SIT GROUP
ITALY / Industrials

New Coverage

BUY (previous not rated)
Target: € 14 (Prev. n.a.)
Risk: High

STOCK DATA	
Price € (Ind Stars of Italy 2)	11.63
Bloomberg code	SIT IM EQUITY
Market Cap. (€ mn)	276.00
Free Float	28%
Shares Out. (mn)	23.7
52-week range	10.7 - 11.85
Daily Volumes (mn)	0.007

PERFORMANCE	1M	3M	12M
Absolute	4%	-	-
Rel. to FTSE all shares	0%	-	-

MAIN METRICS*	2016	2017E	2018E
Revenues	288.1	310.0	319.3
Adjusted EBITDA	44.6	47.5	50.3
Adj. net income	5.2	8.5	22.7
Adj. EPS - € cents	21	33	86
DPS ord - € cents	0	-18	-21

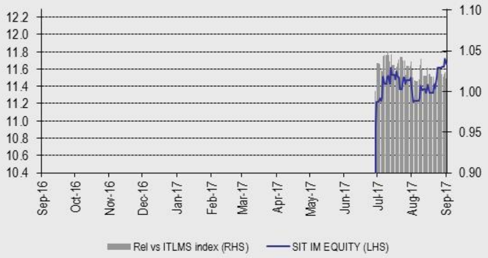
MARKET RATIO*	2016	2017E	2018E
P/E adj (FD)	47.6 x	34.6 x	13.5 x
EV/EBITDA adj (FD)	8.4 x	7.6 x	7.2 x
ROCE	8.4%	8.4%	10.8%

REMUNERATION*	2016	2017E	2018E
Div. Yield ord	0.0%	1.5%	1.8%
FCF yield	6.9%	1.8%	6.4%

INDEBTEDNESS*	2016	2017E	2018E
NFP	-123	-65	-50
Debt/EBITDA (adj)	2.8 x	1.4 x	1.0 x
Interests cov (adj)	2.4 x	2.5 x	8.6 x

** After business combination and fully diluted*

PRICE ORD LAST 365 DAYS



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September 28, 2017 #399

EQUITA

ITALIAN TECHNOLOGIES IN THE WORLD GAS MARKET

Since 1953 "SIT" is an "Industrial" group active in the manufacturing of components for the gas equipment. In light of its leading position in the global market, we believe "SIT" has attractive and visible growth opportunities in the coming years (~70% Cagr of NI adj through 2019), a strong FCF (>20mn per year) and an attractive valuation (at 30-40% discount vs peers at current price). We initiate coverage with a BUY recommendation and a tgt of 14€/sh which offers a +20% upside on current prices.

■ A global leader in its reference market

"SIT", established in 1953 by the "de' Stefani" family, **is an "Industrial Player" active in the manufacturing of "systems and components**" for **the gas equipment**. Headquartered in Padova (PD), "SIT" is a multinational company which annually deals with 30 mn of produced units, out of which 75% are sold internationally.

"SIT's" product range varies in "Mechanical controls" (~*53%* of sales), "Electronic controls", "Fans", "Integrated systems" and "Flues exhaust systems" mainly sold to OEM's player for the inclusion in equipment addressed at the "Gas Heating" industry. "SIT" has also recently started a new division (~*13%* of sales at the end of 2015) which designs, engineers and produces "Meters" for the gas market.

■ An attractive business case. Initiating with a BUY tgt 14€sh

We initiate the coverage of SIT GROUP with a BUY recommendation and a tgt price of 14 €/sh which offers an upside of 20% on current prices and implies a valuation of 14.6x PE as measured on 2019. We believe SIT has:

1. **A good position in its reference market**. With a relevant global market share (up to 50% in the mechanical controls), "SIT" is a very well established brand, highly diversified from a geographical perspective and with a strong list of consolidated clients (mainly OEMs). The high level of competence and the knowledge of the gas industry allow SIT to lever its position also in new upcoming opportunities.
2. **Attractive underlying market drivers and visible outlook,** thanks to a good mix of regulatory requirements, continued urbanization/gas penetration and higher technological requirements (ie on polluting issues) which sustain an expected long trend of gas equipment replacement/expansion.
3. **Relevant short term catalysts,** thanks to a debt renegotiation program as well as the capital injection from the combination with INDSTARS2 which will allow a rapid and significant reduction in the financial costs.
4. **A strong FCF generation allowing for different growth strategies.** With more than 20mn FCF generation from 2018, "SIT" should be able to have around 60-70 €mn of cash available as of 2019. This will allow to pursue either additional M&A options or a more generous dvd policy
5. **An attractive valuation.** Taking into account the FULLY DILUTED numbers of shares, SIT is currently trading at 12.2x PE adj. (ex PPA); 7.2x P/CF; 6.3x EV/EBITDA as measured on 2019, with a 15.6% Ebitda margin, and a yield of 2%. This is particularly attractive considering the ~6.3% cagr of Ebitda and 70% cagr of NI expected through 2019, on the base of reasonable assumptions (and excluding any M&A additional contribution). **This implies a -30%/-40% discount vs peers.**

MAIN FIGURES € mn	2014	2015	2016	2017E	2018E	2019E
Revenues	**258.4**	**264.1**	**288.1**	**310.0**	**319.3**	**336.8**
Growth	5%	2%	9%	8%	3%	5%
EBITDA	**33.4**	**32.2**	**43.5**	**43.0**	**50.2**	**53.5**
Growth	-6%	-4%	35%	-1%	17%	7%
Adjusted EBITDA	**34.3**	**35.3**	**44.6**	**47.5**	**50.3**	**53.6**
Growth	-3%	3%	26%	7%	6%	7%
EBIT	**13.4**	**12.0**	**23.5**	**23.0**	**29.4**	**31.9**
Growth	-31%	-10%	95%	-2%	28%	8%
Profit before tax	**-5.0**	**-5.4**	**5.1**	**3.8**	**23.6**	**26.6**
Growth	-130%	8%	-194%	-25%	516%	13%
Net income	**-8.0**	**0.4**	**1.7**	**0.8**	**18.5**	**21.0**
Growth	-184%	-105%	302%	-56%	2299%	14%
Adj. net income	**-6.0**	**4.7**	**5.2**	**8.5**	**22.7**	**25.3**
Growth	-163%	-179%	11%	63%	169%	11%

MARGIN	2014	2015	2016	2017E	2018E	2019E
Ebitda Margin	12.9%	12.2%	15.1%	13.9%	15.7%	15.9%
Ebitda adj Margin	13.3%	13.4%	15.5%	15.3%	15.8%	15.9%
Ebit margin	5.2%	4.6%	8.1%	7.4%	9.2%	9.5%
Pbt margin	-1.9%	-2.0%	1.8%	1.2%	7.4%	7.9%
Ni rep margin	-3.1%	0.2%	0.6%	0.2%	5.8%	6.2%
Ni adj margin	-2.3%	1.8%	1.8%	2.7%	7.1%	7.5%

SHARE DATA	2014	2015	2016	2017E	2018E	2019E
EPS - € cents	na	na	6.9	3.0	69.6	79.2
Growth	n.m.	-	-	-	912%	2500%
Adj. EPS - € cents	na	na	20.6	33.5	85.7	95.3
Growth	-	-	-	-	317%	185%
DPS ord - € cents	na	na	0.0	-17.8	-20.7	-22.6
BVPS - €	na	na	2.7	4.9	5.2	5.8

VARIOUS - € mn	2014	2015	2016	2017E	2018E	2019E
Capital emloyed	221	220	201	197	195	189
FCF	na	na	17	5	20	27
Capex	-	-	-13	-16	-19	-16
Working capital assets	25	25	15	16	17	18

INDEBTNESS - €mn	2014	2015	2016	2017E	2018E	2019E
NFP	-155	-154	-123	-65	-50	-28
D/E (adj)	na	na	1.78 x	0.53 x	0.36 x	0.18 x
Debt/EBITDA (adj)	na	na	2.8 x	1.4 x	1.0 x	0.5 x
Interests cov (adj)	na	na	2.4 x	2.5 x	8.6 x	10.0 x

MARKET RATIOS	2014	2015	2016	2017E	2018E	2019E
P/E ord	na	na	142.5 x	380.8 x	16.7 x	14.6 x
P/E ord Adj	na	na	47.6 x	34.6 x	13.5 x	12.2 x
PBV	na	na	3.6 x	2.4 x	2.2 x	2.0 x
P/CF	na	na	11.4 x	14.1 x	7.8 x	7.2 x

EV FIGURES	2014	2015	2016	2017E	2018E	2019E
EV/Sales (Fully Diluted)	na	na	1.3 x	1.2 x	1.1 x	1.0 x
EV/EBITDA (Fully Diluted)	na	na	8.6 x	8.4 x	7.2 x	6.4 x
EV/EBIT (Fully Diluted)	na	na	16.0 x	15.8 x	12.3 x	10.7 x
EV/CE (Fully Diluted)	na	na	1.9 x	1.8 x	1.9 x	1.8 x

REMUNERATION	2014	2015	2016	2017E	2018E	2019E
Div. Yield ord	na	na	0.0%	1.5%	1.8%	2.0%
FCF yield	na	na	6.9%	1.8%	6.4%	8.8%
ROE	na	na	2.5%	0.6%	13.5%	13.8%
ROCE	na	na	8.4%	8.4%	10.8%	12.1%

Source: EQUITA SIM estimates and company data

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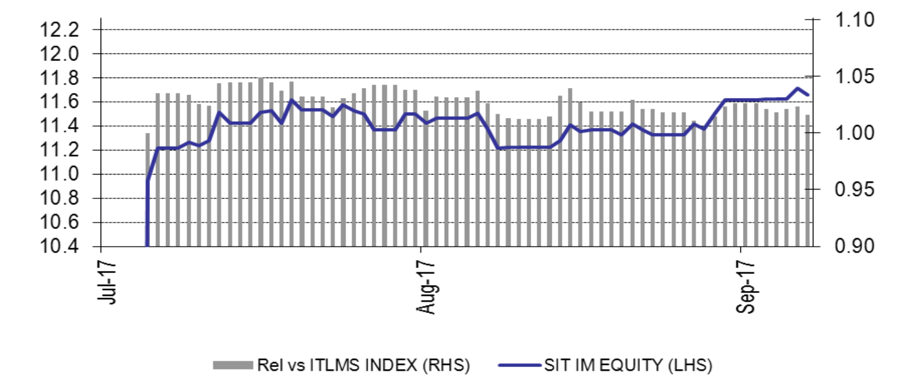
INVESTMENT SUMMARY – BUY TGT 14€/sh

SIT SPA ("SIT") has started its official negotiations in the market the 20th of July 2017. The listing on the AIM segment follows the successful approval (zero withdrawal rights) **of the business combination between "INDUSTRIAL STARS OF ITALY2"** (the second SPAC launched by "Giovanni Cavallini" and "Attilio Arietti") **and "SIT SPA"** (a global industrial player active in the manufacturing of systems and components of the gas equipment)

With this note, we are initiating the coverage of SIT with a BUY recommendation and a tgt of 14€/sh, which offers an upside of 25% on current prices and implies 15x PE valuation as measured on 2019.

In the following picture the performance of SIT in the last few months of trading at the aim market.

SIT SPA – PERFORMANCE SINCE LISTING



Source: EQUITA SIM on Bloomberg data

■ SIT SPA – Italian Technologies in the World Gas Market

SIT SPA ("SIT"), established in 1953 by the "de' Stefani" family, is an "Industrial Player" active in the manufacturing of "systems and components" designed for the safety, comfort, metering and performance of the gas equipment.

Headquartered in Padova (PD), SIT SPA is (since its inception) a multinational company composed by:

- 8 production facilities in Italy, Mexico, Netherland, Romania and China
- 2 commercial companies in Germany and Australia
- 4 agency groups in the Us, Canada, Czech Republic and Argentina

which annually deals with 30 mn of produced units, out of which 75% are sold internationally.

The above described activities are organized and managed in two separated business units:

1. **The "Heating Division" (87% of sales at the end of 2016) which designs, produces and distributes systems and components**, for the safety, regulation, comfort and performance of the gas equipment used in the domestic heating, in the cooking facilities and catering services as well as in domestic appliances and water heaters. The product range varies in "Mechanical controls" (gas valves and combustion controls – 61% of sales), "Electronic controls" (19%), "Fans" (8%), "Integrated systems" (3%) and "Flues exhaust systems" (9%). **SIT SPA's market share at global level reaches 50% in the "Mechanical Controls" segment.**

2. **The "Smart Gas Metering" division (13% of sales at the end of 2016) which designs, engineers and produces meters for the gas market,** with smart functionalities including the "remote" control, measurement, readership and communication of gas consumptions. The smart meters are addressed at both the residential, industrial and commercial sectors. **SIT SPA's market share is approximatively 20% of the Italian Market**. The international development of the business unit will arrive in the coming years.

In the following table a brief summary of the SIT SPA's market position.

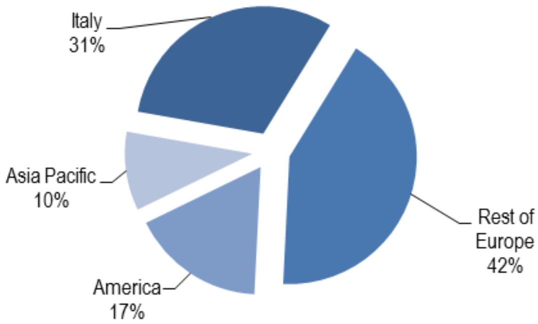
SIT MARKET POSITION

Name	Divisions	Segments	Products	% Sales	Global Market share	Units
SIT SPA - (Systems and Components for Gas Equipments)	1. Heating	- Domestic Heating; - Catering - Water Heaters - Domestic Appliances	**Mechanical controls**	**53%**	Up to 50% of Global market for the Mechanical Controls	- 8 Production facilities in Italy, Mexico, Neherland, Romania and China - 2 Commercial in Germany and Australia - 4 Agencies in Us, Canada, Czech Rep and Argentina
			Electronic controls	**17%**		
			Fans	**7%**		
			Integrated systems	**8%**		
			Flues ehaust systems	**3%**		
	2. Smart Gas Metering	- Meters for the gas Market	**Smart meters**	**13%**	20% of Italian Market	

Source: Equita SIM

In the following pictures a brief split of the activities as based on the 2016 reported figures.

GEOGRAPHICAL SPLIT OF SALES 2016



Source: Equita SIM on Company data

In the past years, "SIT" has been particularly successful in the business management, with continued improvements of the core Heating business and progressive development of the Metering segment (from scratch).

MAIN P&L METRICS

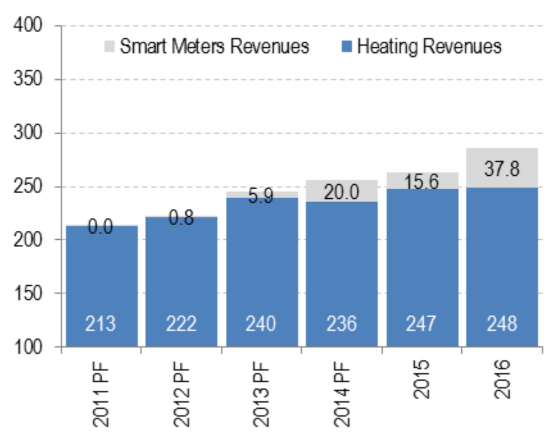
	2011 PF	2012 PF	2013 PF	2014 PF	2015	2016
Heating Revenues	213.2	221.9	239.9	235.6	247.2	248.4
Smart Meters Revenues	0.0	0.8	5.9	20.0	15.6	37.8
Other revenues	0.0	0.0	0.0	2.8	1.3	1.9
REVENUES - €mn	**213.2**	**222.7**	**245.8**	**258.4**	**264.1**	**288.1**
Growth %	-	4.4%	10.4%	5.1%	2.2%	9.1%
Heating Ebitda	31.9	33.7	36.0	31.7	37.0	40.8
Smart Meters Ebitda	-2.3	-3.3	-0.6	2.7	-1.7	2.4
Other revenues	0.0	0.0	0.0	-0.1	0.0	1.4
EBITDA - €mn	**29.6**	**30.4**	**35.4**	**34.3**	**35.3**	**44.6**
Growth %	-	2.9%	16.4%	-3.0%	2.8%	26.4%
Ebitda margin %	13.9%	13.7%	14.4%	13.3%	13.4%	15.5%

Source: Equita SIM on Company data

Sales have registered a +6.2% Cagr over the period 2011-2016; while profitability has remained stable around 13%-14% Ebitda margin, with a sharp improvement in 2016 (15%) due to the normalization and better contribution of the metering business.

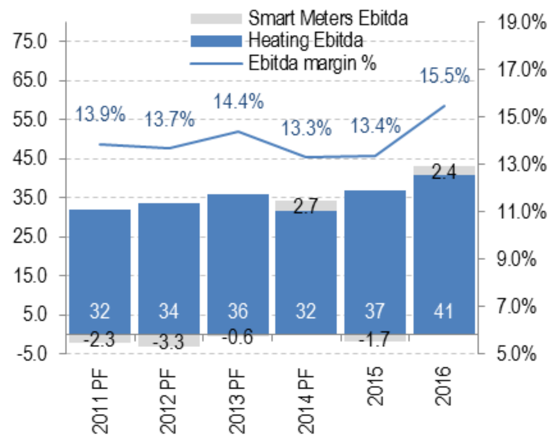
The main P&L contribution are showed in the following table.

TREND IN SALES



Source: Equita Sim

TREND IN EBITDA



Source: Equita Sim

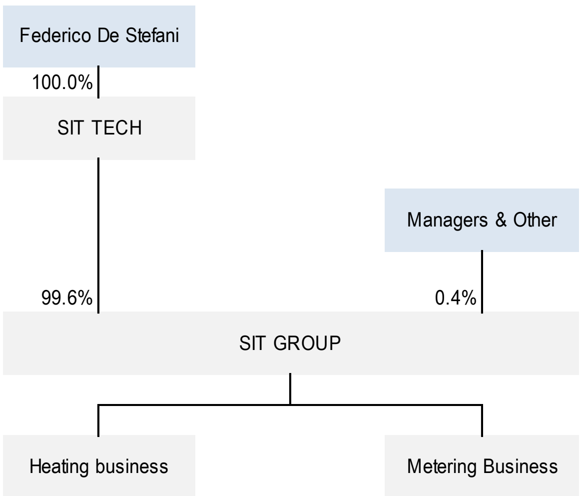
■ Historical backgrounds of "SIT" & current shareholder's base

As briefly indicated above, the presence of "SIT" in the market dates back into 1953. The history of the group can be summarized as follows:

- **1953-1973:** Creation of the company and initial consolidation in the Italian market
- **1974-2000:** progressive internationalization with expansion in Netherlands, Us, Australia and China
- **2000-2012:** consolidation and diversification of the product line (control devices, fans, flue exhaust kits). Reinforcement of the production sites in Italy, Romania and China
- **2012-2014:** additional diversification in the "metering" business and reinforcement of the production plant in China
- **2015-2016:** consolidation of the "metering" business contribution
- **2017:** Business combination with INDUSTRIAL STARS OF ITALY2 and listing at the AIM market

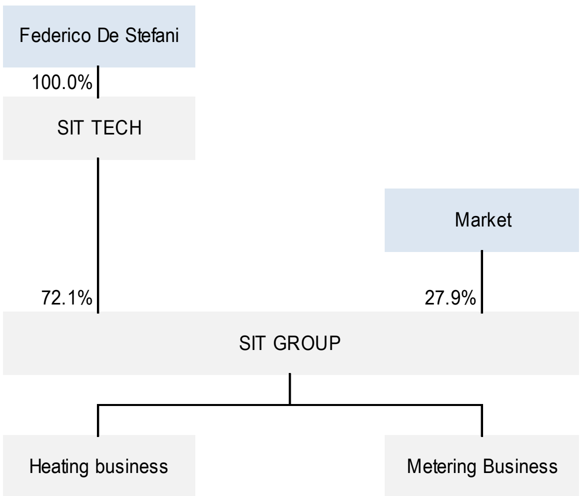
After the business combination with IND2, the main shareholder (Federico De Stefani) maintains a 72.06% control of the voting rights.

PRE BUSINESS COMBINATION



Source: Equita SIM

POST BUSINESS COMBINATION



Pillars of the equity story and summary of the expected growth

As described above, “SIT” has a long historical presence in the market, a global approach/position, and a well established brand among international customers (mainly OEM). Considering the success of the past 60 years, we believe the future strategy of the group will mainly be addressed to:

1. **Increase the “share of wallet”** of SIT’s product within the same device, also providing more integrated solution to its own clients
2. **Consolidate its geographical presence** (mainly in Europe for the metering)
3. **Increase market share in America & Asia** also through new products and functionalities
4. **Entering new countries** thanks to an already well established logistic platform
5. **Exploit the regulatory framework allowances in the metering system** (mainly in Euorpe short term but also in other areas – ie Middle East)
6. **Improving capital structure and debt refinancing process** to allow for significant lower interest charges going forward
7. **Exploit eventual M&A** opportunities thanks to relevant FCF generation

MAIN PILLARS OF THE STRATEGY

Increase the "share of wallet"	Exploiting regulatory allowances in metering
Consolidating position in EU	Improve capital structure and debt refinancing
Increase market share in America and Asia	Explore M&A opportunities
Entering new countries	

Source: Equita SIM

Especially at the debt refinancing level and capital structure improvement, we believe the business combination with INDSTARS2 offered a good opportunity of value creation (as we will better explain in the next pages). We believe the overall equity story of SIT is particularly attractive.

We believe in fact that SIT has:

1. **A good position in its reference market**. With a relevant global market share (up to 50% in the mechanical controls), “SIT" is a very well established brand, highly diversified from a geographical perspective and with a strong list of consolidated clients (mainly OEMs).
   The high level of competence and the knowledge of the gas industry allow SIT to lever its position also in new upcoming opportunities.
2. **Attractive underlying market drivers and visible outlook,** thanks to a good mix of regulatory requirements, continued urbanization/gas penetration and higher technological requirements (ie on polluting issues) which sustain an expected prolonged trend of gas equipment substitution/expansion.
3. **Relevant short term catalysts,** thanks to a debt renegotiation program as well as the capital injection from the combination with INDSTARS2 which will allow a rapid and significant reduction in the financial costs.
4. **A strong FCF generation allowing for different growth strategies.** With more than 20mn FCF generation from 2018, “SIT” should be able to have around 60-70 €mn of cash available as of 2019. This will allow to pursue either additional M&A options or a more generous dvd policy
5. **An attractive valuation.** Taking into account the FULLY DILUTED numbers of shares, SIT is currently trading at 12.2x PE adj. (ex PPA); 7.2x P/CF; 6.3x

EV/EBITDA with a 15.6% Ebitda margin, and a yield of 2%. This is particularly attractive considering the ~6.3% cagr of Ebitda and 70% cagr of NI expected through 2019, on the base of reasonable assumptions (and excluding any M&A additional contribution). **This implies a -30%/-40% discount vs peers.**

We expect SIT to be able to generate around 6% Cagr of Ebitda and around 70% Cagr of Net Income through 2019. This will come from the above described strategy implementation as well as from the significant expected benefit (>10 €mn from 2018) expected by the debt renegotiation program (as better explained later on in the note). In the following table a summary of the main group metrics for the coming years

MAIN METRICS

	2014	2015	2016	2017	2018	2019	Cagr 16-19
Revenues	**258.4**	**264.1**	**288.1**	**310.0**	**319.3**	**336.8**	**5.3%**
Growth %	5.1%	2.2%	9.1%	7.6%	3.0%	5.5%	-
Ebitda adj	**34.3**	**35.3**	**44.6**	**47.5**	**50.3**	**53.6**	**6.3%**
Margin %	13%	13%	15%	15%	16%	16%	-
Net Income Adjusted**	**-6.0**	**4.7**	**5.2**	**8.5**	**22.7**	**25.3**	**69.4%**
Growth %	nm	nm	10.6%	62.8%	nm	11.2%	-
Nfp	**-154.5**	**-154.2**	**-123.2**	**-64.8**	**-49.5**	**-27.9**	-
Capex	**-**	**-**	**-13.5**	**-16.0**	**-19.0**	**-15.5**	-
Fcf	**-**	**-**	**17.0**	**5.3**	**19.8**	**27.1**	-

*** Excluding the depreciation from PPA and excluding some 4.5 €mn of IPO cost that will be recorded in 2017*
Source: Equita SIM estimates and company data

As briefly indicated above, the combination of “SIT” with “INDSTARS2” can be extremely profitable. The business combination has started, in fact, a virtuous path in terms of group’s reorganization, which will produce important benefits especially on the Debt Structure of the combined entity.
As we will better explain in the note, SIT has initiated important steps towards the reduction of the overall indebtedness with a capital injection from the current shareholder (De Stefani) and a debt renegotiation program. This will significantly reduce the very high interest charges taken at the time of the LBO (2014). The improvement is going to be sharp (>10 €mn benefit on Net income) as of 2018 (as you can see in the table above at the “Net Income adjusted” level.

Group valuation sensitivity

As explained in the previous paragraph, as of 2018 “SIT” will achieve important reduction in the interests charges, thanks to the reduced debt from a capital increase subscribed by the current shareholder, as well as the re-negotiated debt (with >10% interest cost) raised at the time of the LBO. In order to explore what would be the “best” group valuation picture, we think the focus has to move on 2019, with the full impact of the above described elements, the 50 €mn equity injection from the business combination as well as the full development of the Metering business.

In order to be conservative, and in line with the usual practice in the case of business combination with a SPAC vehicle, our valuation metrics are expressed on the base of a FULLY DILUTED valuation taking into consideration
- **The already converted warrants**
- **The still to be converted warrant at the maximum dilution (assuming a conversion @13€)**
- **The conversion of the performance shares at our assumption of Ebitda**

In the following table we report the assumed number of shares FULLY DILUTED.

SIT SPA – NUMBER OF SHARES FULLY DILUTED

SHARES	2017	2018	2019	2020
Old Sit Shares	16,997,225	16,997,225	16,997,225	16,997,225
Old Ind2 shares	5,050,000	5,050,000	5,050,000	5,050,000
Special shares converted	1,684,004	1,684,004	1,684,004	1,684,004
1. Total shares pre warrant exercise	**23,731,229**	**23,731,229**	**23,731,229**	**23,731,229**
2. Shares from already converted warrant	**387**	**387**	**387**	**387**
3. Shares from residual warrant (Full Dilution @ 13€)	**1,533,778**	**1,533,778**	**1,533,778**	**1,533,778**
4. Shares from performance earn out (@ Ebitda assumption)	**0**	**1,250,000**	**1,250,000**	**1,250,000**
TOTAL SHARES OUTSTANDING (FULLY DILUTED)	**25,265,394**	**26,515,394**	**26,515,394**	**26,515,394**

Source: EQUITA SIM estimates

In the following table we also report the main reference metrics of SIT and a comparison with the peers (a better description of the selected panel of comparable is provided later in the note).

MARKET RATIOS

	2016E	2017E	2018E	2019E
P/E ord	142.5 x	380.8 x	16.7 x	14.6 x
P/E adj (Fully diluted)	47.6 x	34.6 x	13.5 x	12.2 x
PBV	3.6 x	2.4 x	2.2 x	2.0 x
P/CF	11.4 x	14.1 x	7.8 x	7.2 x

Source: Company data and EQUITA SIM estimates

EV FIGURES

	2016E	2017E	2018E	2019E
EV/Sales (Fully Diluted)	1.3 x	1.2 x	1.1 x	1.0 x
EV/EBITDA (Fully Diluted)	8.6 x	8.4 x	7.2 x	6.4 x
EV/EBITDA adj (Fully Diluted)	8.4 x	7.6 x	7.2 x	6.3 x
EV/CE (Fully Diluted)	1.9 x	1.8 x	1.9 x	1.8 x

Source: Company data and EQUITA SIM estimates

REMUNERATION

	2016	2017 E	2018 E	2019 E
Div. Yield ord	0.0%	1.5%	1.8%	2.0%
FCF yield	6.9%	1.8%	6.4%	8.8%
ROE	2.5%	0.6%	13.5%	13.8%
ROCE	8.4%	8.4%	10.8%	12.1%

Source: Company data and EQUITA SIM estimates

INDEBTNESS

	2016	2017 E	2018 E	2019 E
NFP	-123	-65	-50	-28
D/E (adj)	1.78	0.53	0.36	0.18
Debt/EBITDA (adj)	2.8 x	1.4 x	1.0 x	0.5 x
Interests cov (adj)	2.4 x	2.5 x	8.6 x	10.0 x

Source: Company data and EQUITA SIM estimates

As already anticipated above, the valuation of SIT is particularly attractive at 12.2x PE, 6.3x EV/EBITDA as measured on 2019 which would represent a -30%/-40% discount vs peers

PEER COMPARISON TABLE - 2019									
Stock	Price	Mkt Cap	PE Adj. 19E	P CF 19E	EV / Ebitda 19E	Ebitda Margin 19E	Dvd Yield 19E	D / Ebitda 19E
Brembo	14.15	4,725	15.8 x	10.4 x	8.9 x	19.6%	1.8%	-0.3 x
Interpump	25.75	2,804	18.4 x	13.9 x	11.0 x	22.9%	1.4%	0.2 x
Sabaf	19.67	222	15.3 x	7.9 x	13.6 x	21.3%	3.3%	0.4 x
Components producers	**70%**		**16.5 x**	**10.8 x**	**11.2 x**	**21.3%**	**2.2%**	**0.1 x**
Ima	79.80	3,078	23.0 x	17.2 x	13.5 x	16.0%	2.6%	nm
Luve	10.70	241	14.7 x	6.7 x	6.2 x	12.4%	2.4%	-
Biesse	35.99	985	22.5 x	8.6 x	10.1 x	12.7%	0.5%	-
Prima Industrie	39.34	408	16.5 x	6.5 x	8.7 x	11.4%	1.1%	1.2 x
Machinery producers	**30%**		**19.2 x**	**9.8 x**	**9.6 x**	**13.1%**	**1.7%**	**1.2 x**
AVERAGE WEIGHTED			**17.3 x**	**10.5 x**	**10.7 x**	**18.8%**	**2.0%**	**0.4 x**
SIT			**12.2 x**	**7.2 x**	**6.3 x**	**15.9%**	**2.0%**	**0.5 x**
Implied Discount			**-29%**	**-31%**	**-41%**	**-15%**	**-4%**	**23%**

Source: EQUITA SIM estimates

■ Swot Analysis

Strength

- Consolidated long term presence in the industry with premium market share in the main products
- Wide range of international customers (mainly OEMs)
- Global presence both with strong logistic platform
- High technological content and highly automated process, in critical components for gas equipment
- Increasingly high barriers to entry
- Good underlying market conditions in both business units, with strong expected growth
- Regulatory requirements helping business development
- Attractive valuations at current price of the SPAC

Opportunities

- Increasing penetration of gas usage at global level
- Increase “Share of Wallet” of SIT components in SIT’s product
- Progressive liberalization of the retail energy market driving request for more sophisticated gas products (metering)
- M&A opportunities on more balance capital structure
- Increasing regulatory requirements (on polluting issue and energy savings) driving product substitution
- New production facilities
- Debt restructuring options to the benefit of lower interest charges

Weakness

- Complex logistic
- Time to market requirements (sector characteristic)
- Short term visibility
- Highly specific products in certain markets (ie US)
- Low share of complete solutions

Threats

- Increasing competition in mature markets, and in china (especially in the direct Heating)
- Higher penetration of the “District” heating systems
- Exposure to regulatory frameworks (regulatory risk)
- Exposure to currency fluctuation

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THE "HEATING" BUSINESS

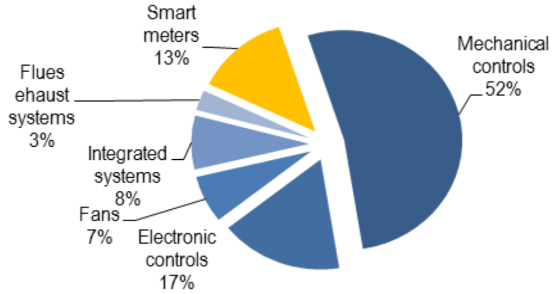
As briefly described above, the core business of SIT (accounting for 87% of total sales at the end of 2016) has to do with the design, engineering, production and distribution of "systems" and "components" of the "gas equipment" used in the domestic heating and catering services as well as in domestic appliances and water heaters.

■ Understanding the products

The product range varies in different types of both components and systems that can be mainly categorized in the following:

1. **"Mechanical controls"**: which includes electrical on-offs, Valves, Electrical/Gas modulation, Mixers, Thermostatic/Manual controls all addressed to the regulation and security of the gas fed appliances (Boilers/Heating systems, stoves, fireplaces, water heaters; industrial ovens and kitchen) **This is the core product family, accounting up to 58% of 2015 total sales.**
2. **Electronic controls":** which includes Full control systems for appliances, Burner controls and Heat recovery units. This includes hardware, software and firmware development addressed to the control and regulation of both industrial and domestic appliances, as well as to the remote control applications. **This family of product accounts up to 17% of 2015 sales**
3. **"Fans":** for both Heating and Hoods mainly used in boilers and aspiration hoods for the domestic kitchen. **This product family accounted for 8% of the total sales in 2015**
4. **"Integrated systems"**: for specific solutions. **The product family accounted 3% of total sales in 2016**
5. **"Flues exhaust systems":** for the fume aspiration of boilers, including sensors, coaxial systems, roof terminaly systems, condensing kits, exhaust for pellets, condesate traps, Cascade systems and High power kits. **The product family accounted for 9% of sales at the end of 2015**

HEATING DIVISION – WEIGHT OF EACH PRODUCT FAMILY ON 2015 SALES



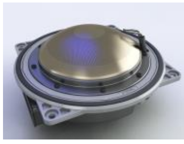
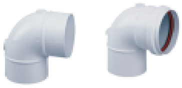
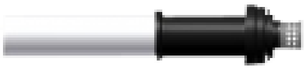
Source: Equita SIM on company data

The Heating products of SIT SPA are basically "components" of wide range of products including boilers, Water heaters, Stoves, Gas fireplaces, Hoods and cooking appliances for both residential and commercial kitchens

Boilers	Water Heaters	Stoves	Gas Fireplaces	Hoods	Commercial Kitchens
					

Source: Equita SIM

In the following table a summary of the group products. For simplification we have only included few examples of the products in each respective category

SIT – PRODUCT LINE				
Type	**Products**	**Ex- Electrical On-off**	**Manual Control**	**Sensors**
Mechanical controls	Electrical on-off Electrical Modulation Air/Gas modulation Mixer Thermostatic controls Manual controls			
Type	**Products**	**Ex: Full control**	**Ex: Burner control**	**Ex: Heat Recovery**
Electronic controls	Full control for appliances Burner control Heat recovery unit			
Type	**Products**	**Ex: Fans Heat**	**Ex: Fans Hood**	
Fans	Fans for Heating Fans for Hoods			
Type	**Products**	**HR Delta**	**SIT Sonnenblume**	
Integrated Systems	Various			
Type	**Products**	**Ex:Sensors**	**Ex: Twin Flue**	**Ex: Cascade**
Flue Exhaust Systems	Sensors Coaxial Systems Twin Flue Systems Roof terminal systems Condensing Kits Exhaust for pellet Condensate traps Cascade Systems High power exhaust kits			
		Ex: for Pellets	**High power kits**	
				

Source: Equita SIM from Sit Web Site

■ Understanding the "Heating" business model

As explained above, SIT is an industrial player producing internal components (for the gas/heating industry) for a wide range of products**. In its business, SITS sells both final components (as listed above), as well as the spare parts, mainly to OEM's, Distributors and Wholesalers.** More in details:

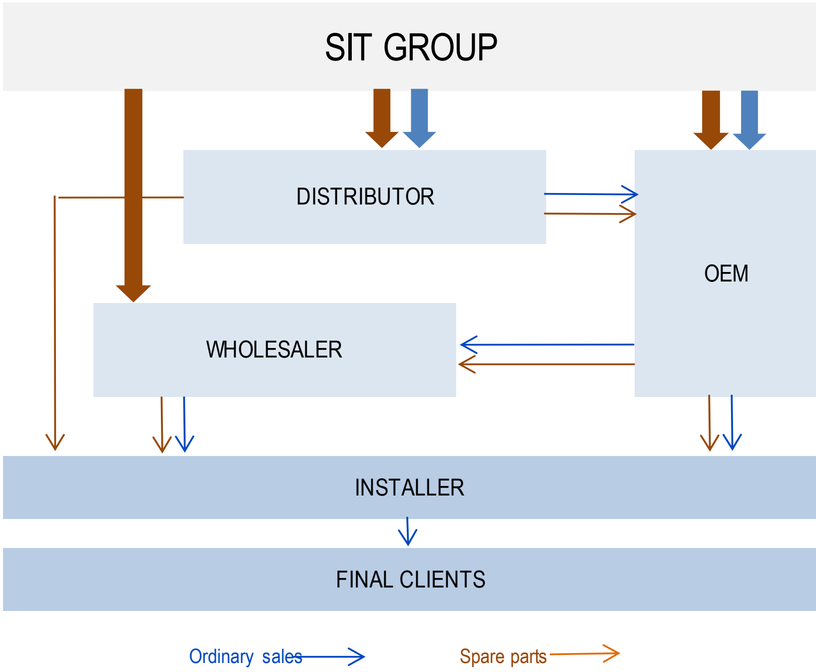
- **"Ordinary product sales"** are addressed to serve both OEM's (ie Bosch, Vailant, Empire Confort, Rheem…) and DISTRIBUTORS. The sales to the OEM's represent, anyway, the majority of the group's revenues. **Around 96% of The ordinary sales area dressed to OEM's and 4% only to DISTRIBUTORS**

- **"Spare parts"** sales area sold through OEM's, DISTRIBUTORS and WHOLESALERS. In some cases (selected customers in Australia) spare parts are sold directly to clients from Sit.

All in all, 95% of SIT's revenues are generated through OEM's. The spare parts business represents only a residual activity.

In the following picture, we have summarized SIT's business model in the "Heating Division" value chain.

HEATING BUSINESS VALUE CHAIN



Source: Equita SIM

SIT SPA currently has around 900 active customers out of which some 65 accounts for around 80% of total turnover. Among the main clients of the heating division we would mention: BOSCH, VAILLANT, ALI GROUP, RHEEM, BAXI, DELONGHI, VIESSMANN, ELECTROLUX, LOCHINVAR, ARISTON, LENNOX…

■ Addressable market and global position

As explained above SIT mainly operates through OEM's and DISTRIBUTORS, with products whose addressable market can be divided in different sectors:

1. **The CENTRAL HEATING:** whose products are mainly used for the domestic/water heating solutions. SIT is currently the world leader in this segment, with a market share that reaches 49% in the Mechanical controls (around 6mn pieces sold yearly) and 15% in the electronic controls including captive market (around 1.2 mn components sold yearly), at a Global level. The main market of Sit is actually Europe.
2. **The DIRECT HEATING:** whose products are mainly used in the gas fireplaces, stoves and spaceheaters (main boards, displays and user interfaces). Again Sit is a world leader in the segment with a 25% market share in the mechanical controls (around 1mn components sold yearly) and a 18% market share in the electronic controls (around 190k components sold yearly) at a global level. The main reference market for the direct heating are US, UK, Netherlands and Europe at a lower extent.
3. **WATER HEATING:** whose product are mainly used in the water boilers solutions. Again SIT has a leading position with approximatively a 14% market shares at global level (with some 1mn controls sold yearly). The main reference market are the Americas, Australia, China and other developing countries.
4. **CATERING & OTHER:** with components used in the commercial/industrial kitchens, domestic kitchen appliances, heat recovery units.

In the following table a summary of the main characteristic of the addressable market and the global position

PRODUCTS AND MARKETS

Type	% of Heat Sales	Market	Category	Pieces sold yearly	Global Mkt Share	Main competitors at Global Level	Other market share	Main Countries
Central Heating	60%	Domestic/water heating solutions	Mechanical Controls	6.0	49%	Honeywell - 20%; Time - 8%	Europe - 59%	Europe
			Elecronic Controls	1.2	8%	Self - 40%; B&P 7%	Europe - 12%	
Direct Heating	20%	Gas fireplaces, Stoves, Spaceheaters	Mechanical Controls	1.0	25%	Copreci - 10%; Eitar 8%	na	US - UK - Netherland - Europe
			Elecronic Controls	0.2	18%	na	na	
Water Heating	7%	Water boilers solutions	Mechanical controls	1.0	14%	Honewell - 58%; White-Rodgers - 8%	Europe - 95%; Australia 85%; China 35%; 15% Americas	Americas - Australia - China - Other Developing
			Electronic Controls	na	New	na	na	
Catering & Other	13%	Kitchen appliances, heat recovery units	Mechanical controls	na	na	na	na	Europe
			Electronic Controls	na	na	na	na	

Source: Equita SIM

■ Main drivers of the segment

We believe the market of the Heating components is particularly attractive. Although the sector is “mature” and is mainly driven by Substitution (around 80%) and spare parts (around 5%) sales, some interesting drivers are nonetheless providing for interesting growth rate (almost in line with the global GDP trend).
The sector is taking benefit from several drivers depending on the regions:

- **In DEVELOPED COUNTRIES**: the market is benefiting from a mix of environmental regulatory requirement, incentives to asset substitution (less energy intensive and lower polluting devices), progressive urbanization, and higher technological content (mainly linked to the internet of things, the required remote access control, the sale of integrated services by the energy players).

- **In DEVELOPING COUNTRIES**: the well known mega trends of urbanization, demographic increases, penetration of the gas commodity, introduction of more strict polluting regulations, higher income and Gdp growth, offer attractive markets opportunities, both in terms of “pure growth” and consolidation of the “replacement market”.

Starting from these market characteristics, we believe SIT SPA can lever on the following elements:

1. **A consolidated presence in the sector with a Global Market Position and a well established brand in several countries**
2. **A strong clients relationship with OEM’s players**, that use to involve SIT already in the engineering process to develop ad-hoc solutions.
3. **A high quality perceived product, on critical components** requiring high standards of security, duration and technological contents (burners, mixers..)
4. **A strong Brand recognition**, with clients using the SIT brand to differentiate their products in the market

To achieve the following results:
- **Increase the “share of wallet” of SIT’s product** within the same device, providing more integrated solution to the reference clients
- **Increase the market share also through the introduction of new products** and functionalities
- **Potentially enter new country thanks** to a well established logistic platform.

Expected growth

In light of the above considerations, we believe SIT SPA may be able to maintain a +2.5% growth of revenues (below global GDP trend) **and to slightly increase the unitary margin with additional cost control measure and efficiencies**.

In the following table a summary of the expected evolution of the segment economics

HEATING DIVISION

HEATING	2012	2013	2014	2015	2016 E	2017 E	2018 E	2019 E
REVENUES - €mn	221.9	239.9	235.6	247.2	248.4	262.7	269.2	274.6
Growth %	4.1%	8.1%	-1.8%	4.9%	0.5%	5.8%	2.5%	2.0%
OPEX - mn	-188.2	-203.8	-203.9	-210.2	-207.6	-219.1	-223.1	-226.5
Margin - %	-84.8%	-85.0%	-86.5%	-85.0%	-83.6%	-83.4%	-82.9%	-82.5%
EBITDA - €mnm	33.7	36.0	31.7	37.0	40.8	43.7	46.1	48.1
Margin - %	15.2%	15.0%	13.5%	15.0%	16.4%	16.6%	17.1%	17.5%

Source: Equita SIM

We believe that the above assumed metrics are particularly conservative. Regardless of the above considerations, in fact, we only basically assume the maintenance of current position from SIT, with no significant market development

Investments

Within the Heating business unit, SIT is currently maintaining its facility (with a quote of new product development) with investments in line with the core depreciation (Ex PPA allocation) at around 13 €mn per year.

Summary

In the following table a summary of the main characteristic of the Heating business division.

HEATING DIVISION – BUSINESS PLAN HIGHLIGHTS

Market outlook	• No disruptive technology in view in the short term • Increasing customers requests for **integrated systems solutions** • Competition expected from niche players in specific market segments / applications
Volumes	• Expected moderate market growth in the period 2015-2017 • Preservation of the **leadership and strengthening of the market share** in some areas • Significant benefits arising from the **launch of new products**, and increase in clients share of wallet
Investments	• High level of investments in the period 2012-2014 mainly focused on: - Recurring projects **as new Information System** - **Integrated systems solutions** and **new emerging technologies** - **Re-location of part of the production in Romania** (expansion) **and China** (new plant) in ordere to follow the delocalization of some strategic customers (Bosch, Vaillant, Ariston, ect.) topenetrate the emerging Chinese market - New Labs for improved development and tasting planned in 2015-2019
Processes	• Continuous reduction of structure and production complexity (standardization, suppliers re-location, direct deliveries, etc.) • Increasing purchasing from **low cost countries** with netting effects in currency exposure • **Outsourcing / Retionalization of non-core activities** • New organizational development projects **(ERP, quality plan, SIT Academy)** • Optimization of Italian manufacturing footprint and Italian legal entity structure (via merger effective on 30 Dec 2014)

Source: Equita Sim

THE “SMART METER” BUSINESS

As briefly explained above, the “Smart Gas Metering” division (13% of sales at the end of 2016) currently designs, engineers and produces “meters” for the gas market. Contrarily to the Heating division activities, the smart meters production:

- **is a relatively new business for SIT.** Leveraged on the competences acquired in the components for the gas market devices and driven by the recent regulatory requirement, the sale of gas smart meters has started only in 2012-2013.
- **It has not to do with production of “components”, but with a “final product” solution (the smart meter) directly sold to the final customers.**

The sale of the Gas Smart meters is addressed to both the residential, industrial and commercial sectors. **We estimate SIT currently has some 20% market share in Italy and has the options to additionally grow: first at European level and then in the Global arena, thanks to the rapid evolution of the reference regulation.**

Understanding the product

The business concept behind the development of the Gas Smart Meter division comes mainly from the development of the European Energy market in the last 10 years. Among the principles of “energy market liberalization”, “unification of the European standards”, “increased level of competition”, “progressive reduction of the energy costs” to the final customers as well as “lower pollution” and “higher energy savings”, the EU has published a series of regulations and laws aimed at achieving the above described targets.

Central to the EU policy is the creation of a fully liberalized and integrated European energy market, efficient, secure, and focused on the customer needs. The customer itself has been put at the center of the system, with the “data” on its energy consumption, being considered the most relevant information to positively impact both the consumer’s behavior (with possible consumption reduction) **and the energy provider’s market offer** (aimed at reducing the overall cost through higher competition).

With this in mind, the EU has published the 2006/32/CE directive, which requires the EU countries, **to provide a metering system to the final customers** (both electricity and gas as well as district heating and heat water) **that precisely reflect the information on energy consumption.**

The general principle established by the EU has then been translated at each country level, and in Italy, the AEEGSI (the Autority for Energy, Electricity gas and Hydro Services) has published the ARG/gas155/08 in which it established the criteria for the gas meter substitution.

The General directives provided by the EU pointed at the replacement of 80% of the existing meters through 2020. This has been translated in Italy by the new ARG/GAS/554/15, issued in Nov 2015, which established a 60% gas meter replacement by 2020 (Vs around 20% achieved at the end of 2016), with a new generation of “smart meters” with precise measurement capabilities, remote control functionalities, interconnection with other devices, clear and accessible displays and real time information.

As explained above, leveraging on its competences in the components for the gas market devices, SIT have entered the gas market with 2 products:

- **Residential smart meters,** with capabilities up to 10m3/h (<G6 cathegory)
- **Commercial and Industrial smart meters**, with capabilities up to 40m3/h (<g40 cathegory)

SIT: RESIDENTIAL GAS METER

SIT – INDUSTRIAL GAS METER

Source: Sit Web Site

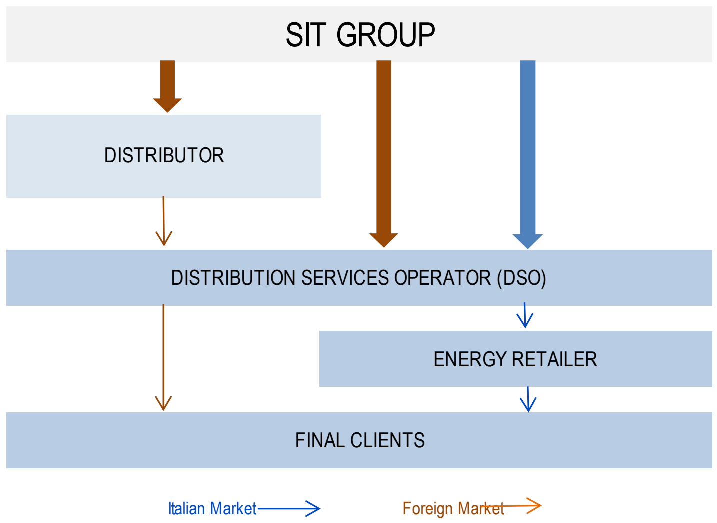
Understanding the "Smart Meters" business model

In Italy (but also at EU level) the clients of SIT for the Smart Meters are the Gas Distribution companies (2i Rete Gas, Italgas, A2A, Ascopiave, Dolomiti Energia, Sgr REti, Amgas, AcegasApsAmga..) which currently manage both the gas distribution network and the old metering systems. The gas distribution companies are the groups required to replace gas meters under the requirement of the AEEGSI.

Considering the Public Nature of the distribution companies in Italy, the replacement of the gas tenders is done through "tender" process. As indicated above, SIT has reached so far a market share of 20% of the achieved meter substitution in Italy (around 20% out of a 23 mn gas meter market)

Sit consequently sells directly to the Distribution Services Operators (DSO). In the foreign markets, SIT also uses Agent/Distributors.In the following table a summary of the value chain

METERING VALUE CHAIN



Source: Equita SIM

SIT produces the smart meter in its Italian facilities in Rovigo (500k unit per year) and is going to double its meter production as of this year, with a new facility in ROMANIA (additional 500 k unit per year). We estimate that the Average cost of a Smart Meter for residential could be in the region of 70€.

Drivers of the market

As explained above, the main drivers of the market are the EU regulatory requirements. The process has started already in Italy (60% substitution expected in 2020), but other countries are following.

ITALY: ARG/GAS/554/15 issued in November 2015 requires substitution of 60% of total meters by 2020. We estimates that substitution is at around 10% level so far.

UK: The regulatory framework (SMET2) requires complete replacement of 100% of the existing meters by 2020. Roll out will start in 2020

GERMANY: New cost/benefit analysis of the roll out is expected to come

FRANCE: Second wave of roll out in meters is expected in 2019

SPAIN: New cost/benefit analysis of the roll out is expected to come

NETHERLANDS: roll out was defined in 2014 and is in due course

Upon our estimates and taking into account the figures reported in the "EUROGAS STATISTICAL REPORT 2015", the total numbers of gas customers in EUROPE (measured on the "meters" availability") is in the region of 131 mn).

In the following table a summary of the market composition in Europe

MARKET OPPORTUNITIES

Country	Gas customers – '000	Situation
United Kinkdom	23,210	Smart Meter Programme confirmed to replace 100% electrical and gas meters by 2020. See last BEIS (Department for Business, Energy & Industrial Strategy) document Dec. 22, 2016
Italy	23,203	Smart Meter Program confirmed by AEEGSI, roll out is following a prices program depending on the size of the meter. Around 60% replacement is estimated by 2020
Germany	20,979	New cost/benefit analysis of the roll out is expected to come
France	11,268	Second wave of roll out in meters is expected in 2019
Turkey	11,206	No official plan yet released from the Authority: EPDK-EMRA (Energy Market Regulatory Authority). Gas legislation should be changed accordingly. Only very limited pilot test planned.
Spain	7,556	New cost/benefit analysis of the roll out is expected to come
Netherlands	7,152	Roll out was defined in 2014 and is in due course
Other Eu	27,362	-
EUROPE EU 29	**131,936**	**Various stage of regulatory development**

Source: Equita SIM and Eurogas Statistical report 2015

Starting from the EUROPEAN market, we believe the addressable market for SIT is much larger as new countries are facing the new challenge of the smart meters development around the globe. As we understand, SIT is already focusing 2 major areas: IRAN and INDIA. Other area may follow (we believe in particular LATAM may be an attractive developing market in the future).

IRAN: a first pilot Smart Meter tender has been issued the 29th of October 2016, to test both meters and communication systems, to decide the Project for the complete country. The tender is expected in April 2017. After the testing in 2018 there will be a final decision and official tender releases. Iran already has 18 mn of gas tender and Sit is already present in the country with its traditional products.

INDIA: No Government plan yet delivered. There are a number of tenders on Smart meters issued by different CGC (City Gas Company) to test pilots of approx..10,000/20,000 meters. But the theme of the smart metering is gaining popularity. In general India has a small gas natural pipeline against industrial/residential needs. Natural gas is increasing penetration against fossil fuels (coal mainly). So far the Indian Gas market account for 11 mn installed meters.

- **Expected growth**

We believe the fundamental of the Smart Meter industry are solid. The change of the structure in the energy markets, the liberalization process and the consequently higher competition, has significantly increased the “value” of the information about “consumption”. Driven by regulatory requirement, we believe the industry may soon become a Global Industry, with attractive growth rates

In light of:
- The AEEGSI target set for the Italian market,
- The potential development of the UK market, with roll out starting in 2017
- The additional potential development at both EU and GLOBAL level

We expect SIT to be able to sell up to 2.9mn smart meters in the next 3-4 years, just assuming the expected compulsory development as set by the AEEGSI in Italy and the maintenance of a 20% market share in Italy (while 3-5% maximum market share in Europe – which is conservative)

Considering SIT is doubling its production capacity with a new 500k unit plant in Romania (Expected to start this year) we also believe the group will be able to improve the underlying profitability, both on scale economies and lower fixed/variable cost production from the Romanian delocalization.

We believe SIT may achieve attractive growth rate in the segment with an estimated cagr of Ebitda in the region of 28% through 2019

In the following table a summary of our expectations for the division

METERING								
	2012	2013	2014	2015	2016	2017E	2018E	2019E
Revenues Metering - €mn	**0.8**	**5.9**	**20.0**	**15.6**	**37.8**	**45.3**	**48.1**	**60.2**
Growth %	nm	nm	239.0%	-22.0%	142.9%	20.0%	6.1%	25.2%
Opex metering - mn	**-4.1**	**-6.5**	**-17.3**	**-17.3**	**-35.4**	**-41.9**	**-44.4**	**-55.2**
Fixed cost as % of revenues	nm	nm	-86.5%	-110.9%	-93.7%	-92.4%	-92.3%	-91.7%
Ebitda Metering - €mnm	**-3.3**	**-0.6**	**2.7**	**-1.7**	**2.4**	**3.4**	**3.7**	**5.0**
Ebitda margin Heating - %	nm	-10.7%	13.5%	-10.9%	6.3%	7.6%	7.7%	8.3%

Source: Equita SIM

For what regard the decrease of volumes registered in 2015, it has to do with some issue in the standard of the meters sold in the year, with the suspension of SIT from some tenders. The set of the standard from the AEEGSI has solved the issue with SIT already included in the tender list as of the end of 2015. We estimate the business unit to have significantly improved its presence during 2016 already.

Investments

The business is not particularly capital intensive. SIT currently produces some 500 k meters per year in its facilities of Rovigo. At the cost of around 2 €mn SIT is doubling its production capacity with a new facility (In Romania) expected to contribute as of this year. We are assuming in our estimates a rump up at 0.8-0.9 mn pieces per year, thus not requiring additional investment in new production capacity.

Conclusions

In the following table a summary of the Metering business model

GAS METERING DIVISION – BUSINESS PLAN HIGHLIGHTS	
Market outlook	• **Favourable legislative regulation** gradually encourages / makes compulsory the replacement of existing gas meters • The main European countries considered as target are Italy (approximately 20.7 million of gas meters) Uk (20mn meters) and the Netherlands (approximately 7.0 million of gas meters) • 'Small roll out' expected in 2015 in some European countries; 'massive roll out' expected starting from 2016
Volumes	• **Italy: increasing volumes** from 2014 for light industrial (G16 / G25) gas meters (expected market share between 35-40%) and from 2015-2016 for domestic (G4 / G6) gas meters (expected market share equal to 25%) • **European countries: increasing volumes** from 2016-2017
Investments	• Investments in new facility in Romania expected to contribute already in 2017

Source: Equita Sim

BELOW THE LINE: DEBT REFINANCING AS THE MAIN DRIVER IN THE NEXT 3 YEARS.

While we believe the investment case of SIT is particularly safe and attractive at operating level we also believe it is even more interesting from a "bottom" line perspective. Though the deal with Industrial Stars of Italy 2, in fact, the group has entered a virtuous path of "deleverage" and debt refinancing that will take massive benefits to the interest charges from 2018 onwards.

This comes from:
- A capital increase subscribed by the old Shareholders of SIT
- The capital contribution expected from the merger with IS2
- The refinancing of the old debt for which SIT has already signed the relative "Term sheet".

We estimate that SIT will be able to reduce its net financial charges by more than 10 €mn (from around 19 €mn to around 5-6 €mn) in a couple of years. This will boost group's net income 2018 onwards.

■ Understanding current NFP and financial charges

SIT SPA has closed 2015 with a Net Financial position of -154 €mn at 4.9x D/EBITDA (Already decreasing to -123 €mn or 2.8x d/ebitda at the end of 2016). Although this level may seem very high, it has entirely to do with the LBO launched by Federico De Stefani on the 56.7% controlled by the remaining part of his family.

The deal has been structured in several steps since 2014 and will be almost entirely absorbed in the next 2 years, thanks to an additional capital injection, to the contribution of the merger with ISTAR2 as well as to the already renegotiated financing conditions. Here a summary of the LBO transaction

1. Federico De Stefani has acquired (through SIT SPA) the 56.70% of SIT LA PRECISA in the hand of his sisters (Chiara and Cristina De Stefani) for an amount of 116 €mn

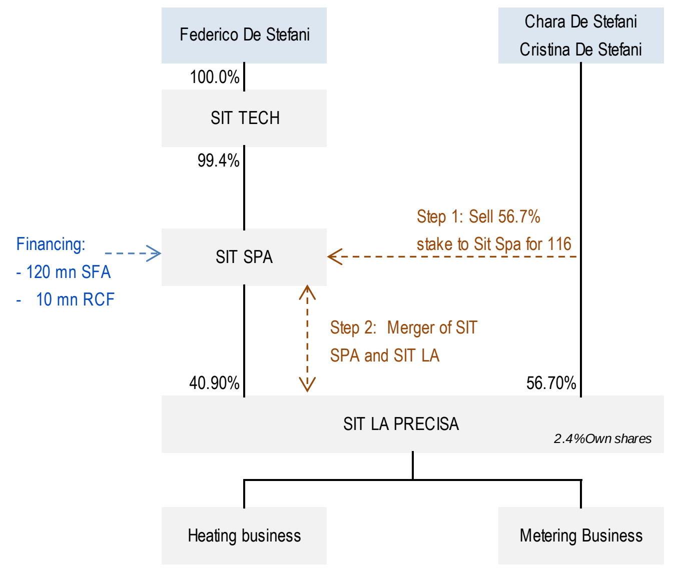
2. SIT SPA has been financed by around 120 €mn Senior Facilities Agreement (SFA) released by BNP PARIBAS in 2 tranche (SFA- 38 €MN maturity 2019 with 4.7% Interest Margin and SFA-B for 80 €mn, maturity 2020, at 5.5% Interest margin). A Revolving Credit Facility of 10€mn (already closed) has been released already at a 4.75% margin if drawned

3. As part of the transaction, Federico De Stefani (trough SIT TECH) has also released an intercompany loan to SIT LA PRECISA of 60 €mn to refinance the already existing debt of SIT LA PRECISA. De Stefani got the cash through a bond placement (subscribed by BlackRock) for the same amount. The cost of the intercompany loan had at 7.75% cash interest margin and a 5.5% Pik interest margin.

4. At the end of the process SIT SPA and SIT LA PRECISA has been merged.

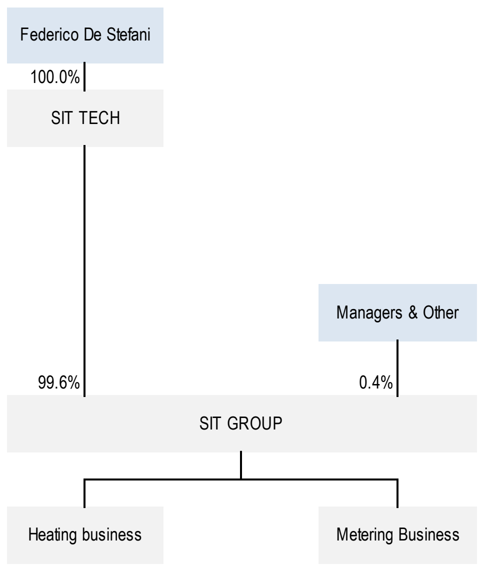
In the following table we report a simplification of the deal and the main financing obtained to close the acquisition. As indicated above, SIT SPA closed 2015 with a -154 €mn Net Financial Position. Out of this amount around 120 €mn relates to the LBO acquisition.

CONTROL CHAIN - LBO



Source: Equita Sim

CONTROL CHAIN – CURRENT PRE DEAL



We also report the composition of the Nfp as reported at the end of 2014-2015, as well as a summary of the Debt conditions affecting P&L's interest costs

MAIN METRICS OF NFP

YEARS	2014	2015	Conditions	Maturity
Shareholder's loan - €mn	-62.20	-68.30	7.75% Cash Interests; 5.5% PIK interest	nm
Term loan A - €mn	-38.00	-31.00	4.75% Cash Interest Margin	2019
Term loan B - €mn	-80.00	-80.00	5.5% Cash Interest Margin	2020
RCF - €mn	-5.00	-	4.75% Cash Interest Margin	Closed
Other - €mn	+10.33	+0.57	-	-
Loans (banks, bonds..) - €mn	-174.86	-179.87	-	-
Cash & equivalents - €mn	+18.62	+24.11	-	-
Other financial assets - €mn	+1.74	+1.60	-	-
NET FINANCIAL POSITION - €mn	**-154.51****	**-154.15****		-

*Source: Equita Sim **Equita calculation, not perfectly matches Nfp indication in annual report*

Once compared to current market conditions, the cost of financing of SIT SPA is particularly high. The group has consequently entered a restructuring process.

■ Understanding the debt restructuring impact

Also thanks to the expected combination with INDSTARS2, SIT SPA has entered a debt restructuring program, which, as explained above, will lead to significant improvements on the Interest rate costs. **During 2016 the group has already achieved the following steps:**

- **Cancelation of 14 €mn shareholder's loan towards Sit Technologies by Federico De Stefani**
- **Drawdown by Sit Spa of an incremental 25 €mn SFA** (5.5% Interest margin, maturity 2020 released by Bnp Paribas) fully used to reimburse an additional part of the shareholder's loan toward Sit Technologies.

Considering the Shareholder's loan is particularly expensive, this will generate a first benefit on net Interest costs. Furthermore, we believe the upcoming equity injection from the merger with INDSTAR2 will generate additional benefits. In case of 0% exercise of withdrawal right, the equity injection will allow the full closure of the shareholder's loan as well as the full closure of the SFL-A tranche. We believe this will allow >10€mn savings on Interest charges as from 2018 onwards.

In the following table we report our assumptions on the possible evolution of the gross and net debt in the coming years

EVOLUTION OF DEBT						
YEARS	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Shareholder's loan - €mn	62.20	68.30	32.60	-	-	-
Term loan A - €mn	38.00	31.00	26.00	-	-	-
Term loan B - €mn	80.00	80.00	80.00	80.00	80.00	80.00
RCF - €mn	5.00	-	-	-	-	-
Other - €mn	-10.33	0.57	0.57	0.57	0.57	0.57
Loans (banks, bonds..) - €mn	174.86	179.87	158.98	105.57	105.57	105.57
Cash & equivalents - €mn	-18.62	-24.11	-33.83	-40.80	-56.07	-77.67
Other financial assets - €mn	-1.74	-1.60	-1.94	-	-	-
NET FINANCIAL POSITION - €mn	**154.51**	**154.15**	**123.22**	**64.77**	**49.50**	**27.90**
D/Ebitda	**4.50 x**	**4.37 x**	**2.76 x**	**1.36 x**	**0.98 x**	**0.52 x**
Net Interests charges - €mn	**-18.4**	**-17.4**	**-18.4**	**-19.1**	**-5.9**	**-5.3**

Source: Equita SIM

Finally, on top of the potential significant reduction of the interest rate impact on P&L, we believe SIT SPA will be in an attractive position in 2018-2019. With >1x D/Ebitda, and 60-80 €mn cash available in BS, **the group will be either able to:**

- **additionally reduce its cost of debt through interest margin re-negotiation** (we assume every 0.5% reduction in the Net Interest Margin may have a +2.5% improvement on Net Income)
- **look around in the search of additional growth by the mean of external acquisitions.**

In the following table we report the possible impact simulation on the additional Net interest margin.

SENSITIVITY NET INTEREST COSTS						
	2018E	**2019E**	**2018E**	**2019E**	**2018E**	**2019E**
Gross debt	105.57	105.57	105.57	105.57	105.57	105.57
Interest cost reduction - %	**0.5%**		**1.0%**		**1.5%**	
Gross interest saving - €mn	0.53	0.53	1.06	1.06	1.58	1.58
Net interest saving - €mn	0.40	0.40	0.80	0.80	1.20	1.20
Avg Net Income improvement - %	**2.5%**		**5.0%**		**7.5%**	

Source: Equita SIM

FREE CASH FLOW: SUSTAINING DE-LEVERAGE, POTENTIAL M&A GROWTH AND DIVIDENDS

As explained above, both the Heating and the Metering business are not particularly capital intensive. In front of a core Depreciation of around 13.5 €mn the capital expenditure associated to both maintenance and development is in the region of 13-14 €mn. The only exception is represented by the additional investment SIT SPA has run during 2016-2017 for the doubling of the production capacity of the meter division, with a new facility in Romania (whose cost is anyway limited in the region of 2 €mn).

Considering the Operating cash flow of the group, SIT SPA will generate a relevant FCF as of 2018 (once the refinancing will be completed), with more than 20 €mn each year at the services of the 4-6 €mn dividend assumed in our model and the eventual potential growth by the mean of external acquisition.

In the following table we summarize the expected Cash generation of the group through 2019

CASH FLOW GENERATION

	2016	2017E	2018E	2019E
Cash from operations - €mn	**30.5**	**21.3**	**38.8**	**42.6**
Cash from investments - €mn	**-13.5**	**-16.0**	**-19.0**	**-15.5**
FCF - €mn	**17.0**	**5.3**	**19.8**	**27.1**
Capital increases - €mn	14.0	52.2	0.0	0.0
dividends - €mn	0.0	0.0	-4.5	-5.5
other change in equity - €mn	-0.1	0.0	0.0	0.0
Cash from equity financing - €mn	**13.9**	**52.2**	**-4.5**	**-5.5**
NFP - €mn	**-123.2**	**-64.8**	**-49.5**	**-27.9**

Source: Equita Sim

MAIN FORECASTS

In the following table we report a summary of the P&L and BS forecast for the period 2014-2019. We remind you that in 2017 the "reported" figures are particularly misleading as contain:

- some -4.5 €mn of non recurring costs linked to the IPO/SPAC process. This amount include the "cash" explicit impact of the process while still exclude the "non cash" one off impact of the warrant treatment under the IFRS accounting standard. We still don't know the impact of this item (that may take the reported net income in "loss") but we remind you this is only a non-cash item affecting 2017 results.

P&L	2014 PF	2015	2016	2017E	2018E	2019E
REVENUES ASSUMPTION - €k	**258.39**	**264.06**	**288.14**	**309.97**	**319.26**	**336.81**
Growth %	5.1%	2.2%	9.1%	7.6%	3.0%	5.5%
EBITDA ADJUSTED - €k	**34.34**	**35.29**	**44.62**	**47.55**	**50.30**	**53.58**
Margin - %	13.3%	13.4%	15.5%	15.3%	15.8%	15.9%
EBITDA REPORTED - €k	**33.36**	**32.19**	**43.48**	**42.97**	**50.22**	**53.51**
Margin - %	12.9%	12.2%	15.1%	13.9%	15.7%	15.9%
1. Depreciation & Amortization	-19.95	-20.15	-20.00	-20.02	-20.82	-21.62
EBIT - € mn	**13.41**	**12.04**	**23.48**	**22.96**	**29.41**	**31.89**
Ebit margin %	5.2%	4.6%	8.1%	7.4%	9.2%	9.5%
1. Net interest costs controlled groups	-18.4	-17.4	-18.4	-19.1	-5.9	-5.3
PBT - €k	**-5.01**	**-5.40**	**5.08**	**3.82**	**23.55**	**26.55**
1. Taxes Controlled group - €k	-3.04	5.68	-3.37	-3.99	-5.09	-5.55
3. Discontinued - €k	0.00	0.00	0.00	0.00	0.00	0.00
4. Minorities - €k	0.03	0.15	0.02	0.00	0.00	0.00
NET INCOME - €k	**-8.02**	**0.43**	**1.74**	**0.77**	**18.46**	**21.00**
NET INCOME (adj) - €k	**-5.98**	**4.70**	**5.20**	**8.46**	**22.74**	**25.27**

Source: Equita Sim Estimates

BALANCE SHEET	2014	2015	2016	2017E	2018E	2019E
1. Tangibles & Intangibles	220.7	211.5	200.8	196.8	194.9	188.8
2. Financial assets	0.2	0.2	0.2	0.2	0.2	0.2
3. Other operating	-25.2	-15.8	-14.7	-15.8	-16.3	-17.2
4. Working capital	25.3	24.6	15.0	15.6	16.6	17.5
CAPITAL EMPLOYED - €k	**220.9**	**220.4**	**201.2**	**196.7**	**195.4**	**189.3**
a. Equity Holding	58.57	57.76	69.26	123.20	137.16	152.66
b. Minorities	0.25	0.10	0.00	0.00	0.00	0.00
b. Net debt	154.51**	154.15	123.22	64.77	49.50	27.90
c. Provisions & Social securities	7.60	8.43	8.72	8.72	8.72	8.72
CAPITAL INVESTED €k	**220.9**	**220.4**	**201.2**	**196.7**	**195.4**	**189.3**

*Source: Equita Sim estimates **Equita calculation, not perfectly matches Nfp indication in Balance Sheet*

CASH FLOW	2014	2015	2016	2017E	2018E	2019E
Cash from operations	-	-	30.5	21.3	38.8	42.6
Cash from investment	-	-	-13.5	-16.0	-19.0	-15.5
Fcf - €mn	**-**	**-**	**17.0**	**5.3**	**19.8**	**27.1**
Cash from equity financing	-	-	13.9	52.2	-4.5	-5.5
CHANGE IN NET DEBT	-	-	**30.9**	**57.5**	**15.3**	**21.6**

Source: Equita Sim estimates

THE PANEL OF COMPARABLE NAMES

Selecting a panel of comparable for SIT SPA is not an easy task, as there are not "direct" competitors currently listed on the stock market, and because SIT has 2 different business model, out of which the "meter divisions" is taking benefit from some unique "regulatory requirements".

To assess the best indicated panel for SIT SPA, we have considered that SIT is an <u>"Industrial"</u> group producing high quality <u>"components"</u>, with an <u>"international"</u> presence and an <u>"attractive profitability"</u> (15%-16% Ebitda margin)

Among the Italian names we have thus selected:

<u>BREMBO:</u> is a world leader in the design, development and production of braking systems and components for cars, motorbikes and industrial.

<u>INTERPUMP:</u> is a world leader in the design and manufacturing of high pressure and ultra-high pressure pumps, cylinders, valves, power take offs, hoses and fittings for the "Water jetting" sector and the "Hydraulic" Sector.

<u>SABAF:</u> is a world player active in the design and manufacturing of components for household cooking appliances, funded in 1949 has 5 manufacturing sites in Italy, Brazil, Turkey and China

Although less comparable in terms of "Business", we have also taken into consideration the profile of some industrial "Machinery and Equipment" producers. Although the business is slightly different, they are more "comparable" in terms of "Size", and, in the case of "LUVE" also in terms of the "listing process" (through a Spac vehicle) as well as the listing segment (AIM):

<u>IMA:</u> is a world leader in the design and manufacture of automatic machines for the processing and packaging of pharmaceuticals, cosmetics, food, tea and coffee

<u>LUVE:</u> is active in the production of leading edge technology solutions for the commercial and industrial refrigeration (coolers, condenser, accessories)

<u>BIESSE</u>: manufacture a complete range of machineries for woods buildings

<u>PRIMA INDUSTRIE</u>: is an international leading group in developing, manufacturing and marketing of laser systems for industrial applications, sheet metal processing machinery and industrial electronics and laser sources.

Considering the differences between the 2 panels, we have decided to attribute a higher weight to the "component" producers (70% weight) vs the "machinery" producers (30% weight). The main reference multiples of the peers are included in the following table

REFERENCE PEERS

Stock	Price	Mkt Cap	PE Adj. 17E	PE Adj. 18E	PE Adj. 19E	P CF 17E	P CF 18E	P CF 19E	EV / Ebitda 17E	EV / Ebitda 18E	EV / Ebitda 19E
Brembo	68.30	4,561	18.4 x	16.8 x	15.7 x	12.1 x	10.8 x	10.4 x	10.0 x	9.3 x	8.9 x
Interpump	22.27	2,425	22.8 x	20.5 x	18.5 x	16.4 x	15.1 x	14.0 x	12.4 x	11.7 x	11.1 x
Sabaf	13.28	150	17.4 x	16.2 x	14.8 x	8.4 x	8.1 x	7.7 x	14.2 x	13.8 x	13.4 x
Components producers	**70%**		**19.5 x**	**17.8 x**	**16.3 x**	**12.3 x**	**11.3 x**	**10.7 x**	**12.2 x**	**11.6 x**	**11.1 x**
Ima	75.60	2,916	30.3 x	25.1 x	23.0 x	21.5 x	18.5 x	17.2 x	16.9 x	14.4 x	13.5 x
Luve	13.81	273	15.0 x	23.3 x	14.7 x	7.2 x	9.2 x	6.7 x	8.5 x	6.9 x	6.2 x
Biesse	25.48	689	32.7 x	27.1 x	22.5 x	11.6 x	10.2 x	8.6 x	12.9 x	11.9 x	10.1 x
Prima Industrie	24.19	257	39.1 x	22.3 x	16.5 x	12.5 x	8.5 x	6.5 x	13.8 x	10.6 x	8.7 x
Machinery producers	**30%**		**29.3 x**	**24.5 x**	**19.2 x**	**13.2 x**	**11.6 x**	**9.8 x**	**13.0 x**	**11.0 x**	**9.6 x**
AVERAGE WEIGHTED			**22.5 x**	**19.8 x**	**17.2 x**	**12.6 x**	**11.4 x**	**10.4 x**	**12.5 x**	**11.4 x**	**10.7 x**

Source: Equita Sim and Bloomberg Consensus

REFERENCE PEERS												
Stock	Ebitda Margin			Dvd Yield			FCF yld			D / Ebitda		
	17E	18E	19E	17E	18E	19E	17E	18E	19E	17E	18E	19E
Brembo	19.5%	19.8%	19.6%	1.6%	1.7%	1.8%	1.2%	2.4%	4.7%	0.3 x	0.1 x	-0.3 x
Interpump	22.6%	22.7%	22.9%	1.0%	1.2%	1.4%	4.6%	4.5%	5.1%	1.1 x	0.6 x	0.2 x
Sabaf	20.8%	21.0%	21.3%	3.2%	3.4%	3.4%	4.9%	5.9%	6.2%	0.7 x	0.5 x	0.4 x
Components producers	**21.0%**	**21.2%**	**21.3%**	**1.9%**	**2.1%**	**2.2%**	**3.6%**	**4.3%**	**5.3%**	**0.7 x**	**0.4 x**	**0.1 x**
Ima	13.9%	15.5%	16.0%	2.1%	2.4%	2.6%	3.5%	4.0%	4.4%	0.6 x	0.3 x	nm
Luve	13.4%	11.3%	12.4%	2.2%	2.2%	2.4%	1.2%	6.0%	9.2%	0.5 x	-	-
Biesse	12.3%	12.3%	12.7%	0.5%	0.5%	0.5%	1.9%	2.3%	4.6%	-	-	-
Prima Industrie	9.3%	10.4%	11.4%	0.6%	1.0%	1.1%	3.7%	6.1%	8.1%	2.8 x	1.7 x	1.2 x
Machinery producers	**12.2%**	**12.4%**	**13.1%**	**1.4%**	**1.5%**	**1.7%**	**2.6%**	**4.6%**	**6.6%**	**1.3 x**	**1.0 x**	**1.2 x**
AVERAGE WEIGHTED	**18.3%**	**18.6%**	**18.8%**	**1.8%**	**1.9%**	**2.1%**	**3.3%**	**4.4%**	**5.7%**	**0.9 x**	**0.6 x**	**0.4 x**

Source: Equita Sim and Bloomberg Consensus

As anticipated above in the note, we believe the best year on which focusing our sensitivity is 2019.

For the whole 2017, in fact, SIT SPA will be involved in the merger with INDSTAR2, in the IPO process as well as in the finalization of the whole debt restructuring process. 2017 will be then additionally impact by the non recurring costs of the whole listing procedure (both advisory and warrant non cash costs as per the IFRS requirements). **As a consequence we believe that only from 2018 the group's net income will properly reflects the overall profitability while only from 2019 it will be possible to fully capture the growth potential of the "metering division".**

BUY – TGT 14€/SH

As anticipated at the beginning of this note, we are initiating the coverage of SIT with a BUY recommendation and a target price of 14 €/sh, which offers a +20% upside on current prices and implies a 14.6x PE valuation as measured on 2019 (which would represent some -10%-15% discount vs average peers).

To assess our target price, we have used various approaches, with a combination of DCF and MULTIPLES analysis. More in details, we have valued the ENTERPRISE VALUE of SIT as a combination of:

- **DCF methodology,** with an exit ROCE of 12% (vs 14% in 2019) a G of 1.5% and a WACC Of 6.6%. The DCF methodology has been weighted for 50% in our calculations
- **PE RATIO, at -20% discount** vs the average PE ration of comparable names (as showed in the previous paragraph) in 2019. The PE valuation is weighted at 25%
- **EV/EBITDA RATIO at -20% discount** vs the average EV/EBITDA RATION of comparable names as measured on 2019. The Ev/Ebitda method is weighted at 25%

In the following table a summary of the valuation applied to SIT:

SUMMARY VALUATION

	TGT	Weight	Valuation	VALUE	Consideration
EV @ P/E RATIO	422.9	25%	PE 2019:	14 x	20% discount vs Avg PE 2019
EV @ EV/EBITDA RATIO	455.5	25%	EV/EBITDA 19:	8.5 x	20% discount vs Avg EV/EBITDA 2019
EV @ DCF METHOD	439.4	50%	EXIT ROCE:	12%	1.5% G; 6.6% Wacc
AVERAGE ENTERPRISE VALUE	**439.3**	**nm**	**nm**	**nm**	
Nfp	-64.8	nm	End of 2017 Nfp		
Minorities	0.0	nm	nm		
Provisions	-4.4	nm	50% of end of 2017		
EQUITY VALUE	**370.2**	**nm**			
shares	26.5	nm			
TARGET PRICE	**14.0**	**nm**	**Implied 19 PE:**	**14.6 x**	
Upside	20.4%				

Source: EQUITA SIM estimates

As our recommendation (BUY) and target price suggest, we believe the investment case of SIT SPA is particularly attractive. The group has an interesting mix of good positioning in a growing business, new product/market deployment and short term catalyst (debt restructuring).

In summary we believe SIT SPA:

1. **Has a good position in its reference market**. With a relevant global market share (up to 50% in the mechanical controls), SIT SPA is a very well established brand (active since 1953), highly diversified from a geographical perspective and with a strong list of consolidated clients (mainly OEM's). The core Heating business has a high technological content, thus offering barriers to entry and allowing to lever the core competences in new upcoming opportunities (the "metering" business)

2. **Has good underlying market drivers.** Both the Heating and the Metering business has interesting opportunities in the coming years.
   a. the HEATING is taking benefit from a mix of regulatory requirements, incentives to asset substitution (towards less energy intensive devices), progressive urbanization, and higher technological content as well as increasing world gas penetration and more strict polluting regulations. **This will easily be able to sustain an "in line" with global GDP growth in the coming year.**

b. the METERING division is taking benefit from the progressive energy market liberalization. The need of progressively more sophisticated commercial offers to the final customers, increases the “value” of the “consumption data”. The EU regulation, imposes the supply of a high quality “meters” (smart meters) which allow the final customer the best capabilities to “choose” the energy providers. Italy & Uk are leading the way in Europe with already established path towards gas meter asset substitution. The trend is anyway global with other countries (IRAN, INDIA…) will follow. **We estimate a steady growth in the segment in the region of 22% cagr of Ebitda through 2019**

3. **Has a reasonably visible outlook.** Especially in the METER division, the path towards the device substitution is already established by the energy regulation. With a 20% market share on the Tenders run so far, we thing the visibility on the next years is high on the base of conservative assumptions

4. **Has a relevant short term catalyst.** The debt renegotiation program as well as the capital injection from the combination with INDSTARS2 will allow a rapid deleverage and a significant reduction in the financial charges as of 2018. The impact of the improvement is going to be >10 €mn over a net income of 2 €mn at the end of 2016

5. **Has a strong FCF generation allowing to pursue additional growth options.** With a FCF above 20 €mn per year from 2018 onwards, the group should be able to have around 60-70 €mn of cash available as of 2019. This may allow to pursue additional growth options by the mean of external acquisition. In case of lacking opportunities, this should allow the possibility of implementing a significantly more generous dividend policy

6. **Has an attractive valuation.** Taking into account the FULLY DILUTED numbers of shares, SIT is currently trading at 12.2x PE adj. (ex PPA); 7.2x P/CF; 6.3x EV/EBITDA with a 15.6% Ebitda margin, and a yield of 2%. This is particularly attractive considering the ~6.3% cagr of Ebitda and 70% cagr of NI expected through 2019, on the base of reasonable assumptions (and excluding any M&A additional contribution). The above mentioned valuation highlights a -30%/-40% discount vs peers.

In the following tables we report the reference multiple valuation of SIT. All the presented metrics are “FULLY DILUTED” or considering the number of shares:

- **Post conversion of the residual outstanding warrants at 13 €/sh**
- **Post conversion of the performance shares at our assumed Ebitda evolution in 2018-2019**

MARKET RATIOS

	2016E	2017E	2018E	2019E
P/E adj (Fully diluted)	47.6 x	34.6 x	13.5 x	12.2 x
PBV	3.6 x	2.4 x	2.2 x	2.0 x
P/CF	11.4 x	14.1 x	7.8 x	7.2 x

Source: Company data and EQUITA SIM estimates

EV FIGURES

	2016E	2017E	2018E	2019E
EV/Sales (Fully Diluted)	1.3 x	1.2 x	1.1 x	1.0 x
EV/EBITDA (Fully Diluted)	8.6 x	8.4 x	7.2 x	6.4 x
EV/EBITDA adj (Fully Diluted)	8.4 x	7.6 x	7.2 x	6.3 x
EV/CE (Fully Diluted)	1.9 x	1.8 x	1.9 x	1.8 x

Source: Company data and EQUITA SIM estimates

INDEBTNESS				
	2016	2017 E	2018 E	2019 E
NFP	-123	-65	-50	-28
D/E (adj)	1.78	0.53	0.36	0.18
Debt/EBITDA (adj)	2.8 x	1.4 x	1.0 x	0.5 x
Interests cov (adj)	2.4 x	2.5 x	8.6 x	10.0 x

Source: Company data and EQUITA SIM estimates

REMUNERATION				
	2016	2017 E	2018 E	2019 E
Div. Yield ord	0.0%	1.5%	1.8%	2.0%
ROE	2.5%	0.6%	13.5%	13.8%
ROCE	8.4%	8.4%	10.8%	12.1%

Source: Company data and EQUITA SIM estimates

As you can derive from the next table, SIT currently trades at around -30%/-40% discount vs peers.

PEERS COMPARISON

Stock	Price	Mkt Cap	PE Adj. 19E	P CF 19E	EV / Ebitda 19E	Ebitda Margin 19E	Dvd Yield 19E	D / Ebitda 19E
Brembo	14.15	4,725	15.8 x	10.4 x	8.9 x	19.6%	1.8%	-0.3 x
Interpump	25.75	2,804	18.4 x	13.9 x	11.0 x	22.9%	1.4%	0.2 x
Sabaf	19.67	222	15.3 x	7.9 x	13.6 x	21.3%	3.3%	0.4 x
Components producers	70%		**16.5 x**	**10.8 x**	**11.2 x**	**21.3%**	**2.2%**	**0.1 x**
Ima	79.80	3,078	23.0 x	17.2 x	13.5 x	16.0%	2.6%	nm
Luve	10.70	241	14.7 x	6.7 x	6.2 x	12.4%	2.4%	-
Biesse	35.99	985	22.5 x	8.6 x	10.1 x	12.7%	0.5%	-
Prima Industrie	39.34	408	16.5 x	6.5 x	8.7 x	11.4%	1.1%	1.2 x
Machinery producers	30%		**19.2 x**	**9.8 x**	**9.6 x**	**13.1%**	**1.7%**	**1.2 x**
AVERAGE WEIGHTED			**17.3 x**	**10.5 x**	**10.7 x**	**18.8%**	**2.0%**	**0.4 x**
SIT			12.2 x	7.2 x	6.3 x	15.9%	2.0%	0.5 x
Implied Discount			-29%	-31%	-41%	-15%	-4%	23%

In the following table we summarize the main pillars of the investment case.

MAIN PILLARS OF INVESTMENT CASE

Drivers of equity story	Considerations
1. Good position in the reference market	- Strong market share (Up to 50% in the Mechanical controls) - International presence - Consolidated customer base - Well recognized brand - High technological content - High barriers to entry - Opportunity to lever in new business
2. Good underlying market drivers	- Regulatory requirements - Asset substitution (higher tech content, lower energy intensity) - Progressive urbanization - Higher gas penetration - Strict polluting regulation - Energy savings requirement - Energy market liberalization
3. Reasonably visible outlook	- New regulatory requirements - Tenders in the gas meters - Attractive 2017 outlook
4. Relevant short term catalysts	- Debt renegotiation - Combination with INDSTARS2 - >10 €mn savings on interests costs
5. Strong FCF generation	- More than 20 €mn as of 2018 - Additional growth opportunities through M&A - Higher dividend remuneration
6. Attractive valuation	- at -30/-40% discount vs peers

Source: Equita Sim

APPENDIX 1: LIST OF THE MAIN CUSTOMERS

HEATING	SMART GAS METERING
Heating	Smart Gas Metering

Source: Equita Sim

APPENDIX 2: LIST OF THE MAIN COMPETITORS

	MAIN COMPETITORS		
Combustion controls and electronics		Honeywell	American technology conglomerate
		ebmpapst	Leader in fans and motors based in Germany
		B&P Bertelli & Partners	Producer of electronic control devices for heating ventilation and air conditioning appliances
		Invensys	International producer of residential thermostats and industrial controls
		Gruppo Giordano	Electronical control producer for heating ventilation and lightning industry
Air Management	**Flue exhaust kits**	M&G Group	One of the leading manufacturers of flue gas venting and ventilation systems.
		Groppalli	Italian company specialized in heating and conditioning products, fitting system and tooling
	Electric Fans	ebmpapst	Leader in fans and motors based in Germany
		FIME	Operates in ventilation and heatig markets (incorporated in Elica Group Italy)
Smart Gas metering	**Traditional technologies**	elster	Supplier of high quality integrated metering solutions
		Itron	Global technology company providing systems to utilities to measure and manage energy and water flows
		Pietro Fiorentini	Producer and seller of traditional volumetric smart gas meter
	Static and alternative technologies	aem	Producer and seller of static gas meters based on ultrasonic technology
		Landis+Gyr	Provider of integrated services for energy management
		Diehl Metering	Producer and seller of static gas meters based on microthermal flow measurement

Source: Equita Sim on Company presentation

APPENDIX 3: GROUP'S FACILITIES

PADOVA (ITALY): The head offices of the Group are situated in Padua (Italy), together with the manufacturing units, where SIT SPA produces components and the main family of gas meters destined for the European market.

ROVIGO (ITALY): SIT SPA runs the die-casting of the aluminium bodies and their machining, in addition to the assembly of some accessories and gas controls.

MONTECASSIANO (ITALY): designs, manufactures and markets electric fans, flue kits and burners for atmospheric and condensing boilers and for domestic cooker hoods.

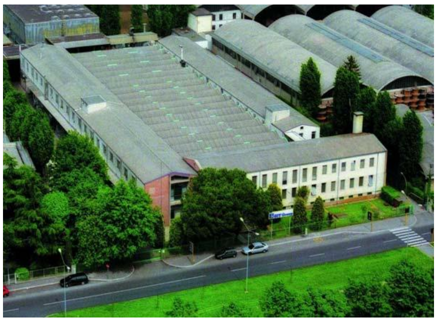
HOOGEVEEN (NETHERLANDS): produces electronic safety and controls boards for heating appliances.

BRASOV (ROMANIA): produces gas controls

MONTERREY (MEXICO): produces the gas controls, sensors and burners destined for the American and Australian market.

SUZHOU (CHINA) is a factory for the production of mechanical controls, mainly destined for the local market.

SIT SPA – Padova plant



SIT SPA – Rovigo plant

SIT SPA – Montecassiano plant

SIT SPA – Hoogeveen plant

SIT SPA – Brasov plant

SIT SPA – Suzhou Plant

Source: Equita Sim from SIT web site

STATEMENT OF RISK

The primary elements that could positively/negatively impact SIT include:
- Changes in the sector's regulatory framework
- Increasing competition in the reference markets
- Changes in the main economic drivers
- Significant increase in interest rates
- Higher penetration of the "District" heating systems

P&L	2014	2015	2016	2017E	2018E	2019E
Revenues	**258**	**264**	**288**	**310**	**319**	**337**
Growth	5%	2%	9%	8%	3%	5%
Total opex	-224	-229	-244	-262	-269	-283
Growth	7%	2%	6%	8%	2%	5%
Margin	-87%	-87%	-85%	-85%	-84%	-84%
EBITDA	**33.4**	**32.2**	**43.5**	**43.0**	**50.2**	**53.5**
Growth	-6%	-4%	35%	-1%	17%	7%
Margin	13%	12%	15%	14%	16%	16%
Depreciation& amortization	-20	-20	-20	-20	-21	-22
Provisions	0	0	0	0	0	0
Depreciation&provistion	**-20.0**	**-20.2**	**-20.0**	**-20.0**	**-20.8**	**-21.6**
EBIT	**13.4**	**12.0**	**23.5**	**23.0**	**29.4**	**31.9**
Growth	-31%	-10%	95%	-2%	28%	8%
Margin	5%	5%	8%	7%	9%	9%
Net financial profit/Expenses	-18.4	-17.4	-18.4	-19.1	-5.9	-5.3
Profits/exp from equity inv	0.0	0.0	0.0	0.0	0.0	0.0
Other financial profit/Exp	0.0	0.0	0.0	0.0	0.0	0.0
Total financial expenses	**-18.4**	**-17.4**	**-18.4**	**-19.1**	**-5.9**	**-5.3**
Non recurring pre tax	0.0	0.0	0.0	0.0	0.0	0.0
Profit before tax	**-5.0**	**-5.4**	**5.1**	**3.8**	**23.6**	**26.6**
Growth	-130%	8%	-194%	-25%	516%	13%
Taxes	**-3.0**	**5.7**	**-3.4**	**-3.1**	**-5.1**	**-5.6**
Tax rate	1090%	36%	32%	32%	32%	33%
Minoritiy interests	**0.0**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**
Non recurring post tax	0.0	0.0	0.0	0.0	0.0	0.0
Net income	**-8.0**	**0.4**	**1.7**	**0.8**	**18.5**	**21.0**
Growth	-184%	-105%	302%	-56%	2299%	14%
Margin	-3%	0%	1%	0%	6%	6%
Adj. net income	**-6.0**	**4.7**	**5.2**	**8.5**	**22.7**	**25.3**
Growth	-163%	-179%	11%	63%	169%	11%
Margin	-2%	2%	2%	3%	7%	8%

CF Statement	2014	2015	2016	2017E	2018E	2019E
Cash Flow from Operations	na	na	20.9	21.9	39.8	43.5
(Increase) decrease in OWC	na	na	9.6	-0.6	-1.0	-0.9
(Purchase of fixed assets)	na	na	-13.5	-16.0	-19.0	-15.5
(Other net investments)	na	na	0.0	0.0	0.0	0.0
(Distribution of dividends)	na	na	0.0	0.0	-4.5	-5.5
Rights issue	na	na	14.0	52.2	0.0	0.0
Other	na	na	-0.1	0.0	0.0	0.0
(Increase) Decrease in Net Debt	**na**	**na**	**30.9**	**57.5**	**15.3**	**21.6**

Source: EQUITA SIM estimates and company data

INFORMATION PURSUANT TO ARTICLE 69 ET SEQ. OF CONSOB (Italian securities & exchange commission) REGULATION no. 11971/1999

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In the past EQUITA SIM has not published studies on Industrial Stars of Italy 2

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Date	Rec.	Target Price (€)	Risk	Comment
n.a.				

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	COMPANIES COVERED	COMPANIES COVERED WITH BANKING RELATIONSHIP
BUY	31.8%	40.0%
HOLD	64.7%	60.0%
REDUCE	3.5%	0.0%
NOT RATED	0.0%	0.0%

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