UBI Banca
PRIVATE & CORPORATE UNITY

LU-VE

Initiation of coverage | **Buy**

08 July 2015 | *MARKET PRICE:* ***EUR11.90*** | *TARGET PRICE:* ***EUR14.36***

Heat exchangers, refrigeration

Data

Shares Outstanding (m):	19.55*	
Market Cap. (EURm):	232.6*	
Enterprise Value (EURm):	243.8*	
Free Float (%):	25.7*	
Av. Daily Trad. Vol. (m):	0.01	
Main Shareholder:	Liberali family (53.9%)	
Reuters/Bloomberg:	LUVE.MI	LUVE IM
52-Week Range (EUR)	9.4	11.9

** After the merger*

Performance

	1m	3m	12m
Absolute	0.85%	10.39%	23.70%
Rel. to FTSE IT	9.18%	21.93%	25.78%

INDUSTRIAL STARS OF ITALY

LU-VE GROUP leadership with passion

Next event: 16/09/15: 1H15 results

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Merger LU-VE - ISI

On 9 July 2015 Industrial Stars of Italy ("ISI"), a Special Purpose Acquisition Company ("SPAC"), will be merged with LU-VE, a leading producer of heat exchangers and coils for air conditioning for the non-residential market, which, through this transaction, will be listed on AIM Italia. The exchange ratio (shares and warrants) will be 1:1. The new company, to be called LU-VE, in our view represents an attractive buying opportunity for the following reasons: 1) LU-VE 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 the 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 (EUR50.5 million) should provide LU-VE with the means to pursue further growth opportunities (to boost production capacity and seek external acquisitions in new markets) while allowing a reduction in financial charges. Our valuation of LU-VE is EUR14.36 per share, 21% above the current market price of ISI and provides a solid reason for our Buy rating. Further upside could come from a listing on the MTA market in the medium term and from the exercise of the warrants.

> We expect LU-VE's revenues 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 exceed EUR18 million in 2017 (under IAS, which is to be adopted from 2015) while the net financial position should turn positive as early as this year thanks to the strong cash generation of the group and the EUR50.5 million of net cash coming from ISI. LU-VE is expected to pay a dividend with a pay-out ratio of 30-40%, implying a yield of about 1.7%.

> Following the merger, the free float should be 25.7% while the founding family will control the company with a 53.9% stake. The EUR50.5 million coming from ISI is expected to be used to boost production capacity and/or to make new acquisitions in new industrial segments and/or new markets, which would drive further growth in revenues.

Financials (2014A refers to LU-VE before the merger)

	2014A	2015E	2016E	2017E
Revenues (EURm)	212.1	221.0	229.6	238.0
EBITDA (EURm)	30.9	32.3	35.7	37.7
EBITDA margin (%)	14.6%	14.6%	15.5%	15.8%
EBIT (EURm)	17.7	18.4	22.0	23.8
EPS (EUR)		0.54	0.71	0.78
EPS Adjusted (EUR)		0.72	0.89	0.96
DPS (EUR)		0.20	0.25	0.27

Source: Company Data, UBI Banca Estimates

Ratios (based on ISI current share price)

	2014A	2015E	2016E	2017E
P/E(x)		22.1	16.8	15.3
P/E Adjusted (x)		16.4	13.3	12.3
P/BV(x)		1.89	1.75	1.62
Dividend Yield		1.7%	2.1%	2.3%
EV/EBITDA(x)		7.6	6.5	5.8
Debt/Equity (x)	0.74	-0.09	-0.16	-0.22
Debt/EBITDA (x)	1.64	-0.33	-0.61	-0.86

Source: Company Data, UBI Banca Estimates

2014A refers to LU-VE before the merger with ISI

Key Financials

(EURm)	2014A	2015E	2016E	2017E
Revenues	212.1	221.0	229.6	238.0
EBITDA	30.9	32.3	35.7	37.7
EBIT	17.7	18.4	22.0	23.8
Net result attributable	7.6	10.5	13.9	15.2
Free Cash Flow	-0.8	15.8	16.8	17.7
Net Capital Employed	118.6	115.8	115.5	116.0
Shareholders' Equity	64.9	122.9	133.0	143.6
Net Financial Position	50.5	-10.8	-21.6	-32.3

Source: Company data, UBI Banca estimates

Key Profitability Drivers

	2014A	2015E	2016E	2017E
Net Debt/Ebitda (x)	1.64	-0.33	-0.61	-0.86
Net Debt/Equity (x)	0.74	-0.09	-0.16	-0.22
Interest Coverage (%)	6.1	8.9	23.5	30.7
Free Cash Flow Yield (%)	-0.6%	6.8%	7.2%	7.6%
ROE (%)	11.7%	8.6%	10.4%	10.6%
ROI (%)	10.1%	10.2%	12.6%	13.9%
ROCE (%)	11.4%	11.6%	14.1%	15.2%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

	2015E	2016E	2017E
P/E (x)	22.1	16.8	15.3
P/E Adjusted (x)	16.4	13.3	12.3
P/BV (x)	1.89	1.75	1.62
P/CF (x)	8.4	8.9	8.5
Dividend Yield (%)	1.7%	2.1%	2.3%
EV/Sales (x)	1.10	1.00	0.92
EV/EBITDA (x)	7.6	6.5	5.8
EV/EBIT (x)	13.3	10.5	9.1
EV/CE (x)	2.11	2.00	1.88

Source: Company data, UBI Banca estimates

Key Value Drivers

(%)	2014A	2015E	2016E	2017E
Payout	0.0%	37.1%	35.0%	35.0%
NWC/Sales	7.1%	7.2%	7.6%	8.2%
Capex/Sales	7.2%	5.3%	4.1%	4.1%

Source: Company data, UBI Banca estimates

INVESTMENT CASE

We initiate coverage of LU-VE (after the merger with ISI) with a Buy rating and a target price of EUR14.36 per share (based on a DCF valuation and a multiple comparison), which implies potential upside of >20%.

LU-VE is a leading producer of heat exchangers and ventilated devices for non-residential applications with revenues of EUR212 million in 2014, 10 manufacturing plants (of which five 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 the Liberali family, has reported average organic growth of about 7% since 2009 (9% including acquisitions) despite challenging market conditions that 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 the latter, 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 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. The cash inflow coming from the merger with ISI (EUR50.5 million) will result in net debt becoming net cash at year-end.

Our estimates 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 EUR15 million in 2017 (from EUR7.6 million in 2014) although it could potentially be higher (EUR18.8 million) when the group adopts IAS accounting as the reported net profit is currently diluted by EUR3.8 million of goodwill amortization every year.

The group should benefit strongly from the additional financial resources of ISI that should permit a further acceleration in investments to expand production capacity, penetrate new markets and enter new segments also through acquisitions, for which LU-VE has an outstanding track record. This potential growth is not included in our estimates. In addition, its solid financial structure should result in a significant reduction in financial charges and easier access to new bank loans (at attractive rates) if required.

Lastly, the attraction of the business combination is increased by the issue of warrants (one warrant every two shares) to be distributed to ISI shareholders at no cost. The warrants are currently in the money (strike price of EUR9.3), have a long duration (five years) and convert automatically if the share price reaches EUR13

We believe the main risks concerning the stock are linked to LU-VE's exposure to Russia (around 6% of revenues) that resulted in a forex loss of EUR3.5 million in 2014 (however, Russia could also represent an opportunity given tha LU-VE is the only European player in the country), the high level of goodwill (22% of capital employed), the limited size of the company compared to its international peers and its lack of presence in the US - although the group could now seek opportunities to break into the US market.

Recent Developments

> On 28 April 2015, the shareholders' meetings of LU-VE and ISI approved the merger of the two companies.

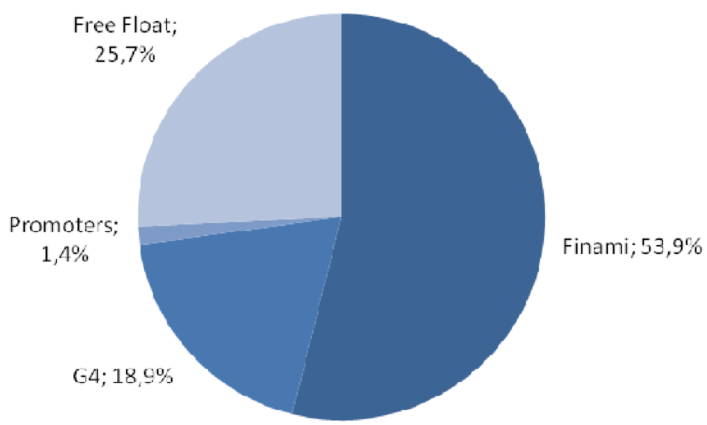
> 14 May 2015 was the deadline for the exercise of withdrawal rights for ISI shareholders. As no ISI shareholders exercised their withdrawal rights, the business combination will become effective.

> 30 June 2015 was the effective date of the merger. The effective accounting and tax date is 1 July 2015. The merger implies a shares exchange ratio of 1 ISI share: 1 LU-VE share (ordinary or special) and the replacement of the ISI warrants with LU-VE warrants, which have the same terms and condition as the ISI warrant. Following the merger, the free float should be 25.7% and the Liberali family will control the company with a 53.9% stake. LU-VE will have 19.6 million shares (including 0.35 million shares from the conversion of 50k special shares to take place seven days after the listing).

> On 9 July 2015, the combined entity (to be named LU-VE) will be listed on the AIM Italia market. Finami has a lock-up of 36 months from the date on which the merger becomes effective on the majority stake (a lock-up of 12 months from the conversion of each tranche of special shares into ordinary shares).

Figure 1 – Shareholder structure after the merger

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



Source: UBI Banca estimates

Financial Projections

> After positive results in 2014 (sales up 9.1%, organic growth of 4.1%, an EBITDA margin of over 14.6%, the highest since 2010) and organic growth of about 7% since 2009 (rising to 9% including acquisitions), we expect a more conservative trend in coming years (CAGR in sales of 3.9% in 2015-17) excluding the EUR50.5 million cash inflow from the business combination with ISI. The latter should boost sales growth as the company could accelerate its investment programme to expand production capacity and make further acquisitions to broaden its product application range and its geographical presence.

> The EBITDA margin is expected to increase slightly, mainly due to the on-going decline in raw material prices (copper and aluminium), and should reach 15.8% in 2017 (from 14.6% in 2014). Net attributable profit should exceed EUR15 million in 2017 (CAGR of 26%) under Italian GAAP and nearly EUR18 million under IAS.

> Sound cash flow generation (>EUR25 million p.a.) should permit attractive dividend pay-outs in coming years. Assuming a pay-out ratio of 35%, we forecast a dividend of EUR0.2 per share for 2015 rising to EUR0.25 per share in 2016 and EUR0.27 per share in 2017, an average dividend yield of >2%.

> Following the EUR50.5 million cash-in from the merger with ISI, net debt (EUR50.5 million at Dec-14) should turn positive and we forecast net cash of EUR10.8 million by end-15, rising to >EUR32 million at Dec-17, excluding any potential acquisitions.

> It should be noted that LU-VE uses Italian accounting standards (Italian GAAP) and not IAS. LU-VE will adopt International Accounting Standards (IAS) from 2015 and this will affect results. The main difference for LU-VE relates to the treatment of goodwill amortization (15 years duration and EUR4.2 million in 2014 under Italian GAAP) which is not permitted under IAS (but is substituted by an annual impairment test).

Figure 2 – Profit and loss

Our EBIT and adjusted net income are restated for the amortization of goodwill (EUR4.3 million and EUR3.8 million net of taxes in 2014). In 2015 LU-VE will adopt International Accounting Standards thereby eliminating goodwill amortization.

(EURm)	2008A	2009A	2010A	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Net Revenues	182.7	137.9	161.6	180.6	185.7	194.3	212.1	221.0	229.6	238.0
% growth		-24.5%	17.2%	11.8%	2.8%	4.6%	9.1%	4.2%	3.9%	3.7%
EBITDA	**28.9**	**21.1**	**24.7**	**23.5**	**22.4**	**26.3**	**30.9**	**32.3**	**35.7**	**37.7**
EBITDA margin	**15.8%**	**15.3%**	**15.3%**	**13.0%**	**12.1%**	**13.5%**	**14.6%**	**14.6%**	**15.5%**	**15.8%**
EBIT	17.7	9.4	12.7	12.3	9.2	14.9	17.7	18.4	22.0	23.8
EBIT margin	9.7%	6.8%	7.9%	6.8%	4.9%	7.7%	8.3%	8.3%	9.6%	10.0%
EBIT adjusted		**12.7**	**16.1**	**15.7**	**12.5**	**18.3**	**21.9**	**22.6**	**26.2**	**28.1**
EBIT adjusted margin		**9.2%**	**10.0%**	**8.7%**	**6.8%**	**9.4%**	**10.3%**	**10.2%**	**11.4%**	**11.8%**
Net financial income /expense	-1.7	-3.9	-3.2	-3.2	-3.1	-2.5	-2.9	-2.1	-0.9	-0.8
Associates & Others	-0.9	0.2	-0.5	0.3	0.8	-1.3	-3.5	-0.5	-0.5	-0.5
Profit before taxes	15.2	5.8	9.0	9.5	6.8	11.0	11.3	15.8	20.5	22.6
Taxes	-3.3	-1.5	-2.8	-2.4	-0.7	-2.4	-2.9	-4.4	-5.8	-6.3
Minorities & discontinuing ops	-2.5	-2.8	-2.9	-3.6	-3.6	-5.2	-0.8	-0.9	-0.9	-1.0
Net Income	**9.4**	**1.5**	**3.3**	**3.4**	**2.5**	**3.4**	**7.6**	**10.5**	**13.9**	**15.2**
Net Income adjusted		**4.3**	**6.2**	**6.3**	**5.4**	**6.3**	**11.2**	**14.2**	**17.5**	**18.8**

Source: Company data, UBI Banca estimates

The EBIT margin is expected to rise to 10% in 2017 (from 8.3% in 2014) partly due to broadly stable D&A costs of under EUR14 million as the company incurred extraordinary capex of EUR6 million in 2014. Stripping out the goodwill amortization, the EBIT margin should increase from 10.3% in 2014 to 11.8% in 2017.

Financial charges should decline sharply as a result of the fresh financial resources from the merger with ISI and due to strong cash generation. We have conservatively accounted for annual forex losses of EUR0.5 million (forex losses in 2014 were about EUR3.5 million because of the weakness of the Russian Rouble in the last quarter of the year). 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 EUR10.5 million in 2015, EUR13.9 million in 2016 and EUR15.2 million in 2017 (CAGR of >25%). The net result under IAS accounting should reach EUR18.8 million in 2017, a CAGR of close to 20%.

The company's operating cash flow generation is attractive (>EUR20 million p.a. on average in the past five years and EUR25.3 million in 2014) and we believe this trend will continue in future. Capex is expected to reach EUR11.8 million this year (non-recurring investments in Poland, Czech Republic and in Russia), or 5.3% of revenues, a level which should decline in coming years excluding any acquisitions. According to our estimates this gives free cash flow of >EUR15 million in 2015.

Figure 3 –Cash flow statement

Net cash flow in 2015 will benefit from EUR50.5 million coming from the merger with ISI. As a result, net debt should turn to net cash of nearly EUR11 million at year-end.

(EURm)	**2009A**	**2010A**	**2011A**	**2012A**	**2013A**	**2014A**	**2015E**	**2016E**	**2017E**
Group Net Profit	1.5	3.3	3.4	2.5	3.4	7.6	10.5	13.9	15.2
Minorities	2.8	2.9	3.6	3.6	5.2	0.8	0.9	0.9	1.0
D&A	11.5	11.4	11.1	11.7	11.4	13.2	13.9	13.7	13.9
Change In Working Capital	2.2	6.9	-3.2	1.2	0.4	-0.9	2.8	-1.7	-2.1
Other	-3.0	-0.2	-1.1	-0.6	-1.4	4.6	-0.5	-0.5	-0.5
Operating Cash Flow	**14.9**	**24.2**	**13.8**	**18.4**	**19.0**	**25.3**	**27.6**	**26.2**	**27.5**
Net Capex	-7.2	-7.3	-13.6	-9.9	-6.4	-15.2	-11.8	-9.4	-9.8
Other Investments	-1.3	-0.9	-0.5	-0.1	0.2	-10.9	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0	-4.9	-3.0	-3.8	-4.5
Chg in Net Worth & Capital Incr.	0.1	0.7	-3.6	3.2	-0.8	-11.9	50.5	0.0	0.0
Other	-0.6	-1.1	0.0	-1.6	-1.8	-3.8	-2.0	-2.2	-2.4
Net cash flow	**5.9**	**15.7**	**-3.9**	**10.1**	**10.2**	**-21.4**	**61.3**	**10.8**	**10.7**
NFP Beginning of Period	**-67.0**	**-61.1**	**-45.4**	**-49.3**	**-39.3**	**-29.1**	**-50.5**	**10.8**	**21.6**
NFP End of Period	**-61.1**	**-45.4**	**-49.3**	**-39.3**	**-29.1**	**-50.5**	**10.8**	**21.6**	**32.3**

Source: Company data, UBI Banca estimates

Net operating working capital has always been low for LU-VE (the average of the past five years is 8.4% of revenues and in 2014 it was 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 in the past five years). Nevertheless, 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 (from 59% of revenues last year to 48% in 2017) due to lower capex compared with 2014. We highlight that LU-VE had goodwill of EUR26.7 million at Dec-14 (nearly 13% of revenues and 23% of capital employed), mostly from the buy-out in 2008 and not linked to external acquisitions.

Figure 4 –Balance sheet

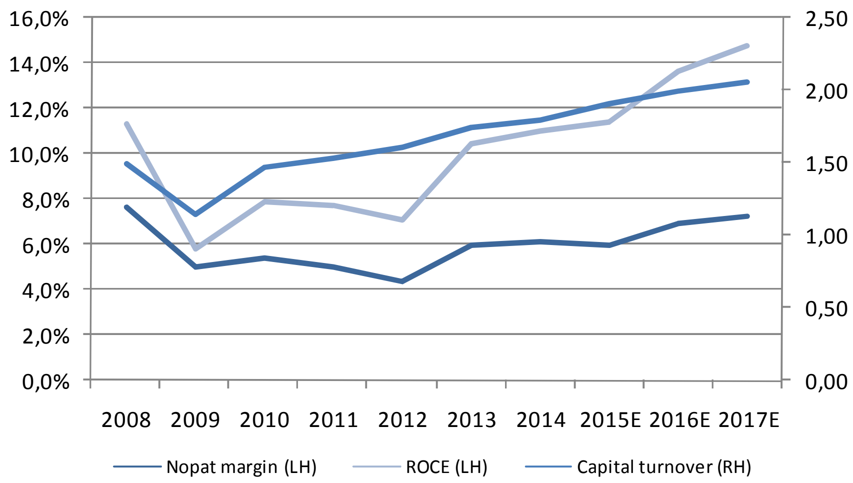
LU-VE was able to increase its capital turnover in the past (from 1.5x in 2008 to 1.8x in 2014) thanks to a strict control on investments and on operating working capital. If we deduct goodwill (EUR26.7 million at Dec-14) from invested capital, the capital turnover would increase to 2.3x and give a ROCE of 14.2%.

(EURm)	2008A	2009A	2010A	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Net working capital	16.4	14.2	7.4	10.5	9.4	8.9	9.8	7.0	8.7	10.9
Net Fixed assets	126.8	122.5	118.4	120.9	119.1	114.1	125.4	123.7	119.1	115.0
M/L term funds	-20.6	-16.3	-15.2	-13.6	-12.9	-11.7	-16.6	-15.0	-12.3	-9.9
Capital employed	**122.6**	**120.5**	**110.5**	**117.9**	**115.6**	**111.4**	**118.6**	**115.8**	**115.5**	**116.0**
Shareholders' equity	40.9	42.5	46.5	46.4	52.1	54.6	64.9	122.9	133.0	143.6
Minorities	14.6	16.8	18.6	22.2	24.2	27.7	3.2	3.7	4.1	4.6
Shareholders' funds	55.6	59.3	65.1	68.6	76.3	82.3	68.1	126.6	137.1	148.3
Net financial debt/(cash)	**67.0**	**61.1**	**45.4**	**49.3**	**39.3**	**29.1**	**50.5**	**-10.8**	**-21.6**	**-32.3**

Source: Company data, UBI Banca estimates

Figure 5 - NOPAT margin, Capital Turnover and ROCE trend

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



Source: Company data, UBI Banca estimates

Valuation

> Our target price of EUR14.36 per share is based on the average of a DCF (fair value of EUR13.73 per share) and a relative valuation (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 LU-VE). This gives a fair value of EUR14.00 per share using direct peers and EUR15.35 per share using diversified companies.

> Given the current estimated upside potential of >20%, we initiate coverage with a Buy rating. Outstanding warrants (7.5 million of which 2.5 million for ISI shareholders) can be exercised within five years from the business combination or 30 days if the average monthly price per share exceeds EUR13.0).

> At the target price, the company would trade at 8.8x 2015 EV/EBITDA, which is still below the average multiple for the industry (10.1x) and on 19.8x P/E adjusted (slightly above the average of the industry which stands at 16.4x).

Figure 6 – Valuation summary

(EUR)		**Weight**
DCF valuation	13.73	33%
Relative valuation (focused companies)	14.00	33%
Relative valuation (diversified companies)	15.35	33%
Target Price	**14.36**	
Current price	11.90	
Potential upside	20.7%	

Source: UBI Banca estimates

Our conservative DCF model gives a fair value of EUR13.73 per share; 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 1.61, based on the average of the machinery industry in Europe (1.08 unlevered, *source: Damodaran*);

> a terminal growth rate of 2% and an operating margin at 9% at terminal value, which is in line with the 8.3% EBIT margin reported in 2014;

> A target debt/equity ratio of 40/60.

Figure 7 - WACC and embedded DCF assumptions

WACC assumptions		**Embedded DCF assumptions**	
Risk-free rate	3.0%	Revenue CAGR 2015-2023 (%)	2.5%
Debt spread (%)	2.5%	EBIT CAGR 2015-2023 (%)	3.3%
Cost of debt [net] (%)	4.1%	EBIT margin 2015 (%)	8.3%
Market risk premium (%)	4.5%	Target EBIT margin 2023 (%)	9.0%
Beta (x)	1.61	D&A. on sales (avg. 2015-2023) (%)	5.0%
Cost of equity (%)	10.3%	Capex on sales (avg. 2015-2023) (%)	4.1%
Weight of Debt	40%		
Weight of Equity	60%		
WACC	**7.8%**		

Source: UBI Banca estimates

Figure 8 – DCF Valuation

Our DCF valuation implies an EV/EBITDA of 7.4x at terminal value

	Valuation (EUR m)	% Weight	Per share (EUR)
Sum of PV 2015-23 FCF	107.9	39%	5.52
Terminal value	167.3	61%	8.56
Total Enterprise value	**275.2**	**100%**	**14.08**
- minorities	(3.2)		(0.17)
- Pension Provision	(3.2)		(0.17)
- Net cash (debt)	0.0		0.00
Total Equity value	**268.4**		**13.73**
Number of shares outstanding (m)	19.55		
Fair value per share (EUR)	**13.73**		

Source: Company data, UBI Banca estimates

Our valuation shows limited sensitivity to the terminal growth rate and WACC although a lower beta and/or stronger growth would increase our DCF target price.

Figure 9 – Sensitivity analysis

g / WACC	1.50%	1.75%	2.00%	2.25%	2.50%
7.18%	13.99	14.36	14.77	15.22	15.71
7.38%	13.67	14.02	14.40	14.81	15.27
7.58%	13.37	13.70	14.05	14.44	14.87
7.78%	13.09	13.40	**13.73**	14.09	14.48
7.98%	12.82	13.11	13.42	13.76	14.13
8.18%	12.57	12.84	13.13	13.45	13.79
8.38%	12.33	12.58	12.86	13.16	13.48

Source: Company data, UBI Banca estimates

LU-VE has several comparable peers that are listed, although none of them are manufacturers of just 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 company included in our sample) where LU-VE 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 margins average about 15%, broadly in line with LU-VE, and their market capitalization is generally high, ranging from EUR0.3 billion to EUR90 billion. Our sample group includes 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 conditioning systems and they generally have a smaller market capitalization. This sample group includes Delclima, Systemair, Centrotec Sustainable and Lennox international.

Figure 10 – Main competitors of LU-VE

The average 2014 EBITDA margin of peers was 12.3% (median 10.9%), bang in line with those of LU-VE.

Company	Sales 14A	EBITDA 14A	% margin	Country	Activity
Alfa Laval	3.702	657	17.8%	Sweden	Heat transfer, separation and fluid handling
Beijer Ref	759	57	7.6%	Sweden	Refrigeration and air conditioning distribution
Centrotec sustainable	531	53	10.0%	Germany	Heating and cooling systems, gas flue systems, medical technology
Delclima	348	46	13.3%	Italy	Heating and cooling systems
Emerson Electric	20.278	4.137	20.4%	US	Diversified
Ingersoll-Rand	10.654	1.443	13.5%	Ireland	Diversified
Johnson Controls	35.394	2.972	8.4%	US	Diversified
Lennox International	2.783	331	11.9%	US	Heating and cooling systems
Lindab International	739	67	9.0%	Sweden	Building and ventilation products
NIBE Industrier	1.165	189	16.3%	Sweden	Heating systems
SPX Corporation	3.902	380	9.7%	US	Diversified
Systemair	621	58	9.4%	Sweden	Ventilation products
United Technologies	53.799	9.771	18.2%	US	Diversified
Walter Meier	306	23	7.5%	Switzerland	Air conditioning distribution and machinery for metals

Source: Company data, Factset, UBI Banca estimates

Figure 11 - Relative valuation based on diversified companies

Using the simple average of the diversified companies, LU-VE would be valued at EUR300 million while using the median of multiples its fair value would be EUR294 million.

	Market Cap.	P/E		EV/EBITDA	
	(EURm)	2015E	2016E	2015E	2016E
NIBE Industrier AB	2,608	20.4 x	18.7 x	13.8 x	12.6 x
Walter Meier AG	262	14.9 x	14.5 x	na	na
Lindab International AB	571	13.9 x	11.2 x	9.6 x	8.0 x
Beijer Ref AB	762	17.7 x	15.6 x	13.3 x	11.9 x
Emerson Electric Co.	33,643	16.3 x	15.3 x	9.0 x	8.9 x
Johnson Controls, Inc.	30,509	15.0 x	12.9 x	10.7 x	9.7 x
Alfa Laval AB	6,387	14.8 x	14.9 x	9.9 x	9.7 x
SPX Corporation	2,640	15.3 x	12.7 x	8.7 x	7.7 x
Ingersoll-Rand Plc	16,292	17.8 x	15.2 x	10.8 x	9.6 x
United Technologies Corporation	89,619	15.9 x	14.8 x	9.2 x	8.6 x
Average		**16.2 x**	**14.6 x**	**10.6 x**	**9.6 x**
LU-VE valuation on multiples (EURm)		**229.4**	**254.9**	**351.5**	**364.4**

Source: Factset, UBI Banca estimates

Based on the average of the 2015-16 P/E and EV/EBITDA multiples of the diversified companies in the peer group, LU-VE would be valued at EUR300 million. Applying the multiples of the group of focused companies gives a valuation for the company of EUR274 million.

Figure 12 - Relative valuation based on focused companies

Based on a simple average of focused companies, LU-VE has a valuation of EUR274 million, in line with the median of multiples.

	Market Cap.	P/E		EV/EBITDA	
	(EURm)	2015E	2016E	2015E	2016E
Delclima	322	15.5 x	13.6 x	7.0 x	6.7 x
Systemair AB	700	19.0 x	15.3 x	11.5 x	9.5 x
Centrotec sustainable	249	12.9 x	10.6 x	5.5 x	4.7 x
Lennox International	4,490	20.3 x	16.9 x	12.6 x	10.6 x
Average		**16.9 x**	**14.1 x**	**9.1 x**	**7.9 x**
LU-VE valuation on multiples (EURm)		**239.8**	**246.9**	**306.0**	**302.3**

Source: Factset, UBI Banca estimates

Figure 13 – Premium/discount to peers

At current market price the company is trading at an average 16% discount to peers. At our EUR14.36 target price, LU-VE would trade at a significant discount to peers on EV/EBITDA (14% in 2015-16) but at a premium on P/E.

	P/E		EV/EBITDA	
	2015E	2016E	2015E	2016E
Average peers multiple	16.4 x	14.4 x	10.1 x	9.1 x
LU-VE at market price (EUR11.90)	**16.4 x**	**13.3 x**	**7.6 x**	**6.5 x**
% premium (discount)	0.1%	-7.9%	-25.4%	-28.8%
LU-VE at our target price (EUR14.36)	**19.8 x**	**16.0 x**	**8.8 x**	**7.7 x**
% premium (discount)	20.8%	11.1%	-13.6%	-14.7%

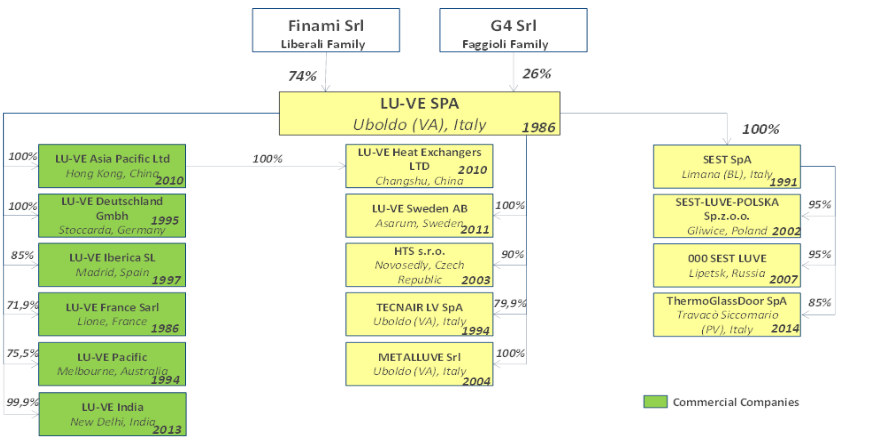
Source: Factset, UBI Banca estimates

Appendix

COMPANY PROFILE AND BUSINESS MODEL

The 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, of whom 624 are based in Italy, at Dec-14. The company's Managing Director is Matteo Liberali and its Chief Communication Officer is Fabio Liberali, 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 14 – LU-VE: company structure



Source: Company data

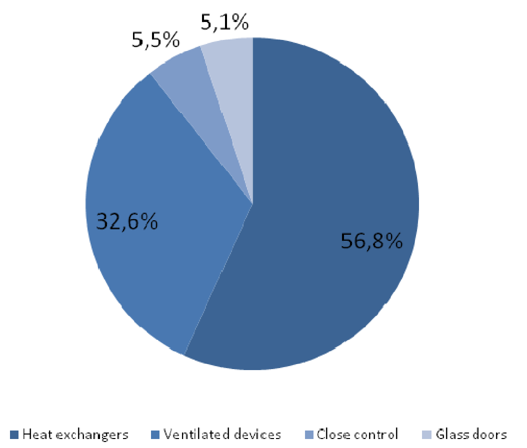
LU-VE Group has four main product groups:

- **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 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's products may be up to 12 meters long and 3 meters high) and are typically sold to the non-residential market;

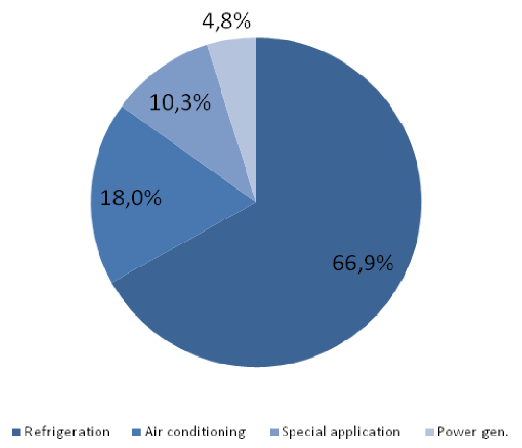
- **Close control** (6% of sales), or precision air conditioning systems specifically designed for indoor "technological" operations, such as data centres, hospital operating rooms, clean rooms, etc;
- **Glass doors for refrigeration equipment** (5% of sales), through TGD (representing sales of about EUR11 million), a company acquired in 2014 for about EUR9 million, which enlarged the company's product range in a growing niche segment.

Figure 15 - 2014 sales breakdown by product



Source: Company data

Figure 16 - 2014 sales breakdown by destination



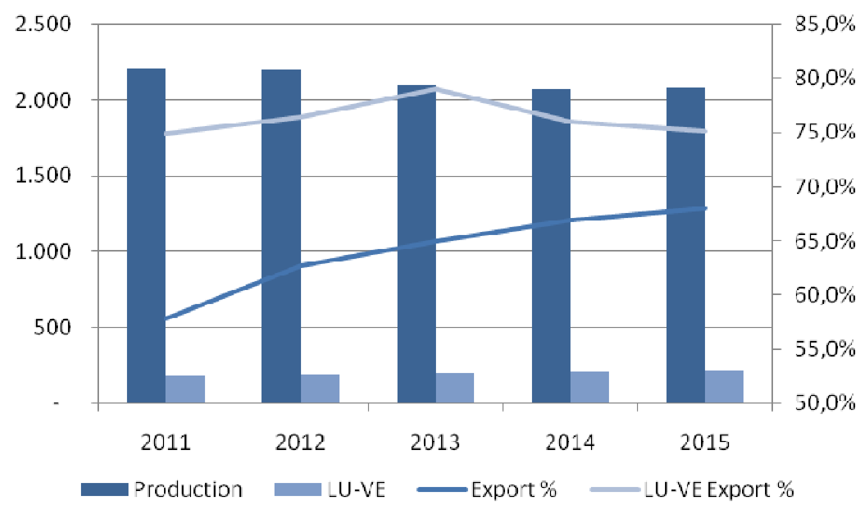
Source: Company data

LU-VE 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 the powergen segment (applications for power plants, oil & gas, mining) where LU-VE'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 revenues rose by 17.4%.

Figure 17 - Total production and export trend for Italian refrigeration and ventilation market companies and LU-VE

LU-VE'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's market share at >10% and at about 6% of the domestic market.



Source: Company data, Databank, UBI Banca estimates

We believe the reasons for this positive trend, which should continue in the future, are:

- **Technological innovation:** LU-VE 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 innovative projects investing around EUR2.3 million and is currently developing a new defrost system and devices that can save 20% in energy compared with old systems;

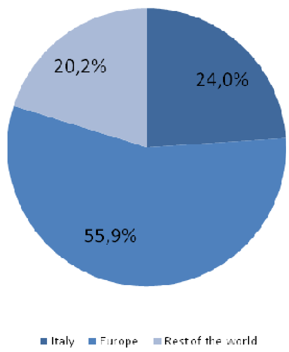
- **Transparency:** LU-VE was the first company in Europe to obtain energy certification for its entire range of products (unit coolers, condensers and dry coolers). This is particularly important for the company's large clients that aim to lower operating costs of air conditioning or refrigeration systems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

- **Focus on non-residential market:** LU-VE has no exposure to the production of standardised domestic applications; competition in this market segment is stronger and price-related, which puts pressure on selling prices. LU-VE'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. Entering new emerging markets, where the refrigeration chain is still underdeveloped, could boost revenues in the future. In addition, nearly 50% of production is located in low labour cost countries (Poland, Russia, the Czech Republic, China), which limits the ratio of labour costs to sales (less than 20% on average in the past five years).

Figure 18 - 2014 sales breakdown by area

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

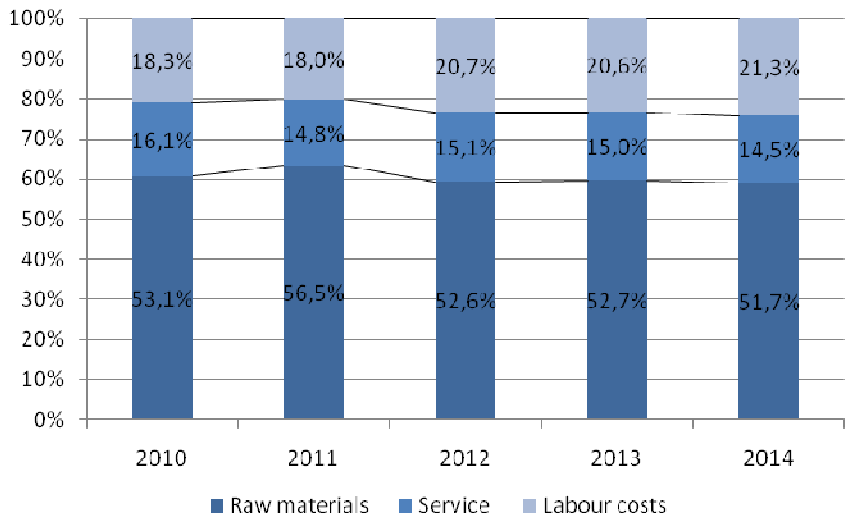


Source: Company data

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

Figure 19 – LU-VE 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 reflects lower raw material prices.



Source: UBI Banca using company data

The main raw materials used by LU-VE are copper (about EUR38 million purchased in 2014, representing 35% of all raw material costs), followed by aluminium (12% of raw material costs) 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.

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

Figure 20 - 2011-12-13 costs and EBITDA margin as a % of sales: comparison with the refrigeration industry

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

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

Source: Company data, Databank for the industry

Figure 21 – 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

STRATEGY

LU-VE strategy is primarily focused on:

- Continued expansion of its commercial and industrial network abroad and into new markets with attractive growth prospects (e.g. the Middle East), augmenting its globalization. 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 and transforming them 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). In this respect the management has a successful track record;
- Consolidating its market position through trade policies on price (average discount of 1-2%) in order to increase market penetration in the area of industrial evaporators and condensers;
- 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”;
- Optimizing its financial structure: LU-VE was able to renegotiate its main credit lines to increase the average duration and, at the same time, to reduce significantly the financial cost of these credit lines, taking advantage of its current advantageous situation.

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 exceed the growth in European GDP.

SWOT ANALYSIS

Figure 22 – 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	The company reports under Italian GAAP, thereby penalising the bottom line. However, it is expected to change to IAS in 2015
Outstanding track record in acquisitions	High level of goodwill (22% of capital employed)
Market leader in Europe for around 50% of revenues	

Opportunities	Threats
The cash inflow from the merger with ISI could accelerate investments 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 also 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 refrigeration technology, particularly in materials used (copper and aluminium)
Listing on MTA in the mid term	Impairment test risk following adoption of IAS
The weaker EUR could benefit exports	

Source: UBI Banca estimates

2014A pre-merger

Income Statement

(EURm)	2014A	2015E	2016E	2017E
Net Revenues	212.1	221.0	229.6	238.0
EBITDA	30.9	32.3	35.7	37.7
EBITDA margin	14.6%	14.6%	15.5%	15.8%
EBIT	17.7	18.4	22.0	23.8
EBIT margin	8.3%	8.3%	9.6%	10.0%
Net financial income /expense	-2.9	-2.1	-0.9	-0.8
Associates & Others	-3.5	-0.5	-0.5	-0.5
Profit before taxes	11.3	15.8	20.5	22.6
Taxes	-2.9	-4.4	-5.8	-6.3
Minorities & discontinuing ops	-0.8	-0.9	-0.9	-1.0
Net Income	7.6	10.5	13.9	15.2

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	123.7	119.1	115.0
M/L term funds	-16.6	-15.0	-12.3	-9.9
Capital employed	118.6	115.8	115.5	116.0
Shareholders' equity	64.9	122.9	133.0	143.6
Minorities	3.2	3.7	4.1	4.6
Shareholders' funds	68.1	126.6	137.1	148.3
Net financial debt/(cash)	50.5	-10.8	-21.6	-32.3

Source: Company data, UBI Banca estimates

Cash Flow Statement

(EURm)	2014A	2015E	2016E	2017E
NFP Beginning of Period	-29.1	-50.5	10.8	21.6
Group Net Profit	7.6	10.5	13.9	15.2
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	24.8	28.0	29.6
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	27.6	26.2	27.5
Net Capex	-15.2	-11.8	-9.4	-9.8
Other Investments	-10.9	0.0	0.0	0.0
Free Cash Flow	-0.8	15.8	16.8	17.7
Dividends Paid	-4.9	-3.0	-3.8	-4.5
Other & Chg in Consolid. Area	-3.8	-2.0	-2.2	-2.4
Chg in Net Worth & Capital Incr.	-11.9	50.5	0.0	0.0
Change in NFP	-21.4	61.3	10.8	10.7
NFP End of Period	-50.5	10.8	21.6	32.3

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2014A	2015E	2016E	2017E
ROE	11.7%	8.6%	10.4%	10.6%
ROI	10.1%	10.2%	12.6%	13.9%
Net Fin. Debt/Equity (x)	0.74	-0.09	-0.16	-0.22
Net Fin. Debt/EBITDA (x)	1.64	-0.33	-0.61	-0.86
Interest Coverage	6.1	8.9	23.5	30.7
NWC/Sales	4.6%	3.2%	3.8%	4.6%
Capex/Sales	7.2%	5.3%	4.1%	4.1%
Pay Out Ratio	0.0%	37.1%	35.0%	35.0%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2015E	2016E	2017E
EPS	0.54	0.71	0.78
EPS Adjusted	0.72	0.89	0.96
DPS	0.20	0.25	0.27
Op. CFPS	1.41	1.34	1.41
Free CFPS	0.81	0.86	0.90
BVPS	6.29	6.80	7.35

Source: Company data, UBI Banca estimates

Stock Market Ratios

(x)	2015E	2016E	2017E
P/E	22.1	16.8	15.3
P/E Adjusted	16.4	13.3	12.3
P/OpCFPS	8.4	8.9	8.5
P/BV	1.89	1.75	1.62
Dividend Yield (%)	1.7%	2.1%	2.3%
Free Cash Flow Yield (%)	6.8%	7.2%	7.6%
EV (EURm)	243.8	230.6	217.8
EV/Sales	1.10	1.00	0.92
EV/EBITDA	7.55	6.47	5.78
EV/EBIT	13.26	10.49	9.14
EV/Capital Employed	2.11	2.00	1.88

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%	4.5%	10.5%	5.7%
Growth EBIT	18.8%	4.0%	19.5%	8.4%
Growth Net Profit	125.0%	39.1%	31.6%	9.7%

Source: Company data, UBI Banca estimates

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Hold: if the target price is 10% below or 10% above the market price.
Sell: if the target price is 10% lower than the market price.

Target price: the market price that the analyst believes that the share may reach within a one-year time horizon.
Market price: closing price on the day before the issue date of the report, appearing on the first page.

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