Biesse

Italy/ Industrial Engineering

Company update

Investment Research

11 April 2012

Buy

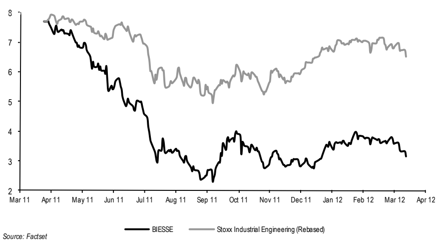
Recommendation unchanged

Share price: EUR	**3.15**
closing price as of 10/04/2012	
Target price: EUR	**5.20**
from Target Price: EUR	**7.50**
Reuters/Bloomberg	BSS.MI/BSS IM

Daily avg. no. trad. sh. 12 mth	119,849
Daily avg. trad. vol. 12 mth (m)	0.51
Price high 12 mth (EUR)	7.78
Price low 12 mth (EUR)	2.30
Abs. perf. 1 mth	-16.5%
Abs. perf. 3 mth	12.3%
Abs. perf. 12 mth	-58.7%

Market capitalisation (EURm)	86
Current N° of shares (m)	27
Free float	33%

Key financials (EUR)	12/11	12/12e	12/13e
Sales (m)	389	402	422
EBITDA (m)	22	31	49
EBITDA margin	*5.8%*	*7.8%*	*11.5%*
EBIT (m)	7	16	32
EBIT margin	*1.9%*	*3.9%*	*7.7%*
Net Profit (adj.)(m)	3	10	20
ROCE	2.3%	5.0%	10.7%
Net debt/(cash) (m)	50	39	9
Net Debt Equity	*0.4*	*0.3*	*0.1*
Net Debt/EBITDA	2.2	1.2	0.2
Int. cover(EBITDA/Fin.int)	6.9	82.5	51.0
EV/Sales	0.3	0.3	0.2
EV/EBITDA	5.9	3.8	1.9
EV/EBITDA (adj.)	5.9	3.8	1.9
EV/EBIT	17.9	7.5	2.8
P/E (adj.)	24.3	8.9	4.4
P/BV	0.7	0.7	0.6
OpFCF yield	*-26.7%*	*15.4%*	*35.4%*
Dividend yield	*0.0%*	*0.0%*	*0.0%*
EPS (adj.)	0.12	0.36	0.72
BVPS	4.38	4.74	5.46
DPS	0.00	0.00	0.00



Source: Factset

Shareholders: BI.FIN s.r.l. 58%;

For company description please see summary table footnote

Getting closer to the pay-back of 2010 relaunch

The Biesse Group operates in the market for machinery and systems for working wood, glass, marble and stone. In 2011 Biesse invested into an important development phase to strengthen its position in its traditional business segments: the relaunch in investments led to renew 40% of its range of products and to more commitment in distribution and production in emerging markets. The operating costs deriving from last year specific commitment have prevented the group from reporting a sharper recovery in operating profitability notwithstanding revenues were up 18.6% Y/Y. In 2012 limited progress in revenues should couple with a much better operating margins and convincing cash flow generation.

The updated highlights of the three year strategic plan 2012-2014 are as follows:

- ✓ consolidated revenues CAGR 6.2%;
- ✓ improving added value to over 42% in 2014;
- ✓ strong recovery in operating profitability in 2012 and 2013 (2014 EBITDA margin >14%, Ebit at > 10% in 2014);
- ✓ increased cash flow generation after investments (total free cash flow of EUR 95-100 million in the three-year period – positive net financial position in 2014).

We have adjusted our estimates following the release of 2011 full year results that showed a very strong performance in Q4-11 both in terms of revenues and profitability. At the end of 2011 order backlog amounted to EUR 90.3m, up 17% Y/Y, but down compared to end-June and end-September level, as normally commanded by seasonality. Order intake was up 16% in the fiscal year and was still 9% Y/Y higher in the month of December. Last quarter intake was up 11% Y/Y.

2012 is now expected to see a flat production in the sector of industrial engineering while demand of furniture spotted by CSIL will register, acc. to the territorial presence of Biesse, a 2.8% expansion and supports our estimate of revenues up 3.4% compared with a business plan target of +4.5%. Biesse presence in emerging market is increasing and makes the group almost immune from the weak domestic economic environment, now generating only 14% of sales.

While we feel quite comfortable with the business plan projection in terms of top line, our estimates continue to reflect a lower profitability to take into account: 1) and increasing importance of System (14% of total) and 2) some execution risk in the strategy that will see in India a second manufacturing center to serve Anglo-Saxon countries. Although we project high investments still in 2012, the net financial position is likely to turn into net cash at the very beginning of 2014 with net cash flow generation above previous plan.

Biesse shares are trading at the same level seen in Q1-2009 when the company was about to experience a 45% drop in turnover and to close the fiscal year in operating losses before depreciation (-3.4% Ebitda margin): fortunately, since 2009, revenues were up 50% and this year Ebitda margin is estimated to reach 7.8% of sales.

We believe that a recovery in operating profitability is crucial to a re-rating of the stock: this will take place with 2 year delay in the case of Biesse due to the resources committed in the relaunch announced in December 2010. We lowered our target price to EUR 5.2/sh, implying a 0.45x sales 2012e based on industry multiples while estimating a fair value at EUR 7.1/sh based on DCF projections (WACC of 9.3% and a perpetual growth rate (g) of 1.5%).

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Produced by: Banca Akros Gruppo Bipiemme

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Upcoming Events Calendar

Date	Event Type	Description	Period
15/05/12	Results	Q1 2012 Results	2012Q1
28/04/12	AGM	Full year 2011 AGM - 2nd call {if required}	2011
27/04/12	AGM	Full year 2011 AGM - 1st call	2011

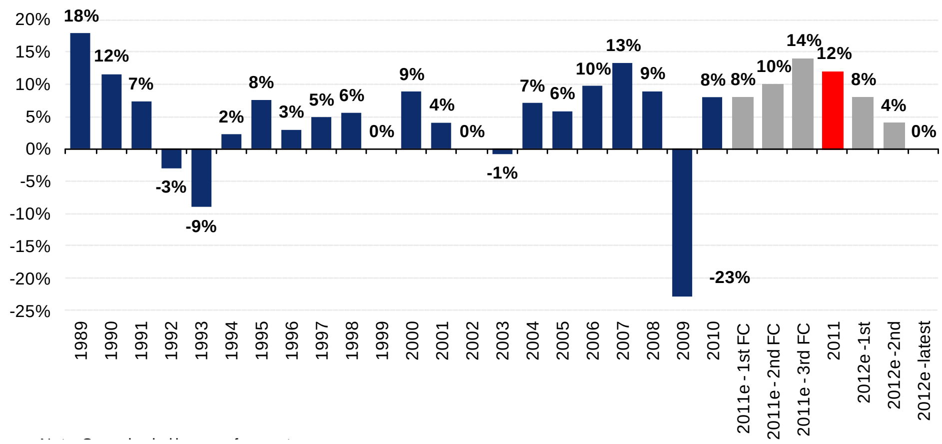
Source: Precise

Industrial engineering: weaker data but just in Q1

We are used to looking at the trend of the industry through the statistics released for German producers of machinery since they are released timely and offer more detail than those available on the Italian market.

At the end of February VDMA (German engineering association) provided information on production volume growth for the industry in ‘11 (+12% yoy) and revised its outlook for production volume growth in 2012 from +4% yoy to 0% yoy.

VDMA: production volume growth (yoy change)



Source: VDMA (German Association for Mechanical) *Note: Grey shaded bars are forecasts*

<u>Germany: production volume grew by 12% in 2011</u> - Gloomy economic forecasts aside, Germany’s mechanical engineering industry was again booming in ‘11 with growth in production volume of 12% yoy (+EUR 24bn to a volume of EUR 187bn) after +8% Y/Y in ’10. Both domestic and international has thus advanced by +12% each. This fell short of the latest forecast (+14% yoy growth) but is well above the initial forecast of +8% growth in the beginning of ’11.

The shortfall was mainly triggered by a weaker than expected production volume (-1.9% Y/Y) in Dec 11. IP data already pointed towards slower production volumes in Dec. Whilst part of it is clearly related to abating demand we believe that against the background of an even more gloomy economic outlook for ‘12e, a large amount of companies has also fostered lowering inventory levels in order to be prepared for a sudden backdrop in demand.

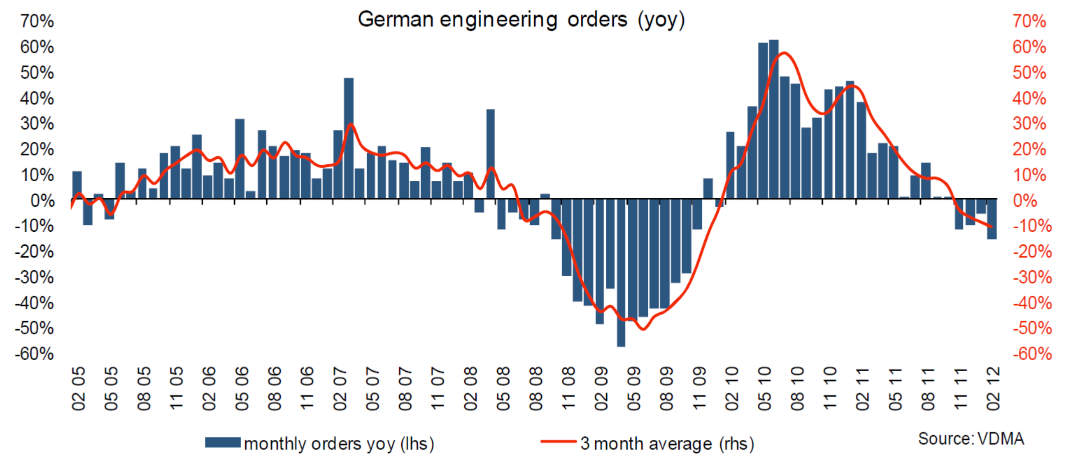
Latest order figures for the German engineering sector show a decline of 16% Y/Y triggered by a decline of 18% yoy in international orders and 18% Y/Y in domestic orders. By bringing these data into an indexed chart (a level of 100 equals average order intake for 2005) order intake for Feb 12 equals a level of ~116 which compares to an average indexed level for the last six and twelve months of 119 and 123, respectively. Hence, dynamics in demand for engineering goods has clearly lost dynamic but is far away from a major decline. With an indexed level of 116, order intake for the German engineering industry is in line with the long term trend established since 1995.

<u>Revised forecast ‘12e</u> - Flat growth in production volume in ‘12e: For ‘12e, VDMA now guided for production volume in line with 11 and thus revised its earlier guidance of +4%.

This is based on the order development over the last three months for which orders were ~8% lower than in the first eight months of the year. If we look at an indexed order level (~127 - a level of 100 = demand in ’05) we remain above the long term trend and thus see a mid-term slowdown rather than an upcoming more pronounced downturn. Major risks for ’12e are seen in slower growth in China as well as intensifying competition from China, but also from a still existing credit crunch threat.

Despite downwardly revised global economy forecasts, the global economy will continue to grow. Major industry clients, including the automotive and aircraft sectors, are planning a number of strategic investments in new markets, technologies and models. The lowered production volume forecast is a sign of declining dynamics in recent months. Yet, leading indicators have already turned whilst we see credit availability for the industry as relatively normal (see IFO credit constraint indicator). Moreover, a lowered growth forecast could also help to limit the demanded increase in wages for the industry of +6.5%.

VDMA: German engineering orders (Y/Y)



Source: VDMA

Emerging market likely to accelerate after a slowdown in 2H 2011

Several indicators suggest that global growth has started reacceleration after a slowdown during 2H 11. Leading indicators from China (Chinese PMI manufacturing), Taiwan (Taiwan HSBC PMI manufacturing index) as well as from South Korea (strong jump in export orders) all point to a revival in economic growth.

<u>Chinese PMI manufacturing signals increasing activity:</u> The Chinese PMI Manufacturing gauge came in with a reading of 51 (median expectation: 50.9) and thus improved against a reading of 50.5 in January. It was the third consecutive month of increasing activity in the Chinese manufacturing sector. Positively, the sub component “New export orders” has significantly improved to a reading of 51.1 (Jan 2012: 46.9) in a sign that external demand has made significant progress.

Taiwan PMI manufacturing with a great leap forward ending eight months of declining activity: in Taiwan, the PMI manufacturing survey as collected by HSBC jumped from 48.9 in Jan 12 to 52.7 in February as increased demand, both domestic and international, contributed to a rise in new orders. Positively, the expansion of the PMI reading in February brought an eight-month period of deteriorating operating conditions to an end.

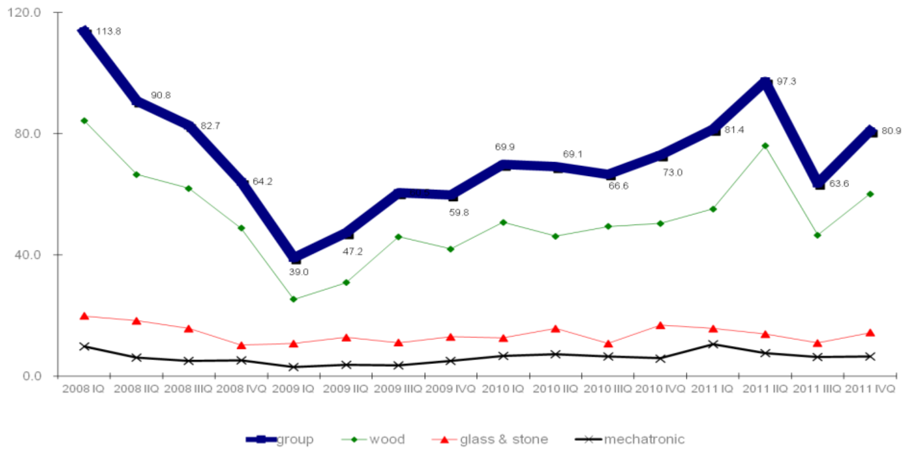
<u>South Korea export orders with strongest increase for six months:</u> Export orders jumped by 22.7% yoy in February (median estimate was for growth of +16% yoy). This supports our view that global demand has started a reacceleration. Asian exporters seem to be gaining momentum as demand out of the US improves, whilst even Europe seems to be making progress.

Global growth for 2012 is set to be in the range of 2.5% -3.0% Y/Y with the potential to even surprise on the upside. This should bode well for industrial stocks trading at attractive levels. Our Industrial engineering universe stands at a PER 12e of ~11.7x, EV/EBIT of 8.5x as well as EV/sales 12e of 0.68x.

BIESSE: Order intake topped EUR 90m in December 2011

At the end of December of 2011 order backlog amounted to EUR 90.3m, up 17% Y/Y, but down compared to end-June and end-September level, as normally commanded by seasonality. Order intake was up 16% in the fiscal year and was still 9% Y/Y, higher in the month of December. Last quarter intake was up 11% Y/Y.

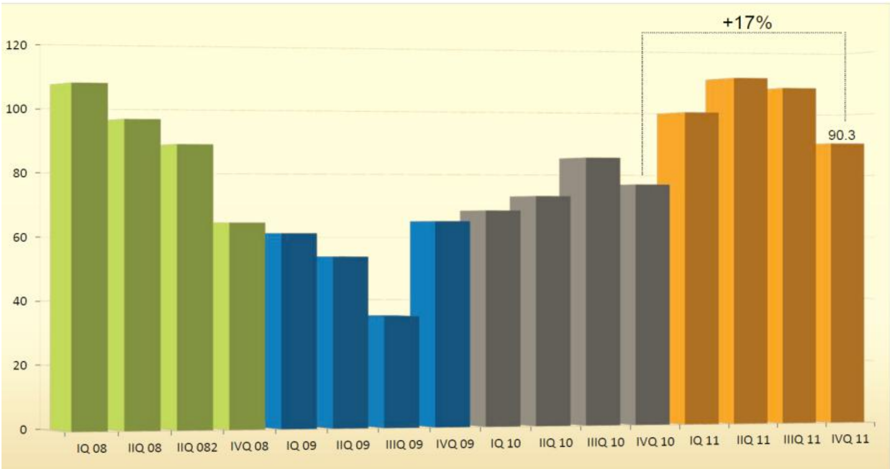
Biesse: Order intake by business line



Source: Company data

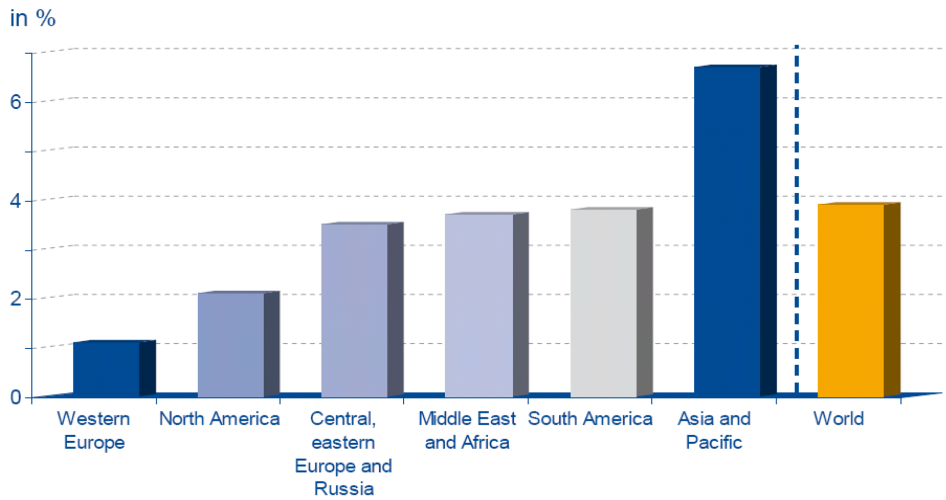
Year-end backlog clearly reflected the abundant transformation of orders in revenues of the last quarter: we estimate this period has exceeded normal seasonality for around EUR 25-30m. This on the one hand can suggest that the backlog trend is not materially decelerating, while on the other hand makes us expect a Q1-2012 weaker revenue performance.

Group orders backlog: quarterly trend (2008 - 2011)



Source: Company data

Furniture consumption by region in 2012 (% Chg compared to prior year)



Source: CSIL

Based on CSIL projections for 2012e, a blended rate of growth recalculated on the revenue mix of Biesse should be in the range of 2.8% in 2012e, which compares with a 4.5% progression posted in the strategic plan; this looks reasonable considering what a renewed product range should add in terms of pricing.

2011 results: all in one quarter

Full year figures materially exceeded our estimates in terms of top line, while operating profitability was only marginally higher. Net debt position was EUR 5m higher than in our expectation.

Our attention was attracted by the very strong dynamic of the last quarter, which we already suspected would be particularly strong. It is useful to compare what the reporting was of the first 9 months with the last quarter to understand the tremendous boost experienced by profitability thanks to a top line 23% higher than the average past quarters. Contribution of the newly consolidated Centre Gain Group was only EUR 2m.

In Q4-2011 Ebitda margin jumped from an average 4.2% in 9 months to 9.5% while Ebit margin moved from an avg. 0.3% to 4.4%. This bodes well for 2012 operating margins.

FY 2011 results in comparison with B. Akros estimates

EUR m	FY 10	FY 11a	*Chg*	FY 11e	9M 11a	Q4 11
Sales	327.5	388.5	*18.6%*	350.0	275.3	113.2
Added value	123.4	138.0	*11.8%*	138.0	99.9	38.1
Margin	*37.7%*	*35.5%*	*63.5%*	*39.4%*	*36.3%*	*33.7%*
EBITDA	15.7	22.4	*42.7%*	21.0	11.6	10.8
EBITDA margin	*4.8%*	*5.8%*		*6.0%*	*4.2%*	*9.5%*
EBIT	0.1	5.7	*nm*	6.0	0.7	5.0
EBIT margin	*0.0%*	*1.5%*		*1.7%*	*0.3%*	*4.4%*
Net Debt	19.0	50.4	*165.3%*	50.4	48.8	50.4

Fonte: Company data and Banca Akros estimates

Geographic breakdown is witnessing contraction of the domestic market (now accounting only for 14.1% of sales) and the expansion in eastern Europe and Asia (to 17.5% and 16.7% respectively), also the US market is for the first time recovering. This trend should be repeated in 2012 with more growth in Middle East and Africa. BRIC countries all together generated 15.1% of turnover.

Machines accounted for 67% of sales while Systems reached 14%, the rest being post sales and spare parts (19% of turnover).

Note that in Q4-11 Added Value margin was 33.7%, still 3pct points below the margin in Q4-10 when the re-launch plan was just announced. We remind readers that Added Value is seen recovering to 37.2% already in 2012 and to exceed 46% in 2014e.

Net debt was up EUR 1.6m since the end of September to EUR 50.4m. This pretty high level is a consequence of investments in emerging markets (mainly China and India) and phasing in and out of renewed product range. In particular, the acquisition in China contributed for an increase of EUR 7m (including the cash out and debt of newly consolidated company). Record sales in December clearly boosted the Receivables to a level likely to be reabsorbed in Q1.

3Y Business plan update

In 2011, Biesse was focusing on improving its market share in the area of plant and equipment: this came with the renewal of 40% of its existing product range. The technical structure was strengthened and new brands (VIET) were integrated while the presence in the Asian market was reinforced by an acquisition in China.

As a result, the 2011 financial year had higher consolidated revenues but also suffered from lower margins and high operating net working capital due to phasing in of new products that coupled with the phasing out of the old range.

Demand is registering a sort of polarisation towards the upper and lower end of the range:

- Anglo-Saxon countries tend to privilege low cost machines and have no difficulty buying products manufactured in China or with Chinese components;
- other western countries tend to invest in machines that offer more and more performance and innovation and accept higher prices for higher performances. This is happening also in China with imported products.

Biesse's strategy will adapt to this context by increasing the sourcing of components from China and manufacturing in India the low cost end of the range to serve Anglo-Saxon countries. Exports to China will also regard more sophisticated machines manufactured in the Italian plants.

Strategic guidelines focus on the following actions:

- gain market shares against Biesse's competitors in any business area and sector;
- bolster world-wide sales and distribution network (APAC & Americas);
- open new potential and attractive end markets.

The acquisition of Centre Gain Group is part of this refocusing.

In 2011 Biesse moved from a mainly commercial presence to an integrated operation combining distribution capacity with local capacity for sourcing and manufacturing of a line created for the Asian markets.

- complete and extend the cost cutting activity;
- speed up and increase the low cost countries sourcing impact to reduce the products/production costs;
- simplify/unify of the engineering process for a better standardization of the "offer range".

Product innovation and simplification should couple thanks to a higher standardization in components, aiming at reducing the costs of procurement through the presence in China.




Extending the production and distribution footprint

Last September Biesse finalised a preliminary agreement to purchase the full control of Centre Gain Group based in Hong Kong for a total consideration of HKD 105m. One of the three partners controlling the company - Chris Kwong - will hold 30% interest in the operation through the holding company Biesse HK. Chris Kwong has been active for 25 years in the woodworking machinery sector in China and has been co-operating with Biesse since 1999.

Net Sales & Margins expectations: Centregain/Korex & Biesse Trading Co. (China)

	2011e	2012e	2013e	2014e
Net Sales	20.7	25.0	32.5	42.2
delta %	*+16.0%*	*+21.0%*	*+30.0%*	*+30.0%*
Value Added	5.0	6.5	9.3	12.8
% of net sales	*24.1%*	*26.2%*	*28.6%*	*30.4%*
EBITDA	1.5	2.2	4.6	7.8
% of net sales	*7.1%*	*8.7%*	*14.2%*	*18.6%*
EBIT	0.7	1.4	3.7	6.8
% of net sales	*3.2%*	*5.5%*	*11.4%*	*16.2%*

Source: Company presentation October 2011

The Centre Gain Group has been active since 2004 in the production and marketing of woodworking machinery produced in a production facility located in the Dongguan city – Guangdong province – called Korex Macinery Ltd that operates a 44,000 sqm plant and employs around 360 staff. This new operation will be integrated with the commercial presence of the group and is expected to generate around 25m revenues in 2012.

In 2010 the target company reported EUR 17.8m turnover with an EBITDA of 1.5m (8.3% margin), its net debt amounted to EUR 4.8m. Implied multiple is around 0.8x EV/Sales and 9.6x EV/Ebitda not expensive considering industry potential profitability. The cash cost of the acquisition to be paid in 36 months is unlikely to create tension on Biesse's financial structure.

2010 consolidated sales of the Centre Gain Group amounted to approximately € 12 million. Thanks to this deal, and the synergies expected from its existing branch in Shanghai, Biesse Group intends to strengthen its presence in a geographical area of significant importance both in terms of current and medium-term potential.

The development of the new operations in China brings an important potential in consideration of the ambitious development announced also by Homag. The German competitor boasts a more established presence and has announced this year the intention to double sales in China in the long term moving from EUR 60m in 2011e.

Integration will see direct distribution of Biesse's range and the local production of part of the offer for the local market. Note that China currently represents the world's leading market for wood processing machinery and, given that there is no technological overlap, the current industrial output of the acquired company will also broaden Biesse's range.

Benefits of the integration, according to the management, are in the fields of:

technology: enlargement of the whole product range "Made in China" due to the increasing utilization of Biesse's technology.

manufacturing knowledge and management experience: improve the quality of the products with Biesse's experience as a worldwide leader (manufacturer & distributor).

distribution: use of the high potential China Distribution Networks – Biesse & Wellex - to increase sales and profits concerning the entire product range, including turnkey factories and engineered systems.

New plan financials

The updated highlights of the three year strategic plan are as follows:

- consolidated revenues CAGR 6.2%;
- improving added value to over 42% in 2014;
- strong recovery in operating profitability in 2012 and 2013 (2014 EBITDA margin >14%). Ebit at > 10% in 2014;
- increased cash flow generation after investments (total free cash flow of EUR95-100 million in the three-year period – positive net financial position in 2014).

We have adjusted our estimates following the release of 2011 full year results that showed a very strong performance in Q4-11 both in terms of revenues and profitability.

While we feel quite comfortable with the business plan projection in terms of top line, our estimates continue to reflect a lower profitability to take into account: 1) and increasing importance of System (14% of total) and 2) some execution risk in the strategy that will see in India a second manufacturing center to serve Anglo-Saxon countries. Although we project high investments still in 2012, the net financial position is likely to turn into net cash at the very beginning of 2014 with net cash flow generation above previous plan.

BIESSE: Banca Akros new estimates (2009-2014e)

	2009	2010	2011	2012e	2013e	2014e
Sales	**268.0**	**327.5**	**388.5**	**401.7**	**421.8**	**461.9**
Cost of Sales & Operating Costs	-256.5	-322.0	-369.7	-370.4	-373.3	-398.2
Non Recurrent Expenses/Income	-1.2	0.0	0.0	0.0	0.0	0.0
EBITDA	**-8.4**	**15.7**	**22.4**	**31.3**	**48.5**	**63.7**
EBITDA (adj.)*	**-7.2**	**15.7**	**22.4**	**31.3**	**48.5**	**63.7**
margin	*-2.7%*	*4.8%*	*5.8%*	*7.8%*	*11.5%*	*13.8%*
Depreciation	-13.3	-12.5	-13.0	-13.5	-13.9	-14.3
EBITA	**-21.8**	**3.2**	**9.4**	**17.8**	**34.6**	**49.4**
EBITA (adj)*	**-20.5**	**3.2**	**9.4**	**17.8**	**34.6**	**49.4**
Amortisations and Write Downs	-11.2	-3.1	-2.0	-2.0	-2.2	-3.0
EBIT	**-33.0**	**0.1**	**7.4**	**15.8**	**32.4**	**46.4**
margin	*-12.3%*	*0.0%*	*1.9%*	*3.9%*	*7.7%*	*10.0%*
Pre-Tax Profit	**-36.3**	**-2.5**	**2.8**	**15.5**	**31.5**	**45.4**
Tax	9.1	-3.2	-1.4	-5.7	-11.7	-16.8
Tax rate	*nm*	*nm*	*49.5%*	*37.2%*	*37.1%*	*37.1%*
Net Profit (reported)	**-27.2**	**-5.7**	**1.4**	**9.7**	**19.7**	**28.4**
Net Profit (adj.)	**-22.9**	**-1.6**	**3.2**	**9.7**	**19.8**	**28.5**
Net Fin. Debt (Cash)	32.8	18.9	50.4	38.7	9.4	-23.8

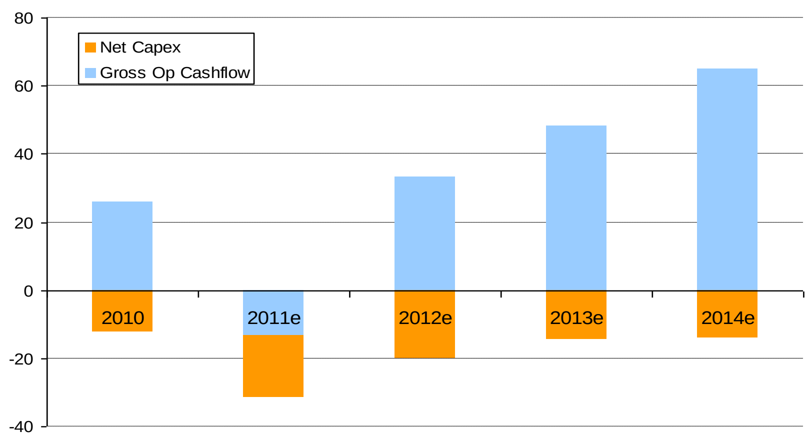
Source: Banca Akros Estimates

According to the company plan and to our estimates, the net debt of the Biesse group should have peaked in 2011 while important cash flow generation is going to be resumed starting from this year notwithstanding profitability margins, though improving, will remain well below pre-recession level. While in 2012 we come to the same gross operating margin of 7.8% expected by the Company, at the end of the plan horizon, 2014, we estimate Ebitda margin will hardly exceed 13.8% vs. management guidance of 14.6%.

Entering 2012 with a focus on cash flow generation

Current fiscal year will not see a full recovery in operating profitability and even the level of investments (intended as a mix of Capex spending, acquisitions and capitalised R&D) will remain quite substantial at around EUR 20m.

BIESSE BUSINESS PLAN: Gross Op. Cash flow and Capex evolution



Source: Company Business Plan 2012-2012

Nevertheless in 2012 the improvement in operating profitability will be visible: we expect the Ebitda margin to move from 5.8% to 7.8%. However, this variable is not sufficient to turnaround the gross operating cash flow from a negative EUR -15.3m in 2011 to a positive cash flow generation of EUR 33m in 2012.

Net working capital is the key to the 2012 improvement considering that it absorbed around EUR 29m in 2011, o/w inventories accounted only for the consolidation of the Chinese operations, the rest being adsorbed by higher trade receivables.

Valuation

Biesse shares are trading at the same level seen in Q1-2009 when the company was about to experience a 45% drop in turnover and to close the fiscal year in operating losses before depreciation (-3.4% Ebitda margin): fortunately, since 2009, revenues are up 50% and this year Ebitda margin is estimated to reach 7.8% of sales.

Biesse and Homag price comparison (base=100 on March 2009 lows) *Source: factset*

A comparison with Homag based on multiples, demonstrates that current stock market valuation is coherent with the different level of operating profitability seen in 2010 and in particular in 2011: Homag is more advance in recovering a pre-recession level of profitability compared to Biesse given that the Italian manufacturer has reinvested entirely the benefits deriving from operating leverage in the renewal of its product range.

In 2012 the two groups are expected to report a similar Ebitda margin (ca. 7.8%) while in 2013 Biesse will reach 11.5% vs. 8.5% of the German competitor. This, couple with deleveraging, should favour a re-rating of Biesse also in relative terms.

In other words, we believe that a recovery in operating profitability is crucial to a re-rating of the stock: this will take place with 2 year delay for Biesse which keeps a superior potential relative to Homag (pre-recession Ebitda margin was 11% vs Biesse's 17%).

BIESSE Peer multiples comparison

	EV/Sales		EV/EBITDA		EV/EBIT		P/E	
	2012	2013	2012	2013	2012	2013	2012	2013
Biesse S.p.A.	**0.31**	**0.22**	**3.9**	**2.0**	**7.8**	**2.9**	**9.3**	**4.6**
GESCO AG	0.60	0.55	4.8	4.4	6.8	6.2	9.3	9.3
Gildemeister AG	0.39	0.37	4.3	3.9	5.5	5.0	10.9	9.7
Homag Group AG	0.37	0.33	4.5	3.7	9.0	6.6	13.0	9.1
Industria Macchine Automatiche	0.94	0.88	6.9	6.3	8.7	7.8	12.2	11.4
KUKA AG	0.36	0.34	4.8	4.3	6.2	5.7	12.4	11.3
M.A.X. Automation AG	0.46	0.43	6.1	5.4	7.6	6.6	9.8	8.5
Prima Industrie S.p.A.	0.64	0.58	6.9	5.7	10.1	7.9	10.3	7.8
Schuler Ag Young Shares (01/10	0.51	0.48	5.5	5.1	7.1	6.4	9.8	8.4
Peer median	**0.48**	**0.45**	**5.1**	**4.7**	**7.4**	**6.5**	**10.6**	**9.2**
Premium (discount)	*-36.1%*	*-51.2%*	*-24.1%*	*-57.9%*	*6.1%*	*-55.2%*	*-12.5%*	*-50.1%*

Source: Banca Akros, ESN estimates, Factset consensus

We have run a DCF model to value Biesse assuming a 6 years horizon to reflect an entire economic cycle. Terminal value is considering a perpetual growth of 1.5% and a level of operating profitability around the average of the estimated cycle (ca. 9.5%).

Wacc at 9.3% is assuming a 20% gearing and takes into account the modest liquidity of the stock through a beta of 1.5.

BIESSE: DCF Model summary

	2011	2012e	2013e	2014e	2015e	2016e	2017e
Net Sales	**388.5**	**401.7**	**421.8**	**461.9**	**424.9**	**403.7**	**415.8**
% change	*18.6%*	*3.4%*	*5.0%*	*9.5%*	*-8.0%*	*-5.0%*	*3.0%*
EBITDA	**22.4**	**31.3**	**48.5**	**63.7**	**40.8**	**29.9**	**38.3**
% margin	*5.8%*	*7.8%*	*11.5%*	*13.8%*	*9.6%*	*7.4%*	*9.2%*
% change	*42.8%*	*39.8%*	*54.8%*	*31.4%*	*-36.0%*	*-26.8%*	*28.1%*
Depreciation & other provisions	15.0	15.5	16.1	17.3	15.9	15.1	15.6
% sales	*3.9%*	*3.9%*	*3.8%*	*3.7%*	*3.7%*	*3.7%*	*3.7%*
EBIT	**7.4**	**15.8**	**32.4**	**46.4**	**24.9**	**14.8**	**22.7**
% margin	*1.9%*	*3.9%*	*7.7%*	*10.1%*	*5.9%*	*3.7%*	*5.5%*
% change	*nm*	*nm*	*104.7%*	*43.3%*	*-46.4%*	*-40.7%*	*53.7%*
Taxes	**-2.7**	**-5.9**	**-12.0**	**-17.2**	**-9.2**	**-5.5**	**-8.4**
Norm. tax rate	*37.0%*	*37.0%*	*37.0%*	*37.0%*	*37.0%*	*37.0%*	*37.0%*
NOPLAT	**4.7**	**10.0**	**20.4**	**29.3**	**15.7**	**9.3**	**14.3**
Depreciation & other provisions	15.0	15.5	16.1	17.3	15.9	15.1	15.6
% sales	*3.9%*	*3.9%*	*3.8%*	*3.7%*	*3.7%*	*3.7%*	*3.7%*
Gross Operating Cash Flow	**19.7**	**25.5**	**36.5**	**46.6**	**31.6**	**24.4**	**29.9**
Capex	**-18.4**	**-20.5**	**-14.8**	**-14.1**	**-14.0**	**-13.3**	**-13.7**
% sales	*4.7%*	*5.1%*	*3.5%*	*3.1%*	*3.3%*	*3.3%*	*3.3%*
Change in Net Working Capital (-=incr;+=decr)	-19.9	8.6	9.4	2.3	6.0	3.4	-2.0
Cash Flow to be discounted	**-18.6**	**13.6**	**31.2**	**34.8**	**23.6**	**14.5**	**14.2**

Source: Banca Akros, ESN estimates

Conclusions

Biesse shares are trading at the same level seen in Q1-2009 when the company was about to experience a 45% drop in turnover and to close the fiscal year in operating losses before depreciation (-3.4% Ebitda margin): fortunately, since 2009, revenues are up 50% and this year Ebitda margin is estimated to reach 7.8% of sales.

We believe that a recovery in operating profitability is crucial to a re-rating of the stock: this will take place with 2 year delay for Biesse which keeps a superior potential also relative to Homag that has a limited improvement margin.

We set our fair value at EUR 7.1/sh based on DCF projections (WACC of 9.3% and a perpetual growth rate (g) of 1.5%) while our target price is lowered to EUR 5.2/sh implying a 0.45x sales 2012e based on industry multiples.

Biesse: Summary tables

PROFIT & LOSS (EURm)	12/2009	12/2010	12/2011	12/2012e	12/2013e	12/2014e
Sales	**268**	**328**	**389**	**402**	**422**	**462**
Cost of Sales & Operating Costs	-257	-322	-370	-370	-373	-398
Non Recurrent Expenses/Income	-1.2	0.0	0.0	0.0	0.0	0.0
EBITDA	**-8.4**	**15.7**	**22.4**	**31.3**	**48.5**	**63.7**
EBITDA (adj.)*	**-7.2**	**15.7**	**22.4**	**31.3**	**48.5**	**63.7**
Depreciation	-13.3	-12.5	-13.0	-13.5	-13.9	-14.3
EBITA	**-21.8**	**3.2**	**9.4**	**17.8**	**34.6**	**49.4**
EBITA (adj)*	**-20.5**	**3.2**	**9.4**	**17.8**	**34.6**	**49.4**
Amortisations and Write Downs	-11.2	-3.1	-2.0	-2.0	-2.2	-3.0
EBIT	**-33.0**	**0.1**	**7.4**	**15.8**	**32.4**	**46.4**
EBIT (adj.)*	**-31.8**	**0.1**	**7.4**	**15.8**	**32.4**	**46.4**
Net Financial Interest	-3.2	-2.2	-3.3	-0.4	-1.0	-1.1
Other Financials	-0.1	-0.5	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0	0.0
Other Non Recurrent Items	0.0	0.0	-1.3	0.0	0.0	0.0
Earnings Before Tax (EBT)	**-36.3**	**-2.5**	**2.8**	**15.5**	**31.5**	**45.4**
Tax	9.1	-3.2	-1.4	-5.7	-11.7	-16.8
Tax rate	*25.1%*	*nm*	*49.5%*	*37.2%*	*37.1%*	*37.1%*
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	0	0	0	0	0	0
Net Profit (reported)	**-27**	**-6**	**1**	**10**	**20**	**28**
Net Profit (adj.)	**-22.9**	**-1.6**	**3.2**	**9.7**	**19.8**	**28.5**

CASH FLOW (EURm)	12/2009	12/2010	12/2011	12/2012e	12/2013e	12/2014e
Cash Flow from Operations before change in NWC	-2.7	9.9	17.4	25.2	35.9	45.8
Change in Net Working Capital	28.3	14.7	-19.9	8.6	9.4	2.3
Cash Flow from Operations	**25.6**	**24.5**	**-2.5**	**33.8**	**45.3**	**48.1**
Capex	-7.9	-12.1	-18.4	-20.5	-14.8	-14.1
Net Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	**17.7**	**12.4**	**-20.9**	**13.3**	**30.5**	**34.0**
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other (incl. Capital Increase & share buy backs)	-24	1	-11	-2	-1	-1
Change in Net Debt	**-6**	**14**	**-31**	**12**	**29**	**33**
NOPLAT	-20.0	0.1	4.7	10.0	20.4	29.3

BALANCE SHEET & OTHER ITEMS (EURm)	12/2009	12/2010	12/2011	12/2012e	12/2013e	12/2014e
Net Tangible Assets	57.4	55.8	63.7	70.6	71.5	71.3
Net Intangible Assets (incl.Goodwill)	41.1	44.3	48.0	48.0	48.0	48.0
Net Financial Assets & Other	18.8	16.6	16.6	16.6	16.6	16.6
Total Fixed Assets	**117**	**117**	**128**	**135**	**136**	**136**
Inventories	65.7	81.3	89.9	88.4	80.1	80.8
Trade receivables	74.9	90.4	111	106	113	121
Other current assets	10.8	0.0	0.0	0.0	0.0	0.0
Cash (-)	-31.1	-25.8	-23.3	-26.1	-34.5	-49.1
Total Current Assets	**182.5**	**197.5**	**223.9**	**220.9**	**228.1**	**250.9**
Total Assets	**299.8**	**314.3**	**352.2**	**356.1**	**364.2**	**386.8**
Shareholders Equity	126.3	122.4	120.0	129.7	149.5	178.0
Minority	0.5	0.2	0.7	0.7	0.8	1.0
Total Equity	126.8	122.6	120.7	130.4	150.3	179.0
Long term interest bearing debt	45.3	44.7	27.8	24.4	16.5	9.5
Provisions	11.9	10.9	10.5	10.6	11.0	12.0
Other long term liabilities	3.4	7.2	9.4	9.7	10.2	11.1
Total Long Term Liabilities	**60.6**	**62.8**	**47.7**	**44.7**	**37.7**	**32.7**
Short term interest bearing debt	18.6	0.0	45.9	40.3	27.3	15.7
Trade payables	61.0	111.1	113.1	114.5	121.9	131.6
Other current liabilities	32.9	17.8	24.8	26.2	26.9	27.7
Total Current Liabilities	**112.5**	**128.9**	**183.8**	**181.0**	**176.2**	**175.1**
Total Liabilities and Shareholders' Equity	**299.9**	**314.3**	**352.2**	**356.1**	**364.2**	**386.8**
Net Capital Employed	**174.8**	**159.6**	**191.0**	**189.4**	**180.9**	**178.4**
Net Working Capital	**79.6**	**60.6**	**87.5**	**80.3**	**71.7**	**70.2**

GROWTH & MARGINS	12/2009	12/2010	12/2011	12/2012e	12/2013e	12/2014e
Sales growth	*-41.0%*	*22.2%*	*18.6%*	*3.4%*	*5.0%*	*9.5%*
EBITDA (adj.)* growth	***-chg***	***+chg***	***42.8%***	***39.8%***	***54.8%***	***31.4%***
EBITA (adj.) growth*	*-chg*	*+chg*	*190.2%*	*89.4%*	*94.0%*	*42.9%*
*EBIT (adj)*growth*	*-chg*	*+chg*	*6964.8%*	*113.5%*	*104.7%*	*43.3%*

Biesse: Summary tables

GROWTH & MARGINS	12/2009	12/2010	12/2011	12/2012e	12/2013e	12/2014e
Net Profit growth	*-chg*	*+chg*	*+chg*	*202.5%*	*103.3%*	*44.1%*
EPS adj. growth	*-chg*	*+chg*	*+chg*	*202.5%*	*103.3%*	*44.1%*
DPS adj. growth						
EBITDA (adj) margin*	*nm*	*4.8%*	*5.8%*	*7.8%*	*11.5%*	*13.8%*
EBITA (adj) margin*	*-7.7%*	*1.0%*	*2.4%*	*4.4%*	*8.2%*	*10.7%*
EBIT (adj) margin*	*nm*	*0.0%*	*1.9%*	*3.9%*	*7.7%*	*10.1%*

RATIOS	12/2009	12/2010	12/2011	12/2012e	12/2013e	12/2014e
Net Debt/Equity	0.3	0.2	0.4	0.3	0.1	-0.1
Net Debt/EBITDA	-3.9	1.2	2.2	1.2	0.2	-0.4
Interest cover (EBITDA/Fin.interest)	nm	7.3	6.9	82.5	51.0	59.1
Capex/D&A	32.2%	77.6%	122.5%	132.2%	91.7%	81.4%
Capex/Sales	2.9%	3.7%	4.7%	5.1%	3.5%	3.1%
NWC/Sales	29.7%	18.5%	22.5%	20.0%	17.0%	15.2%
ROE (average)	-16.4%	-1.3%	2.7%	7.8%	14.2%	17.4%
ROCE (adj.)	-11.2%	0.0%	2.3%	5.0%	10.7%	15.4%
WACC	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%
ROCE (adj.)/WACC	-1.2	0.0	0.3	0.5	1.2	1.7

PER SHARE DATA (EUR)***	12/2009	12/2010	12/2011	12/2012e	12/2013e	12/2014e
Average diluted number of shares	27.4	27.4	27.4	27.4	27.4	27.4
EPS (reported)	-0.99	-0.21	0.05	0.35	0.72	1.04
EPS (adj.)	-0.84	-0.06	0.12	0.36	0.72	1.04
BVPS	4.61	4.47	4.38	4.74	5.46	6.50
DPS	0.00	0.00	0.00	0.00	0.00	0.00

VALUATION	12/2009	12/2010	12/2011	12/2012e	12/2013e	12/2014e
EV/Sales	0.7	0.5	0.3	0.3	0.2	0.1
EV/EBITDA	nm	10.8	5.9	3.8	1.9	0.9
EV/EBITDA (adj.)*	**nm**	**10.8**	**5.9**	**3.8**	**1.9**	**0.9**
EV/EBITA	-8.1	52.2	14.1	6.7	2.6	1.2
EV/EBITA (adj.)*	**-8.5**	**52.2**	**14.1**	**6.7**	**2.6**	**1.2**
EV/EBIT	nm	nm	17.9	7.5	2.8	1.2
EV/EBIT (adj.)*	**nm**	**nm**	**17.9**	**7.5**	**2.8**	**1.2**
P/E (adj.)	**nm**	**nm**	**24.3**	**8.9**	**4.4**	**3.0**
P/BV	1.2	1.2	0.7	0.7	0.6	0.5
Total Yield Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	
EV/CE	1.0	1.1	0.7	0.6	0.5	0.3
OpFCF yield	12.2%	8.3%	-26.7%	15.4%	35.4%	39.5%
OpFCF/EV	10.1%	7.3%	-15.8%	11.2%	33.9%	58.8%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend yield (gross)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

EV AND MKT CAP (EURm)	12/2009	12/2010	12/2011	12/2012e	12/2013e	12/2014e
Price** (EUR)	5.33	5.44	2.86	3.15	3.15	3.15
Outstanding number of shares for main stock	27.4	27.4	27.4	27.4	27.4	27.4
Total Market Cap	**146**	**149**	**78**	**86**	**86**	**86**
Net Debt	**33**	**19**	**50**	**39**	**9**	**-24**
o/w Cash & Marketable Securities (-)	*-31*	*-26*	*-23*	*-26*	*-34*	*-49*
o/w Gross Debt (+)	*64*	*45*	*74*	*65*	*44*	*25*
Other EV components	**-3**	**2**	**4**	**-6**	**-6**	**-5**
Enterprise Value (EV adj.)	**175**	**169**	**133**	**119**	**90**	**58**

Source: Company, Banca Akros estimates.

Notes

** Where EBITDA (adj.) or EBITA (adj)= EBITDA (or EBITA) -/+ Non Recurrent Expenses/Income and where EBIT (adj)= EBIT-/+ Non Recurrent Expenses/Income - PPA amortisation*

***Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years*

Sector: Industrial Engineering/Industrial Machinery

Company Description: Biesse offers a complete range of products with modular solutions, from the design of automatic machines and work centres to turnkey plants. The group currently operates three divisions: 1) Wood: machines for the furniture and the door and window frames industry£pv£ 2) Glass and Marble (G&M): machines for the glasswork and the furniture industry£pv£ 3) HSD: production of electrical and mechanical components for numerically controlled machines. The company went public in 2001 (the IPO price was EUR 9.0) after it acquired Schelling of Austria (design and development of automation systems) that causes Biesse’s losses between 2001 and 2003. In Dec-2003, Biesse finally succeeded in selling Schelling and started to severely restructure its domestic and international operations. At the end of 2004, Biesse finally started turning a profit again and entered a positive period of steady growth in volumes and profitability.

ESN Recommendation System

The ESN Recommendation System is **Absolute**. It means that each stock is rated on the basis of a **total return**, measured by the upside potential (including dividends and capital reimbursement) over a **12 month time horizon**.

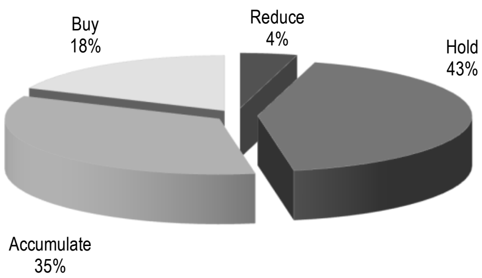
The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy, Accumulate (or Add), Hold, Reduce and Sell (in short: B, A, H, R, S)**.

Furthermore, in specific cases and for a limited period of time, the analysts are allowed to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR)**, as explained below.

Meaning of each recommendation or rating:

- **Buy**: the stock is expected to generate total return of **over 20%** during the next 12 months time horizon
- **Accumulate:** the stock is expected to generate total return of **10% to 20%** during the next 12 months time horizon
- **Hold**: the stock is expected to generate total return of **0% to 10%** during the next 12 months time horizon.
- **Reduce**: the stock is expected to generate total return of **0% to -10%** during the next 12 months time horizon
- **Sell**: the stock is expected to generate total return **under -10%** during the next 12 months time horizon
- **Rating Suspended**: the rating is suspended due to a capital operation (take-over bid, SPO, …) where the issuer of the document (a partner of ESN) or a related party of the issuer is or could be involved or to a change of analyst covering the stock
- **Not Rated**: there is no rating for a company being floated (IPO) by the issuer of the document (a partner of ESN) or a related party of the issuer

Banca Akros Ratings Breakdown

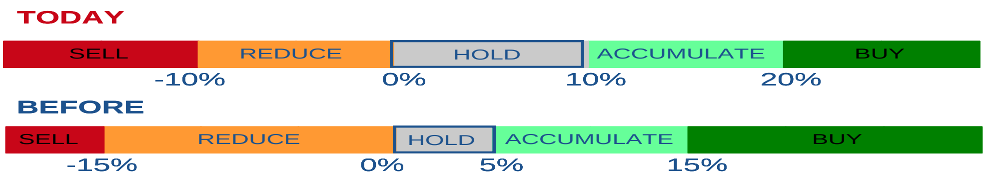


History of ESN Recommendation System

Since 18 October 2004, the Members of ESN are using an Absolute Recommendation System (before was a Relative Rec. System) to rate any single stock under coverage.

Since 4 August 2008, the ESN Rec. System has been amended as follow.

- Time horizon changed to 12 months (it was 6 months)
- Recommendations Total Return Range changed as below:



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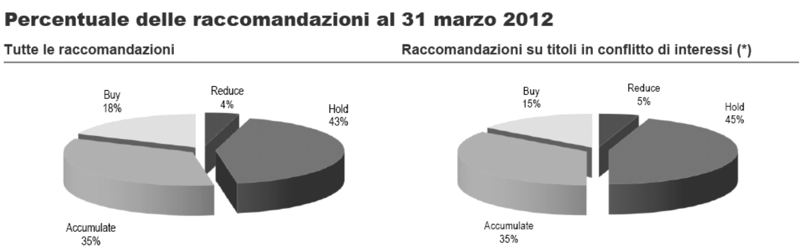
Recommendation history for BIESSE

Date	Recommendation	Target price	Price at change date
11-Apr-12	Buy	5.20	3.15
08-Aug-11	Buy	7.50	3.35
05-Apr-11	Buy	10.00	7.81
17-Mar-11	Buy	7.50	6.55
26-Jan-11	Buy	7.00	5.50
25-Oct-10	Hold	0.00	5.46
17-Mar-10	Buy	8.50	6.41
16-Oct-09	Accumulate	8.30	6.35
10-Aug-09	Hold	4.60	4.65
16-Jul-09	Hold	4.20	4.40

Source: Factset & ESN, price data adjusted for stock splits.
This chart shows Banca Akros continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Francesco Previtera (since 10/10/2006)



(*) Si informa che la percentuale degli emittenti in potenziale conflitto di interessi con Banca Akros è pari al 22% del totale degli emittenti oggetto di copertura

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