RENO DE MEDICI — NEUTRAL

Price (Eu): 0.23

Target Price (Eu): 0.27

SECTOR: Industrials

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On A Safer Footing But Visibility Remains Low

- **Reasons to remain NEUTRAL.** Our valuation (Eu0.27 per share based on an economic profit model) flags that current low share price multiples (0.54x P/BV 2011E and 0.71x EV/CE 2011E) fairly discount the potential profitability of Reno de Medici business. On the one hand we see limited downside risk because leverage is decreasing to a sustainable level (management efforts in generating positive cash flows have proved successful) putting the company on a safer footing; on the other we doubt that the current industrial footprint (7 mills spread over 4 countries) could bring profitability and ROCE close to the levels achieved by Mayr Melnohf's cardboard business, thus triggering a re-rating of the stock. Risks persist of a worsening macroeconomic environment in Europe, high volatility in raw material and energy prices, and the potential for harsher environmental regulation.

- **Prices up, volumes down QoQ in 1Q11.** Reno de Medici reported sales of Eu138.1mn in 1Q11, +19.9% YoY and +0.9% QoQ. Volumes sold reached 241.000 tons, +2.6% YoY (in line with European demand for cardboard) and -1.6% QoQ, with an average sales price of Eu573 per ton, +16.5% YoY and +2.6% QoQ. EBITDA came in at Eu11.2mn, equal to a margin of 6.2%, flat YoY but down 260bps QoQ due to lower revenues from energy sales. The price hike (equal to Eu81 per ton) contributed an additional Eu19.5mn to EBITDA but was partially neutralised by cost inflation (raw material costs increased by Eu17.2mn or Eu71 per ton). EBIT was Eu4.7mn after D&A in line with 1Q10. Group net profit came to Eu2.0mn in 1Q11 from a loss of Eu2.1mn in 1Q10.

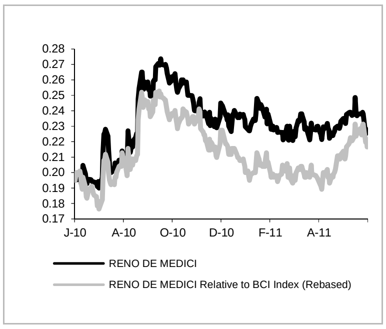
- **Estimates raised slightly.** Following solid 1Q11 results, we have revised our 2011 EBITDA and group net profit estimates upwards from Eu44.1mn to Eu46.6mn (+5.7%) and from Eu5.6mn to Eu5.9mn (+5.6%) respectively. We now forecast an 11.1% YoY increase in average cardboard prices in 2011 to Eu596 per ton, with Reno de Medici committed to offsetting input cost inflation by raising average selling prices.

- **Deleverage continues.** Reno de Medici again generated positive cash flows in 1Q11: the net debt decreased from Eu106.5mn at the end of 2010 to Eu99.4mn, due to operating improvements and effective working capital management (down to Eu70.4mn in 1Q11 from Eu75.7mn in 4Q10 despite a 0.9% QoQ increase in sales). At the end of 2011 the net debt should be down to Eu93.5mn (equal to leverage of 2x) as operating profits increase, CAPEX remains below the level of depreciation and working capital outflows are still under control.

Key Figures	2009A	2010A	2011E	2012E	2013E
Sales (Eu mn)	428	504	560	571	582
Ebitda (Eu mn)	32	40	47	48	50
Net profit (Eu mn)	-7	1	6	7	9
EPS - New (Eu)	-0.03	0.00	0.01	0.01	0.02
EPS - Old (Eu)	-0.03	0.00	0.01	0.02	
DPS (Eu)	0.00	0.00	0.00	0.00	0.00

Ratios & Multiples	2009A	2010A	2011E	2012E	2013E
P/E	nm	62.9	19.6	15.5	11.9
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	6.7	4.8	3.8	3.4	2.9
ROCE	1.7%	4.4%	7.2%	7.9%	9.0%

RENO DE MEDICI - 12m Performance



RATING: Unchanged
TARGET PRICE (Eu): Unchanged

Change in EPS est:	2011E	2012E
	+5.7%	+3.5%

STOCK DATA

Reuters code:	RDM.MI
Bloomberg code:	RM IM

Performance	1m	3m	12m
Absolute	-2.4%	1.2%	16.7%
Relative	2.3%	8.6%	11.8%
12 months H/L:			0.27/0.19

SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	86
Total Mkt Cap (Eu mn):	86
Mkt Float - ord (Eu mn):	34
Mkt Float (in %):	*40.0%*
Main shareholder:	
Cascades	40.0%

BALANCE SHEET DATA	2011
Book value (Eu mn):	163
BVPS (Eu):	0.43
P/BV:	0.5
Net Financial Position (Eu mn):	-94
Enterprise value (Eu mn):	179

RENO DE MEDICI - *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
PROFIT & LOSS (Eu mn)	Sales	428	504	560	571	582
	EBITDA	32	40	47	48	50
	EBIT	5	12	19	20	22
	Financial income (charges)	(10)	(7)	(8)	(7)	(7)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(5)	5	11	13	15
	Taxes	(1)	(3)	(4)	(5)	(5)
	Tax rate (%)	24.3%	-63.5%	-39.7%	-37.3%	-34.3%
	Minorities & discontinue activities	(0)	(1)	(1)	(1)	(1)
	Net profit	-7	1	6	7	9
	Total extraordinary items	0	0	2	0	2
	Ebitda excl. extraordinary items	32	40	47	48	50
	Ebit excl. extraordinary items	5	12	19	20	22
	Net profit restated	(7)	1	4	6	7
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	377	378	378	378	378
	EPS stated fd	-0.03	0.00	0.02	0.02	0.02
	EPS restated fd	-0.03	0.00	0.01	0.01	0.02
	BVPS fd	0.58	0.41	0.43	0.45	0.47
	Dividend per share (ord)	0.00	0.00	0.00	0.00	0.00
	Dividend per share (sav)	0.00	0.00	0.00	0.00	0.00
	Dividend pay out ratio (%)					
CASH FLOW (Eu mn)	Gross cash flow	20	29	34	36	38
	Change in NWC	6	6	(4)	(4)	(4)
	Capital expenditure	(20)	(16)	(17)	(18)	(18)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	6	20	12	14	16
	Acquisitions, divestments & others	(5)	(0)	0	0	0
	Dividend	0	0	0	0	0
	Equity financing/Buy-back	0	0	0	0	0
	Change in Net Financial Position	(3)	24	13	15	17
BALANCE SHEET (Eu mn)	Total fixed assets	269	257	246	239	231
	Net working capital	82	76	80	84	88
	Long term liabilities	(66)	(70)	(70)	(74)	(78)
	Net capital employed	286	263	256	248	241
	Net financial position	(131)	(106)	(94)	(78)	(62)
	Group equity	155	157	162	170	179
	Minorities	1	1	1	1	1
	Net equity	155	158	163	171	180
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	86	86	86	86	86
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(131)	(106)	(94)	(78)	(62)
	Enterprise value	217	192	179	164	148
RATIOS(%)	EBITDA margin*	7.5%	7.9%	8.3%	8.5%	8.7%
	EBIT margin*	1.1%	2.4%	3.3%	3.5%	3.8%
	Gearing - Debt/equity	84.5%	68.0%	57.6%	46.2%	34.5%
	Interest cover on EBIT	0.5	1.7	2.5	2.9	3.4
	Debt/Ebitda	4.07	2.66	2.01	1.62	1.23
	ROCE*	1.7%	4.4%	7.2%	7.9%	9.0%
	ROE*	-4.4%	0.9%	3.7%	4.4%	5.3%
	EV/CE	0.8	0.7	0.7	0.7	0.6
	EV/Sales	0.5	0.4	0.3	0.3	0.3
	EV/Ebit	nm	16.0	9.6	7.8	6.2
	Free Cash Flow Yield	7.4%	23.2%	14.1%	16.6%	18.4%
GROWTH RATES (%)	Sales	-5.1%	17.6%	11.1%	2.0%	2.0%
	EBITDA*	-20.2%	24.4%	16.5%	4.0%	4.0%
	EBIT*	-63.8%	144.7%	54.9%	7.3%	9.6%
	Net profit	nm	nm	332.4%	24.3%	27.0%
	EPS restated	nm	nm	220.5%	27.0%	29.7%

** Excluding extraordinary items*

Source: Intermonte SIM estimates

1Q'11A results: cardboard prices up, volumes down

Reno de Medici reported sales of Eu138.1mn in 1Q'11, +19.9% YoY and +0.9% QoQ. Volumes sold reached 241,000 tons, +2.6% YoY (in line with European demand for cardboard) and -1.6% QoQ, with an average sales price of Eu573 per ton, +16.5% YoY and +2.6% QoQ. The price hike in the quarter was the fifth in a row. EBITDA came in at Eu11.2mn, equal to a margin of 6.2%, flat YoY but down 260bps QoQ due to lower revenues from energy sales. The price hike (of Eu81 per ton), which contributed an additional Eu19.5mn to EBITDA, was partially neutralised by cost inflation (raw material costs rose by Eu17.2mn or Eu71 per ton). Labour costs and other operating expenses were basically flat YoY. EBIT was Eu4.7mn after depreciations, in line with 1Q'10. Group net profit was Eu2.0mn in 1Q'11, up from a loss of Eu2.1mn in 1Q'10.

Reno de Medici - Quarterly Results

(€ mn)	Q1'09 A	Q2'09 A	Q3'09 A	Q4'09A	FY'09 A	Q1'10 A	Q2'10 A	Q3'10 A	Q4'10 A	FY'10A	Q1'11 A
Sales	**108.4**	**105.7**	**104.5**	**109.5**	**428.1**	**115.1**	**126.5**	**125.2**	**136.8**	**503.6**	**138.1**
Yoy Growth	4.7%	-22.4%	-12.4%	19.0%	-5.1%	6.2%	19.7%	19.8%	24.9%	17.6%	19.9%
Volumes ('000)	210	209	215	230	864	235	240	227	245	946	241
Yoy Growth	na	na	na	na	-2.8%	11.4%	14.8%	5.6%	7.9%	9.5%	2.6%
Average Prices (Eu)	516	506	486	476	506	492	527	552	558	532	573
Yoy Growth						-4.7%	4.2%	13.5%	17.3%	5.2%	16.5%
Other Revenues	4.2	5.1	5.1	5.0	19.3	4.5	3.1	2.8	4.6	15.0	3.6
Cost of Raw Materials	-84.3	-80.6	-83.2	-85.5	-333.6	-91.8	-97.2	-97.2	-107.0	-393.1	-109.1
Margin %	*-77.8%*	*-76.2%*	*-79.6%*	*-78.1%*	*-77.9%*	*-79.8%*	*-76.8%*	*-77.6%*	*-78.2%*	*-78.1%*	*-79.0%*
Labour Costs	-18.4	-19.6	20.7	-20.6	-75.6	-19.3	-20.3	-19.7	-20.0	-79.3	-19.9
Other Operating	-1.2	-1.1	-1.6	-1.9	-5.8	-1.4	-1.1	-1.2	-1.4	-5.2	-1.5
EBITDA	**8.9**	**9.7**	**6.8**	**6.8**	**32.2**	**7.1**	**11.0**	**10.0**	**12.0**	**40.0**	**11.2**
Margin %	*8.2%*	*8.9%*	*-6.2%*	*5.9%*	*7.5%*	*6.2%*	*8.7%*	*8.0%*	*8.8%*	*7.9%*	*6.2%*
Depreciations	-6.4	-6.4	-7.1	-6.7	-26.7	-6.7	-6.7	-6.1	-7.0	-26.5	-6.5
Wright offs	0.0	-0.5	0.0	-0.1	-0.6	0.0	0.0	-1.5	0.0	-1.5	0.0
EBIT	**2.6**	**2.8**	**-0.3**	**0.0**	**4.9**	**0.3**	**4.3**	**3.9**	**3.6**	**12.1**	**4.7**
Margin %	*2.4%*	*2.6%*	*-0.3%*	*0.0%*	*1.1%*	*0.3%*	*3.4%*	*3.1%*	*2.6%*	*2.4%*	*3.4%*
Financials	-2.8	-2.2	-2.4	-2.9	-10.2	-1.9	-0.8	-2.7	-1.6	-7.1	-1.6
Pre Tax profit	**-0.2**	**0.6**	**-2.7**	**-3.0**	**-5.3**	**-1.6**	**3.5**	**1.2**	**1.9**	**5.0**	**3.1**
Taxes	-0.8	-0.3	0.0	-0.2	-1.3	-0.3	-0.7	-0.5	-1.4	-2.9	-0.9
Minorities	-0.1	-0.1	-0.1	-0.1	-0.4	-0.2	-0.2	-0.1	-0.2	-0.7	-0.1
Group Net Profit	**-1.1**	**0.2**	**-2.8**	**-3.3**	**-6.9**	**-2.1**	**2.6**	**0.6**	**0.3**	**1.4**	**2.0**

Source: Company data & Intermonte SIM

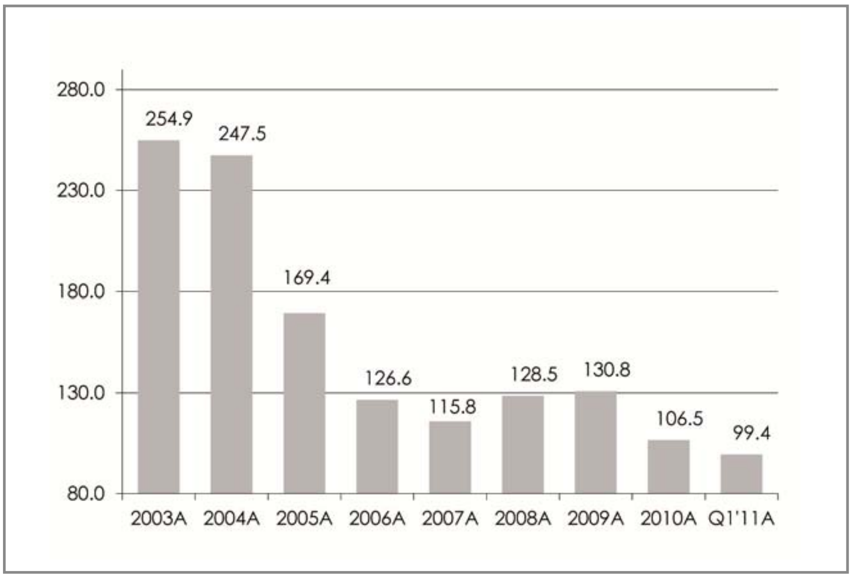
Reno de Medici - Prices and Ebitda Effect

	Q1 09 A	Q2 09 A	Q3 09 A	Q4 09A	Q1 10 A	Q2 10 A	Q3 10 A	Q4 10 A	Q1 11 A	Q2 11 E	Q3 11 E	Q4 11 E
Average selling price (Eu per Tonnes	516	506	486	476	492	527	552	558	573	596	608	608
Delta Price (Eu per Tonnes)	-20	-36	-35	50	-24	21	65	82	81	69	56	49
Impact on Ebitda (mn Eu)	-4.2	-7.6	-7.5	11.5	-5.7	5.1	14.9	20.1	19.5	15.7	12.9	11.8

Source: Company data & Intermonte SIM

Reno de Medici generated positive cash flows again in 1Q'11: net debt decreased from Eu106.5 at the end of last year to Eu99.4mn, due to operating improvements and effective working capital management (down to Eu70.4mn in 1Q'11 from Eu75.7mn in 4Q'10 despite a 0.9% QoQ increase in sales).

Reno de Medici Net Debt



Source: Company data

Reno de Medici has stated that the order book remains at a satisfactory level, although order intakes are down YoY as the restocking that occurred in 1Q'10 came to an end. The company expects input cost inflation to last over the next few quarters, as prices for recycled fibre, waste paper and energy should continue to move upward. Finally, Reno de Medici should be able to increase the average selling price, as was done in 2010.

From the company's press release:
"The outlook for operations depends on factors which are hard to quantify and which are linked to exogenous factors such as the crisis in North Africa and its repercussions on energy prices, which could have adverse consequences on the world economic recovery. The order backlog remains at satisfactory levels, although the volume of orders is lower than the corresponding period of the previous year, also because the rebuilding of stocks which took place in the first quarter of last year has not been repeated. The greatest uncertainties in the sector are linked to the trend in production factor costs (especially of waste paper for pulp), whose rise could continue for the next few months. Energy costs will continue their upwards trend for the rest of the year; in particular, the Italian mills are being penalised by the new charges introduced by the Energy Authority and by the government to support energy from renewable sources. On the other hand, it seems reasonable to predict that the negative impact of higher production factor costs will be offset by increased selling prices, as was the case for all of 2010."

Estimates: higher sales prices should compensate for rising raw material costs

We expect volumes to be basically flat in 2011 (-0.7% YoY to 939,000 tons), with an average sale price of Eu596 per ton, +11.9% YoY. 2011 year-end prices should reach Eu608 per ton, 2.0% higher than the average expected 2011 price; price hikes are likely to be implemented quarter by quarter. Sales are forecast to reach Eu559.6mn in 2011. On the cost side, we forecast raw material prices (mainly recovered paper and energy costs) to increase double-digit (+11.2% YoY), effectively offsetting those price hikes. Ebitda should increase to Eu46.6mn (+16.4% YoY) as a result of good operating leverage: labour costs and other operating costs are basically fixed and should increase only by 2.9% YoY. At the bottom line, we expect the group's net to reach Eu5.9mn in 2011 from Eu1.4mn in 2010 due to higher net operating profit (Ebit should increase by 53.7% YoY to Eu18.6mn) and despite higher taxes.

Reno de Medici – P&L

(€ mn)	2007A	2008A	2009A	2010A	2011E	2012E	2013E
Sales	**342.5**	**451.1**	**428.1**	**503.6**	**559.6**	**570.7**	**582.2**
YoY growth %	9.1%	31.7%	-5.1%	17.6%	11.1%	2.0%	2.0%
EBITDA	**29.6**	**19.1**	**32.2**	**40.0**	**46.6**	**48.5**	**50.4**
Ebitda margin %	8.7%	4.2%	7.5%	7.9%	8.3%	8.5%	8.7%
Total D&A	(19.0)	(26.7)	(27.3)	(28.0)	(28.0)	(28.5)	(28.5)
EBIT	**10.6**	**-7.6**	**4.9**	**12.0**	**18.6**	**20.0**	**21.9**
Ebit margin %	3.1%	-1.7%	1.1%	2.4%	3.3%	3.5%	3.8%
Net financials & Partecipations	(7.6)	(11.7)	(10.2)	(6.8)	(7.5)	(7.0)	(6.5)
Pre Tax profit	**3.0**	**1.9**	**-5.3**	**5.2**	**11.1**	**13.0**	**15.4**
Taxes	0.8	(2.1)	(1.3)	(3.2)	(4.4)	(4.8)	(5.3)
Minorities	(0.3)	(0.2)	(0.4)	(0.7)	(0.8)	(0.8)	(0.8)
Group Net Profit	**1.4**	**-6.4**	**-6.9**	**1.4**	**5.9**	**7.3**	**9.3**

Source: Company data & Intermonte SIM

As for cash flow, Reno de Medici is likely to continue to deleverage its balance sheet: net debt is projected to drop from Eu106.5mn at the end of 2010 to Eu90.3mn as maintenance CAPEX are well below the level of depreciations and working capital should remain flat despite the increase in sales (thus decreasing as a percentage of sales even if to a lesser extent than in previous years).

Reno de Medici – Cash Flow

(€ mn)	2007A	2008A	2009A	2010A	2011E	2012E	2013E
Net Income	1.7	(6.2)	(6.5)	2.0	6.7	8.1	10.1
Depreciation and Amortization	18.4	25.0	26.7	26.1	27.0	27.5	27.5
Other non-cash items	0.0	1.7	0.6	1.9	1.0	1.0	1.0
Gross Operating Cash Flow	**20.1**	**20.5**	**20.7**	**30.0**	**34.7**	**36.6**	**38.6**
Change in NWC	8.5	(18.4)	5.7	6.3	(4.4)	(3.9)	(4.0)
Capex	**(17.8)**	**(16.9)**	**(19.7)**	**(15.8)**	**(17.3)**	**(17.7)**	**(18.0)**
Change in financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	(4.7)	(0.2)	0.0	0.0	0.0
Share Capital Increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	(0.9)	(3.3)	0.0	0.0	0.0	0.0
Net Cash Flow	**10.5**	**(12.9)**	**(2.6)**	**24.4**	**12.9**	**15.1**	**16.6**
Initial Net Financial Position	(125.8)	(115.3)	(128.3)	(130.8)	(106.5)	(93.5)	(78.4)
Final Net Financial Position	(115.3)	(128.3)	(130.8)	(106.5)	(93.5)	(78.4)	(61.9)

Source: Company data & Intermonte SIM

Reno de Medici – Balance Sheet

(€ mn)	2007A	2008A	2009A	2010A	2011E	2012E	2013E
Net Working Capital	69.4	87.7	82.0	75.7	80.1	84.0	88.0
Net Fixed Assets	191.0	270.6	269.2	257.0	246.3	238.5	231.1
Other non current assets	(30.0)	(69.1)	(65.6)	(69.7)	(70.4)	(74.3)	(78.1)
Net Capital Empoyed	**230.3**	**289.3**	**285.7**	**263.0**	**256.0**	**248.3**	**241.0**
Net Debt	**(115.3)**	**(128.3)**	**(130.8)**	**(106.5)**	**(93.5)**	**(78.4)**	**(61.9)**
Group's Net Equity	**115.0**	**161.0**	**154.8**	**156.6**	**162.5**	**169.8**	**179.2**
Gearing (%)	100.3%	79.7%	84.5%	68.0%	57.6%	46.2%	34.5%
Leverage (x)	3.9	6.7	4.1	2.7	2.0	1.6	1.2

Source: Company data & Intermonte Sim

Reno de Medici – Quarterly Results

(€ mn)	Q1'10 A	Q1'11 A	Q2'10 A	Q2'11E	1H'10A	1H'11E	FY'10A	FY'11E
Sales	**115.1**	**138.1**	**126.5**	**135.8**	**241.6**	**273.9**	**503.6**	**559.6**
Yoy Growth		19.9%		7.4%		13.4%		11.1%
Volumes ('000)	**235**	**241**	**240**	**228**	**475**	**469**	**946**	**939**
Yoy Growth		2.6%		-5.0%		-1.3%		-0.7%
Average Prices (Eu)	**492**	**573**	**527**	**596**	**509**	**584**	**532**	**596**
Yoy Growth		16.5%		13.1%		14.7%		11.9%
Other Revenues	4.5	3.6	3.1	2.0	7.6	5.6	15.0	11.1
Cost of Raw Materials	-91.8	-109.1	-97.2	-106.0	-189.0	-215.1	-393.1	-437.1
Margin %	*-79.8%*	*-79.0%*	*-76.8%*	*-78.0%*	*-78.2%*	*-78.5%*	*-78.1%*	*-78.1%*
Labour Costs	-19.3	-19.9	-20.3	-20.8	-39.7	-40.7	-79.3	-85.4
Other Operating	-1.4	-1.5	-1.1	0.0	-2.5	-1.5	-5.2	-1.5
EBITDA	**7.1**	**11.2**	**11.0**	**11.1**	**18.1**	**22.3**	**40.0**	**46.6**
Margin %	*6.2%*	*6.2%*	*8.7%*	*8.2%*	*7.5%*	*8.1%*	*7.9%*	*8.3%*
Depreciations	-6.7	-6.5	-6.7	-7.0	-13.4	-13.5	-26.5	-27.0
Wright offs	0.0	0.0	0.0	-0.3	0.0	-0.3	-1.5	-1.0
EBIT	**0.3**	**4.7**	**4.3**	**3.8**	4.6	**8.5**	**12.1**	**18.6**
Margin %	*0.3%*	*3.4%*	*3.4%*	*2.8%*	*1.9%*	*3.1%*	*2.4%*	*3.3%*
Financials	-1.9	-1.6	-0.8	-2.0	-2.7	-3.6	-7.1	-7.5
Pre Tax Profit	**-1.6**	**3.1**	**3.5**	**1.8**	**1.9**	**4.9**	**5.0**	**11.1**
Taxes	-0.3	-0.9	-0.7	-1.2	-1.0	-2.1	-2.9	-4.4
Minorities	-0.2	-0.1	-0.2	-0.2	-0.4	-0.3	-0.7	-0.8
Net Result	**-2.1**	**2.0**	**2.6**	**0.4**	**0.5**	**2.4**	**1.4**	**5.9**

Source: Company Presentation

Valuation: low multiples reflects a low ROCE

Our valuation flags that current low share price multiples (0.54x P/BV 2011E and 0.71x EV/CE 2011E) fairly discount the prospective profitability of Reno de Medici business. On one side we see limited downside risk because leverage is decreasing to a sustainable level of 2x (the management has proven successful in generating positive cash flows) putting the company on a safer foot; on the other we doubt that the current industrial footprint (7 mills spread over 4 countries) could bring profitability and ROCE close to those of Mayr Melnohf cardboard business.

Our valuation is based on an economic profit model (EV/ROACE) which suggests a fair value of Eu0.27 per share. Reno de Medici is currently unable to create value (ROCE<WACC): the gap should slightly narrow going forward as the management is committed to keeping profitability at a satisfactory level through the cycle (price discipline) and to keeping capital employed strictly under control (CAPEX is limited to maintenance and Working Capital is stable, which makes for decreasing Capital Employed).

Reno de Medici – EV Roace

	2011E	2012E	2013E
Capital Employed - year average	256.0	248.3	241.0
Ebit	18.6	20.0	21.9
ROACE	7.2%	7.9%	9.0%
Tax load ratio (%)	23.7%	24.2%	24.1%
ROCEAT	5.5%	6.0%	6.8%
WACC	**7.7%**	**7.7%**	**7.7%**
TG	0.0%	0.0%	0.0%
Required return	7.7%	7.7%	7.7%
EV / CE	0.7	0.8	0.9
Enterprise Value (€ mn)	**182.1**	**193.8**	**212.9**
NFP (-)	(93.5)	(78.4)	(61.9)
(+) minorities	0.0	0.0	0.0
Fair Value (€ mn)	**88.6**	**115.3**	**151.0**
Fair value per share (€)	**0.23**	**0.31**	**0.40**
Number of shares	377.8	377.8	377.8
Average Actualized Value			**0.27**

Source: Intermonte SIM

We have also run an analysis based on the multiples at which several other European companies active in the production of paper, board and packaging are trading. We have not included this peer multiples analysis in our fair value calculation as Reno de Medici differs significantly from the peer group: it is fully reliant on recycled paper, has no exposure to the forestry/paper industry, and does not have its own packaging business.

Looking at 2011 and 2012 multiples, the stock looks cheap on EV/EBITDA and P/BV ratios and it has an above-average free cash flow yield. On the other hand, it looks expensive based on P/E ratios and the company is not expected to pay any dividends in the coming years.

Reno de Medici Peer group multiples

	P/E 2011	P/E 2012	EV/Ebitda 2011	EV/Ebitda 2012	P/BV 2011	P/BV 2012	P/CF 2011	P/CF 2012
Mayr-Melnhof	**12.6**	**12.0**	**5.1**	**4.6**	**1.56**	**1.44**	**7.6**	**7.2**
Stora Enso	7.8	7.1	5.0	4.6	0.83	0.78	4.6	4.4
M-Real	9.1	6.7	5.5	4.2	0.83	0.77	4.5	3.5
UPM-Kymmene	13.0	9.9	5.7	4.5	0.85	0.81	4.7	4.4
Holmen	11.8	11.9	6.6	6.4	0.93	0.90	6.2	6.3
Average	**10.9**	**9.5**	**5.6**	**4.9**	**1.00**	**0.94**	**5.5**	**5.2**
Reno de Medici	**20.5**	**16.2**	**3.9**	**3.5**	**0.54**	**0.52**	**2.9**	**2.7**
premium / discount	88.9%	70.2%	-30.1%	-28.1%	-46.1%	-44.8%	-47.5%	-47.8%

Source: Intermonte SIM

Company at a glance

Reno de Medici is the leading Italian and second-ranked European producer (after Mayr Melnhof) of cardboard made from recycled materials (i.e. fibre and waste paper for pulp). Its production capacity is split between seven cardboard mills located in Europe – four in Italy, one in Spain, one in France and one in Germany – with a total annual production capacity of 1,120,000 tons.

Cardboard is the primary raw material needed to produce folding cardboard boxes (e.g. packaging cartons). Reno de Medici's product range meets several packaging and graphic applications for most end-use markets, mainly within the consumer goods industry, such as dry foods, spirits, detergents and personal care products. The company's clients are specialised processors/converters serving big consumer goods companies. Sales are skewed towards Western Europe (48.5% of 2010 total sales) and Italy (37.3%).

Reno de Medici – Production Plants

Source: Company Presentation

Cascades: a changing deal

In 2008 Reno de Medici and Cascades merged their European recycled (WLC) cardboard businesses. Cascades transferred its board mills located in France and in Germany, with a total annual capacity of 350.000 tons, to Reno de Medici, bringing its annual capacity up to 1,100,000 tons. Following the deal and the issue of 115.6mn new shares, Cascades became the leading shareholder with a 30.6% stake in the capital of Reno de Medici (and it now has 40.0%).

Reno de Medici's total annual capacity should reach 1,300,000 tons when the put or call option to acquire the European virgin fibre (FBB) assets of Cascades (two mills, one located in France and one in Sweden) is exercised by either Cascades or Reno de Medici at pre-established EBITDA multiples. The option exercise period is 2012 for Reno de Medici and 2013 for Cascades.

The integration of Cascades has allowed Reno de Medici to improve its competitive position and achieve a better geographical breakdown of sales: the weight of Italy dropped from approximately 50% to one-third. Cost synergies – mainly optimisation of manufacturing processes, logistics and procurement savings and sales network restructuring – were estimated at Eu15mn on an annualised basis.

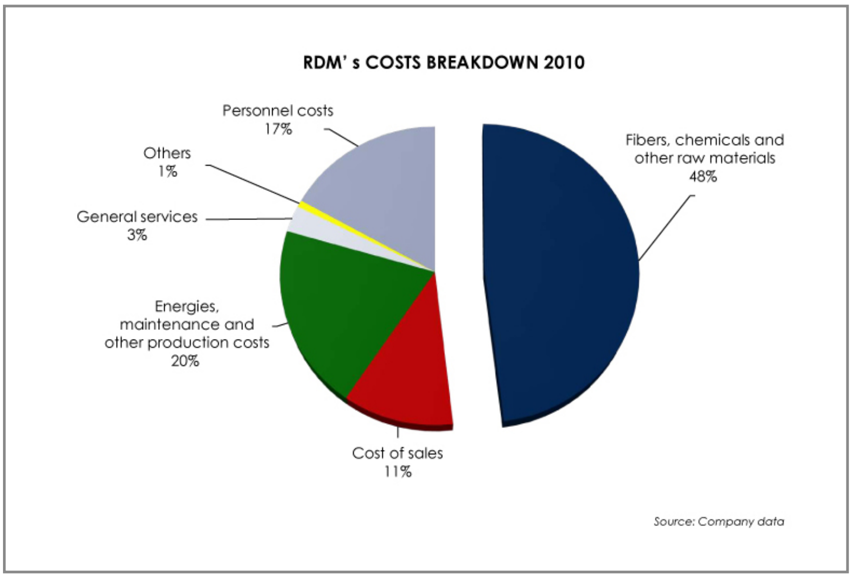
Recent history

- 2002-2005: industrial restructuring and disposal of non-core assets
- 2005: sales of packaging operations
- 2006: demerger of some real estate assets (listing of RENO DE MEDICI Realty), financial restructuring
- 2007-2008: merger by incorporation of Cascades European cardboard assets
- 2009: acquisition of a minority stake in Manucor, a plastic film producer

Cost breakdown: affected by raw materials and energy prices volatility

Cost are mainly direct. The most important input is recycled fibre and waste paper for pulp (e.g. as a rule of thumb one ton of material is required for one ton of board), which together with chemicals and other raw materials account for roughly 50% of total costs. Sourcing is made mostly on the spot market (ca. 75% of demand) and through long term contracts with local municipalities (ca. 25% of demand, partially flattening waste paper spot prices volatility). Energy (e.g. natural gas and electricity), which accounts for 20% of total costs, is linked to the oil price. Reno de Medici has set up a trading desk with the duty to smooth the energy price volatility. Transport costs (e.g. deliveries are done by tucks and by railways) weights for 10%; we stress that only a portion of the cost is linked to oil price. Finally labour costs account for 17% of total costs; Italian's operations have some flexibility allowing the company to put employees on temporary lay-offs. We estimate the ratio fixed/variable costs to be in the range of 20/80.

Reno de Medici - Costs Breakdown



Source: Company Presentation

Market environment: mature and cyclical, but concentrated and showing price discipline

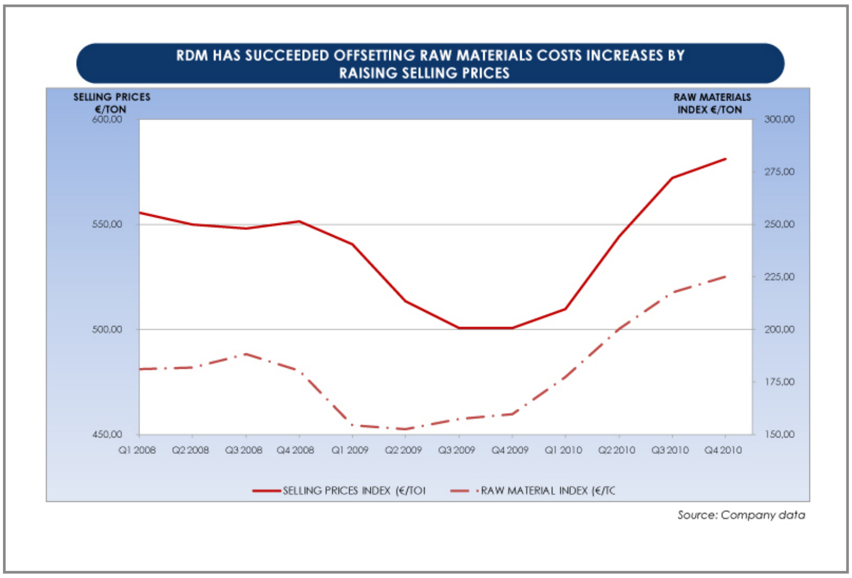
The European market for cardboard is mature and cyclical: growth is basically GDP-driven as it ultimately depends on the consumption of consumer staples. Following two years of decline (2008-2009) demand bounced back in 2010 to the pre-crisis level.

The European cardboard industry consists of about 8 million tons of annual capacity, roughly equally split between recycled fibre (WLC: white lined chipboard) and virgin fibre (FBB: folding box board). Concentration is high: Mayr Melnhof is the biggest player with a total annual capacity of 1.6mn tons (mainly recycled), followed by Reno de Medici (1.1mn tons, only recycled), then by Stora Enso (1.0mn tons, mainly virgin) and by M-Real (750k tons, mainly virgin). Behind these top-tier players are a few smaller family-owned companies. We do not expect competition from Chinese exports of cardboard to Europe, as delivery times required by customers are very short (and thus not compatible with shipping from Asia), transportation costs limit the geographical reach of the product, and production is capital and energy intensive, which makes Chinese companies' labour cost advantage less significant.

In the past decade, structural overcapacity, which resulted in low utilisation rates, has been addressed: several cardboard machines have been shut down in both the FBB and the WLC segment. In this sense, both Reno de Medici and Mayr Melnhof have shown sound discipline. Overcapacity combined with high barriers to entry (e.g. capex requirements) means it is not cost-effective to open new mills (one might add that existing assets are highly depreciated).

The production of cardboard offers significant opportunities for economies of scale (e.g. from purchasing, as costs are mainly direct, and from production processes). The product is a mere commodity, making quality differentiation very limited. The importance of cost leadership led to an increase in the average mill size and, as a consequence, to an important consolidation of the market. This consolidation, which has led to the current oligopolistic structure, has also given rise to decent price discipline among the major producers, who have been able to offset tangible raw material by increasing their average selling prices.

Reno de Medici - Key Factors: raw materials costs and selling prices



Source: Company Presentation

Risks: low visibility, raw materials and energy costs volatility

Visibility on the demand trend is structurally low: cardboard consumption levels can be very volatile in the short term, and this influences capacity operating rates of the mills and thus profitability.

Waste paper for pulp is the most important raw material in the production of cardboard. Waste paper prices fluctuate significantly over the course of the business cycle, soaring in times of GDP upswings and collapsing during economic slowdowns. In addition, since few years Chinese demand for waste paper led to upward price pressure.

The cardboard production process is energy-intensive: electricity power and steam are needed to run a mill. As such, rapidly rising oil and gas prices could hurt profit margins, even if electricity supplies are secured for the medium term.

Reno de Medici - SWOT Analysis

STRENGHTS	WEAKNESSES
Strong market position in recycled carton board	Sub optimal industrial mills
Capacity and price discipline	Lack of diversification into the packaging business
High FCF generation	Exposure to low growth countries
OPPORTUNITIES	**RISKS**
Easing of input prices (raw materials and energy)	Rising of input prices (raw materials and energy)
Dividend payment	Decreasing selling prices
Acquisition of Cascades virgin board assets	Restructuring costs

Source: Intermonte SIM

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Stock NAME	RENO DE MEDICI		
Current Recomm:	NEUTRAL	Previous Recomm:	NEUTRAL
Current Target (Eu):	0.27	Previous Target (Eu):	0.27
Current Price (Eu):	0.23	Previous Price (Eu):	0.23
Date of report:	30/06/2011	Date of last report:	04/03/2011

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