

SITI B&T

Sector: Machinery



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Ceramic machinery market steadily positive

International leader in the supply of Ceramic Machinery

SITI B&T is a leading Italian based supplier of machinery and systems used in the manufacturing of ceramic products, serving customers all around the globe.

The company was listed on AIM Italia back at the end of March 2016.

Positive market feedback from Tecnargilla exhibition

The ceramic machinery sector is experiencing a positive stance as confirmed by 2015 and 1Q16 market growth figures in the high single-digit range. Optimism is also supported by all-time-high attendance figures at Tecnargilla, the most important ceramic and brick industry supplies exhibition in the world that took place at the end of September. Direct feedbacks gathered from exhibitors disclosed a very high interest from buyers and we note that SITI B&T, introducing a total of fourteen recent product innovations, has definitively played its role.

1H16: growth in line with targets, working capital bites

Back on Friday 30th September SITI B&T has released its 1H16 figures that confirm how seasonal is the business, with most of Revenues and EBITDA to be generated in the second part of the year.

- ◆ On the positive side we underline 1H Revenues +16.9% YoY (double-digit growth in every geographic area ex-Italy) and portfolio orders +9.1% YoY, giving confidence on the full-year €187m top-line target;
- ◆ On the negative side we note that Net Debt at €45.9m has suffered from both expected seasonal Working Capital inflation and from some unexpected one-off cash out items.

As far as full-year 2016E-17E estimates are concerned, we are leaving unchanged our top-line forecasts while revising slightly down operating margins (price pressure in the digital decoration segment) and worsening the Net Financial Position estimate given that new warehouses are increasing inventories and that the relevant amount of orders under execution could imply some deliveries in December to be cashed in January.

Updated fair value at €10.30 per share

We have updated our SITI B&T stock valuation taking into account on one side the upward re-rating of sector multiples and on the other side the higher expected company's Net Debt position for the year-end. We get to a €10.30 fair value.

Fair Value (€)	10.30
Market Price (€)	7.94
Market Cap. (€m)	99.3

KEY FINANCIALS (€m)	2015A	2016E	2017E
NET REVENUES	171.5	187.0	193.9
EBITDA	17.3	20.0	22.1
EBIT	13.1	15.0	17.0
NET PROFIT	5.7	8.3	9.9
EQUITY	50.4	76.9	87.9
NET FIN. POS.	-36.5	-28.9	-21.4
EPS ADJ. (€)	0.60	0.68	0.79
DPS (€)	0.00	0.00	0.00

Source: SITI B&T (historical figures),
Value Track (2016E-17E estimates)

RATIOS & MULTIPLES	2015A	2016E	2017E
EBITDA MARGIN (%)	10.1	10.7	11.4
EBIT MARGIN (%)	7.7	8.0	8.8
NET DEBT / EBITDA (x)	2.1	1.4	1.0
NET DEBT / EQUITY (x)	0.7	0.4	0.2
EV/EBITDA (x)	nm	7.4	6.6
EV/EBIT (x)	nm	9.7	8.2
P/E ADJ. (x)	nm	11.6	10.0
DIV YIELD (%)	nm	0.0	0.0

Source: SITI B&T (historical figures),
Value Track (2016E-17E estimates)

STOCK DATA

FAIR VALUE (€)	10.30
MARKET PRICE (€)	7.94
SHS. OUT. (m)	12.5
MARKET CAP. (€m)	99.3
FREE FLOAT (%)	25.5
AVG. -20D VOL. (#)	1,044
RIC / BBG	SITI.MI / SITI IM
52 WK RANGE	7.56-8.48

Source: Stock Market Data



Positive market feedback from Tecnargilla fair

During the last week of September, it took place the twenty-fifth edition of Tecnargilla, the most important ceramic and brick industry supplies exhibition in the world.

Organised by the Association of Italian Manufacturers of Machinery and Equipment for Ceramics (Acimac) and Rimini Fiera, the exhibition is run every two years, playing host to all the leading companies and attracting a great number of international buyers to Rimini.

Ceramic machinery market steadily positive

We remind that in our Initiation of Coverage report published as of 18th May 2016 we already underlined how the Italian (i.e. produced by Italian players) ceramic machinery market was behaving positively with 2015FY total turnover up ca. +7% YoY driven by both Export (+1.6% YoY) and Domestic business (+28.2% YoY).

More recently we noted that such a good stance has been confirmed by Acimac that has announced a further +9% YoY market growth in 1Q 16 still led by export (+14% YoY), while looking downward at the value chain, 2Q 16 turnover for Italian ceramic producers has been recently announced to be up +8% YoY.

Tecnargilla confirmed the above-mentioned positive sentiment. Indeed:

- ◆ First of all, we note that the attendance at the exhibition itself was at all-time peak with 33,395 visitors (+4% with respect to the 2014 edition) from more than 100 countries worldwide. For the first time in Tecnargilla's history, foreign visitors (16,764 +6.3%) outpaced Italian ones (16,631 +1.7%) and ca. 40% of the 500 companies at the exhibition came from 25 countries. Overall the exhibition was spread over 80,000 m² of display area, +7% on the 2014 edition.
- ◆ Secondly, and more important, talking to companies at the exhibition we got the direct feedback that market demand remains healthy. Some companies (including SITI B&T) even managed to finalize some trade sales during the exhibition itself rather than, as used in previous editions, to generate business leads only.

Innovation is the rule of the game

In terms of industry trends, we underline how the focus of all market players attending Tecnargilla was on products and processes innovation, seen as ways to avoid a pure "price driven" competition.

As far as product innovations are concerned, in our view the key words were:

- ◆ Push on integrated manufacturing lines assembling several machines covering the entire phases of the ceramic production process;
- ◆ Look for production of larger and larger slabs of varying size and thickness;
- ◆ Fully digitalized decoration;
- ◆ Precise and advanced finishing machines.

Regarding innovative processes, obviously the "Industry 4.0" religion has hit ceramic machineries as well implying the proposal to customers of:

- ◆ Software platforms aimed at monitoring the whole production process from anywhere, anytime, speeding up production flexibility;
- ◆ Robotized solutions for production, glazing and finishing (sanitaryware segment);
- ◆ Energy saving green technologies;
- ◆ Customer Service activity 24/7.

SITI B&T definitively looking good

SITI B&T Group was among the most active exhibitors showing to Italian and foreign buyers a total of fourteen recent innovations, all aimed at allowing SITI B&T's customers to achieve:

- ◆ Full operational efficiency;
- ◆ Productivity boost;
- ◆ Improved quality and versatility of the manufacturing line;
- ◆ Higher competitiveness through data management, control of every stage of the process and the use of advanced technologies.

These innovations cover all steps in the ceramic process, from raw materials preparation to tile and sanitaryware finishing, namely:

- ◆ Complete lines for slab production: SUPERA®;
- ◆ Drying: Multisky Dryer;
- ◆ Firing: Titanium® XXL kilns;
- ◆ Pressing: e-Synchro®, Genius Box®, Start&Stop
- ◆ Decoration: G5 XXL digital decoration machine, EvoDRYFIX XXL printer
- ◆ Finishing: PoliDry dry lapping machine, DeepMotor Cut, XXL Dry Squaring Speed;
- ◆ Handling and storage: Bigmover laser-guided vehicle, Gripstrong and BBOX XXL speed loading/unloading machines;
- ◆ Sanitaryware: Circle Maverick high-pressure box rim WCs producer, Selfie self-programming glazing robot;
- ◆ Monitoring systems: UNICO supervision system;
- ◆ Service: B&T NoStop 24/7 support for customers worldwide, new warehouse.

All things considered, SITI B&T proved to be very competitive on firing, finishing and sanitaryware. See Appendix for further details about specific products.

1H 16 industrial and financial performance

On top of an intense products range development (see the previous paragraph), and despite the IPO process, we remind that SITI B&T has maintained in these months a strong development effort on several other subjects, among which we can highlight:

- ◆ **Asian output capacity reshaping.** The **new 8,000 square meters wide Gaoming (China) production plant** has been inaugurated back in May and will progressively encompass all the production activity that is currently located in Foshan;
- ◆ **Latin America production footprint revamping.** The **Brazilian** production subsidiary revamp effort is steadily evolving and by the year end it should start assembling and finalizing ad hoc machinery for the local market also with the aim to access relevant state-aids (namely, the possibility to have customers financed by the Brazilian state in their purchases);
- ◆ **International commercial and customer assistance improvement.** A new commercial / customer care point was recently opened in **Singapore** and this should also serve as spare parts hub for the whole Asian area.

These strategic medium term efforts are obviously not entirely embedded into 1H16 figures that have been released back on Friday 30th September and that look as follows.

SITI B&T: 1H15 and 1H16 Income Statement

(€m)	1H 15	1H 16	Change YoY
Net Group Revenues	63.6	74.3	16.9%
Other	8.4	2.9	
Total Operating Revenues	72.0	77.2	7.2%
COGS	-56.0	-59.4	
Labour Costs	-13.9	-15.3	
EBITDA	2.1	2.5	19.6%
Depreciation & Amortization	-1.5	-2.1	
EBIT	0.5	0.4	-14.8%
Net Financial Charge	-0.4	-0.9	
Taxes	-1.1	-0.7	
Minorities	-0.5	0.3	
Net Profit	-1.5	-0.7	51.0%

Source: SITI B&T, Value Track analysis

Key messages of 1H16 figures

1H16 is the first “interim” financial release since the company has been listed on the stock market and need, as such, to be thoroughly decoded taking into account the peculiar seasonality and features of SITI B&T’s business model.

In our view, **1H16** results delivered the following **key takeaways**:

- ◆ **Growth is in line with targets.** Net Revenues were up +16.9% 1H16 YoY and orders portfolio +9.1%. 1H16 growth was double-digit in every geographic area (ex-Italy);
- ◆ **Interim operating margins remain definitely not meaningful** in predicting full-year profitability;
- ◆ **Net Debt as usual is at its annual peak at the end of June** (€45.9m as of end of June 2016), mainly driven by Working Capital typical seasonality.

Growth in line with targets

In the first half of 2016 SITI B&T posted a healthy +16.9% Net Revenues increase to €74.3m (+15.2% like-for-like). Encouraging growth has been achieved in every geographic area from EMEA (ex-Italy) +16.3% to Asia +33.7% to Americas +28.4%. Only the Italian market (accounting for ca. 15% of total revenues) recorded a negative performance of about -5%.

In terms of business segments, among the best performers we underline the surface finishing of ceramic tiles business (i.e. Ancora Spa, leading provider of machines for tiles cut and finishing acquired back in February 2015) up ca. +20% YoY. Among the laggards we note the performance of digital printing business (i.e. the subsidiary Projecta Spa) where price competition is more and more the rule.

SITI B&T: Revenues breakdown by segment in 1H15 and 1H16

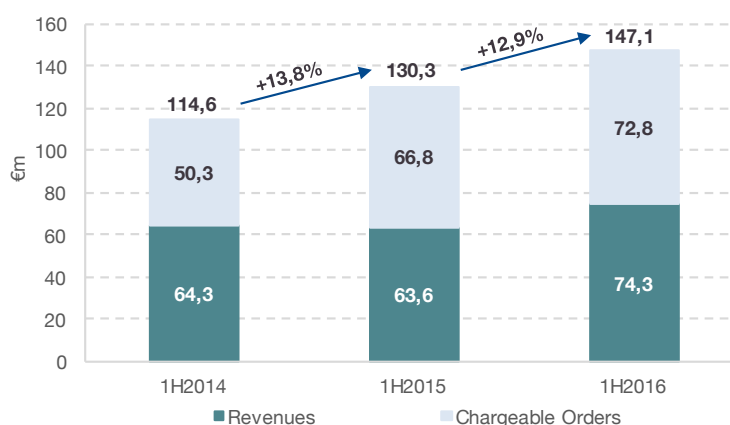
(€m)	1H 15	1H 16	Change YoY
Tiles & Sanitaryware	42.2	53.0	25.6%
Customer Care	21.4	21.3	-0.6%
Group Net Revenues	63.6	74.3	16.9%

Source: SITI B&T, Value Track analysis

An additional component that is worth to be considered to understand top-line evolution is the amount of chargeable orders built up during the first half that should be invoiced by the end of the year.

Overall, such chargeable orders portfolio increased by +9.1% YoY to about €72.8m, thus meaning that as of the end of June a total of €147.1m Net Revenues 2016E have been already secured.

SITI B&T: Revenues + Chargeable Orders in 1H14, 1H15, and 1H16

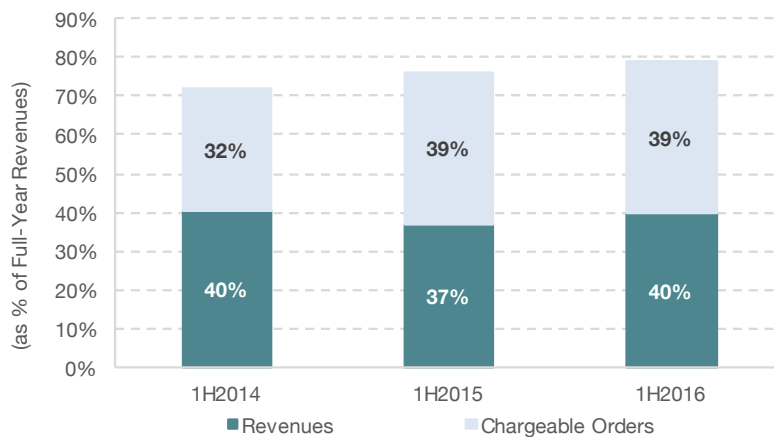


Source: SITI B&T, Value Track analysis

We note that SITI B&T group has guided for a **2016E top-line target at €187m**. We believe that this target is achievable, (and is in line with our estimates), given the 1H figures already underlined.

Indeed, it should be noticed how the sum of 1H revenues and chargeable orders collected in the first half of the year have historically accounted for an average of 74% of total full-year revenues, while the €147.1m reported in 1H16 would mean ca. 79% of 2016E full-year target.

SITI B&T: Revenues + Chargeable Orders in 1H14, 1H15, and 1H16 as a % of FY results (*)



Source: SITI B&T, Value Track analysis
 (*) 2016 figures calculated as a percentage of full-year 2016E top-line forecasts

We remind that SITI B&T’s business shows a **peculiar seasonality**, with **most of annual orders executed (and invoiced) in the second half of the year**, the reason being mainly determined downstream in the supply chain, namely by the seasonality in the business of ceramic producers.

Indeed, since most orders for ceramic manufacturers are executed in Q1 and Q2 of the solar year, ceramic houses do not wish to have their production plants modified in that time frame; rather, they place orders to SITI B&T with fulfillment in the second part of the year.

Interim operating margins not meaningful

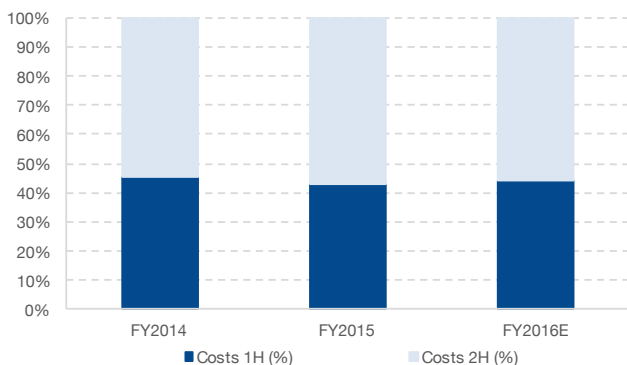
Taking into account the cyclicity of the underlying business, operating profits achieved during 1H are typically not meaningful in predicting SITI B&T’s full-year performance.

While only ca. 38% of full-year Revenues are generated in the first half, on the contrary operating costs are more evenly distributed between the two semester. Indeed, we calculate that on average 1H operating costs account for ca. 45% of full-year ones.

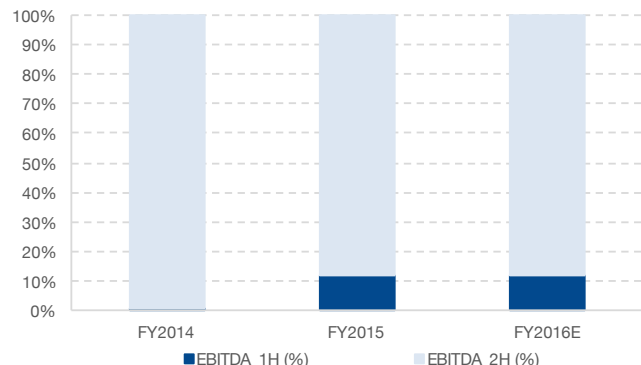
As an effect, typically **nearly all of the company’s EBITDA is generated in the second part of the year** while first half figure is basically meaningless.

SITI B&T – Opex and EBITDA split between 1H and 2H

Opex split in 1H-2H (*)



EBITDA split in 1H-2H (*)



Source: SITI B&T, Value Track analysis
 (*) 2016 figures calculated as a percentage of full-year 2016E forecasts

Within this context, group EBITDA is positively affected by Customer Care share over total revenues, since it typically shows higher margins than other segments.

Although during 1H16 Customer Care sales have been flat YoY, the company recently invested in this segment in order to expand its Customer Service network abroad, increasing the stock of spare parts within some local warehouses and building a centralized storehouse dedicated to the “after-market” segment in order to improve deliveries efficiency and promote original spare parts use. This development is expected to bring positive fruits as early as during 2H16.

Finally, a quick comment about personnel costs slight increase. Even though the number of employees decreased YoY, the company recorded a higher expense since they reduced the workforce in China and hired some workers in Italy, increasing this way the average cost per employee. Part of the increase is also explained by the consolidation of Ancora Spa since February 2015.

Net Debt as usual is at its annual peak at the end of June

As of the end of June SITI B&T always achieves the highest Invested Capital absorption (and thus the worst Net Debt position) driven by:

- ◆ Cash in from clients being concentrated in 2H;
- ◆ Work-in-progress being at its peak as most of active orders need to be executed yet;
- ◆ Dividends to Projecta’s minorities being cashed out in Spring. Indeed, an agreement is in place with Projecta minority shareholders aimed at the distribution of 50% of Projecta’s bottom line to shareholders. In 1H16 the outflow was ca. €1m.

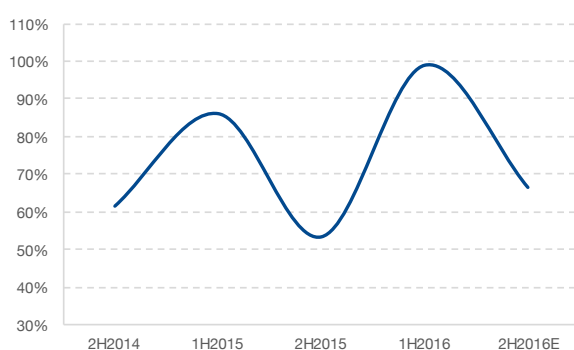
SITI B&T: Inflation of Working Capital and Net Fin. Pos. at the end of 1H period

(€m)	2H 14	1H 15	2H 15	1H 16
Inventories (€m)	55.8	68.1	63.5	79.9
Inventories / Sales	58.7%	94.5%	58.8%	103.6%
Net Working Capital (€m)	58.6	62.1	57.7	76.4
NWC / Sales	61.7%	86.2%	53.5%	99.0%
Net Financial Position (€m)	-38.6	-44.6	-36.5	-45.9

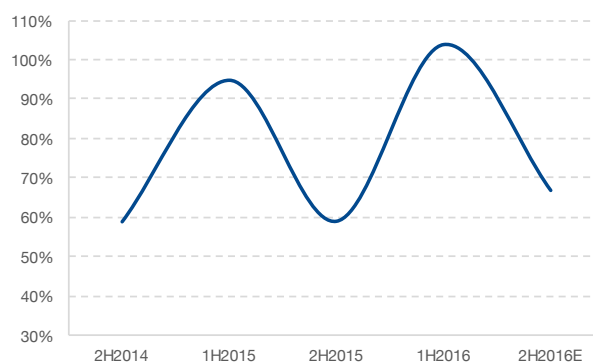
Source: SITI B&T, Value Track analysis

SITI B&T – Working Capital / Sales and Inventories / Sales at the end of 1H and 2H periods

NWC / Sales evolution in 1H-2H (*)



Inventories / Sales evolution in 1H-2H (*)



Source: SITI B&T, Value Track analysis

(*) 2016 figures calculated as a percentage of full-year 2016E forecasts

On top of the above-mentioned items, we also remind that Working Capital was expected to be structurally increasing its weight on Revenues as an effect of:

- ◆ The already mentioned strategy to step up the effort on Customer Care business abroad by deploying local warehouses that is obviously leading to an increase of Stock / Sales ratio;
- ◆ A marginal increase of receivable days.

As a consequence, in 1H16 SITI B&T recorded a ca. €18.7m cash absorption related to Working Capital dynamics.

In addition to that, other one-off components contributed to the 1H16 €9.4m increase in Net Debt, respectively:

- ◆ €8.8m one-off advance payment from a foreign client positively affecting 2H 15 figures;
- ◆ €5m increase in tax credits that will be absorbed back by the year end as soon as the company will post positive profit figures;
- ◆ €3m cash out for Ancora's expired commercial and fiscal debts;
- ◆ €0.3m IPO-related hidden expenses;
- ◆ €1.4m expenses previously set aside as provisions but actually paid during 1H 16;
- ◆ An increased €3.5m capital expenditure, almost doubled compared to 1H15.

All these cash needs being partially offset by IPO's net proceeds (€17.2m).

SITI B&T: 1H15 and 1H16 Cash Flow Statement

(€m)	1H 15	2H 15	1H 16
EBITDA	2.1	15.2	2.5
Op. WC Requirements	-3.5	4.3	-18.7
Change in Provisions	0.0	-0.2	-0.1
Capex	-1.6	-7.0	-3.5
Cash Taxes	-1.1	-3.1	-0.7
Operating FCF	-4.2	9.2	-20.5
Net Financial Charges	-0.4	-1.5	-0.9
Other (incl. acquisitions, IPO capital inj., etc.)	-1.4	0.4	11.9
Change in Net Fin. Position	-6.0	8.1	-9.4

Source: SITI B&T, Value Track analysis

Update in 2016-17 estimates

We have substantially maintained unchanged our 2016E-17E Profit & Loss forecasts. Minor changes have been brought through as follows:

- ◆ EBITDA slightly revised downwards as an effect of small changes in revenues mix and of some price pressure suffered by the digital printing segment;
- ◆ Bottom-line benefiting from lower minorities charges as the bulk of downward revision comes from digital printing subsidiary Projecta Spa owned at 52%.

SITI B&T: New vs. Old P&L estimates

(€m)	2016E			2017E		
	Old	New	Change	Old	New	Change
Group Net Revenues	187.0	187.0	0.0%	193.6	193.9	0.2%
Other	6.0	5.5		6.1	5.6	
Total Value of Production	193.0	192.5	-0.3%	199.7	199.5	-0.1%
COGS	-141.4	-141.5		-145.4	-145.5	
Labour Costs	-30.9	-31.0		-31.8	-31.9	
EBITDA	20.7	20.0	-3.3%	22.5	22.1	-1.4%
Depr. & Amort. & Provisions	-4.5	-5.0		-4.7	-5.2	
EBIT	16.2	15.0	-7.3%	17.8	17.0	-4.4%
Interest expenses / income	-1.6	-1.8		-1.6	-1.8	
Pre-Tax Profit	14.6	13.2		16.2	15.2	
Taxes	-4.0	-3.9		-4.5	-4.2	
Minorities	-1.6	-1.0		-1.7	-1.1	
Net Profit	8.9	8.3	-6.7%	10.0	9.9	-0.4%

Source: SITI B&T, Value Track analysis

As far as 2016E-17E Balance Sheet and Cash Flow statements are concerned, we have taken into account both the already mentioned one-off components that have burdened end of June figures and the voluntary commercial strategy aimed at:

- ◆ Stimulating sales of original spare parts (new dedicated warehouse in Formigine);
- ◆ Improving customer assistance (new local warehouses abroad, e.g. the one recently set up in Singapore).

As a consequence, Net Financial Debt has been revised upward to €28.9m and €21.4m respectively for 2016E and 2017E.

We warn that visibility on Net Debt estimates is not 100% as the relevant amount of orders under execution could imply some deliveries to customers being shipped in December and the cash in to be finalized in January 2017.

Mergers and acquisition activities are not currently included in our estimates.

SITI B&T: New vs. Old Balance Sheet estimates

(€m)	2016E			2017E		
	Old	New	Change	Old	New	Change
Fixed Assets	34.5	34.5		33.3	33.3	
Net Working Capital	66.6	75.1		73.5	79.8	
Long-Term non-Financial Liabilities	3.8	3.8		3.8	3.8	
Capital Employed	97.3	105.8	8.7%	103.0	109.3	6.1%
Net Equity	78.7	76.9	-2.3%	90.3	87.9	-2.7%
Net Financial Position	-18.6	-28.9	55.3%	-12.6	-21.4	69.4%

Source: SITI B&T, Value Track analysis

SITI B&T: New vs. Old Cash Flow estimates

(€m)	2016E			2017E		
	Old	New	Change	Old	New	Change
EBITDA	20.7	20.0	-3.3%	22.5	22.1	-1.4%
Op. WC Requirements	-8.8	-17.3		-6.9	-5.2	
Capex	-6.0	-6.0		-3.5	-3.5	
Cash Taxes	-4.0	-3.9		-4.5	-4.2	
Net Financial Charges	-1.6	-1.8		-1.6	-1.8	
Net IPO proceeds	17.2	17.2		0.0	-0.0	
Other (incl. IPO proceeds, other, etc.)	0.4	-0.5		0.0	-0.0	
Change in Net Fin. Position	17.9	7.6	-57.0%	5.9	7.4	25.2%

Source: SITI B&T, Value Track analysis

Please refer to our Initiation of coverage report published as of May 2016 for more details on the assumptions underlying our 2016E-18E financial forecasts for SITI B&T.

Investment case

1H16 figures and revised 2016E-17E estimates allow confirming our belief (stated in our Initiation of coverage report published back on 18th May 2016) that **Peers analysis** is the best valuation methodology that we can apply on SITI B&T. Indeed Discounted Cash Flow Model is, in our view, not reliable given the strategy of the company that, in the next few years, aims at speeding up its growth profile (thus penalizing its cash flow generation results) by:

- ◆ More than doubling (vs. the historical average) the annual capital expenditure;
- ◆ Pushing on international Customer Care business that requires local warehouses thus leading to a “one off” change in the Working Capital structure.

We also expressed a preference for 2016E as the main reference year (with 2017E as a useful cross check) given that the features of SITI B&T business model suggest to focus more on near term multiples rather than on longer term ones.

Machinery Sector– Peers analysis

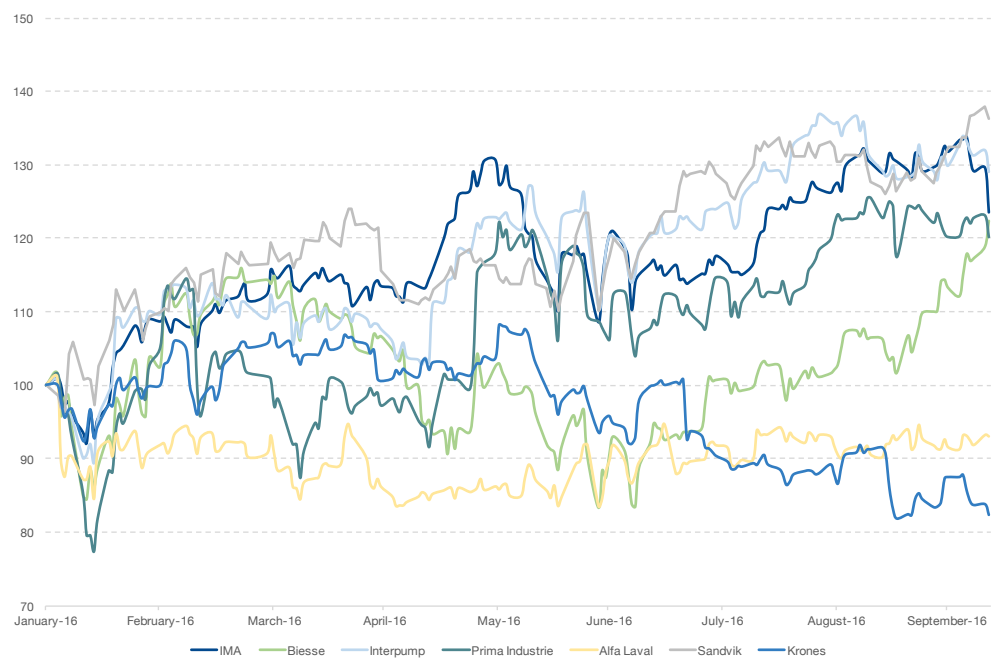
In terms of comparables we choose companies active in the industrial machinery sector that can be split in two sub-groups as follows:

- ◆ **Italian players: IMA, Biesse, Interpump, Prima Industrie;**
- ◆ **International players: Alfa Laval, Sandvik, Krones.**

Such companies have, on average, released healthy 1H16 figures spreading a positive feeling for the remaining part of the year. Within this context, Italian competitors outperformed European peers, some of which have recorded worse performances due to their exposure to the Oil & Gas and Mining industries, currently under pressure.

Stock market performance mirrored such a trend and all stocks prices apart from Krones and Alfa Laval are up year-to-date.

Machinery Sector companies: stock price performances Year-to-date



Source: Various, Value Track analysis

As a consequence **the sector has undergone an upward rerating of multiples in the latest months**. We remind that as far as “fair” multiples for SITI B&T evaluation are concerned, we:

- ◆ Identified **EV/EBIT, EV/Invested Capital** and **P/E** (based on Adjusted Net Profit estimates) as the most suitable ones;
- ◆ Introduced a **0%-15% discount** to “raw” sector multiples in order to take into account the various players’ profitability ratios and expected growth rates;
- ◆ Applied such “fair multiples” to **SITI B&T consolidated financial figures net of the 48% of Projecta minorities**. Indeed, SITI B&T consolidates on a line-by-line basis Projecta i.e. its subsidiary active in the Digital Decoration business, while controlling only the 52% of share capital.

SITI B&T: 2016E-17E financial estimates net of 48% of Projecta’s minorities

€mn	2016E	2017E
Group EBIT	15.0	17.0
-48% of Projecta EBIT	-1.0	-1.5
Group EBIT for valuation purposes	14.0	15.5
Group Adj. Net Profit net of minorities for valuation purposes	8.5	9.9
Group Net Fin. Position	-28.9	-21.4
-48% of Projecta Net Fin. Position	3.5	3.0
Group Net Fin. Position for valuation purposes	-25.4	-18.4

Source: Value Track analysis on SITI B&T’s data

Here follow the comparables’ multiples based on current market price.

Machinery Sector: Stock trading multiples

COMPANY	Listing	EV / I.C. (x)		EV / EBIT (x)		P/E (x)	
		2016E	2017E	2016E	2017E	2016E	2017E
IMA	Italy	n.m.	n.m.	16.7	14.9	25.8	23.6
BIESSE	Italy	2.8	2.5	9.2	7.5	17.9	14.4
INTERPUMP	Italy	2.0	1.9	12.6	11.4	17.1	16.3
PRIMA INDUSTRIE	Italy	1.0	1.0	11.2	8.3	14.3	10.0
ALFA LAVAL	Sweden	4.6	4.8	13.8	15.3	17.6	19.1
SANDVIK	Sweden	4.1	4.0	15.7	14.7	18.5	16.8
KRONES	Germany	2.3	2.0	10.7	9.9	15.8	14.8
Average		2.8	2.7	12.8	11.7	18.2	16.4
Median		2.5	2.2	12.6	11.4	17.6	16.3

Source: Consensus estimates, Value Track analysis

Based on the above-mentioned median sector multiples, we derive a **fair value of SITI B&T at €10.3 per share** (down from the previous €10.5), corresponding to ca. €129mn fair valuation for the 100% of equity.

SITI B&T: Fair Value analysis

Item	Fair multiple 2016E	Disc. vs. Sector median multiples	Implied Eq. Value (€mn)	Implied Eq. Value per share (€)
EV / Inv. Cap.	1.70x	30%	134	10.7
EV / EBIT	10.7x	15%	125	10.0
P/E	15.0x	15%	128	10.3
Average			129	10.3

Source: Value Track analysis

Last but not least we remind that the risk profile of SITI B&T shares is definitively improved by the introduction (within the IPO process) of **Remedy Shares** protection mechanism addressed to new investors only, i.e. to all current post-IPO shareholders with the exception of pre-IPO ones. See the Initiation of coverage report for more details on such a protection scheme.

Appendix: main SITI B&T recent products innovation

Innovations by SITI B&T

At Tecnargilla 2016 SITI B&T introduced several innovation, covering all steps in the ceramic process, that is to say:

- ◆ Complete lines for slab production: SUPERA®;
- ◆ Drying: Multisky Dryer;
- ◆ Firing: Titanium® XXL kilns;
- ◆ Pressing: e-Synchro®, Genius Box®, Start&Stop
- ◆ Decoration: G5 XXL digital decoration machine, EvoDRYFIX XXL printer
- ◆ Finishing: PoliDry dry lapping machine, DeepMotor Cut, XXL Dry Squaring Speed;
- ◆ Handling and storage: Bigmover laser-guided vehicle, Gripstrong and BBOX XXL speed loading/unloading machines;
- ◆ Sanitaryware: Circle Maverick high-pressure box rim WCs producer, Selfie self-programming glazing robot;
- ◆ Monitoring systems: UNICO supervision system;
- ◆ Service: B&T NoStop 24/7 support for customers worldwide, new warehouse.

Slab production lines: SUPERA®

A revolutionary complete line for the production of large-format ceramic slabs that stands out for its extraordinary versatility in terms of sizes, unlimited decorative potential, innovative end-of-line processing, and optimised warehouse and logistics.

Body preparation technologies

The new generation of modular continuous mills (DCM) adopts an original system for transferring slip between the modules based on totally inverter-controlled differentiated speed management. The Spray-Green spray dryers are the largest in the world (25,000 litres of evaporative capacity), with combined powder recovery and purification solutions and continuous productivity and moisture control. They are also equipped with the new Levante computerised management system.

Multisky Dryer

The Multisky Dryer, the innovative “jumbo” 7-layer horizontal dryer with an entrance width of up to 4000 mm, combines low levels of consumption with a significant increase in output.

Titanium® XXL kiln

The latest generation of Titanium® XXL kilns (entrance width up to 3,850 mm and variable-roof) achieves unprecedented levels of energy efficiency, (fuel consumptions down by 30%), the highest levels of finished product quality, high productivity (+25% vs. traditional technologies) and a 25% reduction in atmospheric emissions.

Decoration

G5 XXL digital decoration machine

G5 XXL is the first completely modular system custom designed for large ceramic slabs digital decoration. G5 can accommodate 8 to 14 colours using independent modules which can be easily dismantled and repositioned according to requirements.

EvoDRYFIX XXL printer

The first digital printer that combines drop-on-demand inkjet technology with dry application technology capable of applying grits of various particles sizes with guaranteed maximum stability and repeatability.

“Dry” finishing technology

The wide range of equipment offered by Ancora includes the high-efficiency XXL Polishing machines for large sizes of up to 1600×3200 mm.

The biggest innovation is the PoliDry dry lapping and honing machine which delivers a number of major advantages: significant energy savings due to the fact that drying is not required after machining; no sludge or wastewater produced; lower costs due to the absence of a water system; no building work needed; and a healthier workplace.

DeepMotor Cut

The innovative line of machines for cutting or scoring-and-snapping (both conventional sizes and large-format slabs) can also be used on materials with a textured surface.

XXL Dry Squaring Speed

An innovative dry squaring machine for all kinds of ceramic materials with unparalleled levels of efficiency and productivity.

Handling and storage of large slabs and panels

Bigmover - a new-generation laser-guided vehicle with a capacity of 4,500 kg.

Gripstrong - a pallet loading/unloading machine for handling semi-finished products and large slabs up to 1600×3200 mm in size which is capable of cutting logistics timeframes and reducing stock.

BBOX XXL - the innovative loading and unloading machine designed specifically for large sizes slabs.

B&T White

Circle Maverick - the first machine on the market capable of using high-pressure technology to produce box rim WCs of any shape and size.

Selfie - a robot capable of self-programming glazing cycles based on a scanned 3D version of the product to be glazed, a new frontier in self-generated software.

Monitoring systems

SITI B&T is now focusing on predictive, proactive and performance-based technologies, laying the foundations for Industry 5.0. The UNICO supervision system – capable of dialoguing and interacting with the supervisors of all the individual machines making up the line – is able to monitor the production of multiple plants located all over the world from a single control station, managing complex production at various production sites.

Service

As for Service, SITI B&T Group is presenting its outstanding new No Stop 24/7 support for customers worldwide, while the new warehouse guarantees a rapid service.

Appendix II: 2015A-19E financial figures

SITI B&T: Income Statement

(€m)	2015	2016E	2017E	2018E	2019E
Group Net Revenues	171.5	187.0	193.9	204.4	215.2
Other	11.1	5.5	5.6	5.7	5.8
Total Value of Production	182.6	192.5	199.5	210.1	221.0
COGS & SG&A	-136.4	-141.5	-145.5	-153.0	-160.9
Labour Costs	-28.9	-31.0	-31.9	-33.4	-34.9
EBITDA	17.3	20.0	22.1	23.7	25.2
EBITDA Margin (% on Net Revenues)	10.1%	10.7%	11.4%	11.6%	11.7%
Depr. & Amort. & Provisions	-4.2	-5.0	-5.1	-5.3	-5.9
EBIT	13.1	15.0	17.0	18.4	19.3
EBIT Margin (% on Net Revenues)	7.7%	8.0%	8.8%	9.0%	9.0%
Interest expenses / income	-1.9	-1.9	-1.8	-1.8	-1.7
Pre-Tax Profit	11.2	13.2	15.2	16.7	17.6
Taxes	-4.2	-3.9	-4.2	-4.7	-5.3
Minorities	-1.3	-1.0	-1.1	-1.0	-0.9
Net Profit	5.7	8.3	9.9	10.9	11.3

Source: SITI B&T, Value Track analysis

SITI B&T: Statement of Financial Position

(€m)	2015	2016E	2017E	2018E	2019E
Fixed Assets	33.0	34.5	33.3	31.9	30.0
Net Working Capital	57.7	75.1	79.8	83.0	88.4
Long-Term non-Financial Liabilities	3.8	3.8	3.8	3.8	3.8
Capital Employed	86.9	105.8	109.3	111.1	114.6
Net Equity	50.4	76.9	87.9	99.9	112.1
Net Financial Debt	36.5	28.9	21.4	11.2	2.5

Source: SITI B&T, Value Track analysis

SITI B&T: Cash Flow Statement

(€m)	2015	2016E	2017E	2018E	2019E
EBITDA	17.3	20.0	22.1	23.7	25.2
Op. WC Requirements	0.8	-17.3	-5.2	-3.7	-5.9
Capex	-8.7	-6.0	-3.5	-3.5	-3.5
Cash Taxes	-4.2	-3.9	-4.2	-4.7	-5.3
Net Financial Charges	-1.9	-1.8	-1.8	-1.7	-1.7
Net IPO Proceeds	0.0	17.2	0.0	0.0	0.0
Other	-1.0	-0.5	0.0	0.0	0.0
Change in Net Fin. Position	2.1	7.6	7.4	10.2	8.8

Source: SITI B&T, Value Track analysis

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