Vimi Fasteners Spa

Sector: Industrial fasteners

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Betting on demand turnaround in 2H19

Vimi Fasteners Group designs and manufactures highly engineered fastening solutions for a broad variety of industrial applications ranging from automotive (42% of FY2018 revenues) to oil & gas, infrastructures and aerospace.

FY2018 results mirror late-2018 automotive hick

The 2018 results were weak (22% below our expectation at EBIT Adj. level), hit by the sudden fall in car demand of 4Q. The real surprise was that Vimi strong positioning in the high-end German cars and luxury segment (Ferrari Group) turned into a weakness, being these segments hit as well. Also, the company suffered from inefficiencies and extraordinary costs during the production re-organization scheduled in 2H18-1H19.

Weaker macro outlook drives earnings downgrade

On the back of weaker macroeconomic scenario and disappointing car sales momentum, we have revised out 2019E-20E forecasts downward by ca 14% at top line and by ca 45% at bottom line. These forecasts rely however on a top line recovery from 2H 2019, while 1H results are expected quite weak. Our new estimates also factor the effects of IFRS16 introduction in 2019: virtually nil at EBIT level, but ca. €3.6mn higher net debt. We now forecast 2019E net debt/EBITDA at 2.8x, or 1.5x if we do not include the earn-out on MF Inox to be paid in 2022 and the accounting effect of IFRS16 adoption.

Current 2019E-21E forecasts incorporate low visibility

We believe the stock now incorporates a higher execution risk due to: a) low visibility on car demand, expected to be weak in 1H19, and b) electrification speed up, that might put pressure on car suppliers and leave less time for those focused on traditional technology (ICE) to reconvert their mix. Although we believe management is seeking diversification opportunities via small acquisitions, our updated 2019E-21E estimates assume Vimi margins still below 2017 levels and do not factor any M&A yet.

Updated fair value at €2.8 per share

Vimi's peers in the fasteners segment trade at multiples broadly aligned to those of six months ago, as lower market capitalizations combine with lower forecasts. We set a new fair value at €2.8 per share (down from previous €4.0) that implies 2020E multiples of 6.2x EV/EBITDA and 14.2x P/E.

Fair Value (€)	**2.80**
Market Price (€)	**2.40**
Market Cap. (€m)	**32.0**

KEY FINANCIALS (€m)	2018PF	2019E	2020E
REVENUES	52.3	49.2	53.3
ADJ. EBITDA	7.5	6.7	8.0
ADJ. EBIT	4.1	2.5	3.3
ADJ. NET PROFIT	2.9	2.0	2.6
EQUITY	26.0	27.6	29.7
NET FIN. DEBT	14.2	17.2	12.6
EPS ADJ. (€)	0.22	0.15	0.20
DPS (€)	0.00	0.04	0.05

Source: Vimi Fasteners (historical figures), Value Track (2019E-20E estimates)

RATIOS & MULTIPLES	2018PF	2019E	2020E
ADJ. EBITDA MARGIN (%)	14.4	13.6	15.0
ADJ. EBIT MARGIN (%)	7.8	5.1	6.2
ADJ. NET PROF. MRG (%)	5.6	4.0	4.9
NET DEBT / EQUITY (x)	0.55	0.62	0.42
EV/SALES (x)	1.1	1.0	0.8
EV/EBITDA ADJ: (x)	7.7	7.4	5.6
P/E ADJ. (x)	15.0	16.2	12.2
DIV YIELD (%)	0.0	1.7	2.1

Source: Vimi Fasteners (historical figures), Value Track (2019E-20E estimates)

STOCK DATA	
FAIR VALUE (€)	2.80
MARKET PRICE (€)	2.40
SHS. OUT. (m)	13.3
MARKET CAP. (€m)	32.0
FREE FLOAT (%)	23.5
AVG. -20D VOL. (#)	4,975
RIC / BBG	VIM.MI / VIM IM
52 WK RANGE	2.30-3,42

Source: Stock Market Data

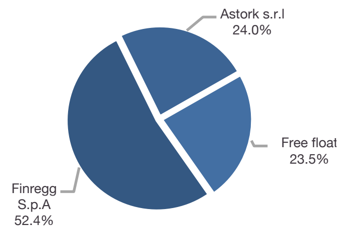
EQUITY RESEARCH PRODUCED IN THE NAME AND ON BEHALF OF BANCA PROFILOS.P.A. ACTING AS SPECIALIST ON VIMI FASTENERS SHARES

Business Description

Vimi Fasteners is a leading player in the design and manufacturing of highly engineered fastening solutions, such as screws, studs and nuts, for a broad range of industrial applications, ranging from automotive to oil & gas and aerospace.

The Group is specialised in the production of high-performance fastening solutions for high temperature and high resistance applications and following the acquisition of MF Inox (June 2018), it has also developed a specific product know-how and commercial presence in the Oil &Gas sector.

Shareholders Structure



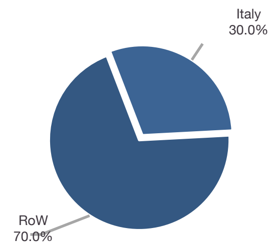
Source: Company SpA

Key Financials

€mn	2017PF	2018PF	2019E	2020E
Total Revenues	**50.2**	**52.3**	**49.2**	**53.3**
Chg. % YoY		4.2%	-6.0%	+8.4%
EBITDA	**8.0**	**5.8**	**6.2**	**8.0**
EBITDA Margin	16.4%	11.1%	12.6%	15.0%
EBIT	**4.9**	**2.4**	**2.0**	**3.3**
EBIT Margin	10.1%	4.6%	4.1%	6.2%
Net Profit	**2.7**	**1.6**	**1.6**	**2.6**
Net Fin. Debt	**19.9**	**14.2**	**17.2**	**12.6**
Net Fin. Debt / EBITDA (x)	2.5x	2.4x	2.8x	1.6x
Capex	3.6	5.7	3.6	3.0
OpFCF b.t.	**5.7**	**-3.4**	**1.0**	**5.8**
OpFCF b.t. as % of EBITDA	71%	n.m.	16%	72%
EBITDA Adjusted	**8.0**	**7.5**	**6.7**	**8.0**
EBITDA Adj. Margin (% of Tot. Revenues)	16.4%	14.4%	13.6%	15.0%
EBIT Adjusted	**4.9**	**4.1**	**2.5**	**3.3**
EBIT Adj. Margin (% of Tot Revenues)	10.1%	7.8%	5.1%	6.2%
Net Adjusted Profit	**2.7**	**2.9**	**2.0**	**2.6**

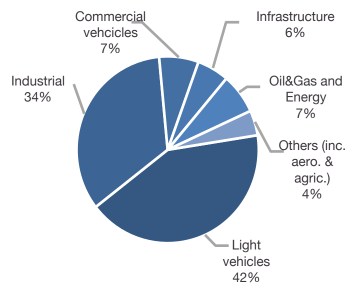
Source: Vimi Fasteners (historical figures), Value Track (estimates). Pro-Forma figures consolidate MF Inox as of 1.1.2017

Sales breakdown by geography



Source: Vimi Fasteners

Sales breakdown by industry



Source: Vimi Fasteners

Investment case

Strengths / Opportunities

- Highly engineered products with strong attention to quality;
- Presence in fast-growing end-markets (i.e. oil&gas, aerospace);
- Approach to clients based on co-engineering and strong partnerships;
- M&A opportunities in the aerospace field.

Weaknesses / Risks

- Auto: weak momentum & LT concerns (electrification/car sharing);
- Lack of a global manufacturing footprint and limited market coverage;
- Lower size if compared to main competitors

Stock multiples @ €2.8 Fair Value

	2019E	2020E
EV / SALES (x)	1.1	0.9
EV / EBITDA ADJ (x)	8.2	6.2
EV / CAP.EMP. (x)	1.2	1.2
OpFCF Yield (%)	5.3	11.4
P / E ADJ (x)	18.9	14.2
P / BV (x)	1.4	1.3
Div. Yield. (%)	1.4	1.8

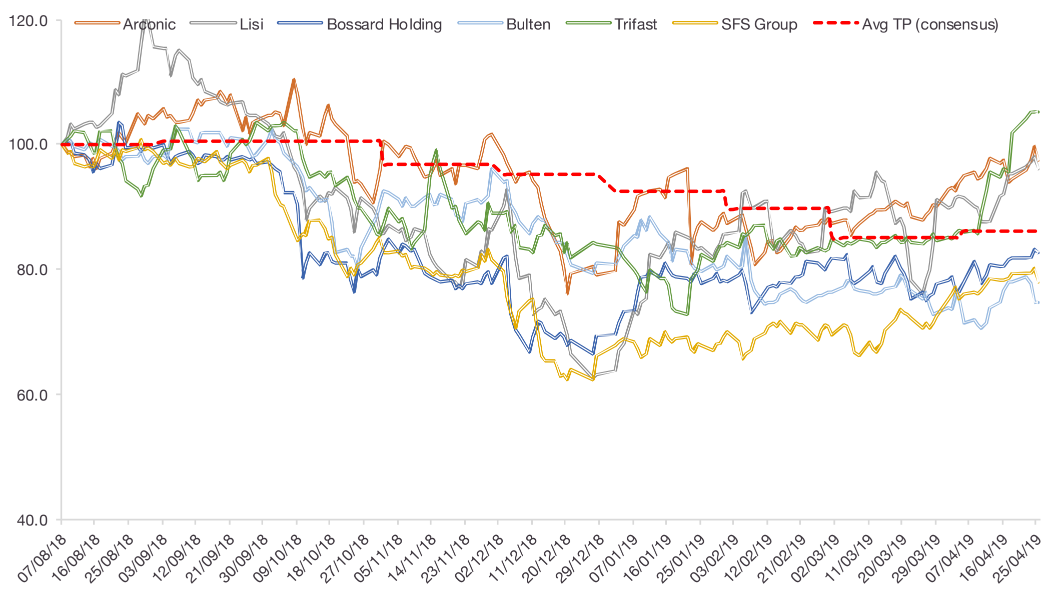
Source: Value Track

The turbulent latest six months

The end markets of fasteners are extremely diversified, ranging from agriculture to aerospace. Hence, the reference sectors, the diversification of products, the business model (i.e. integration level) - together with business size etc. - are the main drivers of business resiliency in the short term and of its prospects in the longer-term. Having said this, all the major players and Vimi peers have a) a certain involvement in the automotive sector, albeit with different specialization and diversification levels; b) exposure to other sectors that are somehow cyclical too (e.g. construction or industrial).

Hence, most of players have been performing relatively poorly over the latest six months and it is worth making a few considerations about this.

Peers' stock price performance since Vimi IPO date



Source: S&P Capital IQ, Value Track Analysis

The perfect storm of the automotive industry

Admittedly, latest months have been quite turbulent for industrial sectors and the automotive industry in particular: after summer 2018 a number of negative factors have converged to the kind of like the "perfect storm". The key factors affecting the car industry are well known and some of them have also been partially solved or at least "discounted", but more in detail:

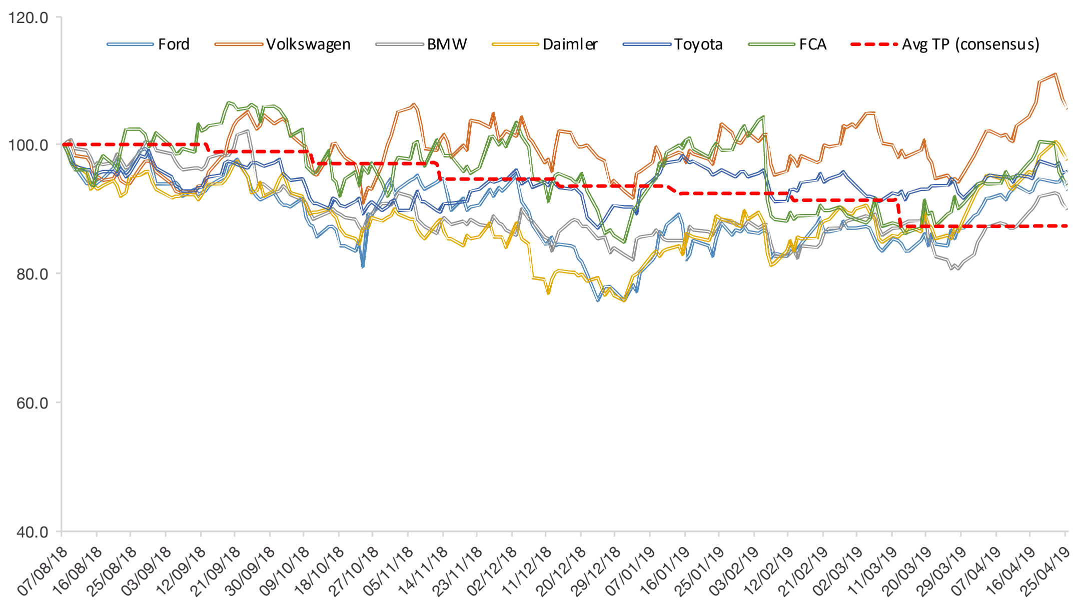
- A **weakening macro scenario**, with the risk of a sharp slow-down in China and US in particular, also depending upon the relative monetary policies – in this respect equity markets are discounting a better outlook, following the more flexible attitude of the Federal Reserve on the one side and the Chinese Government on the other;
- **Trade wars and tariffs** introduced by US – here the US-China trade negotiations are progressing and financial markets have started to incorporate a scenario where an agreement is signed in the end, however we would still point out some concerns relative to the US-Europe trade outlook, and particularly relative to the German surplus and hence the automotive industry;
- Introduction of **EU new rules for car emission and consumption test**, i.e. RDE (Real Drive Emission) and WLTP (the new regulatory test procedure for measuring CO2 emissions and fuel consumption, the World Harmonised Light Vehicles Test Procedure (WLTP)), these became

effective from 1 September 2018 for all new passenger cars placed on the Union market. This step raised major issues for car makers (Germans in particular), which had underestimated all the implications of these regulatory changes. However, this has been only a step of a long process towards "clean mobility";

- **New EU Regulatory framework** approved in December 2018 (by European Commission, Parliament and Council), setting binding carbon dioxide (CO_2) emission targets for 2025 and 2030 (implying reductions of average CO_2 emissions from new cars by 15% in 2025 and by 37.5% in 2030 relative to a 2021 baseline). This confirms that "eco" requirements drive the industry innovation: from September 2019 RDE will be mandatory for measuring NOx too, beginning in 2020 all new vehicles types will be equipped with on-board fuel and/or energy consumption monitoring devices (OBFCM), from 2021 CO_2 emission will be monitored also when cars will be on the road, just to mention a few steps ahead. Also, the EU Parliament has just approved a 30% CO_2 reduction target by 2030 for heavy-duty vehicles, never regulated before at EU level.
- **Electrification**, the above requirements and measures are aimed at meeting the decreasing emission limits, but regulation sets also the ZLEV (zero and low-emission vehicles) sales targets: 15% for 2025 and 35% for 2030 - while giving manufacturers some flexibility in how they reach those targets. The path towards the ZLEV "world" is set to be *the* driver of the car industry: it will set the trends of the next decade, involving all the aspects of production and marketing, albeit visibility around a few key issues (as leading technologies and costs) is still extremely low.
- **Other themes,** all the above combines with a few additional long-term drivers, that range from shared mobility to connectivity, most of which have disclosed only a marginal impact as of today.

The car manufacturers have been suffering high volatility over the last months, global sector ratings have been tracing back to 2016 levels (2019E P/E at 6.9x, according to Bloomberg consensus) and their capitalizations and target valuations have followed.

OEM's stock price performance and Target Price evolution since Vimi IPO date



Source: S&P Capital IQ, Value Track Analysis

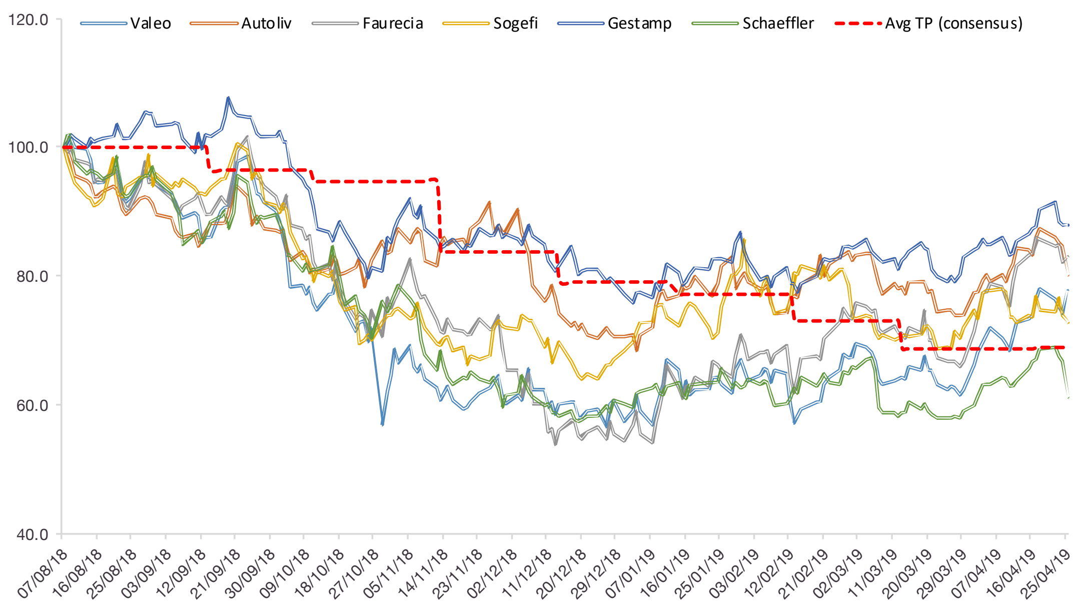
Car suppliers (and fasteners) seen as the weak link

If the OEMs' stocks have suffered, the segment of car suppliers has been impacted even more heavily and with a more fragmented picture.

The level of specialization of OEMs, Tier1 and Tier2 suppliers suggests in fact that their prospects in the next ten years will heavily depend upon the technology trends, as these will cause substitution effects of certain materials and parts, and this will drive the value of the respective clusters.

Despite the low visibility about the "details" of the sector technological transformation, it is intuitive that the long-term prospects of conventional components' clusters (as transmission or internal combustion engine - ICE) are weaker than clusters as electric drivetrains or electronic components. In this respect, the more the companies are focused on the automotive industry and the more are specialised on "weaker" components, the worse for their visibility and stock ratings.

Car suppliers' stock price performance and Target Price evolution since Vimi IPO date



Source: S&P Capital IQ, Value Track Analysis

Vimi "betrayed" by its strength points and by electrification *fuss*

If we go back to the segment of fastening systems, as shown above the stock performance has been overall weak - aligned to car suppliers - with Vimi underperforming its peers.

Firstly, we believe this is due to an unexpected unfavourable combination of:

1. its exposure to the high-end German car segment, historically perceived as the strongest bracket in the car sector, particularly hit in 2018 by the WLTM introduction;
2. the extremely disappointing performance of one of its key clients in the luxury car segment (Maserati), driven by specific competitive problems.

In short, **Vimi positioning in what was perceived as a particularly resilient niche, turned out to be particularly hit** by the events of the second half of 2018.

Secondly, to the above-mentioned short-term unexpected drivers, we would add the longer-term concern, discussed in our initiation report, about the impact of electrification. We know in fact that Vimi business mix (42% of 2018 revenues in the car segment) and level of specialization (core business linked to ICE systems) may cloud its long-term prospects, but what has changed in this respect, as the electrification process is a well known theme from some time?

In short, the events of the last few months has pointed to a clear acceleration in the process, due to steps undertaken by the EU regulator (e.g. introduction of heavy truck regulation), statements by local authorities (e.g. diesel car bans) and OEMs strategy (e.g. revisions of electrification investments and targets).

All this does not help the company, as **the pace of the electrification process in the car industry is key for players like Vimi**, which need time to execute their strategy of diversification outside the automotive sector and of "de-specialization" within their car business (i.e. with existing and potentially new OEMs and Tier1 clients).

Third, the stock performance has been affected by the **relatively smaller size of the group**, as in an industry challenged by major technological uncertainties and transformations, this does not help. However, we would also consider in this respect that the small size of the business could come as a positive, as it is relatively easier to change the product and client portfolios, given the Group limited size and complexity and good flexibility. On the other hand, it is crucial that management do manage effectively the cyclical slow down, in order to preserve its financial flexibility to execute also its external growth strategy (to seek diversification in products and in geographical footprint).

In other words, we believe the stock suffers from the perception of an increased execution risk related to the company.

FY18 results hit by 4Q "horribilis"

Business development at two speeds

Vimi Fasteners 2018 results highlight some double-digit decrease in main financial items, except for top-line (+4.0% YoY). Group profitability was heavily penalized by the reverse trend faced by the market in the second half of the year (revenues in 2H recorded a 6 % reduction after the 16% growth of 1H, despite the June order book was up 10% YoY) and retracement was particularly marked in 4Q. As reported in the table below, FY18 results came in well below management plans and our forecasts (released in October 2018), and the outlook for early months of 2019 remains gloomy, according to management and market statistics.

In order to better highlight the industrial performance of the Group and make the YoY comparisons easier, hereby we provide:

- key financial results on a pro-forma scheme, i.e. assuming MF Inox consolidation as of 1.1.17 (instead of 1.6.2018) despite not fully audited yet;
- some adjusted figures i.e. restated for non-recurring and non-monetary costs (according to data audited and released by the company).

Vimi Fasteners: 2018 vs. 2017 key financials on pro-forma scheme (*)

(€mn)	2017PF	1H18	2H18	2018PF	18 vs 17	2018E VT	2018A vs E
Total Revenues	**50.2**	**27.7**	**24.6**	**52.3**	*4%*	**53.4**	**-2%**
YoY change (%)		*+16%*	*-6%*				
EBITDA Reported	**8.0**	**4.0**	**1.9**	**5.8**	***-27%***	**7.9**	**-26%**
EBITDA margin (%)	*15.9%*	*14.3%*	*7.6%*	*11.1%*	*-476bps.*	*14.7%*	*-361bps.*
EBITDA Adjusted	**8.0**			**7.5**	***-5%***	**8.5**	***-11%***
EBITDA Adj. margin (%)	*15.9%*			*14.4%*		*15.9%*	.
EBIT Reported	**4.9**	**2.4**	**0.0**	**2.4**	***-52%***	**4.6**	**-49%**
EBIT margin (%)	*9.7%*	*8.5%*	*0.0%*	*4.5%*	*-526bps.*	*8.6%*	*-415bps.*
EBIT Adjusted	**4.9**			**4.1**	***-17%***	**5.3**	**-22%**
EBIT Adj. margin (%)	*9.7%*			*7.8%*		*9.8%*	
Net Profit	**2.7**	**1.7**	**-0.1**	**1.6**	***-40%***	**3.2**	**-49%**
Net Profit Adjusted	**2.7**			**2.9**	***8%***	**3.6**	***-19%***
Net Financial Debt (**)	**19.9**	**22.5**	**14.2**	**14.2**	**-5.8**	**9.7**	**+4.5**

Source: Company figures, Value Track Analysis (*) Pro-Forma figures consolidate MF Inox as of 1.1.2017
(**) NFP as reported includes also €4.3mn IFRS based valuation of potential earn-out due in 2022

In our view the key points to examine are the followings:

- **Top-line growth in the mid-single-digit space YoY**, strongly influenced by the negative market trend in 3Q and 4Q;
- **A sharp slowdown in profitability,** not only related to a weakening demand from automotive, but also to some internal production inefficiencies;

- **The material impact of extraordinary items in FY2018**, with the adjusted figures also reported above, and which will have some long tail in 1H 2019 too;
- **A worsening net debt position** for €4.2mn YoY (excluding the €10.0mn IPO proceeds), mainly due to higher working capital needs.

Single-digit growth in Revenues from sales (+4% YoY)

Total Revenues reached €52.3mn in FY18 on a pro-forma basis, up 4% YoY and 2% below our expectations, with both business units Vimi and MF Inox, growing at a similar speed in terms of sales.

However, this rate compares with the 16% reported in the first half (i.e. 17% growth for Vimi standalone and 10% for MF Inox pro-forma) and implies a growth rates of -6% for the second part of the year, as a result of the unexpected slowdown faced by the light vehicle market, i.e. the main end-market for Vimi Fasteners (ca. 42% of revenues in FY 2018).

Although the global vehicle market was virtually flat in 2018, it showed a near 5% YoY drop across 4Q and with the Chinese car market - the world's biggest one - gone into negative growth for the first time since 1990 (new vehicle sales falling by 2.8% YoY in 2018).

On the other side, demand from the other end-markets was more resilient, with fastening solutions delivered to agriculture, oil & gas, aerospace, commercial vehicles and generally used in a broad variety of industrial applications, showing better trends.

As for the geographical contribution, we highlight that ca. 30% of revenues relate to domestic market, while the remaining 70% is attributable to foreign sales, in particular Germany, England, USA and China.

A sharp slowdown in profitability

The company experienced a deep deterioration in profitability, with pro-forma **EBITDA decreasing by some 27% YoY to ca. €5.8mn,** corresponding to an EBITDA margin of 11.1%, down from 15.9% of 2017PF (-476 bps YoY), and compared to our 14.7% forecast.

As soon as the auto industry started to slow down in fact, the main OEM and Tier 1 customers froze or deferred their orders, with a negative impact on margins as well as on Vimi's stocks. Profitability was also hit by the strengthening cost structure, with labour cost increasing double-digit.

The impact at EBIT level was stronger (also because D&A were up) with **EBIT decreasing by 52% YoY (from €4.9mn to €2.4mn)** and corresponding to an EBIT margin of 4.5% (-526 bps YoY).

In addition, the weaker than expected performance was also due to *i*) some production inefficiencies associated to the temporary relocation of specific production activities; and *ii*) the costs related to the acquisition of MF Inox, occurred in mid 2018. According to management the slight increase in raw material costs, in particular for nickel, has not affected profitability, since major contracts normally include "price adjustment" clauses. The chart below shows also the margin trend on adjusted basis.

At bottom line, Net Profit was reported at €1.6mn or down 40% YoY despite a normalised tax rate (26% vs. an "apparent"40% on 2017PF results, where pre-tax was "inflated" by consolidation adjustments) and the lower financial charges - as a result of the IPO proceeds (€10mn).

Vimi Fastener: From EBIT to the bottom line FY17 & FY18

(€ mn)	2017PF	2018PF
EBIT	**4.9**	**2.4**
EBIT margin (%)	*10.1%*	*4.6%*
EBIT Adj.	**4.9**	**4.1**
EBIT Adj. margin (%)	*10.1%*	*7.8%*
Net Interest income / expense	-0.4	-0.2
Pre-tax profit	**4.5**	**2.2**
Taxes	-1.8	-0.6
Tax Rate	-40%	-26%
Net Profit (Loss)	**2.7**	**1.6**
Net Adj. Profit (Loss)	**2.7**	**2.9**

Source: Company figures, Value Track Analysis. Pro-Forma figures consolidate MF Inox as of 1.1.2017

From Reported to Adjusted figures

Hereby, we provide some more details about the adjusted figures – as released by the company – in order to underline the actual industrial profitability net of some non-recurring and non-monetary items faced in FY2018:

- Ca. €0.5mn of extraordinary costs which refer to the temporary relocation of part of production process in a new industrial area, required for the completion of the plant expansion project;
- Ca. €1.1.mn of additional personnel costs, which include €0.9mn for the achievement of the first goal of the stock grant plan and €0.2mn for LTI and MBO relative to 2017FY;
- Ca. €0.3mn of non-recurring costs related to the acquisition and integration of MF Inox;
- Ca. €0.2mn of extraordinary gains on the disposal of fixed assets.

Net Profit adjusted for the above charges stood at €2.9mn or +8% YoY but still 19% below our expectations.

Net working capital at its peak

At Balance Sheet / Cash Flow statement level, we note the following items:

- **Net Fixed Assets** at ca.€31.0mn from €27.5mn of 2017;
- **Net Working Capital increased above expectations from €8.1mn to €11.0mn**, as a result of: (*i*) increase in inventory (+€3.0mn), attributable to the above-mentioned delay in deliveries required by major customers, and higher stock held by the US subsidiary, but also to (*ii*) lighter trade payables and other operating liabilities, mainly due to a delay in the payment from a US customer, who though settled its obligation in January 2019. NWC as a percentage of revenues therefore increased from 16.6% of Dec 2017PF to 21.6% of Dec 2018 (or ca 18.7% post payment of large US order);
- **In terms of Cash Flow,** the Group faced (*i*) the outlined €3.0mn cash absorption due to working capital dynamics, (*ii*) €5.7mn capex, which includes both tangible assets and development costs, resulting in €4.0mn negative operating cash generation;
- **Net Financial Debt improved by €5.8mn** YoY, mainly thanks to the IPO's cash-in of €10mn occurred in August;

- **Net Debt/EBITDA ratio worsened to 2.4x** as a combination of higher net debt and decreasing margins.

Vimi Fasteners: Balance Sheet 2017, 1H18 & 2018

(€mn)	2017PF	1H18	2018
Net Fixed Assets	27.5	30.2	31.0
Net Working Capital	8.1	9.6	11.0
M/L Term non-financial liabilities	2.5	3.5	1.9
Net Invested Capital	**33.1**	**36.4**	**40.1**
Group Equity	**13.2**	**13.8**	**26.0**
Net Financial Position (*)	**-19.9**	**-22.5**	**14.2**

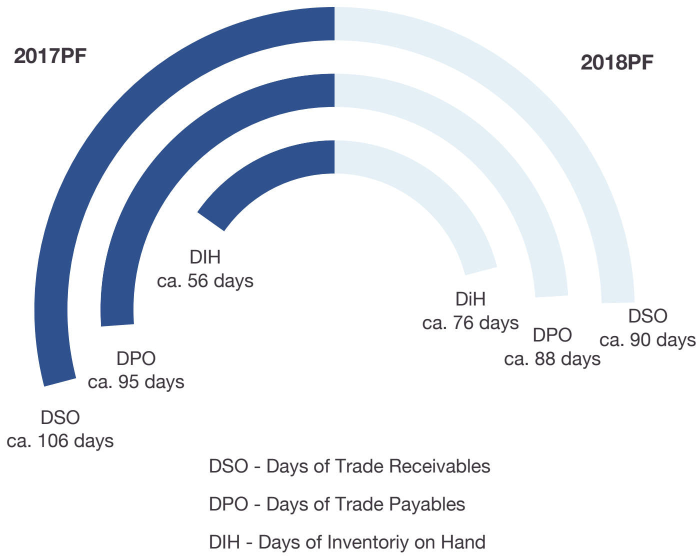
Source: Company figures, Value Track Analysis. Pro-Forma figures consolidate MF Inox as of 1.1.2017

(*) NFP as reported includes also €4.3mn IFRS based valuation of potential earn-out as of 2022

As for concern Vimi Fasteners' cash conversion cycle, we underline:

- Inventory on hand at ca. 76 days, increasing of roughly 20 days vs. the previous period;
- Days of Trade Receivables at ca. 90days, -16 days YoY and by nature relatively long since Vimi's clients are industries, like automotive, with long payment periods, among two and six months;
- Days of Payables stood at ca. 88 days, decreasing by 7days YoY and confirming the company's ability in paying more than the 90% of suppliers within ca. three, four months-time.

Vimi Fasteners: Cash conversion cycle



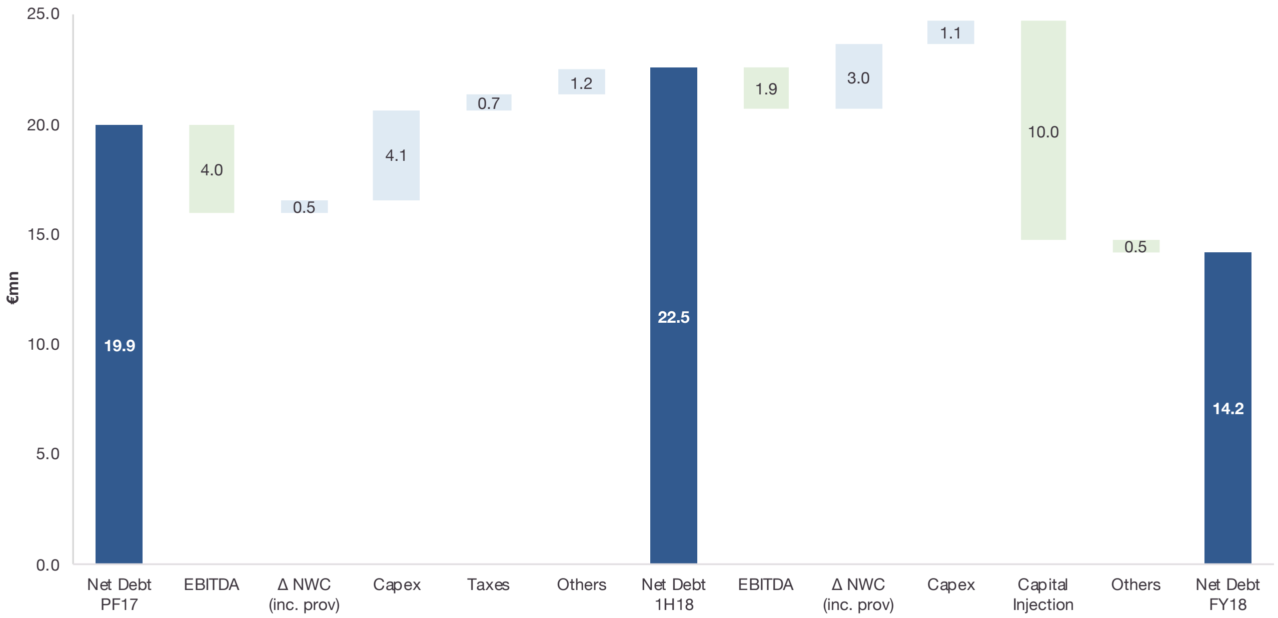
Source: Value Track Analysis

Vimi Fasteners: Cash flow Statement 2017PF & 2018PF

(€mn)	2017PF	2018PF
EBITDA	**8.0**	**5.8**
Op. WC requirements	0.1	-2.9
Capex (excl. Fin. Inv.)	-3.6	-5.7
Change in provisions	1.2	-0.6
OpFCF b.t.	**5.7**	**-3.4**
Taxes	-1.8	-0.6
OpFCF a.t.	**3.9**	**-3.9**
As a % of EBITDA	*49%*	*n.m.*
Capital Injections	0.0	10.0
Financial investments	-17.4	0.3
Net Financial Charges	-0.4	-0.2
Dividend paid	-0.5	-0.5
Change in Net Fin Position	**-14.4**	**5.8**

Source: Company figures, Value Track Analysis Pro-Forma figures consolidate MF Inox as of 1.1.2017

Vimi Fasteners: Net Debt evolution across 1H18 & 2H18



Source: Value Track Analysis Pro-Forma figures consolidate MF Inox as of 1.1.2017

What to expect now?

Car industry: outlook remains uncertain

As discussed in previous sections, according to the current market sentiment the global automotive industry is expected to face another challenging year in 2019 (or at least in 1H19), as only a few concerns have diminished.

Both OEMs and auto parts' suppliers are expected to cope with a few hurdles in all key markets, with the main ones being (list is not exhaustive):

- As for the global demand we reckoned a few discontinuity factors in 2H 2018, as the first decline of the Chinese market since the '90 and of the global market since 2009, combined with the lack of growth in the US and the shockwaves of Brexit. At this point street forecasts indicate a very marginal growth for 2019 and in addition this seems:

  i) to be clearly weighted on 2H (see below), and

  ii) to imply some downside risk.

2019E Automotive Outlook

Region	Outlook	Overview
Europe (ex. Russia)	=	Market expected to be flat YoY and demand more or less stable
Russia	↑	Mid-digit growth (3-5%)
North America	↓	Slight decline in car production (-1%-0%)
Latin America	↑	Growth driven by Brazilian market
Asia-Pacific (ex. China)	=	Market expected to be more or less stable
China	↑	Growth forecasts within 0%-1% range

Source: Value Track analysis

- As for the American markets, and hence the industry manufacturing footprint planning, the USMCA deal (NAFTA 2.0), potentially coming into effect from 2020, with all the implications in terms of country of origins limits for components and labour provisioning rules;
- As for trade balances, the new US-China trade terms to be approved in coming months, as these could set new bilateral flows and affect the trade balance with EU, too.

So far the decreasing demand has persisted in 2019 - including China, Europe and US - recording negative growth rates over the first three months of 2019 and worldwide sales are likely to fall for some months ahead, as car makers held the line on discounts and average new-car prices continued to climb. In 2H19 the YoY statistical comparison will be easier, thus making it possible to see positive growth rates, albeit only marginally positive, at global level.

Worldwide Car Sales Volumes in 1Q19 (YoY % chg.)

Region	Jan 2019 YoY (%)	Feb 2019 YoY (%	March 2019 YoY (%)	1Q 2019 YoY (%)
USA	-2.4%	-2.8%	-2.9%	-3.0%
Canada	-5.0%	-1.5%	-1.3%	-2.6%
Western Europe	-4.4%	-1.3%	-3.2%	-2.9%
Eastern Europe	-8.4%	-7.6%	-4.9%	-6.4%
Japan	2.0%	1.2%	-3.6%	-0.6%
Korea	1.2%	-4.6%	-5.8%	-2.9%
China	-16.0%	-14.2%	-7.8%	-12.8%
Brazil/Argentina	-14.7%	4.4%	-16.0%	-9.8%
Others	-3.8%	-7.4%	-3.9%	-6.8%
World	**-8.2%**	**-6.0%**	**-5.0%**	**-6.7%**

Source: LMC Automotive

Other end markets: much better than automotive

As for the other end markets of Vimi Fasteners, the outlook is more reassuring. A few elements of uncertainty have risen more recently, but we believe they are not affecting the favourable long-term picture. In detail:

- Oil price received strong boost from decision of US administration to end temporary exemptions on buying Iranian oil. Some further gains are also possible, with crude oil prices expected to remain in the $75-80/bbl range in the immediate future, while volatility is expected to increase in the run-up of the OPEC meeting on June, 25.
- In the aviation and aerospace industry there have been some problems for Boeing and its suppliers, following the fatal crashes and production cut announcements. Yet, the commercial aircraft order backlog is at peak levels and demand for military equipment is on the uptick.

Having said the above, the weakened macro picture does not help fasteners' demand in general, as most of this industry's end markets are cyclical, as summarised in the table below.

Features and drivers of fasteners' end markets

End-market	Outlook ahead	Drivers
Oil & Gas	↑ Mid-single-digit growth rate	✓ Macroeconomic factors (GDP, interest rates) ✓ Oil price ✓ Oil production Capex
Aerospace	↑ Mid-single digit growth rate.	✓ Macroeconomic factors (GDP, interest rates) ✓ Increase of commercial passengers traffic ✓ Middle-class expansion
Agriculture	= Ca. 0%-2% p.a.	✓ Macroeconomic factors (GDP, interest rates) ✓ Agricultural commodities prices
Industrial	n.a.*	✓ Macroeconomic factors (GDP, interest rates)
Infrastructure	n.a.*	✓ Macroeconomic factors (GDP, interest rates)

Source: Value Track Analysis
(*) Since sectors include an extremely wide spectrum of applications, it is almost impossible to draw an homogenous picture

Our updated forecasts 2019E-'21E

In the light of the considerations outlined above, we are updating our 2019E-'20E estimates and extending our forecast period to 2021E, basically driven by the following key elements:

- **Revised automotive outlook:** as previously discussed, the industry is facing a reversal of the positive trends witnessed over 2017 and most of 2018, with traditional OEMs and car suppliers experiencing a stagnant or declining YoY growth over the past few quarters and the current one. In this context however, we are not witnessing a sharp drop in demand, rather customers are cautious about inventory, leading to delayed orders. According to management this is the correct reading of the 17% drop in the order backlog reported as of December 2018, which also included the contribution of MF Inox. Market slow-down is expected to persist across 2Q, but first signs of global recovery are expected to come during the second half of the year, also benefitting from an easier YoY comparison;
- **Fine-tuning growth estimates for other end-markets,** with oil&gas expansion kept lively, since according to market sentiment oil prices are sound and a further rally this year could still happen; the remaining industrial sectors slightly affected by a global growth weaker than expected and, on the other hand, the aerospace segment expected to increase business dynamics, also thanks to new contracts signed with leading players in this field;
- **Worsened margins outlook**, as the direct outcome of lower demand and increased margin pressure on the automotive clients (both OEMs and Tier1). In addition, we expect further extraordinary costs related to the capacity expansion due to be completed by mid 2019;
- **The implementation of new leases standard - IFRS 16,** mandatory from January 2019, which aims at fully assess the effect of leases on company net financial position. We incorporate the impact of the new accounting standard at EBITDA level (lease charges) as well as for D&A, according to management indications.

That said, the impact on our 2019E-'20E forecasts can be summarized as follows:

1. **Downward revision of revenues,** by some 15% and 13% in 2019E and 2020E respectively, simply due to the uncertainty prevailing in the auto industry, expected to negatively affect Vimi business unit; on the opposite MF Inox is expected to grow at double-digit 3yrs CAGR;
2. **Profitability revised sharply downwards**, with EBITDA Adj. expected to come at €6.7mn and €8.0mn in 2019E-20E, i.e. 27%/18% below our previous estimates. This comes as a combination of a heavier cut of margins (EBITDA down by 29/25% in 2019E-20E) on a "same accounting basis", partially offset by the positive impact of the introduction of IFRS16, since operating lease should be effectively capitalized in the form of right-of-use asset.
3. **At EBIT level** the effect of **new accounting standards should be virtually nil**, while the leasing of the new plants should inflate 2019E Net Debt by ca. €3.6mn;
4. **Lower tax rate over the forecasted period**, due to the combination of lower income and higher fiscal benefits deriving from super and hyper amortization rules (i.e. higher depreciations, following the ca. €6.0mn capex carried on in 2018);
5. **Pay-out policy** has been changed in the light of weaker results and higher Net debt/EBITDA ratio, assuming no dividend payment on 2018 result and lower DPS on 2019E-20E profits.

Finally, it is worth adding that the **current year is expected to witness a tough first half** - given the weak orders at start of year and the negative momentum of car sales throughout Q1 – followed by a stronger (and "easier") second half. In short, the top line growth in the two semesters should *mirror* the trend of last year, when revenues were up 16% in H1 and down 6% in H2, i.e. we expect a double digit fall in the first half and revenues slightly up in the second half.

Vimi Fasteners: 2019E-20E New vs. old estimates, including IFRS 16 impact

(€mn)	2019E					2020E				
	Old	New	Change vs Old	New IFRS16	Change vs Old	Old	New	Change vs Old	New IFRS16	Change vs Old
Total Revenues	57.7	49.2	-15%	49.2	-15%	61.1	53.3	-13%	53.3	-13%
EBITDA Adj.	**9.2**	**6.5**	**-29%**	**6.7**	**-27%**	**9.7**	**7.3**	**-25%**	**8.0**	**-18%**
EBITDA margin (%)	*15.9%*	*13.2%*	*-271bps*	*13.6%*	*-234bps*	*16.0%*	*13.8%*	*-217bps*	*15.0%*	*-92bps*
D&A	3.6	4.0	+0.4	4.2	+0.6	4.0	4.1	+0.1	4.7	+0.7
EBIT Adj.	**5.6**	**2.5**	**-55%**	**2.5**	**-56%**	**5.7**	**3.3**	**-43%**	**3.3**	**-43%**
EBIT margin (%)	*9.7%*	*5.1%*	*-456bps*	*5.1%*	*-463bps*	*9.4%*	*6.2%*	*-324bps*	*6.2%*	*-324bps*
Net Adj.Profit	**4.0**	**2.0**	**-49%**	**2.0**	**-50%**	**4.4**	**2.8**	**-37.2%**	**2.6**	**-40%**
OpFCF a.t.	1.8	0.6	-1.2	0.8	-1.0	4.2	5.2	+1.0	5.3	+1.1
Net Fin. Debt	**9.0**	**13.8**	**+4.8**	**17.2**	**+8.2**	**6.0**	**9.2**	**+3.3**	**12.6**	**+6.7**

Source: Value Track Analysis

The tables below summarise our updated model over the 2019E-2021E forecast period.

Vimi Fasteners: Profit & Loss 2018PF-21E

(€mn)	2018PF	2019E	2020E	2021E	CAGR18- 21
Total Revenues	**52.3**	**49.2**	**53.3**	**56.2**	**2.4%**
COGS	-32.4	-29.6	-31.5	-32.9	
Labour costs	-14.1	-13.4	-13.8	-14.6	
EBITDA	**5.8**	**6.2**	**8.0**	**8.6**	**14.1%**
EBITDA margin (%)	*11.1%*	*12.6%*	*15.0%*	*15.4%*	
EBITDA Adj.	**7.5**	**6.7**	**8.0**	**8.6**	
D&A	-3.5	-4.2	-4.7	-4.8	
EBIT	**2.4**	**2.0**	**3.3**	**3.8**	**17.8%**
EBIT margin (%)	*4.5%*	*4.1%*	*6.2%*	*6.8%*	
EBIT Adj.	**4.1**	**2.5**	**3.3**	**3.8**	
Net Financial Charges	-0.2	-0.2	-0.2	-0.1	
Pre-tax profit	**2.2**	**1.9**	**3.1**	**3.7**	
Taxes	-0.6	*-0.2*	*-0.5*	*-0.7*	
Tax rate (%)	*-26.0%*	*-12.0%*	*-15.0%*	*-18.0%*	
Net Profit	**1.6**	**1.6**	**2.6**	**3.1**	**23.4%**
Net Adj. Profit	**2.9**	**2.0**	**2.6**	**3.1**	**1.4%**

Source: Vimi Fasteners (historical figures), Value Track (2019E-21E estimates)

Vimi Fasteners: Balance sheet 2018PF-21E

(€mn)	2018PF	2019E	2020E	2021E
Net Fixed assets	31.0	34.1	32.3	30.5
Net Working Capital	11.0	11.8	11.1	11.3
Severance pay and other funds	1.9	1.1	1.1	1.2
Total Capital Employed	**40.1**	**44.8**	**42.3**	**40.7**
Group Net Equity	26.0	27.6	29.7	32.1
Net Fin. Position [Net debt (-) / Cash (+)]	**-14.2**	**-17.2**	**-12.6**	**-8.6**

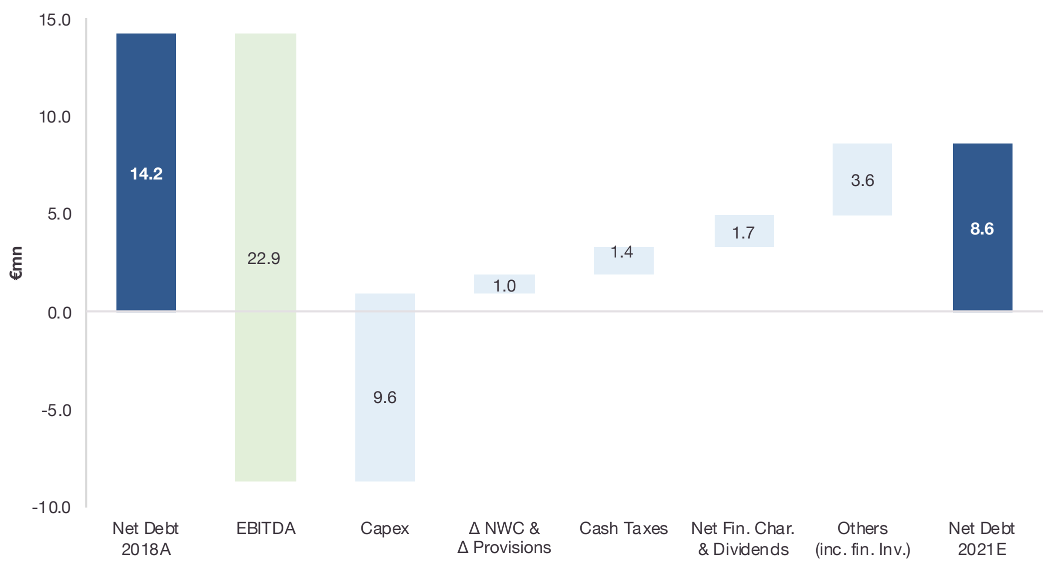
Source: Vimi Fasteners (historical figures), Value Track (2019E-21E estimates)

Vimi Fasteners: Cash flow Statement 2018PF-21E

(€mn)	2018PF	2019E	2020E	2021E
EBITDA	**5.8**	**6.2**	**8.0**	**8.6**
Op. NWC requirements	-2.9	-0.8	0.7	-0.2
Capex (excl. Fin. Inv.)	-5.7	-3.6	-3.0	-3.0
Change in provisions	-0.6	-0.8	0.0	0.1
Cash Taxes	-0.6	-0.2	-0.5	-0.7
OpFCF a.t.	**-3.9**	**0.8**	**5.3**	**4.8**
As % of EBITDA	*n.m.*	*12%*	*66%*	*56%*
Capital Injections	10.0	0.0	0.0	0.0
Other (incl. Fin. Inv. and IFRS16)	0.3	-3.6	0.0	0.0
Net Financial Charges	-0.2	-0.2	-0.2	-0.1
Dividend paid	-0.5	0.0	-0.5	-0.7
Change in Net Fin Position	**5.8**	**-3.0**	**4.6**	**4.1**

Source: Vimi Fasteners (historical figures), Value Track (2019E-21E estimates)

Vimi Fasteners: 2018PF-21E Net Debt bridge



Source: Value Track Analysis

Valuation

Vimi valuation in this specific moment raises a critical issue on the most appropriate methodology. Indeed, on the one hand earnings momentum is weak because of cyclical factors and therefore valuations based on 2019E-20E earnings could be too penalising. On the other hand, valuations based on Capital Employed or Turnover, and even DCF model, would provide a value not driven by the short term earnings picture, but with a couple of weaknesses, i.e. i) the news flow expected in coming months for Vimi and the whole industry is likely to remain extremely negative, and ii) we have no visibility yet about Vimi's long term profitability in the automotive business and about the actual timing and terms for the Group diversification.

As a result, we prefer to calculate our fair equity value averaging the two types of methodologies and we get to a **fair equity value of €2.8 per share** (30% below our previous one). This comes from a mix of Peers multiples analysis (EV/Sales and EV/IC) and DCF Model, as "through the cycle" methodologies, and on the other hand sector P/E (2019E-20E), as momentum driven metric.

At €2.8 fair value the company would trade at 0.9x EV/Sales, 6.2x EV/EBITDA Adj., 14.2x P/E Adj. based on 2020E forecasts.

Here below, we provide a sensitivity analysis of Vimi Group stock trading multiples assuming a market price ranging between €2.2 and €3.4.

Vimi Fasteners: Sensitivity of implicit stock trading multiples in the €2.2 - €3.4 range

Share price (€)	EV / Sales (x)		EV / EBITDA ADJ (x)		P / E ADJ (x)		EV / IC (x)	
	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
€ 2.20	0.9	0.8	7.0	5.2	14.9	11.1	1.0	1.0
€ 2.40	1.0	0.8	7.4	5.6	16.2	12.2	1.1	1.1
€ 2.60	1.1	0.9	7.8	5.9	17.6	13.2	1.2	1.1
€ 2.80	**1.1**	**0.9**	**8.2**	**6.2**	**18.9**	**14.2**	**1.2**	**1.2**
€ 3.00	1.2	1.0	8.6	6.6	20.3	15.2	1.3	1.2
€ 3.20	1.2	1.0	9.0	6.9	21.6	16.2	1.3	1.3
€ 3.40	1.3	1.1	9.4	7.2	23.0	17.2	1.4	1.4

Source: Value Track Analysis

Peers Analysis

In line with our initiation of coverage, we select **seven potential comparable companies**, some of which provide wide-range solutions, while others focus on specific end-sectors. In details:

- **Specialty players -** Bulten, Lisi;
- **Broad range players -** Trifast, Bossard, SFS Group, Bufab, Arconic.

We also underline that some of these companies run a "lighter" business model, where part or most of turnover is related to outsourced products, as distributors or "supply chain partners":

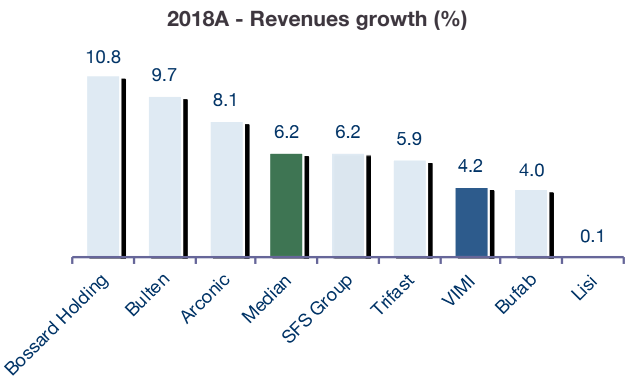
- **Integrated players -** Bulten, Lisi, SFS Group, Arconic;
- **Supply Chain partners -** Trifast, Bossard, Bufab.

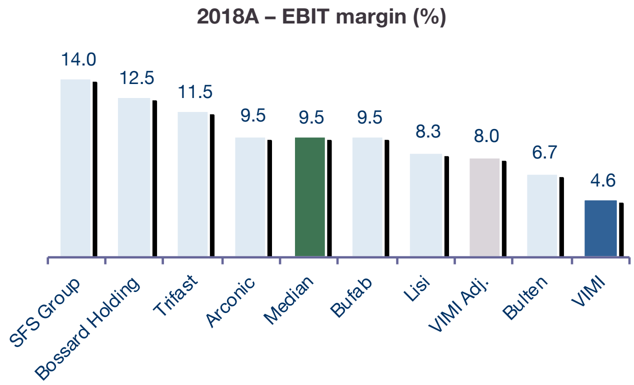
Comparing businesses

Comparing Vimi Fasteners to its peers **on the back of FY2018 results**, we note that:

- Peers organic growth is in the single-digit space (excl. Bossard Holding), with Vimi Fasteners growing at ca 4%, slightly below the median value (-200 bps);
- In terms of profitability, Vimi Fasteners on adjusted figures, i.e. not considering non-recurring and extraordinary logistics costs, is in line with specialty players, i.e. those who run a less diversified business and are mainly exposed to the automotive market (Bulten and Lisi);
- Net Debt/EBITDA at 2.4x on reported figures (1.9x on adjusted EBITDA) is definitively above peers, even though impacted by the specific investment plan in progress (i.e. 2018 Capex at €5.7mn, or 11.2% of sales vs. 6.8% of sample median).

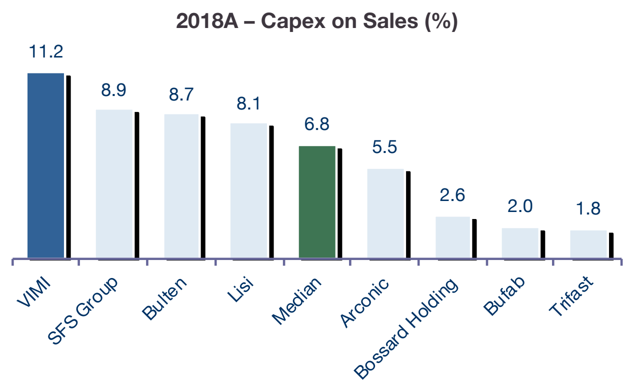
Vimi Fasteners: Industrial performance vs. Peers' ones

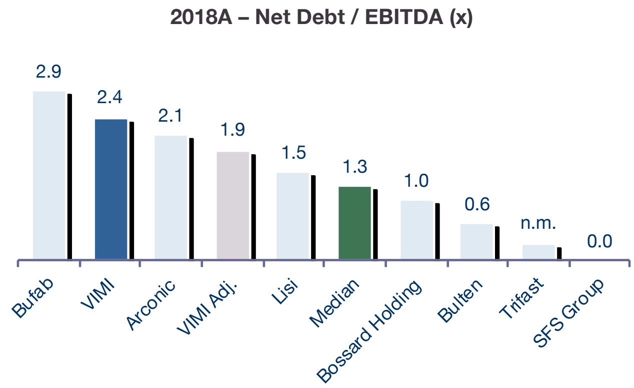




Source: Market Consensus, Value Track Analysis

Vimi Fasteners: Industrial performance vs. Peers' ones ('cont)





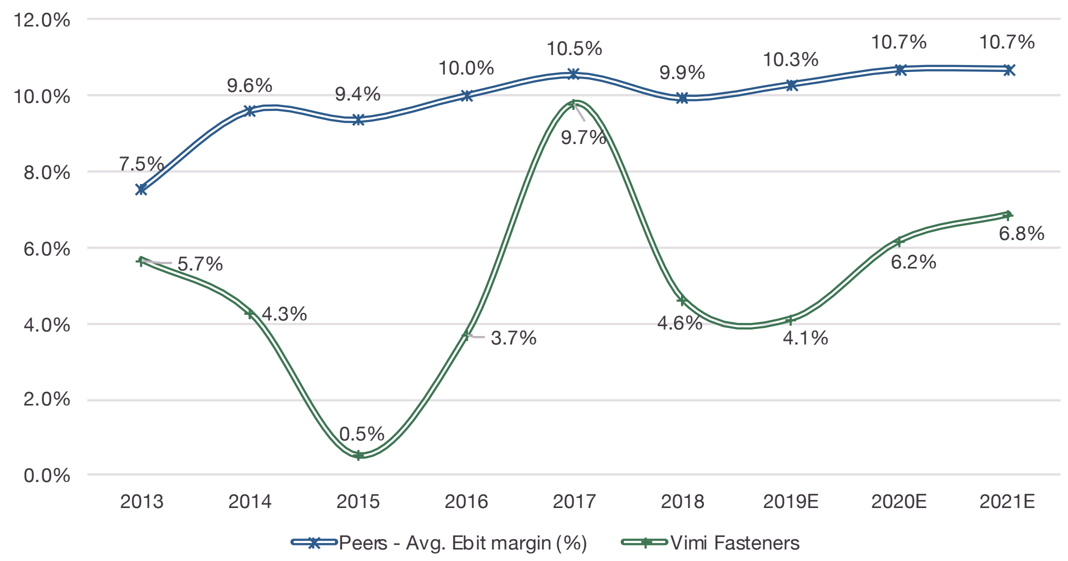
Source: Market Consensus, Value Track Analysis

The negative momentum recorded in the automotive industry has affected the world of "fastening systems" and consequently our panel of peers, as described above for Vimi. Although the single peer's exposure to the automotive market differs, we are basically dealing with a decreasing profitability and FY2018 EBIT margins are on average 60bps lower YoY.

Furthermore, **by looking at the profitability path across 2013A-21E**, as reported in the chart below, we also underline that:

- **Peers profitability** is related to the global economy cycle, however margins recover quickly and, according to Bloomberg consensus, the current margin pressure should not persist beyond 2019 and average EBIT margins are expected to go back to 2017 levels in just two years;
- **Vimi has faced higher margin volatility,** with EBIT margin ranging from 0.5% of 2015 (diesel gate) to 9.7% as of 2017 (pro-forma, including MF Inox) and reaching in 2018 below average margins on both stated and adjusted EBIT, as described above;
- We assume **for Vimi a slower recovery into 2021E**, i.e. the slight recovery in profitability is far from 2017 peak. In fact, margins are affected by extraordinary charges in the short term (adj. EBIT margin at 5.1% vs 4.1% reported in 2019E) and over 2020E-21E we incorporate the technological uncertainty for Vimi core products and assume increasing pressure on margins.

Vimi Fasteners (*) & Peers: 2013A-21E EBIT margin evolution (%)



Source: Market Consensus, Value Track Analysis (*) EBIT for 2013-2016 refers to Vimi stand-alone, i.e. pre MF Inox acquisition

Comparing market multiples

Moving to market multiples we note that the fasteners' segment trades at 2019E multiples broadly aligned to those recorded in October, when we initiated on the stock, as a combination of lower capitalizations and consensus downgrades. Also, we stick to our view that Vimi deserves a certain multiple discount due to its much smaller size, as the Group is between 6x and 10x smaller than peers.

Yet, differently from our initiation, in the current macroeconomic context, we prefer to focus initially on multiples offering a valuation "through the cycle" (**EV/Sales and EV/Invested Capital**), also supported by the DCF model (see below). These multiples **and DCF are less sensitive to short term earnings momentum** and give us a value range of €2.5-3.7, with an **average of €3.1 per share**.

On the other hand, if we consider short term metrics, like **sector P/E** - with peers trading at average 15.4x-13.8x for 2019E-20E respectively - we get to an **indication of €2.5 per share, or €2.2 applying a 15% discount**, which supports the current share price.

We set our fair value in between these two valuations and aligned to DCF, i.e. at €2.8 per share.

Vimi Fasteners: Peers' stock trading multiples

Company	EV/Sales (x)		EV / IC (x)		EV / EBITDA (x)		EV / EBIT (x)		P / E (x)	
	2020E	2019E	2020E	2019E	2019E	2020E	2019E	2020E	2019E	2020E
Bulten	0.6	0.5	1.0	0.9	6.1	5.2	8.7	7.5	11.1	9.4
Trifast	1.5	1.4	2.1	1.9	11.7	11.3	12.8	12.3	23.9	21.0
Bossard Holding	1.3	1.3	2.3	2.0	9.4	8.8	10.9	10.3	13.0	12.6
SFS Group	1.9	1.8	2.5	2.2	9.9	9.1	13.6	12.4	18.4	16.9
Lisi	1.1	1.0	1.4	1.3	7.5	6.7	12.4	10.7	15.2	13.0
BUFAB	1.3	1.2	1.8	1.6	11.0	10.2	12.8	11.7	14.4	13.4
Arconic	0.9	0.9	1.3	1.2	6.3	5.7	8.8	7.8	12.1	10.7

Source: Market Consensus, Value Track Analysis.

Vimi Fasteners: Peers' stock trading multiples ('cont)

	"Through the cycle" valuation				*Earnings based valuation*					
	EV/Sales (x)		EV / IC (x)		EV / EBITDA (x)		EV / EBIT (x)		P / E (x)	
	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E	2019E	2020E
Average	1.2	1.1	1.8	1.6	8.8	8.2	11.4	10.4	15.4	13.8
Median	1.3	1.2	1.8	1.6	9.4	8.8	12.4	10.7	14.4	13.0
VIMI (@ market price)	**1.0**	**0.8**	**1.1**	**1.0**	**7.3**	**5.5**	**19.6**	**13.4**	**15.9**	**11.9**
Discount % vs. avg.	*-18%*	*-28%*	*-38%*	*-35%*	*-18%*	*-33%*	*71%*	*29%*	*3%*	*-14%*
Discount % vs. med.	*-22%*	*-31%*	*-39%*	*-36%*	*-22%*	*-38%*	*57%*	*25%*	*11%*	*-8%*
VIMI (@ fair value)	**1.1**	**0.9**	**1.2**	**1.2**	**8.2**	**6.2**	**21.9**	**15.2**	**18.9**	**14.2**
Discount % vs. avg.	*-9%*	*-18%*	*-31%*	*-26%*	*-8%*	*-24%*	*92%*	*46%*	*23%*	*2%*
Discount % vs. med.	*-12%*	*-21%*	*-31%*	*-28%*	*-13%*	*-30%*	*76%*	*42%*	*31%*	*9%*

Source: Market Consensus, Value Track Analysis. Vimi data adjusted for one-off items

Discounted Cash Flow Model

Our DCF model is applied assuming a target capital structure, with a 40% D/(D+E) ratio, an overall cost of Equity of 16.4% and a **10.9% WACC** (up from previous 10.3%). The detailed calculation is based on the following assumptions:

- 2.0% risk free rate in line with medium term target inflation;
- Unlevered Beta of 1.0, obtained using Damodaran's estimates and weighting Betas in line with Vimi Fasteners' business model (Auto Parts industry; Oil Services/Equipments and Diversified Industrials);
- 8.59% Equity Risk premium (source: Damodaran, January 2019);
- Additional 2.0%; Equity Risk Premium to compensate for the Italian AIM lower liquidity;
- 3.5% pre-tax cost of debt implicitly calculated taking into account the above-mentioned 2.0% risk free rate to which a 1.5% credit spread is added;
- Corporate Tax at 24%.

Vimi Fasteners: WACC calculation

Risk free	2.0%
Risk Premium	8.6%
Credit spread	1.5%
Beta Unlevered	1.0
Beta Levered	1.4
Small Cap Mkt Risk Premium	2.0%
COST OF EQUITY	**16.4%**
COST OF DEBT after tax	2.7%
Target D/D+E	40%
WACC	**10.9%**

Source: Value Track Analysis

Other additional DCF assumptions are the following:

- Financial statements projection starting from 2019E to 2028E;
- Terminal value at 2028YE obtained applying a 2% Perpetuity Growth Rate (PGR), which corresponds to an exit multiple of 9.1x EV/EBIT and 5.9x EV/EBITDA;

That said, the result of our DCF calculation is a **fair Equity value per share at €3.08.**

Vimi Fasteners: DCF model

€mn	
PV of future cash flows 2019E-2027E	28.3
PV of Terminal value @ 2028E	27.0
Fair Enterprise value	**55.3**
Implied EV/EBITDA Adj. 19E (x)	8.3x
Net Fin. Position 2018A year-end	-14.2
Fair Equity value	**41.1**
Fair Equity value per share (€)	**3.08**

Source: Value Track Analysis

Here we provide a sensitivity analysis allowing for a certain value range for WACC and PGR.

Vimi Group: Fair Equity Value per share - Sensitivity Analysis

		Perpetuity Growth Rate				
		1.00%	**1.50%**	**2.00%**	**2.50%**	**3.00%**
WACC	**9.9%**	3.23	3.38	3.53	3.71	3.92
	10.4%	3.04	3.16	3.29	3.45	3.62
	10.9%	2.86	2.97	**3.08**	3.21	3.36
	11.4%	2.71	2.80	2.90	3.01	3.14
	11.9%	2.57	2.65	2.74	2.84	2.95

Source: Value Track Analysis

Appendix: A brief recap on Vimi Fasteners

Vimi Fasteners is a leading player in the design and manufacturing of high engineered fastening solutions, such as screws, studs and nuts, for a broad range of industrial applications, ranging from automotive to oil & gas and aerospace.

The company is specialised in the production of high-performance fastening solutions for high temperature and high resistance applications. In addition, following the acquisition of MF Inox, which took place in June 2018, it has acquired a specific product know-how and commercial presence in the Oil & Gas sector.

The product: Highly engineered & customized solutions

Fasteners produced by Vimi are not commodity types manufactured in low-cost /high volumes batches. Rather, company's products are a complete range of highly engineered fasteners characterised by the following features:

- **Customized/special design**, through long lasting partnerships with customers, in order to satisfy the most stringent and rigorous application requirements;
- **Special metals and raw materials,** suited for cold, warm, hot forming and high resistance;
- **Specialty manufacturing process** approved by customers through a preliminary production sample.

Vimi Fasteners: different products for different applications

Source: Vimi Fasteners

Business model (automotive): high-end applications and diversified distribution

Vimi Fasteners historically boast a resilient business model driven by deep technological skills aimed at producing high critical application products. Thanks to long-term partnerships with loyal customers (mainly prestigious Tier1 such as Honeywell – now Garrett Motion Inc. - and OEMs such as Ferrari, which has been working with Vimi for decades), the company has high visibility on its production pipeline. Almost fully internalized production process adds flexibility and rapidity to the execution of clients' orders.

MF Inox – oil&gas and infrastructure - is specialised in a very high service level based on "quick delivery and on time order" approach, that is particularly appreciated in urgent maintenance works.

Business development driven by high technological skills

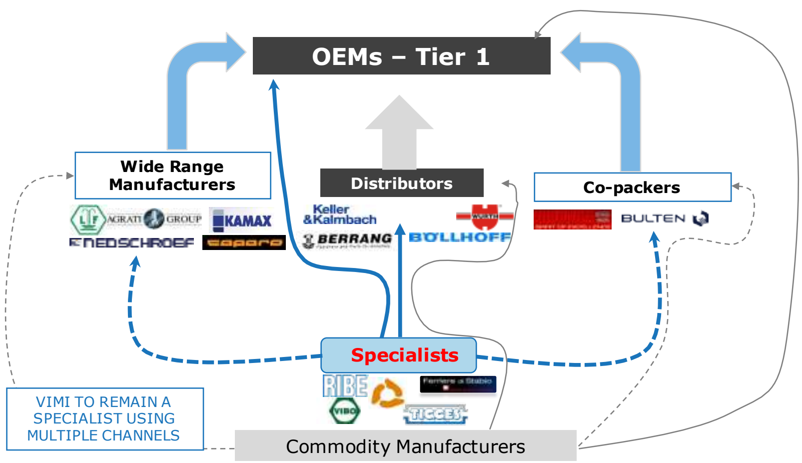
In order to avoid price driven competition in commodity products, Vimi focuses on resilient business segments where high technological know-how needs to be combined with manufacturing skills in production processes. Indeed, its business model relies on:

- **High end applications and critical products**, meaning they are designed with customers since the new machine platform is conceived (focus on power train and very limited production of fasteners for chassis & suspension, pumps, as well as for axis);
- **High-technological manufacturing process**, meaning in such market niche, demand is not strongly affected by aggressive pricing policies;
- **High customer loyalty**, emerging from partnership with OEM and Tier1 aimed at co-engineering most reliable and suitable fastening solutions.

Well balanced customers structure

As far as the "core" market of automotive and commercial vehicles is concerned (accounting for roughly 50% of total group revenues), we note that the distributive chain is quite complex as suppliers, sub-suppliers, distributors and OEMs cooperate in several ways. For some of them Vimi has become a core supplier.

Vimi Fasteners: Distribution channels



Source: Vimi Fasteners

Competition is tough

As concern the main competitors, we underline the existence of big players, which rely on a global geographical footprint as:

- Kamax, Agrati and Fontana group mainly involved in the production of fasteners for automotive and industrial equipment markets;
- Lisi Automotive and Nedschoref who also produce for aerospace and motorsport end markets.

As far as Italian Groups is concerned, in addition to Vimi Fasteners and the above-mentioned Fontana group and Agrati, there are some other relevant market players like Brugola and Ferriere di Stabio. However, none of these companies is as specialised in High temperature / High resistance / Light Alloys as Vimi. Only a couple of foreign players boast such features: Kamax and the listed company Lisi automotive. Last consideration refers to the end-product application, since all competitors, except for Brugola, also produce chassis fasteners, which can be seen as a more commodity product.

Main Competitors in the Fasteners market

	Sales 2017 (€M)	Market (s)	Specialist/ Generalist (S/G)	Global Coverage	Prod. Volume (S/M/H)	High Temperature (Y/N)	High Resistance (>12.9, Y/N)	Light Alloys (Y/N)	Powertrain/ Chassis (P/C)
vimi fasteners	50	A/I/O&G/AM	S	Europe	S/M	Y	Y	Y	P
Ferriere di Stabio	~55	A	S	Europe	S/M	Y	N	N	P/C
KAMAX	693	A/I	S	Eur/US/Asia	M/H	Y	Y	Y	P/C
lisi AUTOMOTIVE	~300 *Only fasteners*	A/I/AM	S	Eur/US/Asia	M/H	Y	Y	Y	P/C
NEDSCHROEF	~414	A/I/AM	G	Eur/Asia	M/H	N	N	N	P/C
FERRY CAP	130	I	S	US	S/M	Y	N	N	P/C
AGRATI	650	A/I	S/G	Eur/US/Asia	M/H	N	N	N	P/C
FONTANA GRUPPO	1.000	A/I	S/G	Eur/US/Asia	M/H	N	N	N	P/C
BULTEN	289	A/I	G	Eur/US	M/H	Y	N	N	P/C
BRUGOLA	129	A	S	Eur/US	M/H	N	Y	N	P

Source: Vimi Fasteners

NB: A: Automotive, I: Industrial, O&G: Oil&Gas, AM: Aerospace/Motorsport

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