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CFA Institute Research Challenge

Italy | Industrial Machinery | Pumps and Pumps Equipment

Interpump Group S.p.A

Amounts in thousands €	2017	2018E	2019E	2020E	2021E	2022E
Revenues	1,086,547	1,255,960	1,390,976	1,510,925	1,609,084	1,679,401
EBIT	198,912	226,073	260,737	294,476	325,593	352,331
Margin	18.31%	18.00%	18.74%	19.49%	20.23%	20.98%
Net Income	98,726	156,692	180,651	204,380	225,687	243,781
Margin	9.09%	12.48%	12.99%	13.53%	14.03%	14.52%
EPS	1.26	1.49	1.77	2.00	2.21	2.39
DPS	0.21	0.21	0.21	0.21	0.21	0.21
Net Debt	326,367	335,676	321,150	192,148	37,473	(141,525)

Investment Summary

Highlights: We initiate the coverage on Interpump (IP) issuing a Hold recommendation with a target price of €28.92, representing an upward trend of 3.29% from its closing price of €28.00 on February 5th, 2019. Our recommendation, based on a two-stage DCF, is primarily driven by the following features:

- **Interpump is world leader in the mature market of high-pressure plunger pumps, with the aim to enter new market segments.**

IP core business continues to be focused on its traditional niche of high-pressure pumps, which is its top revenue-generating product. IP is entering the universe of flow handling components for food, cosmetics and pharma industry, widening its application fields to boost its growth.

- **Recovery positively affected by a temporary organic top-line momentum.**

IP is enjoying a high growth thanks to the post-crisis rebound effect of the Industrial market, allowing for solid backlog and orders. This is amplified by cross-selling, industrialization and population growth in India and China which, jointly with the increasing standards of living, are the main drivers for the food and pharma sectors development. The best top-line momentum is experienced by the Water-Jetting (WJ) sector.

- **IP ability to preserve margins.**

The company has the ability to transfer increases in raw material prices to consumers by increasing final prices. IP margins are mainly generated by the products premium pricing in the WJ sector, differently from the Hydraulics (HY) ones. In the HY sector the products are commoditized, therefore not allowing the company to sell at high margins. The ability to create synergies in the companies acquired from M&A continues to improve IP margins.

- **Low growth potential markets.**

High barriers to entry, due to high upfront investment and specific knowledge needs in the industrial machinery sector, enable the company to defend its current competitive position. Being the market mature and characterized by big players, there may be difficulties for IP to steal market share to competitors. Thus, there is limited potential for organic growth.

- **Local-for-local manufacturing at a global scale.**

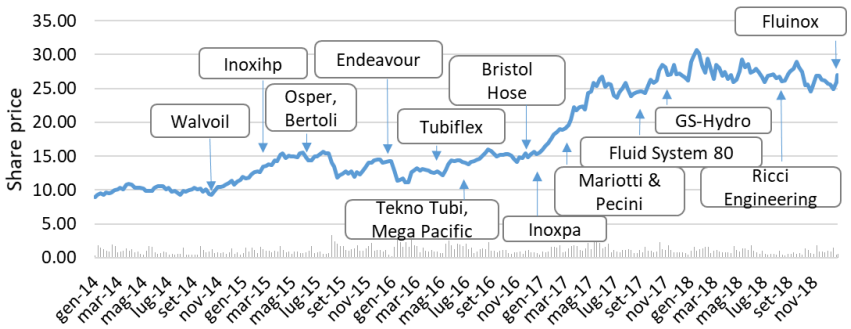
Having production and distribution facilities in 26 countries allows IP to sell where it produces therefore preventing trade barriers to have a high impact on revenues. Furthermore, this allows for a partial natural hedging in the currency exchange market.

- **IP resilience driven by high production flexibility.**

IP has a high production flexibility. The company can shift production between its facilities and adapt its processes depending on the demand.

- **A mature enterprise, upgrading through M&A.**

Company records with regards to M&A show strong ability to integrate and create synergies. This stems from a soft integration of acquired companies. Given the strong cash flow generation, IP maintains a high firepower (ab. 200mln) for future acquisitions. The management claimed possible new deals for both divisions. M&A should continue to support future growth.



Source: Factset

Basic Information

Initiation of Coverage | 05 February 2019

HOLD

TP €28.92

Price	€28.00
Upside %	3.29%
Dividend Yield	0.75%

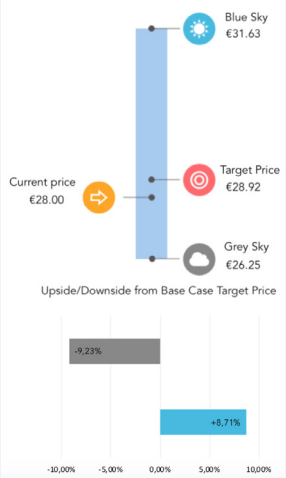
Listed on: FTSE Italia Mid Cap
FTSE Italia STAR
Ticker: BIT:IP.MI

Market Data

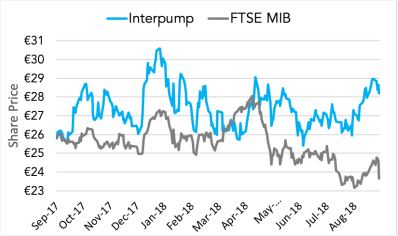
Main Shareholders	
Gruppo IPG Holding S.r.l.	23.33%
Fidelity	5.32%
FIN TEL S.r.l.	4.13%
Treasury shares	3.02%
Caisse des dépôts	3.01%
Market Cap (€bn)	3.048
Shares outstanding (m)	108.8
Free Float	65.90%

Stock Data

52w H/L	€30.10 / €24.16
Avg daily volume (52w)	189.608



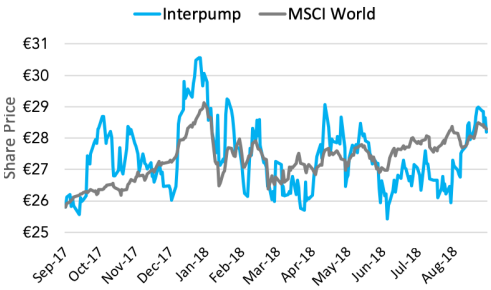
1 Year Price Performance



- **The market discounts the real value of IP.**

We evaluated IP organic component through a two-stage DCF model, that allowed us to properly assess the revenues growth rate (+7.35% revenues CAGR 2018-22). This leads to a target price of €28.92. We also performed a Monte Carlo simulation to assess the consistency of our forecasts which reinforces our DCF TP, resulting in a HOLD recommendation with 69.72% probability. The scenario analysis identifies the worst and best possible outlook for IP. The grey sky, which supposes a growth in line with major markets outlooks (+5.05% revenues CAGR 2019-22), involves a -9.23% price performance. Regarding the blue-sky scenario, we took into consideration an inorganic growth component derived from future M&A transactions and positive synergies. This implies a premium price of €2.71, +8.71% price performance, leading to a target price of €31.63. Finally, the 2018-20 relative valuation shows how our DCF valuation is in line with the consensus in terms of EV/EBITDA and P/E multiples.

1 Year Price Performance



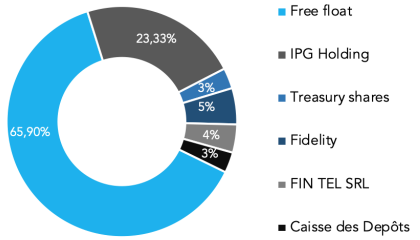
Business Description

Company Presentation: With a continuously growing market capitalization and revenues of €1 billion, in 2017 IP Group is the world-leader in the high-pressure plunger piston pumps sector. Headquartered in S.Ilario d'Enza, Emilia Romagna, the company has been listed since 1996 and the majority of its shares (approx. 66%) *(see exhibit 1)* are publicly owned. It is one of the largest companies in the Italian Stock Market STAR segment. IP detains direct and indirect controlling interests in 81 companies (5 of which to wind up as a consequence of a rationalization process).
The firm is Europe-centric *(see appendix 1)* but produces and distributes its products on a global scale: in 2017 IP made around 47% of its sales outside Europe *(see exhibit 2)*.

Business Segments: IP can be split in two main sectors of activity:
WJ: Accounting for 36% of 2017 revenues, this is the sector in which IP is an established leader. Its reputation allows it to sell its products at a premium price without having to worry about the negligible competition. Around 1/3 of its revenues come from after-sales services such as maintenance and spare parts *(for geographical revenues breakdown see exhibit 3)*.
IP is currently expanding through M&A in cosmetics, pharma and in particular it has started to focus strongly on the food industry with the acquisition of Inoxpa, Mariotti & Pecini and Ricci Engineering.
HY: 64% of 2017 sales, this fast-growing market (currently around €50 billion) allows for countless opportunities. The company is expanding primarily thanks to acquisitions. The main requirements for the firm to expand in this sector are reliability, a wide range of products and an expanded distribution network capable of reaching its customers. *(for geographical revenues breakdown see exhibit 4)*.
Having already asserted its dominance in the niche of very high-pressure pumps within the WJ market, IP is growing its product range of application in industrial cleaning, chemical, food, pharma, cosmetics processing, automotive, marine, oil&gas, tunneling, mining and steel industry. Different products applications are also present in the HY sector including trucks, industrial vehicles, earth moving, agriculture, construction, lifting and machine tools.

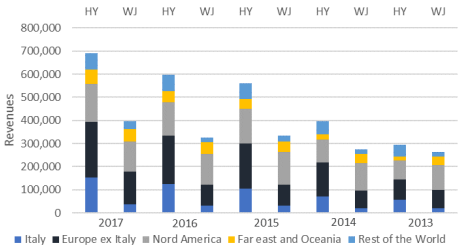
Business Model: IP is vertically integrated since it only acquires raw materials and generic components, giving it a strong bargaining power against suppliers.
Aiming for the diversification of its sectors, IP business model has developed a flexibility in its operating process thanks to the ability to swiftly shift production (and to modify the use of its machinery) where demand is stronger, which allows it to be uncorrelated to individual industry trends and sector cycles. Having expanded its presence outside Italy by either direct presence, via production facilities and/or commercial structure, or through local distributors, it has limited the risk associated with the effects from the current ongoing rise of tariffs worldwide and/or currency fluctuations.
In the WJ market, thanks to its expertise and well-known brand, it is able to offer its products at a premium price. Alongside products, IP offers services like instrument renting (via NBL corp.) and other post-sales services (manteinance, parts&service). In 2017 WJ services generated about a third of segment revenues.
In the HY market IP offers a wide range of components, some of which are co-designed and tailored to the needs of all major OEMs. Nevertheless, the hydraulic market shows lower margins as products are considered commodities.
Sales are operated by two different distribution channels, 30% of which are dealers and 70% end users/OEMs *(see exhibit 5)*; IP products are sold in over 130 countries.
Having a wide group structure, every single subsidiary of the group performs its commercial and productive processes and has its own support functions. IPG is the operating company which undertakes control activities over the group's multiple subsidiaries.
R&D is mainly undertaken by the production arm of the group for specific products (Interpump Group and Hammelmann GmbH for the WJ sector; Walvoil S.p.A., Interpump Hydraulics S.p.A. and IMM Hydraulics S.p.A. for the HY sector)
IP is mainly focused on the constant expansion of its product range in both market segments via development of new applications for their technology and especially M&A, which allows it to reinforce its competitive positioning and enhance its distribution channels. Since the IPO it has acquired more than 40 firms *(see appendix 1)*.
In a nutshell IP is characterized by a wide diversification in product range, geographical presence and business organizations. It has grown mainly via acquisitions by acquiring either products or sales capabilities.

Shareholder structure *(exhibit 1)*



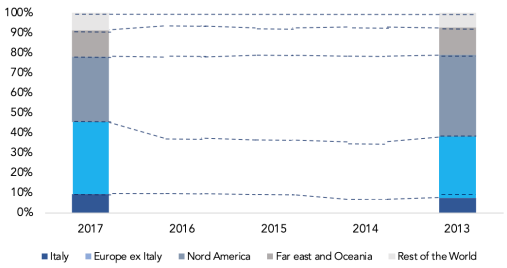
Source: Team Estimates

Revenues geographical breakdown - thousands € *(exhibit 2)*



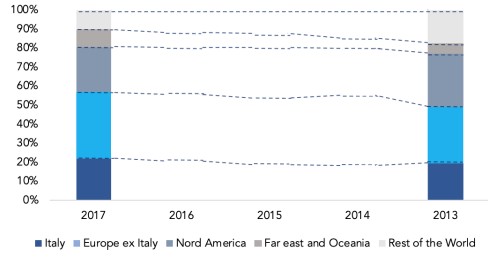
Source: Team Estimates

Water-Jetting Revenues Geographical Breakdown *(exhibit 3)*



Source: Team Estimates

Hydraulics Revenues Geographical Breakdown *(exhibit 4)*



Source: Team Estimates

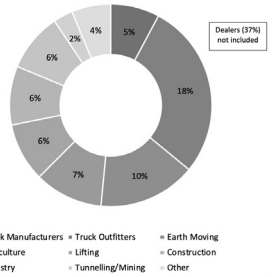
Strategy: IP's corporate strategy relies on:

- **Sector and Geographical Diversification:** The firm currently operates in more than 15 sectors, which characterize its flexibility and low cyclicality *(see exhibit 6-7)*. IP detains an highly diversified products portfolio *(see appendix 1)*. The organic expansion will continue through cross-selling of its products to acquired companies' existing customer base. IP will enhance its differentiation both in products and geographical area by acquiring similar companies that operate at a local level in different sectors. The plan is to absorb companies for which IP can leverage its expertise and find new applications for acquired companies' products.
- **Growth in emerging markets:** India and China, which now account for around 8% of IP sales, represent valuable possibilities to expand. Main growth drivers include population growth, higher food consumption, industrialization, growing public awareness about water quality.
- **Local production**: Direct production and wide local distribution network allow IP to have a low correlation to currency volatility and to limit effects of tariffs. Moreover, this allows a more efficient distribution system capable of reaching the different geographical areas in which the company operates. The fact that IP produces in different markets allows it to supply the same products and components to OEMs that produce in different geographical areas.
- **M&A:** IP considers M&A with efficient companies an effective way to enter new sectors, reinforce their competitive position on one particular product, and enhance distribution *(see exhibit 8)*. Target firms are represented by well-run, privately-owned companies that the firm seeks to integrate through a soft approach (changes are made only if clear value addition is foreseen), only after an analysis of the industrial process gives positive results, avoiding companies in bankruptcy or restructuring. They usually acquire control stake with agreements (put/call options) to acquire/sell minorities in few years. The high number of acquisitions represented roughly two thirds of each year's growth. This allowed IP to operate in growing number of markets and limit the impact of negative performances affecting specific sectors.

Total sales by channel *(exhibit 5)*

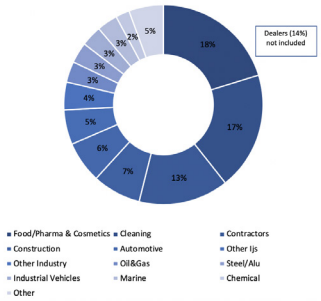
Source: Company Data

Hydraulics sales by application field *(exhibit 6)*



Source: Company Data

Water-Jetting sales by application field *(exhibit 7)*



Source: Company Data

Most recent M&A transactions - millions € (exhibit 8)

Year	Deal Title	Country	Capital invested	WJ	HY
2013	Hydrocontrol	Italy	26.21		X
2014	I.M.M. Hydraulics	Italy	87.16		X
2015	Walvoil SpA	Italy	149.22		X
2015	Bertoli	Italy	6.50	X	
2015	Osper	Brazil	4.04		X
2015	INOXIHP Srl	Italy	26.01	X	
2016	Mega Pacific	Australia and New Zealand	17.78		X
2016	Tekno Tubi	Italy	13.17		X
2016	Tubiflex	Italy	29.65		X
2016	Endeavour	United Kingdom	1.08		X
2017	Fluid System 80	Italy	0.73		X
2017	Mariotti & Pecini SRL	Italy	17.70	X	
2017	Inoxpa	Spain	78.90	X	
2017	Bristol Hose	United Kingdom	1.25		X
2018	GS-Hydro Holding Oy	Finland	10.80		X
2018	Fluinox	Spain	10.80	X	
2018	Ricci Engineering	Italy	0.70	X	

Source: Factset, Team Estimates

Management & Governance

Corporate Governance: IP is part of the segment FTSE Italia STAR, which contains firms with high requirements in terms of transparency, liquidity and corporate governance. The company adheres to the Italian Corporate Governance Code, which sets criteria to follow for the best CG practices. IP operates with a traditional Corporate Governance system. The company BoD includes 9 members *(see exhibit 9)* of which 6 are independent directors, part of four internal committees instituted: Control and Risks Committee, Remuneration Committee, Nomination Committee, Related Party Transactions' Committee.

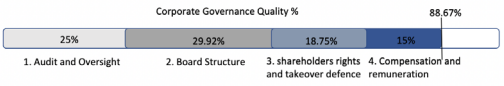
The Chairman and CEO are recognized in the figure of Fulvio Montipò.

IP Group Remuneration Policy is in line with the recommendations of the Corporate Governance Code for Italian listed Companies as issued by Borsa Italiana and implements three different remuneration schemes: (i) Fixed component for directors or managers, (ii) A short term variable component related to managerial objectives (MBO), (iii) A long-term incentive granting Stock Options based on the "IP Incentive plan". These policies aim to encourage the accomplishment of specific objectives while creating value in the long term, aligning the interests of managers and shareholders. Interpump has a valuable corporate structure, respecting the main governance pillars: Board Structure, Shareholder Rights & Takeover Defenses, Compensation/Remuneration and Audit & Risk Oversight *(exhibit 10)*.

Corporate Social Responsibility: IP publishes a non-financial disclosure with information on how it handles environment, social, employee matters, respect of human rights, Anti-corruption and bribery matters.

Despite the absence of formal policies, IP abides to maintain a standard of respect regarding all the said fields. The firm respects the limits imposed by current legislation regarding the aforementioned areas.

Corporate Governance Quality % *(exhibit 10)*



Source: Team Estimates

Board of Directors *(exhibit 9)*

Name and surname	Office	Education	Description
Fulvio Montipò	Chairman and CEO	Graduated in Sociology	Founder of Interpump Group
Paolo Marinsek	Deputy chairman	Graduated in Aeronautical Engineering	Past CEO of Interpump Group
Angelo Busani	Independent Director	Graduated in law	Currently a notary public
Antonia Di Bella	Independent Director	Graduated in Economics	Italian Public Accountants and Legal Auditors
Franco Garilli	Independent Director	Graduated in Economics	Italian Public Accountants and Legal Auditors
Marcello Margotto	Independent Director	Graduated in Economics	Specialized in tax, corporate and business advisory
Stefania Petruccioli	Independent Director	Graduated in Economics	Investment manager at Principia SGR S.p.A.
Paola Annunziata Tagliavini	Independent Director	Graduated in Economics	Risk Management background
Giovanni Tamburi	Non-executive Director	Graduate in Economics	Founder and Chairman of Tamburi Investment Partners

Source: Company Data

Industry Overview and Competitive Positioning

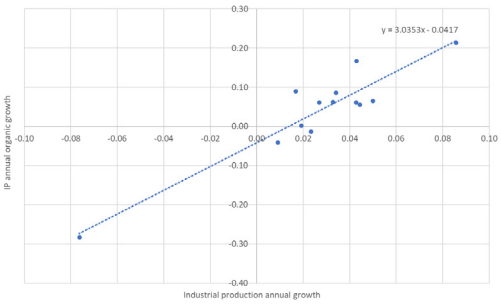
Industrial Machinery market: IP is an industrial group operating in the Industrial Machinery Market (estimated market size of > $485 billion in 2015, +5.3% CAGR 2016-24, source: Global Market Insight). We analyze the main IP's products separately, in order to deeply understand which macroeconomics and microeconomics trends may affect its business.

- **High-pressure plunger pumps (WW $1 billion in 2017, 4.21% CAGR 2018-21):** they are displacement pumps where the high-pressure seal is stationary and a smooth cylindrical plunger slides through the seal. Manufacturing industries are expected to fuel the growth of the high-pressure pumps market, expected to increase by $226 million whereas slowdown in the oil & gas industry act as a restraining factor for this market (source: MarketResearchFuture).
- **Directional control valves (DCVs):** they allow to sort the oil in the hydraulic circuits. The global directional control valves market is expected to strongly dominate the global economy with a substantial growth rate in upcoming years, thanks to rapidly developing industry infrastructure, increased product commercialization, and drifting demand (source: Bitcoin Journal).
- **Power Take-Off (WW $350.3millon in 2017, 5.89% CAGR 2017-25):** it is a device that allows to transfer an engine's mechanical power to another piece of equipment. The global market is expected to reach $553.8 Million by the end of 2025. The U.S. is the largest consumption market, followed by Europe and China. Power Take-off used in industry including Automotive and Machinery represented 86.33% of the market demand in 2016 (source: Global Information, Inc.).

Macro trends

- **Rise in real GDP:** advanced economies are expected to grow 1.5% YoY until 2023, versus 4.8% YoY in emerging markets. The increase in the living standard and increasing spending contributed to growth in industrial machinery market sales in 2016. IP, in spite of its correlation with GDP, does not show cyclicality towards it.
- **Industrial production:** it has constantly been growing during the last years, within both advanced economies (+1.47% CAGR 2013-17) and developing countries (+3.66% CAGR 2013-17). The graph displays the linear regression between IP organic growth and industrial production growth in the last 13 years. The beta value equal to 3.0353 suggests that IP is positively correlated to world industrial production *(see exhibit 11)*.
- **Raw material price:** whereas in the HY sector the commoditized nature of products exposes IP to raising metals prices, in the WJ sector the perceived high value of products and the stickiness created by spare parts/after-sales services allow for an easier pass-through or raising input costs.
- **Development of emerging countries:** it permits a huge opportunity to expand IP; these countries are now experiencing a strong industrialization trend, thus creating a huge opportunity for the company. According to KPMG research, 87% of manufacturers said they have taken steps to enter new geographic markets over the past 2 years; 92% said they plan to do so over the next 2 years. Manufacturers aim to achieve both top-line and bottom-line growth from their overseas investments.
- **Electrification:** it may pose a threat to the company. The increase in environmental consciousness may lead customers to switch to other products/suppliers. New laws are issued in order to force companies to create "cleaner" products (sometimes tax benefits are eligible). Moreover, lower emission instruments allow to use products in closed environments (hangars or mines) and tools with lower noise may be used in the cities at night hours. Electrification may have an impact on the PTO, which is not needed for electrical trucks.
- **Industry 4.0:** Digitalization offers tremendous potential for the optimization of pumps more easily without using complex analytics or having to replace the pump. The main advantages of using digital technologies are: providing proactively service before failure occurs, enhancing uptime and reducing life-cycle costs. Smart-pump systems store data in the cloud, allowing maintenance personnel to remotely check them, without manual check-ups.

IP vs Industrial production *(exhibit 11)*

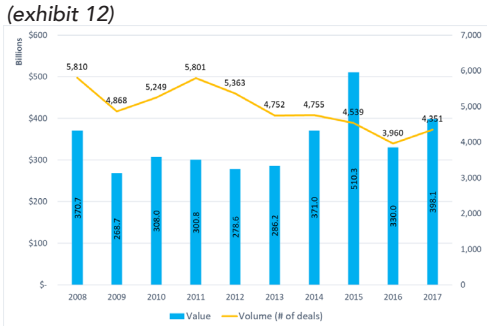


Source: Company Data and Facset

Micro trends

- **Strong R&D:** it allows to place new product ranges on the market, optimize and customize existing products, and develop new technological and circuit solutions. The development of IP technology is incremental, every year it is not reinvented from zero, but each improvement is based on the accumulated R&D carried over the last 42 years. This factor is considered a remarkable advantage for companies that operate in these sectors because it causes higher barriers to entry.
- **Strong M&A skills:** IP may benefit from its strong M&A capabilities. The industrial sector is expected to increase M&A activities following the trends to quickly deliver key technologies in the race to innovate and drive competitive advantages and growth. The 2016-17 growth is around 20.64%, with an increase both in number of deals and in average deal size (*source: KPMG, see exhibit 12)*.

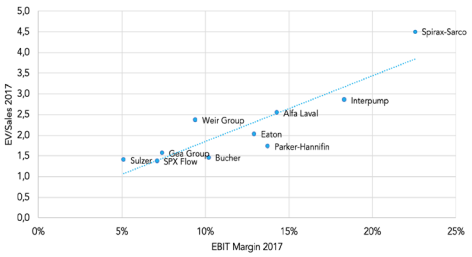
Ten Year Trend for Industrials - billions € *(exhibit 12)*



Source: KPMG

Competitive Positioning: We split competitors in two groups based on the IP's sectors *(see appendix 3)* Spirax Sarco, Aalberts Industries, GEA, Weir, KSB, SPX Flow and Alfa Laval belong to the WJ sector (see exhibit 13), while Parker, Bosch, Eaton, Bucher, Danfoss and Sulzer are part of HY one *(see exhibit 14)*. IP displays greater values for CAGR and EBITDA margin than competitors in both sectors thanks to its business model and competitive advantages. Company's operating profitability and growth results one of the best, considering that 2/3 of the sales increase is driven by M&A. ROIC and ROE prove to be higher than average in both sectors again due to disciplined and efficient M&A and Capex. The graph shows the presence of a significant correlation between EV/SALES multiple and EBIT Margin for the peer group. Each company is almost aligned with the regression line except for Spirax-Sarco, which shows EV/SALES multiple above the peer average that is derived from the highest peer group EBIT Margin. IP has a lower multiple valuation despite a very interesting EBIT Margin *(see exhibit 15)*. Except for this outlier IP confirms to be an extremely competitive company. In terms of market capitalization, the company positioning is different.

Relationship between EV/SALES and EBIT Margin *(exhibit 15)*



Source: Team Estimates

The positioning map shows *(see exhibit 16)* how IP business model places it over the competitors' average in terms of revenues.
IP demonstrates a ROIC higher than the peer group concerning the HY sector. Differently, the position regarding the WJ presents a competitor with an extraordinary efficiency (Spirax-Sarco Engineering). Except for this outlier IP confirms to be an extremely competitive company. In terms of market capitalization, the company positioning is different.

SWOT: IP has built over the years a premium brand position with higher marginality in the HY sector. It also has a global reach with an undisputed leadership in some market niches (high-pressure and very-high pressure pumps, power take-offs) due to a diversified exposure in different end markets like food, pharma and cosmetics that were acquired during time and through different M&A acquisitions. IP has a flexible production chain that allows for low fixed costs. IP must weigh in carefully its future M&A transactions and try to be more influential in some emerging markets like India. Finally, it must pay attention to take advantages of new opportunities possibly arising from new M&A acquisitions and possible costs and revenues synergies *(see exhibit 14 and appendix 3)*.

Porter: Both WJ and HY sectors have high entry barriers due to very high internal know how, product patents, undisputed leadership and high reputation in some market niches (high-pressure and very-high pressure pumps, power take-offs) and high personalization of some specific product. The majority of HY products can be considered commodities making the company vulnerable to substitutes. On the other hand, suppliers have a low bargaining power as the use of standardized raw materials. In the end, customers, especially in the B2B market, have a high negotiating power thanks to high purchasing volume for every single product *(see exhibit 17 and appendix 3)*.

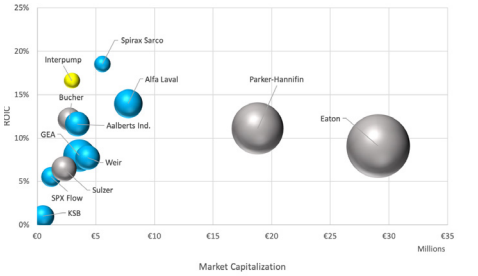
Peer group *(exhibit 13)*

Key figures	Parker*	Bosch	Eaton	Bucher	Danfoss	Sulzer	Median	Average
CAGR	5,33%	14,09%	2,16%	2,20%	6,62%	0,88%	2,26%	3,67%
Gross margin	25,12%	35,44%	33,47%	20,43%	34,44%	30,72%	32,09%	29,92%
EBITDA margin	17,04%	11,34%	17,40%	13,65%	16,42%	9,22%	15,03%	14,17%
ROIC	11,10%	8,29%	9,10%	12,20%	20,87%	6,50%	10,10%	11,34%
ROE	17,73%	7,33%	18,38%	12,58%	15,73%	5,15%	14,15%	13,08%
Net Debt/(N_D+E)	41,17%	0,56%	27,80%	-17,58%	29,71%	11,67%	19,73%	15,55%

Key figures	Spirax Sarco	Aalberts Ind.	GEA	Weir	KSB	SPX Flow	Alfa Laval	Average	Median
CAGR	8,87%	7,20%	1,61%	-1,52%	-0,47%	-4,87%	1,44%	1,75%	1,44%
Gross margin	35,25%	19,90%	31,18%	30,19%	19,14%	30,68%	33,14%	28,50%	30,68%
EBITDA margin	26,12%	16,00%	9,93%	14,22%	8,53%	10,23%	18,94%	14,85%	14,22%
ROIC	18,50%	11,60%	8,00%	7,80%	1,00%	5,50%	13,90%	9,47%	8,00%
ROE	26,21%	13,52%	9,11%	11,39%	4,18%	5,07%	14,82%	12,04%	11,39%
Net Debt/(N_D+E)	38,00%	27,28%	-0,12%	36,48%	-32,80%	39,35%	28,99%	19,60%	28,99%

Source: Team Estimates

Positioning Map *(exhibit 16)*

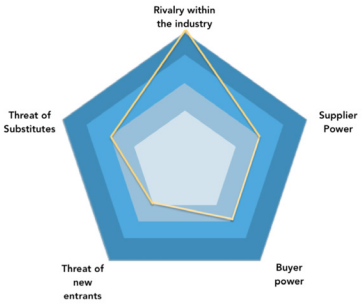


Source: Team Estimates

SWOT Analysis *(exhibit 14)*

Source: Team Estimates

Porter *(exhibit 17)*



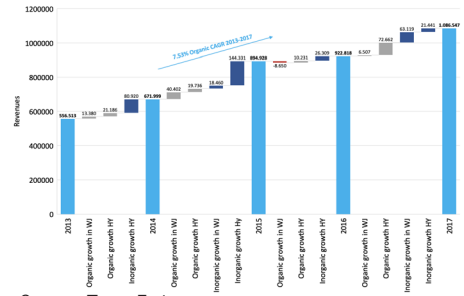
Source: Team Estimates

Financial Analysis

IP is a company with strong fundamentals. It shows an above sector average profitability, strong free cash flow generation and very low indebtedness.

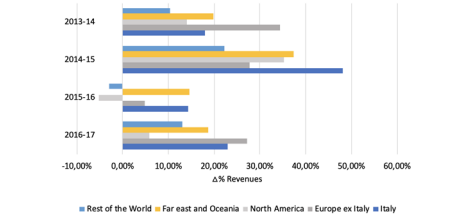
Revenues: In 2017 Net sales reached €1,086.5 million, after eight years of strong growth with CAGR 2013-17 of +18.21% (7.53% organic CAGR, *see exhibit 18*). The recorded sales growth of 17.74% of 2017, was represented by an organic growth of 9.30%, a currency exchange effect of -0.70%, and a further +9.10% due to external growth through acquisitions. In 2017 the company growth is evenly supported by external and organic growth, the latter mainly driven by market recovery after the crisis.
In 2017 M&A transactions were mostly focused on the expansion of WJ division into manufacturing of flow-handling components for the Food, Cosmetics and Pharmaceutical industries, to complement the Bertoli-branded homogenizers. Through the acquisition of Inoxpa the company can benefit from a worldwide distribution platform. These sectors represent a further significant diversification of the business and are renowned for their very low cyclicality.
In business terms the HY sector, representing 63.6% of net sales, was up 15.80% (+12.20% at unchanged perimeter). The WJ sector, representing the remaining 36.4% of net sales (1/3 of which is derived from post-sale service and repairs), was up 21.4% (+2% at unchanged perimeter) after the bad result (–3.70%) recorded in the previous fiscal year. The latter sector has a higher EBITDA margin than the HY segment, being characterized by services offer and premium pricing.
In geographical terms, the highest growth region is Europe (incl. Italy) with a +25.72% growth (+12% at unchanged perimeter), while North America and the rest of the world shows an increase in sales after a negative growth in 2016. Double-digit growth has been recorded in China and India. IP has now been selling more than the 80% of its products/services in foreign markets *(see exhibit 19)*.

Revenues Bridge Analysis - millions € *(exhibit 18)*



Source: Team Estimates

Geographical areas trends - Delta% Revenues *(exhibit 19)*



Source: Team Estimates

Profitability

- **Gross Industrial Margin:** It has increased over time reaching 38.10% in 2017. The unique contraction experienced in 2015 reflects the effect of the merger by absorption, which involved the reclassification of purchase costs as production costs. Procurement costs have been well under control during the following years, decreasing the incidence on sales which reflects an increase in efficiency, the acquisition of less material-intensive businesses, the ongoing effort to optimize the group structure and the organization of production.

- **EBITDA margin:** It has increased over the last five years *(see exhibit 20)* reaching 22.71% in 2017, with a margin growth of +24.86% in absolute terms. This reflects the reduced incidence of SG&A costs on revenues, that decreased from 22.18% in 2013 to 19.80% in 2017, and a lower incidence of D&A expenses over sales that reflects the higher assets use efficiency. The improvement of the EBITDA margin is also a result of synergies from acquired companies that have improved their returns. For example, Walvoil and Hydro Control have moved from an initial EBITDA margin of 13-14% in 2014-15 to a current level of 25%.

- **EBIT margin:** It reached the maximum level in 2017 at 18.31%, after a 5-years growth. During these years, the Group spent on average €80 million in acquisitions and reinvested approximately 4.43% of revenues in CAPEX to increase its production capacity and keep up with technology development. These investments produced the desired positive results, improving IP operating returns.

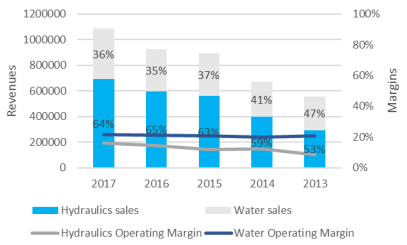
- **Profit margin:** In 2017 consolidated Net Profit accounted for €135.7 million, +43.66% with respect to 2016 *(see exhibit 21)*. We emphasize that the adjusted net income increase was lower, +37.40%, if the reassessment of U.S deferred tax assets and liabilities are excluded. Basic earnings per share rose from the €0.88 of 2016 to €1.26 in 2017, reflecting growth of 42.2%. EPS recorded a continuous increase in the last 5-year period and the decreasing tax rate enter this performance improvement.

- **Return on capital:** IP has increased over time the returns from the investments made. The ROIC (ex. goodwill) moved from 15.29% in 2013 to 21.23% in 2017, signaling that the company has been able to identify good investment opportunities, and this was reflected in an increase of operating profits from operating synergies after the M&A operations. In 2017, if the comprehensive net income is considered, ROE decreased to 12.91% with respect to the previous years. The ROE computed considering the consolidated net profit shows a ROE improvement that through the Du-Pont Analysis is explained by a higher asset use efficiency and net profit margin.

- **Financial Structure:** IP has a solid financial structure with a level of financial leverage of 1.98, lower than the average level of the previous four years due to the large repayment of long-term debt occurred in 2017. The NFP, which has always covered less than 50% of the capital employed, reached the lowest level of 43% on the last year. In 2017 the interest coverage ratio was about 37.35. This ratio has been increasing over the last five years not only because the interest expenses have decreased, but also because of a great improvement of the operating profit, which in 2017 was higher than 2.5x the EBIT in 2013.

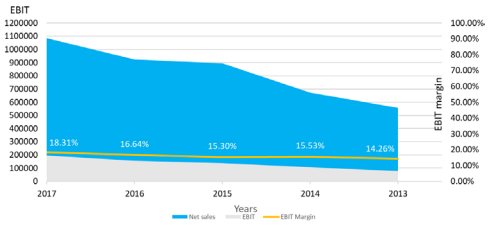
- **Liquidity:** The company converts on a stable basis 57.71% of EBITDA to FCFO. The only contraction was recorded in 2014 (39.65%). In 2017 the company was able to convert the higher portion of Net Income into cash to be distributed to shareholders and debtholders. Because of the liquidity improvement the company has increased the DPS over the last years. For 2017 results the DPS is €0.21, and the resulting payout ratio of 23.35% is higher than in the past two years, differently from the dividend yield, due to the relevant performance of IP stock price during the last year *(see exhibit 22)*.

Revenues breakdown and Operating Margin - thousands € *(exhibit 20)*



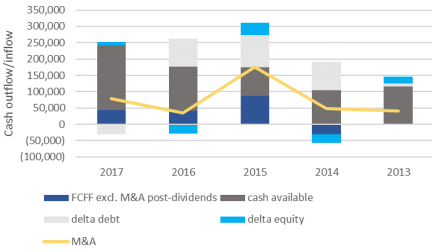
Source: Company Data

EBIT Margin - thousands € *(exhibit 21)*



Source: Company Data

M&A financing - thousands € *(exhibit 22)*



Source: Team Estimates

Financial Highlights (*exhibit 23 and see appendix 4, for ratios for details on the informa-*

Amounts in thousands €	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Revenues	527,176	556,513	671,999	894,928	922,818	1,086,547	1,255,960	1,390,976	1,510,925	1,609,084	1,679,401
Growth	-	*5.56%*	*20.75%*	*33.17%*	*3.12%*	*17.74%*	*15.59%*	*10.75%*	*8.62%*	*6.50%*	*4.37%*
Gross Profit	199,605	202,760	245,414	317,618	338,002	413,999	469,729	523,007	571,129	613,061	639,852
Margin	*37.86%*	*36.43%*	*36.52%*	*35.49%*	*36.63%*	*38.10%*	*37.40%*	*37.60%*	*37.80%*	*38.10%*	*38.10%*
SG&A %on sales	*22.15%*	*22.18%*	*20.99%*	*20.19%*	*19.99%*	*19.80%*	*19.40%*	*18.86%*	*18.31%*	*17.87%*	*17.12%*
EBIT	82,805	79,334	104,367	136,896	153,533	198,912	226,073	260,737	294,476	325,593	352,331
Margin	*15.71%*	*14.26%*	*15.53%*	*15.30%*	*16.64%*	*18.31%*	*18.00%*	*18.74%*	*19.49%*	*20.23%*	*20.98%*
Pre Tax Income	74,807	71,072	93,109	163,362	148,493	192,150	220,693	254,437	287,859	317,869	343,353
Tax Rate	*30.06%*	*37.97%*	*37.98%*	*27.58%*	*36.38%*	*29.37%*	*29.00%*	*29.00%*	*29.00%*	*29.00%*	*29.00%*
Net Income	52,325	32,657	79,179	139,077	103,580	98,726	156,692	180,651	204,380	225,687	243,781
Growth	-	*-37.59%*	*142.46%*	*75.65%*	*-25.52%*	*-4.69%*	*58.71%*	*15.29%*	*13.14%*	*10.43%*	*8.02%*
FCFF	38,598	30,480	(33,223)	86,656	53,348	103,134	84,077	131,239	155,848	182,307	207,520
Net Debt	104,933	123,692	228,840	280,639	302,640	326,367	335,676	321,150	192,148	37,473	(141,525)
CAPEX/Sales	*3.00%*	*5.18%*	*12.88%*	*2.06%*	*6.88%*	*3.61%*	*4.43%*	*4.43%*	*4.43%*	*4.43%*	*4.43%*
NWC/Sales	*29.63%*	*29.79%*	*31.35%*	*31.88%*	*33.67%*	*31.49%*	*32.96%*	*32.92%*	*32.87%*	*32.81%*	*32.81%*
Capital Employed	501,809	556,641	695,390	903,267	980,178	1,091,096	1,181,810	1,235,694	1,288,924	1,337,788	1,380,424
NOPAT	57,914	49,212	64,724	99,139	97,680	140,499	160,512	185,123	209,078	231,171	250,155
ROIC	*11.54%*	*8.84%*	*9.31%*	*10.98%*	*9.97%*	*12.88%*	*13.58%*	*14.98%*	*16.22%*	*17.28%*	*18.12%*

Source: Company Data, Team Estimates

Valuation

Financial Projections: Given the high fragmentation and limited visibility over market developments, we decided to base our estimates on the basis of historical evolution. Albeit at a declining rate, we forecast a continuation of sales growth and margins in line with previous periods for the next five years (i.e. 7.53% Sales CAGR 2018-22, 10% EBITDA CAGR 2018-22). We foresee IP to outperform the expected growth of its two main products markets (i.e. high-pressure plunger pumps +4.21% CAGR 2018-22, PTO +5.89% CAGR 2017-25). We expect EBITDA margins to improve by 2.19% over the next four years.
Our forecast for organic growth is based on historical performance, for which we highlight the following aspects:
(i). Strong and promising historical trend: During the period 2013-17 IP shows a 18% sales CAGR, which includes a 7.53% organic sales CAGR, and 24.58% EBITDA CAGR, with an organic EBITDA CAGR of 10%.
(ii). Flexibility and geographical diversification, that allows IP to reduce its exposure to single markets slowdown.
Regarding IP future growth, we expect a performance improvement in both the WJ and HY sectors, based on the expansion of product portfolio via M&A. The WJ organic growth will be mainly driven by new applications of the existing product range, while the HY one by a strengthening of tailor-made solutions and pre-assembled kits sales.
According to the data published in the financial report Q3 2018, we deem appropriate to forecast the 2018 results by starting with the EBIT. As a matter of facts in the last nine months IP grew more than expected, and for this reason we assume that the company will achieve the maximum operating income growth (+13.65%) given the reinvestment rate (106.04%) and operating return (12.88%) of the last year. We assessed the revenues from the estimated EBIT margin (18%) to stay aligned with the last year. This way it has been possible to take into account the sales slowdown in the last two quarters of historical data that characterizes IP. 10% of 2018 revenue growth is represented by organic growth. The remaining part is represented by inorganic growth, in line with the information disclosed by IP in the last quarterly reports Q3 2018 *(see exhibit 24).*
Concerning the COGS and SG&A we expect an increase of the former, mainly due to raw materials price increase, while the latter is expected to decrease in relative terms due to operating synergies from past M&As (including GS-Hydro and Ricci Engineering).

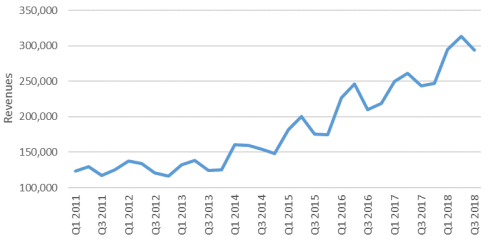
Revenues: With the aim of developing a prospective analysis not disregarding any singularity of the two business lines characterizing the firm, we decided to analyze the two firm segments by dividing the Income Statement into HY and WJ.
Considering the 10% organic sales growth in 2018, we assume for the following year that the organic growth will be aligned with 2018, due to a final products price increase and cross-selling opportunities. The 2019 total growth rate will be higher than previous year because of Fluinox consolidation. We foresee an organic growth aligned with the organic CAGR 2013-2017 (7.53%), considering a decreasing trend from 10.75% growth in 2019 to 4.37% in 2022. Future years' growth will be driven by the growth of Indian and Chinese markets and by an increase in IP products' prices (effective from 2019), while it will be dampened by the saturation of the major geographical markets. These markets benefitted by a temporary post-crisis rebound effect. We forecast a higher growth for the HY sector, since according to the market trends the WJ sector offers lower expansion possibilities *(see exhibit 27).*

Gross Industrial Margin: It reflects an increase in the procurement price for raw materials, which is not completely covered by an increase in product prices that needs time to be adjusted. In 2021 the margin will bounce back to the 2017 level, and it will remain stable for the following year.

EBIT & EBITDA: EBIT margin is expected to increase by approximately 2.98% in 4 years *(see exhibit 26)* pushing EBIT margin from 18% to 20.98% in four years. The 10% EBITDA CAGR for the next 5 years will be aligned with organic past growth.
The positive effect induced by a reduction in SG&A expenses coming from the business consolidation and reorganization post M&A is partially nullified by the previously mentioned higher raw materials expenses.

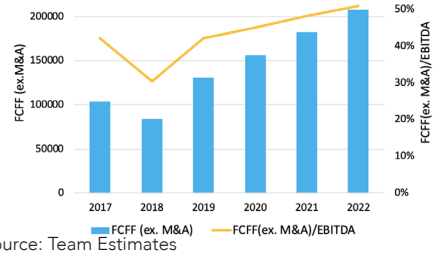
Taxes, financial results and other main assumptions: Other relevant assumptions regarding the computation of UNLEVERED cash flows *(see appendix for details on the information below):*
(i). Assumptions of the financial results: non-current expenses and revenues were not taken into consideration since unforeseeable and offsetting. The current financial expenses represent bank interests paid. In line with 2017 we assumed the interest rate of around 1.24% calculated as interest expenses/ financial Debt. We did not make assumptions on financial revenues because there are no relevant financial assets.
(ii). We assumed tax rate would be lower than past years, due to reduced rates in the United States. The comprehensive net profit is the difference between the two previously mentioned data without considering any non-current items, given that according to the past they mainly derive from the conversion of subsidiaries' financial statements in foreign currency.

Revenues Seasonality - thousands € *(exhibit*



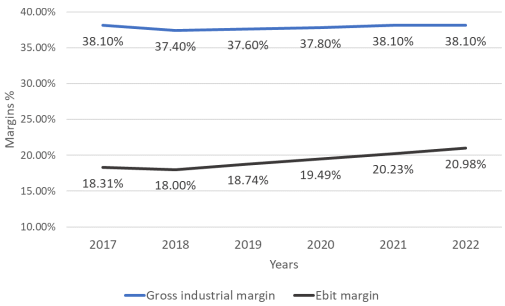
Source: Team Estimates

FCFF and cash conversion outlook - thousands € *(exhibit 25)*



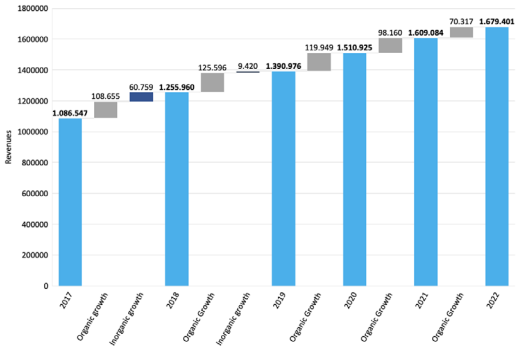
Source: Team Estimates

Margin Outlook *(exhibit 26)*



Source: Team Estimates

Revenues Bridge Analysis - millions € *(exhibit 27)*



Source: Team Estimates

(iii). D&A are calculated considering the historical cost of assets and the D&A rate. CAPEX follows the trend of forecasted revenues (4.43% the adjusted average past incidence).
(iv). The NWC for each future year was determined according to the average DPO, DSO and DIO recorded in the last five years.
(v). The balance sheet items' incidence is in line with past years: the incidence of every item in the asset side is constant with respect *(see exhibit 28)* to total asset without considering goodwill, which is assumed to remain stable. The same happens with respect to liability items considering the total NFP, while liabilities for employee benefits and the net tax position remain stable. An additional assumption was made regarding debt for the acquisition of equity investments which are repaid in three years.
(vi). Equity for 2018 and 2019 accounts for the share buyback. The rise, excluding buyback is given by net profit minus dividends (DPS 0.21).

Returns and Cash Flow: Based on the forecasted EBIT in 2022, the ROIC will growth from 13.58% in 2018 to 17.78% in 2022 taking into account only organic growth. Furthermore, EPS are expected to increase with 12.62% CAGR 2018-2022.
Excluding possible future M&A acquisitions IP cash conversion is on average 43.26% (FCFF/EBITDA).

Valuation Section: Given the lack of properly comparable companies we decided to value IP based on a two-stage DCF with the first stage represented by the next five years and applying a terminal growth rate around 3.09%. The result of our analysis gives the company a valuation of about 28.92€ per share, implying a premium of 3.29% relative to the current market price.
The assumptions underpinning our recommendation are related to characteristics inherent to the firm:
(i). Leadership in saturated market niches such as high-pressure plunger pumps *(see exhibit 30 and appendix 5)*, with limited opportunity of growth. Flanked by a higher growth potential in the flow handling segment, characterized by a low cyclicality.
(ii). Decreasing opportunity of growth in the HY sector actually driven by temporary post-crisis resilient effect.
(iii). Profitability and growth above sector average (third quartile of the peer group).
(iv). The company is not dependent on a single sector due to its product and geographical diversification.
(v). IP is currently benefitting from an exceptional growth in China and India as previously analyzed; these are strong catalyst of IP performances.

DCF and Relative Valuation

DCF: We performed a two-stages DCF resulting in a target price of €28.92 *(see exhibit 32)*. This valuation method was adopted given that the policy on debt is not available, but we know that in the last years PFN/E remained stable. The price is then comprehensive of an analytical estimate of the cash flows expected in the next five years (2018-22) to which we add a TV considering a steady growth based on a reinvestment rate on the NOPAT of 10.12%. The perpetual growth rate is 3.09% (the maximum perpetual growth rate given the reinvestment rate and ROIC in 2022, which is lower than the real GDP growth rate *(see exhibit 29-30)*. forecasted for the long run (it is obtained as the weighted average real GDP growth of countries where IP operates plus the weighted average inflation perpetual growth rate. In fact, the latter cannot be sustained by IP given its expected performance in the last year of analytical estimates (reinvestment rate of 18.12% and ROIC of 17.04%). The resulting forecasted FCFF unlevered have been discounted using an 8.25% WACC *(see exhibit 31)*. The target price increase to €31.63 in case of future M&A transactions *(see exhibit 33)*.
Through the sensitivity analysis we have stressed our target price in order to analyse how much it's sensitive to changes in two main variables: WACC and perpetual growth rate *(see exhibit 34)*.

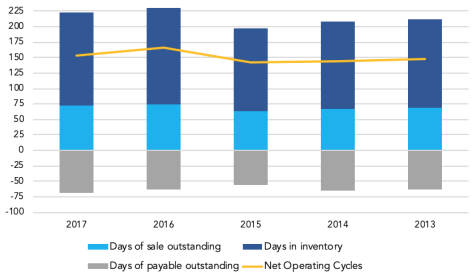
DCF ex. M&A FCFF *(exhibit 32)*

Thousands €	2018E	2019E	2020E	2021E	2022E
EBITDA	277,111	312,398	347,035	379,253	407,210
EBIT	226,073	260,737	294,476	325,593	352,331
NOPAT	160,512	185,123	209,078	231,171	250,155
D&A	51,038	51,661	52,559	53,660	54,879
Δ NWC	(71,797)	(43,884)	(38,811)	(31,194)	(23,068)
CAPEX	(55,676)	(61,661)	(66,978)	(71,330)	(74,447)
M&A cash outflow	(20,691)				
FCFF (ex. M&A)	63,386	131,239	155,848	182,307	207,520
FCFF (ex. M&A)/EBITDA	0.30	42.01%	44.91%	0.48	50.96%
WACC	8.25%				
Discount factor	0.98	0.91	0.84	0.77	0.71
Target price (ex.M&A)	€ 28.92				

DCF Incl. M&A FCFF *(exhibit 33)*

	2018E	2019E	2020E	2021E	2022E
EBITDA	277.111	312.398	347.035	379.253	407.210
EBIT	226.073	260.737	294.476	325.593	352.331
NOPAT	160.512	185.123	209.078	231.171	250.155
D&A	51.038	51.661	52.559	53.660	54.879
Δ NWC	(71.797)	(43.884)	(38.811)	(31.194)	(23.068)
CAPEX	(55.676)	(61.661)	(66.978)	(71.330)	(74.447)
FCFF (ex. M&A)	84.077	131.239	155.848	182.307	207.520
M&A cash outflow	(20.691)	(45.144)	(45.144)	(45.144)	(45.144)
Additional FCFF from M&A		7.436	14.235	22.147	30.926
FCFF (incl. M&A)	63.385	93.531	124.939	159.309	193.302
WACC	8,25%				
Discount factor	0,980370998	0,905633078	0,836592753	0,77281567	0,77281567
Target price (ex.M&A)	€ 31,63				

Net Operating Cycle - days *(exhibit 28)*



Source: Team Estimates

Real perpetual growth rate *(exhibit 29 and 30)*

	GDP growth rate 2023E	% Revenues	Weighted GDP GDP growth rate 2023E
Rest of the world	3.50%	10%	0.33%
North America	1.53%	27%	0.41%
Europe	1.52%	35%	0.53%
Italy	0,70%	18%	0.12%
Oceania and far east	3,32%	11%	0.35%
g real			1.76%

	Long-run inflation rate	% Weights	Weighted long-run inflation rate
BCE inflation rate	1.80%	66.10%	1.19%
FED inflation rate	2.00%	33.90%	0.68%
Inflation rate			1.87%
g nominal			3.62%

Source: IMF, BCE, FED

WACC Input *(exhibit 31)*

Risk-free Rate (Rf)	2.74%	Weighted average of 10 years' Government Bond Yield of the main countries of IP revenues by geographical exposure.
Equity Risk Premium (ERP)	6%	Weighted average of Market Risk Premium on Interpump geographical revenues to consider country risk (source: Damodaran).
Beta	1.042	Estimated on the regression between the %var of weekly returns of Interpump Stock price and %var of weekly returns of MSCI World over the last 2 years (team estimates).
Cost of Equity (Re)	8.99%	Capital Asset Pricing Model: Rf + β * Equity Risk Premium
Cost of Debt (Rd)	1.25%	Estimated as 3 Years Eurirs + Spread. The spread value is a default risk premium based on Rating evaluations (source: Damodaran). We give Interpump a Baa2/BBB rating that corresponds to 127bps (usually companies do not receive a rating higher than their own country).
Tax Rate	29%	Forecasted future tax rate (team estimates).
WACC	8.25%	

Source: Team Estimates

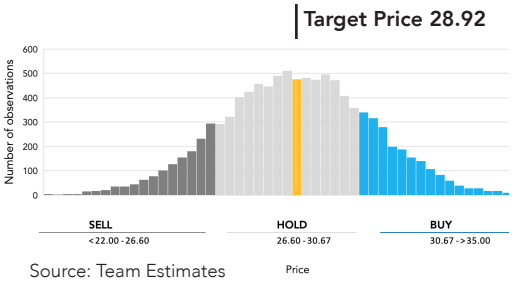
Sensitivity Analysis *(exhibit 34)*

	WACC						
	7.25%	7.75%	8.00%	8.25%	8.50%	8.75%	9.25%
1.84%	28.85	26.10	24.90	23.79	22.76	21.81	20.09
2.09%	30.11	27.14	25.84	24.65	23.55	22.53	20.71
2.34%	31.51	28.27	26.87	25.58	24.40	23.31	21.37
2.59%	33.05	29.51	27.99	26.60	25.32	24.15	22.08
2.84%	34.77	30.88	29.21	27.70	26.33	25.07	22.84
3.09%	36.70	32.39	30.57	**28.92**	27.43	26.06	23.67
3.34%	38.87	34.08	32.07	30.26	28.63	27.15	24.57
3.59%	41.34	35.96	33.74	31.75	29.96	28.35	25.55
3.84%	44.16	38.09	35.60	33.40	31.43	29.66	26.61
4.09%	47.44	40.51	37.71	35.25	33.06	31.12	27.78

Source: Team Estimates

Monte Carlo Simulation: As a consistency proof on our DCF valuation we carried out a Monte Carlo Simulation, considering our assumptions could involve a certain variability. The assumptions that affect the most our DCF model result are revenues and SG&A, therefore we believe essential to study their impact. Starting from an historical analysis of revenues organic growth we estimated the 7,53% CAGR and the variability of the same through standard deviation computation. We therefore obtained a revenues CAGR , used as an input for the average of the distribution. The compounded historical standard deviation is 6%. Afterward we studied the historical incidence of the SG&A on the revenues, obtaining a value of 19%, with a standard deviation of 2%. These values were used as assumptions for our Monte Carlo analysis, assuming a normal distribution obtained from the best fitting of the historical performances of revenues and SG&A incidence. We undertook 10000 simulations on the target price which resulted in a outcome in line with our expectations. The most probable value was €28.71. The 95% confidence interval presents the following range of price [24,68:33,02]. The recommendation stemming from our distribution is a SELL in 13.76% of cases, a HOLD in 69.72% and a BUY in 16.52% *(see exhibit 34)*.

Monte Carlo Simulation *(exhibit 35)*



Source: Team Estimates

Relative valuation: Even though we decided to perform a DCF, we proceed to forecast the relative valuation with the goal of verifying the consistence of the value obtained through DCF. We considered four multiples: (i) EV/EBITDA (ii) P/E (iii)EV/SALES (iv) EV/EBIT.
To improve our valuation, we took into consideration each multiple at different points in time: two historical and three forecasted. The multiple we chose is the one representing the third quartile in the distribution of the peers since IP shows a higher than the average profitability. The 2020 target price obtained are equal to (*see exhibit 36*): (i) €28.20; (ii) €26.09; (iii) €23.70; (iv) €28.26.
Considering that these multiples are based on forward variables and that there is a lack of direct comparable of IP we are more confident on the fair value obtained performing the DCF of €28.92 *(see appendix 5)*.

Multiples - thousands € (exhibit 36)

EV/EBITDA	2018E	2019E	2020E
Multiple (3rd Quartile)	10.00x	9.60x	9.40x
EBITDA	277,111	312,398	347,035
Target Price	€22.37	€24.59	€28.20

P/E	2018E	2019E	2020E
Multiple (3rd Quartile)	14.80x	14.90x	13.90x
Earnings	156,692	180,651	204,380
Target Price	€21.30	€24.72	€26.09

EV/SALES	2018E	2019E	2020E
Multiple (3rd Quartile)	2.01x	1.93x	1.84x
Sales	1,255,960	1,390,976	1,510,925
Target Price	€20.06	€21.64	€23.70

EV/EBIT	2018E	2019E	2020E
Multiple (3rd Quartile)	14.00x	11.90x	11.10x
EBIT	226,073	260,737	294,476
Target Price	€25.99	€25.55	€28.26

Source: Factset, Team Estimates

Scenario Analysis

(i). Future M&A with synergies generation: Acknowledging the historical trend of the firm it wouldn't be wise to value the company without considering extraordinary operations. IP carried out 17 deals during the period 2013-18 for a total invested amount of around €482 million.
Given the strong M&A capabilities, an additional inorganic component needs to be included in our estimates. To build an M&A scenario we made the following assumptions *(see exhibit 37)*: (i) considering the firepower of €200 million per year we assumed a yearly M&A investment of €80 million in line with the average deals of the last five years. (ii) the multiple for the acquisition EV/EBITDA is 6x (the maximum multiple stated by the companies are 7x for manufacturing companies and 5x for commercial ones) assuming investments both in commercial and manufacturing companies. (iii) We considered synergies from M&A to be reflected on the following years EBITDA at a decreasing rate, starting from a 4% improvement in the first-year post-acquisition. (iv) FCFF generated from M&A reflect the ability of the company to generate FCFF from the EBITDA. (v) M&A are financed through cash (56.43%) in line with the past company choices and habits to finance past acquisitions through a payment in IPG shares and debt. The premium pricing coming from the M&A transactions amounts to €2.71, that summed up to the valuation of the organic component determines a final price of €31.63.
(ii). Future M&A without synergies generation: If the forecasted M&A acquisitions in the scenario does not produce the expected synergies the target price will decrease around €0.19, with respect to the scenario with synergies, down to a target price of €31.44.
(iii). Stable Gross Industrial Margin: According to the forecasts made to determine the main IP target price, we assumed that the increase in raw material costs need time to be recovered through price increases. Now we assume that this costs increase will not have a negative impact on the gross industrial margin, which will remain stable in the future years at 38.10%. This will reflect the ability to IP to transfer higher procurement costs on customers through price in the same year when the costs increase is faced. The new target price is €29.03.
(iv). Steady state growth in the long run: To forecast our main target price, we have assumed IP to rein- vest a stable percentage of revenues (4.43%) in line with past years also for the future upcoming years. Now we assume that in the long-run (for the perpetuity estimates) the company CAPEX will be equal to the depreciation. The investments made in the perpetuity period will only replace the normal assets deterioration. This assumption leads us to reduce also the sustainable g rate that decrease to 1.67%, given the new reinvestment rate of 9% represented by the resources invested in NWC. In this case the resulting target price is €27.84.
(v). 5.05% CAGR 2019-2022: Our assumptions on revenues are based on a 2018-22 CAGR of 7.35%, we expected the company to outperform the expected CAGR in its two main product markets: high-pressure plunger pumps and power take-off. This assumption is based on different growth driver: high differentiation, high flexibility of production that allows the company to change production according to the performance of the demand in the different products application fields, high possibility of cross-selling thanks to the most recent M&A, consolidation of Fluinox in 2019 and price increases. Assuming that these drivers, that are expected to allow IP to over perform the market as in the last years, will not pro- duce the expected results we assume the company to grow at a conservative 5.05% CAGR 2018-2022 which is in line with the expected CAGR of the industrial machinery sector and the average between the expected high-pressure plunger pumps (4.21%) and power take-off (5.89%) CAGR. The new target price is €26.25.

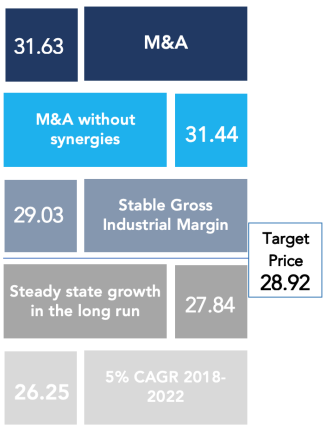
M&A assumptions - millions € *(exhibit 37)*

	Average yearly	Treasury shares	Debt	Cash
M&A Assumptions	80.000	16.956	19.737	43.307
Financial resources (%)	100%	16,27%	27,30%	56,43%

EV/EBITDA 6x	2019	2020	2021	2022
EBITDA from M&A	17.701	31.699	46.072	60686
Additional FCFF (Excl. cash outflow from M&A)	7.436	14.235	22.147	30.926

Source: Team Estimates

Scenario Analysis - € *(exhibit 38)*



Source: Team Estimates

Investment Risk

Market

a. Market stagnation and slowdown: a possible worldwide market slowdown could negatively affect economic performance of countries where IP operates. The slowdown of a single sector would not impact too much on IP because of its highly diversified portfolio and its broad geographical presence. As previously analyzed in the 'Industry Overview and Competitive Positioning' sector the firm is positively correlated with the entire world industrial production.

b. Cost of raw materials: IP buys raw materials from suppliers that have low contractual power. The risk of raw material price increase (e.g. aluminum) is moderate but risk has a low impact because IP agrees a fixed price with suppliers in the medium-term.

c. Electrification: this risk is related with the possibility that a worldwide electrical coverage growth and a collective growing sustainability awareness could lead to the creation of substitute products like electrical pumps. Electrification may hinder PTO market, which is the third most important IP product in terms of revenues generated.

Political

d. Political instability: geopolitical conflict could influence market performance and trends. Political changes or instability could lead to losses, forcing IP to withdraw the capital invested in that specific country.

Strategic

e. Generic competition among competitors: in this type of business there are high entry barriers to new possible competitors, but we deem important to take into consideration existing players. Since HY is a commoditized market, there is high price competition, which might lead to margin erosion.

f. Europe-centric: the high concentration of production plants in Europe could be a risk related to the possibility of new duties, logistic problems and negative company performance linked to European market slowdown.

g. Commercial failure on new products: since the development of IP technology is incremental because each improvement is based on the accumulated R&D carried over the last 42 years, the likelihood of this risk is low. In addition, the impact is low because in the case of commercial failure, IP has a very high production flexibility that allows it to change the product, adapting itself to the market demand.

h. No value creation from M&A and companies integration failure: more than half of IP growth derives from M&A value creation. A failure in the acquisition, integration and synergies creation of a company in the group could lead to loss of value. The likelihood is low because IP focuses on well-run and privately-owned companies, which operate in the same industrial field. Moreover, IP tends to avoid turnaround and restructuring stories.

i. Key person risk: IP was founded in 1977 by its current chairman and CEO Fulvio Montipò. His figure guided the company's growth and a possible resignation from his role in keeping the company at the cutting edge of its field could lead to negative consequences.

l. Mature technologies: in its limited organic growth core markets IP could face a problem of substitute and innovative products.

Operational

m. High operating leverage: the slowdown of global markets could amplify losses in bad time and represent a risk for the company.

n. Natural disasters: the possibility of unexpected calamities could lead to the forced closing of productive buildings and a slowdown in the production process.

Reputational

o. Product reliability: safety in the use of products sold to customers plays a critical role. In the HY sector, reliability takes a crucial role because product shave a long-lasting life cycle (approx. 15 years).

Financial

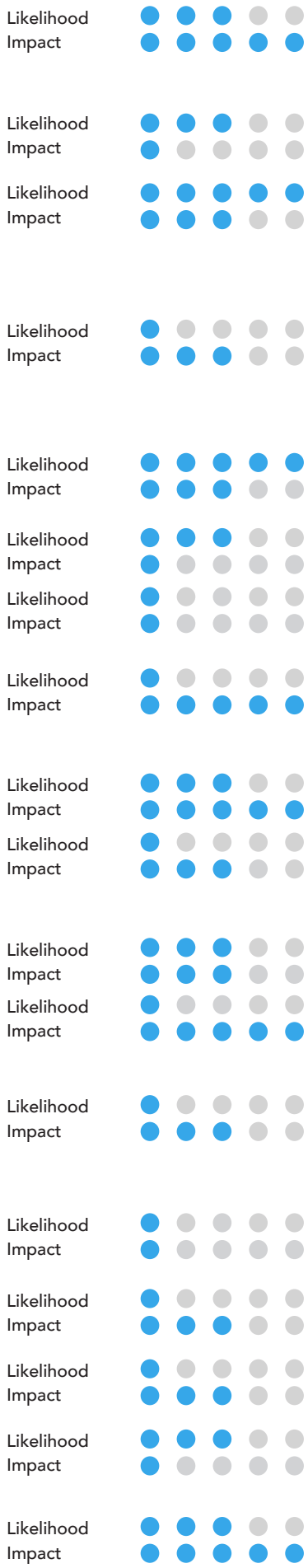
p. Interest rate risk: interest rate risk derives from medium-term loans granted at floating rates. IP does not hedge this risk because the average duration of the existing loans is around 3 years and thus the risk of increases in floating rates is low. Besides, the solid financial position allows the company to obtain low interest rate loans.

q. Credit risk: historically the company does not have a high credit concentration and regarding its credit exposure it is always done with predefined limits. IP has a sound financial structure and the capacity to repay contracted obligations.

r. Liquidity risk: the lack of capability of the company to fulfil its contracted obligations could originate financial losses. IP can be considered a highly liquid com¬pany since cash on hand and current assets excluding inventories can cover current obligations.

s. Exchange rate risk: in 2017 around 47% of revenues and 36% of expenses were in 22 foreign currencies. The main foreign currency was the US dollar (27% of total sales). This exposes IP to the risk of a change in the value of the euro with respect to a foreign currency. Most goods sold are produced locally or at least in the same currency. For this reason, IP does not adopt currency hedging, the main impact of exchange rate variation impacts only the financial statement conversion.

t. Takeover risk: given the high number of floating shares, we believe IP is exposed to takeover risks.



Source: Team Estimates

APPENDIX - Table of Contents

Appendix 1: Business Description

Group structure and product range

The WJ sector is mainly made up of high- and very-high-pressure pumps and pumping systems used in an expansive range of industrial sectors for the conveyance of fluids. High pressure plunger pumps are applicated for professional high-pressure cleaners, car wash installations, forced lubrication systems for machine tools, and inverse osmosis systems for seawater desalination plants. Very high-pressure pumps and systems are used for cleaning surfaces, ship hulls, various types of hoses, and also for removing machining burr, cutting and removing cement, asphalt, and paint coatings from stone, cement and metal surfaces, and for cutting solid materials. The sector also includes high pressure homogenizers, mixers, agitators, piston pumps, valves and other machines produced mainly for the food processing industry and also used in the chemicals and cosmetics sectors.

- Founded in 1947, **Pratissoli Pompe** established its sound reputation focusing in the modernization and development of the agricultural production process. It is one of the most prestigious brands in the world, both for its comprehensive range of pumps and accessories and for the advanced technical solutions introduced.
- **NLB Corporation**, established in 1971, produces high-pressure systems and pumps up to 3,500 bars. The industrial applications include industrial cleaning, surface preparation, cleaning of automotive components and "made to measure" industrial cleaning systems.
- Since 1977, **INOXIHP** has been designing and manufacturing systems and components for high pressure water, mainly in the steel and mining industry. We supply turn-key descaling systems (direct or hydro-pneumatic), plunger pumps, hydraulic controls and valve manifolds for waterdriven press control, and pumping groups and valves for roof supports in coal mining longwalls.
- **Hammelmann**, founded in 1949, has developed into the production of high-pressure pumps tailor made, accessories and systems.
- **Bertoli** operates in the food industry machine sector. Particularly, the company has focused its business in the designing, planning and construction of homogenizers and high-pressure piston pumps for the food industry.
- **INOXPA** manufactures and sales of stainless-steel process components and fluid handling equipment in the food-processing, beverage, dairy, cosmetic and pharmaceutical, wine-making industries: mixing skids, CIP skids, product recovery systems, pasteurizers, manifolds, process automation, pumps, agitators, blenders, mixers, valves, and fittings.
- **Mariotti & Pecini** designs and produces mixers and agitators used in the chemical, pharmaceutical, cosmetical and food industries, and for environmental technologies.

HY sector includes the production and sale of power take-offs, hydraulic cylinders, pumps, directional controls, valves, hydraulic hoses and fittings and other hydraulic components. Power take-offs are mechanical devices designed to transmit drive from an industrial vehicle engine or tran- smission to control several vehicle applications through hydraulic components. These products, combined with other hydraulic components (spool valves, controls, etc.) allow the execution of special functions such as lifting tipping bodies, operating truck-mounted cranes, operating truck mixer truck drums, and so on. Hydraulic cylinders are components of the hydraulic system of various vehicle types employed in a wide range of applications depending on the type. Front-end and underbody cylinders are utilized mainly on industrial vehicles in the construction sector, while double acting cylinders are utilized in a range of applications: earthmoving machinery, agricultural machinery, cranes and truck cranes, waste compactors, etc. Hy- draulic lines and fittings are used in a vast range of hydraulic equipment and are also employed in very high-pressure water systems.

- **Contarini Leopoldo Srl**., founded in 1958, is specialized in the manufacturing and in the sale of hydraulic cylinders, components and equipment for the cylinder production.
- Founded in 1985, **Mega Pacific** started with a vision of being a leader and innovator in transport hydraulics. It specializes in supplying hydraulic equipment including power take-offs, pumps and motors, cylinders, compressors and other equipment for all hydraulic solutions and applications. It has the flexibility to provide complete solutions for each type of vehicles.
- **Walvoil** is a manufacturer of hydraulic valves and complete mechatronic systems designed for mobile equipment, agricultural machines, industrial vehicles, construction and earth moving machines, lifting and transport equipment.
- **Tubiflex** manufactures and sells a wide range of flexible metal and non-metal hose, flexible hose assemblies, heat exchangers obtained by corrugated pipes and special products for specific applications. The possible applications include pressurized or depressurized delivery or suction of any type of fluids, gas, water, steam, granules, chips, pellets and powders, vibration dampening, engines exhaust hoses, protection of electrical cables, heat radiation, reflection, and insulation, absorption of thermal pipe-expansions.
- **IMM Hydraulics SpA** is a multinational company that manages, produces and distributes hydraulic hoses and hose fittings, as well as related assem- bly and test trial equipment.
- **FLUINOX** designs, produces and installs components and systems for the cosmetics, food, pharmaceutical and chemical industries. It is specialized in the treatment of pastes and powders, which is a perfect integration to the fluid-handling skills and product range of Inoxpa.
- **GS-Hydro** revolutionized the piping industry with the invention of "non-welded" pipe assembly technology. This clean and time-efficient technology guarantees better technical performance and ease of operation, and thus proves especially useful in continuous or extreme working conditions.

INTERPUMP GROUP

M&A Transactions

M&A deals 2013-18 (Million €)

Year	Deal Title	Capital Invested	Target Industry
2018	Interpump Group SpA offers to acquire Fluinox Procesos SL	10.8	Wholesale Distributors
2018	Interpump Group SpA acquires Ricci Engineering Srl	0.70	Industrial Machinery
2018	Interpump Group SpA acquires GS-Hydro Holding Oy	10.80	Oil & Gas Pipelines
2017	Interpump Group SpA acquires Fluid System 80 Srl	0.73	Electronics/Appliances
2017	Interpump Group SpA takes a majority stake in Mariotti & Pecini SRL	17.7	Industrial Machinery
2017	Interpump Group SpA acquires Inoxpa Grup SL	78.90	Industrial Machinery
2017	Interpump Group SpA acquires Bristol Hose Ltd.	1.25	Industrial Machinery
2016	Interpump Group SpA offers to take a majority stake in Mega Pacific Pty Ltd.	17.78	Wholesale Distributors
2016	Interpump Group SpA acquires Tekno Tubi Srl	13.17	Industrial Machinery
2016	Interpump Group SpA offers to take a majority stake in Tubiflex SpA from Fin.It Srl	29.65	Miscellaneous Manufacturing
2016	Interpump Group SpA offers to acquire Endeavour International Ltd.	1.08	Industrial Machinery
2015	Interpump Group SpA acquires Bertoli Srl from Catelli Holding SpA	6.50	Industrial Machinery
2015	Interpump Group SpA acquires Osper Indústria de Peças Automotivas Ltda.	4.04	Industrial Machinery
2015	Interpump Group SpA takes a majority stake in INOXIHP Srl	26.01	Industrial Machinery
2015	Interpump Group SpA acquires Walvoil SpA	149.22	Industrial Machinery
2014	Interpump Group SpA acquires I.M.M. Hydraulics SpA	87.16	Industrial Machinery
2013	Interpump Group SpA acquires Hydrocontrol SpA from Fin Tel SRL	26.21	Industrial Machinery

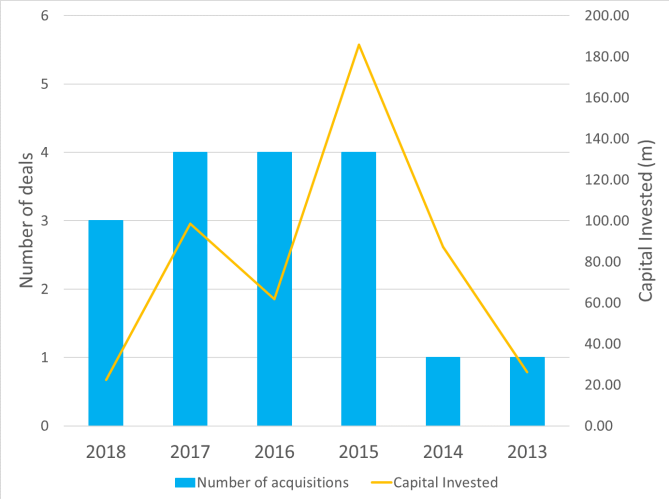
Source: IP Financial Statement and Facset

In the last six years IP realized 17 acquisitions, 6 of which in the WJ and 11 in the HY sector. The aim was to amplify its product range and expand cross selling thanks to the newly acquired clients. This allowed to reach a growth higher than the peers, with the last registered growth of 17.74%. IP strategy focus on M&A of competitors that will allow it to expand its market share. Regarding the past 6 years the total capital invested has been €481.7 million. With a yearly investment average of €80.28. For the future the firepower is around 200 million per year.

M&A yearly investment (Million €)

Years	Number of acquisitions	Capital Invested
2018	3	22.30
2017	4	98.59
2016	4	61.67
2015	4	185.77
2014	1	87.16
2013	1	26.21
Total	17	481.70

M&A numbers of deals and capital invested (Million €)



M&A Highlights (Million €)

Total M&A capital invested	481.70
Average acquisition value	28.34
Total number of acquisitions	17
Average yearly M&A transaction	80.28
Maximum value	149.22
Minimum value	0.70

Since the IPO in 1996 IP acquired more than 40 companies, allowing it to enter different sectors. Before 2013 IP entered the following sectors with a familiar industrial process:

Historical M&A

Sector	Previous acquisitions
Auto Parts: OEM	
	Interpump Group SpA acquires Takarada Industria e Comercio Ltda.
	Interpump Group SpA takes a majority stake in Hydro Service Penta SpA
Electronic Equipment/Instruments	
	Walvoil SpA acquires McElroy Fluid Power from McElroy Manufacturing, Inc.
Electronics/Appliances	
	Interpump Group SpA takes a majority stake in Soteco Spa
	Interpump Group SpA takes a minority stake in Interclean Assistance Sa
Household/Personal Care	
	Interpump Group SpA takes a majority stake in Pulex Srl
	Interpump Group SpA takes a majority stake in Euromop SpA
Industrial Machinery	
	Interpump Group SpA takes a majority stake in MTC SRL
	Interpump Group SpA takes a majority stake in Galtech SRL
	Interpump Group SpA takes a majority stake in American Gorwood Corp.
	Interpump Group SpA takes a majority stake in Oleodinamica Panni SRL
	Interpump Group SpA acquires Hydroven Srl
	Interpump Group SpA acquires Cover SRL
	Interpump Group SpA takes a majority stake in Contarini Leopoldo SRL
	Interpump Group SpA acquires Contarini Leopoldo SRL
	Interpump Group SpA acquires Modenflex Hydraulics SRL
	Interpump Group SpA takes a majority stake in NLB Corp.
	Interpump Group SpA acquires Hammelmann GmbH
	Interpump Group SpA acquires Gansow GmbH & Co. KG
	Interpump Group SpA takes a majority stake in Hydroven Srl
	Interpump Group SpA acquires Teknova SRL
	Interpump Group SpA acquires Hydrometal Srl
	Interpump Group SpA takes a majority stake in Muncie Power Products, Inc.
	Interpump Group SpA acquires Sirio SRL
	Interpump Group SpA takes a majority stake in La Floor di Padova
Metal Fabrication	
	Interpump Group SpA takes a majority stake in Ready System SRL

Products

IP detains a highly diversified product portfolio. The main purposes of M&A transactions are the expansion of product range and reinforcement of competitive position on one particular product. The several acquisitions made by IP allows the company to offer a wide range of products to customers with high cross-selling opportunity.

The main **WJ** products include:


Plunger pumps high flow/high pressure (1-450HP)


Interpump Hydraulics, Muncie Power Products, PZB, Hydrocar, Takarada


Production and rental of high-pressure pumps and complete systems


Valves; Directional Control Valves


Specialized solutions for steel and mining industry


Oil Tanks


Mixers and agitators (Magna-Safe magnetic transmission)

The main **HY** products include:


High-pressure pumps (up to 1,500 HP–4,500 bat/65K PSI); Design and supply of turnkey solutions


Hose Assembly Machines


Homogenizers for food, cosmetics and pharmaceutical industry


Rubber hoses


Pumps, mixers, components & systems for food

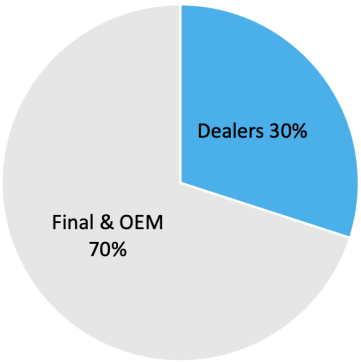

Rigid pipes & piping systems


Metallic flexible hoses

Distribution channels

IP companies are primarily industrial (engaged essentially in mechanical production and assembly of components) and/or commercial. IP Customers are divided in two categories: Dealers, that represent the 30% of the total customer base, and OEMs which represent the main customer absorbing 70% of the sales. Overall, the number of customers exceeds 20,000, spread over more than 130 countries. In 2017 the top customer in terms of sales accounted for about 1.5% of the total, while the top 15 customers accounted for 10% overall.

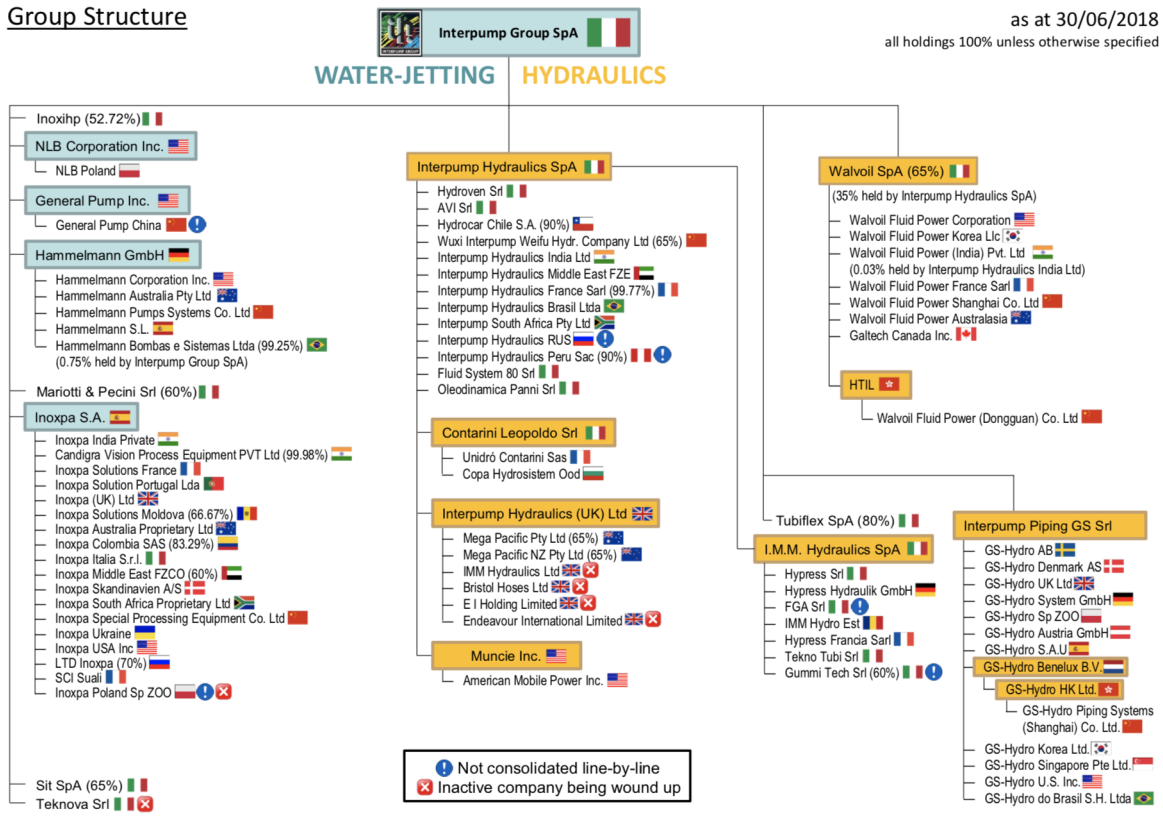
Revenues by distribution channel



Group structure

As at 31 December 2017 IP Group was made up of a structure headed by IP Group S.p.A. which holds direct and indirect controlling shares in 81 subsidiaries (five of which being wound up to a process of internal rationalization). The Group is composed by a large number of companies, including both small-sized and large-sized entities. Small entities primarily perform production and/or sales activities under the strategic and operating coordination of the group parent company.

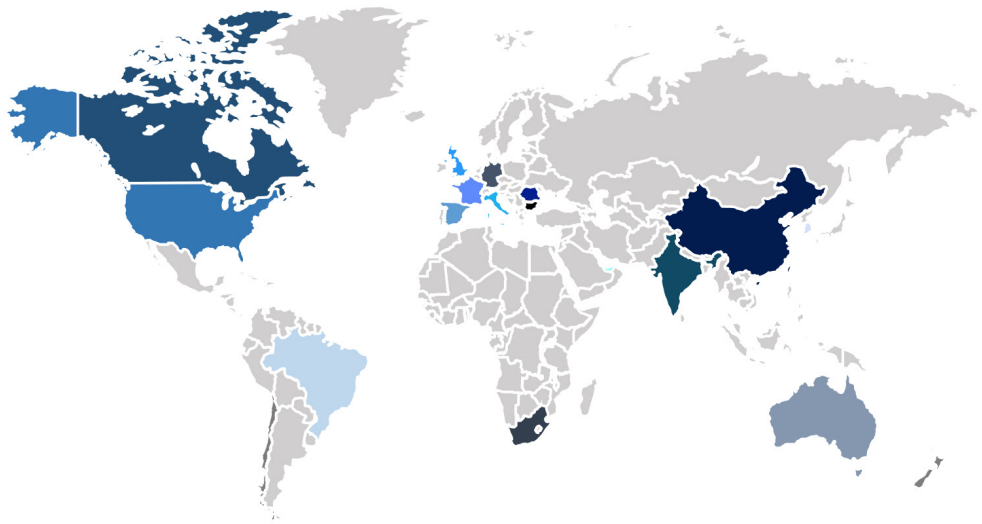
Group structure



International profile

The Group owns production facilities in Italy, US, Germany, China, India, Brazil, Bulgaria, Romania, South Korea, Portugal, France and Spain, and a direct presence in 26 countries overall. But IP continues to maintain a Europe-centric structure. The geographical areas in which the Group operates, both in terms of manufacturing and sales activities, are defined by the following groups:

- Italy;
- Rest of Europe;
- North America;
- Far East and Oceania;
- Rest of the World.



European companies

i.t. S.p.A.	WJ	Commercial/Industrial	Reggio Emilia
terpump Hydraulics S.p.A.	HY	Commercial	Modena
odenflex Hydraulics (brand of IPH)	HY	Commercial/Industrial	Modena
ydroven S.r.l.	HY	Commercial/Industrial	Vicenza
leodinamica Panni S.r.l.	HY	Commercial/Industrial	Vicenza
over (brand of Oleodinamica Panni)	HY	Commercial/Industrial	Verona
vi S.r.l.	HY	Commercial	Milano
S Penta (brand of IPH)	HY	Commercial	Faenza
ontarini Leopoldo S.r.l.	HY	Commercial/Industrial	Ravenna
atissoli Pompe (brand of IPG)	WJ	Commercial/Industrial	Reggio Emilia
ydrocar (brand of IPH)	HY	Commercial/Industrial	Modena
ZB (brand of IPH)	HY	Commercial/Industrial	Modena
ydrometal (brand of IPH)	HY	Commercial/Industrial	Modena
ydrocontrol (Brand of Walvoil)	HY	Commercial/Industrial	Osteria Grande (BO)
M.M. Hydraulics S.p.A.	HY	Commercial/Industrial	Atessa (Chieti)
'alvoil S.p.A.	HY	Commercial	Reggio Emilia
yna Flux S.r.l.	HY	Commercial	Genova
oxihp S.r.l.	WJ	Commercial	Nova Milanese
ertoli (Brand of IPG)	WJ	Commercial/Industrial	Reggio Emilia
abiflex S.p.A:	HY	Commercial/Industrial	Orbassano (TO)
ekno Tubi S.r.l.	HY	Commercial/Industrial	Sant'Agostino (FE)
OMANIA			
M.M. Hydro est srl	HY	Industrial	Cluj
ULGARIA			
olf Hydrosistem Odd	HY	Commercial/Industrial	Sofia
opa Hydrosistem Odd	HY	Commercial/Industrial	Troyan
PAIN			
oxpa S.A.	WJ	Commercial	Banyoles (Girona)
ammelmann S.L.	WJ	Commercial	Saragozza
ERMANY			
ammelmann GmbH	WJ	Commercial/Industrial	Oelede
ypress Hydraulik GmbH	HY	Commercial	Meinerzhagen
RANCE			
terpump Hydraulics France Sarl	HY	Commercial	Ennery
nidrò Contarini Sarl	HY	Commercial/Industrial	Barby
'alvoil Fluid Power France Sarl	HY	Commercial	Vritz
ypress France Sarl	HY	Commercial	Dècines
NITED KINGDOM			
M.M. Hydraulics UK Ltd	HY	Commercial	Halesowen

Extra-Europe companies

2	General Pump China	WJ	Commercial	Ningbo
3	Hammelmann Pumps Systems Co. Ltd	WJ	Commercial	Tianjin
4	Wuxi Interpump Weifu Hydraulics Company Ltd	HY	Commercial/Industrial	Wuxi
5	Guangzhou Bushi HydRAULIC TECHNOLOGY LTD	HY	Commercial/Industrial	Guangzhou
6	Walvoil Fluid Power Shangai Ltd	HY	Commercial/Industrial	Shanghai
	INDIA			
7	Interpump Hydraulics India Ltd	HY	Commercial/Industrial	Hosur
8	HC Hydraulic Technologies Ltd	HY	Commercial/Industrial	Mahadevpura
9	Walviol Fluid Power Pvt. Ltd.	HY	Commercial/Industrial	Bangalore
	EMIRATI ARABI			
10	Interpump Hydraulics Middle East F200	HY	Commercial	Dubai
	AUSTRALIA			
11	Hammelmann Australia Pty Ltd	WJ	Commercial	Melburne
12	Walvoil Fluid Power Australasia Pty Ltd	HY	Commercial	Melburne
13	Mega Pacific Pty Ltd	HY	Commercial	Newcastle
	NEW ZELAND			
14	Mega Pacific New Zeland	HY	Commercial	Mount Manganul
	SOUTH AFRICA			
15	HS Penta Africa Pty Ltd	HY	Commercial	Johannesburg
16	Hypress Africa Pty Ltd	HY	Commercial	Gauteng
	CANADA			
17	Galtech Canada Inc	HY	Commercial	Terrebonne
	UNITED STATES			
18	General Pump Inc.	WJ	Commercial	Minnesota - Minneapolis
19	NLB Corporation Inc	WJ	Commercial/Industrial	Michigan - Detroit
20	Hammelmann Corporation Inc.	WJ	Commercial	Ohio - Dayton
21	Muncie Power Inc.	HY	Commercial/Industrial	Indiana - Muncie
22	Muncie Power Inc.	HY	Industrial	Oklahoma - Tulsa
23	American Mobile Power Inc.	HY	Commercial/Industrial	Indiana - Fairmount
24	Hydrocontrol Inc.	HY	Commercial/Industrial	Minnesota - Red Wing
25	Walvoil Fluid Power Corp.	HY	Commercial	Oklahoma - Tulsa
	CHILE			
26	Hydrocar Chile S.A.	HY	Commercial	Santiago
27	Syscam Gesrtion Integrada S.A.	HY	Commercial	Santiago
	BRAZIL			
28	Hammelmann Bombas e Sistemas Ltda	WJ	Commercial	San Paolo
29	Takarda Industria e Comercio Ltd	HY	Commercial/Industrial	Caxias do Sul
30	Walvoil do Brasil Industria de Componentes Hidraulicos L	HY	Commercial/Industrial	Caxias do Sul

Appendix 2: Management & Governance

Corporate Governance

Board of Directors

Office	Member office list	(M/m)	Executive	Non-executive	Independent	Attendance at BoD meetings	N. of other offices	Risk and Internal Control committee	Remuneration committee	Appointments committee
Chairman and CEO	Fulvio Montipò	M	X			08-ago	1			
Deputy chairman	Paolo Marinsek	M		X		08-ago	-			
Director	Angelo Busani	m		X	X	04-mag	1	M		
Director	Antonia Di Bella	M		X	X	05-mag	2			
Director	Franco Garilli	M		X	X	08-ago	-	M	M	M
Director	Marcello Margotto	M		X	X	08-ago	1		P	P
Director	Stefania Petruccioli	M		X	X	08-ago	3	M		
Director	Paola Annunziata Tagliavini	M		X	X	08-ago	4	P		
Director	Giovanni Tamburi	M		X		08-ago	4		M	M

We selected and applied the Institutional Shareholder Services (ISS) Rating methodology scoring tool to identify and assess the risks involved in CPA's Corporate Governance structure.

ISS Rating

CORP. GOV. ASSESSMENT		SCORE	WEIGHT	CALCULATION
1. AUDIT AND OVERSIGHT		10/10	25%	25%
a. No adverse opinion by the auditor in the past year	✓			
b. No regulatory initiated enforcement action against the company	✓			
c. No changes in audit firm due to invalid or questionable reasons	✓			
d. 9 directors serve on the board	✓			
2. BOARD STRUCTURE		8.33/10	35%	29.92%
a. Is the board composed by a number between 6 and 15 directors?	✓			
b. Is there a fair proportion of women in the board?	✓			
c. Is the majority of the board independent?	✓			
d. Is the board chair independent?	✗			
e. Are there executives on the compensation committee?	✗			
f. Do non-executives serve on more than 6 outside boards?	✗			
3. SHAREHOLDER RIGHTS AND TAKEOVER DEFENSES		7.5/10	25%	18.75%
a. Does the company have classes of stock with different voting rights?	✗			
b. Does the company have a controlling shareholder?	✓			
c. Ownership factors affect takeover defenses	✗			
d. Directors are not elected annually	✓			
4. COMPENSATION AND REMUNERATION		10/10	15%	15%
a. Has an equity-based compensation plan	✓			
b. Does the company disclose details of individual executives' remuneration?	✓			
c. Non-executive directors participate to performance related remuneration	✓			
d. Is there a cap on CEO's annual bonus?	✓			
TOTAL CORPORATE GOVERNANCE SCORE		8.86/10	100%	88.67%

A score between 8 and 10 denotes a low threat to shareholders.

Interpump Group S.p.A.'s major shareholder is Gruppo IPG Holding S.p.A. which holds about 23.3% of the shares. The shareholders of Gruppo IPG Holding S.p.A. are the Montipò family and Tamburi Investment Partners S.p.A. It is important to notice that the only executive is Fulvio Montipò, CEO and chairman.
Giovanni Tamburiis the Chairman and Chief Executive Officer of Tamburi Investment Partners S.p.A. that holds 23.64% of Gruppo IPG Holding S.p.A. and Fulvio Montipò, holds 34.23% of Gruppo IPG Holding S.p.A.
The family is involved in the governance and management of the company. This can be viewed as an advantage for shareholders because the management focuses on long-term growth thus avoiding speculative behaviors in the short run.
Regarding the Italian Corporate Governance Code, to which the company adheres, the standards are respected. Six directors are independent, one of which representing a minority list. BoD non-executive directors are entitled of a fixed compensation but are not part of a stock option plan thus making it unlikely to feel empathy for stockholders in the case of a stock price drop.

Compensation policy

The remuneration policy of IP Group, as stated in the Corporate Governance section, implements three different remuneration schemes. A fixed component for directors or managers based on role, competencies and responsibilities. A short-term variable component related to managerial objectives (MBO) which grants bonuses up to 75% of the fixed component and a long-term incentive granting Stock Options based on the "Interpump Incentive plan". These are based on the achievement of specific results in terms of the balance sheet or income statement, accomplished at the consolidated level by the group in each of the reference years. The Stock Option plan 2016/-2018 gives the remuneration committee the right to assign a maximum number of 2,500,000 options, each of which granting the right for the beneficiaries - on the achievement of the objectives identified by the Board of Directors in compliance with specific parameters - to (i) purchase one ordinary IP treasury share (already in the Company's portfolio or purchased at a later date); or (ii) to subscribe for one newly issued share at an exercise price of 12.8845 euro per option. These policies aim to encourage the accomplishment of specific objectives while creating value in the long term, aligning the interests of managers and shareholders.

Remuneration scheme

Name and surname	Office	Period in office	Term of office	Fixed compensation	Compensation for sitting on committees	Variable non-equity compensation		Fringe benefits	Other benefit	Total	Fair value
						Bonus	Profit Sharing				
Fulvio Montipò	Chairman and CEO	01/01/2017 – 31/12/17	Approval of 2019 financial statements	1,544	0	500	0	0	0	2,044	1,104
Paolo Marinsek	Deputy chairman	01/01/2017 – 31/12/17	Approval of 2019 financial statements	351	0	0	0	9	0	360	126
Angelo Busani	Independent Director	28/04/2017 – 31/12/17	Approval of 2019 financial statements	30	13	0	0	0	0	43	0
Antonia Di Bella	Independent Director	28/04/2017 – 31/12/17	Approval of 2019 financial statements	30	0	0	0	0	0	30	0
Franco Garilli	Independent Director	01/01/2017 – 31/12/17	Approval of 2019 financial statements	45	30	0	0	0	0	75	0
Marcello Margotto	Independent Director	01/01/2017 – 31/12/17	Approval of 2019 financial statements	45	10	0	0	0	0	55	0
Stefania Petruccioli	Independent Director	01/01/2017 – 31/12/17	Approval of 2019 financial statements	45	20	0	0	0	0	65	0
Paola Annunziata Tagliavini	Independent Director	01/01/2017 – 31/12/17	Approval of 2019 financial statements	45	20	0	0	0	0	65	0
Giovanni Tamburi	Non-executive Director	01/01/2017 – 31/12/17	Approval of 2019 financial statements	45	10	0	0	0	0	55	0

Corporate Social Responsibility

As already mentioned, the company does publish a sustainability report where it informs on the handling of environment, social, Employee, respect of human rights, Anti-corruption and bribery matters.
We believe a possible area of improvement for the company to be the CSR and that, if properly employed, can further improve the value of the group: a company that satisfies European and OECD sustainability guidelines for international businesses enhances its evaluation.

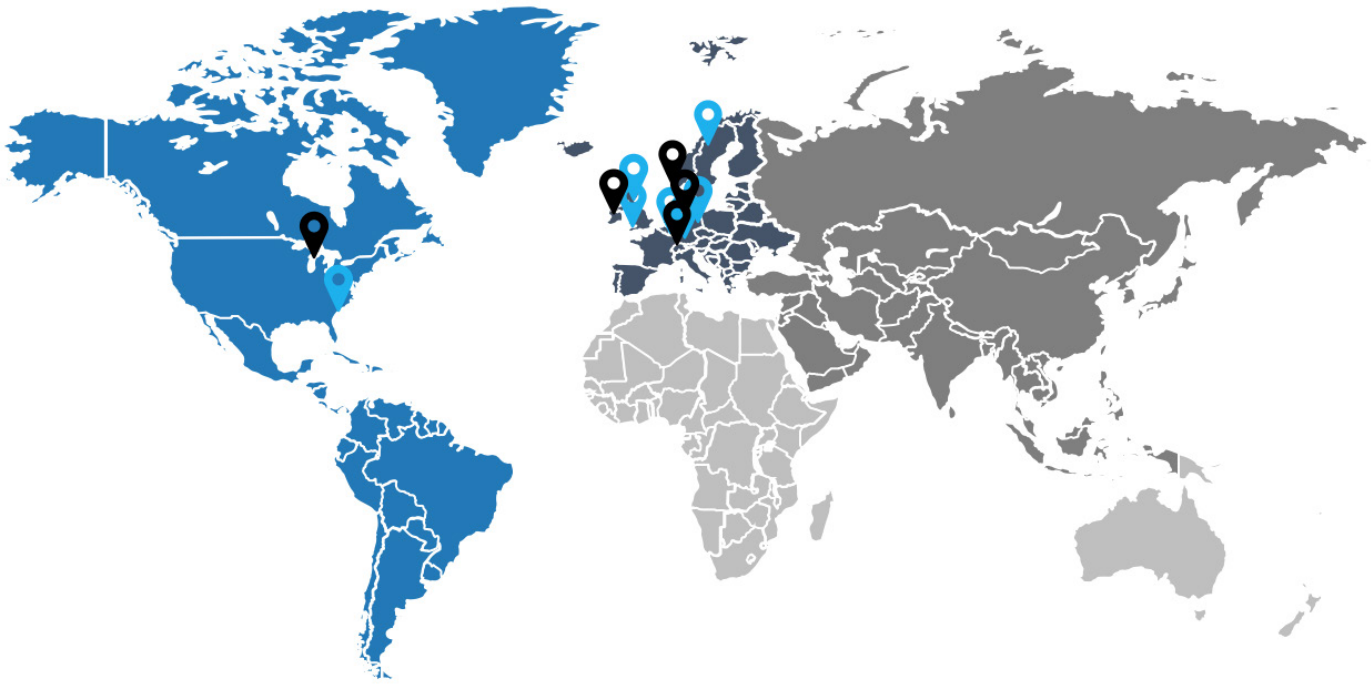
Appendix 3: Industry Overview and Competitive Positioning

Water-jetting

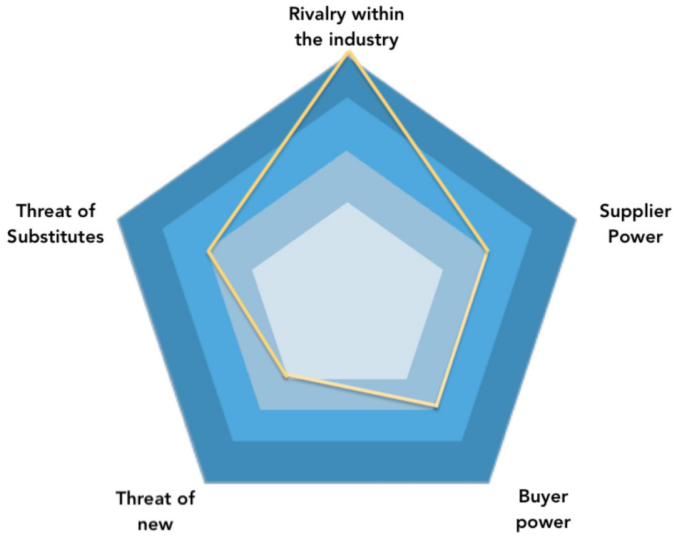
- **Spirax Sarco (GB:SPX):** founded in 1888, it is a British company headquartered in Cheltenham. It engages in the provision of industrial and commercial steam systems, electrical thermal energy solutions and niche peristaltic pumps and associated fluid path technologies across 62 countries.
- **Aalberts Industries NV (NL:AALB)**: is a Dutch technology company founded in 1975. It engages in the development of industrial products and systems addressed to residential, commercial and industrial buildings. Mainly focused in Europe, it operates from 152 business locations in 22 countries.
- **GEA Group AG (DE:G1A):** is a German company, with headquarter in Dusseldorf, founded in 1881. It engages in the manufacturing, development, and production of process technology and components for the food processing industry and a wide range of other process industries.
- **Weir Group Plc (GB:WEIR)**: founded in 1871, has the headquarter in Glasgow, in the United Kingdom. It provides highly engineered mission-critical solutions for mining, energy and infrastructure customers in more than 70 countries.
- **KSB SE & Co. KGaA (DE:KSB):** founded in 1871, is headquartered in in Frankenthal, Germany. It engages in the manufacture of industrial and building pumps, valves, and related systems. Regarding the former, it produces single and multistage pumps, submersible pumps, and associated control and drive systems.
- **SPX Flow, Inc. (NYSE:FLOW):** based in Charlotte, North Carolina, is a leading global supplier of highly engineered flow components, process equip- ment and turn-key systems, along with the related aftermarket parts. The company serves the food and beverage, power and energy and industrial end markets with approximately $2.5 billion in annual revenue, operations in more than 35 countries.
- **Alfa Laval AB (SE:ALFA):** founded in 1883, is headquartered in Lund, Sweden. It is a world leader within the key technology areas of heat transfer, se- paration and fluid handling. ALFA helps customers in nearly 100 countries to optimize their processes and has 42 major production units (22 in Europe, 10 in Asia, 8 in the US and 2 in Latin America).

Hydrauilcs

- **Parker-Hannifin Corp. (PH):** founded in 1918, has the headquarter in Cleveland, Ohio. Considered one of the largest companies in the world, for 100 years it has engineered the success of its customers in a wide range of diversified industrial and aerospace markets, including aerospace, hydraulics, electromechanical, filtration, fluid and gas handling and climate control.
- **Robert Bosch GmbH:** founded in 1886, is headquartered in Germany. It is a private company and leading global supplier of technology and services and employs roughly 410,000 associates worldwide (as of December 31, 2018). Its business sectors include: mobility solutions, industrial technology, consumer goods, and energy and building technology. As a leading IoT company, Bosch offers innovative solutions for smart homes, smart cities, connected mobility, and connected manufacturing.
- **Eaton Corp. Plc (ETN):** founded in 1911, has the headquarter in Dublin, Ireland. It is a diversified power management company made up of over 98,000 employees, doing business in more than 175 countries. Thanks to energy-efficient products and services, ETN helps customers effectively manage electrical, hydraulic and mechanical power more reliably, efficiently, safely and sustainably.
- **Bucher Industries AG (CH:BUCN):** founded in 1807, is headquartered in Switzerland. It is an international company that engages in the manufacture of agricultural machinery and vehicles. One of BUCN business segment is the Bucher Hydraulics, which manufactures pumps, motors, valves, power units, cylinders, elevator drives and control systems.
- **Danfoss A/S:** founded in 1993, is a private company with headquarter in Denmark. It operates as an engineering company and manufactures refrige- ration, air conditioning, and industrial controls for several industries.
- **Sulzer AG (CH:SUN):** founded in 1834, has the headquarter in Switzerland. It engages in the manufacture and sale of industrial machineries and equi- pment. It is specialized in pumping solutions, services for rotating equipment, and separation, mixing and application technology. SUN has a network of over 180 production and service sites in more than 40 countries around the world.



Porter Five Forces



- **Threat of new entrants:** both WJ and HY sectors have high entry barriers due to very high internal know how, product patents, undisputed leadership, high reputation in some market niches (high-pressure and very-high pressure pumps, PTOs), and high personalization of some specific product that are co-designed with engineers of buying firms. Regarding the HY market, it is not so attractive due to the highly competitive pressure and the presence of big players, which decreases the profitability for new entrants. Firms compete mainly on prices to maximize the quantity sold, economies of scales are essential to survive and compete. New players should sustain high capital investments in order to reach firms already operating in markets.
- **Threat of substitutes:** the majority of HY products can be considered commodities making the company vulnerable to substitutes. An important trend is represented by electrification that may hinder the market of PTOs, which represents one of the main IP products in terms of revenues generated. IP M&A transactions have been focused on reducing this type of risk by acquiring firms that offer substitute products. In this way, IP is able to offer customers a wide range of products.

- **Rivalry within the industry:** the HY sector where IP operates is highly fragmented, with little space for new entrants, and competition is based mainly on prices. Firms are focused on gaining the customers loyalty in order to operate a cross-selling of different product lines. In addition to prices, firms compete on product reliability, geographical presence and width of the product range. Products are characterized by a low differentiation. For what concerns WJ sector, companies may differentiate their offer mainly through pre and post- sales services and IP is able to extract higher margins due to the post-sales services, which represent 1/3 of the WJ revenues.
- **Buyer power:** customers, especially in the B2B market, have a high negotiating power due to high volume of purchases for every single product. On the other side, IP benefits from a highly fragmented customer base. In 2017, the major client represented only 1.5% of total revenues, while the main 15 clients accounted for 10%. Moreover, it is difficult for clients to realize vertical integration in these sectors.
- **Supplier power:** metals used are primarily steel, brass, stainless steel, iron, and aluminium, whose prices are not historically sensitive to significant fluctuations, except for aluminium (source: Company data). IP is a vertical integrated company and raw materials represent the main procurement cost. The firm is able to let suppliers bear the cost of the storage of materials, hedging the price risk by means of orders for periods and quantities made at fixed price. Moreover, the supplier power is mitigated by IP through medium-term commitments and stock policies. Therefore raw materials suppliers have a low bargaining power in these sectors.

SWOT Analysis

S

- Large brand portfolio and product range obtained through M&A
- Undisputed leadership and high reputation in some market niches (high-pressure and very-high pressure pumps, power take-offs)
- Fragmented customer base, low customer's pricing power
- Soft integration in M&A
- High product customization in WT markets
- Vertical integration and high synergies intragroup
- High production flexibility
- "The company is diversified into many application sectors with different cycles.
- The company is not dependent on a single sector and is not correlated to industry trends."
- Global Reach

W

- Mature technologies in core markets with a limited organic growth
- Low visibility on markets in respect to big players
- Low marginality in the core business (i.e. Hydraulics)
- Highly dependent on the figure of Fulvio Montipò
- High operating leverage
- Limited exposure in high growth markets (e.g. India)

O

- Cross-selling thanks to future M&A transactions
- Enhance distributions through distributors and retailers
- Increase in brand portfolio
- Market share growth in emerging markets that are entering in the industrialization phase like India
- M&A costs synergies

T

- Failure to integrate acquired companies
- Market volatility and slowdown
- Electrificaton

Appendix 4: Financial Analysis

Historical analysis 2013-2017:

We believed essential to split the consolidated income statement in the two business areas identified by IP for the period 2013-2017. This way we could better evaluate the peculiarities and the different drivers that led the results of the two branches. The firm provides in the financial statement all the separate information regarding revenues and costs, both for WJ and HY. To evaluate the future sustainability of margins in the two businesses we underlined an important difference. The HY sector presents growing margins that allows us to forecast a positive growth for the following years. Differently, the WJ sector seems a mature field given the lack of relevant historical growth in terms of sales volume and relative margins (%) and considering a stable trend over time. We can therefore assume that concerning the WJ sector there is a maximum growth cap. On the other hand, we believe reasonable to expect an interesting growth in the HY sector. Another important aspect regards the gross industrial margin and the EBIT margin. The WJ sector presents an operative margin much higher with respect to the HY sector since it is characterized by customizable products sold at a premium price. The HY sector presents a lower operative profitability since it is characterized by standardized products easily replaceable by substitute products. The contrary is for the EBIT margin: in the HY, given the historical productivity, the SG&A weights less with respect to the WJ sector. Accordingly, we can observe relevant revenues growth in the HY sustained by a better cross selling stemming from external growth. The tables below provide an illustration of the results obtained.

HY and WJ income statements 2013-18 (thousand €)

Hydraulics - Income Statement	2013	2014	2015	2016	2017
Net sales	294.098	396.204	560.271	596.811	690.914
Cost of sales	-200.435	-266.328	-382.960	-398.485	-455.108
Net sales growth		*34,72%*	*41,41%*	*6,52%*	*15,77%*
Gross industrial margin	93.663	129.876	177.311	198.326	235.806
% on net sales	*31,85%*	*32,78%*	*31,65%*	*33,23%*	*34,13%*
Other operating revenues	5.680	9.249	9.407	9.470	10.726
Distribution costs	(29.622)	(38.222)	(48.128)	(49.457)	(56.012)
General and administrative expenses	(40.760)	(48.629)	(66.878)	(69.729)	(73.481)
Other operating costs	(3.266)	(2.169)	(3.163)	(2.653)	(3.268)
EBIT	25.695	50.105	68.550	85.958	113.771
% on net sales	8,74%	12,65%	12,24%	14,40%	16,47%

Water Jetting - Income Statement	2013	2014	2015	2016	2017
Net sales	262.415	275.795	334.657	326.007	395.633
Cost of sales	-153.318	-160.257	-194.350	-186.331	-217.440
Net sales growth		*5,10%*	*21,34%*	*-2,58%*	*21,36%*
Gross industrial margin	109.097	115.538	140.307	139.676	178.193
% on net sales	*41,57%*	*41,89%*	*41,93%*	*42,84%*	*45,04%*
Other operating revenues	3.085	3.314	3.726	4.902	6.018
Distribution costs	(28.485)	(29.852)	(36.193)	(36.968)	(46.714)
General and administrative expenses	(29.681)	(31.888)	(38.792)	(39.244)	(51.053)
Other operating costs	(377)	(2.850)	(701)	(790)	(1.303)
EBIT	53.639	54.262	68.346	67.575	85.141
% on net sales	20,44%	19,67%	20,42%	20,73%	21,52%

Prospective analysis 2018-2022:

Starting from the results mentioned above, we forecasted some possible trends that we believe reasonable to expect in the future. Our forecasts are based on historical series that IP registered during the years complemented by markets views concerning the two sectors in which IP operates. Focusing on the principal results we obtained a Gross Margin inclined to consolidate with slightly positive increments concerning the HY sector (33.61% in 2018 up until 36.42% in 2022) while the margin is slightly decreasing from 43.40% to 41% in 2022. This is due to the high historical profitability of this sector that we expect to stabilize in the future. Subsequently we can notice an improvement of the EBIT margins in the HY (15.25% in 2018 up until 20.74% in 2022) despite a slightly loss of efficiency in the WJ (22.37% in 2018 to 21.40% in 2022).

HY and WJ income statements 2018-22 (thousand €)

Hydraulics - Income Statement	2018E	2019E	2020E	2021E	2022E
Net sales	771.389	861.269	943.093	1.012.408	1.065.048
Cost of sales	-512.120	-565.361	-612.146	-648.770	-677.122
Net sales growth	*11,65%*	*11,65%*	*9,50%*	*7,35%*	*5,20%*
Gross industrial margin	259.269	295.908	330.948	363.638	387.926
% on net sales	*33,61%*	*34,36%*	*35,09%*	*35,92%*	*36,42%*
Other operating revenues	12.845	13.826	14.584	15.154	15.157
Distribution costs	(63.871)	(68.750)	(72.521)	(75.356)	(75.370)
General and administrative expenses	(86.380)	(92.979)	(98.078)	(101.912)	(101.931)
Other operating costs	(4.188)	(4.508)	(4.755)	(4.941)	(4.942)
EBIT	117.675	143.497	170.178	196.584	220.841
% on net sales	15,25%	16,66%	18,04%	19,42%	20,74%

Water Jetting - Income Statement	2018E	2019E	2020E	2021E	2022E
Net sales	484.571	529.708	567.831	596.676	614.354
Cost of sales	-274.111	-302.608	-327.650	-347.253	-362.428
Net sales growth	*22,48%*	*9,31%*	*7,20%*	*5,08%*	*2,96%*
Gross industrial margin	210.460	227.099	240.182	249.423	251.926
% on net sales	*43,43%*	*42,87%*	*42,30%*	*41,80%*	*41,01%*
Other operating revenues	6.070	6.534	6.892	7.161	7.163
Distribution costs	(51.403)	(55.330)	(58.364)	(60.646)	(60.657)
General and administrative expenses	(54.992)	(59.193)	(62.440)	(64.881)	(64.892)
Other operating costs	(1.737)	(1.869)	(1.972)	(2.049)	(2.049)
EBIT	108.398	117.240	124.298	129.009	131.490
% on net sales	22,37%	22,13%	21,89%	21,62%	21,40%

Income Statement

Thousands €	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Revenues	**556,513**	**671,999**	**894,928**	**922,818**	**1,086,547**	**1,255,960**	**1,390,976**	**1,510,925**	**1,609,084**	**1,679,401**
Growth	-	*20.75%*	*33.17%*	*3.12%*	*17.74%*	*15.59%*	*10.75%*	*8.62%*	*6.50%*	*4.37%*
COGS	(353,753)	(426,585)	(577,310)	(584,816)	(672,548)	*(786,231)*	*(867,969)*	*(939,795)*	*(996,023)*	*(1,039,549)*
Gross Margin	**202,760**	**245,414**	**317,618**	**338,002**	**413,999**	**469,729**	**523,007**	**571,129**	**613,061**	**639,852**
Margin	*36.43%*	*36.52%*	*35.49%*	*36.63%*	*38.10%*	*37.40%*	*37.60%*	*37.80%*	*38.10%*	*38.10%*
SG&A	(123,426)	(141,047)	(180,722)	(184,469)	(215,087)	(243,656)	(262,270)	(276,654)	(287,468)	(287,521)
% on Sales	*22.18%*	*20.99%*	*20.19%*	*19.99%*	*19.80%*	*19.40%*	*18.86%*	*18.31%*	*17.87%*	*17.12%*
EBIT	**79,334**	**104,367**	**136,896**	**153,533**	**198,912**	**226,073**	**260,737**	**294,476**	**325,593**	**352,331**
Margin	*14.26%*	*15.53%*	*15.30%*	*16.64%*	*18.31%*	*18.00%*	*18.74%*	*19.49%*	*20.23%*	*20.98%*
Financial Result	(8,262)	(11,258)	26,466	(5,040)	(6,762)	(5,380)	(6,299)	(6,617)	(7,724)	(8,978)
Pre Tax Income	**71,072**	**93,109**	**163,362**	**148,493**	**192,150**	**220,693**	**254,437**	**287,859**	**317,869**	**343,353**
Income taxes	(26,985)	(35,367)	(45,056)	(54,020)	(56,427)	(64,001)	(73,787)	(83,479)	(92,182)	(99,572)
Tax Rate %	*37.97%*	*37.98%*	*27.58%*	*36.38%*	*29.37%*	*29.00%*	*29.00%*	*29.00%*	*29.00%*	*29.00%*
Net Income	**44,087**	**57,742**	**118,306**	**94,473**	**135,723**	**156,692**	**180,651**	**204,380**	**225,687**	**243,781**
Growth	-	*30.97%*	*104.89%*	*-20.15%*	*43.66%*	*15.45%*	*15.29%*	*13.14%*	*10.43%*	*8.02%*
Margin	*7.92%*	*8.59%*	*13.22%*	*10.24%*	*12.49%*	*12.48%*	*12.99%*	*13.53%*	*14.03%*	*14.52%*
Overall Net Income	**32,657**	**79,179**	**139,077**	**103,580**	**98,726**	**156,692**	**180,651**	**204,380**	**225,687**	**243,781**
Margin	*5.87%*	*11.78%*	*15.54%*	*11.22%*	*9.09%*	*12.48%*	*12.99%*	*13.53%*	*14.03%*	*14.52%*
EBITDA	**103,053**	**134,452**	**178,782**	**197,577**	**246,704**	**277,111**	**312,398**	**347,035**	**379,253**	**407,210**
Margin	*18.52%*	*20.01%*	*19.98%*	*21.41%*	*22.71%*	*22.06%*	*22.46%*	*22.97%*	*23.57%*	*24.25%*
D&A	(23,719)	(30,085)	(41,886)	(44,044)	(47,792)	(51,038)	(51,661)	(52,559)	(53,660)	(54,879)
% on Sales	*4.26%*	*4.48%*	*4.68%*	*4.77%*	*4.40%*	*4.06%*	*3.71%*	*3.48%*	*3.33%*	*3.27%*

Balance Sheet

Thousand €	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Net Working Capital	**165,790**	**210,653**	**285,273**	**310,756**	**342,179**	**413,976**	**457,860**	**496,671**	**527,865**	**550,933**
% of Sales	*29.79%*	*31.35%*	*31.88%*	*33.67%*	*31.49%*	*32.96%*	*32.92%*	*32.87%*	*32.81%*	*32.81%*
Tangible Assets	150,668	209,073	286,066	300,921	321,833	350,737	359,673	372,558	388,348	405,834
Intangibles Assets	23,755	24,649	33,193	30,039	38,096	36,951	37,893	39,250	40,914	42,756
Financial Assets	2,072	994	1,025	790	1,145	2,389	2,450	2,538	2,645	2,764
Other Non Current Assets	565	1,380	1,209	1,654	2,582	2,413	2,474	2,563	2,672	2,792
Goodwill	234,792	279,373	347,388	390,708	429,442	426,722	426,722	426,722	426,722	426,722
Total non-current assets	**411,852**	**515,469**	**668,881**	**724,112**	**793,098**	**819,212**	**829,212**	**843,631**	**861,301**	**880,868**
Assets held for sales	0	615	0	0	785	0	0	0	0	0
Liabilities held for sale	0	-163	0	0	-200	0	0	0	0	0
Total Assets	**577,642**	**726,574**	**954,154**	**1,034,868**	**1,135,862**	**1,233,188**	**1,287,072**	**1,340,302**	**1,389,166**	**1,431,802**
Provisions for risks and charges	(5,503)	(6,111)	(7,106)	(6,486)	(6,766)	(7,318)	(7,318)	(7,318)	(7,318)	(7,318)
Liabilities for employee benefits	(11,942)	(14,940)	(17,264)	(19,311)	(20,044)	(19,977)	(19,977)	(19,977)	(19,977)	(19,977)
Net Tax position	(3,556)	(10,133)	(26,517)	(28,893)	(17,956)	(24,083)	(24,083)	(24,083)	(24,083)	(24,083)
Invested Capital	**556,641**	**695,390**	**903,267**	**980,178**	**1,091,096**	**1,181,810**	**1,235,694**	**1,288,924**	**1,337,788**	**1,380,424**
ST payables to banks	78,237	90,048	87,223	125,270	172,406	165,199	178,631	214,412	254,377	297,894
LT payables to banks	108,022	143,605	289,229	316,462	233,945	285,724	308,956	370,842	439,964	515,231
Current finance leasing	3,495	1,635	2,338	1,910	3,014	3,778	4,085	4,903	5,817	6,812
Non current finance leasing	3,671	3,455	11,320	11,512	9,115	10,073	10,892	13,074	15,511	18,164
Other non-current liabilities	2,071	2,627	2,368	2,580	2,559	3,711	4,013	4,817	5,715	6,693
Other interest-bearing financial payables	571	385	7	0	0	0	0	0	0	0
Derivative financial instruments	237	169	75	36	0	0	0	0	0	0
Payables related to the acquisition of investments	32,700	74,075	23,209	42,761	50,266	37,700	25,133	12,567	0	0
Cash and cash equivalents	(105,312)	(87,159)	(135,130)	(197,891)	(144,938)	(170,508)	(210,560)	(428,467)	(683,911)	(986,320)
Net Financial Position	**123,692**	**228,840**	**280,639**	**302,640**	**326,367**	**335,676**	**321,150**	**192,148**	**37,473**	**(141,525)**
Group shareholders' equity	**426,686**	**460,695**	**617,157**	**673,744**	**759,165**	**841,353**	**909,764**	**1,091,996**	**1,295,536**	**1,517,169**
Minority interests	6,263	5,855	5,471	3,794	5,564	4,780	4,780	4,780	4,780	4,780
Invested Capital	**556,641**	**695,390**	**903,267**	**980,178**	**1,091,096**	**1,181,810**	**1,235,694**	**1,288,924**	**1,337,788**	**1,380,424**

Cash Flow Statement

Thousands €	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
EBITDA	**103,053**	**134,452**	**178,782**	**197,577**	**246,704**	**277,111**	**312,398**	**347,035**	**379,253**	**407,210**
Change in Net Working Capital	(9,593)	(44,863)	(74,620)	(25,483)	(31,423)	(71,797)	(43,884)	(38,811)	(31,194)	(23,068)
Net change in risk provisions and provisions for employee benefits	445	3,606	3,319	1,427	1,013	485	0	0	0	0
Cash flow from operating activities	**93,905**	**93,195**	**107,481**	**173,521**	**216,294**	**205,799**	**268,514**	**308,224**	**348,059**	**384,142**
Income Taxes	(26,985)	(35,367)	(45,056)	(54,020)	(56,427)	(64,001)	(73,787)	(83,479)	(92,182)	(99,572)
Net tax position	642	6,577	16,384	2,376	(10,937)	6,127	0	0	0	0
Financial result	(8,262)	(11,258)	26,466	(5,040)	(6,762)	(7,207)	13,432	35,781	39,965	43,517
Net cash from operating activities	**59,300**	**53,147**	**105,275**	**116,837**	**142,168**	**140,718**	**208,159**	**260,526**	**295,841**	**328,087**
CAPEX	(30,941)	(85,918)	(19,071)	(63,489)	(38,449)	(55,676)	(61,661)	(66,978)	(71,330)	(74,447)
M&A	(41,225)	(47,784)	(176,227)	(35,786)	(78,329)	(20,691)	0	0	0	0
Others	2,121	(615)	615	0	(785)	0	0	0	0	0
Cash flows from investing activities	**(70,045)**	**(134,317)**	**(194,683)**	**(99,275)**	**(117,563)**	**(76,367)**	**(61,661)**	**(66,978)**	**(71,330)**	**(74,447)**
Change in short term debt	(17,534)	11,811	(2,825)	38,047	47,136	(5,380)	(6,299)	(6,617)	(7,724)	(8,978)
Change in long term debt	19,565	35,583	145,624	27,233	(82,517)	51,779	23,232	61,886	69,122	75,267
Change in short term financial leasing	1,693	(1,860)	703	(428)	1,104	764	307	818	914	995
Change in long term financial leasing	427	(216)	7,865	192	(2,397)	958	819	2,182	2,437	2,653
Change in other debt	165	556	(259)	212	(21)	1,152	302	804	898	978
Interest-bearing financial payables	227	(186)	(378)	(7)	0	0	0	0	0	0
Change in derivatives	(238)	(68)	(94)	(39)	(36)	0	0	0	0	0
Change in payables of the acquisition of investments	4,697	41,375	(50,866)	19,552	7,505	(12,567)	(12,567)	(12,567)	(12,567)	0
Others	0	163	(163)	0	200					
Dividends paid	(18,524)	(18,166)	(20,246)	(21,156)	(22,282)	(23,052)	(22,148)	(22,148)	(22,148)	(22,148)
Change in equity	21,940	(27,412)	37,247	(27,514)	10,747	(52,235)	(90,092)	0	0	0
Other changes in equity	(11,430)	21,437	20,771	9,107	(36,997)	0	0	0	0	0
Cash flows of financing activity	**988**	**63,017**	**137,379**	**45,199**	**(77,558)**	**(38,581)**	**(106,445)**	**24,359**	**30,933**	**48,767**
Net increase (decrease) of cash and cash equivalents	**(9,757)**	**(18,153)**	**47,971**	**62,761**	**(52,953)**	**25,770**	**40,053**	**217,906**	**255,444**	**302,408**
Cash and cash equivalents at beginning of period	115,069	105,312	87,159	135,130	197,891	144,938	170,508	210,560	428,467	683,911
Cash and cash equivalents at end of period	105,312	87,159	135,130	197,891	144,938	170,508	210,560	428,467	683,911	986,320

Ratios

REVENUES AND MARGINS	2013	2014	2015	2016	2017
Sales growth	5,56%	20,75%	33,17%	3,12%	17,74%
5 years CAGR					18,21%
EBITDA Margin	18,52%	20,01%	19,98%	21,41%	22,71%
EBIT Margin	14,26%	15,53%	15,30%	16,64%	18,31%
Gross profit margin	36,43%	36,52%	35,49%	36,63%	38,10%
Net profit margin	7,92%	8,59%	13,22%	10,24%	12,49%
Comprehensive Net profit margin	5,87%	11,78%	15,54%	11,22%	9,09%

CASH GENERATION	2013	2014	2015	2016	2017
FCFO/EBITDA	57,54%	39,65%	58,79%	59,13%	57,71%
FCFF/Comprehensive Net profit	-32,90%	-102,31%	-64,40%	16,96%	25,13%
FCFF (EXCL.M&A)/Comprehensive Net profit	93,33%	-41,96%	62,31%	51,50%	104,46%

RETURN	2013	2014	2015	2016	2017
ROE (Net profit)	10,18%	12,38%	19,00%	13,94%	17,75%
ROE (Comprehensive Net profit)	7,54%	16,97%	22,34%	15,29%	12,91%
ROIC	8,84%	9,31%	10,98%	9,97%	12,88%
ROIC (Excl. Goodwill)	15,29%	15,56%	17,83%	16,57%	21,23%

FINANCIAL STRUCTURE	2013	2014	2015	2016	2017
NFP/Invested Capital	0,22	0,33	0,31	0,31	0,30
NFP/EBITDA	1,20	1,70	1,57	1,53	1,32
NFP/E	0,29	0,49	0,45	0,45	0,43
Interest coverage	9,83	6,91	19,40	25,42	37,35
Leverage	1,87	2,06	2,04	2,10	1,98

LIQUIDITY	2013	2014	2015	2016	2017
Current ratio	1,81	1,87	2,24	2,19	1,77
Quick ratio	1,08	1,01	1,25	1,32	0,99
Cash ratio	0,51	0,38	0,53	0,64	0,37

TURNOVER	2013	2014	2015	2016	2017
Invested Capital Turnover	0,96	0,92	0,94	0,89	0,96
Receivables turnover	5,30	5,39	5,70	4,88	4,98
Average collection period	68,90	67,72	63,98	74,78	73,36
Inventory turnover	2,55	2,60	2,74	2,36	2,45
Days in inventory	143,26	140,52	133,12	154,84	149,04
Payables turnover	5,72	5,68	6,62	5,76	5,34
Average payables payment period	63,76	64,28	55,10	63,36	68,38

SHAREHOLDERS' REMUNERATION	2013	2014	2015	2016	2017
EPS(Net profit)	0,413	0,541	1,101	0,884	1,257
DPS	0,17	0,18	0,19	0,2	0,21
Payout ratio	55,63%	25,57%	15,21%	21,51%	23,35%
Dividend yield	1,95%	1,55%	1,33%	1,29%	0,80%

DU-PONT ANALYSIS	2013	2014	2015	2016	2017
Net profit margin	7,92%	8,59%	13,22%	10,24%	12,49%
Asset Turnover	0,69	0,70	0,70	0,65	0,72
Leverage	1,87	2,06	2,04	2,10	1,98
ROE	10,18%	12,38%	19,00%	13,94%	17,75%

M-score

Created by Dr Messod Beneish we use the M-Score analysis to verify the possibility of detecting earnings manipulation by Interpump. The method contemplates different variables which identify any earnings manipulation or financial distortions incurred by the firm. An M-Score of less than -2.22 suggests that the company will not be a manipulator. An M-Score of greater than -2.22 is an indicator that the company is likely to be a manipulator.
The formula is: M-Score= -4.84 + (0.92*DSRI) + (0.528*GMI) + (0.404*AQI) + (0.892*SGI) + (0.115*DEPI) - (0.172*SGAI) - (0.327*LVGI) + (4.679*Accrual to TA).

Variables	2014	2015	2016	2017
CONSTANT	-4,84	-4,84	-4,84	-4,84
DSRI	0,9	0,87	1,08	0,9
GMI	0,53	0,54	0,51	0,51
AQI	0,4	0,38	0,39	0,42
SGI	1,08	1,19	0,92	1,05
DEPI	0,13	0,11	0,11	0,11
SGAI	-0,17	-0,16	-0,17	-0,17
LVGI	-0,36	-0,32	-0,34	-0,31
TATA	-0,07	0,02	-0,1	-0,02
M-SCORE	-2,4	-2,22	-2,44	-2,35

The results provided highlight that Interpump is not likely to be an earning manipulator.

Altman Z-Score Analysis

The Z-score (Edward I. Altman) is used to predict the probability that a firm will fill for bankruptcy. The Z-score uses values derived from the financial statement to measure the financial health of a company. A score below 1.8 means that the probability of the company heading for bankruptcy is high, while a scores above 3 designates a healthy firm.
The formula is (1.2*X1) + (1.4*X2) + (3.3*X3) + (0.6*X4) + (1.0*X5).

Variables	2014	2015	2016	2017
X1. Working Capital / Total Assets	0,24	0,3	0,31	0,24
X2. Retained Earnings/ Total Assets	0,08	0,13	0,08	0,07
X3. EBIT/ Total Assets	0,36	0,36	0,36	0,44
X4. Market Capitalization/ Total Liabilities	1,45	1,4	1,31	2,24
X5. Revenue/ Total Assets	0,7	0,7	0,65	0,72
OUTPUT				
ATLMAN Z SCORE	2,83	2,89	2,71	3,7

The results of the analysis provide a low probability of Interpump going bankrupt in the following years.

Appendix 5: Valuation

The relevant dimensions estimated in order to perform the DCF model include:
(i). Rf: determined as a weighted average of the Rf of the 10-year government bond of the main countries where IP operates according to the portion of realized sales;
(ii). ERP: determined as the weighted average of the ERP for the same geographical areas previously considered; (source: Damodaran)
(iii). Beta: determined through the de-levered and re-levered process (Hamada's formula). The levered beta was computed using a regression on two years of historical data with respect to the Morgan Stanley Capital Index World (MSCI World). The unlevered Beta is the value representing the median of the peer's distribution since our goal was to estimate the unlevered market beta.
(iv). Re: determined adopting the CAPM;
(v). Rd: estimated considering the inter-bank offered interest rate (3-year Eurirs), that has a maturity similar to the duration of the IP financial debt, to which we added the risk spread of a bond with a BBB rating (the same rating of Italy where IP's legal head office is located)
(vi). t: the same assumed for the future years (see future analysis section).
(vii). g: to determine the maximum sustainable perpetual growth rate, we initially estimated the forecasted real GDP growth for the long run. It was computed as the weighted average of the 2023 real GDP growth for the same geographical areas previously considered for the computation of ERP and rf. Moreover, we have converted this real growth in a nominal growth adding to the weighted real GDP the weighted inflation rate forecasted for the long run by the BCE and FED. The resulting perpetual growth rate was 3.62% quite high if compared to the maximum sustainable perpetual growth rate of 3.09%. For this reason, we selected the latter.
(viii). TV: computed considering the 2022 FCFF and the estimated WACC and g.

Rd

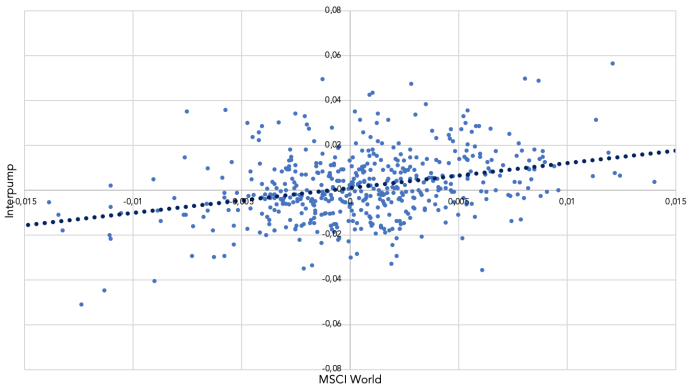
Rating is	Spread 2018	Eurirs 3Y	Cost of Debt
Aaa/AAA	0,54%	-0,0255%	0,51%
Aa2/AA	0,72%	-0,0255%	0,69%
A1/A+	0,90%	-0,0255%	0,87%
A2/A	0,99%	-0,0255%	0,96%
A3/A-	1,13%	-0,0255%	1,10%
Baa2/BBB	1,27%	-0,0255%	1,245%
Ba1/BB+	1,98%	-0,0255%	1,95%
Ba2/BB	2,38%	-0,0255%	2,35%
B1/B+	2,98%	-0,0255%	2,95%
B2/B	3,57%	-0,0255%	3,54%
B3/B-	4,37%	-0,0255%	4,34%
Caa/CCC	8,64%	-0,0255%	8,61%
Ca2/CC	10,63%	-0,0255%	10,60%
C2/C	13,95%	-0,0255%	13,92%
D2/D	18,60%	-0,0255%	18,57%

Rf and ERP

	10 Years Gov. Bond Yield	Weight
Italy	3,21%	18%
Rest of Europe:	0,96%	35%
North America	2,99%	27%
Far East and Oceania:	2,84%	11%
Rest of the world:	7,82%	9%
Risk-free rate	2,74%	100%

	Equity risk premium	Weight
Market risk premium Italy	7,27%	18%
Market risk premium Rest of Europe:	4,10%	35%
Market risk premium North America	5,08%	27%
Market risk premium Far East and Ocea	5,48%	11%
Market risk premium Rest of the world:	5,18%	9%
Market risk premium	5,184%	100%

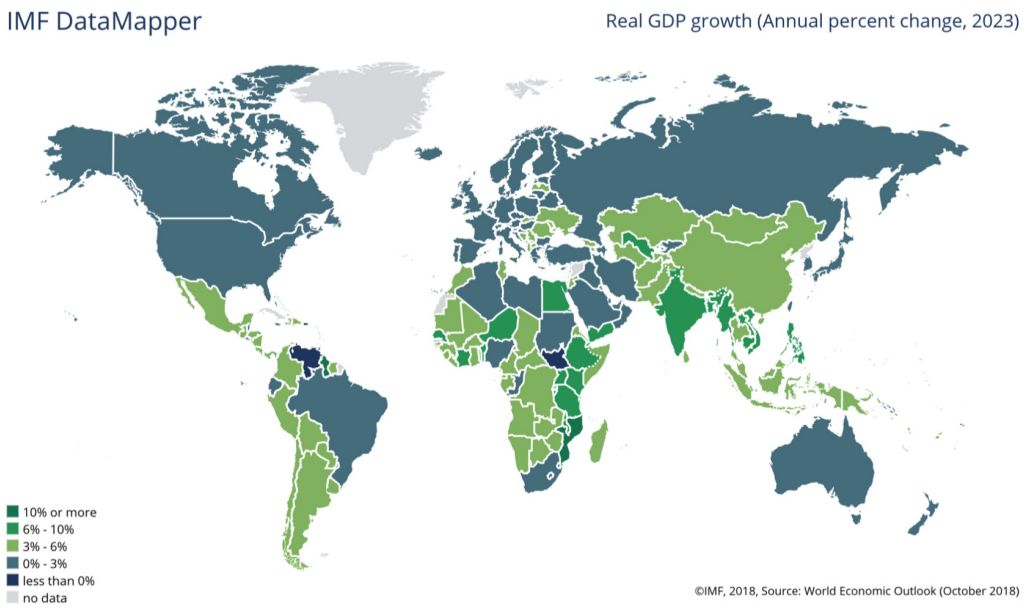
Beta



Risk-free Rate (Rf)	2.74%	Weighted average of 10 years' Government Bond Yield of the main countries of IP revenues by geographical exposure.
Equity Risk Premium (ERP)	6%	Weighted average of Market Risk Premium on Interpump geographical revenues to consider country risk (source: Damodaran).
Beta	1.042	Estimated on the regression between the %var of weekly returns of Interpump Stock price and %var of weekly returns of MSCI World over the last 2 years (team estimates).
Cost of Equity (Re)	8.99%	Capital Asset Pricing Model: Rf + β * Equity Risk Premium
Cost of Debt (Rd)	1.25%	Estimated as 3 Years Eurirs + Spread. The spread value is a default risk premium based on Rating evaluations (source: Damodaran). We give Interpump a Baa2/BBB rating that corresponds to 127bps (usually companies do not receive a rating higher than their own country).
Tax Rate	29%	Forecasted future tax rate (team estimates).
WACC	8.25%	

Perpetual growth rate – g

To determine the perpetual growth rate to be included in the TV computation we have started our analysis from the expected 2023 real GDP growth rate in the major countries where IP sells its products.



According to the country's exposure of IP revenues we have computed the weighted average 2023 expected real GDP growth rate 1.76%. In order to determine the nominal GDP growth rate, we added to the expected real GDP growth rate the expected inflation rate for the long run weighting the long-run inflation rate in the two major geographical areas for IP sales. For Europe Area we considered the long-run inflation rate provided by the BCE while for U.S. the forecasts provided by the FED. The resulting nominal GDP growth rate is 3.62%.

World real GDP growth forecasts

	GDP growth rate 2023E	% Revenues	Weighted GDP growth rate 2023E
Rest of the world	3.50%	10%	0.33%
North America	1.53%	27%	0.41%
Europe	1.52%	35%	0.53%
Italy	0,70%	18%	0.12%
Oceania and far east	3,32%	11%	0.35%
g real			1.76%

EU and US inflation forecasts

	Long-run inflation rate	% Weights	Weighted long-run inflation rate
BCE inflation rate	1.80%	66.10%	1.19%
FED inflation rate	2.00%	33.90%	0.68%
Inflation rate			1.87%
g nominal	3.62%		

Analyzing IP forecasted performances for 2022 and the level of reinvestment that IP is expected to realize in that year we claim that the maximum sustainable perpetual growth rate for IP cannot exceed 3.09%. For this reason this value will be adopted to compute the TV.

Maximum sustainable growth rate

ROIC 2022	17.04%
Reinvestment rate 2022	18.12%
Max sustainable perpetual g	3.09%

DCF Detailed

Thousands €	2018E	2019E	2020E	2021E	2022E
EBITDA	277,111	312,398	347,035	379,253	407,210
EBIT	226,073	260,737	294,476	325,593	352,331
NOPAT	160,512	185,123	209,078	231,171	250,155
D&A	51,038	51,661	52,559	53,660	54,879
Δ NWC	(71,797)	(43,884)	(38,811)	(31,194)	(23,068)
CAPEX	(55,676)	(61,661)	(66,978)	(71,330)	(74,447)
M&A cash outflow	(20,691)				
FCFF (ex. M&A)	63,386	131,239	155,848	182,307	207,520
FCFF (ex. M&A)/EBITDA	0.30	42.01%	44.91%	0.48	50.96%
WACC	8.25%				
Discount factor	0.98	0.91	0.84	0.77	0.71
Target price (ex.M&A)	€ 28.92				

	2018E	2019E	2020E	2021E	2022E
EBITDA	277.111	312.398	347.035	379.253	407.210
EBIT	226.073	260.737	294.476	325.593	352.331
NOPAT	160.512	185.123	209.078	231.171	250.155
D&A	51.038	51.661	52.559	53.660	54.879
Δ NWC	(71.797)	(43.884)	(38.811)	(31.194)	(23.068)
CAPEX	(55.676)	(61.661)	(66.978)	(71.330)	(74.447)
FCFF (ex. M&A)	84.077	131.239	155.848	182.307	207.520
M&A cash outflow	(20.691)	(45.144)	(45.144)	(45.144)	(45.144)
Additional FCFF from M&A		7.436	14.235	22.147	30.926
FCFF (incl. M&A)	63.385	93.531	124.939	159.309	193.302
WACC	8,25%				
Discount factor	0,980370998	0,905633078	0,836592753	0,77281567	0,77281567
Target price (ex.M&A)	€ 31,63				

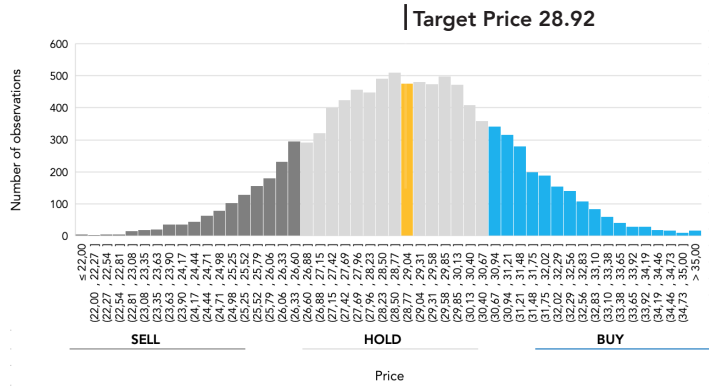
Sensitivity analysis

Perpetual Growth \ WACC	7.25%	7.75%	8.00%	8.25%	8.50%	8.75%	9.25%
1.84%	28.85	26.10	24.90	23.79	22.76	21.81	20.09
2.09%	30.11	27.14	25.84	24.65	23.55	22.53	20.71
2.34%	31.51	28.27	26.87	25.58	24.40	23.31	21.37
2.59%	33.05	29.51	27.99	26.60	25.32	24.15	22.08
2.84%	34.77	30.88	29.21	27.70	26.33	25.07	22.84
3.09%	36.70	32.39	30.57	**28.92**	27.43	26.06	23.67
3.34%	38.87	34.08	32.07	30.26	28.63	27.15	24.57
3.59%	41.34	35.96	33.74	31.75	29.96	28.35	25.55
3.84%	44.16	38.09	35.60	33.40	31.43	29.66	26.61
4.09%	47.44	40.51	37.71	35.25	33.06	31.12	27.78

Montecarlo Simulation

As a consistency proof on our DCF valuation we carried out a Monte Carlo Simulation, considering our assumptions could involve a certain variability. The assumptions that affect the most our DCF model result are revenues and SG&A, therefore we believe essential to study their impact. Starting from an historical analysis of revenues organic growth we estimated the CAGR and the variability of the same through standard deviation computation. We therefore obtained a revenues CAGR of 7.53%, used as an input for the average of the distribution. The compounded historical standard deviation is 6%. Afterward we studied the historical incidence of the SG&A on the revenues, obtaining a value of 19%, with a standard deviation of 2%. These values were used as assumptions for our Monte Carlo analysis, assuming a normal distribution obtained from the best fitting of the historical performances of revenues and SG&A incidence. We undertook 10000 simulations on the target price which resulted in a outcome in line with our expectations. The most probable value was €28.71. The 95% confidence interval presents the following range of price [24.68:33.02]. The recommendation stemming from our distribution is a SELL in 13.76% of cases, a HOLD in 69.72% and a BUY in 16.52%.

Simulation statistics	
Trials	10000
Base case	28.71
Average	28.89
Median	28.90
Standard deviation	2.13
Variance	4.55
Skewness	(€ ,02550)
Kurtosis	2.98
Coefficient of Variation	0.0739
Minimum	20.53
25% percentile	27.45
75% percentile	30.33
Maximum	36.36



Relative valuation

With the purpose of testing the consistency of the fair value of IP stemming from the valuation developed through the DCF model we performed a valuation of the comparable, defining two clusters of peers based on the sector in which they operate (WJ & HY). We chose the comparable on the basis of three values in line with the dimension of IP: current profitability, expected future growth rate (g) and riskiness of the business. For this reason, we excluded from the peer group two IP competitors: Aalberts Industries NV and KSB SE & Co. We focused our attention on four different multiples of which three asset side (EV/EBITDA, EV/SALES, EV/EBIT) and one equity side (P/E) using three years expected values. The valuation provides values in line with our results except for EV/SALES which provides a target price slightly under the expectations. This is probably due to the fact that future sales forecast represents the value that is affected the most in our prediction for the only part of organic growth (omitting the large part of revenues coming from M&A). The reference multiple used for the computation of our target price is represented by the value of our 3° quartile in the sample of comparable (ex. IP) on the basis of the dimension being superior of the sector average. The values in input come from our forecasts used for the

EV/EBITDA

Hydraulics	2017.Q4	2018.Q3	2018E	2019E	2020E
Interpump	12,50x	12,30x	10,80x	10,80x	10,30x
Average ex. IP	*12,13x*	*10,63x*	*8,78x*	*8,75x*	*8,38x*
Median ex. IP	*12,15x*	*10,70x*	*8,85x*	*8,80x*	*8,45x*
Bucher Industries	12,10x	9,10x	7,40x	8,50x	8,20x
Parker-Hannifin	10,50x	9,60x	10,00x	9,60x	9,40x
Sulzer	13,70x	12,00x	8,20x	7,80x	7,20x
Eaton	12,20x	11,80x	9,50x	9,10x	8,70x
Water Jetting	**2017.Q4**	**2018.Q3**	**2018E**	**2019E**	**2020E**
Interpump	12,50x	12,30x	10,80x	10,80x	10,30x
Average ex. IP	*14,72x*	*12,44x*	*10,52x*	*9,78x*	*9,10x*
Median ex. IP	*14,40x*	*11,20x*	*8,80x*	*8,40x*	*7,80x*
SPX Flow	13,30x	8,10x	7,60x	7,00x	6,60x
GEA Group	13,20x	10,80x	8,20x	8,40x	7,80x
Weir Group	15,80x	11,20x	8,80x	7,40x	6,50x
Spirax-Sarco Engineering	16,90x	16,80x	16,40x	15,60x	14,70x
Alfa Laval	14,40x	15,30x	11,60x	10,50x	9,90x

EV/EBIT

Hydraulics	2017.Q4	2018.Q3	2018E	2019E	2020E
Interpump	15,60x	15,30x	13,20x	13,10x	12,30x
Average ex. IP	*19,38x*	*15,23x*	*12,23x*	*11,60x*	*10,90x*
Median ex. IP	*16,80x*	*14,00x*	*12,45x*	*11,65x*	*11,00x*
Bucher Industries	17,00x	12,30x	10,00x	11,20x	10,90x
Parker-Hannifin	12,80x	11,50x	12,30x	11,60x	11,10x
Sulzer	31,10x	21,40x	14,00x	11,90x	10,50x
Eaton	16,60x	15,70x	12,60x	11,70x	11,10x
Water Jetting	**2017.Q4**	**2018.Q3**	**2018E**	**2019E**	**2020E**
Interpump	15,60x	15,30x	13,20x	13,10x	12,30x
Average ex. IP	*18,52x*	*15,12x*	*12,86x*	*11,74x*	*10,78x*
Median ex. IP	*19,20x*	*13,60x*	*11,10x*	*10,00x*	*9,70x*
SPX Flow	19,30x	10,40x	9,40x	8,40x	7,40x
GEA Group	15,60x	12,50x	9,90x	10,00x	9,70x
Weir Group	18,90x	13,60x	11,10x	9,30x	7,80x
Spirax-Sarco Engineering	19,20x	19,30x	19,20x	18,10x	17,00x
Alfa Laval	19,60x	19,80x	14,70x	12,90x	12,00x

P/E

Hydraulics	2017.Q4	2018.Q3	2018E	2019E	2020E
Interpump	21,40x	21,40x	17,80x	17,80x	16,70x
Average ex. IP	*19,70x*	*16,95x*	*13,75x*	*13,50x*	*12,60x*
Median ex. IP	*20,10x*	*16,45x*	*13,70x*	*13,55x*	*12,35x*
Bucher Industries	23,60x	16,10x	13,10x	14,90x	14,50x
Parker-Hannifin	15,00x	13,60x	14,30x	13,40x	12,50x
Sulzer	23,20x	21,30x	14,80x	13,70x	12,20x
Eaton	17,00x	16,80x	12,80x	12,00x	11,20x
Water Jetting	**2017.Q4**	**2018.Q3**	**2018E**	**2019E**	**2020E**
Interpump	21,40x	21,40x	17,80x	17,80x	16,70x
Average ex. IP	*29,06x*	*20,28x*	*16,22x*	*15,00x*	*13,58x*
Median ex. IP	*27,30x*	*18,90x*	*13,70x*	*13,70x*	*12,30x*
SPX Flow	37,40x	13,10x	11,90x	10,60x	9,40x
GEA Group	30,50x	18,90x	13,70x	13,70x	12,30x
Weir Group	24,50x	17,30x	13,60x	12,20x	10,30x
Spirax-Sarco Engineering	25,60x	28,10x	24,90x	23,40x	22,00x
Alfa Laval	27,30x	24,00x	17,00x	15,10x	13,90x

EV/SALES

Hydraulics	2017.Q4	2018.Q3	2018E	2019E	2020E
Interpump	2,90x	2,80x	2,40x	2,50x	2,40x
Average ex. IP	*1,70x*	*1,55x*	*1,33x*	*1,35x*	*1,30x*
Median ex. IP	*1,65x*	*1,50x*	*1,30x*	*1,35x*	*1,30x*
Bucher Industries	1,50x	1,10x	0,90x	1,00x	1,00x
Parker-Hannifin	1,80x	1,70x	1,80x	1,80x	1,70x
Sulzer	1,40x	1,30x	0,90x	0,90x	0,90x
Eaton	2,10x	2,10x	1,70x	1,70x	1,60x
Water Jetting	**2017.Q4**	**2018.Q3**	**2018E**	**2019E**	**2020E**
Interpump	2,90x	2,80x	2,40x	2,50x	2,40x
Average ex. IP	*2,46x*	*2,26x*	*1,96x*	*1,86x*	*1,76x*
Median ex. IP	*2,30x*	*1,90x*	*1,50x*	*1,30x*	*1,20x*
SPX Flow	1,40x	0,90x	1,00x	0,90x	0,90x
GEA Group	1,60x	1,20x	0,90x	1,00x	0,90x
Weir Group	2,30x	1,90x	1,50x	1,30x	1,20x
Spirax-Sarco Engineering	4,50x	4,50x	4,30x	4,10x	3,90x
Alfa Laval	2,50x	2,80x	2,10x	2,00x	1,90x

Appendix 6: Investment Risk