RENO DE MEDICI NEUTRAL

Price (Eu): **0.22**

Target Price (Eu): **0.24**

SECTOR: Industrials

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Uncertain Outlook, Cautious Stance Maintained

- **In 2Q'11 volumes held up but prices went down QoQ.** Reno de Medici reported sales of Eu140.5mn in 2Q11, +11.1% YoY and +1.8% QoQ. Volumes sold reached 247.000 tons, +2.9% YoY and +2.5% QoQ, with an average sale price of Eu569 per ton, +8.0% YoY and -0.7% QoQ. EBITDA came in at Eu10.1mn, equal to a margin of 7.2%, down YoY by 150bps and QoQ by 90bps due to higher raw materials. The price hike (equal to Eu42 per ton YoY) contributed an additional Eu10.4mn to EBITDA but was partially neutralised by cost inflation (raw material costs increased by Eu14.7mn or Eu60 per ton YoY). EBIT was Eu3.5mn after D&A, in line with 1Q10. Group net profit came to Eu0.8mn in 2Q11 from a profit of Eu2.6mn in 2Q10 due to higher financial expenses and a higher tax rate.

- **Deleveraging continues.** Reno de Medici's net debt increased to Eu103.6mn from Eu99.4 at the end of 1Q'11, mainly due to anticipated CAPEX, which in 2Q'11 rose to Eu6.5mn from Eu3.5mn in 1Q'10. Working capital remained under control in the quarter.

- **Outlook uncertain.** Reno de Medici has stated that the order book remains at a satisfactory level, but there might be a drop in new orders going into 2H'11, partly as a result of the lack of inventory build-up in the middle months of 2010. On the other hand, the company has talked about a slowdown in the rising trend for input costs and started to increase the average selling price in 2Q'11, with effects expected to materialize in 3Q'11.

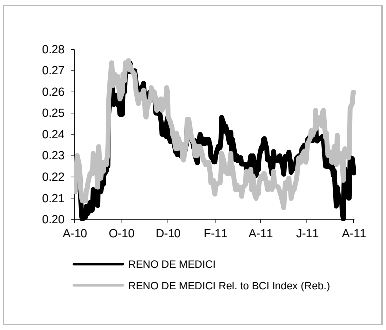
- **Estimates cut.** We have revised our 2011 EBITDA and group net profit estimates downwards, from Eu46.6mn to Eu42.1mn (-9.6%) and from Eu5.9mn to Eu4.0mn (-31.7%) respectively, to incorporate weakening demand in 2H11. We have also reduced our forecasts for volumes in 2012 and 2013, cutting average sales by 4.2%, EBITDA by 11.3% and group net profit by 23.1% to incorporate a more cautious scenario.

- **We remain NEUTRAL, TP lowered to Eu0.24 per share.** Reno de Medici is currently unable to create value (ROCE is less than WACC) and we do not expect the gap to narrow soon, especially if the macroeconomic scenario worsens. Volatility in input prices is a risk to the company's margins. However, downside is limited by management's successful track record in reducing leverage and by its commitment to keeping profitability at a satisfactory level through the cycle (price discipline) and to keeping capital employed strictly under control.

Key Figures	2009A	2010A	2011E	2012E	2013E
Sales (Eu mn)	428	504	536	547	557
Ebitda (Eu mn)	32	40	42	44	44
Net profit (Eu mn)	-7	1	4	6	7
EPS - New (Eu)	-0.03	0.00	0.00	0.01	0.01
EPS - Old (Eu)	-0.03	0.00	0.01	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	61.3	80.6	29.8	23.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda	6.7	4.8	4.3	3.7	3.4
ROCE	1.7%	4.4%	5.4%	6.5%	7.1%

RENO DE MEDICI - 12m Performance



RATING: Unchanged
TARGET PRICE (Eu): from 0.27 to 0.24

Change in EPS est:	2011E	2012E
	-31.7%	-19.5%

STOCK DATA

Reuters code:			RDM.MI
Bloomberg code:			RM IM
Performance	**1m**	**3m**	**12m**
Absolute	-3.6%	0.2%	4.1%
Relative	10.1%	21.0%	18.7%
12 months H/L:			0.27/0.20

SHAREHOLDER DATA

No. of Ord. shares (mn):	378
Total No. of shares (mn):	378
Mkt Cap Ord (Eu mn):	84
Total Mkt Cap (Eu mn):	84
Mkt Float - ord (Eu mn):	33
Mkt Float (in %):	*40.0%*
Main shareholder:	
Cascades	40.0%

BALANCE SHEET DATA	2011
Book value (Eu mn):	162
BVPS (Eu):	0.43
P/BV:	0.5
Net Financial Position (Eu mn):	-98
Enterprise value (Eu mn):	181

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	536	547	557
	EBITDA	32	40	42	44	44
	EBIT	5	12	14	16	17
	Financial income (charges)	(10)	(7)	(8)	(7)	(7)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	(5)	5	6	9	10
	Taxes	(1)	(3)	(2)	(2)	(3)
	Tax rate (%)	24.3%	-63.5%	-23.7%	-25.0%	-24.7%
	Minorities & discontinue activities	(0)	(1)	(1)	(1)	(1)
	Net profit	-7	1	4	6	7
	Total extraordinary items	0	0	3	0	3
	Ebitda excl. extraordinary items	32	40	42	44	44
	Ebit excl. extraordinary items	5	12	14	16	17
	Net profit restated	(7)	1	1	3	4
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	377	378	378	378	378
	EPS stated fd	-0.03	0.00	0.01	0.02	0.02
	EPS restated fd	-0.03	0.00	0.00	0.01	0.01
	BVPS fd	0.58	0.41	0.43	0.44	0.46
	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	32	33	34
	Change in NWC	6	6	(6)	2	(3)
	Capital expenditure	(20)	(16)	(18)	(17)	(17)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	6	20	8	18	13
	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	9	19	14
BALANCE SHEET (Eu mn)	Total fixed assets	269	257	247	240	232
	Net working capital	82	76	82	80	83
	Long term liabilities	(66)	(70)	(70)	(74)	(77)
	Net capital employed	286	263	258	245	238
	Net financial position	(131)	(106)	(98)	(79)	(65)
	Group equity	155	157	161	167	173
	Minorities	1	1	1	1	1
	Net equity	155	158	162	168	174
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	84	84	84	84	84
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(131)	(106)	(98)	(79)	(65)
	Enterprise value	215	190	181	163	149
RATIOS(%)	EBITDA margin*	7.5%	7.9%	7.9%	8.0%	7.9%
	EBIT margin*	1.1%	2.4%	2.6%	3.0%	3.1%
	Gearing - Debt/equity	84.5%	68.0%	60.8%	47.3%	37.3%
	Interest cover on EBIT	0.5	1.7	1.8	2.2	2.4
	Debt/Ebitda	4.07	2.66	2.32	1.81	1.47
	ROCE*	1.7%	4.4%	5.4%	6.5%	7.1%
	ROE*	-4.4%	0.9%	2.5%	3.6%	4.0%
	EV/CE	0.7	0.7	0.7	0.6	0.6
	EV/Sales	0.5	0.4	0.3	0.3	0.3
	EV/Ebit	nm	15.8	12.8	9.4	7.8
	Free Cash Flow Yield	7.6%	23.8%	9.6%	21.6%	15.8%
GROWTH RATES (%)	Sales	-5.1%	17.6%	6.4%	2.0%	2.0%
	EBITDA*	-20.2%	24.4%	5.3%	3.3%	1.4%
	EBIT*	-63.8%	144.7%	17.6%	15.6%	4.9%
	Net profit	nm	nm	195.5%	46.5%	15.5%
	EPS restated	nm	nm	-23.9%	170.9%	29.1%

** Excluding extraordinary items*

Source: Intermonte SIM estimates

Results: volumes held up but prices went down QoQ

Reno de Medici reported sales of Eu140.5mn in 2Q11, +11.1% YoY and +1.8% QoQ. Volumes sold reached 247.000 tons, +2.9% YoY and +2.5% QoQ, with an average sale price of Eu569 per ton, +8.0% YoY and -0.7% QoQ. EBITDA came in at Eu10.1mn, equal to a margin of 7.2%, down YoY by 150bps and QoQ by 90bps due to higher raw materials. The price hike (equal to Eu42 per ton YoY) contributed an additional Eu10.4mn to EBITDA but was partially neutralised by cost inflation (raw material costs increased by Eu14.7mn or Eu60 per ton YoY). EBIT was Eu3.5mn after D&A, in line with 1Q10. Group net profit came to Eu0.8mn in 2Q11 from a profit of Eu2.6mn in 2Q10 due to higher financial expenses and a higher tax rate.

Reno de Medici Quarterly Results

(€ mn)	Q1'10 A	Q1'11 A	Q2'10 A	Q2'11A	Q2'11E	A v E	1H'10A	1H'11A
Sales	**115.1**	**138.1**	**126.5**	**140.5**	**135.8**	*3.4%*	**241.6**	**278.6**
Yoy Growth		19.9%		11.1%	7.4%			15.3%
Volumes ('000)	**235**	**241**	**240**	**247**	**228**	*8.3%*	**475**	**488.0**
Yoy Growth		2.6%		2.9%	-5.0%			2.7%
Average Prices (Eu)	**492**	**573**	**527**	**569**	**596**	*-4.5%*	**509**	**570.9**
Yoy Growth		16.5%		8.0%	13.1%			12.1%
Other Rev enues	4.5	3.6	3.1	4.2	2.0		7.6	7.8
Cost of Raw Materials	-91.8	-109.1	-97.2	-114.7	-106.0		-189.0	-223.8
Margin %	*-79.8%*	*-79.0%*	*-76.8%*	*-81.6%*	*-78.0%*		*-78.2%*	*-80.3%*
Labour Costs	-19.3	-19.9	-20.3	-18.9	-20.8		-39.7	-38.8
Other Operating	-1.4	-1.5	-1.1	-1.0	0.0		-2.5	-2.5
EBITDA	**7.1**	**11.2**	**11.0**	**10.1**	**11.1**	-9.3%	**18.1**	**21.2**
Margin %	*6.2%*	*6.2%*	*8.7%*	*7.2%*	*8.2%*		*7.5%*	*7.6%*
Depreciations	-6.7	-6.5	-6.7	-6.6	-7.0		-13.4	-13.1
Wright offs	0.0	0.0	0.0	0.0	-0.3		0.0	0.0
EBIT	**0.3**	**4.7**	**4.3**	**3.5**	**3.8**	*-8.4%*	4.6	8.2
Margin %	*0.3%*	*3.4%*	*3.4%*	*2.5%*	*2.8%*		*1.9%*	*2.9%*
Financials	-1.9	-1.6	-0.8	-2.1	-2.0		-2.7	-3.8
Pre Tax Profit	**-1.6**	**3.1**	**3.5**	**1.3**	**1.8**	*-25.2%*	**1.9**	**4.4**
Taxes	-0.3	-0.9	-0.7	-0.5	-1.2		-1.0	-1.3
Minorities	-0.2	-0.1	-0.2	-0.1	-0.2		-0.4	-0.2
Group Net Profit	**-2.1**	**2.0**	**2.6**	**0.8**	**0.4**	98.5%	**0.5**	**2.8**

Source: Company data and Intermonte Sim

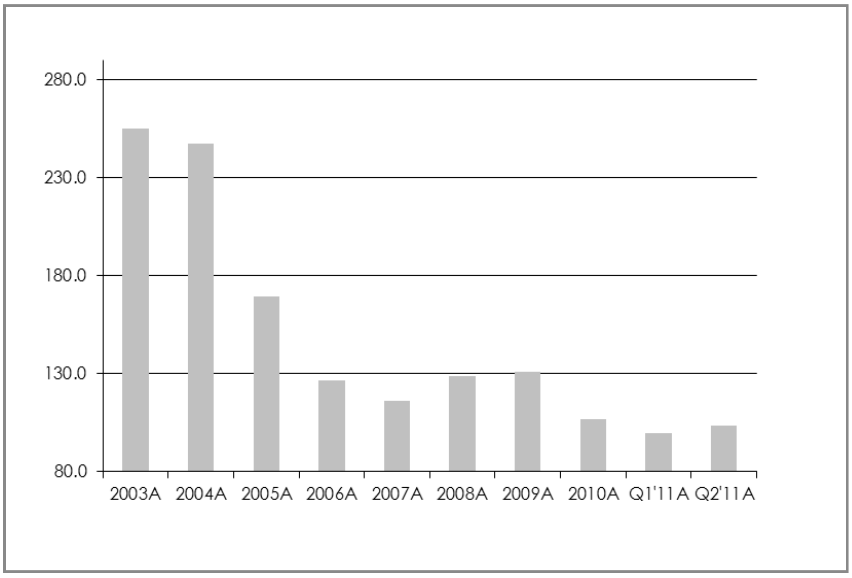
Reno de Medici Prices and Ebitda Effect

	Q1 2009 A	Q2 2009 A	Q3 2009 A	Q4 2009A	Q1 2010 A	Q2 2010 A	Q3 2010 A	Q4 2010 A	Q1 2011 A	Q2 2011 A
Av erage selling price (Eu per Tonnes)	516	506	486	476	492	527	552	558	573	569
Delta Price (Eu per Tonnes)	-20	-36	-35	50	-24	21	65	82	81	42
Impact on Ebitda (mn Eu)	-4.2	-7.6	-7.5	11.5	-5.7	5.1	14.9	20.1	19.5	10.4

Source: Company data & Intermonte Sim

Reno de Medici's net debt increased to Eu103.6mn from Eu99.4 at the end of 1Q'11, mainly due to anticipated CAPEX, which in 2Q'11 rose to Eu6.5mn from Eu3.5mn in 1Q'10. Working capital remained under control in the quarter.

Reno de Medici Net Debt



Source: Company data

Outlook: uncertainties are increasing

Reno de Medici has stated that the order book remains at a satisfactory level, but that there might be a drop in new orders, partly as a result of the lack of inventory build-up in the middle months of 2010.
The company has talked about a slowdown in the rising trend for input costs; prices for recycled fibre, waste paper and energy are still high. Finally, Reno de Medici started to increase the average selling price in 2Q'11 and the effects are expected to materialize in 3Q'11.

From the company's press release:
"The outlook for the remainder of the year is still uncertain, with respect to the economy in general and our industry in particular. Specifically, the current uncertainty of financial markets, associated with a higher "sovereign risk" for some countries, generates temporary uncertainties also in consumers' behaviour, which in turn can have adverse effects for production. Changes in the cost of manufacturing inputs are hard to predict, especially for raw materials: the rising trend is clearly slowing down, with the resulting stabilisation of prices which, however, are still elevated. For the remaining part of the year, energy is expected to increase. In particular, Italian plants will be adversely affected by the new charges set by the Authority for Energy and Gas to support renewable energies. On the other hand, the negative impact of higher costs for manufacturing inputs might be partly offset by the increase in prices introduced by the Group in April."

New estimates: lower sales have a high impact on profitability

We expect volumes to fall 9.1% in 2H'11 from 1H'11. FY volumes should reach 932,000 tons, with an average sale price of Eu588 per ton (Eu571 per ton in 1H'11 and Eu580 per ton in 2H'11). Price hikes implemented in 2Q are likely to be effective from 3Q. Sales are forecast to reach Eu535.8mn in 2011. EBITDA should be Eu42.1mn in 2011, equally split between 1H'11 and 2H'11.

For 2011 we have cut our EBITDA estimate by Eu4.5mn; the effect on net profit is only Eu1.9mn due to a lower tax rate. In 2012 and 2013, we are cutting sales and EBITDA by 4.2% and 11.3%, respectively.

Reno de Medici – Change in estimates

(€ mn)	2011 old	2011 new	change %	2012 old	2012 new	change %	2013 old	2013 new	change %
Sales	**559.6**	**535.8**	**-4.2%**	**570.7**	**546.5**	**-4.2%**	**582.2**	**557.4**	**-4.2%**
YoY growth %	11.1%	6.4%		2.0%	2.0%		2.0%	2.0%	
EBITDA	**46.6**	**42.1**	**-9.6%**	**48.5**	**43.5**	**-10.2%**	**50.4**	**44.1**	**-12.4%**
Ebitda margin %	8.3%	7.9%		8.5%	8.0%		8.7%	7.9%	
Total D&A	(28.0)	(28.0)		(28.5)	(27.2)		(28.5)	(27.0)	
EBIT	**18.6**	**14.1**	**-24.1%**	**20.0**	**16.3**	**-18.2%**	**21.9**	**17.1**	**-21.8%**
Ebit margin %	3.3%	2.6%		3.5%	3.0%		3.8%	3.1%	
Net financials & Partecipations	(7.5)	(7.8)		(7.0)	(7.4)		(6.5)	(7.0)	
Pre Tax profit	**11.1**	**6.3**	**-43.0%**	**13.0**	**8.9**	**-31.1%**	**15.4**	**10.1**	**-34.2%**
Taxes	(4.4)	(1.5)		(4.8)	(2.2)		(5.3)	(2.5)	
Minorities	(0.8)	(0.8)		(0.8)	(0.8)		(0.8)	(0.8)	
Group Net Profit	**5.9**	**4.0**	**-31.7%**	**7.3**	**5.9**	**-19.5%**	**9.3**	**6.8**	**-26.8%**

Source: Company data & Intermonte SIM

Financials

Reno de Medici – P&L

(€ mn)	2007A	2008A	2009A	2010A	2011E	2012E	2013E
Sales	**342.5**	**451.1**	**428.1**	**503.6**	**535.8**	**546.5**	**557.4**
YoY growth %	9.1%	31.7%	-5.1%	17.6%	6.4%	2.0%	2.0%
EBITDA	**29.6**	**19.1**	**32.2**	**40.0**	**42.1**	**43.5**	**44.1**
Ebitda margin %	8.7%	4.2%	7.5%	7.9%	7.9%	8.0%	7.9%
Total D&A	(19.0)	(26.7)	(27.3)	(28.0)	(28.0)	(27.2)	(27.0)
EBIT	**10.6**	**-7.6**	**4.9**	**12.0**	**14.1**	**16.3**	**17.1**
Ebit margin %	3.1%	-1.7%	1.1%	2.4%	2.6%	3.0%	3.1%
Net financials & Partecipations	(7.6)	(11.7)	(10.2)	(6.8)	(7.8)	(7.4)	(7.0)
Pre Tax profit	**3.0**	**1.9**	**-5.3**	**5.2**	**6.3**	**8.9**	**10.1**
Taxes	0.8	(2.1)	(1.3)	(3.2)	(1.5)	(2.2)	(2.5)
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**	**4.0**	**5.9**	**6.8**

Source: Company data & Intermonte SIM

Reno de Medici – Cash Flow

(€ mn)	2007A	2008A	2009A	2010A	2011E	2012E	2013E
Net Income	1.7	(6.2)	(6.5)	2.0	4.8	6.7	7.6
Depreciation and Amortization	18.4	25.0	26.7	26.1	27.0	26.5	26.5
Other non-cash items	0.0	1.7	0.6	1.9	1.0	0.7	0.5
Gross Operating Cash Flow	**20.1**	**20.5**	**20.7**	**30.0**	**32.8**	**33.9**	**34.6**
Change in NWC	8.5	(18.4)	5.7	6.3	(6.3)	2.4	(3.3)
Capex	**(17.8)**	**(16.9)**	**(19.7)**	**(15.8)**	**(17.7)**	**(17.5)**	**(17.3)**
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
Div idends	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**	**8.8**	**18.9**	**14.1**
Initial Net Financial Position	(125.8)	(115.3)	(128.3)	(130.8)	(106.5)	(97.6)	(78.8)
Final Net Financial Position	(115.3)	(128.3)	(130.8)	(106.5)	(97.6)	(78.8)	(64.7)

Source: Company data & Intermonte SIM

Reno de Medici – Balance Sheet

(€ mn)	2007A	2008A	2009A	2010A	2011E	2012E	2013E
Net Woriing Capital	69.4	87.7	82.0	75.7	82.1	79.6	82.9
Net Fixed Assets	191.0	270.6	269.2	257.0	246.6	239.7	232.4
Other non current assets	(30.0)	(69.1)	(65.6)	(69.7)	(70.4)	(74.0)	(77.3)
Net Capital Empoyed	**230.3**	**289.3**	**285.7**	**263.0**	**258.3**	**245.3**	**238.1**
Net Debt	**(115.3)**	**(128.3)**	**(130.8)**	**(106.5)**	**(97.6)**	**(78.8)**	**(64.7)**
Group's Net Equity	**115.0**	**161.0**	**154.8**	**156.6**	**160.6**	**166.5**	**173.4**
Gearing (%)	100.3%	79.7%	84.5%	68.0%	60.8%	47.3%	37.3%
Lev erage (x)	3.9	6.7	4.1	2.7	2.3	1.8	1.5

Source: Company data & Intermonte SIM

Valuation: low multiples reflect a low ROCE

Our valuation is based on an economic profit model (EV/ROACE) which suggests a fair value of Eu0.24 per share. Reno de Medici is currently unable to create value (ROCE is less than WACC) and we do not expect the gap to narrow soon, especially if the macroeconomic scenario worsens. We doubt that the current industrial footprint (7 mills spread over 4 countries) could bring profitability and ROCE close to those of Mayr Melnohf's cardboard business.

Downside is limited by management's successful track record in generating positive cash flows (reducing the leverage close to a sustainable level) and by its commitment 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).

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, though, 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.

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	**11.6**	**11.1**	**4.6**	**4.1**	**1.41**	**1.30**	**6.9**	**6.6**
Stora Enso	6.3	6.1	4.5	4.1	0.63	0.59	3.5	3.5
M-Real	7.9	5.6	5.3	4.2	0.69	0.63	3.5	3.1
UPM-Kymmene	9.6	7.6	5.1	4.2	0.62	0.60	3.5	3.3
Holmen	9.9	9.8	6.0	5.9	0.79	0.76	5.3	5.3
Average	**9.0**	**8.1**	**5.1**	**4.5**	**0.83**	**0.78**	**4.5**	**4.3**
Reno de Medici	**n.m.**	**28.2**	**4.2**	**3.6**	**0.49**	**0.48**	**3.0**	**2.2**
premium / discount		249.6%	-17.6%	-20.0%	-40.8%	-38.1%	-33.7%	-49.3%

Source: Factset & 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.

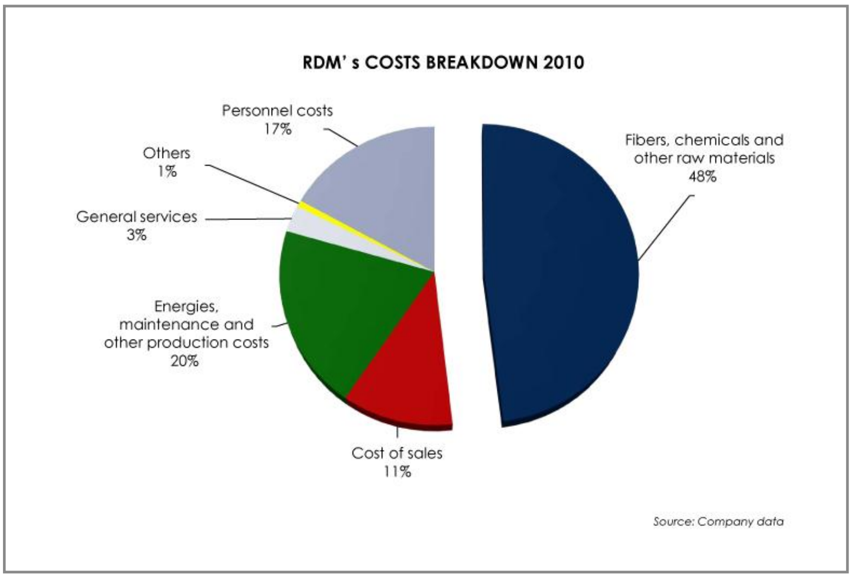
Recent history

- 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 price volatility

Cost are mainly direct. The most important input is recycled fibre and waste paper for pulp (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 done 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 price volatility). Natural gas and electricity, which account for 20% of total costs, are linked to the oil price. Reno de Medici has set up a trading desk with the duty of smoothing out energy price volatility. Transport costs (for deliveries, which are done by tucks and by rail) weighs 10%; we stress that only a portion of this cost is linked to oil price. Finally, labour costs account for 17% of the total; Italian operations have some flexibility as the company can put employees on temporary lay-offs. We estimate the ratio fixed/variable costs to be approximately 20/80.

Reno de Medici - Breakdown of Costs



Source: Company Presentation

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

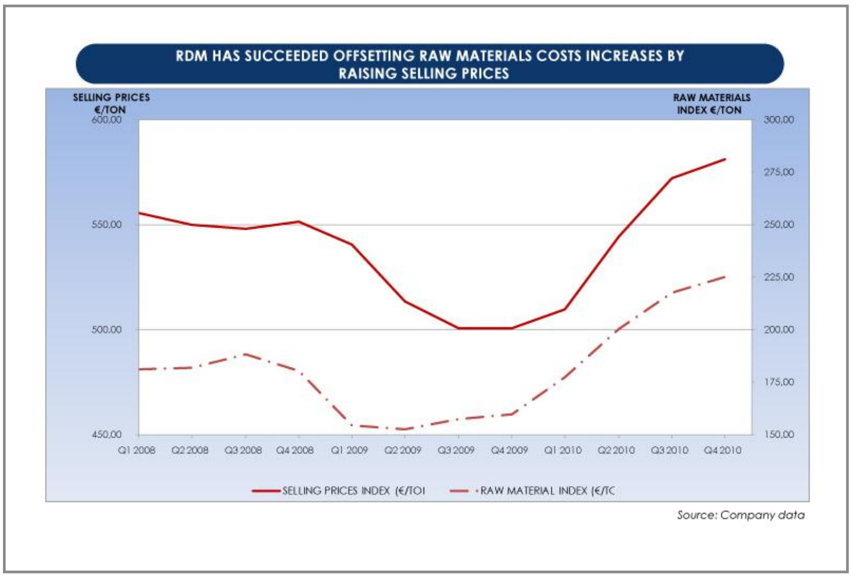
The European market for cardboard is mature and cyclical: growth is basically GDP-driven as it ultimately depends on the consumption of consumer staples. Following two years of decline (2008-2009) demand bounced back in 2010 to the pre-crisis level.

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 Melnohf 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 price increases by raising their average selling prices.

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



Source: Company Presentation

Risks: low visibility, higher raw material prices and energy cost 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):	0.24	Previous Target (Eu):	0.27
Current Price (Eu):	0.22	Previous Price (Eu):	0.21
Date of report:	05/08/2011	Date of last report:	15/07/2011

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