

Source: Company data, KT&Partners' elaboration

New highs at year-end 2020. Over the 2019–20 period, NET achieved outstanding results from both an operational standpoint and a capital position, despite two “Black Swans”: the misappropriation of funds in 2019 (“The Mister X” fraud) and the COVID-19 pandemic in 2020. FY20 gross written premiums (GWP) amounted to €117.7mn (+39.4% YoY), exceeding both NET’s target and our forecast by +4.3% and +7.8%, respectively. All the four business lines (CQS, Bancassurance, broker, digital) recorded a positive performance, with the non-CQS lines accounting for 30% of the total premiums raised. The Group’s CoR (gross of reinsurance) came in at 89% (ca. +4pp vs FY19). Net of reinsurance, CoR improved, going from 77% in 2019 to 70% in 2020 following a reduction of both the net loss ratio and the expense ratio. Net income adjusted came in at €7.6mn, +€1.1mn on NET’s target and +€2.5mn on our forecast. A solid capital position was recorded as well, with a solvency ratio of 177.2% (vs 166% in 2019) also following the issuance of a five-year subordinated bond (Tier II) for a total amount of €5mn.

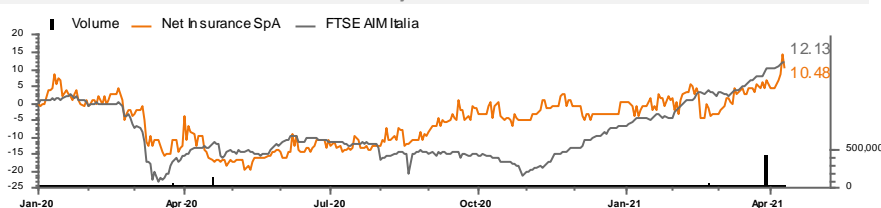
Bancassurance: from the start-up to the scale-up phase. Despite COVID-19 and a two-month lockdown in Italy, in 2020 NET signed five new partnerships (Banca Popolare S. Angelo, Banca Popolare Pugliese, Banca Popolare del Lazio, BluBanca and Banco Desio). After the distribution network strengthening carried out by NET over the last two years (nine partnerships signed up to now, including last agreement with Banca Popolare Valconca announced during 1Q21), NET is now on track to scale up its offer. In pursuing this scope, NET could leverage on a distribution network of over 650 branches. New agreements are in the pipeline. FY21 started on a positive note for the bancassurance channel, registering a +90% YoY growth in 1Q21.

Shareholders increasingly trust NET’s strategy. IBL Banca – NET’s main shareholder and strategic partner – increased its ownership from 19.85% to 22.31%, while First Capital’s stake exceed 5% (5.14%).

Estimates. Given 2020’s strong overperformance in a very challenging environment, we upgraded our estimates. We believe that the more resilient capital position, along with a strengthened distribution network and a pervasive insurtech approach, will continue to be key drivers of growth in the next few years. We now expect GWP to grow at a +14.6% CAGR2020–24, reaching €202mn in 2024. We forecast CoR to gradually decrease to 84% in FY24. Net income is expected to grow from €13.6mn in FY21 to €23.7mn in FY24, also benefiting from the recovery of funds related to the “Mister X” fraud. Finally, we expect the solvency ratio to remain above 175% over the 2021–24 period.

Valuation. On the back of our new projections, our valuation – based on both DDM and the warranted equity method – returns a fair value of €8.49ps, which implies a +45.1% upside on the current stock price.

Relative Performance Chart since January 2020



Research Update

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Market Data

Main Shareholders	
IBL Banca S.p.A.	22.31%
Unicredit S.p.A.	6.11%
Algebris UK Limited	5.16%
First Capital	5.14%
Mkt Cap (€ mn)	89.4
Shares issued	17,339,954
Treasury shares	2,056,597
Shares out.	15,283,357
Free Float	49.4%

Stock Data

52 Wk High (€)	6.15
52 Wk Low (€)	4.22
Avg. Daily Trading 90d	13,358
Price Change 1w (%)	4.46
Price Change 1m (%)	11.64
Price Change YTD (%)	11.22

Key Figures – Net Insurance S.p.A.

	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	5.85	8.49	Insurance					49.4%
Per Share Data	2018A	2019A	2020A	2021E	2022E	2023E	2024E	
Total shares issued (mn)	17.3	17.3	17.3	17.3	17.3	17.3	17.3	
Total shares outstanding (mn)	15.3	15.3	15.3	15.3	15.3	15.3	15.3	
EPS	0.3	0.8	0.4	0.9	1.2	1.4	1.6	
BV Per Share	3.5	4.7	5.2	6.0	7.1	8.1	9.1	
Dividend per share (ord)	-	-	-	0.08	0.22	0.37	0.57	
Dividend pay out ratio (%)	-	-	0%	19%	25%	30%	40%	
Income Statement (EUR million)								
Gross Written Premium (GWP)	62.3	84.4	117.7	142.7	164.6	185.8	202.1	
Underwriting Result	11.4	16.6	21.2	30.0	36.3	43.9	49.3	
Financial Result	0.1	2.0	2.2	3.2	4.1	5.2	5.8	
Operating Income	10.3	8.5	12.2	17.6	23.5	29.4	33.4	
Net Income	4.1	12.5	6.5	13.6	19.1	21.7	23.7	
Net Income Adj.	6.7	7.0	7.6	11.5	15.6	19.6	22.3	
Balance Sheet (EUR million)								
Investments	178.0	164.0	176.8	197.3	226.9	259.5	288.8	
Intangible assets	0.9	2.6	5.0	5.8	6.6	7.4	8.2	
Deferred acquisition costs	-	-	-	-	-	-	-	
Insurance technical reserves	299.5	300.4	326.2	354.4	384.7	419.5	455.0	
Senior or subordinated debt	14.7	15.5	20.1	25.1	30.1	35.1	40.1	
Shareholder's Equity	53.8	71.8	79.8	92.1	107.8	123.8	138.9	
Ratios (%)								
Loss ratio	64.8%	55.6%	55.2%	55.2%	55.9%	54.9%	53.8%	
Commission ratio	2.6%	8.3%	13.5%	15.8%	16.4%	16.8%	17.2%	
General expenses ratio	13.0%	20.7%	20.3%	17.5%	15.3%	14.1%	13.5%	
Combined ratio	80.4%	84.7%	89.1%	88.5%	87.5%	85.7%	84.5%	
Solvency ratio	162.9%	165.7%	177.2%	177.8%	183.0%	188.4%	190.7%	
ROE	11.3%	19.8%	8.6%	15.9%	19.1%	18.8%	18.1%	
ROE Adj.	18.4%	11.1%	10.0%	13.4%	15.6%	16.9%	17.0%	
Valuation								
P/E	23.0x	7.6x	14.5x	6.9x	4.9x	4.3x	4.0x	
P/BV	1.7x	1.2x	1.1x	1.0x	0.8x	0.7x	0.6x	
P/Premiums	1.5x	1.1x	0.8x	0.7x	0.6x	0.5x	0.5x	
Dividend yield (%)	-	-	0.0%	1.4%	3.8%	6.4%	9.7%	
Growth rates (%)								
GWP	6.7%	35.6%	39.4%	21.2%	15.4%	12.9%	8.8%	
Underwriting Result	29.0%	45.5%	27.5%	41.3%	21.0%	21.0%	12.3%	
Operating Income	-6.7%	-17.1%	43.5%	43.4%	33.7%	25.1%	13.7%	
Net Income	-23.4%	303.7%	52.3%	209.4%	140.2%	113.7%	109.3%	
Net Income Adj.	91.4%	4.5%	8.6%	51.3%	35.2%	25.9%	14.0%	

Source: Company data, KT&Partners' elaboration

FY20 Financial Results

NET set new highs at year-end 2020, remaining faithful to its “Business Plan 2019–23”, recording a positive performance in all the four business lines (CQS, Bancassurance, broker, digital). As of December 2020, NET boasts ca. 460k portfolio positions, of which ca. 90k clients were acquired in 2020.

With a +39.4% year-over-year growth, FY20 GWP amounted to €117.7mn, exceeding both NET’s target and our forecast by +4.3% and +7.8%, respectively.

The major contribution came from the CQS business line – NET’s core business – which still accounted for 70% of premiums raised in 2020 vs 74% in 2019. The incidence reduction of the CQS business is the result of the diversification process towards a multi-line company started in 2019. Based on Assofin data, in 2020 NET’s market share in terms of volume within the salary/pension backed loans market exceeded 25% from ca. 20% in 2019.

Despite COVID-19 and a two-month lockdown in Italy, the bancassurance business line recorded a sound performance as well, leveraging on a strengthened distribution network following the finalization of five new partnerships: Banca Popolare S. Angelo, Banca Popolare Pugliese, Banca Popolare del Lazio, BluBanca and Banco Desio. We believe that NET could strongly benefit from the agreement signed with Banco Desio, the 17th Italian bank in terms of branches with over 250 branches and a strong network in Northern Italy (we expect ca. €5–6mn of GWP per year).

Despite the high exposure to the CQ market, we point out that the low portfolio concentration on elderly people – those most affected by COVID-19 – along with the hedging of the policies covering private employees with severance indemnities and reinsurance activities (ca. 2/3 of the portfolio) had a low impact on the Group’s profitability. Indeed, the FY20 loss ratio (gross of reinsurance) came in at ca. 55%, almost in line with the previous year but ca. 2pp above NET’s target and our forecast. The FY20 result was also impacted by a higher incidence of long-term contracts in life business, which implies lower earned premiums for the period as the recognition of premiums as revenue happens over time as the risk covered by the policy runs.

The Group’s CoR (gross of reinsurance) came in at 89%, ca. +4pp compared to FY19 as a result of higher expenses due to the development of the new distribution channels. FY20 CoR was also +2pp above our expectations due to a higher than expected gross loss ratio and expense ratio. Net of reinsurance, CoR improved, going from 77% in 2019 to 70% in 2020 following a reduction of both the net loss ratio (from 44% in 2019 to 41% in 2020) and the expense ratio (from 33% in 2019 to 29% in 2020). As a result, the net technical result improved from €6.6mn in 2019 to €10.1mn in 2020.

The net result from financial investments came in at €2.2mn (+13% YoY). Following the revised asset allocation carried out by the new management, the financial portfolio is well diversified with a low risk profile (30.5% mutual funds, 41.2% Italian and foreign government bonds, 24.5% corporate bond and 3.8% equity).

Net profit amounted to €6.5mn and it was negatively impacted by non-recurring items also related to the recovery of the misappropriated funds. By adjusting for these extraordinary costs, net income came in at €7.6mn, +€1.1mn on NET’s target and +€2.5mn on our expectations.

In the current uncertain international economic and financial environment, a solid capital position was also confirmed. At the end of December 2020, NET showed a solvency ratio (SR) of 177.2% (vs 166% in 2019), which was higher than we expected (164%) and above Company guidance, also following the issuance of a five-year subordinated bond (Tier II) for a total amount of €5mn in December 2020.

FY20 Income Statement

	FY18	FY19	FY20	YoY growth	FY20E	A vs E
Gross Written Premiums	62.3	84.4	117.7	39.4%	109.2	7.8%
Gross Earned Premiums	65.3	80.8	106.7	32.1%	98.5	8.3%
Reinsurers' share	(43.3)	(47.5)	(60.3)	26.9%	(61.0)	-1.1%
Net Earned Premiums	22.0	33.2	46.3	39.5%	37.5	23.6%
Claims paid and change in insurance provisions	(38.2)	(46.1)	(66.9)	45.2%	(51.7)	29.4%
Reinsurers' share	27.6	29.5	41.8	41.7%	35.9	16.4%
Net insurance benefits and claims	(10.6)	(16.6)	(25.1)	51.5%	(15.8)	58.6%
Underwriting Result	11.4	16.6	21.2	27.5%	21.7	-2.1%
Loss ratio	64.8%	55.6%	55.2%	-0.4%	53.0%	2.2%
Net acquisition and administration costs	(1.3)	(10.1)	(11.2)	11.2%	(16.7)	-33.1%
of which commissions	(2.0)	(6.5)	(12.0)	83.9%	(16.7)	-28.4%
Commission ratio	2.6%	8.3%	13.5%	5.2%	16.8%	-3.3%
of which general expenses	(10.0)	(16.2)	(18.1)	11.6%	(17.2)	4.7%
General expenses ratio	13.0%	20.7%	20.3%	-0.4%	17.3%	3.0%
of which ceding commission	11.3	13.1	19.6	49.5%	17.7	10.6%
of which investment management costs	(0.6)	(0.5)	(0.8)		(0.5)	
Combined ratio	80.4%	84.7%	89.1%	4.4%	87.2%	1.9%
Financial Result	0.1	2.0	2.2	12.9%	1.9	18.8%
Operating Result	10.3	8.5	12.2	43.5%	6.8	80.2%
Other income (expenses)	(4.0)	7.3	(3.3)	-145.2%	0.4	-1017.4%
EBT	6.3	15.8	8.9	-43.4%	7.2	25.1%
Income taxes	2.2	3.4	2.4	-27.6%	2.1	17.6%
Net Income	4.1	12.5	6.5	-47.7%	5.1	28.2%
Net Income Adjusted	6.7	7.0	7.6	8.6%	5.1	49.6%

Source: Company data

Change in Estimates

Over the 2019–20 period, NET's management team has remained focused on executing its strategy, achieving outstanding results from both an operational standpoint and a capital position and despite two “Black Swans”: the misappropriation of funds in 2019 (“The Mister X” fraud) and the COVID-19 pandemic in 2020.

We believe that the more resilient capital position along with strong and experienced management, a strengthened distribution network, and a pervasive insurtech approach will continue to be key drivers of growth in next years.

Looking at the CQS business, we expect the Company to keep consolidating its leadership position within the salary and pension backed loans market while enhancing its technical performance. For several years now, NET has set up more demanding selection and pricing criteria, while lowering its exposure to the pension and private segments as well. As a result, we expect that, despite the current macroeconomic uncertainties, risks of claims for unemployment and mortality due to COVID-19 will have a low impact on the Group's technical result, with a possible slight worsening by the end of 2021 and in 2022 as the ban on redundancies will come to an end.

As for the bancassurance business, after the distribution network strengthening carried out by NET over the last two years, the Company is on track to scale up its offer. In pursuing this scope, NET could leverage on the nine partnerships signed up to now and on a distribution network of over 650 branches. New agreements are in the pipeline. FY21 started on a positive note for the bancassurance channel, registering a 90% YoY growth in 1Q21.

Finally, although the contribution from the digital channel to NET's top line is expected to be marginal over the forecasted period, the Company has been working on: i) digitalizing its four business lines in order to provide a more efficient offer, also partnering with PayDo, MotionCloud and more recently with Fabrick; and ii) expanding its digital offer portfolio to enrich its value proposition. In this regard, we point out that in March 2021, NET signed a partnership with Trendevice to provide device protection policies. In addition to this, leveraging on its partnership with Yolo, NET: i) has recently started distributing white-label products on Intesa Sanpaolo's network; and ii) will enter the Spanish market by initially offering - under the freedom to provide services – PET policies. Further potential upside could come from agreements with some Italian utilities for the distribution of instant policies.

On the back of FY20 results and recent developments, we updated our estimates on NET's future financials. Our top-line growth is now slightly higher than Company guidance, which we consider very conservative especially for the final part of the plan. We now expect GWP to grow at a CAGR 2020–23 of 16.4%, reaching €186mn in 2023. We expect that the non-CQS business will gradually increase its incidence on the top line, accounting for ca. 43% of the total in 2023.

In the light of ongoing macroeconomic uncertainties, we now forecast that the FY21 loss ratio will be almost in line with 2020 and slightly worsening in 2022 – due to the end of a ban on redundancies – and to progressively improve in the following years, also on the back of the increasing incidence of the bancassurance business which presents high profitability.

On the other hand, we project the Group's CoR to gradually improve, going from 89% in 2020 to 85.7% in 2023 thanks to a reduction in the general expenses ratio, which more than offset the increase in the commission ratio related to the expansion of the bancassurance channel.

We lowered the contribution from financial investments over the 2021–23 period, factoring in the prudential asset allocation policy adopted by the management in order to smooth the risk profile of the portfolio.

Looking at the bottom line, following the non-reimbursement of the €10mn bond forming part of the collateral within the asset recovery plan and taking into account the judgement of the Court of London of January 2021, we prudentially forecast that NET will be able to recover €13mn over the 2021-24. Net income is therefore expected to go from €13.6mn in FY21 to €23.7mn in FY23. Without considering the potential funds that NET could recover, net income

is expected to reach €19.6mn by 2023, growing at a CAGR 2019–22 of 37.1%. This will translate into an adjusted ROE of ca. 17% in FY23.

Finally, we expect NET's SR to remain above 175% over the 2021–23 period, thus helping the Group win new business.

Change in Estimates

€ million	2020A	2021E	2021E	Change	2022E	2022E	Change	2023E	2023E	Change	CAGR 2019-'22 New
	New	Old	New		Old	New		Old	New		
Gross Written Premium	117.7	133.7	142.7	6.7%	154.2	164.6	6.8%	174.1	185.8	6.7%	16.4%
<i>YoY Change (%)</i>	39.4%	22.4%	21.2%		15.3%	15.4%		12.9%	12.9%		
Underwriting Result	21.2	31.2	30.0	-3.8%	38.4	36.3	-5.3%	47.8	43.9	-8.1%	27.4%
<i>YoY Change (%)</i>	27.5%	43.9%	41.3%		22.9%	21.0%		24.7%	21.0%		
Operating Result	12.2	16.1	17.6	9.4%	20.6	23.5	14.2%	27.2	29.4	7.9%	33.9%
<i>YoY Change (%)</i>	43.5%	136.3%	43.4%		28.1%	33.7%		32.4%	25.1%		
Adjusted Net Income	7.6	11.5	11.5	0.0%	14.6	15.6	6.7%	19.2	19.6	2.1%	37.1%
<i>YoY Change (%)</i>	8.6%	126.4%	51.3%		26.7%	35.2%		31.7%	25.9%		
Loss Ratio	55.2%	53.6%	55.2%	1.7%	52.1%	55.9%	3.8%	50.8%	54.9%	4.2%	n.m.
Combined Ratio	89.1%	89.0%	88.5%	-0.5%	88.2%	87.5%	-0.7%	86.1%	85.7%	-0.4%	n.m.
Solvency Ratio	177.2%	172.0%	177.8%	5.8%	181.1%	183.0%	2.0%	188.9%	188.4%	-0.5%	n.m.

Source: FactSet, KT&Partners' elaboration

Valuation

We carried out the Company valuation by applying two major methods: i) the dividend discount model, and ii) the warranted equity method (Gordon model). As a check, we also performed a peer comparison analysis. We consider DFV Deutsche Familienversicherung AG as the most comparable company. DFV raised €50mn in net proceeds on its December 2018 IPO and the company is listed in the Prime Standard of the Frankfurt Stock Exchange, with a current market cap of €191mn. DFV claims to be the leading European insurtech company.

In our valuation, we also valued the potential contribution of treasury shares netted for ca. 0.8mn shares that will be used to service the eventual bond conversion. To value the impact of the treasury shares, we considered two different scenarios: HP1) we assumed the sale of treasury shares at the current market price of €5.85ps, resulting in a cash-in of ca. €7.2mn (added to equity value), and we calculated value per share on ca. 17.3mn shares; HP2) we assumed the cancellation of the treasury shares (no impact on equity value) and we calculated the value per share on ca. 16.1mn shares.

The average of the two major methods provides the following results under the two different scenarios:

- HP1 – Sale of treasury shares: €146mn or €8.39ps;
- HP2 – Cancellation of treasury shares: €138mn or €8.59ps.

Taking the average of the two different scenarios, we derive a fair value per share of €8.49 with a 45.1% potential upside. Our peer analysis based on DFV Deutsche Familienversicherung AG multiples comparison confirms the current substantial discount of NET ranging from 59% on a P/BV21 to 91% on P/E22.

DDM Model

We have conducted our dividend discount model valuation based on 9.4% cost of equity, a function of the risk-free rate of 0.7% (Italian 10y BTP), 0.96 beta, 5.4% equity risk premium (Damodaran) and a premium for size of 3.5%.

We note that NET holds 11.86% of the treasury shares and that ca. 0.8mn will be used to service the potential conversion of the bond. Therefore, our EPS and dividend flow calculation are based on ca. 16.1mn of shares outstanding (vs 17.3mn of total shares). For our dividend projections, we applied a payout ratio identical to the Company guidance, adding a payout ratio for 2024 in line with FY23.

We discounted the 2020E–25E annual dividend and considered a terminal growth rate of 1.5%.

Considering the two different scenarios regarding treasury shares, our estimate of NET's fair value is in the range of:

- HP1 – Sale of treasury shares: €114mn or €6.57ps;
- HP2 – Cancellation of treasury shares: €107mn or €6.62ps.

Dividend Discount Model						
€ million	2020	2021	2022E	2023E	2024E	2025E
EPS €	0.4	0.9	1.2	1.4	1.6	n.a.
pay-out ratio		19%	25%	30%	40%	40%
Dividend flow		1.3	3.4	5.7	8.7	9.5
NPV of Dividends			2.9	4.5	6.2	6.2
<i>g</i>	1.5%					
<i>ke</i>	9.4%					
Discounted Cumulated Div	19.8					
TV	132.7					
Discounted TV	86.8					
NPV Dividends + TV	106.7					
	HP1		HP2			
Equity Value	113.8		106.7			
# shares mn	17.3		16.1			
Value per share €	6.57		6.62			

Source: KT&Partners' elaboration

Warranted Equity Method

We have also conducted a valuation using a warranted equity method (Gordon model) over the period 2021–24. We adjusted 2021–24 net income, removing the impact of the recovery of misappropriated sums. We accounted for the recovery by adding back its present value to our average equity value over the period 2021–24.

Considering the two different scenarios regarding treasury shares, our warranted equity method valuation of NET's fair value is in the range of:

- HP1 – Sale of treasury shares: €177mn or €10.22ps;
- HP2 – Cancellation of treasury shares: €170mn or €10.55ps.

Warranted Equity Method (Gordon Model)

€ million	2021E	2022E	2023E	2024E
BV of Shareholder Equity	90.0	104.3	121.7	137.4
<i>Intangible Asset</i>	5.8	6.6	7.4	8.2
Tangible Book Value (TBV)	84.2	97.7	114.3	129.3
Net Income <i>ADJ.</i>	11.5	15.6	19.6	22.3
Return on Tangible Equity (ROTE)	13.7%	15.9%	17.1%	17.3%
Equity Value -> $(ROTE-g)/(K_e-g)*TBV$	129.7	178.5	226.4	258.3
NPV of Equity Value	121.6	152.9	177.4	184.9
Average Equity Value	159.2			
PV recovery of misappropriated funds	10.9			
Equity Value	170.1			
	HP1	HP2		
Equity Value	177.2	170.1		
# shares	17.3	16.1		
Value per share	10.22	10.55		

Source: KT&Partners' elaboration

Peer Comparison

We have carried out an in-depth analysis of those public companies that could be considered as peers of NET. Taking into account its size, market cap and business characteristics, we found just one company that can be considered a proper peer: **DFV Deutsche Familienversicherung AG**.

- **DFV Deutsche Familienversicherung AG:** listed on the Frankfurt Stock Exchange in 2018, DFV engages in the provision of digitalized insurance services with a focus on insurtech. It operates through the Supplementary Health Insurance and Damage/Accident segments. The Supplementary Health Insurance segment focuses on supplementary dental, health, and nursing insurance lines. The Damage/Accident segment encompasses accident, property damage, home, and liability insurances. The company was founded by Stefan Maximilian Knoll and Philipp Vogel on April 21, 2007, and is headquartered in Frankfurt, Germany. DFV's current market cap is €191mn.

NET Peer Comparison

	Exchange	Market Cap	P/E 2020	P/E 2021	P/E 2022	P/BV 2020	P/BV 2021	P/BV 2022
DFV Deutsche Familienversicherung AG	XETRA	191	n.m.	n.m.	52.3x	2.1x	2.3x	2.3x
NET INSURANCE	AIM ITALIA	89	14.5x	6.9x	4.9x	1.1x	1.0x	0.8x
NET INSURANCE Discounts vs DFV		n.m.	n.m.	n.m.	-91%	-47%	-59%	-65%

Source: KT&Partners' elaboration

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- ADD – FOR A FAIR VALUE > 15% ON CURRENT PRICE
- HOLD – FOR A FAIR VALUE <15% AND >-15% ON CURRENT PRICE
- REDUCE – FOR A FAIR VALUE < -15% ON CURRENT PRICE

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