CFA Institute Research Challenge

Hosted in

CFA Society Italy

MC Squared

Initiation of coverage: 6th February 2019

Italy | Machinery | Industrial Machinery

Amounts in mln	2018E	2019E	2020E	2021E	2022E	2023E
Revenues	1.265,6	1.497,9	1.763,1	2.050,4	2.352,4	2.664,1
EBITDA	260,4	333,5	397,0	466,4	539,9	616,3
Margin	20,6%	22,3%	22,5%	22,7%	23,0%	23,1%
EBIT	229,7	286,2	342,7	403,3	467,5	534,3
Margin	18,1%	19,1%	19,4%	19,7%	19,9%	20,1%
Net Income	167,1	199,5	237,4	278,9	323,5	370,4
Margin	13,2%	13,3%	13,5%	13,6%	13,8%	13,9%

Interpump Group: diversification is a never-ending journey

We initiate our coverage on Interpump SpA (IPG) with a BUY recommendation, assessing a € 34.8 Target Price, implying a 23.9% potential upside from its current stock price (€28.12 per share, closing price on 6th February 2019). We believe that the market has not yet fully appreciated: **(i)** the relevant organic growth supported in **Water Jetting** and in **Flow Handling** by the continuous search for different application industries for high pressure pumps and the constant R&D activity; in **Hydraulics** by the increase of cross selling and geographical proximity of production and assistance sites; **(ii) the policy of constant external growth**, through the purchase of **companies** operating in similar industrial sectors; **(iii)** the high generation of **liquidity** dedicated to acquisitions, that could be supported by leverage up to a threshold of **2x debt/EBITDA** ratio.

A strong heritage

IPG implementation strategy has allowed the company to exhibit high margins (EBIT 23% 9M 2018E), cash flow generation (FCFF of € 93.6 mln 2017A) and returns (ROE 17.7% 2017A). In the past seven years, IPG growth (+14.4% CAGR on Revenues 2010A-2017A and +16.5% in 9M 2018E) has been driven by: **(i) organic growth**, increased sales on average by 5.7% per year from 2010A to 2017A; **(ii) acquisition of new companies**, increased sales on average by 10% per year in the same period (from 2010A to 2017A, three companies have been purchased in the Water Jetting sector and six companies in the Hydraulics sector); **(iii) diversification of the product portfolio** in **Hydraulics sector**, tapping into neighboring categories coordinated with its core products like flexible rubber hoses and fittings, flexible metal hoses, retail and on-site quick service, to integrate hydraulic kits, systems and services; **(iv) diversification of the outlet production** sectors for **Water Jetting**, entering in steel and mining applications, food, cosmetics and pharma, beer and winemaking.

A promising outlook

IPG **organic growth**, which has represented 1/3 of the overall growth historically, will be sustained going on: **(i)** in **Water Jetting** and in **Flow Handling** through different application industries for high pressure pumps, such as their use in the Food sector that experienced a double-digit growth until today; growth will also be supported by the constant R&D activity which accounts for about 2% of revenues every year; **(ii)** in **Hydraulics,** by cross selling and geographical proximity of production and assistance sites; an example of the first strategy is the acquisition of companies that produce hoses and fittings to support the main products of the Hydraulics sector.

IPG's **external growth**, which has represented 2/3 of the overall growth until now, will be sustained in the future: **(i)** by the purchase of **companies not in crisis**, operating in industrial sectors similar to its own, which are managed by a founding partner willing to remain in the company with minority shares for a number of years; **(ii)** by the high level of **liquidity** dedicated to acquisitions that is approximately **€200 mln** per year, supported by the company leverage target of **2x debt/EBITDA** ratio, if needed.

Financials

According to our analysis, IPG's business potential lead to a promising growth of revenues and profitability. Total Revenues will grow at +16.1% CAGR 2018E-2023E reaching **€ 2.66 bn 2023E** driven by acquisitions of new companies in both sectors every year **(+10.1% CAGR 2018-2023E)** and **by the increase in organic growth (+6% CAGR 2018E-2023E).** The change in the product mix from 2018 to 2023 will result in an increase in Gross Margin from 41% (2018E) to 42% (2023E). **EBIT** will grow to **€ 534.3 mln in 2023E (+18.4% CAGR 2018E- 2023E)** reaching a **margin on Revenues of 20% in 2023E. ROE will stay stable (18% 2023E) compared to 2018**. The high operating cash generation (€ 393.3 mln CFO 2023E, +21.6% from 2018) contributes to achieve a persistent growth of investments in new companies (New Investments/CFO 51% 2023E vs 124% 2019E). We expect **EPS to increase from €1.53 in 2018E to € 3.4 in 2023E (+17.3% CAGR 2018E-2023E).**

Valuation

Our Target Price of **€34.8** is a combination of IPG's potential in **organic** and external **growth**. To evaluate the IPG's **business form** and the **organic growth component** we use a **three-stage DCF model**. Given IPG's different financial structure during the projected 5Y, we consider **a different WACC for every forecasted year** and a **TV WACC of 4.31%**. We also estimate that **double-digit EBIT growth** (+13.3% 2015-17 CAGR) **will increase for the next five years (+18.4% 2018-2023 CAGR) thanks to acquisitions of new companies. This leads to a fair value of €34.8.** Also, we simulate a potential acquisition of IPG by an external company, using transaction multiples **of the main IPG peers**, to calculate a **potential target price of €32.8** that translates into a +**16.6% potential upside from the market price at the beginning of our coverage**. Moreover, we stress some key variables of our model to present a sensitivity analysis on our TP to demonstrate its validity.

BUY

Price: €28.12

Target Price: €34.8

Upside: 23.9%

Dividend Yield: 1%

Market Data

Main Shareholder

IPG HOLDING SRL	21,50%
FIDELITY FUNDS	5,70%
FIN TEL SRL	4,10%
CAISSE DES DEPOTS AND MAIS SPA	3%
TREASURY SHARES	3%
REST OF THE MARKET	61,70%

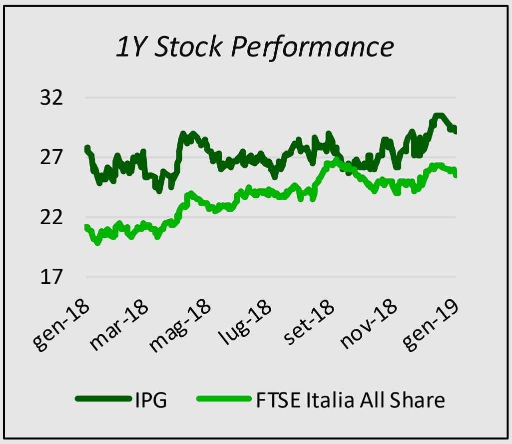
Listed on: Italian Stock Exchange (STAR)
Index component: FTSE All-Share Capped, FTSE Italy All-Share, FTSE Italy Mid Cap, FTSE Italy STAR, FTSE Italy All Share Industrials, FTSE Italy All Share Industrial Goods & Services
ISIN: IT0001078911
Bloomberg: IP.IM
Reuters: IP.MI

Stock Data

Performance	1m	3m	12m
Absolute	13,00%	12,28%	-7,88%
Relative	6,18%	9,14%	10,21%

Key Financials

	2019E	2020E	2021E
EPS	1,83	2,18	2,56
DPS	0,28	0,33	0,39
Dividend Yield	1,0%	1,2%	1,4%
P/E	15,4	12,9	11,0
P/BV	2,8	2,4	2,0
EV/SALES	2,3	2,0	1,7
EV/EBIT	11,9	10,2	8,8
EV/EBITDA	10,2	8,8	7,7
ROE	18%	18%	18%



Investment summary

We initiate our coverage on Interpump SpA (IPG) with a BUY recommendation, assessing a € 34.8 Target Price, implying a 23.9% potential upside from its current stock price (€28.12 per share, closing price on 6th February 2019). We believe that the market has not yet fully appreciated: **(i)** the relevant organic growth supported in **Water Jetting** and in **Flow Handling** by the continuous search for different application industries for high pressure pumps and the constant R&D activity ; in **Hydraulics** by the increase of cross selling and geographical proximity of production and assistance sites; **(ii) the strategy of constant external growth**, through the purchase of **companies** operating in similar industrial sectors; **(iii)** the high generation of **liquidity** dedicated to acquisitions, supported by leverage up to a threshold of **2x debt/EBITDA** ratio.

Diversification is a never-ending journey

IPG started its activity producing innovative high-pressure pumps. Under the leadership of Fulvio Montipò, IPG became a reference point in the market. IPG followed a **strategy of growth based on organic and external drivers. As for the second,** from 1996 onwards, IPG has bought about 40 companies. In addition, between 1997 and 1999, IPG entered the hydraulic components sector through the acquisition of several companies and now the group consists of 77 companies. Listed since 1996, IPG **reached a market cap of € 2.84 bn and € 1.1 bn in revenues in 2017A**. IPG is now the world's largest producer of professional high-pressure piston pumps, as well as one of the global players in the market of hydraulic components. Nowadays IPG operate in **four continents** and **28 countries** and its products are used in **12 different industries**. These results have been possible thanks to a strategy based on acquisitions, that continued also in 2018 with the acquisition of three more companies.

During its activity, IPG has gradually reduced the concentration of the outlet markets. In 2004, Cleaning was the only application in the Water Jetting sector and represented 100% of the segment's sales, while in 2017 the number of applications rose to 12; in 2008 the Hydraulics sector was exposed 100% to the Truck application field, while in 2017 it reached 9 application sectors. The weight of each sector on revenues has been decreasing constantly, with 16% of the sales absorbed by Trucks in 2017, which represents the major sector where the company is exposed.

Drivers for growth

The Competitive Scenario analysis shows a huge potential market (est. € 60 bn/yr) with countless opportunities for acquisitions. Based on historical growth patterns, **we expect that the future strategy of the group will be based on further business diversification, to improve its resilience to macro-trends and lower its overall cyclicality**.

Since 1996, IPG has carried out about one acquisition per year in both business areas in which it operates. In 2018, in the Water Jetting sector IPG acquired Ricci Engineering, an innovative start-up which designs and manufactures plants for the beer and wine industry; in the Hydraulics sector, GS-Hydro was purchased, a world leader in non-welded piping systems located in Italy. The two companies will bring additional revenues for about €62 mln and contribute to increase IPG sector diversification.

Financials

According to our analysis, IPG's business potential leads to a promising growth of Revenues and profitability. Total Revenues will grow at +16.1% CAGR 2018E-2023E reaching **€ 2.66 bn 2023E** driven by acquisitions of new companies **(+10.1% CAGR 2018-2023E)** and **by the increase in the organic growth (+6% CAGR 2018E-2023E).** The change in the product mix from 2018 to 2023 will result in an increase in Gross Margin from41% (2018E) to 42% (2023E). **EBIT** will grow to **€ 534.3 mln in 2023E (+18.4% CAGR 2018E- 2023E)** reaching a **margin on Revenues of 20% in 2023E. ROE will remain stable (18% 2023E) compared with 2018, because Equity, net of dividend distribution, has the same growth as Net Income (22.5% CAGR 2018E-2023E)**. The high operating cash generation (€ 393.3 mln CFO 2023E, +21.6% from 2018) contributes to support investments in new companies (New Investments/CFO 51% 2023E vs 124% 2019E). We expect **EPS to increase from €1.53 in 2018E to € 3.4 in 2023E (+17.3% CAGR 2018E-2023E).**

Relevant Risks

Macro environment: a potential reduction in global growth could have a significant impact on the Company's performance. A decline of economic activity in the European market (53% of total revenues) and in the North American market (27% of total revenues) could slow down sales growth.

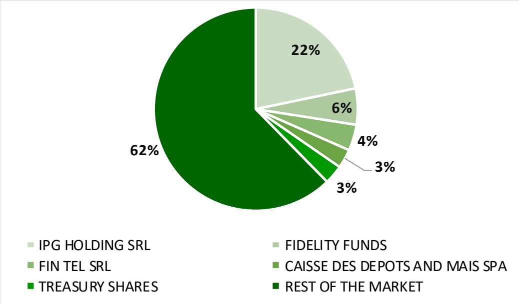
Risk related to M&A strategy: M&A represents roughly 2/3 of each year's growth. The success of this strategy depends on: (i) the identification of targets with adequate potential;(ii) obtaining any necessary authorizations from regulators; (iii) the actual achievement of the financial, industrial and commercial targets expected from the acquisition; and (iv) on the maintenance of a solid capital and financial structure. The non-occurrence of one or more of these factors could determine negative effects on this strategy impacting the economic situation, the capital structure and the financial position of the Group in the future.

Valuation

Our Target Price of **€34.8** is a combination of IPG's potential in **organic** and external **growth**. To evaluate IPG's **business form** and **organic growth component** we use a **three-stage DCF model**. Given IPG's different financial structure during the projected 5Y, we consider **a different WACC for every forecasted year** and a **TV WACC of 4.31%**. We also estimate that **double-digit EBIT growth** (+13.3% 2015-17 CAGR) **will increase for the next five years (+18.4% 2018-2023 CAGR) thanks to acquisitions. This leads to a fair value of €34.8**. Then, we simulate a potential acquisition of IPG by an external company, using transaction multiples used in M&A activities of main IPG peers, to calculate a **potential target price of €32.8,** which represents a +**16.6% potential upside**. Moreover, we stress some key variables of our model to present a sensitivity analysis on our TP, to demonstrate its validity.

Exhibit 1:

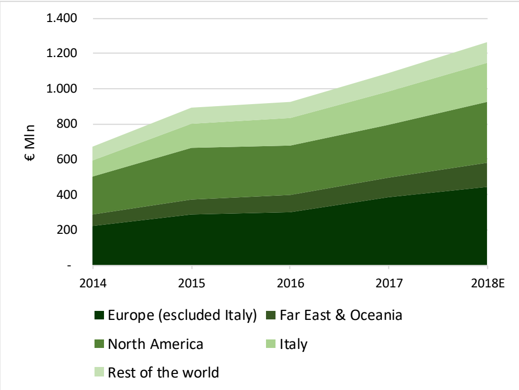
Shareholder Structure as January 8th 2019



Source: Company Data

Exhibit 2:

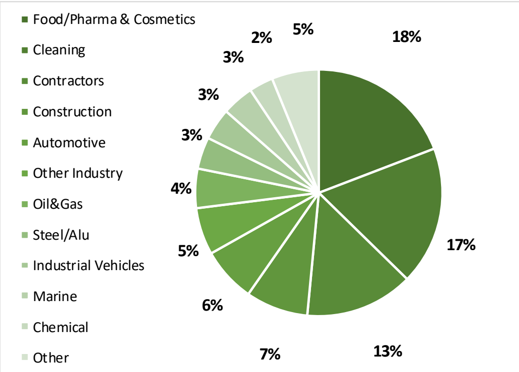
Revenue Breakdown by Geographic Area



Source: Team Estimates

Exhibit 3:

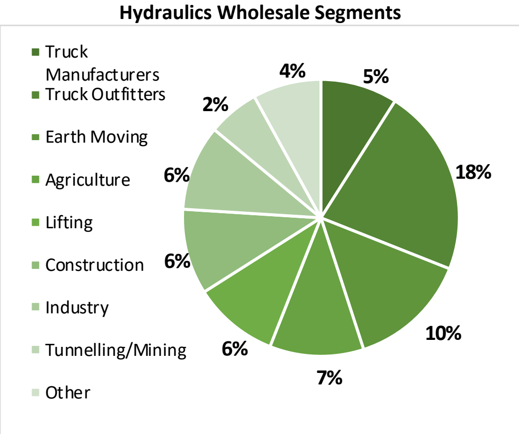
Water Jetting Wholesale Segments



Source: Team Estimates

Exhibit 4:

Hydraulics Wholesale Segments



Source: Team Estimates

Business Description

Interpump Group S.p.A. (IPG) is the world's largest producer of professional high-pressure piston pumps, as well as one of the global players in the market of hydraulic components. IPG was founded in 1977 in S. Ilario (near Reggio Emilia, Italy), by Fulvio Montipò. **The company is controlled by IPG Holding (21.5%), with relevant minority shareholders: Fidelity funds (5.7%), Fin Tel srl (4.1%), Caisse des Depots and MAIS SpA with 3% each while 3% is held in Treasury Shares; the remaining free float is 61.7% (see Exhibit 1). At the end of December 2018, IPG has a Market Cap of € 3.02 bn, € 953.6 mln in Revenues (3Q18) and revenues forecast for 2018E over 1 bn.** Since 1996 it has been listed on the Italian Stock Exchange (MTA) Borsa Italiana, where it is now among the largest market caps in the STAR segment.

Company Presentation

IPG core business consists in producing high pressure piston pumps and hydraulic components. At the end of 2017 IPG leads a group of 77 companies operating in the two sectors of activities (Hydraulics sector and Water Jetting sector).

IPG started as a producer of innovative high-pressure pumps, and rapidly affirmed itself as a key player in the market. Since the beginning, IPG has followed a **strategy of growth by external lines. It did it by** buying companies producing components of excellence all over the world, preserving their brands, their organizational structure and all their success factors, while minimizing integration costs. **Since 1996 IPG has bought more than 40 companies**, under three complementary strategic motivations: extending the product range, reinforcing the competitive positioning, enhancing distribution. Between 1997 and 1999, IPG entered the hydraulic components sector through the acquisition of several companies, becoming the world's largest producer of power take-offs (PTO). With the same strategy, the Group went on with an acquisition campaign of leading companies in both divisions of high pressure: **Water Jetting** and **Flow handling**. Starting in 2015, the horizon in this sector was expanded with the addition of high-pressure homogenizers, agitators, many different types of pumps and components for flow handling in the food, cosmetic and pharmaceutical industries. In **Hydraulics**, several producers of cylinders were acquired in 2007-2008; the years between 2013 and 2015 saw the creation of the Valves and DCV sub-division and the beginning of activities in Hoses and Fittings, which were expanded in the following years with flexible metal hoses, rigid shaped pipes, and complex piping systems.

As for the geographical breakdown, **in FY18 IPG will generate 18% sales from Italy, 29% from the rest of EMEA countries, 27% from North America, 16% from Emerging Markets, 6% from Eastern Europe (China, India, Latin America) and 10% from other regions of the world (see Exhibit 2).** The dependence on the domestic market is very low. The continuous growth achieved through acquisitions and the search for synergies between companies within the group enabled IPG to increase margins (EBIT € 199 mln,18.3%, 2017A), cash flow generation (FCFF € 93.6 mln 2017A) and returns (ROE 17.7% 2017A).

Business segments

IPG operates in two business areas:

-Water Jetting, where the Group produces **piston pumps** and **flow handling**. The group has 9 companies in this sector. It is a major player in the niche of ultra-high-pressure plunger pumps, with a market share of 40% on total market of almost €1bn/yr. The main segments are: Food, Pharma and Cosmetics (18%), Cleaning (17%) Contractors (13%) **(see Exhibit 3)**. The sector generated 36% of revenues in 2017A; these were distributed: 3% in Italy, 13% in Europe, 5% in Far East and Oceania, 12% in North America and the remaining 3% in the rest of the world.

-Hydraulics Sector, where IPG is the world's largest manufacturer of **power take offs** and one of the major manufacturers of **hydraulic pumps, cylinders and other hydraulic components**. The group has 29 companies in this sector. Main segments are Trucks (18%), Earth Moving (10%) Agriculture (7%) and Lifting, Construction and Industry (each with 6%) **(see Exhibit 4)**. The sector generated 64% of revenues in 2017A; these were distributed: 14% in Italy, 22% in Europe, 6% in Far East and Oceania, 15% in North America and the remaining 6% in the rest of the world.

Distribution network

70% of IPG's products are sold through the **wholesale channel** by the acquired companies that govern the distribution of products in the geographic areas of competence, while **30%** are sold through **dealers**. Out of 77 subsidiaries, 39 only commercialize products, 6 are manufacturing companies, 28 are in charge of both the production and sales of products and 4 company are sub-holdings.

In addition to Italy (18%), the main destination markets are Europe (29%), North America (27%) and Eastern Europe (6%); IPG is also present in China (4%), India (3%) and Latin America (3%).

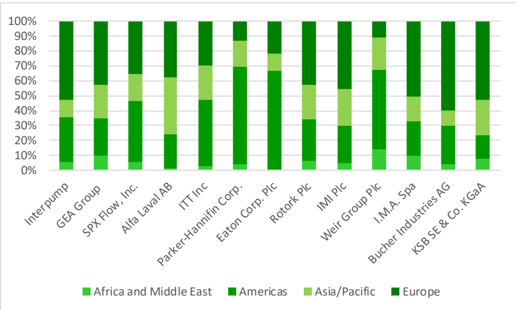
Future Growth Strategy

The Competitive Scenario is characterized by a huge global market (est. €60 bn/yr) with significant opportunities for acquisitions. Based on its historical track-record, the future strategy of the group is expected to be based on diversification of the business to improve resilience and lower overall cyclicality.

IPG **pursues an overall diversification** strategy concerning 1) applications, 2) products, 3) countries and 4) sales channels.

Exhibit 5:

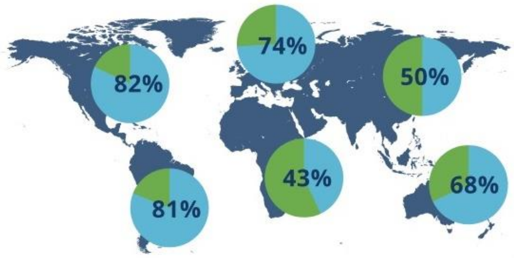
Geographical revenue (2018E)



Source: FactSet

Exhibit 6:

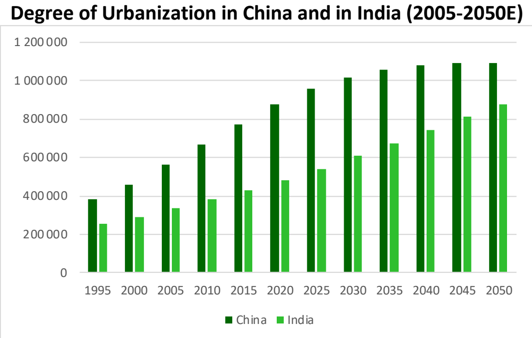
World urbanization prospect (2018E)



Source: UN, Team Research

Exhibit 7:

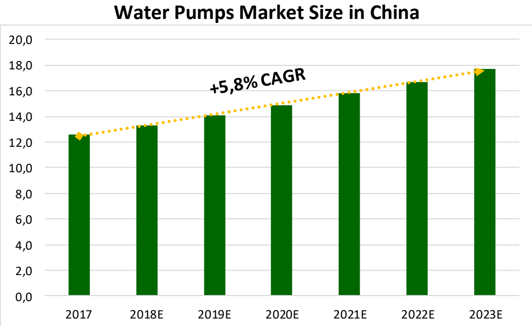
Degree of Urbanization in China and in India (2005-2050E)



Source: UN, Team Research

Exhibit 8:

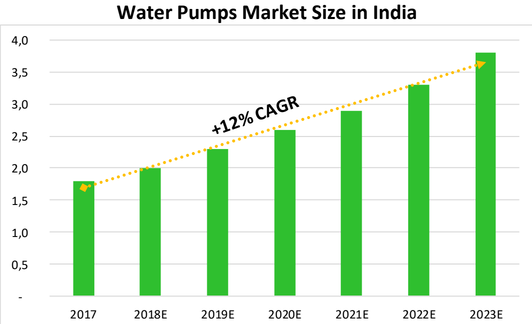
Water Pumps Market Size in China



Source: Team Estimates

Exhibit 9:

Water Pumps Market Size in India



Source: Team Estimates

1) Applications - Increase industries in which IPG's products can be used, from the initial 100% of concentration in one sector to a wide range of applications across different industries and from single component to pre-assembled kits and tailor-made solutions. 2) Products - A larger product portfolio will be obtained through an ongoing increase of the range of products through acquisitions for **Hydraulics** and expansion from the historical niche of high-pressure pumps into the wider world of fluid handling for **Water Jetting**. Increase costumers, further reducing the actual low level of concentration (at the moment single customer weighs no more than 1%). 3) Countries - Increase the sale of products all over the world, either through increasing direct presence, or through distributors. 4) Sales channels - Increase sales channels to serve all classes of costumers directly, through a local subsidiary, or through a distributor according to their size and importance.

Diversification aims at continuing the process of significant reduction of cyclicality achieved over the past decade. It is managed by diversifying into many application sectors with different cycles; by expanding into sectors with little or no cyclicality; by entering into new sectors to avoid single sectors to become critical for IPG; by investing into sectors in which IPG business is not structurally correlated to industry trends.

Industry Overview and Competitive Positioning

Industrial Machinery

Industrial Machinery Market is expected to generate around **€ 658 billion of total turnover by 2023**, growing at a prominent **CAGR of 6%** from 2018 to 2023. The industry drivers of growth are the automotive sector, the increase in standard of living worldwide, which pushes the spending on nutrition, the growth in demand for food and the rising popularity of green technology. **We focus on the two sub-industries where IPG is exposed: Water Jetting (+5,6% CAGR 2017-2023E)** with **estimated market size of €9bn/yr, where the Niche Of Very High Pressure Plunger Pumps represents a market size of about €1bn/yr and the Niche of Flow Handling Food, Cosmetics & Pharma a market size of about €8bl/yr; and Hydraulics (+3.67% CAGR 2017-2023E)** with an **expected market size of about €50bn/yr. The growth of the Water Jetting sub-industry is correlated to** the **rising urbanization** (Exhibit 6) that influences the expansion in construction industry; **rise in construction activities** coupled with increased construction spending across various countries is contributing to the growth of the market. **Waste water treatment is also contributing to the expansion of the Water Jetting market.** The products used in this sector, in particular water-jetting pumps, play an essential role in the transportation of various types of fluids from one location to another. Also, the food & beverage and agriculture sectors are major consumers of water, hence the need for water pumps is also increasing substantially in related industries. The Hydraulics sub-industry growth depends primarily on industrial vehicles, construction equipment, earth-moving machinery and agricultural equipment trends. The Water Jetting market is in the growth phase of the life cycle, whereas the food & beverage segment is in the introductory phase and the Hydraulics has reached the maturity phase.

Macro Trends

Population

Demography and population projections represent significant aspects in the analysis of many industries, but it gains further relevance in Industrial Machinery, especially if we consider sub-sectors like Food and Beverage or Pharmaceutical. According to OECD estimates, World population will grow by 11.4%, from 7.56 billion in 2018 to 8.42 billion in 2030. Considering only the specific markets where IPG operates, we will observe a population growth of +9% in US, +12% in Canada, +1.9% in Europe, +2.2% in China.

India and China's growth

China and India represent a significant growth driver to this segment thanks to some favourable characteristics of their economies. **China** is the second largest economy globally, witnessing **a rising industrialization and urbanization, where the latter is expected to increase from 562 Million people in 2005 to 1,1 Billion in 2050** (see Exhibit 7). According to "China Water Pumps Market Forecast & Opportunities" (*PRNewswire*), the Chinese **water pumps market is projected to grow at a CAGR of 5.8%** over the next five years. The market is segmented into two main categories, positive displacement and centrifugal pumps; in China it has been observed that centrifugal water pump segment is dominating over positive displacement water pumps because of its low cost and high efficiency. Also, the urbanization **in India** is witnessing strong growth, with **urban population that has risen from 335 Million in 2005 to 877 Million expected by the end of 2050** (see Exhibit 7). Factors such as rising urbanization, infrastructure investment and industrialization (especially in water & waste water, oil & gas sectors) are driving the water pumps market. According to "India Water Pumps Market Forecast & Opportunities" (*PRNewswire*), **Indian water pump market revenues are expected to grow at a CAGR of around 12%** during the forecasted period; also, in the Indian market, like in China, centrifugal pumps are dominant. By 2030, it is projected that about half the population will face water scarcity globally and the demand for water might outstrip the supply by about 40%, creating pressure on existing networks to redesign efficient water management systems. Efficient water management systems require water pumping at several points, making the use of water pumps necessary for future water management systems.

Raw Materials

Raw materials are the main cost item in IPG's production process: the company mainly uses stainless steel, aluminium, brass, cast iron, copper and other alloys whose availability and price depend on international markets. For the Water Jetting sector the most important metals are **brass, steel, aluminium and copper**. On the other hand, in the Hydraulic sector, metals mainly used are steel, aluminium, iron and cast iron.

In the last two years prices of most of these raw materials have been subject to significant variations but, currently, prices are at similar levels than the beginning of 2017, in particular aluminium, copper and zinc are now down about 20% compared to the beginning of 2018, see Exhibit 10).

Exhibit 10:

Aluminium, Copper and Zinc (LME Cash $/t) 2014 - 2018

Source: FactSet

Exhibit 11:

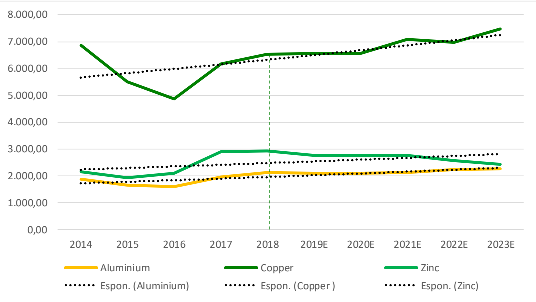
Metals Estimates - Avg Target Price

	2017	2018	2019E	2020E	2021E	2022E	2023E
Aluminium	1.968,69	2.110,23	2.097,01	2.097,01	2.119,57	2.224,91	2.252,31
Copper	6.162,41	6.522,89	6.559,45	6.559,45	7.085,68	6.965,04	7.469,76
Nickel	10.406,20	13.127,70	12.910,00	12.910,00	13.932,60	14.450,60	16.091,10
Zinc	2.893,04	2.921,38	2.770,74	2.770,74	2.750,26	2.560,39	2.431,37
Steel HRC	619,57	829,24	725,66	725,66	681,18	644,84	589,67
Iron Ore Fines	70,59	69,34	63,58	63,58	61,60	60,25	60,00

Source: FactSet

Exhibit 12:

Aluminium, Copper and Zinc (LME Cash $/t) Estimates



Source: FactSet

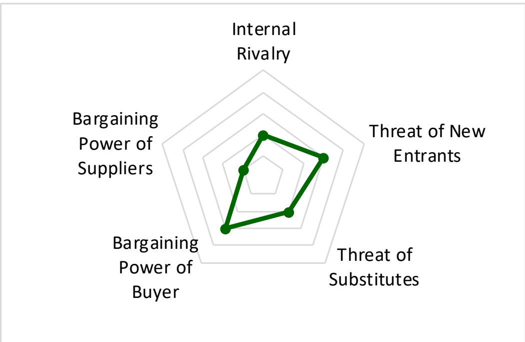
Exhibit 13:

Emission Control Areas

Source: IMO - International Maritime Organization

Exhibit 14:

Porter 5 Forces



Source: Team Estimates

According to FactSet`s average target price estimations, for the forecast period is expected a slight price increase for aluminium, copper and nickel with respect to the current value (Exhibit 11 and Exhibit 12).

Green Technologies

Governments regulations focused towards reduction of CO_2 emission and increased awareness about energy saving have led to the expansion of this market. With the costs of energy steadily rising, energy consumption is playing a more significant role than ever in the total cost of machine operation. As a result, the Hydraulics industry is demanding energy efficient solutions that also meet stringent government regulations for environmental protection. The advent of technically advanced Variable Frequency Drive (VFDs) and pump systems has helped in cutting energy usage by up to 70% depending on the machine duty cycle. This can help to reduce operating costs significantly.

According to IMO, air pollution from ships is on the rise and global emission standards are getting more stringent every year. MARPOL Annex VI, adopted on 19 May 2005, limits the main air pollutants contained in ships exhaust gas, including sulphur oxides (SOx) and nitrous oxides (NOx), and prohibits deliberate emissions of ozone-depleting substances. For the regulation enforcement, Emission control areas (ECAs) have been introduced in Europe and North America and further ECAs can be potentially introduced in the coming years (Exhibit 13). Under the revised MARPOL Annex VI, the global sulphur cap will be reduced from the current 3.50% to 0.50%, effective from 1 January 2020. The objective is to shift from traditionally fuelled engines to LNG engines that use a cheaper and more environmentally friendly fuel for the maritime sector. This conversion process will require new fuel pumps that, unlike traditional ones, are able to self-lubricate.

Micro Trends

After sale

In the Water Jetting sub-industry, the after sale plays an important role (for IPG it represents 1/3 of the Water Jetting revenues). The products used in this sub-industry should last for long time and work for many hours; this is why IPG is committed to offer reliable products and create a reputation to attract customers and keep the engaged over time.

Tailor-made solutions

In the Hydraulics sub-industry, products like DCV (Directional Control Valves) request a tailor-made solution for every machine where it is installed. IPG covers about 10% of the market with this crucial component and is able to create a strong relationship with customers that would then face difficulties in switching supplier, thus creating high protecting barriers for the Company's products. Another important aspect for these components, which differ from the standardized products that characterize the Hydraulics sector, is the premium price level (from about 15% to 25%) that IPG is able to maintain thanks to product's specialization.

Competitive Analysis

Competitive Drivers

IPG is dominant in the niche of Very High-Pressure Plunger Pumps market but faces the competition from some large companies both in the Flow Handling Food, Cosmetics & Pharma market and in the Hydraulics market. In the niche of Very High-Pressure Plunger Pumps, IPG leading position is protected by high barriers to entry. By contrast, the prevalence of standardized products in the Hydraulics sector comes out as a competitive issue for IPG. It enjoys a premium price in the Water Jetting industry but it is a price-taker in the Hydraulics industry (Exhibit 14 and Appendix n. 2). The main competitors in the Water Jetting industry are GEA Group, Alfa Laval AB and SPX Flow Inc. These competitors present larger revenues but enjoy lower margins compared to IPG (see table 1). In the Hydraulics industry, the main competitors are Parker-Hannifin, Eaton Corp., Danfoss and Bosch. Also, these companies present higher turnovers but smaller margins (see the following 1). These competitors have a wide portfolio of products, even if not overlapping and less specialized than IPG products. IPG's strongest competitive point is the high vertical product integration that allows the company not to depend heavily on suppliers. The company holds large stocks of raw materials and the inventory policy relies on not-planned purchases aimed at taking advantage of low market prices or suppliers' temporary offers (for example, when they can get rid of some stocks at a discount). Essentially, IPG's strategy aims at avoiding situations of urgent needs of raw materials that could be met only at unfavourable conditions. Efficiency in purchases translates directly into lower total manufacturing costs, therefore better margins, in proportion to the cost of materials over total costs. This strategy allows IPG to have a large safety margin in case of increases in raw material prices, while bearing a higher inventory cost compared to competitors. Another advantage is that of being able to calibrate the price increases between the various products instead of making linear increases. Price lists take about 6 months to become operational and stocks are enough to satisfy the demand for this adjustment period. Otherwise, in the case of lower prices of raw materials, the situation is not symmetrical because list prices are normally maintained stable by all competitors (i.e., without passing the reduction to the final customer); in this situation IPG suffers an opportunity cost in terms of margins that could have been higher: the Company, anyway, continues to produce and sell with margins and prices already established. The disadvantage is that this strategy means that IPG has a high value of the NWC, higher than the standard of an industrial company. This issue is partly reduced by the leverage of IPG.

Competitive Advantages

Since 1997, IPG have entered the Hydraulic segment with Power take-offs (PTO), a mechanical interface between the transmission of a truck and the on-board hydraulic system which, connected to a hydraulic pump, allows the movement of the mechanisms. Presently, IPG sells more PTOs than competitors; its strength comes from the simplicity of the parts. Furthermore, IPG covers about 10% of the market with the manufacturing of Directional Control Valves (DCV) that are the main interface between user control and machine operation. These components must necessarily be designed together: the vehicle manufacturer provides IPG with the vehicle features, and IPG designs the DCV. In this way, IPG can create a strong relationship with the customer, further enhanced by the cross-selling of the products.

Control over the product offer and its distribution

Thanks to a totally in-house production and a large stock of raw materials purchased at the best possible market conditions, IPG does not depend heavily on suppliers and retains a full control over the production process. M&A has been a winning strategy in both the Water Jetting industry and the Hydraulics industry. Multiple acquisitions of companies located all over the world offered IPG a wide portfolio diversification on both the product side and, above all, the geographical structure. Thanks to this strategy, the Company is able to serve customers rapidly all over the world and to develop cross-sales.

Competitive financial analysis

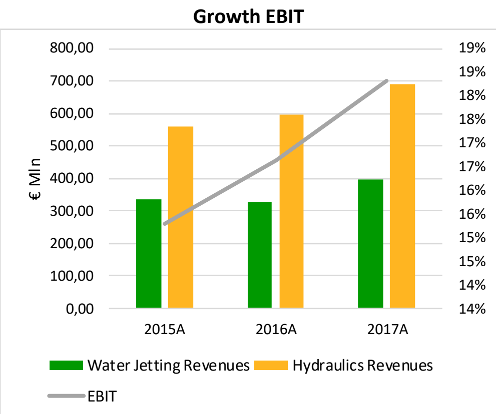
Positioning map (see Appendix n. 2) shows how the business model and competitive advantages position IPG against competitors. All the competitors in Table <1> share a similar business model, as they all belong to the same sub-industry, even if they specialize in different niches. We consider three different types of competitors: the closest ones, who operate in both IPG's segments (Hydraulics and Water Jetting), like Weir and Bucher and KSB, who is more brand oriented. As for the Hydraulics segment, there are some players (Rotork, IMI and Indutrade) who are rather close to IPG in terms of products and model, whereas there are others (Parker, Eaton and Danfoss), who are larger and also specialized in DCV. For the Water Jetting segment, SPX and Alfa Laval are closest competitors mainly for the Food & Beverage sector and ITT and GEA for flow control & power technologies.
As for the financials, IPG has an EBIT margin (17.59%) and an EBITDA margin (21.96%) much higher than the industry average. In the Water Jetting industry, this result is due to the high capacity to perform after-sales, which represent one-third of the revenues. In the Hydraulics industry, higher margins are the result of the ability to carry out cross-selling. Profitability indices, specifically ROA and ROE, are much higher than the industry average: this is in line with the higher margins.

Table 1

	Company Name	Calendar Period	Sales (€ mln)	Sales 1 Year Growth (%)	Gross Margin (%)	EBIT Margin (%)	EBIT 1 Year Growth (%)	EBITDA Margin (%)	SG&A to Sales (%)	Return on Asset (%)	Return on Equity (%)	Working Capital Tournover	Total Debt / Total Equity (%)	Dividend Payout ratio
	Interpump Group	**2017**	**1,086.5**	**17.74**	**36.97**	**17.59**	**30.25**	**21.96**	**19.78**	**9.14**	**18.76**	**3.59x**	**55.12**	**16.71**
Water Jetting	**GEA Group**	2017	4,605	2.51	31.17	7.41	-2.75	9.93	23.74	3.79	8.30	10.66x	10.05	64.89
	SPX Flow Inc.	2017	1,730.2	-2.23	30.68	7.09	1.10	10.23	23.59	1.75	5.38	5.25x	92.88	-
	Alfa Laval AB	2017	3,665	-0.90	33.13	14.27	4.07	18.94	18.87	5.61	14.68	6.20x	62.30	59.94
	ITT Inc.	2017	2,292	7.48	31.61	11.57	13.42	15.64	20.04	3.15	7.61	4.46x	10.77	40.00
Hydraulics	**Parker-Hannifin**	2017	11,035	5.88	23.91	11.99	15.13	14.94	11.92	7.14	19.99	8.69x	111.57	35.59
	Eaton Corp. Plc	2017	18,09	3.33	33.46	12.92	6.46	17.40	19.75	9.47	18.57	6.26x	44.93	35.93
	Danfoss	2017	5,827	10.43	34.44	12.33	21.81	16.42	22.68	7.22	17.31	24.92x	45.44	-
	Robert Bosch	2017	78,066	6.75	35.44	5.84	27.96	11.34	29.22	3.34	7.84	5.44x	16.41	-
	Rotork Plc	2017	733.3	8.84	39.59	15.98	9.84	22.54	23.61	7.32	12.48	3.91x	16.58	84.38
	Pfeiffer Vacuum Technology AG	2017	587.0	23.77	35.30	11.92	3.68	15.46	23.38	10.63	16.92	3.09x	18.80	36.63
	IMI Plc	2017	1,999.2	6.19	42.91	12.64	6.63	16.40	30.27	8.81	25.24	11.71x	59.89	65.89
	Indutrade AB	2017	1,540.9	14.60	32.60	9.65	17.18	12.77	22.95	8.71	21.57	23.45x	77.83	43.91
Water Jetting & Hydraulics	**Weir Group Plc**	2017	2,689.9	27.70	30.19	9.40	46.62	14.22	20.79	4.54	11.37	5.48x	76.73	59.86
	I.M.A SpA	2017	1,444.7	10.21	30.47	12.11	21.65	14.88	18.05	5.94	27.40	9.99x	74.74	77.98
	Bucher Industries AG	2017	2,384.7	11.22	20.42	10.18	23.22	13.64	8.64	6.58	13.22	2.92x	23.34	38.69
	KSB SE & Co. KGaA	2017	2,205.0	1.81	19.16	5.56	-4.10	8.51	12.82	1.56	5.13	2.76x	10.50	35.33
	Average	2017	7,276.49	9.14	31.85	11.08	14.25	15.01	20.59	6.16	14.81	8.16x	47.52	49.70
	Median	2017	2,205.00	7.48	32.60	11.92	13.42	14.96	20.79	6.58	14.68	5.48x	45.44	41.96

Source: FactSet

Exhibit 15:



Source: Team Estimates

Financial Analysis

Past Performance Analysis

Revenues and Geographical Expansion

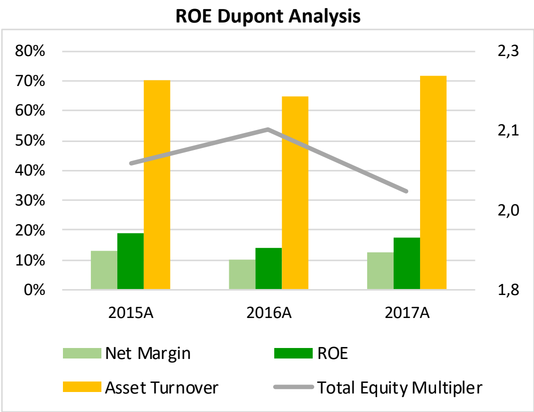
During the last 3 years IPG Revenues has grown by 17.4% 3Y CAGR, reaching €1.087 mln in 2017A, from € 672 mln in 2014A.

During 2014-2017, revenues growth was driven by:

1) the **increase in Oil Sector**, that has reached € 691 mln (**20.4% 3Y CAGR**) and has represented the **64% of Total Revenues in 2017A** (+5% compared to 2014A);

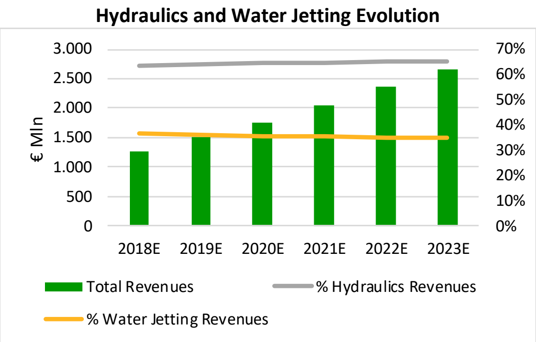
2) **a solid performance in the Water sector** (**12.8% 3Y CAGR**) that has represented the **36% of Total Revenues in 2017A**.

Exhibit 16:



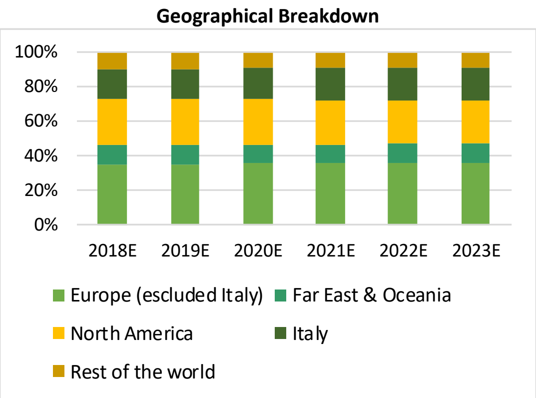
Source: Team Estimates

Exhibit 17:



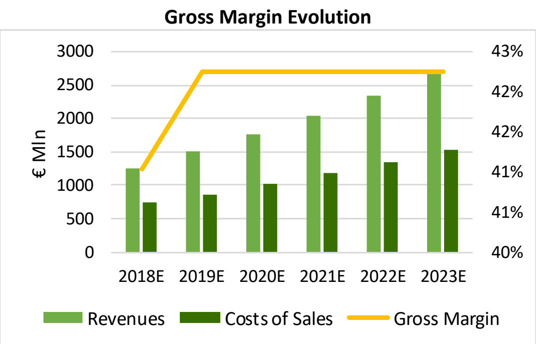
Source: Team Estimates

Exhibit 18:



Source: Team Estimates

Exhibit 19:



Source: Team Estimates

3) a **careful geographical diversification; although the biggest growth has occurred in Italy (27.7% 3Y CAGR), IPG has recorded significant growth in Far East and Oceania (23.3% 3Y CAGR) and Europe (19.4% 3Y CAGR)**. This growth has allowed IPG **to reach a global dimension with 82% of Total Revenues generated abroad in 2017A**. In the same year, **Europe** and **North America** generated respectively **35%** and **27%** of Total Revenues and Far East and Oceania passed from 9% in 2014A to 11% in 2017A.

Margin & Operative Structure

Gross Profit increased **from 41% in 2015A to 44% in 2017A (+13.3% 2Y CAGR)** due to an improvement in the profitability in both sectors. In Water Jetting, gross profit grew from 42% in 2015A to 45% in 2017A; in Hydraulics, it grew from 31% in 2015A to 34% in 2017A.

EBIT increased from 15% in 2015A to 18% in 2017A (+20,5% CAGR) due to reduction in general and administrative expenses and amortizations (see Exhibit 15). Also, ROS increased from 20% in 2015A to 23% in 2017A, as Selling Expenses flattened in last 3 years (9%).

Returns & Cash Flows

Returns: **IPG's low financial leverage** (Total Equity Multiplier amount to 2.0x in 2017A) did not allow the Company to fully benefit from its high level of **ROI that**, in the same period, **increased from 14% to 16% (+7.4% 2Y CAGR)**. Growth of ROI was mainly explained by operating performance, as ROS increased from 20% to 23% between 2015A and 2017A, while **ROT remained fairly stable (0.7x)** during the same period.

ROE in 2017A was 18% versus 14% in 2016A. The growth was due to the improvement of the Net Margin that rose in the last two years from 10% to 12%; the DuPont Analysis shows that during the same period the **Total Equity Multiplier ratio remained constant (see Exhibit 16)**. In 2015A ROE reached 19% because of positive extraordinary financial items.

Cash Flows: IPG's **CFO grew from € 138.5 mln in 2016A to € 161.3 mln in 2017A** (+16.5%), mainly driven by net income growth; operating self-financing grew +33%. The cash flow generation allowed IPG to:

1) repay about **€ 85 mln of its long-term bank debt** in 2017A**;**

2) increase its **CAPEX from € 56.7 mln in 2016A to € 78.7 mln in 2017A** (+38.9%);

3) increase its investments in other companies and increase **goodwill** of **€ 43.3 mln in 2016A** and **€ 38.7 in 2017A**;

4) **distribute dividends to shareholders**. In the past two years, IPG's payout ratio grew from 17% to 23% and dividend distributed went from € 20 mln to € 21.35 mln.

Capital Structure Analysis

Between 2015 and 2017, **IPG's incidence of Current Asset on Total Asset** remained **stable**, from **45%** to **46%.** During the same period, **incidence of Current Liabilities on Total Liabilities and Equity** increased from **20%** to **26% (+29%).**

The **Debt Ratio** (defined as Total Liabilities to Total Assets) decreases slightly, from **51%** to **50%** because Total Asset rose more rapidly than Total Liabilities (+19% versus +16%).

Future Performance Analysis

Revenue Analysis

Based on a geographical approach, our sales forecasts are built on: 1) an estimation of organic growth of each segment by geographical areas; 2) a forecast of the acquisition of a new company every year in each segment.

Organic growth: revenue growth (6% CAGR 5Y) has been estimated at 1/3 total growth calculated based on linear extrapolation of the trend in sales for the last four years, divided by the two sectors of activity and for the five target regions: Europe (35%), North America (27%), Italy (18%), Far East and Oceania (11%), Rest of the world (10%).

New acquisitions: the estimate of revenue arising from new acquisitions (10.1% CAGR 5Y) was carried out by assuming the acquisition of two companies per sector per year, at the price of €100 mln each, with a rating for each company of 6x EBITDA; Revenues from the acquired companies were estimated by dividing by 6 the purchase price to obtain the EBITDA of the company purchased (i.e., 16,7 mln absolute EBITDA), then applying the percentage of EBITDA Margin in each sector to reverse back to the incremental Revenues resulting from the acquisition.

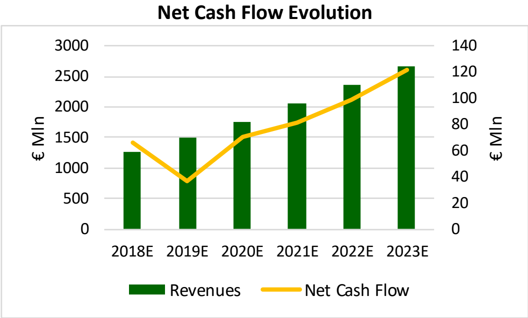
Total Revenues: Total Group Revenues will increase by **16.1% CAGR 5Y** reaching **€2,664 mln** in **2023E**, from **€1,266 mln** in 2018. Hydraulics sector will represent **65%** of Total Revenues **in 2023E (€1,733 mln)**, compared to **64% in 2018,** while Water Jetting sector will represent **35%** of Total Revenues **in 2023 (€931 mln),** compared to **36% in 2018. (see Exhibit 17).**

Revenues by Geography: IPG will increase its penetration into **Europe** where it will generate **€959 mln** Revenues in 2023E **(16.6% CAGR 5Y)** from **€ 445 mln** in 2018, increasing its exposure to this market (**from 35% of Total Revenues in 2018 to 36% in 2023E, +2.34%),** and into **Italy** where Revenues will reach **€508 mln in 2023E (18% CAGR 5Y) from € 223 mln** in 2018 **(from 18% of Total Revenues in 2018 to 19% in 2023E, +8.5%**). At the same time exposure to North America and RoW will decrease respectively from **27% in 2018 to 25% in 2023E (-8.2%)** and from **10% in 2018 to 9% in 2023E (-7.6%).** Market Revenues in North America will develop from **€ 343 mln in 2018 to € 663 mln in 2023E (+14.1% CAGR 5Y), while Market Revenues in RoW will increase from € 120 mln in 2018 to € 234 mln 2023E (+14.2% CAGR 5Y). (see Exhibit 18)**

Costs and Margin

Gross Margin: During this period Gross margin will increase **from 41% in 2018 to 42% in 2023E (+3%),** driven by decrease in Incidence of Cost of Sales on Total Revenues **(see Exhibit 19)** that will decrease **from 59% in 2018 to 58% in 2023E (-2.1%)** due to the faster growth of Revenues than Cost of Sales **(16.1% CAGR 5Y vs 15.6% CAGR 5Y).**

Exhibit 20:



Source: Team Estimates

EBITDA: EBITDA Margin will grow **by 18.8% CAGR 5Y from 21% in 2018 to 23% in 2023E.** This increase will be due to the decrease of General and Administrative Expenses **(13.5% CAGR 5Y vs 16.7% Gross profit CAGR 5Y)**. *EBIT:* EBIT Margin will grow by **18.4% CAGR 5Y from 18% in 2018 to 20% in 2023,** driven by the increase on Gross Margin. Consequently, the incidence of Depreciation on Total Revenue will increase between 2018E and 2023E, growing from **4% relative to 2018E to 4.5% relative to 2023E.**
Net Margin: **Net Margin will increase by 1% CAGR 5Y, less than EBIT growth** due to non-recurring income in 2018**. Net Income will increase from € 167.1 mln in 2018 to € 370.4 mln in 2023E (+17.3% CAGR 5Y).**
Cash flows: In our model, we assume the company will raise debt during the forecasted period to purchase new companies for € 200 mln per year. Thus, long-term borrowings will increase 33.1% CAGR 5Y. We also expect the repayment of the new debt in ten years. **CAPEX will remain stable to 4.4% of Total Revenues, which is the median value of the last five years**. IPG **will increase its Net Cash Flow by +12.9% CAGR 5Y from € 66.3 mln in 2018 to € 121.7 mln in 2023E (see Exhibit 20)**. **Net Cumulated Cash Flow in 2023E will be € 618.6 mln vs € 211.2 mln in 2018 (+24% CAGR 5Y)**.

Valuation

Exhibit 21:

DCF Model

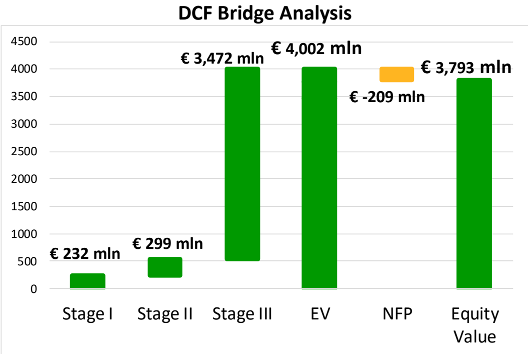
€Mln	2019E	2020E	2021E	2022E	2023E
Revenues	**1.497,9**	**1.763,1**	**2.050,4**	**2.352,4**	**2.664,1**
Growth	18,4%	17,7%	16,3%	14,7%	13,3%
EBIT	**286,2**	**342,7**	**403,3**	**467,5**	**534,3**
-Taxes	-83,1	-98,9	-116,1	-134,7	-154,2
NOPAT	**203,2**	**243,9**	**287,1**	**332,8**	**380,1**
-Changes in Total As	-169,5	-201,6	-236,2	-273,4	-312,3
-CAPEX	-65,9	-77,6	-90,2	-103,5	-117,2
+D&A	67,6	79,6	92,5	106,2	120,2
FCFF	**35,4**	**44,3**	**53,3**	**62,1**	**70,9**
WACC	4,30%	4,27%	4,26%	4,28%	4,31%
Present Value	**34,0**	**40,7**	**47,0**	**52,5**	**57,4**
Target Price	**34,84**				

Source: Team Estimates

The TP resulting from our valuation is **€ 34.8 which implies a +23.9% potential increase from the actual market price and supports our "BUY" recommendation (Exhibit 21)**. To determine IPG's fundamental value we use a **three-stage DCF model** to take into account **the non-linear trend of the EBIT that shows a rapid acceleration in the first five years - due to external acquisitions - and a subsequent normalization in the following five years at the level of the organic growth rate reached in the past seven years** (**5.7%** from 2010 to 2017**).** We conducted a scenario analysis that considers **acquisitions for €240 mln** every year, instead of € 200 mln, **as our Bull Scenario**, while considering **acquisitions for €120 mln** every year, instead of € 200 mln, **as Bear Scenario**. We also consider the case for IPG **to be an acquisition target by an external company.** Moreover, we also stressed some key variables of the model to perform a **sensitivity analysis** on WACC, beta, TV WACC and Terminal growth.

DCF Model

Exhibit 22:



Source: Team Estimates

We implement a **three-stage DCF model** to evaluate the company value based on its own fundamentals. Since we believe that IPG high growth lead by acquisitions of new companies will fade out after 2023E, we consider a **five years steady state at the end of the forecasted period**. We are confident that this approach helps to mitigate the impact of the Terminal Value (TV) on valuation (Exhibit n. 22), from 2023E on. The **Free Cash Flow to Firm** (FCFF) is computed considering the annual change in Depreciation & Amortization (D&A), Net Total Asset and CAPEX.
First Stage 2019E-2023E: In this stage, we consider FCFF resulting from forecasts described in detail in "Future Performance Analysis" section. We conduct a **WACC computation every year to reflect changes in IPG's Capital Structure during the forecasted period**. Our WACC key assumptions for 2018E are presented in **Table 2** and Appendix n.7.
Second Stage 2024E – 2028E: During these years, we think that **IPG's Revenues growth will stabilize to the level of organic growth observed in previous years (5.7% CAGR).** At the end of 2028E we estimate that EBIT will grow 5.7% (Appendix n. 8). At this stage, we also set a time-invariant WACC as we suppose that IPG's capital structure will not change significantly.
Third Stage – Terminal Value: TV is calculated as a perpetuity using **TV growth rate (g) of 2.5%**. This rate has been computed by adding the average of the 8 years (2010 – 2018) average corporate bond spreads for EU and USA to the Risk-Free rate of 0.26% (10Y BUND rate at 21/01/19). We consider a **TV WACC of 4.31%, the same value of 2023E**.

Table 2

WACC Assumptions

Risk Free Rate	**0,26%**	10Y BUND rate (21/01/19)
Equity Risk Premium	**6,00%**	8-year (2010 – 2018) average estimate of ERP for EU and USA equity markets
Beta	**0,812**	Computed with a linear regression between IPG's stock price weekly returns and weekly returns of FTSE ALL SHARE Italy Index
Ke	**5,13%**	Rf + β ∗ EquityRiskPremium. ERP = 8-year (2010 – 2018) average estimate of ERP for EU and USA
Kd	**3,97%**	Average cost of debt from IPG's balance sheet 2016A and 2017A data
Tax Rate	**29%**	Taken from the 2017 financial report

Exhibit 23:

Bull case Scenario Analysis

€Mln	2019E	2020E	2021E	2022E	2023E
Sales	**1.536,6**	**1.840,6**	**2.166,5**	**2.507,2**	**2.857,6**
Var. Base Case	2,6%	4,4%	5,7%	6,6%	7,3%
EBITDA	**342,7**	**415,7**	**494,6**	**577,9**	**664,1**
Margin %	22%	23%	23%	23%	23%
EBIT	**294,3**	**359,0**	**428,0**	**500,7**	**576,2**
Margin %	19%	20%	20%	20%	20%
Net Income	**204,4**	**247,5**	**294,4**	**344,6**	**397,2**
Margin %	13%	13%	14%	14%	14%
Var. Base Case	2,5%	4,3%	5,6%	6,5%	7,2%
FCFF	**36,5**	**47,2**	**58,0**	**68,4**	**78,8**
Var. Base Case	1,11	2,95	4,69	6,34	7,90
Target Price	**40,19**				
Var. Base Case	**15%**				
Current Price (06/02/19)	28,12				
Var. Current Price	43%				

Source: Team Estimates

Scenario Analysis

To further assess the impact of model assumptions on the target price, we perform a scenario analysis in which we stress key inputs of the model given by the size of the company acquired every year. At the beginning we considered two symmetrical variation of +40% and -40% from the base case (€200 mln of acquisitions each year). the 2x debt/EBITDA threshold set in the Bull scenario forced us to put a maximum threshold +20% upside.
Bull scenario: We forecast acquisitions for € 240 mln per year instead of € 200 mln, that generate a **17.7% 5Y CAGR** for Revenues **(+ 1.6% CAGR than the base case scenario)** and an improvement of Net Income up to 7.2% in 2023E (Exhibit n. 23).

Exhibit 24:

Bear case Scenario Analysis

€Mln	2019E	2020E	2021E	2022E	2023E
Sales	**1.420,5**	**1.608,3**	**1.818,2**	**2.042,8**	**2.277,1**
Var. Base Case	-5,2%	-8,8%	-11,3%	-13,2%	-14,5%
EBITDA	**315,0**	**359,6**	**409,9**	**464,1**	**521,1**
Margin %	22%	22%	23%	23%	23%
EBIT	**270,2**	**310,2**	**354,0**	**401,3**	**451,0**
Margin %	19%	19%	19%	20%	20%
Net Income	**189,6**	**217,2**	**248,0**	**281,5**	**317,0**
Margin %	13%	14%	14%	14%	14%
Var. Base Case	-4,9%	-8,5%	-11,1%	-13,0%	-14,4%
FCFF	**33,2**	**38,4**	**43,9**	**49,5**	**55,1**
Var. Base Case	- 2,22	- 5,89	- 9,37	- 12,66	- 15,77
Target Price	**24,71**				
Var. Base Case	**-29%**				
Current Price (06/02/19)	28,12				
Var. Current Price	-12%				

Source: Team Estimates

Exhibit 25:

Delta WACC

Terminal Growth	**Delta TV Wacc** -2,00%	-1,50%	-1,00%	-0,50%	0,00%	0,50%	1,00%	1,50%	2,00%
34,84	2,31%	2,81%	3,31%	3,81%	**4,31%**	4,81%	5,31%	5,81%	6,31%
1,50%	28,24	26,91	25,64	24,44	23,29	22,21	21,17	20,19	19,26
1,75%	30,72	29,27	27,89	26,58	25,33	24,15	23,03	21,96	20,95
2,00%	33,73	32,13	30,62	29,18	27,82	26,52	25,29	24,12	23,00
2,25%	37,48	35,70	34,02	32,42	30,90	29,46	28,09	26,79	25,55
2,50%	42,25	40,25	38,35	36,55	**34,84**	33,22	31,67	30,20	28,81
2,75%	48,56	46,26	44,08	42,01	40,04	38,17	36,40	34,71	33,11
3,00%	57,28	54,56	51,99	49,54	47,22	45,02	42,93	40,94	39,05
3,25%	70,11	66,78	63,63	60,63	57,79	55,09	52,53	50,10	47,79
3,50%	90,85	86,53	82,44	78,56	74,88	71,39	68,07	64,92	61,92

Source: Team Estimates

Exhibit 26:

Terminal Value WACC

Beta	**TV Wacc** 3,51%	3,71%	3,91%	4,11%	**4,31%**	4,51%	4,71%	4,91%	5,11%
34,84									
0,732	44,75	43,90	43,06	42,24	41,44	40,65	39,89	39,13	38,39
0,752	42,70	41,89	41,09	40,31	39,55	38,80	38,06	37,34	36,64
0,772	40,85	40,07	39,31	38,56	37,83	37,11	36,41	35,72	35,05
0,792	39,16	38,42	37,69	36,97	36,27	35,58	34,91	34,25	33,60
0,812	37,62	36,90	36,20	35,51	**34,84**	34,18	33,53	32,90	32,28
0,832	36,21	35,52	34,84	34,18	33,53	32,89	32,27	31,66	31,07
0,852	34,90	34,24	33,59	32,95	32,32	31,71	31,11	30,52	29,95
0,872	33,70	33,06	32,43	31,81	31,21	30,62	30,04	29,47	28,91
0,892	32,58	31,96	31,35	30,76	30,17	29,60	29,04	28,49	27,96

Source: Team Estimates

Bear scenario: We forecast acquisitions for € 120 mln per year instead of € 200 mln, that generate a **12.5% 5Y CAGR** for Revenues **(-3.6 % CAGR than the base case scenario)** and a decrease of Net Income -14.4% in 2023E (Exhibit n. 24).

Results and Conclusions: Our two scenarios move from **€ 34.84 of the base case** to a range of **€24.71** and **€40.19**, respectively **-12 % and +43%** compared to the current market price €28.12 (as of 06/02/2019) **and -29% and + 15%** compared to our base case scenario.

Other Opportunities Valuation -Potential Acquisition-

Although IPG has shown its reluctance to be a potential target of an external acquisition, given both the IPG's small capitalization (in particular relative to the global standards) and the high free float of the company, we deem interesting to evaluate the possibility of a potential acquisition by one of the market's big players. Therefore, we estimated a transaction multiple to measure the potential IPG's target price.

Methodology: Using the same peer-companies considered in the multiple analysis, we get from *FactSet* all the available information on competitor's past deals. Information has been were split in three types: Transaction Value, EV/Sales, EV/EBITDA. We calculated the number of transactions to have a clearer picture about the consistency of information. Given that statistics were not available for every single transaction, thus making results too volatile, we decided to use the median and the IQR (Interquartile range) of the distribution of transactions to get a reliable estimate of median transaction values (see Appendix n. 9).

Conclusion: We applied the above process to the EV/EBITDA because EBITDA is the more stable index when considering international companies since it's not affected by taxes regimes and international accounting standards. Therefore, once obtained the 14,53 EV/EBITDA we multiplied it for the 2018E IPG's EBITDA achieving an Enterprise Value of € 3.78 bn that adjusted with the NFP and divided for the total number of shares, returned us a target price of € 32.8. The TP is in line with long term estimation.

Sensitivity Analysis

To properly evaluate the company, we stress some of the key variables on which our DCF model is based. First, we set 8 relative changes to be applied on each period WACC (2018-2022) to evaluate scenarios of improvement or worsening of the global macroeconomic conditions, which may involve changes of risk-free rates or equity risk premiums. Moreover, we also set possible range of TV growth from 1.50% - 3.50%, given the relevant impact of TV on our model (85.2% of the entire valuation). We determined a TV growth of 2.50% by adding the 8-year average (2010 – 2018) corporate bond spreads for EU and USA (2,24%) to the model Risk-Free rate 0.26% (10Y BUND rate as of 21/01/2019). As the value that we extrapolate from the sensitivity analysis is 10% higher than the current market price of €28.12 (as of 06/02/2019) in more than 60% of cases, we think that our "BUY" recommendation is well supported (please refer to Exhibit n. 25).

We checked changes in our TP in relation to changes of Beta and TV WACC. As for the former, we computed it through a regression model between IPG's stock price weekly returns and weekly returns of FTSE All-Share Italy Index (see Appendix n. 7) and **we set a possible range from 0.73 of 0.89** (variation of 0.02% between each value). As for the latter, we considered the 2023E WACC as TV WACC but, given the significant impact of this variable on TV, **we set a possible range from 3.5% of 5.1%** (with a variation of 0.20% between each value). As in the previous analysis, the result shows that only a very large, combined, negative variation of the two variables could cause a change in our recommendation which remain "BUY" in 85% of cases. Specifically, TP is estimated to be 10% higher or more than the actual market price in 69 cases out of 81 (Exhibit n. 26).

Investment risks

Macro	**[M1] Macro environment:** A change in the global GDP outlook could impact significantly the company's performance. Given the high exposure to the European market (53% of total revenues) and in the North American market (27% of total revenues), a decline of economic activity in these areas could slow down sales growth and impact the Company's best in class margins. IPG mitigated cyclicality over the past decade through diversification into many application sectors with different cycles and ongoing expansion into sectors with little or no cyclicality. We estimate that the Company's strategy is focused on mitigate even more its exposure to cycle swings.
	[M2] Exposure to local economic and political conditions: The international vocation of the Group could expose it to some potential risks, including changes of governmental and local legislation, political, social and economic instability, inflation, the fluctuations in exchange rates, creditworthiness of counterparties, inadequate protection of creditors due to the lack of efficient bankruptcy procedures as well as the inefficient legal and judicial system. Anyway, given the actual situation of the economies where the Company operates, we think that this risk is very low, now and for the foreseeable future.
	[M3] Environmental protection: IPG has adopted environmental management policies that conform to current legislation, in the various jurisdictions in which it operates. Nevertheless, we cannot exclude that, in the future, changes in the standards required in one or more of these jurisdictions will entail the need to increase the level of investments in environmental and safety procedures, with related expenses that will negatively affect the Group's results.
Strategic	**[S1] Risk related to dependence to key figures:** The success of the Group can be attributed to some key figures such as Fulvio Montipò (Chairman, CEO and Founder of IPG) and the Deputy Chairman Paolo Marinsek (CEO, 2005-2017). There are no guarantees that it will be possible to replace them promptly with someone with similar professionalism, experience and ability to provide the same contribution to the Company's activity.
	[S2] Generic competition: IPG operates in two different sectors Water Jetting and Hydraulics. In the Water Jetting sector (where the Company enjoys a premium price) IPG operates in two markets: High Pressure Plunger pumps and Flow Handling: the first is a niche market where the group is the leader and there are no strong competitors so far; the second market, where the group is active since 2015, is very competitive and with larger competitors. Hydraulics sector (where the Company is a price-taker) is a huge and competitive market as well, and IPG is trying to pursue both here and in the Flow Handling segment a widening of the product range through acquisitions.

	[S3] Risk related to M&A strategy: The external growth strategy of IPG consists in the acquisition of companies operating in the Group's business sectors, which present potential financial, industrial and commercial synergies with the Group itself. M&A represents roughly 2/3 of each year's growth. The success of this strategy depends: (i) on the identification of targets with adequate potential; (ii) on obtaining any necessary authorizations from regulators; (iii) on the actual achievement of the financial, industrial and commercial targets expected from the acquisition; and (iv) on the maintenance of a solid capital and financial structure. The non-occurrence of one or more of these factors could determine negative effects on this strategy impacting the economic situation, the capital structure and the financial position of the Group in the future.
Operational	**[O1] Fluctuation of raw materials:** The incidence of costs for the purchase of metals was 28% of total Group costs of raw materials, semi-finished products and finished products in 2017. The average prices of the raw materials used by the Group have been higher on average in 2017 than in the past. IPG adopted strategies trying to limit the increase of the related costs: In the Water Jetting sector the policy was to leave the cost of storage of materials to vendors; this means that the risk is hedged through periodic orders with quantities delivered at fixed price. In the Hydraulics sector the Group's strategy is based on an analysis of price trend to mitigate the price risk. The prices of most of commodities witnessed significant fluctuations in the last two years but, currently, they are at similar levels than the beginning of 2017. Anyway, in relation to aluminum, no hedging transactions are undertaken because of the limited incidence on purchase costs.
	[O2] Risk related to industrial plants: The industrial plants in which the IPG operates are subject to risk such as equipment failures, failure to adapt to the applicable regulations, revocation of permits and licenses, lack of skilled labor force, disruption of work due to strikes, increase in products transportation cost, natural disasters, significant disruption of supplies of raw materials or semi-finished products or energy, sabotage or attacks. During the last years, there were no interruptions in activities at the Group's industrial plants that significant to affect its operations. We also assume these risks as marginal.
Financial	**[F1] Forex Risk:** IPG's activities are exposed to foreign currency risk through U.S. Dollars, Canadian Dollars, Australian Dollars, UK Sterling, Romanian Leu, Chilean Peso, Indian Rupee, Chinese Renminbi, Indonesian Rupee, Brazilian Real, South Korean Won and South African Rand. The Group is mainly subject to exposure to the US Dollar exchange risk and the total amount of cash flows directly exposed to exchange risks corresponded to approximately 11% of the Group's turnover. Most goods sold are produced locally or at least denominated in the same currency of related Sales, in fact FX impact is mostly relative to the translation of financial statements and at the end of 2017, no hedges have been arranged in relation to translation risk. If it is not possible to establish micro hedges between revenues and costs in foreign currency, the current Group policy is to hedge exchange risk only in presence of commercial transactions classified as non-recurring.
	[F2] Credit risk: The Group is not exposed to any significant concentrations of sales. In fact, in 2018 the 20 largest costumers amount for about 10% of total sales. Historically the Group has never suffered any significant bad debts issue (0.2% of sales in 2017). This is because Group companies generally grant extended payment terms only to their long-term customers of known solvency and reliability. New customers are required to make payments in advance or to open a letter of credit for the amounts due.
	[F3] Interest rate risk: Changes in the market interest rate influence the cost and return of various forms of financing and investment, thus impacting on the Group's level of financial expenses. It is currently Group policy not to take out hedges, in view of the short average duration of the existing loans (around 3 years).
	[F4] Liquidity risk & capital structure: IPG has kept a solid capital structure during the last 5 years (avg. 0.37 Debt/Equity). Cash on hand and the ability to generate positive cash flows (93.6 million in 2017) and increasing them over the years are definitely factors that reduce the exposure to liquidity risk. The decision to maintain a high level of liquidity was taken in order to pick up any acquisition opportunity and minimize the liquidity risk due to possible periods of macroeconomic uncertainty that may emerge in the future.

Other Headings

Corporate Governance

Interpump Group S.p.A is organized on the basis of a traditional model of administration and control with a Shareholders' meeting, a Board of Directors and a Board of Statutory Auditors. E&Y S.p.A. was appointed as indipendent auditor for the separate and consolidated financial statements for the nine-year period 2014-2022. Interpump Group S.p.A. adheres to the July 2015 version of the Code of Corporate Governance for listed companies issued under the patronage of Borsa Italiana S.p.A. The BoD has evaluated the adoption of diversity policies concerning the composition of the administrative body in relation to aspects including age, gender and training and professional experience. Interpump Group S.p.A. is composed by **nine directors**, **six of which are independent** (see Exhibit n. 27). Regarding the powers and authority of the board members, there is **1 executive and 7 non-executive Directors**. Fulvio Montipò holds both the position of Chairman and CEO, Paolo Marinsek is currently Deputy Chairman and the BoD confirmed Franco Garilli as the Lead Independent Director in compliance with the Code of Corporate Governance and the Consolidated Finance Act. Four Committees were established to support the Board of Directors, vested with consulting and advisory functions: the **Appointments Committee**, the **Related Party Transactions' Committee**, the **Remuneration Committee**, and the **Control and Risks Committee**. Regarding the remuneration Policy Interpump implements two different remuneration schemes in order to attract and motivate qualified professional personnel and incentivize such people to remain within the organization: (1) all the directors or managers receive a **fix compensation** whose level is mainly correlated: (i) with professional specialization; (ii) with the organizational role performed; and (iii) with responsibilities. (2) Directors receive also an additional **variable component** (never higher than 75% of the fixed component). This component, for executive-directors, is linked to short-term results (MBO) and long-term results (Interpump Incentive Plan) with the aim of aligning the interests of managers with those of shareholders. The "Interpump Incentive Plan" (Stock-Options Plan) also benefits employees and/or collaborators, identified by the Board of Directors from among persons who occupy or perform significant roles or functions in, or for, the Company and/or the group member companies (see Appendix n.12). The additional compensation of non-executive directors takes account of the commitment required of each non-executive director, in particular in relation to participation in one or more committees and it cannot be linked to the economic results of Interpump. Specifically, non-executive directors are not beneficiaries of the incentive plans approved by the Company. The remuneration package of Managers with Strategic Responsibilities may include fringe benefits.

Exhibit 27:

Board of Directors composition

MEMBER	OFFICE
Fulvio Montipò	Chairman and CEO
Paolo Marinsek	Deputy Chairman
Angelo Busani	Indipendent Director
Antonia Di Bella	Indipendent Director
Franco Garilli	Lead Indipendent Director
Marcello Margotto	Indipendent Director
Stefania Petruccioli	Indipendent Director
Paola Tagliavini	Indipendent Director
Giovanni Tamburi	Non-executive Director

Source: Company Data

Appendix - Table of Contents

1. Products

IPG started its activity producing innovative high-pressure pumps, smaller and easier than competitors, that affirmed themselves as the reference on the market. Since the origin, IPG has followed a strategy of growth by external lines buying companies producing components of excellence all over the world. Since 1996 IPG has bought more than 40 companies. Between 1997 and 1999 IP entered the hydraulic components sector through the acquisition of several companies, becoming the world's largest producer of power take-offs (PTO). Since 2015 the horizon of Water Jetting and Flow handling sectors was expanded with the addition of high-pressure homogenizers, agitators, many different types of pumps and components for flow handling in the food, cosmetic and pharmaceutical industries. In Hydraulics, several producers of cylinders were acquired in 2007-2008; the years between 2013 and 2015 saw the creation of the Valves and DCV sub-division and the beginning of activities in Hoses and Fittings, which was expanded in the following years with flexible metal hoses, rigid shaped pipes, and complex piping systems.

1. Piston Pumps

IPG is the world's largest manufacturer of high and ultra-high-pressure plunger pumps. In the past, IPG literally revolutionized the plunger pump market, designing and building pumps that were more compact, easier to handle, quieter and structured so as to facilitate the replacement of the spare parts. Another qualifying element of the innovation was the adoption of ceramic plungers, which remarkably extended the life of the seals as compared to the steel plungers that were used previously. Thanks to all these innovations, IPG has created de facto a new reference standard, becoming worldwide leader in this sector.

High pressure pumps, whose production is due to the acquisition of NLB Corp. in 2007, are used in high pressure cleaners, car wash systems, forced lubrication of tooling machines, water desalination with reverse osmosis and many other applications.
Ultra-high-pressure pumps and systems are used for cleaning surfaces, ships, pipes, but also for deburring, cutting and removal of concrete, asphalt and paint from stone, cement or metal surfaces and for cutting solid materials. The creation of these products is made possible by the acquisition of HAMMELMANN in 2005.

2. Flow Handling

IPG entered the Flow Handling sector in 2015, with the acquisition of Bertoli, specifically in the market of industrial food-processing components. The entry into this market was through a product – the high-pressure homogenizer – which is based on a piston pump. In the course of 2017 the product range was expanded with valves, tanks, mixers, agitators, cleaning-in-place systems and other technologies of pumps. The product range extension and the international expansion are based on the acquisitions, in the course of the year, of Inoxpa Group (based in Spain with branches in 17 foreign markets) and Mariotti & Pecini (Italian specialist of magnetic transmission agitators).

3. Power Take Offs

Power Take Offs are used to transmit power from the engine of an industrial vehicle to the other hydraulic components and are connected to the vehicle's transmission box. Other hydraulic components manufactured by companies of the Group (Hydraulic pumps, control units, valves, cylinders, tanks) help performing special functions: lifting of dump bodies, operating on-board cranes, operating concrete mixers, etc. The experience acquired in water pressure management induced IPG to extend its range of activity into the hydraulic sector by bringing together some of the most important companies around the globe: HYDROCAR, headquartered in Nonantola (Modena, Italia), PZB, based in Bologna (Italy) and Muncie Power Products Inc., in Muncie (Indiana, USA). This strategy has allowed the Group to become the worldwide leader in the power take-off sector with an unparalleled product range. Power take-offs produced by the Group can be installed on virtually any industrial vehicle in the world.

4. Cylinders

Hydraulic Cylinders are among the most widespread components in hydraulic systems; they come in various shapes and sizes, and are utilised in a wide range of applications (industrial vehicles, construction sector), telescopic cylinders are utilised by urban waste compactor vehicles, while other cylinder types are used in the drilling industry, on truck cranes, and in the marine, earth-moving and agricultural sector, in cranes, and in industrial automation. The product range expansion is due to the acquisitions of Panni Oleodinamica, Contarini, Penta, Modenflex, between 2008 and 2009.

5. Directional Control Valves

Directional Control Valves (DCVs), whose production is due to the acquisitions of Hydrocontrol and Walvoil between 2013 and 2015, are a critical component of mobile and industrial hydraulic systems; they are the main interface between user control and machine operation. The permanent search for increased controllability of actuators - and consequently, of the machine - combined with an ever-greater focus on safety and efficiency to reduce energy consumption, require a constant investment effort aimed at designing more and more innovative solutions. For these reasons, there has been a shift in the industry towards an increasingly frequent use of integrated electronic components to interact with and control the machine system logic.

6. Hoses, Pipes and Fittings

Hydraulic circuits include a wide range of components for the generation, control and transformation of energy such as Hoses, Pipes and Fittings, whose offer consists in rubber hoses and fittings produced by I.M.M., flexible metal hoses manufactured by Tubiflex, and shaped rigid pipes supplied by TeknoTubi and GS-Hydro. The latter is the recognized world leader in non-welded (flange-based) piping systems.

2. Porter's 5 Forces Analysis

	IPG's Business: Porter's Five Forces	Intensity
Internal Rivalry	The IPG's competitive area can be identified by differentiating the various sectors in which it operates: - The Hydraulics sector is populated by a few big global operators and various small operators. However, for big operators, products related to IPG's reference segment are only a small part of their product portfolio, so they are not specialized. In this sector, IPG's main strengths are the manifold acquisitions that allow it to diversify the product portfolio, to widening the geographical presence and to specialize in some key technologies (DCV and PTO). At the same time IPG, due to this high specialization in some technologies production, risks being absorbed by one of the big global operators. - The Water Jetting sector in turn is divided into two sub-sectors: The Very High-Pressure Plunger Pumps sector, which is a niche market where IPG has a leader position and in which there are no threats of internal rivalries, and the Flow Handling Food, Cosmetics & Pharma sector, populated by some big global operators and many small operators. In the latter, there are no internal rivalries being a rapidly growing sector (+10% CAGR 2017-2023E) which therefore allows great developments for all companies.	
Threat of New Entrants	The threat of new entrants to the market differs according to the different sectors in which IPG operates. The Hydraulics industry is characterized by standard products and commodities that allow companies to easily enter the sector. Thanks to the manufacturing of the DCV and PTO components and to the multiple acquisitions that allow it to increase cross-selling, IPG is able to protect itself from this threat. In the Water Jetting industry, relative to Very High-Pressure Plunger Pumps sub-industry, there are high barriers to entry, as the products of this sector have reached a high level of technologies that would impose too high costs on the companies that would like to enter in this sector. Furthermore, the products used in this sector can only be improved, but there is no possibility of new technological discoveries. The Flow Handling Food, Cosmetics & Pharma sub-industry is a sector that is in the early stages of the life cycle and is growing strongly: for this, the threat of new entrants is quite high, but the competition in terms of pricing it should not be "fierce" due to the potential strong growth of this sector.	
Threat of Substitutes	Neither in the Water Jetting sector, nor especially in the Hydraulics sector, characterized by standard products, there are significant threats related to the development of new technologies and substitutes products. One of the strengths of IPG is to focus on improving products and tailor-made solutions to cover every type of customer need. However, it should also be considered that, especially in emerging markets such as China, the quality of cloned products has improved in recent years.	
Bargaining Power of Buyers	The group has a large customer base, distributed almost all over the world. IPG has specified that the group does not depend on individual customers since the 20 largest customers amount to about 10% of consolidated sales, while no single customer represents more than 1% of consolidated revenues. Analyzing individually the two industries in which IPG operates, in Water Jetting, mainly in the Very High-Pressure Plunger Pumps segment, it has a premium price power, on the contrary, in the Hydraulics segment, it is a price taker.	
Bargaining Power of Suppliers	The supplier base is well diversified: the company's main raw materials are metals including stainless steel, aluminum, brass, cast copper and other alloys that are purchased on international markets, so there is not a single supplier of components that can influence the manufacturing activity of the group. IPG, buys only raw materials and produces everything internally: this allows it not to be tied to any supplier. It also implements a strategy of raw materials reserves, so that they can be bought at the best price and not when needed.	

Source: Our Estimates

3. SWOT Analysis

SWOT analysis interpretation

IPG's Points: in this section a value between 1-5 is associated to each line of the SWOT analysis to show IPG's positioning in terms of ability to leverage strengths and opportunities and suffer from weaknesses and threats.

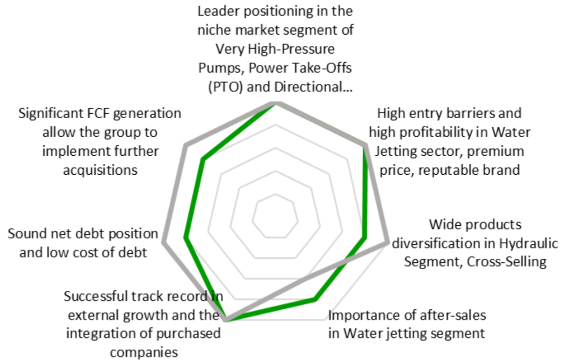
Effect on Returns: a specific EoR value between 1-5 is associated to each item, in order to show how the item itself should be addressed by IPG: a higher EoR than IPG's point means that the company should keep exploiting its strength/opportunity or undertake measure to reduce its weaknesses or exposure to future threats; lower values imply that the item has lower importance in generating returns and should not be given more strategic importance. EoR values are assigned based on an overall assessment of IPG's characteristics.

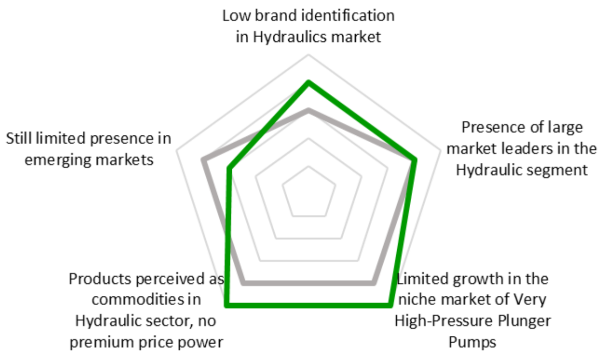
Strengths: 4.4/5	IPG's Points	Effect on Return
▪ Leader positioning in the niche market segment of Very High-Pressure Pumps, Power Take-Offs (PTO) and Directional Control Valves (DCV)	5	5
▪ High entry barriers and high profitability in Water Jetting sector, *premium price*, *reputable brand*	5	5
▪ Wide products diversification in Hydraulic Segment, *Cross-Selling*	4	5
▪ Importance of after-sales in Water Jetting segment	4	3
▪ Successful track record in external growth and the integration of purchased companies	5	5
▪ Sound net debt position and low cost of debt	4	5
▪ Significant FCF generation allow the group to implement further acquisitions	4	5

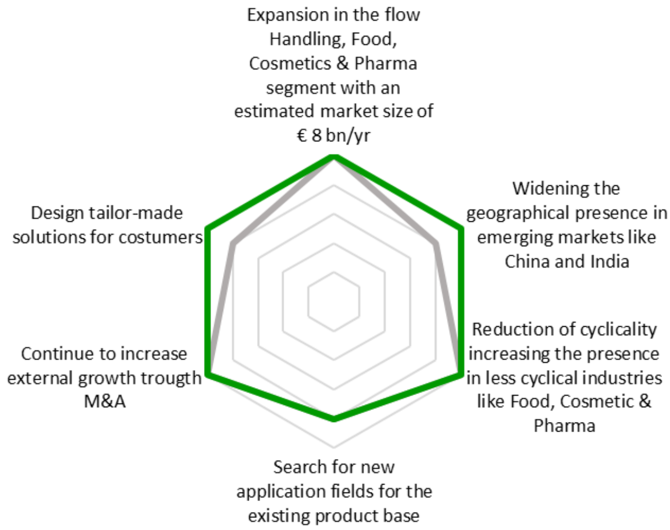
Weaknesses: 3.8/5	IPG's Points	Effect on Return
▪ Low brand identification in Hydraulics market	3	4
▪ Presence of large market leaders in the Hydraulic segment	4	4
▪ Limited growth in the niche market of Very High-Pressure Plunger Pumps	4	5
▪ Products perceived as commodities in Hydraulic sector, no premium price power	4	5
▪ Still limited presence in emerging markets	4	3

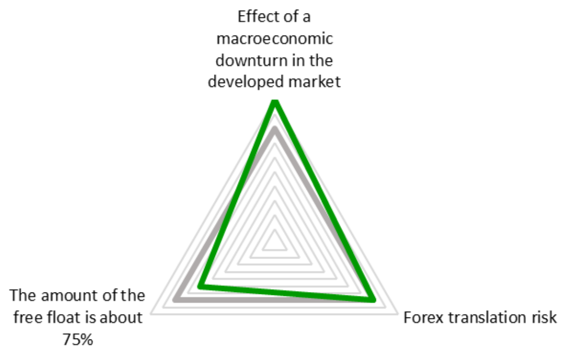
Opportunities: 4.5/5	IPG's Points	Effect on Return
▪ Expansion in the flow Handling, Food, Cosmetics & Pharma segment with an estimated market size of € 8 bn/yr	5	5
▪ Widening the geographical presence in emerging markets like China and India	4	5
▪ Reduction of cyclicality increasing the presence in less cyclical industries like Food, Cosmetic & Pharma	5	5
▪ Search for new application fields for the existing product base	4	4
▪ Continue to increase external growth trougth M&A	5	5
▪ Design tailor-made solutions for costumers	4	5

Threats: 4/5	IPG's Points	Effect on Return
▪ Effect of a macroeconomic downturn in the developed market	4	5
▪ Forex translation risk	4	4
▪ The amount of the free float is about 75%	4	3









4. Competitive Analysis

	Brand	Remarks
Water Jetting	**GEA Group Aktiengesellschaft**	GEA Group AG engages in the manufacturing, development, and production of process technology and components for the food processing industry and a wide range of other process industries. It operates through the following business segments: Farm Technologies, Mechanical Equipment, Process Engineering, and Refrigeration Technologies. In the Farm Technologies segment that includes product solutions for dairy and livestock farming, and in the Refrigeration Technologies segment IPG is not yet specialized. Regarding the other segments GEA is a direct competitor to IPG with good geographical diversification.
Water Jetting	**SPX Flow, Inc.**	Another IPG competitor in the Water Jetting segment is SPX Flow, Inc. which engages in manufacturing and distributing industrial components. It operates through the following business segments: Food & Beverage, Power & Energy and Industrial. The Food and Beverage segment includes mixing, drying, evaporation, and separation systems and components, heat exchangers, and reciprocating and centrifugal pump technologies. The Power and Energy segment includes pumps, valves, and related accessories. SPX Flow's revenues are mainly concentrated in America (41%) and in Europe (36%).
Water Jetting	**Alfa Laval AB**	Alfa Laval AB engages on energy optimization, environmental protection and food production. It operates through the following business segments: Energy, Food & Water, Marine, Greenhouse, and Operations & Other. It can be considered a direct competitor in the Food & Water segment that consist of decanters, food heat transfer, food systems, hygienic fluid handling and high-speed separators. Alfa Laval revenues are well diversified between Asia/Pacific (38%), Europe (38%) and America (23%).
Water Jetting	**ITT Inc**	ITT, Inc. engages in the provision of engineering and technology. It is an IPG competitor for the Water Jetting segment; it operates through some similar segments with respect to IPG like Industrial Process, Motion Technologies, Interconnect Solutions, and Control Technologies. ITT serves energy infrastructure, electronics, aerospace, and transportation sectors. ITT revenues are mainly exposed to America (about 45% of total) but the trend of the last three years is negative, while there is an increasing exposure to China.
Hydraulics	**Parker-Hannifin Corp.**	Parker-Hannifin Corp. is a larger operator than IPG that engages in the manufacture of motion and control technologies and systems. It operates through the Diversified Industrial and Aerospace Systems business segments. The products offered for the Hydraulics segment where Parker is not specialized, are the same offered by IPG but compared to it, the presence in the European market is lower, even if growing (13% of revenues).
Hydraulics	**Eaton Corp. Plc**	Eaton Corp. Plc is a diversified power management company, which provides energy-efficient solutions for electrical, hydraulic and mechanical power. It is one of the big operators in the Industrial Machinery industry; it operates through the following segments: Electrical Products, Electrical Systems and Services; Hydraulics; Aerospace and Vehicle. The Hydraulics segment includes hydraulics components, systems and services for industrial and mobile equipment and it is only a small part of their product catalog. Eaton Corp. unlike IPG is predominantly exposed to America (67% of total revenues).
Hydraulics	**Danfoss**	Danfoss A/S is an unlisted company that operates as an engineering company. It manufactures refrigeration, air conditioning, and industrial controls for several industries and it can be considered a direct competitor regarding the Danfoss' Stand-Alone Businesses segment that includes hydraulic integrated circuits (HICs), open circuit gear pumps and motors, directional control valves (DCV), inverters, gear reduction drives, piston pumps, and other products. It has 3 times the revenues of IPG, the same multiples and a very similar business strategy to IPG's one with an ongoing M&A program that allows Danfoss to have a global presence.
Hydraulics	**Robert Bosch**	Robert Bosch GmbH operates as an engineering and electronics company. Its business sectors include; mobility solutions, industrial technology, consumer goods, and energy and building technology. It is one of the main competitors of IPG in the Hydraulics industry, but it is bigger than IPG's one. The main difference between IPG and Robert Bosch is that the latter has a product portfolio wider than IPG but less specific and with less advanced product technology.
Hydraulics	**Rotork Plc**	Rotork Plc is a well-diversified holding company with a growing presence in Italy and in emerging markets which designs, manufactures, and supports actuators systems and related products. Rotork Plc, as IPG, has always followed an M&A strategy that led it to have an influential position in valve actuators. Despite being smaller than IPG (sales € mln 733.3) it has the same earning margins.
Hydraulics	**Pfeiffer Vacuum Technology AG**	Pfeiffer Vacuum Technology AG engages in the development, manufacture, and marketing components and systems for vacuum generation, measurement, and analysis. Pfeiffer's turnover is about half compared to that of IPG. It operates through five business segments not exactly similar to IPG and it has a greater presence in the Asia/Pacific super-region (28.9% of the total revenues of which 17.3% in South Korea and 6.3% in China).
Hydraulics	**IMI Plc**	IMI Plc operates through the following segments: Critical engineering; Precision engineering; and hydronic engineering. The 82% of IMI's revenues come from the same sub-industry in which IPG operates for the Hydraulic sector. IMI provides flow control solutions, is engaged in the development of motion and fluid control technologies and designs and manufactures technologies, which provide energy-efficient and operational water-based heating and cooling systems for the residential and commercial construction sectors. Compared to IPG it has a higher revenues exposure to China with a 34% exposure to emerging markets.
Hydraulics	**Indutrade AB**	Indutrade AB operates in various segments similar to IPG. It is specialized in customization, combinations, and installations of products from various suppliers. The Fluids and Mechanical Solutions Business segment offers hydraulic and mechanical components to industries in the Nordic and Baltic countries such as filters, hydraulics, tools and transmission, valves, fittings, and other products. Also, it offers a wide range of technical components and systems for production and maintenance, and medical technology equipment. Its revenues are mainly concentrated in the European area (89%), in particular in the Nordic countries like Sweden and Finland.
Water Jetting & Hydraulics	**Weir Group Plc**	The Weir Group Plc is a competitor for both Water Jetting segment and Hydraulics segment. It operates in three segments: Minerals, Oil & Gas and Power & Industrial. The Group has an aftermarket-focused business model. About the 54% of its business corresponds to the IPG's Water Jetting sector, while 15% corresponds to the IPG's Hydraulics sector. The Group has an established presence in many of the fastest-growing economies, such as China and India. Revenues are exposed mainly to America (for about 54% of total rev.) and Asia/Pacific area (22% of total rev).
Water Jetting & Hydraulics	**I.M.A. Spa**	I.M.A. S.p.A. manufactures packaging machinery for the food, pharmaceuticals, and cosmetics industries. It is a direct competitor of IPG in the Flow Handling, Food, Cosmetics & Pharma sub-industry. The Company also markets machines that complement its product line that are manufactured by other companies. As IPG, 50% of IMA's revenues come from the European Area.
Water Jetting & Hydraulics	**Bucher Industries AG**	Bucher Industries AG is another competitor of IPG for both the Hydraulics segment and the Water Jetting segment; it manufactures food processing machinery, vehicles, and hydraulic components. The Company produces fruit and vegetable juice processing machinery, fodder harvesters, plows, seed drills, feed mixers, and other machinery. The Bucher Hydraulics segment manufactures the same products as IPG. Bucher revenues are exposed mainly to Europe (about 60% of total rev) in particular Germany (14%) and France (12%).
Water Jetting & Hydraulics	**KSB SE & Co. KGaA**	KSB SE & Co. KGaA designs, manufactures, and markets pumps and valve systems. The Company is a direct competitor of IPG; it offers heating pumps, water treatment, flood control, automation, and engineering systems. KSB SE & Co also provides commissioning, maintenance, repairs, and building services. KSB SE & Co serves shipbuilding, energy, pharmaceutical, and environmental remediation industries worldwide. KSB is more brand-oriented than IPG and it has a web-shop and has developed a product configurator program for customers.

Multiples Analysis

	Company	Gross Margin	EBIT %	EBITDA %	SG&A Expense	ROA	ROE	WC Turnover	D/E	Dividend Payout Ratio
	Interpump Group	**36,97**	**17,59**	**21,96**	**19,78**	**9,14**	**18,76**	**3,59**	**55,12**	**16,71**
Water Jetting	GEA Group	31,17	7,41	9,93	23,74	3,79	8,30	10,66	10,05	64,89
	SPX Flow Inc	30,68	7,09	10,23	23,59	1,75	5,38	5,25	92,88	-
	Alfa Laval AB	33,13	14,27	18,94	18,87	5,61	14,68	6,20	62,30	59,94
	ITT Inc.	31,61	11,57	15,64	20,04	3,15	7,61	4,46	10,77	40,00
Hydraulics	Parker-Hannifin	23,91	11,99	14,94	11,92	7,14	19,99	8,69	111,57	35,59
	Robert Bosch	35,44	5,84	11,34	29,22	3,34	7,84	5,44	16,41	-
	Eaton Corp. Pl	33,46	12,92	17,40	19,75	9,47	18,57	6,26	44,93	35,93
	Danfoss	34,44	12,33	16,42	22,68	7,22	17,31	24,92	45,44	-
	Rotork Plc	39,59	15,98	22,54	23,61	7,32	12,48	3,91	16,58	84,38
	Pfeiffer Vacuum Technology AG	35,30	11,92	15,46	23,38	10,63	16,92	3,09	18,80	36,63
	IMI Plc	42,91	12,64	16,40	30,27	8,81	25,24	11,71	59,89	65,89
	Indutrade AB	32,60	9,65	12,77	22,95	8,71	21,57	23,45	77,83	43,91
Water Jetting & Hydraulics	KSB SE & Co. KGaA	19,16	5,56	8,51	12,82	1,56	5,13	2,76	10,50	35,33
	Bucher Industries AG	20,42	10,18	13,64	8,64	6,58	13,22	2,92	23,34	38,69
	Weir Group	30,19	9,40	14,22	20,79	4,54	11,37	5,48	76,73	59,86
	I.M.A.	30,47	12,11	14,88	18,05	5,94	27,40	9,99	74,74	77,98
Residuals*	Biesse S.p.A.	28,88	10,37	13,26	18,12	8,23	24,54	15,52	25,96	30,97
	Brembo S.p.A.	19,36	12,87	18,22	6,76	12,29	27,81	9,23	50,13	27,16
	Average	**30,71**	**10,78**	**14,71**	**19,73**	**6,45**	**15,85**	**8,89**	**46,05**	**49,14**
	Median	**31,39**	**11,74**	**14,91**	**20,42**	**6,86**	**15,80**	**6,23**	**45,19**	**40,00**

Source: Factset

Company	2FY EBIT Margin	1FY EV/SALES	2FY EV/SALES	Sales 1-Y g%	Sales 3-Y g%	1FY P/E	3FY P/E	1FY EPS	2FY EPS	1FY Net Margin	2FY Net Margin	1FY EV/EBITDA	2FY EV/EBTDA
Interpump Group	**18,90**	**2,40**	**2,40**	**16,40**	**29,90**	**17,70**	**16,20**	**1,47**	**1,59**	**13,30**	**13,01**	**10,80**	**10,60**
GEA Group	8,60	0,90	0,80	4,80	10,81	14,30	10,20	1,57	1,67	4,80	5,50	8,30	7,10
SPX Flow Inc	8,90	0,90	1,00	15,90	19,04	13,10	10,60	2,03	2,28	2,10	5,30	8,10	7,60
Alfa Laval AB	15,10	2,20	2,00	8,40	23,35	17,60	14,20	1,40	1,20	11,20	10,90	11,80	10,40
ITT Inc.	14,20	1,40	1,50	17,40	28,12	15,30	13,50	2,78	3,13	10,11	10,80	8,20	8,30
Parker-Hannifin	14,80	1,80	1,80	21,63	29,41	15,00	13,10	8,97	10,24	9,90	10,68	10,50	9,80
Robert Bosch	-	-	-	-	-	-	-	-	-	-	-	-	-
Eaton Corp. Pl	12,38	1,70	1,80	15,16	22,99	12,70	12,00	4,70	5,15	9,90	11,20	9,60	9,80
Danfoss	-	-	-	-	-	-	-	-	-	-	-	-	-
Rotork Plc	22,05	3,10	3,30	10,80	21,92	20,00	18,40	0,14	0,16	15,70	16,40	13,70	14,00
Pfeiffer Vacuum Technology AG	14,40	1,60	1,70	10,00	18,07	16,20	15,50	6,71	6,94	10,40	10,40	9,30	9,60
IMI Plc	14,20	1,60	1,60	9,20	14,24	13,30	12,30	0,81	0,85	9,00	9,40	9,60	9,40
Indutrade AB	12,10	1,70	1,80	7,20	19,08	16,80	16,50	1,17	1,27	7,86	8,29	12,80	13,10
KSB SE & Co. KGaA	4,80	0,20	0,20	1,50	8,21	20,10	8,30	13,86	25,68	1,20	2,20	3,60	2,80
Bucher Industries AG	9,00	0,90	1,00	18,65	23,49	13,00	14,00	17,85	18,27	6,61	6,74	7,40	8,20
Weir Group	14,90	1,50	1,40	3,68	31,40	13,70	11,60	1,08	1,26	9,60	9,70	8,90	8,20
I.M.A.	13,40	1,60	1,60	6,51	14,67	18,10	15,50	2,99	3,20	7,50	7,80	10,00	9,60
Biesse S.p.A.	9,50	0,60	0,70	6,32	18,13	11,10	10,70	1,54	1,76	5,85	6,40	5,10	5,30
Brembo S.p.A.	13,06	1,20	1,20	7,51	20,78	11,20	10,30	0,80	0,85	9,98	10,02	6,30	6,40
Average	12,55	1,45	1,48	10,48	20,20	15,35	13,09	4,51	5,54	8,12	8,78	9,13	8,88
Median	13,40	1,60	1,60	9,20	19,08	15,00	13,10	2,03	2,28	9,00	9,40	9,30	9,40

Source: Factset

Peers selction: Because of the combination of sectors where Interpump operates and consequently the variety of goods produced, there are no any direct peer for the company. Therefore, we operated a selection of 18 companies that compete with Interpump in the Water Jetting sector, in the Hydraulics sector, or for similar characteristics.
*Residuals: We consider two Italian companies (Biesse S.p.A. and Brembo S.p.A.), listed on the Italian stock exchange, which operates in different markets with respect to IPG but are well known for their technological skills, thus fully benefiting from the so-called “PIR effect”.

5. Value Creation and EPS Trend

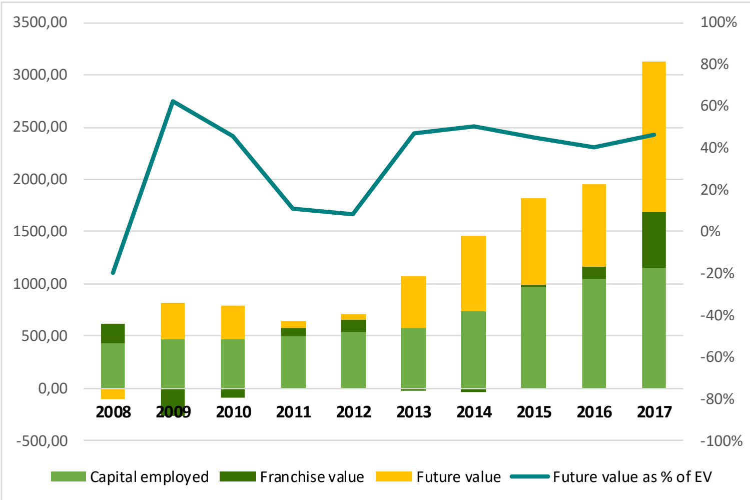
In order to represent how the market recognizes IPG's value, we computed two different kind of estimations, dissecting Value produced and recognized by the market and a EPS trend analysis.

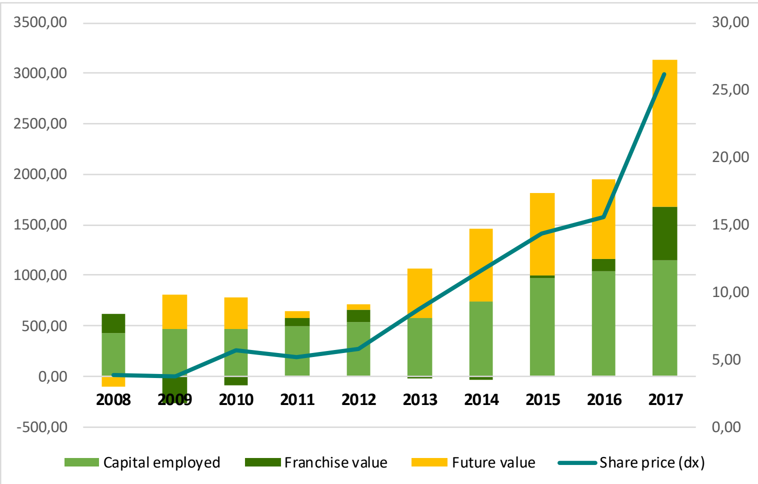
1) Value Creation

IPG over the past four years has shown an increasing income generation capacity also recognized by the market with positive values expressed in terms of future value of the company. During the same period, the incidence of future value compared to Enterprise Value, which has fluctuated between 41% and 50%, demonstrating that the market recognizes significant growth opportunities for the Company.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capital employed	427,53	470,17	471,34	494,62	533,47	580,26	741,65	967,71	1045,75	1153,59
Franchise value	185,10	-260,92	-95,84	76,76	121,53	-26,88	-36,28	26,04	113,75	530,66
Future value	-101,98	342,12	314,08	69,00	56,50	487,55	714,61	822,40	790,74	1443,95
Share price (dx)	3,86	3,72	5,70	5,20	5,80	8,72	11,64	14,32	15,56	26,22
Future value as % of EV	-20%	62%	46%	11%	8%	47%	50%	45%	41%	46%

Source: FactSet, Our Estimates





Source: Our Estimates

2) EPS Trend

The trend analysis of EPS confirms TP calculated with DCF model. The estimate is based on historical values of the last 20 years (1998 – 2017) whose trend is approximated with a third-degree polynomial equation; we then use this equation to extrapolate the EPS estimate for the next three years – With this quantitative approach we estimate a TP 2018E of €25.23, very close to market price at end 2018 while for 2019E the estimated TP is €35.08 and for 2020E the TP is €48.73.

EPS Trend	DEC '18	DEC '19	DEC '20
P/E	23,04	25,95	29,43
EPS	1,10	1,35	1,66
Share price	25,23	35,08	48,73

6. Financial Analysis

Balance Sheet

Amounts in million euros	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E
Non-Current Assets									
Property, plant and equipment - net	286,07	300,92	321,83	339,55	337,84	335,82	333,47	330,78	327,73
Other intangible assets - net	33,19	30,04	38,10	35,77	35,77	35,77	35,77	35,77	35,77
Deferred tax assets	27,12	25,85	26,68	28,95	28,95	28,95	28,95	28,95	28,95
Goodwill	347,39	390,71	429,44	426,72	626,72	826,72	1026,72	1226,72	1426,72
Other Non-Current Assets	2,23	2,44	3,73	4,65	4,65	4,65	4,65	4,65	4,65
Total Non-Current Assets	**696,01**	**749,96**	**819,78**	**835,65**	**1033,94**	**1231,92**	**1429,57**	**1626,87**	**1823,82**
Current assets									
Inventories	238,64	257,55	291,70	353,37	410,08	482,71	561,36	644,03	729,37
Trade account receivable	178,13	200,02	236,76	271,77	323,16	380,39	442,37	507,52	574,77
Income taxes	14,36	11,14	15,41	22,72	22,72	22,72	22,72	22,72	22,72
Other Current Assets	7,81	7,69	8,30	12,60	12,60	12,60	12,60	12,60	12,60
Cash and Cash Equivalent	135,13	197,89	144,94	215,81	251,85	321,69	402,64	501,48	623,17
Financial Current Assets	0,00	0,00	0,79	0,00	0,00	0,00	0,00	0,00	0,00
Total Current Assets	**574,07**	**674,28**	**697,90**	**876,27**	**1020,40**	**1220,11**	**1441,69**	**1688,34**	**1962,64**
TOTAL ASSETS	**1270,07**	**1424,24**	**1517,67**	**1711,92**	**2054,33**	**2452,02**	**2871,26**	**3315,21**	**3786,46**
Equity									
Share capital	56,03	55,43	55,81	55,20	55,20	55,20	55,20	55,20	55,20
Share premium reserve	138,96	112,39	121,23	89,23	89,23	89,23	89,23	89,23	89,23
Other reserves	303,88	411,48	446,41	596,94	733,99	897,63	1092,39	1321,16	1586,52
Net result, Group share	118,31	94,47	135,72	167,07	199,48	237,42	278,88	323,48	370,39
Equity, Group share	**617,17**	**673,77**	**759,17**	**908,44**	**1077,90**	**1279,48**	**1515,69**	**1789,07**	**2101,33**
Non controlling interests	5,47	3,79	5,56	4,78	4,78	4,78	4,78	4,78	4,78
TOTAL EQUITY	**622,64**	**677,56**	**764,73**	**913,22**	**1082,68**	**1284,26**	**1520,47**	**1793,85**	**2106,11**
Non-Current Liabilities									
Long-term borrowings	300,55	327,97	243,06	227,96	405,17	564,65	708,19	837,37	953,63
Provisions non-current	2,68	2,87	3,16	3,24	3,24	3,24	3,24	3,24	3,24
Pension funds	17,26	19,31	20,04	19,98	21,48	22,98	24,48	25,98	27,48
Deferred tax liabilities	48,10	47,76	41,50	41,01	41,01	41,01	41,01	41,01	41,01
Other Non-Current Liabilities	22,02	41,06	50,40	38,66	40,38	42,17	44,05	46,01	48,06
Total Non-Current Liabilities	**390,61**	**438,96**	**358,16**	**330,84**	**511,26**	**674,04**	**820,96**	**953,60**	**1073,41**
Current liabilities									
Provisions current	4,42	3,62	3,61	4,08	4,08	4,08	4,08	4,08	4,08
Short-term borrowings	89,65	127,22	175,42	196,86	196,86	196,86	196,86	196,86	196,86
Trade accounts payables	94,02	109,00	142,98	159,03	188,22	221,56	257,66	295,60	334,77
Income taxes	19,90	18,13	18,54	34,75	19,22	19,22	19,22	19,22	19,22
Other Current Liabilities	48,84	49,77	54,24	73,15	52,01	52,01	52,01	52,01	52,01
Total Current Liabilities	**256,83**	**307,74**	**394,78**	**467,87**	**460,39**	**493,73**	**529,83**	**567,77**	**606,94**
TOTAL LIABILITIES	**647,45**	**746,70**	**752,95**	**798,71**	**971,65**	**1167,77**	**1350,78**	**1521,37**	**1680,35**
TOTAL LIABILITIES AND EQUITY	**1270,08**	**1424,26**	**1517,67**	**1711,92**	**2054,33**	**2452,02**	**2871,26**	**3315,21**	**3786,46**

Source: Our Estimates

Income Statement

Amounts in million euros	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E
Revenues	894,93	922,82	1086,55	1265,57	1497,86	1763,15	2050,44	2352,39	2664,13
Cost of sales	533,95	539,85	622,81	746,28	863,23	1016,82	1183,12	1357,90	1538,33
Gross profit	**360,98**	**382,97**	**463,74**	**519,29**	**634,63**	**746,33**	**867,32**	**994,49**	**1125,80**
Selling expenses	84,32	86,43	102,73	119,65	141,37	166,41	193,52	222,02	251,45
General and administrative expenses	105,67	108,97	124,53	134,87	155,67	178,83	203,32	228,47	253,91
Other operating costs	3,86	3,44	4,57	4,36	4,11	4,11	4,11	4,11	4,11
Operating Result (EBITDA)	**167,13**	**184,13**	**231,90**	**260,41**	**333,47**	**396,97**	**466,36**	**539,88**	**616,32**
Other operating revenues	13,13	14,37	16,74	19,50	23,08	27,17	31,60	36,25	41,05
Amortization and Depreciation	-41,69	-43,60	-47,46	-48,00	-67,61	-79,58	-92,55	-106,18	-120,25
Impairment	-1,67	-1,37	-2,27	-2,23	-2,71	-1,84	-2,14	-2,46	-2,79
EBIT	**136,90**	**153,53**	**198,91**	**229,69**	**286,24**	**342,72**	**403,27**	**467,49**	**534,34**
Adj EBIT	**140,76**	**156,98**	**203,48**	**234,05**	**290,35**	**346,83**	**407,38**	**471,61**	**538,46**
Non- recurring income (Badwill)	0,00	0,00	0,00	11,91	0,00	0,00	0,00	0,00	0,00
Financial income	42,42	7,86	14,68	10,31	20,24	23,83	27,71	31,79	36,00
Financial expenses	-15,69	-12,86	-21,42	-15,24	-23,92	-30,26	-35,96	-41,10	-45,72
Adjustment of the value of investments at	-0,26	-0,04	-0,02	-0,02	0,00	0,00	0,00	0,00	0,00
Earning Before Taxes	**163,36**	**148,49**	**192,15**	**236,65**	**282,56**	**336,29**	**395,01**	**458,19**	**524,63**
Income taxes	45,06	54,02	56,43	69,57	83,07	98,87	116,13	134,71	154,24
Implied Tax Rate	*0,28*	*0,36*	*0,29*	*0,29*	*0,29*	*0,29*	*0,29*	*0,29*	*0,29*
Net Income	**118,31**	**94,47**	**135,72**	**167,07**	**199,48**	**237,42**	**278,88**	**323,48**	**370,39**
Net profit/(loss)- minority interests	-0,67	-0,62	-1,28	-0,91	0,00	0,00	0,00	0,00	0,00
Adjustments	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Adjusted Net Income	**117,64**	**93,85**	**134,44**	**166,16**	**199,48**	**237,42**	**278,88**	**323,48**	**370,39**
Net result from discontinued operations	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Net Result, Group Share	**117,64**	**93,85**	**134,44**	**166,16**	**199,48**	**237,42**	**278,88**	**323,48**	**370,39**
Net Profit/(Loss), Group	**117,64**	**93,85**	**134,44**	**166,16**	**199,48**	**237,42**	**278,88**	**323,48**	**370,39**

Source: Our Estimates

Cash Flow Statement

Amounts in million euros	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E
EBIT	153,53	198,91	229,69	286,24	342,72	403,27	467,49	534,34
Depreciation and amortization	44,97	49,74	50,22	70,32	81,42	94,69	108,64	123,04
Income Taxes	-54,02	-56,43	-69,57	-83,07	-98,87	-116,13	-134,71	-154,24
Net-Operating Self-Financing	**144,48**	**192,22**	**210,34**	**273,49**	**325,28**	**381,83**	**441,42**	**503,14**
Change in Pension funds	2,05	0,73	-0,07	1,50	1,50	1,50	1,50	1,50
Changes in trade payables	14,98	33,97	16,06	29,19	33,34	36,10	37,94	39,17
Changes in other current liabilities	0,93	4,47	18,91	-21,14	0,00	0,00	0,00	0,00
Changes in other non-current liabilities	19,04	9,34	-11,74	1,72	1,80	1,88	1,96	2,05
Changes in tax liabilities	-2,12	-5,84	15,71	-15,53	0,00	0,00	0,00	0,00
Changes in inventories	-18,91	-34,16	-61,67	-56,71	-72,63	-78,65	-82,67	-85,34
Changes in trade receivables	-21,89	-36,74	-35,01	-51,38	-57,23	-61,98	-65,15	-67,25
Changes in other non-current assets	-0,21	-1,28	-0,92	0,00	0,00	0,00	0,00	0,00
Changes in other current assets	0,13	-1,40	-3,51	0,00	0,00	0,00	0,00	0,00
Operating Cash Flow	**138,48**	**161,31**	**148,09**	**161,14**	**232,04**	**280,67**	**335,01**	**393,26**
Changes in tangible and intangible assets	-55,30	-76,43	-65,62	-68,61	-79,40	-92,34	-105,94	-119,98
Changes in Provisions - current / non currer	-0,62	0,28	0,55	0,00	0,00	0,00	0,00	0,00
Changes in investing activities	-43,32	-38,73	2,72	-200,00	-200,00	-200,00	-200,00	-200,00
Changes in deferred tax assets	1,28	-0,83	-2,28	0,00	0,00	0,00	0,00	0,00
Unlevered Free Cash Flow	**40,51**	**45,59**	**83,47**	**-107,47**	**-47,36**	**-11,68**	**29,07**	**73,27**
Short term borrowings variation	37,57	48,20	21,44	0,00	0,00	0,00	0,00	0,00
Long term borrowings variation	27,43	-84,91	-15,10	177,20	159,48	143,53	129,18	116,26
Dividends paid to shareholders	-21,14	-23,05	-23,05	-30,02	-35,84	-42,66	-50,11	-58,12
Financial Income	7,86	14,68	10,31	20,24	23,83	27,71	31,79	36,00
Financial Expenses	-12,86	-21,42	-15,24	-23,92	-30,26	-35,96	-41,10	-45,72
Free Cash Flow To Equity	**79,37**	**-20,91**	**61,83**	**36,03**	**69,85**	**80,95**	**98,84**	**121,70**
Changes in Equity	-18,42	-25,50	4,47	0,00	0,00	0,00	0,00	0,00
Net Cash Flow	**60,96**	**-46,41**	**66,30**	**36,03**	**69,85**	**80,95**	**98,84**	**121,70**
Net Cumulated Cash Flow	**196,09**	**149,68**	**211,24**	**247,27**	**317,12**	**398,06**	**496,90**	**618,60**

Source: Our Estimates

Ratio Analysis

Amounts in million euros	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E
ROS	19%	20%	21%	21%	22%	23%	23%	23%	23%
ROCE	43%	42%	66%	56%	51%	47%	44%	42%	39%
ROI	13%	13%	15%	15%	16%	16%	16%	16%	16%
ROE	19%	14%	18%	18%	18%	18%	18%	18%	18%
ROA	9%	7%	9%	10%	10%	10%	10%	10%	10%
Tax rate	28%	36%	29%	29%	29%	29%	29%	29%	29%
Asset Turnover (Rev/Assets)	70%	65%	72%	74%	73%	72%	71%	71%	70%
Capex/D&A	399%	123%	154%	131%	98%	98%	98%	98%	98%
Interest Coverage Ratio	1065%	1432%	1082%	1709%	1394%	1312%	1297%	1314%	1348%
ROT	70%	65%	72%	74%	73%	72%	71%	71%	70%
Total liabilities to total asset	51%	52%	50%	47%	47%	48%	47%	46%	44%

Source: Our Estimates

Multiple Analysis

Amounts in million euros	2017A	2018E	2019E	2020E	2021E	2022E	2023E
Market Capitalization	2.854,82	2.830,86	3.066,04	3.066,04	3.066,04	3.066,04	3.066,04
Net Financial Position	273,54	209,01	350,18	439,82	502,41	532,75	527,32
Enterprise Value	3.128,36	3.039,87	3.416,22	3.505,86	3.568,45	3.598,79	3.593,36
Price/Sales	2,63	2,24	2,05	1,74	1,50	1,30	1,15
P/E	21,03	16,94	15,37	12,91	10,99	9,48	8,28
P/BV	3,76	3,12	2,84	2,40	2,02	1,71	1,46
Dividend Yield	0,8%	0,8%	1,0%	1,2%	1,4%	1,6%	1,9%
DPS	0,21	0,21	0,28	0,33	0,39	0,46	0,53
EV/EBIT	15,73	13,23	11,93	10,23	8,85	7,70	6,72
EV/EBITDA	13,49	11,67	10,24	8,83	7,65	6,67	5,83
EV/Sales	2,88	2,40	2,28	1,99	1,74	1,53	1,35
EPS	1,25	1,53	1,83	2,18	2,56	2,97	3,40

Source: Our Estimates

7. WACC Computations

1) Risk-Free rate

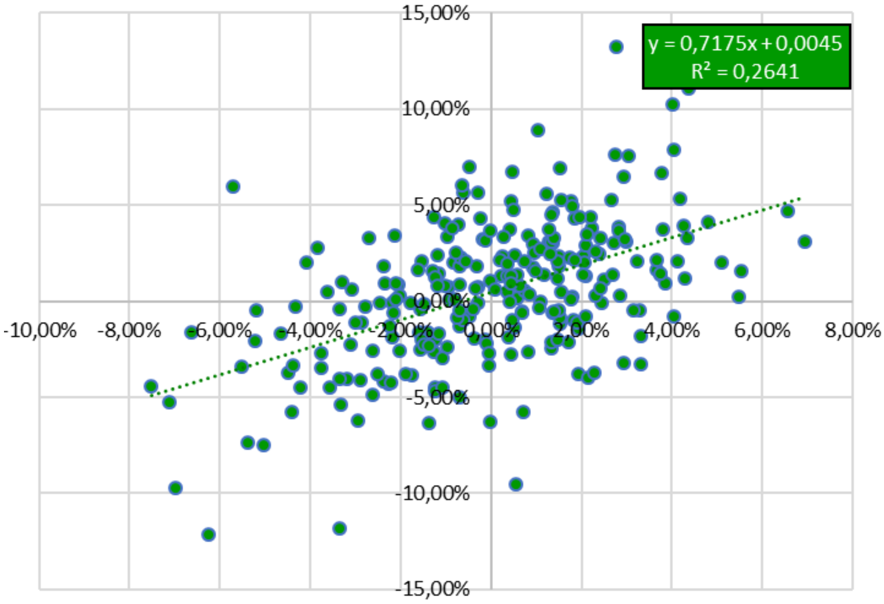
We compute the Risk-free rate considering the 10 years BUND rate at 21/01/2019.

2) Equity Risk Premium

We calculate Equity Risk Premium (ERP) as average of the 8 years (2010 – 2018) average ERP for EU and USA equity markets (source: *Rapporto sulla Stabilità Finanziaria novembre 2018-Banca d'Italia*).

3) Beta

In order to compute IPG's Beta (**0.812**) **we have used the 5Y linear regression between IPG's stock price weekly returns and weekly returns of FTSE All-Share Italy Index** (source: FactSet). We used FTSE All Share Italy Index as independent variable in our regression because IPG, as a small capitalization company (compared to global standards) listed in Italy, is more generally a target for inclusion in portfolios specialized geographically in Italy (including "PIR" compliant funds).



Source: FactSet

4) Cost of Equity

Considering a **Risk-free rate of 0.26%**, an Equity Risk Premium of 6% and an Adjusted Beta Levered equal to 0.812 we compute a **Cost of Equity amounted to 5.13%** using the **Capital Asset Pricing Model** formula.

5) Cost of Debt

In order to calculate cost of debt we use IPG's average cost of debt computed over the last two years, finally determining a **Cost of Debt of 3.97%** as shown by table below.

Amounts in million euros	2015A	2016A	2017A
Financial debts	390,19	455,19	418,48
Average Financial debts		422,692	436,835
Financial expenses		12,86	21,42
% Financial expenses/Average Financial debts		3,04%	4,90%
Average cost of debt			3,97%

Source: Our Estimates

6) WACC

Taking into account a 5.13% of Cost of Equity (Appendix n. 4) and a 3.97% Cost of Debt (Appendix n. 5), resulting from our analysis, and a 29% of tax rate, we compute a 2019E WACC of 4.3%. Considering the variability of IPG's capital structure during the forecasted years, we calculate a different WACC for each year. The assumptions for every year are shown in the table below.

WACC Calculation	2019E	2020E	2021E	2022E	2023E
Equity	**1.082,7**	**1.284,3**	**1.520,5**	**1.793,8**	**2.106,1**
Beta	0,812	0,812	0,812	0,812	0,812
Risk Free Rate	0,26%	0,26%	0,26%	0,26%	0,26%
Market Risk Premium	6,00%	6,00%	6,00%	6,00%	6,00%
Cost of Equity	***5,13%***	***5,13%***	***5,13%***	***5,13%***	***5,13%***
Debt	**602,03**	**761,51**	**905,05**	**1034,23**	**1150,49**
Cost of Debt	***3,97%***	***3,97%***	***3,97%***	***3,97%***	***3,97%***
Marginal Tax Rate	29%	29%	29%	29%	29%
Post Tax cost of debt	2,81%	2,81%	2,81%	2,81%	2,81%
E/(D+E)	64%	63%	63%	63%	65%
D/(D+E)	36%	37%	37%	37%	35%
WACC	***4,30%***	***4,27%***	***4,26%***	***4,28%***	***4,31%***

Source: Our Estimates

We maintain Beta stable at the value that we compute with our regression model since, in theory, the long-term Beta of all companies tend to value of 1. Since we think that in the coming years IPG will witness stabilization its growth we think that this value of Beta may be suitable for the Company during the next five years. However, to check how our target price would change if the Beta changes we perform a sensitivity analysis which consider a change of this variable.

TV Wacc

Beta	34,84	2,91%	3,26%	3,61%	3,96%	**4,31%**	4,66%	5,01%	5,36%	5,71%
	0,732	47,42	45,84	44,32	42,85	41,44	40,08	38,76	37,49	36,27
	0,752	45,25	43,75	42,29	40,90	39,55	38,24	36,99	35,78	34,61
	0,772	43,29	41,85	40,46	39,12	37,83	36,59	35,38	34,23	33,11
	0,792	41,50	40,12	38,79	37,51	36,27	35,08	33,92	32,81	31,74
	0,812	39,86	38,54	37,26	36,03	**34,84**	33,69	32,59	31,52	30,49
	0,832	38,36	37,09	35,86	34,67	33,53	32,43	31,36	30,34	29,34
	0,852	36,98	35,75	34,57	33,42	32,32	31,26	30,23	29,24	28,29
	0,872	35,71	34,52	33,37	32,27	31,21	30,18	29,19	28,23	27,31
	0,892	34,52	33,37	32,27	31,20	30,17	29,18	28,22	27,30	26,41

Source: Our Estimates

As shown in the table above, all other things being equal, even if Beta increases up to 0.872 our "BUY" recommendation would be maintained. Therefore, this result support our decision to keep Beta stable during the forecast period.

8. DCF Model

€Mln	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	**1.497,9**	**1.763,1**	**2.050,4**	**2.352,4**	**2.664,1**	**2.816,0**	**2.976,5**	**3.146,2**	**3.325,5**	**3.515,0**
Revenues growth	18,4%	17,7%	16,3%	14,7%	13,3%	5,7%	5,7%	5,7%	5,7%	5,7%
EBIT	**286,2**	**342,7**	**403,3**	**467,5**	**534,3**	**564,8**	**597,0**	**631,0**	**667,0**	**705,0**
% margin	19%	19%	20%	20%	20%	20%	20%	20%	20%	20%
% growth	24,6%	19,7%	17,7%	15,9%	14,3%	5,7%	5,7%	5,7%	5,7%	5,7%
Tax rate	29%	29%	29%	29%	29%	29%	29%	29%	29%	29%
- Tax	-83,1	-98,9	-116,1	-134,7	-154,2	-163,0	-172,3	-182,1	-192,5	-203,5
NOPAT	**203,2**	**243,9**	**287,1**	**332,8**	**380,1**	**401,8**	**424,7**	**448,9**	**474,5**	**501,5**
% growth	27%	20%	18%	16%	14%	6%	6%	6%	6%	6%
-Changes in Total Asset	-169,5	-201,6	-236,2	-273,4	-312,3	-330,1	-348,9	-368,8	-389,8	-412,0
-CAPEX	-65,9	-77,6	-90,2	-103,5	-117,2	-123,9	-130,9	-138,4	-146,3	-154,6
+D&A	67,6	79,6	92,5	106,2	120,2	127,1	134,3	142,0	150,1	158,7
FCFF	**35,4**	**44,3**	**53,3**	**62,1**	**70,9**	**74,9**	**79,2**	**83,7**	**88,5**	**93,5**
Discount Factor	0,96	0,92	0,88	0,85	0,81	0,78	0,74	0,71	0,68	0,66
Present Value	**34,0**	**40,7**	**47,0**	**52,5**	**57,4**	**58,2**	**58,9**	**59,7**	**60,5**	**61,3**

Stage I (2018E-2023E)	231,6
Stage II (2024E - 2028E)	298,7
Terminal Value	3.472,1
Terminal WACC	4,3%
Terminal Growth Rate	2,5%
Enterprise Value	**4.002,4**
Net Financial Position	-209,0
Equity Value	**3.793,3**
n° of share	108.879.294
Target Price	**34,84**
Current Price (EUR)	28,12
Premium/(Discount) to Current (%)	**23,9%**

Source: Our Estimates

I Stage: We have decided to divide our DCF into three stages to be able to minimize the distortion that comes from the calculation of the terminal value as a perpetual annuity. During the years of the first stage (2019E-2023E) we expect IPG to continue to grow driven both by organic and external increase in sales, maintaining the relationship between organic and external growth to 1/3 and 2/3 as found in the last seven years. To estimate the external growth, we have supposed the acquisitions of one company in each sector per year. Because of the different incidences of direct costs in two areas of activity, we expected a reduction of EBIT growth from 24.6% in 2019 to 14.3% in 2023.

II Stage: During these years, we think that the external growth will ending, and the increase of revenue will be sustained only by organic growth at the average level reached from 2010 to 2017 (5.7%). Also, EBIT growth will be maintained stable. To sustain constant organic growth, we have estimated CAPEX as a fixed percentage of revenue.

Terminal Value: We calculate TV as a perpetuity formula considering 2028E FCFF with Terminal Growth Rate of 2.5% computed adding to the model's Risk-Free rate 0.26% (10Y BUND rate at 21/01/2019) the average of the 8 years (2010 – 2018) average corporate bond spreads for EU and USA (source: *Rapporto sulla Stabilità Finanziaria novembre 2018-Banca d'Italia*). Moreover, we consider a TV WACC of 4.31%, taking into consideration the value of terminal year 2028E.

9. Other Opportunities -M&A-

Company	Buyer			
	Transaction Value	EV/Sales	EV/EBITDA	σ
Interpump Group	9,05	0,70	5,05	2,46
GEA Group	36,30	0,20	**3,45**	2,97
SPX Flow Inc	112,35	0,70	-	-
Alfa Laval AB	67,50	1,25	**12,50**	9,89
ITT Inc.	138,00	1,70	**13,35**	15,19
Parker-Hannifin	45,80	0,80	**8,30**	36,60
Robert Bosch	154,50	1,10	**11,20**	9,27
Eaton Corp. Pl	92,70	0,90	**8,40**	3,57
Danfoss	8,20	0,70	**8,75**	3,25
Rotork	10,60	1,95	**13,80**	3,57
Pfeiffer Vacuum Technology AG	174,25	1,70	**14,30**	0,00
IMI Plc	36,20	1,40	**9,85**	10,89
Indutrade AB	18,20	-	-	
KSB	7,75	-	-	
Bucher	14,05	0,95		18,80
Weir Group	46,40	1,70	**10,70**	9,54
I.M.A.	7,50	0,80	**11,20**	6,36
Biesse S.p.A.	2,10	0,45	-	
Brembo S.p.A.	14,00	-	-	
Average	57,20	1,09	**10,48**	9,99
Median	36,30	0,95	**10,95**	9,27
IQR(3-1)			**4,05**	

2018E EBITDA	260.400.000,00
EV=	3.783.612.000,00
-NFP	- 209.900.000,00
Equity Value=	3.573.712.000,00
N° Shares	108.879.294,00
Target Price	**32,82**

Source: Our Estimates

To conclude our initiation of coverage, we analyse the case in which Interpump may be seen as a potential acquisition target by a bigger company
We have to split the assumptions in two parts, the first one concern the factors that could possibly lead IPG to be bought, and on the other side the factor that will possibly make difficult the M&A process.
Even though IPG has clearly expressed the desire not to sell the company and to not be available to long term plans, from the analysis of the Company many critical factors have emerged in the M&A field such as:

1. The exponential rate of organic and external growth added to the iper-performing margins (like EBITDA) that make IPG eye-catching for other companies;
2. Management's plans for succession of key figures at the Company;
3. The small capitalization dimension of IPG, with respect to the global market, when Company's competitors present up to 24b$ revenues, reason why IPG could be purchased without many difficulties, given also its low leverage position;
4. The high Free-Float percentage that supports strongly the above thesis.

On the other side there are few consideration concerning factors that could arrest the potential acquisition:

1. IPG is a perfectly efficient company that has found the way, through synergies and diversification, to maximize the production margins, and this will be a big deal for a potential buyer seen the impossibility to improve margins
2. The big diversification means that a buyer that have the intention to change the IPG format, will have to do it for more than 15 legal entities
3. The 80% of free-floating means that IPG's management doesn't need to be convinced to be bought, who has the faculty to decide are IPG's investors

4. In the case of a potential buy offer, IPG's would be more inclined to sell to a firm that operates in a complementary sector in order to expand the product range and don't enter in further competition

Taking into account this consideration we decided to operate an estimate of the potential TP through an EV/EBITDA transaction multiple.

Basically, after recovering all the available information on FactSet about the deal summary, given that the data were not consistent and linear, we choose to evaluate the IQR of the medians and add the number obtained to the median of the medians, with the aim of consider the possible central value.

10. Consensus

The rating of consensus expressed by analysts who follow IPG in February are all positive and indicate a mean TP of €33.1. This TP has been shown by analysts since February 2018; only Buy or Overweight ratings have been expressed since September 2018 (source: FactSet).

Broker	Analyst	Target Pirce date	Price on rating date	Target Price	Rating
Equita Sim	D. Ghilotti	30/01/2019	28,16	32	Buy
Intermonte Securities	C. Maritano	31/01/2019	28,12	34	Overweight
Banca IMI	B. Permutti	06/02/2019	28,12	32,5	Overweight
Banca Akros (ESN Partership)	P. Saglietti	05/02/2019	28	34	Overweight

Source: FactSet

11. Investment Risks

	RARE	UNLIKELY	POSSIBLE	LIKELY	ALMOST CERTAIN
SEVERE	- Liquidity risk				
MAJOR			- Fluctuation of raw materials - Macro environment	- Risk related to M&A strategy	
MODERATE			- Risk to dependence to key figures - Forex risk	- Generic competition	
MINOR	- Credit risk	- Exposure to local economic and political conditions - Risk related to industrial plants	- Environmental protection	- Interest rate risk	
NOT SIGNIFICANT					

12. Corporate Governance

Board of Directors

The BoD currently consists of one executive and seven non-executive Directors, including six directors as independent. On April 28, 2017, to improve the Company's corporate governance practices, the BoD appointed the independent director Franco Garilli as Lead Independent Director.

Board of Directors									
Member	Office	In charge as of	In charge until	List (M/m)	Executive	Non executive	Indipendent	No. Of other roles	Attendance
Fulvio Montipò	Chariman and CEO	28/04/2017	App. 2019 FS	M	X			1	8/8
Paolo marinsek	Deputy Chairman	28/04/2017	App. 2019 FS	M				-	8/8
Angelo Busani	Director	28/04/2017	App. 2019 FS	m		X	X	1	4/5
Antonia Di Bella	Director	28/04/2017	App. 2019 FS	M		X	X	2	5/5
Franco Garilli	Director	28/04/2017	App. 2019 FS	M		X	X	-	8/8
Marcello Margotto	Director	28/04/2017	App. 2019 FS	M		X	X	1	8/8
Stefania Petruccioli	Director	28/04/2017	App. 2019 FS	M		X	X	3	8/8
Paola Tagliavini	Director	28/04/2017	App. 2019 FS	M		X	X	4	8/8
Giovanni Tamburi	Director	28/04/2017	App. 2019 FS	M		X		4	8/8

Compliance with "Codice di Autodisciplina"

The company voluntarily adheres to the "Codice di Autodisciplina" (Italian Corporate Governance Code for listed companies) and since 2005 it publishes the report on CG and ownership structure, based on the principle of "comply or explain" which underlies the Corporate Governance Code and in line with EU Recommendation no. 208/2014. In order to verify the commitment of the Company to the Code, the table below summarizes the main articles for which IPG is compliant.

Article	Compliance	Description
In FTSE-Mib companies, 1/3 of BoD should be composed of indipendent directors. In any case, independent directors are not less than 2	√	BoD currently in office consists in 9 members, 6 of which are indipendent directors
Gender equilibrium: at least 1/3 members of the BoD should belong to the less represented gender	√	The less represented gender represents 33% of the members of the Board
Separation of Chairman and CEO position in order to guarantee impartiality and balanced required from the Chairman of BoD	X	Fulvio Montipò is both Chairman and Ceo of the company
Composition of BoD in terms of professional competence, expirience, gender of its members and number of years as director.	√	BoD has evaluated the adoption of a diversity policies concerning the composition of the administrative body in relation to aspects including age, gender and training and professional experience. The company embarked on a programme of analysis aimed at identifying the contents of such policies in consideration of the business sector in which is active
The Board shall designate an independent director as LID in the event that the Chairman of the BoD is the CEO of the Company	√	Presence of Franco Garilli as Lead Indipendent Director since April 2017 with fixed salary and no variable component of remuneration related to company results
Commitees should be composed in major part by indipendent directors	√	The remuneration committee, the control and risks committee, the nomination committee and the related party transactions' committee are composed of non-executive directors, the majority of whom are independent
No directors shall participate in meetings of the Remuneration Committee in which proposals are formulated to the BoD relating to his/her remuneration	√	Directors do not participate in the meetings of the remuneration committee where proposal are formulated on their own remuneration
The BoD evaluate whether to adopt a plan for the succession of executive director	√	On 28 April 2017 the Board of Directors resolved to set up the Operative Coordination. The constitution of a committee of this type should prove functional for the definition of an executive directors succession plan
The Board's members are elected following the voting list system (Directors equal in numbers to the total number of members to be elected, less one, shall be drawn from the list which received a majority of the vote cast, the remaining director shall be drawn from the minority list)	√	All the directors, except one (Angelo Busani from the minority list), are taken from the list that obtained the largest number of votes cast by the shareholders
The Board shall issue guidelines regarding the maximum number of offices as director of statutory auditor for specific types of companies	√	Executive directors can hold from zero to three management and control positions and from one to nine appointments in case of non-exective directors (in both cases depends on whether they are executive or non-executive in other companies)
The company should provide information on the number and avarege duration of the meeting of the Board as well as the related percentage of attendance of each director	√	In 2017 the Board met 3 times in its prior composition and 5 times in its current composition appointed by the shareholders' meeting of 28 April 2017. The average duration of the meetings was around 2 hours with average attendance of 97.8%. At least 7 meetings are scheduled for 2018.

Remuneration Policy

Interpump implements two different remuneration schemes: (1) all the directors or managers receive a fix compensation whose level is mainly correlated: (i) with professional specialization; (ii) with the organizational role performed; and (iii) with responsibilities. (2) Directors receive also an additional variable component (never higher than 75% of the fixed component). This component, for executive-directors, is linked to short-term results (MBO) and long-term results (Interpump Incentive Plan) with the aim of aligning the interests of managers with those of shareholders. Management by Objective plan is aimed to incentivize the achievement of economic and financial results, employing specific parameters used by management to monitor the trend of the line of business of each recipient of the plan, or economic indicators such as EBITDA, the net cash position, and working capital/sales (either consolidated or relative to said lines of business). Stock Options plans represent the second component of the variable remuneration scheme. "Interpump 2016/2018 Incentive Plan" is based on the assignment of a maximum number of 2,500,000 options, each of which granting the right for the beneficiaries - on the achievement of the objectives identified by the Board of Directors in compliance with specific parameters - to (i) purchase one ordinary Interpump treasury share (already in the Company's portfolio or purchased at a later date); or (ii) to subscribe for one newly issued share at an exercise price of 12.8845 euro per option. The additional compensation of non-executive directors takes account of the commitment required of each non-executive director, in particular in relation to participation in one or more committees and it cannot be linked to the economic results of Interpump. Specifically, non-executive directors are not beneficiaries of the incentive plans approved by the Company. The remuneration package of Managers with Strategic Responsibilities may include fringe benefits.

Remuneration of BoD (thousands €)

Member	Office	Fixed remuneration	Remuneration for serving on committees	Variable remuneration (non-equity)		Fringe benefits	Total	Fair value of equity remuneration
				Bonus and other incentives	Profit sharing			
Fulvio Montipò	Chairman and CEO	1,531	0	500	0	0	2,031	1,271
Paolo Marinsek	Deputy Chairman	351	0	0	0	9	360	66
Angelo Busani	Indipendent Director	30	13	0	0	0	43	0
Antonia Di Bella	Indipendent Director	30	0	0	0	0	30	0
Franco Garilli	Indipendent Director	45	30	0	0	0	75	0
Marcello Margotto	Indipendent Director	45	10	0	0	0	55	0
Stefania Petruccioli	Indipendent Director	45	20	0	0	0	65	0
Paola Tagliavini	Indipendente Director	45	20	0	0	0	65	0
Giovanni Tamburi	Non-executive Director	45	10	0	0	0	55	0

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