

Biesse

Strong 2Q Leads to Improved Outlook

Biesse - Key estimates and data					
Y/E December		2014A	2015E	2016E	2017E
Revenues	EUR M	427.1	493.2	519.1	545.1
EBITDA	EUR M	40.08	55.80	64.70	71.70
EBIT	EUR M	24.77	39.20	48.00	55.00
Net Income	EUR M	13.81	19.46	25.44	29.68
Dividend ord.	EUR	0.36	0.36	0.36	0.36
Adj. EPS	EUR	0.50	0.71	0.93	1.1
EV/EBITDA	x	5.3	8.2	7.1	6.4
Adj. P/E	x	14.7	22.9	17.5	15.0

NA: not available; NM: not meaningful; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- 2Q/1H15A results.** Biesse posted a strong set of results in 2Q/1H15, confirming the group's revenue upturn benefiting from operating leverage. The key points of the 2Q/1H15A results are: i) the 21% revenue upturn to EUR 132.8M in 2Q15 and +22% in 1H15 to EUR 245.6M was driven by all regions (Western Europe up by 27.2%; Asia-Pacific +24.8% and North America +35%; with the exception of Eastern Europe (-2.8%) due to political and economic problems); ii) the 2Q15A EBITDA margin increased from 8.7% in 2Q14A to 13.0% in 2Q15A (in 1H15A EBITDA margin rose 340bps to 11.8%) benefiting from operating leverage and taking into account that the opex increase did not include the costs related to the widening of the commercial force worldwide; iii) 1H15A net debt was EUR 18.9M vs. EUR 11.3M reported in FY14A and incorporated a EUR 9.8M dividend payment in May 2015.
- Outlook.** Management disclosed a positive outlook and expects to continue to perform well in 2H15, which is historically the strongest contributor to earnings. 2H15 expansion plans have been confirmed, particularly, the hiring of around 80 people worldwide, most of them in China. We highlight that Biesse currently derives approximately EUR 15M revenues from China in a wood machinery market, which has a value of approximately EUR 400M and in which its main competitor Homag records around EUR 100M revenues.
- Strong pre-orders and backlog.** In 1H15, the total order backlog was up by 29.5% to EUR 139.6M; orders intake (machines) was up by 12.9% and, according to management, points to an increase in the global market share of Biesse in all of the group's divisions. Reference sector statistics point to an ongoing improved market context, according to management. Also, the **latest AWFS Fair in Las Vegas held in July** confirmed an improved context in the US and an increase in companies' propensity to invest.
- Estimates revision.** While awaiting updated guidance, we raised our FY15E EPS estimates by 12% and fine-tuned our FY16E-17E estimates. Biesse's order intake, in our view, is supportive of the solid FY15 trend. We highlight that our 2H15E implicit EBITDA trend is still conservative as it points to a flat growth (vs. +71% in 1H15) but includes a potential acceleration in the commercial and infrastructure investments.
- Valuation.** We updated our valuation after our FY15E-17E estimates change. **We obtained a EUR 20.40/share target price** (vs. EUR 18.70/share previously) based on the average between the multiples comparison, which points to EUR 19.46/share, and our DCF model, which points to EUR 21.35/share. Given the current 25% upside, **we change our recommendation from Add to BUY.**
- Key risks.** Biesse operates in global markets and is therefore highly exposed to international macroeconomic factors, which could affect the group's activities. Biesse invests substantially in R&D and its products have an advanced technological content, implying a high exposure to technological developments. Lastly, the group's dominant fixed-cost structure results in a high operating leverage, suffering from economic downturns.

See page 9 for full disclosures and analyst certification

Banca IMI is Specialist to Biesse

6 August 2015

BUY (from Add)

Target Price: EUR 20.40
(from EUR 18.70)

Italy/Engineering &
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Price performance, -1Y



Data priced on 04.08.2015

Target price (€)	20.40
Target upside (%)	25.46
Market price (€)	16.26
52Wk range (€)	17.0/6.7
Market cap (€ M)	445.41
No. of shares	27.39
Free float (%)	39.6
Major shr	Selci G.
(%)	58.5
Reuters	BSS.MI
Bloomberg	BSS IM
FTSE IT All Sh	25210

Performance %			
	Absolute	Rel. to FTSE IT All	
-1M	9.6	-1M	4.5
-3M	9.7	-3M	7.9
-12M	79.9	-12M	54.1

Source: FactSet and Intesa Sanpaolo Research estimates

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2Q/1H15 Results

Biesse posted a strong set of results in 2Q/1H15 confirming the group's revenue upturn in an improved economic context and benefiting from operating leverage.

The key points of the 2Q/1H15A results are:

The 21% revenue upturn to EUR 132.8M (+22.1% to EUR 201.1M in 1H15), was driven by all regions (Western Europe up by 27.2%; Asia-Pacific +24.8% and North America +35%; with the exception of Eastern Europe (-2.8%) due to political and economic problems. By division, all recorded a double-digit growth. According to management, the key driver was the core wood division (72.7% of total revenues) and the Glass/Stone segment (14.9%), due to new product entries and the capillarity of the group's worldwide presence, and the Mechatronic segment (15.8%).

Top line up by 21% in 2Q15

Biesse - 2Q/1H15 results								
EUR M	2Q14	2Q15A	chg %	2Q15E	1H14	1H15A	chg %	1H15E
Net sales	109.5	132.8	21	127.5	201.1	245.6	22.1	240.3
Value added	41.5	54.3	31	43.0	79.8	101.9	28	90.7
EBITDA	9.6	17.3	81	15.1	17.0	28.9	71	26.7
EBIT	5.8	12.6	118	9.8	9.7	20.2	108	17.4
Pre-tax profit	5.2	12.0	131	9.3	8.5	18.4	117	15.7
Net profit	2.3	6.6	183	5.1	3.94	10.5	167	8.9
Value added margin %	37.9	40.9		33.8	39.7	41.5		37.7
EBITDA margin %	8.7	13.0		11.8	8.4	11.8		11.1
EBIT margin %	5.3	9.5		7.7	4.8	8.2		7.2
Net margin %	2.1	5.0		4.0	2.0	4.3		3.7
Tax rate %					53.7	43.0		43.1

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Value added margin increased by 300bps to 40.9% in 2Q15A (by 180bps to 41.5% in 1H15) benefiting from an improved sales mix towards the highest market range. The 2Q15A EBITDA margin increased from 8.7% in 2Q14 to 13.0% in 2Q15 (in 1H15 EBITDA margin rose 340bps to 11.8%) benefiting from operating leverage and taking into account that the opex increase did not include the costs related to the widening of the commercial force worldwide.

Value added margin increased by 300bps in 2Q15

Net profit increased to EUR 6.6M vs. EUR 2.3M in 2Q14A. In 1H15 net profit increased to EUR 10.5M vs. EUR 3.9M in 1H14A despite a EUR 1M increase in foreign exchange losses to EUR 1.4M and benefited from an improved tax rate from 53.7% in 1H14A to 43% in 1H15.

The 1H15A net debt was EUR 18.9M vs. EUR 11.3M reported in FY14A and incorporated EUR 9.8M dividend payment in May 2015. The net operating working capital increased by EUR 8M to EUR 66.8M vs. 1H14.

Net debt at EUR 18.9M

Earnings Outlook

Change in estimates

We revised our FY15E-17E estimates to incorporate the better than expected 1H15 results and the positive outlook disclosed by management. Overall, we have raised our FY15E net profit by 12% and fine-tuned our FY16E-17E. We have confirmed our net debt at EUR 11M (8% net debt to equity) in line with management guidance.

Following our estimates change, we highlight that our 2H15E figures are still conservative in our view as they imply a 3% revenue growth and a flat EBITDA growth. Our 2H15E EBITDA includes a potential acceleration in the commercial and infrastructure investments.

2H15E still conservative in our view

Biesse - Change in estimates									
EUR M	2015E			2016E			2017E		
	New	Old	chg %	New	Old	chg %	New	Old	chg %
Revenues	493.2	478.2	3	519.1	514.1	1	545.1	540.1	1
EBITDA	55.8	52.8	6	64.7	63.7	2	71.7	70.7	1
EBITDA margin %	11.3	11.0		12.5	12.4		13.2	13.1	
Net profit	19.5	17.4	12	25.4	24.8	3	29.7	29.0	2
Net debt	11.1	11.4		-7.1	-4.9		-31.1	-28.2	

E: estimates; Source: Company data and Intesa Sanpaolo Research

Valuation

Based on the average between the updated multiples comparison, which points to EUR 19.46/share, and our DCF model, which points to EUR 21.35/share, **we obtained a EUR 20.40/share target price** (vs. our previous EUR 18.70/share). Given the current upside (around 25%), **we change our recommendation from Add to BUY.**

Target price raised to EUR 20.40/share and rating upgraded to BUY

Discounted cash flow

In our equity valuation model, we confirm our assumption of risk-free rate at 2.00%, a 5.50% risk premium and derived a 6.8% WACC. Other WACC assumptions include a 0.9x beta (source: Bloomberg) and a 3% gearing ratio (D/EV), with a FY15E net debt at EUR 11M.

WACC assumption

Our other key 2014E-24E DCF assumptions are: 1) a 3.5% sales CAGR and a 1% perpetual growth rate; 2) an average 7.7% EBIT margin; and 3) a 11.8% working capital to sales.

From our DCF model, we derive a EUR 21.35/share fair value (EUR 21.02/share previously).

Biese - WACC calculation (%)		Biese - Key assumptions (%)	
Gearing ratio	2	2014A-25E sales CAGR	3.6
Risk-free rate	2.0	Perpetual growth rate	1.0
Risk premium	5.5	2014A-25E EBIT margin avg	7.7
Beta (x)*	0.90	2014A-25E EBIT CAGR	6.5
Required return	7.0	2014A-25E tax rate avg	42
WACC	6.8	2014A-25E capex to sales avg	3
		2014A-25E working capital to sales	11.8

Source: Intesa Sanpaolo Research estimates and *Bloomberg

Source: Intesa Sanpaolo Research estimates

Biese - DCF valuation (EUR M)	
Forecast cash flow	179
Terminal value	417
Enterprise value	596
Net cash/-debt (2015E)	-11
Equity value	585
Number of shares (M)	27.4
Equity value per share (EUR)	21.35

Source: Intesa Sanpaolo Research estimates

Biese - Sensitivity analysis					
EUR/share	Perpetual growth rate %				
Discount rate %	0.0	0.5	1.0	1.5	2.0
5.8	23.1	24.7	26.6	28.9	31.8
6.3	20.9	22.2	23.7	25.5	27.7
6.8	19.1	20.1	21.35	22.8	24.5
7.3	17.6	18.4	19.4	20.5	21.9
7.8	16.2	16.9	17.7	18.7	19.8

Source: Intesa Sanpaolo Research estimates

Multiples comparison

In our multiples comparison, we include European players, such as DMG, IMA, and Prima Industrie, which are involved in the production of industrial machines, albeit destined for other markets (i.e. metal, pharmaceutical, cosmetics and food).

DMG Mori Seiki Aktiengesellschaft (former Gildemeister AG) is involved in the manufacturing and marketing of metal cutting machine tools worldwide. The range of products includes innovative high-tech machines and services, as well as software and energy solutions. The company also offers solutions in milling and turning technologies, for controls and services, and regenerative energies. The company's new name was derived from a worldwide leading partnership between Gildemeister and Mori Seiki. The company is headquartered in Bielefeld, Germany.

DMG Mori Seiki Aktiengesellschaft

Industria Macchine Automatiche SpA manufactures and designs automatic machines for processing and packaging of pharmaceuticals, cosmetics, tea, coffee and food. The company was founded in 1961 and is headquartered in Ozzano dell'Emilia, Italy.

IMA Spa

Prima Industrie manufactures and markets laser systems for industrial applications, sheet metal processing machinery, as well as industrial electronics and laser technologies. With 35 years of experience, the group is among the main worldwide manufacturers in its own reference market.

Prima Industrie

In the peers' comparison, Biesse shows a FY14A-16E higher than average net profit CAGR (36% for Biesse vs. 25% average).

Peers comparison						
%	EBITDA margin			Sales CAGR 2014-16E	EBITDA CAGR 2014-16E	Net profit CAGR 2014-16E
	2014E	2015E	2016E			
Biesse *	9.4	11.3	12.5	10.2	27	36
DMG Mori Seiki Aktien	10.4	10.2	11.0	4.0	7	8
IMA	15.3	14.4	14.9	16.7	15	25
Prima Industrie	9.6	10.6	11.4	10.4	20	40
Average	11.8	11.8	12.4	10.4	13.9	24.5

E: estimates; Source: FactSet and *Intesa Sanpaolo Research

Biesse is currently trading at an 11% discount in terms of a 2015E-17E PE and 17% discount in terms of FY15E-17E EBITDA. We obtained a EUR 19.46/share fair value (vs. our previous EUR 16.38/share) based on the average FY15E-17E EV/EBITDA and P/E.

At a discount to peers

Multiples comparison									
	Price EUR	Mkt Cap EUR M	PE			EV/EBITDA			
			2015E	2016E	2017E	2015E	2016E	2017E	
DMG MORI	33.70	2,655.8	24.5	20.3	18.0	9.76	8.57	7.79	
I.M.A.	47.48	1,781.0	23.9	21.5	19.0	12.42	11.00	9.63	
Prima Industrie	16.96	177.8	12.3	9.3	7.6	6.59	5.33	4.27	
Median			23.9	20.3	18.0	9.76	8.57	7.79	
Biesse*	16.26	445.4	22.9	17.5	15.0	8.18	7.06	6.37	
Premium/discount %			-4.0	-13.6	-16.6	-16.1	-17.7	-18.3	

E: estimates; Source: Factset and *Intesa Sanpaolo Research

Share price performances					
% chg	1 Month	3 Months	6 Months	YTD	
Biesse S.p.A.	9.6	9.7	23.0	73.7	
DMG Mori Seiki Aktiengesellschaft	3.4	7.6	14.2	43.4	
IMA (Industria Macchine Automatiche S.p.A.)	10.6	2.9	20.6	30.8	
Prima Industrie S.p.A.	4.4	-6.8	12.5	25.7	

Source: FactSet

Biese - Key data							
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector		Free float (%)	Reuters Code	
BUY	Ord 20.40	Ord 16.26	Engineering & Machinery		39.6	BSS.MI	
Values per share (EUR)			2013A	2014A	2015E	2016E	2017E
No. ordinary shares (M)			27.39	27.39	27.39	27.39	27.39
No. NC saving/preferred shares (M)			0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)			27.39	27.39	27.39	27.39	27.39
Market cap			89.66	203.02	445.41	445.41	445.41
Adj. EPS			0.17	0.50	0.71	0.93	1.1
CFPS			0.82	1.1	1.3	1.5	1.7
BVPS			4.1	4.5	4.8	5.4	6.1
Dividend ord			0.18	0.36	0.36	0.36	0.36
Dividend SAV Nc			0	0	0	0	0
Income statement (EUR M)			2013A	2014A	2015E	2016E	2017E
Sales			378.4	427.1	493.2	519.1	545.1
EBITDA			34.30	40.08	55.80	64.70	71.70
EBIT			18.15	24.77	39.20	48.00	55.00
Pre-tax income			14.62	22.68	37.80	46.78	53.80
Net income			6.41	13.81	19.46	25.44	29.68
Adj. net income			4.61	13.81	19.46	25.44	29.68
Cash flow (EUR M)			2013A	2014A	2015E	2016E	2017E
Net income before minorities			6.4	13.8	19.5	25.4	29.7
Depreciation and provisions			16.2	15.3	16.6	16.7	16.7
Others/Uses of funds			0	0	0	0	0
Change in working capital			31.2	-4.4	-2.2	0.3	1.9
Operating cash flow			53.8	24.7	33.9	42.4	48.3
Capital expenditure			-12.0	-17.9	-23.8	-14.4	-14.4
Financial investments			0	-2.9	0	0	0
Acquisitions and disposals			0	0	0	0	0
Free cash flow			41.8	3.8	10.1	28.0	33.9
Dividends			0	-4.9	-9.9	-9.9	-9.9
Equity changes & Other non-operating items			-9.6	13.8	0	0	0
Net cash flow			32.3	12.7	0.2	18.2	24.0
Balance sheet (EUR M)			2013A	2014A	2015E	2016E	2017E
Net capital employed			137.0	134.5	143.9	141.3	137.1
of which associates			0	0	0	0	0
Net debt/-cash			23.9	11.3	11.1	-7.1	-31.1
Minorities			0.2	0	0	0	0
Net equity			112.9	123.2	132.8	148.4	168.2
Minorities value			0	0	0	0	0
Enterprise value			113.7	214.3	456.7	456.7	456.7
Stock market ratios (x)			2013A	2014A	2015E	2016E	2017E
Adj. P/E			19.4	14.7	22.9	17.5	15.0
P/CFPS			4.0	7.0	12.4	10.6	9.6
P/BVPS			0.79	1.6	3.4	3.0	2.6
Payout (%)			77	71	51	39	33
Dividend yield (% ord)			5.5	4.9	2.2	2.2	2.2
FCF yield (%)			46.7	1.9	2.3	6.3	7.6
EV/sales			0.30	0.50	0.93	0.88	0.84
EV/EBITDA			3.3	5.3	8.2	7.1	6.4
EV/EBIT			6.3	8.7	11.7	9.5	8.3
EV/CE			0.83	1.6	3.2	3.2	3.3
D/EBITDA			0.70	0.28	0.20	Neg.	Neg.
D/EBIT			1.3	0.46	0.28	Neg.	Neg.
Profitability & financial ratios (%)			2013A	2014A	2015E	2016E	2017E
EBITDA margin			9.1	9.4	11.3	12.5	13.2
EBIT margin			4.8	5.8	7.9	9.2	10.1
Tax rate			56.1	39.1	48.5	45.6	44.8
Net income margin			1.7	3.2	3.9	4.9	5.4
ROCE			13.2	18.4	27.2	34.0	40.1
ROE			5.8	11.7	15.2	18.1	18.8
Interest cover			7.2	16.0	28.0	39.3	45.8
Debt/equity ratio			21.2	9.1	8.3	-4.8	-18.5
Growth (%)			2014A	2015E	2016E	2017E	
Sales			12.9	15.5	5.3	5.0	
EBITDA			16.8	39.2	15.9	10.8	
EBIT			36.5	58.3	22.4	14.6	
Pre-tax income			55.1	66.7	23.8	15.0	
Net income			NM	40.9	30.8	16.6	
Adj. net income			NM	40.9	30.8	16.6	

NM: not meaningful; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Notes

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Valuation methodology (long-term horizon: 12M)

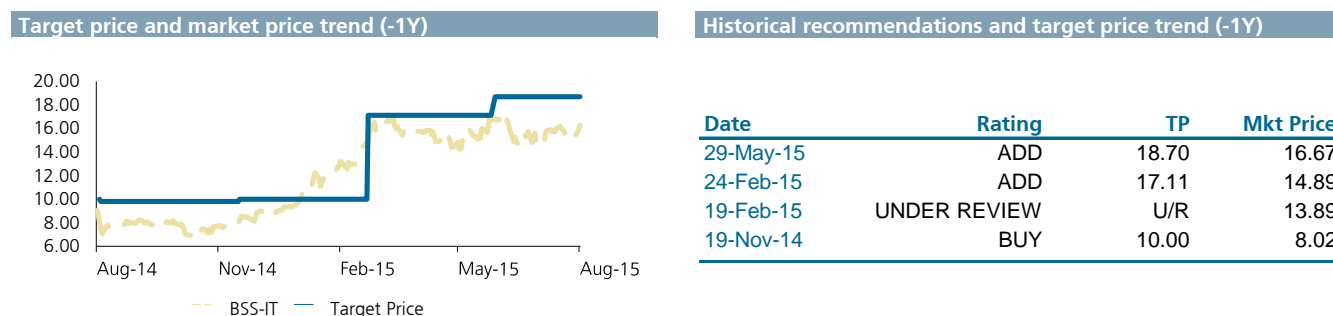
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Equity rating key: (long-term horizon: 12M)

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Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances, including when Intesa Sanpaolo is acting in an advisory capacity in a merger or strategic transaction involving the company.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)



Equity rating allocations (long-term horizon: 12M)

Intesa Sanpaolo Research Rating Distribution (at August 2015)					
Number of companies considered: 96	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage %	34	36	30	1	0
of which Intesa Sanpaolo's Clients % (*)	76	66	62	0	0

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category

Valuation methodology (short-term horizon: 3M)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

Company specific disclosures

Banca IMI discloses interests and conflicts of interest, as defined by: Articles 69-quater and 69-quinquies, of Consob Resolution No.11971 of 14.05.1999, as subsequently amended and supplemented; the NYSE's Rule 472 and the NASD's Rule 2711; the FSA Policy Statement 04/06 "Conflicts of Interest in Investment Research – March 2004 and the Policy Statement 05/03 "Implementation of Market Abuse Directive", March 2005. The Intesa Sanpaolo Group maintains procedures and organisational mechanisms (Information barriers) to professionally manage conflicts of interest in relation to investment research. We provide the following information on Intesa Sanpaolo Group's conflicts of interest:

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- 2 One or more of the companies of the Intesa Sanpaolo Group are one of the main financial lenders to Biese and its parent and group companies
- 3 Banca IMI acts as Specialist relative to securities issued by Biese

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