

Marzocchi Pompe	Italy	FTSE AIM Italia	Pumps
Rating: BUY	Target Price: € 6,80	Initiation of Coverage	Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	13,48%	44,29%	60,32%	-1,46%
to FTSE AIM Italia	8,53%	24,05%	21,60%	-37,89%
to FTSE STAR Italia	4,49%	22,38%	28,54%	-56,61%
to FTSE All-Share	8,47%	34,17%	42,48%	-29,75%
to EUROSTOXX	11,91%	35,40%	44,24%	-23,19%
to MSCI World Index	12,88%	34,20%	46,60%	-32,46%

Stock Data

Price	€ 4,04
Target price	€ 6,80
Upside/(Downside) potential	68,2%
Bloomberg Code	MARP IM Equity
Market Cap (€m)	€ 26,42
EV (€m)	€ 35,67
Free Float	23,19%
Share Outstanding	6.538.750
52-week high	€ 4,18
52-week low	€ 1,96
Average daily volumes (3m)	8.000

Key Financials (€m)	FY20A	FY21E	FY22E	FY23E
Revenues	34,1	37,0	39,0	42,5
VoP	34,8	37,5	39,6	43,2
EBITDA	4,1	6,4	6,9	7,8
EBIT Adj.	0,2	2,9	3,0	3,5
Net Profit	0,2	1,0	1,2	1,8
EBITDA margin	12,1%	17,2%	17,6%	18,2%
EBIT Adj. margin	0,7%	7,7%	7,6%	8,1%
Net Profit margin	0,7%	2,7%	3,1%	4,2%

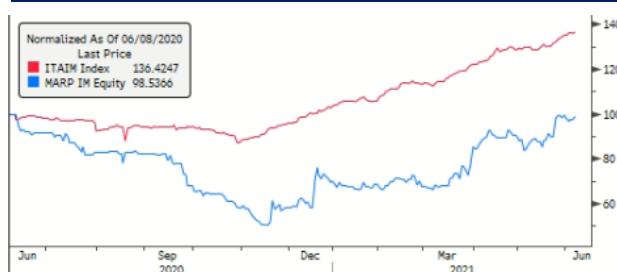
Main Ratios	FY20A	FY21E	FY22E	FY23E
EV/EBITDA (x)	8,6	5,6	5,2	4,6
EV/EBIT Adj. (x)	157,1	12,5	12,1	10,3
P/E (x)	115,9	26,4	22,0	14,7

Mattia Petracca

+39 02 87208 765

mattia.petracca@integraesim.it

Stocks performance relative to FTSE AIM Italia



Company Overview

Marzocchi Pompe Spa is a world leader in the design, production and marketing of high-performance gear pumps and motors, used in the following sectors: industrial (textile machinery, medical equipment, alternative energies), mobile (agricultural machinery, earth-moving machinery, forklift trucks), and automotive (transmissions, power steering, and active suspension).

The pumps carry out the function of bringing a fluid from one low-pressure tank to another high-pressure tank in a hydraulic circuit. The transfer takes place thanks to the rotation of two gear wheels inserted in the pump body.

Market

The fluid power market, which includes all products that use pressurized fluids to generate, control and transmit power, which, according to estimates, generated revenues of € 7 billion, can be divided into two main categories: hydraulic and pneumatic. The hydraulic segment, which also includes the products sold by Marzocchi Pompe, generated a share of about 66% of the total revenues of the fluid power market (equal to approx. € 4.6 billion) during the year. The pneumatic segment generated a share of about 34% of total fluid power revenues during the year (around € 2.4 billion).

Valuation

We have conducted the valuation of Marzocchi Pompe equity value based on the DCF methodology and market multiples of a comparable companies sample. The DCF method (which in the calculation of the WACC includes for prudential purposes also a specific risk of 2.5%) provides an equity value of € 50.5 million. The equity value of Marzocchi Pompe using market multiples is € 38.4 million (including a discount of 25%). The result is an average equity value of approx. € 44.4 million. The target price is € 6.80, rating BUY and MEDIUM risk.

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1. Company overview

1.1 Business activities

Marzocchi Pompe Spa (“Marzocchi Pompe”) is a world leader in the design, production and marketing of high-performance gear pumps and motors, used in the following sectors: industrial (textile machinery, medical equipment, alternative energies), mobile (agricultural machinery, earth-moving machinery, forklift trucks) and automotive (transmissions, power steering, and active suspension). In 2020, the automotive sector generated a share of about 30% of turnover, the remaining 70% was generated by the residual sectors defined by the Company as “core market”.

The pumps carry out the function of bringing a fluid from one low-pressure tank to another high-pressure tank inside a hydraulic circuit (for example a cylinder that drives the shovel of an excavator). The transfer takes place thanks to the rotation of two gear wheels (gears) inserted in the pump body. The Company, as we will see below, deals both with the design and production of the type of external gear pump that best suits the application used by the client.

The Company is able to create both standard products and tailor-made products in order to satisfy the most diverse customer's needs. Unlike standard products, customized products are designed to meet the customer's specific requirements and are not easily replaceable with competitors' pumps or motors. In the course of its business, the Company has developed an important verticality with a very high percentage of processing of the components carried out in-house thanks to a “make” approach preferred to the most widespread “buy” approach. This allows to keep large part of the value chain under its own control and to guarantee the highest quality of the product offered.

The production is concentrated in Italy in two production sites, one in Casalecchio di Reno (BO) and another one in Zola Predosa (BO). The historical site of Casalecchio di Reno (BO) is dedicated to the production and processing of aluminum components and to the assembly and testing phase of products whose application is outside the automotive sector, in the so called “core business”. On the other hand, the main site of Zola Predosa (BO) deals with the production of components and products for the automotive sector.

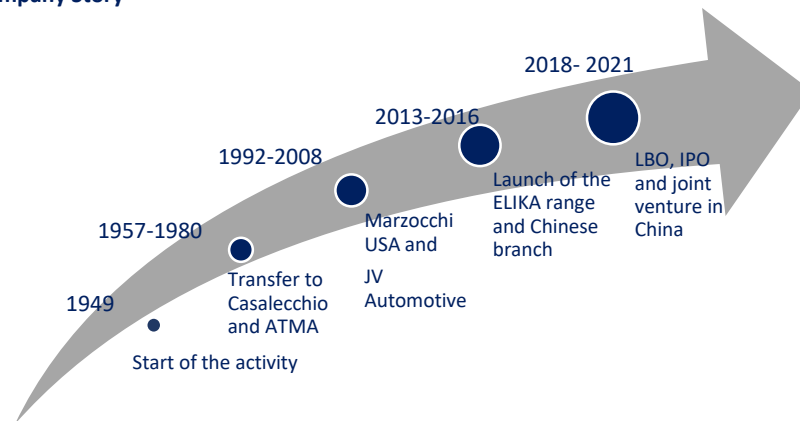
Chart 1 – Marzocchi Pompe



Source: Marzocchi Pompe

1.2 Company history

Chart 2 – Company Story



Source: Marzocchi Pompe

- In 1949, Stefano and Guglielmo Marzocchi, in the basement of their house, began the first activities that will lead to the creation of the Society.
- In 1957 the business was moved to Casalecchio di Reno (BO). Between 1961 and 1965, two different companies were founded: Marzocchi Pompe Spa, active in the design and production of hydraulic pumps at Casalecchio di Reno (BO) and Marzocchi Spa, active in the production of motorcycle suspensions at Zola Predosa (BO). In 1975, ATMA, an engineering company supporting other Group companies, was founded. In 1980 the production of oil pumps for cars in Formula1 starts. Afterwards, ATMA was recently incorporated by Marzocchi Pompe.
- In 1992, a branch of Marzocchi in the USA was founded. In 1998, a production unit was built in Ostellato (FE), thanks to more than € 15 million of investments in collaboration with the TRW Group (now ZF), to produce hydraulic pumps for the automotive market (power steering). In 2002, the unit was transferred to TRW. In 2008, Marzocchi Spa (suspensions division) was sold to the American multinational company Tenneco, specialized in the production of shock absorbers and exhaust systems for the automotive market.
- In 2013 the ELIKA pump began to be produced on a large scale, an innovative product, with very low noise and excellent efficiency standards, even at low rotation speed. Subsequently, in 2015, thanks to an investment of € 12 million, together with a multi-annual agreement with an American partner, the production of the E0.5 pump for the automotive market began in Casalecchio di Reno. In 2016, the production of the automotive pumps moved to the plant in Zola Predosa, where the various phases of the production of all the gears were also concentrated. During the same year, the Company acquired ISO TS 16949 certification which then became IATF 16949. In 2016, the Chinese commercial branch was inaugurated in Shanghai.
- In 2018, through an operation of LBO, Paolo Marzocchi acquired the majority of the Company, at the same time five historical managers of the company also became shareholders of the company. Later, in 2019, the Company concluded its listing on the AIM Italia market. Finally, in November 2020, the joint venture Marzocchi Symbridge Hydraulic (Shanghai) Co. Ltd was established with a local partner with the aim of increasing the commercial penetration on the Chinese market.

1.3 Shareholders and Group structure

Chart 3 – Shareholders

Stakeholders	Share
Abbey Road Srl (Paolo Marzocchi)	59.63%
Urban 90 Srl (Gabriele Bonfiglioli)	4.19%
Guido Nardi	1.57%
Aldo Toscano	1.57%
Marco Minghetti	1.57%
Andrea Zucchini	1.57%
Crosar Capital SpA	6.73%
Market	23.19%

Source: Marzocchi Pompe

Marzocchi Pompe Spa is owned for 59.63 % by Abbey Road Srl (linked to Paolo Marzocchi, Chairman of the Company), 4.19 % by Urban 90 Srl (linked to Gabriele Bonfiglioli, CEO and General Manager of the Company), 1.57 % by Guido Nardi (CFO of the Company), 1.57% by Aldo Toscano (Company Commercial Director), 1.57% by Marco Minghetti (Italy Sales Manager), 1.57% by Andrea Zucchini (Company Technical Director), 6.73% by Crosar Capital SpA (Financial advisor and LBO operation coordinator) and the remaining 23.19% by the market.

In turn, Marzocchi Pompe Spa holds 100% of Marzocchi (Shanghai) Co. Ltd and Marzocchi Pumps USA Corp. The subsidiaries act as Distributors in the country of reference. Operations in China are being transferred from Marzocchi Shanghai to JV Marzocchi Symbridge Hydraulic. The activity carried out, therefore, consists in the search for new clients, management of existing clients (also in terms of management of technical aspects), which are served directly (also through pumps held in *stock*), and in collaboration with the parent company in the management of the clients whose products are shipped directly from the Italian plants.

1.4 Key people

Paolo Marzocchi – Chairman of BoD

Son of Guglielmo Marzocchi (one of the two founding partners of the company), he joined Marzocchi Pompe since the years '60, gradually taking the lead. In 1995 he handed over the company's leadership and began to manage the other branch of the family business, dedicated to the production and marketing of suspensions for mountain bikes and motorcycles, and finally took firsthand care of the sale of the entire business branch to the Tenneco Group occurred in 2008. He then returned to Marzocchi Pompe as Chairman of the Board of Directors. In 2018, he undertook and coordinated the corporate restructuring operation which led him to acquire (through LBO) the shareholdings of his cousins, becoming the majority shareholder and Chairman of the Company, and then returning to the family business of gear pumps and motors.

Gabriele Bonfiglioli – CEO and General Manager

Graduated in Mechanical Engineering from the University of Bologna in 1990, and qualified that same year to the exercise of the Profession, after a first working experience in Landini, in 1992 he joined Marzocchi Group as Quality Manager, bringing the Group companies to ISO 9001 Certification. In 2003 he became Chief Operating Officer and member of the Board of Directors of Marzocchi Sospensioni, playing a leading role in the creation of Marzocchi Asia in Taiwan. After the sale of Marzocchi Sospensioni to the multinational company Tenneco, he has been plant Manager of the Company's plant in Zola Predosa (BO) since 2008. In 2011, he was hired by Modelleria Brambilla SpA as General Manager, joining the Board of Directors. By reorganizing the company and managing its generational turnover, he brings Modelleria Brambilla SpA to create the first office abroad, in India, and to be listed in the AIM Italia market, being appointed CEO. In 2018 he was appointed General Manager and Managing Director of Marzocchi Pompe Spa, of which he also holds a share through Urban 90 Srl. He is also CEO of Marzocchi (Shanghai) Trading Co. Ltd.

Guido Nardi – CFO

Graduated in Accounting, he joined Marzocchi Pompe in 1980, dedicating his entire professional career to the Company. He began as an employee at the Accounting Office, took over the responsibility of the Administration and HR Office as early as 1983 and took on the role of the Company's Financial Director in 2008. Over the years, he has served as Director of various Group companies. In 2018, in addition to the CFO position, he joined the Board of Directors of Marzocchi Pompe Spa, of which he also holds a share, and of Marzocchi Pumps USA Corp.

Aldo Toscano – Commercial Director

He graduated in Engineering from the University of Bologna and began his career at CCS in Reggio Emilia as a CAD designer. He then held various positions, such as metrological engineering assistant, commercial, METRAS USA Division Manager, and MKTG Assistant Manager at Marposs Spa. Finally, before joining Marzocchi Pompe, he served as General Commercial Management Assistant at Comer Spa.

Andrea Zucchini – Technical Director

He began his career as an Automatic Machine Formats Operator at GD Spa in Bologna. In 1979 he joined Marzocchi Pompe, where, before becoming Technical Director, in more than thirty years, he has held various roles. In particular, since 1983 he has been involved in the training of employees dedicated to Quality Control and began to be responsible for Research and Development, in 1995 he took the role of Technical Manager. From 1996 to 1999, he was Head of Automotive Project, from 1999 he was Technical Collaborator of Fonderia Montirone and, from 2005, he coordinated the activity related to patents, trademarks, and logos.

Carlo Marzocchi Tabacchi – Member of the Board

Graduated in Graphic Art from the Academy of Fine Arts in Bologna, he immediately dedicated himself to the family company (Marzocchi Pompe), since 2004 carrying out the activity of Design and Mechanical Processing, and then extended from 2014 to the activities of Process Engineering and Research & Development. In 2018 he was appointed member of the Board in Marzocchi Pompe Spa and Abbey Road Srl.

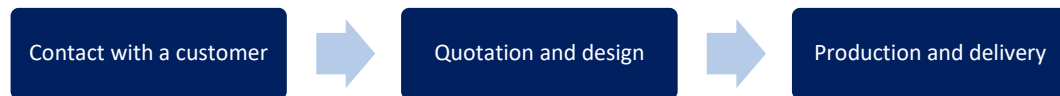
2. Business model

Marzocchi Pompe manufactures and sells a wide range of gear pumps and gear for the automotive market and for other markets defined as core markets.

2.1 Business process

In carrying out its business, Marzocchi Pompe follows a pre-established business model that includes: contact with the customer, product quotation and design, production, and delivery. These phases of the business process have some important differences depending on the type of product being processed. As has been pointed out, we can distinguish between standardized products and customized products.

Chart 4 – Business Process



Source: Marzocchi Pumps, Integrae SIM elaboration

Contact with a customer

The first phase of Marzocchi Pompe's business is to contact existing or potential customers. To do this, the Company uses an important network on a global scale. In this phase, the Company, mainly targets small/medium-sized customers who need a personalized service and medium-high skills, who want to differentiate from the big competitors and who do not base their procurement policy only on prices, but on quality. To carry out this activity, Marzocchi Pompe uses distributors in more than 50 countries of the world, multi-vendor agents (coordinated by the Area Manager Italy, as regards national customers) and Area Managers specialized in the various fields of competence. In addition to this, participation in trade fairs around the world allows better coverage of the market, searching for new customers and maintaining relationships with existing customers.

Quotation

Once the Company contacted the customer and listened to their needs, in case the requested product is standardized, the offer is processed through the Company's price list and, at that point, if the product is available, the delivery takes place. Otherwise, in the event of product unavailability, the production phase usually takes about eight weeks.

On the contrary, if the product requested by the customer is not standardized, the quotation is carried out in collaboration with the Technical Area and the delivery times, once the co-design phase has been completed, are about eight weeks.

Production and delivery

Before the delivery of the products, which is immediate only in the case of standardized products already available, the Company must proceed with their production. At this stage, the Company relies to a large extent on a "make" approach. Based on this approach, Marzocchi Pompe tries, as far as possible, to realize in-house the most critical phases of the components processing process and the phases of testing and assembly. Following, you can find a brief summary of the main components processing:

- Gears: the Company acquires raw materials and externalizes the turning phase. Afterwards, the gear cutting is carried out internally, the heat treatment is carried out by a provider, the grinding takes place mainly in-house, the polishing is carried out by third parties and, finally, the superfinishing takes place in the plant of Zola Predosa;
- Body: the Company buys the raw materials in the form of bars, which are cut by third parties. The next processing takes place in the Casalecchio plant. For automotive pumps, this component is all one with the flange, in this case the processing is outsourced;
- Bushings: the raw component is purchased from an important provider and the processing phase is mainly carried out internally.

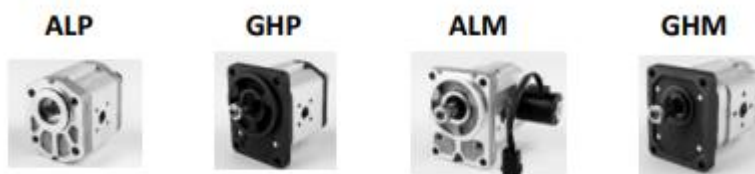
2.2 Portfolio of Products and Services

The company's product portfolio includes straight gear pumps for the core market and automotive pumps. The function performed by the Company's products consists, in substance, in bringing a fluid (typically oil), by means of rotation of driving gear activated by an external engine, from a low-pressure tank to another high-pressure tank. The Company boasts an extraordinarily broad offering with more than 17,500 active finished product items.

The Company's products can be used in various fields:

- **Medical equipment:** in this area, reliability and silence are essential. The products are used for example for stretchers, dental chairs, and surgical tables;
- **Industrial:** machinery requiring hydraulic power units and high-level performance (machining centers and presses, for example);
- **Agricultural machinery:** a field of high technological development in terms of hydraulic systems;
- **Micro-hydraulics:** the Company is specialized in very low displacement pumps;
- **Machinery and equipment for material handling:** for this type of application, low noise levels are often required since the use is foreseen in production facilities;
- **Marine:** includes movable bulkheads, **thrusters**, opening and closing valves, boarding and disembarking ladders and piloting systems;
- **Gardening machines:** in this area, it is essential that products ensure the complete absence of contamination;
- **Construction machinery:** in this field there are many possibilities of use, and a high level of customization is required;
- **Means of transport:** in this area the fundamental element is the reliability of the product;
- **Automotive:** in this field, the use is very wide also in the electric car sector;
- **Energy:** relatively recent field (wind blade brakes and solar panel slow rotation controllers).

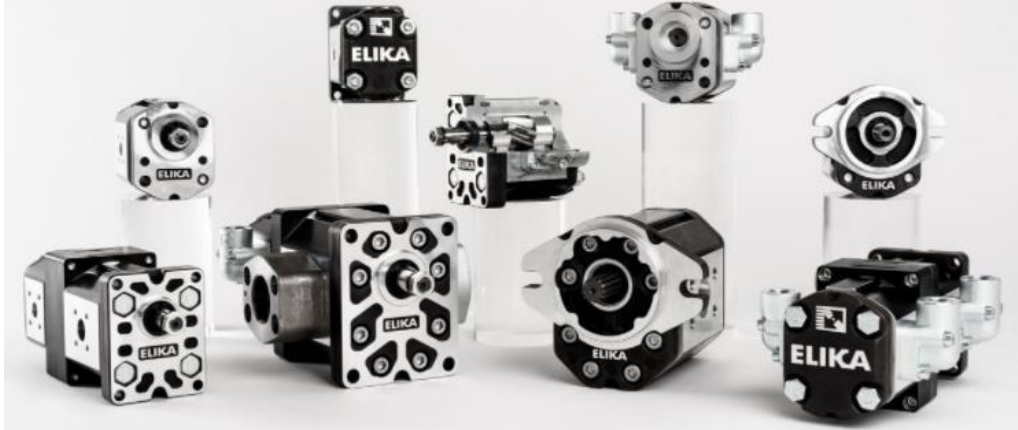
Chart 5 – External Gear Pumps and Motors



Source: Marzocchi Pompe

A significant share of turnover is typically generated thanks to pumps with straight-tooth gears, divided into seven families according to the dimensions (and therefore the displacement): 0.25 – 0.5 – 1P – 1 – 2 – 3 – 4. Marzocchi Pompe is able to customize its offer according to the customer's needs. From the 0.5 family of pumps, the Company has developed its products in the automotive field.

Chart 6 – ELIKA



Source: Marzocchi Pompe

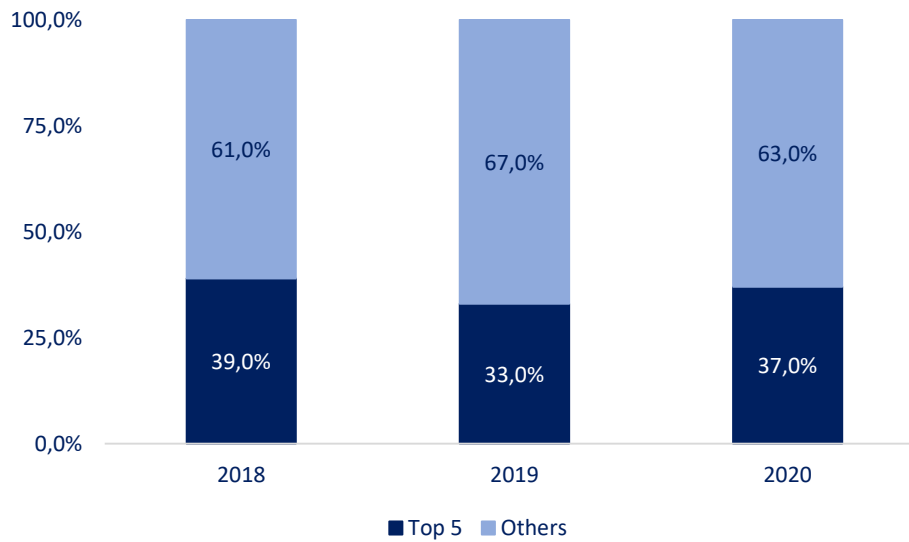
Following a total investment of € 1 million, in 2019, Marzocchi Pompe has finalized a dedicated department for ELIKA product at the Casalecchio site. ELIKA is a low noise, high efficiency and low pulsation pump developed by the Company and is certainly the spearhead of the company's sales and product strategy. The realization of ELIKA has followed a long phase of Research & Development that has led to the filing of several patents and trademarks. The study of the tooth profile has been developed in close collaboration with the Faculty of Engineering of the University of Bologna through the creation of a dedicated design software.

2.3 Clients and Providers

2.3.1 Clients

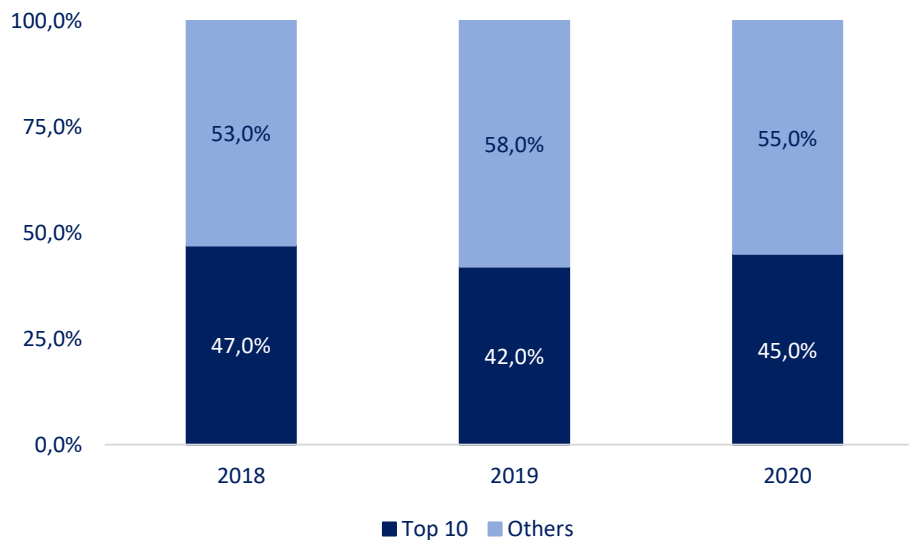
The Group's clients are related to two main categories: core market and automotive. The core market comprises the segments: sales network, fixed and mobile. Marzocchi Pompe, in total, has over 800 active clients.

Chart 7 – Top 5 Clients weight



Source: Marzocchi Pompe

Chart 8 – Top 10 Clients Weight



Source: Marzocchi Pompe

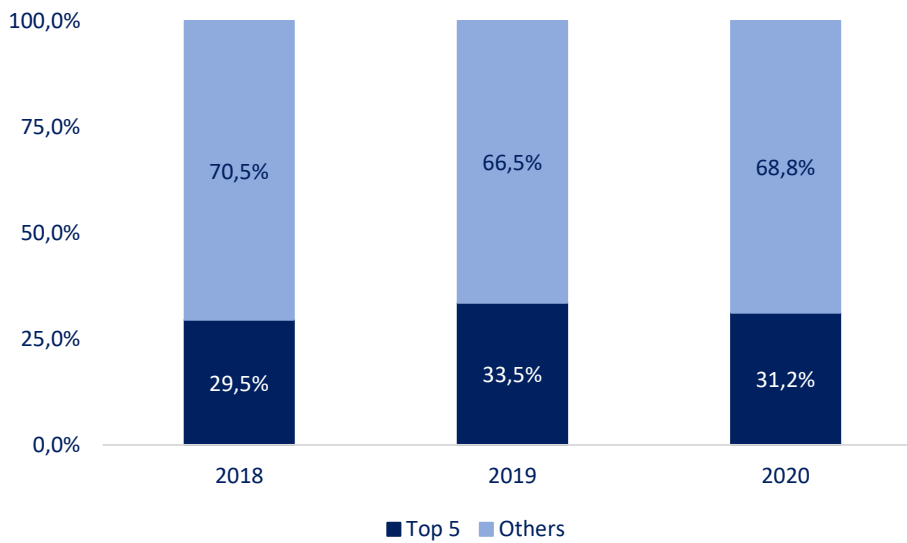
The Company shows a rather reduced concentration of the main clients on the total revenues generated. In fact, in 2020, the top 5 clients generated 37% of the total, while the top 10 clients generated 45% of the total. By analyzing different business units, in the so-called core market, the 10 largest clients generated a 26.9% share of the total of the relevant business line. Instead, looking at the automotive market, the main clients, generated 97% of the total of its business line. The concentration on the automotive market is due to the relationship with an important

international customer, linked to the Company with a multi-year contract up to 31/12/2022. The agreement includes some important clauses:

- Minimum guaranteed volumes with penalties in the event of non-compliance with the clause;
- Price fixed based on volumes;
- Price adjustment mechanism based on raw material price trend.

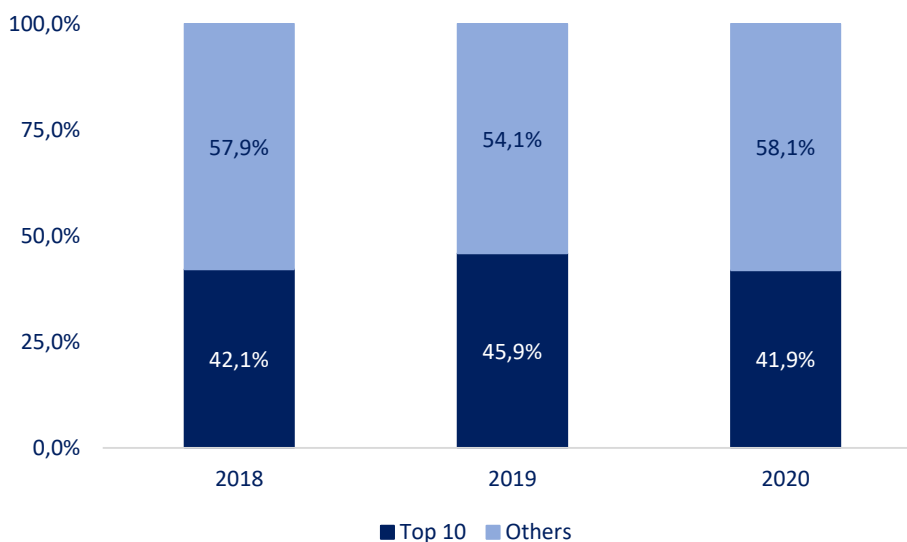
2.3.2 Providers

Chart 9 – Top 5 Providers Weight



Source: Marzocchi Pompe

Chart 10 – Top 10 Providers Weight



Source: Marzocchi Pompe

The Company uses providers for some phases of the production process, also as a buffer, and for various components (for example gaskets and hardware fasteners). This is also the case for

a matter of know-how. In terms of providers portfolio, no particular criticality is observed in terms of concentration or dependence on the most important counterparties.

2.4 Global Distribution Network

Marzocchi Pompe has an international distribution network, which is present in over 50 countries. The products are distributed through several channels: direct sales, sales through distributors, and operations of the American branch and the Chinese branch. In particular, the network is organized as follows:

- the direct sales and sales through distributors, covering the global market, are managed by a dedicated internal salesperson in the role of Area Manager;
- in particular, North America and the far East are under the control of the Group's respective branches;
- to date, the Company has four Area Managers: one for the industrial sector, one for the Mobile Machinery sector, one for the Distributor's operation and one responsible for the Italian market (which coordinates a network composed of seven salesman).

2.5 Research and Development

Marzocchi Pompe, always, pays great attention to the research and development activity as a tool to improve the performance of its pumps and motors and to design and develop new products that can satisfy the needs of customers who require increasingly high operating characteristics, more and more significant customizations, and increasingly competitive prices.

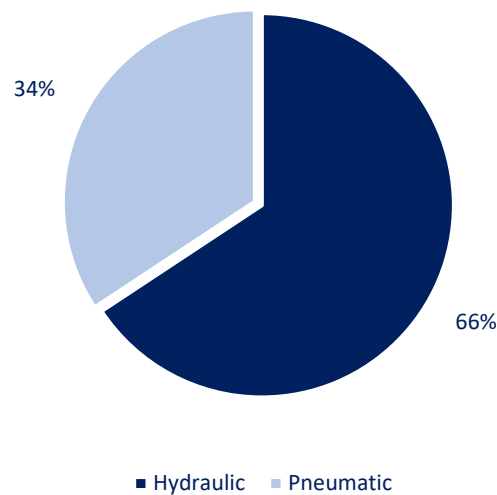
Over the years, this has led to the creation of one of the most important product ranges at global level with more than 17,500 active finished product items and to the development of ELIKA product, the flagship product of Marzocchi Pompe, covered by two industrial patents.

3. The market

Marzocchi Pompe, in the course of its business, interfaces with the oleodynamic market that is part of the wider market of hydraulics, in turn part of the macro sector called fluid power.

3.1 Fluid Power

Chart 11 – Fluid Power by Category

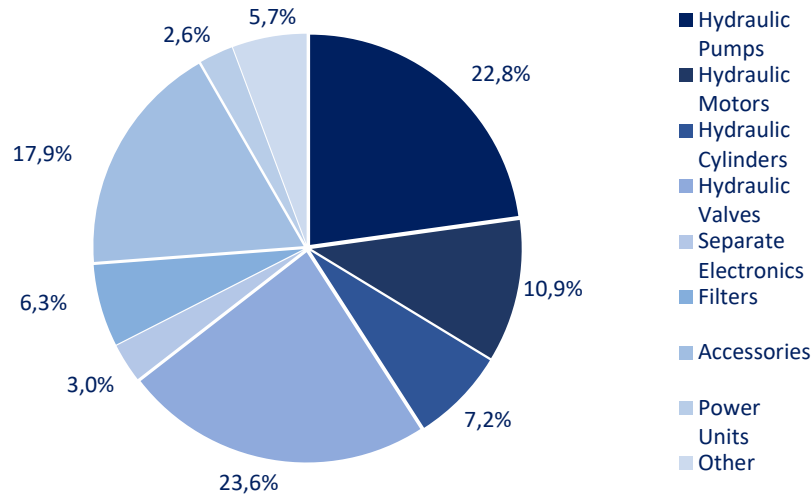


Source: Data on Fluid Power, VDMA, 2021

The fluid power market, which includes all products that use pressurized fluids to generate, control and transmit power, which, according to estimates, generated revenues of € 7 billion, can be divided into two main categories: hydraulic and pneumatic. The hydraulic segment refers to all products that use for the intended purpose a liquid (for example oil). Instead, the pneumatic segment refers to all products that use a gas (air or other gases) for the intended purpose. The hydraulic segment, which also includes the products sold by Marzocchi Pompe, generated a share of about 66% of the total revenues of the fluid power market (equal to approx. € 4.6 billion) during the year. The pneumatic segment generated a share of about 34% of total fluid power revenues during the year (approx. € 2.4 billion).

3.2 Hydraulics

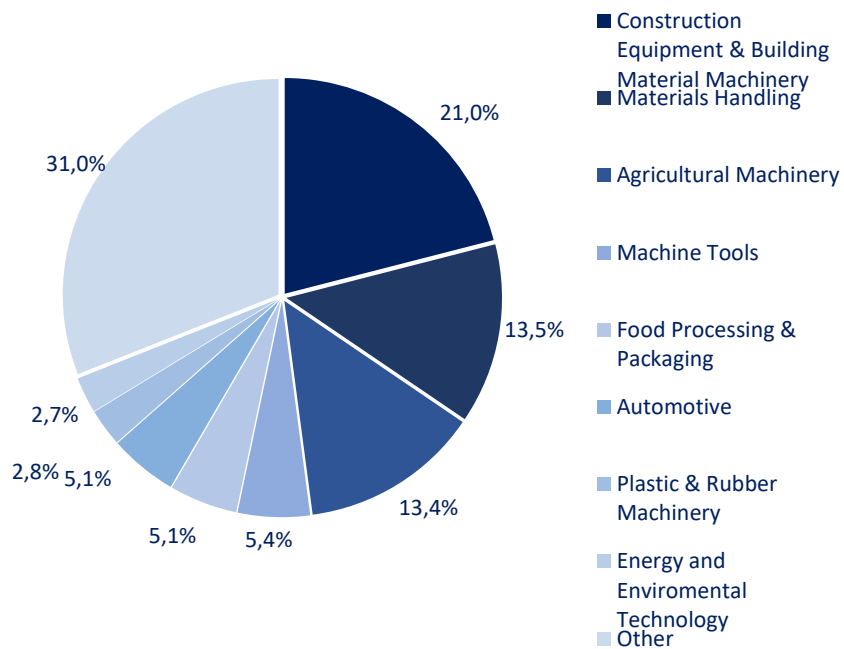
Chart 12 – Hydraulics by Product Groups



Source: Data on Fluid Power, VDMA, 2021

The hydraulics segment of the fluid power market comprises a wide variety of product categories which, as mentioned, generated approximately € 4.6 billion in revenues during the year. The main product categories and their weights on total turnover are those described in the previous graph. In particular, the main categories are hydraulic pumps with a share of 22.8% of the total, hydraulic motors with a share of 10.9% of the total, hydraulic cylinders with a share of 7.2% of the total, hydraulic valves with a share of 23.6% of the total and accessories with a share of 17.9% of the total.

Chart 13 – Hydraulics by Application

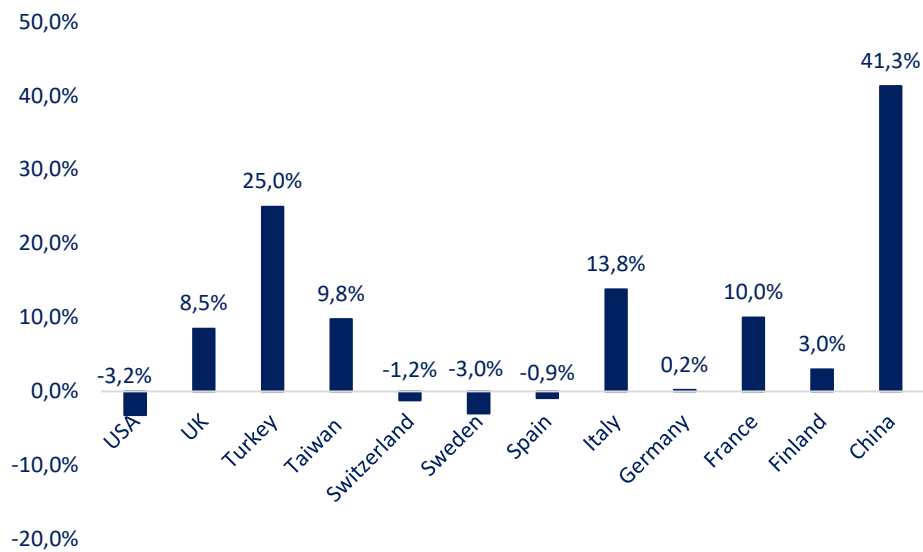


Source: Data on Fluid Power, VDMA, 2021

The hydraulics segment serves clients in a very large number of categories. This testifies to the big (and growing) market dimension of Marzocchi Pompe products both in terms of revenues and in terms of possible applications. The above graph shows market shares by type of application, analyzing domestic sales (equal to € 1.8 billion). The main category is that of customers belonging to the construction equipment and building material machinery segment with a share of 21% of the total. Following are the segments: material handling with a share of 13.5%, agricultural machinery with a share of 13.4% and machine tools with a share of 5.4% of the total. Finally, the automotive sector, important for Marzocchi Pompe products, generates a share of about 5.1% of the total.

3.3 Hydraulics 1Q2021

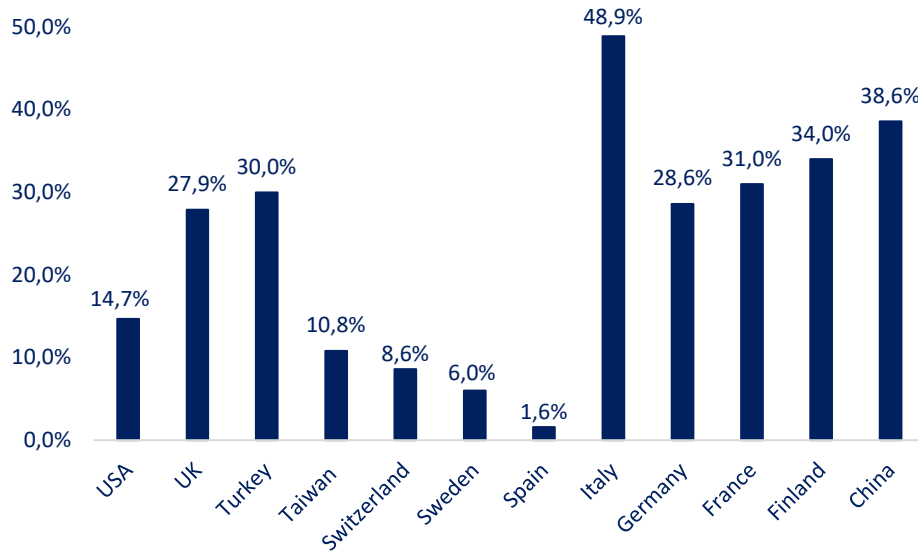
Chart 14 – Hydraulics 1Q2021 vs 1Q2020 Sales by Country



Source: State of Business, Cetop, 2021

The hydraulics segment, in terms of revenues, comparing the first quarter of 2021 and the first quarter of 2020, does not show a constant trend in the main countries. In fact, it is possible to observe countries whose revenues are down compared to 2020 such as the USA, Switzerland, Sweden and Spain, countries which show a slight increase in revenues such as Germany and Finland and, finally, countries with very significant growth rates such as the United Kingdom (+8.5%), Turkey (+25.0%), Taiwan (+9.8%), Italy (+13.8%), France (+10.0%) and China (+41.3%). The difference in revenues between 2021 and 2020, considering the first quarters, shows a good level of recovery, especially in countries affected by the difficult pandemic situation already in the period of 2020 analyzed.

Chart 15 – Hydraulics 1Q2021 vs 1Q2020 Orders by Country

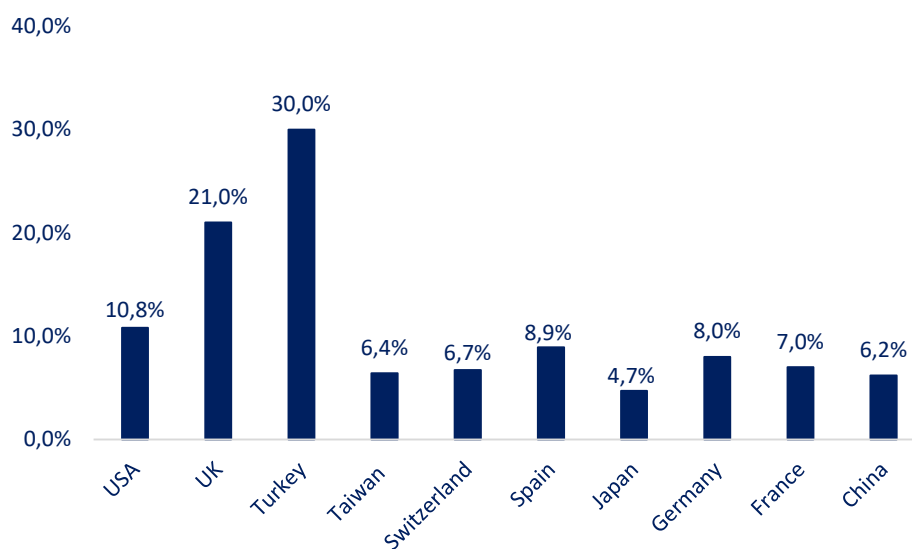


Source: State of Business, Cetop, 2021

The new orders generated in the hydraulics segment in the first three months of 2021, compared to the first three months of 2020, show a very important growth trend in each of the countries analyzed. This is a comforting sign of recovery after the pandemic slowdown. Indeed, all the market-leading countries show significant growth rates. These include growth rates of: Italy (+48.9%), China (+38.6%) and USA (+14.7%), countries of considerable strategic importance for Marzocchi Pompe.

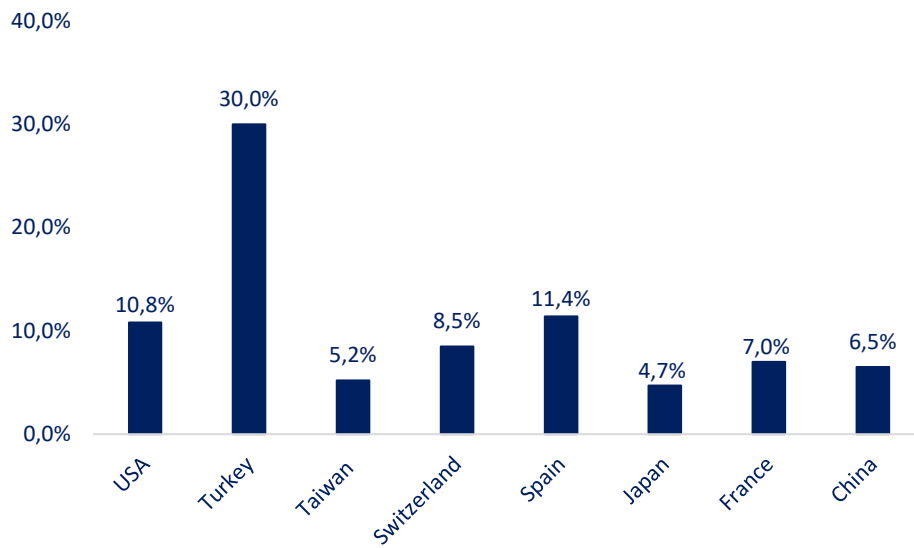
3.4 Hydraulics 2021 Estimates

Chart 16 – Hydraulics Sales Forecast 2021 by Country



Source: State of Business, Cetop, 2021

Chart 17 – Hydraulics Orders Forecast 2021 by Country



Source: State of Business, Cetop, 2021

Cetop estimates, based on quarterly data and market expectations, both in terms of revenues and orders, are very positive for the whole year compared to 2020. This figure, like those mentioned above, is particularly encouraging with regard to the recovery of the market after the slowdown resulting from the Covid 19 pandemic. Indeed, all the main countries for which the estimates have been performed show good levels of growth in terms of expected revenues and in terms of expected orders.

4. Competitive positioning

Table 1 – Main Competitor

Characteristic Company	Quality & Performance	Customer service	Gear Pumps Range	Fluid Power Range	Customization	Competitiveness vs Price	Quality vs Price
Marzocchi Pompe	High	Medium-high	High	Medium-high	High	Medium-high	High
Bosch Rexroth	High	Medium-high	High	High	Medium-high	Medium-high	High
Bucher	Medium-high	Medium-high	High	High	Medium-high	Medium-high	Medium-high
Casappa	Medium-high	Medium-high	High	High	Medium-high	Medium-high	Medium-high
Concentric	Medium-high	Medium-high	Medium-high	High	Medium-high	Medium-high	Medium-high
Galtech/Interpump	Medium-high	Medium-high	Medium-high	High	Medium-high	Medium-high	Medium-high
Hema / DB	Medium-high	Medium-high	Medium-high	Medium-high	Medium-high	High	Medium-high
HPI / JTech	Medium-high	Medium-high	High	High	Medium-high	Medium-high	Medium-high
Parker	Medium-high	Medium-high	High	High	Medium-high	Medium-high	Medium-high
Roquet	Medium-high	Medium-high	High	High	Medium-high	Medium-high	Medium-high
Salami	Medium-high	Medium-high	High	High	Medium-high	Medium-high	Medium-high
Turolla/Sauer Danfoss	Medium-high	Medium-high	High	High	Medium-high	Medium-high	Medium-high
Settima	Medium-high	Medium-high	High	High	Medium-high	Medium-high	Medium-high
Vivoil	Medium-high	Medium-high	High	High	Medium-high	Medium-high	High

Legend: ● High ● Medium-high ● Medium ● Low

Source: Marzocchi Pompe, Management Estimates

In carrying out its business, the Company competes with some important players in the Italian and international market.

The Group has some important distinctive features:

- **Highly innovative and automated processes.** This is possible thanks to:
 - management mainly in-house of the strategic phases of the production process;
 - internal department dedicated to the design and production of equipment and machinery to satisfy production needs;
 - application of lean production concepts, aimed at minimizing stocks and the continuous search for improvement of the efficiency of the production departments;
- **Continuous product innovation:** continuous product development to meet the growing market requirements, in particular, in terms of silence, efficiency, and performance;
- **Focus on high quality.** This is possible thanks to:
 - production made in Italy;
 - high quality standards;
 - IATF 16949 certifications (ex ISO TS) (required by Automotive customers), ISO 14001 for the Zola Predosa plant and ISO 9001 for the Casalecchio di Reno plant;
 - qualified product ensured by a test carried out on specifically designed test benches;
- **Maximum product customization and production flexibility.** The Company has the possibility to produce components that can satisfy the most varied clients requests. Marzocchi Pompe is in fact able to produce also individual parts specific to its customers. As it can be easily imagined, customization and flexibility are very welcome by customers who see the Company as a strategic partner and not a simple provider;
- **Customer support.** Marzocchi Pompe guarantees maximum support to customers from the first phases of contact to the delivery of the product;
- **Distribution network:** the Company has an important global distribution network in more than 50 countries worldwide.

4.1 Swot

Strengths:

- Process innovation and automation;
- Product innovation;
- ELIKA, the company's flagship product, covered by industrial patents;
- High quality of the products offered;
- Global distribution network;
- Extraordinary breadth of the offer to customers;
- The ability to provide maximum customer support.

Weaknesses:

- Lack of fluid power products in the offer;
- Lack of low-to-mid-range products;
- High concentration of turnover in the automotive segment;
- Close to the contract expiry with the main automotive client (renewal is currently being negotiated).

Opportunities:

- Development of new high-marginality products thanks to high technological level;
- Possibility of expansion in less covered markets;
- Further development of core business products.

Threats:

- Possible further adverse effects resulting from the Covid-19 pandemic;
- Increase in raw material prices;
- High degree of market competitiveness.

5. Economics & Financials

Table 2 – Economics & Financials

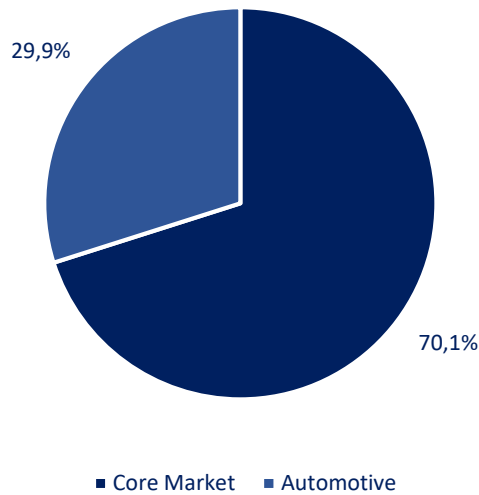
INCOME STATEMENT (€/mIn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenues	39,17	34,14	37,00	39,00	42,50
Other Revenues	(0,76)	0,61	0,50	0,60	0,70
Value of Production	38,41	34,75	37,50	39,60	43,20
COGS	8,35	7,93	7,85	8,20	8,90
Services	10,68	9,62	10,00	10,50	11,30
Use of assets owned by others	0,34	0,31	0,40	0,45	0,50
Employees	13,29	12,39	12,50	13,15	14,20
Other Operating Expenses	0,33	0,38	0,40	0,45	0,55
EBITDA	5,42	4,13	6,35	6,85	7,75
<i>EBITDA Margin</i>	<i>13,8%</i>	<i>12,1%</i>	<i>17,2%</i>	<i>17,6%</i>	<i>18,2%</i>
Operating D&A	4,09	3,90	3,50	3,90	4,30
EBIT Adj.	1,33	0,23	2,85	2,95	3,45
<i>EBIT Adj. Margin</i>	<i>3,4%</i>	<i>0,7%</i>	<i>7,7%</i>	<i>7,6%</i>	<i>8,1%</i>
Non Operating D&A	1,27	1,33	1,10	0,90	0,60
EBIT	0,06	(1,10)	1,75	2,05	2,85
<i>EBIT Margin</i>	<i>0,2%</i>	<i>-3,2%</i>	<i>4,7%</i>	<i>5,3%</i>	<i>6,7%</i>
Financial Management	(0,10)	(0,53)	(0,35)	(0,35)	(0,35)
EBT	(0,04)	(1,64)	1,40	1,70	2,50
Taxes	(0,24)	(1,86)	0,40	0,50	0,70
Net Income	0,20	0,23	1,00	1,20	1,80
BALANCE SHEET (€/mIn)					
Fixed Assets	26,11	22,43	19,30	17,50	15,60
Account receivable	7,85	6,35	7,20	7,50	8,10
Inventories	8,12	7,67	8,10	8,20	8,50
Account payable	4,56	4,86	4,20	4,60	5,00
Operating Working Capital	11,41	9,16	11,10	11,10	11,60
Other receivable	1,36	2,30	1,90	1,95	2,00
Other payable	3,21	3,04	3,40	3,55	3,70
Net Working Capital	9,56	8,43	9,60	9,50	9,90
Severance Indemnities & Other Provisions	4,45	3,16	3,30	3,35	3,40
NET INVESTED CAPITAL	31,21	27,70	25,60	23,65	22,10
Share Capital	6,54	6,54	6,54	6,54	6,54
Reserves	11,93	11,68	11,50	12,05	12,75
Net Income	0,20	0,23	1,00	1,20	1,80
Equity	18,68	18,44	19,04	19,79	21,09
Cash & Cash Equivalent	4,72	7,64	10,44	11,64	13,49
ST Financial Debt	5,36	5,19	5,00	4,50	4,00
M/LT Financial Debt	11,90	11,71	12,00	11,00	10,50
Net Financial Position	12,54	9,25	6,56	3,86	1,01
SOURCES	31,21	27,70	25,60	23,65	22,10
CASH FLOW (€/mIn)					
EBIT		(1,10)	1,75	2,05	2,85
Taxes		(1,86)	0,40	0,50	0,70
NOPAT		0,76	1,35	1,55	2,15
D&A		5,23	4,60	4,80	4,90
Change in receivable		1,50	(0,85)	(0,30)	(0,60)
Change in inventories		0,45	(0,43)	(0,10)	(0,30)
Change in payable		0,30	(0,66)	0,40	0,40
Change in others		(1,11)	0,76	0,10	0,10
<i>Change in NWC</i>		<i>1,13</i>	<i>(1,17)</i>	<i>0,10</i>	<i>(0,40)</i>
Change in provisions		(1,29)	0,14	0,05	0,05
OPERATING CASH FLOW		5,83	4,92	6,50	6,70
Capex		(1,55)	(1,47)	(3,00)	(3,00)
FREE CASH FLOW		4,28	3,45	3,50	3,70
Financial Management		(0,53)	(0,35)	(0,35)	(0,35)
Change in Financial Debt		(0,36)	0,10	(1,50)	(1,00)
Change in Equity		(0,46)	(0,40)	(0,45)	(0,50)
FREE CASH FLOW TO EQUITY		2,92	2,80	1,20	1,85

Source: Integrae SIM estimates

5.1 FY20A Results

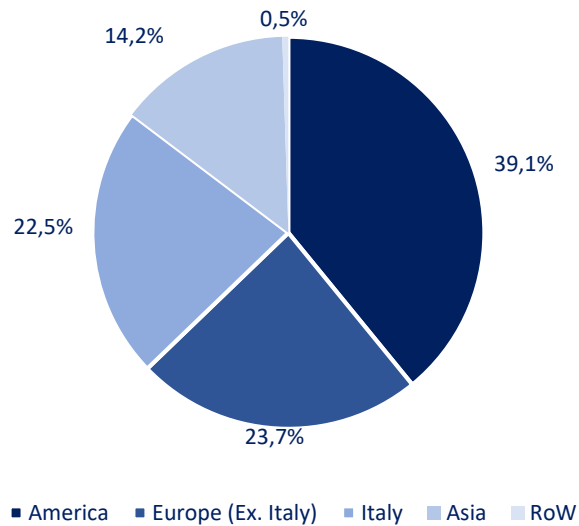
Marzocchi Pompe closed 2020A with revenues of € 34.14 million, compared to € 39.17 million in 2019A. The decline is mainly due to the effects of the Covid-19 pandemic. In fact, revenues in the second half showed strong growth (about 20%) compared to the first, standing at a value of € 18.5 million.

Chart 18 – Products Revenues Breakdown by Business Line



Source: Marzocchi Pompe

Chart 19 – Products Revenues Breakdown by Geographic Area



Source: Marzocchi Pompe

Revenues generated in 2020 are attributable to the automotive sector for about 29.9% and to the “core market” for the remaining 70.1%. Marzocchi Pompe shows an excellent level of territorial diversification: only 22.5% is generated in Italy. The remaining 77.5% is subdivided as follows: America 39.1%, Europe 23.7%, Asia 14.2%, and the rest of world 0.5%.

The decline in revenues in 2020 led to a decrease in EBITDA from € 5.42 million to € 4.13 million. Marginality shows a slight decrease from 13.8% to 12.1%. Also in this case, the second half of the year, after the difficulties of the first half of the year, showed very encouraging results. In particular, EBITDA in the second half was equal to € 2.9 million, from € 1.2 million in the first half of the year, recording an increase of +127.6%, with EBITDA margin of 16.1% close to the historic highs of Marzocchi Pompe, and in a sharp increase compared to 7.6% in the first half-year.

EBIT, due to the total amortization of € 5.23 million, went from € 0.06 million to - € 1.10 million. In order to take into account separately the D&A resulting from the LBO operation, we calculated an EBIT Adjusted, which went from € 1.33 million to € 0.23 million. Net income slightly grew from € 0.20 million to € 0.23 million.

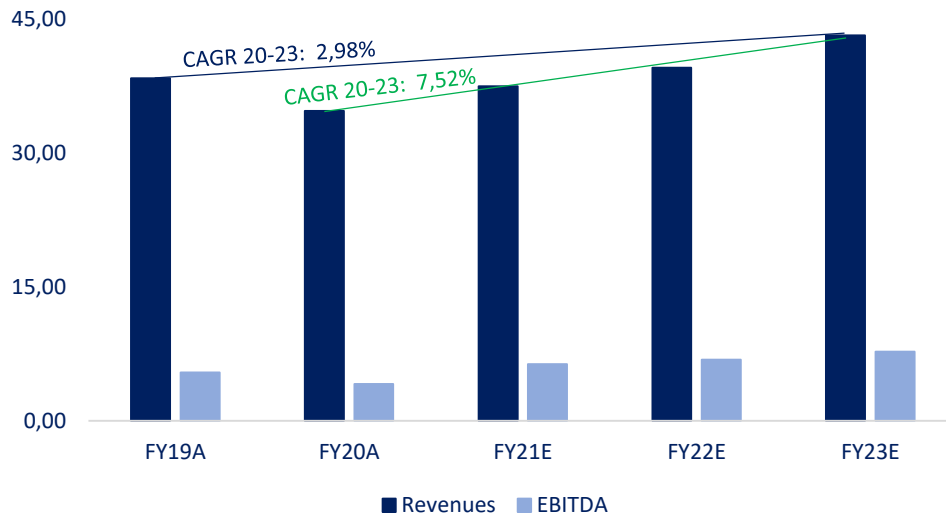
With regard to working capital, despite the extraordinary nature of the year in analysis, the Company, as reported, was not impacted by components shortage and was not impacted by any time extensions of payment of clients.

At Capex level, the Group continued to invest, despite the difficulties of the year, in order to continue its development.

Given the changes in working capital and capex, the NFP went from € 12.54 million to € 9.25 million. This improvement testifies to the Company's ability to generate cash flows through operational management.

5.2 FY21E – FY23E Estimates

Chart 20 – VoP, EBITDA19A-23E

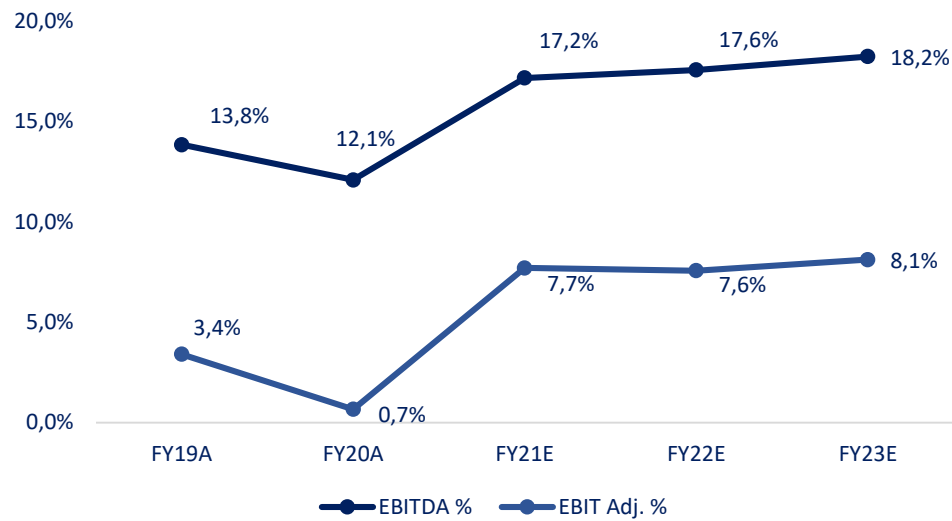


Source: elaboration Integrae SIM

For the coming years we expect an increase in the Value of Production, which, according to our estimates, will go from € 34.75 million in 2020A to € 43.20 million in 2023E (CAGR20A-23E: 7.52%), thanks to the following main growth drivers:

- **ELIKA:** we believe that ELIKA, the company’s flagship product, characterized by a high degree of technological innovation, will be able to drive the growth of the Group’s turnover. This product, in fact, will go into production in the next few years also in the process of electrification of the models of one of the world leaders of the automotive market;
- **Market growth:** we believe that the Group’s revenues will also be driven by the growth of the overall market. Automation, in fact, is recognized as one of the biggest investment trends;
- **Public Investment Programs:** we believe that the Company will benefit from public investment programs, European and American, aimed at technological renewal and environmental sustainability;
- **Brand strength:** we believe that the Company will be able to exploit the strength of its brand, on the domestic market but also on the American and Chinese markets;
- **Breadth of the offer:** the Company has a very diversified range of products and services, able to satisfy the needs of every potential client. This, in our opinion, will help Marzocchi Pompe increase its client’s portfolio.

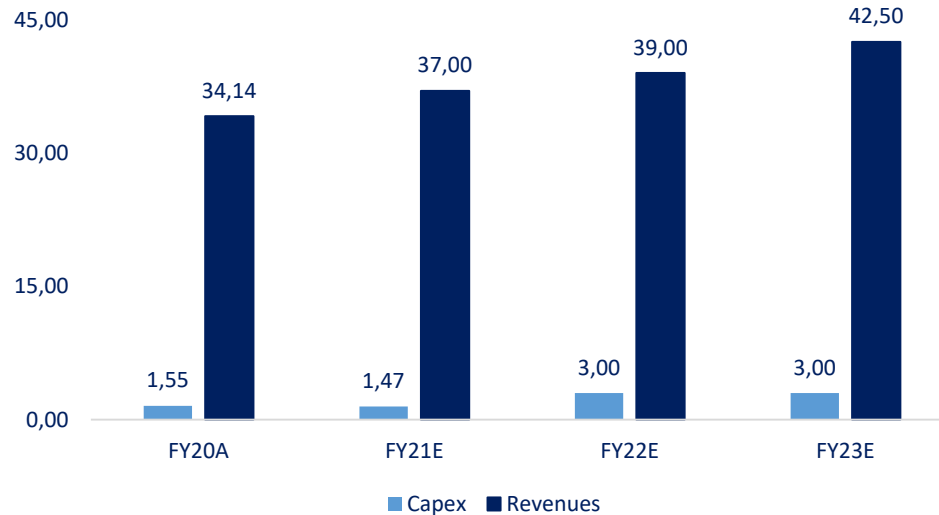
Chart 21 – EBITDA % and EBIT% 19A-23E



Source: processed by Integrae SIM

At the same time, we expect an increase in EBITDA, which, according to our estimates, will increase from € 4.13 million in 2020A to € 7.75 million in 2023E. This increase will lead to an improvement in EBITDA margin that, according to our estimates, will rise from 12.1% in 2020A to 18.2% in 2023E. We believe, in fact, that the Company will be able to increase the efficiency of its production processes and to launch new products with a high degree of innovation and able to guarantee a higher level of marginality.

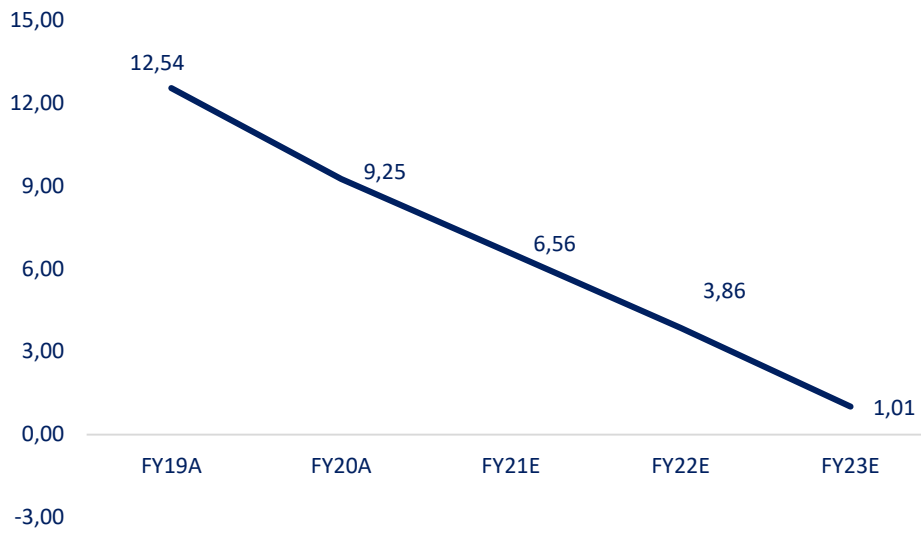
Chart 22 – Revenues, Capex 20A-23E



Source: processed by Integrae SIM

At Capex level, we believe that the Group will continue to invest significantly in the coming years. In particular, we believe that investments will be distributed as follows: development of new products (about 50% of the estimated total), efficiency of production processes (about 30% of the estimated total) and maintenance of existing assets (about 20% of the estimated total).

Chart 23 - NFP 19A-23E



Source: processed by Integrae SIM

We believe that the Company can continue to improve its NFP also in the years after 2020A, thanks to positive cash flows generated by ordinary operations.

6. Valuation

We have conducted the valuation of Marzocchi Pompe equity value based on the DCF methodology and market multiples of a comparable companies panel.

6.1 DCF Method

Table 3 – WACC

WACC		6,75%
Risk Free Rate	-0,06% α (specific risk)	2,50%
Market Premium	6,85% Beta Adjusted	1,1
D/E (average)	66,67% Beta Relevered	1,6
Ke	9,79% Kd	3,00%

Source: Integrae SIM

In particular:

- The Risk-Free Rate is represented by Rendistato of April 2021 with maturity between 3 years and 7 months and 4 years and 6 months;
- The Market Premium coincides with the premium for the Italian market risk calculated by Professor A. Damodaran;
- D/E was calculated based on estimates made by Integrae SIM;
- Ke was calculated using CAPM;
- The Alfa, i.e., specific additional risk, is typical of equity investments in companies characterised by small-scale operations. As we are dealing with small sizes, the small cap risk premium applied was equal to 2.5%, the average value of those suggested by the main studies carried out in this field (Massari Zanetti, 'Valutazione Finanziaria' (Financial Valuation'), McGraw-Hill, 2004, page 145, A. Damodaran, Cost of Equity and Small Cap Premium in Investment Valuation, Tools and Techniques for Determining the Value of Any Assets, III edition 2012, Guatri Bini, 'Nuovo Trattato sulla Valutazione delle Aziende' (New Insights on Corporate Valuation), 2009, page 236);
- The Beta was calculated based on competitors' 5-year unlevered Beta;
- Kd coincides with the Company's current debt cost.

These figures result in a WACC of 6.75%.

Table 4 – DCF Valuation

DCF Equity Value		50,5
FCFO actualized	9,4	16%
TV actualized DCF	50,3	84%
Enterprise Value	59,7	100%
NFP (FY20A)	9,3	

Source: Integrae SIM

Using the figures described above and taking our estimates and assumptions as a reference, the DCF valuation results in an **equity value of € 50.5 million**.

Table 5 – Equity Value – Sensitivity Analysis

€/mln		WACC						
		5,2%	5,7%	6,2%	6,7%	7,2%	7,7%	8,2%
Growth Rate (g)	2,5%	109,4	91,4	78,3	68,2	60,3	53,8	48,5
	2,0%	92,6	79,3	69,1	61,0	54,5	49,2	44,7
	1,5%	80,3	70,0	61,8	55,2	49,8	45,2	41,3
	1,0%	70,9	62,6	56,0	50,5	45,8	41,9	38,5
	0,5%	63,4	56,7	51,1	46,4	42,4	39,0	36,0
	0,0%	57,4	51,8	47,0	43,0	39,5	36,5	33,8
	-0,5%	52,5	47,7	43,6	40,0	37,0	34,3	31,9

Source: Integrae SIM

6.2 Market Multiples

Our panel is made up of companies belonging to the same sector of Marzocchi Pompe.

6.2.1 Panel Composition

Altra Industrial Motion Corp (USA) is engaged in the design, production and sell of motion control systems for electromechanical power transmission. The automation segment works through brands such as Kollmorgen, Portescap, Thomsona, and Jacobs Vehicle Systems (JVS). The company was founded in 2004 and is based in Braintree, USA.

Parker-Hannifin Corporation (USA) is a company engaged in the production and development of motion and control technologies and systems. The company also provides engineered solutions for the mobile, industrial, and aerospace markets. The company was founded by Arthur L. Parker in 1918 and is based in Cleveland, USA.

Interpump Group Spa (Italy) operates with different brands in two production sectors, the oil sector, and the water sector. The oil sector includes power take-offs (for industrial vehicles), hydraulic pumps and cylinders, valves, pipes, fittings and other related components. The water sector comprises high and very high-pressure piston pumps which, depending on size and power, can have various applications. The company was founded by Fulvio Montipò in 1977 and is based in Sant'Ilario d'Enza, Italy.

Eaton Corp Plc (Ireland) is an energy management company that provides energy efficiency solutions in the fields of electrical, hydraulic, and mechanical energy. In particular, the vehicle segment is committed to the design, manufacture, marketing and supply of critical transmission and propulsion systems and components that reduce emissions and improve fuel economy, stability, performance and safety of cars, light trucks, and commercial vehicles. The company was founded in 1911 and is based in Dublin, Ireland.

Sulzer AG (Switzerland) works in the production and sale of industrial machinery and equipment. The company provides pumping solutions, maintenance of rotating equipment, and technology solutions for separation, reaction, and mixing. The pump equipment segment offers a range of pumping solutions and related equipment. The company was founded by Johann Jakob Sulzer-Neuffert in 1834 and is based in Winterthur, Switzerland.

Rexnord Corp (USA) is a company that manufactures power transmission products and other precision motion technology products. In detail, it designs, manufactures and markets engineered mechanical components such as gears, joints, industrial bearings, and gaskets that are used in complex systems. The company was founded by Christopher W. Levalley, F. W. Sivyer, and W. A. Draves in 1891 and is based in Milwaukee, USA.

Comer Industries SpA (Italy) is a global player in the design and manufacturing of advanced engineering systems and mechatronics solutions for power transmission. It operates in the following sectors: agricultural machinery, construction equipment, forestry equipment, energy, and industry. The company was founded by Fabio and Fabrizio Storchi in 1970 and is based in Reggiolo, Italy.

Concentric AB (Sweden) is engaged in the production and marketing of hydraulic products and pumps for diesel engines. It operates through geographic segments: Americas, Europe, and rest of the world. The company provides systems and components for: trucks, agricultural machinery, construction, and industrial applications. The company was founded in 1921 and is based in Linköping, Sweden.

Flowserve Corp (USA) is active in the production and delivery of comprehensive flow control system services. The Engineered Product Division designs, manufactures and distributes customized highly engineered pumps and pumping systems. The Industrial Product Division segment consists of engineered and pre-configured industrial pumps and pumping systems. The company was founded in 1790 and is based in Irving, USA.

Stabilus SA (Luxembourg) supplies gas springs and hydraulic dampers for the automotive and industrial sectors. It is also involved in the production and sale of automatic opening and closing systems. The company was founded on February 26, 2010, and is based in Luxembourg.

6.2.2 Comparables Financial Highlights

Table 6 – Comparables (data in € mln)

FY2020A	Altra Industrial Motion Corp.	Parker-Hannifin Corporation	Interpump Group SpA	Eaton Corp Plc	Sulzer AG	Rexnord Corp.	Comer Industries SpA	Concentric AB	Flowserve Corp.	Stabilus S.A.	Peer Median	Marzocchi Pompe
Country	USA	USA	Italy	Ireland	Switzerland	USA	Italy	Sweden	USA	Luxembourg		
Mkt Cap	2,934,2	20,900,5	4,392,2	39,172,0	2,947,7	3,885,4	240,8	696,5	3,926,6	1,238,7	3,416,6	
EV	3,926,8	27,891,3	4,672,1	45,258,7	3,342,6	4,713,5	238,8	659,1	4,640,8	1,448,7	4,283,8	
Profitability												
Revenues	1,514,0	12,387,9	1,294,4	15,665,0	3,100,9	1,736,9	396,2	143,3	3,270,3	822,1	1,625,5	34,1
EBITDA	327,5	2,374,5	282,2	2,897,7	380,5	340,7	48,1	32,4	449,6	175,5	334,1	4,1
EBIT	203,2	1,842,8	205,2	2,188,0	214,7	250,3	30,3	24,2	311,2	79,7	210,0	0,2
Net Profit	107,2	1,263,5	169,2	1,466,2	134,8	130,8	21,7	19,5	173,2	49,9	132,8	0,2
EBITDA Margin	21,6%	19,2%	21,8%	18,5%	12,3%	19,6%	12,1%	22,6%	13,7%	21,3%	19,4%	12,1%
EBIT Margin	13,4%	14,9%	15,9%	14,0%	6,9%	14,4%	7,6%	16,9%	9,5%	9,7%	13,7%	0,7%
Net Profit Margin	7,1%	10,2%	13,1%	9,4%	4,3%	7,5%	5,5%	13,6%	5,3%	6,1%	7,3%	0,7%
Capital Structure												
NFP	992,6	6,990,8	279,9	6,086,7	394,9	828,1	-2,0	-37,4	714,2	5,4	554,6	9,3
NFP/EBITDA	3,0x	2,9x	1,0x	2,1x	1,0x	2,4x	N/A	N/A	1,6x	0,0x	1,8x	2,2x

* Dati Parker-Hannifin Corporation: 30/6/20; Stabilus S.A.: 30/9/20

Source: Bloomberg

6.2.3 Multiples Method

Table 7 – Market Multiples

Company Name	EV/EBITDA (x)			EV/EBIT (x)			P/E (x)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Altra Industrial Motion Corp.	13,8	12,4	11,7	16,7	15,4	14,6	20,0	17,5	15,0
Parker-Hannifin Corporation	13,6	12,2	12,2	14,6	13,8	13,4	17,8	16,3	15,0
Interpump Group S.p.A.	14,9	14,1	13,3	19,6	18,1	16,9	26,2	24,0	21,7
Eaton Corp, Plc	18,6	17,0	15,9	24,8	21,8	21,0	23,0	20,7	19,1
Sulzer AG	9,7	8,7	7,9	16,8	13,7	13,0	19,8	15,9	14,4
Rexnord Corp.	14,1	13,0	12,4	17,9	15,8	14,6	25,0	21,8	20,4
Comer Industries SpA	7,0	6,5	6,3	10,3	9,1	8,7	14,9	13,1	12,5
Concentric AB	14,7	14,0	13,6	17,1	15,8	15,0	24,9	23,0	21,7
Flowserve Corp.	14,2	12,4	11,5	18,4	15,6	14,1	26,3	21,1	18,3
Stabilus S.A.	9,8	8,9	8,3	13,6	12,5	11,5	18,3	16,6	15,0
Peer median	14,0	12,4	11,9	16,9	15,5	14,3	21,5	19,1	16,7

Source: Integrae SIM elaboration and market consensus

Table 8 – Market Multiples Valuation

€/mln	2021E	2022E	2023E
Enterprise Value (EV)			
EV/EBITDA	88,7	85,1	92,3
EV/EBIT	48,2	45,7	49,4
P/E	21,5	22,9	30,0
Equity Value			
EV/EBITDA	82,1	81,3	91,3
EV/EBIT	41,7	41,8	48,4
P/E	21,5	22,9	30,0
Equity Value post 25% discount			
EV/EBITDA	61,6	61,0	68,5
EV/EBIT	31,2	31,4	36,3
P/E	16,1	17,2	22,5
Average	36,3	36,5	42,4

Source: Integrae SIM elaboration and market consensus

The equity value of Marzocchi Pompe using the market multiples EV/EBITDA, EV/EBIT and P/E is approximately € 51.2 million. To this value, we have applied a 25% discount. **The result is an equity value of € 38.4 million.**

7. Equity Value

Table 9 – Equity Value

Average Equity Value (€/mln)	44,4
Equity Value DCF (€/mln)	50,5
Equity Value multiples (€/mln)	38,4
Target Price (€)	6,80

Source: Integrae SIM

The result is an average equity value of approx. € 44.4 million. **The target price is € 6.80, rating BUY and MEDIUM risk.**

Table 10 – Implied Multiples – Sensitivity Analysis

Equity Value (€/mln)	EV/EBITDA			EV/EBIT		
	2021E	2022E	2023E	2021E	2022E	2023E
41,0	7,9x	7,3x	6,5x	17,6x	17,0x	14,6x
42,0	8,1x	7,5x	6,6x	18,0x	17,4x	14,9x
43,0	8,2x	7,6x	6,7x	18,3x	17,7x	15,1x
44,0	8,4x	7,8x	6,9x	18,7x	18,1x	15,4x
45,0	8,5x	7,9x	7,0x	19,0x	18,4x	15,7x
46,0	8,7x	8,1x	7,1x	19,4x	18,7x	16,0x
47,0	8,9x	8,2x	7,3x	19,7x	19,1x	16,3x

Source: Integrae SIM

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Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR <= -5%	ETR <= -5%	ETR <= 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

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