

Interpump Group

Italy | Capital goods | MCAP EUR 1.4bn

14 April 2016



Slowing pistons

What's it all about?

We reinitiate coverage on Interpump Group with a Hold rating and a TP of EUR13.5, implying 5% upside. Interpump is a typical Italian niche leader. In the Water Jetting niche, it has a large market share (over 40%) in high and very high pressure pumps. In the Hydraulic segment, the management has successfully expanded its footprint from power take-off systems (PTOs) into adjacent segments. M&A is key for the group. Its sound free cash flow has been deployed in a wave of well-scouted, value-accretive acquisitions and a solid balance sheet provides ammunition to continue M&A. However, our analysis shows that the Hydraulic division will be put under pressure by the unfavourable outlook for some important end markets. This is why, with limited valuation upside, we prefer to remain on the sidelines.

Hold (None)

Target price	EUR 13.50
Current price	EUR 12.9
Up/downside	5.1%

Main author

Matteo Bonizzoni, CFA

Equity Research Analyst

mbonizzoni@keplercheuvreux.com
+39 02 80 62 83 43

Capital goods research team

Biographies at the end of the report

IMPORTANT. Please refer to the last page of this report for "Important disclosures" and analyst(s) certifications.

keplercheuvreux.com

This research is the product of KeplerCheuvreux, which is authorised and regulated by the Autorité des Marchés Financiers in France.

360

in 1 minute

Investment case summary

Founded in 1977 by its current chairman, co-CEO and key shareholder Fulvio Montipo, Interpump Group is a typical example of an Italian niche leader. Its successful equity story relies on its strong position in the water-jetting niche, where it has a market share of over 40% in high (HPP) and very high (VHPP) pressure pumps, coupled with its successful expansion into the vast Hydraulic market. M&A is at the core of the Interpump investment case. Solid free cash flow has been deployed in a wave of value-accretive acquisitions, which have been well integrated into the group with significant synergies. The group remains acquisitive, helped by the fact that it has a strong balance sheet. There is still ample room for the company to boost its presence, particularly in the vast hydraulic market. While we like its management and positioning, we prefer to remain on the sidelines, as we believe the business will be flattish in 2016. Interpump's end markets are moderately cyclical, particularly in the Hydraulic segment. We are especially concerned about its exposure to the US truck market, which is experiencing a market slowdown.

Key findings of the report

- According to our detailed analysis of the company's track record since the IPO (1996), the ambitious M&A campaign has made Interpump a larger and more diversified player. Still, high exposure to the truck, construction and agriculture equipment end markets lead to mid-to-high cyclicity.
- M&A is at the core of the investment case: we show that M&A has turned a profitable but mature niche business into a double-digit EPS growth story. According to our simulation, every EUR100m of acquired sales (11% of current revenues) might boost EPS by 9%.
- What we should expect in 2016: based on most recent data-points and outlook provided by key players in Interpump's end markets, we derive an uninspiring picture. Our 2016-18 EPS estimates are 3-10% below the street.

Valuation model

We set our fair value at EUR13.5, implying 5% upside. We derive our TP as the average of two absolute valuation methods (DCF, EV/CE vs. ROCE/WACC) and a peer comparison. The stock is trading at a discount based on EV multiples versus its peers, in line with P/E and aligned with (or at a slight premium to) historical ten-year multiples. Overall, based on several valuation metrics, at current levels we believe the stock does not offer attractive upside, especially considering the group's subdued growth outlook versus its historical norm.

Company summary

Interpump Group is the largest worldwide manufacturer of high and very high pressure pumps and one of the leading manufacturers of hydraulic components (power take-off systems, cylinders, valves, and hoses). The group is mostly exposed to developed markets (Europe, and North America), with a small footprint in emerging countries. Interpump is a clear example of a mid-sized, Italian niche leader. Since the IPO in 1996, the management has deployed the abundant free cash flow by making value-accretive M&A complemented by a nice stream of dividends. M&A has transformed a profitable but essentially mature business, characterised by low single-digit growth, into a double-digit growth story.

Management

Fulvio Montipò, Chairman and co-CEO
Paolo Marinsek, co-CEO
Carlo Banci, CFO

Key shareholders

IPG Holding s.r.l. (Montipò, Tamburi) 20.2%
Mais S.p.A. (Seragnoli) 6.6%
Fin. Tel (Bulgarelli) 4.1%

Market data

Bloomberg	IP IM
Reuters	ITPG.MI
Market cap (EUR)	1.4bn
Free float (%)	69.1
No. of shares outstanding (m)	109
3m avg. daily vol ('000)	222
YTD abs. performance	-10.3%
52-week high (EUR)	15.82
52-week low (EUR)	10.45

Strengths

- Global-leading position in niche segments
- Brand reputation in the high-end of the market
- Entry barriers and solid CF generation

Opportunities

- Continuation of successful M&A, mainly in hydraulic
- Footprint rationalisation
- Distribution synergies, after recent acquisitions

Weaknesses

- Exposure to cyclical end-markets (trucks, construction/AG equipment)
- Quite mature reference markets

Threats

- Slowdown in the trucks and agriculture equipment end-markets
- Bad integration of acquired companies
- Top management resignation

Key financials (please see the end of this report for full financials)

Per share data (EUR)	2013	2014	2015	2016E	2017E	2018E
EPS adj and fully diluted	0.40	0.52	0.77	0.75	0.77	0.83
Cash flow per share	0.58	0.66	1.04	1.14	1.14	1.16
Book value per share	3.92	4.23	5.66	6.22	6.76	7.36
DPS	0.17	0.18	0.19	0.23	0.23	0.25

Valuation

P/E adjusted and fully diluted	18.0	19.4	17.9	17.1	16.7	15.5
P/CF	12.3	15.4	13.3	11.3	11.2	11.1
P/BV	1.8	2.4	2.4	2.1	1.9	1.7
Dividend yield (%)	2.4%	1.8%	1.4%	1.8%	1.8%	1.9%
FCF yield (%)	4.2%	3.4%	5.6%	6.6%	6.4%	6.4%
EV/Sales	1.5	1.8	2.0	1.8	1.7	1.5
EV/EBITDA	8.2	9.0	9.8	8.7	8.2	7.6
EV/EBIT	10.8	11.7	12.9	11.5	10.9	10.0

Income statement (EURm)

Sales	556.5	672.0	894.9	904.3	916.8	944.3
% Change	5.6%	20.8%	33.2%	1.0%	1.4%	3.0%
EBITDA adjusted	105.2	136.1	180.3	182.6	184.4	191.6
EBIT adjusted	79.3	104.4	136.9	137.6	139.0	145.6
Adjusted EBIT margin (%)	14.3%	15.5%	15.3%	15.2%	15.2%	15.4%
Net profit reported	43.2	56.9	116.3	81.9	83.9	90.1
Net profit adjusted	43.2	56.9	84.3	81.9	83.9	90.1

Cash flow statement (EURm)

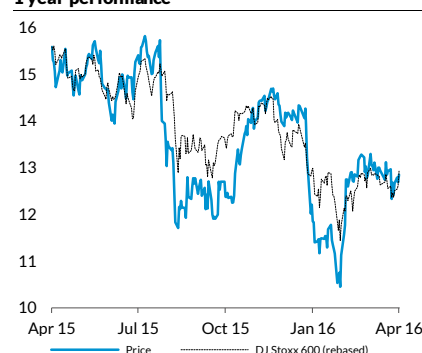
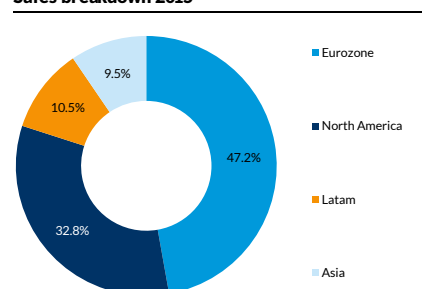
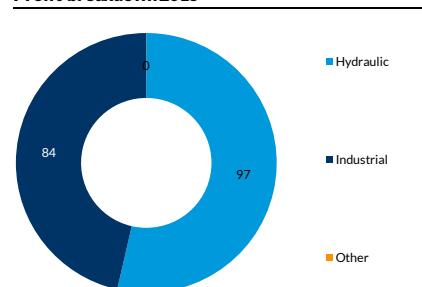
CF from operating activities	63.4	71.6	113.5	123.9	124.5	126.2
Capex	-29.8	-34.1	-29.0	-30.0	-34.0	-35.0
Free cash flow	33.7	37.5	84.5	93.9	90.5	91.2

Balance sheet (EURm)

Intangible assets	258.5	304.0	380.6	380.6	380.6	380.6
Tangible assets	150.7	209.1	286.1	272.6	262.8	253.6
Fin. & other non-current assets	2.1	1.0	1.0	1.0	1.0	1.0
Total shareholders' equity	432.9	466.6	621.3	683.2	743.1	808.8
Pension provisions	11.9	14.9	17.3	17.6	18.0	18.3
Liabilities and provisions	331.4	437.9	581.1	582.2	583.8	587.4
Net financial debt	88.7	152.0	255.0	181.8	115.9	49.9
Working capital requirement	169.1	227.4	301.5	304.0	308.2	317.5
Invested capital	554.5	715.8	934.9	924.0	918.4	918.4

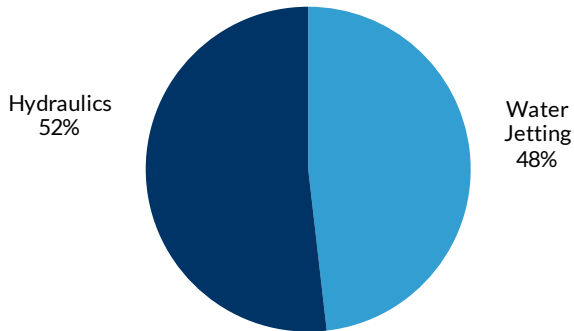
Ratios

ROE	10.6%	12.8%	15.7%	12.7%	11.9%	11.7%
ROIC	10.0%	11.0%	11.1%	9.9%	10.1%	10.6%
EV/IC	1.5	1.7	1.9	1.7	1.7	1.6
Gearing	20.5%	32.6%	41.0%	26.6%	15.6%	6.2%

1 year performance

Sales breakdown 2015

Profit breakdown 2015


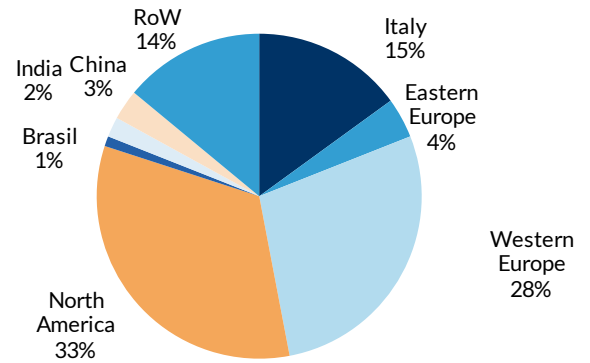
Investment case in six charts

Chart 1: Interpump Group – EBITDA breakdown



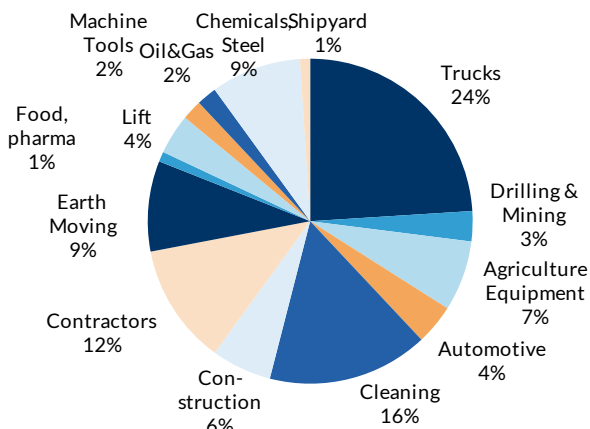
2015 EBITDA. Source: Interpump Group, Kepler Cheuvreux

Chart 2: Interpump Group – revenues by region



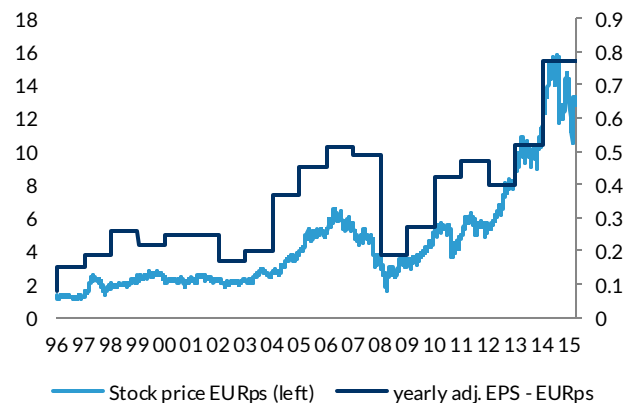
2015 revenues. Source: Interpump Group, Kepler Cheuvreux

Chart 3: Interpump Group – end market exposure



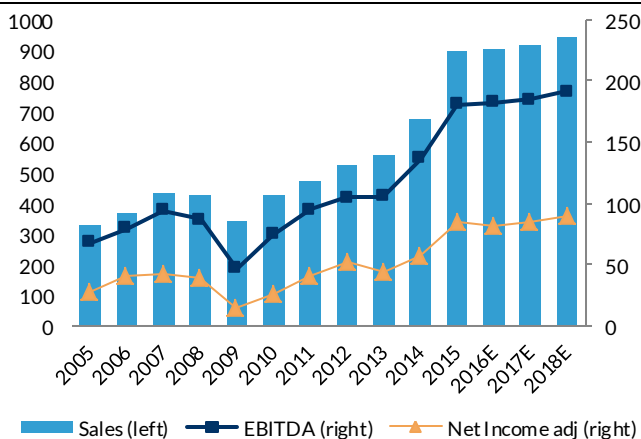
2015 revenues. Source: Interpump Group, Kepler Cheuvreux

Chart 4: Interpump Group – a successful equity story



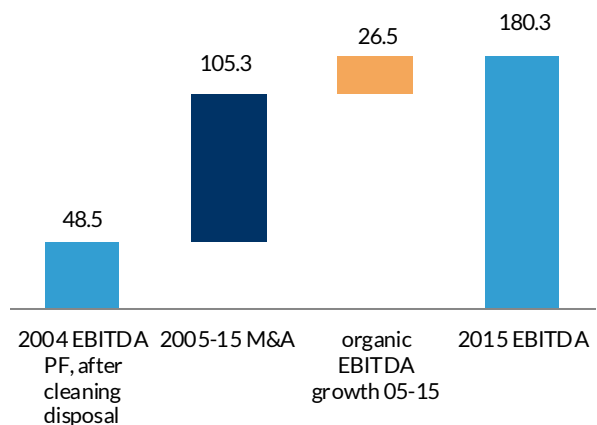
Source: Bloomberg, Kepler Cheuvreux

Chart 5: Interpump Group – P&L. More sluggish in 2016-18E



Source: Interpump Group, Kepler Cheuvreux

Chart 6: Interpump Group – limited org. growth, strong M&A



Source: Interpump Group, Kepler Cheuvreux

Contents

Investment case in six charts	4
Investment case summary	7
Well-positioned in profitable niches	7
Successful M&A track record, room for more	7
Key drivers - end-market analysis: some slowdown in sight	8
Deconstructing the forecasts	8
Valuation, target price and risks	8
Well-positioned in profitable niches	10
A well-diversified niche leader	10
Water Jetting: high market share in niche	13
Hydraulic: growing footprint in a vast market	16
A successful equity story since the 1996 IPO	19
Successful M&A, room for more	20
M&A: turning low single-digit EPS growth into double-digit	20
Our M&A simulation	22
Key drivers: slowdown in sight	24
Hydraulic: unsupportive outlook in most end markets	24
Water jetting: more solid short-term, lower cyclicality	29
Deconstructing the forecasts	30
A low-single-digit-organic-growth business, M&A boost	30
FY 2015: a good year, limited organic growth ex forex	32
Our 2016-18 estimates are more conservative for 2016	36
Full P&L - we project a c. 2% EBITDA CAGR over 2015-18E	38
Balance sheet and FCF: ample firepower for M&A	39
We are positioned at a discount versus consensus	41
Valuation, target price and risks	42
DCF: EUR14.5	42
EV/CE versus ROCE/WACC: EUR11.6 per share	43
Peer comparison: some EV-based discount, in line on P/E	43
Unappealing based on historical multiples	46
Target price: EUR13.5	47
Key risks	47

Appendices	48
Revenues by business and subsidiary	48
EBITDA by business and subsidiary	49
Shareholders, management structure, pay, incentives	49
The 2009 capital increase: reacting to the market collapse	51
Research ratings and important disclosures	57
Legal and disclosure information	59

Investment case summary

We reinitiate coverage on Interpump Group with a Hold rating and a TP of EUR13.5, implying 5% upside. Interpump is a typical Italian niche leader. In the Water Jetting segment, it has a large market share (over 40%) in high and very high pressure pumps and management has successfully expanded its footprint from power take offs (PTOs) into adjacent segments in the hydraulic market. M&A is key for the group. Solid free cash flow has been deployed in a wave of well-scouted, value-accretive acquisitions. We believe there is ample room to continue M&A, particularly in the large hydraulic market, and the company's solid balance sheet provides ammunition. However, our analysis shows that the Hydraulic division will be put under pressure by the unfavourable outlook for some important end markets. This is the key reason why, with an unappealing absolute and relative valuation, we prefer to remain on the sidelines.

Well-positioned in profitable niches

With EUR895m sales and EUR180m EBITDA in 2015, Interpump Group is an Italian capital goods company that operates in two businesses: Water Jetting (48% of the group's EBITDA) and Hydraulic (52%). The group is predominantly exposed to developed markets (Europe 47% of sales, North America 33%), with a small presence in emerging countries. Interpump Group is the typical example of an Italian niche leader and it has had a successful equity story since its IPO in 1996, as management has been able to considerably enhance growth in both divisions deploying the sound free cash flow stream into value-accretive M&A, complemented by a nice dividend flow.

At the same time, its constant focus on R&D has reinforced and expanded the footprint in highly profitable niches. The de-facto control is in the hands of IPG Holding, which owns 20.2% of shares, while the free float is a high 69%. Fulvio Montipò, who founded the company in 1977, is the Chairman and co-CEO. Paolo Marinsek, who boasts a solid track record in the FCA group, is co-CEO.

Successful M&A track record, room for more

M&A is at the very core of Interpump's investment case: it has turned the company from a profitable, albeit mature and characterised by low single-digit EPS growth over the cycle, niche business into a double-digit EPS story. As such, successful future M&A is of key importance. Based on what we deduced from the historical financial statements, over 60% of current sales and EBITDA derive from the successful M&A implemented over the last decade.

Over this period, Interpump has bought sales of over EUR0.5bn and EBITDA of EUR105m, paying EUR525m (EV) at an average 5x/EBITDA, well below the 8.8x at which the stock has traded on average. It has proven a strongly value-accretive campaign, even more so considering the material costs and commercial synergies achieved in the years following the acquisitions.

Based on our 2017 sales estimate of EUR917m, around EUR83m are missing to reach the EUR1bn management target. Acquisition firepower is ample, as the solid balance sheet (EV/EBITDA 16E 1x) leaves more than EUR200m available. We believe the main opportunities lie in the vast Hydraulic market. Based on our simulation, in the central case scenario Interpump can generate value for 9% of the current market cap for each EUR100m of acquired sales (11% of 2015 group sales).

Key drivers - end-market analysis: some slowdown in sight

Interpump's end markets are moderately cyclical, which is particularly true in its Hydraulic division. On the positive side, the vast M&A spree has diversified the group's end-market exposure. In Hydraulic, trucks (38% of divisional revenues) and industrial vehicles (9%) remain the most important end markets, with construction equipment (22%), earth moving machines (9%) and agriculture equipment (12%) all essential.

Our analysis shows that the Hydraulic division organic growth has historically been rather correlated with commercial vehicle registrations in the EU and US. The outlook for the US truck market, to which Interpump is particularly exposed through its Muncie subsidiary (19% of the Hydraulic division revenues), is not good due to freight slowdown, and several players have recently announced production cuts above 20% in an effort to keep inventories under control.

This might be partly offset by a more positive performance in the European market. The end-market exposure in Water Jetting is more reassuring, with the most vulnerable business probably being VHPP. In particular, we believe Hammelmann (48% of Water Jetting divisional EBITDA) could face some slowdown, after an exceptionally positive performance in 2015.

Deconstructing the forecasts

Our long-term analysis of P&L, balance sheet and cash flow dynamics shows how management has been able to turn a profitable, cash-generative but mature niche business into a value-accretive M&A platform: constant and well-scouted M&A turned a low-single-digit EPS CAGR into a net profit CAGR of more than 12% over 2005-15. Value accretive M&A in both the Water Jetting niche and particularly in the vast Hydraulic market can continue, thanks to a solid financial structure.

Short term, we are concerned about the relatively unsupportive end-market exposure: at -0.1% (Water Jetting +3%, Hydraulic -2%), we position our 2016 organic growth estimate at a discount versus management guidance (+1/3%) and we are also 3-10% below consensus EPS for 2016-18. In fact, while we recognise that M&A has greatly diversified Interpump's end-market exposure, levelling the structural cyclicity of the business, we believe the negative state of some end markets, which we analysed in the previous sections, will dent organic growth. This suggests caution, in our view.

Valuation, target price and risks

We set our fair value at EUR13.5, implying 5% upside. We derive our TP as the average of two absolute valuation methods (DCF, EV/CE vs. ROCE/WACC) and the peer comparison. The stock is trading at a discount on EV-based multiples versus its

peers, in line on P/E and aligned to or at a slight premium to historical 10Y multiples. Overall, we believe that at current levels the stock does not offer attractive upside, thus presenting an unconvincing entry point, especially when considering the subdued growth outlook versus the historical norm. We see the following key risks: 1) change in top management; 2) value-disruptive M&A; and 3) forex, macroeconomic and end-market performance.

Well-positioned in profitable niches

With sales of EUR895m and EBITDA of EUR180m in 2015, Interpump Group is an Italian capital goods company that operates in two businesses: Water Jetting (48% of the group's EBITDA) and Hydraulic (52%). The group is predominantly exposed to developed markets (Europe 47% of sales, North America 33%) with a small presence in emerging countries. Interpump Group is a typical example of an Italian niche leader.

Its equity story following the IPO in 1996 has been a successful one, thanks to a management team that has been able to considerably enhance growth in both divisions deploying the sound free cash flow stream into value-accretive M&A, complemented by a nice dividend flow. At the same time, the company has increased its focus on R&D and has expanded its footprint in highly profitable niches. The de-facto control is in the hands of IPG Holding, which owns 20.2% of shares, while the free float is a high 69%. Fulvio Montipò, who founded the company in 1977, is the Chairman and co-CEO. Paolo Marinsek, who boasts a solid track record in the FCA group, is co-CEO.

A well-diversified niche leader

Water Jetting and Hydraulic

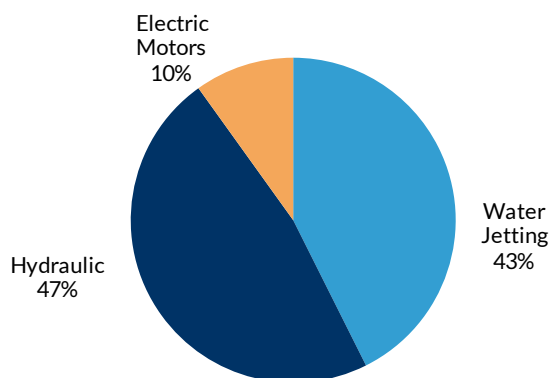
With sales of EUR895m, EBITDA of EUR180m and net profit of EUR116m in 2015, Interpump Group is an Italian capital good company that operates in two businesses:

- **Water Jetting.** Interpump Group is the world's largest manufacturer of high (HPP) and very high pressure (VHPP) plunger pumps. In this niche, which is globally worth c. EURO.7bn, Interpump is the leader, with a 40-50% market share. The production range encompasses a wide number of models with working pressure from 50 to 4,000 bar (with high pressure pumps up to 500 bar and very/ultra-high pressure pumps up to 4,000 bar).
- **Hydraulic.** The company is the world's largest manufacturer of power take-off systems, with a market share of over 50%. This is a niche worth c. EURO.3bn worldwide. PTOs are used to transmit power from the engine of an industrial vehicle to other hydraulic components and are connected to the vehicle's transmission box. The overall hydraulic components market is a multi-billion affair and the group has diversified into other hydraulic components through a number of acquisitions between 2008 and 2015. In particular, Interpump has built up a solid position in cylinders, valves, hoses & fitting.

Water Jetting:
world leader in high
and very high
pressure pumps

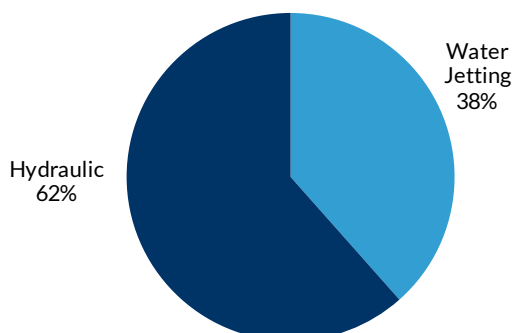
Hydraulic:
diversifying from
the PTOs niche
segment into
adjacent ones

Chart 7: Interpump Group sales breakdown 2005



Source: Interpump Group, Kepler Cheuvreux

Chart 8: Interpump Group sales breakdown 2016E



Source: Interpump Group, Kepler Cheuvreux

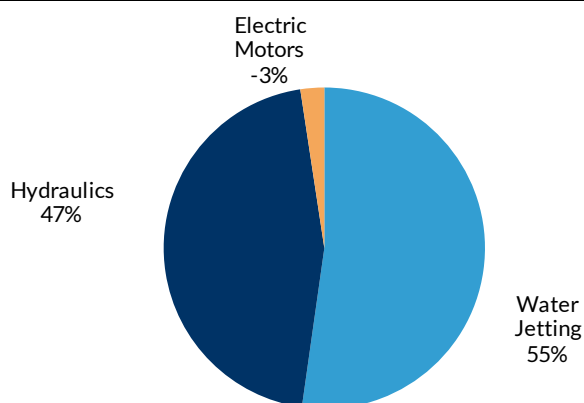
Over 2005-16E, the weight of Hydraulic has grown from 47% to 62% of revenues, while Water Jetting has decreased from 43% to 38%. This occurred on the back of several acquisitions, which disproportionately increased the importance of Hydraulic, despite lower organic growth in the former as opposed to the latter. In the meantime, the low-margin and non-strategic Electric Motors business was sold in 2011.

Looking at the EBITDA breakdown, the weight of Hydraulic EBITDA over 2005-16E is also up, but less than Water Jetting, due to some margin dilution brought by acquisitions and less-inspiring cyclical dynamics.

Weight of Hydraulic increasing thanks to M&A

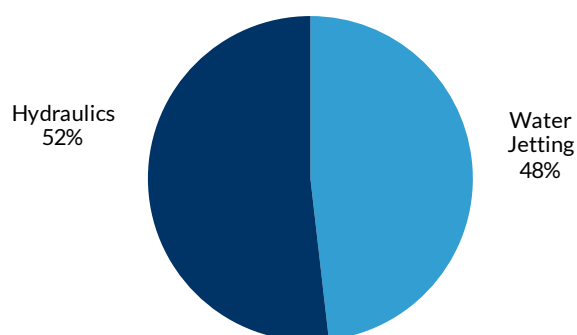
EBITDA breakdown

Chart 9: Interpump Group EBITDA breakdown 2005



Source: Interpump Group, Kepler Cheuvreux

Chart 10: Interpump Group EBITDA breakdown 2016E



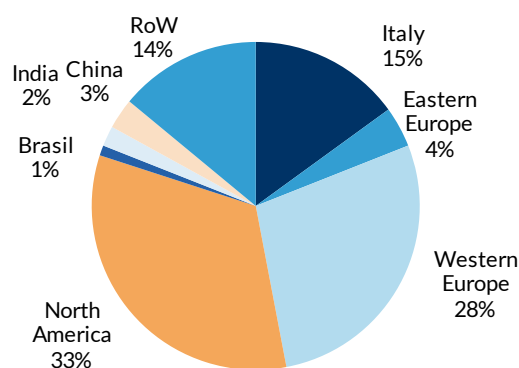
Source: Interpump Group, Kepler Cheuvreux

Developed markets weigh more than emerging markets

Geographically, the group is well diversified, with a large preponderance of developed markets versus emerging markets.

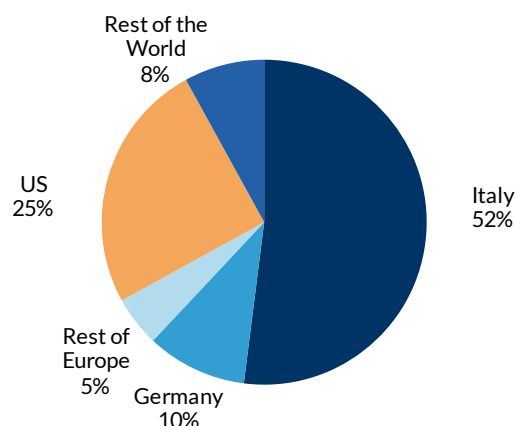
Developed markets preponderant

Chart 11: Interpump Group - revenues by region (2015)



2016E Source: Interpump Group, Kepler Cheuvreux

Chart 12: Interpump Group - production by region (2015)



2016E Source: Interpump Group, Kepler Cheuvreux

- Sales by region.** In 2015, Europe accounted for 47% of revenues and North America 33%. Despite growth in recent years, exposure to emerging markets remains low: China, India, Brazil were just 6% of revenues in total and we estimate overall exposure to emerging countries, including those included in RoW, to be in the 10-15% range.
- Production by region.** The majority of production remains in Italy, where most of the hydraulic and high pressure pump businesses are based. The hydraulic business is largely situated in the Emilia Romagna region, where the group also has its headquarters. The US, where Muncie, an important PTOs subsidiary, NLB (very high pressure pumps) and General Pumps (high pressure pumps) are based, is another important production hub (25% of total). Germany follows, thanks to the very high pressure pumps subsidiary Hammelmann, one of the company's crown jewels.

Sales and production by region

46 production plants were operating at end-2015, and the group had over 4,800 employees. The Hydraulic business is more plant- and labour-intensive, as it accounted for only 62% of revenues but 78% of plants and 76% of employees.

Table 1: Interpump Group footprint – Hydraulic more labour/plant-intensive

	Plants	% on total	Employees	% on total
Water Jetting				
Italy	3	7%	478	10%
Rest of Europe	2	4%	322	7%
North America	3	7%	335	7%
Rest of the World	2	4%	34	1%
Total Water Jetting	10	22%	1169	24%
Hydraulic				
Italy	12	26%	2076	43%
Rest of Europe	6	13%	275	6%
North America	5	11%	467	10%
Rest of the World	13	28%	843	17%
Total Hydraulic	36	78%	3661	76%
Total Group	46	100%	4830	100%

End-2015.

Source: Interpump Group

End markets: more diversified than the past, mid-to-high cyclical

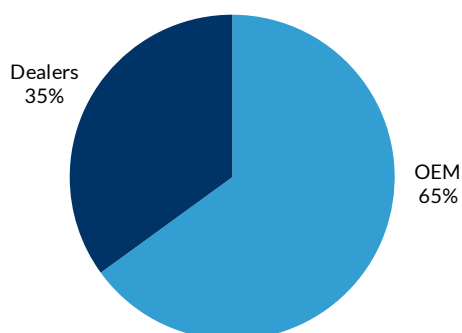
Taking a look at the OEM versus the dealer breakdown and at the end market exposure for the group's overall sales:

- **OEM** accounted for 65% of 2015 sales, with dealers representing the remaining 35%. In particular, OEM represents the vast majority in Water Jetting and 43% of sales in Hydraulic. Looking specifically at the trucks end market, which is by far the most important one (25% of group sales), 21% of revenues are generated with OEM, 44% with dealers and 35% with adaptors.
- **End markets:** In 2015, trucks accounted for 24% of sales (Hydraulic division), cleaning (Water Jetting - the second end market by importance) 16%, followed by contractors 12%, Earth Moving 9%, Chemicals/Steel 9% and Agriculture equipment 7%. Overall, this end-market exposure presents a mid-to-high degree of cyclical. Acquisitions implemented in Hydraulic, and less importantly in Water Jetting, have greatly diversified the end-market exposure over the years, predominantly skewed towards the trucks and cleaning end markets in the past.

OEM largely predominant

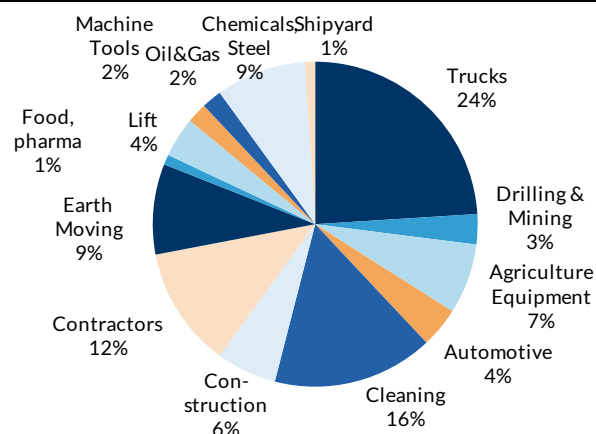
End markets: mid-to-high cyclical. Now more diversified: trucks important, but less than in the past

Chart 13: Interpump Group revenues - client type



2016E Source: Interpump Group, Kepler Cheuvreux

Chart 14: Interpump Group revenues - end markets



2016E Source: Interpump Group, Kepler Cheuvreux

Water Jetting: high market share in niche

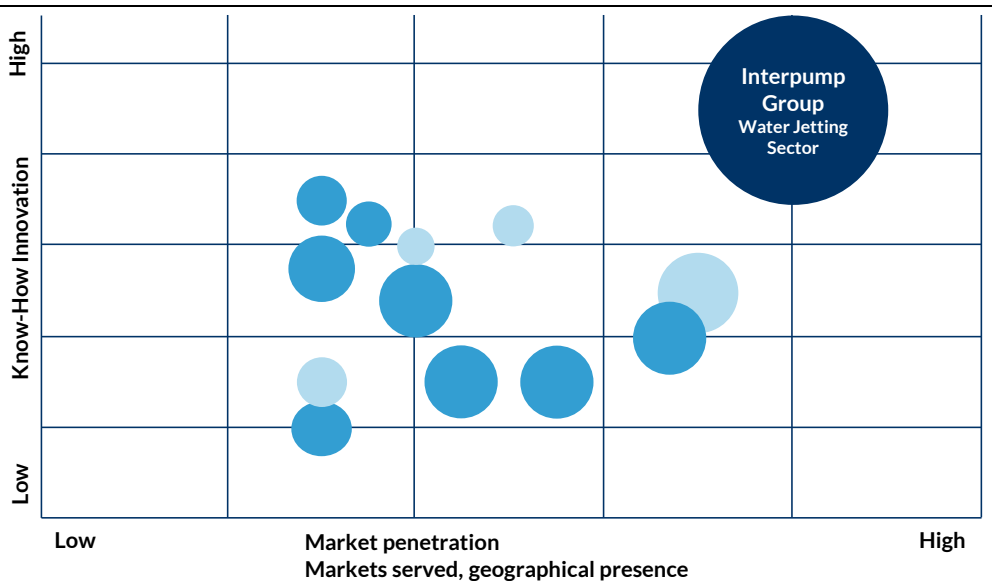
The group's origins in 1977: a high-tech position

Water jetting is Interpump's historical business. The company was founded in 1977 by Fulvio Montipò, the current Chairman and co-CEO. Thanks to the constant focus on technology complemented by several acquisitions, chiefly Hammelmann (Germany, 2005) and NLB (US, 2007), Interpump has become the world leader in high and very high pressure plunger pumps. The former strong presence in high pressure pumps has been accompanied by growth in very high pressure, thanks to Hammelmann, NLB and more recently (2015), Bertoli and Inoxihp.

This is a highly profitable (EBITDA margin 2016E 25%) niche market worth some EUR0.7bn worldwide, where the company is the absolute leader, with 45-50% of market share. Key competitors are the Italian Annovi and Reverberi, the Swiss Sulzer and the US group Cat Pump.

Interpump has focussed its success on technological innovation: the company has historically been a pioneer in the design and assembling of more compact, easier to handle, quieter pumps that are devised to help make the replacement of the wear parts easier. Also, its ceramic plungers extended the life of seals compared to the previously used steel plungers and thanks to this new technological standard, Interpump has become the market leader.

Chart 15: Interpump Group is the clear leader in the Water Jetting niche (high/very high pressure pumps), >45% market share



Source: Interpump Group, Kepler Cheuvreux

Business performance, focus on M&A

The very high pressure business commenced with the Pratissoli experience, a brand founded in 1947 and then bought by Interpump in 1990. In 1998 the company also acquired General Pump, active in very high pressure pumps in the US.

Over 1990-96, the group expanded into the professional and consumer cleaning equipment through several acquisitions, reaching a significant size in terms of revenues, which topped EUR263m in 2004, 49% of the group's revenues that year. However, that same year, the EBITDA margin of this business dropped to <10%, considerably diluting the group's profitability.

Following the acquisition of Unielectric in 1994, mainly active in windings for electric motors, the company also gained a presence in electric motors.

Differently from the rest of Interpump's niche-type business, the cleaning and electric motors businesses were characterised by low barriers to entry and profitability increasingly under pressure, mainly due to the entry of aggressive Asian competitors. As such, in 2005 management decided to exclusively focus on high-margin, niche businesses and to divest the cleaning business. The low-margin electric motor business was sold in 2011.

Constant focus on technology

General Pump: US acquisition (1998)

1990-96: expansion into cleaning equipment. Increasingly under pressure, sold in 2005

Electric Motors: low margin business sold in 2011

In the meantime, management made the strategic decision to reinforce the high-margin, very high pressure pumps business, characterised by high barriers to entry and sound profitability/ROCE. It was considerably strengthened though the acquisitions of the German Hammelmann in 2005 and the US NLB in 2007: the former has branches in Spain, the US, China, and Australia and manufactures very high pressure pumps (up to 4,000 bar), while the latter produces pumps up to 3,500 bar. The much-smaller additions of Bertoli and Inoxihp in 2015 addressed specific end-markets. Interestingly, while small in size, Bertoli provides entry into the attractive, low-cyclical and growing food and cosmetics market, characterised by high growth potential.

Decision to focus on high-margin/high-barrier-to-entry VHPP businesses: Hammelmann acquisitions

... followed by the smaller Bertoli and Inoxihp (2015)

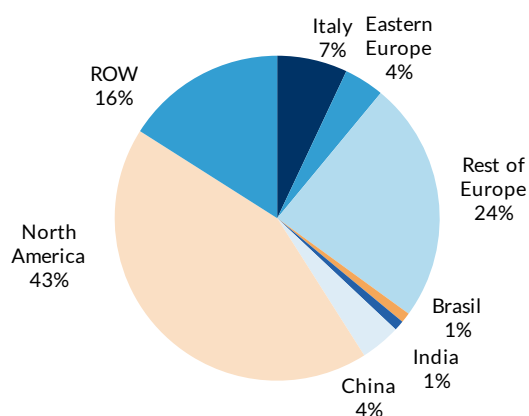
Table 2: Interpump Group footprint in Water Jetting - high and very high pressure pumps

Business	Subsidiary	Country	End Markets	Acquired in	Stake owned
High pressure pumps					
	Interpump Group SpA Pratisoli	Italy (Emilia Romagna)	Broad industrial	1990	100%
		Italy (Emilia Romagna)	Broad industrial		
			Broad Industrial		
	General Pump	US (Minnesota)		1998	100%
Very high pressure pumps					
	Hammelmann	Germany (Westfalia)	Broad industrial	2005	100%
	NLB	US (Michigan)	Broad industrial	2007	100%
	Bertoli	Italy (Emilia Romagna)	Food, chemicals, cosmetics	2015	100%
	Inoxihp	Italy (Lombardy)	Components and systems for water, steel, mining	2015	52.5%

Source: Interpump Group, Kepler Cheuvreux

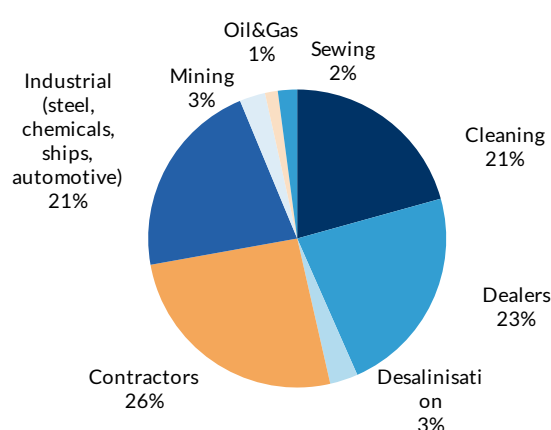
Geographical exposure, key end markets, growth potential

Chart 16: Interpump Group Water Jetting by region



2015. Source: Interpump Group, Kepler Cheuvreux

Chart 17: Interpump Group Water Jetting - end markets



2015. Source: Interpump Group, Kepler Cheuvreux

- **Geographical exposure.** The key difference compared to the group's average is a higher exposure to North America (43% of sales vs. 33% for the group) and a proportionally lower exposure to Europe.
- **End markets.** High and very high pressure pumps are used in a large variety of end markets, including: high-pressure cleaners, car wash systems, iron and steel, building, chemical and petrochemical, water treatment and

US over-represented

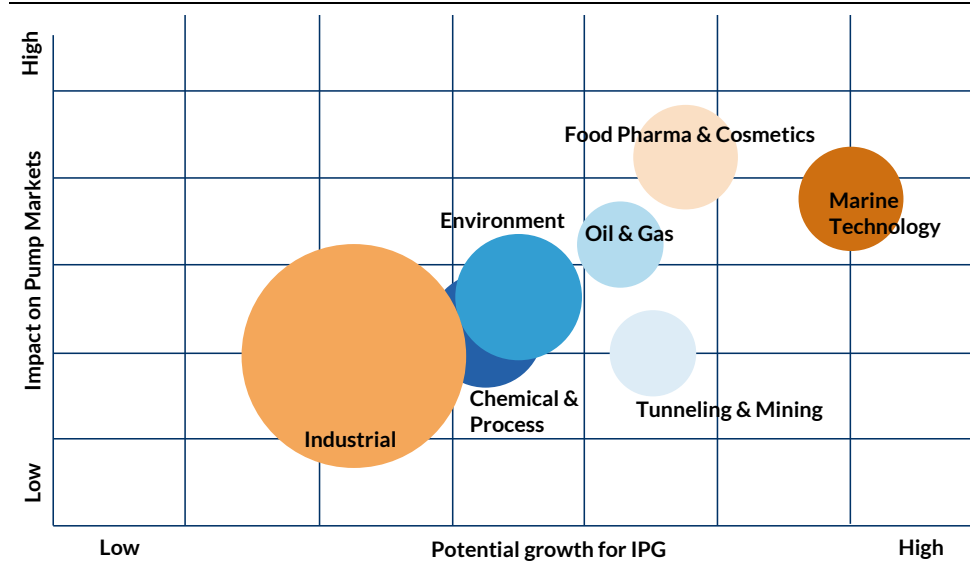
Key end markets

desalinisation, but also food, pharmaceutical, cosmetics, forced lubrication. Looking at practical uses, very high pressure pumps are used to clean surfaces, ships, pipes, for deburring, cutting, removal of concrete, asphalt and paint from stone, cement or metal surfaces and for cutting solid materials.

- **Growth potential:** Marine is seen by management as the most promising market, followed by food, pharma and cosmetics, in which the group's presence has been strengthened thanks to the Bertoli acquisition.

Growth potential

Chart 18: Interpump Group – Water Jetting, Marine, Food, Pharma are the most promising end markets



Source: Kepler Cheuvreux

Hydraulic: growing footprint in a vast market

Ramping up from the PTOs niche to the rest, acquisitions the key driver

Differently from the Water Jetting division, where Interpump is the global leader in a niche market, worldwide hydraulic equipment is a multi-billion euro market where Interpump retains an overall negligible share.

In 1997, the group diversified away from the former Water Jetting and cleaning equipment markets and entered the vast hydraulic sector, building up a leading position in the PTOs market through three acquisitions. In 1997, it bought PZB in Italy, followed by the acquisition of Hydrocar in 1998. Both companies were incorporated in 2004 under the umbrella of Interpump Hydraulic. PTOs transmit the engine power of an industrial vehicle to its hydraulic components and are applied to the gearbox. In the PTOs niche, Interpump retains a high market share of over 50%.

After 2005, the group expanded its footprint in emerging markets, building commercial subsidiaries in China, India, and Chile.

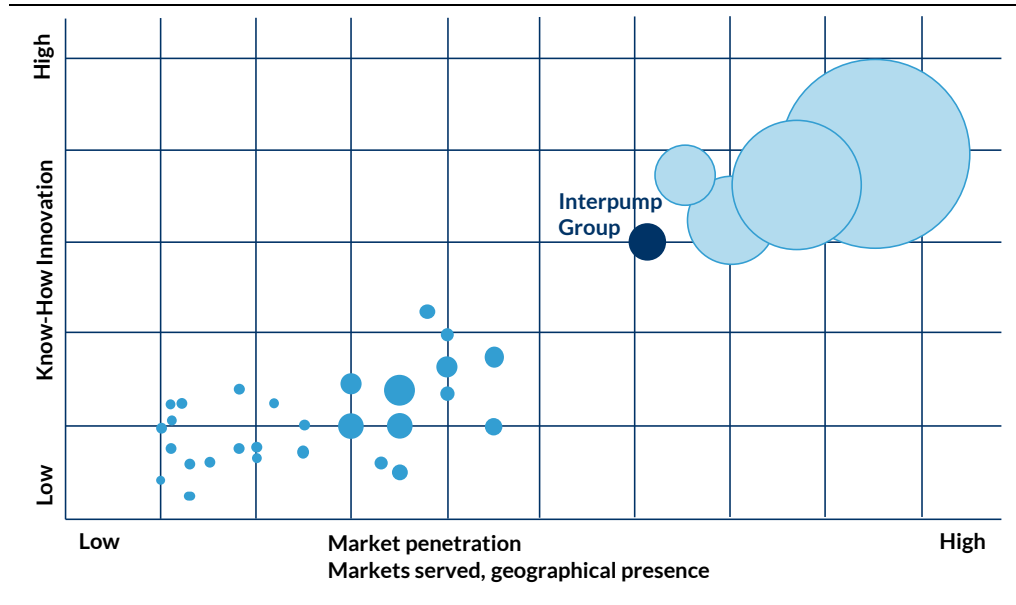
Vast reference market

Entered PTOs niche in 1997, just after the IPO

>50% market share

2005: emerging-market expansion

Chart 19: Interpump Group: vast hydraulic market, Interpump Group is the leader in PTOs, ramping up in other segments



Source: Interpump Group, Kepler Cheuvreux

As of 2008, management took the strategic decision to diversify away from the PTOs business, building up a presence in cylinders through the acquisition between 2008 and 2009 of small, specialised Italian companies. Hydraulic cylinders are components of the hydraulic system of industrial vehicles and are used in a wide range of applications. The front underbody cylinders are used in industrial vehicles, mainly in the construction sector, while telescopic cylinders are mainly used by vehicles for waste collection. Other types of cylinders are used in the drilling industry, by cranes, in the marine sector, in earth moving and agriculture machines. In 2008, the group acquired Modenflex and Contarini, followed by Cover and Panni and HS Penta (the largest) in 2009.

2014 marked the entry into hoses and fittings through the acquisition of the Italian company IMM Hydraulic.

Finally, the group entered the directional flow control valves business, an important part of the hydraulic system of automotive and industrial sector machinery and the key interface between user control and machine movement. Electronic components are being used more and more to control the machine system. The entry into valves was achieved through the Galthech (2012) and Hydrocontrol (2013) acquisitions, and considerably strengthened by the large Walvoil acquisition in 2015. Walvoil is a global manufacturer of hydraulic valves and mechatronic systems for mobile equipment agricultural machines, industrial vehicles, construction and earth moving machines, and lifting and transport equipment. In 2015, Walvoil generated EUR145.2m of sales (16% of group sales) with EUR24.1m EBITDA (13% of group EBITDA), a 16.6% EBITDA margin, up from the pre-acquisition level of c. 14% of 2014.

2008-09: diversification and entry into cylinders. HS Penta is the largest acquisition

2014: entry into hoses, IMM acquisition

Entry into hydraulic valves: key, large Walvoil acquisition, 16% of 2015 revenues

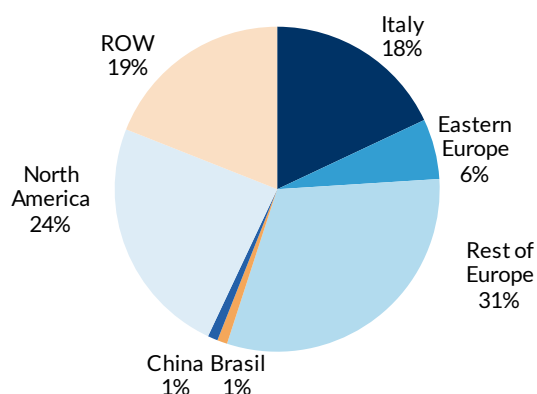
Table 3: Interpump Group footprint in Hydraulic, from PTOs to a diversified product portfolio through M&A

Business	Subsidiary	Country	Acquired in	Stake currently owned
Power Take-Offs (PTOs)				
	Interpump Hydraulics	Italy (Emilia Romagna)	started after Water Jetting	100%
	PZB (brand of IP Hydraulics)	Italy (Emilia Romagna)	1997	100%
	Hydrocar (brand of IP Hydraulics)	Italy (Emilia Romagna)	1998	100%
	Muncie	US (Indiana)	1999	100%
	Takarada	Brazil (RG do Sul)	2012	100%
	Osper	Brazil (RG do Sul)	2015	100%
Cylinders				
	Contarini	Italy (Emilia Romagna)	2008	100%
	Modenflex	Italy (Emilia Romagna)	2008	100%
	HS Penta	Italy (Emilia Romagna)	2009	100%
	Panni, Cover	Italy (Veneto)	2009	100%
Hoses and fittings				
	IMM	Italy (Abruzzo)	2014	100%
Valves				
	Galtech (brand of Hydrocontrol)	Italy (Emilia Romagna)	2012	100%
	MTC	Italy (Emilia Romagna)	2012	100%
	Hydrocontrol	Italy (Emilia Romagna)	2013	100%
	Walvoil	Italy (Emilia Romagna)	2015	100%

Source: Interpump Group, Kepler Cheuvreux

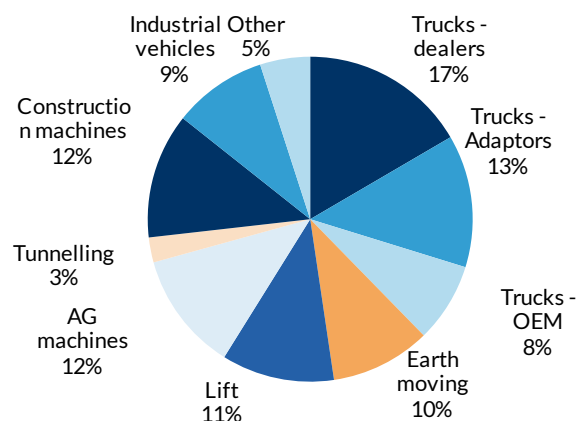
Geographical exposure, key end markets

Chart 20: Interpump Group Hydraulic by region



2016E, Source: Kepler Cheuvreux

Chart 21: Interpump Group Hydraulic – end markets



2016E, Source: Kepler Cheuvreux

- Geographical exposure:** Compared to the group average, the Hydraulic division has lower exposure to North America (24% of sales vs. 33% for the group) and proportionally higher exposure to Europe.
- End markets:** The trucks end-market, which accounted for the vast majority of Hydraulic revenues in the past, remains by far the most important end market for the division, but its weight has been reduced to 38% of its sales. Construction and Agriculture machines (12% each), earth moving (10%) and industrial vehicles are also important. This end-market exposure confers a higher degree of cyclicity to the Hydraulic business compared to Water Jetting, as made clear by the in-depth analysis of its organic performance (see *Deconstructing the forecasts*).

US under-represented

A successful equity story since the 1996 IPO

Stock up 10x since 1996, pretty much in line with EPS, and the crash

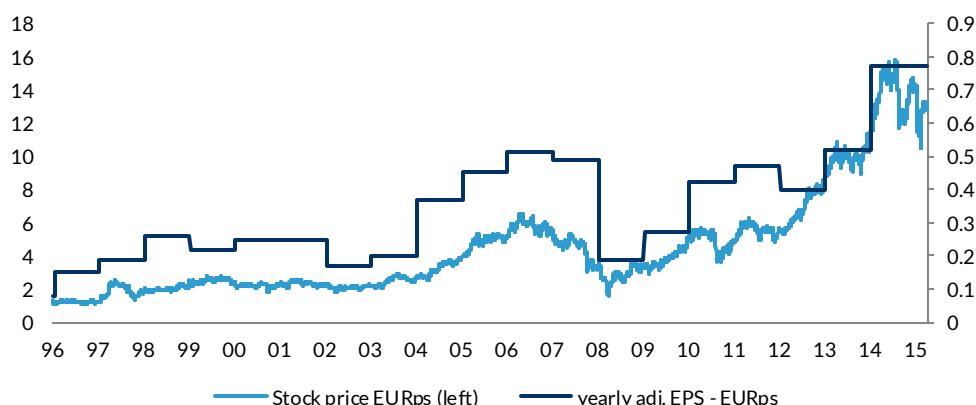
The stock was listed on the Milan Stock Exchange in December 1996 at a price of 5,800 Italian Lira (EUR3). The total number of shares at that time was 90.9m, and the market cap at the time of the IPO was EUR272m. Incorporating the adjustment factor on the 2009-12 capital increase and ex dividends distributed over the period, the share price is equal to EUR1.28 per share. This means that since the IPO (19 years and four months ago), the share price has risen ten-fold, equivalent to a 12.6% CAGR over December 1996-April 2016. In addition, cumulated dividends worth EUR317m were distributed over the period, which is 116% of the EUR270m market cap at the time of the IPO.

There was a sharp correction over 2007-09 (c. 70%), related to the collapse of some of its end markets in the aftermath of the financial crisis. The EPS also crashed by 72% from the 2007 peak of EUR0.52 to EUR0.14 in 2009. In the same year, in order to comply with covenants at a time of cash outflow related to the acquisition spree in cylinders, the company launched a EUR50m capital increase. See appendix for details.

Successful equity stock: share price up ten-fold since the December 1996 IPO

2007-09: stock and EPS crash (both >70%). EUR50m capital increase, covenants issue

Chart 22: Interpump Group - a successful equity story, share price and EPS since the IPO



Source: Bloomberg, Kepler Cheuvreux

Successful M&A, room for more

M&A is at the very core of the Interpump investment case: it has turned the company from a profitable, albeit mature niche business, characterised by low-single-digit EPS growth over the cycle, into a double-digit EPS story. As such, future successful M&A is of key importance.

Based on what we deduced from the historical financial statements, over 60% of current sales and EBITDA derive from the successful M&A implemented over the last decade. Over this period, Interpump has bought sales of over EUR0.5bn and EBITDA of EUR105m, paying EUR525m (EV) at an average 5x/EBITDA, well below the average 8.8x at which the stock has traded: a strongly value-accretive campaign, especially when considering the material costs and commercial synergies achieved in the years following the acquisitions.

Based on our 2017 sales estimate of EUR917m, around EUR83m is missing to reach the EUR1bn management target. There is plenty of acquisition firepower, as the solid balance sheet (EV/EBITDA16E 1x) leaves more than EUR200m available. We believe the main opportunities lie in the vast Hydraulic market. Based on our simulation, in the central case scenario Interpump can generate value for 9% of the current market cap for each EUR100m of acquired sales (11% of 2015 group sales).

M&A: turning low single-digit EPS growth into double-digit

M&A at the very core of Interpump's investment case

As we show in our detailed analysis of the historical business metrics (see *Deconstructing the forecasts*), M&A is at the very core of Interpump's investment case: it managed to transform a profitable niche business, albeit essentially mature and characterised by low single-digit growth over the cycle, into a double-digit EPS story. As such, future successful and value-accretive M&A is necessary to maintain the historical growth rates.

In the previous sections, we listed the various acquisitions in both Water Jetting and Hydraulic. During its acquisition spree, the management complied with the guidelines listed below.

Target companies:

- Operating in an already-covered business or adjacent niches.
- Boasting good positioning (product range, technology).
- Embedding a possibly successful integration into the group, with synergies on the cost side and cross selling opportunities on the revenue side.

**Future successful
M&A is key for the
equity story**

M&A rationale

Over 60% of current revenues from acquisitions in the last decade...

Table 4: Interpump Group acquisitions over 2005-15 at average 5x EV/EBITDA

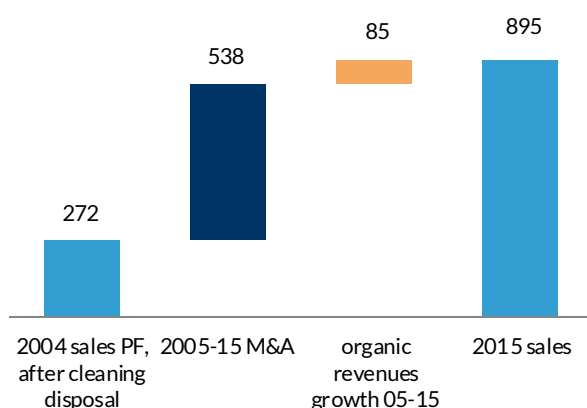
Company	Current stake	Sector	Year	Revenues year of acquisition	EBITDA year of acquisition	Margin	EV paid (100%)	EV/EBITDA (x)	Reference year
Inoxihp	52.7%	Water Jetting	2015	10.8	3.3	31.0%	15.0	4.5	on 2015
Bertoli	100.0%	Water Jetting	2015	12.5	3.3	26.4%	5.4	1.6	on 2015
Walvoil	100%	Hydraulic	2015	145.2	24.1	16.6%	132.2	5.5	on 2015
Osper	100%	Hydraulic	2015	4.7	0.8	16.3%	2.5	3.3	on 2014
IMM	100%	Hydraulic	2014	62.1	11.0	17.7%	39.5	3.6	on 2014
Hydrocontrol	100%	Hydraulic	2013	81.5	14.5	17.8%	47.3	3.3	on 2014
Galtech	100%	Hydraulic	2012	15.0	1.6	10.7%	6.2	3.9	on 2012
MTC	100%	Hydraulic	2012	5.3	1.2	22.6%	4.2	3.5	on 2012
HS Penta	100%	Hydraulic	2009	43.3	6.6	15.2%	46.2	7.0	on 2008
Panni	100%	Hydraulic	2009	26.1	6.0	23.0%	36.0	6.0	on 2008
Cover	100%	Hydraulic	2008	14.8	3.4	23.0%	18.7	5.5	on 2008
Modenflex	100%	Hydraulic	2008	6.7	1.2	17.9%	3.0	2.5	on 2008
Contarini	100%	Hydraulic	2008	31.9	5.1	16.0%	25.5	5.0	on 2008
NLB	100%	Water Jetting	2007	47.6	7.3	15.3%	51.9	7.1	on 2007
Hammelmann	100%	Water Jetting	2005	56.0	16.2	28.9%	91.5	5.6	on 2005
Σ 2005-15				563.5	105.6	18.7%	525.1	5.0	

Source: Interpump Group, Kepler Cheuvreux

In the previous table, we retraced the acquisition track record over 2005-15 (most recent to less recent). Companies totalling EUR563m of revenues and EUR106m EBITDA (Σ of revenues and EBITDA in the acquisition year) were bought in a vast acquisition spree, accounting for 63% and 58% of the group's 2015 revenues and EBITDA respectively. Over this period, the only disposal was Electric motors, an unprofitable and non-core business that realised EUR25m of sales with zero EBITDA in 2011 and was sold for EUR3.5m (EV).

Roughly 60% of current revenues and EBITDA come from M&A implemented over 2005-15

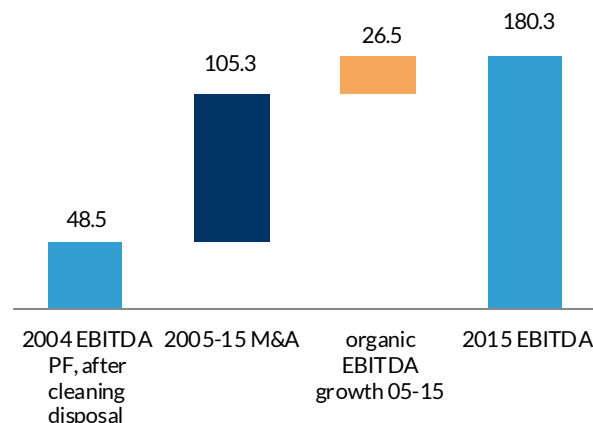
Chart 23: Interpump Group: large M&A contribution to sales...



M&A: acquisitions without disposals

Source: Interpump Group, Kepler Cheuvreux

Chart 24: ... and EBITDA



M&A: acquisition without disposals.

Source: Interpump Group, Kepler Cheuvreux

... at value-accretive 5x EV/EBITDA pre-synergies, on average

EV paid amounts to EUR525m in total. The largest acquisitions were Walvoil (EV: EUR132m) in 2015, which was key to reinforce its footprint in valves (Hydraulic), Hammelmann (EV: EUR91m) in 2005 and NLB (EV: EUR52m) in 2007, which built the vast majority of Interpump's current footprint in VHPP (Water Jetting).

On average, acquisitions have been finalised at 0.93x EV/sales and 5x EV/EBITDA, calculated on the EBITDA posted in the first year after the acquisition. This compares very favourably with the 8.8x EV/EBITDA historical average on which the stock has traded in the last ten years. This is even more accretive considering the cost and revenue synergies that Interpump has been able to extract in the subsequent years.

Commercial synergies typically came from:

- The Interpump **commercial network**, typically much more powerful than the network enjoyed by the acquired companies.
- **Cross-selling opportunities** with customers and business already served by Interpump.

Our M&A simulation

Ample firepower given its solid balance sheet

Management's top target is to reach EUR1bn in sales in 2017. Based on our EUR917m sales estimate, EUR83m are missing, which based on the historical 0.93x EV/sales would imply a EUR70-80m EV paid, fully sustainable given the current financial structure: we estimate 1x net debt/EBITDA in 2016 and reaching 2x (still below undisclosed covenants which we believe might be in the 3-3.5x range) which leaves EUR200m firepower in terms of EV/paid.

Given its vast scope, we believe the Hydraulic market offers more opportunity for the company to increase its footprint in businesses already covered, compared to Water Jetting, where Interpump already has a large market share.

Simulation: EUR100m of acquired sales=9% value creation (mkt cap)

We have run a simulation, trying to calculate the value creation potential for each EUR100m of acquired sales, under the following assumptions:

- **Multiple paid: 5x EV/EBITDA.** We assume a starting 15% EBITDA margin that is quite in line with acquisitions made in Hydraulic, where we believe most of the M&A potential lies.
- **Fair EV/EBITDA: 8.5x,** slightly more conservative than 8.8x, at which the stock has traded on average over the last ten years.
- **Revenues and EBITDA in t+3: we have built three cases:** 1) a central scenario with a 10% sales CAGR, an EBITDA margin of up to 18%; 2) a worst case scenario with a 5% sales CAGR, a 15% EBITDA margin in line with the level seen in the acquisition year; and 3) a best case scenario with a 15% sales CAGR, and an EBITDA margin of up to 20%.

**Accretive 5x
EV/EBITDA paid on
average...**

**before material
cost and
commercial
synergies**

**Ample M&A
firepower, at least
EUR200m (EV)**

**Hydraulic offers
more opportunities
than Water Jetting**

**M&A simulation:
key assumptions,
three scenarios**

Table 5: Interpump Group – M&A simulation

	t	t+3 central case	t+3 best case	t+3 worst case
Revenues	100	133	152	116
EBITDA	15	24	30	17
margin	15%	18%	20%	15%
Multiple (paid t, fair t+3)	5	8.5	8.5	8.5
EV	75	204	259	148
Delta EV (value creation)		129	184	73
number of shares (m)		108.9	108.9	108.9
Value creation per share		1.18	1.69	0.67
Current price		12.8	12.8	12.8
Value creation % current market cap		9.2%	13.2%	5.2%

Source: Kepler Cheuvreux

For each EUR100m of acquired sales, we derive:

- 9% value accretion, in the central-case scenario.
- 13% accretion in the best-case scenario.
- 5% accretion in the worst-case scenario.

**For each EUR100m
of acquired sales: 5-
13% value creation.
Central case: +9%**

Key drivers: slowdown in sight

Interpump's end markets are moderately cyclical, which is particularly true in its Hydraulic division. On the positive side, the M&A spree has diversified the group's end-market exposure. In Hydraulic, trucks (38% of divisional revenues) and industrial vehicles (9%) remain the most important end markets, followed by construction equipment (22%), earth-moving machines (9%) and agricultural equipment (12%).

Our analysis shows that, historically, the Hydraulic division's organic growth has been pretty solid and has correlated with commercial vehicle registrations in the EU and the US. The outlook for the US truck market, to which Interpump is particularly exposed through its Muncie subsidiary (19% of the Hydraulic division revenues) is under pressure due to a freight slowdown and several players have recently announced production cuts in excess of 20% in the effort to keep inventories under control. This might be partly offset by more positive evolution in the European market. The end market exposure in Water Jetting is more reassuring, with the most vulnerable business probably being VHPP. In particular, we believe Hammelmann (48% of Water Jetting divisional EBITDA) could slow down some after an exceptionally positive performance in 2015.

Hydraulic: unsupportive outlook in most end markets

US trucks the most vulnerable end market

As seen in Chart 21, which shows the Hydraulic business's end-market exposure, we have tried to depict the outlook based on the most recent indicators and data, particularly the most recent outlook from other key players which are active in each end market. Our conclusion is not supportive:

- **Trucks** (38% of Hydraulic revenues) and **Industrial vehicles** (9%): The outlook is reassuring in Europe, but quite harsh in the US and we are particularly concerned by the 20% cut announced by several US players to reduce inventories. We believe this will dent the US Interpump Hydraulic division Muncie's performance. It is mainly active in PTOs', which in 2015 accounted for 19% of divisional sales and 12% of the group's overall sales. Muncie's performance deteriorated in Q4 2015 (-11% organic sales in dollars).
- **Construction equipment** (22%), **earth-moving machines** (9%), and **lifts** (11%) should remain well supported in Europe, driven by the recovery of construction activity from low levels, while some slowdown following several good years in the US is expected, as pointed out by Volvo.
- **Agriculture equipment** (12%): Indicators and the outlook given by key players in this end market continue point to negative trends.

Historically, Hydraulic LFL quite correlated to the truck cycle

We have analysed the LFL growth of the Interpump Hydraulic division and how it relates to commercial vehicle registrations in both Europe and the US and we see a clear correlation. During the big slump in 2009, Interpump Hydraulic sales saw a 36% LFL decline, compared to a 32% fall for European commercial vehicle registrations

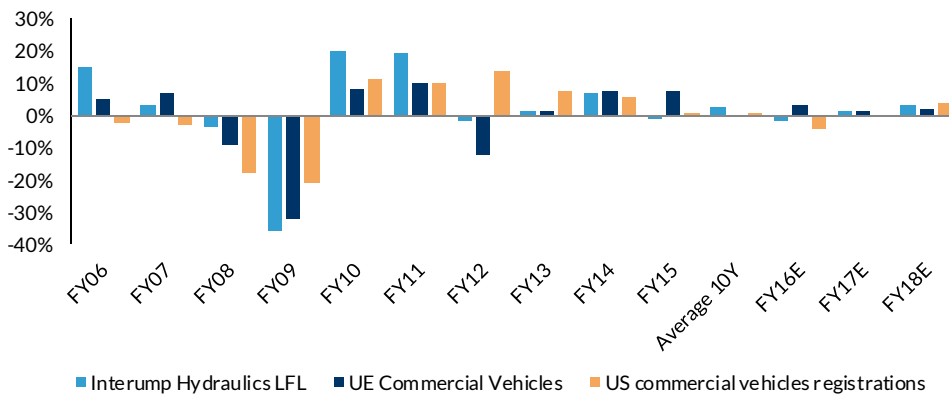
Hydraulic: more cyclical. End-market exposure points to a tough 2016

US trucks: vulnerable

Historically, Hydraulic organic growth and the truck cycle have been quite correlated

(but a greater 48% decline for heavy commercial vehicles of more than 16 tonnes) and a 21% drop for US commercial vehicles, whose downturn had already started in 2007. On the other hand, during the 2010-11 recovery, LFL growth for Interpump Hydraulic exceeded registrations, which was probably supported by commercial synergies with companies acquired in the Cylinders business in 2008-09. Destocking and restocking might also create additional volatility.

Chart 25: Interpump Hydraulic LFL growth vs. commercial vehicle registrations in EU and US



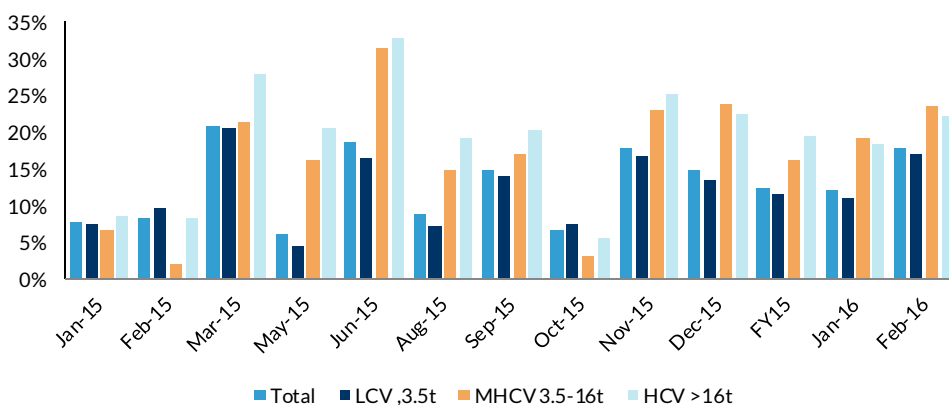
Source: ACEA, Volvo, Bloomberg, Kepler Cheuvreux

European commercial vehicles data: solid datapoints

While commercial vehicle registrations data are regularly disclosed by ACEA, US registration data are not public. The latest data shows a solid trend for European commercial vehicles, with an overall 15.2% growth rate in registrations in January and February 2016, and 21.8% growth for heavy trucks over 16 tonnes (HCV).

European commercial vehicles: solid trend

Chart 26: EU commercial vehicle registrations: solid trend continues in Q1



Source: ACEA, Kepler Cheuvreux

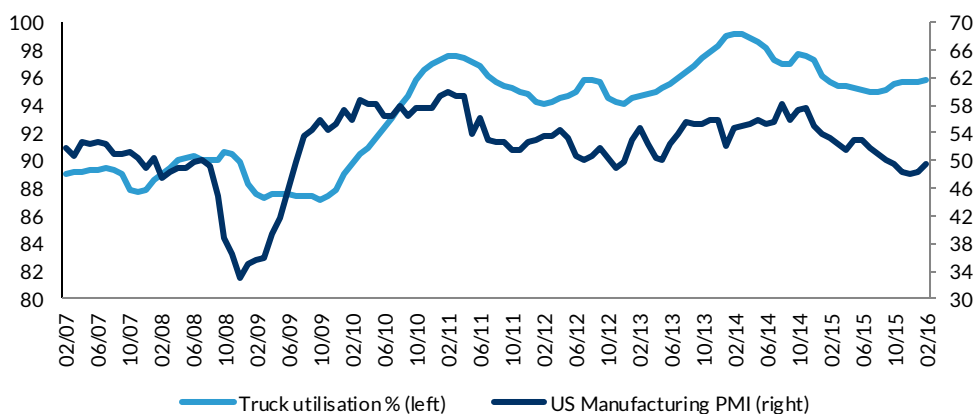
US: truck market showing ongoing deterioration

In the US, monthly data are not released. FTR Transportation Intelligence reports Class 8 (heavy duty, over 15 tonnes) [truck orders](#) and the ongoing deterioration is clear: in March, orders fell to 158,000 units, the lowest level since September 2012, down 12% versus February and -37% YOY. This has also been the weakest March since 2010 in absolute terms. FTS also expects Class 8 truck orders to remain above 20,000 units a month for some time to come.

According to FTR, following the freight slowdown related to the decline in US manufacturing PMI, fleets now have enough trucks to meet demand and are therefore becoming cautious on orders to increase their capacities and replacement orders are also being delayed. OEM lead times have become short and OEMs continue to reduce production rates in response to a 26% drop in build, in an effort to reduce inventories given that retail sales are expected to remain sluggish in the short term. However, on a more positive note, FTR expects freight to stabilise, along with manufacturing PMI, potentially stabilising the US truck market as of H2.

The following chart shows the correlation between the US Manufacturing PMI and truck utilisation. Freight saw a steep decline in H2 2015 in bulk tanks, due to energy prices and dry tanks. According to FTR's data, truck utilisation has declined to 95.5%, along with slowing US manufacturing PMI.

Chart 27: Latest US truck utilisation data more subdued, due to weaker manufacturing PMI



Source: Bloomberg on FTR Associates data, Kepler Cheuvreux

Trucks, construction, AG equipment: Volvo, Daimler, CNH, CAT, Deere's view

In the US, the heavy truck market in 2015 was dominated by Daimler (39% market share), Paccar (28%), Volvo (20%) and Navistar (13%).

During its Q4 2015 results presentation, **Volvo** commented about solid truck demand in Europe. On the contrary, the North American truck market continues to weaken, while truck demand in LatAm's largest truck market, Brazil, remains subdued.

**US truck market:
ongoing
deterioration**

Lower freight

During 2015 in Europe, heavy duty truck registrations increased by 19% to 270,000 versus 227,000 units in 2014, driven by higher freight activity, resulting in solid capacity utilisation and high customer profitability, which supported both fleet expansion and renewal. For 2016, Volvo has slightly raised its estimate for heavy duty truck registrations from 275,000 to 280,000 (+4% YOY), based on the expectation of a continued economic recovery in Europe.

According to Volvo, the North American retail market for heavy-duty trucks increased by 12% to 301,000 vehicles in 2015 due to fleet renewal and fleet expansion combined with sound customer profitability resulting from a positive freight environment, low fuel prices and low interest rates. However, demand weakened during Q4 2015 mainly in the long-haul segment with a correction and was in line with a lower manufacturing PMI in freight. The slowdown is expected to continue and Volvo is now expecting a YOY decline of 14% in registrations. It has also revised down its projections for registrations from 280,000 to 260,000, as well as a more pronounced 29% fall for its own orders, hit by destocking.

Volvo expects US truck registrations to be down by 14% in 2016, with destocking on top

Table 6: Volvo Trucks division, US up in 2015, but falling intake point to decline in 2016

	2014	2015	YOY	2016E	YOY
Total Registrations					
Europe	227	270	19%	280	4%
North America	270	301	11%	260	-14%
Volvo Orders					
Europe	79.7	92.9	17%		
North America	71.8	50.9	-29%		

Source: Volvo, Kepler Cheuvreux

Volvo's construction equipment division was hit in 2015 by the decline in Asia and LatAm, while performance in Europe and the US was more supportive. In Q4 2015, orders grew by 21% in Europe but slid by 33% in North America. In Q4 2015, looking at 2016, Volvo kept a -5% to +5% projection for Europe, but based on declining intake in H2 2015 it lowered its outlook in North America to -10-0% from -5% to +5% previously.

Table 7: Volvo construction equipment, 2015 deliveries, orders and 2016 outlook by geo area

	deliveries 2015A	Volvo orders 2015	deliveries 2016E
North America	-6%	-24%	-10/0%
Europe	1%	1%	-5/+5%
APAC ex China	-24%	-16%	-10/0%
China	-48%	-43%	-20&/-10%
LatAm	-36%	-49%	-10/+0%

Source: Volvo, Kepler Cheuvreux

Looking at trucks, in its 2015 report Daimler provided qualitative indications, pointing out that worldwide demand for medium-duty and heavy-duty trucks came under considerable pressure in 2015, falling by 11%. This was primarily due to the sharp contraction of some key emerging markets (China, Brazil), to which Interpump has very negligible exposure and which was not offset by the positive development in the North American and European markets. Also, Daimler's attitude towards the

Daimler also saw deterioration as of Q3 2015

US market is cautious. After proving robust in H1 2015, some deterioration was seen in Q3 and Q4.

Looking at construction and agriculture equipment, in its FY 2015 results presentation, **CNH** presented a picture which points to a declining trend for the US agriculture equipment market and a flattish outlook in Europe. As for construction equipment, the view is less harsh Volvo's and points to flat to minus 5% growth. For the European truck market, to which CNH is exposed though Iveco, the outlook is for 5% growth in 2016, quite in line with the +4% expected by Volvo.

**CNH: US
Agriculture
equipment still set
to suffer**

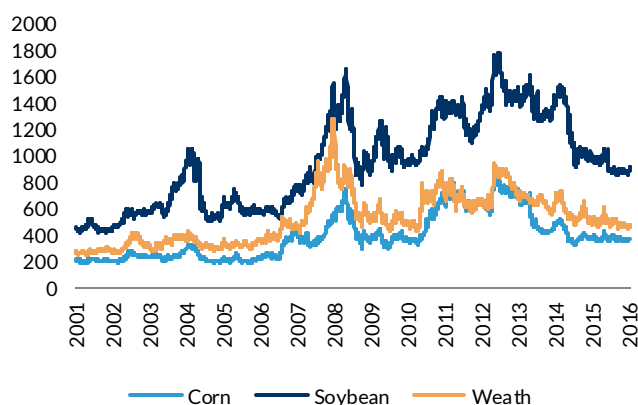
Table 8: CNH – 2016 outlook for agriculture, construction equipment and trucks

	US	EMEA	LATAM	APAC
Agriculture Equipment				
Tractors	-5%	flat	-15%	-5%/flat
Combines	-15/20%	-5%/flat	-5%/flat	flat/+5%
Construction Equipment				
Light	-5%/flat	flat	-5%/flat	flat
Heavy	-5%/flat	-5%/flat	-5%/flat	flat
Trucks				
		+5%	-10/15%	flat

Source: CNH FY2015 results presentation

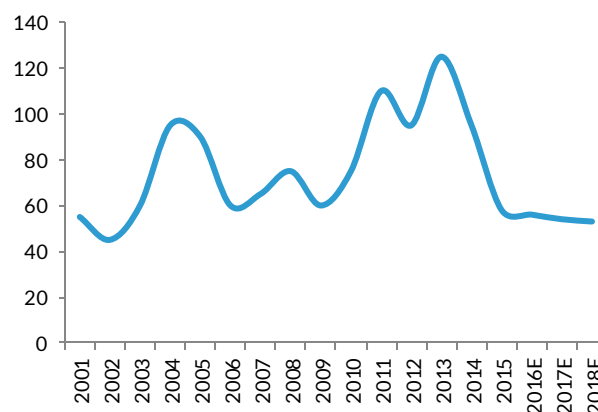
The negative outlook on the North American agriculture equipment market is also based on continuing sluggish performance of key commodity prices and pressure on US farm net income.

Chart 28: Unsupportive agriculture commodity prices



USD/bushel. Source: Bloomberg, Kepler Cheuvreux

Chart 29: US Farm net income under pressure until 2018



Source: CNH, HIS, Kepler Cheuvreux

The outlook provided by **Caterpillar** is also not particularly supportive, mostly based on low commodity prices. The Energy & Transportation business is expected to decline by 10-15%, driven by lower oil prices. Interpump is not particularly exposed (Chart 14); oil & gas clients account for 2% of its total revenues, partly in Hydraulic and partly in the Water Jetting VHPP pumps business (Hammelmann, NLB). CAT projects its Construction Equipment business to fall by 5-10%, but this is once again

mostly driven by emerging countries, as in the US, CAT expects construction activity to remain resilient.

Finally, **John Deere** also gave a subdued outlook following its Q1 results (quarter ended 31 January 2016). Agricultural equipment sales in 2016 are expected to decrease by c. 10%, including 4% negative currency translation. In the US and Canada, sales are expected to decline by 15-20%, on the back of low commodity prices and stagnant farm income. In the EU, sales are expected to be anywhere from flat to -5%. In Construction Equipment, sales are expected to fall by 11% worldwide, including a 2% negative forex translation.

Water jetting: more solid short-term, lower cyclicity

We believe the 2016 outlook for the Water Jetting division is more solid on the back of more favourable end-market exposure. As Chart 29 shows, high exposure to Cleaning (21% of revenues), Dealers (23%) and Contractors (26%) provides a more defensive profile. The most vulnerable areas are Mining (3%), Oil & Gas (only 1%) and some end markets included in Industrial, notably steel. This less penalising short-term outlook is reflected into our 3% organic growth estimate for the division, compared to -2% in Hydraulic.

In the division, we think VHPP is more exposed to the more critical end markets, especially Hammelmann, which has seen very solid growth over 2012-15 and could slow down in 2016. This is reflected in a -1% forecast for Hammelmann's revenues in 2016. In 2015, Hammelmann accounted for 38% of the Water Jetting division revenues and 48% of EBITDA.

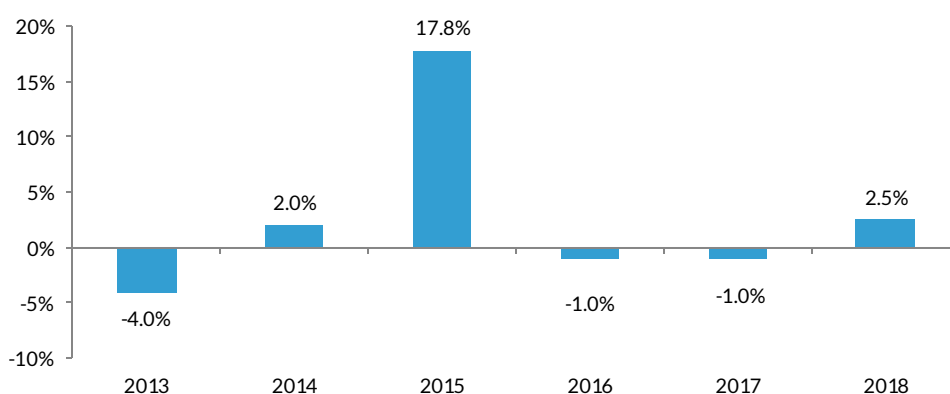
CNH and John Deere: a similar picture

Water Jetting: less cyclical, more benign end market

VHPP and Hammelmann in particular are probably more vulnerable

Hammelmann: 48% of Water Jetting EBITDA

Chart 30: Hammelmann (48% of Water Jetting EBITDA): slowdown in sight, after strong 2015



Sales growth. Source: Interpump Group, Kepler Cheuvreux

Longer term, management aims to introduce new technological solutions to boost performance levels, coupled with increasing reliability and more eco-friendly solutions. In this respect, new products have to enhance energy savings, reducing pollution in relatively new areas like fuel injection pumps for large marine engines. In general, a more widespread use of very high pressure pumps in several applications is supportive, including the food and cosmetics segment, which Interpump entered in 2015 through the Bertoli acquisition.

Deconstructing the forecasts

Our long-term analysis of the P&L, balance sheet and cash-flow performance shows how Interpump's management has been able to turn a profitable, cash-generative and mature niche business into a value-accretive M&A platform. Constant and well-scouted M&A turned a low single-digit EPS CAGR into a >12% net profit CAGR over 2005-15. Its solid financial structure allows for more value-accretive M&A in both the Water Jetting niche and in the vast Hydraulic market.

Short term, we are concerned about the relatively unsupportive end-market exposure. At -0.1% (Water Jetting: +3%, Hydraulic: -2%), we expect 2016 organic growth to be at a discount versus management's guidance (+1/3%) and we are also 3-10% below consensus EPS for 2016-18. In fact, while we recognise that M&A has greatly diversified Interpump's end-market exposure, which levels the structural cyclicity of the business, we believe the negative conditions in some end markets (which we analysed in the previous sections) could dent organic growth, making us cautious.

A low-single-digit-organic-growth business, M&A boost

Taking a look at the revenue performance over the last ten years is useful to isolate and gauge organic growth, which has been low single digit across the cycle, from the overall revenue growth posted by the company, which has been over 4x higher, boosted by a successful M&A campaign.

Reported revenue CAGR 2005-15: 11.4%, boosted by M&A

- **Group.** Over 2005-15, total revenues posted an 11.4% CAGR, from EUR332m to EUR895m (2.7x).
- **Hydraulic** rose at a more than proportional 13.7% CAGR, from EUR155m to EUR560m (3.6x), boosted by a the vast and fruitful M&A campaign analysed in the previous sections, which complemented the group's shift from the historical PTO business to adjacent ones (cylinders, valves, hoses and fittings)
- **Water Jetting** rose at a less than proportional 9% CAGR, from EUR115m to EUR335m (2.4x). In this division, the M&A boost was more limited: Hammelmann was acquired in April 2005, followed by the NLB acquisition in January 2007, both in high pressure pumps. Two smaller acquisitions followed in 2015, after several years of inactivity: Inoxihp was consolidated as of 1 January 2015, and Bertoli as of 22 May 2015.

Revenue CAGR over 2005-15 was more than four times the level of organic growth

The group posted an 11.4% revenue CAGR over 2005-15, boosted by M&A

Hydraulic: a 13.7% CAGR (more M&A)

Water Jetting: a 9% CAGR (less M&A)

Table 9: Interpump Group – reported revenue growth and by division, double-digit CAGR, including M&A

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	CAGR 05-15	CAGR 15/18E
Hydraulic	14.9%	11.9%	1.8%	-2.1%	-13.3%	27.1%	20.8%	12.1%	14.1%	34.7%	41.4%	-0.7%	1.0%	3.0%	13.7%	1.1%
Water Jetting	52.6%	10.3%	36.7%	1.8%	-20.3%	21.7%	15.5%	11.2%	-2.6%	5.1%	21.3%	3.9%	2.0%	3.0%	9.0%	3.0%
Total	33.8%	11.1%	14.0%	-0.4%	-16.1%	24.4%	18.2%	11.6%	5.6%	20.8%	33.2%	1.0%	1.4%	3.0%	11.4%	1.8%

Total: weighted average of Hydraulic and Water Jetting. It excludes Electric Motors, sold in 2011. Source: Interpump group, Kepler Cheuvreux

Organic revenues CAGR 2005-15: a much more limited 2.7%

The group's organic revenue CAGR over 2005-15 was 2.7%. Hydraulic (1.2%) underperformed Water Jetting (5%), although material cross-selling opportunities stemming from the progressive integration of the acquired company across business segments in Hydraulic would have led us to expect the opposite. This underperformance of Hydraulic compared to Water Jetting is mainly due to the collapse of the reference truck end market particularly in 2009, and a less marked organic recovery over 2012-15. Water Jetting, on the other hand, benefited from the brilliant track record of several key subsidiaries, notably the German Hammelmann.

Group: a 2.7% organic revenue CAGR over 2005-15

Hydraulic: just 1.2% with cyclical headwinds

Water Jetting better at 5%

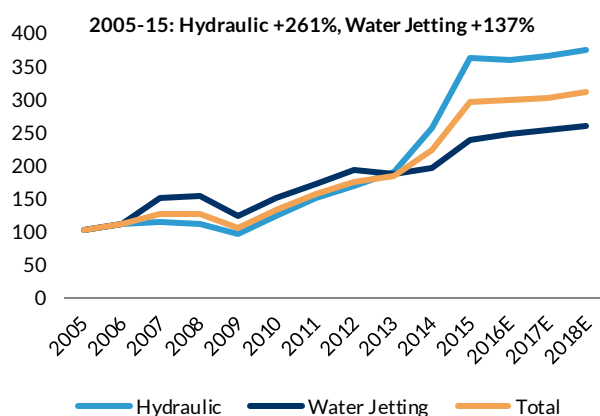
Table 10: Interpump Group – organic revenue growth and CAGR by division. Low- to mid-single-digit CAGR

LFL growth	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	CAGR 05-15	CAGR 15/18E
Hydraulic	14.9%	11.9%	1.8%	-5.8%	-35.6%	21.5%	18.1%	0.6%	0.1%	7.2%	5.0%	-2.0%	1.0%	3.0%	1.2%	0.6%
Water Jetting	2.7%	2.0%	8.8%	0.2%	-20.3%	21.7%	15.5%	11.2%	-2.6%	5.1%	14.6%	3.0%	2.0%	3.0%	5.0%	2.7%
Total	8.8%	7.0%	4.3%	-3.1%	-29.5%	21.6%	16.8%	5.9%	-1.3%	6.2%	8.9%	-0.1%	1.4%	3.0%	2.7%	1.4%

Total: weighted average of Hydraulic and Water Jetting. It excludes Electric Motors, sold in 2011. Source: Interpump Group, Kepler Cheuvreux

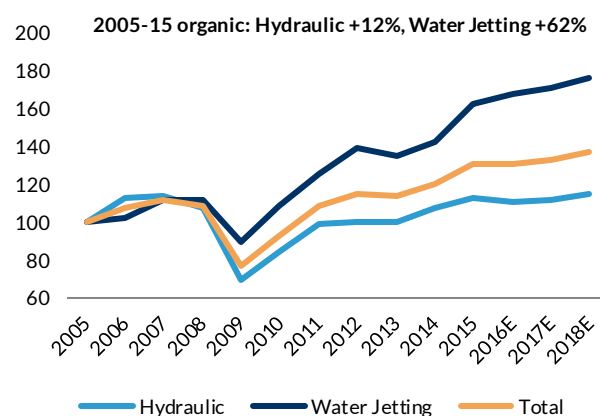
The following charts illustrate the cumulative revenue growth rate over 2005-18E by division (2005=100), with Hydraulic posting a better performance on a reported basis but a much more lacklustre result on an organic basis.

Chart 31: Revenues tripled, as of 2005...



Source: Kepler Cheuvreux

Chart 32: ... but are up much less, organically



Source: Kepler Cheuvreux

EBITDA CAGR 2005-15: 10.2% including M&A, 3.9% organically

We see a similar picture for EBITDA. Over 2005-15, the group's EBITDA CAGR was 10.2%, while after stripping out M&A the organic CAGR was 3.9%. The EUR/USD rate strengthened by 11%, from 1.25x (2005) to 1.11x (2015), and we estimate that, excluding forex, the outcome was only slightly worse with a 3.5% EBITDA CAGR over 2005-15.

10.2% group EBITDA CAGR over 2005-15, but 3.9% organically

Table 11: Interpump Group – double-digit EBITDA CAGR 2005-15 including M&A. Low single digit organically

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	CAGR 05-15	CAGR 15-18E
EBITDA	16.4%	19.1%	-7.7%	-46.1%	58.1%	27.8%	10.5%	0.5%	29.4%	32.4%	1.3%	1.0%	3.9%	10.2%	2.1%
EBITDA organic	9.2%	10.4%	-8.8%	-49.4%	56.7%	26.6%	7.6%	-3.9%	15.9%	10.6%	0.1%	1.0%	3.9%	3.9%	1.7%

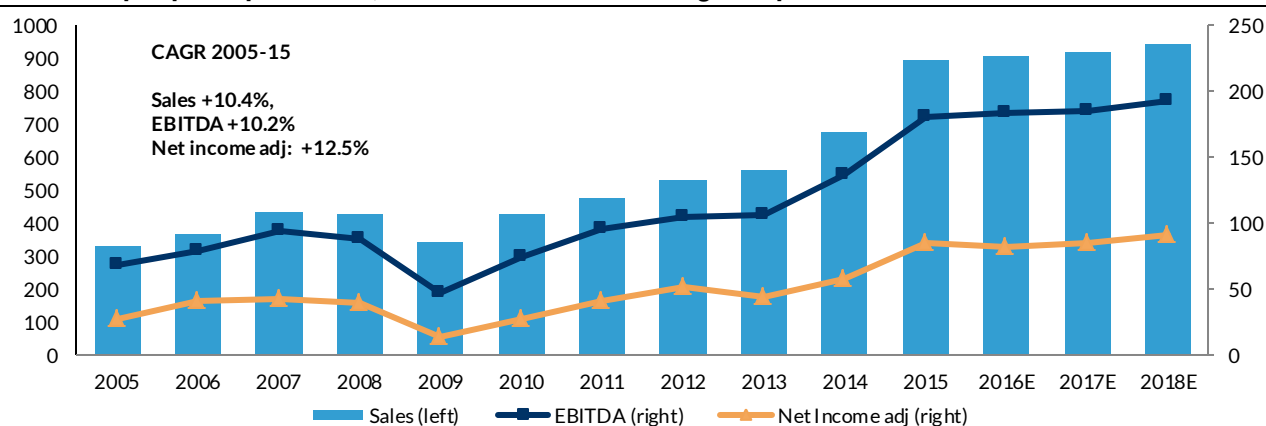
Source: Interpump Group, Kepler Cheuvreux

We now broaden our analysis to include overall P&L growth. The track record over 2005-15 was definitely successful: Interpump group posted a 10.4% revenue CAGR, slightly below the 11.4% CAGR that we estimated above based on the weighted average of Hydraulic and Water Jetting due to the disposal of the non-core Electric Motors business in 2011. In 2010, before the disposal, Electric Motors posted revenues of EUR25m, representing 6% of group's revenues, with EBITDA close to zero.

The profitability path was also outstanding, with 10.2% EBITDA and 12.5% adjusted net profit CAGRs over 2005-15. Unlike revenues and EBITDA, for which the company disclosed organic growth data, the calculation of net income growth on an organic basis is a more difficult exercise. However, we have no reason to believe that the large delta between the reported and organic growth posted over the last ten years would be different, looking at the bottom line.

**12.5% net income
CAGR over 2005-
15**

Chart 33: Interpump Group: revenues, EBITDA and net income – long-term picture



Source: Interpump group, Kepler Cheuvreux

FY 2015: a good year, limited organic growth ex forex

P&L boosted by acquisitions, organic growth ex forex: +1.3%

Interpump Group reported a positive performance in 2015 which, once again, was mostly due to acquisitions, as organic growth metrics were quite uninspiring, with a slowdown in H2 particularly in Hydraulic segment. Key highlights:

- **Revenues** were up by 33.2%, driven by a combination of +41.5% growth in Hydraulic and +21.3% in Water Jetting.
- **Organically, revenues** were up by 8.9%, with a less brilliant +5% in Hydraulic and +14.6% in Water Jetting. As such, M&A explained most of the revenue growth (24.3% out of a total 33.2%), with Hydraulic disproportionately

**FY 2015: 33.2%
revenue growth...**

**...of which +8.9%
organically, mostly
due to the forex
boost (USD/EUR)**

benefiting from the consolidation of the Italian Walvoil (large impact) and, to a lesser extent, of the Brazilian Osper. In Water Jetting, external growth came from the Italian Inoxihp and Bertoli acquisition (very high pressure pumps).

- **Organic revenue growth excluding forex** was much more limited, at +1.3%, with a straight 1% decline in Hydraulic, penalised by the slowdown in the reference end markets in H2, particularly in trucks and agriculture equipment in the US, and more resilient 4.7% growth in Water Jetting, which once again proved to be more defensive.
- **EBITDA** was up by 32.4% YOY while the EBITDA margin fell by 20bps to 20.1%. It was up by 39.3% in Hydraulic, with a 30bp decline in the EBITDA margin to 17.2% and up by 25.4% in Water Jetting, with an 80bp increase in the EBITDA margin.
- **Organically, EBITDA** was up by 10.6% and the EBITDA margin improved by 30bps to 20.6%. It was up by 4.1% in Hydraulic, with a 10bp decline in the margin to 17.4% and up by 17.4% in Water Jetting, with the margin up by 60bps to 24.1%. While organic EBITDA growth excluding forex has not been disclosed, we believe it might have been +2-3%.
- **Net profit** grew by 104.3% to EUR116.3m. However, excluding a EUR32m one-off gain included in financial items from the early exercise of an option on the minorities of some controlled companies and a consequent lower cash-out, we calculate that adjusted net profit was up by 48% to EUR84.3m.

**+1.3% LFL growth,
ex forex**

**FY 2015 EBITDA
+32.4% YOY...**

**...and +10.6%
LFL. We believe it
was up by 2-3% LFL
ex forex**

Table 12: Interpump Group – 2014 and 2015 quarterly P&L performance

	Q1 2014	Q2 2014	H1 2014	Q3 2014	9M 2014	Q4 2014	FY 2014	Q1 2015	Q2 2015	H1 2015	Q3 2015	9M 2015	Q4 2015	FY 2015
Sales	160.2	181.1	341.2	168.8	510.1	161.9	672.0	222.6	244.4	467.0	214.9	681.9	213.1	894.9
YOY								39.0%	35.0%	36.9%	27.3%	33.7%	31.6%	33.2%
Labour costs	-39.6	-40.4	-80.0	-37.7	-117.7	-39.3	-157.0	-55.7	-57.2	-112.9	-51.6	-164.5	-53.7	-218.2
Other op. costs	-88.6	-101.7	-190.2	-96.4	-286.7	-92.2	-378.9	-123.4	-134.1	-257.6	-118.5	-376.1	-120.4	-496.5
EBITDA	32.0	39.0	71.0	34.7	105.7	30.4	136.1	43.5	53.1	96.6	44.8	141.3	38.9	180.3
YOY								35.8%	36.0%	36.0%	29.1%	33.7%	28.0%	32.4%
Margin	20.0%	21.5%	20.8%	20.5%	20.7%	18.8%	20.3%	19.5%	21.7%	20.7%	20.8%	20.7%	18.3%	20.1%
D&A	-6.9	-7.1	-14.0	-7.6	-21.6	-8.5	-30.1	-9.6	-10.0	-19.6	-10.1	-29.7	-12.2	-41.9
Others	-0.3	-0.5	-0.8	-0.2	-1.1	-0.6	-1.7	-0.2	-0.5	-0.7	-0.1	-0.8	-0.7	-1.5
EBIT	24.8	31.4	56.2	26.8	83.0	21.3	104.4	33.6	42.6	76.2	34.6	110.8	26.1	136.9
YOY								35.4%	35.7%	35.6%	29.0%	33.5%	22.2%	31.2%
Margin	15.5%	17.3%	16.5%	15.9%	16.3%	13.2%	15.5%	15.1%	17.4%	16.3%	16.1%	16.3%	12.2%	15.3%
Fin. charges	-2.4	-1.5	-3.9	-0.1	-3.9	-7.4	-11.4	8.9	22.7	31.6	-3.3	28.3	-1.0	27.3
Other	-0.2	0.1	-0.1	-0.2	-0.2	0.3	0.1	-0.1	-0.1	-0.1	0.0	-0.2	-0.1	-0.3
Profit Bef. Tax	22.3	30.0	52.3	26.6	78.9	14.2	93.1	42.4	65.3	107.7	31.3	139.0	25.0	163.9
Taxes	-8.7	-10.5	-19.2	-9.6	-28.8	-6.6	-35.4	-13.2	-13.9	-27.0	-10.6	-37.6	-9.3	-47.0
tax rate	39.0%	35.0%	36.7%	36.1%	36.5%	46.2%	38.0%	31.1%	21.2%	25.1%	33.8%	27.1%	37.3%	28.6%
Net Profit	13.6	19.5	33.1	17.0	50.1	7.7	57.7	29.2	51.4	80.6	20.7	101.3	15.6	117.0
Minorities	-0.2	-0.3	-0.5	-0.2	-0.7	-0.1	-0.8	0.0	-0.3	-0.3	-0.1	-0.4	-0.3	-0.7
Net Profit after min.	13.4	19.2	32.6	16.8	49.4	7.6	56.9	29.3	51.1	80.4	20.6	101.0	15.4	116.3
YOY	7.7%	56.2%	31.8%	76.9%	44.3%	-15.9%	31.8%	118.4%	166.4%	146.7%	22.7%	104.5%	103.1%	104.3%
Extraordinaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.1	25.9	32.0	0.0	32.0	0.0	32.0
Adj. Net Profit	13.4	19.2	32.6	16.8	49.4	7.6	56.9	23.2	25.2	48.4	20.6	69.0	15.4	84.3
YOY	-69.0%	43.2%	69.8%	-48.4%	193.9%	-84.7%	31.8%	72.8%	31.4%	48.4%	22.7%	39.7%	103.1%	48.1%

Source: Interpump Group, Kepler Cheuvreux

The following table reports the revenues and EBITDA divisional breakdown on a quarterly basis over 2014-15, and revenues by region. Exposure to developed markets remains largely predominant: Europe including Italy accounted for 47% of revenues in 2015, North America 33%, with Asia/Pacific and ROW the remaining 20%. Overall, emerging-market exposure affects less than 15% of revenues.

**Europe 47% of
revenues, North
America 33%.
Emerging markets
<15%**

Table 13: Interpump Group – 2014 and 2015 P&L divisional performance

	Q1 2014	Q2 2014	H1 2014	Q3 2014	9M 2014	Q4 2014	FY 2014	Q1 2015	Q2 2015	H1 2015	Q3 2015	9M 2015	Q4 2015	FY 2015
Sales														
Hydraulic	99.0	106.4	205.4	96.1	301.5	94.7	396.2	145.6	152.2	297.9	132.2	430.0	130.3	560.3
Water Jetting	61.2	74.7	135.9	72.7	208.6	67.2	275.8	77.0	92.2	169.2	82.7	251.9	82.8	334.7
Group Sales	160.2	181.1	341.2	168.8	510.1	161.9	672.0	222.6	244.4	467.0	214.9	681.9	213.1	894.9
Sales YOY														
Hydraulic	52.3%	35.5%	43.1%	30.8%	38.9%	22.8%	34.7%	47.1%	43.1%	45.0%	37.6%	42.6%	37.5%	41.4%
Water Jetting	-9.1%	7.1%	-0.8%	14.5%	4.0%	8.6%	5.1%	25.8%	23.4%	24.5%	13.7%	20.7%	23.2%	21.3%
Sales YOY	21.1%	22.1%	21.6%	23.3%	22.2%	16.5%	20.8%	39.0%	35.0%	36.9%	27.3%	33.7%	31.6%	33.2%
By region														
Italy	23.1	25.1	48.2	20.6	68.8	23.0	91.8	33.7	39.3	73.0	30.3	103.3	32.6	135.9
YOY	28.3%	16.2%	21.7%	18.0%	20.5%	10.6%	17.9%	45.8%	57.0%	51.6%	47.0%	50.2%	41.7%	48.1%
Europe	55.7	63.1	118.8	52.7	171.5	52.8	224.3	71.4	78.4	149.8	68.4	218.2	68.3	286.5
YOY	49.2%	45.4%	47.2%	28.0%	40.7%	22.6%	36.0%	28.1%	24.4%	26.1%	29.8%	27.3%	29.4%	27.8%
N.America	51.1	56.1	107.2	57.9	165.0	52.0	217.0	74.2	78.3	152.5	72.2	224.7	68.7	293.4
YOY	5.5%	10.2%	7.9%	23.0%	12.8%	18.4%	14.1%	45.3%	39.6%	42.3%	24.8%	36.2%	32.0%	35.2%
Asia/Pacific	11.9	15.3	27.2	18.6	45.8	16.0	61.9	19.9	22.9	42.8	20.1	62.9	22.1	85.0
YOY	2.2%	9.8%	6.4%	30.4%	15.0%	37.0%	20.0%	66.8%	49.9%	57.3%	7.7%	37.2%	37.8%	37.3%
ROW	18.4	21.5	39.9	19.0	59.0	18.1	77.1	23.5	25.4	48.9	23.9	72.8	21.4	94.2
YOY	9.2%	16.4%	12.9%	11.8%	12.6%	-7.4%	7.1%	27.5%	17.9%	22.4%	25.6%	23.4%	18.3%	22.2%
Group Sales	160.2	181.0	341.2	168.8	510.1	161.9	672.0	222.6	244.4	467.0	214.9	681.9	213.1	894.9
YOY	21.1%	22.1%	21.6%	23.3%	22.2%	16.5%	20.8%	39.0%	35.0%	36.9%	27.3%	33.7%	31.6%	33.2%
Weight														
Italy	14.4%	13.8%	14.1%	12.2%	13.5%	14.2%	13.7%	15.1%	16.1%	15.6%	14.1%	15.2%	15.3%	15.2%
Europe	34.8%	34.8%	34.8%	31.2%	33.6%	32.6%	33.4%	32.1%	32.1%	32.1%	31.9%	32.0%	32.0%	32.0%
N. America	31.9%	31.0%	31.4%	34.3%	32.4%	32.1%	32.3%	33.3%	32.1%	32.7%	33.6%	33.0%	32.2%	32.8%
Asia/Pacific	7.5%	8.4%	8.0%	11.0%	9.0%	9.9%	9.2%	8.9%	9.4%	9.2%	9.3%	9.2%	10.4%	9.5%
ROW	11.5%	11.9%	11.7%	11.3%	11.6%	11.2%	11.5%	10.6%	10.4%	10.5%	11.1%	10.7%	10.1%	10.5%
Group Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
EBITDA														
Hydraulic	17.3	20.0	37.3	17.9	55.2	14.2	69.4	25.0	28.8	53.8	23.6	77.4	19.2	96.6
Water Jetting	14.7	19.0	33.8	16.8	50.5	16.2	66.7	18.5	24.2	42.7	21.2	63.8	19.9	83.7
Total EBITDA	32.0	39.0	71.0	34.7	105.7	30.4	136.1	43.5	53.1	96.6	44.8	141.3	38.9	180.3
Margin														
Hydraulic	17.5%	18.8%	18.1%	18.6%	18.3%	15.0%	17.5%	17.2%	19.0%	18.1%	17.8%	18.0%	14.7%	17.2%
Water Jetting	24.1%	25.5%	24.9%	23.0%	24.2%	24.1%	24.2%	24.0%	26.2%	25.2%	25.6%	25.3%	24.0%	25.0%
Total	20.0%	21.5%	20.8%	20.5%	20.7%	18.7%	20.3%	19.5%	21.7%	20.7%	20.8%	20.7%	18.3%	20.1%

Source: Interpump Group, Kepler Cheuvreux

Water Jetting stronger than Hydraulic

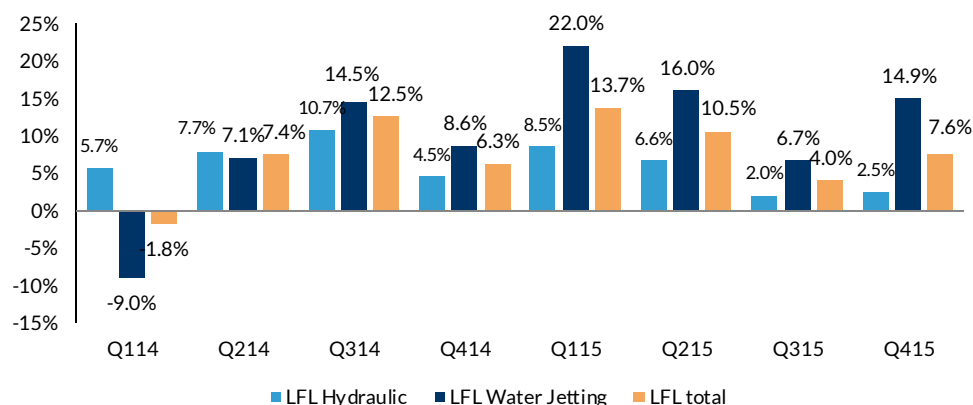
The following charts show the quarterly revenues' organic growth, including forex impact, by division. Following a very strong H1 2015 with double-digit organic growth, driven by Water Jetting, some slowdown was observed in H2, driven by Hydraulic.

In FY 2015, the forex boost on the back of 33% sales exposure to the US accounted for 7.6% of the total 8.9% organic revenue growth. Ex forex, organic revenue growth would have been 1.3% over the full year (-1% in Hydraulic, +4.7% in Water Jetting) and +2.7% in Q4 (-0.9% in Hydraulic, +7.7% in Water Jetting).

**Organic growth
analysis: stronger
H1, weaker H2**

**Water Jetting
stronger than
Hydraulic**

Chart 34: LFL growth: strong H1 2015, slower but still solid in H2

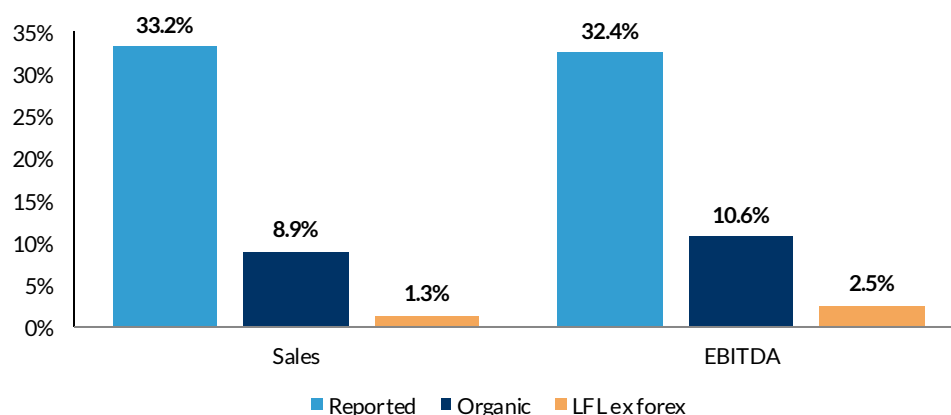


Source: Interpump Group, Kepler Cheuvreux

The following chart represents the sales and EBITDA performance in 2015 as reported, organically and LFL, excluding forex, which provides a picture on how positive the impact of acquisitions (mostly the large Walvoil one), but also forex (EUR/USD), was given that 33% of sales were generated in North America.

2015, strong forex and M&A boost

Chart 35: Interpump Group – revenue and EBITDA growth 2015, boosted by forex, M&A



Source: Interpump Group, Kepler Cheuvreux

Higher net debt, following M&A, balance sheet still solid

Despite the large acquisition outflow, the balance sheet remains solid. More in detail:

- **Net debt** increased from EUR152m at end-2014 (net debt/EBITDA: 1.1x) to EUR255m at end 2015 (net debt/EBITDA: 1.4x), after EUR20m dividends paid and EUR167m spent on acquisitions, net of the amount paid in own shares.
- **Free cash flow:** Excluding dividends paid, acquisitions, buybacks and movements in own shares, the company generated free cash flow of EUR85m in the full year. The NWC/sales ratio remained broadly stable at 33.7%.

Still solid balance sheet after acquisitions, 1.4x net debt/EBITDA at end-2015

FCF of EUR85m in 2015 excluding acquisitions, buybacks, and dividends paid

Our 2016-18 estimates are more conservative for 2016

During the conference call on preliminary FY 2015 results (12 February), the company disclosed the following guidance for FY 2016:

- **Sales:** EUR915m sales +/- EUR10m. Starting from EUR895m sales in 2015, this implies 1.1-3.3% revenue growth in the full year. Given an external perimeter effect (15 additional days of consolidation for Walvoil, four additional months for Bertoli, four additional months for Osper), which we quantify at EUR11.5m overall, the organic growth included in the guidance is -0.1% to +2.1%. Both the guidance and our estimates are based on constant forex.
- **EBITDA:** EUR190m EBITDA +/-EUR5m. Starting from EUR180m in FY 2015, this implies +3-8% YOY.
- **Net debt:** EUR190m net debt +/-EUR10m. Excluding EUR21m dividends, this implies a good FCF generation of EUR76-96m, with a 5.5-7% FCF yield at current share prices.

Given our concerns about the ongoing slowdown in the Hydraulic division, which we believe might worsen in H1 due to the negative indicators in the trucks end market (some data indicate a cut in truck production in excess of 20% in H1) and a negative performance in construction equipment and oil & gas, we believe it is appropriate to stay slightly more cautious than the EUR905m low end of the revenue guidance and we project revenues of EUR904m in 2016. In fact, the trucks end market account for 24% of group revenues, with agriculture equipment 7% and oil & gas 2% (Chart 14). By division, we project a 2% LFL decline in Hydraulic (management expects this to be at least flat) and 3% LFL growth in Water Jetting, leading to -0.1% organic growth for the group. We project 1.4-3% revenue growth over 2017-18, in line with the historical low-single-digit organic growth posted over the last ten years.

FY 2015 guidance:
sales EUR915m, +/-
EUR10m

EUR190m EBITDA
+/-EUR5m

Net debt of
EUR190m, +/-
EUR10m, implying
good FCF

Given our concerns
about a slowdown
in the trucks end
market (US), we
remain slightly
below the low end
of revenue
guidance...

Table 14: Interpump Group – divisional revenue breakdown

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Hydraulic	154.8	173.3	176.4	172.7	149.7	190.3	229.9	257.7	294.1	396.2	560.3	556.6	562.1	579.0
Water Jetting	141.0	155.5	212.5	216.3	172.4	209.8	242.4	269.4	262.4	275.8	334.7	347.7	354.7	365.3
Electric Motors	35.8	36.2	43.2	35.5	20.8	24.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group Sales	331.6	364.9	432.2	424.5	342.9	424.9	472.3	527.2	556.5	672.0	894.9	904.3	916.8	944.3
Sales growth %														
Hydraulic	14.9%	11.9%	1.8%	-2.1%	-13.3%	27.1%	20.8%	12.1%	14.1%	34.7%	41.4%	-0.7%	1.0%	3.0%
Water Jetting	52.6%	10.3%	36.7%	1.8%	-20.3%	21.7%	15.5%	11.2%	-2.6%	5.1%	21.3%	3.9%	2.0%	3.0%
Electric Motors	-13.1%	5.4%	19.6%	-18.0%	-41.3%	19.0%								
Sales growth	22.5%	10.0%	18.4%	-1.8%	-19.2%	23.9%	11.1%	11.6%	5.6%	20.8%	33.2%	1.0%	1.4%	3.0%
LFL growth														
LFL Hydraulic	14.9%	11.9%	1.8%	-5.8%	-35.6%	21.5%	18.1%	0.6%	0.1%	7.2%	5.0%	-2.0%	1.0%	3.0%
LFL Water Jetting	2.7%	2.0%	8.8%	0.2%	-20.3%	21.7%	15.5%	11.2%	-2.6%	5.1%	14.6%	3.0%	2.0%	3.0%
LFL growth	6.1%	5.5%	6.5%	-4.1%	-28.3%	21.4%	16.7%	6.1%	-1.3%	6.2%	8.9%	-0.1%	1.4%	3.0%
Weight														
Hydraulic	46.7%	47.5%	40.8%	40.7%	43.7%	44.8%	48.7%	48.9%	52.8%	59.0%	62.6%	61.5%	61.3%	61.3%
Water Jetting	42.5%	42.6%	49.2%	51.0%	50.3%	49.4%	51.3%	51.1%	47.2%	41.0%	37.4%	38.5%	38.7%	38.7%
Electric Motors	10.8%	9.9%	10.0%	8.4%	6.1%	5.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Geo split														
Italy	85.4	86.1	91.6	84.9	70.7	86.3	76.7	71.5	77.8	91.8	135.9	140.2	142.1	146.4
YOY		0.8%	6.4%	-7.3%	-16.7%	22.1%	-11.1%	-6.8%	8.8%	17.9%	48.1%	3.1%	1.4%	3.0%
Rest of Europe	88.0	108.9	128.8	135.3	101.6	119.3	133.6	143.5	164.9	224.3	286.5	301.1	305.3	313.5
YOY		23.7%	18.2%	5.0%	-24.9%	17.4%	12.0%	7.4%	14.9%	36.0%	27.8%	5.1%	1.4%	2.7%
North America	117.5	114.2	131.8	125.7	105.6	128.6	155.0	187.5	190.3	217.0	293.4	282.1	285.1	296.5
YOY		-2.8%	15.4%	-4.6%	-16.1%	21.9%	20.5%	21.0%	1.5%	14.1%	35.2%	-3.8%	1.1%	4.0%
Asia/Pacific	17.5	20.7	34.8	32.4	29.4	39.0	50.3	54.8	51.6	61.9	85.0	84.1	85.3	88.8
YOY		18.2%	68.4%	-7.1%	-9.2%	32.7%	28.9%	9.0%	-5.9%	20.0%	37.3%	-1.0%	1.4%	4.1%
ROW	23.2	35.0	45.0	46.3	35.7	51.7	56.7	69.9	71.9	77.1	94.2	96.8	99.0	99.1
YOY		50.6%	28.7%	2.7%	-22.9%	45.0%	9.6%	23.2%	2.9%	7.1%	22.2%	2.7%	2.3%	0.1%
Group Sales	331.6	364.9	432.0	424.5	342.9	424.9	472.3	527.2	556.5	672.0	894.9	904.3	916.8	944.3
YOY		10.0%	18.4%	-1.7%	-19.2%	23.9%	11.1%	11.6%	5.6%	20.8%	33.2%	1.0%	1.4%	3.0%
Weight %														
Italy		23.6%	21.2%	20.0%	20.6%	20.3%	16.2%	13.6%	14.0%	13.7%	15.2%	15.5%	15.5%	15.5%
Rest of Europe		29.8%	29.8%	31.9%	29.6%	28.1%	28.3%	27.2%	29.6%	33.4%	32.0%	33.3%	33.3%	33.2%
North America		31.3%	30.5%	29.6%	30.8%	30.3%	32.8%	35.6%	34.2%	32.3%	32.8%	31.2%	31.1%	31.4%
Asia/Pacific		5.7%	8.1%	7.6%	8.6%	9.2%	10.6%	10.4%	9.3%	9.2%	9.5%	9.3%	9.3%	9.4%
ROW		9.6%	10.4%	10.9%	10.4%	12.2%	12.0%	13.3%	12.9%	11.5%	10.5%	10.7%	10.8%	10.5%
Total		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Interpump Group, Kepler Cheuvreux

Similarly, with EBITDA of EUR182.6m (+1.3% YOY), we remain below EUR185m, at the low end of guidance. We project 1-3.9% EBITDA growth over 2017-18.

**... and the same for
EBITDA**

Table 15: Interpump Group – divisional EBITDA breakdown

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Hydraulic	32	37.9	38.5	33.4	15.0	23.6	32.9	36.7	41.4	69.4	96.6	94.6	95.0	99.6
Water Jetting	36	43.6	53.6	53.2	32.9	50.3	60.7	67.9	63.7	66.7	83.7	88.0	89.4	92.1
Electric Motors	-0.3	-1.1	2.2	0.3	-1.1	0.2	0.0							
Other	-0.5	-1.3	0.0	0.1	0.1	0.0	1.1							
EBITDA Total	68.0	79.1	94.3	87.0	46.9	74.1	94.7	104.6	105.2	136.1	180.3	182.6	184.4	191.6
YOY														
Hydraulic		16.8%	1.5%	-13.0%	-55.2%	57.5%	39.2%	11.6%	12.8%	67.6%	39.3%	-2.1%	0.4%	4.8%
Water Jetting		20.0%	22.9%	-0.7%	-38.3%	53.2%	20.5%	12.0%	-6.2%	4.6%	25.4%	5.1%	1.6%	3.0%
Total YOY		16.4%	19.1%	-7.7%	-46.1%	58.1%	27.8%	10.5%	0.5%	29.4%	32.4%	1.3%	1.0%	3.9%
Margin														
Hydraulic	21.0%	21.9%	21.8%	19.4%	10.0%	12.4%	14.3%	14.2%	14.1%	17.5%	17.2%	17.0%	16.9%	17.2%
Water Jetting	25.8%	28.1%	25.2%	24.6%	19.1%	24.0%	25.0%	25.2%	24.3%	24.2%	25.0%	25.3%	25.2%	25.2%
Electric Motors	-0.9%	-3.0%	5.1%	0.7%	-5.1%	0.7%								
Total margin	20.5%	21.7%	21.8%	20.5%	13.7%	17.4%	20.0%	19.8%	18.9%	20.3%	20.1%	20.2%	20.1%	20.3%

Source: Interpump Group, Kepler Cheuvreux

Full P&L - we project a c. 2% EBITDA CAGR over 2015-18E

Acquisitions might boost growth, as in the past

Without further acquisitions, we project c. 2% sales, EBITDA and net profit CAGRs over 2015-18E. This is not much different from the low-single-digit historical ten-year organic CAGR, as per our analysis in the previous sections, and with the mature characteristics of the business. At the same time, this is well below the historical CAGR at reported level: obviously, the continuation of value-accretive M&A, complementing and enhancing the presence in the vast Hydraulic market or in the Water Jetting niche, might boost growth.

P&L: we project a low-single-digit organic CAGR over 2015-18E. M&A would provide a boost

Table 16: Interpump Group – full P&L

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	CAGR 2005- 15	CAGR 2015- 18E
Sales	331.6	364.9	432.2	424.5	342.9	424.9	472.3	527.2	556.5	672.0	894.9	904.3	916.8	944.3	10.4%	1.8%
YOY		10.0%	18.4%	-1.8%	-19.2%	23.9%	11.1%	11.6%	5.6%	20.8%	33.2%	1.0%	1.4%	3.0%		
COGS	-209.4	-229.7	-271.6	-266.0	-230.2	-272.6	-294.7	-327.6	-353.8	-426.6	-577.3	-583.2	-591.3	-609.1		
% of sales	-63.1%	-63.0%	-62.8%	-62.7%	-67.1%	-64.2%	-62.4%	-62.1%	-63.6%	-63.5%	-64.5%	-64.5%	-64.5%	-64.5%		
Gross margin	122.2	135.2	160.6	158.5	112.7	152.3	177.6	199.6	202.8	245.4	317.6	321.0	325.5	335.2		
% of sales	36.9%	37.0%	37.2%	37.3%	32.9%	35.8%	37.6%	37.9%	36.4%	36.5%	35.5%	35.5%	35.5%	35.5%		
Other revenues	4.3	6.4	8.0	6.0	6.3	6.9	7.6	8.8	8.8	12.6	13.1	14.5	14.7	15.1		
% of sales	1.3%	1.8%	1.9%	1.4%	1.8%	1.6%	1.6%	1.7%	1.6%	1.9%	1.5%	1.6%	1.6%	1.6%		
Distribution costs	-25.5	-27.8	-37.4	-38.3	-35.4	-41.3	-46.1	-53.4	-58.1	-68.1	-84.3	-87.6	-88.6	-89.6		
% of sales	-7.7%	-7.6%	-8.7%	-9.0%	-10.3%	-9.7%	-9.8%	-10.1%	-10.4%	-10.1%	-9.4%	-9.7%	-9.7%	-9.5%		
G&A costs	-43.0	-43.1	-47.3	-49.4	-53.2	-61.8	-60.3	-69.4	-70.4	-80.5	-105.7	-106.7	-107.3	-109.5		
% of sales	-13.0%	-11.8%	-11.0%	-11.6%	-15.5%	-14.5%	-12.8%	-13.2%	-12.7%	-12.0%	-11.8%	-11.8%	-11.7%	-11.6%		
Other	-0.7	-0.9	-0.8	-1.2	-1.3	-1.4	-3.1	-2.8	-3.6	-5.0	-3.9	-3.6	-3.7	-3.8		
% of sales	-0.2%	-0.3%	-0.2%	-0.3%	-0.4%	-0.3%	-0.7%	-0.5%	-0.7%	-0.7%	-0.4%	-0.4%	-0.4%	-0.4%		
Impairments	0.0	0.0	-0.9	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
% of sales	0.0%	0.0%	-0.2%	-0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
EBIT	57.4	69.7	82.2	73.9	29.2	54.7	75.7	82.8	79.3	104.4	136.9	137.6	140.6	147.4	10.2%	2.1%
margin %	17.3%	19.1%	19.0%	17.4%	8.5%	12.9%	16.0%	15.7%	14.3%	15.5%	15.3%	15.2%	15.3%	15.6%		
YOY		21.5%	18.0%	-10.1%	-60.5%	87.3%	38.5%	9.3%	-4.2%	31.6%	31.2%	0.5%	2.2%	4.9%		
D&A	-9.5	-8.5	-10.3	-10.9	-17.0	-18.9	-18.1	-20.1	-23.7	-30.1	-41.9	-43.5	-43.8	-44.2		
Others	-1.1	-0.9	-1.7	-2.1	-0.6	-0.5	-0.9	-1.7	-2.1	-1.7	-1.5	-1.5	-1.6	-1.8		
EBITDA	68.0	79.1	94.3	87.0	46.9	74.1	94.7	104.6	105.2	136.1	180.3	182.6	184.4	191.6	9.1%	2.1%
margin %	20.5%	21.7%	21.8%	20.5%	13.7%	17.4%	20.0%	19.8%	18.9%	20.3%	20.1%	20.2%	20.1%	20.3%		
YOY		16.4%	19.1%	-7.7%	-46.1%	58.1%	27.8%	10.5%	0.5%	29.4%	32.4%	1.3%	1.0%	3.9%		
Financial charges	-6.0	-8.6	-10.8	-13.2	-9.0	-9.2	-8.7	-7.9	-7.9	-11.4	27.3	-9.8	-8.2	-5.0		
Cap. gains	-4	6.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other financials	0.1	-0.8	0.1	0.0	-0.1	0.1	-0.4	-0.1	-0.3	0.1	-0.3	-0.2	-0.2	-0.3		
Profit Before Tax	47.5	66.8	71.6	60.7	20.1	45.6	66.7	74.8	71.1	93.1	163.9	127.6	130.6	140.4		
Taxes	-20.3	-25.2	-28.6	-20.6	-6.1	-18.3	-23.0	-22.5	-27.0	-35.4	-47.0	-44.6	-45.7	-49.1		
Tax rate%	42.7%	37.7%	40.0%	34.0%	30.5%	40.0%	34.5%	30.1%	38.0%	38.0%	28.6%	35.0%	35.0%	35.0%		
Net profit continuing	27.2	41.6	42.9	40.1	14.0	27.4	43.6	52.3	44.1	57.7	117.0	82.9	84.9	91.2		
Net income disc. op.	0.0	0.0	0.0	0.0	0.0	0.0	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Minorities	-1.2	-0.6	-1.6	-0.9	-0.1	-0.9	-1.4	-0.9	-0.9	-0.8	-0.7	-1.0	-1.0	-1.1		
Net Profit	26.7	41.0	41.3	39.2	13.9	26.5	41.2	51.4	43.2	56.9	116.3	81.9	83.9	90.1		
YOY		58.3%	0.7%	-5.1%	-64.5%	90.7%	55.5%	24.8%	-16.0%	31.8%	104.3%	-29.6%	2.4%	7.5%		
Adj. Net Profit	26.7	41.0	41.3	39.2	13.9	26.5	41.2	51.4	43.2	56.9	84.3	81.9	83.9	90.1	12.2%	2.2%
YOY		58.3%	0.7%	-5.1%	-64.5%	90.7%	55.5%	24.8%	-16.0%	31.8%	48.1%	-2.9%	2.4%	7.5%		

Source: Interpump group, Kepler Cheuvreux

Balance sheet and FCF: ample firepower for M&A

Continuation of solid free cash flow

We expect equity free cash flow to be solid over 2016-18, in the EUR90-95m range. This is before dividends and clearly excludes potential M&A or buybacks. We incorporate capex of EUR30m in 2016, slightly up from EUR29m in 2015, rising to EUR35m in 2018. This is considerably below D&A, in excess of EUR40m which also includes the amortisation of intangibles (e.g. brands) amounting to EUR7m.

We expect net debt to decline from 1.4x at end-2015 to 0.3x at end-2018, which leaves ample room to continue M&A. We assume NWC/sales to remain in the 33-34% range.

Following the EUR0.19 DPS that will be distributed on the back of 2015 results, up from EUR0.18 in 2014, we project DPS to gradually rise to EUR0.25 on 2018 results, assuming a 30% payout. The dividend policy is not pre-defined and is opportunistic, in light of potential M&A or cyclical considerations. Historically, the average payout was around 30% over 2005-15.

We project FCF in excess of EUR90m. Positive D&A/capex spread

Solid balance sheet leaves ample room for M&A

We assume a 30% dividend payout. No pre-defined policy

Table 17: Interpump Group – free cash flow

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Net income	27	42	43	40	14	27	44	52	44	58	117	83	85	91
D&A	11	9	10	11	17	19	18	20	24	30	42	44	44	44
Change of NWC	0	0	5	-42	14	7	-20	-20	2	-58	-74	-3	-4	-9
Other	-5	-11	-15	31	28	11	0	2	-7	42	29	0	0	0
CF from Operations	32	39	44	40	72	65	41	55	63	72	113	124	124	126
Capex	-8	-12	-12	-17	-9	-9	-12	-16	-30	-34	-29	-30	-34	-35
FCFE pre div/M&A	24	27	32	22	63	56	29	39	34	38	85	94	90	91
M&A, buyback	-24	-56	-22	-92	0	-19	-32	-29	-83	-167	0	0	0	0
Capital increases	0	0	0	0	50	4	0	57	0	0	0	0	0	0
Dividends	-11	-13	-14	-31	0	0	-11	-12	-19	-18	-20	-21	-25	-25
Net debt reduction	84	-10	-37	-31	21	59	-1	52	-14	-63	-103	73	66	66
Net Debt beginning	212	128	137	175	206	185	126	127	75	89	152	255	182	116
Net Debt end	128	137	175	206	185	126	127	75	89	152	255	182	116	50
Net Debt/EBITDA (x)	1.88	1.74	1.86	2.37	3.96	1.70	1.34	0.71	0.84	1.12	1.41	1.00	0.63	0.26
Debt/Equity (x)	0.82	0.88	1.19	1.16	0.76	0.43	0.40	0.19	0.20	0.33	0.41	0.27	0.16	0.06

Source: Interpump Group, Kepler Cheuvreux

Historically, the conversion of net profit into free cash has been irregular, mostly related to changes in net working capital. We highlight that in a terrible year like 2009, with a 28% organic sales decline, the company managed to generate a positive net income and above all a very positive FCF (NWC reduction, capex control), which however, given the profitability crash at a time of M&A outflow (acquisitions in cylinders), was not enough to avoid the launch of a EUR50m capital increase plus waivers on bank debt covenants.

Historical cash generation versus net income: our analysis

Table 18: Interpump Group – net income and conversion into FCFE

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	Σ 2005-18E
Net income adj	26.7	41.0	41.3	39.2	13.9	26.5	41.2	51.4	43.2	56.9	84.3	81.9	83.9	90.1	721.6
FCFE	24	27	32	22	63	56	29	39	34	38	85	94	90	91	723.9
conversion%	88%	120%	87%	59%	457%	281%	76%	78%	80%	50%	67%	115%	108%	101%	100%

Source: Interpump Group, Kepler Cheuvreux

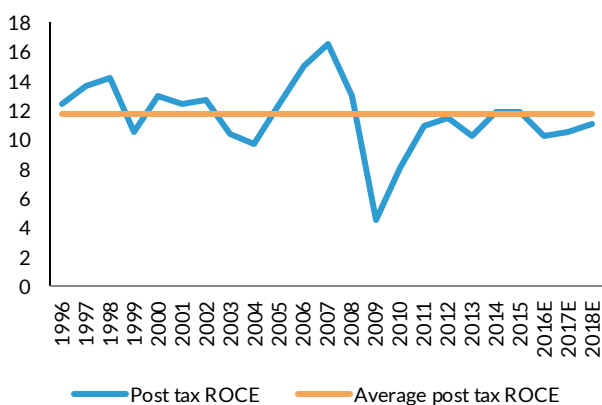
Table 19: Interpump Group – balance sheet

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Goodwill	134	131	156	175	196	210	213	226	235	279	347	347	347	347
Other Intangibles	16	16	22	24	26	24	24	22	24	25	33	33	33	33
Total Intangible s	149	147	179	199	222	234	237	248	259	304	381	381	381	381
Tangible Assets	51	52	59	72	107	103	103	113	151	209	286	273	263	254
Financial Assets	14	5	3	4	3	3	3	2	2	1	1	1	1	1
Total Fixed Assets	215	203	241	275	332	340	343	362	411	514	668	654	644	635
Working Capital	98	116	110	153	139	132	151	171	169	227	301	304	308	317
% on sales	29.4%	31.7%	25.6%	35.9%	40.4%	31.0%	32.1%	32.5%	30.4%	33.8%	33.7%	33.6%	33.6%	33.6%
Inventories	85	83	104	120	101	108	117	132	146	182	238	240	243	250
% on sales	25.7%	22.8%	24.0%	28.3%	29.4%	25.4%	24.8%	25.0%	26.2%	27.2%	26.6%	26.5%	26.5%	26.5%
Trade Receivables	71	66	84	84	77	89	96	96	114	136	179	181	183	189
% on sales	21.4%	18.1%	19.5%	19.9%	22.4%	20.8%	20.3%	18.3%	20.4%	20.2%	20.0%	20.0%	20.0%	20.0%
Trade payable	-44	-41	-54	-54	-41	-62	-58	-54	-70	-80	-94	-95	-96	-99
% on sales	-13.2%	-11.2%	-12.5%	-12.8%	-12.1%	-14.5%	-12.3%	-10.2%	-12.6%	-11.9%	-10.5%	-10.5%	-10.5%	-10.5%
Others WC	-15	7	-24	2	3	-3	-3	-3	-21	-10	-21	-22	-22	-22
Severance	-11	-10	-8	-9	-10	-10	-10	-11	-12	-15	-17	-18	-18	-18
Other LT funds	-17	-16	-21	-34	-32	-44	-43	-51	-47	-108	-76	-76	-76	-76
Invested Capital	284	293	322	384	428	418	442	471	522	619	876	865	859	859
Minorities	7	6	7	8	6	7	5	6	6	6	5	6	7	7
Equity	150	150	140	170	237	284	310	391	427	461	616	677	736	801
Total equity	157	156	147	178	243	291	315	397	433	467	621	683	743	809
Net Debt	128	137	175	206	185	126	127	75	89	152	255	182	116	50
- Cash	56	58	71	50	85	139	109	115	105	87	135	208	274	340
- Short-term debt	62	61	73	105	105	133	122	98	82	92	90	90	90	90
- Long-term debt	122	135	173	151	166	132	114	92	112	147	301	301	301	301
BVPS	1.87	1.87	1.75	2.21	2.45	2.91	3.17	3.59	3.92	4.23	5.66	6.22	6.76	7.36
ROE (EPS adj.)	16.0%	27.4%	28.5%	25.3%	6.8%	10.2%	13.9%	14.7%	10.6%	12.8%	15.7%	12.7%	11.9%	11.7%
ROCE	9.6%	15.0%	16.6%	13.0%	4.5%	8.0%	10.9%	11.4%	10.2%	11.9%	11.9%	10.3%	10.5%	11.0%

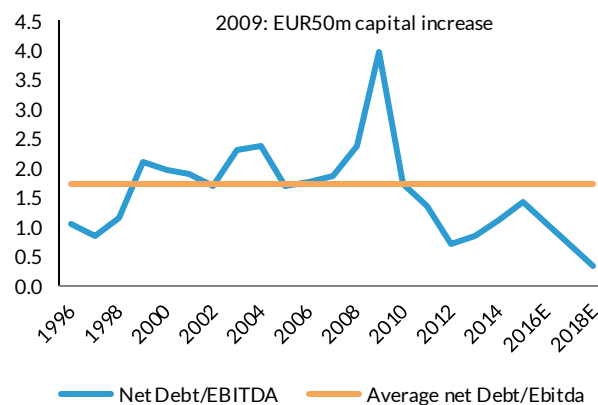
Source: Interpump Group, Kepler Cheuvreux

Taking a long-term view since the 1996 IPO, on average Interpump has posted a 12% post-tax ROCE (18% pre-tax), while the average net debt/EBITDA has been 1.7x, with a spike to c. 4x at end-2009, which then fully recovered in 2010.

**Average ROCE and
net debt/EBITDA
analysis**

Chart 36: Interpump Group - average LT post tax ROCE=12%


Source: Interpump Group, Kepler Cheuvreux

Chart 37: Interpump Group- average LT net debt/EBITDA=1.7x


Source: Interpump Group, Kepler Cheuvreux

The following table reports the cumulated free cash flow generation and its use over 1997-15 (since the IPO in December 1996), which, as we showed on page 19, was EUR3 per share. This corresponds to an IPO price adjusted for dividends and rectified for the capital increase of EUR1.28 (the share price has risen ten-fold since).

**Cash flow analysis
since the December
1996 IPO: powerful
drivers**

On top of an IPO market cap of EUR272m, the company has generated more than EUR0.6bn FCF over 19 years (EUR35m average a year), which has been distributed in dividends (c. EUR0.3bn) and deployed in acquisitions (c. EUR0.8bn), buffered by EUR0.2bn disposals (cleaning division, 2005 and electric motors, 2011) and by a c. EUR0.1bn capital increase (EUR50m in 2009 plus a warrant exercise over 2010-12). This value-accretive process led to a sound financial structure, providing a stable platform for M&A.

Table 20: Interpump Group – free cash flow track record 1997 (IPO Dec. 1996)-2015 (19 years)

	1997-15 (19 years)	Average per year
Initial Net debt (end 1996)	43	
Operating cash flow	971	51
Capex	-312	-16
Free Cash flow	659	35
Dividends	-317	-17
Net buyback	-49	-3
Capital increases	110	6
Acquisitions	-840	-44
Disposals	225	12
Increase in net debt	212	
Final net debt (end 2015)	255	

The IPO was in December 1996. Source: Interpump Group, Kepler Cheuvreux

We are positioned at a discount versus consensus

KECH: 3% below consensus 2016 EPS, 10% below 2018 EPS

Our FY 2016 estimates are 3% below consensus EPS, up to 10% for FY 2018.

Table 21: Our FY 2016/18 EPS estimates are at 3/10% versus consensus

	2016 KECH	2016 Cons	delta	2017 KECH	2017 Cons	delta	2018 KECH	2018 Cons	delta
Sales	904.3	905.3	0%	916.8	932.5	-2%	944.3	980.0	-4%
EBITDA	182.6	185.2	-1%	184.4	194.8	-5%	191.6	207.5	-8%
margin	20.2%	20.5%		20.1%	20.9%		20.3%	21.2%	
EBIT	137.6	138.4	-1%	139.0	148.6	-6%	145.6	159.2	-9%
margin	15.2%	15.3%		15.2%	15.9%		15.4%	16.2%	
Net Profit	81.9	84.8	-3%	83.9	91.5	-8%	90.1	100.6	-10%
Net Debt	182	200	-9%	116	123	-6%	50	82	n.m.
DPS	0.23	0.23	0%	0.23	0.26	-11%	0.25	0.28	-11%

Source: Bloomberg, Kepler Cheuvreux

M&A required to achieve the EUR1bn 2017 sales target

In recent years, the founder, Chairman and co-CEO Fulvio Montipò and the co-CEO Paolo Marinsek have reiterated the target of reaching sales of EUR1bn in 2017, through a mix of organic growth and acquisitions. Given our EUR917m sales estimate for 2017, mid-sized M&A contributing sales of EUR83m is required, which we believe might be feasible.

Valuation, target price and risks

We set our fair value at EUR13.5, implying 5% upside. We derive our TP as the average of two absolute valuation methods (DCF, EV/CE vs. ROCE/WACC) and a peer comparison. The stock is trading at a discount on EV-based multiples versus its peers, in line on P/E and aligned with (or at a slight premium to) historical ten-year multiples. Overall, we believe that at current levels the stock does not offer attractive upside thus presenting an unappealing entry point, moreover in consideration of the subdued growth outlook versus the historical norm.

DCF: EUR14.5

Our ten-year DCF points to EUR14.5, implying 5% upside.

Beyond our 2016-18 analytical period, we assume 3% top-line growth over 2019-25, in line with the 2.7% organic growth over the last ten years. We also assume that the EBITDA margin will remain unchanged at 20.3%, as well as a 16.1% terminal EBIT margin, slightly above 15.6% average over the last ten years.

We updated our estimated cash flows based on a 6.5% WACC, while we use a 1% terminal growth rate. Based on these two latter assumptions, the EV/EBITDA and EV/EBIT multiples implied in our terminal value are 9.2x and 11.5x, in line with 8.8x and 11.4x over the last ten years.

**Our DCF points to
EUR14.5 per share**

Table 22: Interpump Group – DCF points to EUR14.5

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Terminal
Revenues	904	917	944	973	1002	1032	1063	1095	1128	1161	
EBITDA	183	184	192	197	203	209	216	222	229	236	242
D&A	-44	-44	-44	-47	-48	-48	-48	-48	-48	-49	-50
EBIT	138	139	146	150	155	161	168	174	180	187	193
NOPAT	89	90	95	98	101	105	109	113	117	122	126
Change in NWC	-3	-4	-9	-10	-10	-10	-10	-11	-11	-11	-4
Capex	-30	-34	-35	-37	-39	-41	-43	-45	-47	-49	-50
FCF	100	96	95	99	101	102	104	106	108	110	122
Sales growth %	1.0%	1.4%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
EBITDA margin %	20.2%	20.1%	20.3%	20.3%	20.3%	20.3%	20.3%	20.3%	20.3%	20.3%	
EBIT margin %	15.2%	15.2%	15.4%	15.4%	15.5%	15.6%	15.8%	15.9%	16.0%	16.1%	
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	
WACC	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Discounted FCF	94	85	78	77	73	70	67	64	61	59	2220
WACC	6.5%										
LTG %	1.0%										
NPV of FCF 2016-25	729										
NPV of Terminal Value	1,113										
Implied EV/EBITDA terminal (x)	9.2										
Implied EV/EBIT terminal (x)	11.5										
EV	1,843										
NFP 2015	-255										
Pensions, other adjustments	-9										
Equity Value	1,579										
Shares outstanding	109										
Fair value per share	14.5										
Current price	12.8										
Potential upside / (downside)	13%										

Source: Kepler Cheuvreux

EV/CE versus ROCE/WACC: EUR11.6 per share

Based on a 6.5% WACC, our EV/CE versus ROCE/WACC valuation points to EUR11.6 per share.

**EV/CE versus
ROCE/WACC
points to EUR11.6**

Table 23: Interpump Group – EV/CE vs. ROCE/WACC valuation on 2016/18 points to EUR11.6

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	Average 16-18E
ROCE after tax %	16.6	13.0	4.5	8.0	10.9	11.4	10.2	11.9	11.9	9.9	10.1	10.6	
WACC %	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	
ROCE/WACC	2.5	2.0	0.7	1.2	1.7	1.8	1.6	1.8	1.8	1.6	1.6	1.7	
Capital employed	322	384	428	418	442	471	522	619	876	865	859	859	
Fair EV	821	767	294	515	743	828	821	1132	1605	1367	1385	1456	
Fair equity value	584	533	103	375	579	710	712	929	1341	1166	1245	1377	
Fair equity value ps	7.3	6.9	1.1	3.8	5.9	6.5	6.5	8.5	12.3	10.7	11.4	12.6	11.6

Source: Kepler Cheuvreux

Peer comparison: some EV-based discount, in line on P/E

We compare Interpump Group with the following listed peers, which in our view have the highest degree of comparability as they are active either in hydraulic or water jetting.

Parker Hannifin (US, market cap EUR13.4bn)

Description

With sales of USD12.7bn in 2014-15, the company is one of the world's leaders in motion and control technologies. It is active in hydraulic, including cylinders, motors, pumps, systems, valves, PTOs, tube fitting and adapters.

End markets

Oil & gas, construction, trucks, mining, agriculture, and aerospace.

Recent outlook

The business is under pressure. During its Q2 2015/16 release (26 January), Parker Hannifin warned about "continued weakness, stemming from natural resource related end markets such as oil and gas, construction, mining and agriculture, continues to impact sales and order rates". Parker Hannifin reported a 12% YOY drop in order intake for Q2 2015/16, ended 31 December 2015.

Eaton (US, market cap EUR25.8bn)

Description

With sales of USD12.7bn in 2015, the company is a multinational power management company, providing solutions to its customers to manage electric, hydraulic and mechanical power efficiently, safely and sustainably. In November 2012, it acquired Cooper Industries. It is active in hydraulic (12% of 2015 sales).

End markets

General industrial, automotive, aerospace, and marine.

**Parker Hannifin
(US). Peer in
hydraulic**

Uninspiring outlook

**Eaton (US). Peer in
hydraulic**

**Uninspiring
outlook, growth in
hydraulic not
before 2018**

Recent outlook

In this case too, business conditions are under pressure, particularly in hydraulic, where a return to growth is not expected before 2018. In fact, in its FY 2015 (3 February), Eaton stated that *"organic revenues in FY 2016 will decline by between 2% and 4%, reflecting a continuation of sluggish markets around the world. The expected CAGR 2015-20 is 1-2%. The hydraulic market was impacted during Q4 by a continuation of broad-based weakness in stationary and mobile equipment end markets. Our bookings in the fourth quarter declined by 22% compared to last year. We project Hydraulic market growth suppressed by short-term overcapacity in key end markets; likely to show improved growth as of 2018"*.

Weir Group (UK, market cap EUR3bn)

Description

With sales of GBP1.9bn in 2015, the company activity is split into three divisions: minerals, oil & gas, power and industrial. The latter includes a vast range of pumps used in diverse applications.

End markets

Water, waste-water, chemicals, fertilisers, agriculture, food & beverage, pharma, pulp and paper, steel, marine, mining, and oil & gas.

Recent outlook

During its FY 2015 press release on 24 February, Weir Group presented a sluggish outlook: *"Power, oil and gas, and industrial markets are expected to remain subdued in 2016, with uncertainty across most process industries leading to customers delaying new investment decisions"*.

Bucher Industries (Switzerland, market cap EUR2.2bn)

Description

With sales of CHF2.5bn in 2015, Bucher is focused on specialised agricultural machinery, municipal vehicles, hydraulic components, and machinery for food & beverages. Its Bucher Hydraulic division produces pumps, motors, valves, power units, elevator drives and control systems.

End markets

Water, waste-water, chemicals, fertilisers, agriculture, food and beverages, pharma, pulp & paper, steel, marine, mining, and oil & gas.

Recent outlook

In its FY 2015 release on 8 March, the company said that *"for Bucher Hydraulic, there are prospects of moderate growth in 2016 in Europe and the US, except in agricultural machinery"*

Uninspiring outlook. Growth in hydraulic not before 2018

Weir Group (UK). Peer in water jetting

Subdued 2016 outlook

Bucher Industries (Switzerland). Active in hydraulic

More supportive prospects

Sulzer (Switzerland, market cap EUR2.6bn)

Description

With sales of CHF3bn in 2015, Sulzer is active in Pumps Equipment, Rotating Equipment services, and Chemtech. Its Pump Equipment business (52% of 2015 group sales) provides solutions to oil & gas, chemicals, power Generation, water production and waste-water collection, and treatment and to other end markets.

End markets

Oil & gas, power, water, and general industry.

Recent outlook

At its FY 2015 release on 25 February, Sulzer said that: "In 2015, order intake of the Pumps Equipment division fell by 6.7%. Strong growth in the power market and moderate growth in the water market were more than neutralised by a sharp decline of orders in the oil and gas market".

Interpump is both the smallest and the most profitable company in its peer group, as a result of its niche positioning skewed towards highly profitable segments, in particular PTOs in hydraulic and high/very high pressure pumps in water jetting (see Appendix for a revenue and EBITDA divisional breakdown). We expect Interpump to post a 20.2% EBITDA margin in 2016, 650bps above the peer average (13.7%).

Interpump's growth prospects are in line or slightly below that of its peers. We forecast a 1.8% sales CAGR over 2015-18E for Interpump, slightly above the 0.7% peer average, while our 2.1% EBITDA and 2.2% net profit CAGRs are slightly below the peer average of 3.8% and 5.3% respectively.

**Sulzer
(Switzerland). Peer
in water jetting**

**Declining order
intake, penalised
by oil & gas**

**Interpump is the
smallest and most
profitable company
in its peer group
(niche positioning)**

**Growth outlook for
2015-18: overall in
line with its peers**

Table 24: Interpump Group – CAGRs and margins versus peers

Name	Country	Market cap	Sales CAGR 2015-18E	EBITDA CAGR 2015-18E	Net profit CAGR 2015-18E	EBITDA margin 2016E	EBIT margin 2016E
Parker Hannifin	US	13.4	2.6%	5.7%	6.5%	14.5%	12.2%
Eaton Corporation	US	25.8	-0.3%	2.6%	4.5%	16.7%	12.6%
Weir Group	UK	3.0	-0.4%	1.1%	1.5%	15.2%	10.5%
Bucher Industries	Switzerland	2.2	3.2%	6.6%	8.7%	12.4%	8.6%
Sulzer	Switzerland	2.9	-1.4%	3.1%	5.2%	9.5%	5.2%
Average			0.7%	3.8%	5.3%	13.7%	9.8%
Interpump Group	Italy	1.4	1.8%	2.1%	2.2%	20.2%	15.2%

Source: Bloomberg, Thomson Reuters, Kepler Cheuvreux

The stock is trading at a discount to its peers on EV-based multiples: 9-12% on EV/EBITDA 2016-18E and 11-21% on EV/EBIT. On P/E, the stock is trading pretty much in line, as the discount on EV-based multiples is dented by a higher-than-average tax rate: 35% for Interpump Group versus 20-30% for its peers. The dividend yield is more than 30% below the peer average, as the dividend payout is kept at fairly compressed levels (2015: 18% on reported and 25% on adjusted net income), in line with management's strategy to retain cash to be deployed in value-accretive acquisitions.

As an average of relative EV/EBITDA, EV/EBIT and P/E, we derive a fair value of EUR14.5 per share.

**At a discount on
EV-based multiples,
in line on P/E**

**Lower dividend
yield, as cash is
retained to be
deployed in M&A**

Table 25: Interpump Group – peers multiples based valuation points to EUR14.5 per share

Name	Country	Market cap EURbn	EV/EBITDA			EV/EBIT			P/E			Dividend yield		
			16E	17E	18E	16E	17E	18E	16E	17E	18E	16E	17E	18E
Parker Hannifin	US	13.4	10.5	9.8	10.8	12.9	11.7	11.0	18.1	17.1	16.0	2.3%	2.4%	2.5%
Eaton Corporation	US	25.8	11.0	10.5	10.2	14.8	13.9	13.9	14.7	13.7	12.7	3.7%	4.0%	4.3%
Weir Group	UK	3.0	11.7	10.7	9.5	19.8	15.1	14.1	17.1	15.0	13.5	3.8%	3.9%	4.2%
Bucher industries	Switzerland	2.2	7.8	7.3	6.7	11.1	10.2	9.3	16.1	14.4	13.0	2.6%	2.7%	2.8%
Sulzer	Switzerland	2.9	9.8	8.2	7.2	16.5	12.8	11.2	n.m.	25.3	20.4	3.5%	3.7%	3.80%
Average			10.2	9.3	8.9	15.0	12.7	11.9	16.5	17.1	15.1	3.2%	3.3%	3.5%
Interpump Group			8.7	8.2	7.6	11.5	10.9	10.0	17.1	16.7	15.5	1.8%	1.8%	1.9%
Interpump vs average			-12%	-9%	-11%	-21%	-11%	-13%	3%	-2%	3%	-35%	-37%	-36%
Fair Value at peers avg.			15.3	14.6	15.1	17.2	15.1	15.4	12.4	13.2	12.5			
Average method (EURps)				15.0			15.8			12.7				
Total average (EURps)							14.5							

Source: Bloomberg, Thomson Reuters, Kepler Cheuvreux

Unappealing based on historical multiples

Over the last ten years (2006-15), the stock has traded at an average 8.8x EV/EBITDA, 11.4x EV/EBIT and 16.2x P/E. As we show in Tables 9 and 10, over the same period, the sales CAGR was 2.7% organically and 11.4% including acquisitions. Despite the slowdown that we expect over 2016-18, with a sales CAGR of 1.8% (below historical levels), based on 2016 and 2017 estimates the stock is trading at 5% and 3% above the historical average P/E and at a 1% premium to a 5% discount on EV/EBITDA and EV/EBIT. It is also trading pretty much in line with the historical average EV/CE, despite a ROCE after-tax that is 12-9% below the historical ten-year average.

All in all, we believe the valuation is not compelling, especially in light of the growth outlook that is set to remain below historical levels.

Unappealing on historical multiples, particularly in light of the growth outlook below the historical norm

Table 26: Interpump Group – the stock is trading at a premium to historical multiples

Multiples	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	06-15 avg	2016E vs avg	2017E vs avg
EV/SALES	1.8	1.7	1.5	1.7	1.5	1.5	1.5	1.6	1.9	2.0	1.8	1.7	1.5	1.7	7%	2%
EV/EBITDA	8.2	8.0	7.5	12.4	8.3	7.6	7.4	8.7	9.6	10.0	8.7	8.2	7.6	8.8	-1%	-5%
EV/EBIT	9.3	9.1	8.9	19.9	11.3	9.5	9.4	11.5	12.5	13.1	11.5	10.9	10.0	11.4	1%	-3%
P/E	12.2	13.1	10.7	26.9	17.4	13.5	13.0	18.4	19.5	17.8	17.1	16.7	15.5	16.2	5%	3%
P/BV	3.33	3.87	2.47	1.58	1.62	1.79	1.71	1.86	2.41	2.44	2.08	1.92	1.77	2.3	-10%	-17%
EV/CE	2.2	2.3	1.7	1.4	1.5	1.6	1.6	1.8	2.1	2.1	1.7	1.7	1.6	1.8	-5%	-3%
ROE%	27.3	28.5	25.3	6.8	10.2	13.9	14.7	10.6	12.8	15.7	12.7	11.9	11.7	16.6	-23%	-28%
ROCE after tax %	15.0	16.6	13.0	4.5	8.0	10.9	11.4	10.2	11.9	11.9	9.9	10.1	10.6	11.3	-12%	-9%
Dividend yield %	2.7	7.9	0.0	0.0	1.9	2.0	2.3	1.7	1.3	2.0	1.8	1.8	1.9	2.2	-5%	-3%
FCF yield %	9.7	6.4	5.3	17.0	16.0	5.4	5.8	4.3	2.5	3.7	6.6	6.4	6.4	7.6	-12%	-16%

Historical multiples calculated at yearly average price. Source: Kepler Cheuvreux

Target price: EUR13.5

As an average of absolute (a DCF-based valuation, an EV/CE vs. ROCE WACC approach) and relative (peer multiples) valuation methods, we set our TP at EUR13.5, implying 5% upside, which leads us to rate the stock a Hold.

Table 27: Target price: EUR13.5

Valuation method	Outcome
DCF	14.5
EV/CE vs. ROCE/WACC	11.6
Peers multiples	14.5
Average	13.5

Source: Kepler Cheuvreux

Key risks

Top management change. Fulvio Montipò (71) founded the group in 1977 and is currently Chairman and co-CEO. He also retains the majority (c. two-thirds) of IPG Holding, which in turn is the largest shareholder (20.2%) and exercises de-facto control over Interpump Group. Paolo Marinsek (65) is the co-CEO. We believe the top management boasts a solid track record and has been able to position Interpump Group solidly in its reference markets, thanks to organic growth fuelled by constant product innovation. The change of top management might represent a risk.

Value-destructive M&A. M&A is at the very core of the investment case. In the past, management has been able to transform a profitable niche business (albeit essentially mature and characterised by low-single-digit organic growth over the cycle) into a double-digit growth story. The attitude remains acquisitive, with the aim of complementing the group's presence in its markets, particularly Hydraulic, which offers the most opportunities given its vast size. A sound balance sheet and abundant free cash flow generation allow the group to implement further acquisitions. Value-destructive acquisitions (high prices paid but with mostly a poor integration into the existing business and lack of synergies) might represent a risk.

Forex, macro conditions, end-market performance. 1) Forex: the US dollar exposure is particularly important. In 2015, Interpump Group generated 33% of its revenues in North America (43% in Water Jetting, 24% in Hydraulic). In Water Jetting, exposure comes from its US subsidiary General Pump and its very high pressure pumps NLB, while in Hydraulic the exposure mostly derives from the US subsidiary Muncie. We calculate that each 10% change in the EUR/USD rate leads to a 5-6% swing in EPS; 2) we have shown that, over time, revenues posted an average-to-high degree of cyclicity, which was higher in Hydraulic and lower in Water Jetting; and 3) in particular, the performance of the trucks, construction and agriculture machine end-markets might significantly affect the performance of the Hydraulic division.

Appendices

Revenues by business and subsidiary

Table 28: Interpump Group – revenue breakdown

	2012	2013	2014	2015	2016E	2017E	2018E
Hydraulic	257.7	294.1	396.2	560.3	556.6	562.1	579.0
Muncie USDm	103.3	107.3	121.2	117.6	100.0	98.0	102.9
Muncie EURm	80.4	80.8	91.2	106.0	90.1	88.3	92.7
Valves	19.3	54.1	79.6	225.8	233.2	237.4	244.5
Interpump Hydraulic	81.7	81.5	79.5	79.1	82.2	83.8	85.5
Cylinders	76.3	77.7	84.1	88.1	89.9	90.8	93.1
Hoses and fittings			61.8	61.3	61.3	61.9	63.2
Water Jetting	269.4	262.4	275.8	334.7	347.7	354.7	365.3
NLB USDm	86.7	83.3	89.5	92.6	95.4	98.2	100.7
NLB EURm	67.4	62.7	67.4	83.4	85.9	88.5	90.7
Hammelmann	108.8	104.4	106.5	125.5	124.2	123.0	126.1
InoxiHP				10.8	11.3	11.9	12.3
Subtotal VHPP	176.2	167.1	173.9	219.7	221.5	223.3	229.1
High pressure pumps	82.3	83.2	92.8	98.0	102.4	105.8	109.1
Bertoli				7.9	14.5	16.0	17.3
Other	10.9	12.1	9.1	9.1	9.3	9.6	9.8
Total sales	527.2	556.5	672.0	894.9	904.3	916.8	944.3
Sales growth							
Hydraulic		14.1%	34.7%	41.4%	-0.7%	1.0%	3.0%
Muncie USDm		3.9%	13.0%	-3.0%	-15.0%	-2.0%	5.0%
Muncie EURm		0.5%	12.9%	16.2%	-15.0%	-2.0%	5.0%
Valves		180.3%	47.1%	183.7%	3.3%	1.8%	3.0%
Interpump Hydraulic		-0.2%	-2.5%	-0.5%	3.9%	2.0%	2.0%
Cylinders		1.8%	8.2%	4.8%	2.0%	1.0%	2.6%
Hoses and fittings				-0.8%	0.0%	1.0%	2.0%
Water Jetting		-2.6%	5.1%	21.3%	3.9%	2.0%	3.0%
NLB USDm		-3.9%	7.4%	3.5%	3.0%	3.0%	2.5%
NLB EURm		-7.0%	7.5%	23.7%	3.0%	3.0%	2.5%
Hammelmann		-4.0%	2.0%	17.8%	-1.0%	-1.0%	2.5%
InoxiHP					5.0%	4.5%	4.0%
Subtotal VHPP		-5.2%	4.1%	26.3%	0.8%	0.8%	2.6%
High pressure pumps		1.1%	11.5%	5.6%	4.5%	3.3%	3.1%
Bertoli					n.m.	10.0%	8.0%
Group Sales		5.6%	20.8%	33.2%	1.0%	1.4%	3.0%
LFL Hydraulic		0.1%	7.2%	5.0%	-2.0%	1.0%	3.0%
LFL Water Jetting		-2.6%	5.1%	14.6%	3.0%	2.0%	3.0%
LFL total		-1.3%	6.2%	8.9%	-0.1%	1.4%	3.0%

Source: Interpump Group, Kepler Cheuvreux

EBITDA by business and subsidiary

Table 29: Interpump Group – EBITDA breakdown

	2012	2013	2014	2015	2016E	2017E	2018E
Hydraulic	36.7	41.4	69.4	96.6	94.6	95.0	99.6
Muncie USDm	21.6	22.5	26.8	24.2	19.5	18.7	20.9
Muncie EURm	16.8	16.9	20.1	21.8	17.6	16.9	18.8
Valves	1.6	5.5	14.5	38.0	39.4	40.3	42.0
Interpump Hydraulic	10.6	9.5	12.0	12.6	13.1	13.4	13.7
Cylinders	12.0	11.9	15.4	14.7	15.2	15.5	16.0
Hoses and fittings	0.0	0.0	11.0	12.9	13.0	13.1	13.4
Overheads Hydraulic	-3.6	-2.4	-3.6	-3.4	-3.7	-4.3	-4.4
Water Jetting	67.9	63.7	66.7	83.7	88.0	89.4	92.1
NLB USDm	15.1	13.6	15.6	15.8	16.6	17.0	17.4
NLB EURm	11.8	10.3	11.7	14.3	14.9	15.3	15.7
Hammelmann	37.3	32.5	30.1	39.9	39.0	38.4	39.4
InoxiHP				3.4	3.6	3.7	3.9
Subtotal VHPP	49.1	42.8	41.8	57.6	57.5	57.5	59.0
High pressure pumps	23.3	23.4	27.2	27.1	29.2	30.2	31.1
Bertoli				1.9	3.9	4.5	4.8
Overheads Water Jetting	-5.3	-2.4	-2.4	-3.0	-2.6	-2.7	-2.8
Total EBITDA	104.6	105.2	136.1	180.3	182.6	184.4	191.6
EBITDA margin							
Hydraulic	14.2%	14.1%	17.5%	17.2%	17.0%	16.9%	17.2%
Muncie USDm	20.9%	20.9%	22.0%	20.5%	19.5%	19.1%	20.3%
Muncie EURm	20.9%	20.9%	22.0%	20.5%	19.5%	19.1%	20.3%
Valves	8.0%	10.0%	17.8%	16.6%	16.9%	17.0%	17.2%
Interpump Hydraulic	13.0%	11.7%	15.1%	15.9%	16.0%	16.0%	16.0%
Cylinders	15.7%	15.3%	18.3%	16.7%	16.9%	17.1%	17.2%
Hoses and fittings			17.8%	21.0%	21.2%	21.2%	21.2%
Water Jetting	25.2%	24.3%	24.2%	25.0%	25.3%	25.2%	25.2%
NLB USDm	17.4%	16.3%	17.4%	17.1%	17.4%	17.3%	17.3%
NLB EURm	17.5%	16.4%	17.4%	17.1%	17.4%	17.3%	17.3%
Hammelmann	34.3%	31.1%	28.3%	31.8%	31.4%	31.3%	31.3%
InoxiHP				31.5%	31.5%	31.5%	31.5%
Subtotal VHPP	27.9%	25.6%	24.0%	26.2%	26.0%	25.7%	25.7%
High pressure pumps	28.3%	28.1%	29.3%	27.7%	28.5%	28.5%	28.5%
Bertoli				24.1%	27.0%	28.0%	28.0%
Total EBITDA margin	19.8%	18.9%	20.3%	20.1%	20.2%	20.1%	20.3%

Source: Kepler Cheuvreux

Shareholders, management structure, pay, incentives

IPG Holding (CEO Montipò, Tamburi) owns 20.2%, de-facto control

The free float is 69%, excluding the three shareholders that own 31% of shares.

The three shareholders are:

- **IPG Holding: 20.2%.** It exercises de-facto control over Interpump Group. The holding was founded in July 2007 by the Montipò family (Fulvio, Laura, Leila), Giovanni Cavallini (the previous CEO of Interpump between 1996 and 2005 and Chairman between 2005 and 2012) and his wife Beryle Lassaussais, the listed company Tamburi Investment Partners, Isabella Seragnoli, Giuseppe Ferrero and Sergio Erede. These Interpump shareholders conferred their stakes (22.23% in total) to IPG Holding at a price of EUR9, also signing a shareholder agreement. Over the years, all shareholders exited IPG holding (apart from Seragnoli, see next bullet point), selling their stakes to Tamburi and the Montipò family, who currently control 33% and 67% of the shares respectively.
- **Mais (Seragnoli): 6.6%:** On 22 December 2015, Isabella Seragnoli left IPG Holding, in which she held a 25% stake out of the total 26.3% owned by IPG

IPG Holding (20.2)
includes founder,
CEO and co-
Chairman Montipò
and Tamburi.

De-facto control

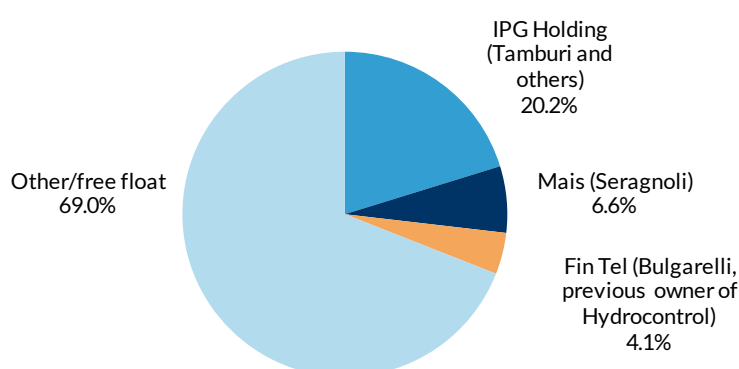
Seragnoli (6.6%)
recently exited IPG
Holding

Holding, transferring her 6.6% stake in Interpump to her holding company Mais.

- Fin Tel: 4.1%:** In 2013, Interpump finalised the acquisition of 100% of Hydrocontrol in the hydraulic valves segment, which was then considerably reinforced through the much larger Walvoil acquisition in 2015. The Hydrocontrol acquisition was paid through 4.5m of owns shares (4.1% of total Interpump shares), with a book value of EUR4.97 but a market value of c. EUR6.7 per share at the time of the deal, plus EUR3.3m in cash. Fin Tel srl, controlled by Claudio Bulgarelli, the previous reference shareholder of Hydrocontrol, still owns 4.1% of Interpump shares.

Fin Tel (4.1%)
Bulgarelli, previous
owner of
Hydrocontrol

Chart 38: Interpump Group: 69% free float, three shareholders own the remaining 31%



Source: Consob, Kepler Cheuvreux

Board structure

The Board of Directors, appointed in April 2014 by the AGM approving 2013 results, will expire on the day the AGM approves the 2016 accounts. It includes nine members, of which four are independent.

The Chairman and co-CEO is Fulvio Montipò, 72 and a degree in Sociology, and founder of Interpump back in 1977. Paolo Marinsek, 65 and a degree in Aeronautical Engineering, has been deputy Chairman and co-CEO as of April 2013. He was co-CEO of Interpump between 2005 and 2013 and Managing Director during 2004-05. Before, Marinsek held top managing positions in the FCA group.

Board of Directors:
13 members

Montipo: founder,
chairman, co-CEO,
key shareholder

Marinsek: co-CEO,
comes from FCA

Table 30: Interpump Group, Board of Directors

Name	Role	Executive	Independent
Fulvio Montipò	Chairman, CEO	x	
Paolo Marinsek	Deputy Chairman, CEO	x	
Stefania Petruccioli	Board member		x
Giuseppe Ferrero	Board member		
Giancarlo Mocchi	Board member		
Giovanni Tamburi	Board member		
Marcello Margotto	Board member		x
Franco Garilli	Board member, lead independent director		x
Paola Annunziata Tagliavini	Board member		x

Source: Interpump Group, Kepler Cheuvreux

Top management remuneration, incentives

The Remuneration Committee, appointed by the same AGM that appointed the board in April 2014, is made up of three members, of which two are independent: Marcello Margotto (Chairman), Franco Garilli and Giovanni Tamburi. The remuneration policy is approved by the board based on a proposal from the Remuneration Committee. It is then presented to the AGM when it approves financial statements and is subject to a consultative vote.

The remuneration of directors with special duties includes:

- A **fixed** component.
- A **variable** short-term component (<75% of the fixed component) based on a MBO scheme. Key targets for top management are: EBITDA, net cash, working capital/sales ratio.
- **Long-term incentives**, with the aim of aligning the interests of managers with those of shareholders.

The AGM held on 21 April 2010 approved the 2010-12 incentive plan, based on the allocation of 3m options exercisable between 30 June 2013 and 30 June 2016, strike price EUR3.75, which is 70% below the current share price. The AGM held on 30 April 2013 approved the 2013-15 incentive plan assigning 2m options, with a strike price of EUR6.

The company can agree on special treatments associated with the end of office or termination of employment with its directors and managers with strategic responsibilities, but the amount cannot exceed three times the annual fixed component.

**Top management
remuneration
scheme**

**Stock option
scheme**

Table 31: Interpump Group top management remuneration in 2015

	Fixed	Non-equity variable	Total gross cash component	Fair value equity compensation booked in 2015 income statement (still not paid)	Total remuneration
Fulvio Montipò, Chairman and co-CEO	1,535	400	1,935	587	2,522
Paolo Marinsek, deputy Chairman and co-CEO	600	350	950	188	1,138

K Euros, Source: Kepler Cheuvreux

The 2009 capital increase: reacting to the market collapse

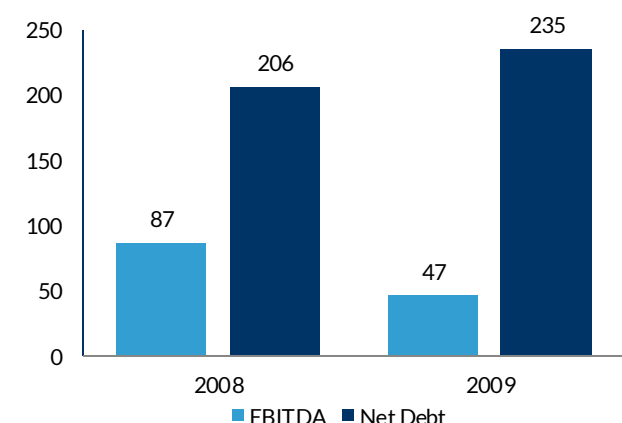
In 2009, the company saw a 28.3% drop in organic growth, the biggest fall since the IPO, driven by the Hydraulic division (-35.6%), which is the most cyclical part of the business and whose key end markets are trucks (at that time, over 70% of divisional sales, compared to 38% in 2015), agriculture and construction equipment. Water Jetting was organically down by a less sharp 20.3%. EBITDA declined by 46%, from EUR87m to EUR46.9m, with margins down from 20.5% to 13.7% at a time when top management was deciding to enter the cylinder business (c. EUR100m cash-out over 2008-09).

As a combination of the EBITDA collapse and cash outflow related to cylinders M&A, the net debt/EBITDA ratio at end 2008 (2.4x) would have approached 5x at end-2009 in the absence of any further measure, which is well in excess of the 3.5x debt/EBITDA covenant on EUR180m bank credit lines.

**2009: organic
growth -28.3%, the
worst fall since the
IPO**

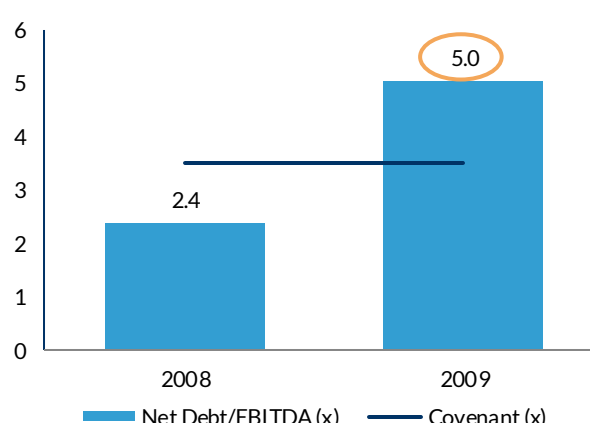
**Without any measures,
net debt/EBITDA at
end-2009 would have
exceeded 5x
(covenants 3.5x)**

Chart 39: Interpump Group, EBITDA and net debt 2008-09...



Source: Interpump Group, Kepler Cheuvreux

Chart 40: ... and net/debt EBITDA without capital increase



Source: Interpump Group, Kepler Cheuvreux

As such, on 15 September 2009 the board decided to issue a EUR50m capital increase and to issue free warrants to subscribe additional new shares for maximum EUR62.5m by November 2012. On 4 November, the conditions of the capital increase were fixed, as shown in the following table:

September 2009:
launch of a fully
successful EUR50m
capital increase...

Table 32: Interpump Group capital increase conditions (announced on 4 November 2009)

Number of new shares	19.916
Number of old shares	76.85
Number of share post cap increase (full exercise)	96.77
% new vs. old	25.9%
Issue price (EUR)	2.5
Amount EURm	49.8
Number of free warrants	19.916
Conversion	59 new shares for every 96 warrants
Strike October 2010	4.5
Corresponding additional capital increase (EURm)	55.1
Strike October 2011	4.8
Corresponding additional capital increase (EURm)	58.8
Strike October 2012	5.1
Corresponding additional capital increase (EURm)	62.4

Source: Kepler Cheuvreux

The capital increase, implemented without the support of any banking consortium, was fully subscribed. As such, the debt/EBITDA ratio at end-2009 was 3.9x based on official figures and 4.3x as per reclassifications included in the loan contract, still above the 3.5x threshold. A waiver was subsequently negotiated during 2010, in a period of a sharp earnings rebound, which led to the payment of additional interest charges. At end-2010, covenants were fully respected, with debt/EBITDA of 1.7x.

As for warrants, 1.5m were exercised in October 2010 (EUR3.5m capital increase). On 24 April 2012, the board introduced an additional month for the exercise of the extra warrants (June 2012), fixing the price at EUR4.999 per share at an unchanged conversion ratio (59 new shares for every 96 warrants). 4.7m warrants were exercised (EUR14.5m capital increase) in June 2010, while 13.5m warrants were exercised in October 2012 (EUR42.4m capital increase). In total, the capital increase related to the warrant exercise over 2010-12 was EUR60m.

... without any
banking
consortium. A
waiver on
covenants was
nevertheless
required

Warrants exercise
led to further
EUR60m capital
increase over
2010-12

Valuation

FY to 31/12 (EUR)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Per share data								
EPS adjusted	0.42	0.47	0.40	0.52	0.77	0.75	0.77	0.83
% Change	55.5%	11.9%	-16.0%	31.8%	48.1%	-2.9%	2.4%	7.5%
EPS adjusted and fully diluted	0.42	0.47	0.40	0.52	0.77	0.75	0.77	0.83
% Change	55.5%	11.9%	-16.0%	31.8%	48.1%	-2.9%	2.4%	7.5%
EPS reported	0.42	0.47	0.40	0.52	1.07	0.75	0.77	0.83
% Change	55.5%	11.9%	-16.0%	31.8%	104.3%	-29.6%	2.4%	7.5%
EPS Consensus						0.80	0.86	0.93
Cash flow per share	0.41	0.50	0.58	0.66	1.04	1.14	1.14	1.16
Book value per share	3.17	3.59	3.92	4.23	5.66	6.22	6.76	7.36
DPS	0.12	0.17	0.17	0.18	0.19	0.23	0.23	0.25
Number of shares, YE (m)	97.7	108.9	108.9	108.9	108.9	108.9	108.9	108.9
Number of shares, fully diluted, YE (m)	97.7	108.9	108.9	108.9	108.9	108.9	108.9	108.9
Share price								
Latest price / year end	5.2	5.8	8.7	11.7	14.3	12.9	12.9	12.9
52 week high (Year high)	6.2	6.7	8.8	11.8	15.8	14.3		
52 week low (Year low)	3.9	5.2	5.6	8.7	11.5	10.5		
Average price (Year)	5.3	5.9	7.1	10.1	13.8	12.9		
Enterprise value (EURm)								
Market capitalisation	519.6	642.9	777.5	1,102.8	1,506.8	1,399.1	1,399.1	1,399.1
Net financial debt	127.0	74.5	88.7	152.0	255.0	181.8	115.9	49.9
Pension provisions	9.7	11.0	11.9	14.9	17.3	17.6	18.0	18.3
Market value of minorities	-36.0	-43.7	-20.2	-51.5	-8.9	-12.7	-12.7	-13.6
Market value of equity affiliates (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise value	620.3	684.8	857.9	1,218.2	1,770.1	1,585.8	1,520.2	1,453.7
Valuation								
P/E adjusted	12.6	12.5	18.0	19.4	17.9	17.1	16.7	15.5
P/E adjusted and fully diluted	12.6	12.5	18.0	19.4	17.9	17.1	16.7	15.5
P/E consensus						16.0	15.0	13.8
P/BV	1.7	1.6	1.8	2.4	2.4	2.1	1.9	1.7
P/CF	12.9	11.8	12.3	15.4	13.3	11.3	11.2	11.1
Dividend yield (%)	2.3%	2.9%	2.4%	1.8%	1.4%	1.8%	1.8%	1.9%
Dividend yield preference shares (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	5.2%	5.9%	4.2%	3.4%	5.6%	6.6%	6.4%	6.4%
ROE (%)	13.9%	14.7%	10.6%	12.8%	15.7%	12.7%	11.9%	11.7%
ROIC (%)	11.1%	11.4%	10.0%	11.0%	11.1%	9.9%	10.1%	10.6%
EV/Sales	1.31	1.30	1.54	1.81	1.98	1.75	1.66	1.54
EV/EBITDA	6.6	6.5	8.2	9.0	9.8	8.7	8.2	7.6
EV/EBIT	8.2	8.3	10.8	11.7	12.9	11.5	10.9	10.0
EV/NOPAT	12.2	12.3	16.1	17.4	19.3	17.2	16.3	14.9
EV/IC	1.3	1.3	1.5	1.7	1.9	1.7	1.7	1.6
ROIC/WACC	1.0	1.1	0.9	1.0	1.0	0.9	0.9	1.0
EV/IC over ROIC/WACC	1.3	1.3	1.7	1.7	1.8	1.9	1.8	1.6

Income statement

FY to 31/12 (EURm)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Sales	472.3	527.2	556.5	672.0	894.9	904.3	916.8	944.3
% Change	11.1%	11.6%	5.6%	20.8%	33.2%	1.0%	1.4%	3.0%
EBITDA reported	94.7	104.6	105.2	136.1	180.3	182.6	184.4	191.6
% Change	27.8%	10.5%	0.5%	29.4%	32.4%	1.3%	1.0%	3.9%
Depreciation and amortisation	-18.1	-20.1	-23.7	-30.1	-41.9	-43.5	-43.8	-44.2
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial result and associates	-0.9	-1.7	-2.1	-1.7	-1.5	-1.5	-1.6	-1.8
EBIT reported	75.7	82.8	79.3	104.4	136.9	137.6	139.0	145.6
% Change	38.4%	9.4%	-4.2%	31.6%	31.2%	0.5%	1.0%	4.8%
Net financial items	-8.7	-7.9	-7.9	-11.4	27.3	-9.8	-8.2	-5.0
Associates	-0.4	-0.1	-0.3	0.1	-0.3	-0.2	-0.2	-0.3
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before tax	66.7	74.8	71.1	93.1	163.9	127.6	130.6	140.4
% Change	46.0%	12.2%	-5.0%	31.0%	76.1%	-22.2%	2.4%	7.5%
Tax	-23.0	-22.5	-27.0	-35.4	-47.0	-44.6	-45.7	-49.1
Net profit from continuing operations	43.6	52.3	44.1	57.7	117.0	82.9	84.9	91.2
% Change	59.4%	19.9%	-15.7%	31.0%	102.6%	-29.1%	2.4%	7.5%
Net profit from discontinuing activities	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	42.6	52.3	44.1	57.7	117.0	82.9	84.9	91.2
Minorities	-1.4	-0.9	-0.9	-0.8	-0.7	-1.0	-1.0	-1.1
Net profit reported	41.2	51.4	43.2	56.9	116.3	81.9	83.9	90.1
% Change	55.5%	24.8%	-16.0%	31.8%	104.3%	-29.6%	2.4%	7.5%
Adjustments	0.0	0.0	0.0	0.0	-32.0	0.0	0.0	0.0
Net profit adjusted	41.2	51.4	43.2	56.9	84.3	81.9	83.9	90.1
% Change	55.5%	24.8%	-16.0%	31.8%	48.1%	-2.9%	2.4%	7.5%
Gross profit	472.3	527.2	556.5	672.0	894.9	904.3	916.8	944.3
EBITDA adjusted	94.7	104.6	105.2	136.1	180.3	182.6	184.4	191.6
EBIT adjusted	75.7	82.8	79.3	104.4	136.9	137.6	139.0	145.6
Gross profit margin (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA margin (%)	20.0%	19.8%	18.9%	20.3%	20.1%	20.2%	20.1%	20.3%
EBIT margin (%)	16.0%	15.7%	14.3%	15.5%	15.3%	15.2%	15.2%	15.4%
Net profit margin (%)	8.7%	9.8%	7.8%	8.5%	9.4%	9.1%	9.1%	9.5%
Tax rate (%)	34.5%	30.1%	38.0%	38.0%	28.6%	35.0%	35.0%	35.0%
Payout ratio (%)	28.4%	36.0%	42.8%	34.4%	24.5%	30.0%	30.0%	30.0%
EPS reported (EUR)	0.42	0.47	0.40	0.52	1.07	0.75	0.77	0.83
% change	55.5%	11.9%	-16.0%	31.8%	104.3%	-29.6%	2.4%	7.5%
EPS adjusted (EUR)	0.42	0.47	0.40	0.52	0.77	0.75	0.77	0.83
% change	55.5%	11.9%	-16.0%	31.8%	48.1%	-2.9%	2.4%	7.5%
EPS adj and fully diluted(EUR)	0.42	0.47	0.40	0.52	0.77	0.75	0.77	0.83
% change	55.5%	11.9%	-16.0%	31.8%	48.1%	-2.9%	2.4%	7.5%
DPS (EUR)	0.12	0.17	0.17	0.18	0.19	0.23	0.23	0.25
% change	9.1%	41.7%	0.0%	5.9%	5.6%	18.8%	2.4%	7.5%
DPS,preference shares (EUR)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
% Change	na	na	na	na	na	na	na	na
Consensus Sales (EURm)						908.2	937.0	980.6
Consensus EBITDA (EURm)						185.0	194.7	207.2
Consensus EBIT (EURm)						141.0	150.1	163.5
Consensus EPS (EUR)						0.80	0.86	0.93
Consensus DPS (EUR)						0.24	0.26	0.27

Cash flow statement

FY to 31/12 (EURm)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Net profit before minorities	42.6	52.3	44.1	57.7	117.0	82.9	84.9	91.2
Depreciation and amortisation	18.1	20.1	23.7	30.1	41.9	43.5	43.8	44.2
Goodwill impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in working capital	-19.9	-19.8	2.3	-58.3	-74.2	-2.6	-4.3	-9.3
Others	-0.5	2.1	-6.6	42.1	28.8	0.1	0.1	0.1
Cash Flow from operating activities	40.3	54.7	63.4	71.6	113.5	123.9	124.5	126.2
% Change	-37.7%	35.7%	15.9%	12.9%	58.5%	9.2%	0.5%	1.4%
Capex	-12.2	-15.8	-29.8	-34.1	-29.0	-30.0	-34.0	-35.0
Free cash flow	28.1	38.9	33.7	37.5	84.5	93.9	90.5	91.2
% Change	-49.7%	38.1%	-13.3%	11.4%	125.3%	11.1%	-3.6%	0.8%
Acquisitions	-19.3	-31.6	-29.3	-82.6	-167.1	0.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend paid	-10.7	-11.7	-18.5	-18.2	-20.4	-20.7	-24.6	-25.2
Share buy back	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital increases	0.0	56.9	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in net financial debt	-1.9	52.4	-14.1	-63.3	-103.0	73.2	65.9	66.0
Change in cash and cash equivalents	-29.7	6.0	-9.8	-18.2	48.0	73.2	65.9	66.0
Attributable FCF	27.2	38.2	33.0	37.0	84.0	92.7	89.4	90.1
Cash flow per share (EUR)	0.41	0.50	0.58	0.66	1.04	1.14	1.14	1.16
% Change	-37.7%	21.8%	15.9%	12.9%	58.5%	9.2%	0.5%	1.4%
FCF per share (EUR)	0.28	0.35	0.30	0.34	0.77	0.85	0.82	0.83
% Change	-49.7%	25.7%	-13.6%	12.1%	127.1%	10.4%	-3.6%	0.8%
Capex / Sales (%)	2.6%	3.0%	5.3%	5.1%	3.2%	3.3%	3.7%	3.7%
Capex / D&A (%)	67.2%	78.6%	125.4%	113.2%	69.1%	69.0%	77.6%	79.2%
Cash flow / Sales (%)	8.5%	10.4%	11.4%	10.7%	12.7%	13.7%	13.6%	13.4%
FCF / Sales (%)	6.0%	7.4%	6.1%	5.6%	9.4%	10.4%	9.9%	9.7%
FCF Yield (%)	5.2%	5.9%	4.2%	3.4%	5.6%	6.6%	6.4%	6.4%
Unlevered FCF Yield (%)	5.3%	6.4%	4.4%	3.6%	3.6%	6.3%	6.2%	6.4%

Balance sheet

FY to 31/12 (EURm)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Cash and cash equivalents	109.1	115.1	105.3	87.2	135.2	208.3	274.2	340.3
Inventories	117.0	131.7	146.0	182.5	238.1	239.6	242.9	250.2
Accounts receivable	95.9	96.4	113.7	135.6	178.8	180.9	183.4	188.9
Other current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	322.0	343.1	365.0	405.3	552.0	628.8	700.5	779.4
Tangible assets	102.8	112.5	150.7	209.1	286.1	272.6	262.8	253.6
Goodwill	213.4	225.9	234.8	279.4	347.4	347.4	347.4	347.4
Other Intangible assets	23.6	22.1	23.8	24.6	33.2	33.2	33.2	33.2
Financial assets	3.4	1.8	2.1	1.0	1.0	1.0	1.0	1.0
Other non-current assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current assets	343.2	362.4	411.3	514.1	667.7	654.2	644.4	635.2
Short term debt	122.5	97.9	82.3	92.1	89.6	89.6	89.6	89.6
Accounts payable	58.0	53.6	70.0	80.3	94.1	94.9	96.3	99.1
Other short term liabilities	3.5	3.1	20.7	10.5	21.3	21.5	21.8	22.5
Current liabilities	183.9	154.7	173.0	182.8	205.0	206.1	207.7	211.2
Long term debt	113.6	91.7	111.7	147.1	300.5	300.5	300.5	300.5
Pension provisions	9.7	11.0	11.9	14.9	17.3	17.6	18.0	18.3
Other long term provisions	42.8	51.3	46.8	108.0	75.6	75.6	75.6	75.6
Other long term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	166.1	154.0	170.4	270.0	393.4	393.7	394.1	394.5
Shareholders' equity	309.7	391.0	426.7	460.7	615.8	677.1	736.4	801.3
Minority interests	5.5	5.8	6.3	5.9	5.5	6.1	6.8	7.5
Total equity	315.2	396.9	432.9	466.6	621.3	683.2	743.1	808.8
Balance sheet total	665.2	705.6	776.3	919.3	1,219.7	1,283.0	1,344.9	1,414.5
% Change	-1.5%	6.1%	10.0%	18.4%	32.7%	5.2%	4.8%	5.2%
Book value per share (EUR)	3.17	3.59	3.92	4.23	5.66	6.22	6.76	7.36
% Change	8.9%	13.3%	9.1%	8.0%	33.7%	9.9%	8.8%	8.8%
Net debt	136.7	85.6	100.6	166.9	272.3	199.4	133.9	68.2
Net financial debt	127.0	74.5	88.7	152.0	255.0	181.8	115.9	49.9
Trade working capital	155.0	174.4	189.7	237.8	322.8	325.5	330.0	339.9
Working capital	151.5	171.3	169.1	227.4	301.5	304.0	308.2	317.5
Inventories/sales	24.8%	25.0%	26.2%	27.2%	26.6%	26.5%	26.5%	26.5%
Invested capital	467.7	509.8	554.5	715.8	934.9	924.0	918.4	918.4
Net fin. debt / EBITDA (x)	1.3	0.7	0.8	1.1	1.4	1.0	0.6	0.3
Net fin. debt / FCF (x)	4.5	1.9	2.6	4.1	3.0	1.9	1.3	0.5
Gearing (%)	40.3%	18.8%	20.5%	32.6%	41.0%	26.6%	15.6%	6.2%
Goodwill / Equity (%)	67.7%	56.9%	54.2%	59.9%	55.9%	50.8%	46.7%	42.9%

Research ratings and important disclosures

Disclosure checklist - Potential conflict of interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
BUCHER	CH0002432174	nothing to disclose	CHF	236.5
CATERPILLAR INC.	US1491231015	nothing to disclose	USD	79.13
CNH INDUSTRIAL	NL0010545661	nothing to disclose	USD	6.57
DEERE	US2441991054	nothing to disclose	USD	78.46
EATON	IE00B8KQN827	nothing to disclose	USD	63.04
INTERPUMP GROUP	IT0001078911	nothing to disclose	EUR	12.85
PARKER-HANNIFIN	US7010941042	nothing to disclose	USD	112.21
SULZER	CH0038388911	nothing to disclose	CHF	78.95
VOLVO	SE0000115446	nothing to disclose	SEK	90.7
WEIR GROUP	GB0009465807	nothing to disclose	GBP	1,121.00

Source: Factset closing prices of 13/04/2016

Stock prices: Prices are taken as of the previous day's close (to the date of this report) on the home market unless otherwise stated.

Key:

1. KEPLER CHEUVREUX holds or owns or controls 5% or more of the issued share capital of this company; 2. The company, or its major shareholder, directly or indirectly, holds or owns or controls 5% or more of the issued share capital of KEPLER CHEUVREUX; 3. KEPLER CHEUVREUX is or may be regularly carrying out proprietary trading in equity securities of this company; 4. KEPLER CHEUVREUX has been lead manager or co-lead manager in a public offering of the issuer's financial instruments during the last twelve months; 5. KEPLER CHEUVREUX is a market maker in the issuer's financial instruments; 6. KEPLER CHEUVREUX is a liquidity provider in relation to price stabilisation activities for the issuer to provide liquidity in such instruments; 7. KEPLER CHEUVREUX acts as a corporate broker or a sponsor or a sponsor specialist (in accordance with the local regulations) to this company; 8. KEPLER CHEUVREUX and the issuer have agreed that KEPLER CHEUVREUX will produce and disseminate investment research on the said issuer as a service to the issuer; 9. KEPLER CHEUVREUX has received compensation from this company for the provision of investment banking or financial advisory services within the previous twelve months; 10. KEPLER CHEUVREUX may expect to receive or intend to seek compensation for investment banking services from this company in the next three months; 11. The author of, or an individual who assisted in the preparation of, this report (or a member of his/her household), or a person who although not involved in the preparation of the report had or could reasonably be expected to have access to the substance of the report prior to its dissemination has a direct ownership position in securities issued by this company; 12. An employee of KEPLER CHEUVREUX serves on the board of directors of this company; 13. As at the end of the month immediately preceding the date of publication of the research report Kepler Capital Markets, Inc. beneficially owned 1% or more of a class of common equity securities of the subject company; 14. KEPLER CHEUVREUX and UniCredit Bank AG have entered into a Co-operation Agreement to form a strategic alliance in connection with certain services including services connected to investment banking transactions. UniCredit Bank AG provides investment banking services to this issuer in return for which UniCredit Bank AG has received a consideration or a promise of consideration. Separately, through the Co-operation Agreement with UniCredit Bank AG for services provided by KEPLER CHEUVREUX in connection with such activities, KEPLER CHEUVREUX has also received a consideration or a promise of a consideration in accordance with the general terms of the Co-operation Agreement; 15. KEPLER CHEUVREUX and Crédit Agricole Corporate & Investment Bank ("CACIB") have entered into a Co-operation Agreement to form a strategic alliance in connection with certain services including services connected to investment banking transactions. CACIB provides investment banking services to this issuer in return for which CACIB has received a consideration or a promise of consideration. Separately, through the Co-operation Agreement with CACIB for services provided by KEPLER CHEUVREUX in connection with such activities, KEPLER CHEUVREUX has also received a consideration or a promise of a consideration in accordance with the general terms of the Co-operation Agreement; 16. UniCredit Bank AG holds or owns or controls 5% or more of the issued share capital of KEPLER CHEUVREUX. UniCredit Bank AG provides investment banking services to this issuer in return for which UniCredit Bank AG has received a consideration or a promise of consideration; 17. CACIB holds or owns or controls 15% of more of the issued share capital of KEPLER CHEUVREUX. CACIB provides investment banking services to this issuer in return for which CACIB has received a consideration or a promise of consideration; 18. An employee of UniCredit Bank AG serves on the board of directors of KEPLER CHEUVREUX; 19. Two employees of CACIB serve on the board of directors of KEPLER CHEUVREUX. CACIB provides investment banking services to this issuer in return for which CACIB has received a consideration or a promise of consideration. 20. This document, in whole or in part, and with the exclusion of ratings, target prices and any other information that could lead to determine its valuation, may have been provided to the issuer prior to publication, solely with the aim of verifying factual accuracy.

Rating history:

KEPLER CHEUVREUX current rating for Interpump Group is Hold and was issued on 14/04/2016 (Initiation of coverage).

We did not disclose the rating to the issuer before publication and dissemination of this document.

Rating ratio Kepler Cheuvreux Q1 2016

Rating breakdown	A	B
Buy	50.5%	0.0%
Hold	37.2%	0.0%
Reduce	11.1%	0.0%
Not Rated/Under Review/Accept Offer	1.2%	0.0%
Total	100.0%	0.0%

Source: Kepler Cheuvreux

A: % of all research recommendations

B: % of issuers to which Investment Banking Services are supplied

From 9 May 2006, KEPLER CHEUVREUX's rating system consists of three ratings: Buy, Hold and Reduce. For a Buy rating, the minimum expected upside is 10% in absolute terms over 12 months. For a Hold rating the expected upside is below 10% in absolute terms. A Reduce rating is applied when there is expected downside on the stock. Target prices are set on all stocks under coverage, based on a 12-month view. Equity ratings and valuations are issued in absolute terms, not relative to any given benchmark.

Analyst disclosures

The functional job title of the person(s) responsible for the recommendations contained in this report is **Equity Research Analyst** unless otherwise stated on the cover.

Name of the Equity Research Analyst(s): Matteo Bonizzoni, CFA

Regulation AC - Analyst Certification: Each Equity Research Analyst(s) listed on the front-page of this report, principally responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the equity research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each Equity Research Analyst(s) also certifies that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that equity research analyst in this research report.

Each Equity Research Analyst certifies that he is acting independently and impartially from KEPLER CHEUVREUX shareholders, directors and is not affected by any current or potential conflict of interest that may arise from any KEPLER CHEUVREUX activities.

Analyst Compensation: The research analyst(s) primarily responsible for the preparation of the content of the research report attest that no part of the analyst's(s') compensation was, is or will be, directly or indirectly, related to the specific recommendations expressed by the research analyst(s) in the research report. The research analyst's(s') compensation is, however, determined by the overall economic performance of KEPLER CHEUVREUX.

Registration of non-US Analysts: Unless otherwise noted, the non-US analysts listed on the front of this report are employees of KEPLER CHEUVREUX, which is a non-US affiliate and parent company of Kepler Capital Markets, Inc. a SEC registered and FINRA member broker-dealer. Equity Research Analysts employed by KEPLER CHEUVREUX, are not registered/qualified as research analysts under FINRA/NYSE rules, may not be associated persons of Kepler Capital Markets, Inc. and may not be subject to NASD Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Please refer to www.keplercheuvreux.com for further information relating to research and conflict of interest management.

The term "KEPLER CHEUVREUX" shall, unless the context otherwise requires, mean each of Kepler Cheuvreux and its affiliates, subsidiaries and related companies (see table below).

Regulators

Location	Regulator	Abbreviation
KEPLER CHEUVREUX S.A - France	Autorité des Marchés Financiers	AMF
KEPLER CHEUVREUX, Sucursal en España	Comisión Nacional del Mercado de Valores	CNMV
KEPLER CHEUVREUX, Frankfurt branch	Bundesanstalt für Finanzdienstleistungsaufsicht	BaFin
KEPLER CHEUVREUX, Milan branch	Commissione Nazionale per le Società e la Borsa	CONSOB
KEPLER CHEUVREUX, Amsterdam branch	Autoriteit Financiële Markten	AFM
Kepler Capital Markets SA, Zurich branch	Swiss Financial Market Supervisory Authority	FINMA
Kepler Capital Markets, Inc.	Financial Industry Regulatory Authority	FINRA
KEPLER CHEUVREUX, London branch	Financial Conduct Authority	FCA
KEPLER CHEUVREUX, Vienna branch	Austrian Financial Services Authority	FMA
KEPLER CHEUVREUX, Stockholm Branch	Finansinspektionen	FI

KEPLER CHEUVREUX is authorised and regulated by both Autorité de Contrôle Prudentiel and Autorité des Marchés Financiers.

For further information relating to research recommendations and conflict of interest management please refer to www.keplercheuvreux.com.

Legal and disclosure information

Other disclosures

This product is not for retail clients or private individuals.

The information contained in this publication was obtained from various publicly available sources believed to be reliable, but has not been independently verified by KEPLER CHEUVREUX. KEPLER CHEUVREUX does not warrant the completeness or accuracy of such information and does not accept any liability with respect to the accuracy or completeness of such information, except to the extent required by applicable law.

This publication is a brief summary and does not purport to contain all available information on the subjects covered. Further information may be available on request. This report may not be reproduced for further publication unless the source is quoted.

This publication is for information purposes only and shall not be construed as an offer or solicitation for the subscription or purchase or sale of any securities, or as an invitation, inducement or intermediation for the sale, subscription or purchase of any securities, or for engaging in any other transaction. This publication is not for private individuals.

Any opinions, projections, forecasts or estimates in this report are those of the author only, who has acted with a high degree of expertise. They reflect only the current views of the author at the date of this report and are subject to change without notice. KEPLER CHEUVREUX has no obligation to update, modify or amend this publication or to otherwise notify a reader or recipient of this publication in the event that any matter, opinion, projection, forecast or estimate contained herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. The analysis, opinions, projections, forecasts and estimates expressed in this report were in no way affected or influenced by the issuer. The author of this publication benefits financially from the overall success of KEPLER CHEUVREUX.

The investments referred to in this publication may not be suitable for all recipients. Recipients are urged to base their investment decisions upon their own appropriate investigations that they deem necessary. Any loss or other consequence arising from the use of the material contained in this publication shall be the sole and exclusive responsibility of the investor and KEPLER CHEUVREUX accepts no liability for any such loss or consequence. In the event of any doubt about any investment, recipients should contact their own investment, legal and/or tax advisers to seek advice regarding the appropriateness of investing. Some of the investments mentioned in this publication may not be readily liquid investments. Consequently it may be difficult to sell or realise such investments. The past is not necessarily a guide to future performance of an investment. The value of investments and the income derived from them may fall as well as rise and investors may not get back the amount invested. Some investments discussed in this publication may have a high level of volatility. High volatility investments may experience sudden and large falls in their value which may cause losses. International investing includes risks related to political and economic uncertainties of foreign countries, as well as currency risk.

To the extent permitted by applicable law, no liability whatsoever is accepted for any direct or consequential loss, damages, costs or prejudices whatsoever arising from the use of this publication or its contents.

KEPLER CHEUVREUX (and its affiliates) have implemented written procedures designed to identify and manage potential conflicts of interest that arise in connection with its research business, which are available upon request. The KEPLER CHEUVREUX research analysts and other staff involved in issuing and disseminating research reports operate independently of KEPLER CHEUVREUX Investment Banking business. Information barriers and procedures are in place between the research analysts and staff involved in securities trading for the account of KEPLER CHEUVREUX or clients to ensure that price sensitive information is handled according to applicable laws and regulations.

Country and region disclosures

United Kingdom: This document is for persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restriction in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Articles 19(5) (Investment professionals) and 49(2) (High net worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. Any investment to which this document relates is available only to such persons, and other classes of person should not rely on this document.

United States: This communication is only intended for, and will only be distributed to, persons residing in any jurisdictions where such distribution or availability would not be contrary to local law or regulation. This communication must not be acted upon or relied on by persons in any jurisdiction other than in accordance with local law or regulation and where such person is an investment professional with the requisite sophistication to understand an investment in such securities of the type communicated and assume the risks associated therewith.

This communication is confidential and is intended solely for the addressee. It is not to be forwarded to any other person or copied without the permission of the sender. This communication is provided for information only. It is not a personal recommendation or an offer to sell or a solicitation to buy the securities mentioned. Investors should obtain independent professional advice before making an investment.

Notice to U.S. Investors: This material is not for distribution in the United States, except to "major US institutional investors" as defined in SEC Rule 15a-6 ("Rule 15a-6"). Kepler Cheuvreux has entered into a 15a-6 Agreement with Kepler Capital Markets, Inc. ("KCM, Inc.") which enables this report to be furnished to certain U.S. recipients in reliance on Rule 15a-6 through KCM, Inc.

Each U.S. recipient of this report represents and agrees, by virtue of its acceptance thereof, that it is a "major U.S. institutional investor" (as such term is defined in Rule 15a-6) and that it understands the risks involved in executing transactions in such securities. Any U.S. recipient of this report that wishes to discuss or receive additional information regarding any security or issuer mentioned herein, or engage in any transaction to purchase or sell or solicit or offer the purchase or sale of such securities, should contact a registered representative of KCM, Inc.

KCM, Inc. is a broker-dealer registered with the Securities and Exchange Commission ("SEC") under the U.S. Securities Exchange Act of 1934, as amended, Member of the Financial Industry Regulatory Authority ("FINRA") and Member of the Securities Investor Protection Corporation ("SIPC"). Pursuant to SEC Rule 15a-6, you must contact a Registered Representative of KCM, Inc. if you are seeking to execute a transaction in the securities discussed in this report. You can reach KCM, Inc. at 600 Lexington Avenue, New York, NY 10022, Compliance Department (212) 710-7625; Operations Department (212) 710-7606; Trading Desk (212) 710-7602. Further information is also available at www.keplercheuvreux.com. You may obtain information about SIPC, including the SIPC brochure, by contacting SIPC directly at 202-371-8300; website: <http://www.sipc.org/>

KCM, Inc. is a wholly owned subsidiary of KEPLER CHEUVREUX. KEPLER CHEUVREUX, registered on the Paris Register of Companies with the number 413 064 841 (1997 B 10253), whose registered office is located at 112 avenue Kléber, 75016 Paris, is authorised and regulated by both Autorité de Contrôle Prudentiel (ACP) and Autorité des Marchés Financiers (AMF).

Nothing herein excludes or restricts any duty or liability to a customer that KCM, Inc. may have under applicable law. Investment products provided by or through KCM, Inc. are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution, may lose value and are not guaranteed by the entity that published the research as disclosed on the front page and are not guaranteed by KCM, Inc.

Investing in non-U.S. Securities may entail certain risks. The securities referred to in this report and non-U.S. issuers may not be registered under the U.S. Securities Act of 1933, as amended, and the issuer of such securities may not be subject to U.S. reporting and/or other requirements. Rule 144A securities may be offered or sold only to persons in the U.S. who are Qualified Institutional Buyers within the meaning of Rule 144A under the Securities Act. The information available about non-U.S. companies may be limited, and non-U.S. companies are generally not subject to the same uniform auditing and reporting standards as U.S. companies. Securities of some non-U.S. companies may not be as liquid as securities of comparable U.S. companies. Securities discussed herein may be rated below investment grade and should therefore only be considered for inclusion in accounts qualified for speculative investment.

Analysts employed by KEPLER CHEUVREUX SA, a non-U.S. broker-dealer, are not required to take the FINRA analyst exam. The information contained in this report is intended solely for certain "major U.S. institutional investors" and may not be used or relied upon by any other person for any purpose. Such information is provided for informational purposes only and does not constitute a solicitation to buy or an offer to sell any securities under the Securities Act of 1933, as amended, or under any other U.S. federal or state securities laws, rules or regulations. The investment opportunities discussed in this report may be unsuitable for certain investors depending on their specific investment objectives, risk tolerance and financial position.

In jurisdictions where KCM, Inc. is not registered or licensed to trade in securities, or other financial products, transactions may be executed only in accordance with applicable law and legislation, which may vary from jurisdiction to jurisdiction and which may require that a transaction be made in accordance with applicable exemptions from registration or licensing requirements.

The information in this publication is based on sources believed to be reliable, but KCM, Inc. does not make any representation with respect to its completeness or accuracy. All opinions expressed herein reflect the author's judgment at the original time of publication, without regard to the date on which you may receive such information, and are subject to change without notice.

KCM, Inc. and/or its affiliates may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. These publications reflect the different assumptions, views and analytical methods of the analysts who prepared them. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is provided in relation to future performance.

KCM, Inc. and any company affiliated with it may, with respect to any securities discussed herein: (a) take a long or short position and buy or sell such securities; (b) act as investment and/or commercial bankers for issuers of such securities; (c) act as market makers for such securities; (d) serve on the board of any issuer of such securities; and (e) act as paid consultant or advisor to any issuer. The information contained herein may include forward-looking statements within the meaning of U.S. federal securities laws that are subject to risks and uncertainties. Factors that could cause a company's actual results and financial condition to differ from expectations include, without limitation: political uncertainty, changes in general economic conditions that adversely affect the level of demand for the company's products or services, changes in foreign exchange markets, changes in international and domestic financial markets and in the competitive environment, and other factors relating to the foregoing. All forward-looking statements contained in this report are qualified in their entirety by this cautionary statement.

France: This publication is issued and distributed in accordance with Articles L.544-1 and seq and R. 621-30-1 of the Code Monétaire et Financier and with Articles 313-25 to 313-27 and 315-1 and seq of the General Regulation of the Autorité des Marchés Financiers (AMF).

Germany: This report must not be distributed to persons who are retail clients in the meaning of Sec. 31a para.3 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG"). This report may be amended, supplemented or updated in such manner and as frequently as the author deems.

Italy: This document is issued by KEPLER CHEUVREUX Milan branch, authorised in France by the Autorité des Marchés Financiers (AMF) and the Autorité de Contrôle Prudentiel (ACP) and registered in Italy by the Commissione Nazionale per le Società e la Borsa (CONSOB) and is distributed by KEPLER CHEUVREUX. This document is for Eligible Counterparties or Professional Clients only as defined by the CONSOB Regulation 16190/2007 (art. 26 and art. 58). Other classes of persons should not rely on this document. Reports on issuers of financial instruments listed by Article 180, paragraph 1, letter a) of the Italian Consolidated Act on Financial Services (Legislative Decree No. 58 of 24/2/1998, as amended from time to time) must comply with the requirements envisaged by articles 69 to 69-novies of CONSOB Regulation 11971/1999. According to these provisions KEPLER CHEUVREUX warns on the significant interests of KEPLER CHEUVREUX indicated in Annex 1 hereof, confirms that there are not significant financial interests of KEPLER CHEUVREUX in relation to the securities object of this report as well as other circumstance or relationship with the issuer of the securities object of this report (including but not limited to conflict of interest, significant shareholdings held in or by the issuer and other significant interests held by KEPLER CHEUVREUX or other entities controlling or subject to control by KEPLER CHEUVREUX in relation to the issuer which may affect the impartiality of this document). Equities discussed herein are covered on a continuous basis with regular reports at results release. Reports are released on the date shown on cover and distributed via print and email. KEPLER CHEUVREUX branch di Milano analysts is not affiliated with any professional groups or organisations. All estimates are by KEPLER CHEUVREUX unless otherwise stated.

Spain: This document is only intended for persons who are Eligible Counterparties or Professional Clients within the meaning of Article 78bis and Article 78ter of the Spanish Securities Market Act. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This report has been issued by KEPLER CHEUVREUX Sucursal en España registered in Spain by the Comisión Nacional del Mercado de Valores (CNMV) in the foreign investments firms registry and it has been distributed in Spain by it or by KEPLER CHEUVREUX authorised and regulated by both Autorité de Contrôle Prudentiel and Autorité des Marchés Financiers. There is no obligation to either register or file any report or any supplemental documentation or information with the CNMV. In accordance with the Spanish Securities Market Law (Ley del Mercado de Valores), there is no need for the CNMV to verify, authorise or carry out a compliance review of this document or related documentation, and no information needs to be provided.

Switzerland: This publication is intended to be distributed to professional investors in circumstances such that there is no public offer. This publication does not constitute a prospectus within the meaning of Articles 652a and 1156 of the Swiss Code of Obligations.

Canada: The information provided in this publication is not intended to be distributed or circulated in any manner in Canada and therefore should not be construed as any kind of financial recommendation or advice provided within the meaning of Canadian securities laws.

Other countries: Laws and regulations of other countries may also restrict the distribution of this report. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly.

Europe
Amsterdam

+31 20 573 06 66

Frankfurt

+49 69 756 960

Geneva

+41 22 361 5151

London

+44 20 7621 5100

Madrid

+34 914365100

Milan

+39 02 85507 1

Paris

+33 1 53 65 35 00

Stockholm

+46 8 723 51 00

Vienna

+43 1 537 124 147

Zurich

+41 43 333 66 66


America & Asia
Boston

+1 617 295 0100

New York

+1 212 710 7600

San Francisco

+1 415 255 9802

Capital goods research team

Matteo Bonizzoni, CFA

Main author

mbonizzoni@keplercheuvreux.com

+39 02 80 62 83 43

Matteo Bonizzoni works as an equity analyst at the Milan office. His coverage includes the construction/building materials sector in Italy and the refining sector in Italy and abroad.

Prior to joining Kepler Cheuvreux in September 2011, Matteo worked for seven years (2004-11) as a fund manager and previously as a buy-side equity analyst at Eurizon Capital in Milan. He was in charge of a EUR60m Italian equities fund from 2006 to 2011. From 2002 to 2004, Matteo worked as a sell-side equity analyst at Kepler Equities in Milan, covering Italian industrial stocks. He started his career at Actinvest Ltd in London as a sell-side analyst specialising in Italian equities.

Matteo has a BSc in Economics from Bocconi University in Milan (2000) and an MSc in Quantitative Finance from the same university (2001). Matteo is also a CFA Charterholder.

Andre Mulder

amulder@keplercheuvreux.com

Baptiste de Leudeville

bdeleudeville@keplercheuvreux.com

Benjamin Terdjman

bterdjman@keplercheuvreux.com

Charles-Louis Scotti

cscotti@keplercheuvreux.com

Craig Abbott

Head of German Small & Mid Caps

cabbot@keplercheuvreux.com

David Hart

dhart@keplercheuvreux.com

Douglas Lindahl

dlindahl@keplercheuvreux.com

Hans-Joachim Heimbuerger

hheimbuerger@keplercheuvreux.com

Iñigo Egusquiza

Head of Iberian Research

iegusquiza@keplercheuvreux.com

Javier Campos Clavero

jcampos@keplercheuvreux.com

Joaquin Ferrer, CFA

jferrer@keplercheuvreux.com

Rene Brüntrup

rbruentrup@keplercheuvreux.com

Johan Eliason

jeliason@keplercheuvreux.com

Markus Almerud

malmerud@keplercheuvreux.com

Martin Flueckiger

mflueckiger@keplercheuvreux.com

Matthijs Van Leijenhorst

mvanleijenhorst@keplercheuvreux.com

Peter Olofsen

polofsen@keplercheuvreux.com

Pierre Boucheny

Head of French Research

pboucheny@keplercheuvreux.com

Stephan Trubrich, CFA

strubrich@keplercheuvreux.com

Thomas Neuhold, CFA

Head of Austrian Research

tneuhold@keplercheuvreux.com

William Mackie

Head of Capital Goods Research

wmackie@keplercheuvreux.com