

SECTOR: Industrials

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INDUSTRIAL STARS OF ITALY

LU-VE: Born a Lucky Venture, Grown Into an Industrial Star

- **Business combination.** Industrial Stars Of Italy (ISI), an Italian development capital Special Purpose Acquisition Company (SPAC), floated on the Italian AIM market in July 2013, bringing in Eu51.5mn. On 23 March 2015, the ISI Board approved an investment in LU-VE. The proposed business combination (technically a merger) will be put to ISI shareholders for approval by the end of April. The pre-money equity valuation of LU-VE for the business combination is roughly Eu140.9mn (some 6.2x EV/EBITDA 2014).
- **The LU-VE group is a leading European player in the design and manufacture of air cooling and heat exchange systems for the refrigeration and air conditioning markets.** The group's main products are: heat exchangers (56% of consolidated revenues in 2014), air coolers (33%), close control systems (6%) and glass doors for display cabinets (5%). LU-VE estimates that 40% of its consolidated revenue comes from product/application/market combinations where it commands a leading positioning in Europe, with market shares even approaching 40-50%. The main applications covered are refrigeration (67% of consolidated revenues in 2014) and air conditioning (18%), with special applications (10%) and power generation (5%) completing the range. LU-VE records 76% of its turnover outside Italy. Products are manufactured at 10 different plants, 5 in Italy and 5 abroad (Poland, China, Russia, Czech Republic, Sweden). The group employs more than 1,500 people. In FY14, consolidated value of production stood at Eu217.9mn and adjusted net profit came to Eu11.3mn. LU-VE's competitive advantage relies on several factors such as: 1) undisputed technological know-how and high innovation capability, 2) strong relations with end customers, and 3) a wide range of products covering well diversified applications.
- **Estimates: sound growth prospects for 2015-2017.** We estimate a 2014-17 value of production CAGR of 3.4%. We forecast a 3.6% and 5.8% pro-forma 2014-17 CAGR for EBITDA and EBIT respectively, with growth broadly in line with revenues. On the bottom line, adjusted net profit is expected to reach Eu16.0mn in 2017 from Eu11.3mn in 2014, a 12.0% 2014-17 CAGR thanks to lower net financial charges (we are not assuming any negative FOREX impact). Net debt is forecast to decline from Eu49.0mn in 2014 to Eu9.5mn in 2017 thanks to average free cash flow of Eu15.5mn and a dividend payout rate of 33%. In addition to the general risks related to economic and business trends, the main specific risks we see are: exposure to instable countries (i.e. Russia), raw materials and FOREX volatility, failure to integrate TGD, and price pressure from OEM customers.
- **Valuation.** Based on our estimates, we have tried to provide a pre-money valuation of LU-VE through a comparison of multiples with listed peers and a DCF approach. The peer comparison yields a pre-money equity value range of Eu229mn to Eu298mn. The DCF valuation, based on assumptions of a WACC of 8.0% and 1.5% terminal growth, puts the pre-money equity value at Eu228mn.
- **Conclusions.** According to our analysis, ISI's merger with LU-VE is a business combination that has an attractive risk/reward profile over the medium term. Once the merger is completed, LU-VE will have cashed in between Eu36.7 and Eu51.5mn, which will serve to: 1) beef up CAPEX and thereby improve organic growth prospects, and 2) grow by means of acquisitions. LU-VE's management has a strong track record in M&A and in successfully integrating acquired companies.

Business Combination
between ISI and LU-VE

Executive Summary

Business combination. Industrial Stars Of Italy (ISI), an Italian development capital Special Purpose Acquisition Company (SPAC), floated on the Italian AIM market in July 2013, bringing in Eu51.5mn. On 23 March 2015, the ISI Board approved an investment in LU-VE. The proposed business combination (technically a merger) will be put to ISI shareholders for approval by the end of April. This combination will only be executed in the event that upon approval by the shareholders, withdrawal rights exercised by shareholders amount to no more than 30% of the share capital. The pre-money equity valuation of LU-VE for the business combination is roughly Eu140.9mn (some 6.2x EV/EBITDA 2014).

The LU-VE group is a leading European player in the design and manufacture of air cooling and heat exchange systems for the refrigeration, and air conditioning markets. The LU-VE group has an important positioning in the commercial refrigeration segment: it is the leading European operator in heat exchangers for refrigerated supermarket display units, and one of the leading operators in the ho.re.ca sector, with an excellent positioning in the sub-segment of drinks dispensers, especially for beer. The group estimates that 40% of consolidated revenues come from product/application/market combinations where it commands a leading positioning in Europe, with market shares even approaching 40-50%. The group's main products are: heat exchangers (56% of consolidated revenues in 2014), air coolers (33%), close control systems (6%), and glass doors for display cabinets (5%). The main applications covered are refrigeration (67% of consolidated revenues in 2014) and air conditioning (18%), with special applications (10%) and power generation (5%) completing the range. By region, in 2014 some 56% of turnover was realised in Europe (13% in Germany), 20% in the rest of the world, and only 24% in Italy. The company's five most important clients account for approximately 25% of consolidated revenue. Products are manufactured at 10 different plants, five in Italy and five abroad (Poland, China, Russia, Czech Republic and Sweden). The company employs more than 1,500 people, of which 800 outside Italy. In its last fiscal year, which ended 31 December 2014, the group achieved consolidated value of production of Eu217.9mn and adjusted net profit of Eu11.3mn. LU-VE's business benefits from significant entry barriers. The company's competitive advantage relies on several factors such as: 1) undisputed technological know-how and high innovation capability, 2) strong relations with end customers, and 3) a wide range of products covering well diversified applications.

Estimates: sound growth prospects for 2015-2017. Our estimates point to a 2014-17 value of production CAGR of 3.4%, driven by sales of close control and glass doors, by sales outside Italy, and by sales of special applications and power generation systems. We forecast a 3.6% and 5.8% pro-forma 2014-17 CAGR for EBITDA and EBIT, respectively, with growth broadly in line with revenues. On the bottom line, adjusted net profit is expected to reach Eu16.0mn in 2017 from Eu11.3mn in 2014, a 12.0% 2014-17 CAGR thanks to lower net financial charges (we are not assuming any negative FOREX impact). Net debt is forecast to decline from Eu49.0mn in 2014 to Eu9.5mn in 2017 based on an average free cash flow of Eu15.5mn and a dividend payout rate of 33%. In addition to the general risks related to economic and business trends, the main specific risks we see are: exposure to instable countries (i.e. Russia), raw materials and FOREX volatility, failure to integrate TGD and price pressure from OEM customers.

Valuation. Based on our estimates, we have tried to provide a pre-money valuation of LU-VE through a comparison of multiples with listed peers and a DCF approach. The peer comparison (based on EV/EBITDA, EV/EBIT and P/E) yields a pre-money equity value range of Eu229mn to Eu298mn. The DCF valuation, based on assumptions of a WACC of 8.0% and 1.5% terminal growth, puts the pre-money equity value at Eu228mn.

Conclusions. According to our analysis, ISI's merge with LU-VE is a business combination that has an attractive risk/reward profile over the medium term. Once the merger is completed, LU-VE will have cashed in between Eu36.7mn and Eu51.5mn, which will be available to: 1) beef up CAPEX and thereby improve the company's long-term organic growth profile, and 2) grow by means of acquisitions. LU-VE's management has a strong track record in M&A and in successfully integrating acquired companies. Following the minority stake acquisition, the stock's float on AIM Italia will be between 21.4% and 27.4%, depending on how many current ISI shareholders decide to exercise their withdrawal rights. Stock liquidity might be low in the short term, but the group has already arranged to migrate shortly to the MTA segment of the market.

Business Combination: ISI and LU-VE

Industrial Stars Of Italy S.p.A. (or "ISI") is an Italian SPAC (see Appendix for definition). It floated on the AIM market of the Italian stock exchange in July 2013, collecting Eu51.5mn from the IPO. The goal of a SPAC is to buy out or merge with a target operating company within 24 months. The target identified by ISI's Board for a business combination is LU-VE.

This proposed business combination is subject to approval by ISI's shareholders at a forthcoming extraordinary general meeting to be held on 27 April, at which a quorum of one-third of the share capital must be reached. Assuming it is approved by the shareholders, the transaction will only take place in the event that withdrawal rights exercised by ISI shareholders (by 15 May) amount to no more than 30% of the share capital. LU-VE's listing will then occur by the end of June or early July.

ISI's outstanding share capital is comprised of 5,005,000 ordinary (class A) shares and 150,000 special (class B) shares. Class A shares were issued for institutional investors only, class B for promoters of the SPAC. The promoters of ISI are Giovanni Cavallini and Attilio Arietti.

Class B shares will be converted into class A shares with a multiplier of 7x: one-third will be converted at the time of the business combination, one-third if LU-VE's share price reaches Eu11 per share within 28 months of the business combination, and one-third if LU-VE's share price reaches Eu12 per share within 28 months of the business combination.

At the time of the IPO, a listed warrant was assigned to every two ordinary shares held (there are 2,502,500 outstanding warrants today). An additional warrant (up to 2,502,500 warrants total) will be issued the day before the merger to those shareholders not exercising the withdrawal rights. At most 2,502,500 additional warrants will be issued to Finami and G4, current shareholders of LU-VE, such that their stake in LU-VE is only partially diluted following the merger. Therefore the maximum number of outstanding warrants if no withdrawal rights are exercised would be 7,507,500.

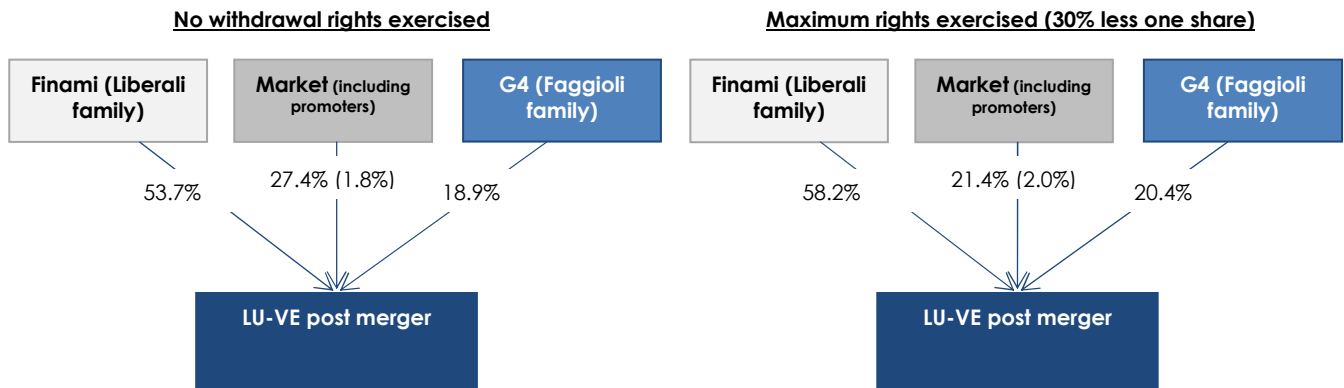
These warrants may be exercised starting one month after the proposed business combination is executed, up until whichever of the following dates occurs first: (i) exactly 5 years from the business combination date; or (ii) 30 days after the date on which the average monthly share price exceeds Eu13.

Because the Board of ISI made the exercise of the warrants "cashless", the warrants would give its owners the right to purchase new shares for the practically negligible price of Eu0.10 each. The number of shares that can be purchased per warrant will be determined by the following formula: $(\text{Avg. monthly share price} - \text{Eu}9.3) / (\text{Avg. monthly share price} / \text{Eu}0.1)$. So, for example, if the average market price were Eu13, then each warrant would buy $(13-9.3)/(13-0.1) = 0.2868$ shares. So, an owner of 1,000 warrants could therefore buy 286 shares for Eu28.6, while those shares would be worth $286 \times \text{Eu}13 = \text{Eu}3,718$. The maximum number of conversion shares would be 2,153,151, with a limited cash-in for the company.

Assuming it is approved by the shareholders, the business combination will be executed based on a pre-money equity valuation of LU-VE of Eu140.9mn. The transaction would take place through the merger of ISI into LU-VE (technically through the merge of ISI by LU-VE), where LU-VE is valued at Eu140.9mn, and ISI at Eu51.5mn. LU-VE will cash in between Eu36.7mn and Eu51.5mn, depending on how many ISI shareholders exercise withdrawal rights.

Immediately following this business combination, the shareholding structure will look like this:

LU-VE – Ownership Structure Post Merger



Source: Company data

It's worth highlighting that current shareholders of LU-VE are not selling any shares at the time of the business combination.

For the purpose of the merger, ISI will be considered to be worth Eu10.0 per share, and the share swap ratio has been set at one ISI share for every LU-VE share. Shareholders wishing to exercise withdrawal rights, however, will receive Eu10.0 per share.

LU-VE will initially be listed on the AIM market and will migrate shortly to the main Italian stock market.

Description of the LU-VE Group

The LU-VE group is a leading European player in the design and manufacture of air cooling and heat exchange systems for the refrigeration, and air conditioning markets.

The LU-VE group has a prominent positioning in the commercial refrigeration segment. It is the leading European operator in heat exchangers for refrigerated supermarket display units, and one of the leading operators in the ho.re.ca sector, with an excellent positioning in the sub-segment of drinks dispensers, especially for beer.

The group estimates that 40% of consolidated revenue comes from product/application/market combinations where it commands a leading positioning in Europe, with market shares approaching 40-50%.

The group main products are: heat exchangers (56% of consolidated revenues in 2014), air coolers (33%), close control systems (6%), and glass doors for display cabinets (5%).

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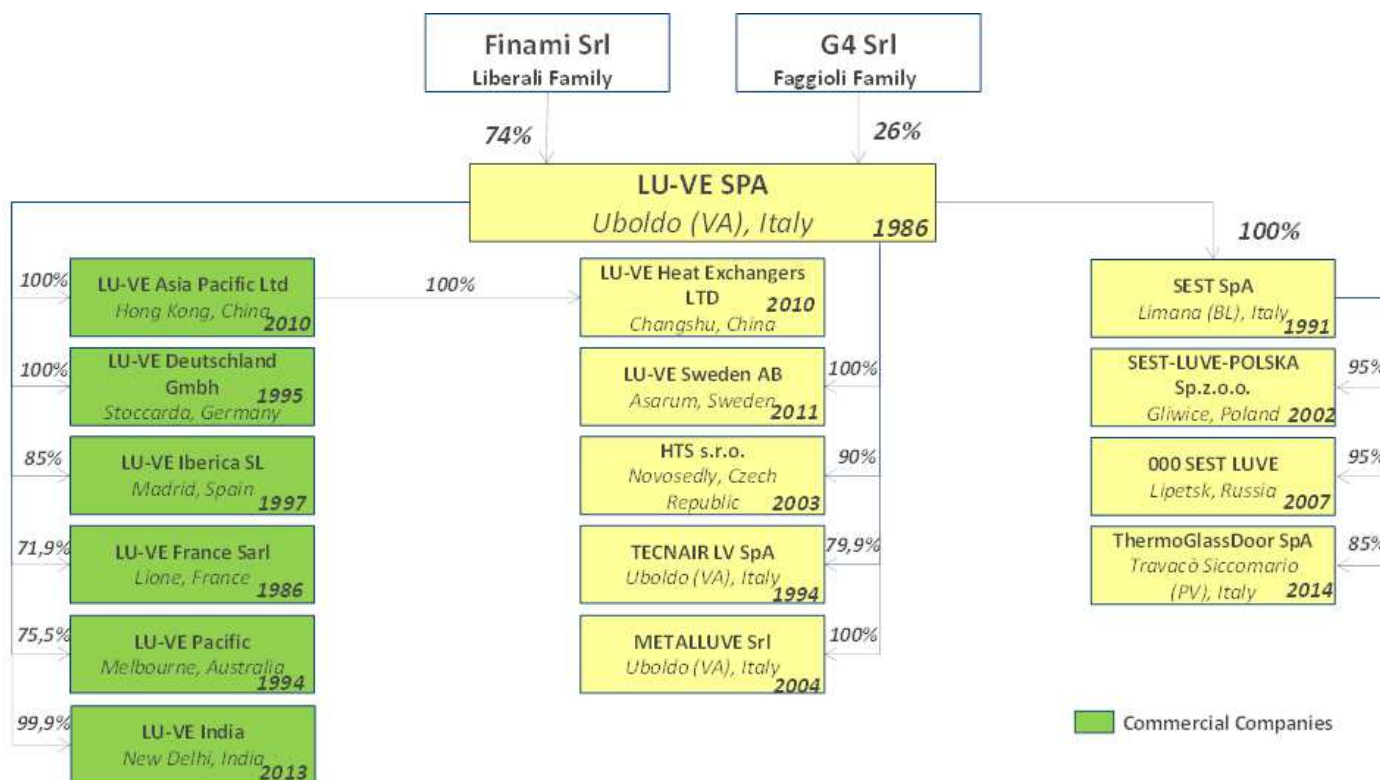
By region, in 2014 some 56% of turnover was realised in Europe (13% in Germany), 20% in the rest of the world, and only 24% in Italy. The group's five biggest clients account for approximately 25% of consolidated revenues.

Products are manufactured at 10 different plants, five in Italy and five abroad (Poland, China, Russia, Czech Republic and Sweden). The company employs more than 1,500 people, of which 800 outside Italy.

In its last fiscal year, which ended 31 December 2014, the group achieved consolidated value of production of Eu217.9mn and adjusted net profit of Eu11.3mn.

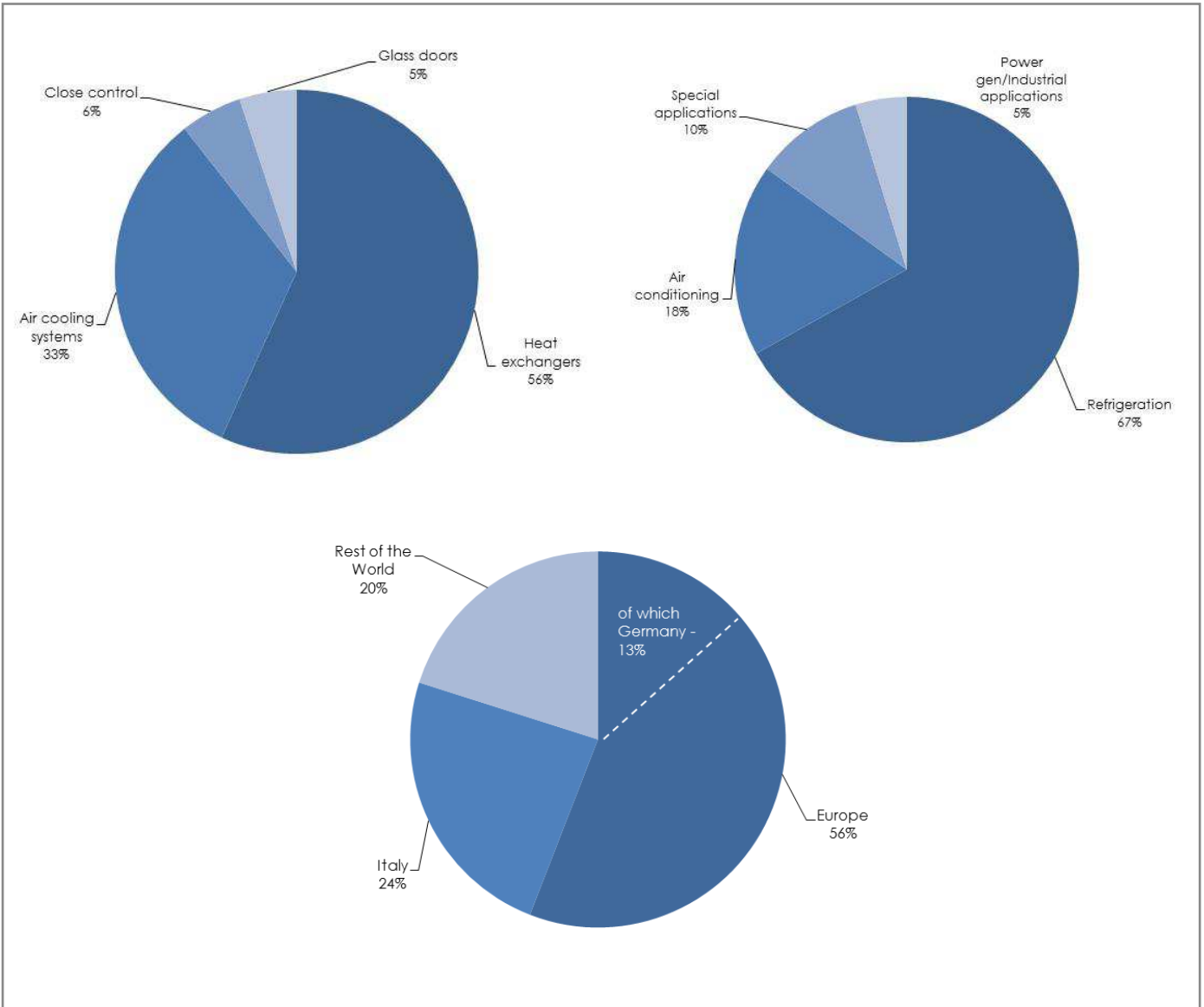
LU-VE's business benefits from significant entry barriers. The company's competitive advantage relies on several factors such as: 1) undisputed technological know-how and high innovation capability, 2) strong relations with end customers, and 3) a wide range of products covering well diversified applications.

LU-VE – Group Structure



Source: Company data

LU-VE – 2014 Revenue Breakdown by Product, by Application, and by Region



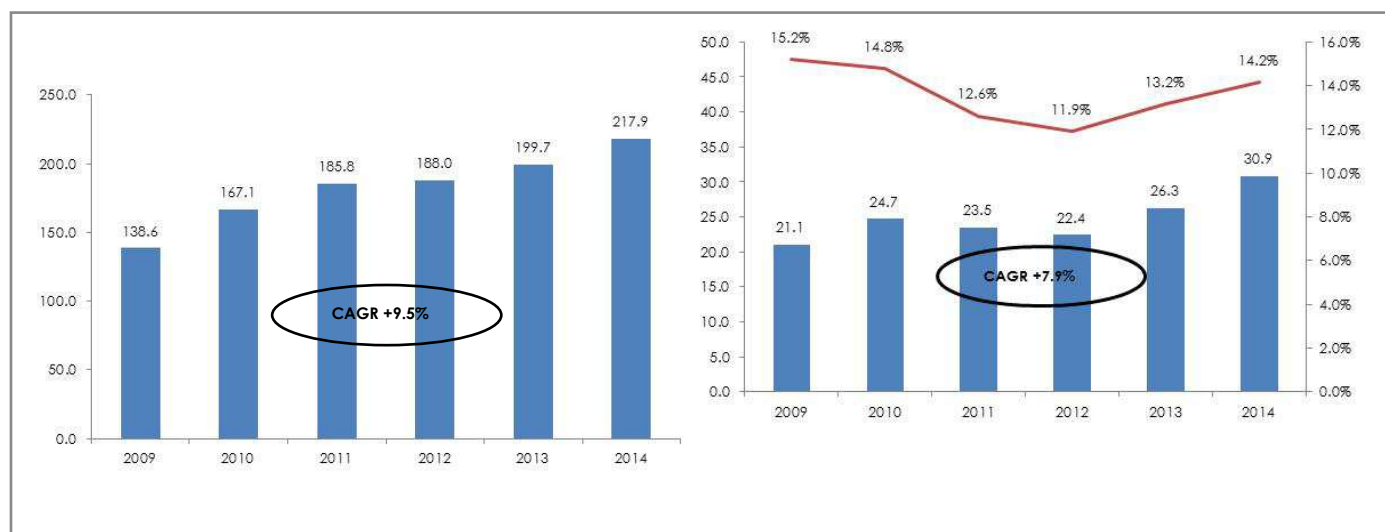
Source: Company data

Over the last 6 years (from 2009 to 2014), LU-VE has continually developed its business, chiefly through organic growth, but partly through acquisitions as well, attaining a compound average growth rate (CAGR) of 9.5%.

Over the same period, the company has also been able to achieve constant profitability, posting an EBITDA margin ranging from 13% to 15% (attaining a CAGR of 7.9%). In 2012 the EBITDA margin, adjusted for the consolidation of Sweden and the start-up of Chinese operations, would have been 14%.

LU-VE – Value of Production Trend, 2009 – 2014 (in Eu mn)

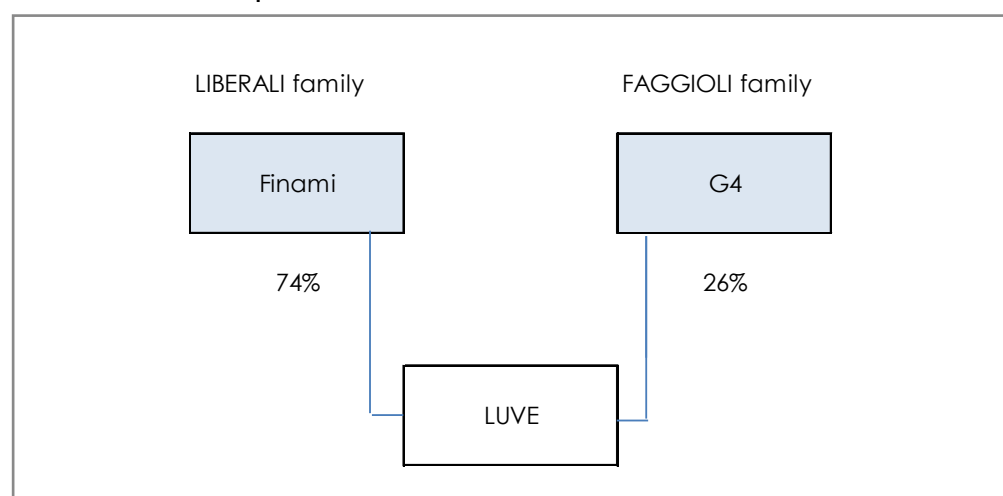
LU-VE – EBITDA and Margin Trends, 2009 – 2014 (in Eu mn and in %)



Source: Company data

The company is currently owned by the Liberali family (through a company named Finami) and the Faggioli family (through a company named G4).

LU-VE - Current Ownership Structure



Source: Company data

If the business combination with ISI is executed successfully, the Liberali family will maintain a controlling stake of LU-VE ranging from 53.7% (if no withdrawal rights are exercised) and 58.2% (if the maximum 30% of withdrawal rights are exercised).

Management and Governance

A key figure in LU-VE's history and development is its current Chairman, **Iginio Liberali**. Iginio Liberali earned a degree in economics from the Catholic University of Milan in 1955. Working for the Necchi company in Pavia from 1956 to 1976, he covered several roles before become Director of the Compressors Division. In 1976, he then became Managing Director of appliance manufacturer Merloni Elettrodomestici. He left the Merloni group in 1985 and founded LU-VE. He has been Chairman of the Board at LU-VE since 1986.

Another key figure is Vice President **Pierluigi Faggioli**. Pierluigi Faggioli, who studied mechanical engineering at the University of Bologna, worked for 25 years at Costan, where he was plant manager. He left in 1990 to found the SEST company and helped it expand abroad, first through the formation of SEST LU-VE Poland in 2002, and later through OOO Sest LU-VE, founded in 2007. He has been an indirect stakeholder of LU-VE since 2014 , through G4 Srl, and is currently Vice Chairman of the company.

The top management team is rounded out by **Matteo Liberali**, CEO, **Michele Faggioli**, COO, and **Eligio Macchi**, CFO.

Matteo Liberali earned a degree in business administration from the Bocconi University of Milan in 1991. In September 1994 he began working at LU-VE, earning successive promotions to become Director of Sales in 2003 and then Managing Director in 2008. A member of the Board since May 2003, he took on the role of Chief Operating Officer in July 2014 following the reshuffle in the group's shareholding structure.

Michele Faggioli joined SEST in 1993, where he subsequently covered the positions of Head of Purchasing, Head of Human Resources and Planning, and Head of Operations. He also coordinated and supervised the Russian and the Polish subsidiary. In July 2014, he became Chief Operations Officer of the LU-VE group.

Eligio Macchi earned a degree in business administration from the Bocconi University of Milan in 1992. He worked for Arthur Andersen from 1994 to 1998. In March 1999 he began working for LU-VE, where is currently CFO and head of the internal audit department.

After the merger, the Board of Directors will be composed of ten members, seven of which will be appointed by the Liberali and Faggioli families, two by ISI's promoters, and one will be independent.

Company History

1986: LU-VE, a Liberali family company, buys the assets of Contardo S.p.A, a refrigeration company going through bankruptcy proceedings;

1991: LU-VE acquires 51% of SEST S.p.A. (the other 49% remains with the Faggioli family), thus entering the market of static evaporator coils for refrigerated counters and display cabinets;

1994: LU-VE starts production of "close control" high-precision air conditioning systems for data centres, telephone exchanges and hospital operating theatres;

2002: LU-VE set-up a production company in Poland;

2003: LU-VE acquires 90% of Heat Transfer Systems s.r.o. in the Czech Republic, a manufacturer of heat exchangers for various applications;

2007: LU-VE set-up a production company in Russia;

2008: industry shareholder ZOPPAS INDUSTRIES BV sells its stake in LU-VE, leading to a restructuring of the company's shareholding that sees Mediobanca S.p.A. acquiring 20% of the LU-VE share capital;

2011: LU-VE buys a controlling stake in LU-VE Sweden AB, previously Asarum Industriaktiebolag (AIA), which manufactures heat exchangers for refrigeration, air conditioning and industrial applications;

2014: SEST S.p.A. buys 85% of Thermo Glass Doors S.p.A., a producer of glass doors for refrigeration equipment;

2014: a further restructuring of the LU-VE shareholding leads to: (i) the departure of Mediobanca S.p.A., which sells part of its stake to Finami and the rest to LU-VE itself; and, (ii) a restructuring of the shareholding of subsidiary SEST S.p.A., leading to the current ownership structures of LU-VE and SEST S.p.A., with G4 (a Faggioli family company that already had a stake in SEST S.p.A.) entering the capital of LU-VE alongside Finami (a Liberali family company), through the contribution in kind of 49% of Sest S.p.A. in LU-VE.

Competitive Positioning

The LU-VE group is a leading European player in the design and manufacture of air cooling and heat exchange systems for the refrigeration, and air conditioning markets.

The group mostly operates in two main markets:

- **Refrigeration**, which includes all activities relating to the preservation, processing, transformation and storage at controlled low temperatures of foodstuffs such as fruit, vegetables, meat and fish, from the moment of their harvest/ butchering / production until their presentation to the public in supermarkets and local grocery stores;
- **Air conditioning**, which includes the manufacture of products and components for air conditioning, both in public places and for technological appliances (such as hospital operating theatres, white rooms, data centres and telephone exchanges), with the aim of guaranteeing controlled levels of air temperature, humidity and purity.

The LU-VE group also operates in special applications, in the power generation segment, and in air conditioning for public transport vehicles.

The main products sold by the LU-VE group are: (i) commercial and industrial unit coolers; (ii) air coolers; (iii) air cooled condensers; (iv) dry coolers; (v) heat exchangers; (vi) glass doors for refrigeration equipment; (vii) accessories, especially control panels, electronic regulators and noise reduction equipment.

LU-VE – Competitive Positioning

Product	Application	Sales Channel
Heat exchangers	Refrigeration Air Conditioning Special Applications	OEM
Glass Doors	Refrigeration	OEM
Close Control	Air Conditioning	Distributors Installers
Air Cooling systems	Refrigeration Air Conditioning Special Applications	Distributors Installers

Source: Company data

Reference Markets

The Refrigeration Market

The refrigeration market can be split into two sub-segments according to the size and cooling capacity (in terms of KWs) of the equipment and the complexity of its construction: (a) commercial refrigeration; and (b) industrial refrigeration. Both sub-segments can include equipment to maintain temperatures that are above freezing (generally from 4°C to 12°C) and below freezing (generally from -18°C to -25°C) depending on the type of product being preserved or transformed.

Commercial Refrigeration

Commercial refrigeration involves individual machines and/or items of equipment with small to medium capacity used in various fields, such as:

- The hotel, restaurant and catering (HO.RE.CA) sector, which uses chiller cabinets, drinks dispensers, mobile refrigeration units for preserving foodstuffs, and small cold rooms dedicated to various different food products;
- Supermarkets and local grocery stores, which use horizontal and vertical refrigerated counters for displaying both fresh and frozen products, as well as refrigerated drinks cabinets in the public areas and refrigerated rooms for the storage, processing, cutting and packaging of foodstuffs in areas without public access.

Commercial refrigeration customers can be split into three categories:

- Original equipment manufacturers (OEMs): manufacturers of counters, display cabinets, refrigerated units and condensing units. They purchase specific bespoke heat exchangers either of their own design, or that are the fruit of a shared design project, or that are made to specification by the heat exchanger manufacturer;
- Installers or contractors: companies of extremely variable size, which directly buy, install and test the materials and components needed to construct the equipment commissioned by their end customers;
- Distributors/ resellers: wholesalers that stock and sell on all types of refrigeration materials and components needed for the construction of a refrigeration unit (for example: heat exchangers, compressors, tubing, valves and refrigerating gas).

The LU-VE group has an important positioning in the commercial refrigeration segment. It is the leading European operator in heat exchangers for refrigerated supermarket display units, and one of the leading operators in the HO.RE.CA sector, with an excellent positioning in the sub-segment of drinks dispensers, especially for beer.

In the construction of refrigerated counters and units, the purchase of Thermo Glass Doors in 2014 allowed the LU-VE group to start manufacturing glass doors and frames for refrigerated counters, which should lead to major commercial synergies thanks to the group's consolidated position as a supplier to all the leading European manufacturers.

Looking at the installers/ contractors sector, LU-VE group estimates indicate that it is the leading player in Italy, France and Sweden, with a strong presence in other European markets.

In the distributors/ resellers segment, the group believes it is one of the main operators in Europe (including Russia, Ukraine and the Baltic Republics), as it can boast a multi-year "preferred supplier" agreement with Beijer, a leading European distribution company.

Industrial Refrigeration

The focus of the industrial refrigeration business is complex large capacity plants, use of which ranges from major storage depots and supermarket service centres to individual process plants used in the food industry (such as the butchering of livestock or the preparation of cakes, ice creams, drinks and fruit juices).

Industrial refrigeration customers are mainly installers or general contractors, but rarely the end customers. They operate independently in both the design stage and in plant construction.

The industrial refrigeration market features some highly specialised niches, based on the type of plant needed and the product to be preserved/ treated. There is close geographical proximity between consultants, installers and manufacturers of heat exchangers.

The LU-VE group does not have a leading position in industrial refrigeration, as it has a number of highly specialised competitors that dedicate all of their operations to this segment.

The Air Conditioning Market

The group manufactures air conditioning units and components for both public places and industrial settings, so as to control the temperature, humidity and purity of the air.

The non-domestic air conditioning market can be divided into two main categories of clients:

- original equipment manufacturers (OEMs) in the sector;
- installers.

About half of air conditioning segment sales are heat exchangers sold to OEMs that produce "close control" (i.e. high-precision) air conditioning units, which are typically used in locations like data centres and telephone exchanges, and/or machines that produce cold water for large conditioning units (chillers) and/or heat pumps.

Most of the remaining half of sales in this segment can be divided into two sub-segments:

- high-powered air coolers for outdoor use, which are sold to installation companies that have been awarded contracts to build large central air conditioning systems in office buildings, shopping centres, trade fair facilities or manufacturing plants;
- close control air conditioning units, sold via a group company to installers and distributors, for use in premises such as data centres, telephone exchanges, hospital operating theatres and white rooms.

A residual 10% of the group's air conditioning segment sales volumes come from three different sub-segments: (i) heat exchangers for special applications, (ii) power generation, and (iii) air conditioning for public transport vehicles.

Special applications

The special applications market refers mainly to heat exchangers for manufacturers of industrial-use air compressors and heat exchangers sold to the global leader in the manufacture of electrical switch cabinets for large industrial systems and telecommunications systems; these are market niches in which the group estimates it is among the leading operators in Europe. Also, LU-VE estimates that it has a prominent position in another niche – applications for small welding machines.

Power generation

The power generation segment, for which a specific sales team has just been formed, is considered an important area of potential growth. Recently, LU-VE obtained validation for its products from major international operators like Rolls Royce, MAN and GE. This has led to orders for some major projects to build special high-power radiators for cooling systems of electricity generators.

Air conditioning for public transport vehicles

In this segment, the LU-VE group is among the leading operators in Europe in special heat exchangers for train carriages, an attractive market niche thanks to multi-year supply contracts being the norm. On the other hand, sales of heat exchangers for buses have slowed down in recent years, as some operators have opted to produce some types of heat exchangers themselves.

Market trends

The European air cooling market trend has, over time, been on average slightly stronger than the GDP trend in mature markets, thanks especially to investments in large stores (both new buildings and renovations of existing stores, which typically take place every seven years).

The trend in recent years has been even stronger in emerging economies in eastern Europe, particularly Russia, as well as in China and India, where the entire cold chain is in a phase of major expansion; the number of new openings in these areas is much higher than what is now the norm in western Europe.

Other drivers of demand include new regulations, such as zero emissions standards, as well as the development of data centres, cloud computing and web farms.

Competitors

LU-VE has different competitors in its two families of products – air coolers (which are finished products) and heat exchangers (which are components named 'batteries' used by OEMs to produce complete units).

Air coolers

According to company data, the leading European operator in the air cooling unit segment is **Guntner**, a family-owned German company that manufactures its products in Hungary, Indonesia and Mexico, but has a limited presence in the business of heat exchangers for OEMs. LU-VE then estimates that the second leading air cooler business is the "Air" division of multinational **Alfa Laval** (which also does limited business in heat exchangers for OEMs), while in third place is **GEA Heat Exchangers**, sold by multinational GEA to the Private Equity fund Triton in October 2014. **LU-VE estimates that it is itself in fourth place in this segment in Europe, ahead of companies like Friga Bohn, Luvata, Thermofin and Cabero.**

Heat exchangers

In heat exchangers, LU-VE estimates that it is the second leading company in Europe behind Luvata, a company that has experienced several buyouts by private equity funds in recent years and recently became part of a large multinational, and the leading company in some sub segments of the market. Other producers in the sector following behind LU-VE, based in Italy, Turkey, the Czech Republic and Spain, are significantly smaller.

Corporate Strategy

The LU-VE group's strategy is based on two main pillars:

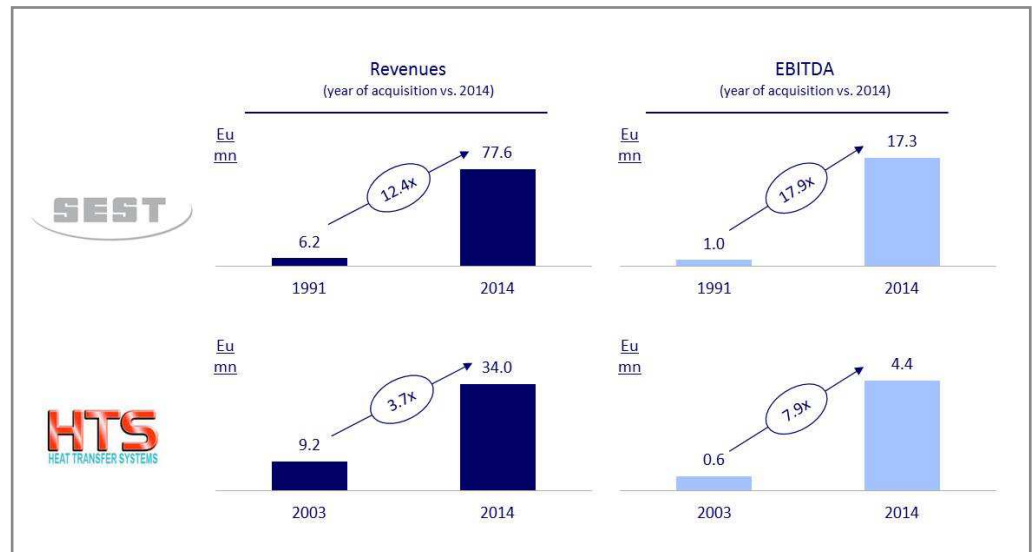
- continue internal expansion of both production and commercial distribution, a process that has been underway for a number of years now, in order to grasp growth opportunities and develop markets that offer particularly attractive growth rates;
- focus on specific product categories that feature innovative solutions with significant technological content.

Once the merger is completed, LU-VE will have greater financial solidity, with cash available to:

- pursue external growth opportunities: **LU-VE's management has a strong track record in M&A and in successfully integrating acquired companies;**
- ramp up CAPEX and thereby improve the company's long-term organic growth prospects.

In 1991 LU-VE acquired 51% of SEST S.p.A., thus entering the market of static evaporator coils for refrigerated counters and display cabinets. In 2003 LU-VE acquired 90% of Heat Transfer Systems s.r.o. in the Czech Republic, a manufacturer of heat exchangers for various applications.

LU-VE – M&A track record



Source: Company data

Financials

We will now present our estimates for LU-VE for the next three financial years. It should be noted that the company's financial statements were prepared according to Italian GAAP standards. We have therefore adjusted EBIT for the amortisation of goodwill, and net income for the amortisation of goodwill, net of the fiscal impact. The tables below include our consolidated P&L expectations for the next three years. We highlight our underlying assumptions for each line.

Revenues: We expect a 3.7% revenue CAGR from 2014 to 2017 (and a 3.4% CAGR for value of production), driven by sales of close control and glass doors, two products whose sales start from a low base. We expect sales of heat exchangers and air cooling systems to also post positive growth rates. By region, revenue growth in Europe and rest of the world will outpace the trend in Italy. By application, sales of special applications and power generation will outperform refrigeration and air conditioning. We assume a broadly stable environment for selling prices.

Margins: We expect margins to improve slightly. The EBITDA margin (calculated on value of production) is expected to average 14.4% from 2015 to 2017. Below the EBITDA line, depreciations and amortisations should remain more or less unchanged in 2015 and 2016, before declining slightly in 2017, a factor that is consistent with the expected volume of investment. EBIT margin (calculated on value of production) is expected to improve from 8.1% in 2014 to 8.7% in 2017. EBIT margin, adjusted for the amortisation of goodwill, would be 200bps higher on average from 2015 to 2017.

LU-VE – Profit & Loss

(Eu mn)	2009A	2010A	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Revenues	137.9	161.6	180.6	185.7	194.3	212.1	218.4	227.2	236.3
YoY growth	-24.5%	17.2%	11.8%	2.8%	4.6%	9.1%	3.0%	4.0%	4.0%
Value of production	138.6	167.1	185.8	188.0	199.7	217.9	223.0	231.7	240.8
YoY growth		20.6%	11.2%	1.2%	6.2%	9.1%	2.3%	3.9%	3.9%
Gross Profit	74.8	79.6	83.3	92.5	96.8	105.5	107.1	111.2	115.5
gross margin	54.0%	47.6%	44.8%	49.2%	48.5%	48.4%	48.0%	48.0%	48.0%
EBITDA	20.9	24.3	23.7	22.4	26.8	30.9	32.3	33.5	34.4
YoY growth	-21.8%	16.3%	-2.8%	-5.2%	19.6%	15.0%	4.6%	3.7%	2.5%
EBITDA margin	15.1%	14.6%	12.7%	11.9%	13.4%	14.2%	14.5%	14.5%	14.3%
Depreciation and amortization on revenues	(11.5) 8.3%	(11.4) 7.1%	(11.1) 6.1%	(11.7) 6.3%	(11.4) 5.8%	(13.2) 6.2%	(13.3) 6.1%	(13.3) 5.9%	(12.9) 5.5%
Writedown and provisions on revenues	(0.1) 0.0%	(0.2) 0.1%	(0.3) 0.2%	(1.6) 0.8%	(0.6) 0.3%	0.0 0.0%	(0.5) 0.2%	(0.5) 0.2%	(0.5) 0.2%
EBIT Adjusted	12.7	16.1	15.7	12.5	18.3	21.9	22.9	23.9	24.8
EBIT Adjusted margin	9.2%	9.6%	8.4%	6.7%	9.1%	10.1%	10.3%	10.3%	10.3%
EBIT	9.4	12.7	12.3	9.2	14.9	17.7	18.5	19.7	21.0
YoY growth		35.0%	-3.3%	-25.5%	62.4%	18.8%	4.7%	6.4%	6.4%
EBIT margin	6.8%	7.6%	6.6%	4.9%	7.4%	8.1%	8.3%	8.5%	8.7%

Source: Company data (A) and Intermonte SIM estimates (E)

We forecast net financial charges to decline year after year, as a result of a lower net debt. It is worth noting that our estimates do not include the positive impact from the additional capital of between Eu36.7mn and Eu51.5mn that will be gathered through the business combination with ISI, as explained in detail in the section of this report covering the combination.

We are not factoring in any losses from FOREX (LU-VE is exposed to the Russian rouble, the Polish zloty, the Czech koruna and the Swedish kronor, having set up production plants in these countries).

We expect the tax rate to be 31.5% in the 2015-17 period, higher than last year, when the company benefited from deferred tax assets in Poland. We are not assuming tax benefits in Poland will be renewed.

At the bottom line, we are adjusting net income for the amortisation of goodwill, net of the fiscal effect (in order for the company to make its accounts IAS-compliant).

LU-VE – Net Profit

(Eu mn)	2009A	2010A	2011A	2012A	2013A	2014A	2015E	2016E	2017E
EBIT	9.4	12.7	12.3	9.2	14.9	17.7	18.5	19.7	21.0
Financial income and charges	(3.4)	(2.9)	(2.9)	(3.6)	(4.2)	(5.7)	(2.5)	(1.7)	(1.0)
Extraordinary revenues and charges	(0.3)	(0.9)	0.0	1.2	0.4	(0.7)	0.0	0.0	0.0
Pretax	5.8	9.0	9.5	6.8	11.0	11.3	16.0	18.0	20.0
Taxes	(1.5)	(2.8)	(2.4)	(0.7)	(2.4)	(2.9)	(5.0)	(5.7)	(6.3)
	<i>tax rate</i>								
	-26.0%	-31.6%	-25.7%	-10.9%	-21.9%	-26.1%	-31.5%	-31.5%	-31.5%
Profit third-parties	(2.8)	(2.9)	(3.6)	(3.6)	(5.2)	(0.8)	(0.9)	(1.0)	(1.1)
Profit Group	1.5	3.3	3.4	2.5	3.4	7.6	10.1	11.3	12.6
	<i>YoY growth</i>								
	-84.5%	124.5%	5.4%	-27.3%	34.6%	125.0%	32.8%	12.6%	11.3%
	<i>Net margin</i>								
	1.1%	2.0%	1.9%	1.3%	1.7%	3.6%	4.6%	5.0%	5.3%
Adjusted net income	4.3	6.2	6.3	5.4	6.3	11.3	14.0	15.1	15.9
		43.2%	2.9%	-14.8%	16.1%	81.1%	23.1%	8.0%	5.8%

Source: Company data (A) and Intermonte SIM estimates (E)

We believe the expected positive business developments will also be reflected in strong cash generation, bringing net debt down from Eu49.0mn in December 2014 to Eu9.5mn in December 2017. We notice that net debt increased from 2013 to 2014 due to the acquisition of TGD, extraordinary Capex, and the acquisition of Mediobanca's stake in LU-VE for a total cash out of approx. Eu30.0mn.

Our estimates imply that in the 2015-17 period, the net working capital to revenue ratio will improve slightly from 3.7% in 2014 to 3.3% in 2017, as a result of a 6-day increase in outstanding receivable days, a 1-day decrease in outstanding payable days, and stable inventories on revenues.

In the absence of extraordinary projects, we have also forecast CAPEX will amount to 3.5% of revenue on average, or Eu8.0mn per year. LU-VE has constantly invested to increase production capacity and to keep its plants up-to-date, so today it boasts a very competitive industrial footprint.

Finally, starting from the current financial year (2015) we have factored in the distribution of dividends based on a 33% payout of reported net income (post minorities).

LU-VE – Cashflow Statement

(Eu mn)	2009A	2010A	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Net Income	4.3	6.1	7.0	6.1	8.6	8.4	11.0	12.3	13.7
Depreciation and amortization	11.5	11.4	11.1	11.7	11.4	13.2	13.3	13.3	12.9
Change in Working Capital		5.9	(3.9)	1.1	0.6	0.9	(2.0)	(1.9)	(2.1)
Change in funds		(0.2)	(1.1)	(0.6)	(1.4)	4.6	0.0	0.0	0.0
Other		(19.5)	(1.9)	0.5	(5.0)	0.6	0.0	0.0	0.0
Operating Cash flow	15.7	3.7	11.2	18.7	14.2	27.7	22.3	23.7	24.6
Net CAPEX (Tangible + Intangible)			(13.6)	(9.9)	(6.4)	(24.5)	(8.0)	(8.0)	(8.0)
Dividends			0.0	0.0	0.0	0.0	0.0	(3.3)	(3.7)
Net changes in equity			(1.5)	1.2	(0.8)	1.9	0.0	0.0	0.0
Other	(9.2)	11.9	(0.1)	(0.0)	3.2	(25.0)	0.0	0.0	0.0
Net Cash Flow	6.5	15.6	(4.0)	10.1	10.2	(19.9)	14.3	12.4	12.8
NFP at the beg. of the year: Cash/(Debt)	(67.4)	(60.9)	(45.3)	(49.3)	(39.3)	(29.1)	(49.0)	(34.7)	(22.3)
Cash Flow: Cash/(Debt)	6.5	15.6	(4.0)	10.1	10.2	(19.9)	14.3	12.4	12.8
NFP at year end: Cash/(Debt)	(60.9)	(45.3)	(49.3)	(39.3)	(29.1)	(49.0)	(34.7)	(22.3)	(9.5)

Source: Company data (A) and Intermonte SIM estimates (E)

Finally, on the balance sheet, it is worth highlighting that fixed assets amounted to Eu125.4mn in 2014; intangible assets (mostly goodwill) account for approximately 28% of the total.

LU-VE – Balance Sheet

(Eu mn)	2009A	2010A	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Tangible assets	85.8	84.5	88.7	89.5	87.4	90.1	85.1	80.2	75.5
Intangible assets	36.3	33.4	31.8	29.1	26.3	34.9	34.5	34.2	33.9
of which goodwill	25.2	23.5	22.3	20.2	18.2	26.7	22.0	17.2	12.6
Financial assets	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Fixed Assets	122.5	118.4	120.9	119.1	114.1	125.4	120.1	114.8	109.9
Inventories	14.5	17.0	20.6	16.6	17.5	21.7	22.3	23.2	24.2
Trade Receivables	28.9	32.6	34.7	37.8	36.8	38.2	40.7	43.5	46.6
Other current assets	0.9	1.0	4.4	4.1	6.1	6.5	5.5	5.0	4.5
Trade Payables	(26.2)	(35.5)	(37.0)	(37.7)	(40.1)	(44.9)	(46.0)	(47.9)	(49.8)
Other current liabilities	(5.6)	(8.5)	(12.2)	(11.5)	(11.6)	(13.7)	(16.5)	(17.0)	(17.6)
Net Working Capital	12.5	6.6	10.4	9.4	8.8	7.8	6.0	6.9	7.9
growth		-47.1%	58.5%	-10.2%	-6.5%	-10.8%	-23.2%	15.5%	13.9%
on sales	9.0%	4.1%	5.8%	5.0%	4.5%	3.7%	2.7%	3.1%	3.3%
Severance Indemnity Reserve	(3.3)	(3.0)	(2.9)	(2.8)	(2.8)	(3.2)	(3.3)	(3.3)	(3.3)
Provisions for risks and charges	(11.4)	(11.6)	(10.6)	(10.1)	(8.7)	(12.9)	(13.3)	(13.7)	(14.1)
Net Capital Employed	120.3	110.4	117.9	115.6	111.4	117.1	109.5	104.7	100.3
Shareholders' funds	59.3	65.1	68.6	76.3	82.3	68.1	74.8	82.4	90.9
of which Minority interests	16.8	18.6	20.2	24.2	27.7	3.2	4.1	5.1	6.2
Net Cash (Debt)	(60.9)	(45.3)	(49.3)	(39.3)	(29.1)	(49.0)	(34.7)	(22.3)	(9.5)
Gearing %	51%	41%	42%	34%	26%	42%	32%	21%	9%

Source: Company data (A) and Intermonte SIM estimates (E)

Peers

LU-VE mostly operates in two markets, the refrigeration and the air conditioning. We have therefore selected a peer group with these two businesses in mind, made up of the following companies:

- **Alfa Laval:** is a Swedish company which focuses on energy optimization, environmental protection and food production through technological leadership in heat transfer, separation and fluid handling. The company operates into three divisions: Equipment (industrial and sanitary equipment), Process Technology (customized solutions, systems and modules directly to the end customer) and Marine & Diesel (components, modules, systems and service for the marine and offshore markets and for land-based diesel power).
- **Beijer:** it is a Swedish company which manufactures refrigeration and air conditioning products. It operates through four business segments: Commercial Refrigeration, Industrial Refrigeration, HVAC (heating and air conditioning for private residences to climate control of large office areas), and OEM (power packs and heat-exchange products).
- **CENTROTEC Sustainable:** it is a German company engaged in the development, manufacture, and sale of products for energy efficiency and renewable energy in buildings. The company operates through the following segments: Climate Systems (ventilation, heating, and cooling systems), Gas Flue Systems (gas flue systems for oil, conventional gas, and solid-fuel heating systems), Medical Technology (medical technology solutions and components for diagnostics), and Engineering Plastics (parts and assemblies made from engineering plastics).
- **Delclima:** it is an Italian company which engages in the production and sale of centralized air-conditioning and heating systems. The company operates through the Indoor Climate Control (machinery for air-conditioning plants and for information and communications technology industrial processes), Refrigeration (chillers, heat pumps, air handling units and control systems), and Radiators (steel panel and multi-split units, and aluminum and steel bathroom radiators and electric radiators segments).
- **Dover Corporation:** it is a US company which manufactures and offers innovative equipment, components, and specialty systems. The company also provides supporting engineering, testing, and other similar services. It operates its business through four segments: Energy, Engineered Systems (equipment and components serving the printing and identification, vehicle service, environmental solutions and industrial end markets), Fluids (handling of fluids across the retail fueling, chemical and hygienic markets) and Refrigeration & Food Equipment (equipment and systems serving the commercial refrigeration and food service industries).
- **Emerson Electric:** it is a US company which manufactures and develops process controls systems, valves and analytical instruments. It delivers products and services to the industrial, commercial and consumer markets. The company operates through five segments: Process Management (capabilities for automated industrial processes), Industrial Automation (integrated manufacturing solutions), Network Power (sensors and controls for telecommunications networks and data centers), Climate Technologies (residential heating and cooling, commercial air conditioning, and refrigeration), and Commercial & Residential (storage systems and appliance solutions).
- **Ingersoll-Rand:** it is an Irish company which provides products, services and solutions to enhance the quality and comfort of air in homes and buildings, transport and protect food and perishables, secure homes and commercial properties. It operates through the two business segments: Climate (heating, ventilation and air conditioning systems), and Industrial segment (products and services that enhance energy efficiency, productivity and operations).
- **Johnson Controls:** it is a US company with a global diversified technology. It operates through three business segments: Building Efficiency (integrated heating, ventilating and air conditioning systems, building management systems), Automotive Experience (innovative interior systems), and Power Solutions (lead-acid automotive batteries).
- **Lennox International:** it is an US provider of climate control solutions. It designs, manufactures and markets a broad range of products for the heating, ventilation, air conditioning and refrigeration markets. It operates through three segments: Residential Heating & Cooling (furnaces, air conditioners, heat pumps, packaged heating and cooling systems), Commercial Heating & Cooling (unitary heating and cooling equipment), and Refrigeration (equipment for the global commercial refrigeration market).
- **NIBE Industrier:** it is a Swedish company engaged in the business of heating technology. It operates through the following business areas: NIBE Element (products and solutions for measuring, controlling and heating for both industrial and consumer scope), NIBE Energy Systems (indoor climate comfort products), and NIBE Stoves (wood-burning stoves and chimney systems).

- **SPX Corporation:** it is a US company which manufactures and distributes industrial components. It offers a diverse collection of products, which include valves, fluid handling equipment, metering and mixing solutions, specialty service tools, diagnostic systems, service equipment and technical information services, cooling, heating and ventilation products, power transformers, and TV and radio broadcast antennas.
- **Systemair:** it is a Swedish company which develops, manufactures and markets ventilation products and solutions. The company's products are divided into two divisions: Comfort Ventilation (fans, air handling units, products for air distribution, air curtains and heating products), and Safety Ventilation (fire safety, garage and tunnel ventilation).
- **Walter Meier:** it is a Swiss company which engages in the provision of manufacturing and climate technology solutions. The company operates its business through two divisions: Wholesale & Service (climate and manufacturing technology activities that only operate in the Swiss market), and Development & Manufacturing (products and solutions for humidification systems in commercial buildings and industrial applications).
- **United Technologies:** it is a US company which provides products and services to the building systems and aerospace industries worldwide. The company operates through five business segments: Otis (elevators, escalators, moving walkways), UTC Climate (heating, ventilating, air conditioning and refrigeration solutions), Controls & Security (controls for residential, commercial, industrial and transportation applications), Pratt & Whitney (aircraft engines), UTC Aerospace Systems (aerospace products), and Sikorsky (military and commercial helicopters).

LU-VE Peer Group - Multiple Comparison (Euro)

	EV/EBITDA			EV/EBIT			P/E Adjusted		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
LU-VE @ Eu 140.9mn	6.2	5.4	4.9	10.7	9.5	8.3	12.4	10.1	9.3
Alfa Laval	12.6	11.4	10.9	16.5	14.7	14.0	21.6	17.9	16.8
Beijer Ref	12.5	12.8	11.7	14.1	14.4	13.0	21.1	17.8	16.1
CENTROTEC	5.7	5.5	4.7	9.8	8.8	7.2	14.0	13.1	10.5
DelClima	6.2	6.9	6.0	7.3	8.1	7.2	18.4	17.3	15.2
Dover	9.1	8.8	8.4	11.6	11.0	10.6	16.7	14.8	13.9
Emerson Electric	9.3	8.5	8.5	10.3	9.9	9.6	16.8	14.9	14.1
Ingersoll-Rand	11.1	10.5	9.4	13.7	12.8	11.2	22.6	17.8	15.2
Johnson Controls	10.7	10.0	9.1	14.5	13.2	11.9	16.8	13.6	12.0
Lennox International	13.6	12.4	10.7	16.0	14.4	12.2	28.0	20.4	17.1
NIBE Industrier	15.7	13.3	12.5	20.2	16.9	15.6	23.8	19.3	18.4
SPX Corporation	9.4	8.5	7.7	12.1	10.9	9.5	16.8	14.8	13.0
Systemair	11.9	10.5	9.0	17.3	14.3	11.7	20.1	17.4	14.3
Walter Meier	14.3	17.9	15.3	15.8	19.5	17.8	19.5	18.5	17.2
United Technologies	10.2	9.7	9.1	12.2	11.6	10.7	19.0	16.8	15.2
Avg	10.9	10.5	9.5	13.7	12.9	11.6	19.7	16.7	14.9
Median	10.9	10.3	9.1	13.9	13.0	11.4	19.3	17.4	15.2
Discount/premium	-43.4%	-47.0%	-46.7%	-22.7%	-26.8%	-27.6%	-35.5%	-41.9%	-38.5%

Source: Intermonte SIM estimates and Factset consensus estimates

LU-VE Peer Group - Key figures (part I)

	EBITDA margin			EBIT margin			Revenues growth			EBITDA growth		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
LU-VE	14.2%	14.5%	14.5%	8.1%	8.3%	8.5%	9.1%	2.3%	3.9%	15.0%	4.6%	3.7%
Alfa Laval	17.5%	18.7%	18.9%	13.3%	14.5%	14.7%	9.4%	13.3%	0.3%	7.0%	20.8%	1.4%
Beijer Ref	7.5%	8.2%	8.6%	6.6%	7.3%	7.7%	1.8%	4.8%	3.0%	14.6%	14.2%	8.2%
CENTROTEC	10.0%	9.7%	10.3%	5.8%	6.1%	6.7%	1.0%	1.4%	4.6%	-4.5%	-1.7%	11.5%
DelClima	13.2%	13.3%	13.5%	11.2%	11.3%	11.4%	-1.2%	4.1%	4.9%	49.8%	4.6%	6.3%
Dover	20.0%	19.8%	20.2%	15.8%	15.9%	16.1%	1.1%	10.4%	1.3%	0.1%	9.3%	3.1%
Emerson Electric	20.0%	20.8%	20.9%	18.1%	17.9%	18.4%	13.3%	7.1%	0.2%	9.3%	11.2%	0.9%
Ingersoll-Rand	13.6%	14.4%	15.3%	11.0%	11.8%	12.9%	18.9%	16.6%	4.8%	30.9%	23.7%	11.6%
Johnson Controls	8.4%	9.2%	10.4%	6.2%	7.0%	8.0%	14.1%	9.3%	-4.3%	24.1%	19.3%	8.0%
Lennox International	11.9%	13.2%	14.2%	10.1%	11.3%	12.5%	19.9%	15.4%	5.9%	27.3%	27.5%	14.6%
NIBE Industrier	16.2%	17.0%	16.8%	12.6%	13.4%	13.4%	4.8%	15.1%	4.5%	6.8%	20.4%	3.3%
SPX Corporation	10.1%	10.8%	11.4%	7.8%	8.4%	9.2%	14.0%	6.8%	2.4%	26.9%	14.5%	7.7%
Systemair	9.3%	10.3%	11.0%	6.4%	7.6%	8.4%	1.9%	7.9%	5.1%	6.7%	19.6%	11.5%
Walter Meier	7.5%	8.1%	9.1%	6.8%	7.4%	7.8%	-32.1%	-4.7%	-0.1%	-62.8%	3.4%	11.7%
United Technologies	17.9%	18.8%	18.9%	15.0%	15.8%	16.2%	18.4%	11.8%	4.8%	20.5%	17.1%	5.7%
Avg	13.1%	13.7%	14.3%	10.5%	11.1%	11.7%	6.1%	8.5%	2.7%	11.2%	14.6%	7.5%
Median	12.6%	13.2%	13.9%	10.6%	11.3%	11.9%	7.1%	8.6%	3.8%	11.9%	15.8%	7.8%

Source: Intermonte SIM estimates and Factset consensus estimates

LU-VE Peer Group – Key figures (part II)

	Price	CY	Mkt Cap	Revenues			EBITDA			Net Debt (Cash)		
				2014	2015	2016	2014	2015	2016	2014	2015	2016
LU-VE				217.9	223.0	231.7	30.9	32.3	33.5	49.0	34.7	22.3
Alfa Laval	18.3	SEK	7686.88	3702.0	4193.9	4205.4	648.2	782.8	793.8	1,583.0	1,355.2	1,091.5
Beijer Ref	16.6	SEK	704.16	758.9	795.7	819.6	57.0	65.1	70.5	142.2	140.6	130.4
CENTROTEC	14.6	EU	257.73	530.5	538.0	562.5	53.0	52.1	58.1	52.4	38.5	21.4
DelClima	2.4	EU	363.78	347.6	361.8	379.7	46.0	48.1	51.2	(12.2)	(27.2)	(47.9)
Dover	64.3	USD	10484.29	6406.9	7076.3	7165.6	1284.2	1403.2	1446.8	1,941.4	1,865.8	1,778.0
Emerson Electric	52.4	USD	35899.11	20277.6	21719.2	21768.1	4057.7	4511.8	4551.7	2,375.9	2,978.3	2,984.9
Ingersoll-Rand	62.7	USD	16507.58	10653.6	12421.8	13013.2	1445.4	1787.7	1995.3	2,081.9	2,396.1	2,295.2
Johnson Controls	45.2	USD	29740.73	35393.5	38673.7	36992.7	2990.0	3566.2	3851.5	5,182.4	6,043.7	5,614.1
Lennox International	101.9	USD	4552.10	2782.9	3212.7	3403.0	331.8	423.2	484.8	733.9	707.4	642.8
NIBE Industrier	22.6	SEK	2496	1164.7	1340.5	1401.2	188.8	227.3	234.8	619.8	559.1	462.9
SPX Corporation	77.6	USD	3178	3901.6	4167.1	4266.6	392.9	449.9	484.4	778.5	688.4	597.7
Systemair	12.4	SEK	643	610.1	658.1	691.7	56.9	68.1	75.9	98.9	79.6	47.2
Walter Meier	42.1	CHF	408	305.6	291.2	290.8	22.9	23.7	26.4	(1.9)	9.3	(8.7)
United Technologies	108.6	USD	98616	53799.4	60168.9	63045.7	9649.2	11303.4	11944.5	12,031.7	12,650.6	11,441.2
Avg				10045.3	11115.6	11286.1	1516.0	1765.2	1862.1	1972.0	2106.1	1932.2
Median				3242.4	3689.9	3804.2	362.3	436.6	484.6	756.2	697.9	620.2

Source: Intermonte SIM estimates and Factset consensus estimates

LU-VE Peer Group – Key figures (part III)

	Net Debt / EBITDA			Dividend yield			FCF Yield		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
LU-VE @ Eu140.9mn	1.6	1.1	0.7	0.0%	2.4%	2.7%	7.0%	10.1%	11.2%
Alfa Laval	2.4	1.7	1.4	2.3%	2.5%	2.7%	6.0%	6.2%	7.0%
Beijer Ref	2.5	2.2	1.9	3.3%	3.8%	4.2%	1.1%	3.5%	5.0%
CENTROTEC	1.0	0.7	0.4	1.4%	1.8%	2.1%	3.9%	6.0%	7.5%
DelClima	(0.3)	(0.6)	(0.9)	2.4%	2.4%	2.7%	5.6%	5.7%	6.4%
Dover	1.5	1.3	1.2	2.0%	2.4%	2.6%	6.2%	7.2%	7.9%
Emerson Electric	0.6	0.7	0.7	2.7%	3.3%	3.5%	6.8%	7.2%	6.9%
Ingersoll-Rand	1.4	1.3	1.2	1.3%	1.7%	2.0%	3.7%	5.6%	6.8%
Johnson Controls	1.7	1.7	1.5	1.6%	2.1%	2.2%	3.3%	4.7%	5.8%
Lennox International	2.2	1.7	1.3	0.9%	1.2%	1.5%	1.8%	5.1%	5.1%
NIBE Industrier	3.3	2.5	2.0	1.3%	1.5%	1.6%	3.5%	4.1%	5.7%
SPX Corporation	2.0	1.5	1.2	1.6%	1.8%	1.8%	-1.1%	8.1%	10.0%
Systemair	1.7	1.2	0.6	1.7%	2.1%	2.5%	2.8%	5.6%	7.0%
Walter Meier	(0.1)	0.4	(0.3)	14.6%	5.6%	5.6%	6.2%	1.8%	5.4%
United Technologies	1.2	1.1	1.0	1.8%	2.2%	2.4%	4.8%	5.7%	6.6%
Avg	1.5	1.2	0.9	2.8%	2.5%	2.7%	3.9%	5.5%	6.7%
Median	1.6	1.3	1.2	1.8%	2.2%	2.5%	3.8%	5.6%	6.7%

Source: Intermonte SIM estimates and Factset consensus estimates

Valuation

We have valued the target company, LU-VE, using two different approaches: a market multiples comparison and a discounted cash flow (DCF) model. This valuation is 'pre-money', that is, before the business combination.

Peer comparison

The peer multiples comparison approach has a certain limitation in cases like LU-VE, as it is difficult to compose a large enough group of companies whose businesses, growth opportunities and risks are truly comparable. The peers we have selected are described in the previous section. For our valuation, we have taken the median of these companies' values, based on EV/EBITDA, EV/EBIT and P/E multiples. **The result is an estimated pre-money equity value of Eu229.1-298.1mn for LU-VE.**

LU-VE – Peer Group Comparison

(Eu mn)	2014 A	2015 E	2016E	2017E
Company EBITDA	30.9	32.3	33.5	34.4
EV/EBITDA peer group	10.9 x	10.3 x	9.1 x	8.2 x
Fair EV based on multiples	336.5	332.8	304.8	281.3
Net debt	(49.0)	(34.7)	(22.3)	(9.5)
Fair Equity value on multiples	287.5	298.1	282.5	271.8
(Eu mn)	2014 A	2015 E	2016E	2017E
Company Adjusted EBIT	21.9	22.9	23.9	24.8
EV/EBIT peer group	13.9 x	13.0 x	11.0 x	9.9 x
Fair EV based on multiples	304.9	297.7	264.3	246.3
Net debt	(49.0)	(34.7)	(22.3)	(9.5)
Fair Equity value on multiples	255.9	263.0	241.9	236.8
(Eu mn)	2014 A	2015 E	2016E	2017E
Company Adjusted net income	11.3	14.0	15.1	15.9
P/E peer group	19.3 x	17.4 x	15.2 x	13.7 x
Fair Equity value on multiples	218.8	242.9	229.1	218.2

Source: Factset and Intermonte SIM estimates

DCF Model

We have made the following basic assumptions for our DCF model: a) a risk-free rate of 2.5%, b) an equity premium of 5.5%, c) beta of 1.0, d) and 5.0% average cost of debt. These assumptions lead to an average cost of capital (WACC) of 8.0%. Then, we project a long-term (terminal) growth rate of 1.5%. **Based on these assumptions, we calculate a pre-money fair value of Eu227.8mn for LU-VE.**

LU-VE – DCF Model

(Eu mn)	2014A	2015E	2016E	2017E	2018E	2019E	2020E	TV
Sales	212.1	218.4	227.2	236.3	243.3	250.6	258.2	262.0
EBITDA	30.9	32.3	33.5	34.4	35.4	36.4	37.5	38.1
DA	(13.2)	(13.8)	(13.8)	(13.4)	(13.8)	(14.2)	(14.6)	(15.2)
EBIT	17.7	18.5	19.7	21.0	21.6	22.2	22.9	22.9
Taxes	(4.6)	(5.8)	(6.2)	(6.6)	(6.8)	(7.0)	(7.2)	(7.2)
tax rate	-26.1%	-31.5%	-31.5%	-31.5%	-31.5%	-31.5%	-31.5%	-31.5%
Change in WC	0.9	(2.0)	(1.9)	(2.1)	(0.7)	(0.7)	(0.8)	(0.4)
Capex	(24.5)	(8.0)	(8.0)	(8.0)	(8.2)	(8.5)	(8.7)	(8.9)
Capex/Sales	-11.5%	-3.7%	-3.5%	-3.4%	-3.4%	-3.4%	-3.4%	-3.4%
FCF	2.7	16.5	17.4	17.7	19.6	20.2	20.8	21.6
TV								332.7
year	0	1	2	3	4	5	6	7
Discounted WACC	1.00	0.93	0.86	0.80	0.74	0.68	0.63	0.58
Discounted Free cash flow	2.7	15.3	14.9	14.1	14.4	13.8	13.1	194.1

Discounted Free cash flows 85.7

Terminal value 194.1

TV / Total EV	69.4%
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Total EV (with DCF) 279.8

NFP (49.0)

Extraordinary dividend (3.0)

Total EQUITY 227.8

Source: Intermonte SIM estimates

LU-VE – Multiples

Implicit multiples at Eu140.9mn

	2014A	2015E	2016E	2017E
P/E	12.4x	10.1x	9.3x	8.8x
EV/SALES	0.9x	0.8x	0.7x	0.6x
EV/EBITDA	6.2x	5.4x	4.9x	4.4x
EV/EBIT	8.7x	7.7x	8.3x	7.2x

Implicit multiples at Eu227.8mn

	2014A	2015E	2016E	2017E
P/E	20.1x	16.3x	15.1x	14.3x
EV/SALES	1.3x	1.2x	1.1x	1.0x
EV/EBITDA	9.0x	8.1x	7.5x	6.9x
EV/EBIT	12.6x	11.5x	12.7x	11.3x

Source: Intermonte SIM estimates

APPENDIX

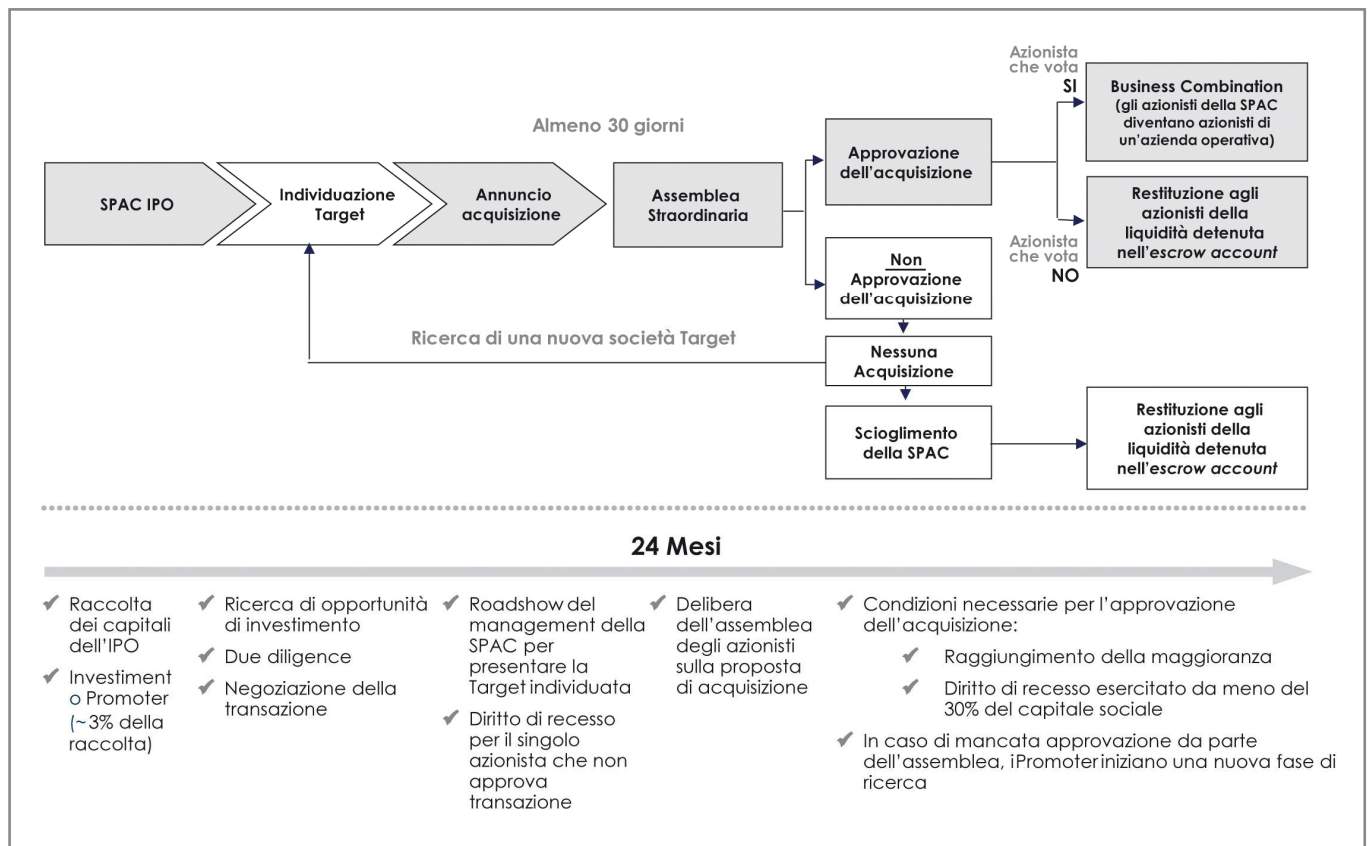
What's a SPAC?

A Special Purpose Acquisition Company (SPAC) is a listed investment vehicle whose purpose is to gather funds to buy out or merge with a single operating company (referred to as the 'target') that is unlisted prior to this business combination. The founders of a SPAC, referred to as 'promoters', also act as the company's management team. As such, the quality and standing of the promoters are crucial to the success of a SPAC.

The promoters invest their own capital (risk capital) to fund operations, whereas IPO proceeds are deposited into an escrow account that cannot be touched by the company without express authorisation by the majority of shareholders. A SPAC then normally has 24 months' time to identify and buy out or merger with a target company, otherwise it is disbanded and the shareholders are liquidated using the funds in the escrow account.

The target company acquisition must be approved at an extraordinary general meeting of the SPAC's shareholders. If the proposed deal is not approved, then the promoters must start their search for a target over again. If the deal is approved, shareholders who voted against the business combination can still request to have their stake liquidated through funds in the escrow account.

Life Cycle of a SPAC



Source: Company information

ANNEX

LU-VE – Shareholder Structure: Assuming No Exercise Of Withdrawal Rights

Share price (Eu)	10.00	10.50	11.00	11.50	12.00	12.50	13.00	
Number of shares (fully diluted)								
n. of shares from exchange ratio for current owners (stake FINAMI)	10,428,574	10,428,574	10,428,574	10,428,574	10,428,574	10,428,574	10,428,574	CURRENT OWNERS OF LU-VE
n. of shares from exchange ratio for current owners (stake G4)	3,663,906	3,663,906	3,663,906	3,663,906	3,663,906	3,663,906	3,663,906	
n. of shares from warrant conversion for current owners (FINAMI)	130,925	213,703	288,888	357,407	420,184	477,962	531,110	
n. of shares from warrant conversion for current owners (G4)	46,000	75,085	101,501	125,575	147,632	167,932	186,606	
n. of shares from Special Shares conversion for current owners (FINAMI)	51,800	51,800	103,600	103,600	155,400	155,400	155,400	
n. of shares from Special Shares conversion for current owners (G4)	18,200	18,200	36,400	36,400	54,600	54,600	54,600	
n. of shares from residual Special Shares conversion for current owners (FINAMI)	14,800	14,800	7,400	7,400	-	-	-	
n. of shares from residual Special Shares conversion for current owners (G4)	5,200	5,200	2,600	2,600	-	-	-	
n. of shares from exchange ratio for the market	5,005,000	5,005,000	5,005,000	5,005,000	5,005,000	5,005,000	5,005,000	
n. of shares from warrant conversion for the market	353,853	577,577	780,780	965,965	1,135,634	1,291,790	1,435,434	
n. of shares from Special Shares conversion for promoters	280,000	280,000	560,000	560,000	840,000	840,000	840,000	
n. of shares from residual Special Shares conversion for promoters	80,000	80,000	40,000	40,000	-	-	-	
Total	20,078,258	20,413,845	21,018,649	21,296,427	21,850,930	22,085,164	22,300,630	

% shareholders (fully diluted)

Current owners of LU-VE	71.5%	70.9%	69.6%	69.1%	68.1%	67.7%	67.4%	
of which FINAMI	52.9%	52.5%	51.5%	51.2%	50.4%	50.1%	49.8%	
of which G4	18.6%	18.4%	18.1%	18.0%	17.7%	17.6%	17.5%	
Market (including Promoters)	28.5%	29.1%	30.4%	30.9%	31.9%	32.3%	32.6%	MARKET
of which Free Float	26.7%	27.3%	27.5%	28.0%	28.1%	28.5%	28.9%	
of which Promoters	1.8%	1.8%	2.9%	2.8%	3.8%	3.8%	3.8%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Notes:

- this is a fully diluted scenario based on, for each level of price, also the 1:1 conversion of residual Special Shares in the case of the target level of share price would not be reached (see line for "residual Special Shares" - for prices below Eu12 per share), and
- the conversion of all Warrants in ordinary shares for each level of price, and
- an Equity Value equal to Eu140,924,800
- based on a 1:1 exchange ratio (Eu10.0 per share). ISI valued at Eu51,550,000.

LU-VE – Shareholder Structure: Assuming Maximum Exercise Of Withdrawal Rights

Share price (Eu)	10.00	10.50	11.00	11.50	12.00	12.50	13.00	
Number of shares (fully diluted)								
n. of shares from exchange ratio for current owners (stake FINAMI)	10,428,574	10,428,574	10,428,574	10,428,574	10,428,574	10,428,574	10,428,574	CURRENT OWNERS OF LU-VE
n. of shares from exchange ratio for current owners (stake G4)	3,663,906	3,663,906	3,663,906	3,663,906	3,663,906	3,663,906	3,663,906	
n. of shares from warrant conversion for current owners (FINAMI)	111,286	181,647	245,555	303,795	357,157	406,268	451,443	
n. of shares from warrant conversion for current owners (G4)	39,100	63,822	86,276	106,739	125,487	142,742	158,615	
n. of shares from Special Shares conversion for current owners (FINAMI)	51,800	51,800	103,600	103,600	155,400	155,400	155,400	
n. of shares from Special Shares conversion for current owners (G4)	18,200	18,200	36,400	36,400	54,600	54,600	54,600	
n. of shares from residual Special Shares conversion for current owners (FINAMI)	14,800	14,800	7,400	7,400	-	-	-	
n. of shares from residual Special Shares conversion for current owners (G4)	5,200	5,200	2,600	2,600	-	-	-	
n. of shares from exchange ratio for the market	3,503,501	3,503,501	3,503,501	3,503,501	3,503,501	3,503,501	3,503,501	
n. of shares from warrant conversion for the market	300,775	490,940	663,663	821,070	965,289	1,098,021	1,220,118	
n. of shares from Special Shares conversion for promoters	280,000	280,000	560,000	560,000	840,000	840,000	840,000	
n. of shares from residual Special Shares conversion for promoters	80,000	80,000	40,000	40,000	-	-	-	
Total	18,497,142	18,782,390	19,341,475	19,577,585	20,093,914	20,293,012	20,476,157	

% shareholders (fully diluted)

Current owners of LU-VE	77.5%	76.8%	75.4%	74.8%	73.6%	73.2%	72.8%	
of which FINAMI	57.3%	56.8%	55.8%	55.4%	54.4%	54.2%	53.9%	
of which G4	20.1%	20.0%	19.6%	19.5%	19.1%	19.0%	18.9%	
Market (including Promoters)	22.5%	23.2%	24.6%	25.2%	26.4%	26.8%	27.2%	MARKET
of which Free Float	20.6%	21.3%	21.5%	22.1%	22.2%	22.7%	23.1%	
of which Promoters	1.9%	1.9%	3.1%	3.1%	4.2%	4.1%	4.1%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Maximum withdrawal rights (30% - 1 share)

Notes:

- this is a fully diluted scenario based on, for each level of price, also the 1:1 conversion of residual Special Shares in the case of the target level of share price would not be reached (see line for "residual Special Shares" - for prices below Eu12 per share), and
- the conversion of all Warrants in ordinary shares for each level of price, and
- an Equity Value equal to Eu140,924,800
- based on a 1:1 exchange ratio (Eu10.0 per share). ISI valued at Eu51,550,000.

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