INDUSTRIAL STARS OF ITALY

Initiation of Coverage

30 March 2015 | MARKET PRICE: **EUR10.45**

Heat exchangers, refrigeration

Data

Shares Outstanding (m):	5.0
Market Cap. (EURm):	52.3
Free Float (%):	100%
Av. Daily Trad. Vol. (m):	0.01
Main Shareholder:	Banca IMI and Fiduciaria Orefici 6% each
Reuters/Bloomberg:	ISI.MI/ISI IM
52-Week Range (EUR)	9.4 10.5

Performance

	1m	3m	12m
Absolute	4,50%	8,29%	9,20%
Rel. to FTSE IT	2,14%	-9,02%	0,05%

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A true industrial star

At the end of January Industrial Stars of Italy ("ISI"), a Special Purpose Acquisition Company ("SPAC"), announced a business combination with LU-VE Group, a leading producer of heat exchangers and coils for air conditioning for the non-residential market. The business combination involves a merger of ISI into LU-VE Group and the concurrent listing on AIM Italia of LU-VE Group's capital (shares and warrants) with an exchange ratio 1:1. The deal attributes an equity valuation to LU-VE Group of EUR143.9 million (including EUR3 million in dividends to be distributed to the existing shareholders of LU-VE Group before the business combination) implying a 2014 EV/EBITDA of 6.2x. We believe that the acquisition of LU-VE Group is a great opportunity for ISI shareholders for the following reasons: 1) LU-VE Group has reported average organic growth of about 7% since 2009 (9% including acquisitions) despite persistent sluggishness in its core market due to product innovation and limited exposure to Italy (24% of sales); 2) its profitability is amongst the highest in its sector with an average EBITDA margin of 13.7% in the past five years (14.6% in 2014) and very low volatility; 3) the company's operating cash flow generation has always been strong (>EUR20 million p.a.) and its balance sheet robust with operating NWC below 10% of revenues, 0.7x gearing at Dec-14 and net debt/EBITDA at 1.6x; 4) the cash inflow from ISI should provide LU-VE Group with the ammunition to pursue further growth opportunities (to boost production capacity and seek external acquisitions). Our average valuation of LU-VE Group reaches EUR191 million, 33% above the entry price for ISI shareholders. Further upside could come from the listing on the MTA market in the medium term and from the exercise of the warrants.

- We expect LU-VE Group's top line to rise to EUR238 million in 2017 (from EUR212 million in 2014) with an EBITDA margin of 15.8% (from 14.6% in 2014). The bottom line could rise to more than EUR14 million in 2017 under Italian GAAP (and around EUR18 million under IAS) while strong cash generation could reduce net debt to EUR12 million by end-2017 (from EUR50 million in 2014), excluding any proceeds from the business combination (about EUR50 million with no withdrawal). LU-VE Group is expected to pay a dividend with a pay-out ratio of 30-40%, implying a yield of about 3% based on the equity valuation implied in the business combination.
- Free float is expected to be in the range of 19.5% to 25.7% depending on exercise of withdrawal rights. The Liberali family will maintain a stake >50%. All proceeds are expected to be used to boost production capacity and/or make new acquisitions to enter new industrial segments and/or new markets, which would drive further growth in revenues.

Financials (all data refers to LU-VE Group)

	2014A	2015E	2016E	2017E
Revenues (EURm)	212,1	221,0	229,6	238,0
EBITDA (EURm)	30,9	33,1	35,7	37,7
EBITDA margin (%)	14,6%	15,0%	15,5%	15,8%
EBIT (EURm)	17,7	19,2	22,0	23,8
EBIT margin (%)	8,3%	8,7%	9,6%	10,0%
Net results (EURm)	7,6	10,8	13,0	14,4
Net debt (EURm)	50,5	35,0	23,8	12,5

Source: Company Data, UBI Banca Estimates

Ratios (based on EUR140.9m equity value)

	2014A	2015E	2016E	2017E
P/E(x)	18,6	13,0	10,9	9,8
P/E(x) under IAS	12,4	9,7	8,4	7,8
P/BV(x)	2,17	1,94	1,72	1,54
Dividend Yield	0,0%	2,7%	3,2%	3,6%
EV/EBITDA(x)	6,2	5,8	5,4	5,1
Debt/Equity (x)	0,74	0,46	0,28	0,13
Debt/EBITDA (x)	1,64	1,06	0,67	0,33

Source: Company Data, UBI Banca Estimates

All data refer to LU-VE Group

Key Financials

(EURm)	2014A	2015E	2016E	2017E
Revenues	212.1	221.0	229.6	238.0
EBITDA	30.9	33.1	35.7	37.7
EBIT	17.7	19.2	22.0	23.8
Net result attributable	7.6	10.8	13.0	14.4
Free Cash Flow	0.7	19.5	16.0	16.8
Net Capital Employed	118.6	111.0	108.9	107.5
Shareholders' Equity	64.9	72.7	81.9	91.7
Net Financial Position	50.5	35.0	23.8	12.5

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2014A	2015E	2016E	2017E
Net Debt/Ebitda (x)	1.64	1.06	0.67	0.33
Net Debt/Equity (x)	0.74	0.46	0.28	0.13
Interest Coverage (%)	6.1	8.1	9.8	11.5
Free Cash Flow Yield (%)	0.5%	13.8%	11.3%	11.9%
ROE (%)	11.7%	14.9%	15.8%	15.7%
ROI (%)	10.1%	10.8%	12.9%	14.3%
ROCE (%)	11.0%	12.4%	14.6%	16.1%

Source: Company data, UBI Banca estimates

Key Valuation Ratios
Based on EUR140.9m equity value

	2014A	2015E	2016E	2017E
P/E (x)	18.6	13.0	10.9	9.8
P/E (x) under IAS	12.4	9.7	8.4	7.8
P/BV (x)	2.17	1.94	1.72	1.54
P/CF (x)	5.6	5.1	5.6	5.3
EV/Sales (x)	0.90	0.87	0.83	0.80
EV/EBITDA (x)	6.2	5.8	5.4	5.1
EV/EBIT (x)	10.8	10.0	8.7	8.0
EV/CE (x)	1.61	1.73	1.76	1.78

Source: Company data, UBI Banca estimates

1. INVESTMENT CASE

We believe that ISI has finally found the right company with which to make an attractive business combination: LU-VE Group.

LU-VE Group is a leading producer of heat exchangers and ventilated products for non-residential applications with revenues of EUR212 million in 2014, 10 plants (of which 5 outside Italy), 12 commercial branches abroad, and a total of 1,528 employees at Dec-14. It is also present in the niche segments of close control and glass doors. The group, founded and still managed by Liberali family, has reported average organic growth of about 7% since 2009 (9% including acquisitions) despite challenging market conditions which have resulted in a decline in the company's core market over the past five years. The Group has bucked the trend due to product innovation, the quality of its tailored products and gradual expansion abroad as a consequence of which non-Italian revenues rose to 76% in 2014, while almost 50% of production is located outside Italy. Because of its lean cost structure, healthy operating leverage and the quality recognized by its customers the company has maintained EBITDA margins close to 14% in the past five years.

LU-VE Group has always enjoyed strong operating cash flow generation (>EUR20 million p.a.) and a healthy balance sheet with operating NWC below 10% of revenues, capital turnover of 1.9x, 0.7x gearing at Dec-14 and a net debt/EBITDA ratio of 1.6x.

Our estimates, which do not include cash inflow from ISI of about EUR50 million assuming no withdrawals, imply a top line CAGR of almost 4% in 2014-17 with an estimated EBITDA margin of 15.8% in 2017. We expect an attributable net result of more than EUR14 million in 2017 (from EUR7.6 million in 2014) although it could potentially be higher when the group adopts IAS accounting as the reported net profit is currently diluted by EUR3.8 million of goodwill amortization every year.

We believe that the equity valuation of LU-VE Group is beneficial to ISI shareholders: EUR140.9 million (EUR143.9 million including the dividend to be paid to existing LU-VE Group shareholders) implying an EV/EBITDA multiple of 6.2x, which is well below the peer group average (11.0x). This entry price compares with our average conservative valuation for LU-VE Group of EUR191 million, which, nevertheless implies multiples that are still well below those of the peer group.

The group should also benefit from the additional financial resources of ISI to allow further acceleration in investments to expand its production capacity, to penetrate new markets and to enter new segments also through acquisitions, for which LU-VE Group has an outstanding track record.

Finally, the business combination attractiveness is increased by the free issue of warrants (one warrant every two shares) to be distributed to ISI shareholders (owners of ISI shares before the shareholder meeting of April 28 to approve the business combination) who do not exercise withdrawal rights. The warrants are currently in the money (strike price at EUR9.3), have a long duration (five years) and automatic conversion should the share price reach EUR13.

We believe the main risks to be related to LU-VE's exposure to Russia (around 6% of revenues) which resulted in a forex loss of EUR3.5 million in 2014, the existence of a high amount of goodwill (22% of capital employed), its limited size compared to International peers and the lack of presence in the US, although the group could now seek opportunities to break into the US market.

2. COMPANY PROFILES

2.1. Industrial Stars of Italy

Industrial Stars of Italy S.p.A. ("ISI") is a Special Purpose Acquisition Company (so called "SPAC"), a listed investment company incorporated on 30th April 2013 and listed on 18th July 2013, whose aim is the research and selection of acquisition targets within 24 months with a view to buying a minority stake, merge with the target and automatically list the newly-merged company (the "Business Combination"). ISI raised about EUR50 million from its listing.

Any Business Combination is subject to the withdrawal rights of ISI shareholders' less than 30% of the voting rights. Should the 30% threshold be exceeded, any proposed Business Combination would be declared ineffective and if the stated 24 month term expires, ISI would be wound up.

The company's two promoters are Mr. Giovanni Cavallini, an entrepreneur and former CEO of Interpump (an industrial Italian listed company) from 1996 to 2013, and Mr. Attilio Francesco Arietti, a well known M&A advisor for deals in the mid-market.

ISI's IPO involved the issue of no. 5,005,000 ordinary shares at a price of EUR10 each, and n. 2,502,500 free warrants attached to the ordinary shares in a ratio of 1 warrant every two IPO shares. The warrant regulations allow shareholders who do not exercise the right to withdraw from ISI (the withdrawal right can be exercised up to May 19), the right to an additional free warrant in for each two shares owned.

At the time of the IPO, ISI also issued no. 150.000 special shares, granting the owners (owned 50% each by the promoters of the SPAC, two investment companies, Giober S.r.l., referring to Giovanni Cavallini, and Spaclab S.r.l., referring to Attilio Arietti) no voting rights, but, among other things, the right to convert the special shares into ordinary shares in a ratio of 7 ordinary shares for every 1 special share, on conclusion of the Business Combination (first 1/3 of the amount), and the remainder on the achievement of price thresholds equal to EUR11 (second 1/3) and/or EUR12 (third 1/3 or directly 2/3 of the amount).

At present ISI's two main shareholders are Banca IMI and Fiduciaria Orefici, both with a 5.99% stake.

2.2. The business combination

On 23rd January 2015 ISI and the promoters signed a framework agreement with the selected target LU-VE S.p.A. ("LU-VE"), Finami S.r.l. (the holding of Liberali family), which owns 74% of LU-VE, and G4 S.r.l. (the holding of Faggioli family which entered into LU-VE Group in 1991 through SEST, a company now belonging to the LU-VE Group), which owns the remaining 26% of LU-VE, to a binding agreement within the terms and conditions of the Business Combination.

The Business Combination involves the reverse merger of ISI into LU-VE Group and the concurrent listing on AIM Italia of LU-VE's capital (shares and warrants).

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

- **Valuation:** 6.2x 2014 EBITDA – implying an equity value of EUR140.9 million. In addition, the existing shareholders of LU-VE Group will receive a further EUR3 million in dividends by May 31, de-facto increasing the entry price of ISI to EUR143.9 million.

- **Shares exchange ratio:** the ratio is equal to 1:1 ISI/LU-VE shares (ordinary and special) and the substitution of the ISI warrant with LU-VE warrants, which have the same terms and condition as the ISI warrant.

- **The existing shareholders of LU-VE Group** (Finami and G4) **will not sell any share.**

- **LU-VE Group shareholders/managers upside**: the LU-VE Group shareholders/managers will receive LU-VE warrants amounting to 50% of the warrant outstanding after the Business Combination. This implies a maximum no. 2,502,500 LU-VE warrants, should the proportion of withdrawing shareholders following the Business Combination be equal to zero the number of outstanding warrants would consequently be 5,005,000. In the event that this option is fully exercised, the EV/EBITDA multiple would increase from 6.20x to 6.26x.

- **Shareholders' Lock-up**: lock-up of 36 months from the date on which the merger becomes effective (12 months of lock-up from the conversion of each tranche of special shares in ordinary shares).

Timetable:

- April 28: Shareholders' meetings of ISI and LU-VE to approve, among other things, the Business Combination;
- May 19: end of the period for the exercise of withdrawal rights (if the shareholders meeting resolutions will be enrolled on 4th May 2015);
- Early July: Merger deed and listing of the combined entity on AIM Italia market.

The shareholder structure will depend on the number of ISI shareholders exercising withdrawal rights, although the Liberali family will maintain its majority shareholding (>50%). Our sensitivity analysis indicates that the free float (represented by ISI shareholders, excluding the promoters and based on voting rights) would be in a range of 25.7% (0% withdrawal) and 19.5% (maximum withdrawal).

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

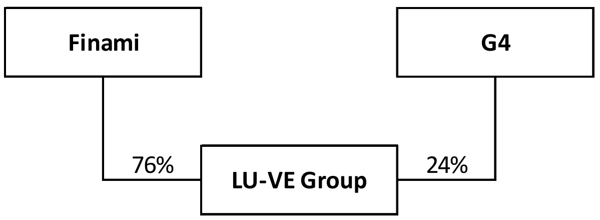
If withdrawals would reach or surpass 30% the business combination will not take place

% of withdrawal	**0.0%**	**5.0%**	**10.0%**	**15.0%**	**20.0%**	**25.0%**	**29.9%**
Finami (Liberali family)	53.9%	54.6%	55.3%	56.1%	56.8%	57.6%	58.4%
G4 (Faggioli family)	18.9%	19.2%	19.4%	19.7%	20.0%	20.2%	20.5%
Promoters	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.6%
Free Float	25.7%	24.8%	23.8%	22.8%	21.7%	20.6%	19.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: UBI Banca estimates

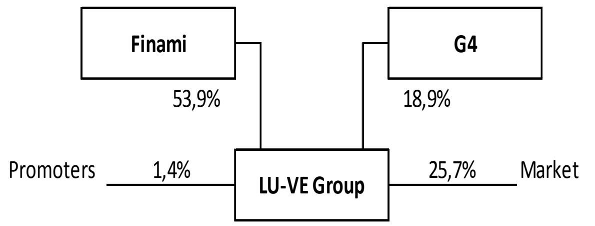
Following the business combination and the reverse merger, LU-VE Group's Board of Directors will be composed of 10 members of which 7 appointed by the Liberali and Faggioli families, 2 appointed by the promoters and one independent member. All significant strategic decisions will require the approval of the two promoters.

Figure 2 – Shareholder structure of LU-VE before the business combination



Source: Company data

Figure 3 - Shareholder structure of LU-VE after the business combination (0% withdrawal)

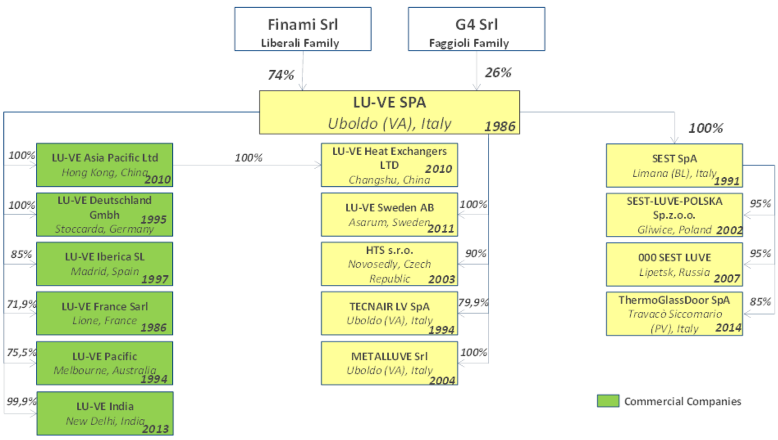


Source: UBI Banca estimates

2.3. LU-VE Group

LU-VE (acronym of Lucky Ventures) Group was founded in 1985 by Iginio Liberali, who is the current Chairman of the group. The company has achieved rapid growth, both organic and through several acquisitions (Contardo in 1986, one of the leading companies in the refrigeration sector, SEST in 1991, which makes static evaporator units for refrigerated counters and display cabinets, Tecnair in 1994, active in close control, HTS in 2003 active in heat exchangers) enlarging its product range and market share. From 2002 the group expanded production outside Italy through green field projects and acquisitions. It currently has 10 plants (five in Italy, one in Poland, one in the Czech Republic, one in Sweden, one in Russia and one in China) and 12 commercial branches outside Italy, with a total of 1,528 employees at Dec-14 of whom 624 are based in Italy. The company's Managing Director is Matteo Liberali and its Chief Communication Officer is Fabio Liberal, both sons of Iginio Liberali, while the Vice President is Pierluigi Faggioli, the COO Michele Faggioli (son of Pierluigi) and other managers are external appointments.

Figure 4 - LU-VE Group: company structure



Source: Company data

LU-VE Group has four main product groups:

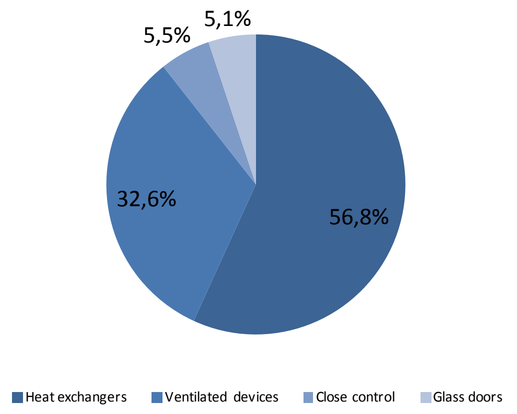
- **Heat Exchangers** (57% of sales in 2014). Heat exchangers are fundamental components of cooling circuits and are constructed by coupling mechanically specialised tubes (usually copper), with special printed fins (usually aluminium). LU-VE Group produces tailored products for industrial refrigeration for OEMs - primarily manufacturers of counters and refrigerated cabinets, air conditioners, heat pumps, compressed air machines, special cabinets etc.

- **Ventilated products** (33% of sales) or unit coolers, condensers and dry coolers. These devices are finished products made of heat exchangers of various shapes and sizes (LU-VE Group's products may be up to 12 meters long and 3 meters high) and are typically sold to the non-residential market;

- **Close control** (6% of sales), or precision air conditioning systems specifically designed for indoor "technological" operations, such as data centres, hospital operating rooms, clean rooms etc;

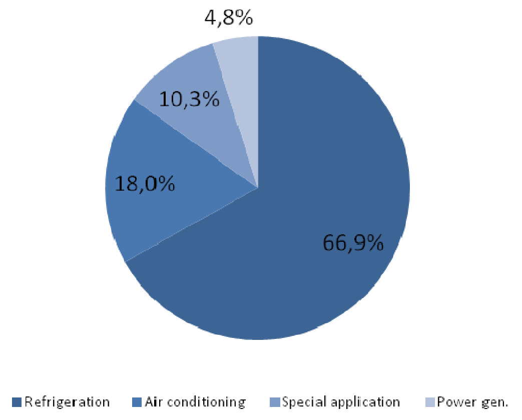
- **Glass doors for refrigeration equipment** (5% of sales), through TGD (representing sales of about EUR11 million) which was acquired last year with an investment of around EUR9 million, enlarging the company's product range in a growing niche segment.

Figure 5 – 2014 sales breakdown by product



Source: Company data

Figure 6 – 2014 sales breakdown by destination



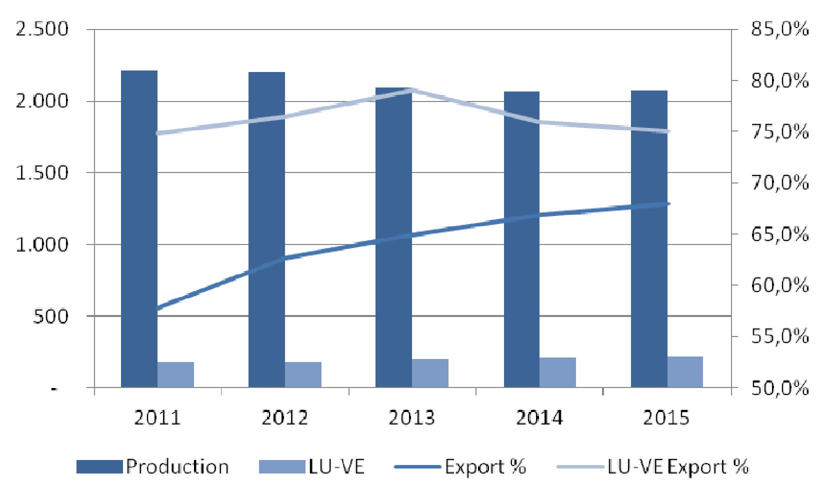
Source: Company data

LU-VE Group products are mainly sold in the refrigeration segment with applications along the entire food supply chain from point of collection / breeding / production to sale through large retail chains. This segment represented 67% of revenues in 2014. The air conditioning segment accounted for 18% of sales in 2014. Other destinations are special applications (a wide and much diversified segment) and powergen segment (applications for power plants, oil & gas, mining) where LU-VE Group's presence is marginal.

The company has strongly outperformed the declining trend in its core market and has reported remarkable organic growth of about 7% p.a. since 2009. According to Databank, the non-residential refrigeration and ventilation market in Italy (including all foreign production by Italian companies) declined by 6.5% between 2011 and 2014. Over the same period, LU-VE Group revenues rose by 17.4%.

Figure 7 – Total production and export trend for Italian refrigeration and ventilation market companies and LU-VE Group

LU-VE Group's non-Italian revenues are >75% of consolidated sales (and around 80% excluding the recently acquired TGD) compared with 68% for the aggregate of all Italian companies. Based on Databank data, we estimate LU-VE Group's market share >10% and about 6% of the domestic market alone.



Source: Company data, Databank, UBI Banca estimates

We believe this trend was achieved and should continue in the future as a result of:

- **Technological innovation:** LU-VE Group has a partnership with the University of Milan and manages the biggest European laboratory for researching applications in the refrigeration segment. It also cooperates with several European universities. In 2014 the group developed 16 innovation projects investing around EUR2.3 million and is currently developing a new defrost system and devices that can save 20% energy compared with old versions;

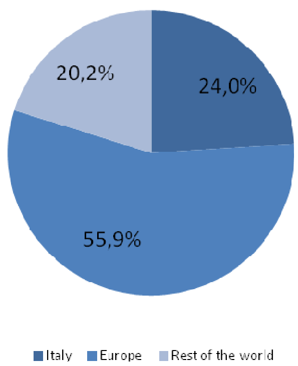
- **Transparency:** LU-VE Group was the first company in Europe to obtain energy certifications for its entire range of products (unit coolers, condensers and dry coolers). This is particularly important for the company's large clients which aim to lower operating costs of air conditioning or refrigeration system across the entire life cycle rather than lowering the purchasing price;

- **Focus on non-residential market:** LU-VE Group has no exposure to production of standardised domestic applications; competition here is stronger and price-related, which puts pressure on selling prices. LU-VE Group's typical clients in the refrigeration segment are large logistic centres (not individual supermarkets) which require bespoke devices;

- **International presence:** More than 75% of the company's revenues are generated abroad, particularly in Europe, where the refrigeration and air conditioning markets are still growing. Entry to new emerging markets, where the refrigeration chain is still underdeveloped, could further boost revenues in future. In addition nearly 50% of production is located in low labour cost countries (Poland, Russia, Czech Republic, China), which limits the proportion of labour costs to sales (less than 20% average in the past five years).

Figure 8 – 2014 sales breakdown by area

Germany is LU-VE Group's top export market representing about 13% of sales

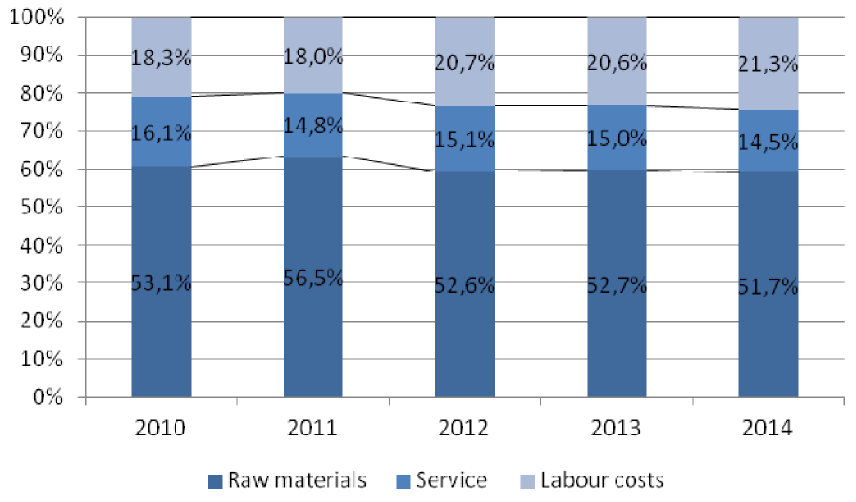


Source: Company data

The Group's cost structure shows that raw materials represented an average of 53% of sales in the past five years, services 15% and labour costs 20%.

Figure 9 – LU-VE Group cost structure

The cost structure has been relatively stable over the past five years. The rise in labour costs is linked to new acquisitions in 2011 and 2014 while the fall in raw material costs reflect lower raw material prices.



Source: UBI Banca elaboration on company data

The main raw materials used by LU-VE Group are copper (about EUR38 million purchased in 2014, representing 35% of all raw material costs), followed by aluminium (12% of raw material cost) and iron (8%). The current declining trend in metals prices clearly benefits LU-VE Group which generally hedges about 40% of its copper requirement every year.

Compared with the Italian refrigeration industry (non-residential segment, *source: Databank*), LU-VE Group has similar raw material and labour costs but lower service costs, which is reflected in its higher EBITDA margin compared with the Italian industry aggregate figure.

Figure 10 – 2011-12-13 costs and EBITDA margin in % of sales: comparison with the refrigeration industry

The ratio of costs to sales is very similar between LU-VE Group and the refrigeration industry (aggregated data)

	2011	2012	2013
Raw material industry	53.6%	52.5%	52.5%
Raw material LU-VE	56.5%	52.6%	52.7%
Service costs industry	19.5%	19.9%	18.6%
Service costs LU-VE	14.8%	15.1%	15.0%
Labour costs industry	18.3%	18.7%	19.9%
Labour costs LU-VE	18.0%	20.7%	20.6%
EBITDA margin industry	**9.6%**	**10.9%**	**9.3%**
EBITDA margin LU-VE	**13.0%**	**12.1%**	**13.5%**

Source: Company data, Databank for the industry

Figure 11 – Manufacturing companies

LU-VE S.p.A.	**Uboldo - VA - ITALY**	Heat exchangers for refrigeration, air conditioning and industrial applications.
Heat Transfer System s.r.o.	**Novosedly – CZECH REPUBLIC**	Coils for air conditioning, refrigeration and special applications.
LU-VE Heat Exchangers (Changshu) Ltd.	**Changshu - China**	Heat exchangers for refrigeration and air conditioning.
LU-VE Sweden AB	**Asarum - Sweden**	Heat exchangers for refrigeration, air conditioning and industrial applications.
TECNAIR LV S.p.A.	**Uboldo - VA - ITALY**	Close control air conditioning for surgical rooms, white rooms, computing rooms and telephone exchanges.
TGD – Thermo Glass Door S.p.A	**Travacò Siccomario - PV – ITALIA**	Glass doors and closing systems for professional, industrial and domestic refrigeration equipment.
SEST S.p.A.	**Limana - BL – ITALY**	Static evaporator coils for refrigerated counters and display cabinets.
SEST-LUVE-POLSKA Sp. Z.o.o.	**Gliwice – POLAND**	Static evaporator coils for refrigerated counters and display cabinets.
"OOO" SEST-LUVE	**Lipetsk - RUSSIA**	Static evaporator coils for refrigerated counters and display

Source: Company data

3. STRATEGY

LU-VE Group strategy primarily focuses on:

- Continued expansion of its commercial and industrial network abroad and into new markets with attractive growth prospects. Its entry into the Indian market last year through a new commercial subsidiary and the doubling of the production capacity in China are steps in this direction;
- Increasing the production range of different plants to be transformed from single-product plants to multi-product plants;
- Potential acquisition of companies with similar product ranges but with a presence in new markets (North America and emerging countries) or with innovative technologies (patented);
- Exploiting new European rules such as the new regulation for refrigerant gases (DPR n.43/2012) which reduces the fluorinated gases and new architectural trends such as building at "zero emissions".

The company does not have any official target in terms of top line growth or operating profitability. However, we believe that the average EBITDA margin (around 14%) of the past few years should be a floor while organic growth is expected to at least surpass European GDP growth.

4. SWOT ANALYSIS

Figure 12 – SWOT Analysis

Strengths	Weaknesses
High and stable profitability despite the economic crisis	Limited size compared to main global peers
High entry barriers	Lack of presence in the US
Innovative products and low exposure to the Italian market	
Outstanding acquisition track record	The company reports under Italian GAAP, therefore penalizing its bottom line. However, it is expected to change to IAS in 2015
Market leader in Europe for around 50% of revenues	High weight of goodwill (22% of capital employed)

Opportunities	Threats
The cash inflow from the entry of ISI could accelerate investment to increase production capacity and support external acquisitions	Currency fluctuations (in particular RUB and USD)
European market should recover after five years of slowdown	Risk of embargoes in Russia (EUR13 million revenues in 2014 or 6.2% of consolidated sales) where LU-VE has a production site. However, Russia could represent also an opportunity in our view as LU-VE Group is the only European player in the country
Entrance in new segments (for example glass doors through the acquisition of TGD in 2014)	Technological breakthrough in the refrigeration technology, particularly for the material used (copper and aluminium)
Listing on MTA in the mid term	Impairment test risk following adoption of IAS
The weakening of EUR can increase the export	

Source: UBI Banca estimates

5. THE CORE MARKET

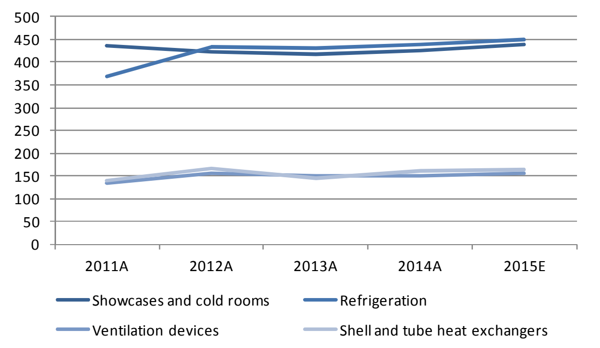
Italian companies involved in refrigeration and ventilation products for non-residential applications have a leading position in global markets with at least 350 companies operating in the country (*source Databank*), 18,000 employees and a high propensity to export which exceeds 65% for the industry, while imports are limited to about 23% of the Italian market.

The industry has suffered over the past few years with value of production in Italy falling 1.2% to EUR2.07 billion in 2014 vs. 2013 (source Databank). This trend is explained by the slowdown of the domestic market (-5.8% in 2014, representing about EUR0.9 billion of value of production), partially offset by revenues outside Italy which are mostly flat in Europe but increasing in the rest of the world. Databank anticipates modest recovery in production in 2015, following five years of slowdown, driven once again by exports while the Italian market is expected to continue to shrink due to lower industrial investments.

Given this scenario LU-VE Group seems well placed as it is mostly exposed to the refrigeration segment, which reported the highest export growth and to ventilation devices.

Figure 13 – Italian export market (EURm)

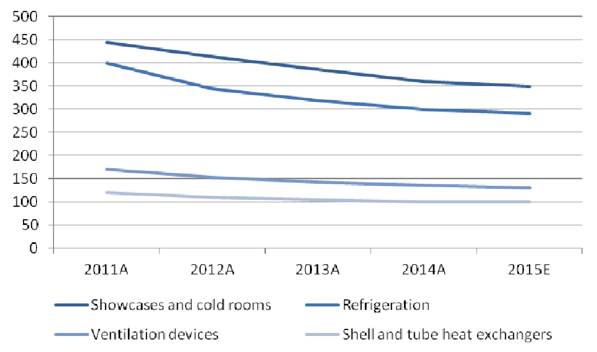
Refrigeration (67% of LU-VE Group sales) was the segment with the higher CAGR (+6% in 2011-14)



Source: Databank

Figure 14 – Italian domestic market (EURm)

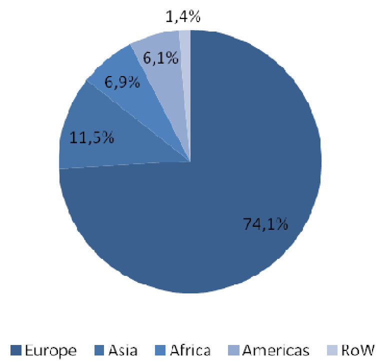
The slowdown was stronger for showcases and cold rooms where LU-VE Group is not present



Source: Databank

Figure 15 – Italian export of refrigeration devices by destination

Europe is by far the biggest destination market for refrigeration products while Americas, where LU-VE Group is not present, has a marginal weighting. Demand seems to be expanding faster in East Europe (where LU-VE has a leading position) and in Asia.



Source: Databank

6. 2014 RESULTS

LU-VE Group reported positive results in 2014, with a robust rise in revenues of 9% partly due to the acquisition of TGD (EUR9 million investment, EV EUR10.8 million) which explains its strong growth in Italy. Organic growth was 4.1%. The company also increased its EBITDA margin to 14.6% through tight cost controls (lower service costs), operating leverage (fixed costs spread over higher turnover) and lower raw material costs, mostly copper and aluminium (representing almost 50% of total raw materials).

Figure 16 – LU-VE Group 2014 consolidated results

Strong sales growth in Italy is due to the acquisition of TGD. Attributable net profit more than doubled following reorganization of the group which strongly reduced minorities

(EURm)	2013A	2014A	% Chg.
Sales Italy	40.7	50.9	25.1%
Sales Europe	114.8	118.5	3.3%
Sales RoW	38.8	42.6	9.8%
Sales total	**194.3**	**212.1**	**9.1%**
EBITDA	**26.3**	**30.9**	**17.5%**
% margin	**13.5%**	**14.6%**	
EBIT	14.9	17.7	18.8%
% margin	7.7%	8.3%	
Pre tax profit	11.0	11.3	2.4%
Net profit	8.6	8.4	-3.0%
Net attributable profit	**3.4**	**7.6**	**125.0%**
Net debt (cash)	29.1	50.5	73.6%

Source: Company data

Despite EBIT growth of almost 19%, pre-tax profit was roughly stable as LU-VE Group's results were adversely affected by about EUR3.5 million because of the weakness of the Russian Ruble in the last quarter of the year (the Russian plant reported revenues of about EUR13 million representing 6% of consolidated sales). However, net attributable profit more than doubled due to a sharp decline in minorities following the group re-organisation.

During the year the Faggioli family, which owned 49%, of SEST, conferred its stake in SEST to LU-VE, which reduced minorities at consolidated level. In return it was given a 24% stake in the LU-VE Group (owned through G4). In addition, during the year the group acquired treasury shares for EUR13 million (for a 10% stake) from Mediobanca (which exited the company selling its 20% stake, part as treasury and part to Finami) which were subsequently cancelled which led to a reduction in the group's net equity.

Net debt increased to EUR50.5 million (which also includes EUR1.5 million dividend paid to LU-VE shareholders in January 2015) despite further efficiencies on the operating NWC which declined to 7.1% of sales. The increase is due to the acquisition of TGD for EUR9 million, the acquisition of treasury shares for EUR13 million, and extraordinary capex of about EUR6 million (mostly real estate), anticipating future investments.

It should be noted that LU-VE Group reports under Italian accounting standards (Italian GAAP) and not under IAS. Accounting policies will change, as will 2015 results, when LU-VE Group adopts International Accounting Standards (IAS). The main difference between the two methods for LU-VE Group relates to goodwill amortization (15 years duration and EUR4.2 million in 2014 under Italian GAAP) which is not permitted by IAS (being substituted by an annual impairment test). Stripping out the goodwill increases the bottom line by EUR3.8 million taking it to EUR11.4 million, taking into account a tax impact of EUR0.5 million while EBIT margin would have reached 10.3% (around EUR22 million).

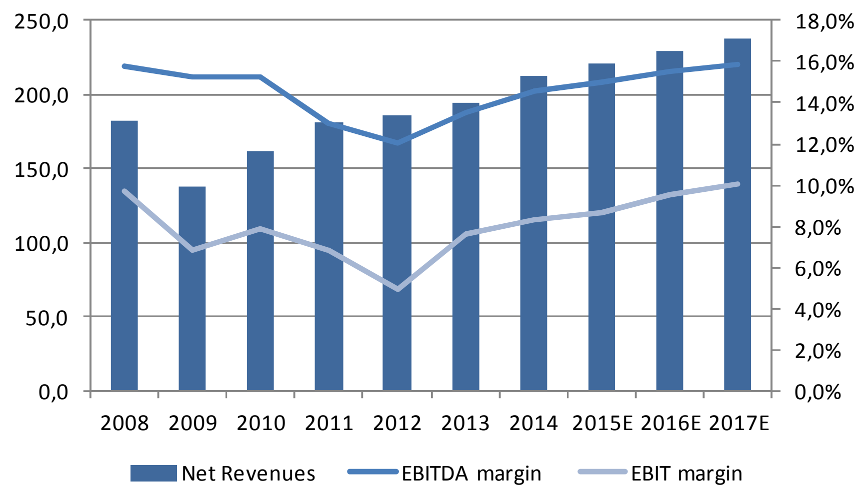
7. FINANCIAL PROJECTIONS

Our estimates do not incorporate any cash inflow from the business combination with ISI and therefore do not incorporate any revenues from potential acquisitions made with the EUR50 million proceeds from the deal. Also, our forecasts are based on Italian GAAP and not IAS, though the latter will be introduced when 2015 results are reported.

Despite the economic crisis and the slowdown in the domestic market, LU-VE Group has reported average organic growth of about 7% since 2009, rising to 9% with the inclusion of two small investments in 2011 in China and Sweden and the purchase of TGD in 2014. Our forecasts for the next few years are more conservative indicating top line growth of 4.2% this year, 3.9% in 2016 and 3.7% in 2017, without considering the cash inflow from the business combination with ISI. This ought to boost sales growth as the company should accelerate its investment programme to expand production capacity and could make further acquisitions to broaden its product application range and its geographical presence.

Figure 17 - Revenues and profitability margin trend

2012 EBITDA was affected by an acquisition in Sweden and the start-up of China



Source: Company data

The EBITDA margin is expected to increase slightly, mainly due to the on-going decline in raw material prices (copper and aluminium) but also arising from efficiencies at the recently acquired TGD. The EBIT margin is expected to rise to 10% in 2017 (from 8.3% in 2014) partly due to D&A costs remaining broadly stable below EUR14 million since the company has already incurred extraordinary capex of EUR6 million brought forward to 2014.

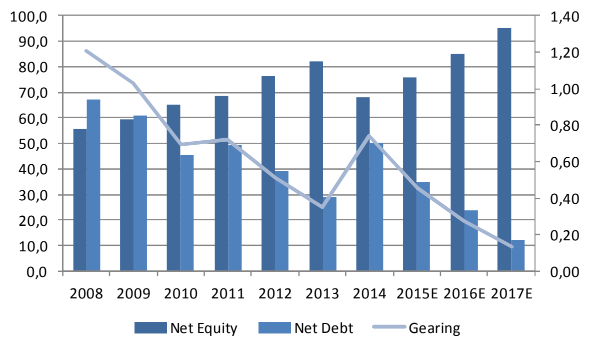
Financial charges are expected to be in the range EUR2-2.5 million, with gradual reduction expected due to strong cash generation. We also conservatively expect annual forex losses of EUR0.5 million. The tax charge is expected to stabilize at about 28% in the years after 2014. This implies an increase in attributable net profit from EUR7.6 million in 2014 to EUR10.8 million in 2015, to EUR13 million in 2016 and to EUR14.4 million in 2017 (>23% CAGR). Over and above this, the net attributable result should rise substantially when IAS accounting is adopted.

LU-VE Group indicated a dividend policy based on a payout of 30-40% of the net attributable result. Our estimates assume a pay-out ratio of 35%. Based on the valuation implied in the business combination this implies a dividend yield of between 2.7% and 3.6%.

The company has an attractive operating cash flow generation (>EUR20 million p.a. as an average in the past five years, with EUR25.3 million in 2014) and we believe this trend will continue in future. Organic capex is expected to reach EUR8.4 million this year, or less than 4% of revenues, a level which should also be maintained in the coming years excluding external acquisitions. This translates to free cash flow of almost EUR20 million in 2015, based on our estimates.

Figure 18 – Financial structure evolution

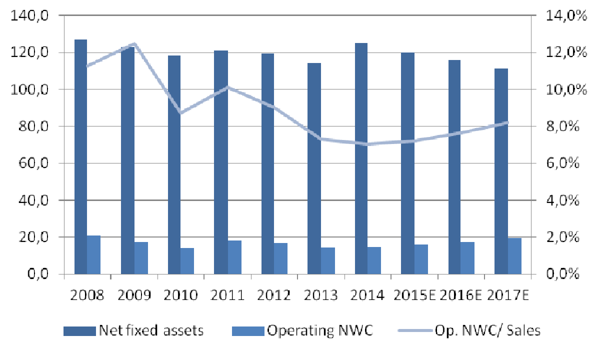
We expect a significant reduction in net debt taking gearing to 0.13x in 2017 (vs. 0.74x at Dec-14)due to strong operating cash flow generation and lower capex compared with last year



Source: Company data, UBI Banca estimates

Figure 19 – Net fixed assets and operating NWC evolution

We cautiously assume a higher operating NWC to sales ratio in coming years reflecting shorter payment terms for trade payables due to a higher weight of suppliers outside Italy. Net fixed assets are expected to decline slightly due to lower capex compared with 2014



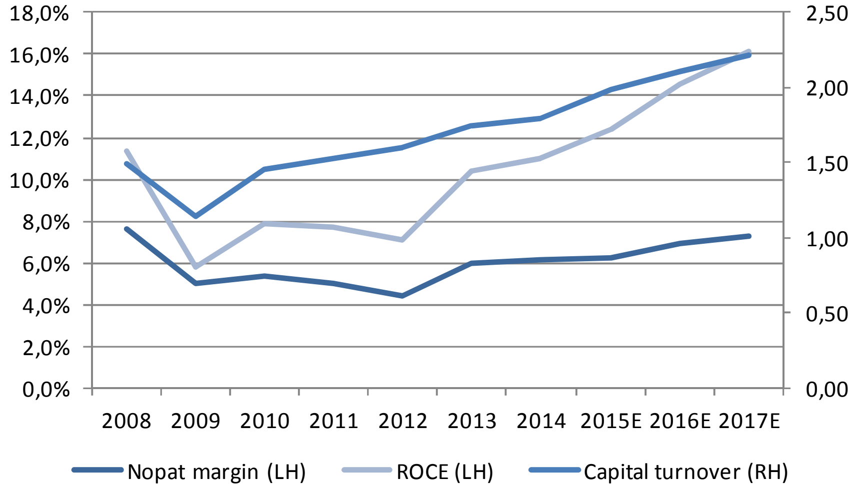
Source: Company data, UBI Banca estimates

Operating net working capital has always been low for LU-VE Group (the average of the past five years is 8.4% of revenues with 2014 at 7.1%) as the company has limited inventories of finished goods (the average timing to complete an order is about four weeks), and low trade receivables (about 70 days over the past five years) which reflects the high proportion of non-Italian clients, while trade payables mostly relate to Italian suppliers (with payment terms of 140 days on average). Adding net fixed assets at about 54% of sales, we calculate capital turnover (sales / invested capital) of 1.8x in 2014, an outstanding level for a manufacturing company, which generated a ROCE of 11%.

If we deduct the goodwill (EUR26.7 million at Dec-14, mostly derived from the buy-out undertaken in 2008 and therefore not linked to external acquisitions) from the invested capital, capital turnover would increase to 2.3x for a ROCE of 14.2%.

Figure 20 – Nopat margin, Capital Turnover and ROCE trend

The reduction of Nopat margin in 2011 and 2012 has been more than offset by the increase in capital turnover, leading to higher ROCE (11% in 2014, or the highest since 2008) which is expected to continue in coming years.



Source: Company data, UBI Banca estimates

8. VALUATION

ISI's acquisition of LU-VE Group attributes the company an enterprise value of EUR191.4 million, representing 6.2x 2014 EBITDA. Deducting EUR50.5 million of debt, which includes a EUR1.5 million dividend paid in January to current LU-VE shareholders, we arrive at an equity value of EUR140.9 million. However, existing shareholders of LU-VE Group could receive a further EUR3 million in dividends before the business combination takes place, de-facto increasing the equity value of the company to EUR143.9 million.

Figure 21 – Implicit 2014 multiples of the valuation of LU-VE Group used for the business combination

Implicit 2014 multiples for LU-VE Group are well below the average multiples of the sector

	At EUR140.9m	At EUR143.9m
EV/Sales	0.90	0.90
EV/EBIT	10.83	10.83
EV/EBIT under IAS	8.73	8.73
EV/CE	1.61	1.61
P/BV	2.17	2.22
P/E	18.61	19.00
P/E under IAS	12.43	12.69

Source: UBI Banca estimates

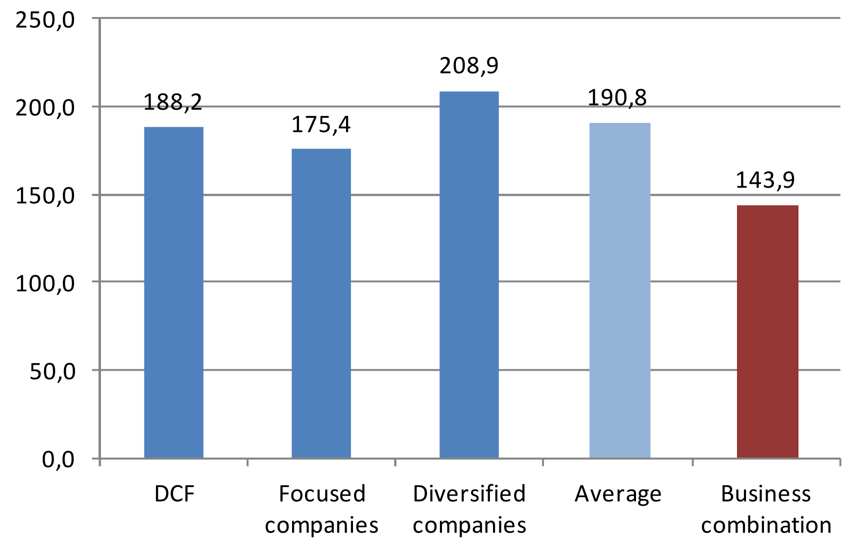
The P/E implicit in the business combination seems high at 18.6x. However, it is important to underline that LU-VE Group's 2014 net result is negatively impacted by EUR3.8 million of goodwill amortization (after taxes) allowed under Italian GAAP. Stripping this out, the implicit P/E would fall to 12.4x and EV/EBIT to 8.7x.

In order to value the attractiveness of the business combination, we have compared the valuation given by ISI to form the business combination (EUR143.9 million, or the entry price for ISI shareholders) with our preliminary valuation of LU-VE Group, excluding the impact of the cash inflow from the business combination (EUR35-50 million depending on exercise of withdrawal rights).

We have used DCF and relative valuations based on both the average of the multiples of direct peers and the average of larger companies operating (though not exclusively) in the same sectors as LUVE Group, applying a 20% discount to reflect the company's low liquidity and its smaller size compared to other listed companies. We obtain a valuation range of EUR175 million to EUR209 million. The average of the three valuation methods generate an equity value of EUR191 million which is 33% above the entry price for ISI. Therefore, we believe the purchase of the interest in LU-VE Group could be an attractive opportunity for ISI shareholders who should also benefit from the fresh financial resources arising from the business combination and from the free warrants (one warrant every two shares) distributed to ISI shareholders who choose not to exercise withdrawal rights.

Figure 22 – Our preliminary valuation compared with the business combination value

Our preliminary valuation, before the cash inflow from the business combination, is between EUR175 million and EUR209 million with an average of EUR191 million or 33% above the entry price for ISI shareholders.



Source: UBI Banca estimates

8.1. DCF Valuation

Our conservative DCF model gives a fair value of EUR188.2 million; it incorporates the following assumptions:

- a risk-free rate of 3.0%, which is our long-term assumption for the interest rate on Italian bonds;
- a market risk premium of 4.5%;
- a levered beta of 1.76, based on the average of the machinery industry in Europe (1.18 unlevered);
- a terminal growth rate of 2% and an operating margin at 9% at terminal value, which is mainly in line with the 8.3% EBIT margin reported in 2014;
- A target debt/equity ratio of 40/60.

Figure 23 - WACC and embedded DCF assumptions

WACC assumptions		**Embedded DCF assumptions**	
Risk Free rate (10Y BTP bench.)	3,0%	Revenue CAGR 2015-2023 (%)	2,5%
Debt spread (%)	2,5%	EBIT CAGR 2015-2023 (%)	2,8%
Cost of debt [net] (%)	4,1%	EBIT margin 2015 (%)	8,7%
Market risk premium (%)	4,5%	Target EBIT margin 2023 (%)	9,0%
Beta (x)	1,76	D&A. on sales (avg. 2015-2023) (%)	5,0%
Cost of equity (%)	10,9%	Capex on sales (avg. 2015-2023) (%)	4,1%
Weight of Debt	40%		
Weight of Equity	60%		
WACC	**8,2%**		

Source: UBI Banca estimates

We calculated a WACC of 8.2%, obtaining a theoretical value of EUR188.2 million for 100% of LU-VE Group.

Figure 24 – DCF valuation

Our DCF valuation implies an EV/EBITDA of 6.9x at terminal value and of 7.8x in 2015

	Valuation (EURm)	% Weight
Sum of PV 2015-23 FCF	125.3	48%
Terminal value	133.6	52%
Total Enterprise value	**258.9**	**100%**
- minorities	(3.2)	
- Provisions	(16.6)	
- Net cash (debt)	(50.5)	
Total Equity value	**188.2**	

Source: UBI Banca estimates

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

Figure 25 - Sensitivity analysis

Doubling the terminal growth rate would increase our DCF valuation by 36%

g / WACC	1.50%	1.75%	2.00%	2.25%	2.50%
7.59%	193.2	199.3	205.7	213.3	221.4
7.79%	187.8	193.6	199.5	206.7	214.1
7.99%	182.8	188.2	193.7	200.4	207.4
8.19%	177.9	183.0	**188.2**	194.5	201.0
8.39%	173.4	178.2	183.0	188.9	195.0
8.59%	169.0	173.5	178.1	183.7	189.4
8.79%	164.8	169.1	173.4	178.7	184.0

Source: Company data, UBI Banca estimates

8.2. Relative Valuation

LU-VE Group has several comparable peers that are listed, although none of them are active just in the heat exchangers or coils for air conditioning. In addition, many of the companies are involved in residential air conditioning (for example Delclima, the other Italian player in the sample) where LU-VE Group is not present and are also much larger. For these reasons we have decided to divide our peer sample into two groups:

> **Diversified companies:** these companies generally operate in several geographical markets and in multiple industrial segments. Their EBITDA margin averages about 15%, broadly in line with LU-VE Group and their market capitalization is generally high, ranging from EUR0.4 billion to EUR98 billion. We selected United Technologies, Emerson Electric, Johnson Controls, Ingersoll-Rand, Alfa Laval, SPX Corporation, NIBE Industrier, Walter Meier, Lindab International and Beijer Ref;

> **Focused companies**: this group is composed of companies operating in the air conditioning and refrigeration industry, with an average EBITDA margin of about 11%. Some have exposure to residential air condition systems and generally have a smaller market capitalization. This sample includes Delclima, Systemair, Centrotec Sustainable and Lennox international.

Figure 26 - Relative valuation based on diversified companies

Based on a simple average of diversified companies, LU-VE Group has a valuation of EUR262 million (before 20% discount) while using the median of multiples the fair value would be EUR247 million.

	Market Cap.	P/E		EV/EBITDA	
	(EURm)	2015E	2016E	2015E	2016E
NIBE Industrier AB	2.473	19.3 x	18.0 x	13.4 x	12.4 x
Walter Meier AG	413	18.5 x	17.2 x	17.9 x	15.3 x
Lindab International AB	600	13.7 x	11.4 x	9.5 x	8.0 x
Beijer Ref AB	696	17.7 x	15.9 x	12.8 x	11.6 x
Emerson Electric Co.	35.574	14.9 x	14.1 x	8.5 x	8.3 x
Johnson Controls, Inc.	29.622	13.6 x	11.8 x	9.9 x	9.2 x
Alfa Laval AB	7.572	17.1 x	16.8 x	11.4 x	10.9 x
SPX Corporation	3.150	14.9 x	13.1 x	8.4 x	7.7 x
Ingersoll-Rand Plc	16.386	17.9 x	15.2 x	10.6 x	9.3 x
United Technologies Corporation	97.514	16.7 x	15.2 x	9.7 x	9.0 x
Average		**16.9 x**	**14.9 x**	**11.2 x**	**10.2 x**
LU-VE Group valuation on multiples (EURm)		**183.1**	**192.9**	**335.4**	**338.1**

Source: Factset, UBI Banca estimates

Based on the average of 2015-16 P/E and EV/EBITDA of the diversified companies used as a peer group, and applying a 20% discount, LU-VE Group would be valued at EUR209 million. Applying the multiples of the group of focused companies gave a valuation for the company of EUR175 million.

Figure 27 – Relative valuation based on focused companies

Based on a simple average of diversified companies, LU-VE Group has a valuation of EUR219 million (before 20% discount) while using the median of multiples the fair value would be EUR221 million.

	Market Cap.	P/E		EV/EBITDA	
	(EURm)	2015E	2016E	2015E	2016E
Delclima	357	17.5 x	15.4 x	6.9 x	6.3 x
Systemair AB	636	17.6 x	14.3 x	10.7 x	8.9 x
Centrotec sustainable	250	12.9 x	10.6 x	5.4 x	4.7 x
Lennox International	4.534	20.5 x	17.1 x	12.4 x	10.7 x
Average		**17.1 x**	**14.4 x**	**8.9 x**	**7.6 x**
LU-VE Group valuation on multiples		**185.4**	**186.1**	**258.2**	**247.5**

Source: Factset, UBI Banca estimates

At EUR191 million, which is the average of our valuation, LU-VE Group would trade at 17.6x 2015 P/E, broadly in line with the average multiple of peers. However, if we calculate P/E based on IAS, which is the accounting method utilized by all the peers, this indicator drops to 13.1x, well below the average multiple of peers (16.6x). 2015 EV/EBITDA stands at 7.4 vs. an average of 11.2x for diversified companies and 8.9x of focused companies.

Figure 28 - – Implicit multiples based on our valuation average

These multiples are based on a valuation of EUR190.8 million

	2015E	2016E	2017E
P/E	17.6	14.7	13.3
P/E under IAS	13.1	11.4	10.5
EV/EBITDA	7.4	6.5	5.8
EV/EBIT	12.8	10.6	9.2
EV/EBIT under IAS	10.5	8.9	7.8
EV/Sales	1.11	1.01	0.93
EV/CE	2.21	2.14	2.05
P/BV	2.51	2.24	2.01
P/CF	14.42	1.06	15.07
EV/ Capital employed	2.21	2.14	2.05

Source: UBI Banca estimates

All data refer to LU-VE Group

Income Statement

(EURm)	2014A	2015E	2016E	2017E
Net Revenues	212.1	221.0	229.6	238.0
EBITDA	30.9	33.1	35.7	37.7
EBITDA margin	14.6%	15.0%	15.5%	15.8%
EBIT	17.7	19.2	22.0	23.8
EBIT margin	8.3%	8.7%	9.6%	10.0%
Net financial income /expense	-2.9	-2.4	-2.2	-2.1
Associates & Others	-3.5	-0.5	-0.5	-0.5
Profit before taxes	11.3	16.3	19.2	21.3
Taxes	-2.9	-4.6	-5.3	-5.8
Minorities & discontinuing ops	-0.8	-0.9	-0.9	-1.0
Net Income attributable	7.6	10.8	13.0	14.4

Source: Company data. UBI Banca estimates

Balance Sheet

(EURm)	2014A	2015E	2016E	2017E
Net working capital	9.8	7.0	8.7	10.9
Net Fixed assets	125.4	119.9	115.7	111.6
M/L term funds	-16.6	-16.0	-15.5	-15.0
Capital employed	118.6	111.0	108.9	107.5
Shareholders' equity	64.9	72.7	81.9	91.7
Minorities	3.2	3.2	3.3	3.3
Shareholders' funds	68.1	75.9	85.1	95.0
Net financial debt/(cash)	50.5	35.0	23.8	12.5

Source: Company data. UBI Banca estimates

Cash Flow Statement

(EURm)	2014A	2015E	2016E	2017E
NFP Beginning of Period	-29.1	-50.5	-35.0	-24.8
Group Net Profit	7.6	10.8	13.0	14.4
Minorities	0.8	0.9	0.9	1.0
D&A	13.2	13.9	13.7	13.9
Change in Funds & TFR	4.6	-0.5	-0.5	-0.5
Gross Cash Flow	26.2	25.1	27.1	28.8
Change In Working Capital	-0.9	2.8	-1.7	-2.1
Other	0.0	0.0	0.0	0.0
Operating Cash Flow	25.3	27.9	25.4	26.7
Net Capex	-13.7	-8.4	-9.4	-9.8
Other Investments	-10.9	0.0	0.0	0.0
Free Cash Flow	0.7	19.5	16.0	16.8
Dividends Paid	-4.9	-3.0	-3.8	-4.5
Other & Chg in Consolid. Area	-5.3	-1.0	-1.9	-2.9
Chg in Net Worth & Capital Incr.	-11.9	0.0	0.0	0.0
Change in NFP	-21.4	15.5	10.3	9.4
NFP End of Period	-50.5	-35.0	-24.8	-15.4

Source: Company data. UBI Banca estimates

All data refer to LU-VE Group

Financial Ratios

(%)	2014A	2015E	2016E	2017E
ROE	11.7%	14.9%	15.8%	15.7%
ROI	10.1%	10.8%	12.9%	14.3%
Net Fin. Debt/Equity (x)	0.7	0.5	0.3	0.1
Net Fin. Debt/EBITDA (x)	1.6	1.1	0.7	0.3
Interest Coverage	6.1	8.1	9.8	11.5
NWC/Sales	0.0	0.0	0.0	0.0
Capex/Sales	6.5%	3.8%	4.1%	4.1%
Pay Out Ratio	0.0%	35.0%	35.0%	35.0%

Source: Company data. UBI Banca estimates

Stock Market Ratios
Based on EUR140.9m equity value

(x)	2014A	2015E	2016E	2017E
P/E	18.6	13.0	10.9	9.8
P/E under IAS	12.4	9.7	8.4	7.8
P/OpCF	5.6	5.1	5.6	5.3
P/BV	2.17	1.94	1.72	1.54
Dividend Yield (%)	0.0%	2.7%	3.2%	3.6%
Free Cash Flow Yield (%)	0.5%	13.8%	11.3%	11.9%
EV (EURm)	191.4	175.9	165.7	156.3
EV/Sales	0.90	0.87	0.83	0.80
EV/EBITDA	6.20	5.79	5.37	5.08
EV/EBIT	10.83	9.98	8.71	8.03
EV/Capital Employed	1.61	1.73	1.76	1.78

Source: Company data. UBI Banca estimates

Growth Rates

(%)	2014A	2015E	2016E	2017E
Growth Group Net Sales	9.1%	4.2%	3.9%	3.7%
Growth EBITDA	17.5%	7.1%	7.9%	5.7%
Growth EBIT	18.8%	8.4%	14.7%	8.4%
Growth Net Profit attributable	125.0%	43.1%	19.7%	10.9%

Source: Company data. UBI Banca estimates

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