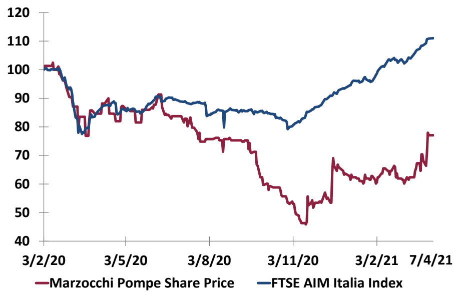
MARZOCCHIPOMPE
HIGH PRESSURE GEAR PUMPS

OUTPERFORM

Current Share Price (€): 3.54

Target Price (€): 5.03

Marzocchi Pompe - Share Performance



Source: S&P Capital IQ - Note: 07/04/2021=100

Company data

ISIN number	IT0004376858
Bloomberg code	MARP IM
Reuters code	MARP.MI
Industry	Pumps & pumping equipment
Stock market	AIM Italia
Share Price (€)	3.54
Date of Price	07/04/2021
Shares Outstanding (m)	6.5
Market Cap (€m)	23.1
Market Float (%)	23.22%
Daily Volume	750
Avg Daily Volume YTD	8,231
Target Price (€)	5.03
Upside (%)	42%
Recommendation	OUTPERFORM

Share price performance

	1M	3M	1Y
Marzocchi Pompe - Absolute (%)	26%	26%	-11%
FTSE AIM Italia (%)	8%	16%	28%
1Y Range H/L (€)		4.60	2.06
YTD Change (€) / %		0.68	24%

Source: S&P Capital IQ

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2020 performance over expectations, all next targets at reach

The H2 2020 sales boost brings a brilliant outlook: the pandemic does not impact operations and achievements despite market troubles

2020 facts speak louder than words: sales jumped nearly 20% in H2 vs. H1, operating profit went over 15% on sales, after H1 3 weeks of production lost and orders cut due to lockdowns in key markets impacting sales, inventory and working capital. At year end, cash inflow cut financial debt for over 25% and exports close to 80% of sales. A summary of facts on the bright side replaces initial concerns of facing a troubled year.

Outlook: competitive advantage and dynamic end-markets driving expectations

The pandemic is not yet over and other fluctuations may be expected. The good balance of domestic and export sales has proven to work as a risk reduction factor in difficult times. Prompt orders rebound indicates that best customers are into cutting edge technology and that Marzocchi has a competitive advantage as a preference supplier. The China joint-venture looks as a timely move to leverage on market innovation.

FY20 ahead of our estimates confirms mid-term outlook

Marzocchi's business in 2020 performed ahead of our estimates, which we had conservatively revised last October, reflecting the slowdown in H1 orders due to the global pandemic impact on operations of end-markets. The success of actions to cope with a challenging environment gives confidence and confirms our view about operational and organic growth objectives as just delayed. We also continue to appreciate the Company's conservative accounting attitude: no extraordinary revaluations of assets or investments and depreciation suspension, although permitted by a pandemic related government decree, will be enacted. Thus, we are maintaining our estimates for 2021-2023, with just some fine tuning to factor in 2020 actual figures and expected dividend distribution.

Target Price €5.03 per share (from €3.61), confirming OUTPERFORM rating

Marzocchi had no harm, other than temporary, on its solid balance sheet and cash generation ability. Market dynamics, competitive advantage and sound accounting policies build confidence in mid-term management guidelines while our market multiples and regression analyses indicate a discount gap on the share price.

Our updated valuation suggests a target price of €5.03 per share, from €3.61, (42% upside on current share price of €3.54) and we keep an OUTPERFORM recommendation.

Key financials and estimates

€m	2019	2020	2021E	2022E	2023E
Revenues	**39.3**	**34.8**	**37.7**	**39.7**	**43.3**
EBITDA	**6.3**	**4.1**	**6.4**	**7.0**	**7.3**
Margin	*16.0%*	*11.9%*	*17.1%*	*17.5%*	*16.8%*
Net (Debt) Cash	**(12.5)**	**(9.2)**	**(7.6)**	**(4.2)**	**(0.8)**
Equity	**18.7**	**18.4**	**19.0**	**19.9**	**21.7**

Source: Company data 2018-20A, EnVent Research 2021-23E

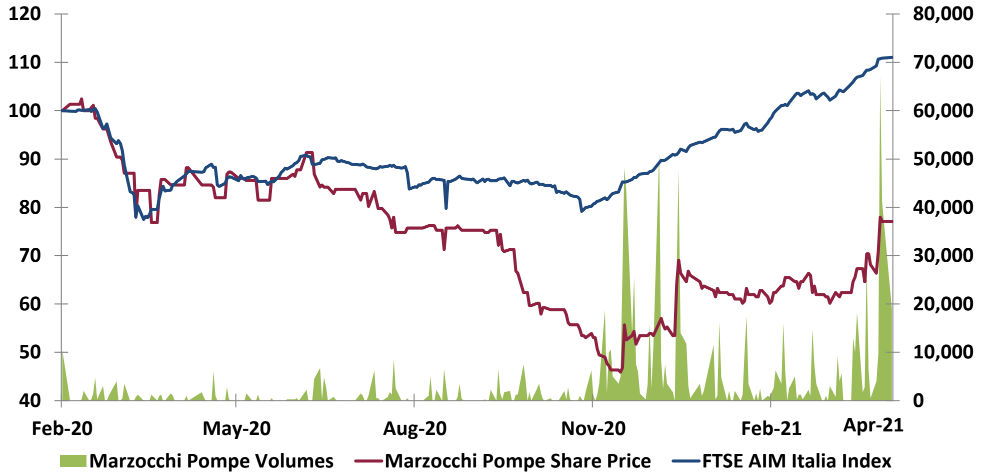
KPIs	2019	2020	2021E	2022E	2023E
TWC/Sales	29%	27%	31%	29%	30%
Net Debt / EBITDA	2.0x	2.2x	1.2x	0.6x	0.1x
Net Debt / Equity	0.7x	0.5x	0.4x	0.2x	0.0x
Net Debt / (Net Debt+Equity)	0.4x	0.3x	0.3x	0.2x	0.0x
Cash flow from P&L operations / EBITDA	106%	114%	95%	93%	90%
FCF / EBITDA	18%	103%	39%	61%	43%

Market update

Share price performance: excess impact of Covid-19 along 2020 (min Nov-20 -54%) compared to -15% sales drop. Partial recovery in 2021 (+24% YTD). Underperformance (-23%) vs. AIM Italia Index (+11%)

Marzocchi Pompe shares since IPO traded in the range €2.06-5.25, with beginning price at €4.97 and ending at €3.54, 29% drop.

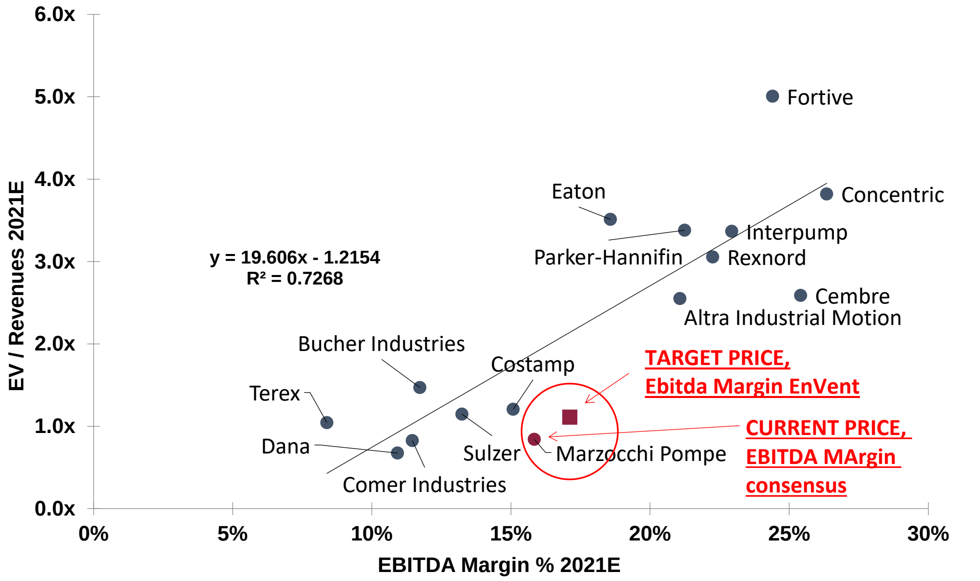
Marzocchi Pompe - Share price performance and trading volumes



Source: EnVent Research on S&P Capital IQ - Note: 07/04/2021=100

Upside potential towards embedded values implied by EV/Revenues multiples of peers with diversified operations

Peer group - Regression analysis and Marzocchi Pompe target positioning

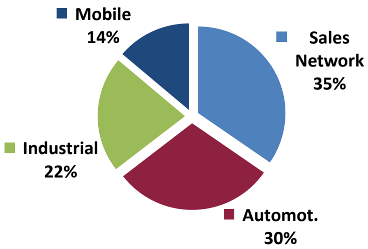


Source: EnVent Research on S&P Capital IQ,March 2021

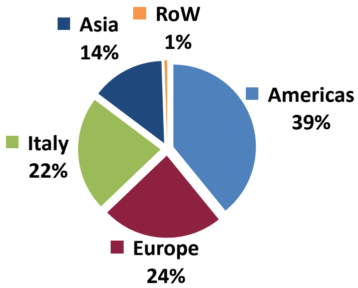
FY20: sales €34.1m and debt down to €9.2m thanks to high performance in H2

Consolidated sales in 2020 were €34.1m, -15% YoY, reflecting the impact of Covid-19 in H1. Automotive sales experienced a minor decrease (-4% YoY), thanks to the jump in H2 (+56% on H1 2020 and +40% on H2 2019), while the core business segment (Industrial, Mobile and Sales Network), representing 70% of sales, was

Sales by channel, 2020



Sales by geography, 2020



Source: Company data

more impacted (-18.6% YoY, +6% on H1 2020). Exports increased to 78% of sales, thanks to the faster recovery in the North American market. Total revenues were €34.8m.
EBITDA was €4.1m, vs. €6.3m in 2019 (margin 11.9% vs. 16% in 2019). EBIT, after €5.2m D&A, at €(1.1)m from €0.9m in 2019. After accounting for deferred tax assets, net income at breakeven.

Trade Working Capital at year-end 2020 was €9.1 (27% of sales) decreased by 21% compared to 2019, driven by lower receivables. Payables returned to normal levels after the sharp decrease in 2019. Capital expenditure was €1.6m, 5% of revenues. Net financial debt decreased along 2020 from €12.5m to €9.2m.
Operating cash flow after working capital and capex was €4.3m, over 100% of EBITDA. Net cash flow was €3.3m.

Outlook: opportunities from automotive supply chain and *core business* orders

High margins, cash flows and dividends horizon

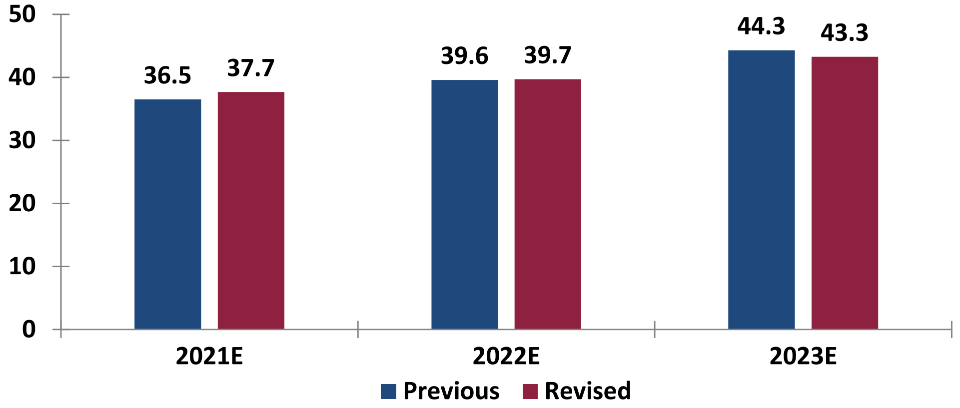
Although FY2020 results were affected by a slowdown in orders due to Covid-19, the rebound in H2 depicts a positive outlook.
We concur with the management that the global automotive industry supply chains and the wider motion control industry have been less impacted than other industries. Despite a serious decrease at the beginning of 2020, the Industrial and Mobile segments multiple product applications have proven resilient, while the geographical diversification of end-markets balanced demand fluctuations.
In 2021, although bottlenecks in the supply of microchips forced carmakers to slow down production, order volumes have been confirmed.
Thus, we assume growth and recovery from 2021 onwards with a return to pre-Covid levels within 2022, envisaging high margins, cash flows and dividends.

Estimates revision

One year shifting of pre-Covid targets, cash generation and dividends

As anticipated in our *Flash Note* issued last January, Marzocchi's business in 2020 performed ahead of our estimates, which we had conservatively revised last October, reflecting the slowdown in H1 orders due to the global pandemic impact on operations of end-markets. The 2020 success of actions adopted to cope with a challenging environment gives confidence and confirms our view about operational and organic growth objectives as just delayed. Thus, we are maintaining our estimates for 2021-2023, with just some fine tuning to factor in 2020 actual figures. Management has communicated the intention of purchasing own shares and continuing dividend distributions in 2021. We have included in our model dividends considering a stable cash generation for following years.

Change in estimates



	Revised			Previous			Change %		
€m	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenues	37.7	39.7	43.3	36.5	39.6	44.3	3%	0%	-2%
EBITDA	6.4	7.0	7.3	5.8	6.8	7.7	11%	2%	-5%
Margin	*17%*	*18%*	*17%*	*16%*	*17%*	*17%*			
EBIT	1.8	2.2	2.4	1.3	2.2	2.9	41%	0%	-18%
Margin	*5%*	*6%*	*6%*	*4%*	*6%*	*7%*			
Net Income (Loss)	1.0	1.3	2.2	0.6	1.3	1.8	63%	-2%	22%
Net (Debt) Cash	(7.6)	(4.2)	(0.8)	(8.9)	(5.5)	(2.7)			
Net Debt / EBITDA	*1.2x*	*0.6x*	*0.1x*	*1.5x*	*0.8x*	*0.4x*			

Source: EnVent Research

Financial projections

Timely cost realignment weakened lower sales effect on operating profit which remains double-digit

Consolidated Profit and Loss

€m	2018	2019	2020	2021E	2022E	2023E
Sales	42.1	40.0	34.1	36.5	39.1	41.8
Change in inventory	1.1	(1.4)	(0.3)	0.4	(0.1)	0.7
Other income	0.2	0.7	0.9	0.7	0.7	0.7
Total Revenues	**43.4**	**39.3**	**34.8**	**37.7**	**39.7**	**43.3**
YoY %	*9.2%*	*-9.6%*	*-11.5%*	*8.4%*	*5.4%*	*8.9%*
Materials	(10.2)	(8.4)	(7.9)	(7.7)	(8.2)	(9.8)
Services	(12.0)	(10.7)	(9.6)	(9.9)	(10.6)	(11.3)
Personnel	(13.1)	(13.3)	(12.4)	(13.1)	(13.4)	(14.1)
Other operating costs	(0.7)	(0.7)	(0.7)	(0.5)	(0.6)	(0.8)
Operating charges	**(35.9)**	**(33.0)**	**(30.6)**	**(31.2)**	**(32.7)**	**(36.0)**
EBITDA	**7.5**	**6.3**	**4.1**	**6.4**	**7.0**	**7.3**
Margin	*17.3%*	*16.0%*	*11.9%*	*17.1%*	*17.5%*	*16.8%*
D&A	(5.3)	(5.4)	(5.2)	(4.6)	(4.8)	(4.9)
EBIT	**2.2**	**0.9**	**(1.1)**	**1.8**	**2.2**	**2.4**
Margin	*5.2%*	*2.3%*	*-3.2%*	*4.9%*	*5.6%*	*5.5%*
Non-recurring items	1.6	(0.2)	0.0	0.0	0.0	0.0
Interest	(0.6)	(0.7)	(0.5)	(0.5)	(0.4)	(0.4)
Exchange gain (loss)	0.0	0.0	0.0	0.0	0.0	0.0
Impairment of financial assets	0.1	(0.1)	(0.0)	0.0	0.0	1.0
EBT	**3.4**	**(0.0)**	**(1.6)**	**1.4**	**1.8**	**3.0**
Margin	*7.9%*	*-0.1%*	*-4.7%*	*3.7%*	*4.5%*	*6.9%*
Income taxes	(0.5)	0.2	1.9	(0.4)	(0.5)	(0.8)
Net Income (Loss)	**2.9**	**0.2**	**0.2**	**1.0**	**1.3**	**2.2**
Margin	*6.7%*	*0.5%*	*0.7%*	*2.6%*	*3.2%*	*5.1%*

Source: Company data 2018-20A, EnVent Research 2021-23E

Consolidated Balance Sheet

Depreciation reducing invested capital

€m	2018	2019	2020	2021E	2022E	2023E
Inventory	9.3	8.1	7.7	8.1	8.0	8.7
Trade receivables	6.3	7.1	5.6	6.8	7.2	7.8
Trade payables	(6.1)	(3.7)	(4.1)	(3.6)	(3.9)	(4.0)
Trade Working Capital	9.5	11.5	9.1	11.3	11.3	12.5
Other assets (liabilities)	(2.8)	(2.0)	(0.7)	(1.5)	(1.6)	(1.7)
Net Working Capital	**6.7**	**9.6**	**8.4**	**9.8**	**9.7**	**10.8**
Intangible assets	0.7	1.4	1.5	1.2	0.9	0.6
Property, plant and equipment	25.8	23.5	19.7	17.7	15.5	13.2
Equity investments and financial assets	1.3	1.2	1.2	1.2	1.2	1.2
Non-current assets	**27.8**	**26.1**	**22.4**	**20.1**	**17.7**	**15.1**
Provisions	**(4.3)**	**(4.5)**	**(3.2)**	**(3.3)**	**(3.3)**	**(3.4)**
Net Invested Capital	**30.2**	**31.2**	**27.7**	**26.6**	**24.1**	**22.5**
Net Debt (Cash)	**19.2**	**12.5**	**9.2**	**7.6**	**4.2**	**0.8**
Equity	**11.0**	**18.7**	**18.4**	**19.0**	**19.9**	**21.7**
Sources	**30.2**	**31.2**	**27.7**	**26.6**	**24.1**	**22.5**

Source: Company data 2018-20A, EnVent Research 2021-23E

Consolidated Cash Flow

Lower working capital offsetting decrease of cash from revenues

€m	2018	2019	2020	2021E	2022E	2023E
EBIT	**2.2**	**0.9**	**(1.1)**	**1.8**	**2.2**	**2.4**
Current taxes	(0.5)	0.2	1.9	(0.4)	(0.5)	(0.8)
D&A	5.3	5.4	5.2	4.6	4.8	4.9
Provisions	(0.3)	0.2	(1.3)	0.1	0.0	0.1
Cash flow from P&L operations	**6.8**	**6.7**	**4.7**	**6.1**	**6.5**	**6.6**
Trade Working Capital	1.3	(2.0)	2.4	(2.1)	(0.0)	(1.2)
Other assets and liabilities	(0.2)	(0.8)	(1.3)	0.8	0.1	0.1
Capex	(1.9)	(2.7)	(1.6)	(2.3)	(2.3)	(2.3)
Operating cash flow after working capital and capex	**5.9**	**1.1**	**4.3**	**2.5**	**4.2**	**3.2**
Non-recurring items	1.6	(0.2)	0.0	0.0	0.0	0.0
Interest	(0.6)	(0.7)	(0.5)	(0.5)	(0.4)	(0.4)
Impairment of financial assets	0.1	(0.1)	(0.0)	0.0	0.0	1.0
Equity investments and financial assets	(0.1)	0.1	0.0	0.0	0.0	0.0
Goodwill allocation	(7.0)	0.0	0.0	0.0	0.0	0.0
Equity adjustment from reverse merger	(4.7)	0.0	0.0	0.0	0.0	0.0
Capex - IPO cost	0.0	(1.1)	0.0	0.0	0.0	0.0
IPO proceeds	0.0	7.5	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	(0.5)	(0.4)	(0.4)	(0.4)
Net cash flow	**(4.8)**	**6.7**	**3.3**	**1.7**	**3.4**	**3.4**
Net Debt (Beginning)	(14.4)	(19.2)	(12.5)	(9.2)	(7.6)	(4.2)
Net Debt (End)	(19.2)	(12.5)	(9.2)	(7.6)	(4.2)	(0.8)
Change in Net Debt (Cash)	**(4.8)**	**6.7**	**3.3**	**1.7**	**3.4**	**3.4**

Source: Company data 2018-20A, EnVent Research 2021-23E

Ratio analysis

KPIs	2019	2020	2021E	2022E	2023E
ROE	1%	1%	5%	6%	10%
ROS (EBIT/Sales)	2%	-3%	5%	6%	6%
ROIC (NOPAT/Invested Capital)	2%	-3%	5%	7%	8%
DOI	77	83	80	75	75
DSO	55	50	55	55	55
DPO	55	68	60	60	55
TWC/Sales	29%	27%	31%	29%	30%
Net Debt / EBITDA	2.0x	2.2x	1.2x	0.6x	0.1x
Net Debt / Equity	0.7x	0.5x	0.4x	0.2x	0.0x
Net Debt / (Net Debt+Equity)	0.4x	0.3x	0.3x	0.2x	0.0x
Cash flow from P&L operations / EBITDA	106%	114%	95%	93%	90%
FCF / EBITDA	18%	103%	39%	61%	43%
Per-capita revenues (€k)	153	131	148	155	158
Earnings per Share (€)	0.03	neg.	0.15	0.19	0.33

Source: Company data 2018-20A, EnVent Research 2021-23E

ENVENT
RESEARCH & ANALYSIS

Valuation

We have carried on and updated our DCF valuation model, in which we have no longer kept the judgmental additional risk factor applied in our previous flash note to consider the covid related uncertainty. We have also updated market multiples and the regression analysis and noticed that: the industry as a whole is well performing; Marzocchi, even conservatively applying a size-based discount, could reach higher EV/Revenues values compared to our DCF outcome.

Discounted Cash Flows

Updated assumptions:

- Risk free rate: 1.5% (Italian 10-year government bonds interest rate - 3Y average. Source: Bloomberg, March 2021)
- Market return: 13.3% (3Y average. Source: Bloomberg, March 2021)
- Market risk premium: 11.7%
- Beta: 0.9 (pre-Covid median of core business peers)
- Cost of equity: 12.1%
- Cost of debt: 2.5%
- Tax rate: 24% IRES
- 40% debt/(debt + equity) as target capital structure
- WACC calculated at 8.0%, according to above data
- Perpetual growth rate after explicit projections: 2.0%
- Terminal Value assumes a normalized EBIT margin of 9.3%

DCF Valuation

€m		2019	2020	2021E	2022E	2023E	Perpetuity
Revenues		**39.3**	**34.8**	**37.7**	**39.7**	**43.3**	**44.1**
EBITDA		**6.3**	**4.1**	**6.4**	**7.0**	**7.3**	**6.6**
Margin		*16.0%*	*11.9%*	*17.1%*	*17.5%*	*16.8%*	*15.0%*
EBIT		**0.9**	**(1.1)**	**1.8**	**2.2**	**2.4**	**4.1**
Margin		*2.3%*	*-3.2%*	*4.9%*	*5.6%*	*5.5%*	*9.3%*
Taxes		(0.3)	0.3	(0.5)	(0.6)	(0.7)	(1.1)
NOPAT		**0.7**	**(0.8)**	**1.3**	**1.6**	**1.7**	**3.0**
D&A		5.4	5.2	4.6	4.8	4.9	2.5
Provisions		0.2	(1.3)	0.1	0.0	0.1	0.0
Cash flow from operations		**6.2**	**3.1**	**6.0**	**6.4**	**6.7**	**5.5**
Trade Working Capital		(2.0)	2.4	(2.1)	(0.0)	(1.2)	(0.5)
Other assets and liabilities		(0.8)	(1.3)	0.8	0.1	0.1	0.0
Capex		(2.7)	(1.6)	(2.3)	(2.3)	(2.3)	(2.5)
Unlevered free cash flow		**0.6**	**2.7**	**2.4**	**4.1**	**3.3**	**2.5**
WACC	8.0%						
Long-term growth (G)	2.0%						
Discounted Cash Flows				**2.2**	**3.5**	**2.6**	
Sum of Discounted Cash Flows	8.4						
Terminal Value							**42.5**
Discounted TV	33.8						
Enterprise Value	**42.1**						
Net Debt as of 31/12/20	(9.2)						
Equity Value	**32.9**						

DCF - Implied multiples	**2019**	**2020**	**2021E**	**2022E**	**2023E**
EV/Revenues	1.1x	1.2x	1.1x	1.1x	1.0x
EV/EBITDA	6.7x	10.2x	6.5x	6.1x	5.8x
EV/EBIT	46.5x	neg	22.9x	19.1x	17.6x
P/E	162.0x	neg	33.6x	25.8x	15.0x

Source: EnVent Research

Target Price

The application of our valuation model yields a share price of €5.03 (revising our previous €3.61 per share TP). With a potential upside of 42% on the current share price, we keep an OUTPERFORM recommendation.

Please refer to important disclosures at the end of this report.

Marzocchi Pompe Price per Share	€
Target Price	5.03
Current Share Price (07/04/2021)	3.54
Premium (Discount)	**42%**

Source: EnVent Research

Annex

Peer Group - Market Multiples

Company	EV/REVENUES 2020	EV/REVENUES 2021E	EV/REVENUES 2022E	EV/EBITDA 2020	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2020	EV/EBIT 2021E	EV/EBIT 2022E	P/E 2020	P/E 2021E	P/E 2022E
Marzocchi Pompe	1.0x	0.8x	0.8x	9.6x	5.3x	4.5x	neg	23.2x	13.7x	neg	30.7x	14.7x
OEM and Tier 1												
Bucher Industries	1.6x	1.5x	1.4x	15.2x	12.5x	11.3x	21.4x	16.4x	14.9x	31.5x	22.9x	20.3x
Altra Industrial Motion	2.8x	2.6x	2.4x	13.4x	12.1x	10.8x	20.8x	n.a.	n.a.	neg	17.1x	14.6x
Concentric	4.1x	3.8x	3.6x	17.7x	14.5x	13.5x	23.6x	16.8x	15.3x	31.6x	24.2x	21.9x
Parker-Hannifin	3.3x	3.4x	3.1x	17.9x	15.9x	14.4x	22.7x	18.9x	16.8x	32.5x	22.2x	19.6x
Interpump	3.7x	3.4x	3.1x	16.9x	14.7x	13.6x	23.1x	19.4x	17.7x	30.1x	25.4x	23.0x
Eaton	3.6x	3.5x	3.3x	25.0x	18.9x	16.7x	36.4x	24.7x	21.3x	40.7x	24.7x	21.6x
Sulzer	1.2x	1.1x	1.1x	11.6x	8.7x	7.8x	18.7x	14.1x	12.1x	41.6x	17.7x	14.6x
Dana	0.8x	0.7x	0.6x	11.0x	6.2x	5.4x	33.8x	10.6x	8.5x	neg	10.3x	7.8x
Terex	1.3x	1.0x	0.9x	31.2x	12.4x	9.7x	52.2x	14.8x	11.1x	neg	19.9x	14.4x
Fortive	5.7x	5.0x	4.7x	25.8x	20.5x	18.9x	41.4x	30.8x	27.1x	15.3x	26.9x	24.6x
Rexnord	3.5x	3.1x	2.9x	18.9x	13.7x	12.7x	25.1x	17.5x	15.1x	36.9x	23.9x	21.3x
Mean	**2.9x**	**2.6x**	**2.5x**	**18.6x**	**13.7x**	**12.2x**	**29.0x**	**18.4x**	**16.0x**	**32.5x**	**21.4x**	**18.5x**
Median	**3.3x**	**3.1x**	**2.9x**	**17.7x**	**13.7x**	**12.7x**	**23.6x**	**17.1x**	**15.2x**	**32.0x**	**22.9x**	**20.3x**
Italian industrial small and mid caps												
Cembre	2.8x	2.6x	2.5x	10.9x	10.2x	9.8x	14.9x	14.4x	13.8x	20.4x	19.9x	19.1x
Comer Industries	0.9x	0.8x	0.8x	8.2x	7.2x	6.4x	16.0x	12.8x	10.6x	23.2x	18.3x	15.2x
Costamp	1.3x	1.2x	1.1x	9.9x	8.0x	7.0x	18.5x	13.1x	10.6x	18.7x	13.9x	10.2x
Mean	**1.7x**	**1.5x**	**1.5x**	**9.7x**	**8.5x**	**7.7x**	**16.5x**	**13.4x**	**11.7x**	**20.8x**	**17.4x**	**14.8x**
Median	**1.3x**	**1.2x**	**1.1x**	**9.9x**	**8.0x**	**7.0x**	**16.0x**	**13.1x**	**10.6x**	**20.4x**	**18.3x**	**15.2x**

Source: S&P Capital IQ, March 2021

Investment Case

Company

Marzocchi Pompe S.p.A. (Marzocchi) is an Italian designer and producer of a wide range of high performance external gear pumps, whose reference market is the wider Power Transmission and Motion Control (PTMC) industry. Marzocchi products are extensively used in motion related applications in which reliability and precision are critical.
Customers vary across sectors: industrial (textile machines, machine tools, plastic injection machines, medical equipment, energy, etc.), mobile (agricultural machines, forklift trucks, etc.) and automotive (transmissions, power steering, attitude adjusters, etc.). Marzocchi serves Original Equipment Manufacturers (OEM) customers as Tier 1 supplier and large Tier 1 suppliers in the industry as Tier 2 supplier.
Key figures (2020)

- Sales €34.1m
- Geographical breakdown: Americas 39% - Europe (excl. Italy) 24% - Italy 22% - Asia 14%
- Sector breakdown: 70% Industrial and Mobile, 30% Automotive
- 2 production plants and 2 subsidiaries in the U.S and China
- 260 Employees

Revenue drivers

Revenues are generated by continuing relationships in the Power Transmission and Motion Control industry based on the reputation of technical excellence. A significant portion of revenues is generated by long-term contracts as sole supplier of high performance components for Tier 1 large multinational customers. Marzocchi's business model relies on a partnership model and joint engineering for the development of ad hoc motion control technology with customers based on their needs. As such, Marzocchi has high visibility on revenues, of which a major portion comes from recurring customers.

Drivers

Industry drivers

Motion control and innovation technology. The global Power Transmission Motion Control market is driven by general macro-economic growth, the rapid pace of globalization and developments in automation technologies. The availability of advanced applications has fostered the rising demand for *motion control* in the medical, food and beverage, electrical, automotive and machinery industries.

Industrial power transmission, a huge global industry. The global PTMC industry generated $200bn sales in 2018. Main segments: mechanical power transmission; motors and generators; adjustable speed drives. The Motion control segment in which Marzocchi

competes would be worth $100bn globally in 2018 based on historical ratios.
Motion control products tend to be higher margin than power transmission products due to a greater use of technology and leverage in end markets with more attractive technological trends. The global PTMC industry, in which Marzocchi competes, is highly fragmented, with over 1,000 small manufacturers and relatively few players of scale. Smaller companies tend to focus on regional niche markets with narrow product lines, larger players that generate annual revenue of over $100m generally offer a broader range of products and provide global sales and service capabilities. (Source: Altra website). Marzocchi matches such global standing profile, despite its somewhat lower level of sales.

Automation - reference markets trends all up. According to UBS, automation market size is around $170bn growing on average by 3-4% from 2010 till 2017. Automation is increasingly used outside automotive industry, which provides a growth opportunity for automation equipment manufacturers. The need for improving efficiency, flexibility, quality and productivity of manufacturing industries is driving the growth of the global industrial automation market. (Source: UBS, *Longer term investments*, 2018)

Automation growth impacts fluid power market trend. The fluid power market is the first sector that benefits from automation needs. Hydraulic end-use market is forecasted to grow constantly with an average rate of 3% worldwide for the period 2018-22 (Source: National Fluid Power association and Oxford Economics, *Strong outlook but risks are brewing*, 2018).

Advanced Driver Assistance Systems (ADAS) to fuel additional growth. According to McKinsey, most industry experts agree on substantial revenues and double-digit growth for Advanced Driver Assistance Systems in the years to come. This is likely to give the segment one of the highest growth rates in the automotive sector and related industries.
Within the automotive sector, a large end-user of hydraulic components, the rising demand for advanced systems such as drowsiness monitoring, night vision, and road sign recognition system is expected to impact the overall industry and the Hydraulic segment itself. A progressive scenario from McKinsey estimates around 50% of vehicles sold in 2030 being highly autonomous and around 15% being fully autonomous (Source: McKinsey, *Automotive revolution - perspective towards 2030*, 2016).

Company drivers

Flexible business model based on teamwork and partnerships with customers. Marzocchi Pompe's business model relies on R&D and new product development, in partnership with its OEM or global supply chain Tier 1 customers, meeting their technology and product quality demands. Standing of customers and recurring sales volumes of engineered specialty products is evidence that Marzocchi is a preferred supplier to top automotive and industrial machinery customers that addresses their needs effectively.

Wide and diversified product portfolio. Marzocchi product portfolio includes a vast range of engineered high-technology external gear pumps, covering the needs of most applications. Products include a significant number of unique and customized parts based on customers' needs. Marzocchi is also specialized in micro-hydraulics, such as low displacement pumps, which require technologically advanced production processes.

Development and innovation skills, state-of-the-art manufacturing. Marzocchi has the expertise and capabilities to lead the full deployment of a development program, from the conceptual and simulation phase to the full production of gear pumps. Application-engineering skills and aptitude to innovation drive new and repeat sales, proven by an established history of technology development protected through active patents such as that of ELIKA pump.

Strong and long-standing relationships with world class customers generate recurring revenues. In an industry where technology content, reliability, technical support and responsive customer service are key competitive factors, relationships standing from decades and long-term contracts as sole supplier of high performance components for Tier 1 large multinational customers, prove that Marzocchi has competitive advantages among world class competitors, which in turn generated and continue to generate recurring revenue with repeat customers.

Ability to develop custom solutions for complex customer requirements. Large Tier 1 customers incorporate Marzocchi products into the designs of their equipment, through a joint engineering development of an application which will have a long lifecycle. This implies the convenience of having Marzocchi as sole supplier for the entire lifecycle due to high switching costs and a partnership aptitude, which in turn leads to fair pricing.

Global presence. Marzocchi has global presence: two production plants in Italy and two subsidiaries in the US and China. Operating in the proximity of local customers is a key trait of the industry. This means optimizing the supply chain and developing new technologies in partnership with customers.

Visibility of revenues in the mid-term and solid backlog. The customer partnership model allows for high visibility of the top-line, given that the industry standard long-term agreements generally last a minimum of three years. As such, a substantial portion of revenues over the years comes consistently from its loyal customers who assign repeat engagements. This has permitted Marzocchi to gain the status of strategic supplier of those prominent customers who consider its products and services to be crucial for their performance.

Risk management aptitude. The geographical and end markets diversification of revenues and procurement, with low concentration among customers and suppliers, is a major risk management tool to face the cyclicality inherent in most industry segments. Equally effective are quality and performance requirements necessary to monitor and maintain world-class manufacturing standards imposed by customers and in turn dictated to suppliers.

Challenges

Cyclicality in end markets. Some of the markets served by Marzocchi are highly cyclical, such as the machinery, industrial and automotive equipment.

High rivalry in the competitive hydraulic gear pumps industry. Competition in the industry is based on several factors, including product quality, performance, reliability and innovation, technology, design and engineering capabilities, service and timely delivery. As in all industries, companies are committed to reduce costs, and this, in turn, is reverted to suppliers. As such, the ability to compete in the industry depends also on the ability to generate cost savings.

International markets exposure. Revenues coming from foreign operations account for a large portion of revenues. International operations are generally subject to risks, such as political and economic instability, local labor markets, trade relations, imposition of tariffs and other trade restrictions, etc. In addition, foreign operations outside the Euro-area can impact the financial position due to fluctuations in currency exchange rates.

Acquisition and integration risk. As in most industries, size matters and Marzocchi could consider that living in a world of giants may require a larger size. Acquisitions may be pursued to achieve scale growth, diversification, acquire know-how and technology, expand product and customer portfolio. The achievement of expected benefits and synergies requires integration of manufacturing, engineering, administrative, sales and marketing, distribution, information systems platforms and processes. Targeting acquisitions and integration all require additional competencies.

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Date	Recommendation	Target Price (€)	Share Price (€)
07/10/2019	OUTPERFORM	6.42	4.63
03/04/2020	NEUTRAL	4.27	3.80
20/10/2020	NEUTRAL	2.9	2.6
25/01/2021	OUTPERFORM	3.61	2.78
07/04/2021	OUTPERFORM	5.03	3.54

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