

23 November 2010

Building Materials

Initiating Coverage

Price: € 2.90 Target price: € 4.50

Outperform

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	2008	2009	2010E	2011E	2012E
EPS Adj. (€)	0.17	0.03	0.19	0.28	0.33
DPS (€)	0.05	0.04	0.05	0.08	0.10
BVPS (€)	4.20	4.11	4.27	4.49	4.74
EV/Ebitda(x)	5.8	8.0	5.0	3.8	3.5
P/E adj (x)	19.7	nm	15.5	10.6	8.9
Div.Yield(%)	1.5	1.0	1.7	2.8	3.4
OpFCF Yield(%)	5.1	12.4	14.2	16.6	15.9

Source: Mediobanca Securities

## Ready to grow again

### Future growth not priced in. OUTPERFORM TP €4.50.

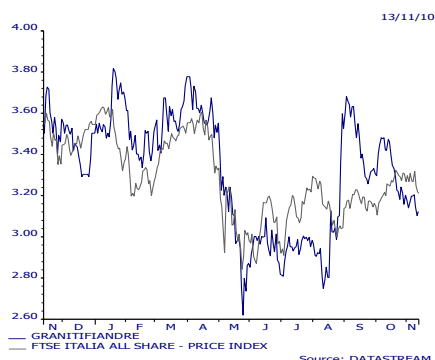
We are starting the coverage of the stock with an OUTPERFORM recommendation and a target price of €4.50 per share. GRF appears well placed to benefit from a better economic climate in Europe and the US and can leverage existing products and markets to increase earnings in the near future. A peer comparison and DCF valuation indicate that the positive prospects ahead are not yet included in the stock price and point to a valuation of €4.50 per share.

### Active and USA to be main growth drivers

GRF has built a business model that is highly coherent in its various aspects, combining top quality products, a sophisticated distribution strategy, worldwide distribution markets and multinational production. Now that the worst phase of the economic crisis is over, GRF is well placed to start a new phase of growth helped by its sound financial structure, up-to-date production plants and a product range that has not reached its full potential. "Active", a truly revolutionary process that makes ceramic tiles self-cleaning, antipolluting and antibacterial should be one of the main drivers, along with growth in the US and the increase in average selling prices by the German subsidiary Porcelaingres. We expect these strategies to be reflected in strong earnings growth and cash flow generation in the period 2010-2012.

### We see China and the integration with the Iris group as strategic options for the longer term

Short-term strategies should be low-capital intensive as they aim to maximise returns from existing products and markets. Going forward, however, the group has the financial flexibility for further steps. Analysing market trends and available options, we have identified two major opportunities: opening a production site in China, which would unlock the world's largest market to the group, and integration with the Iris group. This merger would increase revenues by 50% and broaden the product range to the residential segment, while keeping the focus on top-quality products.



#### Market Data

Market Cap (€ m)	108
Shares Out. (m)	37
Main Shareholder (%)	R. Minozzi (67%)
Free Float (%)	25%
52 week range (€)	3.815-2.6175
Rel Perf vs FTSE Italia All Share (%)	
-1m	-10.5%
-3m	-9.9%
-12m	-10.6%
21dd Avg. Vol. ('000)	31
Reuters/Bloomberg	GRF.MI / GRF IM

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## Executive summary

GRF has built a business model that is highly coherent in its various aspects, combining top quality products, a sophisticated distribution strategy, worldwide distribution markets and multinational production.

### **High quality products that are an alternative to marble and natural stones...**

The group's product strategy focuses on high quality porcelain slabs that are an alternative to natural marble and stones, but able to ensure better technical characteristics and a lower environmental impact. To maintain such high technical and aesthetical standards, GRF has made product research and process innovation its top priorities. These activities have paid off, and have recently reached a milestone with Active: a new production methodology that makes the group's products self-cleaning and antibacterial. Active products are truly innovative and give the group a strong competitive edge in the healthcare and hospitality market.

### **... distributed to non-residential customers through a distinctive strategy**

Roughly 80% of the group's sales relate to non-residential projects, ranging from shopping malls, car dealers, luxury retailers, banks, offices and airports. Most of the group's business is essentially a contract business linked to specific projects, a new airport, a shopping mall or the opening of new point of sales for a retail chain. In line with the typical approach of the contract business, GRF offers its customers a turnkey service, including not only the supply of ceramic slabs, but also a comprehensive service that includes consulting, design, installation and on-site assistance to customers. The group's marketing strategy is quite distinctive as it employs a network of some 150 sales promoters that directly address the projects' decision makers, mainly architects, building long-term relationships with them. A key account division and the development of around 100 specialised shops are other distinctive features that help GRF enhance the image of its products.

### **Multinational production has boosted growth abroad**

Following the strong investment efforts of 2005 and 2006, the group operates with facilities in Italy, Germany and the US. Multinational production not only minimises transportation costs, improves logistics and avoids customs duties, but also allows the group to adjust the offer to local tastes. In Germany and in the US, GRF developed a full organisation with its own separate brand and capable of meeting the needs of local tastes without affecting the Fiandre brand, which remains exclusive in terms of top-quality production. The GRF group distributes its products worldwide: sales in Italy account for some 19% of the total and are characterised by a very high mix; the rest of Europe, accounting for 43% of the total, reflects GRF's strong position in Germany through Porcelaingres and a lower mix. Finally, the rest of the world means essentially USA and Canada, where growing volumes are coupled with high average prices.

### **"Active" to grow in the short term; we see China and integration with the Iris group as strategic options for the longer term**

GRF is well placed to start a new phase of growth helped by its sound financial structure, up-to-date production plants and a product range that has not reached its full potential. In particular the group is focusing on promoting Active's unique features in order to increase sales of this product from 5% of the total in 2011 to up to 20% in five years' time. Growth in the US is due to be another strategic driver together with the increase of average selling prices by the German subsidiary Porcelaingres.

Going forward we have tried to imagine how the group could grow further in the long term and, analysing the market trends and the available options, we have identified two strategic opportunities for GRF. The first is the opening of a production site in China, a move that would ensure the group a

leading position among high quality manufacturers in the world largest market. The second (and not alternative) possibility is integration with the companies of the Iris group, with GRF controlled by Romano Minozzi and operating in the ceramic tile industry. A merger of GRF and Iris, or some other form of integration, would increase revenues by 50% and broaden the product range to the residential segment, while keeping the focus on top-quality products. Growth in size and the economies of scale that brings, coupled with the enlargement of the product range, which would strengthen GRF competitive position, are the key reasons in favour of the merger. On the other hand, like any intra-group operation, the deal should be carefully communicated and relative valuations should protect the interests of minority shareholders.

Although the expansion in China and the eventual integration with Iris might both appear to be major and therefore risky moves, it is important to underline the fact that they would be implemented by the same management team that has successfully managed the group so far and propelled GRF outside national boundaries. In particular, group CEO Graziano Verdi can count on a strong track record with GRF. After joining the group in 1982, Mr Verdi has held various roles, becoming CEO in 2001 and leading the group through the different stages in its growth story, launching new products and opening production sites in Germany and the US. He is now also managing the turnaround of the Iris group, a key positive given the possibility of an integration.

### **2010 marks the beginning of the recovery after the 2009 drop**

Our analysis of GRF's recent results shows that the group has successfully delivered on the strategies implemented over the last few years. In particular, the decision to go beyond a model of pure exports – by opening two production sites abroad in the US and Germany – not only more than doubled the group's production capacity, but also strengthened GRF's presence in these two key markets making the whole group stronger in the recent negative economic environment. The economic crisis actually took its toll on the group's results, which, in 2009 suffered a 10% drop in branded sales and a 200 bps drop in operating margins, although it did close the year above breakeven and managed to reduce its already low net debt. 2010 is giving off some very positive signals, and we expect the group to close the year in the black by €7.0m and then post €10.2m in net profit in 2011, while cutting the group's net debt further.

Actually cash-flow generation is a key strength of the group. Even in 2009, the worst year in the group's history, GRF generated almost €12m of free cash flow despite strong investment as NWC requirements were strictly managed. We expect this trend to be confirmed in 2010-2012 as the group is now in a phase in which strict control of NWC, especially of inventories, should be coupled with lower capex after the relatively high levels of investment in 2007-2009.

### **Future growth not priced in. OUTPERFORM TP €4.50.**

We are starting the coverage of the stock with an OUTPERFORM recommendation and a target price of €4.50 per share. GRF appears well placed to benefit from a better economic climate in Europe and the US. The group may count on an experienced management, truly competitive products and an effective marketing and distribution strategy. Product capacity is not fully exploited, especially in the US, and volumes may be increased by leveraging some products whose potential has still to be tapped, primarily Active. Going forward, some key steps could be taken over the coming years and we would expect GFR in 3-5 years time to be very different from what it is today.

A peer comparison and DCF valuation indicate that the positive prospects ahead are not yet included in the stock price and point to a valuation of €4.50 per share.

## **Main risks: low liquidity and possible intra-group deals**

Because of the industry in which it operates, GRF is clearly exposed to the trends in macro-variables such as construction and consumer spending. We have, meanwhile, identified two more specific risks.

- 1) Low liquidity due to the stock's modest floating capital. The group's largest shareholder, Romano Minozzi, controls 67% of the capital, while the CEO, Graziano Verdi, controls 3.2% and other "stable" shareholders slightly more than 5%, leaving less than 25% as true floating capital (less than €30m at current prices).
- 2) The possibility of intra-group operations – we have highlighted the possible merger with IRIS as an opportunity. However, as already mentioned, M&A activity, especially if carried out with related parties, should be carefully communicated and relative valuations should protect the interests of minority shareholders.

## Valuation

We have based our valuation of GRF on two methodologies: peers' multiples and DCF. So far as peers' multiples are concerned, we have integrated our sample of ceramic tiles and floor covering manufactures with some Italian manufacturers of home furnishing/fixtures as they share with GRF some key characteristics. Peers' multiples meet in a range of €4.50-5.00 per share. Our DCF valuation confirms the low end of the range emerging from peers' multiples.

We have enlarged the sample of ceramic tile manufacturers...

Only a small number of names in the ceramic tile industry are listed. After the delisting of Marazzi, the sector in Italy includes only Panaria and Graniti Fiandre. Enlarging our horizon to Europe, however, the sample can be broadened to the Polish groups Nova Gala and Cersanit. Some further details:

- ◆ **Panaria** – Italian manufacturer of high-end ceramic tiles, mainly for the residential market. The group operates with facilities in Italy, Portugal and United States and sources 70% of its turnover abroad.
- ◆ **Nova Gala** – Poland-based manufacturer of glazed and unglazed ceramic tiles.
- ◆ **Cersanit** – Poland-based producer of ceramic tiles (64% of total revenues) and sanitary ware (24%) with facilities in four different countries and a strong focus on Eastern Europe.

Other names like Ceramiche Richetti and the Turkish Ege Seramik and Eczacibasi Group (the latter a diversified group operating, among other things, in building materials and, in particular, ceramic tiles) have been excluded from our sample as no consensus estimates were available for these stocks.

...to include producers of floor covering products

Apart from ceramic tiles producers, we have enlarged our sample to include manufacturers of floor covering products. This group includes:

- ◆ **Mohawk Industries** – the US flooring market leader, but also the largest player in the US ceramic tile industry and over five times larger than the second biggest market participant. Ceramic tiles accounted for 27% of total 2009 sales.
- ◆ **Forbo Holding** – Suisse based group operating in flooring systems (49% of sales) - environmentally friendly linoleum, high-quality vinyl floorings, entrance matting systems and carpet tiles. The group is also involved in the production of bonding systems (industrial adhesives) accounting for 32% of total sales and movement systems (28%), power transmission belts, sophisticated conveyor and processing belts as well as plastic modular, timing and flat belts made of synthetic materials.

A second sample groups Italian home furnishing/fixture manufacturers

Furthermore, we have built a second sample that include Italian companies involved in the production of home furnishings and fixtures. We believe that these companies share with GRF some important features, namely:

- 1) Exposure to relevant macro trends such as construction expenditure and home sales;
- 2) Nice, and Poltrona Frau in particular, manage a contract business where products are chosen by decision makers (architects or engineers) for inclusion in specific projects;
- 3) Competitive strength based on the design (Poltrona Frau/Natuzzi) and technical (Nice) qualities of their products;
- 4) Strong exposure to foreign markets.

Some more details on this group:

- ◆ **Nice** – Nice plans, produces and markets home automation systems for the automation of gates, garage doors, road barriers, awnings, rolling shutters and sunscreens for residential, commercial and industrial buildings. The Nice group is also involved in the production of

wireless alarm systems, as well as door and rolling shutter automation systems for industrial use. 80% of consolidated revenues are sold on foreign markets.

- ◆ **Poltrona Frau** – is the leading group in the high-end furniture sector. The group's activity can be divided into two main categories: residential products, i.e. the creation, production and distribution of high-end furniture products for a retail clientele and a selected office clientele; and contract, i.e. top quality furnishings for public and collective spaces (theatres, auditoria, cinemas, hotels, restaurants and airports etc.). The contract furnishing sector also includes interior design of cars, aircraft, helicopters and yachts (the so-called interiors sector).
- ◆ **Natuzzi** – Listed on Wall Street, the Natuzzi group designs, produces and markets sofas, armchairs and living-room accessories. Natuzzi is the largest Italian furniture company with 2009 turnover of €515.4 million, and is the world leader in leather upholstery. 90% of the group's turnover is generated outside Italy in 123 countries and has its major market shares in Europe (61%) and the Americas (31%).

## GRF – peers' sample

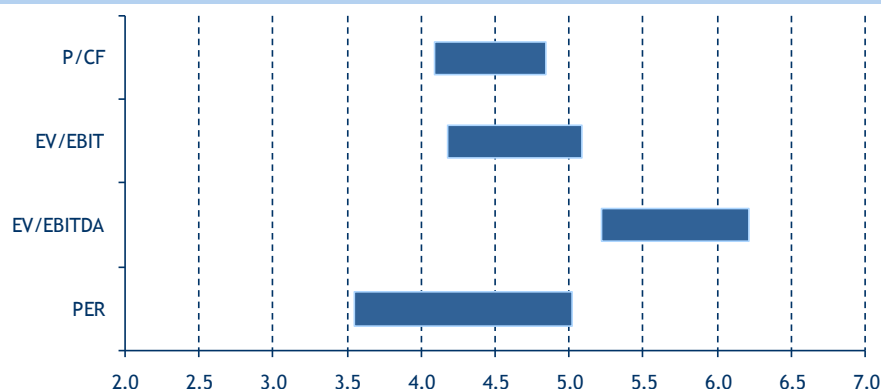
Country	Company	Currency	Price	Mkt Cap	PER			Gross Yield		EV/EBITDA			EV/EBIT			P/CFPS			
					Local	€ m	10E	11E	12E	10E	11E	10E	11E	12E	10E	11E	12E	10E	11E
<b>Ceramic tile and other flooring products manufacturers</b>																			
ITA	PANARIA GROUP	E	1.6	73	32.0	11.4	7.3	0.6%	3.8%	5.7	4.5	3.3	23.5	11.1	6.3	3.4	2.9	2.3	
POL	CERAMIKA NOWA GALA S	PZ	3.0	44	19.0	11.3	8.4	1.6%	5.3%	7.9	5.7	4.9	19.7	11.0	8.5	6.2	4.9	4.2	
POL	CERSANIT SA	PZ	11.6	636	18.1	14.5	11.6	0.0%	0.0%	11.5	8.9	7.6	18.5	12.9	10.6	9.5	9.4	8.9	
US	MOHAWK INDS.INCO.	US\$	53.2	2,606	22.1	17.2	12.7	0.0%	0.0%	7.7	6.6	5.5	14.8	11.6	9.0	7.9	6.9	6.0	
CH	FORBO HOLDING AG	SF	531.0	1,049	9.4	9.9	9.2	1.9%	1.9%	6.9	6.2	5.3	9.6	8.5	7.3	5.5	5.8	5.5	
<b>Ceramic tile and other flooring products manufacturers</b>					<b>4,408</b>	<b>20.1</b>	<b>12.8</b>	<b>9.8</b>	<b>0.8%</b>	<b>2.2%</b>	<b>7.9</b>	<b>6.4</b>	<b>5.3</b>	<b>17.2</b>	<b>11.0</b>	<b>8.3</b>	<b>6.5</b>	<b>6.0</b>	<b>5.4</b>
<b>Italian home furnishing and fixture</b>																			
ITA	NICE SPA	E	0.6	329	10.5	9.8	9.5	2.5%	2.5%	8.1	6.9	6.1	8.7	7.4	6.5	8.9	n.a.	n.a.	
ITA	POLTRONA FRAU SPA	E	3.3	123	44.0	17.6	12.6	0.0%	0.0%	10.5	8.0	6.4	18.5	11.2	8.6	14.7	8.0	6.8	
ITA	NATUZZI SPA	US\$	0.0	127	-23.2	27.1	n.a.	0.0%	6.2%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.2	6.1	n.a.	
<b>Italian home furnishing and fixture</b>					<b>580</b>	<b>10.4</b>	<b>18.2</b>	<b>11.0</b>	<b>0.8%</b>	<b>2.9%</b>	<b>9.3</b>	<b>7.5</b>	<b>6.3</b>	<b>13.6</b>	<b>9.3</b>	<b>7.6</b>	<b>11.6</b>	<b>7.1</b>	<b>6.8</b>
<b>Average</b>						<b>16.2x</b>	<b>15.0x</b>	<b>10.2x</b>	<b>0.8%</b>	<b>2.5%</b>	<b>8.4x</b>	<b>6.7x</b>	<b>5.6x</b>	<b>16.0x</b>	<b>10.5x</b>	<b>8.1x</b>	<b>8.5x</b>	<b>6.3x</b>	<b>5.7x</b>
<b>Median</b>						<b>18.5x</b>	<b>13.6x</b>	<b>9.8x</b>	<b>0.7%</b>	<b>2.3%</b>	<b>7.9x</b>	<b>6.6x</b>	<b>5.5x</b>	<b>17.2x</b>	<b>11.0x</b>	<b>8.3x</b>	<b>8.4x</b>	<b>6.1x</b>	<b>5.8x</b>

Source: Datastream, Mediobanca Securities

**Multiples point to a range of €4.50-5.00 per share**

We have focused our valuation on 2011 multiples. On the basis of ceramic tile and floor covering manufactures multiples, we obtain a valuation range for GRF of €3.60 – 5.20 per share, with the bottom obtained from 2011 PEs (12.8x) and the top from 2011 EV/EBITDA (6.4x). The sample of Italian home furnishing/fixture manufactures produces a slightly higher range, with a bottom of €4.20 based on EV/EBIT (9.3x) and a top of €6.20 based on EV/EBITDA (7.5x). As the chart below shows, peer valuations meet at around €4.50-5.00 per share.

## GRF – Peers' multiples valuation



Source: Mediobanca Securities

## Summary of DCF assumptions

The main hypothesis underlying our DCF valuations may be summarised as follows:

- ◆ Terminal growth rate of 2.0%;
- ◆ WACC of 7.2% based on a risk-free rate of 4.5% and a market-risk premium of 4.0%;
- ◆ Cash flows are based on our base case estimates to 2012. After 2012 we have assumed positive but lower growth rates for sales, slightly declining margins and maintenance capex.

## WACC calculation

Risk free	4.50%
Risk premium	4.00%
Beta - Media	0.88
Cost of equity	8.01%
Net cost of debt	2.80%
% equity (Equity/ Net Debt+Equity)	84%
% debt (Net Debt/Net Debt+Equity)	16%
<b>WACC</b>	<b>7.16%</b>

Source: Mediobanca Securities

On the basis of these assumptions, we obtain a value for GRF of €167m or €4.50 per share.

## DCF calculation

PV of FCF	59
NPV Terminal Value	149
<b>Total enterprise value</b>	<b>208</b>
Net debt (end 2009)	42
<b>Equity value</b>	<b>167</b>
<b>Per share (€)</b>	<b>4.5</b>

Source: Mediobanca Securities

The sensitivity of our DCF valuation to WACC and growth rates is reported in the table below.

		WACC						
		8.7%	8.2%	7.7%	7.2%	6.7%	6.2%	5.7%
on	1.0%	2.9	3.2	3.5	3.9	4.3	4.8	5.4
	1.5%	3.1	3.4	3.7	4.2	4.7	5.3	6.0
	2.0%	3.3	3.6	4.0	4.5	5.1	5.8	6.8
	2.5%	3.5	3.9	4.4	5.0	5.7	6.6	7.7
	3.0%	3.8	4.3	4.8	5.5	6.4	7.5	9.1

Source: Mediobanca Securities

## DCF valuation at the bottom of the range

Our DCF valuation stands at the low end of the €4.50-5.00 range emerging from peer multiples.

## Company profile

**GRF has built a business model that is highly coherent in its various aspects: top quality products are delivered through a sophisticated distribution strategy to worldwide markets. The group's product strategy focuses on high quality porcelain slabs that are an alternative to natural marble and stones, but are able to ensure better technical characteristics and a lower environmental impact. With the non residential segment accounting for some 80% of total sales, customers are approached with a turn-key offer addressed to key decision makers, mainly architects, via specialised sales promoters. Multinational production in Italy, Germany and US, allows the group to adjust the offer to local tastes and minimise transportation costs, improve logistics and avoid customs duties.**

### High-quality innovative products

High-end porcelain stoneware slabs alternative to natural marble and stones

GranitiFiandre is a leading producer of porcelain stoneware slabs and is focused on high-end innovative products both from an aesthetic and from a technological point of view. The current product strategy originated in the nineties when the group launched a collection of tiles in large formats reproducing quarry marble and granite. In the years that followed, the range has been enlarged and the products characteristics improved.

Production in Italy sold under the name Fiandre Architectural Surfaces represents the peak of innovation and style. Here GRF may count on a large product range divided into three main lines:

- ◆ Geostyle, a collection of the most innovative design concepts and advanced technologies; this is the group's top end of the range, representing its highest output in terms of creativity, and stylistic and technological innovation;
- ◆ Geologica, products that are alternative to natural quarried marbles and stones, reproducing veins and surfaces of natural stones, but ensuring higher technical performances;
- ◆ Geotecnica, high tech porcelain tiles for heavy-duty applications usually employed in flooring in large retailers.

Higher performances than natural marble and stones...

Geologica and Geostyle, representing the group's top-line products, account for around 60% of the parent company's sales. These products are marketed not only as topquality ceramic floor/wall covering, but also as an alternative to marble, granite and stones that are able to ensure:

- 1) Better technical performances in terms of lower absorbency rate, higher breaking strength, higher resistance to deep abrasion and to acid;
- 2) Higher versatility than marble and stones in terms of colour, size and thickness;
- 3) Better price to quality ratio;
- 4) Lower environmental impact.

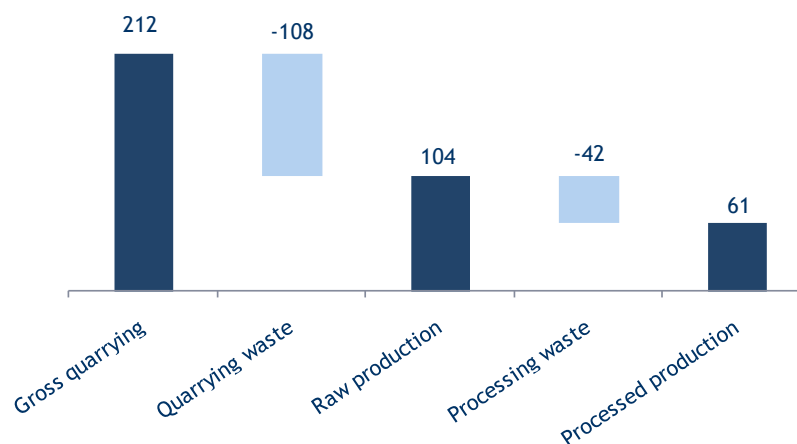
...with lower environmental impact

This last element is increasingly important as environmental issues have gained a primary role in influencing architects' and designers' choices. In fact, quarry marbles and stones cannot be considered as "green" materials due to the negative effect of extraction on the environment and the high percentage of waste that amounts to two thirds of the gross stone output (see chart below). Conversely GRF's products are made 100% from easily procurable natural minerals, have a limited impact in terms of waste (some 3% of total raw materials) and currently include 70 materials made using over 40% of recycled sources and some 30-35% of production is made 100% from recycled sources.

GRF has been involved in some leading "green" projects. Among these, it is certainly worth mentioning the SIEEB, the Sino Italian Ecological and Energy-efficient Building, which was constructed in Beijing, China, and conceived in such a way that means it not only "has no consumption", but in mid season actually produces energy. GranitiFiandre's tiles, which are used for

the flooring, offer the benefits of being hardwearing and having a low impact on the environment, while meeting the technical specifications of environmental standards.

## World stone production (2007 m tons) – Gross quarrying vs. Processed production



Source: Stone 2008, Mediobanca Securities

### Product range of local subsidiaries adjusted to meet local taste

Like the parent company, the German and the US subsidiaries have a full and wide product range, which offers a large number of products that are alternatives to natural stones. However, when the group decided to expand its presence in Germany and the US, they used that opportunity to also enlarge their product range “downwards” in order to capture a larger share of those markets. Consequently, in its expansion abroad, the group decided to adopt different names (Porcelaingres in Germany and StonePeak in the US) in order to keep the Fiandre name exclusively for the Italian top-quality production.

German production by Porcelaingres, marketed as “Italian style made in Germany” also includes a 20% stake in lower-end technical products offered in order to saturate potential demand. As for Stonepeak, its production (Italian style made in the USA) includes also some lines that are characterised by a lower technical content and a higher presence of glazed porcelain stoneware which are sold to retail customers.

### Product innovation along two guidelines:

#### 1) larger formats with the launch of Extreme...

Product innovation is by far the group’s priority. On this point GRF recently achieved some important results that are due to be true keystones: Extreme and Active.

Extreme is a new and innovative production line that was inaugurated in Italy in 2009 and able to produce porcelain slabs that are similar to quarry slates not only in terms of their aesthetics but also in terms of their size. Thanks to this new line, GRF is the only group able to offer its products in a format of 150x75 cm, thereby satisfying the demands of architects and designers that increasingly prefer large formats in order to minimise joints. The Extreme product line, which required capex of around €12m vs. a cost of some €9-10m for a state-of-the-art traditional line, does not include technologies exclusive to GRF; it is the combination of the technology and of the group’s exclusive know-how of the process and the product that ensures the uniqueness of Extreme products. Extreme was a successful launch and today accounts for some 20% of the parent company sales.

#### ...2) clean air and antibacterial ceramic with Active

Active is a new production methodology that can be applied to most of the group’s products, making them self-cleaning, antipolluting and antibacterial. Active is a patented technology which, utilising photo catalysis, activates the titanium dioxide (TiO<sub>2</sub>) contained in the slabs under any source of light, ensuring that the air is cleaned, surfaces disinfected against bacteria and the surfaces cleaning is improved. As certified by the leading national and international research centres, Active products are able to reduce polluting agents present in the air and bacteria by up to 100%; conversely, on carpets

A true revolutionary product with big potential

and vinyl floors after 30 hours, bacteria increased by 71% and 84% respectively, while on hardwood, bacterial growth reached 181%.

To illustrate the impact of Active on the environment, research centres have calculated that 1000 sq m of Extrawhite Active slabs reduces NOx levels to the same level of 20 large trees. It is important to underline that Active is based on micr-technologies and not on nanotechnologies whose effects on health are raising many questions.

Active was launched in September 2009, and the first order were received in 2010. Although it is ideal for hospitals, schools, and hospitality and wellness centres, Active has a wide range of potential uses as it can be applied on all ceramic tiles in a light colour. The first important Active product furniture was used in the Marco Biagi hall in the offices of Il Resto del Carlino in Bologna and in the Princess Margaret Hospital, Toronto Canada. More recently Active Clean Air & Antibacterial Ceramic™ has been employed for the FIAT Mirafiori Motor Village in Turin and the new headquarters of Granarolo in Bologna.

The technology is available for all production by the group, including items made in Germany and USA, and for Iris Ceramica and Ariostea (as GRF part of the Minozzi group) in exchange of royalties of 1.5% of revenues.

## Active advertising



**That means 1.000 sqm ACTIVE = 20 trees in terms of reduction on NOx**



Source: GranitiFiandre, Mediobanca Securities

## A contract business supported by a sophisticated distribution strategy

A contract business served with a turnkey approach

GRF products are employed mostly in the non-residential sector. Roughly 80% of the group's sales relate to non residential projects ranging from shopping malls, car dealers, luxury retailers, through to banks, offices and airports. Most of the group's business is essentially contract business linked to specific projects, a new airport or shopping mall, or to a specific customer, for example the opening of a new point of sales of a retail chain. On average the group may account on an order backlog covering 3-4 months while the average order is around €20,000.

In line with the typical approach of the contract business, GRF offers the possibility of having a turnkey service including not only the supply of ceramic slabs, but also a comprehensive service that includes consulting, design, installation and on-site assistance to customers. These activities are performed by some subsidiaries, Technoposa and Ceramiche Riunite (now merged in a single company), which are focused on installation, while, to complete the product range and therefore the service to clients, the group also offers ventilated walls and floating floors through the Granitech

division. The turnkey service is offered in Italy and Europe and usually concerns projects employing GranitiFiandre's products.

**Articulated and distinctive marketing strategy**

GRF has developed an articulated and distinctive marketing and distribution strategy based on different tools:

- ◆ Sales promoters to address decision makers, architects and designers;
- ◆ A key account division to enhance the service offered to most important clients;
- ◆ Branded shops – high quality showrooms to display the group's production worldwide;
- ◆ Specialised dealers.

**Focus on decision markers through a network of 150 sales promoters**

GRF sales strategy is essentially based on 150 sales promoters that visit up to 10,000 decision makers all over the world to establish stable relationship with them and enhance the group's brand image. This approach is coherent with a business model focused on non residential, as in this case, decisions are taken almost exclusively by the architects excluding the owner/final- user.

With its focus on decision makers, GRF's sales strategy is rather distinctive with respect to the model usually adopted in the industry that sees the product flowing from the manufacturer to the distributor and from here to the consumer. In practice, while GRF products are specifically promoted with decision makers for their technical and aesthetic characteristics, the traditional distribution model is more "passive" since products are displayed by dealers together with those of the competition, thereby making advertising or, more frequently, the price the main competitive tool.

**Key account division to deal directly with the main clients**

The key account division represents another pillar of the sales strategy and another distinctive feature with respect to competitors. Through the key accounts division the company deals directly with its key accounts, large and important clients like Fiat, Auchan, McDonald or Chanel, just to mention a few, that together account for some 18%-20% of the group's sales. In this way, GRF is able to establish a long-term relationship with these groups and increase their loyalty to GRF products and for future projects.

**Main key accounts**



Source: GranitiFiandre, Mediobanca Securities

**Distribution: specialised dealers....**

Products are physically distributed through specialised dealers which are also another way to be in touch with decision markers and consumers. Although distribution in Italy is fragmented, chains of specialised dealers are important in some countries where a good part of the business is made through large specialised retail chains. This is the case of Lowe's or American Tile in the US, Raab Karcher in Germany or Point P in France.

...and almost 100  
branded shops

The group's sales and marketing strategy has an important instrument in the Geologica shops, now numbering 70 worldwide. Some of these are directly owned, but most are franchised. Geologica shops are high-level boutiques where professionals may examine the products and the possible solutions with the help of specialised personnel. Furthermore, the group has recently started to develop the GranitiFiandre shops, a new type of brand shop that gives the affiliate more freedom in terms of layout. Thirty GranitiFiandre shops have already been opened in recent months and more will follow.

Although a higher sophistication of the marketing strategy is achieved for the products manufactured in Italy by the parent company, the focus on key clients and decision makers is common, though with a different intensity, in the group's subsidiaries too.

### Worldwide presence...

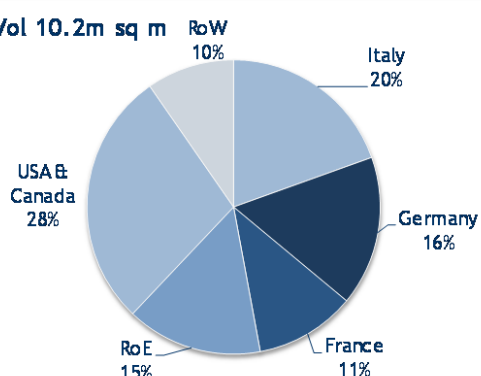
The GRF group distributes its products worldwide. Looked at this in greater detail, the Italian production of top-quality products under the brand Fiandre Architectural Surfaces is distributed worldwide, Porcelaingres sells its production in Europe (Italy included) and Eastern Europe and Stonepeak in the US, Canada, Mexico and South America

34% of volumes sold in  
the US and 20% in  
Germany. Italy and  
France at 12%

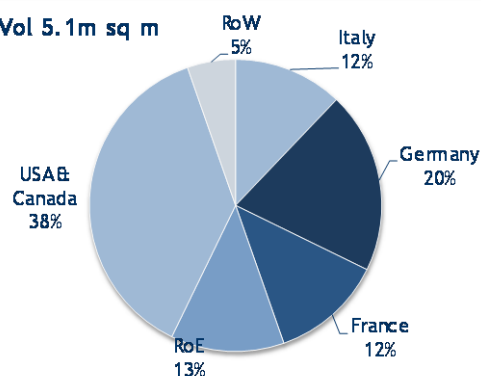
On a consolidated basis, with 34% of 1H 10 volumes, USA is the group's primary market followed by Germany (20%), Italy (12%) and France (12%). Other European markets account together for some 13%, with Switzerland, Belgium, Russia and Spain-Portugal at around 1% each. Outside Europe, the group may count on a strong presence, not only in the US, but also in Canada (3.3% of volumes in 1H 10) while the rest of the world, including the Far East and South America currently accounts for 5% only.

### Volumes geographic breakdown: 2007 vs. 1H 10

2007 Vol 10.2m sq m



1H 10 Vol 5.1m sq m



Source: GranitiFiandre, Mediobanca Securities

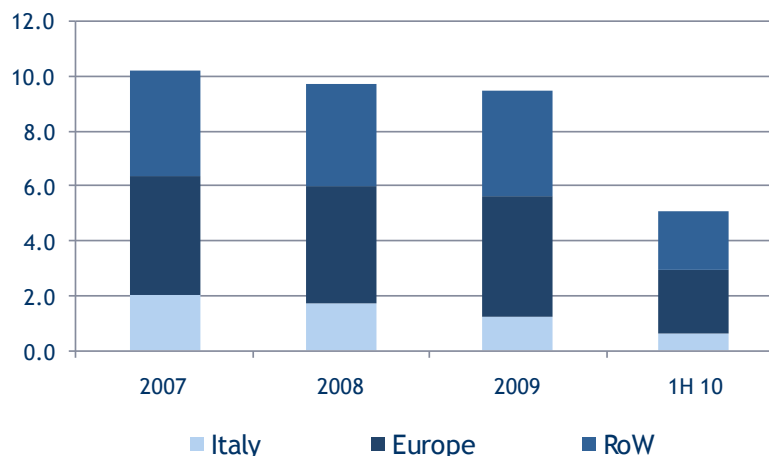
Growth in the US and  
Germany and flat  
volumes in France  
offset heavy drops in  
Italy and other minor  
markets

The strengthening of the group's presence in Germany and France and the spectacular growth in North America are the most evident and positive trends emerging from the analysis of recent volumes data.

Due to the strong crisis that hit the sector in the last three years, total volumes sold by GRF declined from a peak of 10.3 million sq m in 2007 to 9.5m last year or, on average, by 4% per year. This is much better than the result obtained by competitors; the Italian industry as a whole in the same period suffered an average decline in volumes of 14% per year. In particular, in 2009, GRF total volumes declined by 2.3% only, while the rest of the Italian industry experienced a 19% drop (see "Competitive environment"). GRF decline is explained exclusively by the plunge in volumes in Italy, which fell by 14.4% in 2008 and by 27.7% in 2009; conversely, Europe and the rest of the world remained roughly stable, thereby sustaining overall consolidated volumes. Looking at this in more detail, volumes sold in Germany increased by almost 30% in 2009 while in France they remained roughly flat in the period 2007-2009. In the rest of the world, benefiting from the increasing success of the StonePeak product

in a weak but still underpenetrated market, GRF increased volumes sold in USA by 3.5% and 9.1% in 2008 and 2009 respectively, while Canada saw a slight increase over the period. The good results obtained in the US and Canada allowed the group to offset the decline in volumes recorded in other overseas markets.

## GRF: volumes sold by macro area (million sq m)



Source: GranitiFiandre, Mediobanca Securities

**Higher mix in Italy and USA; sales of lower-end products in Germany depress average prices in Europe**

In terms of mix, Italy remains the group's top market followed by the US/overseas, while the sales mix is lower in the rest of Europe. This is reflected in an average price per square meter of €22-23 in Italy and of €15-17 per sq m in the RoW thanks to high selling prices in the US. Finally, Europe, with an average price of around €14 per square meter, reflects a poorer sales mix, especially in Germany, where the group sells a few million square meters at around €11 per sqm.

## Details by macro area

Volumes (m sq m)	2007	2008	2009	1H 10
Italy	2.00	1.71	1.24	0.62
Europe	4.35	4.30	4.42	2.30
RoW	3.88	3.70	3.83	2.19
<b>Total sqm</b>	<b>10.23</b>	<b>9.71</b>	<b>9.49</b>	<b>5.11</b>

Sales (€ m)	2007	2008	2009	1H 10
Italy	45.0	38.6	28.2	13.6
Europe	64.0	71.1	65.1	33.2
RoW	64.8	56.7	58.5	37.4
<b>Total</b>	<b>173.8</b>	<b>166.3</b>	<b>151.8</b>	<b>84.2</b>

Price x sqm (€)	2007	2008	2009	1H 10
Italy	22.5	22.5	22.8	22.0
Europe	14.7	16.5	14.7	14.4
RoW	16.7	15.3	15.3	17.1
<b>Total</b>	<b>17.0</b>	<b>17.1</b>	<b>16.0</b>	<b>16.5</b>

Source: GranitiFiandre, Mediobanca Securities

GRF performance in terms of sales appears quite strong considering the fact that the last two years have been extremely tough for the ceramic tile industry. We believe that the group's good resiliency comes from some key strengths that characterise the GRF business model: the quality of the group's

products, continuous innovation, a strong distribution system and efficient marketing. Finally, we believe that recent hard times have demonstrated the positive impact of another element of the group's business model i.e. GRF's decision to be present with local production in two main markets: Germany and the US.

### ...reinforced by multinational production

GRF today operates through three production sites: Italy (Castellarano – Reggio Emilia), Germany and the US. The opening of the production sites abroad in 2005-2006 saw the development of a complete organisation, including not only a production plant, but also a separated legal entity with its own brand and specific strategy.

The decision to operate through local subsidiaries instead of exporting Italian production is due to a number of reasons:

- 1) Minimise transportation costs;
- 2) Avoid customs duties;
- 3) Improve logistics, decreasing delivery time and allowing the efficient supply of small lots too;
- 4) Avoid the impact of exchange rates on prices.

Furthermore, as already mentioned, local subsidiaries were useful in creating new products that are able to meet the needs of local demand without affecting the Fiandre brand which remains exclusive in terms of top-end production.

Although all the issues reported above were deciding factors in the decision to invest in the US, the opening of production in Germany was aimed mainly at improving logistics and avoiding transportation costs. Actually transportation is increasingly becoming a deciding issue in Europe as some countries are considering imposing limits on road haulage in order to protect the environment, while Austria in particular has already banned it. Through its presence in Germany with Porcelaingres, the GRF group has a key instrument for avoiding these kinds of issues.

Finally, due to its specific characteristics, developing a product range expressly designed for the German market has been essential in achieving a significant market share in that market.

Both in Germany and in the US, GRF has built its presence up from a green field. The total investment was around €55m in Germany, of which €17m was from a contribution from the local Länder, and USD 120-130m for StonePeak. The higher investment in North America is due to the construction of one more production line and to the fact that, being somehow "isolated" from other tiles producers, StonePeak had to internalise some functions that are usually externalised. Finally, transportation costs and customs duties on materials had a further impact on overall investment.

### Production details

Company	Location	Production lines	Annual capacity (million sq m)	Average price
GranitiFiandre	Italy	5	5.5	€19.0
Porcelaingres	Germany	2	3.0	€11.0
StonePeak	USA	3	4.5	\$24.0

Source: GranitiFiandre, Mediobanca Securities

As reported in the table above, high-quality production in Italy allows the parent company to sell its product at an average price of €19 per sq m. This is true also for StonePeak, that couples relatively high-quality production with exposure to markets where prices are generally higher than in Europe, thereby achieving an average price of \$24 per sqm. Conversely, Porcelaingres reports a low €11 per sq m due to its exposure to Germany and other extremely competitive markets.

## Strategy: ready to start a new phase of growth

After holding out well in the worst years of the economic crisis, GRF is ready to start a new phase of growth, helped by its sound financial structure (0.19x debt to equity ratio at September 2010), up-to-date production plants and a product range that has not yet reached its full potential. Short-term strategies should be low-capital intensive as they aim to maximise returns from existing products and markets, namely by growing sales of Active products, enhancing further the presence in the US and increasing the prices of the German subsidiary Porcelaingres. Going forward, the group has the financial flexibility for further steps. Analysing market trends and available options we have identified two major opportunities: opening a production site in China, that would unlock the world's largest market to the group, and the integration with the Iris group.

Short-term growth from leveraging existing products and markets

In the short to medium-term, GRF's growth should be from leveraging existing products and markets as the group has not yet tapped its full potential either in terms of product range or markets.

Looking at this in greater detail, GRF is set to make the following moves:

- ◆ **Increasing "Active" products** – As described above, Active has a huge potential thanks to its truly innovative technical characteristics. The past year has seen strong commercial efforts by the group to make Active technology known to potential users. At the recent Cersaie, in particular, the international exhibition of ceramic tiles held in Bologna last September, GRF focused most of its efforts at promoting Active to potential users and recorded a strong interest for these products.

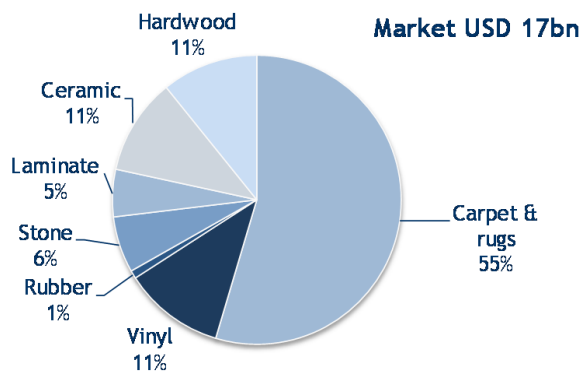
Thanks to its unique characteristics, Active is due to open a new market segment for GRF: not only hospitals, clinics and other healthcare institutions, but also schools, universities and, in general, locations where it is important to maintain a high standard of cleanliness.

Products including Active technology should account for some 5% of total parent company production in 2011, a percentage that the group intends to increase steadily, up to some 20% of the total in five years' time, also to capture the much higher margins of these products.

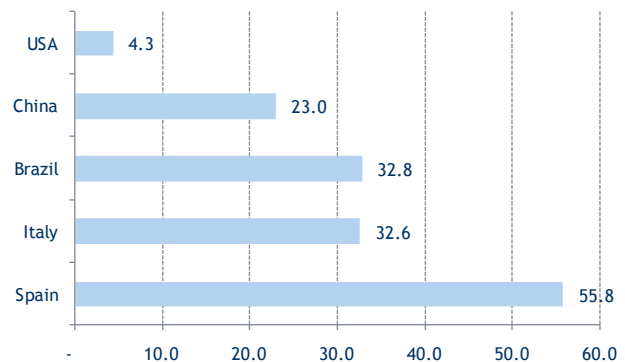
- ◆ **Further growth in the US** - The US market still has strong growth potential in the long term. As reported in the chart below, when deciding among floor covering products, US consumers still choose carpets and rugs in 1 case out of two. The rest of the market is split among ceramic tiles, hardwood, vinyl and other products. In the long run, this split is expected to move in favour of hard surface flooring and, in particular, of tiles. Apart from aesthetic reasons, ceramic tiles are increasingly favoured thanks to their superior characteristics in terms of hygiene and safety. The long-term potential appears huge. In 2009 the consumption of ceramic tiles in the USA was a meagre 4.3 sq f per capita (down from a peak of 11 sq f in 2005) with respect to around 33 sq f for more mature markets like Italy or Brazil or 56 sq f in Spain.

In the shorter term, the trend of the industry in the US has been negative like other markets. In 2009 volumes declined by 18.2% and sales by 25.4%, which was the third year in a series of heavy drops that reduced volumes to around the consumption levels of 1999. The general economic crisis and the real estate downturn are the main reasons for such a reduction. Furthermore, in such a negative economic environment, consumers did not choose upper-end products like tiles, instead selecting value products.

## 2009 Product mix across US Flooring Industry



## Ceramic tiles 2009 per capita consumption (sq f)



Source: Floor Covering Weekly/Catalina Research; Mediobanca Securities

GRF performance in the US has been much more impressive than the figures emerging from sector data, and the group succeeded in increasing volumes sold in the US and in Canada both in 2008 and in 2009.

Going forward, the group is willing to capture an increasing share of a growing market leveraging on its high quality and wide product mix and sophisticated distribution approach.

- ◆ **Increasing average price of Porcelaingres production** – In 2009 Porcelaingres achieved an average selling price of around €11 per sq m, roughly 50% the average price of Italian productions. The reasons for these lower prices are various and are principally 1) a lower mix – due to Porcelaingres' focus on lower-end technical products; 2) distribution through less profitable large specialised retailers.

GRF is willing to increase Porcelaingres' selling prices, moving, at least partially, the subsidiary's business model towards that of the parent company i.e. shifting upwards the product range and increasing the share of products sold through sales promoters or the presence of key clients.

### China could be the next frontier

A production plant in China would open up the huge medium-high range market to the group

The short/medium term strategies outlined above are low-capital intensive and should not undermine the group's sound financial position. Therefore, in the medium term, the group has room to take a further big step forward, as it has done with the opening of the plants in Germany and in the US, by opening a new subsidiary in another market. Although Germany and the US did appear to be "natural" outlets for a group like GRF, we would exclude a move into Russia, which has proven in recent years to be extremely volatile and can be served, alongside the other Eastern Europe markets, by the German subsidiary. Conversely, given its size and growth prospects, China appears to us as to be the most likely candidate.

Today GRF sells some €3m of products in China, but is concentrated exclusively on top-of-the-range products, as indicated by an average price per square meter of around €30. This focus on top products, though justified in the case of products exported from Italy, cuts the group off from a huge market, i.e. all the medium-high range market.

The main characteristics of the ceramic tile market in China may be summarised in the following points:

- ◆ Ceramic tiles are estimated to make up 70% or more of all flooring sold in China;
- ◆ The market in units is 25 times larger than the US's ceramic tile market;
- ◆ Expected growth per year is >10%;

- ◆ High fragmentation: the top 10 manufacturers in China cover about 10% of the market.

A direct presence in such a huge, fast-growing and fragmented market would open a new chapter in the group's history. A presence in China could start from scratch or be achieved through a JV with a local producer. Mohawk, the US sector leader, has recently announced that they entered the Chinese market creating a JV with Sanfi, a local ceramic tile manufacturer.

A possible investment in China by GRF would require capex of at least €40-50m in 3-4 years and could add sales to the tune of €25-40m. The group has not yet planned such an investment in the medium period but we regard this move as possible, if not likely, if GranitiFiandre intends to maintain its leading position in the industry.

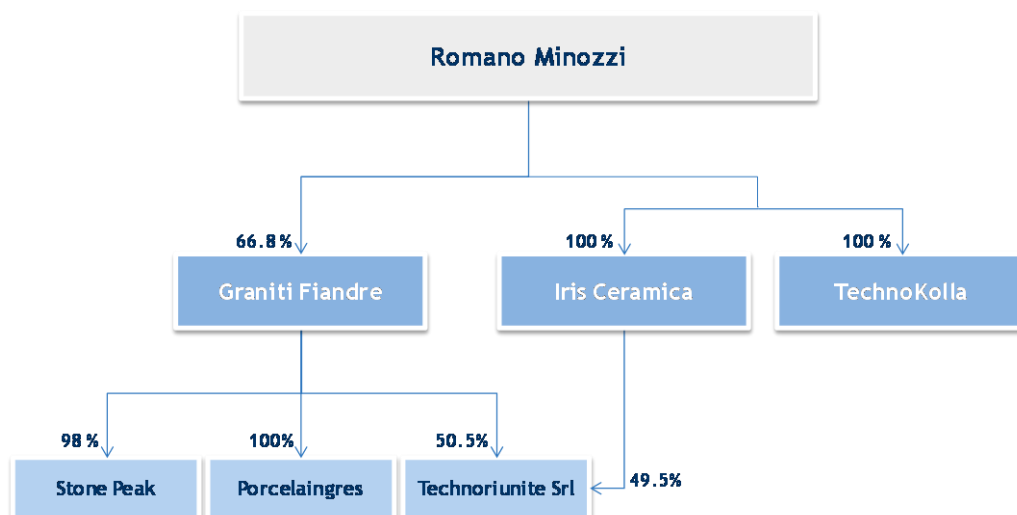
### Iris: an opportunity in the medium term?

Apart from the possibility of expanding eastwards, we believe that Italy could also offer some significant opportunities for GRF. In particular, we think that in the medium term, a re-organisation within the "Minozzi group" could be in the cards. Although this hypothesis is not yet on the management agenda, we believe it is more likely now than in the past. First, we believe that GRF has now brought its foreign subsidiaries almost to full steam and appears ready for further steps ahead. Second, Iris is repositioning its product range upwards, a move that makes it more similar to GRF itself.

GRF is a part of a larger group controlled by the entrepreneur Romano Minozzi and that includes activities in the ceramic tile industry and financial investments in large listed Italian groups. Looking at this in greater detail, Mr Minozzi controls GRF with a direct and indirect stake of 67% and owns 100% Iris Ceramiche, involved in ceramic tiles production, and Technokolla, which is a manufacturer of adhesives for the ceramic tile industry.

Apart from GRF, the entrepreneur Romano Minozzi controls other operations in the ceramic tile industry

### Simplified group structure



Source: Mediobanca Securities

IRIS: focus on residential market

Iris Ceramica is a leading producer of ceramic tiles for the residential market. Focused on medium-quality products and largely exposed to Italian market, during the recent crisis the company suffered a heavy drop in sales and margins moving from a turnover of €236m in 2006 to one of €122m in 2009. This reduction also explained by the ongoing restructuring that is cutting the lower end of the products. Lower sales volumes contributed to a fall in operating margins that were slightly negative in 2008 and just above breakeven in the following year.

## Iris recent results

	2006	2007	2008	2009
Net sales	236.2	209.7	183.8	122.4
EBIT	20.9	21.1	-1.1	2.5
Net profit	16.2	57.1	-15.8	-28.3
Sales growth		-11%	-12%	-33%
EBIT margin	8.9%	10.1%	-0.6%	2.0%
Employees	888	845	774	673

Source: Company, Mediobanca Securities

## Large financial investments by Iris

Iris' bottom line reflects the impact in terms of dividends and write ups/downs on the large portfolio of financial investments controlled by the company, which is summarised in the table below. At the end of 2009, the company had total financial investments of €75m, broken down into large positions in SNAM Rete Gas, Terna and ENI, and had reduced exposure to Intesa SanPaolo. The impact of these financial investments on Iris' results over the last two years has been negative. Notably, in 2009, write-downs and losses on trading exceeded €30m, although, on the positive side, the group received some €5m in dividends and other income.

## Iris Spa: Financial investments (€m)

	2008	2009
SNAM Rete Gas	15.2	28.2
Terna	0.0	16.2
Intesa Sanpaolo	67.4	12.4
ENI	10.1	10.1
ENEL	4.8	5.7
Telecom Italia	1.9	1.9
Unicredit	0.6	0.6
<b>Total</b>	<b>99.9</b>	<b>74.9</b>

Source: Company, Mediobanca Securities

Since 2009 Iris has undergone an in-depth restructuring. In July, Graziano Verdi, Chairman and CEO of GRF, was appointed CEO of Iris too. Since then, he focused not only on cost cutting, further reducing the labour force, but also on repositioning the product range upwards, increasing the presence of high-end products both from an aesthetic and a technical point of view, while maintaining the focus on the residential market. Adopting a model similar to GRF, distribution should increasingly pass through decision makers, which in this case, have been identified in interior designers, the equivalent of architects for GRF.

## GRF and Iris are already integrated in certain ways

GRF and Iris have already achieved a measure of integration on various different levels. These are in particular:

- ◆ Joint control of Technoriunite, the company specialised in installation;
- ◆ Sharing of technological innovation like Active, licensed by GRF to Iris and Ariostea;

- ◆ Commercial relationships: GRF in 2009 sold some €4m of Iris products, mainly in the US and acquired a further €7m of Iris and Ariostea products to complete its product range. Furthermore, GRF acquired raw materials from Iris for €4m;
- ◆ Partnership between GRF and Technokolla under which GRF manages Technokolla from the commercial and marketing point of view in exchange for royalties.

Expansion of product range would be the main advantage of the integration

An integration of GRF and Iris would require financial investments to be taken away from the company involved in the eventual merger. The integration with IRIS, however, does not appear problematic from a financial point of view as the company was cash positive at the end of 2009. This is important in the hypothesis of a possible merger as it must be ensured that the newly created group has a certain financial flexibility for further growth in the future.

The main advantages from the integration would be the strong expansion in the product range. This would comprise non-residential technical products and stoneware slabs that are an alternative to natural stones, through to high-end ceramic tiles for the residential segment. The business model in the various segments would be the same: top-quality highly innovative products and distribution centred on decision makers, either architects or internal designers. With full integration, the group could increase the share of products supplied in each project, so covering all the needs that could arise, and would become a more significant supplier to specialised traders.

As in any intra-group deal, if and when the merger is decided, it must be carefully communicated to the market and valuations should protect the interests of GRF's minority shareholders. The group emerging from the deal would achieve ceramic tiles sales of above €300m (2009 aggregated figured) and EBIT of €10m, while the net financial position could remain roughly unchanged.

#### Graniti Fiandre vs. Iris

Company	Customer segment	Main distribution channel
GranitiFiandre	Non residential	Architects
Iris	Residential	Interior designers

Source: Mediobanca Securities

## Competitive environment

To a greater extent than other manufactures of ceramic tiles, GFR's competitive arena includes in particular quarry marble and stones and could even be extended to glass and other materials considered by architects as possible options for wall and floor coverings. In the ceramic tile sector, GRF identifies its competitors as a handful of names focused on high-quality products. The picture emerging from the recent data on the ceramic tile industry is dramatic. In 2007 the sector entered a deep crisis that accelerated in 2009, leading to a loss of 30% in terms of volumes sold. In addition, sales of natural marble and stones suffered in the last couple of years, but proved to be slightly more resilient to the economic downturn.

### Ceramic tile sector

Recent reports on the Italian ceramic tile industry have been looking more like a war bulletin. With a loss of 30% in terms of volumes produced, 2009 has been the most dramatic year of a crisis that has been rumbling on now since 2007.

#### Italian ceramic tile sector – main indicators

	2003	2004	2005	2006	2007	2008	2009
Annual production (m sq m)	603.4	589.2	570.0	568.6	559.1	512.5	368.0
YoY change	-0.3%	-2.4%	-3.3%	-0.3%	-1.7%	-8.3%	-28.2%
Total Sales (€ m)	5,190	5,344	5,372	5,742	5,785	5,517	4,508
YoY change	-2.4%	3.0%	0.5%	6.9%	0.8%	-4.6%	-18.3%
Total employees	30,264	29,817	29,084	28,093	27,210	26,364	24,595
Production plants	323	317	317	303	300	290	273
Kilns	747	721	697	671	641	578	508
Production per employee (sq m)	19,939	19,761	19,599	20,239	20,548	19,440	14,960
Sales per employee (€)	171,478	179,228	184,723	204,377	212,595	209,250	183,284
Production per plant (m sq m)	1.87	1.86	1.80	1.88	1.86	1.77	1.35

Source: Confindustria Ceramica, Mediobanca Securities

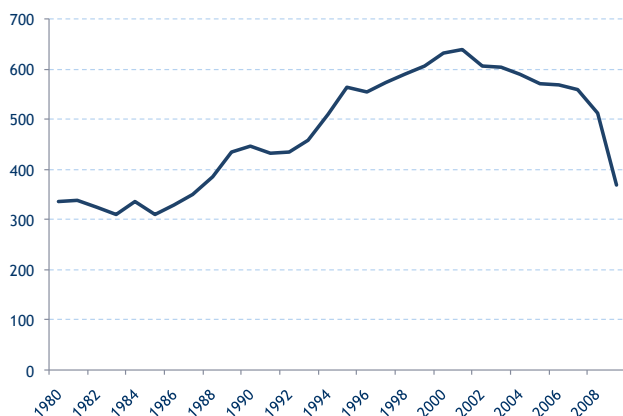
The industry reached its peak in terms of volumes produced in 2001...

...while sales continued to grow until 2007 thanks to higher prices

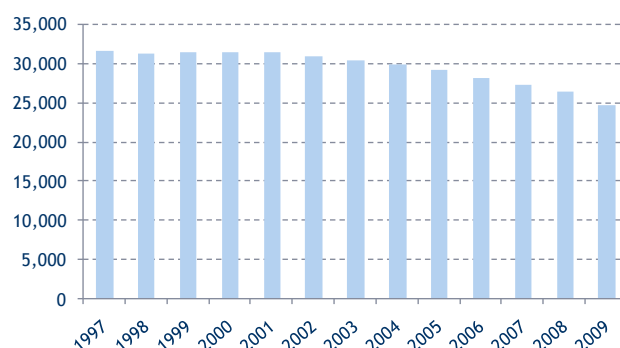
The Italian ceramic tile industry reached its peak in terms of production and sales volumes in 2001, achieving a total output of 638 million sq m, while the total workforce employed exceeded 31,000 units. Since then the industry has posted a continuous fall in production capacity (with a reduction in the numbers of plants and active kilns) and workforce.

Meanwhile, higher selling prices have offset lower volumes, especially in exports, a trend that allowed the sector to post growing sales until 2007. In that year industry turnover peaked with exports of €4.2bn and a domestic market of €1.6bn for a total turnover of €5.8bn.

## Production in million square meters



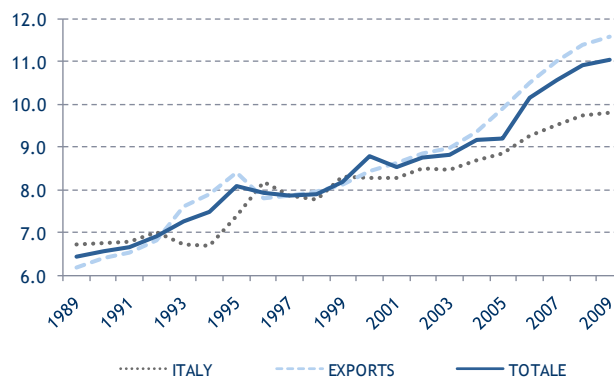
## Employees



## Sales trend and breakdown (€ m)



## Price per sq m (€)



Source: Confindustria Ceramica, Mediobanca Securities

The change in the production mix has been a key driver in increasing the average selling price. As reported in the table below, the sector experience a steady shift from single or double-firing tiles and other traditional products towards fully vitrified stoneware: a product with higher technical characteristics and higher prices. In 2009 fully vitrified stoneware covered 72% of total production volumes, up from 54% in 2002.

### Production breakdown by product category (million sq m)

	2002	2003	2004	2005	2006	2007	2008	2009
Single&double vitrified tiles	247.5	226.9	202.1	178.6	164.0	148.3	132.6	90.0
Fully vitrified stoneware	329.2	349.1	360.5	368.9	383.1	390.8	363.2	265.4
Oder products	28.7	27.5	26.6	22.5	21.5	20.1	16.8	12.6
Total	605.5	603.4	589.2	570.0	568.6	559.1	512.5	368.0

Source: Confindustria Ceramica, Mediobanca Securities

**The sector downturn started in 2007 and accelerated in 2009**

As mentioned above, in 2007, the sector entered a deep crisis that accelerated in 2009. After a relatively moderate downturn in 2008, the sector last year lost 17 production plants (-6%) and 70 kilns (-12%) and cut more than 1,700 jobs (-7%). Production volumes fell by 28% to 368 million sq m, the

Exports declined by almost 20%. Germany was the most resilient market (-1.6%), USA dropped by 30%.

same level that the sector produced in 1988-1989. Total turnover declined by 18% to €4.5bn, the result of a 20% reduction in exports and a 15% drop on the domestic market.

As reported in the table below, Italian exports saw a severe decline in all major markets. Exports in the European Union declined by 15% in value, the result of 25%-30% drops in smaller markets and of a better performance by larger markets like France (-10.5%) and Germany (-1.6%) in particular. Among other European markets, it is worth singling out Russia, which, in 2009, almost halved its imports of Italian ceramic tiles, but maintained and further increased average prices (€25 per sqm, +5.4%). The ongoing crisis hit exports in the US heavily, causing a 33% decline in volumes and 30% drop in value.

Increasing average prices per square meter are probably the only positive signal visible on the market. Average selling prices also grew in 2007-2009, though at lower rates than in the past. Growth has been stronger for exports, whose average price at the end of 2009 was almost 20% higher than domestic prices, while average price were roughly at the same level 10 years ago.

### Italian exports details (2009)

	Volumes sq m (m)	YoY change	value (€ m)	YoY change	avg price € x sq m	YoY change
France	49.7	-12.66%	611.1	-10.48%	12.30	2.50%
Germany	39.6	-3.95%	481.8	-1.56%	12.16	2.49%
Greece	12.5	-33.00%	146.6	-30.62%	11.73	3.55%
Belgium and Luxemburg	9.2	-11.21%	130.9	-9.16%	14.17	2.31%
Austria	9.9	-5.02%	100.2	-4.66%	10.12	0.38%
Great Britain	6.5	-25.18%	91.0	-28.28%	13.99	-4.14%
Netherland	5.4	-15.89%	80.3	-16.96%	14.77	-1.27%
Poland	3.7	-33.44%	57.2	-26.85%	15.59	9.90%
Other European Union	29.5	-26.70%	349.9	-27.53%	11.87	-1.13%
<b>TOTAL European Union</b>	<b>166.0</b>	<b>-16.36%</b>	<b>2,049.0</b>	<b>-15.23%</b>	<b>12.34</b>	<b>1.35%</b>
<b>Rest of Europe</b>	<b>40.5</b>	<b>-28.47%</b>	<b>376.7</b>	<b>-29.47%</b>	<b>9.3</b>	<b>-1.40%</b>
...of which Switzerland	7.4	-5.55%	109.3	-5.74%	14.85	-0.20%
...of which Russia	3.5	-44.56%	87.5	-41.59%	25.09	5.36%
<b>TOTAL AMERICAS</b>	<b>38.4</b>	<b>-28.91%</b>	<b>450.6</b>	<b>-27.25%</b>	<b>11.72</b>	<b>2.34%</b>
...of which USA	27.3	-33.09%	332.9	-29.80%	12.19	4.92%
<b>TOTAL ASIA</b>	<b>23.4</b>	<b>-21.46%</b>	<b>275.5</b>	<b>-19.83%</b>	<b>11.76</b>	<b>2.08%</b>
<b>TOTAL AFRICA</b>	<b>8.9</b>	<b>-21.82%</b>	<b>57.5</b>	<b>-14.42%</b>	<b>6.44</b>	<b>9.47%</b>
<b>TOTAL AUSTRALIA</b>	<b>3.5</b>	<b>-25.25%</b>	<b>45.4</b>	<b>-27.21%</b>	<b>13.04</b>	<b>-2.62%</b>
<b>TOTAL</b>	<b>280.8</b>	<b>-20.92%</b>	<b>3,254.7</b>	<b>-19.52%</b>	<b>11.59</b>	<b>1.78%</b>

Source: Confindustria Ceramica, Mediobanca Securities

Better performance by foreign subsidiaries of Italian groups especially in the US.

Apart from exports, nine Italian ceramic tiles producers have a direct presence abroad through 33 plants operating in Europe (75% of total production abroad with locations in Portugal, Spain, France, Germany, Finland, Poland, Ukraine and Russia), and in the US (25% of total production abroad). In 2009 production by plants abroad declined by 14% to 108.7 m sq m, while volumes sold decreased by 10.61%, the result of a 13% decline in Europe and a better -1.52% in the US.

It is interesting to note that, although the subsidiaries of Italian groups in the US closed 2009 roughly flat in terms of volumes, Italian exports in the US declined by around 30%, while, overall, that market

suffered an 18% decline in volumes sold. This shows that “Italian” products have a real competitive edge in the US when locally produced, as they are able to couple Italian style with the advantages of local production in terms of costs (no customs duties, no transportation costs) and logistics.

## Natural marble and stones

Natural marble and stones showed a higher resiliency

Even if the economic crisis also took its toll on the natural stone sector, it is also true that this industry has shown greater resilience with respect to ceramic tiles. The reduction posted by the international stone industry in 2009 is around 10%, both in terms of volumes and values.

### International exports of stone materials, marble and granite

(million tons)	2007	2008	YoY chg	2009	YoY chg
Total, marble	14.89	15.15	1.7%	14.40	-4.9%
Total, granite	33.73	32.67	-3.1%	28.92	-11.5%
Total, imports	48.62	47.82	-1.7%	43.33	-9.4%

Source: IMM, Mediobanca Securities

The performance of the stone sector in Italy has been weaker. Exports in 2009 declined by 15% in volumes and by almost 20% in value, while in 2007-2009, the drop in value reached almost 25%. Marble, especially the raw material, has demonstrated a greater resilience than other products thanks to the fact that Italy produces some well-known and appreciated varieties.

### Italian stone exports

	2007		2008		Change 08/07		2009		Change 09/08	
	Tons (m)	€ m	Tons (m)	€ m	Volume	value	Tons (m)	€ m	Volume	value
Marble blocks and slabs	0.97	188.3	1.01	198.4	3.6%	5.4%	1.08	204.4	6.8%	3.0%
Granite blocks and slabs	0.20	46.5	0.17	45.3	-13.4%	-2.6%	0.16	38.8	-4.9%	-14.3%
Finished marble	1.07	800.9	1.03	96.4	-4.4%	-0.6%	0.83	627.2	-18.7%	-21.3%
Finished granite	0.87	763.5	0.76	651.3	-13.5%	-14.7%	0.58	489.7	-22.8%	-24.8%
Other finished stones	0.21	40.8	0.18	35.5	-13.8%	-13.0%	0.17	32.6	-7.4%	-8.1%
<b>Total blocks, slabs and finished products</b>	<b>3.32</b>	<b>1,839.9</b>	<b>3.14</b>	<b>1,726.9</b>	<b>-5.5%</b>	<b>-6.1%</b>	<b>2.82</b>	<b>1,392.7</b>	<b>-10.1%</b>	<b>-19.4%</b>
Chips and powder	1.02	61.2	1.07	54.9	4.5%	-10.3%	0.77	43.1	-28.1%	-21.5%
Other	0.12	15.9	0.02	10.5	-86.0%	-34.4%	0.01	8.1	-17.3%	-22.3%
<b>TOTAL</b>	<b>4.47</b>	<b>1,917.1</b>	<b>4.23</b>	<b>1,792.2</b>	<b>-5.4%</b>	<b>-6.5%</b>	<b>3.61</b>	<b>1,443.9</b>	<b>-14.7%</b>	<b>-19.4%</b>

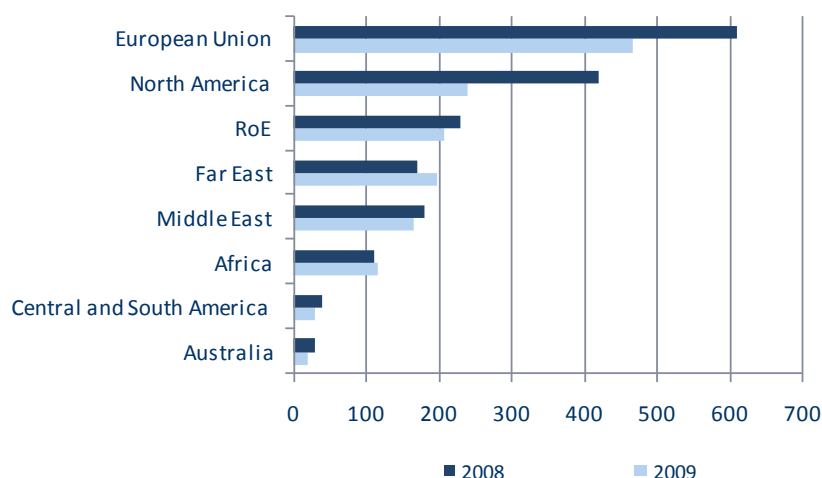
Source: IMM, Mediobanca Securities

The reduction has been particularly strong in the main export markets of Europe, which accounts for 32% of total exports and declined by 24% YoY, and of North America (17% of the total), which in 2009 dropped by 43%. Conversely, the sector increased exports in the Far East, especially in China, and in Africa, particularly the Mediterranean area.

### Positive signs in 2010

Over the longer term, the stone sector is expected to recover the growth trend posted until 2008. Initial data on Italian exports in 2010 reveal that in 1H 10 total exports grew by 19.8% in volumes and by 8.1% in value, confirming that there is some recovery, even if the production levels of 2008 are still a long way off.

## Italian exports by country (€ m)

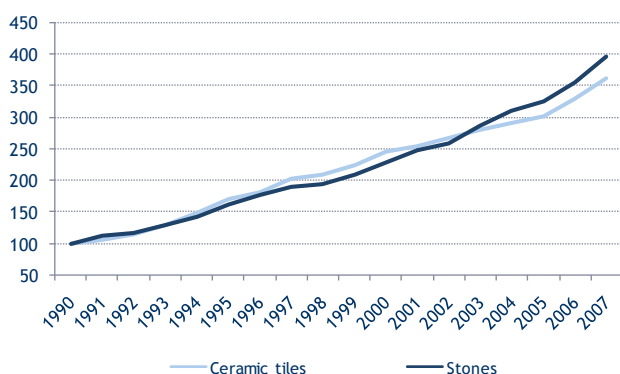


Source: IMM, Mediobanca Securities

Long-term growth trends extremely strong

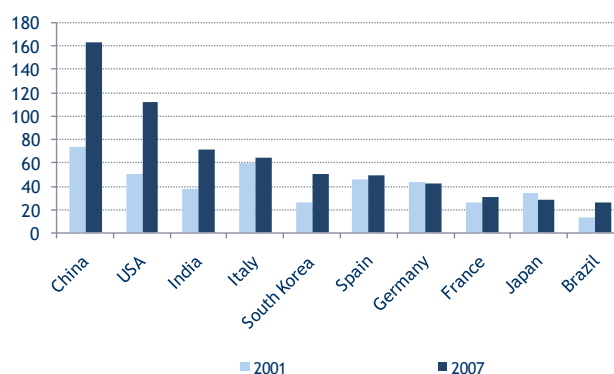
Over the last 20 years, international stone consumption has roughly quadrupled from 285 million sqm in 1990 to 1,130m in 2007, slightly outperforming the ceramic tile industry. The size of the two industries remains very different with consumption of ceramic tiles in square meters some seven times larger than that of natural stones. Growth in world consumption of natural stones has been driven by countries like China and the US and, to a lower extent, India and South Korea, which have doubled their use of natural stones since 2001, becoming the larger markets for these products. Traditional leading markets like Italy, Spain and Germany have remained roughly stable, while countries like Brazil and Turkey are gaining momentum.

## World consumption (m sq m): Ceramic tiles vs. stones (1990=100)



Source: Stone 2008, Mediobanca Securities

## Stones world consumption – top countries (m sq m)



After the setback of 2008-2009, the long term prospects for natural stones should be positive and some researchers expect global consumption volumes to have increased fourfold by 2025 (source: Stone 2008). While it is difficult to assess the reliability of such forecasts, growth in materials that are an alternative to natural stones appears more easily predictable. Growing ecological awareness and recognition of the higher technical characteristics of alternative products should be the main drivers boosting consumption of these products.

## Financials

GRF has demonstrated a good level of resilience during the recent worldwide economic crisis and has managed to limit falls in sales and margins, keeping the bottom line above breakeven and generating positive cash flows. 2010 is giving off some very positive signs and is likely to be the first year of a new growth phase. We expect sales growth to be driven by the US and Europe, while Italy should remain weak. Margins should increase on the back of growing production volumes and cost cutting, but are expected to remain below the peak reached in 2007. Modest investment activity in our base case scenario is reflected in a further reduction in net debt.

### 2007-2009 results: down from heaven but avoiding hell

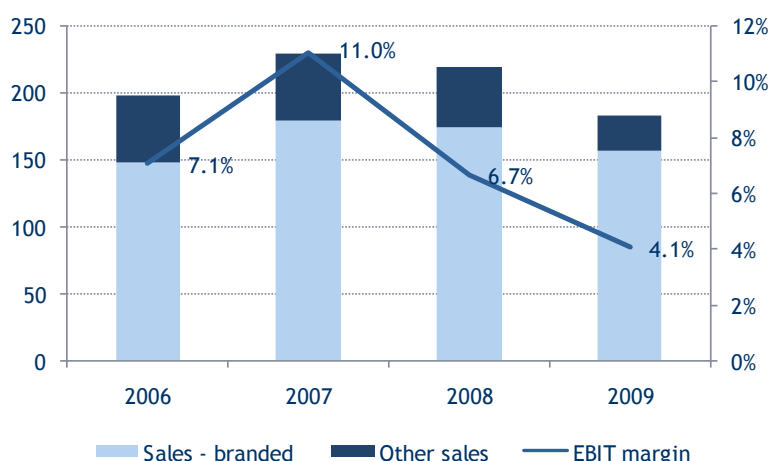
GRF breaks down its turnover into 1) sales of branded products and services, mainly sales of ceramic tiles and, to a lesser degree, sales and services related to floating floors and ventilated walls (Granitech division), and 2) other sales such as polishing, semi-finished products, and installation.

Sales of branded products hit by the negative trend in Italy

Branded products and in particular sales of ceramic tiles represent the bulk of the group's turnover, accounting for 81% of total 2009 sales. Sales of branded products declined by 4.3% in 2008 and 8.7% in 2009 hit by a heavy drop in turnover in Italy. In the rest of Europe, sales remained roughly stable, while declining on average by 5% per year in the rest of the world (for a more detailed examination of the group's performance in terms of sales and volumes of branded products by geographic area, please see the "Company profile").

Italy was the worst performing market posting a decline in sales of -14% and -27% respectively in 2008 and 2009, a consequence of declining volumes and stable average prices. Turnover in the rest of Europe remained roughly stable over the two years, reflecting resilient volumes and stable average prices. Finally, the rest of the world, having experienced a 12.6% reduction in sales in 2008, went on to record positive 3.2% growth in 2009, boosted by increasing volumes in the US and Canada.

GRF: turnover (€ m) and EBIT margin



Source: GranitiFiandre, Mediobanca Securities

The impact of the negative economic environment has been stronger on smaller "ancillary" activities like polishing and installation and on the sale of semi-finished products, which declined by 10%-15% in 2008 and 2009. Furthermore, in 2009, GRF sold its operations in the water-jet cutting of vitrified stoneware porcelain slabs (Hydrodesign Group) – an activity, which produced a turnover of €17.2m in 2008 – leading to total reduction in sales from other activities of 40% (-8% on a like-for-like basis).

Based on the trends described above, total turnover decreased by 4.4% in 2008 and by 16.2%, or 8.7% on a like-for-like basis to €184m in 2009.

**Lower by still positive margins**

After the peak reached in 2007 of 17.5%, GRF's EBITDA margin declined in the two following years to 13.7% in 2008 and 11.7% in 2009. Reductions in purchases, both in absolute terms and as a % of sales, were not enough to offset the higher weight of other operating costs and of the cost of labour. In particular, in 2009, despite a cut in the labour force of 194 units – some 18% of the total, of which 185 is from the sale of the water-jet cutting operations – labour costs as a percentage of sales increased to 24%, up from 20-21% in the previous years. After roughly stable depreciations and other provisions, GRF's EBIT declined from €22.6m in 2007 to €5.7m in 2009 or from 11% to 4.1% in terms of margins.

Thanks to the low level of its net debt, the incidence of total financial charges on the group's P&L remained modest and actually decreased in 2009. After deducting taxes and the results of discontinued operations (Hydrodesign Group), GRF closed 2009 slightly above breakeven, a positive result considering the extremely negative sector and economic environment.

**Debt reduction despite relatively high capex**

During 2007-2009, GRF's balance sheet saw a reduction in total net debt from a peak of €53.5m in 2008 to €41.7m last year. In general terms last year capex were balanced by the group's depreciations, while free cash flows were boosted by a reduction in NWC due to lower sales, while lower client days outstanding and an increase in supplier days were offset by a the steep increase in inventory days.

**NWC details – client, inventory and supplier days**

	2006	2007	2008	2009
Client days	111	95	96	91
Inventory days	129	115	142	153
Supplier days	107	91	106	113
Total NWC/Sales	34.3%	32.5%	37.0%	36.9%

Source: GranitiFiandre, Mediobanca Securities

In the last three years, group capex has ranged from €15.8m in 2007 to €13.5m in 2009, which are rather high levels. These include, in 2007 and 2008, some investment for the construction of the third production line in the US and, in 2008 and 2009, the cost of realising the "Extreme" product line in Italy.

**CASHFLOW MODEL**

	2007	2008	2009
Profit before minorities	15.1	6.6	0.9
Depreciation & oth. prov.	14.9	15.5	14.0
Change in TFR	(0.5)	(0.5)	(0.9)
Cashflow from operations	29.5	21.6	14.0
Net Capex	(15.8)	(14.5)	(13.5)
Change in NWC	(6.4)	(6.6)	13.2
Free cashflow from operations	7.3	0.4	13.8
Dividends paid	(4.4)	(5.5)	(1.8)
Other non cash items	(4.2)	(1.9)	(0.2)
Change in NFP	(1.4)	(7.0)	11.7

Source: GranitiFiandre, Mediobanca Securities

## 2010-2012 forecast: back to growth

### Positive trends emerging from 2010 interim results

2010 marked a turning point in the recent downward trend. In the second quarter of 2010, the group recorded a 10.2% increase in total turnover thanks to a good recovery in branded sales (+12.2%), a trend confirmed in the third quarter when branded sales grew by 10.5%. In the first nine months, the group increased its sales by 0.9% in Italy, posting a volatile trend quarter by quarter. Notably, after weak sales in the period Jan-March, turnover in Italy rebounded in the second quarter, benefiting from the launch of Active and other new products and from some large projects. In the third quarter sales declined by 3%, resulting in flat turnover for the nine-month period. Sales in the rest of the world grew by 20.8%, boosted by StonePeak, which increased turnover in UDS by 25% in the first nine months. In the rest of Europe, sales decreased by 2.3% but posted an acceleration in their growth quarter by quarter.

### Geographic breakdown – branded revenues

	1Q 09	2Q 09	3Q 09	9M 09	1Q 10	Yoy Chg	2Q 10	Yoy Chg	3Q 10	Yoy Chg.	9M 10	Yoy Chg.
Italy	6.8	6.4	7.9	21.1	6.1	-10.1%	7.5	17.7%	7.7	-3.3%	21.3	0.9%
Europe	17.2	17.6	15.9	50.7	15.6	-9.6%	17.6	0.2%	16.4	2.8%	49.5	-2.3%
RoW	14.6	17.1	13.7	45.5	16.4	12.4%	21.0	22.6%	17.5	27.4%	54.9	20.8%
<b>Total</b>	<b>38.6</b>	<b>41.1</b>	<b>37.6</b>	<b>117.3</b>	<b>38.1</b>	<b>-1.3%</b>	<b>46.1</b>	<b>12.2%</b>	<b>41.5</b>	<b>10.5%</b>	<b>125.7</b>	<b>7.2%</b>

Source: GranitiFiandre, Mediobanca Securities

Operating margins benefited from higher sales volumes, and the group's EBIT margin increased from 5.0% in September 2009 to 6.0% in the first nine months of this year. Below the EBIT line, GRF recorded some gains on foreign exchanges that gave a positive contribution of €1.2m in the period. This helped achieve a bottom line of €5.2m in 9M 10, up from €0.6m in the same period of 2009. The small loss recorded in the third quarter is due to €1.5m of negative exchange differences in the quarter, which cut the overall gain from exchange differences from €2.7m in June to €1.2m in September.

### Interim results

	1Q 09	2Q 09	1H 09	3Q 09	9M 09	1Q 10	2Q 10	1H 10	3Q 10	9M 10
Sales revenues	45.7	49.5	95.2	45.7	141.0	44.9	54.5	99.4	148.7	148.2
Change in inventories	-2.0	-2.3	-4.3	-2.2	-6.5	1.3	-2.1	-0.8	-2.4	-3.2
Other revenues	2.0	2.7	4.8	2.2	6.9	1.8	3.2	5.0	2.7	7.6
Value of production	45.8	49.9	95.7	45.7	141.4	48.0	55.6	103.6	49.0	152.6
<b>EBITDA</b>	<b>4.1</b>	<b>7.3</b>	<b>11.4</b>	<b>5.5</b>	<b>16.9</b>	<b>5.5</b>	<b>8.3</b>	<b>13.8</b>	<b>6.8</b>	<b>20.7</b>
EBIT margin	8.9%	14.7%	12.0%	12.0%	12.0%	12.3%	15.2%	13.9%	14.0%	13.9%
<b>EBIT</b>	<b>0.8</b>	<b>4.1</b>	<b>4.9</b>	<b>2.1</b>	<b>7.0</b>	<b>2.0</b>	<b>4.0</b>	<b>6.0</b>	<b>3.0</b>	<b>8.9</b>
EBIT margin	1.7%	8.4%	5.2%	4.6%	5.0%	4.5%	7.3%	6.0%	6.1%	6.0%
Net interest income (expenses)	0.0	-1.0	-0.9	-0.8	-1.8	0.9	1.2	2.2	-2.0	0.2
Taxes	-0.5	-1.6	-2.1	-1.1	-3.3	-0.7	-1.4	-2.1	-1.5	-3.6
Result of discontinued activities	-0.6	-0.9	-1.5	0.0	-1.5	0.0	0.0	0.0	0.0	0.0
Minorities	0.3	-0.1	0.2	-0.1	0.1	-0.1	-0.2	-0.2	-0.1	-0.4
<b>Net profit</b>	<b>0.0</b>	<b>0.5</b>	<b>0.6</b>	<b>0.0</b>	<b>0.6</b>	<b>2.2</b>	<b>3.6</b>	<b>5.8</b>	<b>-0.6</b>	<b>5.2</b>
Net profit margin	0.1%	1.0%	0.6%	0.1%	0.4%	5.0%	6.6%	5.9%	-1.3%	3.5%

Source: GranitiFiandre, Mediobanca Securities

Cash-flow generation remained strong and the group cut its net debt from €41.7m at the end of 2009 to €30.9m in September 2010. Cash-flow generation in the third quarter has been particularly strong, reaching €7.6m. Destocking has been a main driver, as indicated by a decrease in inventories from €81m in June to €75.4m in September.

**Positive but cautious scenario**

Going forward, the main assumptions of our estimates may be summarised as follows:

- ◆ Cautious view on Italy – the Italian market remains tough. The construction sector is still involved in a deep crisis, which is also reflected in major difficulties faced by related sectors. Fadalti –one of Italy’s largest specialised distributors of building materials with some 380 employees and some €100m sales – only recently went bankrupt, a clear sign that the worst is not over yet. After flat sales expected in 2010, we therefore estimate for 2011 low single-digit growth in sales in Italy, followed by a modest acceleration in 2012.
- ◆ Recovery in the rest of Europe - Price growth in Europe should accelerate reflecting the group’s strategy of upgrading Porcelaingres’ sales mix, which is currently too biased towards lower quality products. Price growth, coupled with some volume increases are reflected in sales growth of 5.1% in 2011 and 6.3% in 2012, while we expect the current year to close with sales roughly 1% below 2009.
- ◆ The RoW, particularly the US, will be the main growth driver of the group. Leveraging on StonePeak improving reputation, the group is expected to expand its overseas sales by almost 23% in 2010 and then to maintain high but single-digit growth in the following years.
- ◆ Margins – growing production and sales volumes coupled with ongoing cost cutting should be reflected in improving margins. We expect the EBIT margin will reach 6.5% this year and to be at 9.2% and 10.0% respectively in 2011 and 2012, still below the 11% peak reached in 2007.
- ◆ Modest investment activity – we assume that the group will continue to operate within its current perimeter without the potential expansion in China or the integration with Iris. Under this scenario and given the fact that plants, especially those abroad and some lines in Italy, are recent and technologically up-to-date, the group’s investments should be modest. Specifically, we have included capex of €7.0m and €8.0 in 2010 and 2011 respectively – which is essentially maintenance capex – and of €12.0m in 2012, which is a year in which we assume there will be not only maintenance, but also some small upgrades/substitutions in Italy.

Based on the scenario described above, we expect the group will achieve a bottom line of €7.0m in 2010, up from €1.0m in 2009, and of €5.2m in the first nine months of the year. Bottom-line growth in the second half of 2010 should be lower as the euro has strengthened and we have not therefore included any further gains from exchange differences apart from those already realised in the first months of the year.

**We are expecting €9.9m profits in 2011 and a further reduction in net debt**

In 2011 and 2012, we are expecting a bottom line of €10.2m and €12.2m respectively, which is a strong recovery with respect to the bottom reached in 2009, but is once more still below the peak reached in 2007 of €13.8m.

Thanks to the modest expected investment activity and under the assumption that the group will continue to carefully manage its working capital needs, we expect GRF will produce €11.0m cash flow in 2010, €9.3m in 2011 and €5.5m in 2012, for which we have included some higher investments. We have assumed a more generous dividend policy compared with recently, with DPS increasing from €0.035 in 2009 to €0.050 this year and up to €0.10 in 2012, implying a 30% payout on the group’s profits. Even in this scenario of growing dividends, we estimate the group’s net debt will decrease further. We forecast the group will close 2010 with net debt of at €30.7m, in line with the level reached in September, and then to decrease to €21.5m in 2011 and then to around €16.0m in 2012.

Profit & Loss (€ m)	2006	2007	2008	2009	2010e	2011e	2012e
Sales revenues	199.1	229.4	219.4	183.9	195.4	206.5	218.4
Change in inventories	6.4	5.1	12.0	-6.5	-4.4	2.0	2.7
Other revenues	6.8	6.3	8.5	9.4	9.8	9.9	10.5
Value of production	222.3	240.9	239.9	186.9	200.7	218.5	231.6
Purchases	-64.3	-62.4	-64.0	-44.3	-46.5	-51.6	-55.7
Service and operating costs	-75.8	-91.0	-97.8	-78.6	-83.0	-88.2	-92.8
Personnel costs	-43.9	-47.4	-48.0	-42.5	-43.3	-45.0	-47.2
<b>EBITDA</b>	<b>28.3</b>	<b>40.2</b>	<b>30.1</b>	<b>21.5</b>	<b>27.9</b>	<b>33.6</b>	<b>35.9</b>
Amortisation & Depreciation	-12.9	-13.8	-13.9	-12.8	-13.8	-13.0	-12.3
Provisions and write-downs	-1.3	-1.1	-1.6	-1.2	-1.5	-1.7	-1.8
<b>EBIT</b>	<b>14.1</b>	<b>25.3</b>	<b>14.6</b>	<b>7.5</b>	<b>12.6</b>	<b>18.9</b>	<b>21.8</b>
Net interest income (expenses)	-8.3	-2.7	-2.3	-1.8	-0.2	-1.1	-0.8
<b>Pre-tax profit</b>	<b>5.8</b>	<b>22.6</b>	<b>12.4</b>	<b>5.7</b>	<b>12.4</b>	<b>17.9</b>	<b>21.0</b>
Taxes	-5.6	-7.5	-5.8	-3.3	-5.0	-7.0	-8.0
Result of discontinued activities				-1.5	0.0	0.0	0.0
Minorities	-0.6	-1.2	-0.4	0.1	-0.5	-0.7	-0.8
<b>Net profit</b>	<b>-0.5</b>	<b>13.8</b>	<b>6.2</b>	<b>1.0</b>	<b>7.0</b>	<b>10.2</b>	<b>12.2</b>
Sales growth		15%	-4%	-16%	6%	6%	6%
<b>EBITDA margin</b>	<b>14.2%</b>	<b>17.5%</b>	<b>13.7%</b>	<b>11.7%</b>	<b>14.3%</b>	<b>16.3%</b>	<b>16.4%</b>
<b>EBIT margin</b>	<b>7.1%</b>	<b>11.0%</b>	<b>6.7%</b>	<b>4.1%</b>	<b>6.5%</b>	<b>9.2%</b>	<b>10.0%</b>
Net profit growth		-3091%	-55%	-85%	629%	47%	20%
<b>Net profit margin</b>	<b>-0.2%</b>	<b>6.0%</b>	<b>2.8%</b>	<b>0.5%</b>	<b>3.6%</b>	<b>4.9%</b>	<b>5.6%</b>

Source: GranitiFiandre, Mediobanca Securities

Balance sheet (€ m)	2006	2007	2008	2009	2010e	2011e	2012e
Net Working Capital	68.2	74.6	81.2	68.0	69.2	73.3	77.5
Net Fixed Assets & other LT assets	144.4	138.9	143.3	138.0	131.7	127.0	126.9
Total Capital Employed	212.5	213.5	224.5	206.0	200.8	200.3	204.4
Net Debt	47.8	46.4	53.5	41.7	30.7	21.5	15.9
Provisions & ins. Liabilities & other debt	9.7	9.7	9.3	8.9	8.6	8.3	8.0
Shareholders' Funds	150.1	150.5	154.9	151.6	157.3	165.7	174.8
Minorities	4.9	6.8	6.82	3.7	4.2	4.9	5.7
Total Capital Employed	212.5	213.5	224.5	206.0	200.8	200.3	204.4

Source: GranitiFiandre, Mediobanca Securities

CASHFLOW MODEL (€ m)	2007	2008	2009	2010e	2011e	2012e
Profit before minorities	15.1	6.6	0.9	7.5	10.9	13.0
Depreciation & oth. prov.	14.9	15.5	14.0	15.3	14.7	14.1
Change in TFR	(0.5)	(0.5)	(0.9)	(0.3)	(0.3)	(0.3)
Cashflow from operations	29.5	21.6	14.0	22.5	25.3	26.8
Net Capex	(15.8)	(14.5)	(13.5)	(7.0)	(8.0)	(12.0)
Inv. in financial fixed assets						
Change in NWC	(6.4)	(6.6)	13.2	(1.2)	(4.2)	(4.2)
Free cashflow from operat.	7.3	0.4	13.8	14.3	13.1	10.6
Proceeds form rights issues						
Dividends paid	(4.4)	(5.5)	(1.8)	(1.3)	(1.8)	(3.1)
Other non cash items	(4.2)	(1.9)	(0.2)	(2.0)	(2.0)	(2.0)
Change in NFP	(1.4)	(7.0)	11.7	11.0	9.3	5.5

Source: *GranitiFiandre*, Mediobanca Securities

Per share data (€ m)	2007	2008	2009	2010e	2011e	2012e
EPS	0.38	0.17	0.03	0.19	0.28	0.33
CFPS	0.80	0.59	0.38	0.61	0.69	0.73
<b>DPS</b>	<b>0.150</b>	<b>0.050</b>	<b>0.035</b>	<b>0.050</b>	<b>0.083</b>	<b>0.100</b>
EV/Sales	1.6	0.8	0.9	0.7	0.6	0.6
EV/EBITDA	9.1	5.8	8.0	5.0	3.9	3.5
EV/EBIT	14.5	12.0	22.8	11.1	6.9	5.8
P/E	23.1	19.7	n.m	15.8	10.8	9.0
P/CF	10.9	5.6	9.2	4.9	4.3	4.1
Yield	1.7%	1.5%	1.0%	1.7%	2.8%	3.3%

Source: *GranitiFiandre*, Mediobanca Securities

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Profit & Loss account (€ m)	2008	2009	2010E	2011E	2012E
Turnover	219	184	195	207	218
Turnover growth %	-4.4	-16.2	6.2	5.7	5.7
EBITDA	30	21	28	34	36
EBITDA margin (%)	13.7	11.7	14.3	16.3	16.4
EBITDA growth (%)	-25.0	-28.7	30.0	20.5	6.6
Depreciation & Amortization	-15	-14	-15	-15	-14
EBIT	15	7	13	19	22
EBIT margin (%)	6.7	4.1	6.5	9.2	10.0
EBIT growth (%)	-42.1	-48.9	68.7	50.0	14.9
Net Fin. Income (charges)	-2	-2	0	-1	-1
Non-Operating Items	0	-2	0	0	0
Extraordinary Items	0	0	0	0	0
Pre-tax Profit	12	4	12	18	21
Tax	-6	-3	-5	-7	-8
Tax rate (%)	46.8	78.6	40.0	39.0	38.0
Minorities	0	0	-1	-1	-1
Net Profit	6	1	7	10	12
Net Profit growth (%)	-55.3	-84.6	nm	46.6	19.5
Adjusted Net Profit	6	1	7	10	12
Adj. Net Profit growth (%)	-55.3	-84.6	n.m	46.6	19.5

Balance Sheet (€ m)	2008	2009	2010E	2011E	2012E
Working Capital	81	68	69	73	78
Net Fixed Assets	143	138	132	127	127
Total Capital Employed	225	206	201	200	204
Shareholders' Funds	155	152	157	166	175
Minorities	7	4	4	5	6
Provisions	9	9	9	8	8
Net Debt (-) Cash (+)	-53	-42	-31	-21	-16

Cash Flow Model (€ m)	2008	2009	2010E	2011E	2012E
Cash Earnings	22	14	22	25	27
Working Capital Needs	-7	13	-1	-4	-4
Capex (-)	-15	-13	-7	-8	-12
Financial Investments (-)	0	0	0	0	0
Dividends (-)	-6	-2	-1	-2	-3
Other Sources / Uses	-2	0	-2	-2	-2
Ch. in Net Debt (-) Cash (+)	-7	12	11	9	6

Multiples	2008	2009	2010E	2011E	2012E
P/E Adj.	19.7	nm	15.5	10.6	8.9
P/CEPS	5.6	9.2	4.8	4.3	4.0
P/BV	0.8	0.9	0.7	0.7	0.6
EV/ Sales	0.8	0.9	0.7	0.6	0.6
EV/EBITDA	5.8	8.0	5.0	3.8	3.5
EV/EBIT	12.0	22.8	11.0	6.8	5.7
EV/Cap. Employed	0.8	0.8	0.7	0.6	0.6
Yield (%)	1.5	1.0	1.7	2.8	3.4
OpFCF Yield (%)	5.1	12.4	14.2	16.6	15.9
FCF Yield (%)	0.8	12.5	13.5	12.4	10.1

Per Share Data (€)	2008	2009	2010E	2011E	2012E
EPS	0.17	0.03	0.19	0.28	0.33
EPS growth (%)	-55.3	-84.6	n.m	46.6	19.5
EPS Adj.	0.17	0.03	0.19	0.28	0.33
EPS Adj. growth (%)	-55.3	-84.6	n.m	46.6	19.5
CEPS	0.59	0.38	0.61	0.69	0.73
BVPS	4.2	4.1	4.3	4.5	4.7
DPS Ord	0.05	0.04	0.05	0.08	0.10

Key Figures & Ratios	2008	2009	2010E	2011E	2012E
Avg. N° of Shares (m)	37	37	37	37	37
EoP N° of Shares (m)	37	37	37	37	37
Avg. Market Cap. (€ m)	122	129	108	108	108
Adjustments (€m)	0	0	0	0	0
Enterprise Value (€ m)	175	171	139	129	124

Labour Costs/Turnover	0%	0%	0%	0%	0%
Depr. & Amort. / Turnover	7%	8%	8%	7%	6%
Turnover / Op.Costs	1.1	1.0	1.1	1.1	1.1
Gearing (Debt / Equity)	33%	27%	19%	13%	9%
EBITDA / Fin. Charges	>10	>10	>10	>10	>10
Net Debt / EBITDA	1.8	1.9	1.1	0.6	0.4
Cap. Employed / Turnover	102%	112%	103%	97%	94%
Capex / Turnover	7%	7%	4%	4%	5%
Pay out	30%	135%	27%	30%	30%
ROE	4%	1%	4%	6%	7%
ROCE (pre tax)	7%	4%	6%	9%	11%
ROCE (after tax)	3%	1%	4%	6%	7%