

GEL	Italy	FTSE AIM Italia	Water Treatment
Rating: BUY		Target Price: € 3,6	Risk: Medium

Stock Performance	1M	3M	6M	1Y
Absolute	-0,45%	N/A	N/A	N/A
vs FTSE AIM Italia	1,46%	N/A	N/A	N/A
vs FTSE All-Share	5,00%	N/A	N/A	N/A

Stock Data (05/03/2018)

Price (€)	2,22
Bloomberg Code	GEL IM
Market Cap (€m)	16,0
EV (€m)	23,2
Free Float (%)	30,49
Share Outstanding	7.192.500
52-week high	2,72
52-week low	2,08
Company Agenda	28/03/2018

Key Financials (€m)	2016A	2017E	2018E	2019E
Sales	15,1	15,9	16,9	18,9
EBITDA	3,4	3,6	4,3	5,6
EBIT	1,8	2,0	2,4	3,9
Net Income	0,7	1,0	1,5	2,6
EBITDA margin	22,7%	22,7%	25,5%	29,7%
EBIT margin	12,2%	12,5%	14,1%	20,7%
ROE	27,6%	11,0%	13,9%	20,7%
ROCE	10,3%	10,9%	13,0%	21,1%

Main Ratios	2016A	2017E	2018E	2019E
EV/EBITDA	4,7 x	4,4 x	3,7 x	2,9 x
EV/EBIT	8,7 x	8,0 x	6,7 x	4,1 x
P/E	23,5 x	15,8 x	10,8 x	6,1 x
NFP/EBITDA	4,5 x	2,5 x	1,8 x	1,1 x

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Company overview

GEL operates as B2B within the design, production and sale, of equipment and components dedicated to domestic and professional water treatment technologies.

GEL can handle the entire water cycle with standardized and customized technical solutions delivering high quality products and plants compliant with the most national and international health, safety and operational regulatory standard dedicated to different markets and sectors. The company operates through two business units: domestic (c.75% of FY17F sales) and industrial (c.25% of FY17F sales).

Our 2017-2021 forecasts

Our 2017-2021F forecast takes into account the future sector's dynamics. Moreover, we base our 2017-22F forecast on the following main assumptions: 1) Internal growth, i.e. increase the contribution of the domestic and industrial division through investments to reduce the production costs of existing manufactured facilities; 2) develop/acquire new machinery and technology able to produce a new technology; 3) Increase the share of sales abroad; 4) New on-line technical platform and trial software; 5) Joint ventures and agreement. Main goal is the penetration and consolidation of the Chinese market through possible agreement with a Chinese distributor; 6) M&A deal in the coming years.

Valuation Update

We based our valuation estimates using the Multiples Valuation method and the DCF Valuation method. Regarding the Multiples Valuation method we have used a panel of companies operating in the same sector as GEL's but with a greater average market capitalization. For that reason, we have applied a Market Cap discount of 25%. The equity value resulting from this method is equal to € 24,8 mln. On the other hand, the equity value resulting from the DCF Valuation method is equal to € 27,6 mln. The arithmetical average between the DCF method and the Multiples valuation method was conducted resulting in an equity value equals to € 26,2 mln, hence € 3,6 per share. Risk is medium and rating is Buy.

Summary

1.	Company Overview	3
1.1	Group Profile.....	3
1.2	Value Chain	4
1.3	Sales and distribution network	5
1.4	Sales Breakdown.....	6
1.5	Research and Development.....	7
1.6	Main historical milestones.....	7
2.	Reference Market	8
2.1	Market overview.....	8
2.2	Global trend.....	9
2.3	Main market drivers.....	10
2.4	Growth opportunities.....	11
2.5	Market positioning and main competitors.....	11
3.	Company strategy.....	14
3.1	FY16 results.....	14
3.2	1H17 results	15
3.3	Strategy and estimates	16
3.4	Investments.....	16
4	Economics & Financials	19
5	Valuation	22
5.3	Competitive analysis.....	22
	Quality differentiation	22
	Defensive factors	22
5.4	DCF model.....	23
5.5	Multiples valuation.....	24

1. Company Overview

1.1 Group Profile

GEL designs, produces and sales equipment and components dedicated to domestic and professional water treatment technologies, through the B2B channel.

Thanks to its long-term experience, GEL is able to handle the entire water cycle with standardized and customized technical solutions delivering high quality products and plants compliant with the most national and international health, safety and operational regulatory standard dedicated to different markets and sectors.

Through a network of agents/dealers worldwide, GEL serves food and beverage production, manufacturing, healthcare, hospital, biopharmaceutical, energy and power, oil and gas, water treatment, and municipal drinking water applications.

GEL operates through the following business units:

- **Domestic BU:** dealing with the sale of products and equipment dedicated to residential and commercial/institutional buildings;

Fig. 1 – Domestic BU products



Source: GEL

- **Industrial BU:** supplying “tailor made” products, water treatment plants and special fluid processing in different manufacturing sectors (e.g. production of drinking water, treatment of civil waste water, etc..).

Fig. 2 – Industrial BU products



Source: GEL

GEL operates through the entire water treatment's value chain, starting from the design, passing through the production and ending with the sale and post-sale activities.

1.2 Value Chain

As far as the **Domestic BU** is concerned, value chain could be considered as follow:

Fig. 3 – Domestic BU value chain



Source: GEL

- **Designing, prototyping and molding / lab test.** Leveraging on its R&D Dept. and thanks to the most advanced software, GEL originates designs and prototypes components following the dimensional molding requirements;
- **Mass production.** GEL outsources the production of plastic and metallic components while manufacturing the chemical products in-house;
- **Quality & production / assembly.** GEL sources high quality raw materials and after the production and assembly activities, it checks the quality of finished products;
- **Pre-sales assistance & supply (B2B).** Leveraging on its highly qualified and multilingual technical Dept., it offers a real time and pre-sales assistance in order to address customers to the best-tailored product solutions. Besides, GEL has internally developed an IT software allowing a customers to autonomously select the best products set fitting to its own needs;
- **Orders & distribution (B2B).** GEL's domestic commercial workforce is composed as follows: two area managers, the agents following multi-firm contracts across the country and the agents collecting and closing orders. The international commercial structure adds two export managers, importers and distributors and the foreign country dealers;
- **Maintenance & post sales assistance.** The Technical Dept. offers also a technical support in the post-sale (phone calls, site visits and a free hotline). There are more than 300 Official Technical Assistance Centers all over the country, trained by GEL Technicians, being responsible for the startup, ordinary maintenance, and repair of GEL products.

As far as the **Industrial BU** is concerned, value chain could be considered as follow:

Fig. 4 – Industrial BU value chain



Source: GEL

- **Design and 3D printing.** Identifying customer's needs, collecting information and studying the plant, evaluating critical areas, identifying a tailor-made solution, assessing

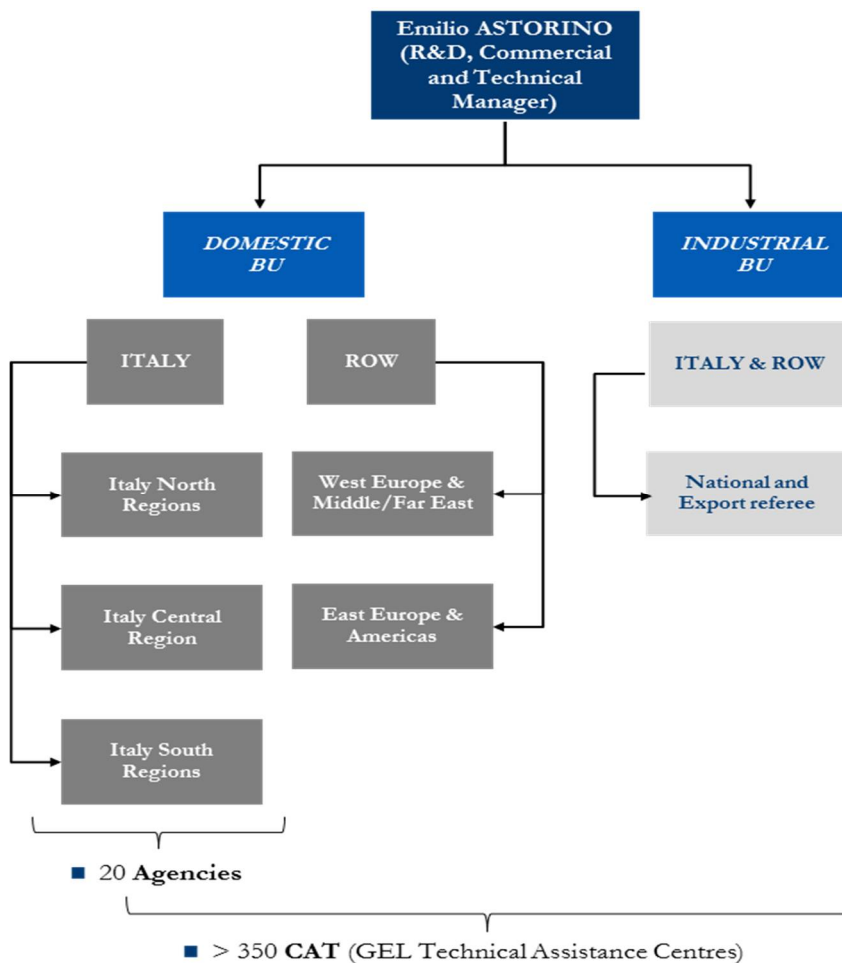
environmental impact and evaluating the productivity. The timing of the offer ranges from 1 to 3 weeks;

- **On-site tailor made production.** GEL is able to build (approx. 30 days) and test plants on site and it could help in supervising the plants acceptance tests;
- **Installation & startup.** GEL plants are easy to install because the water treatment units are skid-mounted or plug & play containerized. GEL is responsible for the startup and the training of the customer's staff;
- **Post sales assistance & maintenance services.** Once the plant is sold, GEL offers technical support and guarantees on the spare parts. GEL can also training for the managing of the plant or it can directly manage the plant on behalf of the customers.

1.3 Sales and distribution network

GEL's sales and distribution network envisages the relation with the Italian and international agents, the importers as well as the wholesalers. This is performed under the supervision of a Commercial Manager directly reporting to the CEO. GEL's network is composed by 20 agents and more than 350 CAT (GEL Technical Assistance Centers) around Italy, Europe and rest of the world.

Fig. 5 – Sales and distribution network

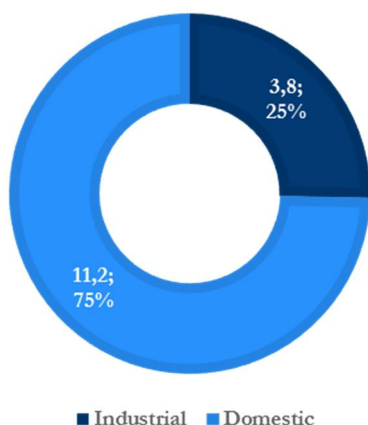


Source: GEL

1.4 Sales Breakdown

Acting according the B2B channel and supplying more than 1.500 customers (avg bill € 2.300), the Domestic Business Unit represents the core business in terms of Sales for FY 2016 (75%) followed by Industrial Business Unit (25%).

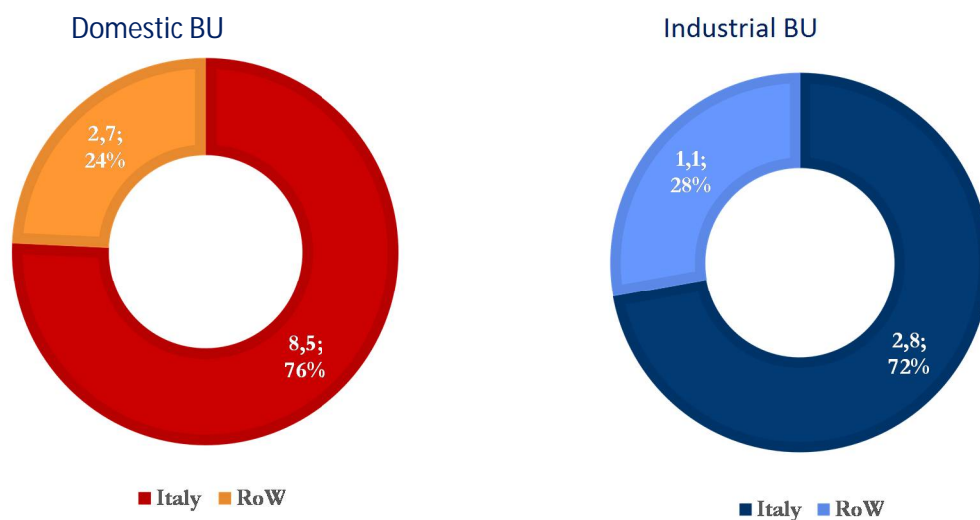
Fig. 6 – Sales breakdown by business unit (2016 data)



Source: GEL

The geographical sales breakdown is led by the Italian market: it covers 76% of the Domestic BU and 72% of the Industrial BU.

Fig. 7 - Sales geographic breakdown by BU



Source: GEL

1.5 Research and Development

As an **Italian “Innovative SME”** investments in R&D are more than 3% of the total revenues. R&D main key drivers are:

- A strict focus on client needs and new technologies to increase product differentiation;
- Broadening the range of the most profitable products (e.g. pumps & chemicals);
- Entering into new product categories (e.g. powder chemicals, anti-flood systems, neutralizing filters, leachate treatments);
- Evaluating and planning innovative and alternative solutions;
- Designing products and implementing process innovations aiming at improving the quality and increasing new product range (e.g. OEM pumps).

1.6 Main historical milestones

On March 21, 2014, GEL SAS, Berto Aroldo Group and Bafin Srl signed a debt restructuring agreement aimed at rebalancing the economic and financial situation. Moreover, Mr. Berto Aroldo has guaranteed the debt with his personal bank accounts.

The positive results achieved in 2014 and 2015 led the company to upgrade previous targets and to present new business plan. FY2016 bet their guidance and numbers are still improving.

Company has respected all covenants referred to 2015 and 2016. From a financial point of view, the company has completed the repayment of deferred tax liabilities for the years 2012 and 2013. From 2014, there have been no outstanding debts.

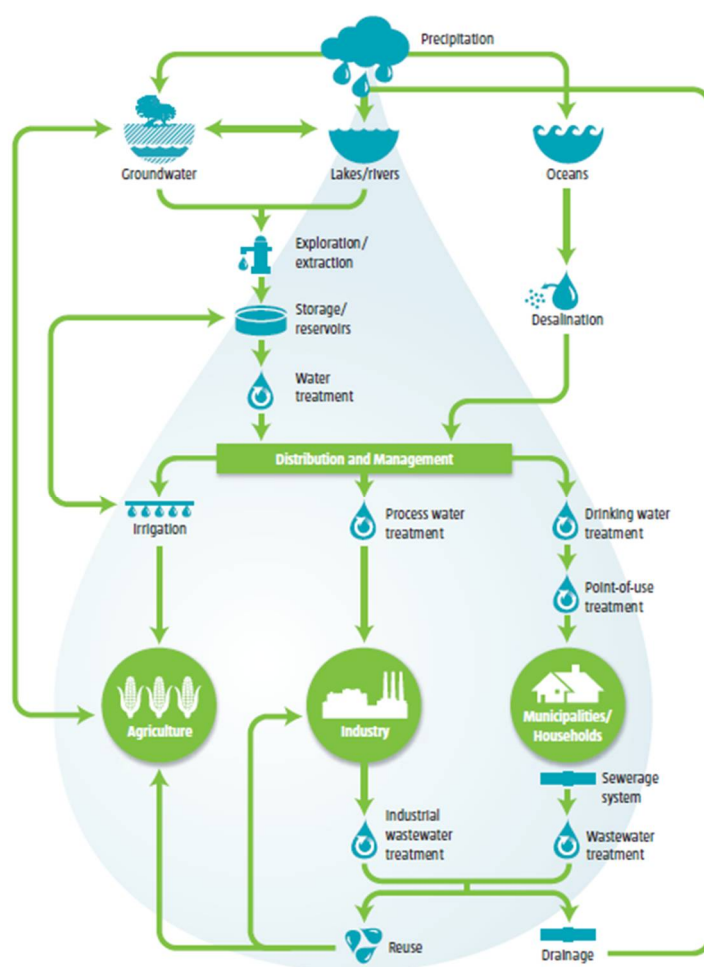
In 2016, the company changed its status from S.R.L into S.p.A.

2. Reference Market

2.1 Market overview

Water has always been a precious commodity in many areas of the world and the same perception is now surrounding the areas where its access is easier. The price of water charged to consumers in most of the countries is still too low to reflect its value. While demand for water resources is growing rapidly, supply is limited.

Fig. 8 – Water value chain



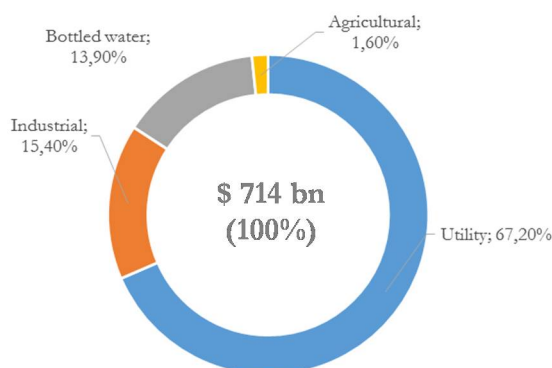
Source: Global Water Intelligence – Global Water Market 2017.

Although water covers about 70% of the Earth's surface, we must rely on annual precipitation for our actual water supply. About two-thirds of annual precipitation evaporates into the atmosphere and another 20-25% flows into waterways and is not fit for human use. This leaves only 10% of all rainfall available for personal, agricultural and industrial use.

Almost every human activity involves water. The global water market is estimated to be worth around \$ 714 billion in 2016. Despite a context of scarcity and global warming, the market is

expected to growth at an average annual rate of 3.8% until 2020 (CAPEX + 5.3% and OPEX +2.8%).
Source: Global Water Intelligence – Global Market Trend 2017.

Fig. 9 – The global water market, 2016



Source: Global Water Intelligence – Global Water Market 2017.

Demand for innovative solutions both enabling a more efficient use of available water resources or enhancing the quality of drinking water, will continue to grow. As a result, the water market is expected to grow by 1-2 percentage points above the GDP growth, reaching USD 1 trillion by 2025.

2.2 Global trend

According to RobecoSAM Study (Water: the market of the future), there are three key demographic trends that could affect water consumption:

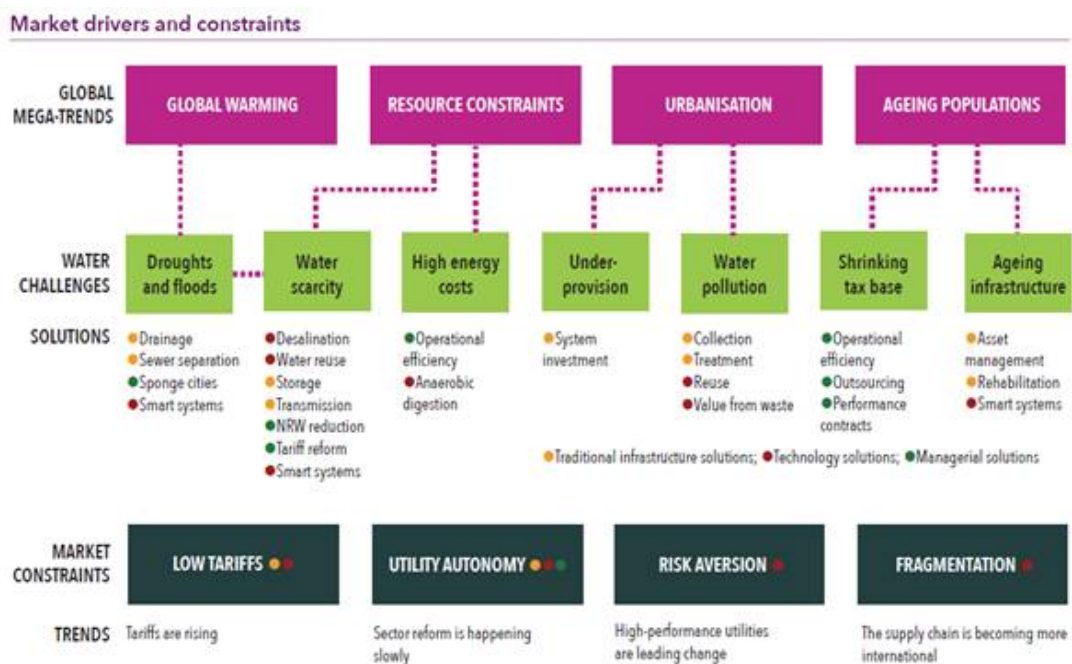
- **The world's population will continue to grow over the next few decades.** There are currently 7.3 billion people in the World and the number will continue to increase over the next few decades by reaching 9.6 billion by 2050 (according to the UN). Accordingly, demand for water will increase but it is well known that water consumption has grown at a faster pace due to the improving living standards in the emerging markets. This trend is unlikely to be reversed for many years;
- **Urbanization.** More and more people are moving from the countryside to the city due to the lack of employment opportunities in rural areas. Currently, 54% of the world's population lives in cities, compared to 29% in 1950. The UN forecast that 60% will live in urban areas by 2030.
- **Improving overall living standards** – particularly in China and India – leading to a more intensified water consumption.

2.3 Main market drivers

We forecast that main market drivers in the next coming years should be:

- **Scarcity and global warming.** About 7,8% of the world’s population live in areas where the natural renewable water availability is less than 1.00 mc/per capita per year and this proportion has grown over time. The growth of cities creates a water resourcing challenge even in regions where in theory there should be plenty of water (i.e. desalination plants). Many parts of the world receive all their rainfall within a few months of the year. The propensity for severe droughts has increased with the on-set of global warming.
- **Urbanization and access to water.** According to the Joint Monitoring Programma for the Millennium Development Goals (MDG), out of 7,4 bn people only 2,4 bn have access to improved water supply and 0,7 bn rely on an unimproved water source. 4,3 bn people have piped water connections to their household and only 1,8 bn enjoy a reliably potable 24/7 supply.
- **Regulation** is mainly addressed to the drinking water side (public health is the main driver) and to the wastewater treatment side (environmental protection is the main driver). i) The Drinking Water Directive (98/83/EC); ii) The Urban Waste Water Treatment Directive (91/271/EEC); iii) Commission Directive (98/15/EC) amending Council Directive (91/27/EEC); Sewage Sludge Directive (86/278/EEC); iv) Water Framework Directive (2000/60/EC); v) Nitrates Directive (91/676/EC); vi) Priority Substance Directive (2008/105/EC); vi) Groundwater Directive (2006/118/EC); vii) Drinking Water Abstraction Directive (75/440/EEC); viii) Integrated Pollution and Prevention Directive (2008/1/EC).
- **Corporate water risks.** Water will not be available for operations because of the growing water scarcity. That would be a particular issue for those companies having their consumer brands potentially exposed to activist campaigns and for some Industries such as mining, energy and pulp & paper all relying on the goodwill of the communities where they work for their licenses to operate.

Fig. 10 – Main market drivers and constraints



Source: Global Water Intelligence

2.4 Growth opportunities

According to BCC Research, "Ballast Water Treatment: technologies and global market", November 2013, among others, there are two main growth opportunities:

- **Ballast water treatment** is currently a small market representing about USD 1.4 bn in 2012, but it is expected to be one of the fastest growing areas growing over 30% from 2013 to 2018. Approximately 10 km³ of different kind of water are moved around the world annually in the course of trade. Water discharged into the 'new environment' may cause the growth of invasive aquatic organisms that can pose serious ecological, economic and health threats. Disinfection, UV technologies and filtration are among the solutions for treating ballast water;
- **Industrial water** accounts for 20-30% of total water consumption (as an example it is used in the mining and in the oil & gas industries or in supplying the microelectronics and pharmaceutical sectors with ultrapure water). In addition, the used industrial water has to be cleaned adequately before it is discharged. In India and China enormous investments are required to bring wastewater treatment up to a higher standard. The overall industrial water capital expenditure market was worth an estimated USD 15 bn in 2011 and is expected to reach USD 24 bn in 2018.

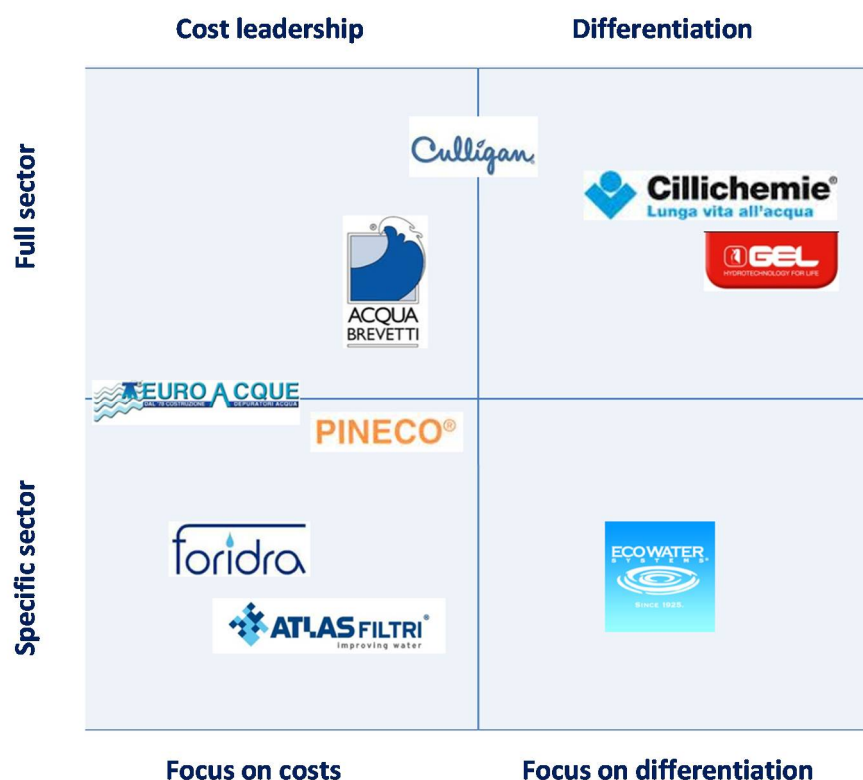
2.5 Market positioning and main competitors

The Water treatment is very specific to each individual geographic area as it depends on the quality and type of water to be treated. That is why GEL is globally, practically everywhere in the world, with two main types of competitors:

- **Local players**, strongly specialized in the national treatment knowledge (e.g. the coldest countries use a lot of thermal treatment products while the warmest ones countries use much more water disinfection products or purification). Normally their size ranges between €2m to €5m of sales and are rather geographically concentrated (generally fully dependent from a single country);
- **Corporations**, carrying global standardized product portfolio, own brand for each geographical area serviced (mainly following a specific acquisition deal) and finally a much lower specialization than local players.

Among the main industry players, in the Italian market Culligan and Cillichemie are the most active brands. Other brands refer to very small national players (<€5m in sales).

Fig. 11 – Water treatment market



Source: GEL

GEL (FY15 rev. €15,1 mln). water treatment products compliant with the most relevant legal standards. Over 30 years of experience, able to handle the full water cycle with standard and customized solutions.

Culligan (FY15 rev. €59,3 mln). One of the leading water treatment companies in Italy. It is able to offer global water treatment solutions for homes, offices, commercial companies, hotels, municipalities and all types of industry.

Cillichemie (FY15 rev. €23,1 mln). A BWT Group brand being present on the water purification market for many years and managing the entire water cycle from the source to the end user.

Atlas Filtri (FY15 rev. €12,1 mln) through its subsidiary Atlas Filters Engineering it produces water treatment systems for domestic, commercial and industrial use. Atlas Filtri Italia distributes products in Italy.

Euro Acque (FY15 rev. 6,8 mln). Operating since 1978 as a manufacturer in the primary water treatment sector at national and international level. The company produces and markets softeners, purifiers, filters and water treatment for domestic and industrial use.

Acqua Brevetti (FY15 rev. 5,7 mln). Designing and manufacturing of water treatment plants. It develops innovative and proprietary technology solutions leading to file patents and to register trademarks covering filters, metering systems, and water conditioning products.

Foridra (FY15 rev. €4,5 mln). A thirty years experienced Co specialized in producing chemical formulations, in the Training of technicians, in the reduction of environmental pollution and management costs; it supplies Safeguard to the facilities where the products are used.

Ecowater (FY15 rev. €3,1 mln). Water softeners, reverse osmosis and micro-filtration Company.

Pineco (FY15 rev. €1,6 mln). Softener and chemicals for the cleaning and the maintenance of hydraulic systems, polyphosphates, brass mesh and plastic filters, column filters for iron, chlorine, arsenic and legionella systems removal.

BWT (FY15 rev. 535,3 mln). Water treatment technologies: filters, water softeners, disinfection devices, dosing systems, fittings and sanitary fixtures. BWT also designs and manufactures water supply and waste-water treatment plants. The Company provides its products and services to residential, commercial, industrial, and municipal users.

Sentinel Water (n.a.). An established experienced supplier of specialty Water Management Services. They provide legal support for the safety and efficiency of customer’s water systems and cost effective solutions and professional advice for water safety.

Fernox (n.a.). Company operates in four distinct areas: Chemical water treatment (rust and calcification cleaners for boilers, boiler noise silencers and leak sealers) - Traditional plumbing products – Pumps and filters - Renewable technologies (heat transfer fluids for solar applications, ground-source and air-source heat pumps).

Fig. 12 – Main competitors

	DOMESTIC							INDUSTRIAL	
	SOFTENERS	Dosing systems	FILTERS	PUMPS	CHEM. PDT	SPARE P.	OTHER	PLANT	SERVICES
	✓	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	✓
			✓						
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	✓	✓	✓	✓	✓	✓	✓	✓	✓
					✓				
					✓				

Source: Integrae SIM and GEL

3. Company strategy

3.1 FY16 results

In 2016 Sales amounts to c. € 15,1 mln (of which €11,2 mln from domestic BU and €3,8m from industrial BU). About 75% of sales is referred to the Italian market. As far as the products mix are concerned, domestic BU account for c. 75% (with an increase of 3,1% vs FY15).

The gross margin, rose by 3,7%YoY, reaching € 9,1 m. GEL's commercial policies result cost effective, since the contribution margin as a 60,7% of Sales rose by 3,5%, mainly due to savings on variable production costs .

Ebitda rose by 33,1% reaching €3,4 mln, mainly thanks to efficiencies in services costs. Ebitda margin also increased to 22,7% (16,7% in FY15).

Net Income rose to €0,7 mln (from €0,2 mln of FY15). In terms of profit margin, GEL achieved a 4,5% in 2016, with an increase of c. 300bp compared to FY15 profit margin.

During 2015, GEL registered an increase in Intangible assets (up to c. € 7,8 m) due to extraordinary deal which consisted in a contribution of assets (e.g. enclosing the GEL trademark with a FV of c. € 4,0 mln). During 2016 the amount in net fixed assets was substantially flat.

During last 3 years the Company experienced a slight increase in DSO (from 95 to 110 days) and, following the rise in sales, also a slight decrease in DPO (from 60 to 50 days). Those effects are shown also in the ratio NWC/Sales % with an increase up to 31,3% in 2016.

Due to the mentioned contribution of assets, the company registered an increase in provision for tax deferred (c. € 1,2 mln) while funds stay almost flat.

During 2016 GEL has been transformed in S.p.A. with a complex contribution of assets deal gaining an amount of share capital of € 0,5 m.

Prior the sign of the Restructuring Agreement with all financial creditor, due to the lack of financing from banks, GEL financed its operations through tax debt overdue (which are now officially rescheduled and adjusted in terms of net financial position for an amount of c. € 1,6 mln at the end of 2016). The NFP enclose an amount of LT bank debts of € 2,4 mln related to the MBO of stake signed during 2008.

As far as cash flows are concerned, from an Ebitda of € 3,4 mln in 2016 and a conversion rate (e.g. OCF/Ebitda) of c.64%, the operating cash flow resulted in c. € 2,2 mln.

In terms of net capex, FY15 represented a non cash capex due to the extraordinary deal on equity, while in FY16 GEL showed few maintenance investments capitalized (€ 0,3 mln) and therefore the cash flow before financial payments was of € 2,2 mln.

In FY16 the company generated a negative net cash flow mainly due to the reimbursement of financial debts in agree with the Restructuring Agreement (also considering the scheduled tax debt) reimbursement.

3.2 1H17 results

1H17 sales rose by 1,6% YoY to €8,5 mln: domestic sales accounted for 76,5% and Italy accounted for 78,1%.

Ebitda rose by 39,9% YoY reaching €1,5 mln, while Ebit rose by 27,2% YoY to €1,0 mln. The improvement is mainly due to the production mix change towards high value products and to the strict fixed costs control. Net profit declined to €0,2 mln (from €0,47 mln) because of credit impairment of €0,42 mln.

Fig. 13 – 1H17 P&L

Data in €/000	1H16	1H17	Δ 1H16- 1H17
Sales	8.378,5	8.511,5	1,6%
Ebitda	1.039,2	1.454,1	39,9%
<i>Ebitda margin</i>	12,4%	17,1%	
Ebit *)	798,2	1.015,7	27,2%
<i>Ebit margin</i>	9,5%	11,9%	

Source: Gel. *) adjusted for credit loss provision

As far as the A&L are concerned, the net financial position is improved reaching €14,9 mln (from €16,1 mln of 1H16 and €15,3 mln of FY16). It also includes (other than financial debts) leasing of €6,3 mln and taxed payable of €1,3 mln.

Fig. 14 – 1H17 A&L

Data in €/000	1H16	FY16	1H17
Fixed assets	15.472	14.792	14.318
Net working capital	4.424	4.702	5.098
Funds	(2.076)	(2.161)	(2.175)
Net invested capital	17.820	17.333	17.241

Data in €/000	1H16	FY16	1H17
Shareholders' equity	1.693	1.990	2.301
Net financial position	16.127	15.343	14.940
TOTAL LIABILITIES	17.820	17.333	17.241

Source: Gel

3.3 Strategy and estimates

Our 2017-2021F forecast takes into account the future sector's dynamics. Moreover, we base our estimates based on the following main assumptions:

- On the domestic business unit:
 - A product portfolio review aiming at realizing a competitive advantage and a product differentiation in all products. The target is to improve the product performance updating the technological content and the design.
 - technical production improvement and a special focus on cost efficiency in the very product lines suffering from commercial pressures by specialized competitor (focus on market share protection);
 - Commercial boost of the Long Life chemical products (thermal plants maintenance). Saturating the production capacity and raising margins;
 - Optimizing the raw materials cost (more than 50% of total costs) volatility.
- On the industrial business unit:
 - strengthening the presence of technical and commercial staff;
 - updating the training to all level of staff;
 - new partnerships in the plant realization service.

We based our 2017-2021F forecast on the following strategy:

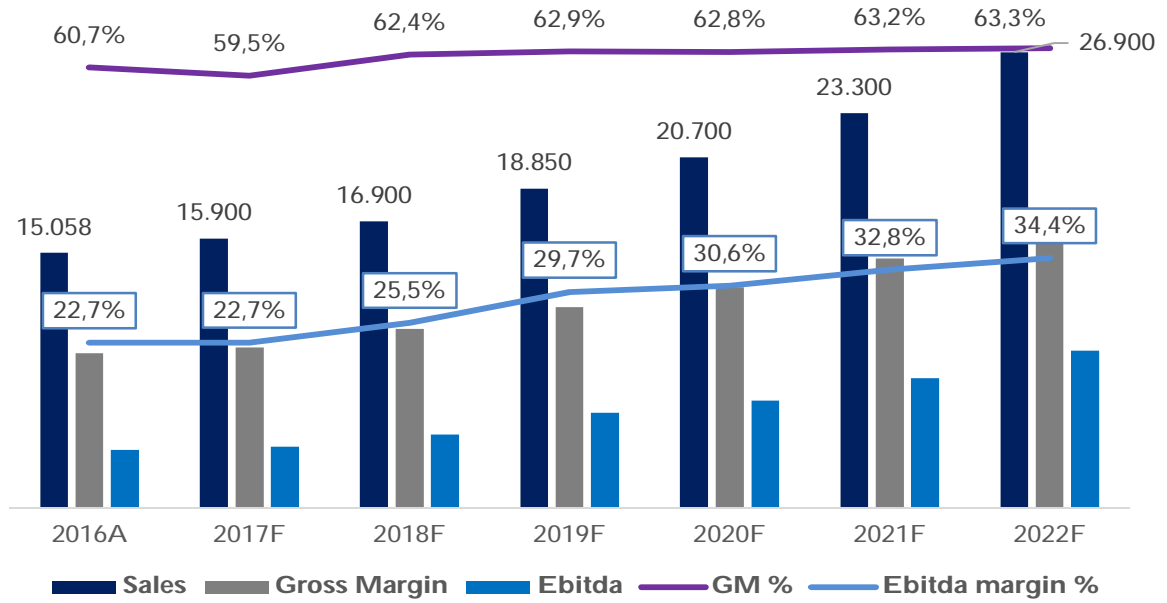
- **Internal growth**, i.e. investments in:
 - reducing the cost of production of some existing facilities: namely the plastic molding line and flat membrane technology;
 - developing new technologies (i.e. "zero liquid discharge" technology);
 - increasing the contribution of non- domestic sales (i.e. new components in the pre and post sales staff and new investments in marketing);
 - in the IT; enhancing the "progetto acqua" software;
- **Joint ventures and agreement**. The main goal is the penetration and consolidation of the Chinese market through possible agreement with a Chinese distributor in order to:
 - distribute / promote the GEL catalog;
 - create product synergies with local suppliers;
 - establish a logistical and operational unit with specific skills;

3.4 Investments

We forecast that GEL is able to invest strategy €2,4 mln in FY18, i.e.: €0,85 mln in the "zero liquid discharge" project, €0,8 mln, mainly addressed on the internalization strategy of the "plastic molding line", €0,6 mln in the "flat membrane technology" and €0,15 mln in the new on-line "technical platform and trial software".

Considered the actual level of business and the investment, we expect that Sales, Ebitda and Contribution Margin show an overall increase at a 2016-22F CAGR of 10,1%, 10,9% and 18,1% respectively. At the end of the period, sales could reach €26,9 mln (€15,1 in FY16), Ebitda €9,2 mln (€3,4 mln FY16) and gross margin €17 mln (€9,1 mln FY16). We estimate that Ebitda margin trend could be particularly positive: Ebitda margin could reach 34,4% (22,7% in FY16).

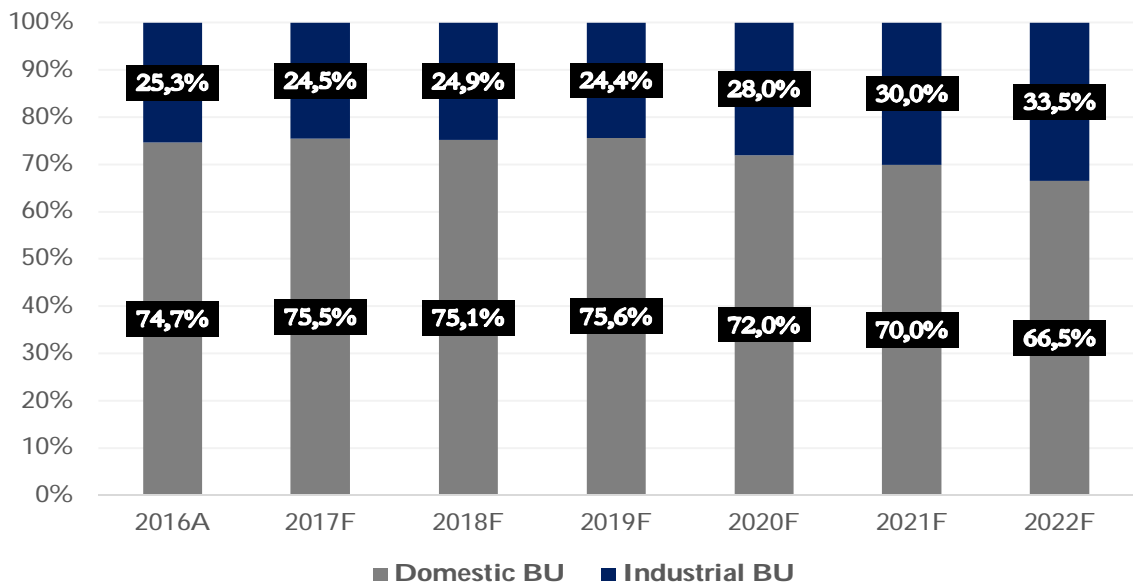
Fig. 15 – Sales and margin forecast



Source: Integrae SIM estimates

Sales breakdown displays that domestic BU should continue to remain the most relevant one (>65%) and industrial BU contribution increases to 33,5% in the end of FY2022E (from 25% in FY2016A).

Fig. 16 – Sales breakdown by BU



Source: Integrae SIM estimates

Regarding the Domestic BU, we estimate an increase in sales (2016-22F CAGR of 8,6%) with a stable profitability (approx. 62%) mainly due to an increase of chemical products, a slight reduction in filters and a stable trend for all other product categories.

Passing to the Industrial BU, over the same period we estimate an increase in sales at a 2016-22F CAGR of 15,3%.

4 Economics & Financials

Fig. 17 – P&L

PROFIT & LOSS	ACT FY	FCS	FCS	FCS	FCS	FCS	FCS
Data in €/000	2016	2017	2018	2019	2020	2021	2022
Domestic BU	11.244	12.000	12.700	14.250	14.900	16.300	17.900
Industrial BU	3.814	3.900	4.200	4.600	5.800	7.000	9.000
SALES	15.058	15.900	16.900	18.850	20.700	23.300	26.900
Δ Inventories	306	28	100	200	250	320	435
Raw Materials	(6.231)	(6.460)	(6.450)	(7.200)	(7.950)	(8.900)	(10.300)
Consumptions	(5.925)	(6.432)	(6.350)	(7.000)	(7.700)	(8.580)	(9.865)
(% on Sales)	-39,3%	-40,5%	-37,6%	-37,1%	-37,2%	-36,8%	-36,7%
GROSS MARGIN	9.133	9.468	10.550	11.850	13.000	14.720	17.035
(Margin % on Sales)	60,7%	59,5%	62,4%	62,9%	62,8%	63,2%	63,3%
Employees (direct and indirect)	(2.578)	(2.537)	(2.850)	(3.000)	(3.220)	(3.325)	(3.600)
Variable costs	(1.715)	(1.821)	(1.920)	(2.100)	(2.290)	(2.550)	(2.775)
Services	(1.977)	(1.844)	(2.075)	(1.750)	(1.760)	(1.800)	(2.000)
Other Income / (Costs)	557	350	600	600	600	600	600
EBITDA	3.420	3.615	4.305	5.600	6.330	7.645	9.260
(Margin % on Sales)	22,7%	22,7%	25,5%	29,7%	30,6%	32,8%	34,4%
D&A (total)	(1.579)	(1.621)	(1.930)	(1.700)	(1.500)	(1.450)	(1.450)
EBIT	1.841	1.995	2.375	3.900	4.830	6.195	7.810
(Margin % on Sales)	12,2%	12,5%	14,1%	20,7%	23,3%	26,6%	29,0%
Net financial costs	(679)	(520)	(250)	(240)	(250)	(150)	(150)
Taxes	(482)	(459)	(641)	(1.053)	(1.304)	(1.673)	(2.109)
Net Income	680	1.016	1.484	2.607	3.276	4.372	5.551

Source: GEL and Integrae SIM estimates

Fig. 18 – A&L

BALANCE SHEET	ACT FY	FCS	FCS	FCS	FCS	FCS	FCS
Data in €/000	2016	2017	2018	2019	2020	2021	2022
Net financial assets	80	80	80	80	80	80	80
Intangible net assets	7.083	7.000	7.491	8.263	6.928	6.538	6.148
Tangible net assets	1.741	1.179	743	1.074	1.317	1.535	970
Manufactury plant/headquarter	6.256	6.219	6.238	5.544	5.307	5.070	4.833
Net Fixed Assets	15.161	14.478	14.553	14.962	13.633	13.224	12.031
Account receivable	5.444	6.500	6.850	7.250	7.500	7.650	7.800
Inventories	2.009	2.525	2.400	2.167	2.259	2.388	2.562
Account payable	(2.056)	(2.295)	(2.449)	(2.588)	(2.744)	(2.908)	(2.973)
Other ST net items	225	195	165	135	105	75	45
Net tax credit (debt)	(914)	(1.040)	(1.148)	(1.294)	(1.436)	(1.554)	(1.628)
Net Working Capital (NWC)	4.708	5.885	5.818	5.670	5.683	5.651	5.806
Invested Capital	19.868	20.363	20.371	20.631	19.316	18.875	17.838
Provisions	(1.771)	(1.782)	(1.754)	(1.800)	(1.854)	(1.917)	(1.881)
Funds	(306)	(306)	(306)	(306)	(306)	(306)	(306)
NET INVESTED CAPITAL	17.791	18.275	18.311	18.526	17.156	16.652	15.650
Share capital	500	719	719	719	719	719	719
Riserves	1.286	7.501	8.523	9.929	11.867	14.135	16.712
Net income	680	1.022	1.406	1.939	2.267	2.577	3.065
Equity	2.466	9.242	10.648	12.587	14.854	17.431	20.496
LT Bank debts	5.736	1.978	1.796	1.171	(571)	(1.332)	(2.112)
ST Bank debts	1.639	-	-	-	-	-	-
Leasing	6.479	6.233	5.959	5.502	5.019	4.509	3.969
Cash and Cash Equivalents	(137)	(311)	(778)	(1.050)	(2.249)	(3.956)	(6.703)
Net Financial Position (NFP)	13.718	7.901	6.977	5.623	2.199	(779)	(4.846)
Tax debt scheduled	1.607	1.132	686	315	103	-	-
Net Financial Position Adj. (NFP Adj.)	15.325	9.033	7.664	5.939	2.302	(779)	(4.846)
TOTAL FUNDS	17.791	18.275	18.311	18.526	17.156	16.652	15.650

Source: GEL and Integrae SIM estimates

Fig. 19 – Cash Flow

CASH FLOW STATEMENT	ACT FY	FCS	FCS	FCS	FCS	FCS	FCS
Data in €/000	2016	2017	2018	2019	2020	2021	2022
Ebitda	3.420	3.615	4.305	5.600	6.330	7.645	9.260
Taxes	(482)	(459)	(641)	(1.053)	(1.304)	(1.673)	(2.109)
Δ in trade receivables	(324)	(1.056)	(350)	(400)	(250)	(150)	(150)
Δ in inventories	(305)	(516)	125	233	(92)	(130)	(174)
Δ in trade payables	(273)	239	153	139	156	164	65
Δ in other ST items	(9)	30	30	30	30	30	30
Δ Net tax credit (debt)	(1.813)	125	108	146	142	118	74
Δ in NWC	(2.723)	(1.177)	66	149	(14)	32	(155)
Operating Cash Flow	215	1.980	3.730	4.696	5.012	6.005	6.996
Cash conversion	6,3%	54,8%	86,6%	83,8%	79,2%	78,5%	75,6%
Capex & Disposal	(257)	(938)	(2.400)	(750)	(750)	(750)	(750)
Δ in Funds & Provisions	124	10	(27)	45	54	63	(35)
Free Cash Flow	82	1.052	1.303	3.991	4.316	5.318	6.211
Δ Shareholders	140	5.754	-	-	-	-	-
CASH FLOW AVAILABLE TO DEBT SERVICES	222	6.806	1.303	3.991	4.316	5.318	6.211
Net financial costs	(679)	(520)	(250)	(240)	(250)	(150)	(150)
Δ in NET DEBT	(457)	6.286	1.053	3.751	4.066	5.168	6.061
LT Bank debts	(947)	(3.758)	(182)	(625)	(1.743)	(761)	(780)
ST Bank debts	(104)	(1.639)	-	-	-	-	-
Leasing	(133)	(246)	(274)	(457)	(483)	(510)	(539)
Tax debt scheduled	1.607	(475)	(446)	(371)	(212)	(103)	-
NET CASH FLOW	(34)	168	151	2.298	1.629	3.793	4.741
Opening Net Debt	14.868	15.325	9.033	7.664	5.939	2.302	(779)
Closing Net Debt	15.325	9.033	7.664	5.939	2.302	(779)	(4.846)
Δ in NET DEBT	(457)	6.292	1.369	1.725	3.636	3.082	4.066
Cash & Cash Equivalents (Opening)	171	137	311	778	1.050	2.249	3.956
Cash & Cash Equivalents (Closing)	137	311	778	1.050	2.249	3.956	6.703
Δ in CASH	34	(174)	(467)	(272)	(1.199)	(1.707)	(2.747)

Source: GEL and Integrae SIM estimates

5 Valuation

5.3 Competitive analysis

Quality differentiation

- Portfolio of products: GEL offers a complete portfolio of products and services that satisfy all customer's needs. Together with BWT, it is the only player in Italy which is able to provide with a complete range of products.
- Premium pricing: GEL's customers accept to pay a premium price thanks to the value added services and its complete portfolio of products. Hence product pricing is higher compared to its competitors, but not the price-to-quality ratio.
- Brand value: within the industry, especially in Italy, the brand is very well know and has an excellent reputation
- IT software: The "Progetto Acqua" software allows already skilled designers (already 300 people) to independently insert data and get a tailor made product list to create an order. That enables to save precious time in preliminary meetings.
- Own trademarks: being the innovator of the 9" membranes (used for the leachate and seawater filtering) and one of the first player in flat membranes. GEL has also the exclusivity (first and only one) for the chemical powdered products (Long Life Pocket).
- In-house innovative plant for chemicals production: the sole European company in this industry;
- The Technical department. 5 people constantly available in the real time helping customers for technical issues.

Defensive factors

- Patents: GEL owns some exclusive patents such as:
 - "Device for dosing liquid additives into the water systems": this is a very delicate process since a too low dosage does not eliminate the disturbing elements and a too high one could be harmful.
 - "System in detecting and blocking leaks in water installations". Unique in the market and very efficient for the households protection.

The expiring patents will be replaced by a new pipeline aimed at protecting the same business areas apparently exposed to the expiring copyright.

- Certifications: ISO9001&IQNet, SOA, GOSTR, ISO14001: 2004; ENISO13485:2012 (in force until 2016);
- A low dependency from a single customer and a single contract: the average single bill is €2,300 and the first ten customers make 30% of the revenue base.
- The high client loyalty: the nature of this B2B business opens to a low visibility (1/2 months) of the order book, but bear in mind that 60% of revenues come from customers having a more than 30 years relationship with GEL.

The cyclical economic downturn has thwarted the expected delivery from the investments, amounting to €15 mln in the previous years.

Those investments were addressed especially to the production capacity expansion (plant expansion, new equipment, new storage area).

Both solvency and liquidity ratios show perfectly the struggling situation experienced by GEL in 2015.

The same ratios in 2016 already started to improve thanks to the self-help (efficiencies extraction, stiff cost cutting) and the strong cash flow generation.

That trend is expected to continue in 2017 and to even more accelerate in the future years.

Thanks to those early CAPEX and without any further investment need, GEL could eventually double its own capacity utilization today.

Accordingly, the top line would follow proportionally (as we expect in our forecast).

Coming to the activity ratios, an improved NWC management positively translates into the medium-long run cash flow generation.

More interestingly the fixed asset turnover ratio (the asset turnover accordingly) shows a better asset efficiency ratio: 2,19X from 0,99X in 2016.

On the profitability side, GEL's ratios are well above its competitors' average (see Fig. 3) thanks to the products and service quality and to the business strategies.

Differently from all other profitability ratios, the Net Profit margin is affected by the material financial charges related to the debt restructuring agreement.

We are able to state that, already from 2017, GEL's business model will be sustainable in terms of returns and management ability. In other words, GEL is not simply able to pare with the operational costs but also to make the investments needed for the future.

5.4 DCF model

The input data are provided below:

Fig. 20 – Main input data

Wacc calculation	
Risk Free Rate	0,91%
Market Premium	8,40%
Beta Unlevered	1,15
Tax Rate (Ires + IRAP)	28,82%
D/E (average)	1,10
Beta Relevered	2,05
Alpha (specific risk)	2,50%
Ke	20,63%
Kd	4,85%
Wacc	11,63%

Source: Integræe SIM estimates

Fig. 21 – DCF Model

DCF	(mln/€)
NPV Cash Flow (2018-2022)	14,2
NPV TV	22,4
Enterprise Value	36,6
NFP (FY17F)	9,0
Equity Value	27,6

Source: Integrae SIM estimates

This results in an equity value of €27,6 mln.

Fig. 22 – Sensitivity analysis

		WACC						
		10,13%	10,63%	11,13%	11,63%	12,13%	12,63%	13,13%
TV	2,5%	39,2	36,3	33,6	31,3	29,1	27,2	25,5
	2,0%	37,2	34,5	32,1	29,9	28,0	26,2	24,6
	1,5%	35,4	32,9	30,7	28,7	26,9	25,2	23,7
	1,0%	33,8	31,5	29,4	27,6	25,9	24,3	22,9
	0,5%	32,3	30,2	28,3	26,6	25,0	23,5	22,2
	0,0%	31,0	29,0	27,3	25,6	24,2	22,8	21,5
	-0,5%	29,8	28,0	26,3	24,8	23,4	22,1	20,9

Source: Integrae SIM estimates

5.5 Multiples valuation

Our sample includes some companies operating in the same sectors as GEL, but it differs in terms of market capitalization (GEL much lower) and organizational structure (Source: InfFinancials).

Fig. 23 – Comparables - Financials

Company	Profitability					Capital Structure	
	ROE	ROCE	EBITDA margin	EBIT margin	Net Income margin	NFP /Equity	Equity /Assets
Peer Median	9,91	10,81	17,72	14,15	9,80	-0,05	51,01
BWT AG	5,74	6,93	6,45	3,46	1,78	-0,05	40,96
Beijing OriginWater Technology...	12,13	17,19	25,71	24,96	20,88	-0,26	51,35
Chen Full International Co., L...	17,01	26,84	23,28	19,79	16,50	-0,40	70,15
Daikin Industries, Ltd.	14,17	14,52	15,45	11,04	7,53	0,23	48,20
Danaher Corporation	10,90	6,65	22,98	16,56	15,13	0,49	50,95
Graham Corp.	4,50	13,01	9,81	7,27	5,47	-0,64	75,29
Hankore Environment Tech Group...	4,82	6,85	33,55	29,47	14,01	0,45	51,07
Kurita Water Industries Ltd.	6,34	12,17	16,57	8,89	6,77	-0,29	76,44
Pentair plc	12,64	7,22	18,39	14,34	10,68	0,95	36,88
GEL SPA	27,60	11,30	22,70	12,20	4,50	5,56	4,48

Source: InfFinancials

Fig. 24 – Comparables – Forecast Multiples

Company	Mkt Cap	EV/Sales				EV/Ebitda				EV/Ebit				P/E			
		2017F	2018F	2019F	2020F	2017F	2018F	2019F	2020F	2017F	2018F	2019F	2020F	2017F	2018F	2019F	2020F
BWT AG	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Beijing OriginWater Technology Co., Ltd.	6.768	3,8	2,6	2,0	N/A	15,6	11,3	9,2	N/A	16,7	12,5	9,8	N/A	21,0	16,0	12,8	N/A
Chen Full International Co., Ltd.	149	1,3	1,1	N/A	N/A	5,9	5,9	N/A	N/A	6,9	6,1	N/A	N/A	11,6	9,8	N/A	N/A
Daikin Industries, Ltd.	27.811	1,7	1,6	1,5	N/A	11,8	10,4	9,7	N/A	14,9	13,4	12,3	N/A	20,4	18,4	17,0	16,5
Danaher Corporation	55.800	4,2	4,0	3,8	3,6	17,8	16,5	15,5	14,6	25,2	22,8	20,7	19,2	23,8	22,0	20,3	19,0
HanKore Environment Tech Group Ltd.	164	3,5	3,0	2,8	N/A	10,7	9,1	8,5	N/A	11,4	9,2	9,1	N/A	13,5	10,8	10,7	N/A
Kurita Water Industries Ltd.	744	1,3	1,3	1,3	1,2	8,4	8,1	7,7	N/A	13,9	12,4	11,2	9,8	23,1	21,0	19,1	N/A
Pentair plc	2.867	2,7	2,6	2,5	2,5	13,7	13,1	12,4	11,8	15,0	14,3	13,5	13,0	19,0	16,7	15,6	14,7
Average		2,6	2,3	2,3	2,5	12,0	10,6	10,5	13,2	14,9	13,0	12,8	14,0	18,9	16,4	15,9	16,7

Source: Infionals

The average equity value calculated using the multiple method exceeds €33,1 mln. We have then applied a discount of 25% obtaining a value of €24,8 mln.

The average of the two valuations is €26,2 mln, meaning €3,6 per share. Thus, we initiate GEL coverage with a target price of €3,6 per share, rating buy, and medium risk.

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SELL	ETR <= -25%	ETR <= -20%	ETR <= -15%
U.R.	Rating e/o target price Under Review		
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