

Going Beyond Targets

ADD | Fair Value: €9.79 (€8.49) | Current Price: €6.90 | Upside: 41.9%

€ Million	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Gross Written Premiums	62.3	84.4	117.7	149.9	172.4	194.1
Underwriting Result	11.4	16.6	21.2	29.4	35.9	43.4
Combined Ratio	80%	85%	89%	88%	87%	84%
Net Profit	4.1	12.5	6.5	16.1	19.3	22.0
Net Profit Adjusted	6.7	7.0	7.6	13.4	15.9	20.0
EPS	0.3	0.8	0.4	0.9	1.1	1.3

Source: Company data, KT&Partners' elaboration

1H21 results herald FY21 beyond NET's guidelines. In 1H21, NET kept posting strong growth in terms of premiums, operating and net results, going beyond its target and our expectations. Gross written premiums increased to €79.1mn (+45% YoY and +13% above our estimates), up in both the P&C (+35% YoY) and Life (+60% YoY) segments. A strong contribution came from the bancassurance business (+112% YoY), with all strategic partnerships signed in 2020 starting to pay off. At the bottom line, net income significantly increased to €7.2mn or +178% YoY, also benefitting from a €2mn one-off tax credit related to revaluation of NET's brand and a tax credit concerning the "ACE" incentive. A solid capital position was confirmed as well, with the SR almost in line with FY20 at 181%.

Bancassurance has taken off and new partnerships have been signed. NET's management has kept leveraging on its business connections and experience to further develop the bancassurance channel, start new relationships and seize cross-selling opportunities. Since the beginning of the year, NET has enlarged its distribution network to over 850 branches by signing five commercial agreements (16 since the end of 2018) with new and existing partners: *Banca Popolare Valconca*, *Banca Capasso* and *Banca di Sconto* (both belonging to the IBL Banca Group, NET's main shareholder), *Banca di Piacenza* and *Figenpa* (already a partner of NET in the CQS segment).

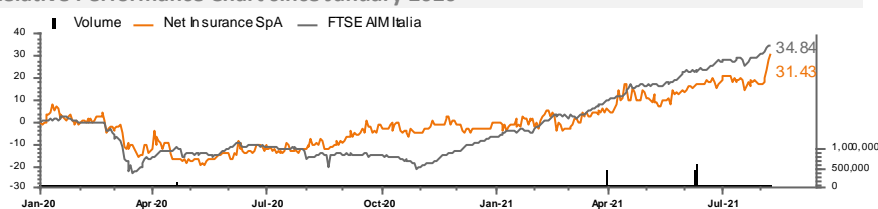
NET launched its first "instant" policy. In partnership with EnelX and Neosurance, NET launched its first on-demand and pay-per-use home insurance policy that protects homes against theft. This solution is currently available on the Italian market, but it is designed for future global scalability.

Almost 60% of free float. Since our latest update, NET's free float has increased from 49.4% to 57% following: i) warrant conversion for a total of 14,938 newly issued shares (€23,353 of cash in); and ii) special shares conversion into 0.895mn newly issued shares. Furthermore, the €400k conversion of the convertible bond in June led to a reduction in treasury shares, which now account for 10.9% of total shares issued. It is worth noticing that IBL Banca now holds a 27% stake in NET (previously 22%), whereas Unicredit and First Capital decreased their stakes below 5%.

Estimates. On the back of 1H21's strong overperformance, we upgraded our estimates, anticipating GWP to grow at a +18.1% CAGR2020–23, reaching €194mn in 2023. We forecast CoR to go from 87.7% in FY21 to 84.5% in FY23. Following the judgment of the Ordinary Court of Milan, we now expect NET will recover €3.8mn related to "Mister X" in 2021 and ca. €9mn over the 2022-24 period. Therefore, we expect FY21 net income at €16.1mn – also benefitting from tax credit related to revaluation of NET's brand and the "ACE" incentive – reaching €22mn in FY23.

Valuation. Our valuation – based on both DDM and the warranted equity method – returns a fair value of €9.79ps, implying a +41.9% 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.			27.02%
Algebris UK Limited			5.08%
Mkt Cap (€ mn)			117.5
Shares issued			18,245,650
Treasury shares			1,989,933
Shares out.			17,022,386
Free Float			57.0%
Market multiples			
	2020	2021	2022
P/E*	18.0x	7.3x	6.1x
P/BV	1.3x	1.2x	1.1x
P/Premiums	1.0x	0.8x	0.7x

Stock Data	
52 Wk High (€)	6.90
52 Wk Low (€)	4.54
Avg. Daily Trading 90d	20,532
Price Change 1w (%)	12.20
Price Change 1m (%)	8.66
Price Change YTD (%)	31.18

*P/E is based on net income including the recovery of funds related to "Mister X" fraud

Key Figures – Net Insurance S.p.A.

	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	6.90	9.79	Insurance					57.0%
Per Share Data	2018A	2019A	2020A	2021E	2022E	2023E	2024E	
Total shares issued (mn)	17.3	17.3	17.3	18.2	18.2	18.2	18.2	
Total shares outstanding (mn)	15.3	15.3	15.3	17.0	17.0	17.0	17.0	
EPS	0.3	0.8	0.4	0.9	1.1	1.3	1.4	
BV Per Share	3.5	4.7	5.2	5.6	6.5	7.4	8.4	
Dividend per share (ord)	-	-	-	0.08	0.24	0.34	0.52	
Dividend pay out ratio (%)	-	-	-	19%	25%	30%	40%	
Income Statement (EUR million)								
Gross Written Premium (GWP)	62.3	84.4	117.7	149.9	172.4	194.1	211.0	
Underwriting Result	11.4	16.6	21.2	29.4	35.9	43.4	49.2	
Financial Result	0.1	2.0	2.2	3.0	4.1	5.1	5.7	
Operating Income	10.3	8.5	12.2	18.2	24.8	30.9	35.6	
Net Income	4.1	12.5	6.5	16.1	19.3	22.0	24.5	
Net Income Adj.	6.7	7.0	7.6	13.4	15.9	20.0	23.2	
Balance Sheet (EUR million)								
Investments	178.0	164.0	176.8	196.8	225.4	256.8	284.3	
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	360.7	398.8	440.8	482.8	
Senior or subordinated debt	14.7	15.5	20.1	19.7	19.7	19.7	19.7	
Shareholder's Equity	53.8	71.8	79.8	95.1	110.3	126.5	142.2	
Ratios (%)								
Loss ratio	64.8%	55.6%	55.2%	55.1%	55.8%	54.8%	53.5%	
Commission ratio	2.6%	8.3%	13.5%	14.3%	14.5%	14.5%	14.6%	
General expenses ratio	13.0%	20.7%	20.3%	18.2%	16.3%	15.2%	14.7%	
Combined ratio	80.4%	84.7%	89.1%	87.7%	86.6%	84.5%	82.8%	
Solvency ratio	162.9%	165.7%	177.2%	182.4%	183.7%	188.6%	188.9%	
ROE	11.3%	19.8%	8.6%	18.4%	18.8%	18.6%	18.2%	
ROE Adj.	18.4%	11.1%	10.0%	15.3%	15.5%	16.9%	17.3%	
Valuation								
P/E	28.6x	9.4x	18.0x	7.3x	6.1x	5.3x	4.8x	
P/BV	2.0x	1.5x	1.3x	1.2x	1.1x	0.9x	0.8x	
P/Premiums	1.9x	1.4x	1.0x	0.8x	0.7x	0.6x	0.6x	
Dividend yield (%)	-	-	0.0%	1.2%	3.4%	4.9%	7.5%	
Growth rates (%)								
GWP	6.7%	35.6%	39.4%	27.3%	15.0%	12.6%	8.7%	
Underwriting Result	29.0%	45.5%	27.5%	38.6%	21.9%	21.0%	13.4%	
Operating Income	-6.7%	-17.1%	43.5%	49.0%	35.8%	24.6%	15.4%	
Net Income	-23.4%	303.7%	52.3%	247.3%	119.8%	114.0%	111.3%	
Net Income Adj.	91.4%	4.5%	8.6%	76.3%	18.8%	25.8%	16.0%	

Source: Company data, KT&Partners' elaboration

Note: The number of treasury shares is netted for shares that will be used to service the eventual bond conversion.

1H21 Financial Results

1H21 financial data confirm NET's excellent ability in achieving outstanding results, with strong growth in premiums, operating and net results while maintaining a solid capital position.

Gross written premiums increased to €79.1mn (+45% YoY and +13% above our estimates), thanks to growth in both the P&C (+35% YoY) and Life (+60% YoY) segments.

A strong performance was recorded by the bancassurance business (+112% YoY), also benefitting from the take-off of strategic partnerships signed in 2020. In the first half of the year, NET has further strengthened its distribution network by signing commercial agreements with new and existing partners: Banca Popolare Valconca, Banca Capasso and Banca di Sconto (both belonging to IBL Banca Group, NET's main shareholder) and Banca di Piacenza. More recently, NET has started a collaboration with Figenpa – already a partner of NET in the CQS segment – for the distribution of insurance products in the non-motor bancassurance sector.

As for the digital channel, although the contribution to NET's top line is still low, over the last months the Company kept working on expanding its digital offer portfolio. In this regard, NET has partnered with EnelX and Neosurance for the launch of its first instant home insurance policy that protects homes against theft. The smart home market is already worth €500mn in Italy, with demand for security as one of the main drivers of growth. This solution is currently available on the Italian market, but it is designed for future global scalability. NET has also launched: i) new products for the protection of people – “mobility green” and dental insurances – together with ForGrenn Spa and Axieme; ii) device protection policies in partnership with Trendevice; iii) a cyber risk insurance policy, “Yolo Cyber”, designed to protect SMEs together with Yolo; and iv) “IoT Assicuro Bike” and “IoT Assicuro Sport” policies that will be distributed on the app developed by Banca Popolare di Puglia e Basilicata.

Looking at the key profitability figures, notwithstanding strong business growth, great profitability was confirmed, recording a combined ratio of 88%, in line with FY20 and our expectation.

The net investment result came in at €1.8mn, improving by 118% compared with 1H20 – which was affected by the financial markets' negative performance – also thanks to the expansion of the portfolio's value following business growth.

At the bottom line, net income significantly increased to €7.2mn or 178% YoY, also benefitting from €2mn one-off tax credit related to revaluation of NET's brand, which was carried out in accordance with D.L. 104/2020, and a tax credit concerning the “ACE” incentive in accordance with Law Decree n. 73 dated 25 May 2021.

The Group's shareholders' equity was €85mn, +7% compared to FY20, with a Book Value Per Share (BVPS) of €5.4ps (+17.2% CAGR2018–June2021).

NET confirms its solid capital position with the solvency ratio at 181%, up from 177% at the end of 2020.

1H21 Income Statement

€ thousand	1H18	1H19	1H20	1H21	YoY growth	1H21E	A vs E
Gross Written Premiums	34,585	38,776	54,584	79,139	45%	70,289	13%
Gross Earned Premiums	33,895	36,270	46,429	65,318	41%	60,674	8%
Reinsurers' share	(21,478)	(22,143)	(25,754)	(36,768)	43%	(32,274)	14%
Net Earned Premiums	12,417	14,127	20,675	28,550	38%	28,400	1%
Claims paid and change in insurance provisions	(21,432)	(16,617)	(24,199)	(40,920)	69%	(35,208)	16%
Reinsurers' share	13,875	11,548	15,094	24,527	62%	21,233	16%
Net insurance benefits and claims	(7,557)	(5,069)	(9,105)	(16,393)	80%	(13,975)	17%
Underwriting Result	4,860	9,058	11,571	12,157	5%	14,425	-16%
Loss ratio	65%	44%	48%	53%	5%	53%	0%
Net acquisition and administration costs	(372)	(3,971)	(6,350)	(5,664)	-11%	(8,125)	-30%
of which commissions	(1,413)	(2,294)	(6,555)	(8,681)	32%	(9,696)	-10%
Commission ratio	4.0%	6.5%	15.3%	16.7%	1%	17.9%	-1%
of which general expenses	(4,833)	(7,194)	(7,955)	(9,584)	20%	(9,169)	5%
General expenses ratio	13.6%	20.4%	18.5%	18.4%	0%	17.0%	1%
of which ceding commissions	6,224	5,740	8,860	13,101	48%	11,199	17%
of which investment management costs	(350)	(223)	(700)	(500)	-29%	(458)	
Combined ratio	82%	71%	82%	88%	6%	88%	0%
Financial Result	1,052	(21)	822	1,789	118%	1,176	52%
Operating Result	5,540	5,066	6,043	8,282	37%	7,476	11%
Other income (expenses)	(585)	(2,759)	(2,740)	(1,024)	-63%	799	n.m.
EBT	4,955	2,307	3,303	7,259	120%	8,275	-12%
Income taxes	(1,707)	(223)	(700)	(23)	-97%	(2,126)	-99%
Net Income	3,248	2,084	2,603	7,235	178%	6,150	18%

Source: Company data

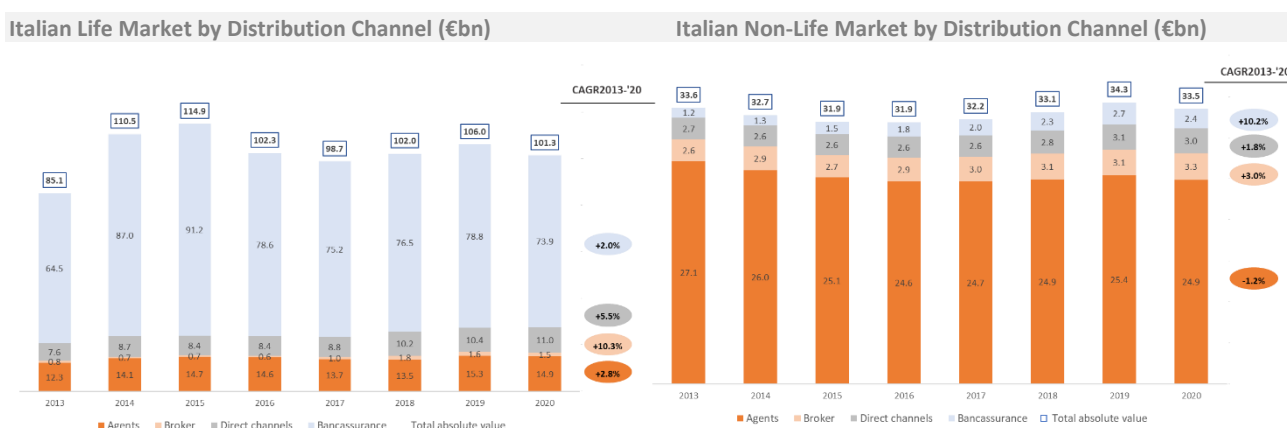
Note: Our net income estimates take into account the recovery of funds related to the "Mister X" Fraud included among other income and expenses.

Insurance Market Update and Outlook

According to ANIA’s data¹, in 2020 premiums from domestic and foreign business, direct and indirect, gross of reinsurance, decreased by 3.9%. The outbreak of the COVID-19 pandemic interrupted the positive trend recorded over the 2018–19 period (+3.9% in 2019 and +3.1% in 2018). The 2020 decrease reflects the negative performance of both the life segment (-4.5% YoY) and the non-life segment (-2.0% YoY).

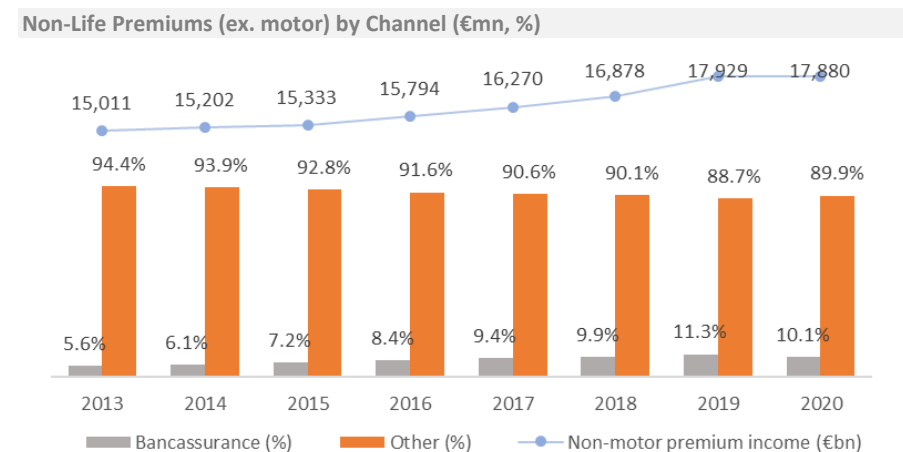
Looking at the distribution channel, over the 2013–20 period, bancassurance has been the main life distribution channel in Italy, with a market share of 73% in 2020 (-1.4pp YoY), whereas brokers have been the fastest growing channel (+10.3% CAGR).

In contrast, banks still have low penetration in the non-life segment, with a market share of 7.1% in 2020, recording however the highest growth over the 2013–20 period (+10.2% CAGR) with plenty of room for growth in the next few years.



Source: ANIA report, KT&Partners’ elaborations

By excluding motor insurance premiums, non-life income generated by the bancassurance channel accounted for 10.1% or ca. €1.8bn in 2020 (+12.9% CAGR 2013–20).



Source: ANIA report, KT&Partners’ elaborations

In 2021, the Italian insurance market is expected to grow by 7% YoY, reaching more than €144bn (€135bn in 2020). Although some elements of uncertainty about the evolution of the pandemic persist (deriving mainly from the spread of variants of the virus), the progress of the vaccination campaign, the lifting of restrictions on mobility at national and international level and the recovery of GDP should all be driving factors leading the life sector and the non-life sector to increase by +8.5% YoY and +2.8% YoY (+7% excluding motor segment), respectively.

¹ ANIA – “L’Assicurazione Italiana 2020-21”

Change in Estimates

On the back of the 1H21 results and recent developments, we updated our estimates of NET's future financials. We now expect GWP to grow at a CAGR 2020–23 of 18.1% (vs 16.4% in our previous estimates), reaching €194mn in 2023. We expect that the non-CQS business will gradually increase its incidence on the top line, accounting for ca. 45% of the total in 2023.

Following the end of a ban on redundancies at the end of June 2021 and in the light of ongoing macroeconomic uncertainties, we confirm the FY21 loss ratio in line with 2020, slightly worsening in 2022 and to progressively improve in the following years, also on the back of the increasing incidence of the bancassurance business, which presents high profitability.

We slightly improved the Group's CoR projection, going from 87.7% in 2021 to 84.5% in 2023, mainly factoring in a reduction in the expenses ratio.

Looking at the bottom line, following the judgment of the Ordinary Court of Milan which ordered the provisional enforceability of the opposing injunction for the credit related to the "Augusto bond", we now expect that NET will recover €3.8mn in FY21, instead of the €3mn, and a further ca. €9mn over the 2022–24 period. Net income is therefore expected to go from €16.1mn in FY21 - also benefitting from one-off tax credit related to the revaluation of NET's brand and a tax credit concerning the "ACE" incentive - to €22mn in FY23. Without considering the potential funds that NET could recover, net income adjusted is expected to reach €20mn by 2023, growing at a CAGR 2019–22 of 38.2%. This will translate into an adjusted ROE of ca. 17% in FY23.

Finally, we now expect NET's SR to remain above 180% 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	CAGR
	Actual	Old	New		Old	New		Old	New		2020-'23	2020-'23
											Old	New
Gross Written Premium	117.7	142.7	149.9	5.0%	164.6	172.4	4.7%	185.8	194.1	4.5%	16.4%	18.1%
<i>YoY Change (%)</i>	39.4%	21.2%	27.3%		15.4%	15.0%		12.9%	12.6%			
Underwriting Result	21.2	30.0	29.4	-1.9%	36.3	35.9	-1.2%	43.9	43.4	-1.2%	27.4%	26.9%
<i>YoY Change (%)</i>	27.5%	41.3%	38.6%		21.0%	21.9%		21.0%	21.0%			
Operating Result	12.2	17.6	18.2	3.9%	23.5	24.8	5.5%	29.4	30.9	5.1%	33.9%	36.1%
<i>YoY Change (%)</i>	43.5%	43.4%	49.0%		33.7%	35.8%		25.1%	24.6%			
Adjusted Net Income	7.6	11.5	13.4	16.5%	15.6	15.9	2.4%	19.6	20.0	2.3%	37.1%	38.2%
<i>YoY Change (%)</i>	8.6%	51.3%	76.3%		35.2%	18.8%		25.9%	25.8%			
Loss Ratio	55.2%	55.2%	55.1%	-0.1%	55.9%	55.8%	-0.1%	54.9%	54.8%	-0.2%	n.m.	n.m.
Combined Ratio	89.1%	88.5%	87.7%	-0.8%	87.5%	86.6%	-0.9%	85.7%	84.5%	-1.3%	n.m.	n.m.
Solvency Ratio	177.2%	177.8%	182.4%	4.7%	183.0%	183.7%	0.7%	188.4%	188.6%	0.2%	n.m.	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 €215mn. 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 (we point out that ca. 67k treasury shares have already been converted into ordinary shares). 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 €6.90ps, resulting in a cash-in of ca. €8.4mn (added to equity value), and we calculated value per share based on ca. 18.2mn shares; HP2) we assumed the cancellation of the treasury shares (no impact on equity value) and we calculated the value per share on ca. 17mn shares.

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

- HP1 – Sale of treasury shares: €176.8mn or €9.69ps;
- HP2 – Cancellation of treasury shares: €168.4mn or €9.89ps.

Taking the average of the two different scenarios, we derive a fair value per share of €9.79 with a 41.9% potential upside. Our peer analysis based on DFV Deutsche Familienversicherung AG multiples comparison confirms the current substantial discount of NET as it trades at a 55% and 62% discount on P/BV21 and P/E22, respectively.

DDM Model

We have conducted our dividend discount model valuation based on an 8.6% cost of equity, a function of the risk-free rate of 0.6% (Italian 10y BTP), 0.97 beta, 5.4% equity risk premium (Damodaran) and a premium for size of 2.7% (0.8pp lower compared to our latest update, factoring in the higher capitalization of the company).

We note that NET now holds 10.9% of the treasury shares and that further ca. 0.77mn will be used to service the potential conversion of the bond. Therefore, our EPS and dividend flow calculation are based on ca. 17.0mn of shares outstanding (vs 18.2mn 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 2021E–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: €136.7mn or €7.49ps;
- HP2 – Cancellation of treasury shares: €128.3mn or €7.54ps.

Dividend Discount Model						
€ million	2020	2021	2022E	2023E	2024E	2025E
EPS €	0.4	0.9	1.1	1.3	1.4	n.a.
pay-out ratio		19%	25%	30%	40%	40%
Dividend flow		1.4	4.0	5.8	8.8	9.8
NPV of Dividends			3.6	4.8	6.7	6.8
<i>g</i>	1.5%					
<i>ke</i>	8.6%					
Discounted Cumulated Dividend	21.8					
TV	152.8					
Discounted TV	106.5					
NPV Dividends + TV	128.3					
	HP1		HP2			
Equity Value	136.7		128.3			
# shares mn	18.2		17.0			
Value per share €	7.49		7.54			

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: €216.8mn or €11.88ps;
- HP2 – Cancellation of treasury shares: €208.4mn or €12.24ps.

Warranted Equity Method (Gordon Model)

€ million	2021E	2022E	2023E	2024E
BV of Shareholder Equity	92.4	107.0	124.6	141.0
Intangible Asset	5.8	6.6	7.4	8.2
Tangible Book Value (TBV)	86.6	100.4	117.2	132.8
Net Income ADJ.	13.4	15.9	20.0	23.2
Return on Tangible Equity (ROTE)	15.5%	15.9%	17.1%	17.5%
Equity Value -> (ROTE-g)/(Ke-g)*TBV	171.2	204.0	258.7	300.7
NPV of Equity Value	165.8	182.0	212.5	227.5
Average Equity Value	197.0			
PV recovery of misappropriated funds	11.5			
Equity Value	208.4			
	HP1	HP2		
Equity Value	216.9	208.4		
# shares mn	18.2	17.0		
Value per share €	11.9	12.2		

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 €215mn.

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	215	n.m.	n.m.	52.8x	2.4x	2.7x	2.8x
NET INSURANCE	AIM ITALIA	105	18.0x	7.3x	6.1x	1.3x	1.2x	1.1x
NET INSURANCE Discounts vs DFV			n.m.	n.m.	-88%	-44%	-55%	-62%

Source: KT&Partners' elaboration

Note: P/E is based on net income including the recovery of funds related to "Mister X" fraud

DISCLAIMER

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IN THIS STUDY DDM AND GORDON MODEL MODELS HAVE BEEN USED. RECOMMENDATIONS FOLLOW THE FOLLOWING RULES:

- 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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