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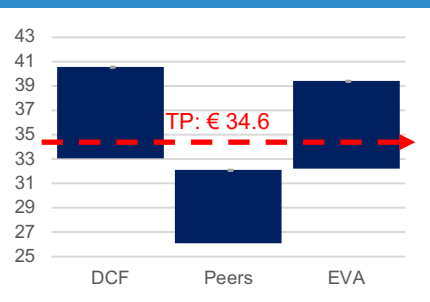
Pump Fiction



BUY

Initial Coverage | 31 January 2019

Price: € 28.12
 Target Price: € 34.6
 Upside: 23.1%



Listed on: Borsa Italiana
 Ticker: IP IM (Bloomberg)
 ITPG:MI (Reuters)
 Industry: Industrials
 Sector: Industrial Machinery

Market Data

Market Cap: 3062 Mil
 # of Shares: 108.87 Mil
 Free Float: 81.50 Mil

Stock Data

52 weeks H/L range: 29.46 / 24.24
 Avg. Volume (3m): 0.124 Mil
 Beta (104 w) vs FTSE It All-Share: 0.931

Founded in 1977 by Fulvio Montipò, **Interpump Group S.p.A. (IP)** went public in 1996 and is the world's largest producer of high-pressure piston pumps, as well as a fast-growing global player in the market of hydraulic components. The growth of this Italian manufacturing company shows no rest.

INVESTMENT SUMMARY

We start our coverage of IP by issuing a **BUY recommendation** with a **target price of € 34.6**, representing a **23.1% upside** to the closing price of € 28.12 on 31 January 2019. Our recommendation is based on the following key catalysts:

- A perfect combination of **organic and external growth** in developed and emerging markets
- A strong set of **competitive advantages**
- A solid **financial position** with best in class margins

Pump up the growth Thanks to its **global presence** and excellent integration of products in smart solutions, Interpump is set to capitalize on multiple growth channels (Exhibit 1).

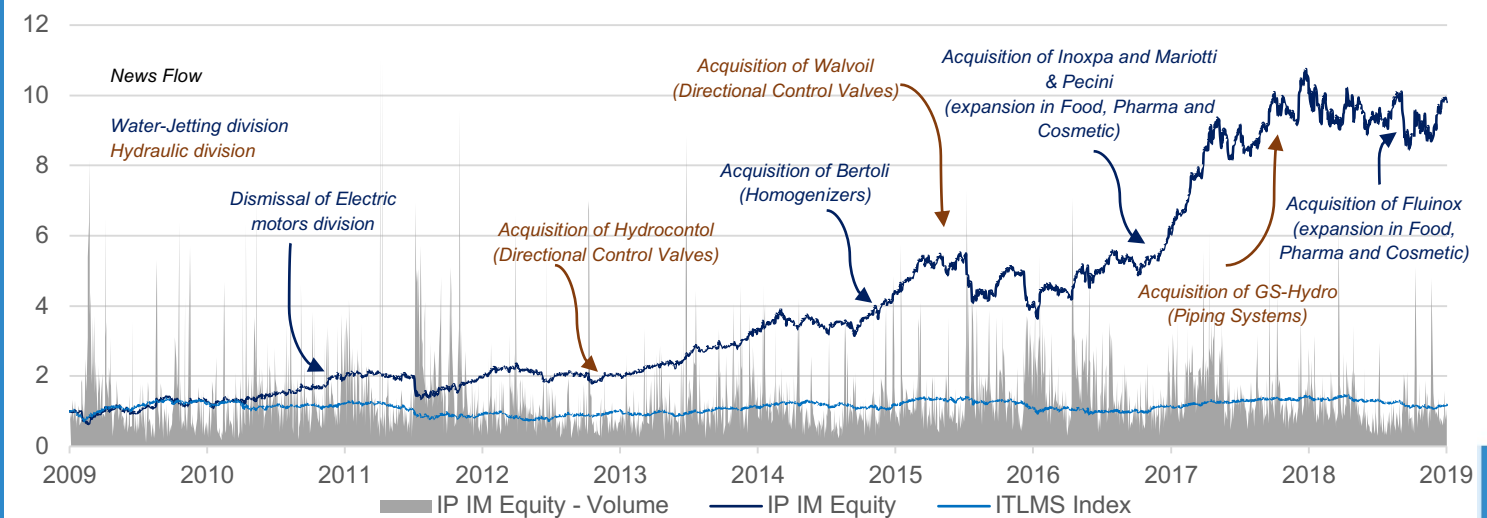
Both the Water Jetting and Hydraulics applications will experience a remarkable **organic growth**. In emerging markets (EM) we expect that major projects, such as the **Belt and Road Initiative (BRI)** and **Housing for All (HFA)** Indian program, combined with macro trends like **urbanization** and **rising living standards** will fuel demand for IP's products. At the same time, Interpump has a **leadership position** in the technology of **very high-pressure pumps** which we expect will drive sales in developed countries thanks to the positive trend of Water-Jetting cutting applications.

In addition to that, we expect the **external growth with M&A activity**, which has already proven to be an important source of expansion, to continue to **drive IP's results**. In EMs we identify attractive opportunities of both **geographical consolidation** and **expansion** in countries such as India and Pakistan. In Europe and North America, we believe IP could benefit from the **integration of digitalization and smart solutions driven by IoT**.

A quality company IP's unique features make the company **stand out** from its peers in both the Water-Jetting and Hydraulics competitive landscapes. It has a position of absolute leadership in the **niche market segment of very high-pressure pumps** (more than 40% of an estimated market of € 700/800 m/y) and **Power Take-Offs** (more than 50% of a € 500 m/y market), where it is able to set **premium prices** on high-quality products.

The strategic standardization of products also grants IP the flexibility needed to serve a wide customer base, abundantly fragmented and diversified across many countries and fields of applications, giving it a natural **hedge against cyclicity** as well as reducing variable costs strategically maintaining reasonable levels of inventories, in order to **reduce exposure to supply prices fluctuation**.

Financial Highlights Interpump's global presence and exposure to highly diversified sectors guarantee **stable returns**. We expect Hydraulics sales to grow at an overall **9.81% CAGR 2017-23E**, driven primarily by the combination of major infrastructural programs (BRI and HFA), while Water-jetting sales are set to experience a **6.18% CAGR 2017-23E**, mainly driven by flow-handling applications in EMs. Interpump generates **top-tier EBITDA margins** (22.6% FY2017), compared to its peers and competitors. We believe this is due to its **technological superiority** in the Water-jetting division and the great exploitation of integrated solutions and cross-selling in Hydraulics. **Excellent operating performance**, combined with **low leverage** and **tight control of capex** allows IP to generate consistent cash-flows. Consequently, we estimate a **potential firepower for M&A** activity of around € 100m/y (€ 200m/y considering leverage) between 2019E and 2023E, assuming target liquidity ratios anchored to historical levels.



Growth Opportunities Matrix

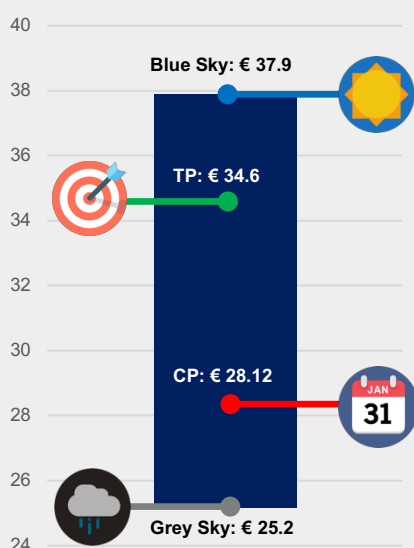
Exhibit 1



Source: Team Analysis

Blue/Grey Sky Scenario

Exhibit 2



Source: Team Analysis

Valuation We evaluate IP at € 34.6, implying an **upside of 23.1%** from the 31 Jan 2019 closing price of € 28.12. We assign an **80% weight** of the target price computation to **fundamental valuation**, with 40% coming from DCF model and 40% coming from EVA model, obtaining close results from the two methodologies (€ 36.5 for DCF and € 35.52 from EVA). We also performed a **relative valuation** to support our fundamental valuation results: we assign a **lower weight of 20%** to this approach because of the **scarcity of comparables** for the Company. Considering its business model and market positioning, we selected a group of peers based on **similar geographical position, list of products and revenues split by sector**. By using **EV/Sales vs Ebit Margin** as our valuation multiple we obtain a Theoretical EV/Sales of 2.51x (+36% with respect to the average of its peers), implying a **target price of € 29.1** (+3.5% upside vs current price). In order to **further validate our BUY recommendation**, we foresee a **Blue/Grey Sky Scenario analysis** (Exhibit 2). We model the two scenarios on both our DCF and EVA models, assessing reference target price as the average of the two. Our **bullish scenario** entails an **outperformance** of IP on our Top-line estimates in the mid-term resulting in a **2018E-2023E 8.09% CAGR** (vs 7.06% base case), which would imply a **target price of € 37.89**, representing an **outstanding 34.7% upside**. We modelled a **bearish scenario** where IP revenues growth is in line with the GDP growth. Considering IP's global presence and diversification, we modelled sales growth numbers by the GPD growth estimates of each geographical area where IP operates, obtaining a TP of € 25.98 (implying a downside of -7.61%).

M&A – A potential catalyst for value creation Consistently with the Company's past strategy finalized to the expansion of geographical presence, the enlargement of product range and innovation in new applications, we identified further value creation opportunities based on two possible targets for IP's future acquisitions.

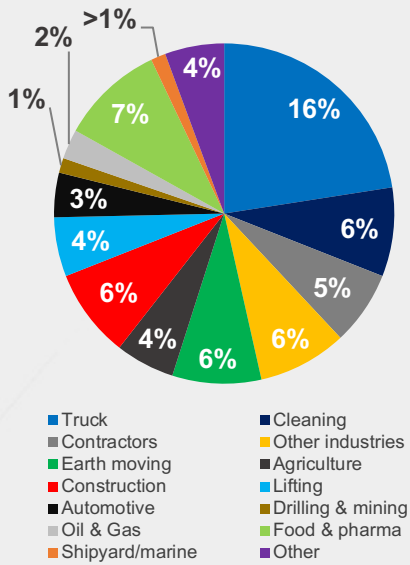
Based on past M&A activity, we expect the Company will pursue new acquisitions in order to **consolidate** the countries where it is already present and penetrate new markets (geographical expansion). On the other side, we expect IP will use M&A to **constantly innovates its products and services** to fulfill its customers' needs.

By a geographical point of view, we consider countries involved in China's Belt and Road Initiative, with a specific reference to **India** as a country to consolidate and **Pakistan** as a new market to penetrate. For an increase in know-how, we consider the **IoT market**, in order to provide higher quality products and better aftermarket service.

Avoiding Risks IP's **strategic risks** depend on competition challenges and difficulties in penetrating new markets. We consider as possible **operational risks** the inability to **acquire and integrate new companies**, something that IP avoids thanks to the use of an M&A policy that smartly exploits synergies. The many facilities abroad give the firm a strong resilience against international trade conflicts and economic downturns. The increase of interest rates could be considered as the main **financial risk**. This could have an impact on profitability since IP raises debt funds merely through bank institutions (plus a small portion of debt due to financial leasing agreements), but the Company's high liquidity heavily reduces this kind of risk. For what concerns **foreign exchange risk**, IP mainly sells its products in the same countries in which they are manufactured, avoiding this kind of exposures.

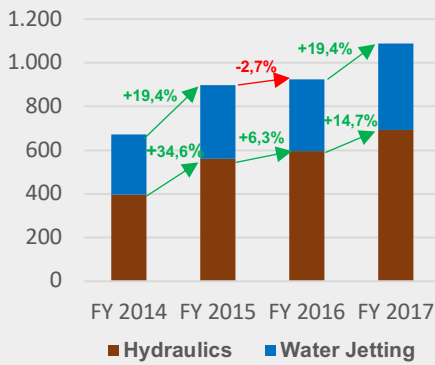
Financials highlights	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
Revenues	556.5	672.0	894.9	922.8	1086.5	1264.6	1369.5	1473.2	1576.9	1676.4	1778.4
Gross profit	219.3	266.4	348.1	370.5	449.1	524.6	572.2	617.8	663.6	708.0	753.8
% of sales	39.4%	39.6%	38.9%	40.2%	41.3%	41.5%	41.8%	41.9%	42.1%	42.2%	42.4%
EBITDA	102.7	131.8	177.5	196.2	245.3	285.4	312.6	336.5	361.1	385.2	410.1
% of sales	18.5%	19.6%	19.8%	21.3%	22.6%	22.6%	22.8%	22.8%	22.9%	23.0%	23.1%
EBIT	79.0	101.9	135.8	152.6	197.9	239.0	261.6	281.4	302.0	321.9	342.3
EPS	0.408	0.531	1.086	0.880	1.245	1.544	1.691	1.820	1.956	2.088	2.226
Non-cash net Op.Working Cap	145.9	201.0	271.7	295.8	333.0	396.6	428.5	458.2	490.0	520.5	551.7
Net Fixed Assets	408.0	507.0	647.9	702.2	778.9	817.5	845.7	874.2	906.2	939.7	974.7
Provisions	(32.2)	(89.5)	(42.0)	(63.2)	(73.6)	(47.9)	(44.9)	(39.2)	(33.5)	(35.5)	(37.5)
Capital Employed	521.6	618.5	877.6	934.8	1038.3	1166.2	1229.3	1293.3	1362.7	1424.7	1488.8
Equity	432.9	466.6	622.6	677.5	764.7	890.7	1060.5	1224.1	1400.3	1588.5	1789.4
Net Fin. Pos. (Net Cash)	88.7	152.0	255.0	257.3	273.5	275.5	168.8	69.1	(37.6)	(163.8)	(300.5)

Revenues breakdown by Application
FY17 - Exhibit 3



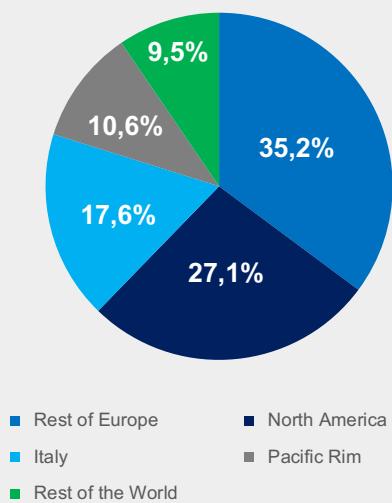
Source: Company Data.
Not including 30% Dealers

Revenues breakdown by Division
Millions – Exhibit 4



Source: Bloomberg

Revenues breakdown by Geography
FY17 - Exhibit 5



Source: Bloomberg

BUSINESS DESCRIPTION

A Fast Growing Player With a market cap of more than € 3 billion and recently surpassing € 1 billion of revenues, Interpump Group S.p.a. is among the world's largest producers of professional **high-pressure piston pumps** and **hydraulic components**. Founded in 1977 in Sant'Ilario d'Enza (Reggio Emilia, Italy) by Mr **Fulvio Montipò** (Chairman and CEO), and listed on the Milan Stock Exchange since December 1996, the company attained immediate success thanks to technical innovations to the design and manufacturing of high-pressure pumps achieved through the use of compact and durable ceramic pistons. By the early 90s, the company had already cemented its dominant position in the niche market of high-pressure piston pumps, so it began expanding its business focusing also on industrial cleaning and electric motors.

Broaden the reach Between 1997 and 1999 the Group entered the **hydraulic components** sector by acquiring companies such as PZB and Muncie, thus becoming the world leader in **Power Take-Offs** (PTOs), a position that will be further strengthened in the following years through subsequent acquisitions. In order to focus on the highest added value sectors, the **cleaning machines** and **electric motor divisions were dismissed** in 2005 and 2011 respectively, thus Water-Jetting and Hydraulics became the two main divisions.

Lead and improve The centralization of IP's efforts on these two sectors has allowed the Company to reach a consistent level of growth (+9.66% sales CAGR 2007-2017) and exhibit best in class returns (19.1% ROCE in 2017) and margins (22.6% EBITDA margin in 2017).

- The **Water Jetting** division (36.4% Revenues, 41.9% EBITDA for FY2017) designs, manufactures and markets high and very-high-pressure pumps. The production range of the company includes models with multiple pressure levels and power requirements with **countless applications** (Exhibit 3) such as industrial cleaning, solid materials cutting and hydro demolitions. In 2015 the Company entered the attractive market for **flow handling applications** with the acquisition of **Bertoli** rapidly followed by several other deals.

- The **Hydraulics** division (63.6% Revenues, 58.1% EBITDA for FY2017) is involved in the design and production of Power Take-Offs, hydraulic valves, cylinders, tanks and piping systems. The continuous **expansion of the product line**, combined with the **flexibility of its uses**, puts the company in an ideal position when considering growth expectations (Exhibit 4).

Smart Integration With a track record of more than 40 acquisitions (since IPO), the Company is now established worldwide and operates through several brands (Appendix 1). The persistent M&A activity has been a key growth driver for Interpump, contributing for approx. **2/3 of each year's growth in the last 5 years** (Source: Company's analysis). Ideal targets come in the shape of small cap companies, performing solidly but strongly undervalued by the market. Interpump smart strategy aims to **fully integrate** its acquisitions through the **use of the least impactful means**. Newly acquired subsidiaries are often purchased with IP own funds and treasury shares. They maintain both their management team and internal structure, **exploiting economies of scale, bringing transition costs to a minimum**, in order to **fully capitalize on the acquisition synergies**.

Different kinds of diversification This strategy has proven to be **one of the key drivers** for Interpump's growth prospects, not only because of its flawless implementation but also because it has provided the company with a way with which to pursue all his objectives at the same time. From a product range point of view, the expanding set of subsidiaries grants the group the possibility of consistently meeting the growing demands of the market (Appendix 2). Under a geographical point of view, IP's recent acquisition outline an even stronger intent to spread its presence and impose itself as a reference on the market.

Revenues for IP are **geographically** well diversified (Exhibit 5), with a strong presence in **Europe** (>50%) and **North America** (>20%). **Emerging markets** constitute a point of focus for IP development: the group presence in countries like **China, India, South Korea** and **Brazil** has continued to strengthen thanks to the 2018 acquisitions of **GS-Hydro** and **Fluinox**.

Low risks, high expectations Interpump has been able to exploit all the opportunities granted by its international presence while also avoiding all the risks embedded in higher costs of complexity. Most of IP's products are manufactured **and sold locally or in the same currency**, providing the company with a natural hedge. As for raw materials (mainly stainless steel, aluminium, copper and other alloys), the Company strategically keeps a high stock level with the aim of limiting the impact of short term price volatility and being ready to fulfill the customer requests. At the same time according to Interpump, the Company can boast a relevant bargaining power with all the suppliers it interfaces with (including the ones they gained by the acquisitions achieved). The capillary ramification of the customer base, coming from the countless applications of the Group's products, puts Interpump in a position which could hardly be impacted in a significant way by negative outlooks in a single sector. Considering all these factors, the recent expansion in the **food and pharmaceutical sectors** could be seen as another reason to expect further growth for the Company, thanks to both the product line expansion and the underlying growth embedded in the sector.



High-pressure pumps
(Interpump, Pratisoli)



Power Take-Offs
(Muncie Power, PZB)



Hydraulic Cylinders
(HS Penta, Modenflex)



Directional Control Valves
(Walvoil, Hydrocontrol)



Flow Handling Machinery
(Hammelmann, Inoxihp)

INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

The industrial machinery industry is primarily characterized by a **vast range of end-use markets**, a widely **varying degree of standardization** across different products and a strong relation between macroeconomics and volumes of sales.

MACROECONOMICS & BELT AND ROAD INITIATIVE

According to the company, countries GDP growth represents one of the major business growth drivers (Exhibit 6) as well as urbanization (Exhibit 7). The last recent economic outlooks reviewed the global growth downside starting to embed slowdown scenarios geographically widespread. According to the IMF and World Bank, for the next two years, we expect:

- **European region** real GDP to grow by 1.6% in 2019, and by 1.7% in 2020.
- **North America** real GDP for 2019 is expected to grow by 2.5%, and 1.9% in 2020.
- **China** real GDP growth is expected to be 6.2% in both 2019 and 2020. According to 2017 World Bank data, approximately 57% of total China population is living in Urban areas, a data which is significantly lower compared to North America and EU (82% and 75% respectively), that could entail great expansion potential.
- **The Indian market**, which we consider as one of the greatest opportunities, is expected to see its real GDP grow by 7.5% in 2019 and by 7.7% in 2020. Moreover, India is undergoing a major process of urbanization (approx. 33% of the total population living in urban areas in 2017, source: World Bank).

We are highly confident about the positive effects coming from major projects in the APAC area.

Our focus is primarily on the so-called Belt and Road Initiative (BRI), which aims to build a trade link between China, Asia, Europe, Africa and their close seas through the development of the “Silk Road Economic Belt” and the “21st Century Maritime Silk Road”. There are already 265 big infrastructural projects planned in all the 3 continents included in this initiative: 17 Railways, 5 highspeed rails, 8 bridges, 2 highways and many others. **Under BRI, developing countries of Asia are overall expected to reach a massive \$ 26 trillion investment by 2030** (Source: OECD). Interpump is strategically positioned along participating countries and we expect it will exploit major benefits from construction and material handling sectors’ surging demand (refer to Appendix 20).

WATER JETTING

IP’s Water Jetting division is active in two markets: 1) High-Pressure Pumps (HPP), with a focus on the niche of Very High-Pressure Pumps (VHPP); 2) Flow Handling market.

The HPP market is expected to register a CAGR of 3% over the forecasted 2019-2022 period (Source: Market Research Future). According to IP estimates, the niche of VHPP represents a potential market of € 7-800m/y, in which the company accounts for around 40% of global sales. We identify an **interesting growth trend in the application for water-jet cutting machinery**, which is expected to outperform existing technologies such as laser, EDM and plasma thanks to the growing trend in cutting applications (Appendix 3).

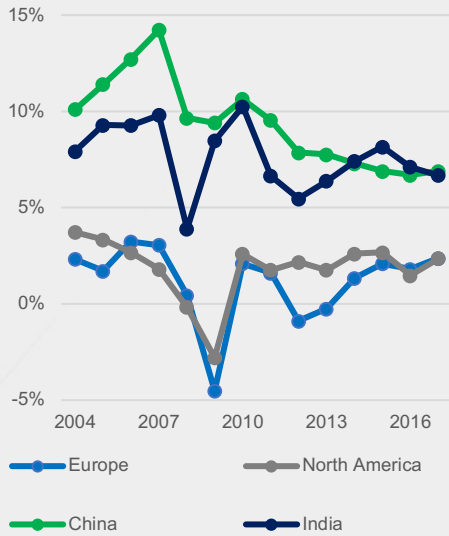
We expect solid growth in the Flow-handling market, already worth € 8-9bn/y (source: IP). Main reference market for IP’s Flow-handling equipment are: 1) Homogenizer market, worth € 1.2bn/y and expected to cross a CAGR of 4.3% by 2023 (Source: Market Research Future); 2) Industrial agitators, worth € 2.6bn/y, set to grow at 7.1% CAGR by 2022 (source: MarketsAndMarkets Research). Main applications of these products rely on food, pharmaceutical and cosmetics processing: for this reason we highlight **urbanization trends, emerging middle class and rising living standards in emerging countries as the major drivers** for the growth of this market. We recognize that Bertoli, Inoxpa and the newly acquired Fluinox secure great synergies in this market as their products (homogenizer, integrated systems and complementary) can be cross-sold.

HYDRAULICS

As reported by the Company, the Hydraulics market was worth € 45bn in 2017 and we estimate it to reach € 60bn by 2023, representing a CAGR of 4.75% (2018-23) (Exhibit 8). Our estimates are based on a set of Ordinary Least Square (OLS) regression (Appendix 4), which takes into consideration historical data and future estimates of GDP, Global steel production and Urban population. We expect the market for Hydraulics in North America and Europe to be driven by: 1) increased focus on energy-efficient products; 2) Increasing digitalization and ‘Internet of Things’ in hydraulics devices (Appendix 25) (so-called “smart solutions”, allow end-users to increase efficiency and safety thanks to Artificial Intelligence).

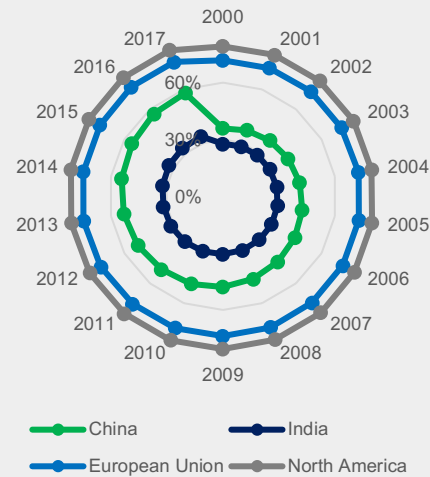
Developing Countries are expected to set an extraordinary contribution to Hydraulics growth, thanks to: 1) The Chinese Belt and Road policy, which is expected to spur billions of investments in infrastructure and logistics in the Asia-Pacific region, driving construction and material handling sectors; 2) Residential construction sector, where we highlight India’s Housing for All program, under which the government finances building and construction activities.

GDP % Growth
Exhibit 6



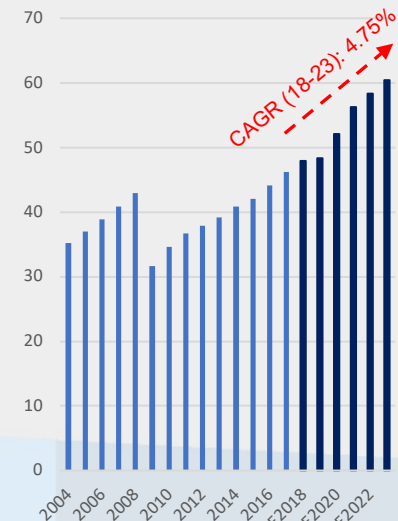
Source: Factset Data

Urban Population % of tot. population
Exhibit 7



Source: World Bank

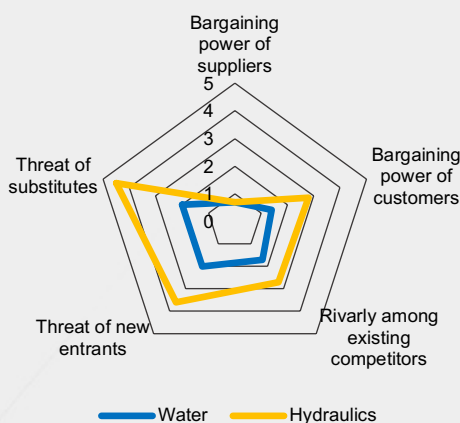
Global Hydraulics Market
Billions - Exhibit 8



Source: Global Industry Analyst Inc.

Porter's Five Force Analysis

Exhibit 9



Source: Team Analysis

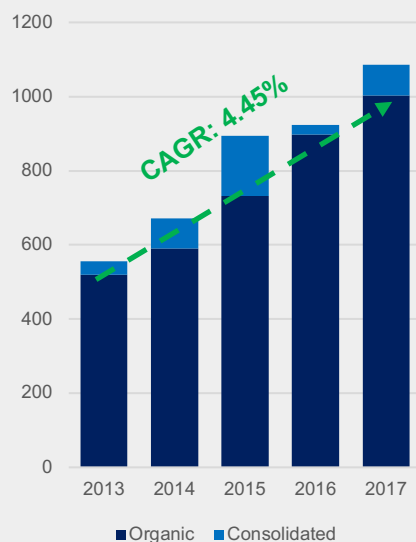
Gross Profit Margin & Market Cap IP vs Peers by Sector

Exhibit 10

Water Jetting	Gross Margin	Market Cap
Interpump Group S.p.A.	37,0%	3,06
Spirax-Sarco	35,3%	5,40
SPX Flow Inc	30,7%	1,22
Alfa Laval	33,1%	8,29
GEA Group	31,2%	4,33
Sulzer	30,7%	2,75
Flowserve	30,9%	5,03
Weir Group	30,2%	4,47
Hydraulics	Gross Margin	Market Cap
Interpump Group S.p.A.	37,0%	3,06
Gates Industrial	40,0%	3,77
Eaton Corporation PLC	33,5%	28,86
Rotork	39,6%	2,75
Parker-Hannifin Corp	24,0%	19,05

Source: Bloomberg Data

Organic growth CAGR % Millions - Exhibit 11



Source: Team Analysis

COMPETITIVE POSITIONING

We performed the Porter's five force analysis to identify the degree of competition that shapes IP's competitive environment (Appendix 6, Exhibit 9). Both the Water Jetting and Hydraulics markets are characterized by the **presence of few giant conglomerates and a large number of small local manufacturers** (almost all private companies) that compete with IP both in terms of product lines and geographic position. Despite the high diversification embedded in these markets, Interpump stands out as a leader in the Very High-Pressure Pumps and Power Take-Offs niche segments, while also being perceived as a brand synonymous of high-quality products in the Hydraulics market.

Competitive Advantages We carried out a SWOT Analysis that has highlighted the following competitive advantages (Appendix 5):

- A position of **absolute leadership in the niche market of High-Pressure Pumps and Power Take-Offs**, where IP is able to set premium prices on high-quality products (that do not suffer the threat of substitution thanks to their unrivaled performance) and still maintain some of the highest gross profit margins among its competitors (Exhibit 10)
- A strategic standardization of products, which allows IP to use the same line of production to reach diversified end-use markets. This results in a **great degree of flexibility** and a hedge against markets' cyclicity.
- A wide customer base, abundantly fragmented and **diversified across many countries and fields of applications**, that grants IP a high level of protection against cyclicity, something that smaller manufacturers focused on fewer applications or a limited geographical market cannot achieve.
- Widespread geographical presence stronger in Europe and North America enhanced by a constant organic growth as well as a targeted M&A activity.
- A level of **vertical integration** that makes possible for the company the internal production of components and limits purchases to raw materials that can be acquired in the most favorable conditions thanks to IP's worldwide network of subsidiaries.

Relevant Competitors We selected Interpump's competitors from a group of similar companies in terms of business products, geographical exposure and revenues split by division. We came out with an overall list of 11 peers, considering 7 for the Water Jetting Sector and 4 for the Hydraulics. The sample includes multinationals like Eaton and Parker Hannifin as well as smaller companies like SPX Flow and Sulzer.

FINANCIAL ANALYSIS

Our forecasts and valuation do not take into consideration potential M&A deals, given the low visibility of timing and size of transactions. Historical and projected Income Statement and Balance Sheet can be found in Appendix 8-9. Our assessment regarding further external opportunities of growth is highlighted in the section 'External growth opportunities'.

Strong M&A record fueled solid organic growth Interpump has historically achieved consistent revenues growth rates, with a CAGR of 18.2% over the 2013-17 period. Major drivers of IP performance have been: 1) **excellent track record of M&A activity**; 2) **rise of new applications for existing products**; 3) **great management of cross-selling synergies**. IP's growth through M&A has allowed to fastly increase diversification of sales across sectors and applications, reaching a global scale. The Group's organic growth recorded a CAGR of 4.45% over the 2013-17 period (Exhibit 11). This is the result of an estimated 5.18% CAGR in the Hydraulics division (representing 63.6% of sales in FY2017) and a 3.11% CAGR in Water-Jetting (36.4% of sales in 2017). From a geographical stand-point we highlight the **outstanding contribution of Far East and Oceania, where the Group's Hydraulics division achieved a 41.3% CAGR over the 2013-17 period** and Italy, where Water-Jetting experienced a 17.7% CAGR.

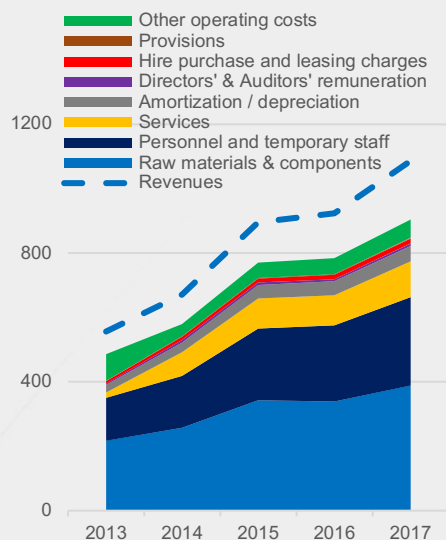
2018Q4 set to provide another record year We expect, also based on management guidance, 2018Q4 sales at € 311m, entailing annual revenues of € 1.26bn (+16.4% YoY).

Top-line growth still to express endless opportunities We believe that Interpump's global presence and strategic exposure across highly diversified sectors are a guarantee for the Company stable growth rates. In particular, we identify two main drivers for IP's growth: 1) **BRI, which we expect to boost underlying markets growth for both Hydraulics and Water-Jetting divisions**; 2) the emergence of a new middle class in developing countries, which will have **greater access to processed food, pharma and cosmetic products**. Furtherly, we expect IP to grow its market shares thanks to: 1) **excellent integration of products in smart solutions**; 2) **fidelizeation of customers through DCVs sales**, which we believe can drive long-term customer relationship and cross-selling.

We forecast IP's top-line growth separately per product line. We expect a boost for Water-Jetting sales from a 2% organic growth achieved in 2017 to 8.4% in 2018E, afterwards we expect a sustainable 5.7% CAGR 2018E-23E. IP has only recently entered the market for Flow-Handling applications. We expect the newly acquired Fluinox to generate significant synergies with Inoxpa, as their products can be

Operating costs evolution

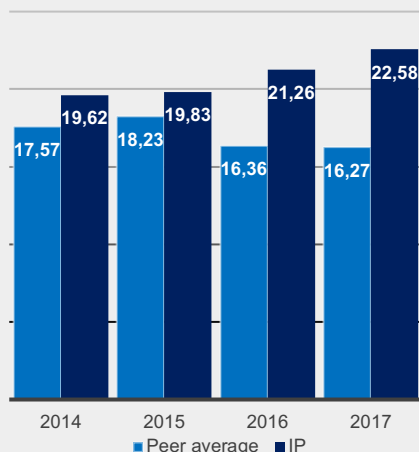
Millions - Exhibit 12



Source: Company Data

Ebitda margin % IP vs Peers

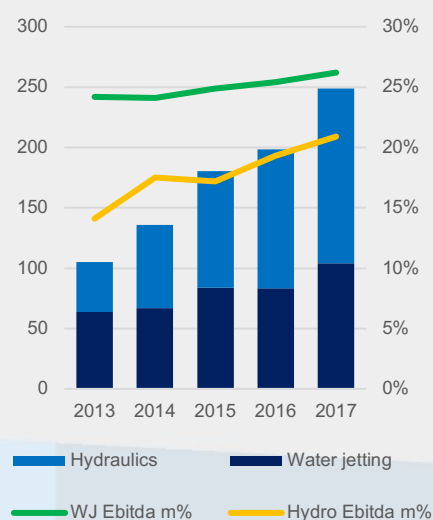
Exhibit 13



Source: Bloomberg Data & Team Calculations

Ebitda margin % by division

Exhibit 14



Source: Bloomberg Data & Team Analysis

cross-sold. For this reason, we expect a superior 7.3% CAGR of Flow-Handling products between 2017-23E. In our projections, we do not expect further market share gains for HPP, resulting in an overall 5.7% CAGR (2017-23E). In our view, the Hydraulics division will benefit from market share gains which, combined with the underlying market growth, will result in a CAGR of 9.8% from 2017-23E.

Efficiency of business model shows improvement in cost control The Company can boast an outstanding level of flexibility thanks to the standardization of its production lines, allowing fast switch of final output towards most attractive end-markets, based on current demand, suffering no switching costs. As a result, IP can maintain high levels of inventories, allowing strategic purchases when conditions are more favourable. Furthermore, fluctuations in the prices of raw materials easily translate into changes in prices applied to customers. As already mentioned, production takes place where products are sold, offering a natural hedge against foreign currency exposure (except for the translation of results in euro).

In FY2017, COGS accounted for 58.7% of sales, setting a remarkable decrease (-1.9%) over the last 5 years. **We are positive this trend will continue thanks to the active role of the Company in the optimization of production lines**, resulting in a further reduction of incidence on sales of 15bps per year in the mid-term.

Cost of raw materials represented 61.1% of COGS in FY2017 (Exhibit 12). Exposure to metals as a percentage of raw materials varies by division: 1) 19% in Water-jetting, primarily brass, stainless steel, aluminium and copper; 2) 32% in Hydraulics, mainly steel, aluminium, mild steel and iron.

SG&A accounted for 20.2% of sales in FY2017, setting a slightly decreasing incidence with respect to the last 5 years; we forecast a further 0.05% reduction of incidence on revenues per year in our projected 2018E-23E period.

Solid EBITDA margin generation ahead of peers group Between 2013 and 2017, EBITDA margin improved by 413bps, increasing from 18.5% in 2013 to 22.6% in FY2017, well above the 16.3% peer average (Exhibit 13).

Water-jetting technological superiority allowed IP to reach in FY2017 a € 104.1m EBITDA in this division (13.0% CAGR in 2013-17), generating a solid 26.2% EBITDA margin. **EBITDA for the Hydraulics division grew at a superior 36.7% CAGR in 2013-17 period**, reaching € 144.6m providing moderately lower margins (20.9%) than Water-Jetting (Exhibit 14), still higher than Hydraulics peers' average of 18.9%.

In our view, this is the result of the strategic industrial logic carried out by the Company: 1) standardization of production allows the Group to achieve exceptional growth numbers addressing the output towards the most profitable markets; 2) **IP excellently integrates its products in smart-packaged solutions, countervailing the commoditization process typical of hydraulic products**. In our projected period we forecast an improving EBITDA margin from 22.6% in FY2018E to 23.1% in FY2023E, **foreseeing room for further optimization thanks to positive trends in cost efficiencies and increase of cross-selling**.

Higher return on capital invested In FY2017 IP generated a top-tier ROIC of 11.8%, which compares to a peer group's average of 9.47%.

Long DIH to better control raw material efficiencies In FY2017, the overall conversion cycle took on average 158 days, driven up by 157 average DIH. Higher than peers but sustained by Interpump's buying policy, it allows to **contain variable costs through strategic purchases** whenever the market is more favorable. We are highly confident this policy generates greater positive effects in comparison with the cost of complexity related to maintenance of high reserves. We have no reason to foresee any movement in cash-conversion cycle in our forecasted period.

Low leverage leaves room for rapid expansion The Company uses debt to finance acquisitions. In FY2017 IP's gross debt account weighted € 418.5m, resulting in a debt/equity leverage of 0.55, abundantly lower than the peer's average of 0.78; excluding € 12.1m of financial leasing agreements, the remaining is entirely bank debt, mostly denominated in Euro. At year-end 2017, 41.9% of debt was short-term, 37.3% was due by 2019, 19.6% by 2022 and the remaining 1.2% by over 5 years. In the scenario of no M&A, **we project future levels of debt according to a deleveraging capital structure**, addressing cash generation to repayment of debt, foreseeing a positive net cash position (€ 37.6m) starting from 2021E.

Solid liquidity grants a softer line of credit conditions IP's cash covered 37% of current liabilities in FY2017, while quick ratio was 1.03, consistent with management's **commitment of maintaining high financial flexibility**. Between 2013 and 2017, Net Debt/EBITDA has been ranging around an average of 1.2, kept under control thanks to IP's policy that establishes a maximum debt of 2x EBITDA for acquisitions. In our projections, the ratio will reach 0.54 in 2019E, turning negative from fiscal year 2021E, thanks to the net cash position.

Abundant cash flow generation to provide a boost of organic growth IP generates consistent cash flow from operations, thanks to great margins and an optimal control of working capital. Between 2013 and 2017, free cash-flows (FCF) have been highly absorbed by M&A activity. Our projection of organic growth leads to a FCF rising by 42.2% CAGR (2017-2023E). We project FCF margin to reach 9.5% in 2023E. According to the Company, Capex are set in a range between 3-5% of sales, mostly driven by highly diversified end-use markets. **We put ourselves on the high-end of the guidance**, addressing cash-flows to support the highlighted trends of organic growth and production capacity.

Cost of Equity Calculation

Exhibit 15

Cost of equity		
Risk-free rate	2,97%	Avg 10y GBTP10YR Index
Beta	0,917	Adj. Beta vs FTSE It All Shares
Beta relevered	0,676	Target delevered cap.str.
ERP	5,96%	Damodaran ERP
CRP	1,51%	Weighted by % rev. 2017
Ke	8,02%	

Source: Team Analysis

Discounted Cash Flow Model

Exhibit 16

DCF calculation	
Wacc	8,02%
Long-term growth	2%
PV future FCFF (2019E-28E)	1411,5
PV terminal value	2844,0
Target EV	4255,6
Shares outstanding	108,9
Target price	36,50
Implied EV/Sales 2023	2,39x

Source: Team Analysis

Economic Value Added Model

Exhibit 17

EVA calculation	
PV of future nopat flows (2019E-28E)	992,4
PV of Terminal Value	1893,8
Total EVA	2886,2
Initial Capital Employed	1262,0
Tarvet EV	4148,2
Shares outstanding	108,9
Target price	35,52
Implied EV/sales 2023	2,33x

Source: Team Analysis

EV/Sales vs Ebit Margin

Exhibit 18



Source: Bloomberg Data & Team Analysis

VALUATION

We value IP at € 34.6, implying an upside of 23.1% from 31 Jan 2019 closing price of € 28.12.

Our methodology consists of a weighted average of DCF, EVA model and relative valuation. We assign a weight of 80% of target price to fundamental valuation (40% DCF, 40% EVA) and weight our relative valuation 20%. The reason for assigning a lower weight to the multiple approach is primarily driven by the scarcity of comparables. Our target price implies IP would be trading at 2.96x EV/Sales2019E and 12.96x EV/Ebitda2019E. We include a sensitivity analysis of our results to WACC and terminal growth rate.

DISCOUNTED CASH FLOW

Base on DCF we calculated a target price of € 36.5. IP is a mature firm with stable growing free cash-flows. As previously mentioned, our projections do not take into consideration potential external growth. Our DCF valuation consists of a 3-stages model: the first stage is built on our explicit forecasts for 2019E-23E, where we foresee a boost of organic growth; we project the second stage (2024E-28E) following the normalization of results towards stable long-term growth; terminal value is obtained with a prudent perpetual growth rate of 2%.

Target capital structure and WACC: Debt has been primarily used for acquisitions. IP's debt/equity leverage ratio was 0.50 in 2018Q3. The management guidance indicates that, excluding the unlikely scenario of a very large acquisition, the Company has no reason to move away from this ratio. However, **under the hypothesis of no M&A, keeping constant capital structure at current levels would mean to reach a very large stock of non-invested cash** (ca. € 1.6bn in 2023E), while also holding an inoperative debt capital (ca. € 890m) on which it would pay interests. Therefore, we proceed in our valuation deleveraging IP's capital, reaching a positive net cash position in 2021E (€ 37.6m). In our DCF valuation, **we set a target capital structure (debt/equity) of zero, therefore excluding cost of debt from WACC assessment.**

Cost of equity: the cost of equity for IP is estimated to be 8%, based on the CAPM methodology illustrated in Exhibit 15. We derive our assessment for the 2.97% risk-free rate by computing the average value of General 10y Italian Government Bond Index net of taxes over the last 10 years, in order to better represent a wider variety of underlying scenarios. We determine IP's beta using two years of weekly returns regressed against FTSE Italy All Shares index, resulting in a raw coefficient of 0.87 (0.92 adj.). We believe this index better embodies the reference market, rather than the FTSE MIB, as: 1) IP is not included in the latter; 2) FTSE MIB comprises only 50 stocks. We de-lever and re-lever the coefficient according to our projected target capital structure. We used an expected market risk premium for mature markets of 5.96%. Given the high exposure to diversified markets on a global scale, we take into consideration an additional Country Risk Premium of 1.51%, calculated as average CRPs weighted by geographical revenues (FY2017 data).

Cost of debt: Given our target capital structure for IP we decided not to include cost of debt in WACC calculation. IP's debt capital is entirely bank debt (excluding a small portion related to financial leasing agreements). According to our estimates, IP paid 0.90% interest rate on its debt during 2017, lower than the historical average of 1.72% (2015-2017).

WACC: We estimated the WACC at 8%.

Terminal value: we adopted a prudent approach by applying a 2% perpetual growth rate.

Our estimation entails an exit 2023E EV/Sales of 2.39x, leading to EV of € 4255.55m, corresponding to a target price of € 36.50 (+29.8% from closing price of the 31-Jan-2019, see Exhibit 16).

EVA MODEL

Based on EVA model we calculated a target price of € 35.52. We use the Economic Value Added model as sanity check on our fundamental valuation, measuring IP's capability to create value in terms of exceeding return on capital employed respect to its cost of capital. WACC and long-term growth parameters are assigned according to our DCF research. NOPAT flows are calculated net of WACC times capital employed.

Discounting NOPAT flows leads us to a fair share price of € 35.52 (+26.3%, as shown in Exhibit 17).

RELATIVE VALUATION

We performed a Relative Valuation in order to find an alternative criterion to determine Interpump's Target Price. This type of valuation was assigned a lower weight (20%) with respect to the DCF and EVA model (40% each) mainly because of the difficulties in the peers selection process.

Peers selection: there have been several reasons that led to difficulties in Interpump's peers selection process. 1) Interpump's business is spread throughout the world, thus making it impossible to focus just on one or more local markets; 2) The two divisions in which the company operates are characterized by completely different competition landscapes: IP is the biggest company in the niche of HPP, while in sectors like Flow Handling and Hydraulics is challenged by giants like Eaton and Parker Hannifin; 3) Generally, the two markets are penetrated by companies with an incomparable market capitalization (both the aforementioned giants along with countless small private firms) and where the comparable sales have different sizes as a result.

DCF Sensitivity Analysis

Exhibit 19

DCF	Perpetual growth					
	1,50%	1,75%	2,00%	2,25%	2,50%	
Wacc	8,52%	31,33	32,17	33,08	34,05	35,11
	8,27%	32,80	33,72	34,72	35,80	36,97
	8,02%	34,38	35,40	36,50	37,70	39,01
	7,77%	36,10	37,22	38,45	39,78	41,24
	7,52%	37,96	39,21	40,57	42,06	43,70

Source: Team Analysis

EVA Model Sensitivity Analysis

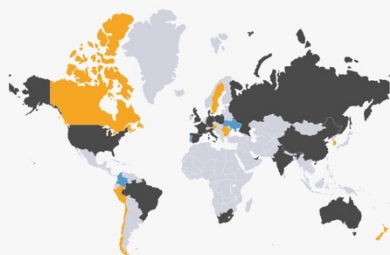
Exhibit 20

EVA	Perpetual growth					
	1,50%	1,75%	2,00%	2,25%	2,50%	
Wacc	8,52%	31,11	31,65	32,23	32,86	33,54
	8,27%	32,55	33,16	33,81	34,52	35,28
	8,02%	34,11	34,78	35,52	36,32	37,19
	7,77%	35,79	36,55	37,38	38,28	39,27
	7,52%	37,61	38,47	39,41	40,44	41,57

Source: Team Analysis

Interpump Presence in the world

Exhibit 21



- Water-Jetting
- Hydraulics
- Both Divisions

Source: Company Data

India's Target Companies

Exhibit 22

Company	Division
Investa Pumps	Water-Jetting
Oswal Pumps	Water-Jetting
Roto Pumps	Water-Jetting
Swellore	Water-Jetting
Alfa Flexitube	Hydraulics
Shah Precicast	Hydraulics
Swagelok	Hydraulics

For these reasons, we selected Interpump's peers using as main criteria similarities both in geographical positioning and in the companies' product lines along with analogous revenue split by sector.

Multiple selection: we selected EV/Sales vs Ebit Margin as the main valuation multiple, as we deem it to be the one that best describes the value that the market assigns to these companies. At the same time, it makes economic sense that the companies that achieve superior Ebit margins trade at a premium. We have conducted several OLS regression, considering both the complete list of peers and a reduced list that excludes two outliers (Spirax Sarco and Rotork), while also conducting two regression with the sector split for the different cases (please refer to Appendix 18 for the complete set of regression). The most significant regression is the one that includes the complete peers list: according to it, Interpump trades at a theoretical EV/Sales of 2.51 (+36% with respect to the average of its peers) and has a target price of € 29.1 with a 3.5% upside (Exhibit 18).

We obtain a target price of € 34.63, 80% from the fundamental valuation, equally split between the DCF value of € 36,5 and EVA's target of 35.5, and 20% from the multiples' result of € 29.1.

RISKS TO TARGET PRICE

Blue and grey sky In order to furtherly validate our BUY recommendation, we foresee the scenario in which the Company either outperforms or underperforms our estimates. We model the two scenarios on both our DCF and EVA valuations, assessing the target range as the average of the two. Our bullish scenario entails an outperformance of IP on our top-line estimates in the mid-term resulting in a 2018E-23E 8.09% CAGR (vs. 7.06% base case), which would imply a TP of € 37.89 (+34.7%) Our considerations regarding a bearish scenario are positively affected by IP's global presence and diversification: we model sales growth numbers by geographical area merely on GPD estimates, obtaining a TP of € 25.98 (-7.61%).

Montecarlo Simulation As to further confirm the results of our model's assumption on the target price we perform a Montecarlo Simulation for both the DCF and EVA model running more than a thousand simulations for each. Our intent was to study the effect of a decrease in the Ebit margin on the target price. Calculations show that more than 75% of the prices resulted from the Montecarlo simulation are above the current price of € 28.12 for both models (please refer to Appendix 19 for a complete overview of the simulations).

Sensitivity Analysis We provide a sensitivity analysis in order to test the response of both the DCF and EVA's target prices to variations of WACC and Perpetual Growth. For both variables we have analyzed the effects of a variation of +/- 0.50% and the results are displayed in Exhibit 19 and 20. The final calculation of the maximum and minimum value of the target price for both models in the football field will rely on a range of +/- 0.50% of the WACC alone, since we are confident about the 2% perpetual growth.

EXTERNAL GROWTH OPPORTUNITIES

IP has historically enhanced its global presence and product diversification through a successful track-record of M&A transactions (Appendix 21). The Company typically targets solid-performing family-run firms, with the objective of acquiring strategical know-how and technological expertise. **Thanks to its generous cash-flow generation, we estimate a potential firepower of € 100m/y (leverage not included).** Our estimates are based on the scenario in which the Company maintains a quick ratio consistent with the historical average of 1.1, addressing exceeding cash to M&A.

PRODUCT AND TECHNOLOGICAL EXPANSION

We believe M&A represents the best channel to support sales in developed markets, where growth is more restrained. Our research focused on the **trend of digitalization of hydraulics, smart integrations and Internet of Things (IoT)**. These applications allow manufacturers to track and test systems health remotely, predicting pumps malfunctioning or pipes leaking in advance thanks to artificial intelligence and cloud services (appendix 25). We identified a pool of start-ups and private companies offering what we believe it could be a suitable integrated system of products and services, including: 1) hardware for monitoring and collection of data; 2) cloud platforms for display and control of the systems (Exhibit 23). Furtherly, our research revealed SEKO S.p.A., an Italian company active in the market for Flow-handling applications, already globally present, with pioneering applications of IoT in its pumps. We believe this could drive cross-selling with the rest of IP's Flow-handling division, while also opening new opportunities in potable and waste water treatment.

GEOGRAPHICAL DEVELOPMENT

We consider targets for a geographical development with two different objectives: **consolidation and penetration of a new market**. The process of selecting the targets is composed of 3 steps: 1) Selection of the **Area**; 2) Selection of the **Country**; 3) Selection of the **Company**.

We concentrated our research along the Belt and Road Initiative (BRI), which will drive billions of dollars of direct investment in the APAC area (Appendix 20). In order to choose the targets, we took into consideration Interpump's M&A policy with respect to the multiples pay-out range of max 5x EV/EBITDA for commercial companies and max 7x EV/EBITDA for manufacturing companies.

IoT Possible Targets

Exhibit 23

Siko	Sensors and positioning systems
Elevat	Platform that captures, transmits and translates information
IoT Diagnostics	Sensors + Cloud Platform

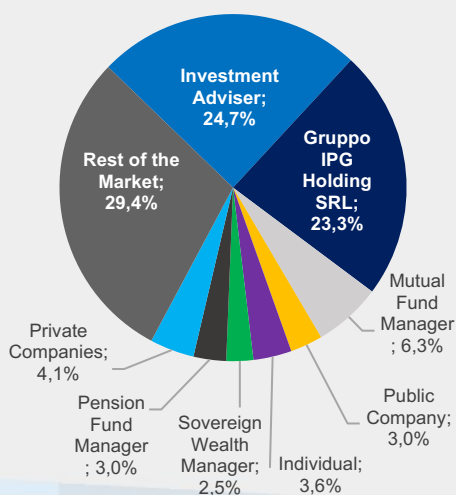
Board of Directors

Exhibit 24

Fulvio Montipò	Chairman and CEO
Paolo Marinsek	Deputy Chairman
Angelo Busani	Independent Director
Antonia Di Bella	Independent Director
Franco Garilli	Lead Independent Director
Marcello Margotto	Independent Director
Stefania Petrucci	Independent Director
Paola Tagliavini	Independent Director
Giovanna Tamburi	Director

Shareholders Structure

Exhibit 25



Source: Bloomberg

Consolidation of the market: India

Step 1 We started from the 2 macro areas of APAC and Europe, focusing on China, India and Germany. The GDP estimations for all three countries are positive with the next two years estimation of 7.5% for India, 1.9% for Germany and 6.2% for China¹.

Step 2 We believe India represents the best opportunity of consolidation, as it incorporates both drivers generated by BRI and macrotrends of urbanization and emerging middle class. The market for water pumps in India is expected to grow² at a CAGR of around 12% during 2015-2020. India's government has already announced a reconstruction plan for 500 cities with more than 100k citizens involved. At the same time, the food processing market has the potential to attract more than \$ 33 billion by 2024⁴.

Step 3 We considered the Indian firms which are producing Water Jetting and Hydraulic products. Out of all these companies, we selected those which offer similar products for a possible deal (Exhibit 22).

Expansion in a new market: Pakistan

Step 1 For the scenario of a new market, we consider: Malaysia, Thailand and Pakistan. All these three countries are expected to grow in the next years and they will be included in the BRI. The estimated GDP growth (2018-21) are: 5.62% for Pakistan, 3.86% for Thailand and 4.66% for Malaysia.

Step 2 We focused our research on Pakistan. The signing of the China-Pakistan Economic Corridor (CPEC), which is expected to attract projects for a value of \$ 60 billion⁵, will be a key factor not only in giving a boost to the construction sector, but overall to Pakistan's image abroad⁶. CPEC projects include the \$ 2.8bn Peshawar-Karachi Motorway, set to open in August 2019, and the East Bay Expressway in Gwadar Port in the south, which is due to be completed later this year. Both will dramatically help to facilitate real estate developments on previously barren land⁷.

Step 3 Out of all the companies in the IP segments, we focused on HMA Pumps as a possible target. The reason relies on the similar product range, a good list of partnership with other companies (also Italian ones like Rovatti Pompe, Fagiolati Pumps S.p.a., FELM and DOSEURO) and a list of important customers in the country.

CORPORATE GOVERNANCE

Interpump Group S.p.A has been listed on the Italian Stock Exchange Market since 1996 and is part of the **STAR segment**, an acknowledgement that further highlights the qualities of the company. The company follows the **Code of Corporate Governance of listed companies approved in July 2015**, promoted by Borsa Italiana S.p.A, ABI, Ania, Assogestioni, Assonime and Confindustria.

Corporate Management Interpump Group's **Board of Directors** (Exhibit 24, Appendix 22 and 24) defines guidelines for control and risk management while the **Board of Statutory Auditors** carries on supervising functions. The main structure includes four committees in charge of **Control and Risk, Remuneration, Nomination and Related Party Transactions**.

Shareholder structure IP's chairman, **Fulvio Montipò**, is one of the main shareholders of **Gruppo IPG Holding S.p.A.**, which has a **23.3%** controlling interest in Interpump Group S.p.A. Other relevant shareholders (Exhibit 25) include institutional investors like **Fidelity Management and Research**, with a **5.34%** participation, **Fin Tel Srl** with a **4.13%** participation and **MAIS S.P.A.**, which owns **2.99%** of outstanding shares. Noteworthy is also the recent issuance of a **3%** amount of **Treasury Shares** by the company. IPG Holding is controlled by the **Montipò family** who has a **66.7%** participation, while the remaining **33.3%** is owned by **Tamburi Investment Partners**.

One of the main points of interest regarding the ownership structure of the company is that when a subsidiary is acquired by Interpump, part of the deal usually involves a payment consisting of IP stocks. Acquisitions are indeed generally preceded by **IP stock buy-backs**. This policy is aimed at creating a stronger bond between the company and its subsidiaries.

Remuneration Policy Interpump's Remuneration Policy has been designed to align the interests of the management team with the medium/long-term interests of the shareholders. It is based on a **fixed component plus variable short-term components** along with **additions for long-term objectives**. Executives and Non-Executives members are subject to the following terms.

- **Executives:** a fixed amount increased by a variable amount for special functions. Their remuneration is assigned by the Board of Directors from Remuneration Committee propose;
- **Non-executives:** is decided by the Board of Directors, based on the Remuneration Committee, includes additional compensations for participation in one or more committees.

Responsibility The **Code of Corporate Governance** denotes attention to the topics enshrined in the Italian legislative decree no. 254 of 30 December 2016, about environmental, social, and personnel-related themes, respect for human rights, and anti-corruption initiatives. Participating in Ecomondo in November 2018, a leading expo for the green and circular economy, the Company pursues the objective of **making products available for public services** such as street cleaning, sewage maintenance and sweepers.

Interpump adopts its own **Code of Ethics** which expresses the commitments and ethical responsibilities in the pursuit of business and corporate activities (Appendix 23). This is also applied to the conduct of collaborators and third parties, both in Italy and abroad with regard to the cultural, social, economic and regulatory diversities existing in various countries in which IP Group companies operate.

¹ - Source: <https://www.maiervidomo.com/construction-industry-india-growth-innovative-technologies/>

² - Source: https://cein.fas.usda.gov/Recent%20GAIN%20Publications/Feed%20Processing%20Ingredients_New%20Delhi_India_1-3-2018.pdf

³ - Source: <https://www.techsresearch.com/news/318-india-water-pumps-market-to-grow-at-around-12-til-2020.html>

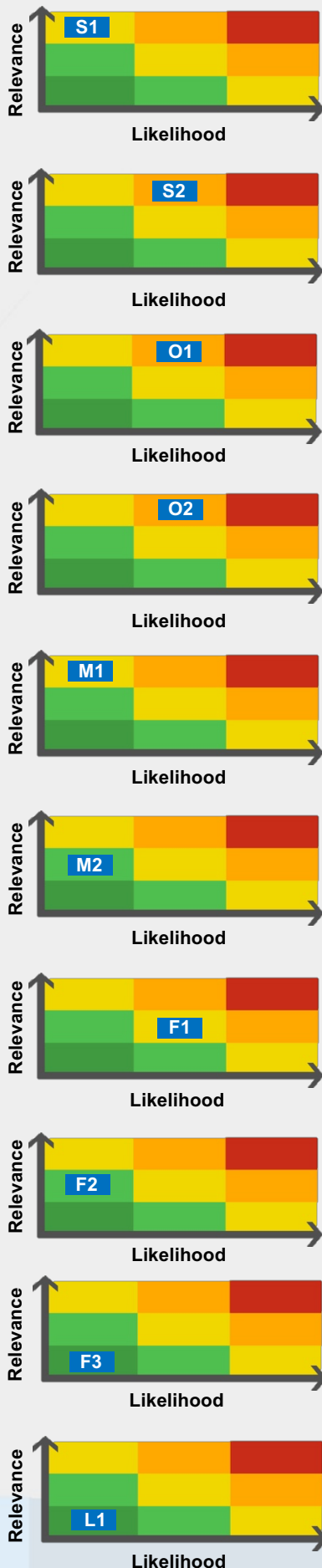
⁴ - Source: <https://www.csis.org/analysis/how-big-chinas-belt-and-road>

⁵ - Source: <https://tribune.com.pk/story/1538687/2-infrastructure-building-pakistans-construction-industry-hot-cake-foreign-investors/>

⁶ - Source: <https://www.worldfinance.com/infrastructure-investment/chinese-investment-in-pakistans-infrastructure-driving-countys-real-estate->

Risk Matrices

Exhibit 26



INVESTMENT RISKS

STRATEGIC RISKS

Risk of Competition (S1) The differences between Water Jetting and Hydraulics sectors make necessary completely different considerations about the two competitions risks. New entrants or an increase in investments by already established competitors could have a negative impact on Interpump's position.

In the Water Jetting sector, Interpump maintains a position of absolute leadership, thanks to its high market penetration and know-how that has allowed the company to produce high quality and innovative products.

In the Hydraulics sector, a wide product range is key, and this puts Interpump in an unfavourable position with respect to giants such as Eaton and Parker Hannifin, while giving it a hedge against country based manufacturers of cheaper products.

Inability to penetrate new markets (S2) Countries like India and China could represent a considerable growth opportunity for Interpump, but two main factors could limit the penetration of the company in these emerging markets. First, the Water Jetting sector may not already have enough demand for the high-quality products made by Interpump. Second, the large number of smaller competitors that are already established in these areas could represent a high barrier to entry.

OPERATIONAL RISKS

Inability To Acquire New Companies (O1) Since Interpump growth has been historically boosted by M&A, the inability to acquire new firms could result in an overall slowdown of their geographical reach and product range expansion. Interpump's use of a smart M&A policy makes the likelihood of this scenario's happening quite low.

Inability To Integrate New Companies (O2) Inefficient incorporation of the newly acquired companies could lead Interpump to underperform with respect to the growth expected as a result of these activities. Integrating the IT systems, maintaining key figures in the subsidiary's management team and the overall exploitation of synergies all help IP to avoid this kind of risk.

MARKET RISKS

Volatile Raw Material Prices (M1) The purchase of raw materials weighted 43.0% of total expenditures in 2017 (excluding financial and non-operating costs). Due to such a high weight, a rise in the raw materials costs could heavily impact the company's prices. Buying in advance and maintaining a significant level of inventories allows Interpump to purchase with timing that fits the most favourable conditions. Aside from this, the company has declared the intention to keep its margins at a fairly stable level.

Development Of New Technologies (M2) New technologies or alternative products could be developed first by Interpump's competitors, negatively impacting on the company's results. Since the products sold by IP employ marginal improvements, this doesn't seem to be an immediate threat for the company.

FINANCIAL RISKS

Increasing Interest Rates (F1) Increases in interest rates could partially impact on profitability. IP raises debt funds merely through bank institutions (plus a small portion of debt due to financial leasing agreements). At year-end 2017 net debt accounted for € 273.5M, implying a debt/equity ratio of 0.55, therefore the overall impact of future possible rises of interest rates on pre-tax profit would only marginally affect profit margin, as illustrated in our sensitivity analysis [Appendix 13].

Liquidity (F2) Tension can arise if it becomes impossible to obtain, at acceptable economic conditions, the financial resources needed for the Group's business operations. Short term liabilities mainly consist of payables and current portion of bank loans. IP's cash and equivalents covered half (0.49) current liabilities on average over the last five years. According to our estimations, cash position is going to significantly increase if no M&A deals are taken. Furthermore, IP has consistently fully covered current liabilities with quick assets (average historical quick ratio 1.17).

Foreign Risk Exchange (F3) The Group is exposed to risks related to fluctuations in currency exchange. Because of its geographical positioning, the main exchange rates to which it is exposed are: EUR/USD, EUR/AUD, EUR/CAD, EUR/GBP, USD/EUR, RON/EUR, Chilean Peso/USD, Indian rupee/USD. Selling its products in the same countries where they are produced hedges Interpump against this type of risk.

REGULATORY AND LEGAL RISKS

Trade Regulations (L1) IP could be exposed to fees and regulations enforced by the various countries where it operates. The company is partly avoiding this risk thanks to the same solutions that protect it against Foreign Exchange Risk.

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APPENDIX 1: SUBSIDIARIES OVERVIEW

	Subsidiary	Market	Main product
Water-jetting	Interpump Pratisoli	HPP	Plunger pumps, high flow / high pressure (< 450 hp)
	NLB Corp.	HPP	Production and rental of high-pressure pumps and complete systems
	Inoxihp	HPP	Specialized solutions for steel and mining industry
	Hammelmann	HPP	High-pressure pumps (up to 1500hp - 4500bar / 65K psi); design and supply of turnkey solutions
	Bertoli	Flow-handling	Homogenizers for food, pharma and pharmaceutical industry
	Inoxpa	Flow-handling	Pumps, mixers, components and systems for food, pharma & cosmetics
	Mariotti & Pecini	Flow-handling	Mixers and agitators
	Fluinox	Flow-handling	Systems for food, pharma and cosmetics
Hydraulics	Interpump Hydraulics	Power take-offs	Power take-offs
	Muncie Inc.	Power take-offs	Power take-offs
	Panni Oleodinamica	Cylinders	Hydraulic cylinders for mobile and fixed applications
	Contarini	Cylinders	Hydraulic cylinders for mobile and fixed applications
	Walvoil	Valves	Valves, DCVs, Gear pumps
	I.M.M	Others	Rubber hoses
	Tubiflex	Others	Metallic flexible hoses
	GS-Hydro	Others	Rigid pipes & piping systems
	American Mobile Power	Others	Tanks reservoirs
	Mega Pacific		Distributor for Oceania

APPENDIX 2: PRODUCTS APPLICATIONS

Water-Jetting



High-pressure pumps

Homogenizers

Agitators

Mixers



HIGH PRESSURE
HOMOGENIZERS
AND PISTON PUMPS

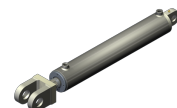


MARIOTTI & PECINI
AGITATORI / POMPE PER ACIDI



INOXPA
SPECIALIZED SOLUTIONS

Hydraulics



Power Take-Offs

Directional Control Valves

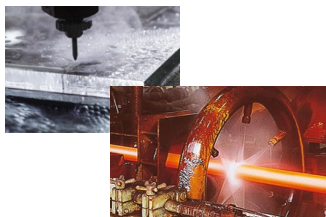
Hydraulic Cylinders

Hoses and Piping Systems



Applications

High-pressure pumps



High-pressure pumps applications include hydro-demolition, descaling of steel bars, cutting of bodywork, cleaning of barrels, car washing systems, water blasting paint removal, food cutting and many others

Flow Handling



Flow handling involves equipment used in food processing, pharma and cosmetics manufacturing

Mobile Applications



Mobile applications range from agricultural machines to heavy trucks, dumpers, bulldozers, diggers, dump trucks, snowplows and many others





Fixed Applications



Fixed applications include cranes, lifting and tilting platforms for construction, ships, ports and in general industrial plants

APPENDIX 3: WATER-JETTING COMPARED TO OTHER TECHNOLOGIES

The table below displays a comparison between the most popular cutting technologies, highlighting the many pros of water-jetting with respect to Plasma, Laser and EDM cutting.

	Process	Materials	Thickness	Part Accuracy	Capital Investment	Machine Setup
Waterjet 	Erosion, using high-speed liquid sandpaper	Any material	Up to 24 inches, any materials	Up to .001 inch	\$60k-\$300k +	Same setup for all materials
Plasma 	Burning/Melting, using high-temperature ionized gas arc.	Primarily steel, stainless steel and aluminium	Up to 2-3 inches, depending on material	Up to .010 inch	\$60k-\$300k +	Different setup for different jobs
Laser 	Melting, using concentrated laser light beam	Primarily steel, stainless steel and aluminium.	1 inch or less, depending on materials	Up to 0.001 inch	\$200k-\$1M +	Different gases/parameters for different jobs
EDM 	Erosion, using electrical discharge	Conductive materials	12 inches or less	Up to .0001 inch	\$100k-\$400k +	Different wire types for different jobs

APPENDIX 4: HYDRAULICS MARKET FORECAST

Our estimation of the hydraulic market is based on a sampling method that uses sample amounts of data and calculates the growth estimation of the overall market.

Three indicators are taken into consideration: are nominal GDP growth (Source: Factset), urban population (the percentage of the total population in urban areas) and global steel production (Source: World Bank). Those are our independent variables chosen with respect to macro and micro perspectives while the hydraulic market represents the dependent variable.

We applied the Ordinary Least Square as an econometric methodology to show interaction among chosen variables linked to their independent characteristics and co-movements.

As a result, we come out with a regression characterized by meaningful parameters and an acceptable R^2 .

Model: OLS, using observations 2004-2017 (T = 14)				
Dependent variable: Hydraulics Marketdata				
	Coefficient	Std. Error	t-ratio	p-value
GDP Global	0,189165	0,0661989	2,858	0,0156 **
Urban Population	0,125587	0,02211	5,68	0,0001 ***
Global Steel Production	1,67E-06	8,33E-07	2,006	0,0700 *
Mean dependent Var	9,395615	SQM var. dependent		0,962875
Sum squared Resid	6,498675	E.S. of regression		0,768628
R-squared	0,954792	R-square adjusted		0,953846
F(3, 11)	677,3845	P-value(F)		9,35E-13

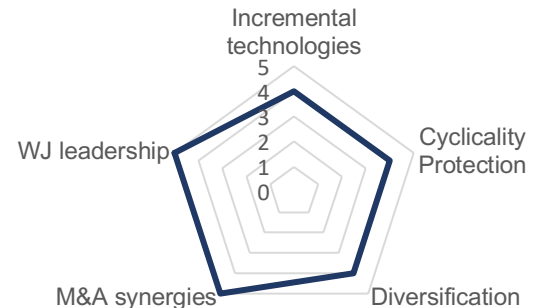
APPENDIX 5: SWOT ANALYSIS

We decided to carry out a Swot analysis assigning to each driver a score between 1 (very low) and 5 (very high) considering the characteristics of Interpump. The grades in each category are displayed in the following graphs and tables.

STRENGTHS

Score

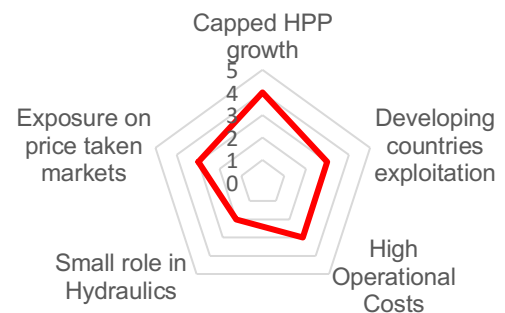
Worldwide leadership in a niche market segment of high-pressure plunger pumps and PTO, with great premium prices	5
Geographical presence through an extended group of efficiently integrated subsidiaries	4
High level of protection against cyclicity thanks to diversification in both segments and product lines	4
Successful exploitation of M&A synergies due to clever industrial focus in the selection of targets	5
Incremental technology makes leadership turnover in HPP unlikely to happen	4
Total	22



WEAKNESSES

Score

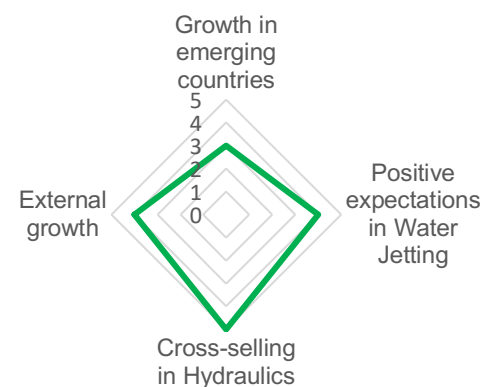
The high-pressure-pump segment is characterized by weak potential growth	4
Still untapped opportunities in developing countries	3
High operational costs due to the operation size	3
Small size in Hydraulics when compared to market leaders	2
High dependence on revenues coming from commodity-like products, such as PTOs	3
Total	15



OPPORTUNITIES

Score

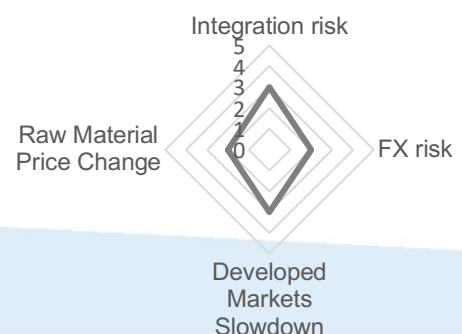
Favourable long-term growth prospects in emerging countries such as China, India, South Korea and Latin America	3
Positive expectations in water-jetting sector driven by continuous new applications	4
Growth expectations in Hydraulics sector given by cross-selling and bundling activity	5
External Growth determined by the acquisition of growing companies	4
Total	16



THREATS

Score

Hypothetical integration risk in the acquisition of new companies	3
FX translation risk	2
A general slowdown in developed geographical markets	3
Raw materials price variations	2
Total	10



APPENDIX 6: PORTER FIVE FORCES

We implemented a relative double analysis for Water Jetting and Hydraulics, since the two sectors are characterized by different features.

		Overall	Water	Hydro	Water	Hydro
Bargaining power of suppliers	Concentration of suppliers	1			IP is vertically integrated and it basically only acquires raw materials (metals such as steel, brass, cast, aluminium, iron copper and other alloys) on international markets.	
	Size of suppliers	1			There is no supplier that can individually drive the price of these commodities.	
	Supplier switching costs	0			No switching costs, raw materials are acquired on the international markets of commodities.	
Bargaining power of customers	Number of customers	1			Wide customer base, diversified over many countries and fields of applications, in both Water Jetting and Hydraulics divisions.	
	Size of customers	1			No customer accounts for more than 1% of consolidated revenues; sales from 20 largest customers are just 10% of consolidated sales.	
	Price sensitivity		1,5	5	In the HPP market, customers have little to no bargaining power, as the company is the absolute leader of the highly specialized niche. The overall effect on the Water Jetting division is low.	Hydraulics market is characterized by the commoditization of products, as product differentiation is low and prices tend to be set by competitive dynamics.
	Ability to substitute		2	4	Water jetting products are highly differentiated therefore less subject to substitution threats.	Hydraulics sector is generally composed of commodity-like products for which customers have a high power of substitution. An exception is DCVs which are customized on customer needs.
Rivalry among existing competitors	Industry concentration	2			Both Water Jetting and Hydraulics markets are characterized by the presence of a handle of huge firms coexisting with countless little players.	
	Competitors size and power		2	3	IP is a global leader in the niche of HPP (40%+ market share) but a relatively small player in Flow Handling market.	IP is a larger manufacturer of power take-offs (50% market share) but just a small player in the market for cylinders, valves, tubes etc..
	Innovation opportunities		1	3	Water Jetting sector is characterized by incremental innovation, by which there is no threat of disruptive changes and technology leadership turnover.	We remain neutral on the assessment regarding innovation opportunities among rivals of Hydraulic division, as the definition itself of this market is not precise.
The threat of new entrants	Know-how requirements		2	4	IP possesses distinctive know-how in the Water Jetting division that makes the entry of the sector for new firms less attractive.	Most products are standardized and do not require rare competences.
	The threat of technological leadership turnover		1	3	Incremental innovation makes technological leadership turnover less likely.	We remain neutral on the assessment regarding innovation opportunities among rivals of Hydraulic division, as the definition itself of this market is not precise.
	Initial investment		1	3,5	The initial investment is high in comparison to overall market size.	The threat of entrants is likely, but the impact is low as the growth of the market and applications mitigate the effects. Furthermore, new entrants require a large product portfolio in order to be competitive.
	Economies of scale & bundling	4			IP has a cost advantage related to economies of scale (horizontal expansion) and bundling (conglomerate expansion), acquired with successful M&A activity.	
The threat of substitute products	Price-performance offer		2	5	IP has a strong technology advantage in the Water Jetting sector.	Most products are standardized and are driven by cost-price dynamics.
	Perceived level of product differentiation		2	4	Level of differentiation is extremely high in HPP and high in Flow Handling, with marked premium prices.	Standardized and commodity-like products.

APPENDIX 7: MOAT ANALYSIS

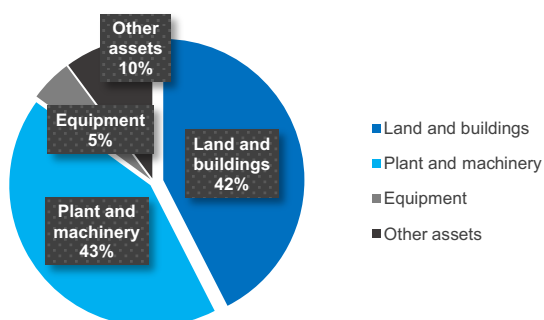
An Economic Moat allows us to analyse its sustainable advantages that protect from competitors within industry. The model divides moats into three categories as wide, narrow or no moat, taking into account advantages for the company.

Company Sources	Specific	Additional Information	WJ Score	Compound	Hydraulics Score	Compound	Overall	MOAT Valuation
Cost Advantage	SCALE	IP has a cost advantage related to economy of scale and by outstanding M&A activities. Various, IP is sufficiently vertically integrated to produce internally components for its products, relying on suppliers merely for raw materials (metals and alloys). IP actively reduces variable costs strategically maintaining reasonable levels of inventories, in order to reduce exposure to supply prices fluctuation.	4		3			
				3,5		3,5	3,5	Wide
	LOCATION	IPG has a large geographical presence thanks to subsidiaries and manufacturing plants. We believe that Backing-up service is a crucial point for costumers in the machinery sector. Having a large geographical presence underpins and provides a cost advantage.	3		4			
Size Advantage	Size Advantage	IPG produces a wide range of products which use the same inputs to be produced in Hydraulic Sector. However, IPG is one of the small players in the market. Thereby, IPG does not have a size advantage in the Hydraulics market. On the other hand, IPG manufactures niche products in HPP also dominates more than 40% of the market share. By that, IPG has a size advantage in the HPP market.	4	4	3	3	3,5	Wide
Network Effect		We do not assess any network effect on IP business. In general, number users do not have an effect on the value of the service or product in HPP and Hydraulics sectors.	1	1	1	1	1	No Moat
Customer Switching Costs	Customer Switching Costs	IP is the leader in the niche market of Water Jetting and Power Take-off . In light of these information costumers switching cost is considerably high in HPP market and Power Take-off market . On the other hand, the switching cost is quite low for customers in Hydraulics market since almost all companies produce the same products.	4	4	2	2	3	Wide
Intangible Assets	BRAND	Interpump is not well known as a brand due to its purchasing policies. Generally, they do not change the brands of the companies are acquired and IPG produces under the brand name of the purchased companies.	2	2	2	2	2	Narrow

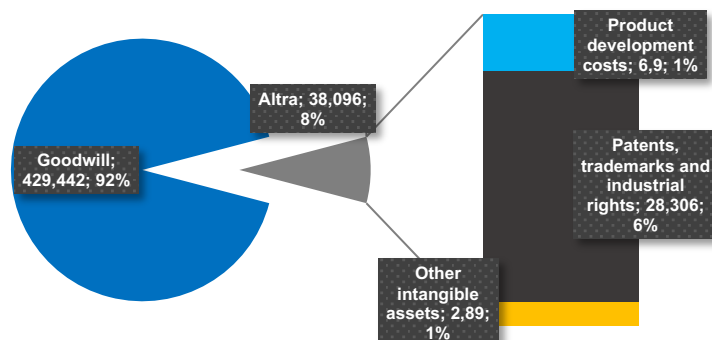
APPENDIX 8: BALANCE SHEET

In EUR Millions, except per share data	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
Assets											
Cash & equivalents	105,31	87,16	135,13	197,89	144,94	176,02	305,91	418,32	525,71	638,66	657,30
Accounts receivable	113,73	135,63	178,13	200,02	236,76	259,84	281,40	302,72	324,02	344,46	365,43
Inventories	145,99	182,46	238,64	257,55	291,70	328,43	353,86	377,34	402,84	427,15	451,97
Tax receivables	6,03	10,48	14,36	11,14	15,41	18,33	20,06	21,58	23,17	24,73	26,35
Other current assets	5,62	6,86	7,81	7,69	8,30	13,28	14,38	15,47	16,56	17,60	18,67
Total current assets	376,69	422,59	574,07	674,28	697,11	795,90	975,61	1135,43	1292,30	1452,61	1519,73
Net PP&E	150,67	209,07	286,07	300,92	321,83	346,32	370,37	396,51	424,47	453,84	484,58
Goodwill	234,79	279,37	347,39	390,71	429,44	426,72	426,72	426,72	426,72	426,72	426,72
Intangible assets	23,76	24,65	33,19	30,04	38,10	46,92	52,61	56,84	61,25	65,78	70,42
Deferred tax assets	22,60	24,49	27,12	25,85	26,68	31,61	32,87	33,88	36,27	38,56	40,90
Other non-current assets	2,64	2,37	2,23	2,44	3,73	3,84	4,16	4,48	4,79	5,09	5,41
Total non-current assets	434,45	539,96	696,01	749,96	819,78	855,43	886,74	918,43	953,50	989,99	1028,03
Assets held for sale	0,00	0,62	0,00	0,00	0,79	0,00	0,00	0,00	0,00	0,00	0,00
Total assets	811,13	963,16	1270,07	1424,24	1517,67	1651,33	1862,35	2053,85	2245,80	2442,60	2547,76
Liabilities and Equity											
Accounts payable	69,99	80,27	94,02	109,00	142,98	135,83	146,35	157,03	167,64	177,76	188,09
Bank payables	20,93	27,77	5,74	2,40	8,96	6,23	6,55	6,72	6,73	6,55	4,92
Interest-bearing current debt	61,37	64,30	83,83	124,78	166,47	133,47	140,33	144,09	144,30	140,38	105,46
Tax payables	5,72	11,67	19,90	18,13	18,54	22,40	24,51	26,37	28,32	30,23	32,21
Provisions for risks and charges	3,97	4,16	4,42	3,62	3,61	6,45	6,99	7,52	8,05	8,56	9,08
Other current liabilities	45,80	38,29	48,92	49,81	54,04	58,61	63,31	67,94	72,54	76,92	81,40
Total current liabilities	207,79	226,46	256,83	307,74	394,58	362,99	388,04	409,67	427,58	440,38	421,15
Long-Term Debt	111,69	147,06	300,55	327,97	243,06	311,81	327,84	336,62	337,11	327,95	246,38
Deferred tax liabilities	26,46	33,44	48,10	47,76	41,50	37,94	41,08	44,20	47,31	50,29	53,35
Provisions for risks and charges	1,53	1,95	2,68	2,87	3,16	3,71	2,60	2,69	2,80	2,90	3,01
Other long term liabilities	30,72	87,55	39,28	60,37	70,44	44,17	42,30	36,53	30,75	32,61	34,51
Total long term liabilities	170,40	269,99	390,61	438,96	358,16	397,63	413,82	420,05	417,97	413,75	337,25
Liabilities held for sale	0,00	0,16	0,00	0,00	0,20	0,00	0,00	0,00	0,00	0,00	0,00
Total liabilities	378,18	496,61	647,45	746,70	752,95	760,62	801,86	829,71	845,55	854,13	758,41
Shareholders' equity	426,69	460,70	617,16	673,74	759,17	885,15	1054,92	1218,58	1394,69	1582,90	1783,79
Minority interest	6,26	5,86	5,47	3,79	5,56	5,56	5,56	5,56	5,56	5,56	5,56
Total equity	432,95	466,55	622,63	677,54	764,73	890,71	1060,48	1224,15	1400,26	1588,47	1789,36
Total liabilities and equity	811,13	963,16	1270,07	1424,24	1517,67	1651,33	1862,34	2053,86	2245,80	2442,60	2547,76

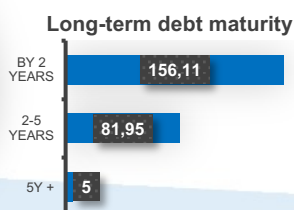
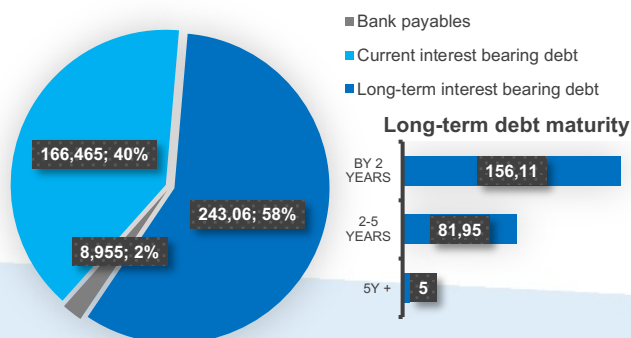
PP&E composition



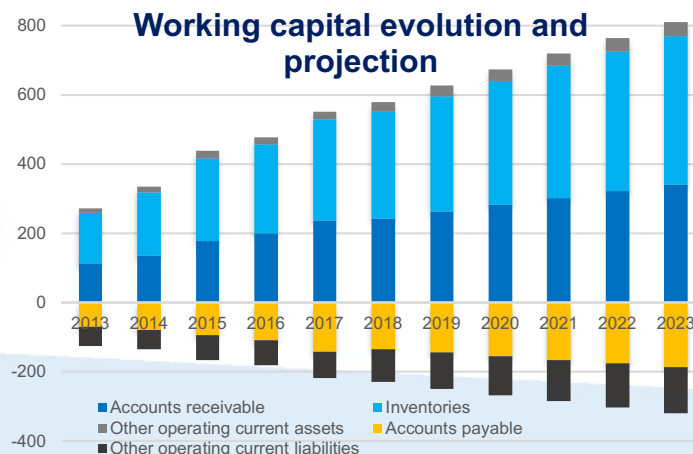
Intangible assets composition



Debt composition at year-end 2017



Working capital evolution and projection



Source: Company Data

APPENDIX 9: INCOME STATEMENT

In EUR Millions, except per share data	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
Sales:											
Water-jetting	262,4	275,8	334,7	326,0	395,6	429,0	457,0	486,7	514,3	540,8	566,8
Hydraulics	294,1	396,2	560,3	596,8	690,9	835,6	912,5	986,5	1062,6	1135,6	1211,6
Revenue	556,5	672,0	894,9	922,8	1086,5	1264,6	1369,5	1473,2	1576,9	1676,4	1778,4
Cogs	337,3	405,6	546,8	552,3	637,4	740,0	797,3	855,5	913,3	968,4	1024,7
Gross profit	219,3	266,4	348,1	370,5	449,1	524,6	572,2	617,8	663,6	708,0	753,8
<i>% of sales</i>	<i>39,4%</i>	<i>39,6%</i>	<i>38,9%</i>	<i>40,2%</i>	<i>41,3%</i>	<i>41,5%</i>	<i>41,8%</i>	<i>41,9%</i>	<i>42,1%</i>	<i>42,2%</i>	<i>42,4%</i>
Other operating income	8,4	10,1	12,0	13,5	15,7	15,6	15,7	14,1	12,8	11,6	10,3
Sg&a	125,0	144,6	182,7	187,8	219,5	254,8	275,3	295,4	315,4	334,4	353,9
EBITDA	102,7	131,8	177,5	196,2	245,3	285,4	312,6	336,5	361,1	385,2	410,1
<i>% of sales</i>	<i>18,5%</i>	<i>19,6%</i>	<i>19,8%</i>	<i>21,3%</i>	<i>22,6%</i>	<i>22,6%</i>	<i>22,8%</i>	<i>22,8%</i>	<i>22,9%</i>	<i>23,0%</i>	<i>23,1%</i>
Depreciation & amortization	23,7	30,0	41,7	43,6	47,5	46,3	51,1	55,1	59,1	63,3	67,8
EBIT	79,0	101,9	135,8	152,6	197,9	239,0	261,6	281,4	302,0	321,9	342,3
<i>% of sales</i>	<i>14,2%</i>	<i>15,2%</i>	<i>15,2%</i>	<i>16,5%</i>	<i>18,2%</i>	<i>18,9%</i>	<i>19,1%</i>	<i>19,1%</i>	<i>19,2%</i>	<i>19,2%</i>	<i>19,3%</i>
Financial expense	12,9	19,5	15,7	12,9	21,4	21,7	23,5	25,1	26,5	27,7	28,7
Financial income	4,9	8,1	42,4	7,9	14,7	13,6	14,7	15,8	17,0	18,0	19,1
Pre-tax profit	71,1	93,1	163,4	148,5	192,2	232,0	253,8	273,1	293,3	313,0	333,5
Taxes	27,0	35,4	45,1	54,0	56,4	67,9	74,3	79,9	85,8	91,6	97,6
Minority interest	0,89	0,81	0,67	0,62	1,28	1,28	1,28	1,28	1,28	1,28	1,28
Net income av. to common	44,1	57,7	118,3	94,5	135,7	162,8	178,3	191,9	206,2	220,1	234,6
<i>% of sales</i>	<i>7,9%</i>	<i>8,6%</i>	<i>13,2%</i>	<i>10,2%</i>	<i>12,5%</i>	<i>12,9%</i>	<i>13,0%</i>	<i>13,0%</i>	<i>13,1%</i>	<i>13,1%</i>	<i>13,2%</i>
<i>Avg. period shares outstanding, diluted</i>	<i>105,85</i>	<i>107,26</i>	<i>108,35</i>	<i>106,62</i>	<i>108,01</i>	<i>105,42</i>	<i>105,42</i>	<i>105,42</i>	<i>105,42</i>	<i>105,42</i>	<i>105,42</i>
Diluted EPS	0,41	0,53	1,09	0,88	1,24	1,54	1,69	1,82	1,96	2,09	2,23
I/S items growth% YoY	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
Water-jetting		5,1%	21,3%	-2,6%	21,4%	8,4%	6,5%	6,5%	5,7%	5,2%	4,8%
Hydraulics		34,7%	41,4%	6,5%	15,8%	20,9%	9,2%	8,1%	7,7%	6,9%	6,7%
Revenue		20,8%	33,2%	3,1%	17,7%	16,4%	8,3%	7,6%	7,0%	6,3%	6,1%
Cogs		20,3%	34,8%	1,0%	15,4%	16,1%	7,7%	7,3%	6,8%	6,0%	5,8%
Gross profit		21,5%	30,7%	6,4%	21,2%	16,8%	9,1%	8,0%	7,4%	6,7%	6,5%
Sg&a		15,7%	26,3%	2,8%	16,9%	16,1%	8,0%	7,3%	6,8%	6,0%	5,8%
EBITDA		28,4%	34,6%	10,5%	25,0%	16,3%	9,6%	7,6%	7,3%	6,7%	6,5%
Depreciation & amortization		26,3%	39,2%	4,6%	8,9%	-2,3%	10,2%	7,9%	7,2%	7,2%	7,0%
EBIT		29,0%	33,3%	12,4%	29,6%	20,8%	9,4%	7,6%	7,3%	6,6%	6,4%
Financial expense		51,6%	-19,6%	-18,0%	66,6%	1,3%	8,4%	6,8%	5,6%	4,4%	3,5%
Financial income		64,8%	420,8%	-81,5%	86,8%	-7,4%	8,3%	7,6%	7,0%	6,3%	6,1%
Pre-tax profit		31,0%	75,5%	-9,1%	29,4%	20,7%	9,4%	7,6%	7,4%	6,7%	6,6%
Taxes		31,1%	27,4%	19,9%	4,5%	20,3%	9,4%	7,6%	7,4%	6,7%	6,6%
Net income av. to common		31,0%	104,9%	-20,1%	43,7%	19,9%	9,5%	7,6%	7,4%	6,8%	6,6%
I/S margins as % of sales	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
Cogs		60,6%	60,4%	61,1%	59,8%	58,7%	58,5%	58,2%	57,9%	57,8%	57,6%
Gross profit		39,4%	39,6%	38,9%	40,2%	41,3%	41,5%	41,8%	42,1%	42,2%	42,4%
Sg&a		22,5%	21,5%	20,4%	20,3%	20,2%	20,1%	20,1%	20,0%	19,9%	19,9%
EBITDA		18,5%	19,6%	19,8%	21,3%	22,6%	22,6%	22,8%	22,9%	23,0%	23,1%
Depreciation & amortization		4,3%	4,5%	4,7%	4,7%	4,4%	3,7%	3,7%	3,7%	3,8%	3,8%
EBIT		14,2%	15,2%	15,2%	16,5%	18,2%	18,9%	19,1%	19,1%	19,2%	19,3%
Financial expense		2,3%	2,9%	1,8%	1,4%	2,0%	1,7%	1,7%	1,7%	1,7%	1,6%
Financial income		0,9%	1,2%	4,7%	0,9%	1,4%	1,1%	1,1%	1,1%	1,1%	1,1%
Pre-tax profit		12,8%	13,9%	18,3%	16,1%	17,7%	18,3%	18,5%	18,5%	18,6%	18,8%
Taxes		4,8%	5,3%	5,0%	5,9%	5,2%	5,4%	5,4%	5,4%	5,5%	5,5%
Net income av. to common		7,9%	8,6%	13,2%	10,2%	12,5%	12,9%	13,0%	13,0%	13,1%	13,2%

APPENDIX 10: SALES BREAKDOWN

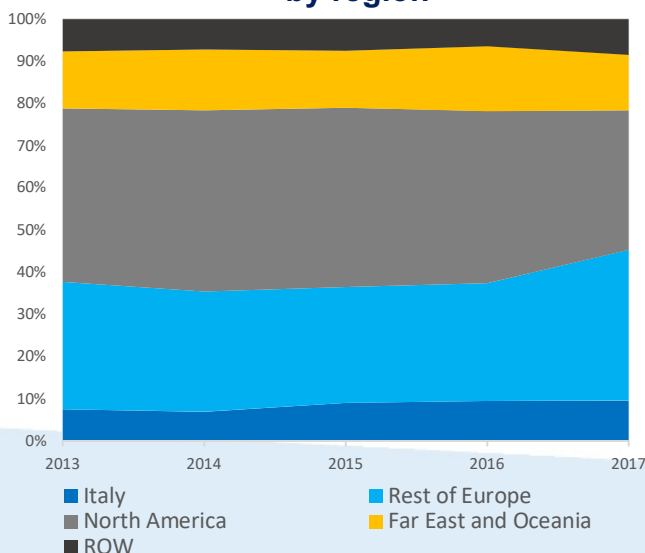
Overall sales by region							Overall sales by region - Growth% YoY				
	2013 FY	2014 FY	2015 FY	2016 FY	2017 FY	cagr		2014 FY	2015 FY	2016 FY	2017 FY
Italy	77.848	91.778	135.909	155.361	191.033	25.2%	Italy	17.9%	48.1%	14.3%	23.0%
Rest of Europe	164.928	224.263	286.503	300.525	382.126	23.4%	Rest of Europe	36.0%	27.8%	4.9%	27.2%
North America	190.251	217.038	293.386	278.171	294.417	11.5%	North America	14.1%	35.2%	-5.2%	5.8%
Far East and Oceania	51.561	61.862	84.958	97.351	115.593	22.4%	Far East and Oceania	20.0%	37.3%	14.6%	18.7%
ROW	71.925	77.058	94.172	91.41	103.378	9.5%	ROW	7.1%	22.2%	-2.9%	13.1%
Total	556.513	671.999	894.928	922.818	1086.547	18.2%	Total	20.8%	33.2%	3.1%	17.7%

Overall sales by sector							Overall sales by sector - Growth% YoY				
	2013 FY	2014 FY	2015 FY	2016 FY	2017 FY	cagr		2014 FY	2015 FY	2016 FY	2017 FY
Hydraulics	294.098	396.204	560.271	596.811	690.914	23.8%	Hydraulics	34.7%	41.4%	6.5%	15.8%
Water	262.415	275.795	334.657	326.007	395.633	10.8%	Water	5.1%	21.3%	-2.6%	21.4%
Total	556.513	671.999	894.928	922.818	1086.547	18.2%	Total	20.8%	33.2%	3.1%	17.7%

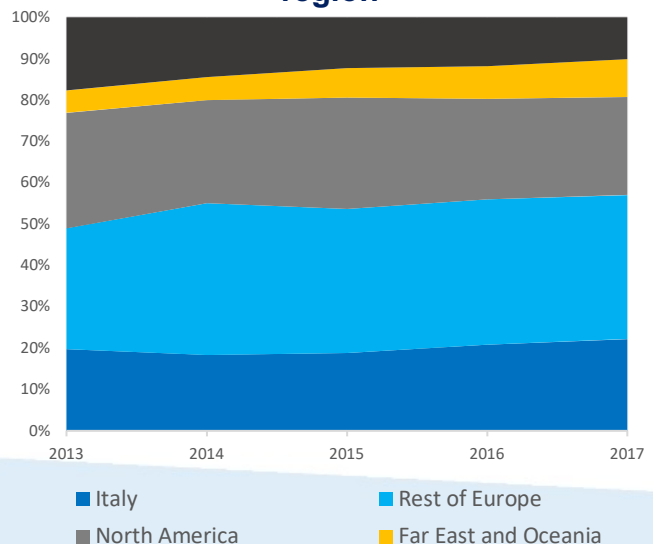
Sectorial sales, by region											
Hydraulics							Hydraulics - Growth% YoY				
	2013 FY	2014 FY	2015 FY	2016 FY	2017 FY	cagr		2014 FY	2015 FY	2016 FY	2017 FY
Italy	58.089	72.619	105.509	124.39	153.133	27.4%	Italy	25.0%	45.3%	17.9%	23.1%
Rest of Europe	85.871	145.709	194.815	209.64	240.636	29.4%	Rest of Europe	69.7%	33.7%	7.6%	14.8%
North America	82.282	98.602	151.083	145.175	163.944	18.8%	North America	19.8%	53.2%	-3.9%	12.9%
Far East and Oceania	15.876	21.869	40.004	46.958	63.339	41.3%	Far East and Oceania	37.7%	82.9%	17.4%	34.9%
ROW	51.98	57.405	68.86	70.648	69.862	7.7%	ROW	10.4%	20.0%	2.6%	-1.1%
Total Hydraulics	294.098	396.204	560.271	596.811	690.914	23.8%	Total Hydraulics	34.7%	41.4%	6.5%	15.8%

Water-jetting							Water-jetting - Growth% YoY				
	2013 FY	2014 FY	2015 FY	2016 FY	2017 FY	cagr		2014 FY	2015 FY	2016 FY	2017 FY
Italy	19.759	19.159	30.4	30.971	37.9	17.7%	Italy	-3.0%	58.7%	1.9%	22.4%
Rest of Europe	79.057	78.554	91.688	90.885	141.49	15.7%	Rest of Europe	-0.6%	16.7%	-0.9%	55.7%
North America	107.969	118.436	142.303	132.996	130.473	4.8%	North America	9.7%	20.2%	-6.5%	-1.9%
Far East and Oceania	35.685	39.993	44.954	50.393	52.254	10.0%	Far East and Oceania	12.1%	12.4%	12.1%	3.7%
ROW	19.945	19.653	25.312	20.762	33.516	13.9%	ROW	-1.5%	28.8%	18.0%	61.4%
Total Water-Jetting	262.415	275.795	334.657	326.007	395.633	10.8%	Total Water-Jetting	5.1%	21.3%	-2.6%	21.4%

Water-jetting sales breakdown % by region



Hydraulics sales breakdown % by region



APPENDIX 11: SALES FORECAST

Division/Market	2018 E	2019 E	2020 E	2021 E	2022 E	2023 E	CAGR 17-23
HPP	315,27	334,54	355,00	373,15	390,37	406,43	5,74%
Flow-Handling	113,75	122,42	131,74	141,11	150,44	160,39	7,33%
Water-jetting	429,02	456,96	486,73	514,26	540,81	566,82	6,18%
Gr% YoY	8,4%	6,5%	6,5%	5,7%	5,2%	4,8%	
Power take-offs	258,26	282,61	305,72	329,19	351,17	375,50	9,86%
Cylinders	96,59	104,97	113,29	122,56	130,74	139,47	9,74%
Valves & DCVs	339,02	370,98	401,31	431,12	460,99	490,61	9,78%
Hoses, pipes, fittings and others	141,68	153,98	166,19	179,77	192,68	206,03	9,86%
Hydraulics	835,55	912,54	986,51	1062,64	1135,57	1211,61	9,81%
Gr% YoY	20,9%	9,2%	8,1%	7,7%	6,9%	6,7%	
Est. Sales	1264,58	1369,50	1473,24	1576,90	1676,38	1778,42	8,56%
Gr% YoY	16,4%	8,3%	7,6%	7,0%	6,3%	6,1%	

Source: Team Estimates

APPENDIX 12: PRE-TAX MARGIN SENSITIVITY ANALYSIS

We provide a sensitivity analysis of pre-tax margin for different levels of debt and varying interest rate for the next year 2019E. In our model, interest expense is calculated as interest rate on debt of previous year closing balance sheet. Therefore, this sensitivity analysis assumes that a variation in interest rates affects all existing obligations, not only those which are renewed in the period

		Interest rate						
		19,5%	0,22%	0,72%	1,22%	1,72%	2,22%	2,72%
Debt	0	20,1%	20,1%	20,1%	20,1%	20,1%	20,1%	20,1%
	150	20,0%	20,0%	19,9%	19,9%	19,8%	19,8%	19,7%
	300	20,0%	19,9%	19,8%	19,7%	19,6%	19,5%	19,3%
	450	20,0%	19,8%	19,7%	19,5%	19,3%	19,2%	19,0%
	600	20,0%	19,7%	19,5%	19,3%	19,1%	18,9%	18,6%
	750	19,9%	19,7%	19,4%	19,1%	18,8%	18,6%	18,3%
	900	19,9%	19,6%	19,3%	18,9%	18,6%	18,3%	17,9%

Source: Company Data & Team Calculations

APPENDIX 13: KEY FINANCIAL RATIOS

	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	
Solvency	Debt	194,00	239,13	390,12	455,15	418,48	451,50	474,23	486,99	487,73	474,49	356,48
	Leverage	0,45	0,51	0,63	0,67	0,55	0,50	0,45	0,40	0,35	0,30	0,20
	Net debt/Ebitda	0,86	1,15	1,44	1,31	1,12	0,71	0,33	-0,03	-0,37	-0,70	-1,01
	Interest coverage	9,88	10,09	21,16	32,35	48,49	33,89	33,47	34,46	36,01	38,33	41,90
Liquidity	Cash ratio	0,51	0,38	0,53	0,64	0,37	0,68	0,96	1,21	1,45	1,69	1,83
	Quick ratio	1,11	1,06	1,31	1,35	1,03	1,47	1,75	2,02	2,28	2,54	2,78
	Current ratio	1,81	1,87	2,24	2,19	1,77	2,36	2,65	2,94	3,22	3,51	3,85
Cash conversion cycle	Net sales	556,51	672,00	894,93	922,82	1086,55	1264,58	1369,50	1473,24	1576,90	1676,38	1778,42
	Average receivables		124,68	156,88	189,07	218,39	256,38	267,02	288,17	309,19	329,78	350,21
	Receivables turnover		5,39	5,70	4,88	4,98	4,93	5,13	5,11	5,10	5,08	5,08
	DSO		67,72	63,98	74,78	73,36	74,00	71,17	71,39	71,57	71,80	71,88
	Cost of goods sold	337,26	405,64	546,79	552,27	637,44	739,98	797,27	855,46	913,28	968,38	1024,66
	Average inventory		164,23	210,55	248,09	274,62	324,38	336,93	362,24	387,67	412,42	436,83
	Inventory turnover		2,47	2,60	2,23	2,32	2,28	2,37	2,36	2,36	2,35	2,35
	DIH		147,78	140,55	163,96	157,25	160,00	154,25	154,56	154,93	155,45	155,61
	Cost of goods sold	337,26	405,64	546,79	552,27	637,44	739,98	797,27	855,46	913,28	968,38	1024,66
	Average payables		124,68	156,88	189,07	218,39	256,38	267,02	288,17	309,19	329,78	350,21
	Payables turnover		3,25	3,49	2,92	2,92	2,89	2,99	2,97	2,95	2,94	2,93
	DPO		112,19	104,72	124,96	125,05	126,46	122,24	122,95	123,57	124,30	124,75
Cash conversion cycle		103,31	99,81	113,79	105,56	107,54	103,17	103,00	102,93	102,95	102,73	

APPENDIX 14: M-SCORE ANALYSIS

The Beneish's M-Score analysis, created in 1999 by Dr Messod Beneish, was used by our team to verify if IP's earnings have been manipulated. The method involves the computation of different ratios made by retrieving relevant data from the firm's financial statements. An M-score lower than -2.22 means that the firm is not likely to be a manipulator of earnings. However, an M-score greater than -2.22 indicates the likelihood that the firm is.

The formula for the 8 variable model is:

$$\text{Mscore} = -4.84 + (0.92 \cdot \text{DSRI}) + (0.528 \cdot \text{GMI}) + (0.404 \cdot \text{AQI}) + (0.892 \cdot \text{SGI}) + (0.115 \cdot \text{DEPI}) - (0.172 \cdot \text{SGAI}) - (0.327 \cdot \text{LVGI}) + (4.679 \cdot \text{Accrual to TA})$$

Input Variables	2013	2014	2015	2016	2017	2018
Accounts receivable	113,73	135,63	178,13	200,02	236,76	259,84
Cash from Operations	57,74	38,61	102,39	115,59	139,92	139,55
COGS	337,26	405,64	546,79	552,27	637,44	739,98
D&A allocated to COGS	16,49	20,95	30,52	32,54	35,11	33,79
D&A allocated to SG&A	7,23	9,01	11,17	11,06	12,35	12,56
Long-Term Debt	111,69	147,06	300,55	327,97	243,06	311,81
Net PP&E	150,67	209,07	286,07	300,92	321,83	346,32
Other financial assets	2,07	0,99	1,03	0,79	1,15	1,28
Sales	556,51	672,00	894,93	922,82	1086,55	1264,58
SG&A	124,96	144,60	182,69	187,78	219,48	254,81
Total assets	811,13	963,16	1270,07	1424,24	1517,67	1651,33
Total current assets	376,69	422,59	574,07	674,28	697,11	795,90
Total current liabilities	207,79	226,46	256,83	307,74	394,58	362,99
Securities	2,07	0,99	1,03	0,79	1,15	1,28
Net Income	44,09	57,74	118,31	94,47	135,72	164,07
Variables to Calculate M-Score	2013	2014	2015	2016	2017	2018
DSRI= Day's Sales Receivables Index		0,91	0,91	1,00	0,92	0,87
GMI= Gross Margin Index		0,52	0,54	0,51	0,51	0,53
AQI= Asset Quality Index		0,40	0,38	0,39	0,42	0,38
SGI= Sales Growth Index		0,97	0,88	0,90	0,88	1,04
Total Accruals/ Total Assets		-0,01	0,00	0,00	0,00	0,07
DEPI= Depreciation Index		0,12	0,11	0,12	0,11	0,13
SGAI= SGA expenses Index		-0,16	-0,16	-0,17	-0,17	-0,17
LVGI=Leverage Index		-0,32	-0,37	-0,33	-0,31	-0,32
Formula		-2,41	-2,56	-2,42	-2,47	-2,32

Source: Company Data & Team Calculations

The results of Beneish's analysis suggest that Interpump is unlikely to be manipulating its earnings.

APPENDIX 15: ALTMAN Z-SCORE ANALYSIS

The Altman Z-Score is the output of a credit-strength test that indicates a company's financial health and its likelihood of bankruptcy. The Z-Score formula is the following:

$$\text{Z-Score} = 1,2A + 1,4B + 3,3C + 0,6D + 1,0E$$

Where:

A = Working Capital / Total Assets

B = Retained Earnings / Total Assets

C = Earnings Before Interest and Tax / Total Assets

D = Market Value of Equity / Total Assets

E = Sales / Total Assets

A score below 1,8 indicates that a company has a high probability of bankruptcy, while a score of more than 3,0 indicates that the company is far from bankruptcy.

Input Variables	2013	2014	2015	2016	2017	2018
Retained Earnings	24,68	38,77	97,25	72,71	112,13	138,28
Net Working Capital	145,89	201,04	271,67	295,83	333,01	396,59
Total Assets	811,13	963,16	1270,07	1424,24	1517,67	1651,33
Market Cap	949,40	1206,90	1543,00	1617,60	2813,90	3062,60
EBIT	78,96	101,88	135,80	152,62	197,85	239,00
Total Liabilities	378,18	496,61	647,45	746,70	752,95	760,62
Sales	556,51	672,00	894,93	922,82	1086,55	1264,58
Derived Variables	2013	2014	2015	2016	2017	2018
Net Working Capital / Total Assets	0,22	0,25	0,26	0,25	0,26	0,29
Retained Earnings / Total Assets	0,04	0,06	0,11	0,07	0,10	0,12
EBIT/ Total Assets	0,32	0,35	0,35	0,35	0,43	0,48
Market Cap / Total Liabilities	1,51	1,46	1,43	1,30	2,24	2,41
Sales / Total Assets	0,69	0,70	0,70	0,65	0,72	0,77
Z-Score	2,77	2,81	2,85	2,62	3,76	4,06

Source: Company Data & Team Calculations

According to 2013-2018 financial informations, the results of Altman Z-Score indicate that Interpump has a very low likelihood of filing for bankruptcy.

APPENDIX 16: DUPONT ANALYSIS

In our historical period, IP continued to increase on average return on equity, (2013 ROE 10,19 %, 2017 ROE 17,88%). The main component of profitability is net profit margin. On the other hand, total assets turnover slightly moved around 0,70. Also, the company has been sustaining a low equity ratio, implying the usage of its own equity to fund its operations, rather than debt. Thus, the company is relatively less risky.

Our analysis indicates decreasing ROE forecasts (**2019E** 17%, **2020E** 16 %, **2021E** 15%) mainly due to lower equity multiplier, however, estimated levels of **ROE 2018E** is **19%**. 3 steps and 5 steps DuPont analysis makes visible the most important driver for sustaining the future level of return on equity to be operating income margin, calculated as the ratio EBIT/Revenue.

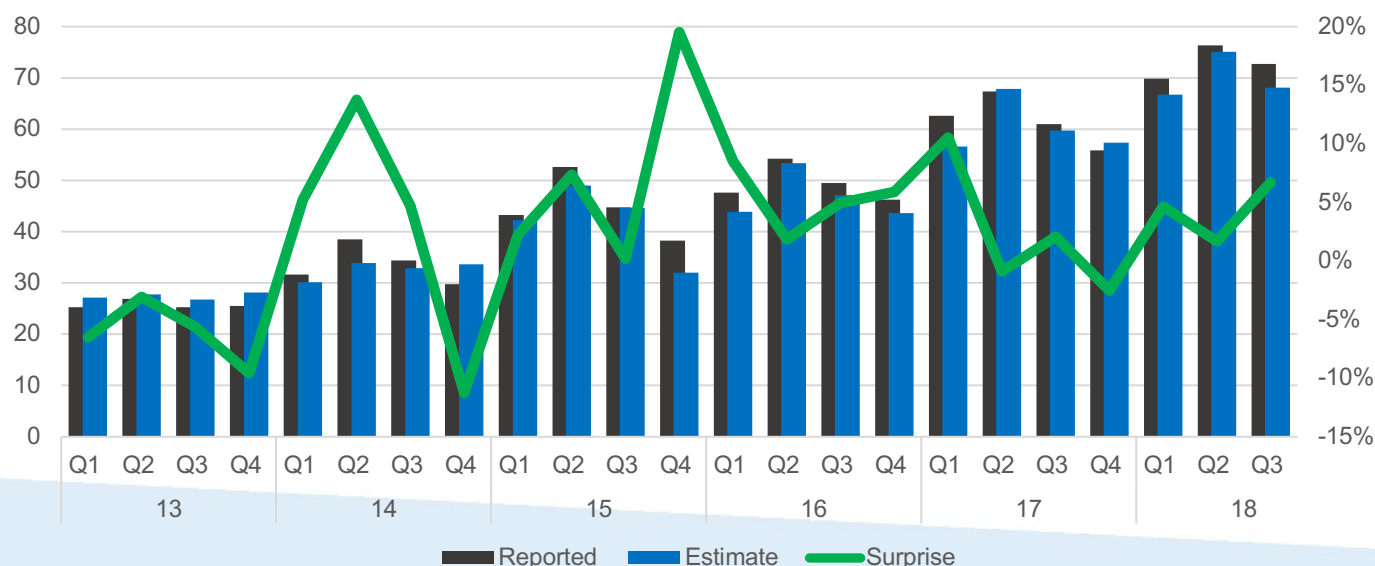
Hence, we highlight that an increase in the Company's leverage, consistent with a decrease of equity, would have a positive influence on profitability. The second driver appears to be asset turnover, which indicates the efficient utilisation of the Company's resources.

	Date	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
3-Steps DuPont Analysis	Asset Turnover Ratio	0,69	0,70	0,70	0,65	0,72	0,77	0,74	0,72	0,70	0,69	0,70
	Equity Multiplier	1,90	2,09	2,06	2,11	2,00	1,87	1,77	1,69	1,61	1,54	1,43
	Net Profit Margin	8%	9%	13%	10%	13%	13%	13%	13%	13%	13%	13%
5-Steps DuPont Analysis	Tax Burden	0,62	0,63	0,73	0,64	0,71	0,71	0,71	0,71	0,71	0,71	0,71
	Interest Burden	0,90	0,94	1,21	0,98	0,98	0,97	0,97	0,97	0,97	0,97	0,98
	Equity M x Turnover R.	1,30	1,46	1,45	1,37	1,43	1,43	1,30	1,21	1,13	1,06	1,00
	Operating Income Margin	14%	15%	15%	17%	18%	19%	19%	19%	19%	19%	19%
	Net Income	44,13	60,33	119,14	95,35	136,76	165,11	180,59	194,08	208,29	222,16	236,59
	Return on Equity (ROE)	10%	13%	19%	14%	18%	19%	17%	16%	15%	14%	13%
ROIC	Debt	194,00	239,13	390,12	455,15	418,48	451,50	474,71	487,43	488,14	474,87	356,76
	Nopat	48,98	63,18	98,35	97,10	139,75	169,06	185,02	199,04	213,60	227,67	242,15
	Shareholder Equity	426,69	460,70	617,16	673,74	759,17	885,15	1054,92	1218,58	1394,69	1582,90	1783,79
	ROIC	0,08	0,09	0,10	0,09	0,12	0,13	0,12	0,12	0,11	0,11	0,11

Source: Company Data & Team Calculations

APPENDIX 17: REPORTED EBITDA VS CONSENSUS

In more than 60% of the quarters analysed during the last 5 years, Interpump's reported EBITDA has outperformed the analyst's estimates, also showing some form of seasonality by peaking at every Q2.



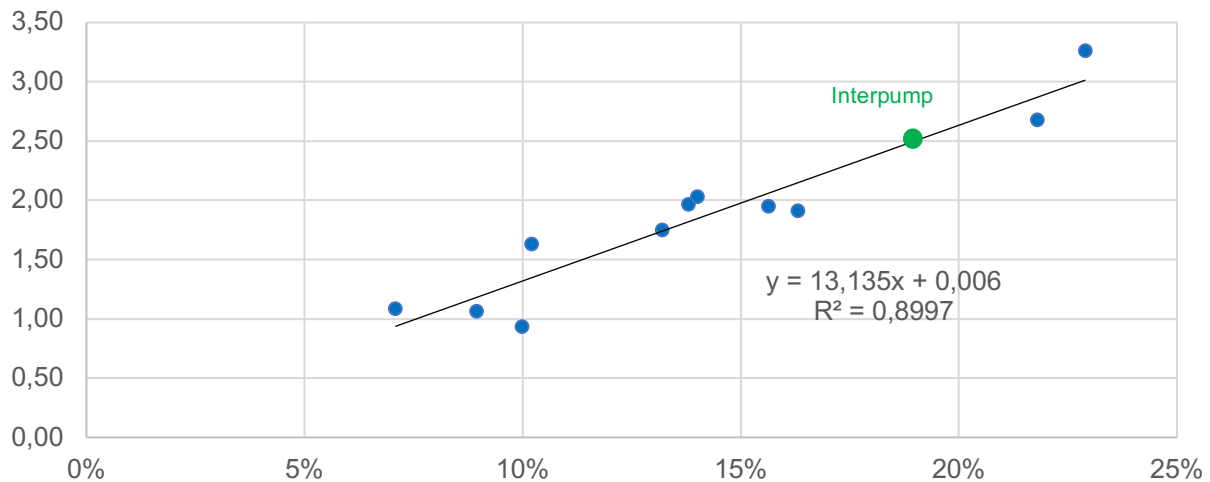
Source: Bloomberg Data

APPENDIX 18: MULTIPLE REGRESSIONS

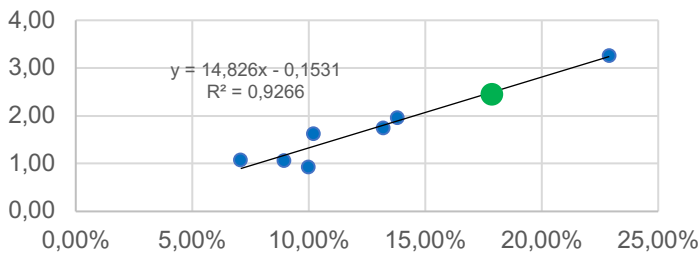
We have performed several OLS regressions on the selected Peers list in order to calculate a Target Price using the Multiples Valuation method. We performed several trials using price multiples such as P/E vs Ebit Margin or P/B vs ROE, along with other trials using EV/Ebitda vs Ebitda Margin or EV/Ebit vs Ebit Margin, but none of them showed acceptable results. We selected EV/Sales vs Ebit Margin as we deem it the multiple that best describes how the market values these companies. The three main regression displayed above show a trial with the complete peers list and two separate trials with the peers divided by Water-Jetting and Hydraulics sector. All the regressions show significant parameters and R².

The regression with the complete peers list is used to calculate the Target Price. It gives out a Theoretical EV/SALES of 2.51 and a Target Price of 29.10, implying an upside of 3.5%.

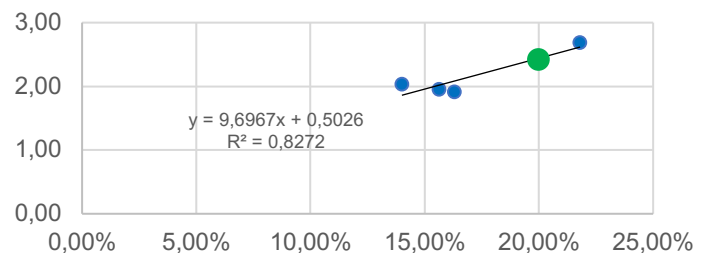
EV/Sales vs Ebit Margin



Water-Jetting

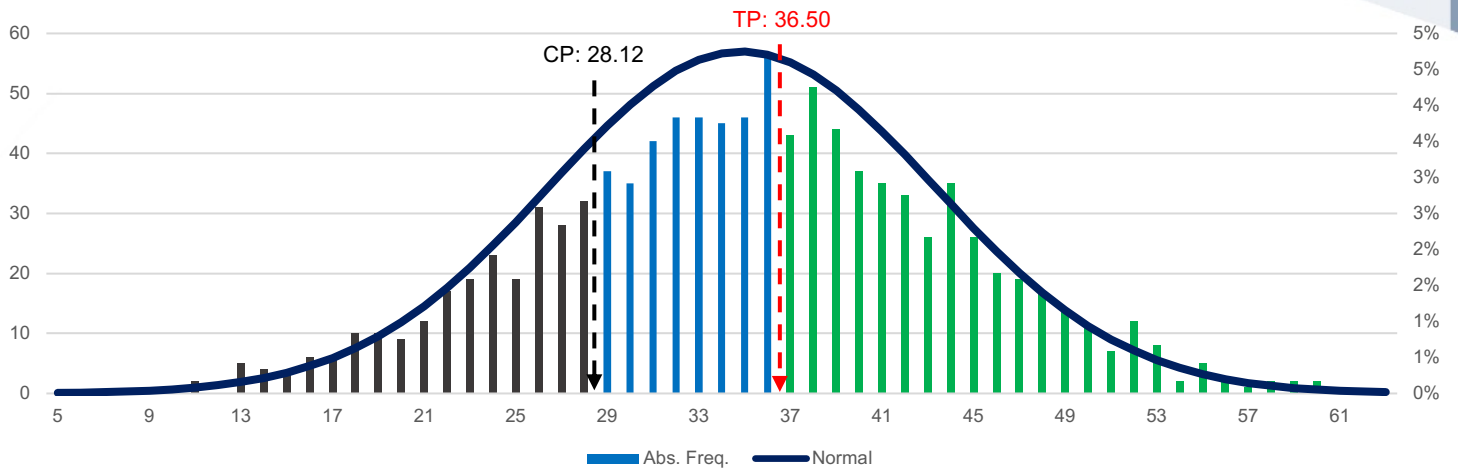


Hydraulics



As of:	Jan-31-2019	EV/SALES E2019	Ebit Margin E2019	EV/SALES THEO	TARGET EV	NET DEBT	TARGET MK CAP	# OF SHARES	TARGET PRICE	EXP RET%	
Water-Jetting	IP	Interpump Group S.p.A.	2,43	19,1%	2,51	3443,9	275,4	3168,4	108,88	29,10	3,5%
	SPX	Spirax-Sarco	3,26	22,9%	3,01	4249,6	-740,3	4989,9	73,61	67,79	-5,8%
	FLOW	SPX Flow Inc	0,93	10,0%	1,32	2752,2	739,4	2012,8	42,55	47,30	66,3%
	ALFA	Alfa Laval	1,97	13,8%	1,82	8401,9	270,2	8131,7	419,46	19,39	1,5%
	G1A	GEA Group	1,06	8,9%	1,18	6013,3	1068,3	4945,0	180,49	27,40	13,6%
	SUN	Sulzer	1,09	7,1%	0,94	3228,9	1457,3	1771,6	34,26	51,71	-34,3%
	FLS	Flowserve	1,63	10,2%	1,35	4831,2	1048,8	3782,3	130,86	28,90	-21,3%
	WEIR	Weir Group	1,75	13,2%	1,74	4941,0	760,1	4180,8	259,43	16,12	-0,8%
Hydraulics	GTES	Gates Industrial Eaton	1,91	16,3%	2,15	7128,0	2712,1	4415,8	289,81	15,24	21,1%
	ETN	Corporation PLC	2,03	14,0%	1,84	35827,6	12780,5	23047,1	433,40	53,18	-13,7%
	ROR	Rotork	2,68	21,8%	2,87	2381,6	-453,9	2835,5	871,64	3,25	5,6%
	PH	Parker-Hannifin Corp	1,95	15,6%	2,06	26715,3	6854,6	19860,7	132,35	150,06	7,8%

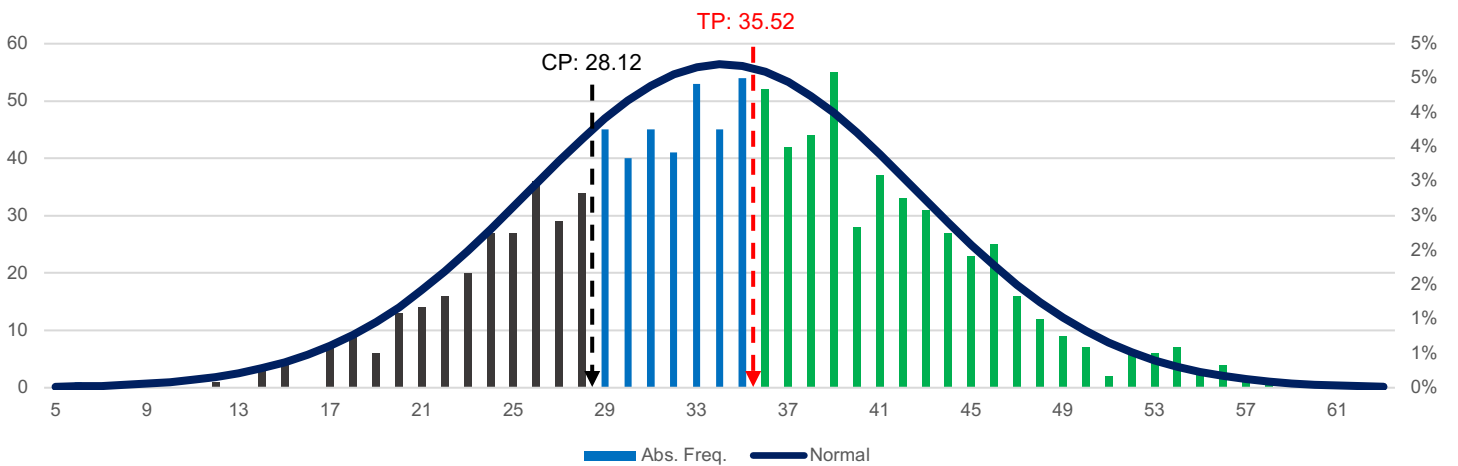
DCF MODEL



DCF Model Simulation The first simulation performed to test our assumptions about the target price involved the DCF Model, which gave us a Target Price of € 36.00. We worked on the Ebit Margin by simulating more than a thousand cases resulting with a mean of 34.6 and a Standard Deviation of 8.795. The final results show that 76.1% of the simulations give out a Target Price higher than the current price of € 28.12.

Statistics				
Mean	Standard Deviation	Skewness	Kurtosis	% higher current price
34,6	8,795	0,054	-0,041	76,1%

EVA MODEL



EVA Model Simulation The second simulation involved the EVA Model, which gave us a Target Price of € 35.06. We worked again on the Ebit Margin by simulating more than a thousand cases finding a mean of 33,2 and a Standard Deviation of 8.770. The final results show that 72.4% of the simulations give out a Target Price higher than the current price of € 28.12.

Statistics				
Mean	Standard Deviation	Skewness	Kurtosis	% higher current price
33,2	8,770	0,013	-0,082	72,4%

Source: Company Data & Team Calculations

APPENDIX 20: BELT AND ROAD INITIATIVE



The Belt and Road Initiative (BRI), also known as the One Belt One Road (OBOR), is a project adopted by the Chinese government which will involve investments in Asia, Europe, Africa and their close seas through the development of the “Silk Road Economic Belt” and the “21st Century Maritime Silk Road”.

The project will connect 65 countries with a total population of 4.4 billion people. These numbers show how the Chinese project will involve over 63% of the global population and 30% of the total GDP.

The Belt and Road will be a huge economic effort for the Chinese government which will cost (estimates) at least 1.3 trillion yearly in the period 2016-2030. At this day, over 40 countries and international organizations have signed cooperation agreements with China. The 5 key areas of cooperation are policy coordination, facility connectivity, trade, financial integration, and people-to-people ties.

Geographically, B&R is going to create six Economic Corridors: China Pakistan (one of the reasons to select Pakistan as a country to penetrate), New Eurasia Land Bridge, China-Mongolia-Russia, China-Central Asia–West Asia, China Indochina Peninsula, Bangladesh-China-India-Myanmar (source: Centre for Financial Stability).

There are 265 big infrastructural projects planned in all the 3 continents included in this project: 17 Railways, 5 highspeed rails, 8 bridges, 2 highways and many other projects which have the aim of allowing all the parts of China to trade more easily with the rest of the World.

This initiative will transform the economic environment in which economies in the region operate. Regional cooperation on the new and improved transport infrastructure and policy reforms could substantially reduce trade costs and improve connectivity, leading to higher cross-border trade, investments and improved growth in the region. Moreover, improving the network capacity of rail infrastructure could radically change average travel times. Given these reasons, the times and the cost reductions will have relevant consequences impacting the transportations' choices and total flows of international trade.

IP IM Equity



We provide further details about Interpump’s possible future acquisitions. As we mention before, we divided the scanning activity in 3 stages: Area Selection, Country Selection and Companies Selection.

AREA SELECTION

Considering the different drivers for Water Jetting and Hydraulic Market, we focused on the countries touched by the Belt and Road Project. As written in the Appendix 19, the Chinese project will involve a lot of building project in Asia, Europe and Africa. Considering the already consolidated geographical diversification in Europe and the fact that in our opinion African countries such as Kenya and Nigeria are not ready for the IP’s products, we based our Selection of the country in Asia.

COUNTRY SELECTION

At this point we decided to split the M&A screen in 2 different aims: consolidation of the market and penetration of a new market. Due to the growth expectations (driven by the factors mentioned in the Valuation part of this report) of in India and Pakistan, we selected the first as a consolidation market, and the second as a new market to explore.

COMPANY SELECTION

In order to select the possible companies to acquire, we considered all the policy which IP follows in the acquisition activities. For this reason we considered only private companies which could offer new technologies for the improvement of the product range, a good geographical presence in the countries and a good network of suppliers and big customers already consolidated. In India there are almost 100 companies operating in Water Jetting and Hydraulic segments. Out of all these businesses, we selected only the private businesses which could offer new technologies in order to improve the product range, characterized by a well-established geographical presence in the countries touched by the BRI and a strong network of suppliers and already consolidated big customers.

Company	Main Applications	Country
Investa Pumps	Chemical Process Pumps Manufacturer in India	India
Oswal Pumps	One of the main products are Solar Pumps, particularly interesting in agricultural areas	India
Roto Pumps	Involved in many industries such as Waste Water, Food & Beverage, Oil & Gas, Chemical and Others	India
Swellore	A big geographical diversification in India and a large network of customers and suppliers	India
Alfa Flexitube	Specialized on Flexible Metal Hoses and other high quality hoses	India
Shah Precicast	Producer of Valves with possible applications on Railway and other markets linked to Belt and Road	India
Swagelok	A large list of Hydraulic products such as Valves, Filters, Regulators and Hoses	India
HMA Pumps	One of the best producers of high pressure pump in Pakistan	Pakistan

The number of companies similar to Interpump in Pakistan is small and for this reason we selected only HMA Pumps, while for India the range of target companies is noticeably larger.

APPENDIX 22: BOARD OF DIRECTORS COMPOSITION AND REMUNERATION

The following tables display information about the Board of Directors composition, with previous occupations covered by each member, and the remuneration plan to which they are subjected.

NAME	POSITION	INFORMATION
Fulvio Montipò	Chairman and Chief Executive Officer	<ul style="list-style-type: none"> Graduated in Sociology Previously worked as Personal Manager Organizational Director with Bertolini Macchine Agricole and General Manager of Bertolini Idromeccanica
Paolo Marinsek	Deputy Chairman	<ul style="list-style-type: none"> Graduated in Aeronautical Engineering Production Director at Termoli plant CEO of Fiat Auto Poland and Comau S.p.A Executive Director and General Manager of Ferrari S.p.A and Maserati S.p.A General Manager of Fiat Engineering S.p.A.
Angelo Busani (a)	Independent	<ul style="list-style-type: none"> Graduated in Law Chairman of the BoD of Credit Suisse Servizi Fiduciari S.p.A Independent member and chairman of BoD of Beni Stabili S.p.A and Linea Pelle S.p.A.
Antonia Di Bella	Independent	<ul style="list-style-type: none"> Graduated in Economic and Social Science Previously worked at NCTW law practise, Cattolica University of Milan, Mazars S.p.A, KPMG S.p.A, Assicurazioni Generali S.p.A
Franco Garilli (a), (b), (c)	Lead Independent Director	<ul style="list-style-type: none"> Graduated in Economics and Commerce Previously worked as Partner in charge of Audit Activities for KPMG Italy
Marcello Margotto (b)	Independent	<ul style="list-style-type: none"> Graduated in Economics and Business Studies Previously worked at "La Perla fashion Group", Studio Piombini, Studio Napodano, RD Team Srl, Studio Margotto & Partners
Stefania Petrucci (a), (c)	Independent	<ul style="list-style-type: none"> Graduated in Business Economics Previously worked at Bocconi University, Studio Associato "CamoZZi Bonissoni", Eptaventure S.r.l, Convergenza Fund, Progressio SGR S.p.A, Principia SGR S.p.A
Paola Tagliavini (a), (c)	Independent	<ul style="list-style-type: none"> Graduated in Business Economic Previously worked at Bocconi University, Marsh Risk Consulting, AON, Wharton School
Giovanna Tamburi (b)	Non-executive Director	<ul style="list-style-type: none"> Graduated in Economics and Commerce Previously worked at Commission for Law, Milano Municipal Authorities, S.O.M.E.A S.p.A, Bastogi Group, Euromobiliare S.p.A., Tamburi Investment Partners S.p.A

(a) Member of the Audit and Risks Committee

(b) Member of the Remuneration Committee and Appointments Committee

(c) Member of the Related Party Transactions Committee

BOARD OF DIRECTORS												
(A)	(B)	(C)	(D)	(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)
Name and surname	Office	Period in office	Term of office	Fixed compensation	Compensation for sitting on committees	Variable non-equity compensation		Fringe benefits	Other compensation	Total	Fair value of equity compensation	End of office or employment termination indemnity
						Bonuses and other incentives	Profit sharing					
Fulvio Montipò	Chairman and Chief Executive Officer	01/01/2017 – 31/12/2017	Approval of 2019 financial statements	1,544		500				2,044	1,104	
Paolo Marinsek	Deputy Chairman	01/01/2017 – 31/12/2017	Approval of 2019 financial statements	351				9		360	126	
Angelo Busani	Independent Director	28/04/2017 – 31/12/2017	Approval of 2019 financial statements	30	13 (e)					43		
Antonia di Bella	Independent Director	28/04/2017 – 31/12/2017	Approval of 2019 financial statements	30						30		
Giuseppe Ferrero	Non-executive Director	01/01/2017 – 28/04/2017	Approval of 2016 financial statements	15						15		
Franco Garilli	Independent Director	01/01/2017 – 31/12/2017	Approval of 2019 financial statements	45	30 (e) (f) (g)					75		
Marcello Margotto	Independent Director	01/01/2017 – 31/12/2017	Approval of 2019 financial statements	45	10 (f) (g)					55		
Giancarlo Mocchi	Non-executive Director	01/01/2017 – 28/04/2017	Approval of 2016 financial statements	15						15		
Stefania Petrucci	Independent Director	01/01/2017 – 31/12/2017	Approval of 2019 financial statements	45	20 (e)					65		
Paola Annunziata Tagliavini	Independent Director	01/01/2017 – 31/12/2017	Approval of 2019 financial statements	45	20 (e)					65		
Giovanni Tamburi	Non-executive Director	01/01/2017 – 31/12/2017	Approval of 2019 financial statements	45	10 (f) (g)					55		

Note: Amounts shown in thousands of euros

APPENDIX 23: CODE OF ETHICS

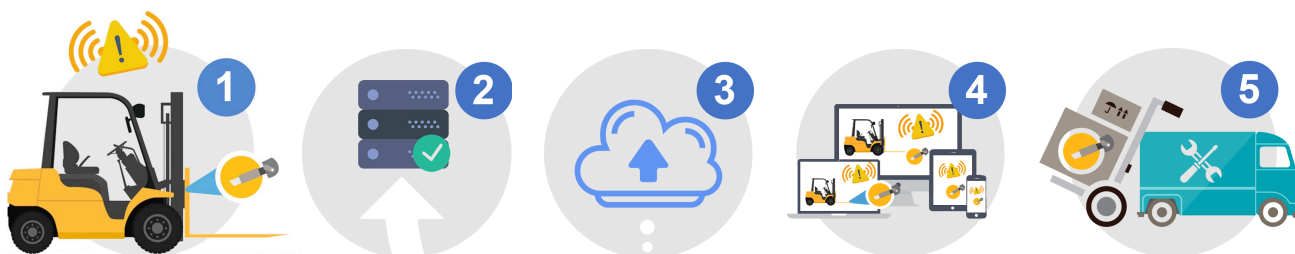
The Code of Ethics adopted by Interpump Group was updated on August 2018. It is defined by the principles and rules of ethical responsibilities and company activities with respect to working duties. The mission of Interpump Group is to pursue excellence in its operations through the application of innovation and quality.

General Principles	The company relies on a set of fundamental principles such as impartiality, honesty, property, confidentiality, the value of human resources, fairness in the exercise of authority, responsibility, communication.
Internal Control	The company adopts a specific system of internal control designed to ensure the adequacy of the business processes, guarantee the reliability and accuracy of accounting entries, ensure conformity of operational activities and guarantee the proper allocation of power and compliance with the governing principles.
Transparency towards the market	The company mission is to ensure complete decision-making transparency. The Group supplies all information necessary to ensure that investors make informed decisions based on corporate strategies, the results of operations and the forecast return on invested capital.
Criteria for conduct in relation to Collaborators	The assessment of potential recruits is always based on how well the profiles of candidates match those expected and the related corporate requirements, in compliance for all concerned with the principle of equal employment opportunities and the absence of discrimination. The executive function managers are responsible for ensuring respect for equal opportunities in the administration of work relations, maintaining workplaces free from discrimination and related problem.
Recruitment of Personnel	The Group strives to disseminate and consolidate a culture of safety, developing awareness about risks and compliance with applicable local regulations, and promoting responsible conduct by all collaborators. It also strives to protect the moral well-being of Collaborators by guaranteeing the right to working conditions that respect their personal dignity. In the performance of their work and in the context of their competences and responsibilities, all Collaborators must record and process data and information in an accurate, precise and comprehensive manner, in compliance with the regulations in force at the time. All Group Collaborators must avoid situations that might give rise to conflicts of interest and abstain from seeking personal advantage from business opportunities that come to their attention in the performance of their duties.
Management of Collaborators	The executives and function managers of Group companies are responsible for ensuring respect for equal opportunities in the administration of work relations, maintaining workplaces that are free of discrimination and identifying and resolving promptly any related problems.
Health and Safety	The Interpump Group strives to disseminate and consolidate a culture of safety, developing awareness about risks and apply these principles when adopting the measures necessary to safeguard the health and safety of workers. Also, the company aims to protect the moral wellbeing of Collaborators by guaranteeing the right to working conditions that respect their personal dignity.
Confidentiality and Privacy	All information, data and knowledge obtained, processed and managed by Collaborators in the performance of their duties must remain strictly confidential and protected appropriately.
Conflicts of Interest	All Group Collaborators must avoid situations that might give rise to conflicts of interest and abstain from seeking personal advantage from business opportunities that come to their attention in the performance of their duties.
Safeguarding of Corporate Asset and compliance with it	All Collaborators are responsible for protecting the resources assigned to them and must inform their direct superior promptly about any threats or harmful events. The protection and preservation of corporate assets are fundamental for safeguarding the interests of each Group company and it is the responsibility of Collaborators (in the performance of their business activities) not only to protect such assets, but also to prevent their fraudulent or improper use.
Criteria for conduct in the pursuit of business activities	Business relations with third parties are always conducted by persons authorized to do so, based on the organization chart of each Company, service, orders, mandates or powers of attorney. The company strongly condemns any form of public and/or private corruption, requiring each Group company to implement all necessary actions to prevent corrupt practices in all their forms. All relations with current or potential competitors are conducted with fairness and integrity.
Anti-Corruption Program	All conduct, by whosoever, involving the direct or indirect promise or offer of cash or other benefits to private parties, public officials and/or local or foreign public servants, is prohibited if it might result in the Interpump Group and/or Group companies obtaining an undue or illegal interest or advantage.
Laundering and Terrorism	Interpump Group carries out its activities in full compliance with the current anti-money laundering and anti-terrorism regulations and the provisions issued by the competent Italian and foreign authorities and to this end undertakes to refuse to carry out suspicious transactions in terms of fairness and transparency in all States in which it operates.
Relations with Customers & Product Quality	The IPG seeks to protect the environment as a primary resource.
Relations with Vendors	Each IPG company guarantees full and scrupulous compliance with the antitrust regulations and the rules of market regulatory authorities.
Relations with Institutions	Any grants subsidies and loans obtained from the European Union, the Italian Government, or any other Public Authority, even of modest value and/or amount, must be utilized for the purposes for which they were requested and granted.
Environment	IPG carries out its activities in full compliance with the current anti-money laundering and anti-terrorism regulations and the provisions issued by the competent Italian and foreign authorities and to this end undertakes to refuse to carry out suspicious transactions in terms of fairness and transparency in all States in which it operates.
Method of Implementation:	To understand better the Code of Ethics, each Group prepares and implements training activities, drawing indications provided by the President of the Supervisory Body.
Communication and Training	The Group adopts a policy for the management of reports received in line with the relevant and domestic and international best practices, complying with all current laws and regulatory requirements.
Conflicts with the code of Ethics	Should even just one of the provisions of this Code conflict with those contained in the internal regulations or procedures of Group companies, the provisions of this Code shall prevail.
Penalties	Any violation of the rules of the Code would represent a breach of the obligations deriving from the employment relationship, with all the consequences envisaged in the employment contract and current legislation, including disciplinary action and/or termination of the employment relationship.

APPENDIX 24: DIRECTORS SKILL MATRIX

Skill	Fulvio Montipò	Paolo Marinsek	Angelo Busani	Antonia Di Bella	Franco Garilli	Marcello Margotto	Stefania Petrucci	Paola Tagliavini	Giovanna Tamburi
Current Position	Chairman and CEO	Deputy Chairman	Independent Director	Independent Director	Lead Independent Director	Independent Director	Independent Director	Independent Director	Director
Age	68	69	58	54	69	69		51	69
Gender	M	M	M	F	M	M	F	M	M
Leadership	✓	✓	✓	✓	✓	✓	✓	✓	✓
CEO/Chairman/Managing Director	✓	✓	✓	✓	✓		✓	✓	✓
International Expertise	✓		✓	✓					
Technology/Engineering	✓	✓							
Audit/Accounting	✓			✓	✓	✓	✓	✓	✓
Financial/Investment expertise	✓			✓		✓		✓	✓
Sales/Marketing/Public Relations	✓				✓	✓			
Strategic Planning & Development	✓		✓						
Industry relevant experience	✓								
Mergers and Acquisitions	✓					✓	✓	✓	
CFO				✓		✓			✓
Risk Management								✓	✓
Legal/Government Affairs & Relationships/Regulator			✓						
CSR/SRI									
Academia			✓	✓		✓		✓	✓
Government/Military									
Human Resources	✓								

APPENDIX 25: IOT AND SMART DEVICES



IoT Advantages for Manufacturers

The IoT innovations such as new hardware products, cloud, big data, machine learning and edge analytics, can represent a driver to the Interpump's growth in both water jetting and hydraulic segments. These technologies can have several advantages for our company:

- Pump manufacturers can make a better product.** With intelligent devices like sensors and variable frequency drives (VFDs) connected to a network, the data could be analysed and used to better understand how pumps, cylinders, power take-off and other products are being used and when or why they operate outside expected conditions. The manufacturers could use this data to understand trends, make more reliable products and predict market needs before they happen.
- Increasing of aftermarket sales.** Sensors and other hardware IoT items monitor health data of the system and, through analytics, predicts that the product is about to experience failures.
- New revenue streams.** Service providers are particularly well positioned to take advantage of new revenue streams enabled by IoT, having a competitive advantage respect to smaller producers which have not the same "digital know-how".
- System integrators can save on labor costs.** Pump and hydraulic systems that are powered by connected devices speed up installation, commissioning and troubleshooting of the system. Whether through intelligent sensors auto-tuning themselves to match the specific demands of the pumping system or connected technical support.

How the system works The IoT system could be composed of 5 steps: Sensor-equipped signal, IoT Gateway, Cloud, Monitoring and Service. The Sensor-equipped component generates data and send to the servers. Here there is a data consolidation and the transmission of all the critical information. In the cloud, the system should encrypt data and offer access to them from all the devices. This can offer to the user a monitoring system and an alert service for critical situations. The company can offer a better after market service, replacing parts before the fail and increasing efficiency of the products.

How the system is composed The IoT systems for both water jetting and hydraulic products are composed by two main parts: hardware, such as sensors and variable frequency drivers and software, such as the server and cloud infrastructure, the big data analysis and machine learning algorithms used to understand the possible future problems and the data visualization part for allowing the users to visualize actual usage and possible alerts.

Implementation on the products

Water Jetting IoT on the water jetting products could be applied to increase the efficiency of the pumps and helping Interpump increasing the efficiency of the aftermarket sales.

Hydraulic Good example of IoT applications on hydraulic products are: smart cylinders with sensors which provide real-time information about the usage and the performance, smart hoses monitoring the fluid and detecting impending hydraulic hose failure and alerts operators and maintenance crews and smart power take off to have information about the usage of the PTO and possible problems.



Disclosures:

Ownership and material conflicts of interest

The author(s), or a member of their household, of this report does not hold a financial interest in the securities of this company.

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