

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

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



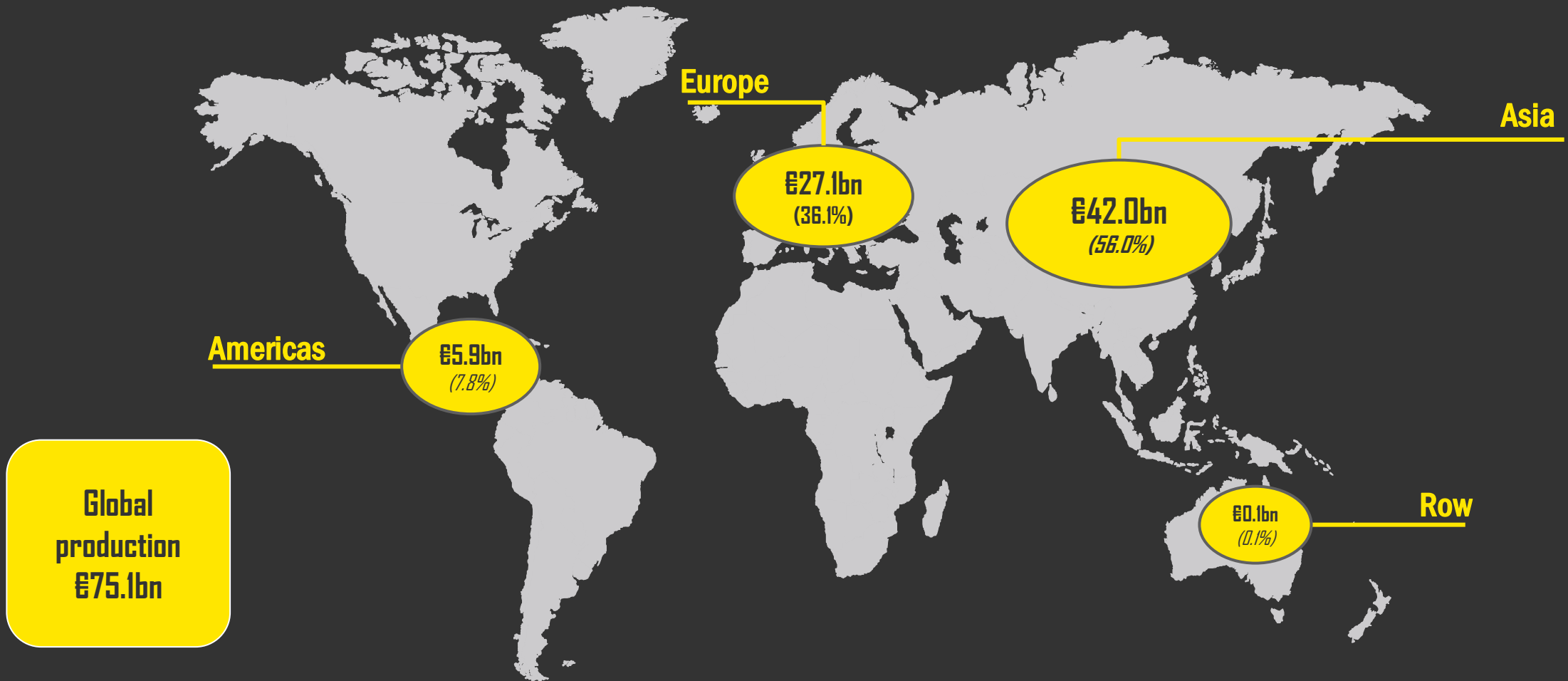
The better the question. The better the answer.
The better the world works.



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

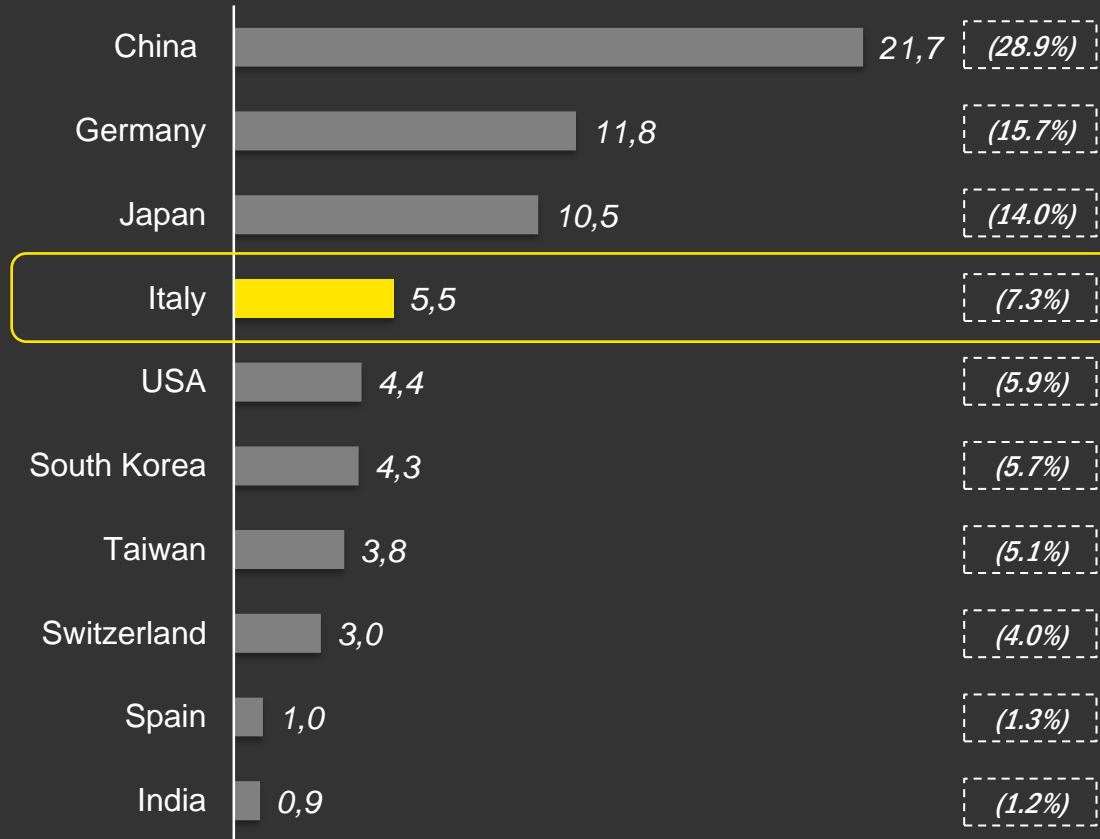


Source: UCIMU, EY Analysis

Global Machine Tool overview

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

Top 10 producing countries 2017 (€ bn, % on global production)



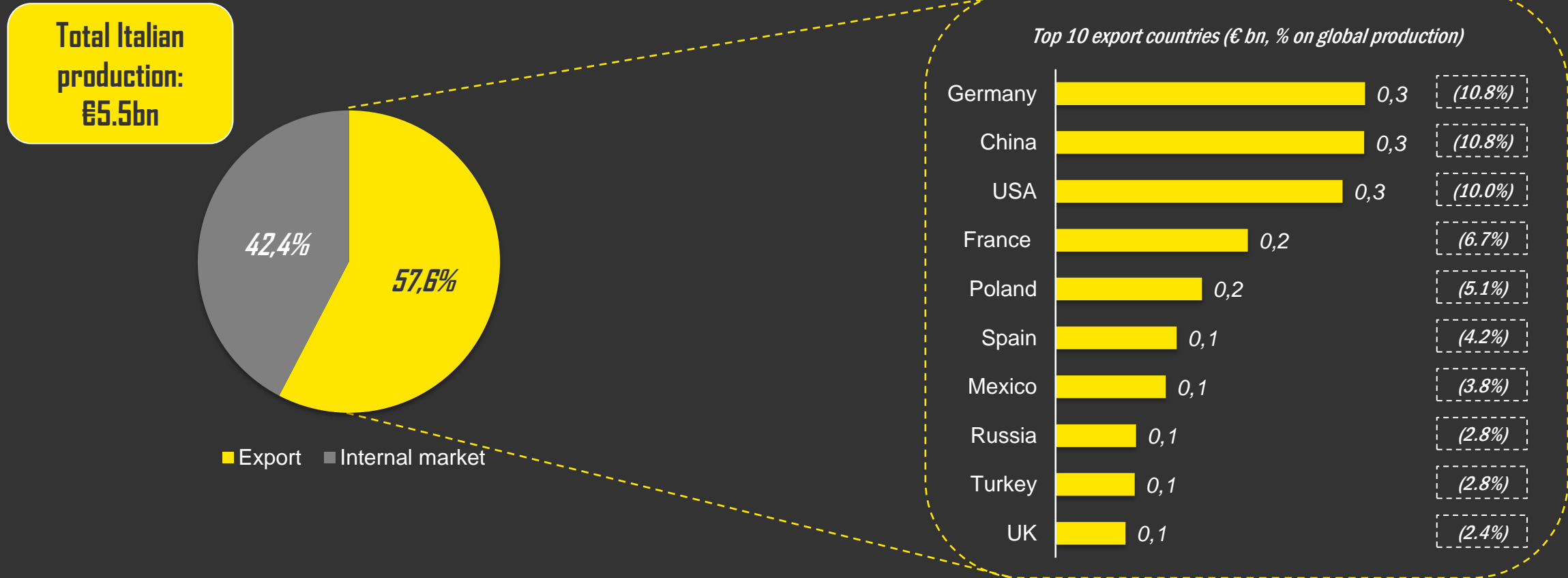
Selected player in the Machine Tool industry



The Italian end-markets

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

Italian Machine Tools production 2017



Index

**Objective &
Methodology**

1

**Financial
Analysis**

2

Make or Buy?

3

M&A results

4

**Objective &
Methodology**

1

**Financial
Analysis**

2

Make or Buy?

3

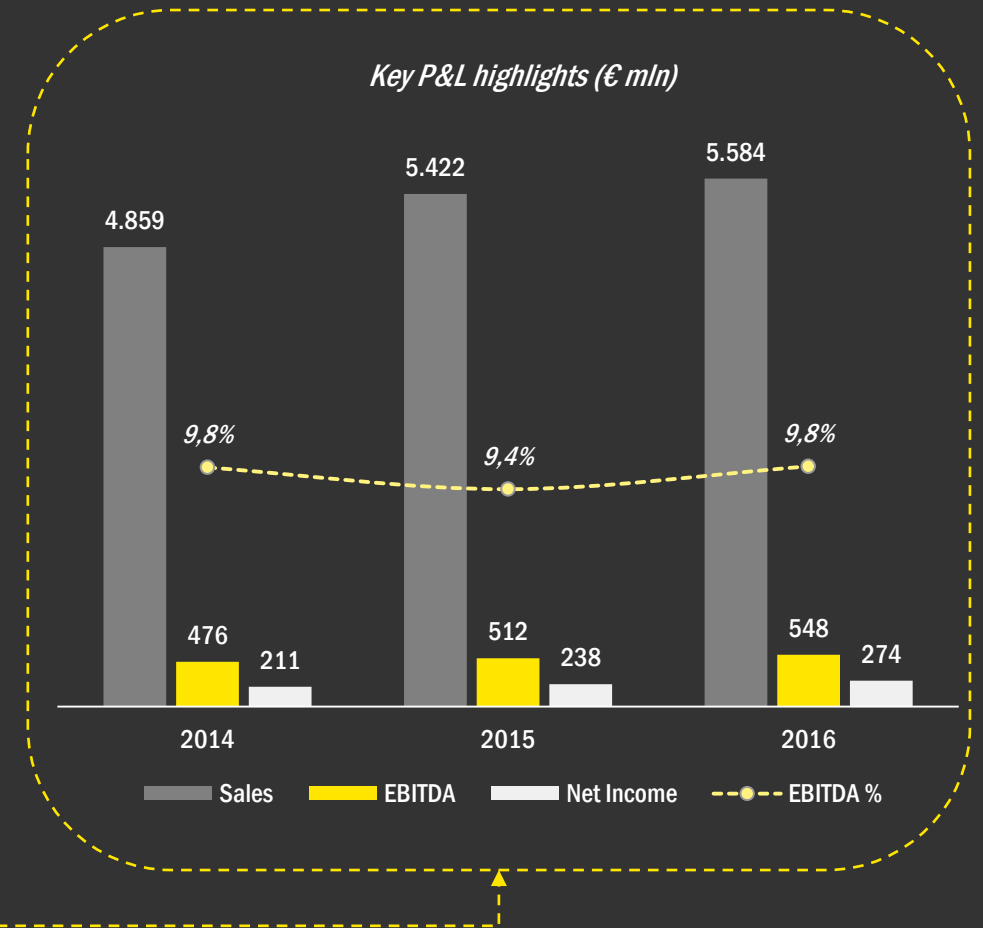
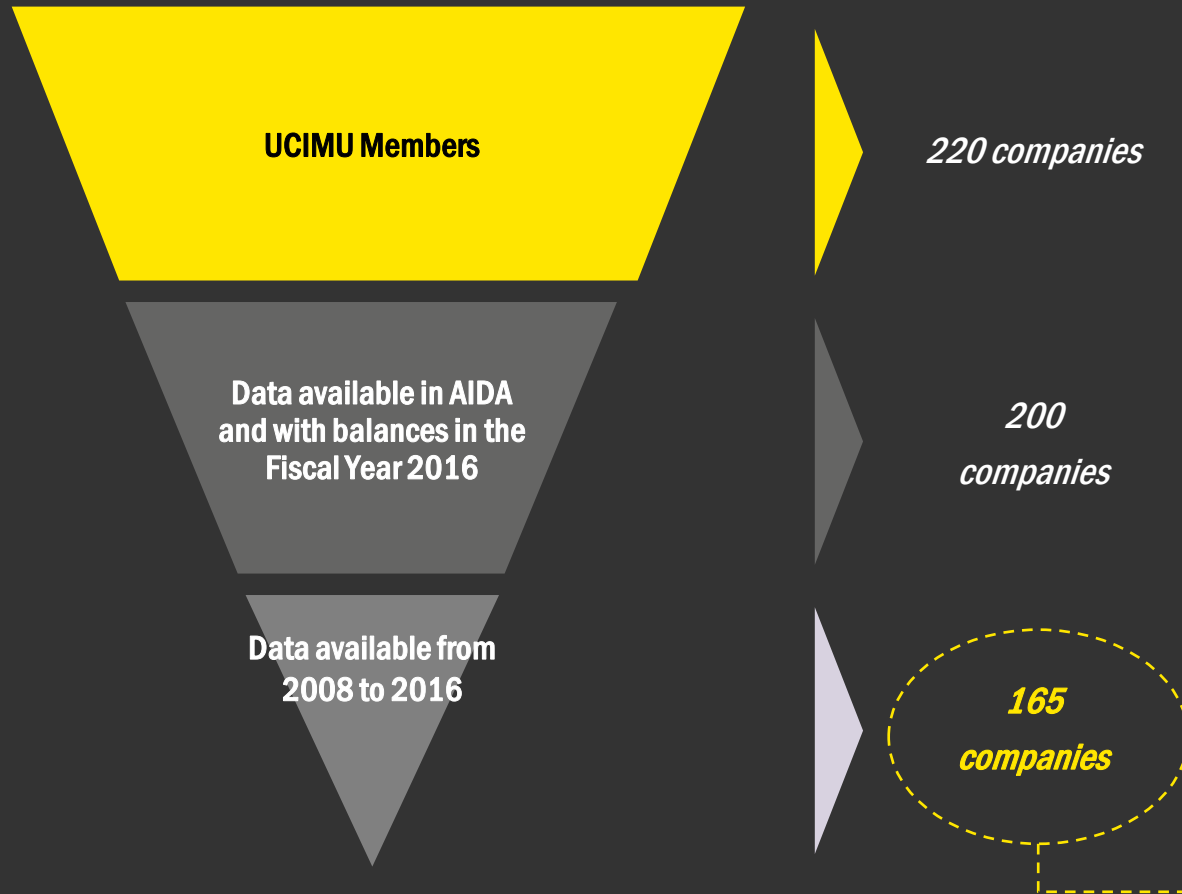
M&A results

4

1. Objective & Methodology

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

Sample selection process



**Objective &
Methodology**

1

**Financial
Analysis**

2

Make or Buy?

3

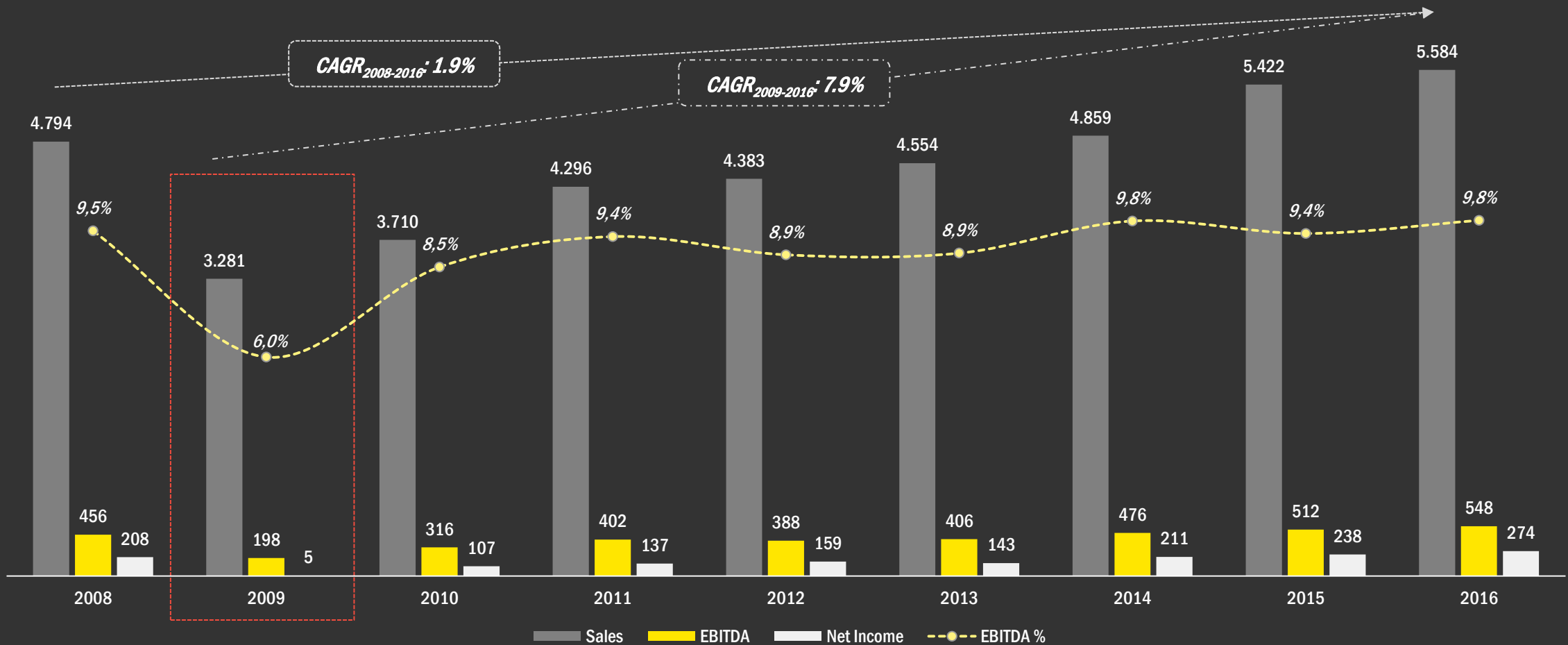
M&A results

4

2. Financial 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)

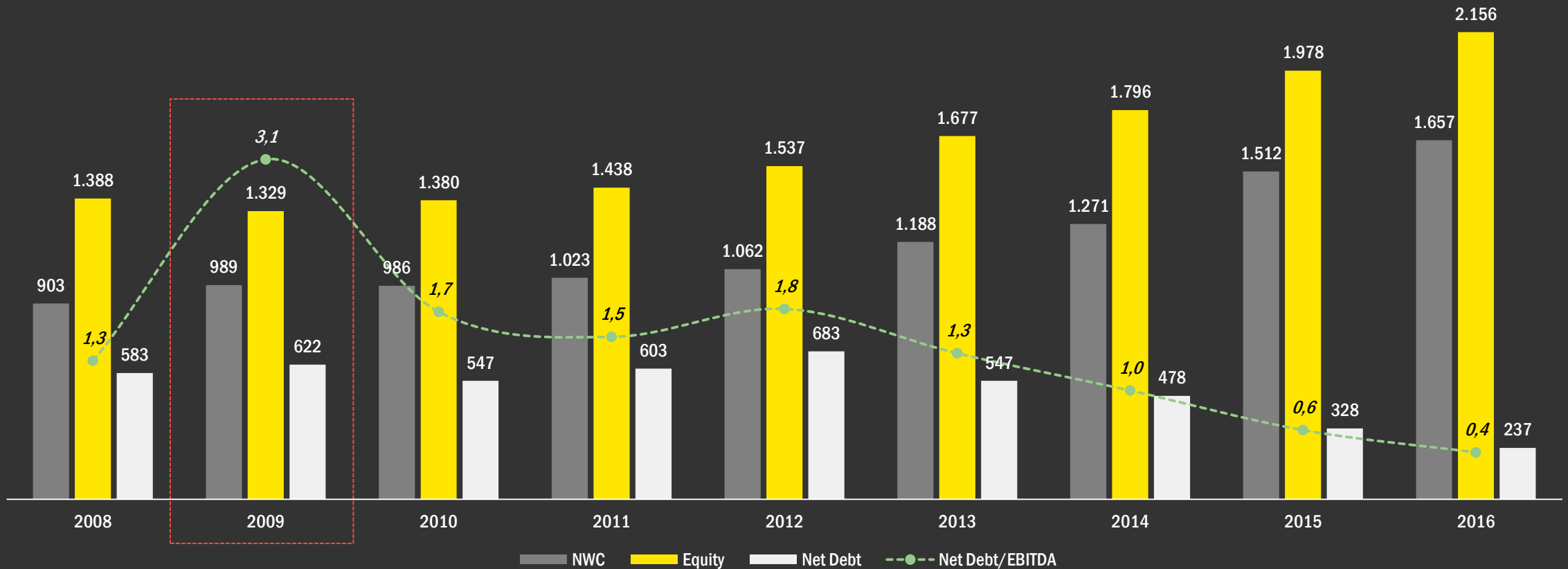


Source: AIDA Filings, EY Analysis

2. Financial analysis

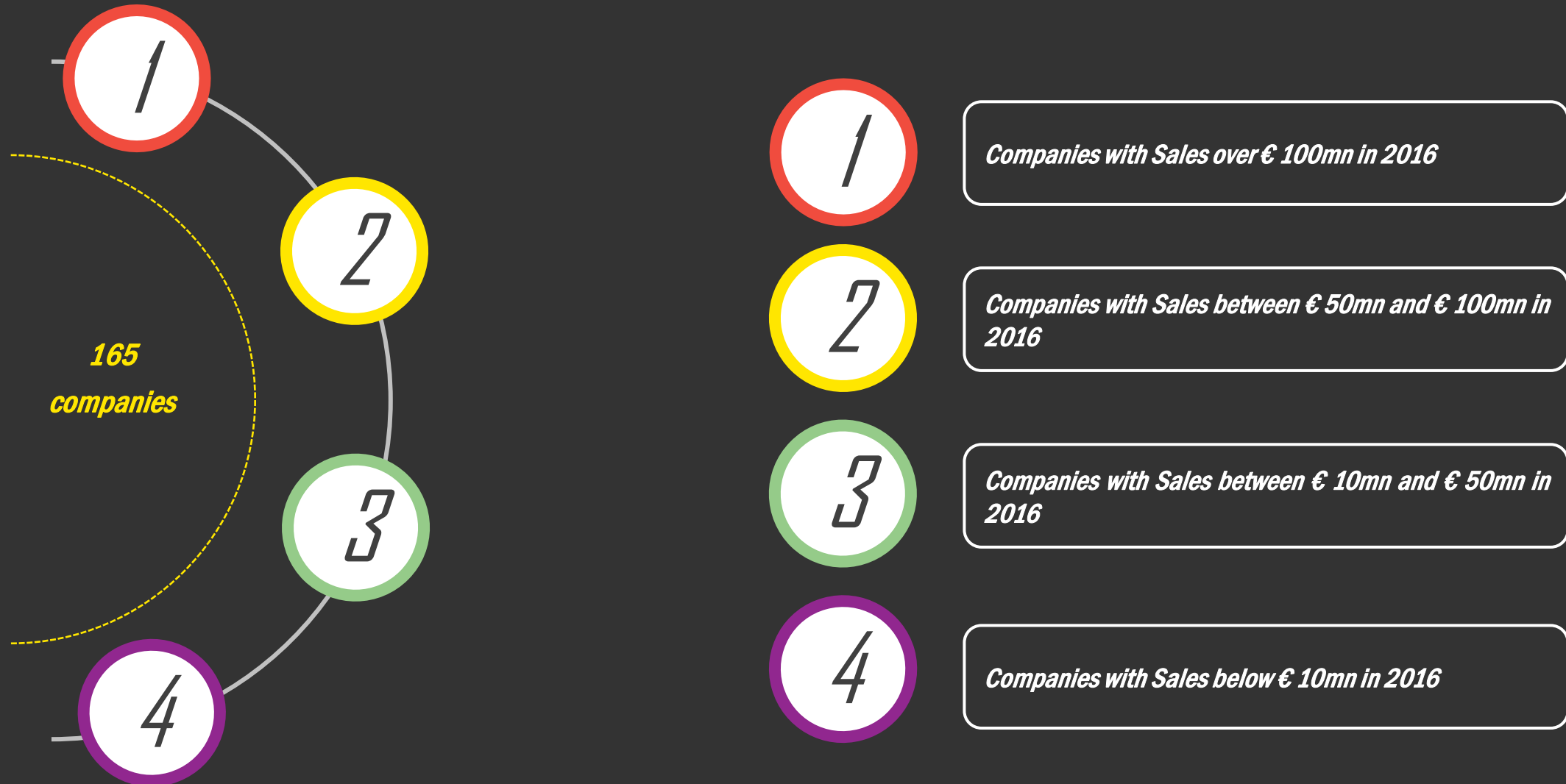
The trend shows a significant improvement in the financial structures of the sample

Balance Sheet key financials 2008-2016 (€ mln)



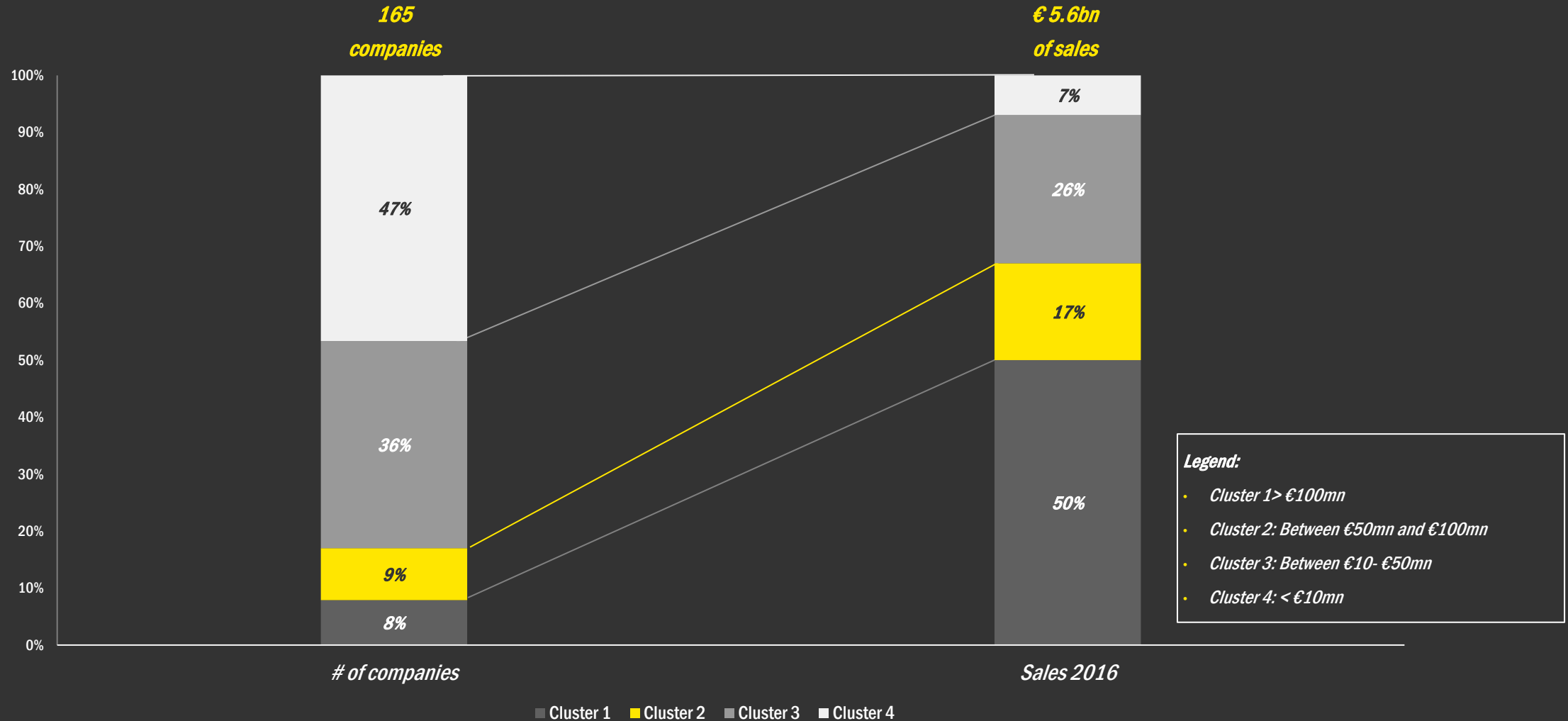
2. Financial analysis

The sample was divided into 4 clusters based on the size



2. Financial analysis

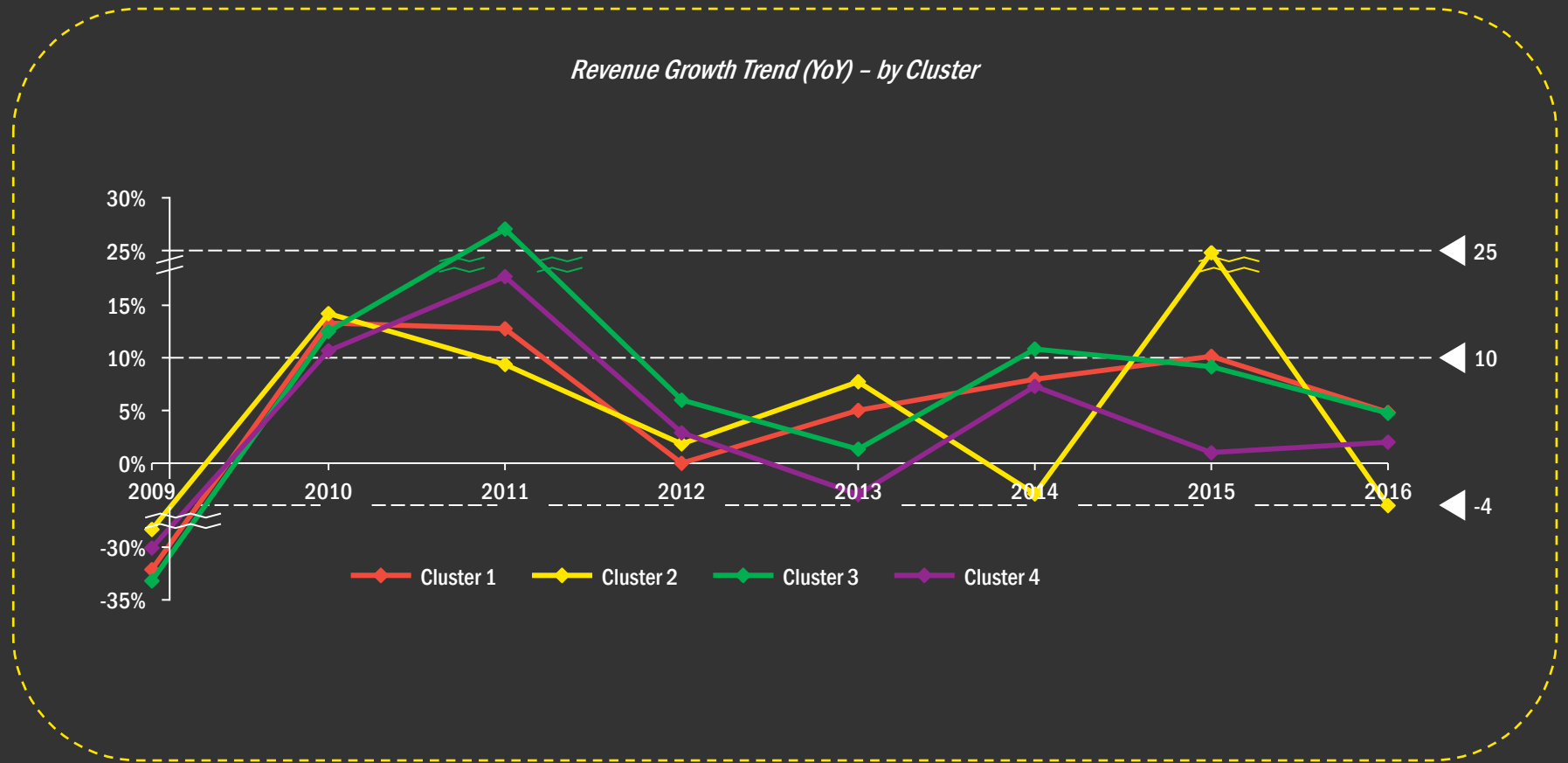
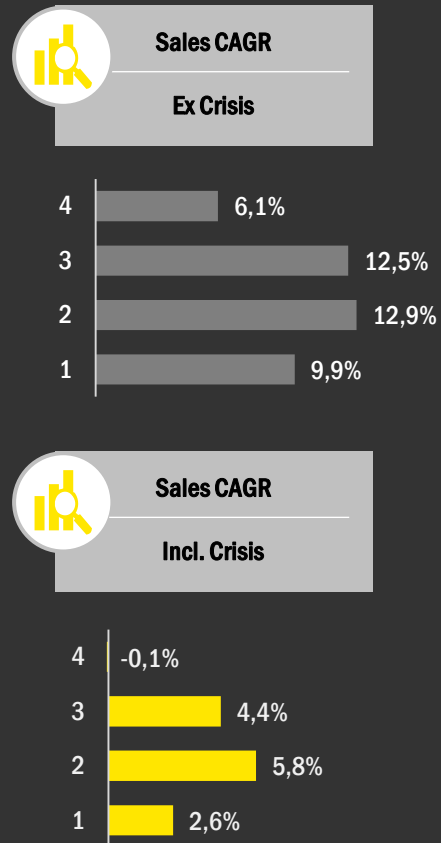
Despite of the sample size, the biggest companies (#13) account for ca. 50% of total sales



2. Financial analysis

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

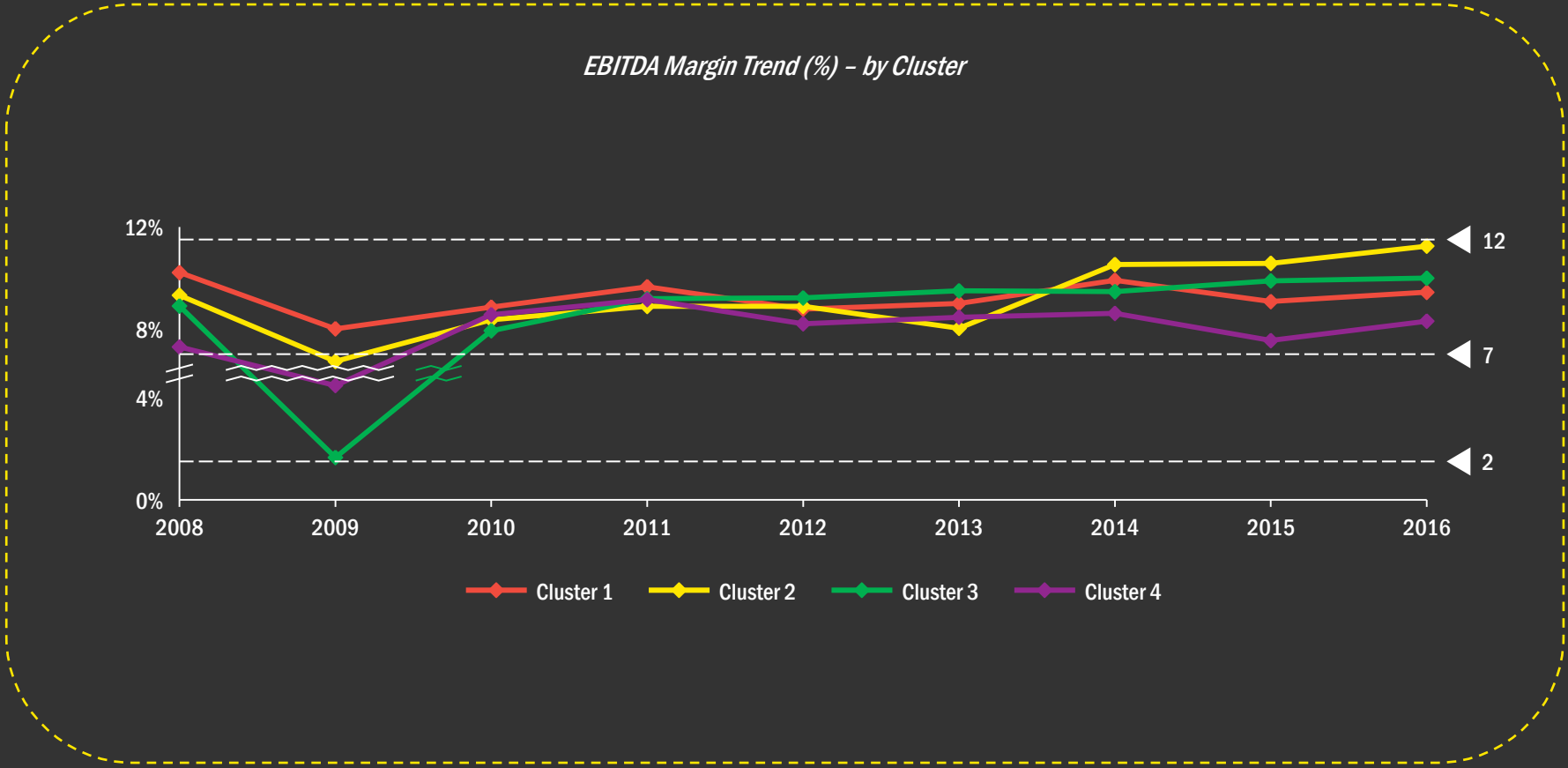
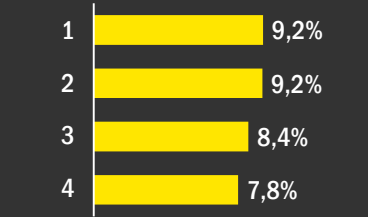
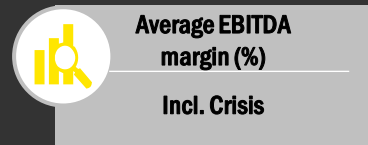
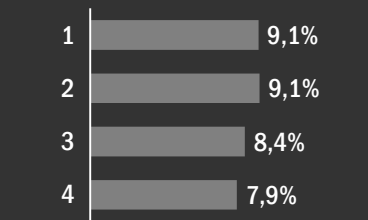
Revenue Growth Analysis



2. Financial 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



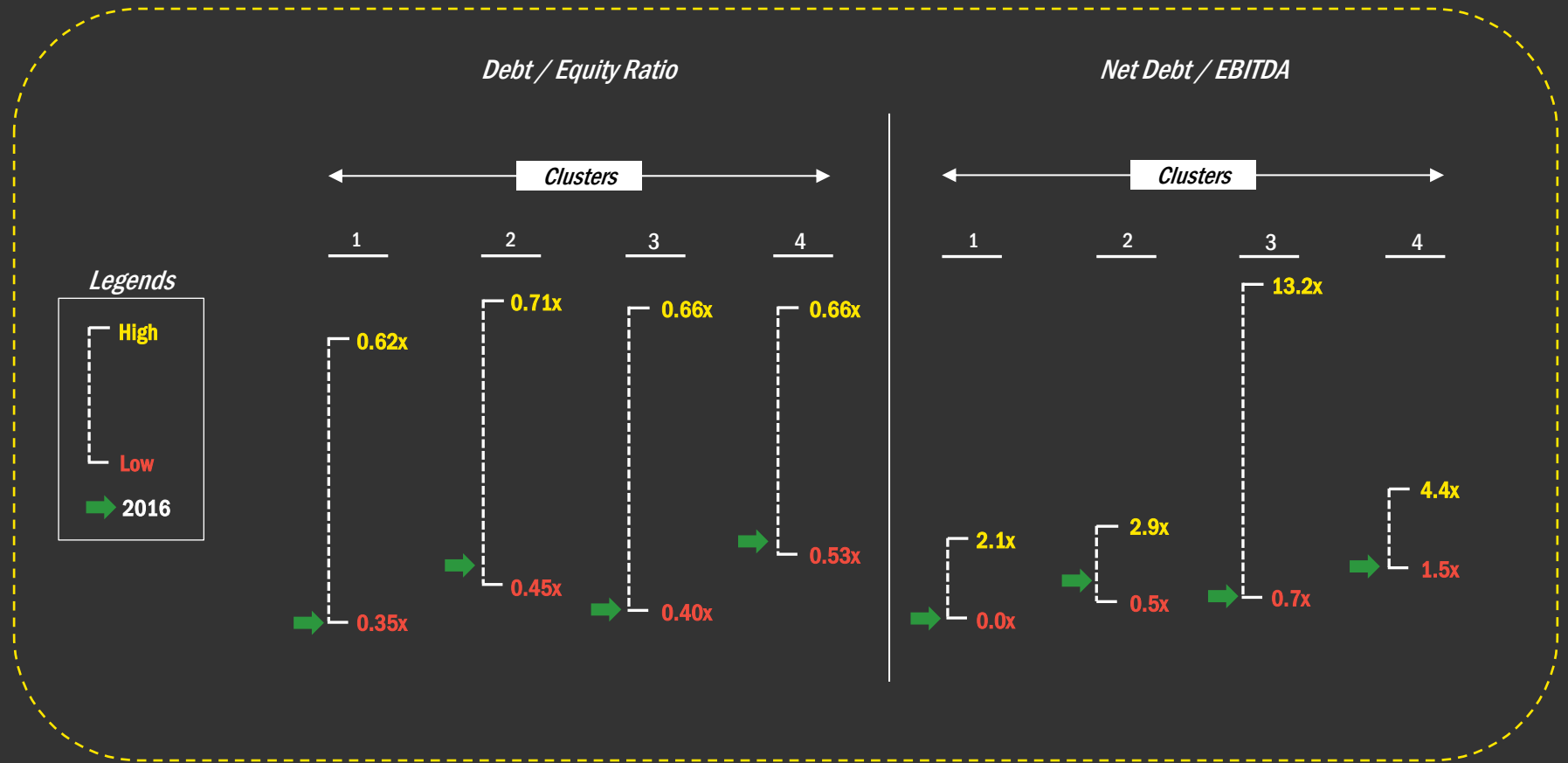
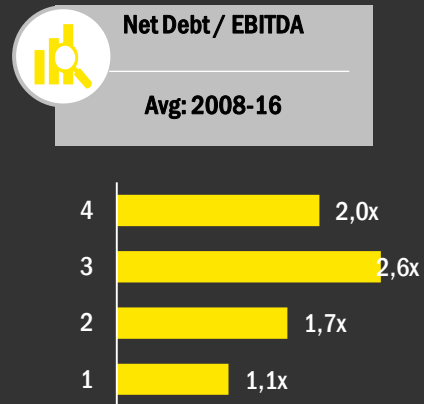
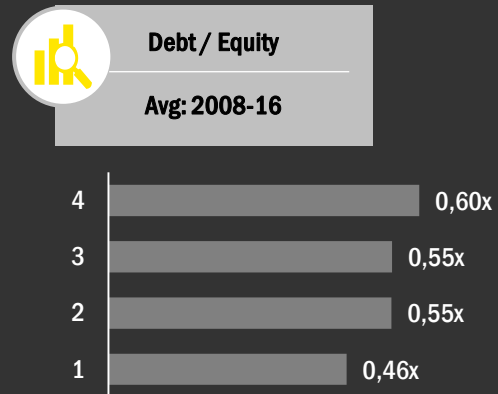
Source: AIDA Filings, EY Analysis

Cluster 1: €100mn+ ; Cluster 2: Between €50mn and €100mn; Cluster 3: Between €10- €50mn; Cluster 4: < €10mn

2. Financial 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

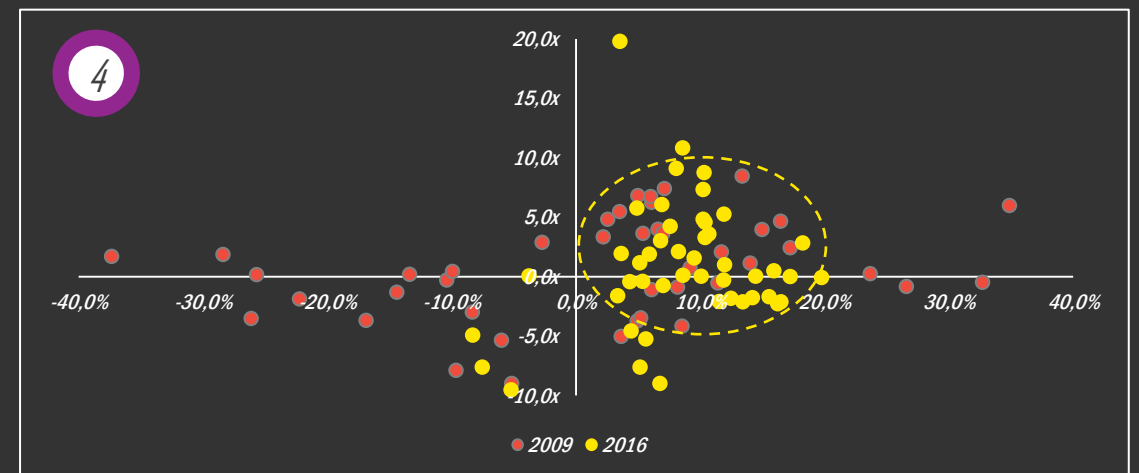
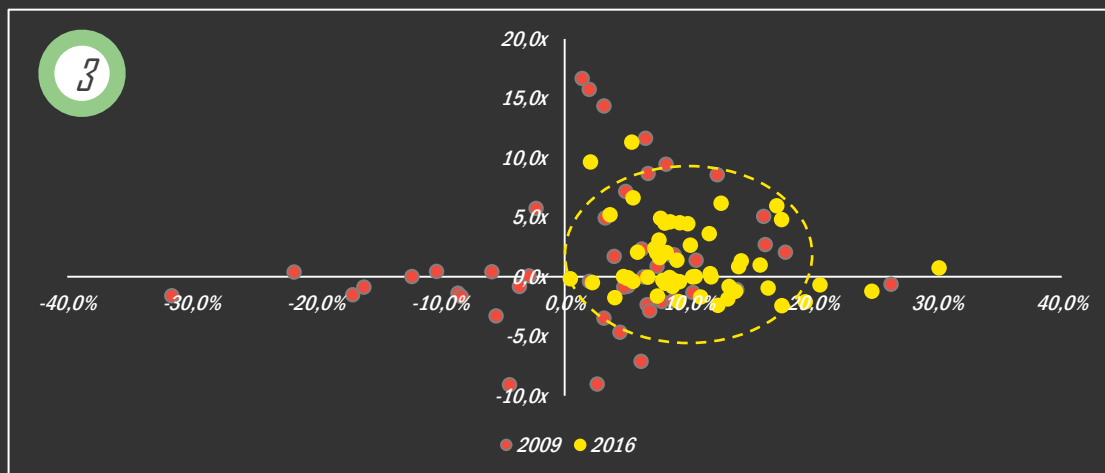
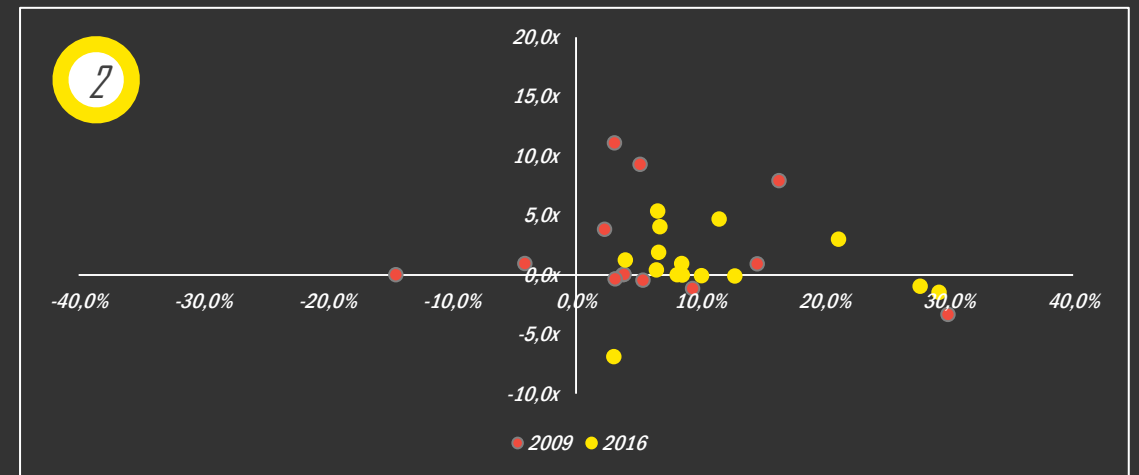
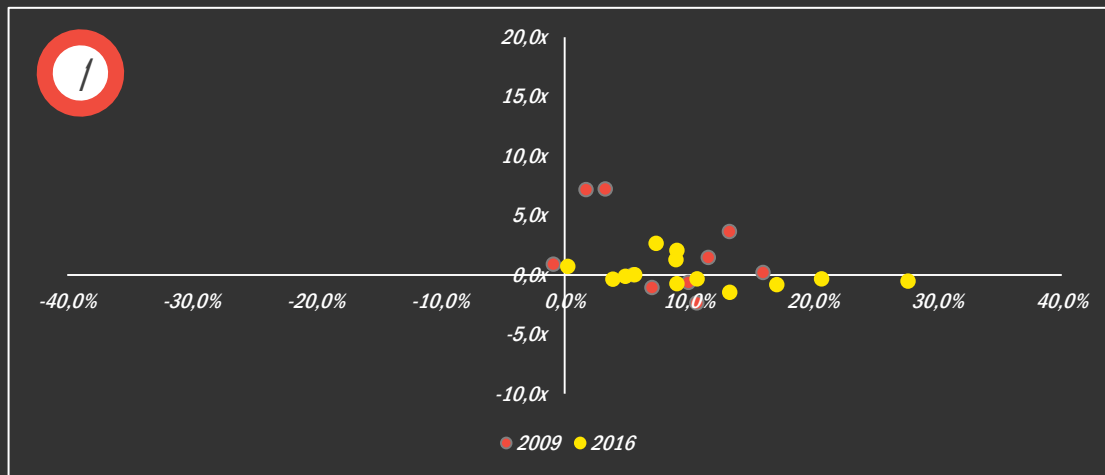
Leverage Analysis



2. Financial 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

Cluster 1: €100mn+ ; Cluster 2: Between €50mn and €100mn; Cluster 3: Between €10- €50mn; Cluster 4: < €10mn

**Objective &
Methodology**

1

**Financial
Analysis**

2

Make or Buy?

3

M&A results

4

3. Make or Buy

Organic vs. Inorganic: which way to grow?

Make

Buy

Pros

- 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

Cons

- 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

Pros

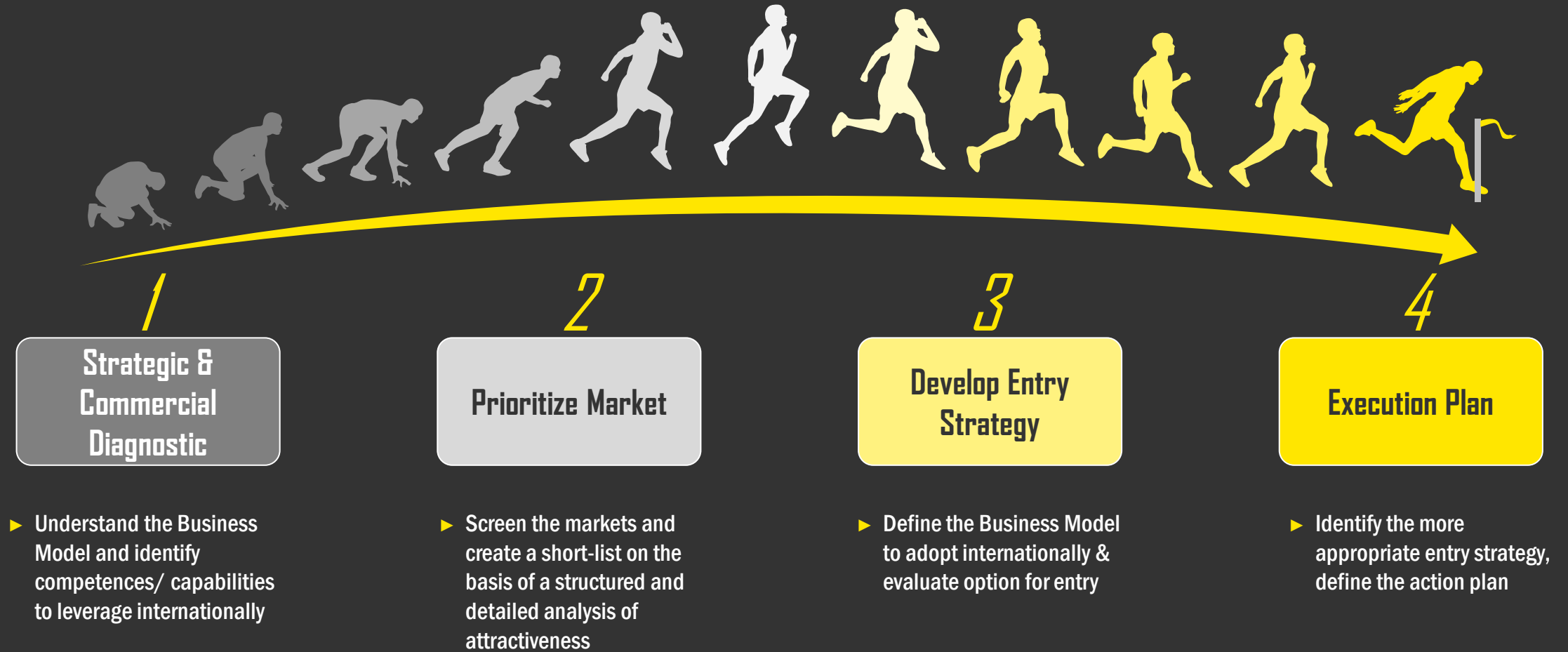
- Acquisition is the most time-efficient growth strategies
- Increase market share while reducing the competition's stronghold
- A route for gaining resources and competencies currently not held
- Overcome formerly challenging market entry barriers while reducing risks of adverse competitive reactions

Cons

- 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

3. Make or Buy

The organic path to the growth



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

Exemplification

Why? ?

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

Where? 

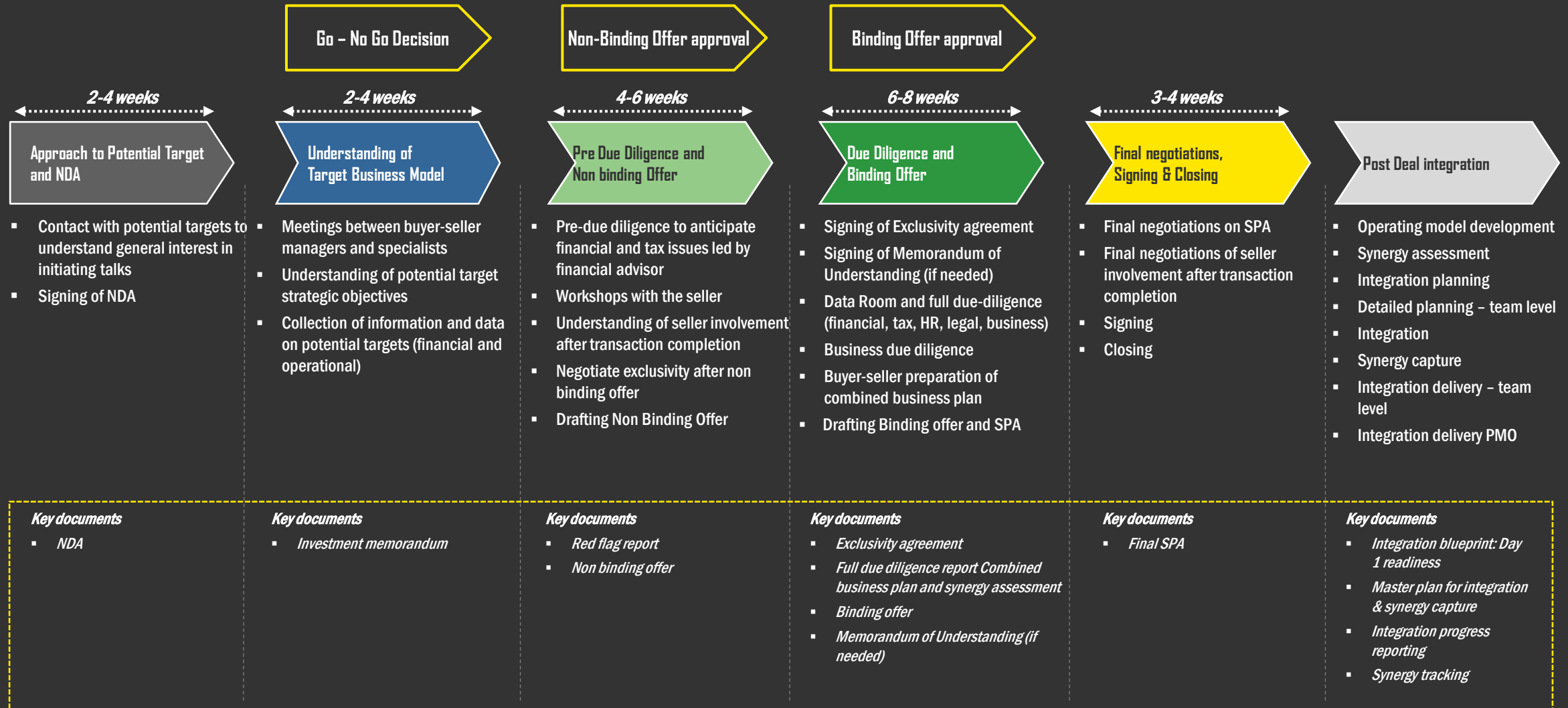
- ▶ Which are the most attractive markets for us to enter?
- ▶ What are the risk and opportunities by market?
- ▶ How should we prioritise which markets to enter?

How? 

- ▶ 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?

3. Make or Buy

Inorganic growth: the deal path



**Objective &
Methodology**

1

**Financial
Analysis**

2

Make or Buy?

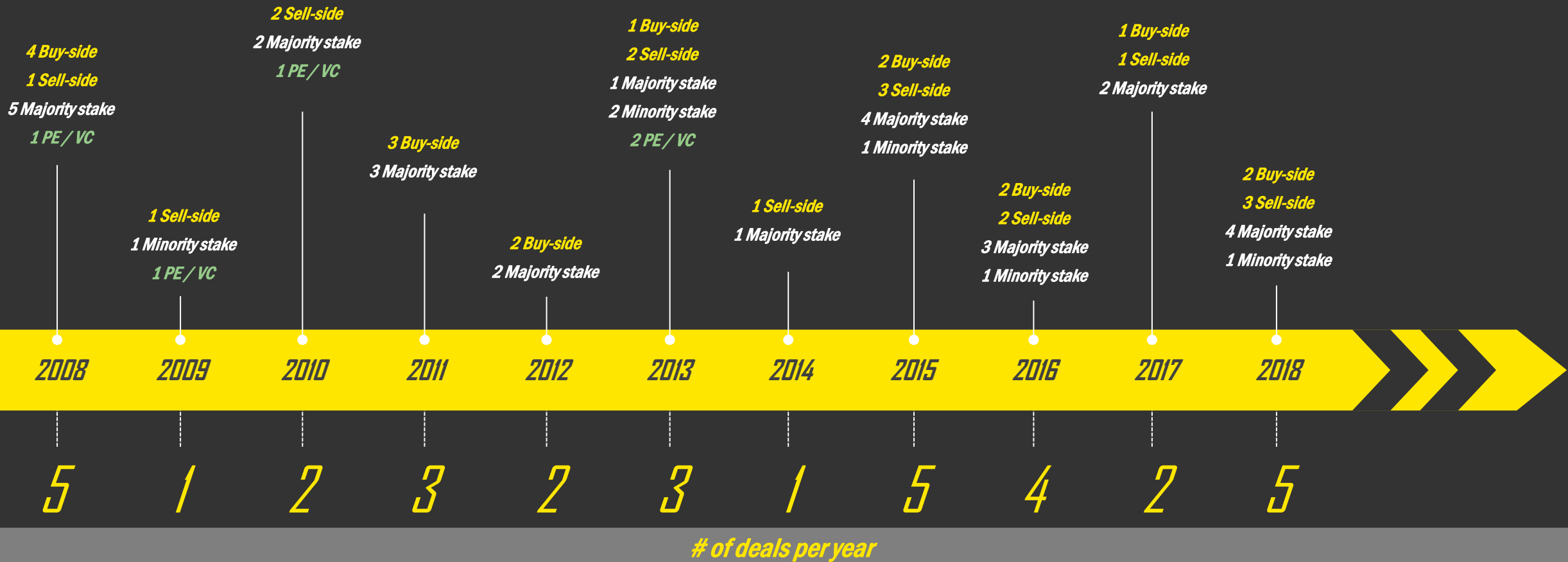
3

M&A results

4

4. M&A results

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



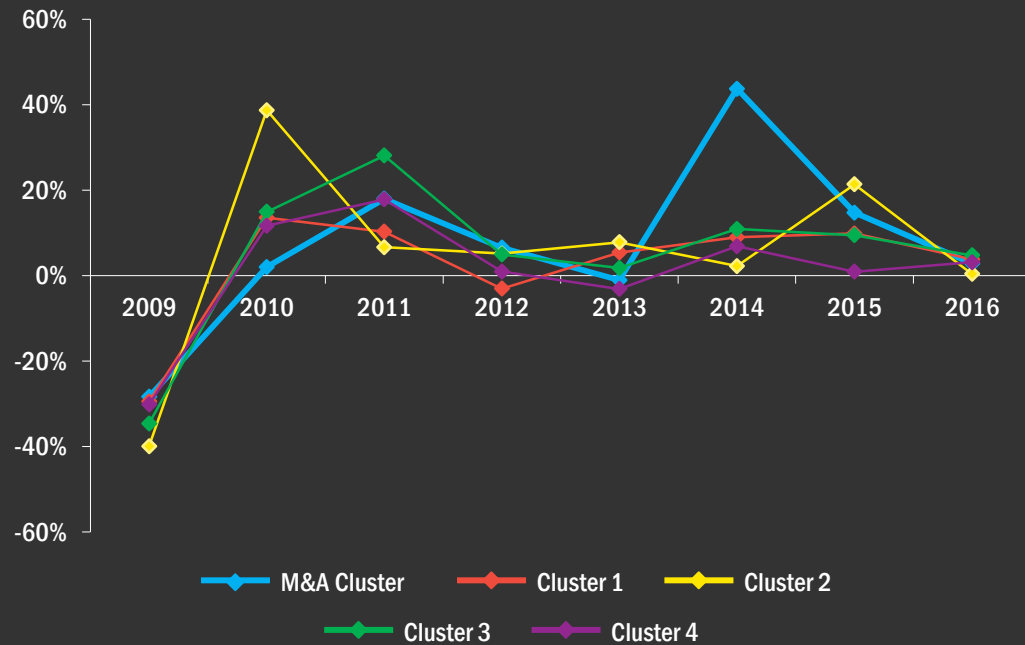
Source: MergerMarket; Capital IQ

4. M&A results

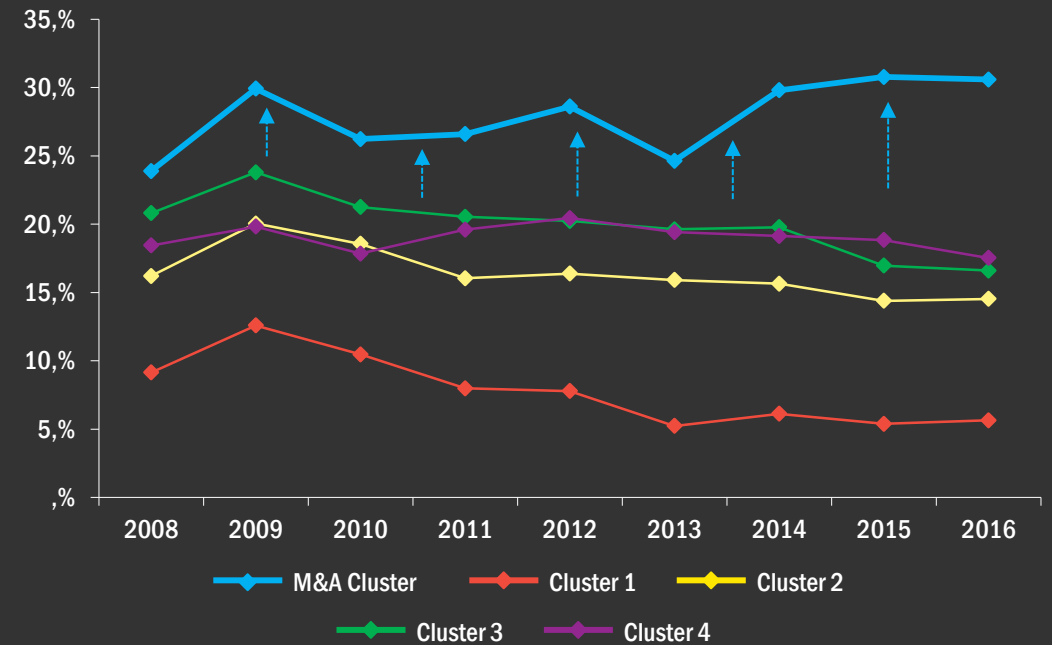
The cluster of companies that had M&A experience shows better financial results both in terms of CAGR of sales and profitability

Revenue Growth and EBITDA Margin Analysis

Revenue Growth Trend (YoY) – by Cluster



EBITDA Margin Trend (%) – by Cluster



M&A cluster CAGR Ex Crisis

11.6%

M&A cluster CAGR Incl Crisis

5.6%

Source: AIDA Filings, EY Analysis

Cluster 1: €100mn+ ; Cluster 2: Between €50mn and €100mn; Cluster 3: Between €10- €50mn; Cluster 4: < €10mn

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>



The better the question. The better the answer.
The better the world works.

