

Biesse

FY13E Focus on Cost Cutting

Biesse - Key estimates and data					
Y/E December		2012A	2013E	2014E	2015E
Revenues	EUR M	383.06	382.40	401.52	421.60
EBITDA	EUR M	25.03	28.50	30.60	33.60
EBIT	EUR M	0.27	11.80	14.50	17.80
Net income	EUR M	-6.56	1.77	3.72	6.13
Dividend ord.	EUR	0.00	0.00	0.00	0.00
Adj. EPS	EUR	-0.24	0.06	0.14	0.22
EV/EBITDA	x	4.98	4.37	4.07	3.71
Adj. P/E	x	-10.43	38.59	18.39	11.18

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- 4Q/FY12A results.** FY12A results suffered from a general decline in business confidence and widespread negative sentiment, mainly stemming from the real estate crisis and credit crunch on capital goods investments. FY12A results were broadly in line with our expectations. On the top line, the group reported a significant decrease in Western Europe (-11% in FY12A) and Italy (10.8% of total sales vs. 14.1% in FY11A), while there was progress in other countries with +1% in Eastern Europe, +13% in North America, flat in Asia Pacific, +21% in the Rest of world. EBIT was EUR 0.3M vs. EUR 7.1M in FY11A due to a EUR -6.7M non-recurring cost impact vs. EUR -1.3M in FY11A. Net debt at EUR 56.2M improved by EUR 5.8M vs. FY11A and by EUR 10.6M vs. 1H12A.
- FY13-15 business plan.** Management has confirmed its recently disclosed 2013-15 Business Plan and expects a 3.8% revenue CAGR in FY13-15; an improvement in the value added margin to 41% in FY15 (vs. 35.5% in FY11A); an EBITDA margin increase to 12% by FY15 (vs. 5.8% in FY11A). Net debt is to reach EUR 10M by FY15 vs. EUR 56M in FY13. Biesse has recently confirmed a still difficult 2013 context and a bottom-up approach in completing its industrial plan, which is focusing on cost savings rather than top-line growth. As a result, in FY13 the group expects a slight decrease in revenues (-0.2%) and a strong improvement in the EBITDA margin from 6.5% to 7.9% driven by the rationalisation of production costs and of personnel. The FY13 EBIT figure should further benefit from the lack of EUR 6.7M one-off costs which impacted FY12A. FY13E net debt is seen slightly improving to EUR 56M.
- Estimates.** We revised our estimates to incorporate a more conservative view compared to our previous estimates and the group's disclosed Business Plan. Overall, our new estimates are broadly in line with management's FY13-15 top line forecasts, while being approx. 23% below the Business Plan FY13-15 EBITDA. Our FY13E estimates still imply a significant group turnaround with the EBITDA margin reaching 7.5% in FY13E vs. 6.5% reported in FY12A and mainly driven by operating cost actions.
- Valuation.** We updated our multiples and DCF based valuation after our new FY13E-15E estimates. **We derived a EUR 2.75/share target price** (vs. EUR 2.54/share previously), **which implies a HOLD recommendation.**
- Key risks.** Biesse operates in global markets and is therefore highly exposed to international macroeconomic factors, which could affect the group's activities. Although Biesse invests significantly in R&D, its products have an advanced technological content, implying a high exposure to technological developments. Lastly, the group's dominant fixed-cost structure results in a high operating leverage suffering from economic downturns.

27 March 2013

HOLD

Target Price: EUR 2.75
(from EUR 2.54)

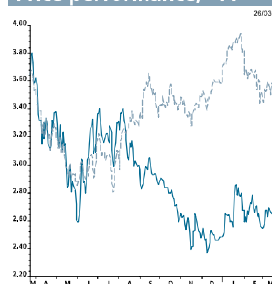
**Industrial
Company Update**

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Price performance, -1Y



Source: Thomson Reuters

Data priced on 25.03.2013

Target price (€)	2.75
Target upside (%)	10.00
Market price (€)	2.50
52-week range (€)	3.8/2.4
Market cap (€ M)	68.48
No. of shares (M)	27.39
Free float (%)	41.5
Major shareholder	Selci G,
(%)	58.5
Reuters	BSS.MI
Bloomberg	BSS IM
FTSE It All Shares	16719

Performance %			
Absolute		Rel. to FTSE All Sh	
-1M	-5.7	-1M	-2.3
-3M	1.7	-3M	4.7
-12M	-31.5	-12M	-27.1

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

See page 9 for full disclosures and analyst certification

Banca IMI is Specialist to Biesse

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INTESA SANPAOLO

4Q12/FY12 Results

FY12A results were broadly in line with our net profit expectations and the group's preliminary indications of top line and EBITDA. Overall, the group's activities were impacted by a weak reference market both in Italy and abroad, which suffered from a general decline in business confidence and widespread negative sentiment.

On the top line, the group reported a significant decrease in Western Europe (-11% in FY12A) and Italy (10.8% of total sales vs. 14.1% in FY11A), while there was progress in other countries with +1% in Eastern Europe, +13% in North America, flat in Asia Pacific, +21% in the Rest of world. No further divisional breakdown has yet been disclosed.

Revenue breakdown

Biesse - 4Q12/FY12 revenue breakdown							
EUR M	4Q11A	4Q12A	% chg	2011A	2012A	% chg	% of total
Western Europe	48.5	40.3	-16.9	171.2	151.7	-11	39.6
Asia - Oceania	23.1	21.1	-8.7	73.3	73.5	+0	19.2
Eastern Europe	18.5	20.3	+9.8	68.1	68.6	+1	17.9
North America	12.6	12.7	+0.4	36.9	41.8	+13	10.9
Rest of the World	10.6	16.7	+57.3	39.2	47.5	+21	12.4
Total	113.3	111.0	-2.0	388.5	383.1	-1	100.0

NM: not meaningful; Source: Company data

FY12A value added margin increased from 35.5% in FY11A to 36.9% (in 4Q12A to 36.5% vs. 33.6% in 4Q11A) as a result of a product mix towards highly-customised products targeting specific clients' needs while there was a lower weighting of standalone machine sales.

EBITDA increased by 12% in FY12A as the group contained labour costs, up by 0.6% (4Q12A EBITDA was up by 19%). FY12A EBIT was close to breakeven at EUR 0.3M vs. EUR 5.8M in FY11A due to a EUR -6.7M non-recurring cost impact vs. EUR -1.3M in FY11A related to the July management change (i.e. the exit of CEO Giorgio Pitzurra) and non-strategic asset impairment. Normalised EBIT, before one-off costs, would have decreased by 0.8% with a stable EBIT margin at 1.8%.

EBIT margin also impacted by non-recurring costs

FY12A net profit was negative at EUR -6.6M vs. a negative EUR -2.4M in FY11A, reflecting also EUR 1.3M higher net interest expenses resulting from the higher average net debt and interest rates.

Biesse - 4Q/FY12 key results						
EUR M	4Q11A	4Q12A	% chg	2011A	2012A	% chg
Turnover	113.3	111.0	-2.0	388.5	383.1	-1.4
Value added	38.1	40.5	6.3	138.0	141.4	2.4
EBITDA	10.8	12.8	18.5	22.4	25.0	11.6
EBIT	5.0	2.71	-45.8	5.8	0.3	-95.3
Pretax	5.2	0.8	-84.6	2.5	-5.1	-304.8
Net profit	3.0	2.1	-30.5	-2.4	-6.6	168.1
Value added margin %	33.6	36.5		35.5	36.9	
EBITDA margin %	9.5	11.5		5.8	6.5	
EBIT margin %	4.4	2.4		1.5	0.1	
Net margin %	2.6	1.9		-0.6	-1.7	

NM: not meaningful; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

FY12A net debt at EUR 56.2M improved by EUR 5.8M vs. FY11A and vs. the EUR 72M reported in 9M12A (64% net debt to equity), related to a net working capital increase of EUR 3M; the recent Chinese acquisition (EUR 4.8M), the new commercial office purchase in Triveneto (EUR 0.9M) and the purchase of a stake in Nuova Faos International Manufacturing, India (EUR 0.3M).

Net debt

The FY13-15 Business Plan

In the recently disclosed Business plan, Biesse confirmed the still difficult context for 2013 and a bottom-up approach in completing its industrial plan, which is focused on cost savings rather than top line growth. In summary, in 2013 the group should show a weak top-line result, but an improvement in the value-added margin from 36.3% in FY12A to 38.2% in FY13. The 2013 EBIT should also benefit from the lack of EUR 5M extraordinary costs which affected FY12A (asset write-off and personnel layoff – equally split). The group thus expects a normalised EUR 5M EBIT in FY12A to reach EUR 13.4M EBIT in FY13; as a result, net profit should turn positive in FY13 vs. a net loss in FY12.

In detail the group expects:

- On the top line, a 3.8% revenue CAGR in FY13-15 implies a slight decrease in 2013 revenue (-0.4%), due to the still uncertain market context, denoted by lack of visibility (and backed by mixed signals in the latest pre-orders); in FY14-15 the group expects a revenue recovery with +6%, based on key market data expectations on new housing and furniture demand (worldwide index), which expects a +4.8% and +7.6% 2013-15 CAGR, respectively (source CRESME and CSIL);
- The value-added margin is expected to improve to 41% in FY15 (vs. 35.5% in FY11, 36.3% in FY12E and 38.2% in FY13E), management is confident of its achievement and pointed out that it is the direct result from the sourcing of components from India and China and of a renewed product base (as from 2011 the group has renewed 40% of its product base and focused its production structure by increasing the sourcing of components from China and the manufacturing from India towards Anglo-Saxon countries, while more complex machines will be manufactured in Italy). We highlight the EBITDA margin increase to 12% by FY15 (vs. 5.8% in FY11A) stems from the value-added margin improvement and sees a slight improvement in labour costs (as a % of total sales from 29.7% in FY11A to 29% in FY15), benefiting also from the temporary layoff plan up to 1H13;
- Overall Biesse, which exports 91% of its total revenues, confirmed growth from emerging countries, especially from Eastern Europe (i.e. Russia), Asia (Singapore and China) and Brazil (Biesse is leader in Brazil), while Western Europe and Italy are still weak for the group.

Biesse - FY13-15 Detailed business plan				
EUR M	2012A	2013E	2014E	2015E
Net sales	383	382	405	430
% growth	-1.4	-1.2	6.0	6.0
Value added	141	146	161	177
% Value added margin	36.9	38.2	39.7	41.2
EBITDA	25	30.1	42.3	52.4
% EBITDA margin	6.5	7.9	10.4	12.2
EBIT	-0.3	13.4	26.2	36.6
% EBIT margin	0.0	3.5	6.5	8.5
Capital expenditure	-18.9	-18.9	-12.8	-11.9
Net funds inflow	13	34	51	51
Net cash (debt)	-58	-56	-37	-10

Source: Company data

Earnings outlook

We revised our estimates to incorporate a more conservative view compared to our previous estimates and the group's disclosed Business Plan. Overall, our new estimates are broadly in line with management's FY13-15 top line forecasts, while they are approx. 23% below the Business Plan FY13-15 EBITDA. Our FY13E still implies a significant group turnaround with the EBITDA margin reaching 7.5% in FY13E vs. 6.5% reported in FY12A, mainly driven by operating cost actions.

Biesse - Change in estimates						
EUR M	2013E			2014E		
	New	Old	% chg	New	Old	% chg
Revenues	382.4	438.7	-13%	401.52	412.5	-3%
EBITDA	28.5	41.9	-32%	30.6	30.7	0%
Net profit	1.8	11.1	-84%	3.7	3.3	13%

Source: Intesa Sanpaolo Research estimates

We show below our detailed profit and loss and cash flow assumptions.

Biesse - Profit and Loss					
EUR M	2011	2012	2013	2014	2015
Net sales	389	383.1	382.4	402	422
Other revenues	3.6	10.3	10.3	10.3	10.3
Value of production	392	393	393	412	432
Operating costs	-254	-252	-246	-257	-267
Value added	138	141.4	147	155	164
Cost of labour	-116	-116.3	-118.7	-124.6	-130.8
EBITDA	22.4	25.0	28.5	30.6	33.6
Depr. & Amort.	-16.7	-24.8	-16.7	-16.1	-15.8
EBIT	5.8	0.3	11.8	14.5	17.8
Net interest	-2.4	-3.7	-3.0	-2.7	-2.3
Foreign exchange	-1	-2	0	0	0
Pre-tax profit	2.5	-5.1	8.8	11.8	15.5
Tax	-4.9	-1.4	-7.1	-8.1	-9.4
Net profit	-2.4	-6.6	1.8	3.7	6.1
Turnover growth %	+18.6	-1.4	-0.2	+5.0	+5.0
Value added growth %	+11.8	+2.4	+4.1	+5.5	+5.9
EBITDA growth %	+42.8	+11.6	+13.9	+7.4	+9.8
EBIT growth %	NM	-95.3	NM	+22.9	+22.8
Pre-tax profit growth %	NM	NM	NM	+34.1	+30.8
Net profit growth %	-57.4	NM	NM	NM	+64.5
Value added margin %	35.5	36.9	38.5	38.6	39.0
EBITDA margin %	5.8	6.5	7.5	7.6	8.0
EBIT margin %	1.5	0.1	3.1	3.6	4.2
Pre-tax margin %	0.6	-1.3	2.3	2.9	3.7
Net margin %	-0.6	-1.7	0.5	0.9	1.5
Tax rate %	198.0	-28	79.9	68.5	60.4

NM: not meaningful; Source: Company data and Intesa Sanpaolo Research estimates

Biesse - Cash flow estimates					
EUR M	2011	2012	2013	2014	2015
Net profit	-2	-7	1.8	3.7	6.1
Non-cash items	17	25	17	16	16
Funds from operations	14	18	18	20	22
Working capital	-27	5	-2	0	-4
Free cash flow	-13	23	17	20	18
Capital expenditure	-5.0	-5.7	-3.7	-3.8	-3.6
Investments	-3	0	0	0	0
Intangibles	-11	-13.2	-8.7	-9.0	-8.3
Surplus after capex	-32	4	4	7	6
Dividends paid	0	0	0	0	0
Other	1	-10	0	0	0
Net funds inflow	-31	-5.8	4	7	6
Net cash (debt)	-50	-56.2	-51.8	-45.0	-39.1
Net debt / equity %	42	49	45	38	31

Source: Company data and Intesa Sanpaolo Research estimates

Valuation

We updated our multiples and DCF derived valuation. Based on the average between the multiples comparison, which points to EUR 2.73/share, and our DCF model, which points to EUR 2.77/share, we obtain **our EUR 2.75/share target price** (EUR 2.54/share previously), **confirming our HOLD recommendation**.

Discounted cash flow

In our equity valuation model, we incorporated our change in FY13E-14E and roll-over of our FY15E estimates. We incorporated the periodical update of our risk free rate to 5.25% vs. 5.5% previously used. We confirmed our 6.0% risk premium. We reach an 8.7% WACC (9.0% previously), based on a 1.1x beta (source Bloomberg), and 45% gearing ratio (D/EV).

Our other key 2013E-23E DCF assumptions are: 1) a 2.3% sales CAGR and a 1% perpetual growth rate; 2) an average 4.0% EBIT margin; and 3) a 23.3% working capital on sales. From our DCF model, we derive a EUR 2.77/share fair value (EUR 3.14/share previously).

Biesse - WACC calculation (%)		Biesse - Key assumptions (%)	
Gearing ratio	45	2012A-23E sales CAGR	2.3
Risk-free rate	5.25	Perpetual growth rate	1.0
Risk premium	6.0	2012A-23E EBIT margin avg	4.0
Beta (x)*	1.1	2013-23E EBIT CAGR	7.5
Required return	11.9	2012A-23E tax rate avg	52.0
WACC	8.7	2012A-23E capex to sales avg	3
		Working capital to sales	23.3

Source: Intesa Sanpaolo Research estimates and *Bloomberg

Source: Intesa Sanpaolo Research estimates

Biesse - DCF valuation (EUR M)	
Forecast cashflow	51
Terminal value	82
Enterprise value	132
Net cash / -debt	-56
Equity value	76
Number of shares (M)	27.4
Equity value per share	2.77

Source: Intesa Sanpaolo Research Estimates

Biesse - Sensitivity analysis					
EUR/share		Perpetual growth rate %			
Discount rate %	0.0	0.5	1.0	1.5	2.0
7.7%	3.1	3.4	3.6	3.9	4.3
8.2%	2.8	2.9	3.2	3.4	3.7
8.7%	2.4	2.6	2.77	3.0	3.2
9.2%	2.1	2.3	2.4	2.6	2.8
9.7%	1.9	2.0	2.1	2.3	2.4

Source: Intesa Sanpaolo Research estimates

Multiples comparison

Homag is the only directly listed competitor which fits Biesse's description and business model. In our peers basket panel, we have however included other European players, such as, Gildemeister, IMA, and Prima Industrie, which are involved in the production of industrial machines, although destined to other markets (i.e. metal, pharmaceutical, cosmetics, food).

Homag Group AG manufactures machines and equipment for the wood processing industry. The group supplies machines, cells and factory installations for the panel processing furniture, structural element and timber frame house construction industries. It is headquartered in Schopfloch, Germany.

Gildemeister AG is involved in the manufacturing and marketing of metal cutting machine tools worldwide. It also offers solutions in milling and turning technologies, for controls and services, and for regenerative energies. The company is headquartered in Bielefeld, Germany.

Industria Macchine Automatiche SpA manufactures and designs automatic machines for processing and packaging of pharmaceuticals, cosmetics, tea, coffee and food. The company was founded in 1961 and is headquartered in Ozzano dell'Emilia, Italy.

Prima Industrie SpA is involved in the developing, manufacturing, and marketing of laser systems for industrial applications, sheet metal processing machinery, and opto-electronic components. It operates in the following segments: Laser Systems, Electronics, and Sheet Metal Processing Equipment. The company was founded in 1977 and is headquartered in Collegno, Italy.

In FY12E-13E, Biesse shows a lower than average peers profitability, due to the difficulties recorded in 3Q12 and the challenging reference market context.

Homag Group AG

Gildemeister AG

IMA Spa

Prima Industrie Spa

Lower profitability vs. peers

Biesse - Revenue CAGR and EBITDA margin comparison					
%	EBITDA margin			2012A-14E	2012A-14E
	2012A	2013E	2014E	sales CAGR	EBITDA CAGR
Biesse S.p.A.*	6.5	6.9	7.3	2.4	8
Gildemeister AG	9.2	9.2	9.7	0.0	6
Homag Group AG	8.6	9.1	9.3	1.5	10
Industria Macchine Automatiche	14.1	14.7	15.3	0.8	7
Prima Industrie S.p.A.	9.6	10.2	11.0	2.9	16
Average (excl. Biesse)	10.4	10.8	11.3	1.3	9.8

Source: Factset *Intesa Sanpaolo Research estimates

While in terms of FY13E-14E P/E, Biesse is trading at a premium to peers reflecting a bottom line close to breakeven, according to our estimates, in terms of FY13E-14E EV/EBITDA we expect the group to trade at an approx. 27% and 25% discount vs. peers in FY13E and FY14E, respectively.

We derived a EUR 2.73/share target price (EUR 1.94/share previously) based on the average FY13E-14E EV/EBITDA and PE.

At a discount to peers in terms of EV/EBITDA

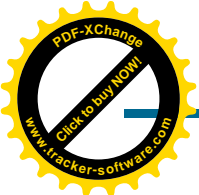
Biesse - Multiples comparison								
x	Price Mkt Cap		P/E			EV/EBITDA		
	EUR	EUR M	2013E	2014E	2015E	2013E	2014E	2015E
Gildemeister AG	16.12	969.91	11.4	10.8	10.6	4.73	4.61	4.27
Homag Group AG	14.04	220.18	12.8	10.0	9.0	4.62	4.17	4.00
Industria Macchine Automatiche	18.88	695.31	15.1	13.6	12.4	8.12	7.35	6.91
Prima Industrie S.p.A.	9.94	85.92	10.0	6.8		6.52	5.45	
Average			12.3	10.3	10.7	6.0	5.4	5.1
Biesse*			38.6	18.4	11.2	4.37	4.07	3.71
Premium/-discount (%)			213	78	5	-27.1	-24.5	-26.6

NM: not meaningful; Source: Factset; * Intesa Sanpaolo Research estimates

Biese - Key figures

Sector	Industrial	Mkt price EUR/Share	Ordinary		Rating
REUTERS CODE	BSS.MI	Target price EUR/Share	2.50		HOLD
Values per share (EUR)	2011A	2012A	2013E	2014E	2015E
No. ordinary shares (M)	27.39	27.39	27.39	27.39	27.39
No. NC saving/preferred shares (M)	-	-	-	-	-
Total no. of shares (M)	27.39	27.39	27.39	27.39	27.39
Adj. EPS	-0.09	-0.24	0.06	0.14	0.22
CFPS	0.52	0.66	0.67	0.72	0.80
BVPS	4.38	4.17	4.23	4.37	4.59
Dividend Ord	-	-	-	-	-
Dividend SAV Nc	-	-	-	-	-
Income statement (EUR M)	2011A	2012A	2013E	2014E	2015E
Sales	388.5	383.1	382.4	401.5	421.6
EBITDA	22.4	25.0	28.5	30.6	33.6
EBIT	5.8	0.3	11.8	14.5	17.8
Pre-tax income	2.5	-5.1	8.8	11.8	15.5
Net income	-2.4	-6.6	1.8	3.7	6.1
Adj. net income	-2.4	-6.6	1.8	3.7	6.1
Cash flow (EUR M)	2011A	2012A	2013E	2014E	2015E
Net income before minorities	-2.4	-6.6	1.8	3.7	6.1
Depreciation and provisions	16.7	24.8	16.7	16.1	15.8
Change in working capital	-27.0	5.1	-1.7	-0.2	-4.2
Operating cash flow	-12.7	23.3	16.8	19.6	17.7
Capital expenditure	-19.4	-18.9	-12.4	-12.8	-11.9
Other (uses of Funds)	0.0	0.0	0.0	0.0	0.0
Free cash flow	-32.1	4.4	4.4	6.8	5.8
Dividends and equity changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	-32.1	4.4	4.4	6.8	5.8
Balance sheet (EUR M)	2011A	2012A	2013E	2014E	2015E
Net capital employed	171.0	170.3	167.7	164.6	164.9
of which associates	-	-	-	-	-
Net debt/-cash	50.4	56.2	51.8	45.0	39.1
Minorities	0.7	-	-	-	-
Net equity	120.0	114.1	115.9	119.6	125.7
Market cap	68.5	68.5	68.5	68.5	68.5
Minorities value	0.7	-	-	-	-
Enterprise value (*)	119.5	124.7	120.3	113.4	107.6
Stock market ratios (x)	2011A	2012A	2013E	2014E	2015E
Adj. P/E	-28.0	-10.4	38.6	18.4	11.2
P/CEPS	4.8	3.8	3.7	3.5	3.1
P/BVPS	0.6	0.6	0.6	0.6	0.5
Dividend yield (% ord)	0.0	0.0	0.0	0.0	0.0
Dividend yield (% sav)					
EV/sales	0.3	0.3	0.31	0.28	0.26
EV/EBITDA	5.3	4.98	4.37	4.07	3.71
EV/EBIT	20.8	NM	10.19	7.82	6.05
EV/CE	0.7	0.7	0.72	0.69	0.65
D/EBITDA	2.2	2.2	1.82	1.47	1.16
D/EBIT	8.8	208.9	4.39	3.10	2.20
Profitability & financial ratios (%)	2011A	2012A	2013E	2014E	2015E
EBITDA margin	5.8	6.5	7.5	7.6	8.0
EBIT margin	1.5	0.1	3.1	3.6	4.2
Tax rate	198.0	-28.2	79.9	68.5	60.4
Net income margin	-0.6	-1.7	0.5	0.9	1.5
ROE	-2.0	-5.8	1.5	3.1	4.9
Debt/equity ratio	0.4	0.5	0.4	0.4	0.3
Growth (%)		2012A	2013E	2014E	2015E
Sales		-1.4	-0.2	5.0	5.0
EBITDA		11.6	13.9	7.4	9.8
EBIT		-95.3	4286.6	22.9	22.8
Pre-tax income		-304.8	272.5	34.1	30.8
Net income		-168.1	127.0	109.9	64.5
Adj. net income		-168.1	127.0	109.9	64.5

(*) EV = Mkt cap+ Net Debt + Minorities Value - Associates A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research



Notes

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REDUCE	If the target price is 10%-20% lower than the market price
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Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
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