Italian Research | New Coverage | Milan, May 19, 2016

Intermonte

ZEPHYRO

OUTPERFORM

Price (Eu): 8.54

Target Price (Eu): 11.50

SECTOR: Energy

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Leading Energy Management Company For Complex Facilities

- **Zephyro** (formerly Prima Vera) is a leading energy management company for complex facilities and is the first Italian company to work as an energy service company (ESCO) on an international level. The group chiefly serves public bodies and its core business is in the energy sector, managing technological systems as well as biomedical equipment. The average contract duration is about seven years (plus renewal options), and contracts generally require an initial investment of roughly 10% of the projected revenues. After having been awarded a contract in Israel, the group has undertaken an international expansion project that will begin to bear fruit by the end of this year.
- **In 2015**, Zephyro generated revenue of Eu101.2mn, EBITDA of Eu12.1mn (or Eu14.1mn adjusted for temperatures, which have been above the historical average over the last two years) and net profit of Eu2.7mn. At the end of 2015, the net financial position was cash positive to the tune of Eu11.6mn, after the Eu22mn capital injection at the time of the merger between Prima Vera and GreenItaly1 SPAC. At the beginning of March Zephyro's backlog was worth Eu1,103mn, of which Eu408mn relates to contracts already signed and the remaining Eu695mn to be formalised in the coming months (SIE3 and MIES2 contracts).
- **Reference market.** In 2015 the Italian economy returned to growth after a long recession in the preceding years. Nevertheless, these moderately positive signs have not revived the construction sector. Indeed, according to estimates from ANCE (the National Constructors' Association), construction investment fell further in 2015 (by 1.3% YoY, following on from the -5.2% recorded in 2014 and -7% in 2013). The downward trend could finally come to an end in 2016, with ANCE forecasting a 1% increase in construction investment.
- **Market outlook.** The Italian energy efficiency services market has an estimated value of Eu4bn (or Eu7bn if one were to include facilities management) and has grown at about 10% per year for a number years. The sector is expected to expand further over the next few years, with the potential Italian market estimated at roughly Eu29.4bn per year by 2020.
- **Estimates and valuation.** Based on our estimates, we expect Zephyro to achieve a 14.5% 2015-2020 revenue CAGR, with EBITDA more than doubling from Eu14.1mn (adjusted) in 2015 to Eu32.3mn in 2020, equivalent to a 18.1% CAGR. In valuation terms, we have set a target price of Eu11.5ps, based on a mix of DCF and market multiples.
- **Investment case.** Thanks to its efficient business model founded on a deep knowledge of the complex world of public tender processes, and its ample financial flexibility, we believe Zephyro has built up a solid competitive position on the energy services market, paving the way for robust growth in the coming years. The main risks to Zephyro's growth strategy are: 1) a weaker than projected reference market trend, 2) delays in public tender processes and in landing stable contracts with customers, and 3) a deterioration in payment terms. We initiate coverage with an OUTPERFORM recommendation.

Key Figures	2014A	2015A	2016E	2017E	2018E
Sales (Eu mn)	96	101	106	125	155
Ebitda (Eu mn)	14	12	15	18	23
Net profit (Eu mn)	4	3	5	6	7
EPS - New (Eu)	0.645	0.419	0.545	0.593	0.773
EPS - Old (Eu)					
DPS (Eu)	0.201	0.500	0.223	0.242	0.316

Ratios & Multiples	2014A	2015A	2016E	2017E	2018E
P/E	13.2	20.4	15.7	14.4	11.0
Div. Yield	2.4%	5.9%	2.6%	2.8%	3.7%
EV/Ebitda	6.2	5.1	4.0	3.9	3.5
ROCE	26.6%	4.3%	14.9%	14.6%	15.5%

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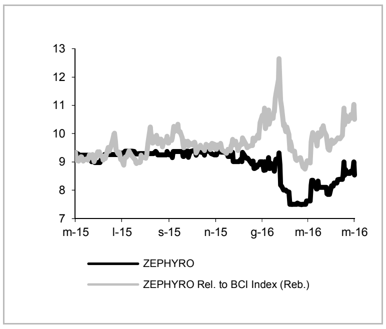
ZEPHYRO - 12m Performance



RATING: New Coverage
TARGET PRICE (Eu): New Coverage

Change in EPS est:	2016E	2017E

STOCK DATA

Reuters code:	ESCO.MI
Bloomberg code:	ESCO IM

Performance	1m	3m	12m
Absolute	4.7%	6.8%	-8.5%
Relative	7.3%	4.5%	10.2%
12 months H/L:			9.42/7.49

SHAREHOLDER DATA

No. of Ord. shares (mn):	10
Total No. of shares (mn):	10
Mkt Cap Ord (Eu mn):	81
Total Mkt Cap (Eu mn):	81
Mkt Float - ord (Eu mn):	14
Mkt Float (in %):	*17.0%*
Main shareholder:	
Prima Holding	76.4%

BALANCE SHEET DATA	2016
Book value (Eu mn):	62
BVPS (Eu):	6.49
P/BV:	1.3
Net Financial Position (Eu mn):	12
Enterprise value (Eu mn):	61

Please see important disclaimer on the last page of this report

ZEPHYRO - *KEY FIGURES*

		2014A	2015A	2016E	2017E	2018E
	Fiscal year end	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018
PROFIT & LOSS (Eu mn)	Sales	96	101	106	125	155
	EBITDA	14	12	15	18	23
	EBIT	5	2	7	8	10
	Financial income (charges)	(0)	1	0	0	(0)
	Associates & Others	1	1	1	1	1
	Pre-tax profit (Loss)	6	3	8	8	11
	Taxes	(2)	(0)	(3)	(3)	(4)
	Tax rate (%)	34.0%	7.2%	33.0%	33.0%	33.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	4	3	5	6	7
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	14	12	15	18	23
	Ebit excl. extraordinary items	5	2	7	8	10
	Net profit restated	6	4	5	6	7
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	10	10	10	10	10
	EPS stated fd	0.403	0.280	0.545	0.593	0.773
	EPS restated fd	0.645	0.419	0.545	0.593	0.773
	BVPS fd	2.348	6.243	6.489	6.809	7.286
	Dividend per share (ord)	0.201	0.500	0.223	0.242	0.316
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	50.0%	107.1%	50.0%	50.0%	50.0%
CASH FLOW (Eu mn)	Gross cash flow	12	13	13	15	20
	Change in NWC	(0)	4	0	1	0
	Capital expenditure	(21)	(16)	(10)	(20)	(30)
	Other cash items	0	(1)	0	0	0
	Free cash flow (FCF)	(9)	1	4	(4)	(10)
	Acquisitions, divestments & others	(1)	17	0	0	0
	Dividend	(10)	(2)	(3)	(3)	(3)
	Equity financing/Buy-back	0	1	0	0	0
	Change in Net Financial Position	(20)	16	1	(6)	(13)
BALANCE SHEET (Eu mn)	Total fixed assets	29	53	55	65	83
	Net working capital	6	4	4	4	6
	Long term liabilities	(8)	(9)	(9)	(11)	(13)
	Net capital employed	27	48	49	59	76
	Net financial position	(5)	12	12	6	(7)
	Group equity	22	59	62	65	69
	Minorities	0	0	0	0	0
	Net equity	22	59	62	65	69
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	81	81	81	81	81
	Adjustments (associate & minorities)	1	8	8	8	8
	Net financial position	(5)	12	12	6	(7)
	Enterprise value	85	62	61	68	80
RATIOS(%)	EBITDA margin*	14.2%	12.0%	14.7%	14.0%	14.8%
	EBIT margin*	5.5%	1.6%	6.9%	6.3%	6.8%
	Gearing - Debt/equity	21.0%	-19.5%	-20.0%	-9.0%	10.1%
	Interest cover on EBIT	176.7	nm	nm	nm	706.6
	Debt/Ebitda	0.34	nm	nm	nm	0.31
	ROCE*	26.6%	4.3%	14.9%	14.6%	15.5%
	ROE*	15.1%	6.5%	8.6%	8.9%	11.0%
	EV/CE	4.3	1.7	1.3	1.2	1.2
	EV/Sales	0.9	0.6	0.6	0.5	0.5
	EV/Ebit	16.1	38.8	8.4	8.5	7.7
	Free Cash Flow Yield	-11.1%	1.0%	4.9%	-5.3%	-13.7%
GROWTH RATES (%)	Sales	-5.2%	5.3%	4.3%	18.6%	23.6%
	EBITDA*	-13.3%	-11.4%	27.9%	13.4%	30.7%
	EBIT*	-41.7%	-69.9%	353.8%	9.4%	32.5%
	Net profit	-42.1%	-30.5%	95.0%	8.8%	30.4%
	EPS restated	-7.2%	-35.2%	30.3%	8.8%	30.4%

** Excluding extraordinary items*

Source: Intermonte SIM estimates

Executive Summary

Zephyro (ex Prima Vera) **is a leading energy management company for complex facilities and is the first Italian company that works as an energy service company (ESCO) on an international level**. The group chiefly serves **public bodies** and its core business is in the energy sector, managing technological systems as well as biomedical equipment. The average contract duration is about seven years (plus renewal options), and contracts generally require an initial investment of roughly 10% of the projected revenues. Thanks to an efficient business model founded on skills and know-how in navigating the complex world of public tender processes, in-depth structural knowledge, an ability to establish long-term service contracts quickly, and ample financial flexibility, over the years Zephyro has built up a solid competitive position on the energy services market. After having been awarded a contract in Israel, the group has undertaken an international expansion project that will begin to bear fruit by the end of this year.

In 2015, Zephyro generated **revenue of Eu101.2mn, EBITDA of Eu12.1mn** (**or Eu14.1mn adjusted** for temperatures, which have been higher than the historical average over the last two years), **and net profit of Eu2.7mn**. At the end of 2015, the **net financial position was cash positive to the tune of Eu11.6mn, after the Eu22mn capital injection managed at the time of the merger between Prima Vera and GrenItaly1 SPAC.** At the beginning of March Zephyro's **backlog was worth Eu1,103mn**, of which Eu408mn relates to contracts already signed, while the remaining Eu695mn is to be formalised in the coming months (SIE3 and MIES2 contracts).

Reference market. In 2015 the Italian economy returned to growth after a long recession in the preceding years. Indeed, ISTAT figures indicate that the GDP increased by 0.8% after three consecutive years of decline. Nevertheless, these admittedly modest positive signs have not revived the construction sector, which continues to show falling levels of production, although the rate of decline is slowing: according to estimates from ANCE (the National Constructors' Association), the drop in construction investment came to 1.3% YoY in 2015, following on from the -5.2% recorded in 2014 and -7% in 2013. The downward trend could slow further in 2016 thanks to public spending plans and the measures included in the latest government budget. 2016 could therefore prove to be the turning point, with ANCE forecasting a 1% increase in construction investment, which would finally bring an end to the negative trend that began in 2008. More generally, in 2016 investments in public works could increase by 6% YoY in real terms. According to ANCE-INFOPLUS, around 14,000 tenders for public works were issued in 2015, a 13.9% increase vs. 2014 in terms of the number of tenders and a 10.8% increase in the value of the contracts put up for tender.

Robust growth prospects for coming years. Zephyro's reference market is energy efficiency services in Italy, a market with an estimated value of Eu4bn (or Eu7bn if one were to include facilities management) that has grown at about 10% per year over the last several years. **The sector is expected to expand further over the next few years** as the theoretical potential Italian market value, calculated assuming the adoption of energy efficiency solutions to replace or supplement the less efficient technology that is currently in use, is estimated to be roughly Eu29.4bn per year, Eu7.4bn on the electricity side and Eu34.7bn from heating interventions. Given this optimistic market scenario, the main risks to these estimates are: a weaker than projected reference market trend, delays in public tender processes and in landing stable contracts with customers, and a deterioration in payment terms. It should also be noted that, much like other companies that work with public sector clients and obtain business through tenders, Zephyro is exposed to legal and reputational risks (for instance, see p. 25 for a description of an ongoing dispute over a contract with the Gallarate Hospital, where potential losses are covered by Prima Holding).

Estimates and valuation. Based on our updated estimates, we estimate turnover growth of 97% in the 2015-20 period, a 14.5% CAGR, broadly in line with the average rate of growth in the 2009-15 period (14.2%). We expect a slight improvement in profitability, mainly thanks to the benefits of operational leverage and a greater critical mass. **Overall, we estimate that EBITDA will more than double in the 2015-20 period (18.1% CAGR), going from Eu14.1mn adjusted in 2015 to Eu32.3mn in 2020**. In terms of the valuation, we have set a target price of Eu11.5ps, based on a mix of DCF and market multiples.

Investment case. Thanks to its efficient business model founded on a deep knowledge of the complex world of public tender processes, and its ample financial flexibility, we believe Zephyro has built up a solid competitive positioning in the energy services market, allowing robust growth in the coming years. The main risks to Zephyro's growth strategy are: 1) a weaker than projected reference market trend, 2) delays in public tender processes and in landing stable contracts with customers, and 3) a deterioration in payment terms. We initiate coverage of the company with an xx recommendation.

Description of Zephyro

Zephyro (ex Prima Vera) **is a leading operator in the energy management and biomedical sectors, and is the first Italian company to operate on international markets through a "hybrid" ESCO contractual model. The group mainly works with public bodies, and its core business is in the energy sector, managing technological systems as well as biomedical equipment.** Thanks to an efficient business model founded on skills and know-how in navigating the complex world of public tender processes, in-depth structural knowledge, an ability to establish long-term service contracts quickly, and ample financial flexibility, over the years Zephyro has built up a solid competitive position on the energy services market. Having recently been awarded a contract in Israel, the group has undertaken an international expansion project that will begin to bear fruit by the end of this year.

In the last financial year, which ended on 31st December 2015, Zephyro generated roughly Eu101mn in revenues, EBITDA of Eu12.1mn (Eu14.1mn adjusted for temperatures) and net profit of Eu2.7mn. At the beginning of march Zephyro's backlog was worth Eu1,103mn, of which Eu408mn relates to contracts already signed and the remaining Eu695mn to contracts to be formalised in the coming months (SIE3 and MIES2).

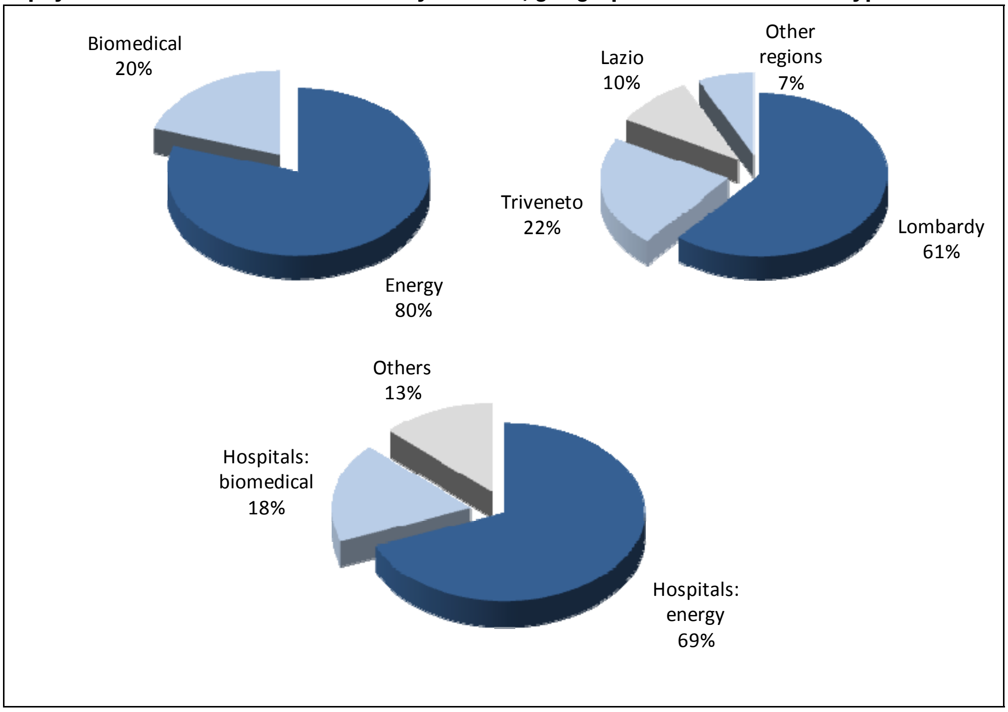
The group's operations are carried out in two main areas of business:

- **Energy:** supply of integrated energy management solutions for complex structures, aimed at reducing energy consumption and lowering polluting emissions, as well as delivering financial savings.
- **Biomedical:** operation and maintenance of biomedical equipment and the management of analysis laboratories.

In order to create a solid foundation to support development, fuel growth and continue to seek out new markets, in recent years Zephyro has significantly extended its organisational structure. It now has around 250 highly qualified employees with many years of experience in the sector.

All of Zephyro's turnover is currently generated in Italy, predominantly in the north of the country. 83% of revenue is generated in the Energy business, with the remaining 17% coming from the Biomedical sector. The client base is almost exclusively made up of public bodies (roughly 96% of the total), with 84% of energy service revenues and 93% in the biomedical services segment coming from contracts signed with the public health authority.

Zephyro – Breakdown of 2015 turnover by business, geographical area and client type



Source: Company data

The Management Team

Domenico Catanese, Chairman of the Zephyro Board of Directors since 2003 and sole shareholder in Prima Holding. Catanese has significant experience in the energy services sector, having previously worked as a Director of Sircas S.p.A. (subsequently Elyo Italia S.r.l. and then Cofely Italia S.p.A.) until 2000, then as Managing Director of Elyo Italia S.r.l. (subsequently Cofely Italia S.p.A.) until 2003.

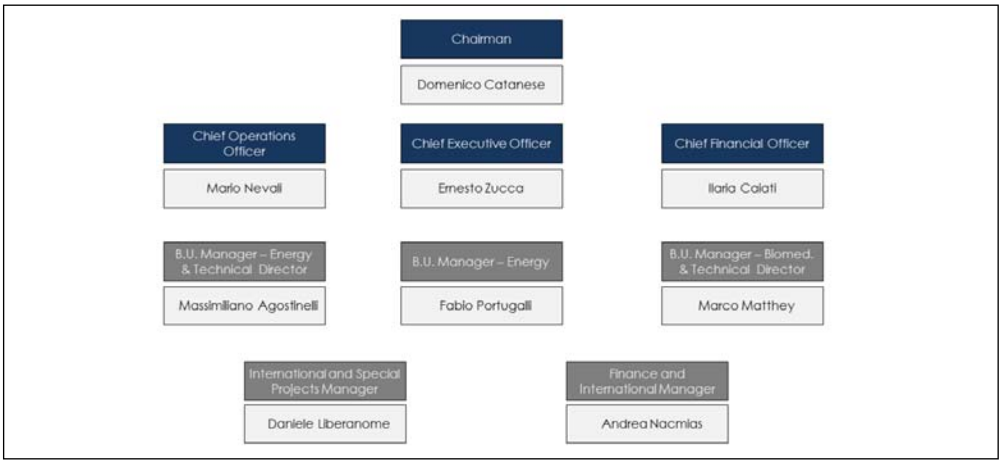
Ernesto Zucca, CEO and Managing Director of Zephyro since 2008. Previously Zucca was a Director and Chief Technical Officer at Sircas S.p.A. (subsequently Elyo Italia S.r.l. and then Cofely Italia S.p.A.) from 1971 to 2000, then at Elyo Italia S.r.l. (now Cofely Italia S.p.A.) from 2001 to 2004, and finally at MILPAR Servizi S.r.l from 2005 to 2007.

Mario Nevali, Managing Director of Zephyro since 2012. Nevali graduated in Nuclear Engineering from the University of Bologna in 1991. From 1995 to 2000 he worked as Technical Director at Petrolifera Estense S.p.A. and subsequently as Business Unit Director at Siram S.p.A. (from 2000 to 2008). From 2008 to 2012 he was Commercial Director at CPL Concordia S.c.a.r.l..

Ilaria Caiati, Adminstration and Finance Director at Zephyro since 2011. She worked as a Manager at Coopers & Lybrand S.p.A. (now PWC S.p.A.) from 1989 to 1999, when she was appointed as Head of Administration at Servizi Immobiliari Banche S.I.B. S.p.A. (now Prelios Credit Servicing S.p.A.). From 2006 to 2008 she was Head of Administration for the service operator in the Agency, Franchising and Facility Management sector for Servizi Amministrativi Real Estate S.p.A. (Pirelli Real Estate group). From 2008 to 2011 she was Head of Accounting at Manutencoop Facility Management S.p.A. (previously Pirelli Real Estate Facility Management S.p.A.).

Andrea Nacmias, Head of Finance and International division since 2014. From 1993 to 1997, he worked as an M&A Associate at J.P. Morgan (now JPMorgan Chase & Co), in New York, London, Paris and Milan). From 1997 to 1999, he was Investor Relations Officer at Fila Holding SpA. From 1999 to 2001, he was CFO of Gruppo iBazar S.A. (now eBay Inc.) in Paris. From 2001 to 2008 he became Director of the Cannonball Ltd hedge fund in London. From 2008 to 2013, he was a partner and head of international markets for Boole Server Srl.

Zephyro – Management Team



Source: Company

Company History

Origins (2000-2002)

Prima Vera was founded in 2000 as a nationwide energy sector company, predominantly investing on a region-by-region basis in the management and renovation of air conditioning and heating systems. In 2002 the Biomedical division was formed, focused on providing a global service for biomedical equipment in hospitals.

Growth (2002-2012)

In subsequent years, Prima Vera developed its identity as a "hybrid" ESCO focused on energy efficiency interventions and the construction of cogeneration, trigeneration and district heating installations. In 2012 it created a public lighting offshoot within its Energy division. A constant concern with the risk of bacterial contamination in air conditioning equipment and water and sewage systems drove the creation of a specific business unit focused on the sanitisation of such systems.

Recent developments (2013-2014)

At the end of 2013 Prima Vera began an international expansion process, participating in a tender in Israel relating to energy efficiency interventions for all public health structures, focused on 11 centres divided into 2 clusters. At the end of 2014, the JV between Prima Vera ("experience provider") and Tadiran ("local integrator") was awarded the contract for both clusters. In the meantime, new commercial initiatives have been launched in Europe and North America, especially in the Tri-State Area (New York, New Jersey, Connecticut). Prima Vera has also focused on research and development activity, submitting proposals to the EU's Horizon 2020 research and innovation funding programme, as well as developing collaboration relationships with various universities in Italy and the rest of Europe.

2015 – Merger with GreenItaly1 and listing

In June last year Prima Vera started the path of listing on the capital market and announced a business combination with GreenItaly1, the first SPAC (Special Purpose Acquisition Company) dedicated to the green economy, promoted by Mr. Matteo Carlotti, Vedogreen, an IR Top company specialist in financing green companies, and IDEA Capital Funds SGR, De Agostini's private equity arm. The transaction with GreenItaly1 embodied a crucial step for Prima Vera's growth trajectory, with the two-fold aim of continuing growth in Italy and successfully competing on foreign markets. After the merger Prima Vera changed its name to Zephyro.

2015 – Expansion Abroad

Having built up a leading position on the Italian market, Zephyro's management has launched an internationalisation process that aims to grasp attractive opportunities on foreign markets, with the aim of becoming a multi-national company. This process began with the November 2014 award of an international tender that was issued by the Israeli government in 2011 for the provision of energy efficiency solutions for all public hospitals. The first operational output from the contract with the Israeli government will come this year, earlier than provided for in the contract itself. In August last year Zephyro signed an important agreement with Chinese company Shanghai Electric Building Energy Efficiency, with the aim of promoting energy efficiency and LED lighting, mainly in Italy but also in the other countries in which Zephyro operates, through an Energy Performance Contracting methodology. In February this year, Zephyro was selected as one of 16 energy efficiency companies to make up the National Framework for Energy Performance Contracting (RE:FIT) in the UK. This allows for subsequent mini-competitions (tenders) to be undertaken through the framework, starting in the next months, up to a total aggregate value of GBP1.5bn over the 4-year duration of the framework.

Business Model

In recent years, the spread of shared, transparent contract models in public sector energy services has put increasing pressure on the profit margins of operators in the sector, but at the same time has created new opportunities for well-organised companies.

In this context, Zephyro addresses the market as a **'hybrid' energy service company (ESCO)**. For the typical ESCO, the public sector client bears the investment and the ESCO's income is either a function of the difference between the prices agreed with public institutions and the company's effective management costs, or a function of a savings sharing mechanism between the ESCO and the client. By contrast, the 'hybrid' model foresees **direct investment by the ESCO and compensation linked to the level of service offered**.

'Hybrid' ESCO contracts granted to Zephyro typically involve providing services for technological systems (e.g. heating and cooling systems) of public bodies such as local health services institutions. These contracts normally run for seven years plus a one-year extension, although some of them can last up to 30 years. The ESCO's revenues are determined based on the level of service/comfort achieved. Investments, which on average amount to about 10% of the contract value, are usually deployed within the first 24 months, so as to generate margins as quickly as possible.

Zephyro: Business Model

Contractual models adopted by public bodies

Model	Description	Profitability
'guaranteed savings" ESCO	❑ Investment made by contracting authority ❑ ESCO remuneration based on difference between prices guaranteed to public body and effective operating cost	−
'shared savings" ESCO	❑ Investment made by ESCO ❑ Sharing of savings obtained over and above a baseline set by the ESCO and contracting authority	
"hybrid" ESCO	❑ Investment made by ESCO ❑ ESCO remunerated based on value of service provided	
Project financing	❑ Assets owned by a vehicle company formed ad-hoc, and used to guarantee financing ❑ Contractual revenue flows ring-fenced, not used to guarantee financing ❑ ESCO protected from financial risks of project (due to the lack of guarantees)	+

Example of a typical "hybrid" ESCO contract

Client	Health company
Duration	7 + 1 years
Subject	Integrated multi-service energy efficiency solutions for buildings and equipment
Areas affected	Technological systems
Remuneration	Revenue based on type of buildings and equipment and requested service levels
Costs	Third party services, fuel, labour, raw materials
Investments	c.10% of contract value (made in first 24 months)

Fonte: Management

The group's performance over the past few years shows how its business model has proven very effective. Zephyro has built a solid competitive positioning on the Italian energy management market, especially among public sector clients, a segment where regulatory, bureaucratic and operational barriers are relatively high.

Such **regulatory and bureaucratic barriers** include several certifications and specific technical/regulatory requirements needed to participate in public tender processes:

- **Certification of eligibility for public tenders**: statement from an official certifying company (SOA) testifying that a business has the necessary financial and technical wherewithal to handle public tenders valued at over Eu150,000;
- **ESCO accreditation**: needed to operate under an energy return/yield contract where the company offers integrated energy services;
- **Execution track record**: documentation concerning prior work performed, which is imperative in order to win tenders;
- **International certification**: various other certifications or special protocols required to partake in public tenders abroad. For example, Zephyro, in addition to having secured the

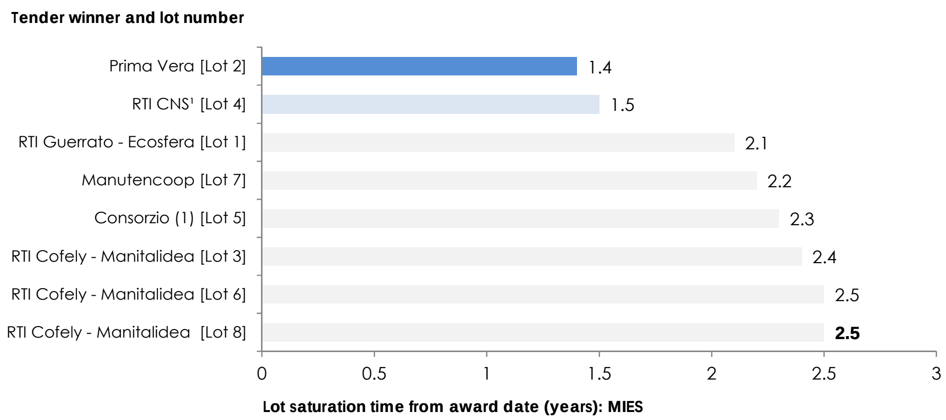
above certifications, has also adopted the International Performance Measurement and Verification (IPMV) Protocol, in order to participate in a tender process in Israel, which it was then awarded along with Tadiran. Zephyro has also signed onto the STEER (Support Tool for Energy Efficiency Programs in medical centers) project.

Doing business successfully in the energy efficiency market also requires skills in overcoming certain **natural operational barriers**:

- **financial barriers**: operators in the sector must face the challenges associated with returns on investments often requiring a considerable amount of time to mature, especially as receivables due from the public sector frequently remain outstanding for very long periods (even if Italian public sector payment patterns have recently improved substantially). CapEx is often not mandatory, but constitutes a critical cog in the chain to generate profits from a contract.
- **bureaucratic barriers**: bidding in public tender processes is often a complex, time-consuming and costly process;
- **technical barriers**: specific know-how and appropriate skills are needed to execute projects involving substantial technological content.

Beyond its ability to manage the complexity of bidding in public tenders, as shown by its high technical scores received over the last three years and numerous certifications of its service quality, Zephyro's success can also be attributed to its **in-depth knowledge of local institutions** (substantiated by its high 55% contract renewal rate) and the **speed with which it establishes long-term service contracts after being awarded tenders** (for instance, on average Zephyro has taken 1.4 years from the tender award date to establish permanent service contracts in lots assigned in the MIES tender by CONSIP[1], compared to over 2 years for its competitors). Furthermore, Zephyro has demonstrated **adequate financial flexibility over the years, self-financing projects to a greater extent than its competitors**.

Lot saturation time following tender award date, in years, for MIES tender



(1) RTI Consorzio Nazionale Servizi Soc. Coop - CCC Soc. Coop. - Egea Produzioni and Teleriscaldamento-Exitone

Source: CONSIP

These factors will become ever more important in the years to come, in light of the increasing influence of Italy's national procurement centre (CONSIP) and regional procurement centres for healthcare services contracts. Indeed, the total value of public tenders placed by CONSIP went from Eu660mn in 2011 to Eu5.7bn in 2014.

Greater pressure on prices (due to healthcare budget cuts) combined with higher minimum quality and safety standards required in framework contracts stipulated between CONSIP and its contractors will ensure that only well-qualified operators with solid financial capacity will be admitted to bid in these high-value tenders placed by local healthcare institutions. Also, **the strategic and technical tendency – particularly with regional procurement centres – will uncover latent demand for energy efficiency in other areas such as the hotel industry and public lighting**.

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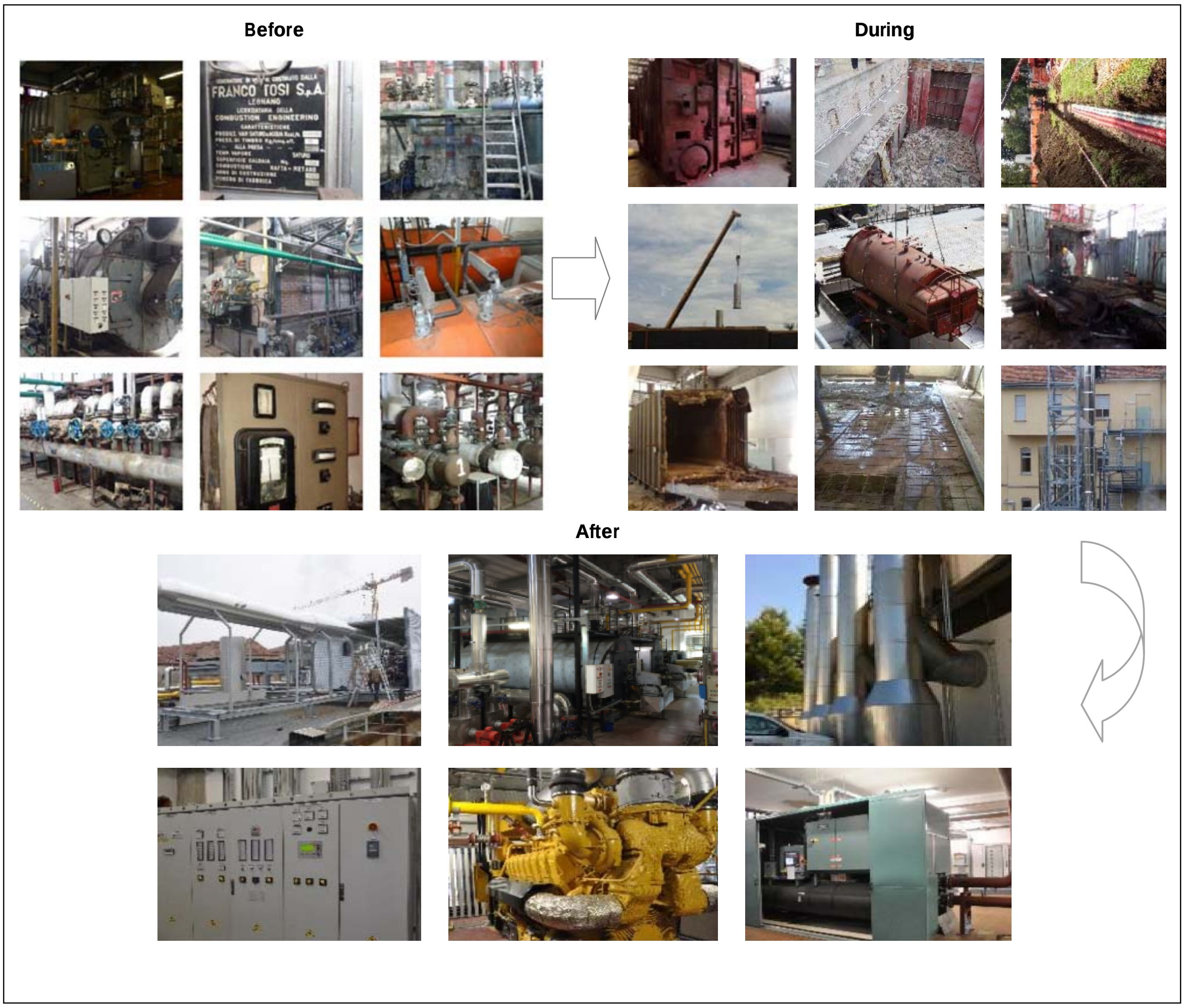
[1] CONSIP, since 2000, has been the national procurement centre for Italian public bodies, including the national health service. However, being awarded a tender by CONSIP does not constitute a direct order for supplies or services. Instead, CONSIP stipulates framework agreements with those awarded the tenders, usually valid 24 months, containing specific price and service quality terms. Each public body client can then, based on its actual needs, negotiate changes with the contractor, as long as the general conditions are respected. The prices set in CONSIP framework contracts become benchmarks; public bodies cannot pay more than that for particular goods or services of the same nature.

Description of the businesses

The Zephyro group offers its clients a wide range of advanced technology services for the energy and biomedical sectors.

In the **energy** sector, Zephyro offers integrated energy efficiency solutions for complex facilities, focusing mainly on facilities management services, cogeneration and trigeneration plants, power plant sanitisation, other energy services, as well as public lighting (on this last point, new services will be offered starting in 2015-2016). Service quality is assured by the group's ability to cover the entire value chain. Zephyro's activities run from planning and blueprinting to carrying out the works and funding energy requalification projects, managing and maintaining technological systems such as heating and air conditioning, through direct personnel, in addition to ancillary services like call centers and emergency response. Energy efficiency investments that the company sustains with its own resources amount to about 10% of total revenues generated over the course of a single contract (which on average lasts 7-8 years). Once the contract ends, the assets are transferred back to the client free of charge. In 2014, Zephyro's Energy division accounted for 83% of the company's turnover and generated a gross profit margin of 20.7%. Almost all clients are public bodies, making up 95% of the division's revenue, the majority of which in the healthcare sector. Also, as further evidence of the growing importance of government procurement centres, it should be noted that almost 60% of turnover in the Energy division comes from contracts from tender processes awarded by CONSIP.

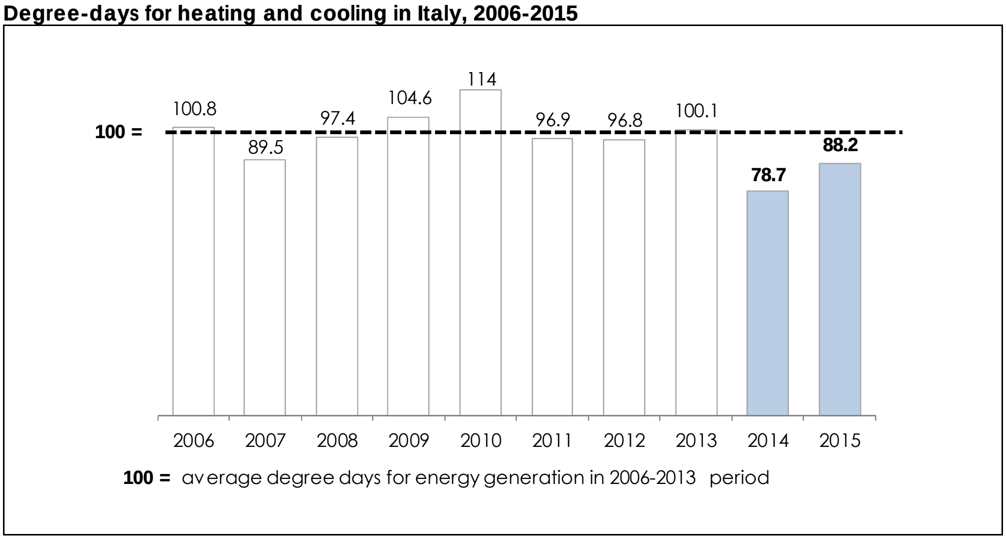
Illustrations of modernisation projects completed by Zephyro



Company photos

It should be noted that in this sector, climate conditions in a given year can have a rather significant impact on facilities' heating needs, as measured in degree-days, and consequently on Zephyro's performance. For example, 2014 and 2015 were two anomalous years in terms of temperatures in Italy, where demand for energy services was over 20% less than the average for the previous eight years. This had an estimated Eu5mn negative impact on Zephyro's revenues in 2014 and around Eu3.5mn in 2015.

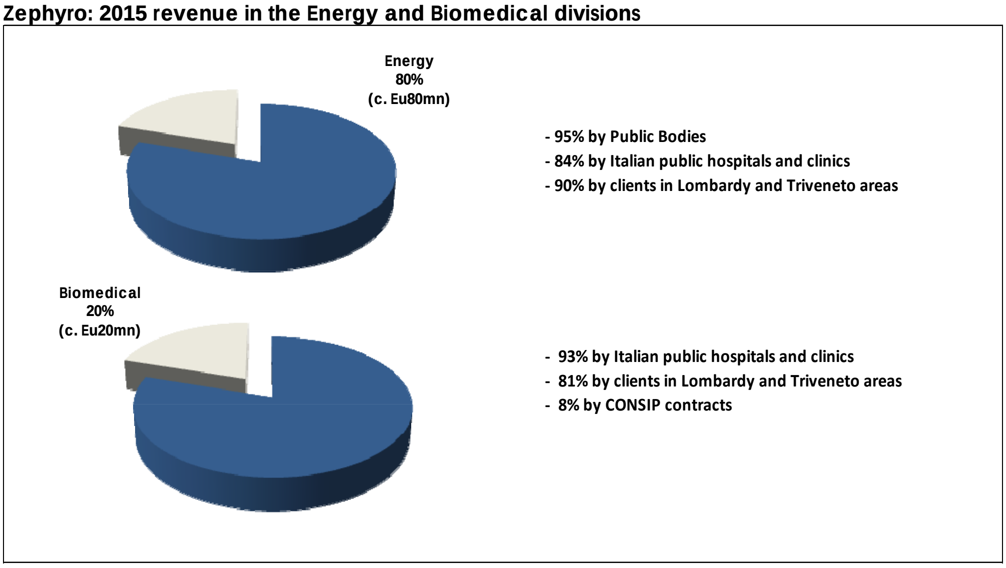
Degree-days for heating and cooling in Italy, 2006-2015



Source: Value Partners, based on Milan Meteorological Observatory data

In the **biomedical** sector, Zephyro offers biomedical equipment maintenance services to private and public healthcare institutions. Unlike in the energy sector, Zephyro's business model in the Biomedical division does not include project planning or carrying out construction. Zephyro can perform preventive and corrective maintenance, safety checks, operational checks, quality control, taring, "good laboratory practice" services, as well as draft technical specifications documents, provide call centre and emergency repair services, consulting for health technology assessments (HTA) and software (both proprietary and purchased from other companies) used to monitor and manage equipment maintenance. The average biomedical service contract length is about four years, shorter than in energy management. In 2015, the Biomedical division accounted for around 20% of Zephyro's revenues and generated gross profit margin of around 12%. Target clientele in this division is once again mainly in the public sector, specifically healthcare institutions: 93% of divisional turnover comes from Italian public hospitals and clinics.

Zephyro: 2015 revenue in the Energy and Biomedical divisions



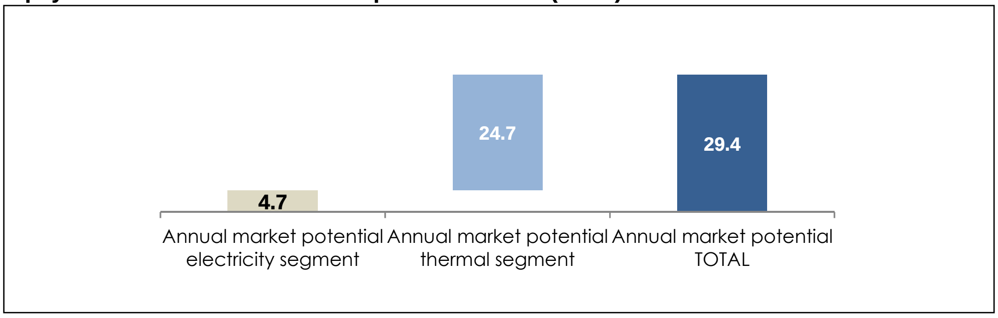
Source: Company data

Reference Market & Competitive Positioning

The Energy Efficiency Market

Zephyro's geographical market of reference in energy efficiency services is Italy, which was worth roughly Eu4bn[1] in 2014 (or about Eu7bn if one includes facilities management). This market has grown at a striking rate of around 10% per year for the past few years, and **further expansion is expected in the next few years**. The "theoretical" potential Italian market, calculated assuming that efficient energy solutions are adopted to replace or update all older systems in use, is about Eu29.4bn per year, of which Eu4.7bn in electricity and Eu24.7bn in heating and cooling.

Zephyro: Theoretical annual market potential to 2020 (Eu bn)



Source: "Energy Efficiency Report", 3rd edition (December 2013)

There are several drivers in this market. First, Italy has higher energy prices on average than other European countries, and much higher energy prices than the United States. The country needs to reduce its dependence on foreign sources for energy supplies. Second, national and local public bodies have extensive portfolios of properties where they could reduce expenditure significantly by outsourcing energy services to private sector companies. Meanwhile, many companies in the private sector are seeking to concentrate more and more on their core businesses in order to improve returns and free up capital. Finally, energy efficiency is a valid alternative to renewable energy. In light of recent developments in the nuclear energy sector and reductions in government incentives for renewable energy, combined with the looming goal to achieve a 20% reduction in energy usage by 2020 (as per the EU 20-20-20 directive), demand for energy efficiency services will increase because it is perceived as the most sustainable and reliable way to reduce CO_2 emissions.

In this market, the supply side is very broad and diversified, comprised of many players of widely varying sizes, displaying different characteristics and business models. Operators in the sector can be categorised into three main groups:

- **integrated facility management companies**, both foreign and Italian, that include energy services in their service packages; this is the biggest group on the market, accounting for a combined Eu2bn in annual turnover, over 50% of the total;
- **ESCOs** (energy service companies), usually SMEs operating under Italian Legislative Decree 115/2008 that offer energy savings services, generating a combined Eu1bn in annual turnover;
- **Public utilities**, which generate about Eu0.7bn in annual turnover in the sector.

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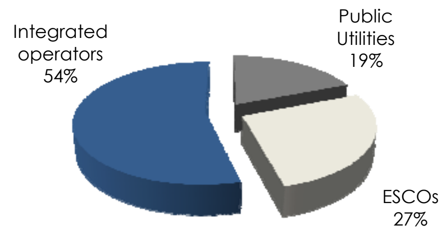
[1] according to company management's estimates

Share of Italian energy efficiency market by type of operator



Source: company management's estimates

As stated earlier, because specific certification and execution track records, along with considerable skills in managing tender processes, are required in order to operate effectively in the energy efficiency market, the easiest way for a company to gain access to the market is to acquire another player that is already operating in the sector. Another important factor is financial solidity, which enables adequate capital expenditure to be made. **Zephyro can be considered a leader among medium-sized integrated energy service companies**.

Zephyro: Competitive positioning in the energy efficiency market

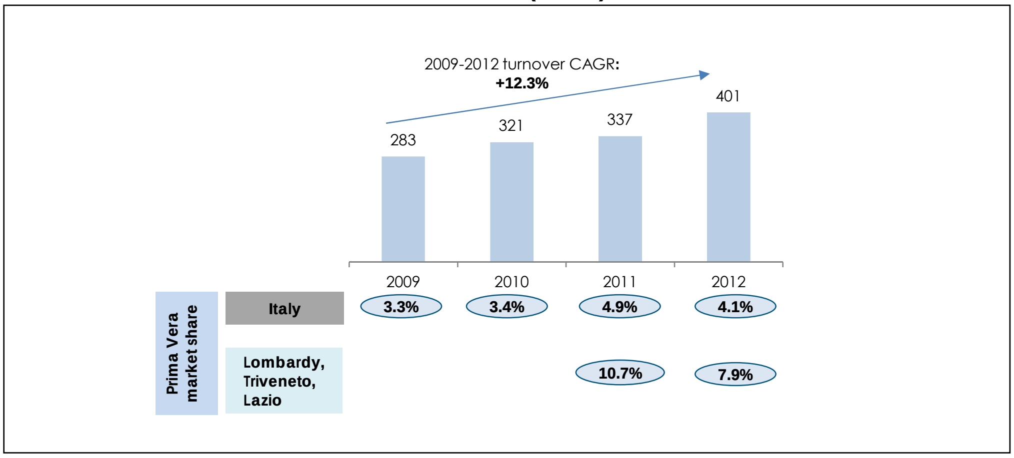
ENERGY	**Major operators**	❑ Italian branches of major multi-national groups or large Italian companies ❑ Turnover of close to one billion euro ❑ Outsourced operating model, problems with quality control and, for foreign operators, ability to invest in Italian public sector	Siram, COFELY, MANUTENCOOP
	Mid-sized integrated operators	❑ *Focus* on provision of integrated energy services ❑ Turnover in €50-200m range ❑ Also includes dedicated business units of utilities companies, which normally operate in the same geographical area as the parent company	GUERRATO, SACCIR, PRIMAVERA, olicar, GRUPPO GIGLIO
	Small specialist ESCO	❑ *Focus* on individual business areas ❑ Limited turnover ❑ Generally regional operators, with some exceptions	

Source: Value Partners

Biomedical sector:

Zephyro's second area of operations is the biomedical business. Italy's medical equipment sector is highly fragmented into numerous product families: **technical hospital equipment** (including laboratory instruments for medical and dental research), **biomedical** (implantable and disposable medical devices), **biomedical equipment** (tools and equipment for surgery, monitoring, rehabilitation, support), **borderline** (products for medical purposes which do not exercise pharmacological/metabolic/immunological actions and which are not classifiable within the other medical device categories), **in vitro diagnostics** (IVD – equipment for laboratory and molecular diagnostics), **medical diagnostics equipment** (ultrasound and radiological imaging equipment, computerized operation of imaging), **software and services** (for the operation and maintenance of all the other segments, with the exception of implantable devices). Overall, the domestic biomedical market is worth roughly Eu8.9bn (source: Assobiomedica, 2014 report). This figure represents a reduction on previous years (-3.7% vs. 2012 and -6.1% vs. 2011) due to cuts in public spending, which is the main driver of the domestic market (it represented 73% of funding in 2013), coupled with a reduction in the private component (down nearly 4 percentage points vs. 2012), which in the past had recorded steady growth both in asbsolute terms and in relation to the public sector. **Zephyro is an independent O&M operator specialising in the provision of software and services** (a segment that is worth around 5.3% of the domestic market) **for the management and operation of biomedical equipment, typically small to medium-sized devices.**

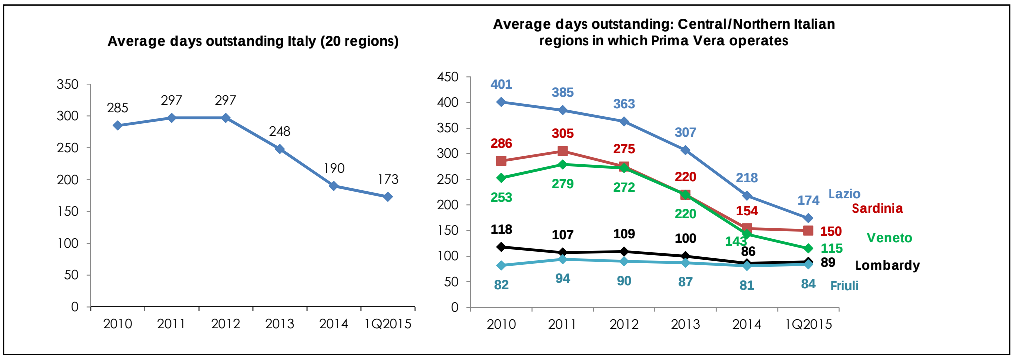
Italian biomedical services market turnover trends (Eu mn): 2009-2012



Source: Value Partners interpretation of Assobiomedica data

Given the status of the public health authority as Zephyro's dominant client, in both the energy efficiency and biomedical businesses, we should underline the extremely positive downward trend in payment timescales achieved by health services in the majority of Italian regions (including those in the south of Italy), due to gradual alignment of new supply contracts with the payment timescales prescribed in EU legislation (30 days). Payment times are expected to be reduced further as of 1st April 2015 by the introduction of legislation making electronic invoicing mandatory for local public authorities.

Italian health system average payment times (in days): gradual reduction in days outstanding



Source: Value Partners analysis

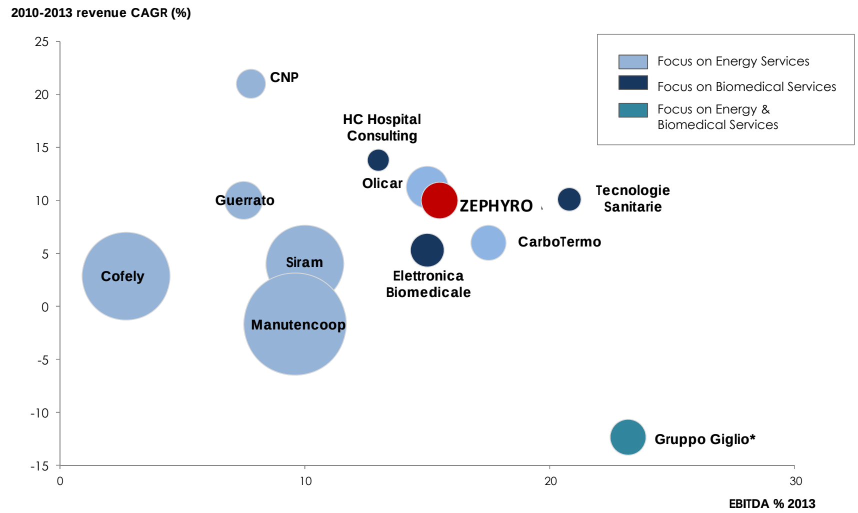
Zephyro – Performance vs. Competitors

Zephyro can boast very solid performance indicators that have been improving steadily in recent years:

- 2009-2015 revenue CAGR of 14.2%, with revenues rising from Eu47.1mn to Eu101.2mn in this period (Eu104.7mn adjusted for temperatures);
- A double-digit EBITDA margin of 14.2% in 2014 (17.0% when adjusted for temperatures);
- Development of expertise that has allowed it to enter foreign tenders, winning a contract from the Israeli health authorities;
- Little debt incurred to support operations;
- Net working capital came to less than 1% of revenues in 2014.

Focusing on the 2010-13 period, Prima Vera (now Zephyro) has clearly been one of the best performing energy service and biomedical companies, in terms of both growth in turnover volumes (2010-13 revenue CAGR around +10%) and increased profitability (15.5% of revenues).

Zephyro – performance vs. competitors

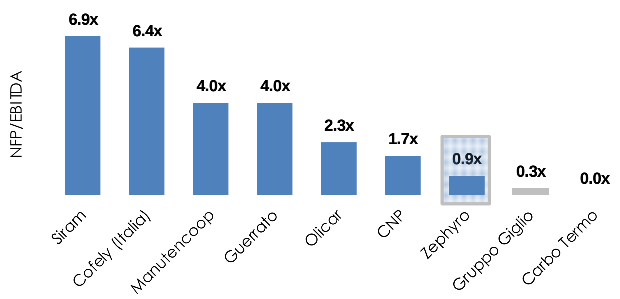


*Gruppo Giglio's financial year closes on June 30. The historical revenue analysis relates to the financial years ending from 30/6/2012 (not the previous year, due to changes in the consolidation base) and 30/6/2014. The comparison therefore suffered from the anomalous temperatures recorded in 2014. In the year ending 30/6/2014, Gruppo Giglio generated revenues of Eu41.6mn in Biomedical services, Eu27.1mn in Energy services (Eu-10mn between 2014 and 2013) and Eu22.3mn from other activities.

Source: Value Partners

Looking at the balance sheet, as mentioned above, Zephyro has an extremely solid capital structure, setting it apart from the majority of its peers, most of which have much higher levels of debt. This reflects the company's notably superior ability to finance its own operations, which grants Zephyro much more scope for business expansion.

Zephyro – Net Debt / EBITDA of leading market players (pre-capital injection)



* latest available figures. NFP calculations include intercompany financing

Source: interpretation of Aida data

Strategy

The Zephyro group has drawn up a strategic plan that aims to deliver further turnover growth and improve profit margins. The plan predominantly focuses on growth through internal lines, with external growth to be assessed on an opportunistic basis.

Internal Growth

In **Energy Services:**

- Develop the company's presence in foreign markets with high growth potential (Israel, North America, rest of Europe), a process that began with the contracts awarded in Israel for the implementation of energy efficiency measures in the public health system;
- Increase penetration of public health sector and establish foothold in Italian regions in which it does not already operate;
- Diversify into new lines of business by entering fast growing market segments, such as public lighting (including traffic light systems), and the hospitality market. Zephyro has been awarded a contract to manage public lighting in Sardinia;
- Broaden research and development activity by participating in EU tenders and through developing collaborative relationships with various universities in Italy and the rest of Europe, with the aim of maintainin service levels.

In the **Biomedical** sector**:**

- Invest to capture growth opportunities in services for the integrated management of laboratory equipment thanks to partnerships of North American multinationals, which have already been identified.

External growth

Zephyro could consider commercial alliances or the acquisition of other companies, especially on an international scale, with the aim of grasping opportunities that may arise in markets in which it already operates, penetrating new markets and supplementing the range of services it already offers. Management intends to pursue opportunities to grow turnover and further strengthen the company's competitive positioning.

Internationalisation Process

Having built up a leading position in the Italian market, Zephyro's management has launched an internationalisation process that aims to grasp attractive opportunities on foreign markets, with the aim of becoming a multi-national company.

Contracts in Israel

This process began with the November 2014 award of an international tender that was issued by the Israeli government in 2011 for the provision of energy efficiency solutions for all public hospitals (11, divided into 2 clusters). Participation in the tender, after pre-qualifying in 2013, involved the creation of a JV between Zephyro (which played the role of "experience provider") and Israeli company Tadiran (the "local integrator"). Tadiran is a leading Israeli importer, manufacturer and distributor of domestic appliances and HVAC machinery, and is listed on the Tel Aviv stock exchange.

Key features of the Israeli contract: Service contracts with shared savings (a minimum amount is guaranteed to the Ministry, with further savings split 80/20 between the ESCO and the Ministry); Eu30mn backlog (pertaining to Zephyro), with annual net revenues (equivalent to the industrial margin), estimated at roughly Eu2mn; 17-year contract duration.

Zephyro's entry into Israel is a hugely important step, especially in light of the ambitious quality targets set by the Israeli government, such as reducing energy consumption (by 20% in 2,500 identified public buildings by 2020), the formation of an ESCO market (the ESCO tender for hospitals is the first of its kind in the country, and is considered a key project), and the extension of the energy efficiency programme to other sectors (e.g. agriculture, industry, municipal authorities). **It should also be underlined that Zephyro is hoping to land the third cluster (geriatric and psychiatric hospitals)**, which is estimated to be worth 25-30% of the contract already won.

The Israeli contract is an important starting point for the acquisition of further new contracts in Europe (such as in Spain, for example) and North America. Specifically, Zephyro believes that attractive growth opportunities may arise in the USA, where the energy services market is worth around USD7bn (mostly relating to energy efficiency services for public bodies), and is expected to grow rapidly (+50.0%-100.0% by 2020 – sources: Value Partners interpretation of Naesco figures, Berkeley Lab, ACEEE, 2013). The market is renowned for its highly fragmented supply side (over 200 ESCOs are in operation, but there is no clear market leader). The first operational output from the energy efficiency contract for hospitals signed with the Israeli government will come this year, earlier than provided for in the contract itself.

Strategic agreement with Shanghai Electric

In August last year Zephyro signed a strategic partnership agreement with the Chinese Group Shanghai Electric Building Energy Efficiency, a leading global manufacturer of machinery and equipment for power generation. The agreement, signed in the presence of the Italian Consul in Shanghai and ICE Agency, the agency for the foreign promotion and internationalisation of Italian companies, aims at promoting Energy Efficiency and LED lighting projects in EPC (Energy Performance Contracting) mode, mainly in Italy but also in other countries of interest for Zephyro.

National Framework for Energy Performance Contracting in UK

In February, following an open tender managed by the Crown Commercial Service (the Government agency responsible for improving government and commercial procurement activity) on behalf of the National RE:FIT Framework, Zephyro was selected as one of 16 energy efficiency organisations to make up the National Framework for Energy Performance Contracting (RE:FIT). This allows for subsequent mini-competitions (tenders) to be undertaken through the framework, starting in the next few days, up to a total aggregate value of GBP1.5bn during the 4-year duration of the framework. In recent weeks Zephyro has also presented its bid to be awarded a similar status in the Facilities Management sector in the UK, for tenders amounting to a total of GBP150mn.

FY15 Results

Pro-forma economic figures for 2015 featured revenues of Eu101.2mn, a Eu5.1mn increase on 2014 (Eu96.1mn),mainly attributable, net of portfolio changes, to important energy efficiency contracts in the health sector coming into full effect with climatic conditions in line with the average in previous years, as well as new contracts in the biomedical area.

On a geographical basis, 61% of 2015 turnover was generated in Lombardy, where the company originated (up from 55% in 2014); this was followed by the Triveneto area with 22% (from 29% in 2014), the Lazio region with 10% (9%) and other regions with 7% (unchanged). 95% of revenues (down from 96% in 2014) came from contracts with public bodies, through tenders requiring the provision of high quality services.

Full-year figures came in lower than the estimates we published at the end of July, which included revenues of Eu110.8mn, for two main reasons: 1) average temperatures were higher, and 2) there were delays to authorisation for cogeneration and trigeneration projects.

With regard to the second reason, despite increased activity, the company has not yet completed the required authorisation processes for the use of the cogeneration and trigeneration plants already installed and in the process of installation, meaning the economic contribution of the contracts is lower than was estimated upon their acquisition. There are two explanations for these delays: the slowness of public bodies' internal processes, and procedural delays in the implementation of central approvals and permits, which may be motivated by regulatory changes in the meantime and the interruptions caused by the extraordinary operations affecting Zephyro in recent months.

External costs came to Eu75.3mn, up from the Eu69.6mn posted in 2014, mainly due to growth in the cost of providing services (Eu53.7mn vs. Eu44.8mn in 2014).

EBITDA closed at Eu12.1mn vs. Eu13.6mn in 2014. Both 2014 and 2015 were penalised by higher than average temperatures. Temperature-adjusted figures would have seen 2015 EBITDA reach Eu14.1mn, vs. Eu17.1mn in 2014. The estimates we published in July indicated EBITDA of Eu16.8mn, with the difference explained by the delays in the receipt of authorisations.

Depreciations, amortisations and provisions came to Eu10.4mn, up from Eu8.3mn in 2014, and include Eu7.2mn in depreciations on tangible fixed assets, Eu1.0mn in amortisations, Eu2.0mn in bad debt provisions and Eu0.3mn in provisions to the risk reserves.

EBIT came in at Eu1.6mn, down from Eu5.3mn in 2014. We had estimated Eu8.9mn. In addition to the temperature factors and delays that hurt revenues and EBITDA, the EBIT line was dented by the aforementioned provisions to the tune of Eu2.3mn.

Financial items provided a positive Eu0.7mn contribution last year, compared to Eu0.03mn in net financial charges in 2014. The difference is mainly due to interest earned on the cash and equivalents from GreenItaly1 over the course of 2015. Extraordinary items accounted for Eu0.6mn, vs. a net value of Eu0.5mn.

Net profit was Eu2.7mn, compared to Eu3.8mn in 2014.

On the balance sheet, net capital invested stood at Eu47.8mn at the end of 2015, up from Eu27.0mn a year before, with fixed assets having risen from Eu29.1mn to Eu53.1mn and net working capital down to Eu-3.4mn (from Eu0.6mn). Shareholders' equity rose from Eu22.3mn to Eu59.4mn thanks to the Primavera – GreenItaly1 merger. The net financial position was positive to the tune of Eu11.6mn, up from a net debt of Eu4.7mn at the end of 2014.

On 4th February 2016, Zephyro's shareholders voted to distribute an extra dividend of Eu0.50 per share, or Eu1.4mn total (although 5,729,500 ordinary shares assigned to Prima Holding have been excluded from this dividend, to implement the merger of Prima Vera into GreenItaly1. The company also proposed an ordinary dividend of Eu0.13 for each ordinary, performing and redeemable share, based on 2015 earnings (this also excludes special shares and the 698,504 shares held in the company's treasury), for a total payment o Eu1.5mn.

New contracts signed so far in 2016

In early March, Zephyro was awarded the Lombardy portion of the CONSIP SIE3 public tender, for a total order backlog of about Eu65mn. This contract will be developed starting in January 2017 and will last seven years. Also in March, bids were to be submitted for the MIES2 (Integrated Energy and Healthcare Maintenance) tender. Prima Vera (now Zephyro) submitted a bid of Eu650n altogether for four lots, and has come out first in the standings in all four lots for which it submitted a bid. The company is now waiting for subsequent phases of this major tender process to be completed. If awarded, this contract would enable the company to pursue its development plans for the next few years.

Back in February, Zephyro earned significant recognition abroad, as it was named on the list of suppliers to the British government to execute energy efficiency contracts and to provide energy services for public bodies across the UK. A few weeks ago, Zephyro also submitted an offer for an analogous opportunity in the facility management business in the UK that would be worth about GBP 150mn.

Lastly, the company has recently made several major offers totalling Eu800mn in an attempt to secure contracts with various Italian public bodies.

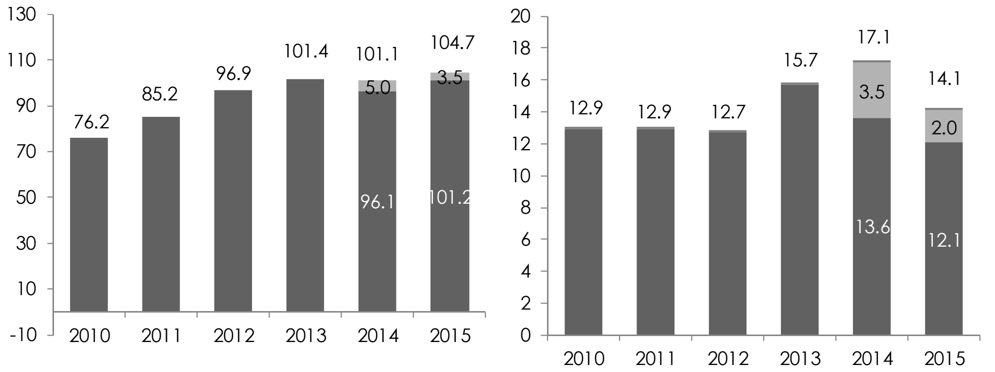
Financials

In this chapter we outline the results delivered by Zephyro over the last four years, and our estimates for the 2016-20 period.

Before analysing results from 2012-15 in more detail, we would like to underline that the company boasts very solid performance indicators, which have improved steadily over the years:

- 2009-2015 revenue CAGR of 14.2%, with revenues rising from Eu47.1mn to Eu101.2mn in this period (Eu104.7mn adjusted for temperatures);
- A double-digit EBITDA margin of 13.5% in 2015, adjusted for temperatures;
- Expertise that has allowed it to enter foreign tenders, winning a contract from the Israeli health authorities;
- Lack of debt incurred to support operations.

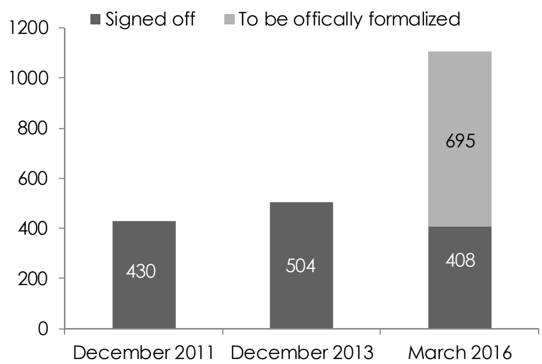
Zephyro – Revenue and EBITDA trends, 2010 -2015 (Eu mn)



Source: Company data and Intermonte SIM estimates.

Backlog: as reported in our description of the company's business model, on average contracts signed by Zephyro last 6-7 years. As at the beginning of MArch 2016, Zephyro's **backlog was worth Eu1,103mn**, of which Eu408mn relating to contracts already signed and the remaining Eu695mn to be formalised in coming months (SIE3 and MIES2 contracts).

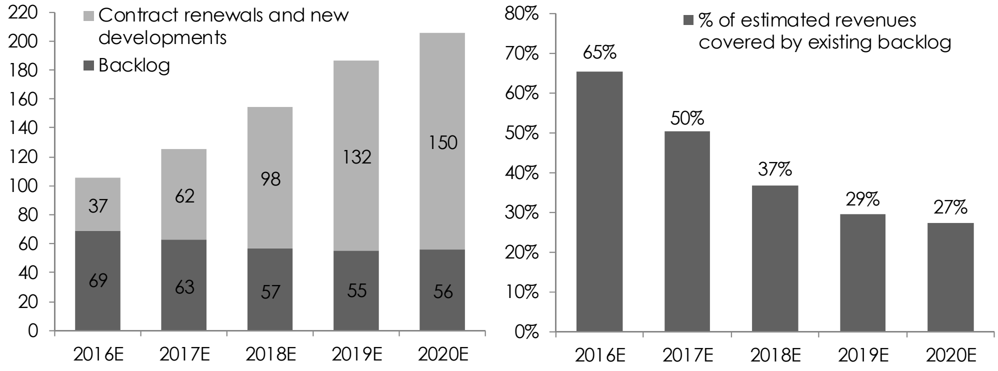
Zephyro – Backlog (Eu mn)



Source: Company data.

Turnover: according to our updated estimates, the backlog of Eu408mn in contracts already signed as at the end of April includes around Eu69mn of contracts relating to 2016, Eu63mn for 2017 and between Eu55mn and Eu57mn per year for the following three years. Our revenue growth estimates are clealy based on the assumption that existing contracts will be renewed and that some new contracts will be clinched through participation in new tenders. In detail, our projections for 2016 indicate overall revenues of Eu105.5mn, 65% of which is covered by the existing backlog. For 2017 we estimate revenues of Eu125.1mn, with a forecast contribution of Eu62mn from contract renewals and new developments. In subsequent years we assume revenue growth of some 17% per year, reaching Eu206mn in 2020. We assume a 2015-20 CAGR of 14.5%, substantially in line with the 14.2% growth recorded in the 2009-15 period.

Zephyro – Expected revenue trend (Eu mn) and execution of current backlog



Source: Intermonte SIM estimates.

Revenue breakdown – Energy. The core **Energy** business closed 2015 with revenues of around Eu80mn, up 2% YoY. It is worth noting that 2014 and 2015 featured higher than average winter temperatures, damping down revenues by around Eu5mn compared to 'normal' figures. For 2016 we assume just a 1% YoY increase, with the start-up of cogeneration contracts offsetting the termination of two minor contracts. For the following years, we are projecting a turnover hike to Eu95mn in 2017 and Eu119mn in 2018, thanks to the projected ramp-up of the new SIE3 and MIES2 contracts. For 2020, the last year in our projections, we assume revenues of around Eu173mn, for a 2015-20 CAGR of 15.9%..

Lighting. In the Public Lighting segment, we have only made assumptions based on the existing contract in Sardinia, the overall value of which can be estimated at Eu60mn over the next nine years. After the delays recorded in 2015, we are now booking a contribution of Eu3mn in 2016, assuming that the service will begin operating in July. From 2017 onwards we estimate a contribution of Eu6mn when the service is fully up and running. It is worth underlining that our estimates do not include any potential additional contracts, a deliberately conservative stance.

Facility Management. In the Facility Management business we have only taken one expected contract into account, which should contribute Eu3mn in 2017 and Eu7mn in the following years.

Biomedical. As for the Biomedical business, we have assumed a 4% revenue CAGR for the 2015-20 period, with turnover expected to increase from Eu18.2mn in 2015 to Eu22.7mn in 2020.

As far as the contract in Israel is concerned, it is consolidated at equity, with a projected annual contribution of roughly Eu0.4mn.

Finally, our estimates do not take into account potential expansion into promising new markets, such as the USA and the UK, where the company intends to use the credentials gained from the awarding of the Israeli contract to get its foot in the door.

Margins: in projecting expected margin trends, we have assumed a slight improvement in profitability for the Energy Services business (Energy, Public Lighting and Facility Management), with a contribution margin close to 23%, compared to the 21% posted in 2014-15, when it was penalised by below-average temperatures. For the Biomedical business, we have assumed a contribution margin of around 12% in 2016 and the following years, in line with the figures recorded in 2014-15. This leads us to estimate an overall contribution of Eu22.0mn for 2016, rising to Eu24.8mn in 2017 and Eu43.0mn by 2020, the last year for which we have made estimates. In terms of EBITDA, we estimate Eu15.5mn in 2016, rising to Eu17.5mn in 2017 and Eu32.3mn in 2020. Below EBITDA, we expect amortisation and provisions to amount to Eu8.2mn in 2016, rising to Eu9.6mn in 2017 and Eu19.5mn in 2020, following the expected investment of Eu115mn over the next 5 years. This should lead to EBIT of Eu7.2mn in 2016, rising to Eu7.9mn in 2017 and Eu12.8mn in 2020.

Zephyro – Profit & Loss

(Eu mn)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Energy	*84.0*	*79.1*	*80.3*	*81.5*	*94.5*	*119.1*	*150.1*	*168.1*
Public Lighting	*0.0*	*0.0*	*0.0*	*3.0*	*6.0*	*6.0*	*6.0*	*6.0*
Facility Management	*0.0*	*0.0*	*0.0*	*0.0*	*3.0*	*7.0*	*7.0*	*7.0*
Total Energy Services	84.0	79.1	80.3	84.5	103.5	132.1	163.1	181.1
Biomedical	16.3	15.9	18.9	19.0	19.6	20.5	21.6	22.7
Others	1.1	1.2	1.9	2.0	2.0	2.0	2.0	2.0
Total Revenues	**101.4**	**96.1**	**101.2**	**105.5**	**125.1**	**154.7**	**186.7**	**205.8**
Adj. Revenues	**101.4**	**101.1**	**104.7**	**105.5**	**125.1**	**154.7**	**186.7**	**205.8**
Direct Operating Costs	-79.7	-76.8	-82.7	-83.5	-100.4	-123.7	-147.9	-162.8
Contribution margin	**21.7**	**19.3**	**18.5**	**22.0**	**24.8**	**31.0**	**38.8**	**43.0**
Energy Services	*19.2*	*16.4*	*16.8*	*17.7*	*20.4*	*26.6*	*34.3*	*38.3*
Margin (%)	*22.9%*	*20.7%*	*21.0%*	*21.8%*	*21.6%*	*22.3%*	*22.8%*	*22.8%*
Biomedical	*1.4*	*1.8*	*2.2*	*2.2*	*2.3*	*2.4*	*2.6*	*2.7*
Margin (%)	*8.6%*	*11.4%*	*11.8%*	*11.8%*	*11.8%*	*11.8%*	*11.8%*	*11.8%*
Others	*1.1*	*1.2*	*1.9*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*
Labor Cost	-2.0	-1.7	-2.1	-2.1	-2.3	-2.7	-3.1	-3.4
Other indirect costs	-4.0	-4.0	-4.3	-4.4	-4.9	-5.4	-6.5	-7.3
EBITDA	**15.7**	**13.6**	**12.1**	**15.5**	**17.5**	**22.9**	**29.2**	**32.3**
Adj. EBITDA	**15.7**	**17.1**	**14.1**	**15.5**	**17.5**	**22.9**	**29.2**	**32.3**
% EBITDA Margin	15.5%	17.0%	13.5%	14.7%	14.0%	14.8%	15.7%	15.7%
Depr. Prov's. and Write-downs	-6.6	-8.3	-10.5	-8.2	-9.6	-12.4	-16.7	-19.5
EBIT	**9.1**	**5.3**	**1.6**	**7.2**	**7.9**	**10.5**	**12.6**	**12.8**
Adj. EBIT	**9.1**	**8.8**	**1.6**	**7.2**	**7.9**	**10.5**	**12.6**	**12.8**

Source: Company data and Intermonte SIM estimates.

Moving down the P&L, we assume a gradual increase in financial charges, in line with the rising debt trend incorporated into our projections. In terms of taxes, we are projecting a stable 33% rate in the coming years, leading to a net income of Eu5.2mn in 2016, rising to Eu5.6mn in 2017 and Eu8.7mn in 2020.

Zephyro – Net Profit

(Eu mn)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
EBIT	**9.1**	**5.3**	**1.6**	**7.2**	**7.9**	**10.5**	**12.6**	**12.8**
Adj. EBIT	**9.1**	**8.8**	**1.6**	**7.2**	**7.9**	**10.5**	**12.6**	**12.8**
% EBIT Margin	9.0%	5.5%	1.6%	6.9%	6.3%	6.8%	6.7%	6.2%
Net Financial Charges	0.6	0.0	0.7	0.0	0.0	0.0	-0.3	-0.4
Other Charges and Income	0.4	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Net Operating Margin	**10.1**	**5.8**	**2.9**	**7.7**	**8.4**	**11.0**	**12.8**	**12.9**
Taxes	-3.5	-2.0	-0.2	-2.6	-2.8	-3.6	-4.2	-4.3
Tax Rate %	34.5%	34.0%	7.3%	33.0%	33.0%	33.0%	33.0%	33.0%
Net Income	**6.6**	**3.8**	**2.6**	**5.2**	**5.6**	**7.4**	**8.6**	**8.7**
Results from discontinued operatio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group Net Income	**6.6**	**3.8**	**2.6**	**5.2**	**5.6**	**7.4**	**8.6**	**8.7**
Adj. Net Income	**6.6**	**6.1**	**4.0**	**5.2**	**5.6**	**7.4**	**8.6**	**8.7**

Source: Company data and Intermonte SIM estimates.

CAPEX. In 2015 the company invested Eu15.6mn, down from the Eu21.3mn recorded in 2014, which reflected the awarding of important contracts in the Energy business, mainly serving public bodies. For 2016 we are now assuming Eu10mn in CAPEX, down slightly from 2015, but we then forecast a rebound in subsequent years, with CAPEX foreseen at Eu25-30mn per year. In the medium to long term we assume around Eu20mn of investments per year, in line with normalised depreciation and amortisation. Overall, for the 2016-20 period we have assumed a total of around Eu115mn in CAPEX. It is worth noting that typically the initial investment for contracts signed by Zephyro amounts to some 10% of the overall expected revenue amount.

Cash flow. We are estimating Eu104mn in cumulative operating cash flow in 2016-20, with Eu13.6mn forecast for 2016, rising to Eu16.1mn in 2017 and then to Eu28.5mn in 2020. Cumulative free cash flow, post CAPEX, should therefore be negative to the tune of some Eu11mn, Over the next four years we expect total dividend distribution to come to some Eu13.4mn, based on a 50% payout ratio. Cumulative post-dividend cash-flow in 2016-20 should therefore be negative to the tune of around Eu28mn at the end of the business plan in 2020, with the net financial position expected to from a positive Eu11.6mn at the end of 2015 to a net debt of Eu7.0mn in 2018 and Eu15.9mn in 2020.

Zephyro – Cashflow Statement

(Eu mn)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Net fin position beg of year	**8.6**	**15.6**	**-4.7**	**11.6**	**12.3**	**5.8**	**-7.0**	**-15.1**
Net income	6.6	3.8	2.7	5.2	5.6	7.4	8.6	8.7
Depreciation	6.6	8.3	10.5	8.2	9.6	12.4	16.7	19.5
Cash flow from operations	**13.3**	**12.2**	**13.2**	**13.4**	**15.3**	**19.8**	**25.2**	**28.2**
Change in working capital	-0.6	0.2	3.2	0.2	0.8	0.2	0.3	0.3
Operating cash flow	**12.7**	**12.4**	**16.4**	**13.6**	**16.1**	**19.9**	**25.6**	**28.5**
Investments	-4.6	-21.3	-15.6	-10.0	-20.0	-30.0	-30.0	-25.0
Free cash flow	**8.1**	**-8.9**	**0.8**	**3.6**	**-3.9**	**-10.1**	**-4.4**	**3.5**
Dividends	-0.3	-10.0	-1.9	-2.9	-2.6	-2.8	-3.7	-4.3
Other movements	-0.8	-1.4	17.4	0.0	0.0	0.0	0.0	0.0
Cash flow	**7.0**	**-20.3**	**16.2**	**0.8**	**-6.5**	**-12.9**	**-8.1**	**-0.8**
Net fin position end of year	**15.6**	**-4.7**	**11.6**	**12.3**	**5.8**	**-7.0**	**-15.1**	**-15.9**

Source: Company data and Intermonte SIM estimates.

Finally, on the balance sheet, it is important to note that fixed assets are almost entirely made up of tangible assets, which are expected to grow from Eu36mn at the end of 2015 to around Eu80mn at the end of 2020, following the Eu115mn investment plan mentioned above. Net invested capital is expected to increase from Eu48mn at the end of 2015 to Eu95mn by the end of 2020, while group shareholders' equity should go from Eu59mn to Eu79mn in the same period.

Zephyro – Balance Sheet

(Eu mn)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Intangible	*0.4*	*0.6*	*9.3*	*9.3*	*9.3*	*9.3*	*9.3*	*9.3*
Tangible	*14.1*	*27.8*	*36.0*	*37.8*	*48.2*	*65.7*	*79.1*	*84.5*
Financial	*0.3*	*0.7*	*7.8*	*7.8*	*7.8*	*7.8*	*7.8*	*7.8*
Fixed assets	14.7	29.1	53.1	54.9	65.2	82.8	96.1	101.6
Inventories	*0.4*	*0.3*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*
Trade Receivables	*67.8*	*61.9*	*70.1*	*71.0*	*85.2*	*106.4*	*129.4*	*143.6*
Other Assets	*1.4*	*6.3*	*6.3*	*6.3*	*7.6*	*9.5*	*11.5*	*12.8*
Trade Payables	*-58.3*	*-56.6*	*-66.4*	*-67.5*	*-81.1*	*-100.4*	*-121.6*	*-134.8*
Other Liabilities	*-10.9*	*-11.4*	*-13.3*	*-13.6*	*-16.3*	*-20.2*	*-24.4*	*-27.1*
Risk and Commitment Provision	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Net working capital	0.3	0.6	-3.4	-3.6	-4.4	-4.6	-4.9	-5.2
Gross inv. capital	**15.1**	**29.7**	**49.7**	**51.3**	**60.8**	**78.2**	**91.2**	**96.4**
Severance provision	-2.2	-2.6	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Net invested capital	**12.9**	**27.0**	**47.8**	**49.4**	**58.9**	**76.3**	**89.3**	**94.5**
Share capital	*0.5*	*0.5*	*1.2*	*1.2*	*1.2*	*1.2*	*1.2*	*1.2*
Reserves	*21.4*	*18.0*	*55.5*	*55.3*	*57.9*	*60.7*	*64.4*	*68.7*
Net income	*6.6*	*3.8*	*2.7*	*5.2*	*5.6*	*7.4*	*8.6*	*8.7*
Group sharehold. equity	28.5	22.3	59.4	61.7	64.8	69.3	74.2	78.6
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial position	**15.6**	**-4.7**	**11.6**	**12.3**	**5.8**	**-7.0**	**-15.1**	**-15.9**
Total cover	**12.9**	**27.0**	**47.8**	**49.4**	**58.9**	**76.3**	**89.3**	**94.5**

Source: Company data and Intermonte SIM estimates.

We remind on 21st July 2015 Zephyro announced that it had been issued with a preventative asset seizure order issued by the Preliminary Hearing Judge of the Court of Busto Arsizio. According to the order, Eu2.6mn of assets were frozen in relation to an alleged crime under Legislative Decree no. 231/2001. The matter involves an investigation into presumed irregularities relating to a contract with Gallarate's S.Antonio Abate Hospital. Zephyro believes that the allegations against the company and its Chairman Catanese are groundless, and has instructed its legal advisors to contest the asset seizure. The company has also given assurances that these investigations have no significant repercussions on the ongoing operations of Zephyro, as no measures have been applied that would jeopardise its ability to work with public institutions. The company will pursue any and all necessary further steps provided for by relevant legislation in order to avoid the circumstances described in the order having any prejudicial impact on the company's future activity. Zephyro has also reiterated that its organisational model is appropriate and complies with Legislative Decree no. 231/2001. In any case, the shareholder Prima Holding has confirmed its commitment to shoulder the payment of any potential pecuniary damages that may arise from the legal proceedings. As a result, our estimates do not incorporate any impact on Zephyro's figures.

Peers

Zephyro operates in the energy management and biomedical sectors, in which it is the leading Italian company. It also operates internationally through a "hybrid" ESCO contractual model. Based on this business model, we have identified a peer group made up of the following companies:

- **ABM** (USA) – ABM is one of the leading US facility management companies. It offers a vast range of services and solutions in the following segments: security, energy, home and clinical engineering, parking and transport. The company has an extensive base of long term customers in the US and 20 other countries.
- **Ameresco** (USA) - Ameresco is a leading independent provider of complete energy efficiency and renewable solutions for buildings in North America. Ameresco's range of services extrends from maintenance/ refurbishment of energy systems to the development, construction and management of renewable energy generation plants.
- **Comfort Systems** (USA) - Comfort Systems USA installs ventilation, heating and air conditioning systems, as well as providing associated services (maintenance, repair and replacement) for buildings in both the private (residential and offices) and public (schools and hospitals) sectors.
- **EMCOR** (USA) - EMCOR is the leading manufacturer of electrical and mechanical systems for the industrial sector and the top provide of facility management services. Specifically, it provides electrical and mechanical plants and systems, lighting systems, air coniditoning, heating security, fire prevention and energy generation services to customers in a wide range of sectors, in both the public and private sectors.
- **KIER** (United Kingdom) - KIER specialises in the provision of construction, civil engineering and residential and commercial property development services. It operates through 3 divisions - services, costruction, property - serving public and private sector clients.
- **MITIE** (Regno Unito) - MITIE is a provider of energy management services for a wide range of public and private sector clients, operating through 4 divisions: facility management, property management, healthcare and energy solutions. Its offer ranges from cleaning, disinfestation and energy saving solutions for the health sector.
- **Veolia** (France) - Veolia Environment is a French company that is a market leader in water management and distribution and waste management services. Veolia's Energy Services business is also involved with Heat production and distribution, electricity generation and energy saving. Veolia controls Siram, an Italian company specialising in energy efficiency, facility management and industrial management solutions.

Performance and market multiples of peer group companies

Stock	Price	Currency	Mkt Cap	1 Month	3 Months	6 Months	YTD	1 Year	2 Years
ABM	32.89	USD	1,845	0.7%	4.5%	14.0%	15.5%	2.8%	24.1%
Ameresco	4.53	USD	212	-0.4%	-2.4%	-29.2%	-27.5%	-38.3%	-23.9%
Comfort Systems	30.52	USD	1,143	-7.0%	16.5%	2.0%	7.4%	36.3%	95.9%
EMCOR	45.85	USD	2,783	-5.4%	0.7%	-4.4%	-4.6%	0.0%	1.8%
Kier	11.84	GBP	1,137	-2.8%	-8.9%	-7.9%	-14.9%	-10.6%	-11.5%
MITIE	2.71	GBP	964	-3.2%	-5.8%	-17.5%	-13.0%	-6.0%	-13.0%
Veolia	19.86	Eu	11,188	-7.6%	-5.8%	-10.6%	-9.2%	4.7%	48.5%
Simple mean performance				**-3.7%**	**-0.2%**	**-7.7%**	**-6.6%**	**-1.6%**	**17.4%**

Stock	EV/Sales			EV/EBITDA			EV/EBIT		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
ABM	0.4	0.4	0.4	9.8	9.9	8.6	15.5	14.4	11.7
Ameresco	0.4	0.4	0.4	6.0	5.2	5.2	39.2	11.4	11.4
Comfort Systems	0.7	0.7	0.6	10.5	8.9	8.1	13.0	11.2	10.1
EMCOR	0.4	0.4	0.4	7.5	7.3	7.3	9.4	9.2	9.2
Kier	0.4	0.3	0.3	11.5	8.0	7.3	14.0	9.6	8.5
MITIE	0.5	0.5	0.5	7.8	7.4	6.9	9.4	9.0	8.5
Veolia	0.9	0.9	0.8	8.0	7.4	6.9	17.9	16.4	14.5
Median	**0.4**	**0.4**	**0.4**	**8.0**	**7.4**	**7.3**	**14.0**	**11.2**	**10.1**

Source: Factset and Intermonte SIM estimates

Valuation

In this section we provide a valuation of Zephyro, based on a peer comparison and a DCF model.

Peer comparison

The limitations of this valuation approach mainly lie in the difficulty of selecting an appropriate peer group, made up of companies with similar businesses, growth prospects and risks to the company being evaluated.

The sample we have chosen is outlined in the previous section. For the peer comparison we have chosen the median of the multiples for the companies in the sample. We then applied a **10% liquidity discount** to take into account the fact that these multiples are for companies with much higher market capitalisation and liquidity.

Zephyro – peers' market multiples

Stock	EV/EBITDA			EV/EBIT			P/E		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
ABM	9.8	9.9	8.6	15.5	14.4	11.7	24.2	25.7	19.8
Ameresco	6.0	5.2	5.2	39.2	11.4	11.4	71.2	15.9	15.9
Comfort Systems	10.5	8.9	8.1	13.0	11.2	10.1	23.2	18.0	16.4
EMCOR	7.5	7.3	7.3	9.4	9.2	9.2	16.2	15.7	15.7
Kier	11.5	8.0	7.3	14.0	9.6	8.5	258.3	13.7	10.7
MITIE	7.8	7.4	6.9	9.4	9.0	8.5	11.8	11.8	10.9
Veolia	8.0	7.4	6.9	17.9	16.4	14.5	22.0	19.3	15.8
Median	**8.0**	**7.4**	**7.3**	**14.0**	**11.2**	**10.1**	**23.2**	**15.9**	**15.8**

Source: Factset and Intermonte SIM estimates

The comparison with the peer group yields a fair value of around Eu99mn for Zephyro, or Eu10.7ps.

Zephyro – valuation based on market multiples

(Eu mn)	2016E	2017E	Avg.
EV/EBITDA multiple valuation			
Zephyro EBITDA	**15.5**	**17.5**	
EV/EBITDA peer group	6.7x	6.5x	
fair EV based on multiples	103.7	114.5	
Net (debt) cash	12.3	5.8	
Financials	7.8	7.8	
Fair Equity value on multiples	**123.8**	**128.2**	**126.0**
# of shares	9.5	9.5	
Fair share price	**13.0**	**13.5**	**13.2**
P/E multiple valuation			
Zephyro Net Profit	**5.2**	**5.6**	
P/E peer group	14.3x	14.2x	
Fair Equity value on multiples	**74.4**	**80.3**	**77.4**
# of shares	9.5	9.5	
Fair share price	**7.8**	**8.4**	**8.1**
Mean result	**99.1**	**98.0**	**98.5**
Mean result per share	**10.4**	**11.0**	**10.7**

Source: Factset and Intermonte SIM estimates

DCF model

The basic assumptions included in our DCF model are as follows: a) a risk-free rate of 3.0%, b) a 5.0% equity premium, c) beta of 1.05, d) a cost of debt at 4.0%, and e) an 8.2% cost of equity.

These assumptions provide a weighted average cost of capital (WACC) of 7.10%. We are also assuming a terminal growth rate of 2.00%.

Based on these assumptions, our estimates yield an equity value of Eu117mn for Zephyro, or Eu12.3ps

Zephyro – DCF Model

(eu mn)	2016E	2017E	2018E	2019E	2020E	2021E
EBIT	7.2	7.9	10.5	12.6	12.8	12.7
Taxes on EBIT	-2.4	-2.6	-3.5	-4.1	-4.2	-4.2
Depreciation/amortisation	8.2	9.6	12.4	16.7	19.5	20.5
Capex - acquisitions	-10.0	-20.0	-30.0	-30.0	-25.0	-20.0
Operating cash flow	**3.1**	**-5.1**	**-10.5**	**-4.9**	**3.1**	**9.1**
NOPAT	**4.9**	**5.3**	**7.0**	**8.4**	**8.6**	**8.5**
NPV 2016-21 (WACC @ 7.10%)	-5.6				avg. NOPAT 2019-21	
TV 2022 (WACC @ 7.10%)	103.3					**8.5**
EV	**97.6**					
Net debt	11.6	YE15				
Financial assets	7.8	YE15				
Minorities	0.0	YE15				
Equity Value	**117.0**					
Value per share	**12.3**					

Source: Intermonte SIM estimates.

In the table below we provide a sensitivity analysis showing the equity value for different values of WACC and terminal growth rates.

Zephyro – DCF Model Sensitivity

Growth rate		1.50%			2.00%			2.50%	
Wacc	**6.60%**	**7.10%**	**7.60%**	**6.60%**	**7.10%**	**7.60%**	**6.60%**	**7.10%**	**7.60%**
NPV 2016-21	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6
TV 2022	106.7	94.0	83.6	118.3	103.3	91.0	132.7	114.5	99.9
EV	**101.1**	**88.4**	**77.9**	**112.6**	**97.6**	**85.4**	**127.1**	**108.8**	**94.3**
Net debt	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6
Financials	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity Value	**120.4**	**107.8**	**97.3**	**132.0**	**117.0**	**104.7**	**146.4**	**128.2**	**113.7**
Value/sh.	**12.7**	**11.3**	**10.2**	**13.9**	**12.3**	**11.0**	**15.4**	**13.5**	**12.0**

Source: Intermonte SIM estimates.

Financials

Prima Vera – Income Statement

(Eu mn)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Energy	*84.0*	*79.1*	*80.3*	*81.5*	*94.5*	*119.1*	*150.1*	*168.1*
Public Lighting	*0.0*	*0.0*	*0.0*	*3.0*	*6.0*	*6.0*	*6.0*	*6.0*
Facility Management	*0.0*	*0.0*	*0.0*	*0.0*	*3.0*	*7.0*	*7.0*	*7.0*
Total Energy Services	84.0	79.1	80.3	84.5	103.5	132.1	163.1	181.1
Biomedical	16.3	15.9	18.9	19.0	19.6	20.5	21.6	22.7
Others	1.1	1.2	1.9	2.0	2.0	2.0	2.0	2.0
Total Revenues	**101.4**	**96.1**	**101.2**	**105.5**	**125.1**	**154.7**	**186.7**	**205.8**
Adj. Revenues	**101.4**	**101.1**	**104.7**	**105.5**	**125.1**	**154.7**	**186.7**	**205.8**
Direct Operating Costs	-79.7	-76.8	-82.7	-83.5	-100.4	-123.7	-147.9	-162.8
Contribution margin	**21.7**	**19.3**	**18.5**	**22.0**	**24.8**	**31.0**	**38.8**	**43.0**
Energy Services	*19.2*	*16.4*	*16.8*	*17.7*	*20.4*	*26.6*	*34.3*	*38.3*
Margin (%)	*22.9%*	*20.7%*	*21.0%*	*21.8%*	*21.6%*	*22.3%*	*22.8%*	*22.8%*
Biomedical	*1.4*	*1.8*	*2.2*	*2.2*	*2.3*	*2.4*	*2.6*	*2.7*
Margin (%)	*8.6%*	*11.4%*	*11.8%*	*11.8%*	*11.8%*	*11.8%*	*11.8%*	*11.8%*
Others	*1.1*	*1.2*	*1.9*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*
Labor Cost	-2.0	-1.7	-2.1	-2.1	-2.3	-2.7	-3.1	-3.4
Other indirect costs	-4.0	-4.0	-4.3	-4.4	-4.9	-5.4	-6.5	-7.3
EBITDA	**15.7**	**13.6**	**12.1**	**15.5**	**17.5**	**22.9**	**29.2**	**32.3**
Adj. EBITDA	**15.7**	**17.1**	**14.1**	**15.5**	**17.5**	**22.9**	**29.2**	**32.3**
% EBITDA Margin	15.5%	17.0%	13.5%	14.7%	14.0%	14.8%	15.7%	15.7%
Depr. Prov's. and Write-downs	-6.6	-8.3	-10.5	-8.2	-9.6	-12.4	-16.7	-19.5
EBIT	**9.1**	**5.3**	**1.6**	**7.2**	**7.9**	**10.5**	**12.6**	**12.8**
Adj. EBIT	**9.1**	**8.8**	**1.6**	**7.2**	**7.9**	**10.5**	**12.6**	**12.8**
% EBIT Margin	9.0%	5.5%	1.6%	6.9%	6.3%	6.8%	6.7%	6.2%
Net Financial Charges	0.6	0.0	0.7	0.0	0.0	0.0	-0.3	-0.4
Net Operating Margin	**10.1**	**5.8**	**2.9**	**7.7**	**8.4**	**11.0**	**12.8**	**12.9**
Taxes	-3.5	-2.0	-0.2	-2.6	-2.8	-3.6	-4.2	-4.3
Tax Rate %	34.5%	34.0%	7.3%	33.0%	33.0%	33.0%	33.0%	33.0%
Group Net Income	**6.6**	**3.8**	**2.6**	**5.2**	**5.6**	**7.4**	**8.6**	**8.7**
Adj. Net Income	**6.6**	**6.1**	**4.0**	**5.2**	**5.6**	**7.4**	**8.6**	**8.7**

Source: Company data and Intermonte SIM estimates.

Prima Vera – Balance Sheet

(Eu mn)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Fixed assets	14.7	29.1	53.1	54.9	65.2	82.8	96.1	101.6
Net working capital	0.3	0.6	-3.4	-3.6	-4.4	-4.6	-4.9	-5.2
Gross inv. capital	**15.1**	**29.7**	**49.7**	**51.3**	**60.8**	**78.2**	**91.2**	**96.4**
Severance provision	-2.2	-2.6	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Net invested capital	**12.9**	**27.0**	**47.8**	**49.4**	**58.9**	**76.3**	**89.3**	**94.5**
Group sharehold. equity	28.5	22.3	59.4	61.7	64.8	69.3	74.2	78.6
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial position	**15.6**	**-4.7**	**11.6**	**12.3**	**5.8**	**-7.0**	**-15.1**	**-15.9**
Total cover	**12.9**	**27.0**	**47.8**	**49.4**	**58.9**	**76.3**	**89.3**	**94.5**

Source: Company data and Intermonte SIM estimates.

Prima Vera – Cash Flow Statement

(Eu mn)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Net fin position beg of year	**8.6**	**15.6**	**-4.7**	**11.6**	**12.3**	**5.8**	**-7.0**	**-15.1**
Net income	6.6	3.8	2.7	5.2	5.6	7.4	8.6	8.7
Depreciation	6.6	8.3	10.5	8.2	9.6	12.4	16.7	19.5
Change in working capital	-0.6	0.2	3.2	0.2	0.8	0.2	0.3	0.3
Operating cash flow	**12.7**	**12.4**	**16.4**	**13.6**	**16.1**	**19.9**	**25.6**	**28.5**
Investments	-4.6	-21.3	-15.6	-10.0	-20.0	-30.0	-30.0	-25.0
Free cash flow	**8.1**	**-8.9**	**0.8**	**3.6**	**-3.9**	**-10.1**	**-4.4**	**3.5**
Dividends	-0.3	-10.0	-1.9	-2.9	-2.6	-2.8	-3.7	-4.3
Other movements	-0.8	-1.4	17.4	0.0	0.0	0.0	0.0	0.0
Cash flow	**7.0**	**-20.3**	**16.2**	**0.8**	**-6.5**	**-12.9**	**-8.1**	**-0.8**
Net fin position end of year	**15.6**	**-4.7**	**11.6**	**12.3**	**5.8**	**-7.0**	**-15.1**	**-15.9**

Source: Company data and Intermonte SIM estimates.

Appendix: Market protection mechanisms for the business combination with GreenItaly1

The GreenItaly1 SPAC, which led to the listing of Zephyro, established several market protection mechanisms.

- **Guarantees on carry-forward losses:** Prima Holding, Zephyro's majority stakeholer, has pledged to cover Prima Vera for any liabilities that may arise with reference to fiscal years prior to the merger.
- **Lock-up** of Prima Holding's shares for 24 months from the effective merger date (end of December 2015).
- **Redeemable shares:** there are 2,658,488 unlisted redeemable shares that Prima Holding received in the business combination transaction. These shares may be redeemed by Zephyro and voided in three instalments (corresponding to the 2015, 2016 and 2017 earnings statements) if a pre-established net profit level is achieved, as illustrated in the table below. Specifically, if net profit is below the level foreseen, then the redeemable shares will be voided, whereas if net profit is above that level, then the same shares will be converted into listed ordinary shares. After the approval of 2015 financial statements, one-third of the redeemable shares (886,182 of them) will be voided, and Prima Holding's stake will consequently be reduced. As such, the number of outstanding ordinary shares has not changed.

Redeemable shares mechanism

Reference period	Threshold	Conditions for redemption by company post-combination Net profit	No. of shares to be redeemed
1st period (1st Jan-31st Dec 2015)	First	< Eu 4,049,578	1/3 of redeemable shares
		Between: ▪ Eu 4,049,578 and ▪ Eu 4,805,546	(1/3 of redeemable shares) x [1 - (1st period net profit – 4,049,578)/(755,968)]
		> Eu 4,805,546	0
2nd period (1st Jan-31st Dec 2016)	Second	< Eu 4,495,434	1/3 of redeemable shares
		Between: ▪ Eu 4,495,434 and ▪ Eu 5,334,634	(1/3 of redeemable shares) x [1 - (2nd period net profit – 4,495,434)/(839,200)]
		> Eu 5,334,634	0
3rd period (1st Jan-31st Dec 2017)	Third	< Eu 5,274,935	1/3 of redeemable shares
		Between: ▪ Eu 5,274,935 and ▪ Eu 6,259,650	(1/3 of redeemable shares) x [1 - (3rd period net profit – 5,274,935)/(984,715)]
		> Eu 6,259,650	0

Source: Intermonte analysis of company data

Zephyro share categories

Zephyro's share capital is subdivided as follows:

- **9,511,144 ordinary shares** listed on the AIM Italia market;
- **2,658,488 redeemable shares** which are unlisted and held by the majority stakeholder, who can convert them into ordinary shares or void the mas a function of certain profit goals agreed with the promoters of the GreenItaly1 SPAC in order to protect investors. The first instalment of redeemable shares (886,162) will be voided, thus reducing the stake owned by majority stakeholder Prima Holding;
- **137,508 performing shares** which are unlisted, belonging to Prima Holding. They could automatically be converted into ordinary shares in a 1:25 ratio, in three instalments:
  - 1/3 (one-third) if, within 24 months of the merger ,the official price of ordinary shares has been greater than or equal to Eu12.00 for at least 15 out of 30 consecutive days of trading;
  - 1/3 if, from the 25th to the 36th month after the merger, the official ordinary share price has been greater than or equal to Eu13.50 for at least 15 out of 30 consecutive days of trading;
  - 1/3 if, from the 37th to the 48th month after the merger, the official ordinary share price has been greater than or equal to Eu15.00 for at least 15 out of 30 consecutive days of trading.

- **80,000 special shares** held by the promoters of the GreenItaly1 SPAC. These special shares could be converted into ordinary shares in a 1:7 ratio, in two instalments:
- 1/2 (one-half) if, within 24 months of the business combination date (the end of December 2015), the cumulative official price of ordinary shares and warrants traded on the AIM Italia market has been greater than or equal to Eu12.00 per share (adjusted by the 'K' coefficient as will be announced by Borsa Italiana) for at least 15 out of 30 consecutive days of trading;
- 1/2 if, within 24 months of the business combination date (end of December 2015), the cumulative official price of ordinary shares and warrants traded on the AIM Italia market has been greater than or equal to Eu13.50 per share (adjusted by the 'K' coefficient as will be announced by Borsa Italiana) for at least 15 out of 30 consecutive days of trading
- The promoters have committed to a lock-up whereby they cannot sell any of their ordinary shares converted from special shares for a period of 18 months following the merger date (end of December 2015).

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Stock NAME	**ZEPHYRO**		
Current Recomm:	xx	Previous Recomm:	
Current Target (Eu):	xx	Previous Target (Eu):	
Current Price (Eu):	8.54	Previous Price (Eu):	
Date of report:	19/05/2016	Date of last report:	

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