

24<sup>th</sup> February 2015

Mid Cap | Europe | Italy

DR. KALLIWODA

INTERNATIONAL RESEARCH GmbH

## Initial Coverage

BUY

Target price: EUR 2.90

**Industry:** Industrial goods  
**Country:** Italy  
**ISIN:** IT0004772502  
**Bloomberg:** DLC:IM  
**Reuters:** DLC.MI  
**Website:** del-clima.com

**Last Price:** 2.20  
**High** **Low**  
**Price 52 W.:** 2.27 1.20  
**Market Cap. (EURm)** 329.08  
**No. of Shares** 149.58

## Shareholders

**De Longhi Industrial S.A.** 75.02%  
**Argos Inv. Management S.A.** 2.99%  
**Shareholder Value Bet. AG** 1.71%  
**Amundi AM** 1.27%  
**Float** 19.01%

## Performance

**4 Weeks** 19.57%  
**13 Weeks** 40.38%  
**26 Weeks** 80.33%  
**52 Weeks** 63.81%  
**YTD** 11.74%

## 1-year Chart



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## DeLclima S.p.A.

## Profitable 9M/14 and growth potential

- DeLclima S.p.A. (previously De'Longhi Clima) is a leading manufacturer of systems for heating, ventilation, air conditioning and refrigeration. With its brands Climaveneta, DL Radiators and RC Group, during the years the company has invested heavily in the development of attractive and technologically-advanced energy efficiency solutions. Since 2012 shares of the ex-division of the De'Longhi group have been listed on the Italian stock exchange, recording a growing performance.
- The company operates in the commercial market (not present in the residential market) in three segments: comfort cooling in centralised conditioning systems, I&CT cooling; process cooling. Peculiarities of DeLclima business model are: a) energy efficient solutions; b) low noise applications; c) extremely configurable and tailor made solutions; d) on-time delivery; e) system-integrator approach (Vs vertical integration in manufacturing of the global players) that allow a more agile innovation cycle.
- Over the last years, green and energy saving orientation have become increasingly popular, including countries such as China and India. DeLclima provides in its markets, among other products, modern heat pumps technology and high efficiency solutions for both buildings and factories. Supervision and control systems, aimed at optimizing the plan rooms of centralized conditioning systems are an increasing focus for DeLclima. Thanks to its attitude, DeLclima has delivered solutions in a number of prestigious buildings. With the aim to grow in the strategic market of Asia, in 2014 the company acquired, by new agreements, the control of the Chinese joint venture Chat Union Climaveneta company limited (CUCCL). Thus, DeLclima is initiating to consolidate CUCCL results from 2014 at 100% (previous consolidation at 50%).
- In 9M/14 the group presented solid numbers. As effect of CUCCL adjustments and the first consolidation of Powermaster Products and Powermaster Services (distributor acquired), revenues improved by +5.2% y-o-y to €2968m. Sales stemmed from the core business (ICC&R) increased by +5% y-o-y, with a considerable improvement in Asia +13.9% y-o-y. Thus, both consolidated operating margin and net income achieved an excellent level respectively €24.1m (vs 9M/13: €20.7m), and €12.0m (vs. 9M/13: €-11.1m).
- Due to a better net income, operating cash flows were positive for €17.5m for the first nine months of 2014. As consequence, an improvement was recorded in the net financial position from €-7m in December 2013 to €2.7 in September 2014.
- We initiate to cover DeLclima with a 12-months target price of 2.90€, which at the current level is an upside of 32% and a *buy recommendation*. Although effects of macro-economy difficulties such as the European instability and intensive competition of international players, we believe the company will continue to benefit from its innovation, growing in service and replacement market, strong data center macro trend and improving its share in Asia and Europe. We considered positive the decision announced at the end of 2014, to sell the radiators division to focus on the core business. Additionally, given the cash position of €91m (9M/14) we don't exclude new acquisitions during the current year.

## Key Facts

EURm	2011	2012	2013	2014E	2015E	2016E
<b>Net sales</b>	389.24	375.31	351.71	342.32	352.27	367.40
<b>EBITDA</b>	32.11	33.95	30.75	45.70	46.93	48.90
<b>EBIT</b>	10.04	-6.71	-5.54	38.00	39.42	41.41
<b>Net income</b>	-3.86	-17.25	-12.01	19.44	19.83	22.72
<b>EPS</b>	-0.03	-0.12	-0.08	0.13	0.13	0.15
<b>BVPS</b>	1.83	1.71	1.62	1.76	1.91	2.07
<b>RoE</b>	-0.03%	-6.51%	-4.82%	7.68%	7.22%	7.64%
<b>EBIT margin</b>	2.58%	-1.79%	-1.58%	11.10%	11.19%	11.27%
<b>P/BVPS</b>	1.20	1.29	1.36	1.25	1.15	1.06

Source: company data, Dr. Kalliwoda International Research GmbH © 2015

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## 1. Company Profile

DeLclima is an international group specialised in the indoor climate control central systems, data center and process cooling. Headquartered in Treviso (Italy), the group was founded into the 1963, becoming part of the De`Longhi group in 2000. Due to a different client base, market dynamics, absence of industrial and distribution synergies, the parent company decided for a demerger. Since 2012, shares have been listed on the Milan Stock Exchange.



In 2014, DeLclima has acquired the control, through amended conditions with local shareholders, of Chat Union Climaveneta company limited (CUCCL). This Chinese joint venture between Climaveneta S.p.A. and Chat Union group HK, has been built with the goal of produce and sell mainly Climaveneta chillers and heat pumps in Asia.

As the end of September 2014 the company accounts 2,415 employees, manufacturing in three continents.

## 2. SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Leading producer of ICC&amp;R with solid reputation in the value chain.</li> <li>- Experienced management, which has guided conservatively in the last years.</li> <li>- High entry barriers: technological know-how, commercial relations and local brand recognition.</li> <li>- Peculiar business model.</li> <li>- Just in time approach in its facilities, such as in the plant of `Pieve d'Alpago, which is located inside the district of air conditioning and commercial refrigeration systems in Veneto (Italy).</li> <li>- Acquisition of strategic distributors in Spain, Germany, France, UK, Poland, Belgium and India.</li> <li>- Acquired control in the Chinese joint venture.</li> <li>- Steady sales volume and resilient EBITDA margin.</li> </ul>	<ul style="list-style-type: none"> <li>- Investments in information technology to continuously update factories and products.</li> <li>- Multi-local market with many regional players, which requires intensive investments in client relations.</li> <li>- 25% of free float.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- ICC&amp;R market growth: increase in demand of more energy efficient systems and ITC growth.</li> <li>- Increased penetration in Asia boosted form the acquired control of the Chinese joint venture.</li> <li>- Growth through acquisitions given €91m in cash.</li> </ul>	<ul style="list-style-type: none"> <li>- Difficulties in the South European economies.</li> <li>- Unsuccessful match in the Radiators disposal.</li> <li>- Risks associated with exchange rate fluctuations for the consolidated financial statement</li> </ul>

Source: Dr. Kalliwoda International Research GmbH © 2015

### 3. Valuation

We used two valuation methods to estimate the DeLclima S.p.A. market value of equity. We established first a DCF model, which incorporates our outlook and forecasts regarding future development of the company. Then we conducted a peer group analysis, which is an aggregated way to view the market value to reflect the whole industry outlook. Peers data stemmed from the information provider Thomson Reuters. Hence, our final 12-months price target for DeLclima equals €2.90 (70% DCF and 30% peer group). At the current price this imply an upside of 32%.

#### a. WACC

The discount rate was calculated by deriving the weighted cost of capital. We assumed that the target capital structure will not change in the subsequent business years. Adjustments for debt to current interest were not made. Risk free rate is based on the average profitability of the 10-year Italian bond. Figuring a risk prime follows the capital asset pricing model (CAPM) and covers in particular the systemic risks (market risk prime exp. company specific risk).

#### WACC assumptions

##### Growth propositions

Long-term growth rate	2.0%
Assimilation phase (from 2015)	5 years
Revenue growth at the beginning	5%
Margin development (p.a)	-1 BP

##### Equity

Long-term risk-free rate	1.6%
Market risk premium	5.0%
Company beta	1.10

**Equity costs** **7.1%**

##### Debt

Debt costs (before tax)	3.9%
Tax rate on debt interest	31.4%

**Debt costs (after tax)** **2.7%**

Equity value	0.51
Debt value	0.49
Gearing	96.5%

**WACC** **4.91%**

Source: Dr. Kalliwoda International Research GmbH © 2015

## b. DCF-Model

The following table present our financial forecasts and DCF calculation.

<b>Discount Cash Flow-Model (Basis 02/2015)</b>					
in EURm	2014E	2015E	2016E	2017E	2018E
<b>Total revenues</b>	<b>342.32</b>	<b>352.27</b>	<b>367.40</b>	<b>389.00</b>	<b>410.67</b>
(y-o-y change)	-2.7%	2.9%	4.3%	5.9%	5.6%
<b>EBIT</b>	<b>38.00</b>	<b>39.42</b>	<b>41.41</b>	<b>42.98</b>	<b>45.17</b>
(operating margin)	11.1%	11.2%	11.3%	11.1%	11.0%
<b>NOPLAT</b>	<b>27.55</b>	<b>28.58</b>	<b>30.02</b>	<b>31.16</b>	<b>32.75</b>
+ Depreciation & amortisation	7.71	7.51	7.49	7.82	7.79
= Net operating cash flow	35.25	36.09	37.51	38.98	40.54
- Total investments (Capex and WC)	-8.57	-9.02	-8.98	-8.14	-7.25
Capital expenditure	-8.20	-8.35	-8.00	-7.87	-7.81
Working capital	-0.37	-0.67	-0.98	-0.26	0.56
= Free cash flow (FCF)	26.68	27.07	28.53	30.85	33.29
<b>PV of FCFs</b>	<b>25.62</b>	<b>24.77</b>	<b>24.88</b>	<b>25.65</b>	<b>26.38</b>
PV of FCFs in explicit period	171.08				
PV of FCFs in terminal period	250.23				
<b>Enterprise value (EV)</b>	<b>421.31</b>				
+ Net cash / - net debt	-2.67				
+ Investments / - minorities	-0.11				
<b>Shareholder value</b>	<b>418.53</b>				
<b>Number of shares outstanding (m)</b>	<b>149.58</b>				
<b>WACC</b>	<b>4.91%</b>				
Cost of equity	7.1%				
Pre-tax cost of debt	3.9%				
Normal tax rate	31.4%				
After-tax cost of debt	2.7%				
Share of equity	50.9%				
Share of debt	49.1%				
<b>Fair value per share in EUR (today)</b>	<b>2.80</b>				
<b>Fair value per share in EUR (in 12 months)</b>	<b>2.94</b>				

Source: Dr. Kalliwoda International Research GmbH © 2015

## c. Peer Group Analysis

We chose the following seven listed companies for our peer group analysis.

- (1) *Systemair AB*: is a Swedish company engaged in the manufacture of ventilation products and solutions. The company produces energy efficient fans, air handling units, air distribution products, chillers, air curtains and heating products.
- (2) *Centrotech Sust. AG*: based in Germany, develops solutions in the heating and climate control technology for buildings. Its business is divided into the segments: climate systems and medical technology & engineering plastics.
- (3) *Walter Meier AG*: is a Swiss holding that operates in the climate and manufacturing technology sector. The company offers solutions in the businesses of humidification, climate, tools and machining solutions.

- (4) *Zehnder Group AG*: is an international group based in Switzerland, engaged in the production and sales of heating, cooling and ventilation systems. The company operates in the segments: heating, cooling and fresh air.
- (5) *Lindab International AB*: is a Swedish developer of solutions for construction and indoor climate. The business is divided in three parts: ventilation, building components and building systems.
- (6) *Lennox*: designs, manufactures and markets a range of products for the heating, ventilation, air conditioning and refrigeration (HVACR) markets. Lennox operates in four segments: residential heating & cooling, commercial heating & cooling, service experts, and refrigeration.
- (7) *AAON Inc*: is specialized in the production and sale of air-conditioning and heating equipment. The company offers includes: rooftop units, chillers, air-handling units, make-up air units, heat recovery units, condensing units, commercial self-contained units and coils.
- (8) *Nibe Industrier AB*: headquartered in Sweden is engaged in the production and sale of heating solutions. The company is divided in three different business areas with approximately 9,000 employees in Europe, North America and Asia and is listed on the NASDAQ OMX Stockholm Exchange.

Peer Group Multiples	Enterprise Value Multiples						Equity Value Multiples			
	EV / Sales		EV / EBITDA		EV / EBIT		Price / Eps		Price / Bvps	
	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015
Systemair AB	1.3	1.2	14.2	14.9	18.2	20.9	28.4	18.9	3.2	2.9
Centrotec Sustainable AG	0.6	0.5	5.2	5.5	8.1	9.1	12.3	11.3	1.1	1.0
Walter Meier AG	0.6	1.4	n.a.	17.0	6.4	18.5	15.5	15.5	7.9	7.8
Lindab International AB	1.1	1.1	12.6	11.0	16.4	14.5	17.4	14.2	1.7	1.5
Lennox International Inc	1.7	1.6	16.0	14.1	16.3	14.3	24.4	19.7	19.8	25.8
AAON Inc	3.5	3.2	n.a.	15.8	18.7	15.4	29.4	24.3	n.a.	n.a.
Nibe Industrier AB	2.6	2.3	16.9	14.5	2.2	1.8	22.5	18.9	3.5	3.0
<b>DeLclima</b>	<b>1.1</b>	<b>1.1</b>	<b>8.1</b>	<b>8.2</b>	<b>9.8</b>	<b>9.7</b>	<b>18.5</b>	<b>14.8</b>	<b>1.3</b>	<b>1.3</b>
Median	1.2	1.3	13.4	14.3	13.1	14.4	20.5	17.2	3.2	2.9
Mean	1.6	1.6	12.2	12.6	12.0	13.0	21.0	17.2	5.5	6.2
<b>Peer Benchmark</b>	<b>1.2</b>	<b>1.3</b>	<b>13.4</b>	<b>14.3</b>	<b>13.1</b>	<b>14.4</b>	<b>20.5</b>	<b>17.2</b>	<b>3.2</b>	<b>2.9</b>
Discount (-)/Premium (+)	-12%	-20%	-39%	-43%	-25%	-33%	-10%	-14%	-59%	-57%
<b>Valuation</b>										
<b>Peer Benchmark</b>	<b>1.2</b>	<b>1.3</b>	<b>13.4</b>	<b>14.3</b>	<b>13.1</b>	<b>14.4</b>	<b>20.5</b>	<b>17.2</b>	<b>3.2</b>	<b>2.9</b>
DeLclima financials	342.3	352.3	46.0	45.9	38.0	38.6	0.1	0.2	1.7	1.8
Implied Enterprise Value	423.3	470.5	616.4	654.4	497.4	554.9				
Implied Equity Value	380.4	427.5	573.4	611.4	454.4	512.0				
Number of Shares	149.6	149.6	149.6	149.6	149.6	149.6				
<b>Implied fair value per share</b>	<b>2.5</b>	<b>2.9</b>	<b>3.8</b>	<b>4.1</b>	<b>3.0</b>	<b>3.4</b>	<b>2.5</b>	<b>2.6</b>	<b>5.4</b>	<b>5.1</b>
Weights	17%	17%	17%	17%	17%	17%	25%	25%	25%	25%
<b>Fair Value per Share 2.83 EUR</b>										

Source: Dr. Kalliwoda International Research GmbH © 2015

Based on our peer multiples, the implied fair value equals €2.83 per share.

## 4. 9M/14 results

### Revenues

In 9M/14 DeLclima generated total revenues of €2968m, 5.0%<sup>1</sup> higher y-o-y. Figures were adjusted with the first consolidation of both Powermaster products and Powermaster service (England and Wales distributor) and with the full consolidation of Chat Union Climaventa company limited (CUCCL), formerly consolidated at 50%. DeLclima acquired the control of the Chinese joint venture (CUCCL), through an amended in the internal governance and without an increase in its share.

During the first nine months of 2014, the core business recorded consolidated revenues of €249.4m +5% y-o-y and EBIT of €29.8m (11.9% of ICC&R revenues). While 63.3% of ICC&R sales stemmed from Europe, those from Asia recorded the most significant improvement +13.9% y-o-y and accounting for €78.8m. After restructuring client's portfolio and a new significant major OEM commercial contract, the Radiators business achieved sales for €47.4m (vs. 9M/13: €44.5m), and improved the EBIT of + 23.3% y-o-y.

### 9M/14 results vs. previous year

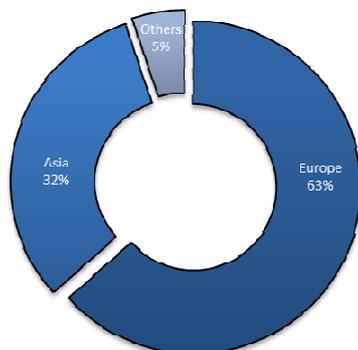
9M/14 vs. previous year

in EURm	9M/14	9M/13
Net sales	296.80	282.10
EBITDA	32.20	28.40
EBITDA margin	10.8%	10.1%
EBIT	24.10	-0.80
EBIT margin	8.1%	-0.3%
Net income	16.00	-8.10
Net margin	5.4%	-2.9%

Source: company data, Dr. Kalliwoda International Research GmbH © 2015

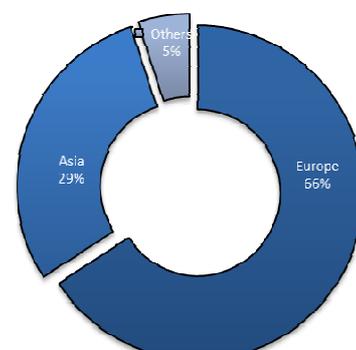
### ICC&R revenues by geographical area

30 September 2014



### ICC&R revenues by geographical area

30 September 2013

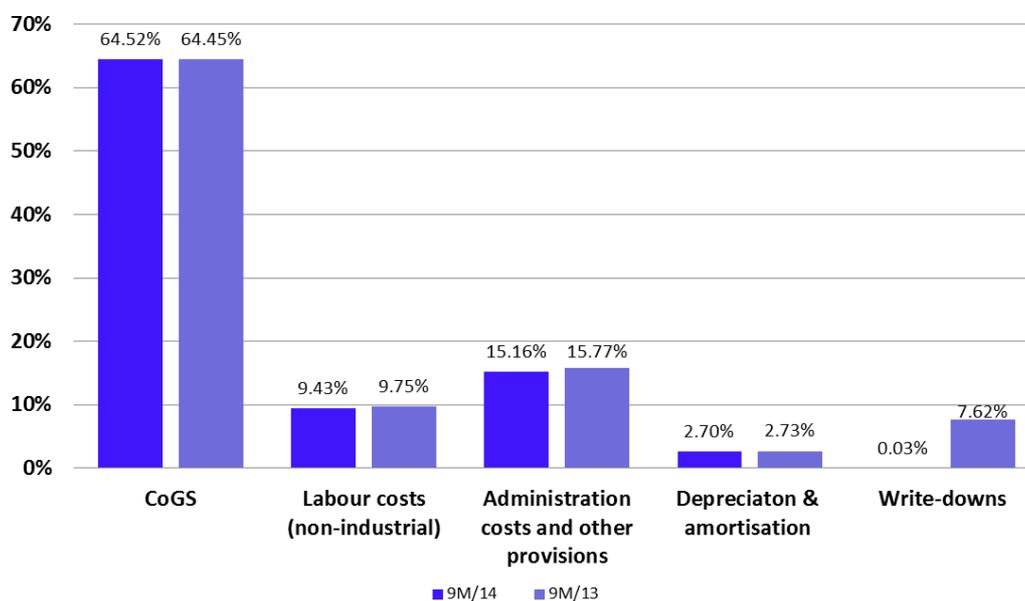


Source: company data, Dr. Kalliwoda International Research GmbH © 2015

<sup>1</sup> For 9M/13 figures used the line-by-line method to include CUCCL figures

## Profitability

### Share in sales 9M/14 vs. 9M/13



Source: company data, Dr. Kalliwoda International Research GmbH © 2015

Although CoGS increased to €191.5m (vs. 9M/13: €181.8m), consolidated EBIT (€24.1m, 8.1% of sales) and consolidated net income (€12m, 5.4% of sales) increased more than sales. The reasons were a lower share of write-downs, which previously accounted for €21.5m on the Radiators business goodwill, and a better net financial result after the revaluations of put and calls options for €1.1m.

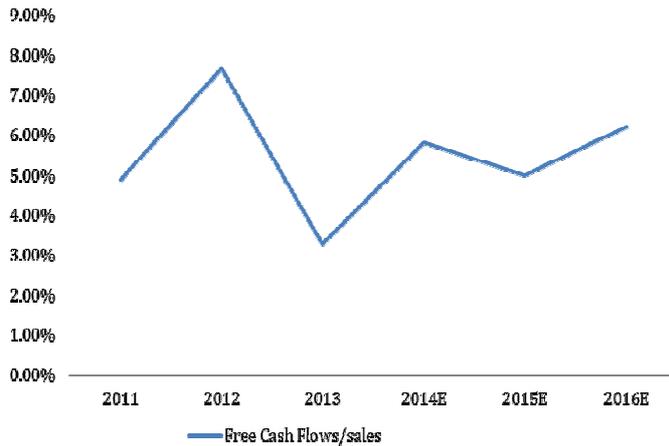
## Balance sheet and Cash Flow

As of 31 September 2014, the most significant position on DeLclima balance sheet were the net operating working capital positive for €44.2m (vs. December/13: €17.9m), due to a different client/product mix that increased receivables on revenues from 19.5% to 21.2%. Under the side current activities, the company reported cash for €91.14m. The equity ratio amounted to 50.9% and the net gearing to 19%.

Despite the acquisition of Powermaster Products and Powermaster service, the recorded results in operating cash flows of €17.5m (stemmed primarily from a better net income), improved the net financial position at the end of the period improved from €-13.9m to €-2.7m.

The tables below present graphical representation of the trend free cash flows/sales ratio.

### Free cash flows to sales ratio 2011-2016E



Source: company data, Dr. Kalliwoda International Research GmbH © 2015

### Outlook

After solid 9M/14 results, our outlook for the end of 2014 remains positive. We expect that revenues and EBIT will improve further, mainly as result of the demand in Asia and Middle East. Although we considered a potential negative trend in margins due to difficulties in the demand from South Europe, pressure on wages and intensive competition, we expect stable growth for the next two years, which will however be sustainable.

During the year 2014, DeLclima continued to launch new and energy-efficient products, with a particular focus in the area of comfort cooling, process cooling and IT cooling. This will have benefit in revenues and earnings that are expected to be achieved by the end of the financial year.

In our view, the share of revenues from England and Wales will gradually increase after the acquisition of Powermaster products and Powermaster service, which strengthened its efforts in terms of distribution and marketing there. Furthermore, we expect that a recovery in the economy of some European countries like Germany might raise the demand from the local client. However we didn't exclude fluctuations and we accounted in our model potential negative effects on demand in the main geographical market of DeLclima. Trends in the euro zone are currently impacted by a low level of economic dynamism. The geopolitical risks, and above all the sanctions imposed by the European Union on Russia and the intensification of the Greece debt crisis, have caused a great deal of uncertainty.

As 29 December 2014, DeLclima announced its programme for the disposal of the Radiator segment. Despite the turnaround, this might be an opportunity to increase its focus on ICC&R. Therefore, we expect an improvement in the operative results during the next years, due to more efficiency. Moreover, with a cash position of €91m, might be considered opportunities for external growth, acquiring in complementary markets or key technology (chillers and heat pumps).

We liked the intention to distribute between 30% and 50% of its annual profits in dividends. We realised a target price for DeLclima stock of 2.90€ and a buy rating. Thus the stock is listed 32% below its fair value.

### 2013 results and our estimates for fiscal-year 2014E-15E

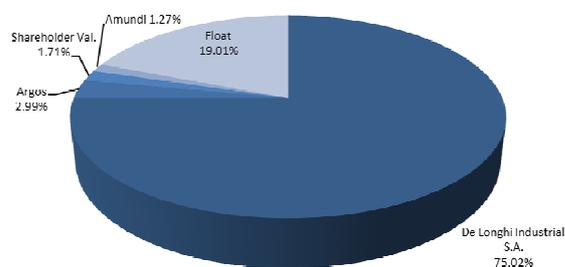
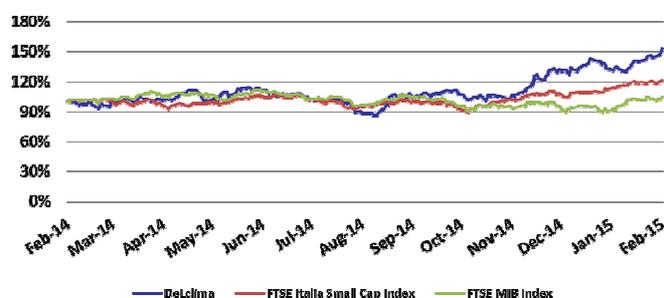
in EURm	2014E	2015E	2016E
<b>Net sales</b>	<b>342.32</b>	<b>352.27</b>	<b>367.40</b>
<b>EBITDA</b>	<b>45.70</b>	<b>46.93</b>	<b>48.90</b>
<i>EBITDA margin</i>	13.4%	13.3%	13.3%
<b>EBIT</b>	<b>38.00</b>	<b>39.42</b>	<b>41.41</b>
<i>EBIT margin</i>	11.1%	11.2%	11.3%
<b>Net income</b>	<b>19.44</b>	<b>19.83</b>	<b>22.72</b>
<i>Net margin</i>	5.7%	5.6%	6.2%

Source: company data, Dr. Kalliwoda International Research GmbH © 2015

## 5. Share

The company became public in 2012, listed at the Italian Stock Exchange, in Milan. Since November 2014, the stock outperformed the FTSE Italia small cap index and in the FTSE MIB index. Main shareholder is the parent company De Longhi Industrial S.A. (75%), which capital is in the hand of the founders. Main institutional investors are the funds Argos Investment Management and Shareholder Value Beteiligungen AG.

### Share price performance 2014/15



Shareholder structure (As of 02.12.2014)

Source: company data, Dr. Kalliwoda International Research GmbH © 2015

## 6. BUSINESS

### *A growing story*



The story started in 1963, when the RC group was founded as cooling solutions provider for data centres. Later in 1971 was established Climaveneta, which was involved in climate control solutions for reducing energy consumptions, while in 1985 was initiated DL Radiators specialized in the heating radiators. The turning point in 2000, when the De'Longhi group moved in commercial HVACR (heating, ventilation, air-conditioning and refrigeration) acquiring both: Climaveneta, DL

Radiators and later a major stake in RC group. During the following years De'Longhi invested significantly in R&D, starting also a Chinese joint venture and acquiring ICC&R distributors in Germany, France, UK, Spain and Poland.

### *Spin-off*

In 2012 the De'Longhi group decided for a demerger of the professional division and set up of DeLclima group (75% owned by De Longhi Industrial S.A.). The new group was specialized in two segments:

- A. ICC&R (air conditioning machines for chillers, heat pumps, air handling units, control systems for the refrigeration in industrial processes and IT cooling).
- B. Radiators (plates, multi-column, bathroom radiators and electric radiators).



The reasons for the spin-off were: absence of industrial and distribution synergies between professional and household division; different businesses (i.e. B2C vs. B2B; global vs. multi-local; standard vs. tailored, marketing driven vs. solutions and service); independent development of each business (businesses with different client base and market dynamics; faster execution strategy for each division); increase transparency and information for investors.

### *Business*

As regional player, DeLclima delivers tailor-made solutions for its customers. The company has a direct geographical presence in some targeted regions and within selected segments. Products are high configurable with strengths in the heat pumps, low noises and high energy efficiency solutions. As system integrator has developed long term partnership with its global suppliers, taking advantage from their scale economies.

ICC&R main products are: centralized systems (targets: office buildings, hotels and large residences), packaged units rooftop (targets: shopping centres, airports and factories), and IT&C high precision air conditioning (targets: data center applications).

Products are designed and manufactured in modern plants, located in strategic areas and industrial districts in order to develop synergies with suppliers and taking benefits from external economies. One example is the modern factory of 'Pieve d'Alpago' (right picture) located inside the industrial districts of air conditioning and commercial refrigeration systems in Veneto (Italy), where around 600 firms are located. Since 2005 a new factory was started in Shanghai.



Based on a pure just in time approach, manufacture is continually engaged in reducing wastes and improving efficiency. Workers are highly motivated to seek constant improvement. Moreover, the system has benefits in employee loyalty and turnover costs. Despite the production process depends on supplier, DeLclima try to manage the relations with significant responsibility, such as the program for payments optimization through the reverse factoring.

In December 2014, the company released to the market its intention for the radiators business disposal. DL radiators division is specialized in the production and sale of heating radiators. Starting in 1985, the division has invested considerably in technological research, setting up a modern factory in Moimacco (Udine), which is able to manufacture up to 8000 radiators per day. In 2013 the division got an important milestone, a commercial agreement with *Bosch Thermotechnology* for steel panel radiators, as 5 years exclusive supplier in the European market.

### Sales split 2011-2013

in EURm	2011	2012	2013
<b>ICC&amp;R</b>	<b>286.7</b>	<b>290.20</b>	<b>290.70</b>
EBIT	29.30	35.70	35.80
EBIT margin	10.2%	12.3%	12.3%
<b>Radiators</b>	<b>102.70</b>	<b>85.20</b>	<b>61.00</b>
EBIT	29.30	35.70	35.80
EBIT margin	28.5%	41.9%	58.7%
<b>Total net sales</b>	<b>389.40</b>	<b>375.40</b>	<b>351.70</b>
<b>Europe</b>	<b>328.40</b>	<b>295.20</b>	<b>270.70</b>
(% of net sales)	84.3%	78.6%	77.0%
<b>Asia</b>	<b>46.20</b>	<b>63.70</b>	<b>62.90</b>
(% of net sales)	11.9%	17.0%	17.9%
<b>Rest of World</b>	<b>14.30</b>	<b>16.50</b>	<b>18.00</b>
(% of net sales)	3.7%	4.4%	5.1%

Source: company data, Dr. Kalliwoda International Research GmbH © 2015

### Sustainability

With its excellent heat pump technology and high efficiency solutions, DeLclima was able to catch opportunities arising in the green and energy saving market. Through this technology, the company delivered better energy class solutions, generating benefit in term of energy consumption for its clients. Thus, during the year has won significant contracts with shopping centers, airport, railway stations, offices, residential areas, hotels, theaters and sport centers.

Additionally in its larger subsidiaries and production facilities DeLclima is constantly committed to ensure compliance with *ISO 9001* in the management of its activities. Quality control check is guaranteed in its manufacturing lines, respecting standard in product certifications. Following a sustainable sensibleness, a large solar panel installation (2300Kwp) is connected in its most energy intensive plant.

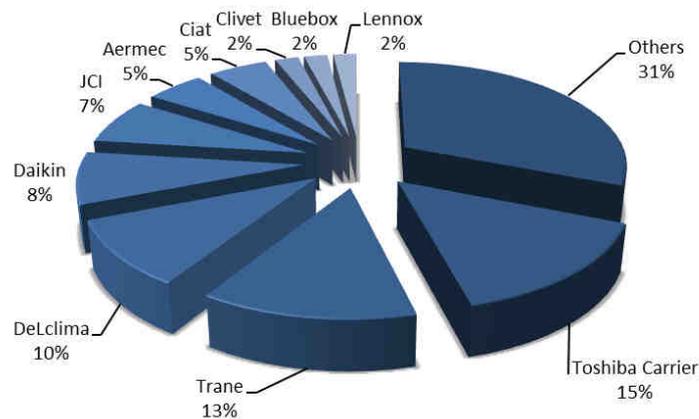
## 7. Market

### **Market overview**

According to the research and consultancy organisation BSRIA, is estimated that the global central air conditioning and packaged market might growth from 13.4bn in 2012 to 16.6bn in 2016, which represents a CAGR of 5.4% (8.9bn DeLclima reference market). The study expects that in the first equipment market key growth drivers might be the increased penetration in emerging markets, new constructions and refurbishments, and ITC growth. In the same period, the demand from replacement is expected to be boosted from the needs for new energy efficient solutions and the reduction of maintenance costs.

DeLclima held a considerable market share in Europe. Despite a consistent number of global and regional players, the company accounts for 10% in the European market of commercial air conditioning (chillers) in 2011. In 9M/14, well-developed was also the position in Asia, where in the air cooled screw chillers and water cooled screw chillers, market share by brand was respectively 8% and 4% (source: China industry online).

### **Chillers Europe market shares 2011**



Source: BSRIA, company

Given the multi-local structure of the market, regional players have significant competitive advantages in optimizing lead time, reducing logistic costs and offering customized solutions. In this framework, the proximity to the market is an essential competitive element. Thus, high entry barriers are established by: commercial relations, local brand recognition and technological know-how. Due to investments in innovation and brand affirmation, DeLclima became in this market an agile and quick entity with respect to its multinational and regional competitors.

## 8. Financials

### a. Profit and Loss Statement

Profit and loss statement - DeLclima S.p.A.						
	Fiscal year					
in EURm	2011	2012	2013	2014E	2015E	2016E
<b>Revenues</b>	<b>389.24</b>	<b>375.31</b>	<b>351.71</b>	<b>342.32</b>	<b>352.27</b>	<b>367.40</b>
<i>CoGS (excl. D&amp;A and R&amp;D)</i>	-213.19	-195.87	-182.59	-177.63	-182.44	-191.01
<b>Gross profit</b>	<b>176.05</b>	<b>179.44</b>	<b>169.12</b>	<b>164.69</b>	<b>169.83</b>	<b>176.39</b>
<i>Labour costs</i>	-66.76	-66.57	-69.52	-60.72	-62.48	-65.17
<i>Provisions</i>	-6.05	-8.55	-4.84	-7.80	-8.02	-8.37
<i>Depreciation &amp; amortisation</i>	-22.08	-40.66	-36.29	-7.71	-7.51	-7.49
<i>Other operating expenses</i>	-71.13	-70.37	-64.02	-50.48	-52.40	-53.96
<b>EBIT</b>	<b>10.04</b>	<b>-6.71</b>	<b>-5.54</b>	<b>38.00</b>	<b>39.42</b>	<b>41.41</b>
<i>Net financial result</i>	-6.02	-5.46	-2.71	-2.91	-3.11	-3.31
<b>EBT</b>	<b>4.01</b>	<b>-12.16</b>	<b>-8.25</b>	<b>35.09</b>	<b>36.31</b>	<b>38.10</b>
<i>Income taxes</i>	-8.10	-5.46	-3.86	-9.65	-9.99	-10.48
<i>Minorities</i>	0.23	0.37	0.11	-6.00	-6.50	-4.90
<b>Net income / loss</b>	<b>-3.86</b>	<b>-17.25</b>	<b>-12.01</b>	<b>19.44</b>	<b>19.83</b>	<b>22.72</b>
<i>EPS</i>	-0.03	-0.12	-0.08	0.13	0.13	0.15
<i>DPS</i>	0.00	0.00	0.00	0.04	0.04	0.05
<b>Change y-o-y</b>						
<i>Revenues</i>	na	-3.58%	-6.29%	-2.67%	2.91%	4.30%
<i>CoGS (excl. D&amp;A and R&amp;D)</i>	na	-8.12%	-6.78%	-2.72%	2.71%	4.70%
<i>Gross profit</i>	na	1.93%	-5.75%	-2.62%	3.12%	3.86%
<i>Labour costs</i>	na	-0.28%	4.43%	-12.66%	2.91%	4.30%
<i>Provisions</i>	na	41.38%	-43.40%	61.15%	2.91%	4.30%
<i>Depreciation &amp; amortisation</i>	na	84.14%	-10.73%	-78.77%	-2.54%	-0.25%
<i>Other operating expenses</i>	na	-1.06%	-9.04%	-21.15%	3.81%	2.98%
<i>EBIT</i>	na	-166.85%	-17.34%	-785.26%	3.74%	5.04%
<i>Net financial result</i>	na	-9.39%	-50.41%	7.39%	6.88%	6.44%
<i>EBT</i>	na	-402.94%	-32.17%	-525.36%	3.48%	4.92%
<i>Income taxes</i>	na	-32.56%	-29.27%	149.75%	3.48%	4.92%
<i>Minorities</i>	na	65.49%	-71.66%	-5760.38%	8.33%	-24.62%
<i>Net income / loss</i>	na	346.94%	-30.40%	-261.91%	1.98%	14.60%
<i>EPS</i>	na	300.00%	-33.33%	-262.47%	1.98%	14.60%
<i>DPS</i>	na	0.00%	0.00%	0.00%	1.98%	14.60%
<b>Share in total revenues</b>						
<i>Revenues</i>	100.00 %	100.00 %	100.00 %	100.00 %	101.00 %	102.00 %
<i>CoGS (excl. D&amp;A and R&amp;D)</i>	-54.77 %	-52.19 %	-51.92 %	-51.89 %	-53.29 %	-55.80 %
<i>Gross profit</i>	45.23 %	47.81 %	48.08 %	48.11 %	49.61 %	51.53 %
<i>Labour costs</i>	-17.15 %	-17.74 %	-19.77 %	-17.74 %	-18.25 %	-19.04 %
<i>Provisions</i>	-1.55 %	-2.28 %	-1.38 %	-2.28 %	-2.34 %	-2.44 %
<i>Depreciation &amp; amortisation</i>	-5.67 %	-10.83 %	-10.32 %	-2.25 %	-2.19 %	-2.19 %
<i>Other operating expenses</i>	-18.27 %	-18.75 %	-18.20 %	-14.75 %	-15.31 %	-15.76 %
<i>EBIT</i>	2.58 %	-1.79 %	-1.58 %	11.10 %	11.52 %	12.10 %
<i>Net financial result</i>	-1.55 %	-1.45 %	-0.77 %	-0.85 %	-0.91 %	-0.97 %
<i>EBT</i>	1.03 %	-3.24 %	-2.35 %	10.25 %	10.61 %	11.13 %
<i>Income taxes</i>	-2.08 %	-1.46 %	-1.10 %	-2.82 %	-2.92 %	-3.06 %
<i>Minorities</i>	0.06 %	0.10 %	0.03 %	-1.75 %	-1.90 %	-1.43 %
<i>Net income / loss</i>	-0.99 %	-4.60 %	-3.41 %	5.68 %	5.79 %	6.64 %

Source: company data, Dr. Kalliwoda International Research GmbH © 2015

## b. Balance Sheet

### Balance sheet - DeLclima S.p.A.

in EURm	Fiscal year					
	2011	2012	2013	2014E	2015E	2016E
<b>Assets</b>						
Inventories	49.15	44.28	39.80	38.72	39.77	41.64
Trade receivables	91.57	81.07	67.75	65.94	67.86	70.77
Receivables from sales financing	0.00	0.00	0.00	0.00	0.00	0.00
Financial assets	0.00	0.00	0.00	0.00	0.00	0.00
Current tax receivable	0.82	1.58	2.15	2.09	2.16	2.25
Deferred tax assets	0.00	0.00	0.00	0.00	0.00	0.00
Other assets	9.58	11.55	22.60	22.94	23.60	24.62
Securities	0.00	0.00	0.00	0.00	0.00	0.00
Cash & cash equivalents	18.54	31.72	61.20	81.55	101.62	124.45
<b>Current assets</b>	<b>169.66</b>	<b>170.20</b>	<b>193.50</b>	<b>211.24</b>	<b>235.00</b>	<b>263.72</b>
Property, plant and equipment	98.56	96.17	88.93	89.30	90.62	91.64
Equity investments in other companies	0.00	0.16	0.16	0.18	0.22	0.26
Shareholdings at-equity	0.00	0.00	0.00	0.00	0.00	0.00
Other financial assets	0.00	0.00	0.00	0.00	0.00	0.00
Long term receivables	0.66	0.55	16.34	15.80	16.15	16.74
Financial assets	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax assets	2.15	2.91	3.52	3.42	3.52	3.67
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Intangible assets	228.21	197.23	175.26	175.48	175.70	175.92
<b>Non-current assets</b>	<b>329.57</b>	<b>297.02</b>	<b>284.20</b>	<b>284.18</b>	<b>286.21</b>	<b>288.22</b>
<b>Total assets</b>	<b>499.23</b>	<b>467.22</b>	<b>477.70</b>	<b>495.42</b>	<b>521.22</b>	<b>551.94</b>
<b>Liabilities</b>						
Other provisions	0.00	0.00	0.00	0.00	0.00	0.00
Current tax liabilities	3.00	4.45	3.04	2.95	3.04	3.17
Financial liabilities	35.97	37.13	62.18	78.18	76.18	70.18
Trade payables	96.63	91.23	83.66	80.78	83.47	87.92
Other liabilities	23.92	20.85	21.26	20.69	21.29	22.21
<b>Current liabilities</b>	<b>159.51</b>	<b>153.65</b>	<b>170.13</b>	<b>182.61</b>	<b>183.98</b>	<b>183.48</b>
Provisions for risks and non-current charges	14.64	18.73	21.31	24.99	32.76	30.49
Other provisions	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax liabilities	17.39	16.25	13.20	14.38	13.74	15.43
Financial liabilities (Including bank)	31.01	20.79	28.88	13.88	16.25	18.62
Other liabilities	0.00	0.00	0.00	0.00	0.00	0.00
<b>Long-term liabilities</b>	<b>63.04</b>	<b>55.77</b>	<b>63.39</b>	<b>53.24</b>	<b>62.75</b>	<b>64.54</b>
<b>Total liabilities</b>	<b>222.55</b>	<b>209.43</b>	<b>233.52</b>	<b>235.85</b>	<b>246.73</b>	<b>248.02</b>
<b>Shareholder's equity</b>	<b>274.43</b>	<b>255.95</b>	<b>242.36</b>	<b>263.75</b>	<b>285.16</b>	<b>309.70</b>
Minority interests	2.25	1.84	1.82	-4.18	-10.68	-5.78
<b>Total equity and liabilities</b>	<b>499.23</b>	<b>467.22</b>	<b>477.70</b>	<b>495.42</b>	<b>521.22</b>	<b>551.94</b>

Source: company data, Dr. Kalliwoda International Research GmbH © 2015

### c. Cash Flow Statement

#### Cash flow statement - DeLclima S.p.A.

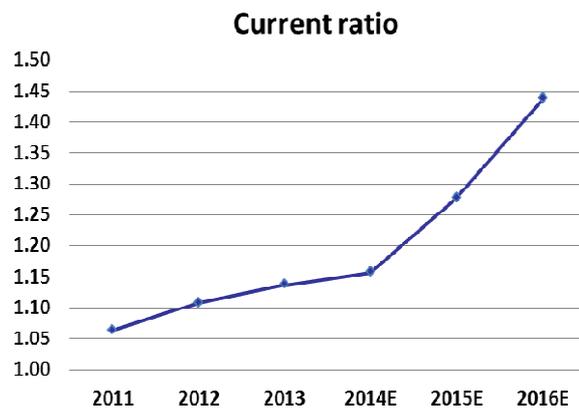
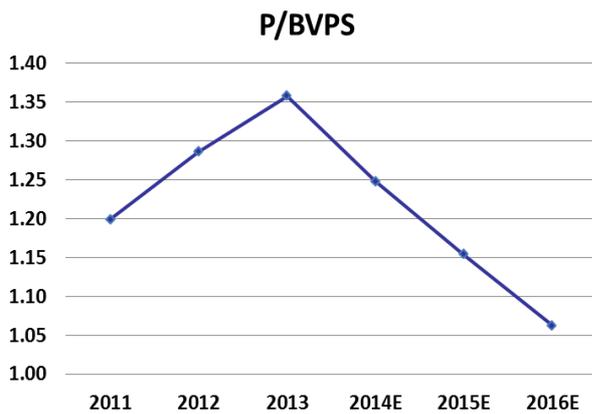
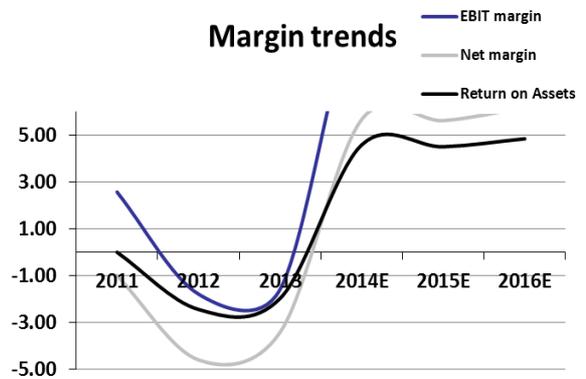
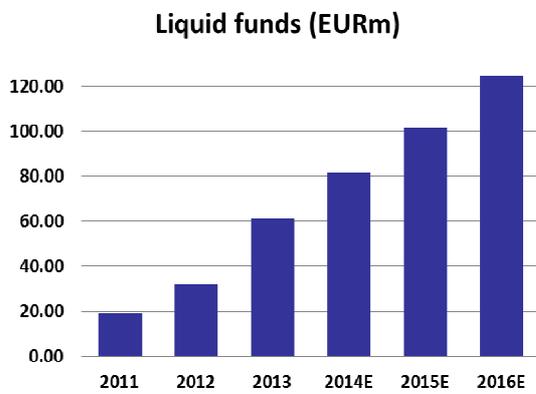
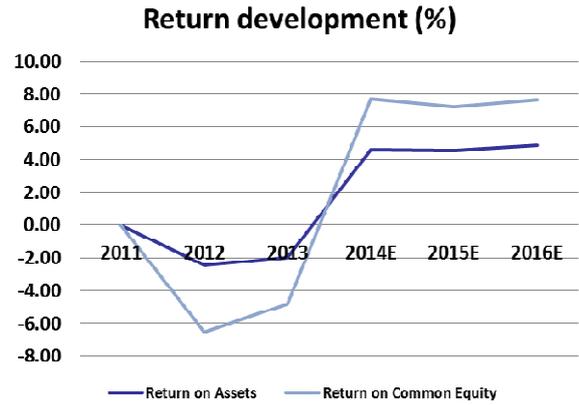
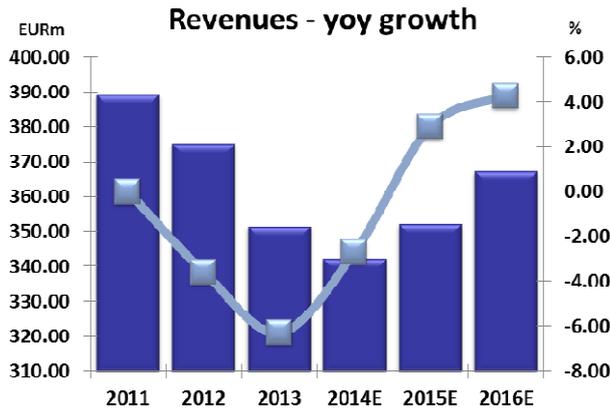
in EUR	2011	2012	2013	2014E	2015E	2016E
Net income	-3.86	-17.25	-12.01	19.44	19.83	22.72
Depreciation	22.08	40.66	36.29	7.71	7.51	7.49
Change of working capital	8.68	6.48	-0.36	-0.37	-0.67	-0.98
Others	10.43	6.28	-3.66	1.28	-0.74	1.54
<b>Net operating cash flow</b>	<b>37.32</b>	<b>36.16</b>	<b>18.75</b>	<b>28.05</b>	<b>25.93</b>	<b>30.77</b>
<b>Cash flow from investing</b>	<b>-18.36</b>	<b>-7.39</b>	<b>-7.27</b>	<b>-8.20</b>	<b>-8.35</b>	<b>-8.00</b>
Free cash flow	18.97	28.77	11.49	19.85	17.58	22.77
<b>Cash flow from financing</b>	<b>-14.94</b>	<b>-15.59</b>	<b>18.32</b>	<b>0.50</b>	<b>2.49</b>	<b>0.05</b>
Change in cash	4.07	13.18	29.48	20.35	20.07	22.83
Cash, start of the year	13.27	18.54	31.72	61.20	81.55	101.62
Cash, end of the year	18.54	31.72	61.20	81.55	101.62	124.45

Source: company data, Dr. Kalliwoda International Research GmbH © 2015

### d. Financial Ratios

Fiscal year	2011	2012	2013	2014 E	2015 E	2016 E
Gross margin	45,23%	47,81%	48,08%	48,11%	48,21%	48,01%
EBITDA margin	8,25%	9,05%	8,74%	13,35%	13,32%	13,31%
EBIT margin	2,58%	-1,79%	-1,58%	11,10%	11,19%	11,27%
Net margin	-0,99%	-4,60%	-3,41%	5,68%	5,63%	6,18%
Return on equity (ROE)	-0,03%	-6,51%	-4,82%	7,68%	7,22%	7,64%
Return on assets (ROA)	0,00%	-2,44%	-1,97%	4,59%	4,51%	4,85%
Return on capital employed (ROCE)	-3,01%	-3,10%	-2,65%	8,81%	8,47%	8,15%
Net debt (in EURm)	0,06	0,04	0,05	0,04	0,02	-0,01
Net gearing	22,99%	17,55%	21,11%	13,46%	8,26%	-1,66%
Equity ratio	54,97%	54,78%	50,74%	53,24%	54,71%	56,11%
Current ratio	1,06	1,11	1,14	1,16	1,28	1,44
Quick ratio	0,69	0,73	0,76	0,81	0,92	1,06
Net interest cover	1,67	-1,23	-2,05	13,08	12,70	12,53
Net debt/EBITDA	1,96	1,32	1,66	0,78	0,50	-0,11
Book value per share	1,83	1,71	1,62	1,76	1,91	2,07
Working capital/Sales	7,25%	6,00%	11,57%	11,99%	11,85%	11,63%
EV/Sales	0,85	0,88	0,94	0,96	0,93	0,90
EV/EBITDA	10,25	9,69	10,70	7,20	7,01	6,73
EV/EBIT	32,79	-49,06	-59,35	8,66	8,35	7,95
P/BVPS	1,20	1,29	1,36	1,25	1,15	1,06
P/E	-73,33	-18,33	-27,50	16,93	16,60	14,48
P/FCF	17,35	11,44	28,65	16,58	18,72	14,45

Source: company data, Dr. Kalliwoda International Research GmbH © 2015



Source: Company data, Dr. Kalliwoda Research GmbH © 2015

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