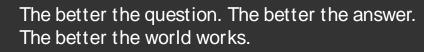
2008-2018: what's left of the crisis?

The tranformation of the machine tools sector and new challenges for growth and internationalization

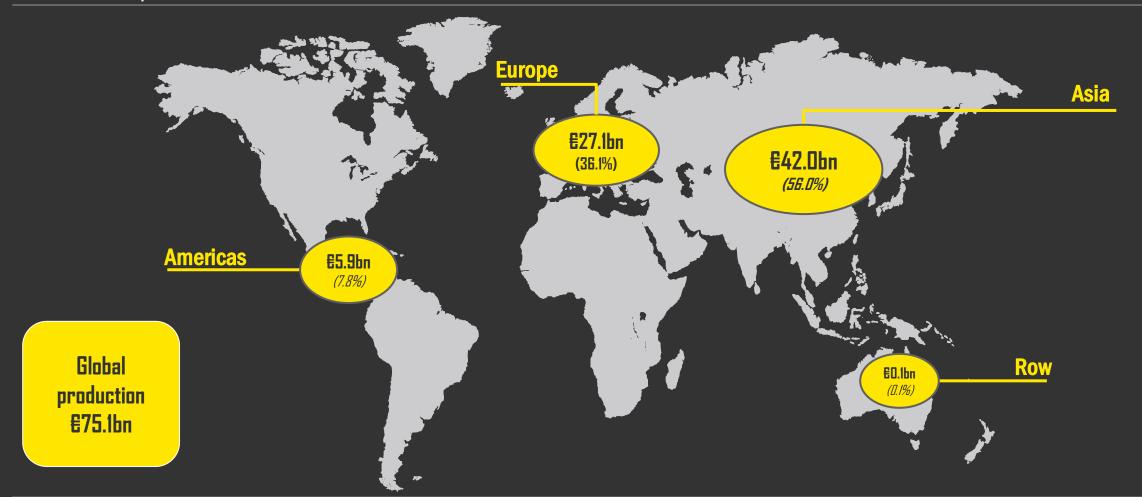




Global Machine Tool overview

Europe (mainly represented by Germany and Italy) is the 2nd biggest area with ca. € 27.1bn of production

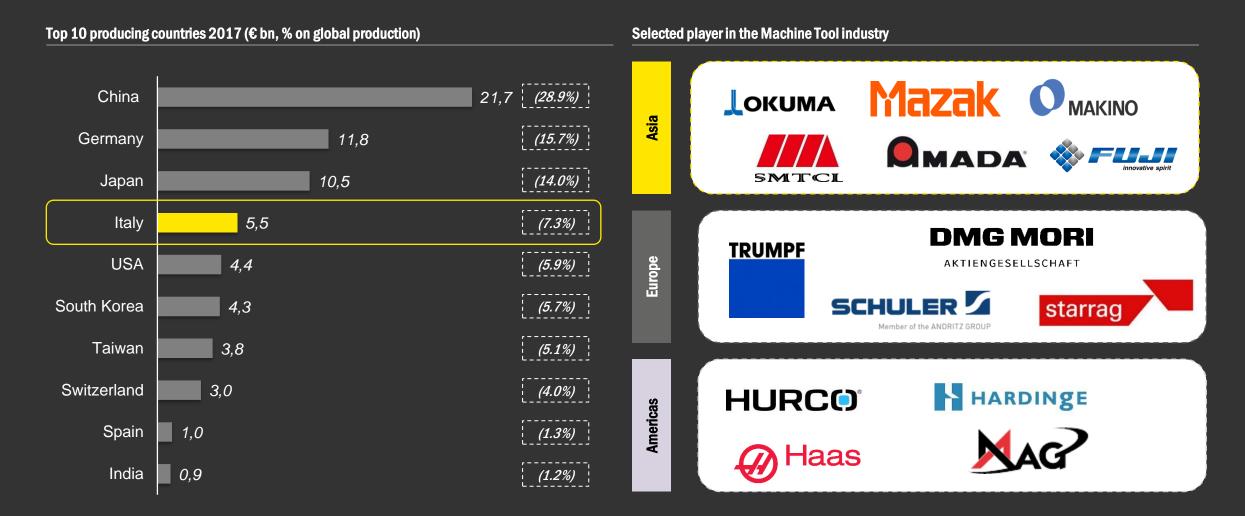
Global Machine Tools production 2017





Global Machine Tool overview

Italy represents the 4th country for the production of machine tools

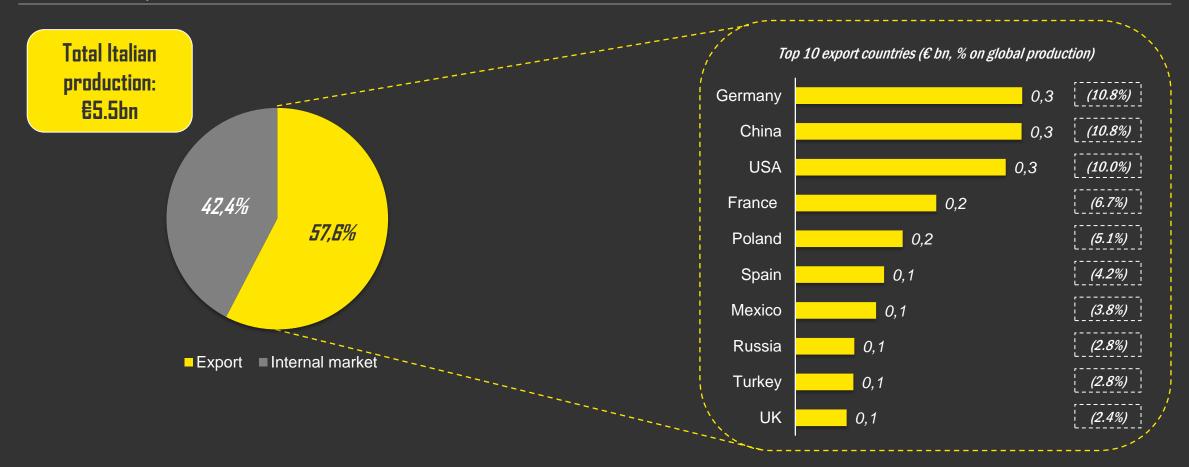




The Italian end-markets

Almost ca. 58% of 2017 production was exported mainly to Germany, China and USA

Italian Machine Tools production 2017





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Make or Buy? **M&A results Objective & Financial** Methodology **Analysis**



Objective & Methodology

Financial Analysis

Make or Buy?

M&A results

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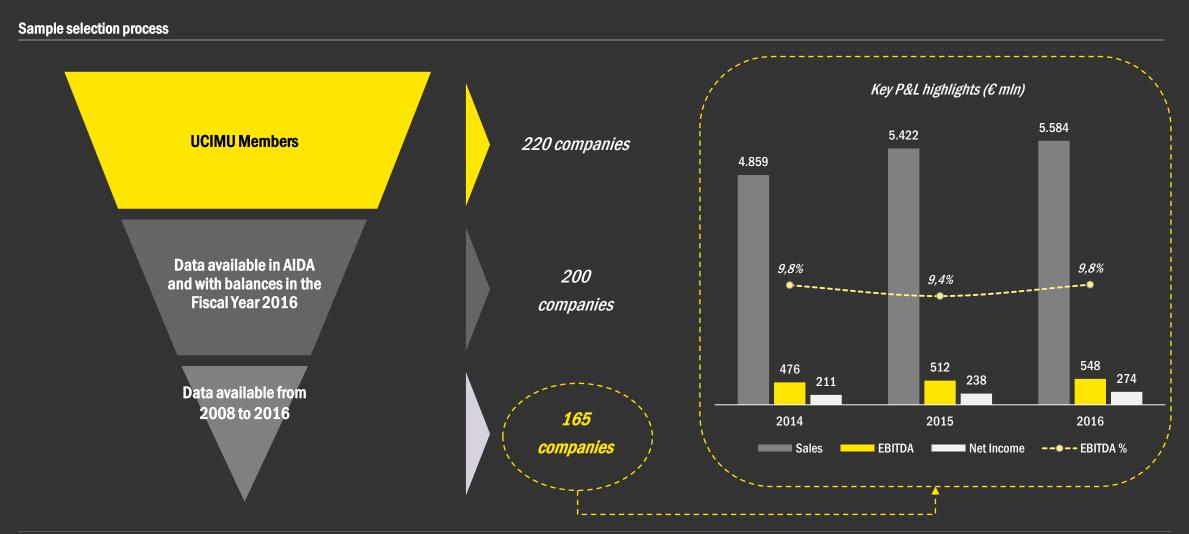
3

4



1. Objective & Methodology

The sample counts 165 Italian companies with a turnover of ca. € 5.6bln in 2016



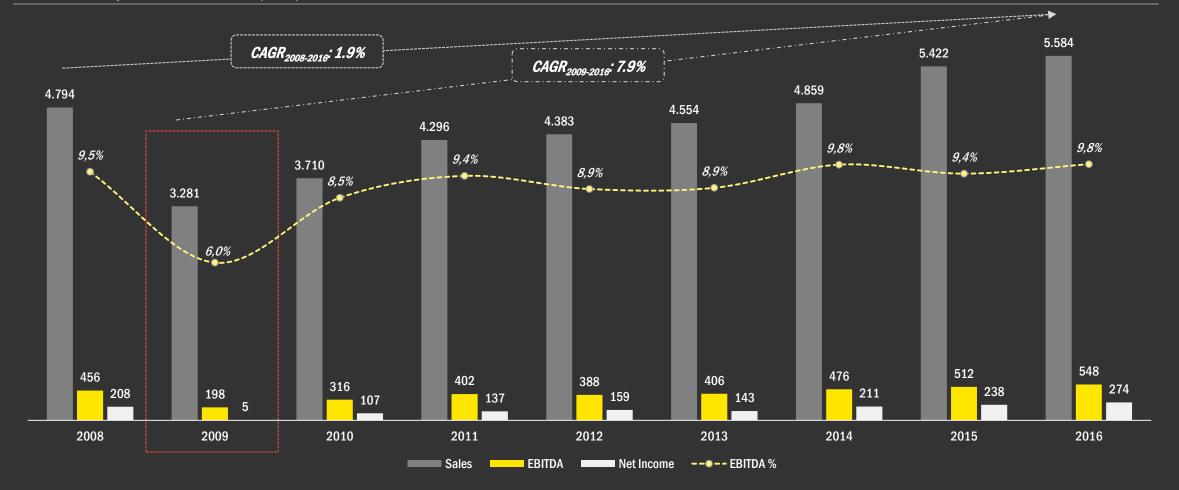


Objective & Make or Buy? M&A results **Financial** Methodology **Analysis**



A general growth after the downturn achieved in 2009, with a CAGR of 1.9% compared to 2008

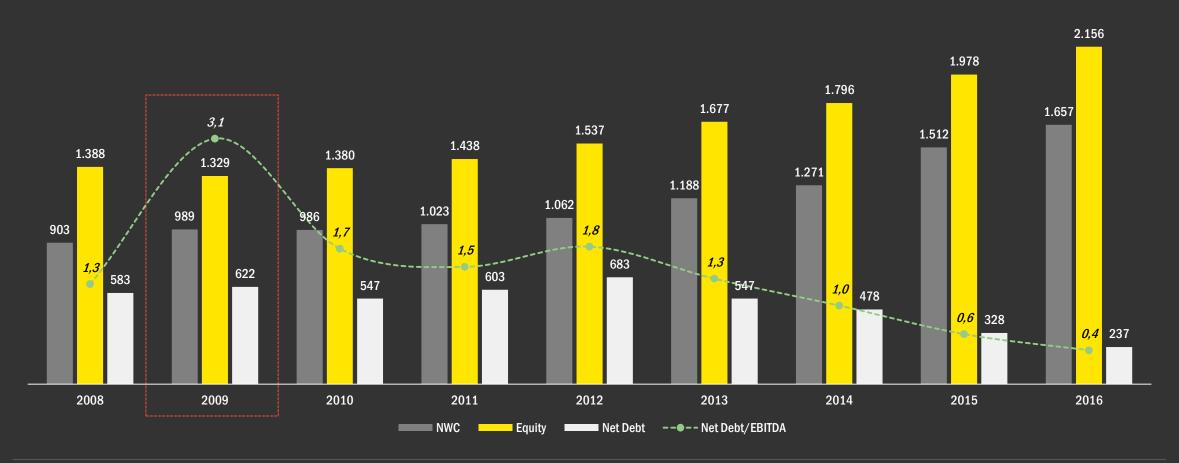
Profit and Loss key financials 2008-2016 (€ mln)



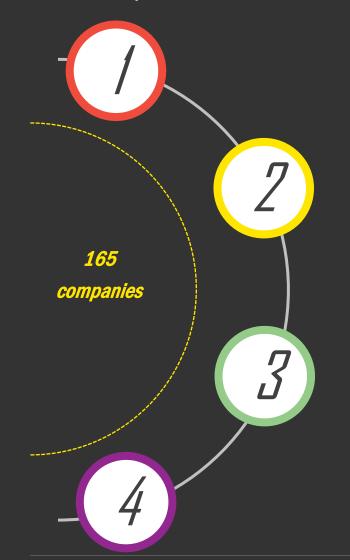


The trend shows a significant improvement in the financial structures of the sample

Balance Sheet key financials 2008-2016 (€ mln)



The sample was divided into 4 clusters based on the size





Companies with Sales over € 100mn in 2016



Companies with Sales between € 50mn and € 100mn in 2016



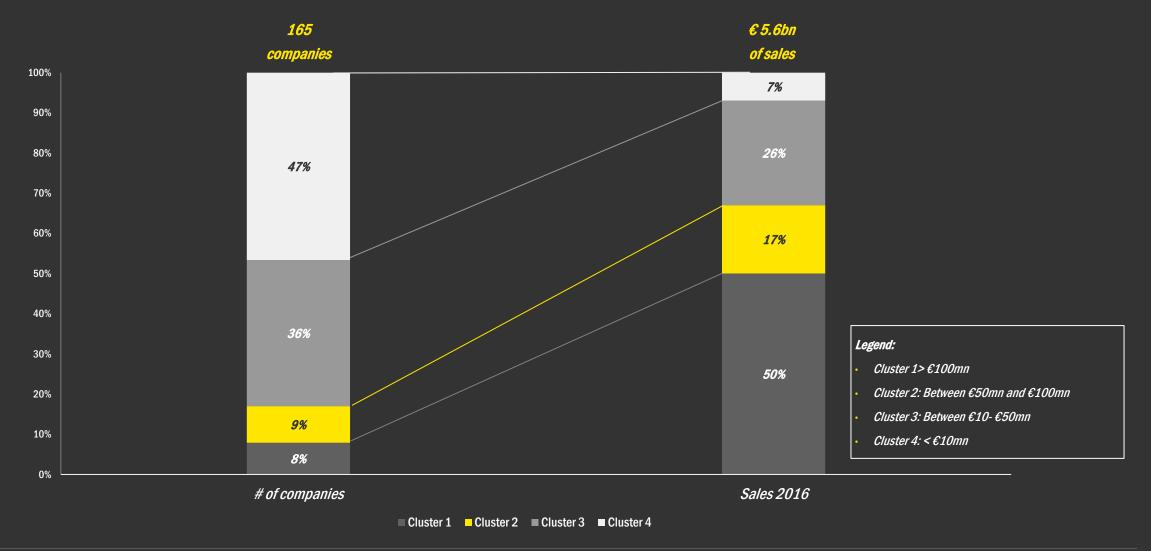
Companies with Sales between € 10mn and € 50mn in 2016



Companies with Sales below € 10mn in 2016



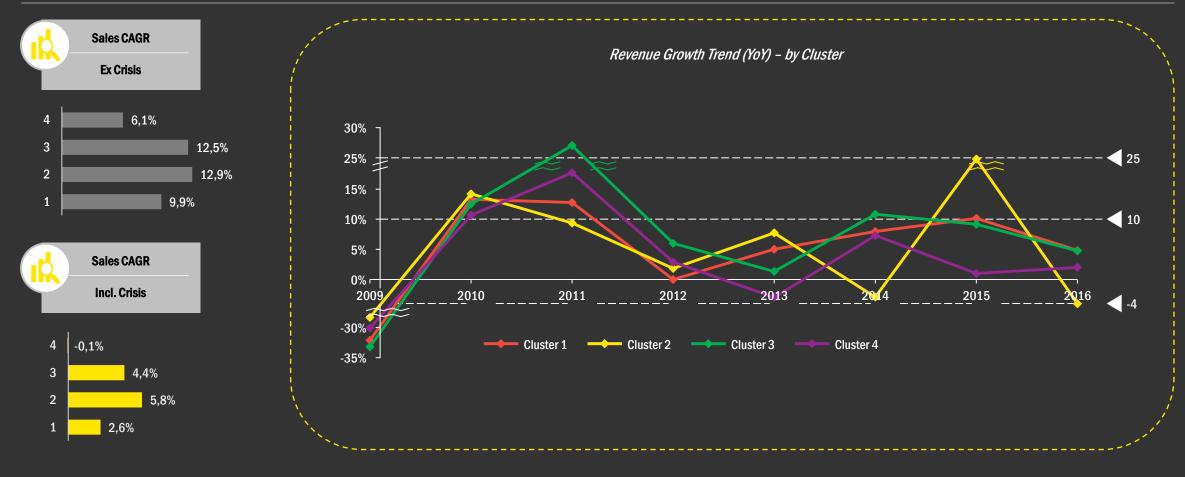
Despite of the sample size, the biggest companies (#13) account for ca. 50% of total sales





Clusters 2 and 3 have outperformed in terms of sales growth, while Cluster 4 showed difficulties to handle the economic downturn

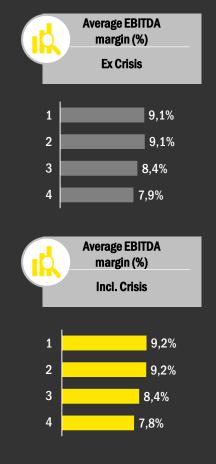
Revenue Growth Analysis





The EBITDA margin has generally swung in a range of 7%-12%. Cluster 1 has consistent margins over the period of analysis (ca. 9.1% on average)

EBITDA Margin Analysis

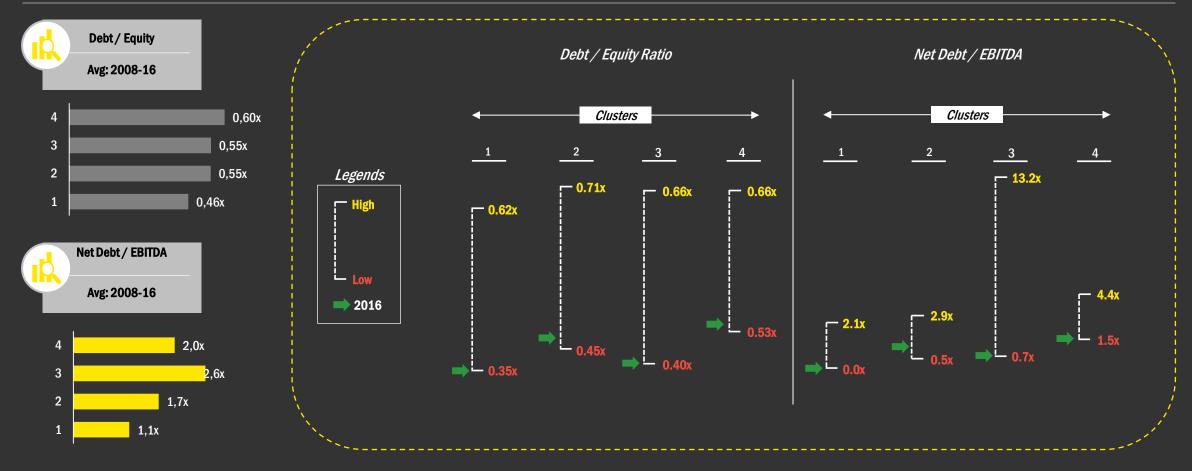






Financial ratios in 2016 show an impressive financial structure with opportunities to take additional debt in order to finance the growth in terms of new investments or add-on acquisitions

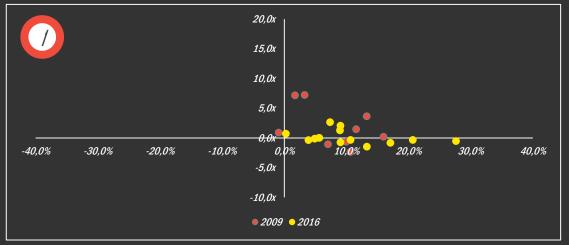
Leverage Analysis

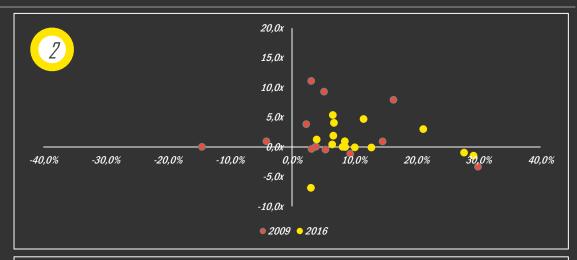


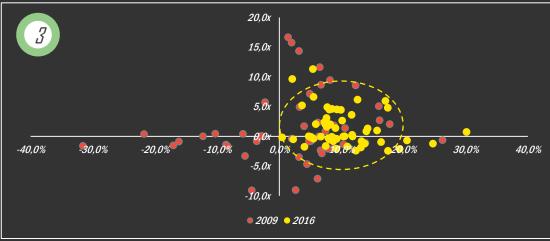


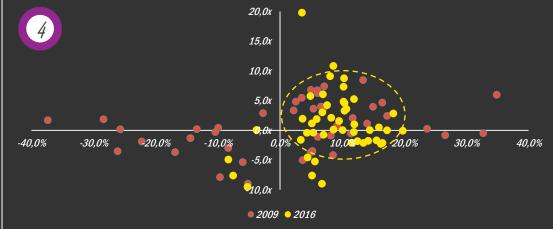
Clusters 3 and 4 have recorded significant improvements after the financial crisis, while Cluster 1 and 2 have better overcome the negative impacts

Scatter plots analysis (X-axis: EBITDA %; Y-axis: Net debt/EBITDA)









Source: AIDA Filings, EY Analysis





M&A results **Objective & Financial** Make or Buy? Methodology **Analysis**



Pros

3. Make or Buy

Organic vs. Inorganic: which way to grow?

Make

- Less risky than taking over other businesses
- Finance through internal funds
- Builds on a business' existing strengths (e.g. brands, customers)
- Allows the business to grow at a more stable rate in the long run
- Less cultural issues

- Growth achieved may be dependent on the growth of the overall market
- Limited resources for growing business
- Slow growth shareholders may prefer more rapid growth of revenues and profits
- Harder to build market share if business is already a leader

Buy

- Acquisition is the most time-efficient growth strategies
- Increase market share while reducing the competition's stronghold
- A route for gaining resources and competencies currently not held
- Overcome formerly challenging market entry barriers while reducing risks of adverse competitive reactions

- The cost of acquisition can climb steeply, well beyond the earlier projections
- Integration of the acquired organization can bring a number of challenges
- When the acquisition faces too many challenges or the timeline for completion stretches out longer than anticipated, too much of the managerial focus is diverted away from internal development and daily operations

Cons

Pros



3. Make or Buy

The organic path to the growth



Understand the Business
 Model and identify
 competences/ capabilities
 to leverage internationally

 Screen the markets and create a short-list on the basis of a structured and detailed analysis of attractiveness Define the Business Model to adopt internationally & evaluate option for entry Identify the more appropriate entry strategy, define the action plan



3. Make or Buy

The organic path to the growth

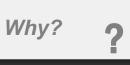
External Growth Triggers

- ► Stagnating growth in domestic markets
- ► Attractive customer segments in new markets
- «Peer pressure» with competitors staking out positions in fast developing markets
- ► A perceived need for scale on a global basis
- ► A growth story to support exit

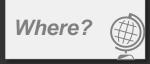


By their very nature, new markets are typically unfamiliar and even clients who are light users of strategy consultants are likely to look for external help

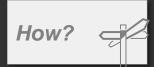
Key Client Questions



- ▶ What is our strategic rationale for external growth?
- ▶ What is the role of external growth in the overall plan?



- ▶ Which are the most attractive markets for us to enter?
- ► What are the risk and opportunities by market?
- ► How should we prioritise which markets to enter?



- ▶ Why have similar businesses succeeded/failed in entering these markets?
- ► How should we enter these markets?
- ▶ Who are potential acquisition targets or partners with which to work?
- ▶ Which assets and capabilities can we leverage?
- ▶ What changes do we need to make in our organisation to support the external growth?



Exemplification

3. Make or Buy

Inorganic growth: the deal path

Approach to Potential Target and NDA

Contact with potential targets to understand general interest in initiating talks
Signing of NDA

Go - No Go Decision

2-4 weeks

Understanding of Target Business Model

- Meetings between buyer-seller managers and specialists
- Understanding of potential target strategic objectives
- Collection of information and data on potential targets (financial and operational)

Non-Binding Offer approval

4-6 weeks

Pre Due Diligence and Non binding Offer

- Pre-due diligence to anticipate financial and tax issues led by financial advisor
- Workshops with the seller
- Understanding of seller involvement after transaction completion
- Negotiate exclusivity after non binding offer
- Drafting Non Binding Offer

Binding Offer approval

6-8 weeks

Due Diligence and Binding Offer

- Signing of Exclusivity agreement
- Signing of Memorandum of Understanding (if needed)
- Data Room and full due-diligence (financial, tax, HR, legal, business)
- Business due diligence
- Buyer-seller preparation of combined business plan
- Drafting Binding offer and SPA

3-4 weeks

Final negotiations, Signing & Closing

- Final negotiations on SPA
- Final negotiations of seller involvement after transaction completion
- Signing
- Closing

Post Deal integration

- Operating model development
- Synergy assessment
- Integration planning
- Detailed planning team level
- Integration
- Synergy capture
- Integration delivery team level
- Integration delivery PMO

Key documents

■ NDA

Key documents

Investment memorandum

Key documents

- Red flag report
- Non binding offer

Key documents

- Exclusivity agreement
- Full due diligence report Combined business plan and synergy assessment
- Binding offer
- Memorandum of Understanding (if needed)

Key documents

Final SPA

Key documents

- Integration blueprint: Day 1 readiness
- Master plan for integration
 & synergy capture
- Integration progress reporting
- Synergy tracking

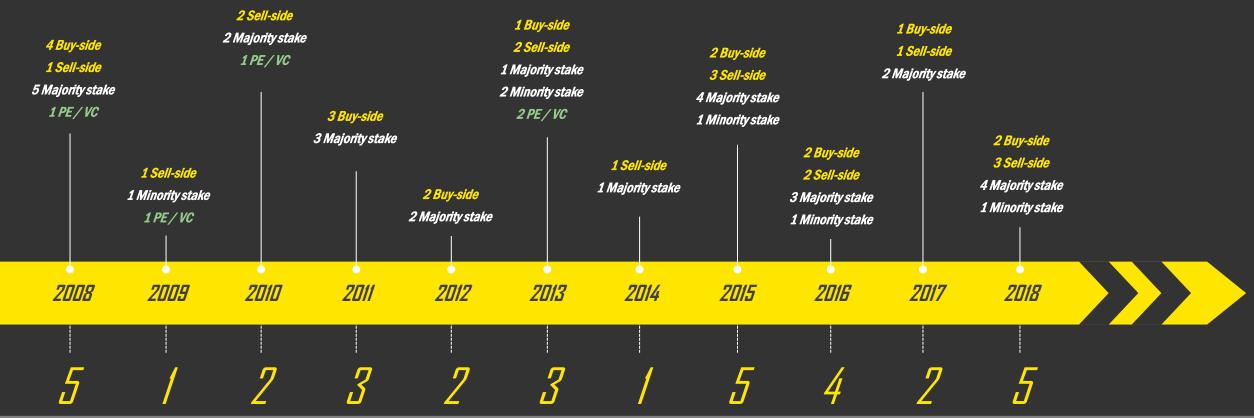


Objective & Make or Buy? **Financial M&A results** Methodology **Analysis**



4. M&A results

33 deals in the period 2008-2018 that have involved 15 companies both with seller or buyer roles



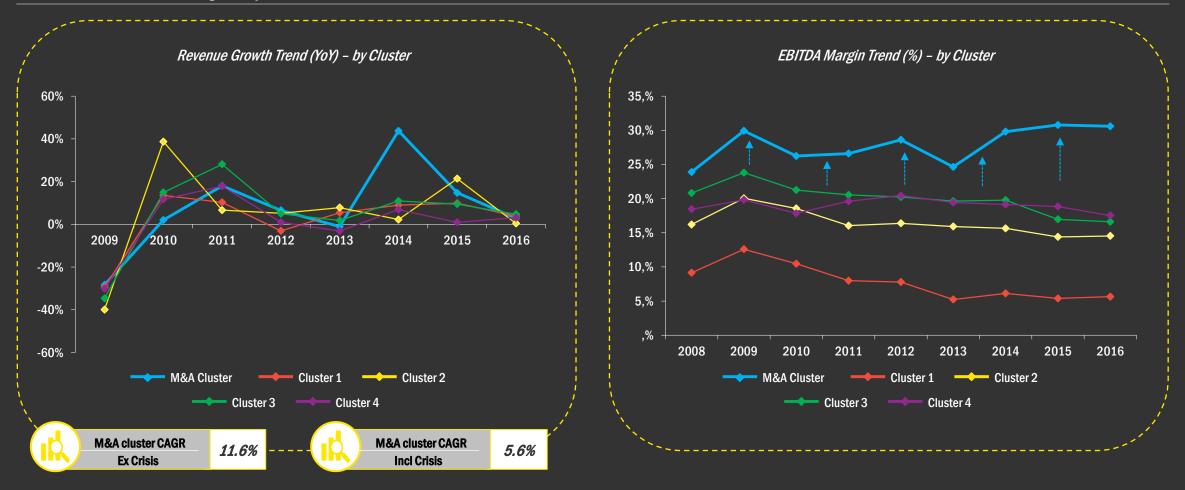
of deals per year



4. M&A results

The cluster of companies that had M&A experience shows better financial results both in terms of CAGR of sales and profitability

Revenue Growth and EBITDA Margin Analysis





Gianni Panconi | Partner | M&A - TAS Industrial Product Leader

EYS.p.A

Via Meravigli, 12, 20123, Milan, Italy

Mobile: +39 334 6698 717 | Office: +39 02 8066 91 | gianni.panconi@it.ey.com

Website: http://www.ey.com

Orazio Bocchieri | Manager | M&A - TAS Industrial Product

EYS.p.A

Via Meravigli, 12, 20123, Milan, Italy

Mobile: +39 360 1032 207 | Office: +39 02 8066 91 | orazio.bocchieri@it.ey.com

Website: http://www.ey.com

