*Initiation of Coverage*

10 April 2017 – 5:30 PM

MARKET PRICE: **EUR10.21**

***Heating, Smart gas metering***

***Data***

| | |
|---|---|
| Shares Outstanding (m): | 5.05 |
| Market Cap. (EURm): | 51.5 |
| Free Float (%): | 100.0% |
| Av. Daily Trad. Vol. (m): | 0.01 |
| Main Shareholder: | UBI Banca 9.9%, Banca IMI 8.9% |
| Reuters/Bloomberg: | ISI.MI/ISI IM |
| 52-Week Range (EUR) | 9.5 10.3 |

*Source: Factset, UbiBanca estimates*

***Performance***

| | 1m | 3m | 12m |
|---|---|---|---|
| Absolute | 3.1% | 3.7% | 5.5% |
| Rel. to FTSE IT | -1.6% | 1.5% | -16.1% |

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# Attractive combination

*Last February Industrial Stars of Italy 2 ("INDSTARS 2"), a Special Purpose Acquisition Company ("SPAC"), announced a business combination with SIT Group, a leading producer of components for the safety, comfort and performance of gas equipment. The business combination involves a merger of INDSTARS 2 into SIT and the concurrent listing on AIM Italia of SIT's capital (shares and warrants) with an exchange ratio 1:1. The deal attributes an equity valuation to SIT Group of EUR172.5 million implying a 2016 EV/EBITDA adjusted of 6.75x. We believe that the acquisition of SIT Group is a great opportunity for INDSTARS 2 shareholders for the following reasons: 1) SIT Group has reported average organic growth of about 6.6% since 2012 due to product innovation and limited exposure to Italy (30% of sales) despite persistent sluggishness in its core market; 2) its profitability has low volatility and it has had an average EBITDA adj. margin of 14% in the past three years (15.5% in 2016); 3) in 2009, the company entered the Smart Gas Metering Business, a fast growing area (sales more than doubled in 2016 vs. 2015) that could be developed abroad; 4) SIT's operating cash flow generation has always been strong (EUR20 million p.a.) and its balance sheet robust with operating NWC less than 10% of revenues; 5) the cash inflow from INDSTARS 2 should provide SIT Group with the ammunition to pursue further growth opportunities (to boost production capacity and seek external acquisitions) while reducing net debt and financial charges. Our average valuation of SIT Group is EUR228 million, 32% above the entry price for INDSTARS 2 shareholders. Further upside could come from the listing on the MTA market in 2018 and from the exercise of the warrants.*

> SIT Group's top line rose to EUR288 million in 2016 (from EUR264 million in 2015) with an EBITDA adj. margin of 15.5% (from 13.3% in 2015). The bottom line should grow rapidly this year due to a sharp reduction in financial charges (EUR19.7 million in 2016) while strong cash generation could reduce net debt to EUR144 million by end-2017 (from EUR125 million in 2016), excluding any proceeds from the business combination (EUR50.5 million with no withdrawal).

> The free float is expected to be in the range of 8.5% to 23.4% depending on exercise of withdrawal rights. Mr. de' Stefani, the major shareholder of SIT, will maintain a stake >70%. All proceeds are expected to be used to reduce debt, boost production capacity and/or make new acquisitions.

**Financials (all data refers to SIT Group)**

| | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| Revenues (EURm) | 287.5 | 301.8 | 316.4 | 330.7 |
| EBITDA (EURm) | 43.8 | 44.9 | 49.6 | 53.5 |
| EBITDA margin (%) | 15.2% | 14.9% | 15.7% | 16.2% |
| EBIT (EURm) | 23.5 | 25.1 | 30.0 | 34.1 |
| EBIT margin (%) | 8.2% | 8.3% | 9.5% | 10.3% |
| Net results (EURm) | 1.7 | 4.4 | 18.3 | 21.5 |
| Net debt (EURm) | 124.8 | 63.9 | 40.5 | 11.4 |

*Source: Company Data, UBI Banca Estimates*

**Ratios (based on EUR172.5m equity value)**

| | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| P/E(x) | 99.1 | 39.5 | 9.4 | 8.0 |
| P/BV(x) | 2.5 | 1.4 | 1.3 | 1.1 |
| Dividend Yield | 0.0% | 1.9% | 2.1% | 2.4% |
| EV/EBITDA(x) | 6.79 | 5.26 | 4.29 | 3.44 |
| EV/EBIT(x) | 12.66 | 9.41 | 7.11 | 5.39 |
| Debt/Equity (x) | 1.80 | 0.52 | 0.29 | 0.07 |
| Debt/EBITDA (x) | 2.85 | 1.42 | 0.82 | 0.21 |

*Source: Company Data, UBI Banca Estimates*

**All data refer to SIT Group**

**Key Financials**

| (EURm) | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| Revenues | 287.5 | 301.8 | 316.4 | 330.7 |
| EBITDA | 43.8 | 44.9 | 49.6 | 53.5 |
| EBIT | 23.5 | 25.1 | 30.0 | 34.1 |
| Net result attributable | 1.7 | 4.4 | 18.3 | 21.5 |
| Free Cash Flow | 31.7 | 10.3 | 27.9 | 33.9 |
| Net Capital Employed | 194.0 | 188.1 | 178.5 | 166.0 |
| Shareholders' Equity | 69.3 | 124.1 | 137.9 | 154.4 |
| Net Financial Position | 124.8 | 63.9 | 40.5 | 11.4 |

*Source: Company data, UBI Banca estimates*

**Key Profitability Drivers**

| | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| ROE | 2.5% | 3.5% | 13.3% | 13.9% |
| ROI | 12.2% | 14.2% | 16.8% | 20.6% |
| Net Fin. Debt/Equity | 1.80 | 0.52 | 0.29 | 0.07 |
| Net Fin. Debt/EBITDA | 2.85 | 1.42 | 0.82 | 0.21 |
| Interest coverage | 1.19 | 1.44 | 7.69 | 9.75 |
| NWC/Sales | 5.1% | 5.5% | 5.4% | 5.7% |
| Capex/Sales | 3.4% | 5.9% | 4.9% | 3.4% |

*Source: Company data, UBI Banca estimates*

**Key Valuation Ratios**
**Based on EUR172.5m equity value**

| | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| P/E (x) | 99.1 | 39.5 | 9.4 | 8.0 |
| P/BV (x) | 2.5 | 1.4 | 1.3 | 1.1 |
| P/CF (x) | 4.1 | 6.0 | 3.9 | 3.8 |
| EV/Sales (x) | 1.03 | 0.78 | 0.67 | 0.56 |
| EV/EBITDA (x) | 6.79 | 5.26 | 4.29 | 3.44 |
| EV/EBIT (x) | 12.66 | 9.41 | 7.11 | 5.39 |
| EV/CE (x) | 1.53 | 1.26 | 1.19 | 1.11 |

*Source: Company data, UBI Banca estimates*

## 1. INVESTMENT CASE

We believe that in less than one year INDSTARS 2 has found the right company with which to form an attractive business combination: SIT.

SIT is a leading producer of components designed for the safety, comfort and performance of gas equipment with revenues of EUR288 million in 2016, eight plants (of which four outside Italy), 10 commercial branches abroad, and an average of 1,950 employees in 2016. Since 2009, it has also been present in the fast-growing niche segment of Smart Gas Metering. The group, founded and still managed by the de' Stefani family, has reported average organic growth of about 6.6% since 2012. Because of its lean cost structure, healthy operating leverage and the quality of its products that is recognized by its customers, the company has maintained EBITDA margins of close to 13% in the past ten years. Nearly 70% of SIT's revenues are generated outside the domestic market, particularly in Europe (42% of sales) and in the US (16.5%) but it also has a solid presence in China.

In 2014 Mr Federico de' Stefani became the owner of 100% of the Group having acquired 56.7% of the Group for EUR116 million from other family members. The deal was financed through a EUR180 million loan (part of which was made to SIT Technologies, the holding company of SIT) leading to a sharp increase in the financial debt of SIT (EUR159 million at Dec-16). There was a consequent increase in financial charges, which were EUR19.7 million in 2016, that eroded the operating profit by >80%. As a result, we believe the EUR50.5 million cash-in from the business combination, together with the refinancing of the residual debt already implemented (EUR135 million expiring in five years), is excellent for SIT as it would give a significant drop in financial charges thereby boosting the bottom line.

SIT has always generated strong operating cash flow (nearly EUR25 million p.a. in the past three years) and had a healthy balance sheet with operating NWC below 10% of revenues and capital turnover of 1.3x.

Our estimates, which include cash inflow from INDSTARS 2 of about EUR50.5 million assuming no withdrawals, imply a top line CAGR of almost 5% in 2017-19 and an estimated EBITDA margin of 16.2% in 2019. We expect the 2019 attributable net result to exceed EUR21 million (EUR1.7 million in 2016).

We believe that the equity valuation of SIT is beneficial to INDSTARS 2 shareholders: EUR172.5 million implying an EV/EBITDA of 6.75x, well below the peer group average (11.8x). This entry price compares with the average of our conservative valuations for SIT of EUR228 million, which, nevertheless implies multiples that are still well below those of the peer group.

The additional financial resources of INDSTARS 2 should allow the Group to accelerate investments to expand production capacity, penetrate new markets and enter new segments also through acquisitions.

Lastly, the attraction of the business combination is increased by the free issue of warrants (one warrant every two shares) to be distributed to INDSTARS 2 shareholders who do not exercise their withdrawal rights. The warrants are currently in the money (strike price of EUR9.3), have a long duration (five years) with automatic conversion should the share price reach EUR13.

We believe the main risks to SIT are the large amount of goodwill (40% of capital employed), the attitude of the new President of the US, which could restrict imports from SIT's Mexican plant, and Brexit, which could hinder the development of smart gas metering in UK.

## 2. COMPANY PROFILES

### 2.1. Industrial Stars of Italy 2

Industrial Stars of Italy 2 S.p.A. ("INDSTARS 2") is a Special Purpose Acquisition Company (known as a "SPAC"), listed on 27 May 2016, which has the aim of researching and selecting acquisition targets within 24 months, buying a minority stake, merging with the target and automatically listing the newly merged company (the "Business Combination"). INDSTARS 2 raised about EUR50.5 million from its listing.

A Business Combination means that INDSTARS 2 shareholders can exercise their withdrawal rights and the Business Combination still goes ahead as long as this is not exercised on more than 30% of the shares with voting rights. Should the 30% threshold be exceeded, any proposed Business Combination would be declared null and void and, should the stated 24 months expire with out an acquisition being made, INDSTARS 2 would be wound up.

The company's two promoters are Mr Giovanni Cavallini, an entrepreneur and former CEO of Interpump (a listed Italian industrial company) from 1996 to 2013, and Mr. Attilio Francesco Arietti, a well known M&A advisor for deals in medium-size companies. The two promoters finalized a successful business combination in 2015 through their first SPAC ("Industrial Stars of Italy") which was merged into LU-VE. Since the business combination was effected, LU-VE (July-15) shares have increased by >40% and the IRR for an Industrial Stars of Italy 1, including the warrants, has been higher than 70%.

INDSTARS 2's IPO involved the issue of 5,050,000 ordinary shares at EUR10 each and 2,525,000 free warrants attached to the ordinary shares in the ratio of 1 warrant every two IPO shares. The warrant give shareholders who do not exercise the right to withdraw from INDSTARS 2 (the withdrawal right can be exercised up to 23 May 2017), an additional free warrant in the ratio of one warrant every two shares held.

At the time of the IPO, INDSTARS 2 also issued 240,572 special shares to the owners, who held 50% each of the SPAC through three investment companies: Giober S.r.l. belonging to Giovanni Cavallini and Spaclab S.r.l. and Spaclab 2 S.r.l. belonging to Attilio Arietti. The special shares have no voting rights, but, among other things, can be converted into ordinary shares at a ratio of 7 ordinary shares for every 1 special share. One third will be converted when the Business Combination is finalised; a further one third will be converted when the market price target of EUR11 per share is reached; the final third, or alternatively the final two-thirds together, may be converted when the market price target of EUR12 per share is reached.

At present, INDSTARS 2's two main shareholders are Banca IMI (8.9% stake) and Ubibanca (9.9% stake). Banor SIM controls 11.7% of INDSTARS 2 through its funds and Amber Capital 5.9%.

## *2.2. The business combination*

On 24 February 2017, INDSTARS 2 and the promoters signed a framework agreement with the selected target SIT S.p.A. ("SIT") and SIT Technologies (the holding company of Mr. Federico de' Stefani) which owns 99.4% of SIT, under the terms and conditions of the Business Combination.

The Business Combination involves the reverse merger of INDSTARS 2 into SIT Group and the concurrent listing of SIT's capital (shares and warrants) on AIM Italia.

The main terms and conditions of the framework agreement are as follows:

- **Valuation:** 6.75x 2016 EBITDA adjusted – implying an equity value of EUR172.5 million. In addition, the existing shareholder of SIT will receive 24k special shares (at EUR10 per share) from the promoters, 300k free warrants (with the same conditions as the INDSTARS 2 warrants) plus an earn out of up to one million shares (conversion of 250k performance shares with 1:5 conversion ratio) if the equity value of the Group (calculated using an EBITDA multiple of 6.75x) reaches EUR225.4 million by Dec-18 and/or EUR267 million by Dec-19.

- **Share exchange ratio**: the exchange ratio is 1 INDSTARS 2 :1 SIT share (ordinary and special) with the INDSTARS 2 warrants replacing the SIT warrants, which have the same terms and condition as the INDSTARS 2 warrants.

- **The existing shareholders of SIT** (SIT Technologies) must maintain control of SIT for at least three years and will convert EUR8 million of credit into equity**.**

- **INDSTARS 2 promoters upside**: the INDSTARS 2 promoters will convert their 240,572 special shares at a ratio of 1:7 into SIT shares: one-third will be converted when the business combination is finalised, one-third when the SIT share price exceeds EUR11.0 for at least 15 days and the residual one-third when the SIT share price exceeds EUR12.0 for at least 15 days. This implies a maximum of 1.68 million shares or around 7.5% of the company (assuming no withdrawal rights are exercised).

- **Shareholders' Lock-up**: there is a lock-up period of 12 months from the date on which the merger becomes effective (and 12 months from the conversion of each tranche of special shares into ordinary shares).

**Timetable:**

- 5 May 2017: Shareholders' meetings of INDSTARS 2 and SIT to approve, among other things, the Business Combination;
- 23 May 2017: end of the period for the exercise of withdrawal rights (assuming the shareholders meetings approves the Business Combination on 5 May 2017);
- July: merger deed and listing of the combined entity on AIM Italia market..

The shareholder structure will depend on the number of INDSTARS 2 shareholders exercising withdrawal rights although Mr. Federico de' Stefani will maintain his majority shareholding (>70%). Our analysis indicates that the free float (represented by INDSTARS 2 shareholders, excluding the shares held by the promoters, and based on voting rights) should be approximately 23.4% (0% withdrawal) and 8.5% (maximum withdrawal).

*Figure 1 – Shareholder structure of the business combination (based on voting rights)*

**If withdrawals reach or exceed 30%, the business combination will not take place**

| **% of withdrawal** | **0.0%** | **5.0%** | **10.0%** | **15.0%** | **20.0%** | **25.0%** | **29.9%** |
|---|---|---|---|---|---|---|---|
| SIT Technologies | 76.3% | 77.2% | 79.0% | 81.6% | 84.6% | 87.9% | 91.2% |
| Promoters | 0.2% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% |
| Free Float | 23.4% | 22.5% | 20.7% | 18.2% | 15.1% | 11.8% | 8.5% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

*Source: UBI Banca estimates*

Following the business combination and the reverse merger, SIT's Board of Directors will be composed of a majority of members appointed by SIT Technologies, two will be appointed by the promoters and there will be one independent member. All significant strategic decisions will require the approval of the two promoters.

## 2.3. SIT Group

SIT Group was founded in 1953 by Pierluigi and Giancarlo de' Stefani as a precision mechanical engineering company. The company has achieved rapid growth, both organic and through acquisition. In 1993 it acquired ENCON, active in electronic cards for gas appliances; in 2000, Catoba and Bray Burners; in 2002, OP Controls; and in 2004, Natalini. These acquisitions enlarged its product range and market share. From 2000 the group started manufacturing outside Italy at green field sites and acquired facilities. It currently has eight plants (four in Italy, one in Romania, one in Holand, one in Mexico, and one in China) with 43% of total output now produced abroad and 11 commercial branches outside Italy. At Dec-16 it had a total of 1,911 employees of whom 514 are based in Italy. The company's Chairman and CEO is Federico de' Stefani, son of the founder, who invested heavily in SIT through the 2014 acquisition of 56.7% of SIT from other family members for EUR116 million. Other managers, such as Fulvio Camilli, CEO and General Manager, and Paul Fogolin, CFO, are external appointments.

*Figure 2 – Short history of the Group*

| | |
|---|---|
| 1953 | Founding |
| 1974 | First branch outside Italy (Holland) |
| 1985 | Commercial branch in Australia |
| 1989 | Entry in the US |
| 1997 | Commercial branch in China |
| 1999 | Acquisition of ENCON (electronic cards for gas appliances) |
| 2000 | New plant in Mexico. Acquisition of Catoba (Italy) and Bray Burners (UK) |
| 2001 | Acquisition of OMVL (gas appliances for automotive) |
| 2002 | Acquisition of OP controls (gas control) |
| 2003 | Acquisition of Natalini (electric fans) |
| 2009 | Founded MeteRsit (smart gas metering) |
| 2010 | Disposal of OMVL and focus on two divisions: Heating and Smart Gas Metering |
| 2012 | New plant in China |
| 2013 | New plant in Romania |
| 2014 | Family buyout (Mr. de' Stefani acquired 56.7% of SIT for EUR116 million). SIT La Precisa merged into SIT S.p.A: |
| 2016 | New Smart Gas Metering plant in Romania |

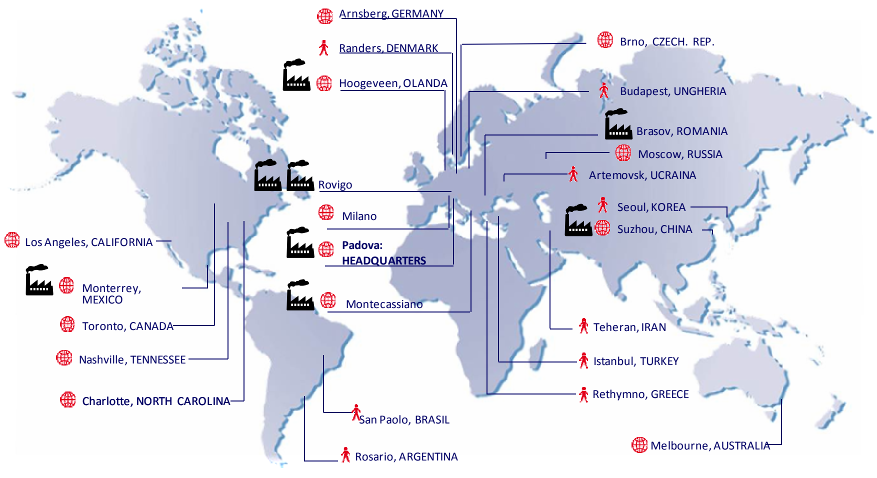
*Source: Company data*

SIT Group is structured in divisions:

- **Heating** (87% of sales in 2016). This division develops and manufactures systems designed for the safety, comfort and performance of gas equipment. In particular, SIT produces mechanical controls (mostly valves for the regulation and security of gas appliances, 61% of Heating division revenues), electronic controls (19% of sales), fans (9%), flue exhaust systems (8%), sensors and integrated systems which are supplied to the main white goods producers such as Bosch, Vaillant, Ariston, Rheem, Riello, etc. This division has four main sales markets: 1) Central heating, which is for boilers for heating and sanitary hot water representing 62% of the Division's revenues with a solid market leadership (SIT has a worldwide market share around 50% in mechanical central heating and 14% in electronic central heating); 2) **Direct heating**, which is for stoves and gas fireplaces representing 19% of Division revenues with a worldwide market share around 25%; 3) **Water heating**, or appliances for the production of sanitary water (7% of Division revenues with a market share of around 14% worldwide), and 4) **Catering**, which provides products for professional Kitchens (5% of Division revenues with a leading position in Europe). Other product destinations are for special applications (a wide and much diversified segment).

- **Smart Gas Metering** (17% of sales in 2016) or electronic gas meters. These devices are finished products typically sold for the residential market (95% of Division revenues). The company entered this business in 2009 with an innovative gas meter (protected by several patents) that is rapidly gaining market share. This product improves the measurement of gas consumption and the remote control of the device. Adoption of the smart gas meter is driven by the EU 2009-73 Directive that will mean this device being progressively introduced to all European countries and offering an opportunity for rapid growth to SIT.

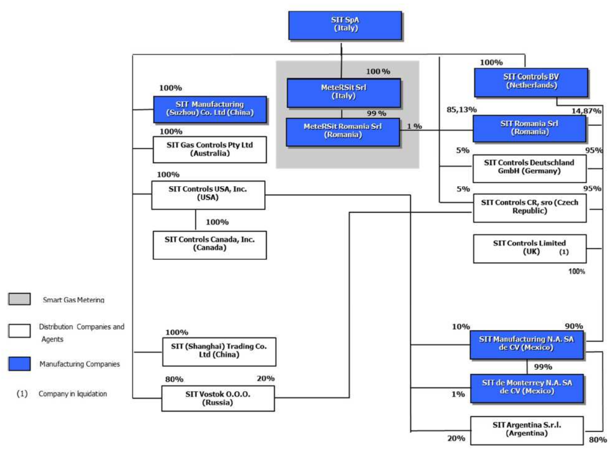
*Figure 3 - SIT Group: geographical presence*




*Source: Company data*

SIT Group is made up of SIT S.p.A., which controls, usually 100%, seven manufacturing companies (two in smart gas metering) and nine distribution companies and agents.

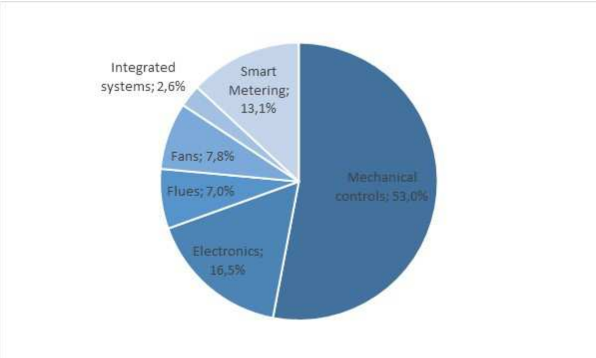
*Figure 4 – SIT: Group structure*




*Source: Company data*

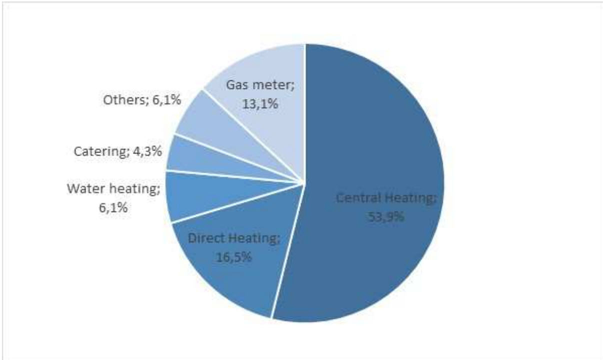
SIT makes constant investments in R&D and innovation (around 4% of sales on average in 2012-16). This has given it an unique know-how, an increasingly broad range of products, and a means of conquering new markets. The company holds 79 international patents. The quality system is also certified ISO 9001:2000 in all the plants and ISO 140001.

*Figure 5 – 2016 sales breakdown by product*




*Source: UBI Banca estimates on Company data*

*Figure 6 – 2016 sales breakdown by destination*




*Source: UBI Banca estimates on Company data*

SIT products are mainly sold to large international white goods producers in the heating segment with specific applications for the security of boilers, fireplace and stoves. The products of the Smart Gas Metering division are sold mostly to Italian gas distributors like 2I Retagas, Hera, Iren and Ascopiave

*Figure 7 – Main clients Heating Division*


*Source: Company data*

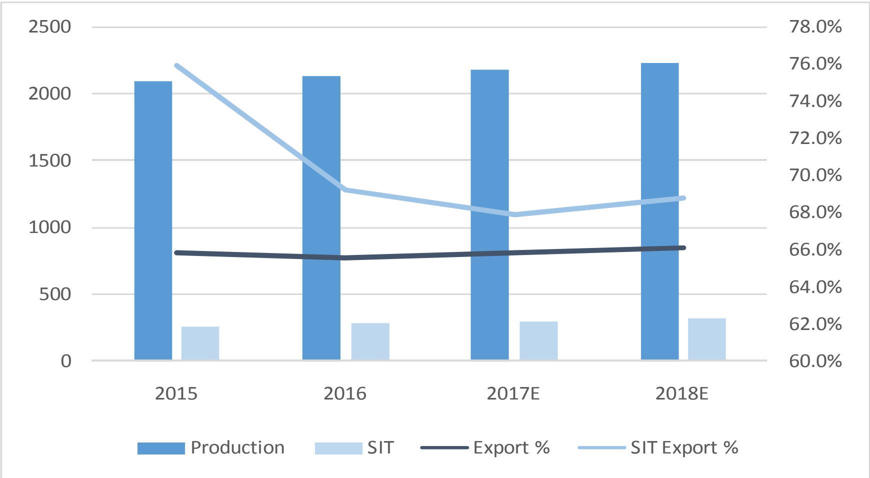
*Figure 8 - Main clients Smart Gas Metering Division*


*Source: Company data*

The company has strongly outperformed the flattish trend in its core market of heating, which is mostly a replacement market. It has reported remarkable organic growth of about 3% p.a. since 2012 reflecting its leading position and the quality of its products.

*Figure 9 – Total production and export trend for Italian manufacturers of heating devices and SIT Group (EURm, %)*

**SIT's non-Italian revenues are 70% of consolidated sales compared with 66% for the aggregate of all Italian companies.**



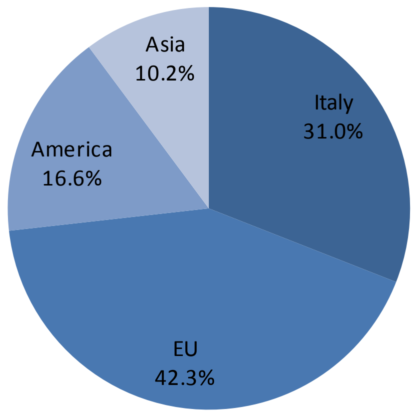

*Source: Company data, Cerved, UBI Banca estimates*

We believe this trend, which should continue in the future, was achieved through:

- **Technological innovation:** SIT has 79 registered patents, invests heavily in R&D (4% on average in 2012-16) and has several partnerships with universities and research organizations. In addition, several projects are co-developed with its leading customers (all large multinational companies) and this ensures future revenues;
- **Quality:** SIT has several certifications (all its plants are certified ISO 900:2000) and homologations. This is particularly important for the company's large clients, which aim to optimize gas consumption while increasing the safety of their products rather than lowering the pruchasing price;
- **Leadership:** SIT is the world leader in the central heating segment with a market share of around 50% and also has leading position worldwide in other segments of the Heating division. This, coupled with its long-term relationships with large global clients, provide significant barriers to entry for competitors while increasing its visibility on sales;
- **International presence:** more than 60% of the company's revenues are generated abroad, particularly in Europe and the US. Entry to new emerging markets, where heating systems are still underdeveloped, could boost revenues in the future. In addition, the Smart Gas Metering division should expand rapidly in other European countries, leveraging on its new plant in Romania;
- **Low labour cost base:** SIT has four plants outside Italy (Romania, China, Mexico and Holland) of which three are located in low labour cost countries. This lowers the ratio of labour costs to sales (less than 23% on average in the last three years).

*Figure 10 – 2016 sales breakdown by area*

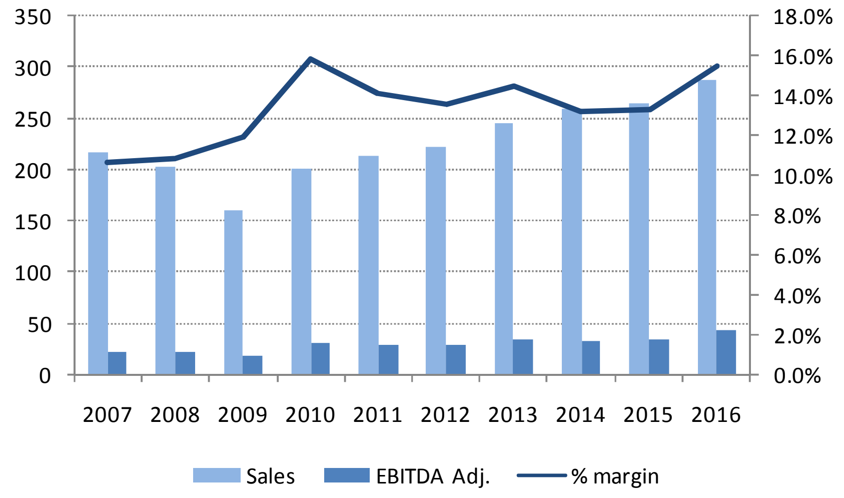
**In 2016 Italy increased its weight on total revenues due to the strong performance of the Smart Gas Metering division, the sales of which are totally concentrated in Italy.**




*Source: Company data*

*Figure 11 – SIT 2007-16 revenues and EBITDA adjusted trend (EURm, %)*

**While sales grew at a CAGR of 3.2% between 2007 and 2016, the EBITDA margin was substantially stable averaging 13.3% in the same period.**

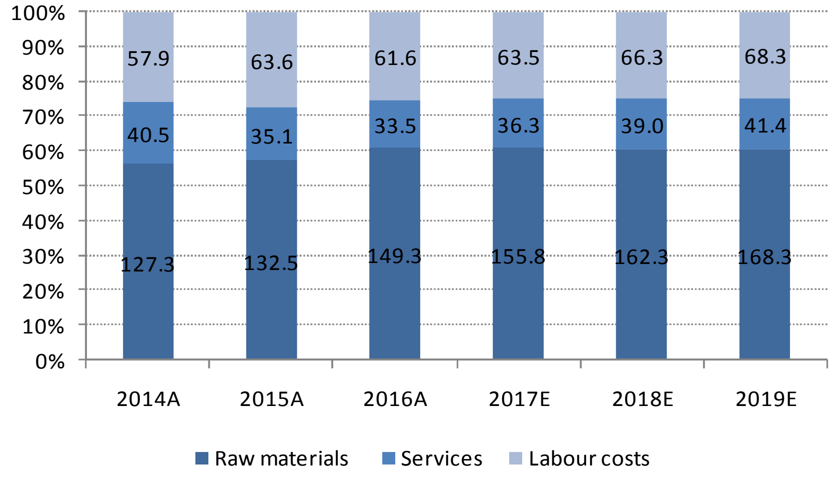



*Source: Company data. 2007-14 data pro-forma and unaudited*

The Group's cost structure shows that purchases were on average 53% of sales over the last five years, services were 15% and labour costs were 20%.

*Figure 12 – SIT Group cost structure (EURm, %)*

**The cost structure has been relatively stable over the past five years.**




*Source: UBI Banca elaboration on company data*

The main purchases of SIT are components, semi-finished goods and electric boards. The pure raw materials (aluminium and copper) have a limited weight on total purchases. The current raising trend in metals prices could put some pressure on profitability. However, the company has long-term contracts on for around 50% of sales and also uses pass-through contracts to lower the impact of fluctuations in metal prices.

### 3. STRATEGY

The strategy of SIT is primarily focused on:

- Continued expansion of its commercial and industrial network abroad and into new markets with attractive growth prospects;
- Increasing the ”share of wallet” or the weight of its products in a heating device;
- Potential acquisitions of companies with similar product ranges but with a presence in new markets (emerging countries) or with innovative technologies (patented);
- Exploiting the new European rules regarding the introduction of smart gas meters. The company believe that 80% of existing European gas meters will be substituted by 2020. The potential market is highly attractive considering that there are around 120 million gas meters in Europe. SIT was a first-mover in smart gas metering, has a significant technical advantage in this segment and recently doubled its production capacity through its new plant in Romania.

The company does not have any official target in terms of top line growth or operating profitability. However, we believe that the average EBITDA margin of the past three years (around 13.7%) should form a floor and that the company’s organic growth should exceed the growth in European GDP.

## 4. SWOT ANALYSIS

*Figure 13 – SWOT Analysis*

| Strengths | Weaknesses |
|---|---|
| High and stable profitability despite the economic crisis | Modest growth in the Heating market (~3% p.a.) |
| High barriers to entry | Large component of goodwill (40% of capital employed) |
| Innovative products and limited exposure to the Italian market (around 31%) | Lengthy time to market for new products due to the length of the testing and homologation process |
| Outstanding acquisition track record | |
| Market leader (50% market share in central heating, 25% in direct heating and 14% in water heating) | |

| Opportunities | Threats |
|---|---|
| The cash inflow from the entry of INDSTARS 2 will reduce existing debt giving a sharp drop in financial charges and could lead to an acceleration in investments to increase production capacity and in external acquisitions | Regulatory risk |
| | Currency fluctuations (in particular GBP and USD) |
| Rapid development of smart gas metering business thanks to the progressive substitution of gas meters in several European countries | Potential imposition of customs duties in the US, a market supplied by the SIT plant in Mexico. This risk is mitigated by the fact that all the competitors of SIT have production bases in Mexico |
| | Impairment test risk |
| Listing on MTA in 2018 and eventually on the STAR segment | Brexit could jeopardize SIT expansion in the UK which is a primary target market for the Smart Gas Metering division |
| A weaker EUR could lead to increased exports | |

*Source: UBI Banca estimates*

## *5. CORE MARKETS AND COMPETITION*

The heating sector is characterized by high barriers to entry, a strong concentration due to the need to have economies of scale and the presence of large international players that operate with several brands. In Italy the production of heating equipment has grown by 1.9% and is now worth approximately EUR2.1 billion (*source Cerved Jan-17*), with a positive export trend (>65% of total production) primarily towards European Union and Eastern European countries. Imports are limited to about 21% of the Italian market.

The industry has been relatively stable in the past few years thanks to the fiscal incentives for the substitution of existing heating systems in Italy and other European countries and the European directive 2009/125 which aims to increase energy efficiency through a new generation of heating systems (i.e. condensing boilers). The industry is currently dominated by large players like Bosch (EUR3.3 billion sales in 2015), Vaillant (EUR2.4 billion sales), Viessmann (EUR2.2 billion sales) and Ariston (EUR1.4 billion sales in 2015), all of whom are supplied by SIT.

The main direct competitors to SIT are Honeywell, EBM-papst in the central heating segment, Copreci and Eitar in the direct heating segment, and Honeywell and Emerson in the water heating segment.

The market of the Smart Gas Metering division is accelerating rapidly as countries comply with the European directive 2009/73. Every European country has a different implementation plan with Italy (where 60% of the existing heating systems must be replaced by the end of 2019) and UK (100% replacement by the end of 2020) as first movers while other countries (for example Germany) have shelved replacement plans for the moment. The main competitors of this division of SIT are Aem, Pietro Fiorentini, Elster, Itròn and Landis & Gyr.

## 6. 2016 RESULTS

SIT reported positive results in 2016, with a robust rise in revenues of nearly 9% mostly due to the Smart Gas Metering division, which more than doubled its sales compared to 2015 driven by the progressive substitution of gas meters in the Italian residential market (directive ARG/GAS/554/15 of November 2015). Sales in the Heating division were broadly flat (+0.5%) despite a negative 0.6% forex impact. The company also had an increase in EBITDA margin to 15.2% (from 13.4%) and 15.5% on an adjusted basis (i.e. excluding restructuring costs). This was achieved through tight cost controls (lower service and labour costs) despite an increase in purchasing costs (51.8% of revenues in 2016 vs. 50.1% in 2015). We also believe that the Smart Gas Metering division had a significant increase in profitability having overcome the technical problems experienced in 2015.

*Figure 14 – SIT Group 2016 consolidated results*

| (EURm) | 2015A | 2016A | % Chg. |
|---|---|---|---|
| Sales Italy | 63.5 | 88.6 | 39.4% |
| Sales Europe | 122.6 | 120.9 | -1.4% |
| Sales RoW | 77.90 | 78.02 | 0.2% |
| **Sales total** | **264.06** | **287.53** | **8.9%** |
| **EBITDA** | **34.31** | **43.76** | **27.5%** |
| **% margin** | **13.0%** | **15.2%** | |
| **EBITDA Adjusted** | **35.29** | **44.62** | **26.4%** |
| **% margin** | **13.4%** | **15.5%** | |
| EBIT | 12.0 | 23.5 | 94.9% |
| % margin | 4.56% | 8.17% | |
| Pre tax profit | (5.4) | 5.1 | nm |
| **Net attributable profit** | **0.43** | **1.74** | **302.8%** |
| Net debt (cash) | 156.5 | 124.8 | -20.3% |

*Source: Company data*

After EUR20 million of D&A (of which EUR6.3 million related to the purchase price allocation on the buyout of 2014), EBIT was EUR23 million, nearly double the 2015 net operating profit. The pre-tax result was positive despite EUR19.7 million of financial charges (of which EUR9.6 million linked to shareholder financing). Net attributable profit more than tripled despite the 66% tax rate.

We would also highlight that all the subsidiaries reported a positive bottom line with the exception of the Chinese subsidiaries.

After EUR9.7 million of capex (of which EUR7.38 million was in the Heating division), net debt declined to EUR124.8 million (which includes EUR31.7 million financing from SIT Technologies) due to stronger cash flow and to improvements in operating NWC, which declined to 8.1% of sales (from 12.8% in 2015). It should be noted that in 2016 SIT Technologies waived EUR14 million of financing thereby substantially improving the net financial position of SIT.
As a result, gearing fell to 1.8x (vs. 2.7x in 2015) and net debt/EBITDA to 2.85x (from 4.56x).

## 7. FINANCIAL PROJECTIONS

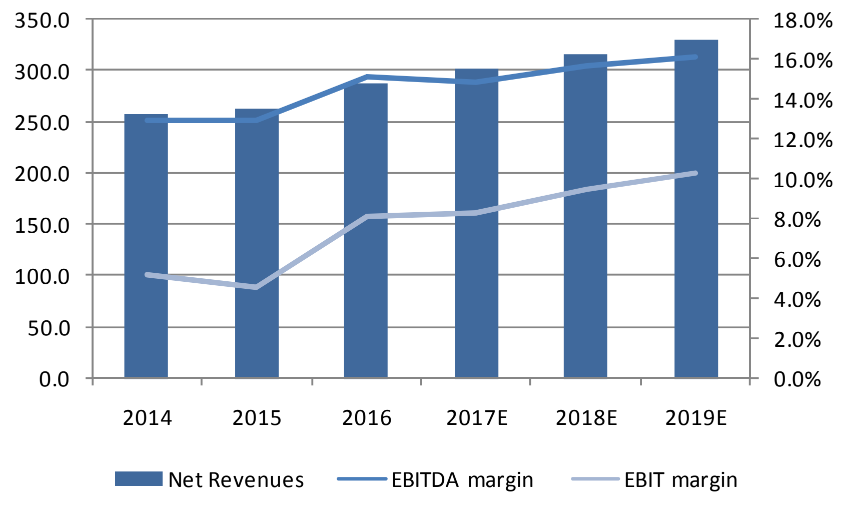
Our estimates incorporate the EUR50.5 million cash inflow from the business combination with INDSTARS 2 and assumes no exercise of the right to withdraw as we believe the cash-in is a key factor in improving the bottom line, given the high annual financial charges (nearly EUR20 million in 2016) that has penalised the net result in the last three years following the acquisition of the shares of other members of the family in 2014. Also, our forecasts are based on IFRS which were adopted by the company last year.

Despite the economic crisis and the slowdown in the domestic market, SIT has reported average organic growth of 6.6% since 2012. Our forecasts for the next few years are more conservative with a CAGR of 4.8% in the top line in 2016-19 without including any effect from the cash inflow from the business combination with INDSTARS 2. The cash inflow would further boost sales growth as the company could accelerate its investment programme for production capacity expansion and could make further acquisitions to broaden its product application range and its geographical presence.

We forecast modest growth (below 3%) for the Heating division given that around 80% of its revenues are in the replacement market. We believe the main sales driver for the company should be the Smart Gas Metering division.

In fact, following the ARG/GAS/554/15 directive of November 2015, which should accelerate the substitution of Italian gas meters in the residential market, the company expanded its production capacity by building a new plant for the Smart Gas Metering division in Romania in 2016 (expected to be fully operational by mid-17). Therefore, we expect significant growth rate in this division also in 2017-19, supported by an order backlog that was EUR25 million at Dec-16. In addition, leveraging on the quality of its smart meters, SIT plans to expand abroad, exploiting new European regulations that promote gas meter substitution. We refer, in particular, to the UK where all gas meters must be replaced by the end of 2020, but also to France (a second replacement phase is expected in 2019), Spain, Greece, and eventually Turkey and Iran. Given that the new plant in Romania doubled existing production capacity, the revenues of the Smart Gas Metering division could reach EUR80 million in the long term.

*Figure 15 - Trend in revenues and profitability margins*




*Source: Company data, UBI Banca estimates*

The EBITDA margin is expected to increase slightly, mainly due to increased efficiency and economies of scale. It should be noted that our forecast for 2017 incorporates EUR1.9 million of non-recurring costs related to the merger with INDSTARS 2.

The EBIT margin is expected to rise to 10.3% in 2019 (from 8.2% in 2016) partly as D&A costs should remain broadly stable at below EUR20 million as the company has already incurred extraordinary capex to expand its production capacity in the Smart Gas Metering division.

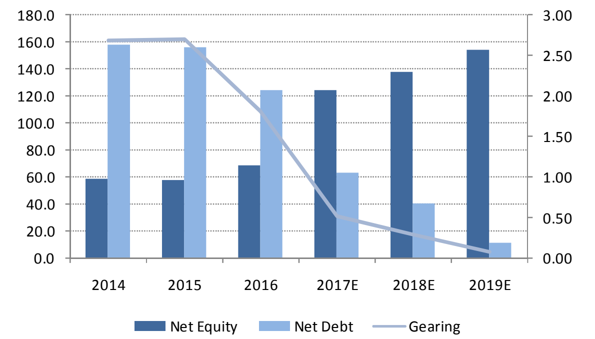
Financial charges are expected to remain high in 2017 (at EUR17.5 million) as the cash-in from INDSTARS 2 and the refinancing of existing banking debt (which has a spread over Euribor of between 150 and 300 bps depending on the net debt/EBITDA ratio) would have an effect only in the second part of the year and because the company will incur around EUR7 million of non-recurring costs for the bank refinancing. Therefore, net profit should reach EUR4.4 million in 2017. In 2018-19, we should see the entire benefit of the business combination with a sharp decline in financial charges to below EUR4 million, leading to a bottom line of EUR18.3 million in 2018 and EUR21.5 million in 2019. The tax charge is expected to stabilize at about 30% in the years after 2017.

SIT has indicated its intention to distribute a dividend based on 2017 results. Our estimates assume a pay-out ratio of 100% in 2017 and much lower (25-30% in 2018-19). Based on the valuation implied in the business combination, this implies a dividend yield of 2% in 2017 rising to 2.5% in the following years..

The company generates strong operating cash flow (EUR35 million in 2016 and EUR21 million in 2015) and we believe this trend will continue in future. Organic capex is expected to reach EUR18 million this year, or around 6% of revenues, due to the completion of the new plant in Romania but should decline in 2018-19 to below 5% of revenues, excluding external acquisitions. This indicates free cash flow of >EUR10 million in 2017 and EUR28 million in 2018, based on our estimates.

*Figure 16 – Financial structure evolution*

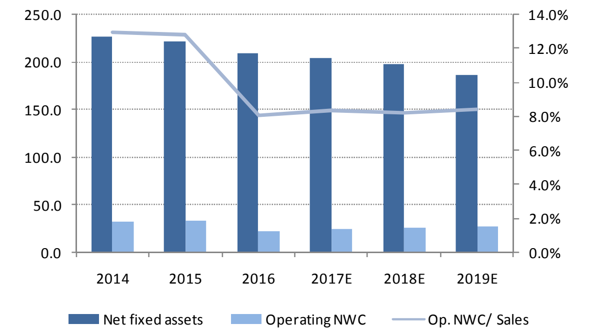
**We expect a significant reduction in net debt taking gearing close to 0x in 2019 (vs. 1.8x at Dec-16) due to strong operating cash flow generation, lower capex and the cash in from INDSTARS 2.**




*Source: Company data, UBI Banca estimates*

*Figure 17 – Net fixed assets and operating NWC evolution*

**We cautiously assume stable ratio for operating NWC to sales in coming years after the improvement of 2016. Net fixed assets are expected to decline slightly due to lower capex compared to 2016.**

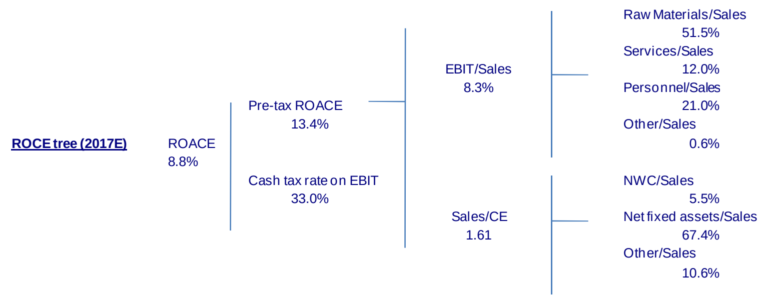



*Source: Company data, UBI Banca estimates*

SIT has always had low operating net working capital (the average of the past three years is 8.4% of revenues and was 5.1% in 2016) as the company has limited inventories of finished goods (around 15% of sales or less than two months), and low trade receivables (about 50 days over the past three years). This reflects the high proportion of non-Italian clients, while trade payables mostly relate to Italian suppliers (with payment terms of 140 days on average). Adding net fixed assets at about 80% of sales, we calculate capital turnover (sales/capital employed) was 1.48x in 2016, an outstanding level for a manufacturing company, and this generated a ROCE of 8.1%. Capital turnover should improve in 2018-19 due to falling capex and give a ROCE that should reach 13.8% in 2019.

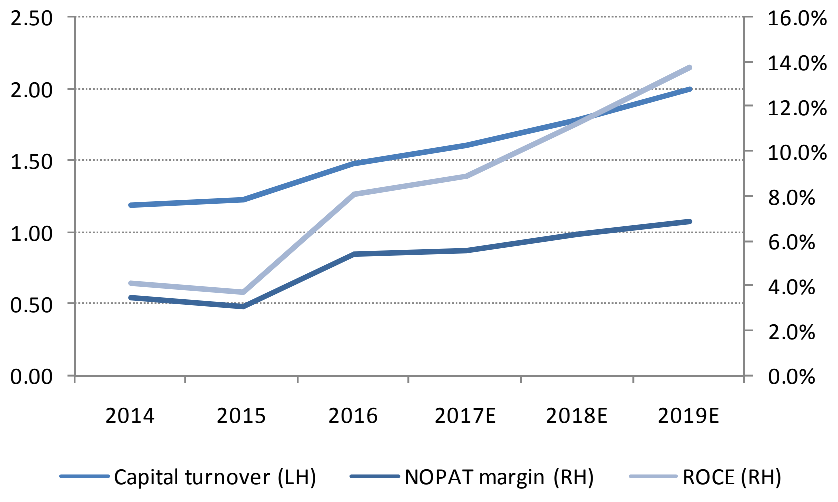
If we deduct goodwill (EUR78.1 million at Dec-14 from the buy-out of family shares in 2014 and, therefore, not linked to external acquisitions) from the invested capital, 2016 capital turnover would increase to 2.5x and give a ROCE of 13.6%.

*Figure 18 – ROACE Tree*




*Source: UBI Banca estimates*

*Figure 19 – Trend in the NOPAT margin, Capital Turnover and ROCE*




*Source: Company data, UBI Banca estimates*

## *8. VALUATION*

INDSTARS 2's acquisition of SIT Group puts the company on an enterprise value of EUR302.7 million or 6.75x 2016 EBITDA adjusted (including EUR1.1 million of non-recurring costs). Deducting EUR138.2 million of debt (vs. EUR124.8 million officially reported at Dec-16), which includes 55% of staff-leaving indemnities, trade payables overdue by >60 days, the cash-in from no recourse factoring and other items, we get an equity value of EUR172.5 million.

*Figure 20 – Implicit 2017-18 multiples in the valuation of SIT used for the business combination*

**Implicit 2017-8 multiples for SIT are well below the average multiples of our peer sample**

| | 2017E | 2018E |
|---|---|---|
| EV/Sales | 1.00 x | 0.96 x |
| EV/EBITDA | 6.74 x | 6.10 x |
| EV/EBIT | 12.05 x | 10.10 x |
| EV/CE | 1.55 x | 1.56 x |
| P/BV | 1.39 x | 1.25 x |
| P/E | 39.50 x | 9.44 x |

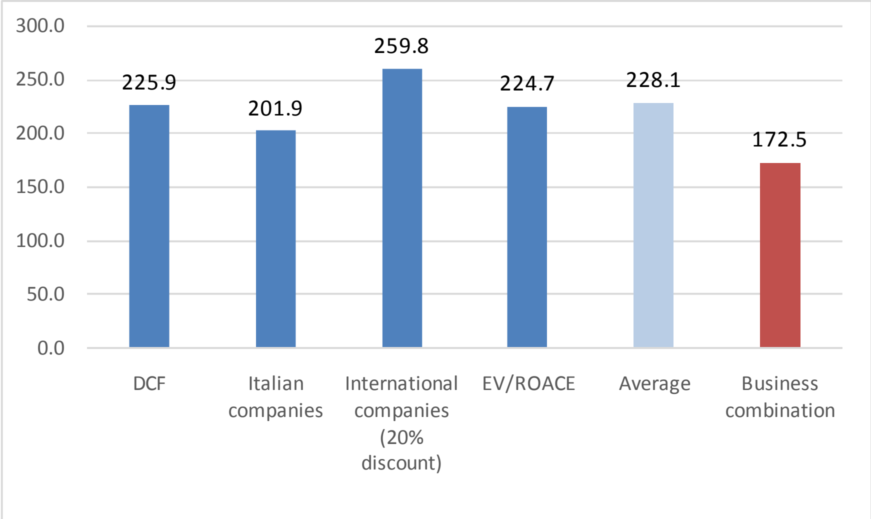
*Source: UBI Banca estimates*

In order to value the attractiveness of the business combination, we have compared the equity valuation given by INDSTARS 2 to form the business combination (EUR172.5 million, or the entry price for INDSTARS 2 shareholders) with our preliminary valuation of SIT Group, including the impact of the cash inflow from the business combination (EUR50.5 million) assuming no shareholders exercise the right to withdraw, which is key to lowering financial charges, and thereby increasing the bottom line.

We have used a DCF analysis, an EV/CE versus ROACE/WACC and relative valuations based on both the average of the multiples of international companies (applying a 20% discount to reflect the company's low liquidity and its smaller size compared to other listed companies) and the average of some Italian industrial companies. We obtain an equity valuation range of EUR202 million to EUR260 million. The average of the four valuation methods gives an equity value of EUR228 million, which is 32% above the entry price for INDSTARS 2. Therefore, we believe the purchase of the interest in SIT could be an attractive opportunity for INDSTARS 2 shareholders who should benefit from the fresh financial resources arising from the business combination and also from the free warrants (one warrant every two shares) to be distributed to INDSTARS 2 shareholders who choose not to exercise their withdrawal rights.

*Figure 21 – Our preliminary valuation compared with the business combination value*

**Our preliminary equity valuation, excluding the cash inflow from the business combination, is between EUR202 million and EUR260 million with an average of EUR228 million, which is 32% above the entry price for INDSTARS 2 shareholders.**




*Source: UBI Banca estimates*

## *8.1. DCF Valuation*

Our conservative DCF model gives a fair value of EUR225.9 million; it incorporates the following assumptions:

- > a risk-free rate of 2.5%, which is our long-term assumption for the interest rate on Italian bonds;
- > a market risk premium of 4.5%;
- > a levered beta of 0.99, based on the average of the machinery industry in Europe (0.94 unlevered - source: *Damodaran Jan-17*);
- > a terminal growth rate of 1% and an operating margin of 10% at terminal value, which is slightly above the 8.3% EBIT margin reported in 2016 but in line with our 2018-19 forecasts;
- > A target debt/equity ratio of 7/93 equal to the financial structure projected for 2019E.

*Figure 22 - WACC and embedded DCF assumptions*

| **WACC assumptions** | | **Embedded DCF assumptions** | |
|---|---|---|---|
| Risk Free rate (10Y BTP bench.) | 2.5% | Revenue CAGR 2017-2025 (%) | 2.6% |
| Debt spread (%) | 3.0% | EBIT CAGR 2017-2025 (%) | 4.5% |
| Cost of debt [net] (%) | 4.1% | EBIT margin 2017 (%) | 8.3% |
| Market risk premium (%) | 4.5% | Target EBIT margin 2025 (%) | 10.0% |
| Beta (x) | 0.99 | D&A. on sales (avg. 2017-2025) (%) | 4.4% |
| Cost of equity (%) | 7.0% | Capex on sales (avg. 2017-2025) (%) | 4.4% |
| Weight of Debt | 7% | | |
| Weight of Equity | 93% | | |
| **WACC** | **6.82%** | | |

*Source: UBI Banca estimates*

We calculated a WACC of 6.82%, obtaining a theoretical value of EUR276.4 million for 100% of SIT. Deducting the EUR50.5 million cash-in from INDSTARS 2, we get a value of EUR225.9 million.

*Figure 23 – DCF valuation*

**Our DCF valuation implies an EV/EBITDA of 7.3x at terminal value and of 8.3x in 2019**

| | Valuation (EURm) | % Weight |
|---|---|---|
| Sum of PV 2017-25 FCF | 144.4 | 35% |
| Terminal value | 263.2 | 65% |
| **Total Enterprise value** | **407.6** | **100%** |
| - minorities | 0.0 | |
| - Pension provisions | (6.0) | |
| - Net cash (debt) | (124.8) | |
| **Total Equity value** | **276.4** | |

*Source: UBI Banca estimates*

Our valuation has limited sensitivity to changes in the terminal growth rate and WACC although a lower beta and/or stronger growth would increase our DCF fair value.

*Figure 24 - Sensitivity analysis*

**Doubling the terminal growth rate would increase our DCF valuation by 23%**

| g / WACC | 0.50% | 0.75% | 1.00% | 1.25% | 1.50% |
|---|---|---|---|---|---|
| **5.76%** | 307.1 | 322.1 | 338.8 | 357.2 | 377.9 |
| **6.16%** | 283.9 | 296.9 | 311.2 | 326.9 | 344.3 |
| **6.46%** | 268.4 | 280.2 | 293.0 | 307.0 | 322.5 |
| **6.76%** | 254.2 | 264.9 | **276.4** | 289.1 | 302.9 |
| **7.06%** | 241.2 | 250.9 | 261.4 | 272.8 | 285.2 |
| **7.36%** | 229.2 | 238.0 | 247.6 | 258.0 | 269.2 |
| **7.66%** | 218.0 | 226.2 | 234.9 | 244.4 | 254.6 |

*Source: UBI Banca estimates*

## 8.2. EV/CE vs. ROACE/WACC valuation

We believe that SIT should create value given its lean balance sheet and flexible business model that requires limited investment. The potential cash inflow from the merger with INDSTARS 2 should have a heavy impact on ROACE in 2017-19E. Our projections lead to a fair value of EUR275 million that declines to EUR225 million if cash-in from INDSTARS 2 is deducted.

*Figure 25 – ROACE and WACC projections*

| | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|
| Capital employed | 217 | 214 | 194 | 188 | 178 | 166 |
| average | | 215.8 | 204.2 | 191.0 | 183.3 | 172.2 |
| EBIT | 13 | 12 | 23 | 25 | 30 | 34 |
| Taxes on EBIT | (4.4) | (4.0) | (7.7) | (8.3) | (9.9) | (11.3) |
| NOPAT | 9 | 8 | 16 | 17 | 20 | 23 |
| ROACE | 4.1% | 3.7% | 7.7% | 8.8% | 11.0% | 13.3% |
| WACC | 6.3% | 6.3% | 6.4% | 5.8% | 6.2% | 6.7% |
| **ROACE - WACC** | **-2.2%** | **-2.6%** | **1.3%** | **3.0%** | **4.8%** | **6.6%** |

*Source: Company data, UBI Banca estimates*

*Figure 26 – ROACE fair value estimate*

| | |
|---|---|
| **Average ROACE (2017-2019)** | 11.0% |
| Average WACC (2017-2019) | **6.2%** |
| EV / Invested Capital | 1.77 |
| Average CE 2017-19 | 178 |
| **Enterprise Value (EUR million)** | 314 |
| *Less:* | |
| Average net debt 2017-19 (EUR million) | 38.6 |
| **Equity Value (EUR million)** | **275.2** |

*Source: UBI Banca estimates*

## 8.3. Relative Valuation

SIT does not have any direct peers that are listed. Therefore, we decided to create a sample group of industrial companies that are active in the mechanical and electronic industry. These are divided into:

> **International companies**: these companies generally operate in several geographical markets and in multiple industrial segments. Their EBITDA margin averages about 12.5% in 2016, slightly below that of SIT Group and their market capitalization is generally high, ranging from EUR0.9 billion to EUR25.3 billion. In our valuation of the company, we applied a 20% discount to the average for the international companies to reflect their larger size and higher liquidity.

> **Italian companies:** this group is composed of four companies operating in sensors and automation controls (Gefran), high pressure pumps and hydraulic components (Interpump), heat exchangers and ventilated devices (LU-VE) and components for household cooking appliances (Sabaf). These companies reported an average 15% EBITDA margin in 2016, in line with SIT, and have a market capitalization ranging from EUR130 million to EUR1 billion.

*Figure 27 - Relative valuation based on International companies (priced on 4 April 2017)*

**Based on a simple average of diversified companies, SIT has a valuation of EUR388 million (before the 20% discount). We did not considered a valuation based on 2017 P/E as the benefits from the business combination with INDSTARS 2 should fully materialize only in 2018.**

| | Market Cap. | P/E | | EV/EBITDA | |
|---|---|---|---|---|---|
| | (EURm) | 2017E | 2017E | 2017E | 2018E |
| Bucher Industries | 2,805 | 21.0 x | 18.0 x | 9.8 x | 8.6 x |
| Beijer Ref | 1,023 | 20.6 x | 18.8 x | 15.0 x | 13.8 x |
| Emerson Electric | 36,031 | 23.2 x | 21.2 x | 12.5 x | 11.6 x |
| Ingersoll-Rand | 19,925 | 18.3 x | 16.4 x | 11.3 x | 10.5 x |
| Lindab International | 628 | 15.3 x | 13.1 x | 9.7 x | 8.4 x |
| NIBE Industrier | 3,785 | 21.1 x | 19.5 x | 14.2 x | 12.9 x |
| Schneider Electric | 40,580 | 17.5 x | 16.0 x | 10.8 x | 9.9 x |
| SPX Corporation | 956 | 14.5 x | 12.5 x | 8.1 x | 6.6 x |
| Sulzer | 3,344 | 24.4 x | 19.6 x | 12.0 x | 10.0 x |
| Weir Group | 5,022 | 23.6 x | 18.7 x | 14.8 x | 12.3 x |
| **Average** | | **19.9 x** | **17.4 x** | **11.8 x** | **10.5 x** |
| **SIT valuation on multiples (EURm)** | | | **336.0** | **411.1** | **416.5** |

*Source: Factset, UBI Banca estimates*

Based on the average of 2017-18 EV/EBITDA and P/E 2018 (we did not consider a valuation based on 2017 P/E as the benefits from the business combination with INDSTARS 2 - i.e. a significant reduction in financial charges - should fully materialize only in 2018) and applying a 20% discount, as well as deducting the cash-in from INDSTARS 2, SIT would be valued at EUR252 million. Applying the multiples of the group of Italian companies gave a valuation for SIT of EUR202 million.

*Figure 28 - Relative valuation based on Italian companies (priced on 4 April 2017)*

**Based on a simple average of Italian companies, SIT has a valuation of EUR252 million which falls to EUR202 million if the EUR50.5 cash-in from INDSTARS 2 is deducted.**

| | Market Cap. (EURm) | P/E | | EV/EBITDA | |
|---|---|---|---|---|---|
| | | 2017E | 2018E | 2017E | 2018E |
| Gefran | 86 | 22.3 x | 14.7 x | 7.0 x | 5.4 x |
| Interpump | 2,392 | 22.1 x | 20.8 x | 12.0 x | 10.9 x |
| LU-VE | 283 | 18.2 x | 15.9 x | 8.8 x | 7.5 x |
| Sabaf | 150 | 15.7 x | 14.1 x | 6.4 x | 5.8 x |
| **Average** | | **20.9 x** | **17.1 x** | **9.3 x** | **7.9 x** |
| **SIT Group valuation on multiples** | | **91.2** | **313.1** | **302.4** | **302.7** |

*Source: Factset, UBI Banca estimates*

At EUR228 million, which is the average of our valuation, SIT would trade on a 12.5x 2018 P/E, well below the average multiple of our sample. 2018 EV/EBITDA would be 5.4 vs. an average of 10.5x for the group of international companies and 7.5x for that of Italian companies.

*Figure 29 – Implicit multiples based on our valuation average*

**These multiples are based on a valuation of EUR228 million**

| | 2017E | 2018E | 2019E |
|---|---|---|---|
| P/E | 52.2 | 12.5 | 10.6 |
| EV/EBITDA | 6.5 | 5.4 | 4.5 |
| EV/EBIT | 11.6 | 9.0 | 7.0 |
| EV/Sales | 0.97 | 0.85 | 0.72 |
| EV/CE | 1.55 | 1.50 | 1.44 |
| P/BV | 1.84 | 1.65 | 1.48 |
| P/CF | 7.56 | 5.18 | 4.85 |

*Source: UBI Banca estimates*

**All data refer to SIT Group**

**Income Statement**

| (EURm) | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| Net Revenues | 287.5 | 301.8 | 316.4 | 330.7 |
| EBITDA | 43.8 | 44.9 | 49.6 | 53.5 |
| EBITDA margin | 15.2% | 14.9% | 15.7% | 16.2% |
| EBIT | 23.5 | 25.1 | 30.0 | 34.1 |
| EBIT margin | 8.2% | 8.3% | 9.5% | 10.3% |
| Net financial income /expense | -19.7 | -17.5 | -3.9 | -3.5 |
| Associates & Others | 1.3 | 0.0 | 0.0 | 0.0 |
| Profit before taxes | 5.1 | 7.6 | 26.1 | 30.6 |
| Taxes | -3.4 | -3.3 | -7.8 | -9.2 |
| Minorities & discontinuing ops | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Income attributable | 1.7 | 4.4 | 18.3 | 21.5 |

*Source: Company data. UBI Banca estimates*

**Balance Sheet**

| (EURm) | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| Net working capital | 14.8 | 16.7 | 17.2 | 18.9 |
| Net Fixed assets | 210.2 | 204.9 | 197.6 | 186.7 |
| M/L term funds | -30.9 | -33.5 | -36.4 | -39.6 |
| Capital employed | 194.0 | 188.1 | 178.5 | 166.0 |
| Shareholders' equity | 69.3 | 124.1 | 138.0 | 154.6 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 |
| Shareholders' funds | 69.3 | 124.1 | 138.0 | 154.6 |
| Net financial debt/(cash) | 124.8 | 63.9 | 40.5 | 11.4 |

*Source: Company data. UBI Banca estimates*

**Cash Flow Statement**

| (EURm) | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| NFP Beginning of Period | 156.5 | 124.8 | 63.9 | 40.5 |
| Group Net Profit | 1.7 | 4.4 | 18.3 | 21.5 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 |
| D&A | 20.3 | 19.8 | 19.6 | 19.4 |
| Change in Funds & TFR | -1.1 | 6.3 | 6.5 | 6.6 |
| Gross Cash Flow | 20.8 | 30.5 | 44.3 | 47.4 |
| Change In Working Capital | 14.6 | -1.9 | -0.5 | -1.7 |
| Other | 6.6 | 0.0 | 0.0 | 0.0 |
| Operating Cash Flow | 42.0 | 28.6 | 43.8 | 45.7 |
| Net Capex | -9.7 | -18.2 | -16.0 | -11.8 |
| Other Investments | -0.6 | 0.0 | 0.0 | 0.0 |
| Free Cash Flow | 31.7 | 10.3 | 27.9 | 33.9 |
| Dividends Paid | 0.0 | 0.0 | -4.4 | -4.8 |
| Other & Chg in Consolid. Area | 0.0 | 0.0 | 0.0 | 0.0 |
| Chg in Net Worth & Capital Incr. | 0.0 | 50.5 | 0.0 | 0.0 |
| Change in NFP | 31.7 | 60.8 | 23.5 | 29.1 |
| NFP End of Period | 124.8 | 63.9 | 40.5 | 11.4 |

*Source: Company data. UBI Banca estimates*

All data refer to SIT Group

**Financial Ratios**

| (%) | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| ROE | 2.5% | 3.5% | 13.3% | 13.9% |
| ROI | 12.2% | 14.2% | 16.8% | 20.6% |
| Net Fin. Debt/Equity (x) | 1.80 | 0.52 | 0.29 | 0.07 |
| Net Fin. Debt/EBITDA (x) | 2.85 | 1.42 | 0.82 | 0.21 |
| Interest Coverage | 1.19 | 1.44 | 7.69 | 9.75 |
| NWC/Sales | 5.1% | 5.5% | 5.4% | 5.7% |
| Capex/Sales | 3.4% | 5.9% | 4.9% | 3.4% |
| Pay-out ratio | 0.0% | 103.2% | 27.1% | 26.2% |

*Source: Company data. UBI Banca estimates*

**Stock Market Ratios**
**Based on EUR172.5m equity value**

| (x) | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| P/E | 99.1 | 39.5 | 9.4 | 8.0 |
| P/OpCF | 4.1 | 6.0 | 3.9 | 3.8 |
| P/BV | 2.5 | 1.4 | 1.3 | 1.1 |
| Dividend Yield (%) | 0.0% | 1.9% | 2.1% | 2.4% |
| Free Cash Flow Yield (%) | 18.4% | 6.0% | 16.1% | 19.7% |
| EV (EURm) | 297.2 | 236.4 | 213.0 | 183.9 |
| EV/Sales | 1.03 | 0.78 | 0.67 | 0.56 |
| EV/EBITDA | 6.79 | 5.26 | 4.29 | 3.44 |
| EV/EBIT | 12.66 | 9.41 | 7.11 | 5.39 |
| EV/Capital Employed | 1.53 | 1.26 | 1.19 | 1.11 |

*Source: Company data. UBI Banca estimates*

**Growth Rates**

| (%) | 2016A | 2017E | 2018E | 2019E |
|---|---|---|---|---|
| Growth Group Net Sales | 8.9% | 5.0% | 4.8% | 4.5% |
| Growth EBITDA | 27.5% | 2.7% | 10.4% | 7.9% |
| Growth EBIT | 94.9% | 7.0% | 19.3% | 13.9% |
| Growth Net Profit attributable | 302.8% | 150.9% | 318.5% | 17.5% |

*Source: Company data. UBI Banca estimates*

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|---|---|---|---|
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| *96.2%* | *3.8%* | *0.0%* | *0.0%* |

| *Proportion on issuers to which UBI Banca has supplied investment banking services relating to the last 12 months* | | | |
|---|---|---|---|
| ***Buy*** | ***Hold*** | ***Sell*** | ***No Rating*** |
| *100%* | *100%* | - | - |