

CIR – Compagnie Industriali Riunite

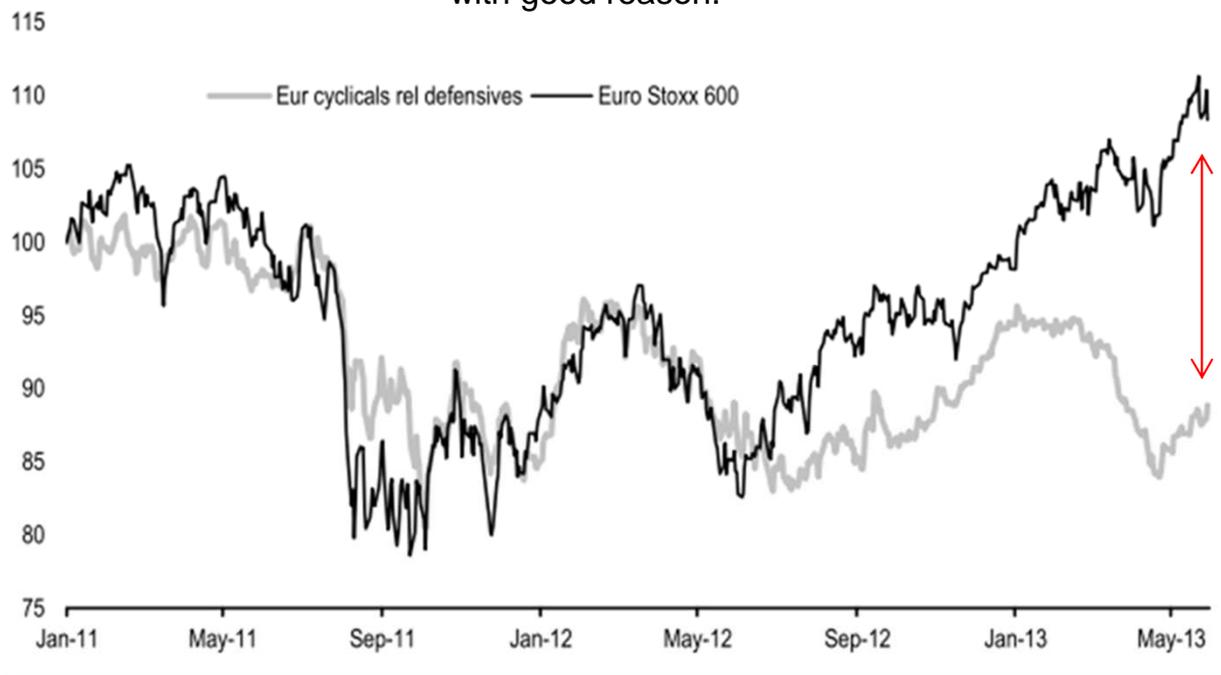
Italy / Cyclical / Holding Co.

Milan stock exchange: CIR

Robert Mori, 06/18/2013

Global Valuations - CAPEs

European cyclicals have underperformed over the past year – with good reason.



Source: Thomson Reuters, Credit Suisse research

| Country | Start Date | Latest Date | Latest |
|-------------|------------|-------------|--------|
| Greece | 12/31/1987 | 3/31/2013 | 3.18 |
| Argentina | 12/31/1987 | 3/31/2013 | 5.17 |
| Ireland | 5/31/1990 | 3/31/2013 | 5.82 |
| Russia | 1/31/1996 | 3/31/2013 | 6.86 |
| Italy | 4/30/1984 | 3/31/2013 | 6.88 |
| Austria | 10/31/1981 | 3/31/2013 | 8.21 |
| Spain | 12/31/1979 | 3/31/2013 | 8.22 |
| Portugal | 1/31/1988 | 3/31/2013 | 9.89 |
| Israel | 6/30/1999 | 3/31/2013 | 11.32 |
| Brazil | 1/31/1988 | 3/31/2013 | 11.36 |
| Belgium | 12/31/1969 | 3/31/2013 | 11.51 |
| Netherlands | 12/31/1969 | 3/31/2013 | 11.65 |
| France | 9/30/1971 | 3/31/2013 | 12.31 |
| Poland | 12/31/1992 | 3/31/2013 | 12.58 |
| Singapore | 12/31/1972 | 3/31/2013 | 12.61 |
| Norway | 12/31/1969 | 3/31/2013 | 12.69 |
| Egypt | 1/31/1996 | 3/31/2013 | 12.75 |
| UK | 12/31/1969 | 3/31/2013 | 13.41 |
| NewZealand | 1/31/1988 | 3/31/2013 | 13.99 |
| China | 1/31/1995 | 3/31/2013 | 14.09 |
| Germany | 12/31/1969 | 3/31/2013 | 14.17 |
| Taiwan | 1/31/1988 | 3/31/2013 | 14.52 |
| Australia | 12/31/1969 | 3/31/2013 | 14.92 |
| SouthKorea | 12/31/1987 | 3/31/2013 | 15.35 |
| Sweden | 12/31/1969 | 3/31/2013 | 16.08 |
| Turkey | 12/31/1987 | 3/31/2013 | 16.37 |
| HongKong | 12/31/1972 | 3/31/2013 | 16.75 |
| SouthAfrica | 12/31/1992 | 3/31/2013 | 17.87 |
| Japan | 12/31/1969 | 3/31/2013 | 18.19 |
| India | 12/31/1992 | 3/31/2013 | 18.39 |
| Switzerland | 12/31/1969 | 3/31/2013 | 18.43 |
| Canada | 12/31/1969 | 3/31/2013 | 18.49 |
| Thailand | 12/31/1987 | 3/31/2013 | 18.76 |
| Malaysia | 12/31/1987 | 3/31/2013 | 19.79 |
| Mexico | 12/31/1987 | 3/31/2013 | 20.83 |
| Chile | 1/31/1988 | 3/31/2013 | 21.33 |
| USA | 12/31/1969 | 3/31/2013 | 22.59 |

Touching a Cyclical Bottom?

For Italy And Spain...

| | FISCAL DRAG* | 2009-12 |
|----|--------------|---------|
| 1 | JAPAN | 1.8 |
| 2 | FINLAND | 0.8 |
| 3 | BELGIUM | -0.4 |
| 4 | GERMANY | -1.3 |
| 5 | AUSTRIA | -1.7 |
| 6 | U.S. | -1.8 |
| 7 | NETHERLANDS | -2.1 |
| 8 | FRANCE | -2.2 |
| 9 | ITALY | -2.8 |
| 10 | SPAIN | -3.8 |
| 11 | U.K. | -4.3 |
| 12 | IRELAND | -4.4 |
| 13 | PORTUGAL | -5.1 |
| 14 | GREECE | -15.4 |

↑ Less Austerity
↓ More Austerity

...Peak Austerity Is Over

| | FISCAL DRAG* | 2012-15 |
|----|--------------|---------|
| 1 | GERMANY | 0.0 |
| 2 | AUSTRIA | -0.4 |
| 3 | SPAIN | -0.4 |
| 4 | ITALY | -0.8 |
| 5 | FINLAND | -0.9 |
| 6 | NETHERLANDS | -1.2 |
| 7 | FRANCE | -1.9 |
| 8 | BELGIUM | -2.0 |
| 9 | U.K. | -2.7 |
| 10 | PORTUGAL | -2.9 |
| 11 | U.S. | -3.3 |
| 12 | JAPAN | -3.5 |
| 13 | IRELAND | -3.7 |
| 14 | GREECE | -4.5 |

*BASED ON CHANGES IN STRUCTURAL DEFICITS AS A % OF GDP.
SOURCE: IMF WORLD ECONOMIC OUTLOOK APRIL 2013

A Lull In Euro Area Elections In 2014-2015

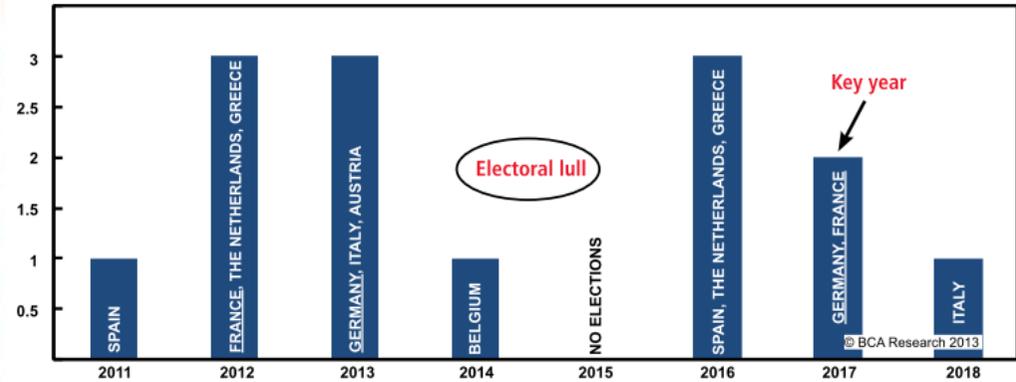
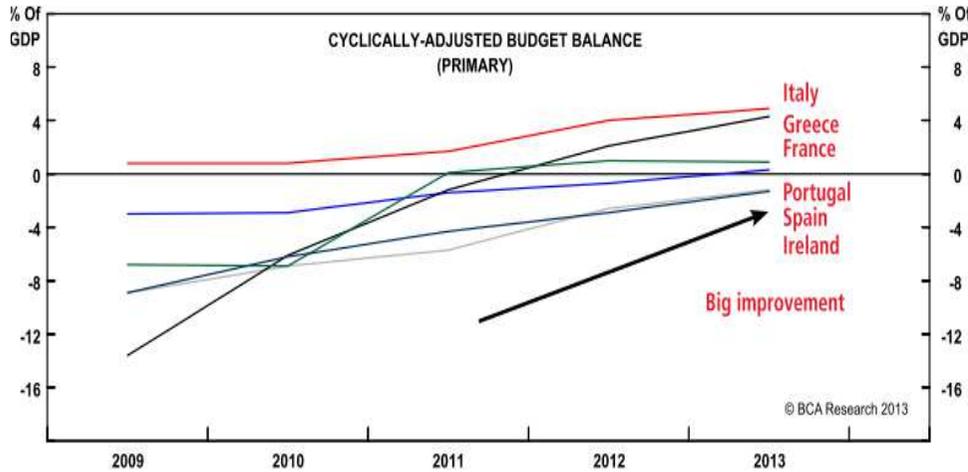
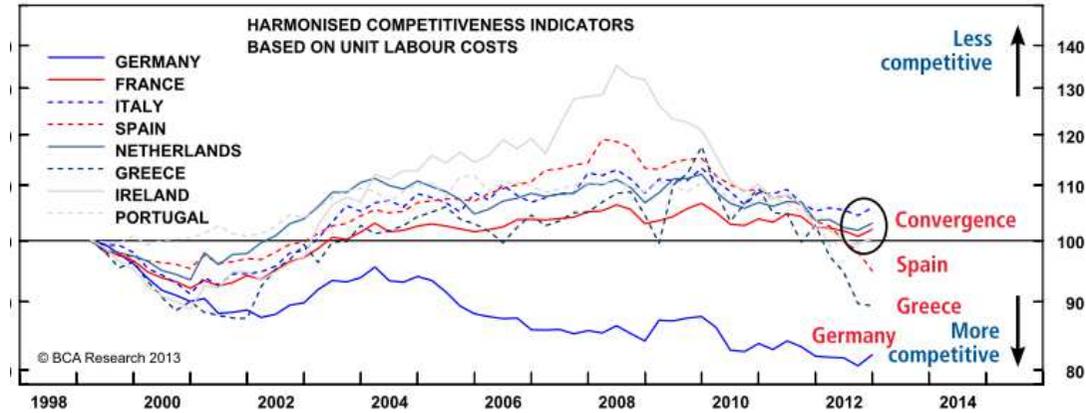


CHART ONLY LOOKS AT ELECTIONS IN THE MAJOR EIGHT EURO AREA ECONOMIES. NOTE THAT PARLIAMENTARIAN DEMOCRACIES CAN HAVE ELECTIONS WHENEVER THE GOVERNMENT LOSES CONFIDENCE OF THE PARLIAMENT. THE COUNTRIES MOST LIKELY TO HAVE EARLY ELECTIONS ARE ITALY AND GREECE (POTENTIALLY ALSO SPAIN).



SOURCE: IMF FISCAL MONITOR, APRIL 2013.



SOURCE: ECB HARMONISED COMPETITIVENESS INDICATORS BASED ON UNIT LABOUR COSTS RELATIVE TO TOP 20 TRADING PARTNERS; REBASED TO Q1 1999 = 100.

CIR – Compagnie Industriali Riunite

| | | |
|--------------------------------|------|-----|
| Stock price (EUR) | 0.82 | |
| Market cap | 650 | (m) |
| Free float (48.7%) | 317 | (m) |
| P/E | neg. | |
| P/avg. 8yr EPS | 9.1 | |
| P/B (group - unconsol.) | 0.47 | |
| Daily average volume | 0.75 | (m) |
| Credit Rating S&P: BB (stable) | | |

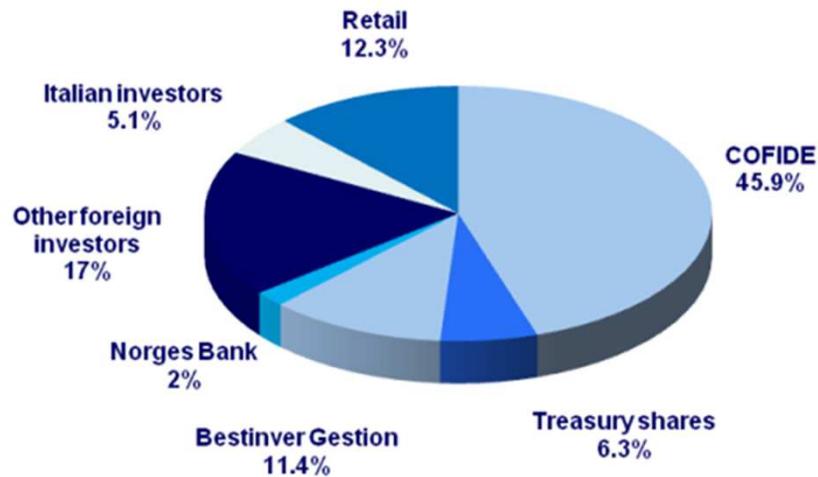
Dividend suspended for 2013 in favor of share buy back of 3.8% of total shares to be executed within 18 months



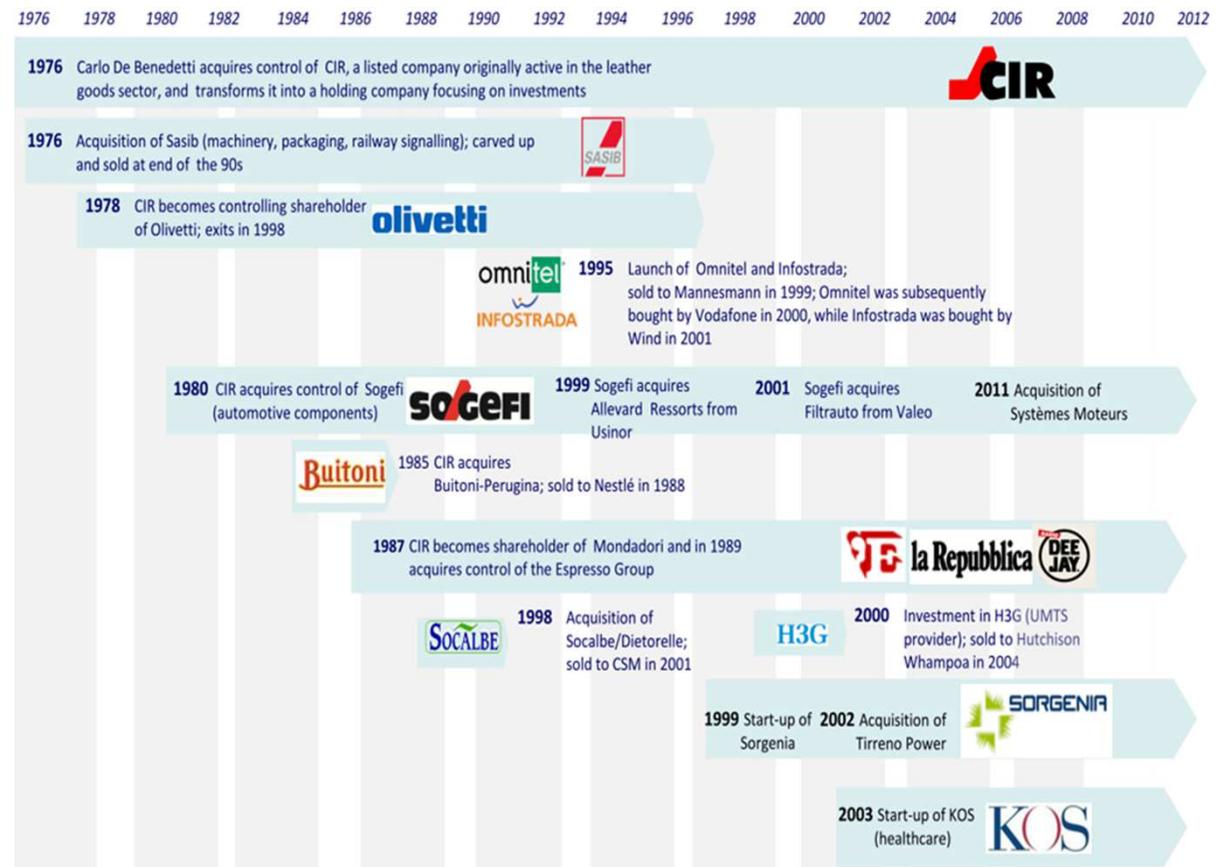
CIR is the holding company of a leading Italian industrial group active in five business areas (as a % of NAV):

- **48% Energy** - electricity and gas – through Sorgenia (private holding together with Verbund, biggest Austrian utility)
 - One of Italy's largest energy companies, electricity supplier to 500k businesses
- **15% Media** - Gruppo Editoriale L'Espresso (listed on MIB: ES)
 - Leading media business incl. dailies, periodicals, radio, Internet, TV and advertising. 50% of revenue from advertising.
- **12% Automotive components** - engine and suspension systems – Sogefi (listed on MIB: SO)
 - Globally diversified and innovative automotive business
- **10% Healthcare** - nursing homes, rehabilitation and hospital facilities – KOS (private JV with AXA Private Equity Partners)
 - Defensive and growing business. Leader in Italian long-term care.
- **15% Non-core investments** - private equity, venture capital, minority interests and new initiatives

Ownership



- Cofide is the control vehicle of the De Benedetti Family, which has a successful industrial history in Italy and a track record of value creation.
- Focus on controlling stakes and leading positions in respective industries.
- Preference for growth through build ups/startups
- No leverage, significant liquidity and commitment to low cost structure at holding company level.



Investment Thesis

Idea: Excessive holding discount on cyclically depressed asset values

Assumptions: Viable businesses in viable industries under shareholder friendly management.

- **Strategically attractive energy business** to enter the Italian market. Austrian partner Verbund has already expressed interest in the past. **Cyclically challenged but margins starting to improve.** Lower natgas prices through renegotiation of long-term supply contracts, efficiency measures and debt reduction through non-core asset sales.
- **Media business is highly sensitive to economy and should perform well once economy stabilizes.** National newsprint business structurally challenged. Digital business attractive due to high domestic reach for daily news. No.1 website in Italy for daily relevant news (similar to CNN or FOX in US). Italian digital advertising market still underdeveloped. Valuable regional brands. Stock **looks cheap.**
- **Automotive business boosted by cyclical upswing in US.** Lower risk through increasing global diversification. Track record for innovation. Listed stock looks considerably **undervalued.**
- **Health care business is maturing** after a build-out phase. Focus on profitability. New JV in India.
- **High probability of significant legal award** (40% of market cap) – “Mondadori”

NAV Calculation (in million Euro, except per share data)

| | CIR share | Stock price | Valuation Method | # of Shares | Market Cap | EV | CIR share | EV/Ebitda | P/E | P/B | P/S |
|------------------------------|-----------|-------------|--|-------------|------------|-----|------------|---|--|--|------|
| Espresso | 55.8% | 0.86 | market | 410 | 353 | 400 | 197 | 3.9 | 7.6 | 0.6 | 0.4 |
| Sogefi | 58.3% | 2.7 | market | 117 | 315 | 596 | 184 | 4.7 | 8.8 | 1.4 | 0.2 |
| Sorgenia | 52.9% | private | lower of a) recent transaction value or b) reproduction value | | | | 543 | <i>Reproduction value: 1.03bn = value of CIR stake: 543m Verbund aquired 0.75%@9.5m 11/2012=CIR stake: 670m</i> | | | |
| Kos | 51.3% | private | lower of a) recent transaction value or b) book value | | | | 122 | <i>Book value: 237.5</i> | .=CIR stake: 122m AxaPE aquired 46.7% for 150m cap.com.=CIR stake: 165m | | |
| Other Investments | private | book value | | | | | 198 | PE funds, Swiss Education Group, CIR Venture | | | |
| Mondadori legal award | | | approx. Eur 400m after tax (high probab | | | | - | Final appeal pending June/July 2013 | | | |
| | | | | | | | NAV | 1,244 | | | |
| CIR | | | | 793 | | | | NAV per share | 1.57 | | |
| | | | | | | | | Market Cap | 651 | | |
| | | | | | | | | Market price | 0.82 | | |
| | | | | | | | | Discount | 48% | Upside incl. 20% perm holding discount = | 53% |
| | | | | | | | | Incl. Priv.M. Valuations * | 54% | Upside incl. 20% perm holding discount = | 74% |
| | | | | | | | | Incl. Mondadori Award | 64% | Upside incl. 20% perm holding discount = | 123% |
| | | | | | | | | Incl. cyclical improvements | ? | | |

* Private market transactions in the recent past that help to establish market values for reference purposes:

- Sorgenia: 2008 Verbund subscribed to capital increase of 200m valuing Sorgenia at Euro 3.3bn and to a 150m convertible bond in 2009 valuing Sorgenia at Eur 3.9bn
- Sorgenia: 2012 Verbund acquired another 0.75% for 9.5mil (capital increase/exercise of put options within management stock program) which valued Sorgenia at Euro 1.26bn (=CIR stake: 670m)
- KOS: 2010 Axa Private Equity Partners subscribed to a capital commitment of 150mil for a stake of 46.7% which valued KOS at Euro 322 million. (=CIR stake: 165m)



Risks

General

- Prolonged recessionary environment in Italy.

Sorgenia

- Changes in regulation in Italian electricity sector
- Margins in thermal electricity generation remain depressed.
- Capital increase

L'Espresso

- Digital media business grows slower than shrinking print business.
- Pending tax dispute

Sogefi

- Global economy
- Overcapacity in European car sector
- Default of major client

KOS

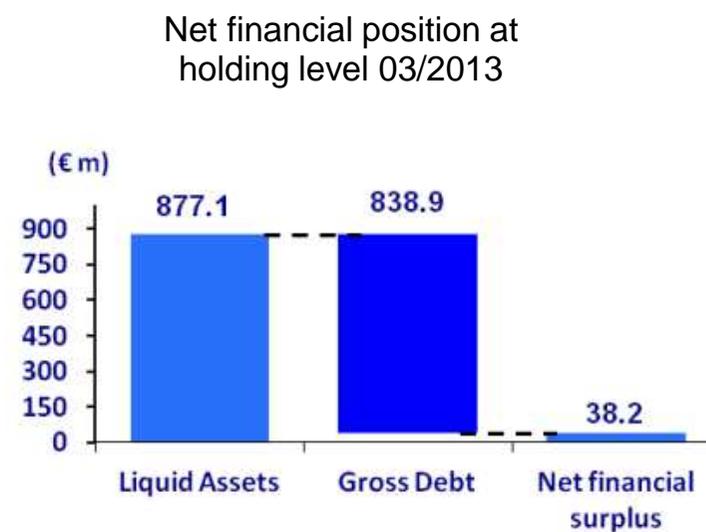
- Changes to reimbursement policies in Italy
-



Thank you!

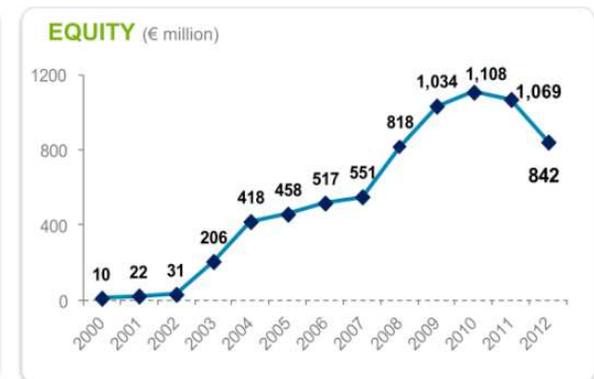
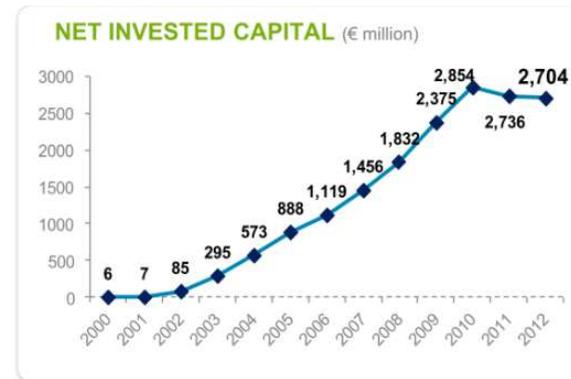
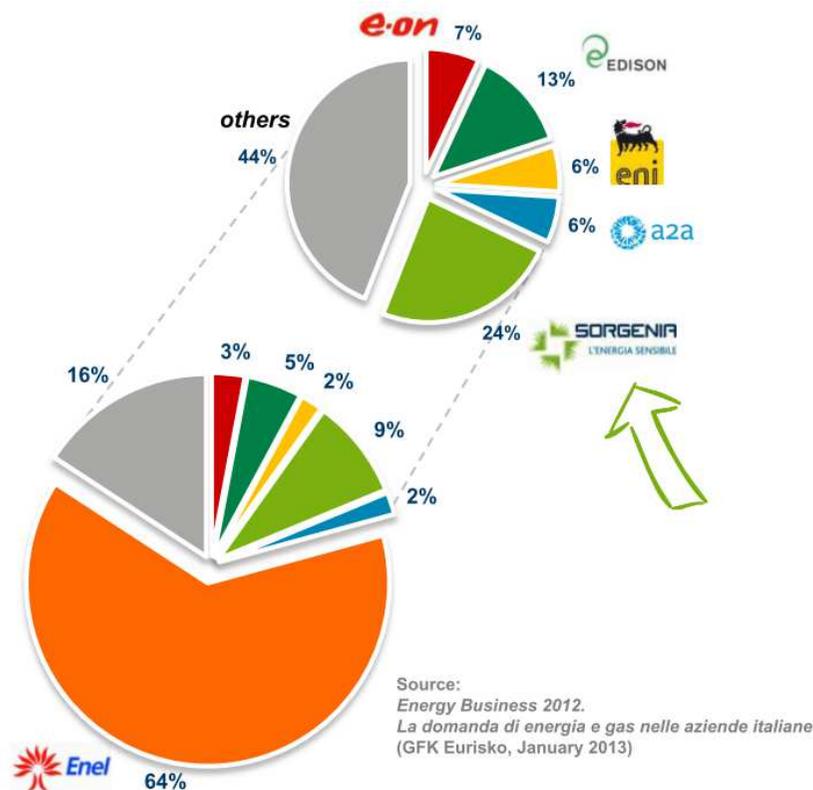
Annex: CIR Financials

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|------------------|------|------|------|------|--------|
| Revenue | 4727 | 4267 | 4651 | 4523 | 4724 |
| Rev growth | 12% | -10% | 9% | -3% | 4% |
| Gross Margin | 23% | 23% | 24% | 25% | 24% |
| Operating Profit | 320 | 148 | 216 | 256 | 60 |
| Operating Margin | 6.8% | 3.5% | 4.6% | 5.7% | 1.3% |
| EBITDA | 461 | 294 | 400 | 487 | 308 |
| EBITDA Margin | 14% | 7% | 9% | 11% | 7% |
| Net Income | 177 | 189 | 123 | 63 | -75 |
| Net Margin | 3.7% | 4.4% | 2.6% | 1.4% | -1.6% |
| ROE | 4.6% | 6.5% | 2.3% | 4.0% | -0.4% |
| Share count | 749 | 748 | 750 | 793 | 793 |
| EPS | 0.13 | 0.19 | 0.08 | 0.01 | (0.02) |

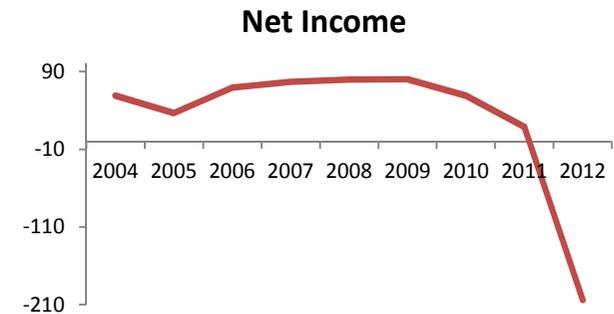
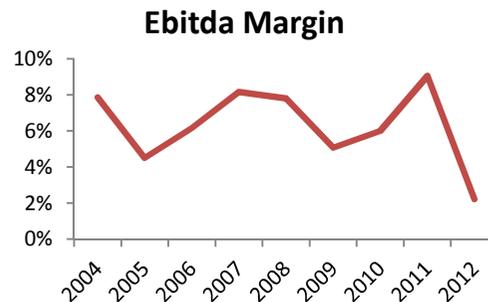
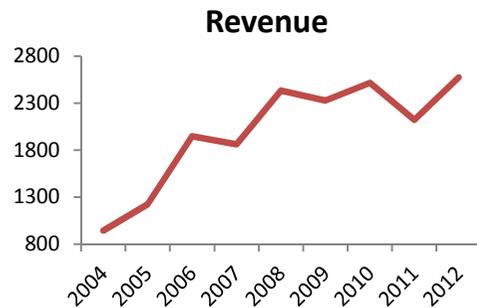


Annex: Sorgenia

- Created in 1999 from scratch with partner Austrian electricity company Verbund.
- Now one of the largest energy operators in Italy (electricity and gas) with 2.6bn in revenues.
- 5100 MW installed capacity (thermal and renewable)
- Number 2 electricity supplier to Italian businesses with 500k customers.
- Leading player in wind energy in Italy and France (50% JV with KKR)



Annex: Sorgenia Current Performance

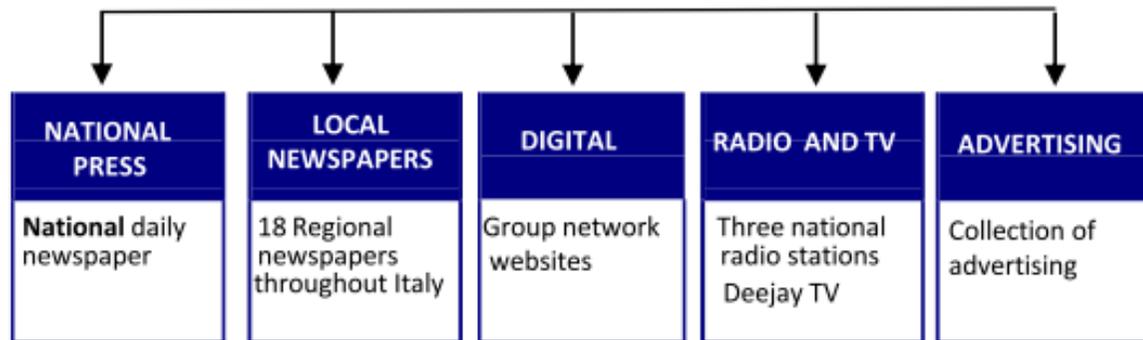


- Italian recession took its toll on Sorgenia. 2012 was first negative year including 134m of asset impairment charges.
- High gas prices for power plants and competition from renewables at peak times of day caused margins to fall.
- As a result, leverage increased substantially.

Improvements likely:

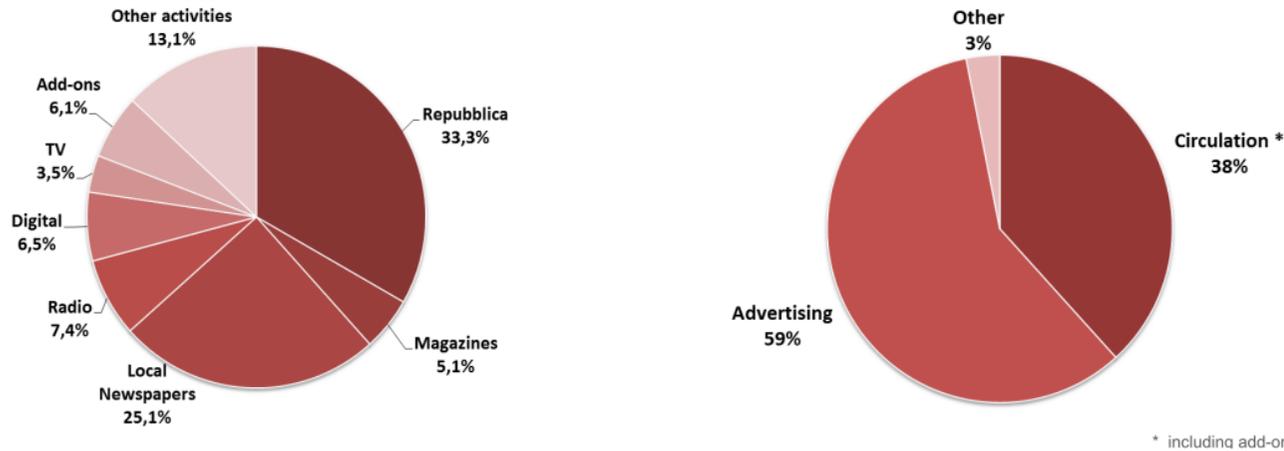
- Margin recovery started in Q4 2012 with renegotiation of Libyan long term gas contracts, cost reductions and marketing activities.
- Non-strategic asset sales for debt reduction (e.g. solar power plants).
- Italian economy likely to improve, albeit slowly.

Annex: L'Espresso



| | |
|-----------------------|-------|
| Listed on MIB: ES | |
| Stock price | 0.8 |
| EV/Ebitda | 4.3 |
| EV/Ebit | 7.3 |
| PE | 16.0 |
| P/B | 0.6 |
| P/S | 0.41 |
| 6yr avg ROE | 7.37 |
| 6yr avg Ebitda Margin | 16% |
| Net debt/equity | 19% |
| 5yr sales growth | -5.5% |
| 5yr Ital. adv. growth | -5.0% |

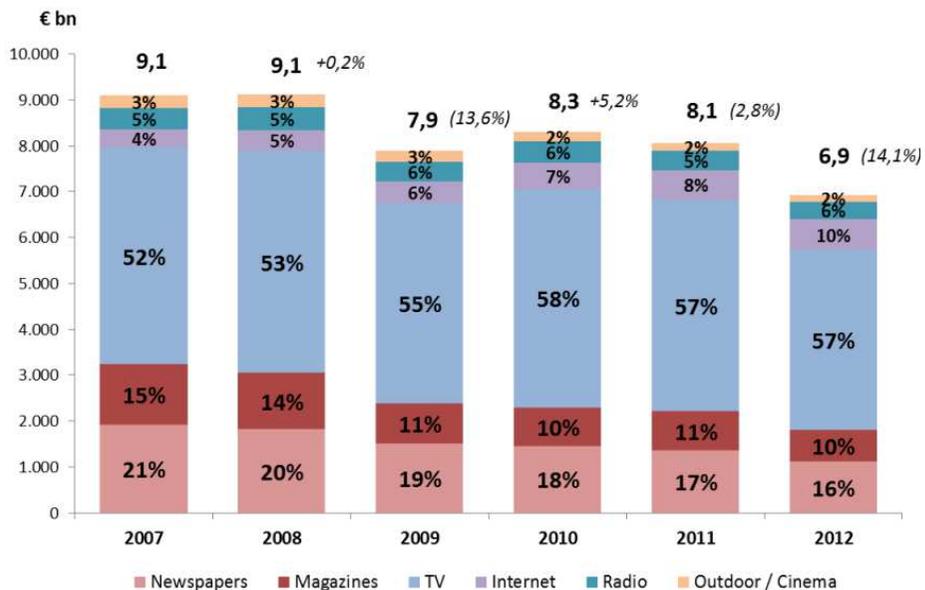
REVENUES SPLIT (€813 million)



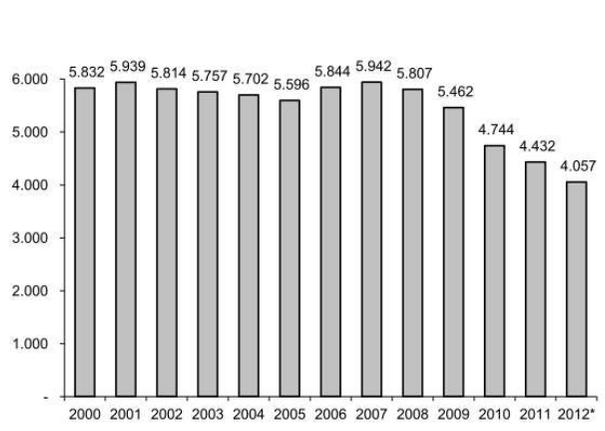
EBITDA MARGINS

| | |
|----------------------|--------------|
| Repubblica | 7,8% |
| Local Newspapers | 16,8% |
| Radio | 34,4% |
| Digital | 27,0% |
| TV | 12,3% |
| Magazines | - |
| EBITDA margin | 12,6% |

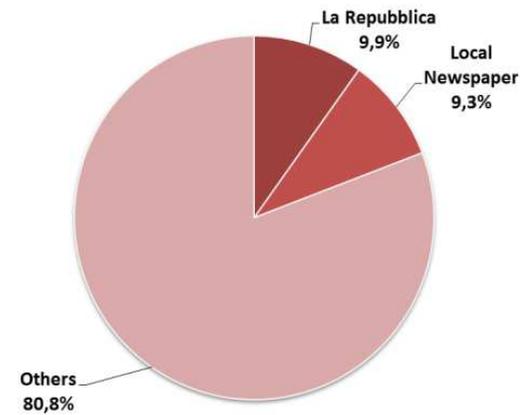
ITALIAN ADVERTISING MARKET



ITALIAN NEWSPAPER CIRCULATION AND MARKET SHARE 2012 (1)

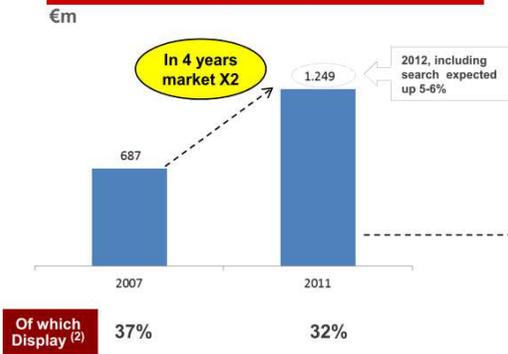


* 2012 vs 2011
 Total Circulation -8.5%
 Paid Circulation -8.7%

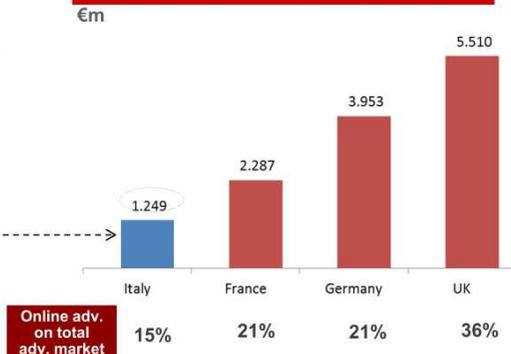


Espresso
 Group 19.2%
 Market Share of
 Total Circulation

Italy - online advertising market (1)



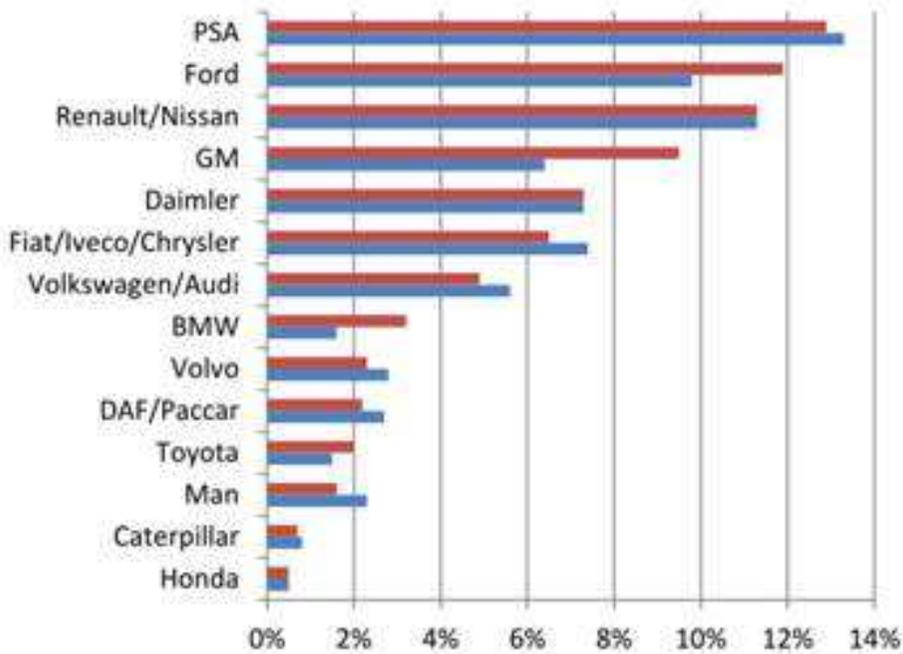
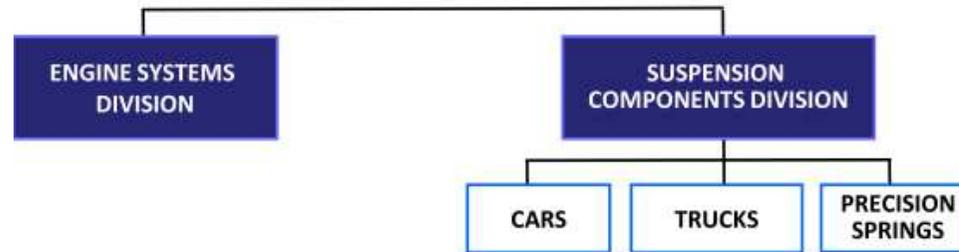
Benchmarking - online advertising market (1)



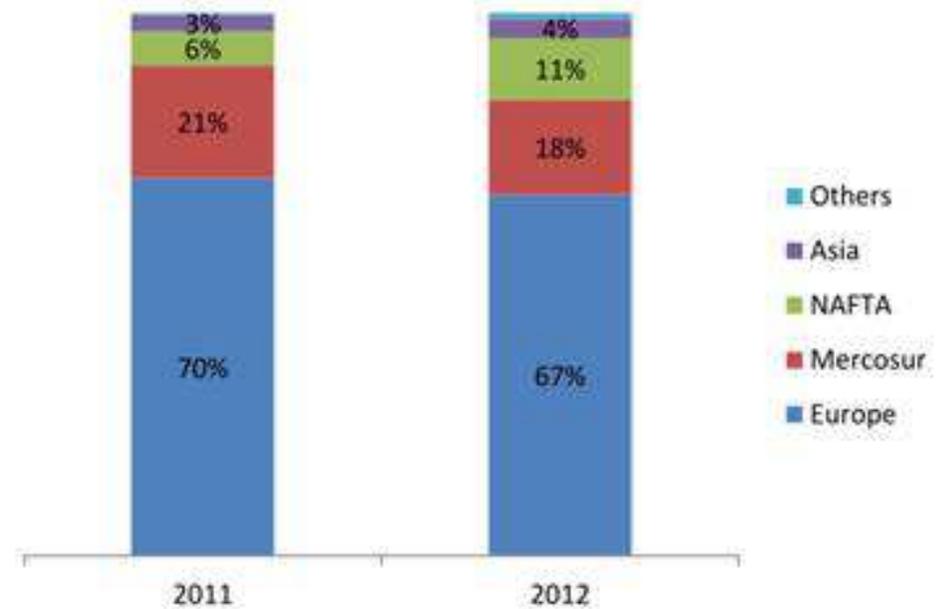
Espresso: growth in digital vs. market

| | Jan. – Sept. 12 | Oct. – Dec. 12 | FY 12 |
|----------|-----------------|----------------|--------|
| Market | +9.8% | -5.3% | +5.3% |
| Espresso | +19.0% | +8.6% | +15.6% |

Annex:



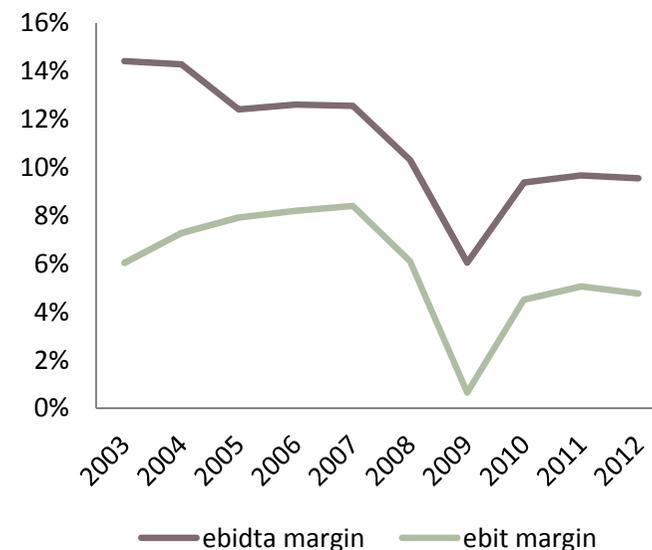
■ 2012
■ 2011



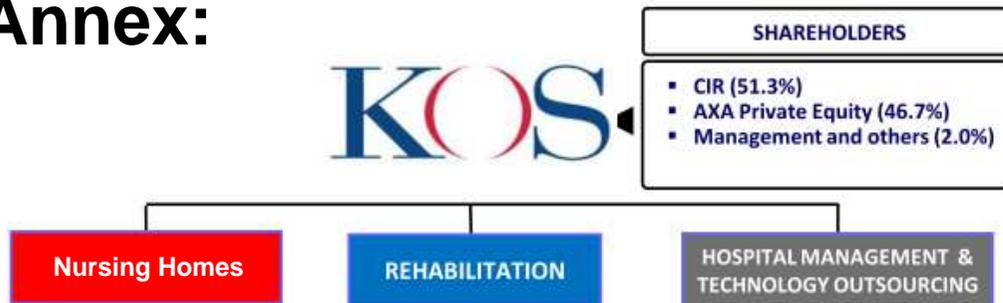
* In % of total sales

Annex: Sogefi Financials

| Listed on MIB: SO Price: Euro 2.6 DY: 6% | | | | Current | 2013E | |
|--|---------|-------|-------|-------------------------------|--------------------|------------------------|
| | current | 2013E | 2014E | European Sector Average | Discount to avg | Discount to average |
| Net debt (net cash) | 294 | 280 | 260 | | | |
| Net debt / Equity | 133% | 127% | 118% | | | |
| EV | 596 | 582 | 562 | | | |
| EV/Ebitda | 4.7 | 3.9 | 3.6 | 6.9 | 32% | 44% |
| EV/Ebit | 6.4 | 5.1 | 4.8 | 8.3 | 23% | 38% |
| PE | 10.0 | | | 11.0 | 9% | |
| P/B | 1.4 | | | 1.6 | 14% | |
| P/S | 0.23 | 0.20 | 0.19 | | | |
| EV/S | 0.44 | 0.43 | 0.41 | 0.7 | 34% | 36% |
| 5yr sales growth | 5.8% | 2.5% | 2.5% | | | |

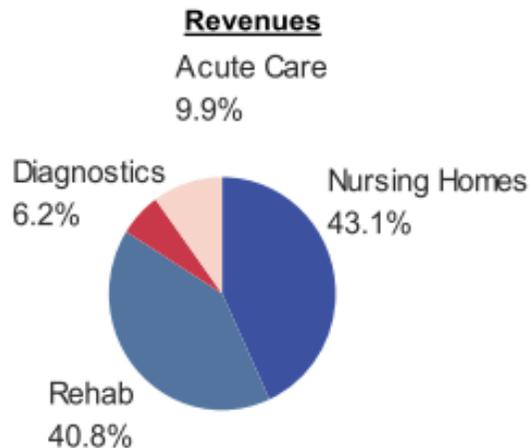


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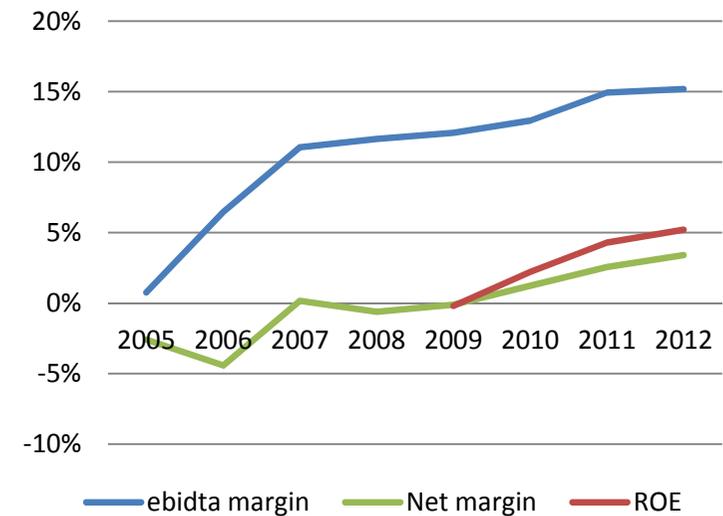
■ KOS was established by CIR in 2002 and is one of the main Italian operator in the healthcare sector

■ € 355,4 million of revenues in 2012, 63 facilities and over 4,000 employees



| | |
|------------------------|-----|
| Debt | 159 |
| EV | 432 |
| EV/Ebitda (input) | 8 |
| Equity @8x Ebitda (EV) | 273 |
| EV/BV | 1.7 |
| ROE | 5% |
| 6yr avg Ebitda Margin | 14% |
| Net debt/equity | 68% |
| 6yr sales growth | 35% |
| 3yr sales growth | 9% |

Operating Margins





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