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CONFINDUSTRIA BERGAMO

The oil & gas valve industry in Italy

BUSINESS STRUCTURE, PERFORMANCE AND RECENT TRENDS

Edition 2018

Milan, July 5th 2018

→ **Executive Summary**

→ Business structure

→ Italy's role in the European oil & gas valve industry

→ The Italian firms' performance

→ International trade and Italy's export performance

Executive summary (1/3)

- With an annual turnover of **3.3 billion Euros** generated by **300- firms** (with ~11000 employees) , the **Italian producers of industrial valves technologies and flow control solutions for Oil & Gas** are among the most relevant “hidden champions” in the Made in Italy Manufacturers landscape. A sector still not completely known by the general public, but that embodies the best of Made in Italy manufacturing: leadership in niche areas, high value-added productions and service, continuous investments in R&D and a strong export-oriented vocation (almost 90% of turnover is earned abroad).
- As far as this business is concerned, **Bergamo is the hub of an industrial district** across provincial boundaries that encompasses **more than 90% of the national production**. In this area there are some of main Italian (and global) producers and many small and medium-sized enterprises specialized in the manufacture of parts and components for valves.
- According to latest data available, the **Italian leading positioning** in this business also stands out at **European level** where Italy contributes for 31% of total production of industrial valves, ahead of Germany (26%), UK (13%) and France (11%). Furthermore, Italy is the only top EU producer that shows significant production levels in all types of valves. One out of two **ball valves** produced in EU is Made in Italy and about 30% of **gate and butterfly European valves** are produced in Italian plants. Below the average only the **globe valves**, for which the percentage produced in Italy falls to 10%. Finally, Italy ranks first in the EU even when it comes to **parts and components** (29%), a further evidence of the completeness of the complete Italian supply chain.

Executive summary (2/3)

- **During the 2015-'16** the European valve for oil&gas production showed a **cumulative decrease of 10%** compared to 2014. In 2016, one year late with respect the general trend, a contraction **also involved Italian production**, which fell by 9.5% after a positive 2015 (+5.4%). Given the importance of the overall Italian production, the most significant drop concerned **ball valves (-3.4%)** and **components (-8%)**, compared to a relevant increasing trend for **gate valves (+39.4%)** and a good performance for **butterfly (+4.7%)** and **check valves (+4%)**. In the last 3 cases the Italian performance was the best among the main European competitors.
- A financial statements analysis on a representative sample of Italian companies (which represent 94% of sector's turnover) confirm the problematic cyclical phase for the Italian oil&gas valves industry. In 2016, the **contraction in turnover involved companies regardless of size**: negative peaks especially for medium (-13.4%) and small (-12.2%) companies have been recorded, compared to a less negative performance for big players (-5%).
- However, the most significant trend regards the **evolution of industrial profitability**, with a ROI index passed **from 19.3% in 2014 to 7.5% in 2016**. Also in this case, the drop in industrial profitability has involved the small and medium-sized enterprises more intensively, but even large companies show a more than halved ROI compared to 2014. Analyzing the single components of the index, we can see a **sharp drop of sales profitability (-51% on average)** and a **less intense decrease** in the **rate of capital turnover**.
- One more time, the business as experienced the effects of the so called “commodity's curse” and suffered the delayed effect of the slump in international oil prices who drives great oil&gas companies investment decisions worldwide.

Executive summary (3/3)

- As a matter of fact, the reduction in ROS for Italian company is closely related to the drop in the price of oil, the effects of which are normally felt with a two years lag.
- Figures for 2017 highlights signs of turnarounds in global demand: according to international trade data (a business of **27.6 billion Euro**), global import increased at 2,8%. Anyway, even if Italian companies play a crucial role also in the international valves trade (with a 10,3% market share, behind China and Germany), they are still lagging behind.
- In **2017, Italian exports showed a decline of more than 3%**, confirming the negative trend of the previous year (-7.7%), and indicating some difficulty to keep up with the most dynamic areas on the world (+2.8% the growth in world demand). The **greatest difficulties are reported in Asia and in European markets** (in particular in Norway, UK, France, Spain, Russia and Turkey). The **very positive performance in the NEMA** markets (in Primis Saudi Arabia, UAE and Egypt) partially offset elsewhere declines in other areas, and confirmed Italy as a strategic partner for the countries in this part of the world.
- Indeed, quite unusual in the national manufacturing industry, the geographical framework of Italian exports has a strong specialization in the **MENA area** (which buys about ¼ of Italian exports and 11% of world imports) and according to recent figures and perspectives, short terms possibilities of an new upturn for the Italian Industry are closely related a further strengthening of the business relations in the area.
- The second “positive” issues in this overall disappointing scenario has to do with investments: facing increasingly challenging markets, Italian companies have reacted, as witnessed by the huge investments cycle of the 2011-15 period: the clearest evidence of the willingness to rethink their positioning to better deal with the new international scenario.

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The Italian industry of tapes and valves

A core sector of Made in Italy IM&E industry (2016)

	Number of enterprises 	Production value (€ billion) 	Number of employees 
 Oil & Gas valves	295	3.3	10 998
 Other industrial valves*	686	3.8	13 845
 Household taps	335	1.2	5 295
TAPES AND VALVES <i>(% share of Machinery and Equipment industry)</i>	1 316 (5.7%)	8.3 (6.8%)	30 138 (6.7%)

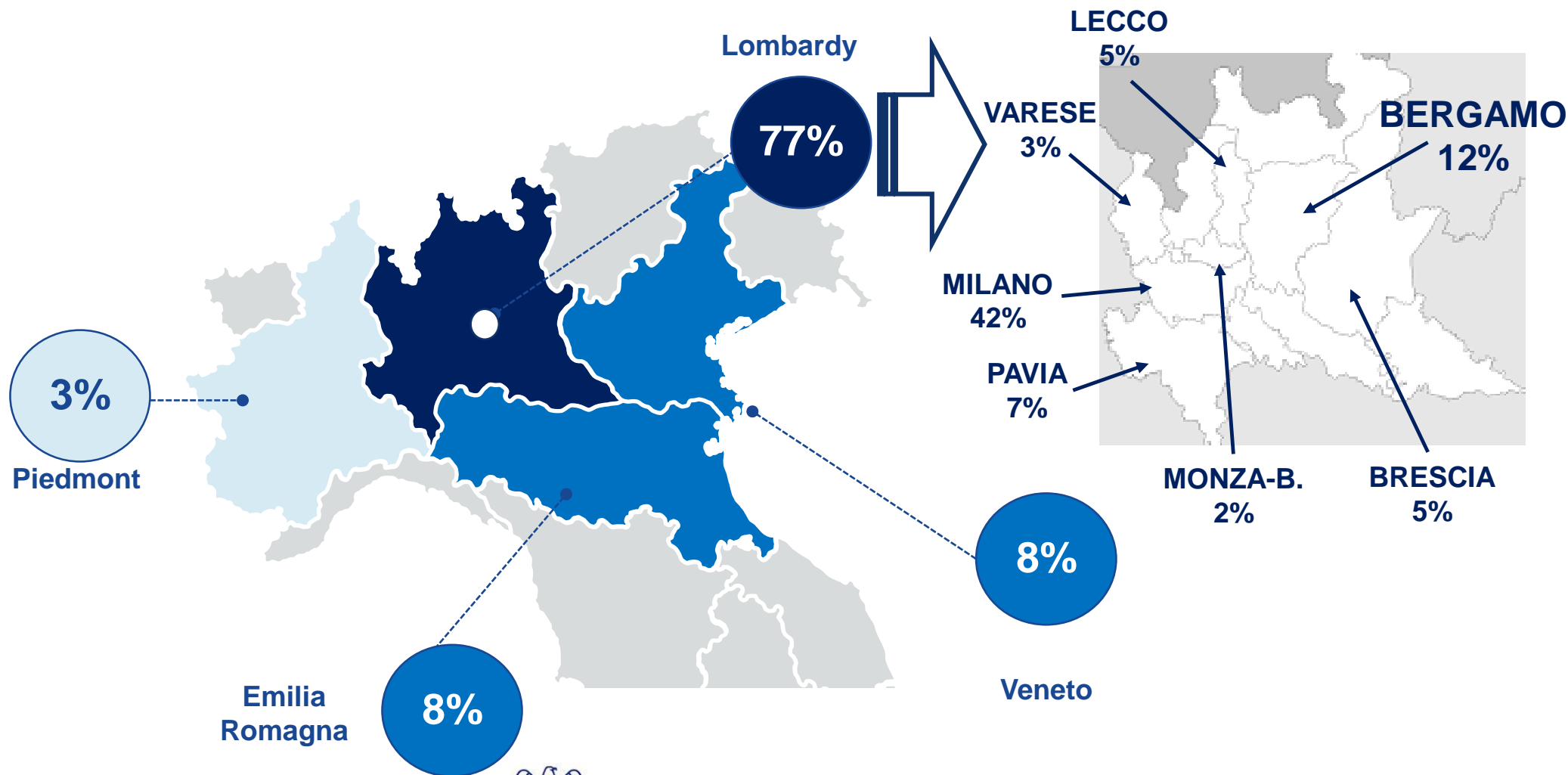
* Hydraulic valves, valves for food & beverage industry, valves for pharmaceutical industry, etc.

Source: Prometeia's calculation on ISTAT data and Companies balance sheets

The oil & gas valves industry in Italy

90% of the Italian production is concentrated within a 100 km radius around Bergamo

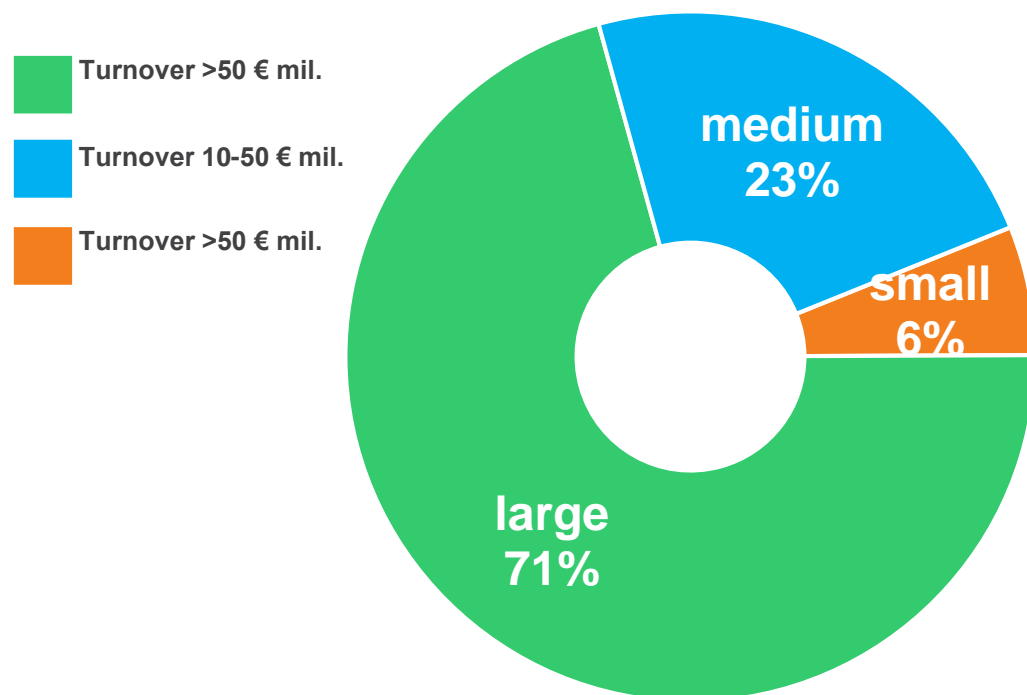
The map of territorial specialization: % share of the italian production value



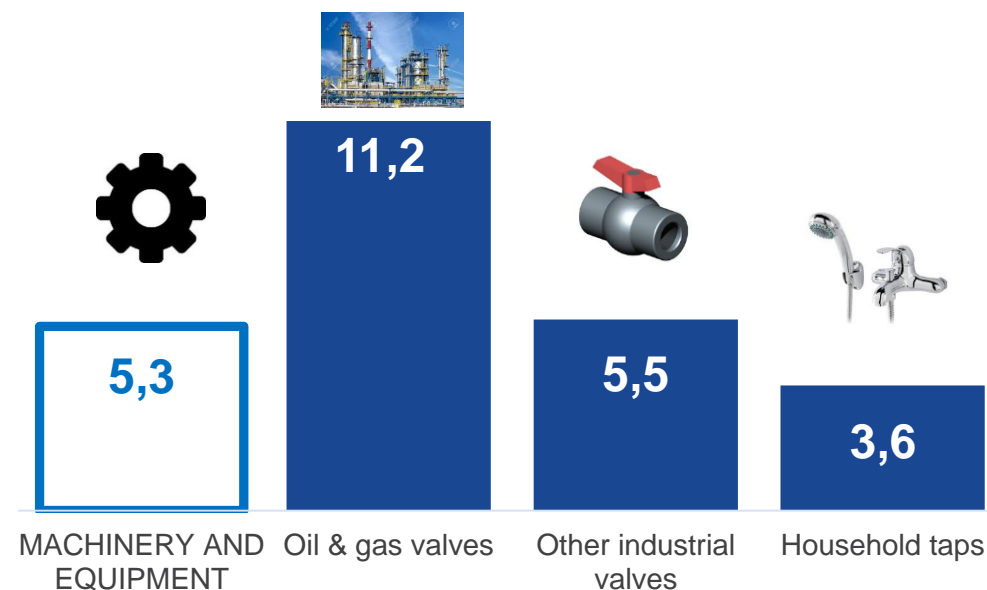
The oil & gas valves industry in Italy

Sizes of Italian companies

Total turnover by size class: % share



Total turnover by firm: € million



The export vocation

Oil&gas valves exports has been growing twice with respect to IM&E in 2001-'17

Export value/Total turnover (% share,2017)



**Oil & Gas
valves
industry**

89%

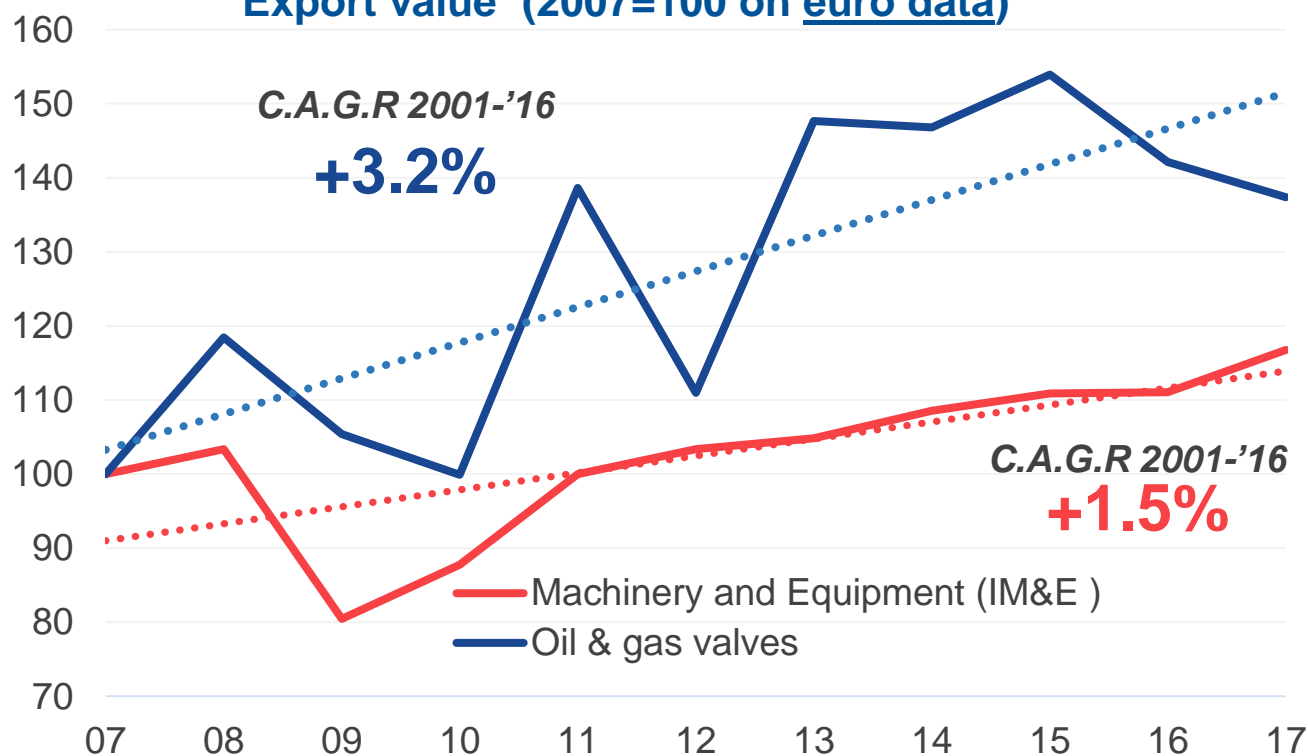


67% **Machinery and
Equipment
industry**

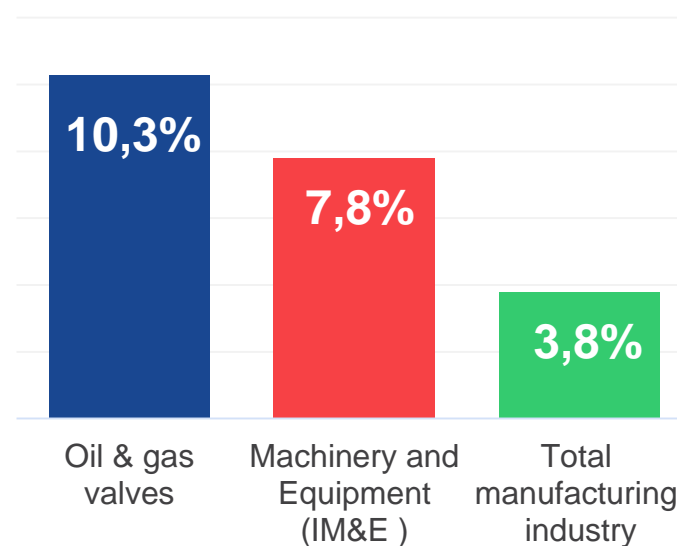


46% **Total
manufacturing
industry**

Export value (2007=100 on euro data)



World market shares (%)



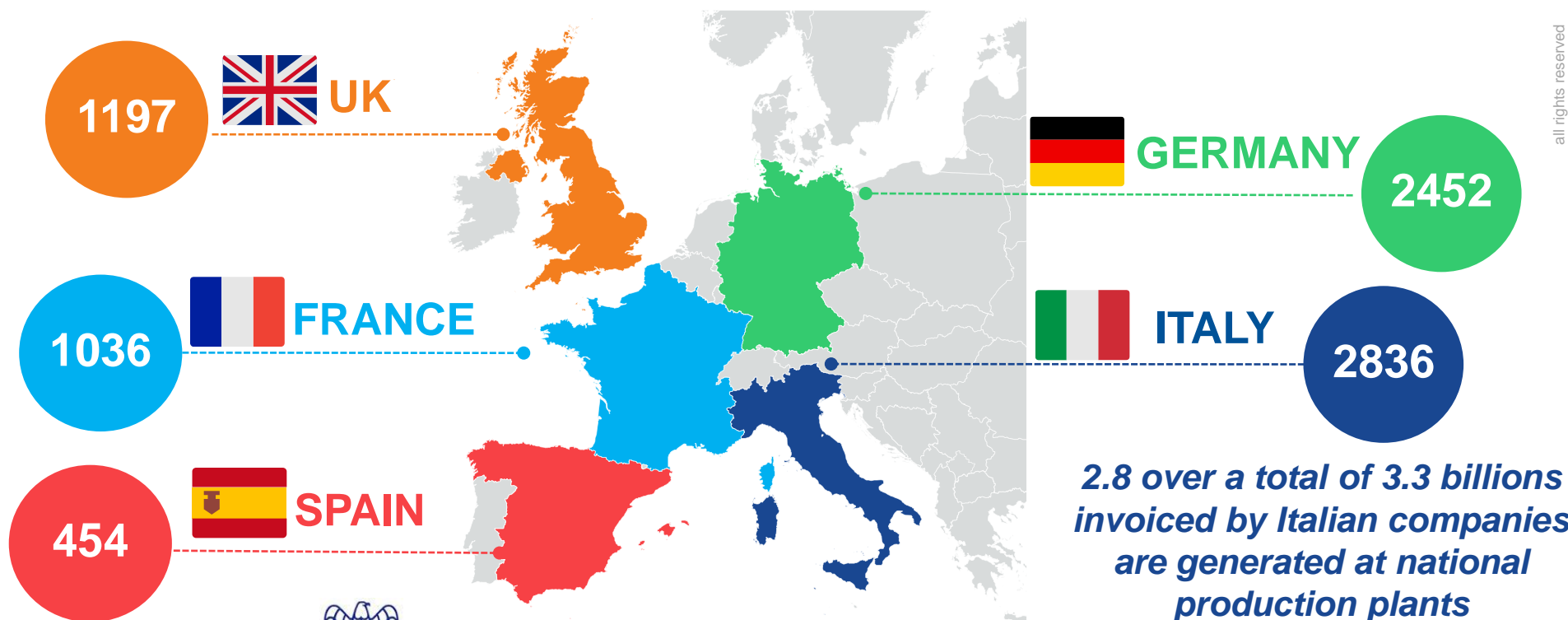
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Oil & gas valve industry in Europe

Italy is the European leading manufacturer of oil & gas valves

The main European production countries: sold production value*
(€ million) 2016

* Production value generated at national production plants



Source: Prometeia's calculation on EUROSTAT DATA

Production by valve types

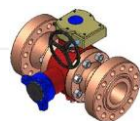
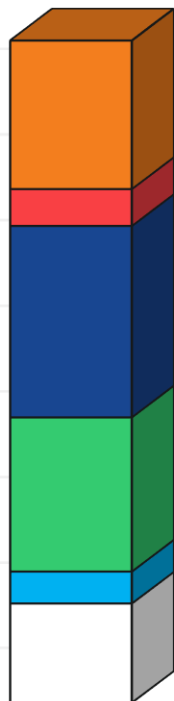
High specialization of Italy in ball, gate and butterfly valves

The main European production countries: sold production value by country and product (€ million) 2016

Parts for tap, cocks, and valves

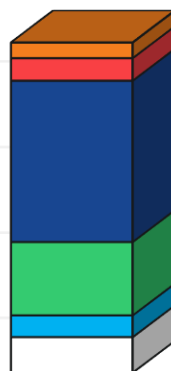


3870 € million



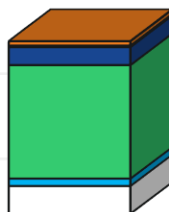
Ball and plug valves

1932 € million



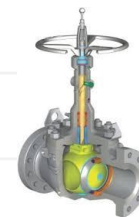
Globe valves

1011 € million



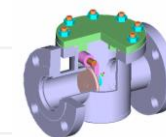
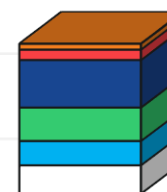
Gate valves

969 € million



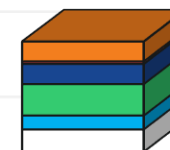
Butterfly valves

880 € million



Check valves

647 € million



United Kingdom

Spain

Italy

Germany

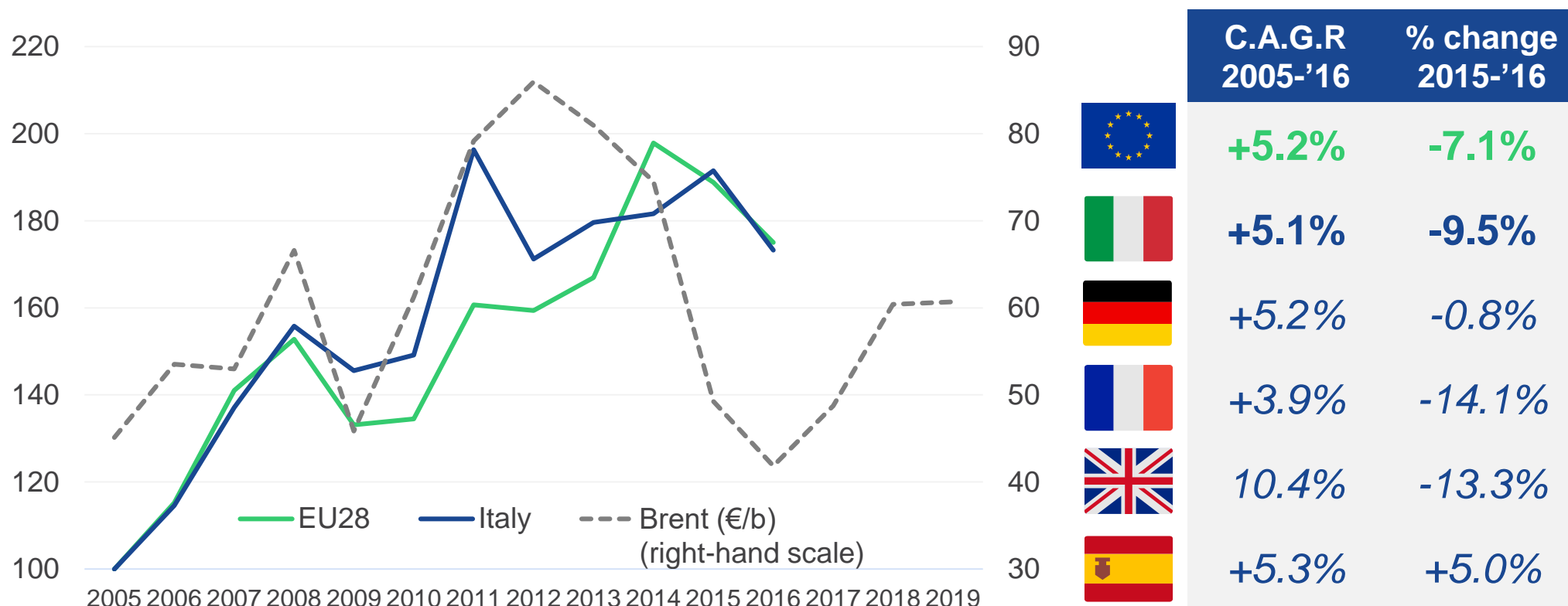
France

EU others

The evolution over the last decade

In 2015-'16 the positive trend reversed itself

Sold production value in Italy and EU: index 2005=100

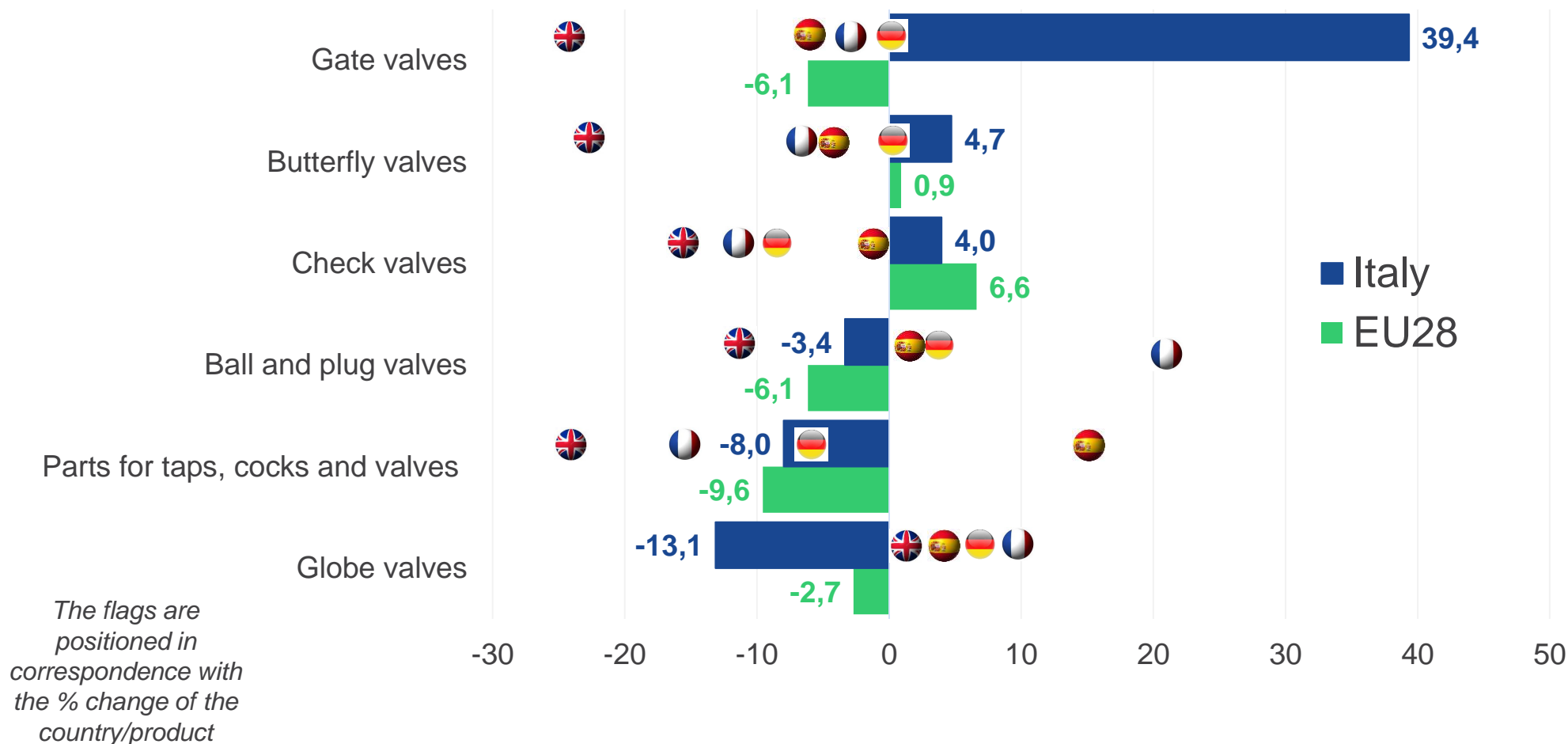


Source: Prometeia's calculation on EUROSTAT DATA; Brent: Prometeia, Analisi e previsioni dei prezzi delle commodity

The hard years 2015-'16

Double-digit decline for Italian globe valves but gate, butterfly and check are rising

Sold production value by product: % change 2015-'16

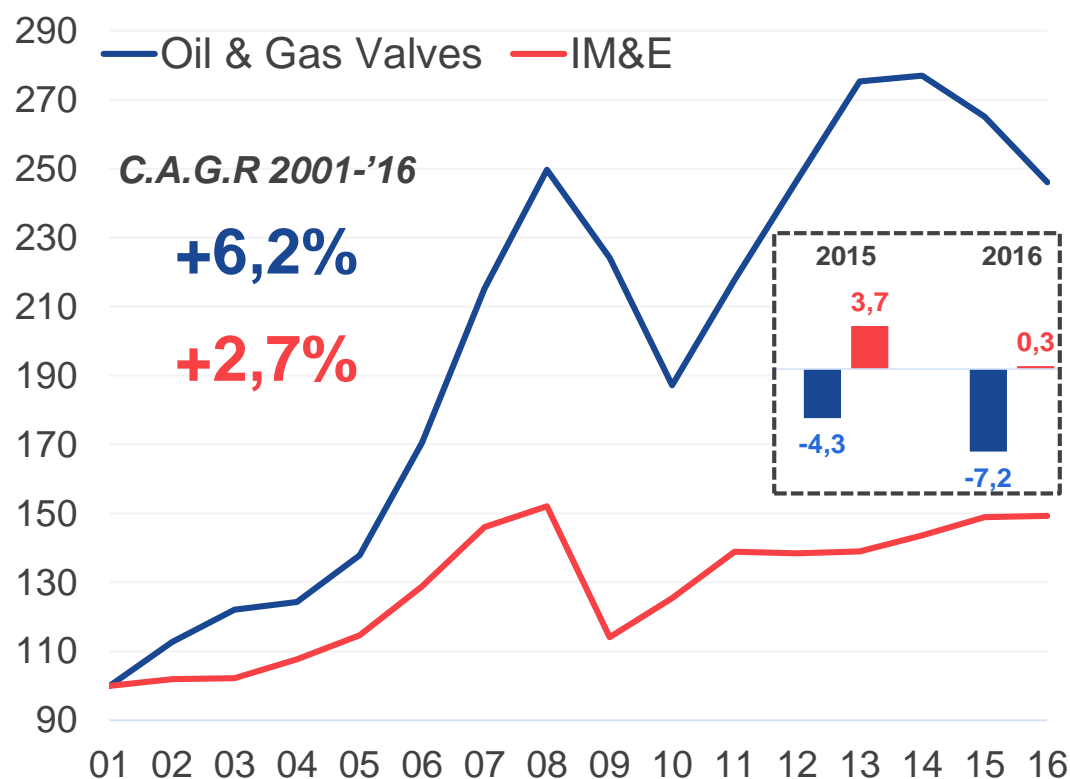


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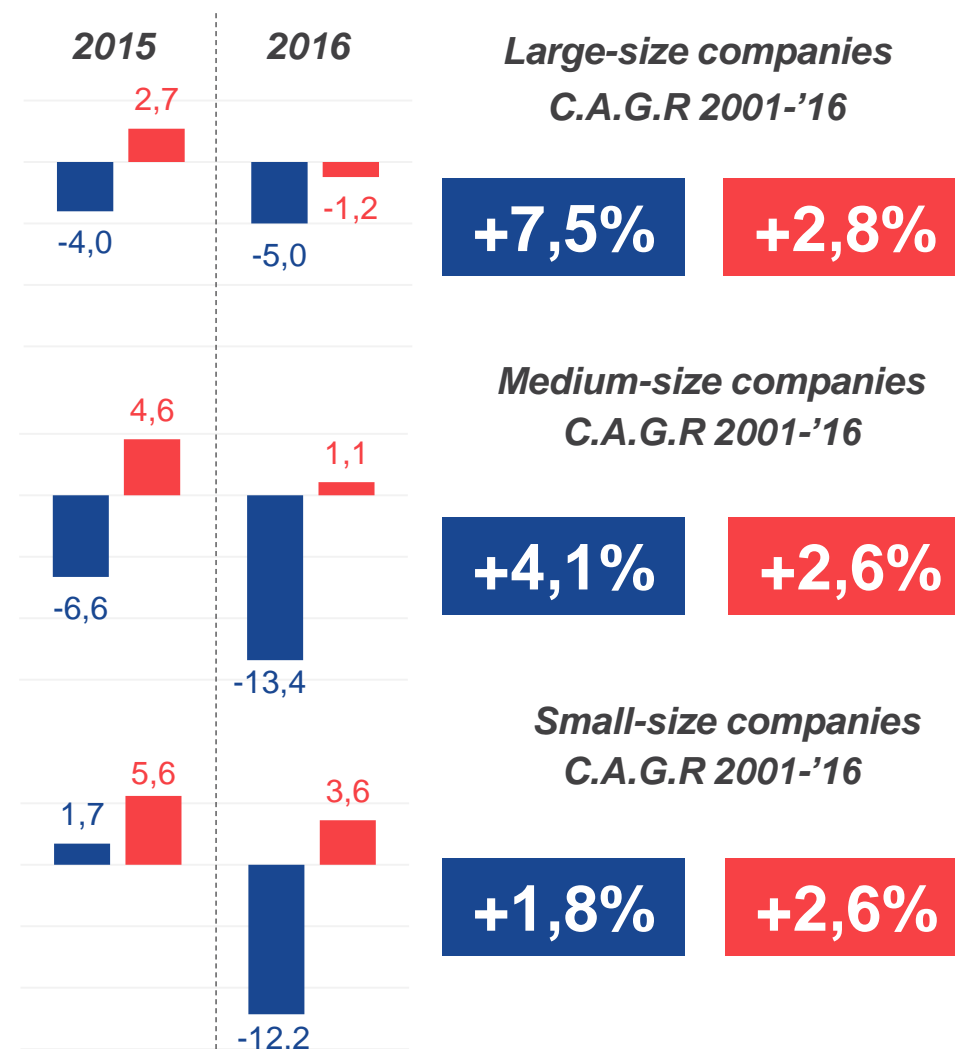
The revenue evolution

A far more dynamic growth pattern than the IM&E Italian industry, but in 2015'-16...

Production value of Italian companies of oil & gas valves (index 2001=100)



Production value of Italian companies of oil & gas valves by size class: % change

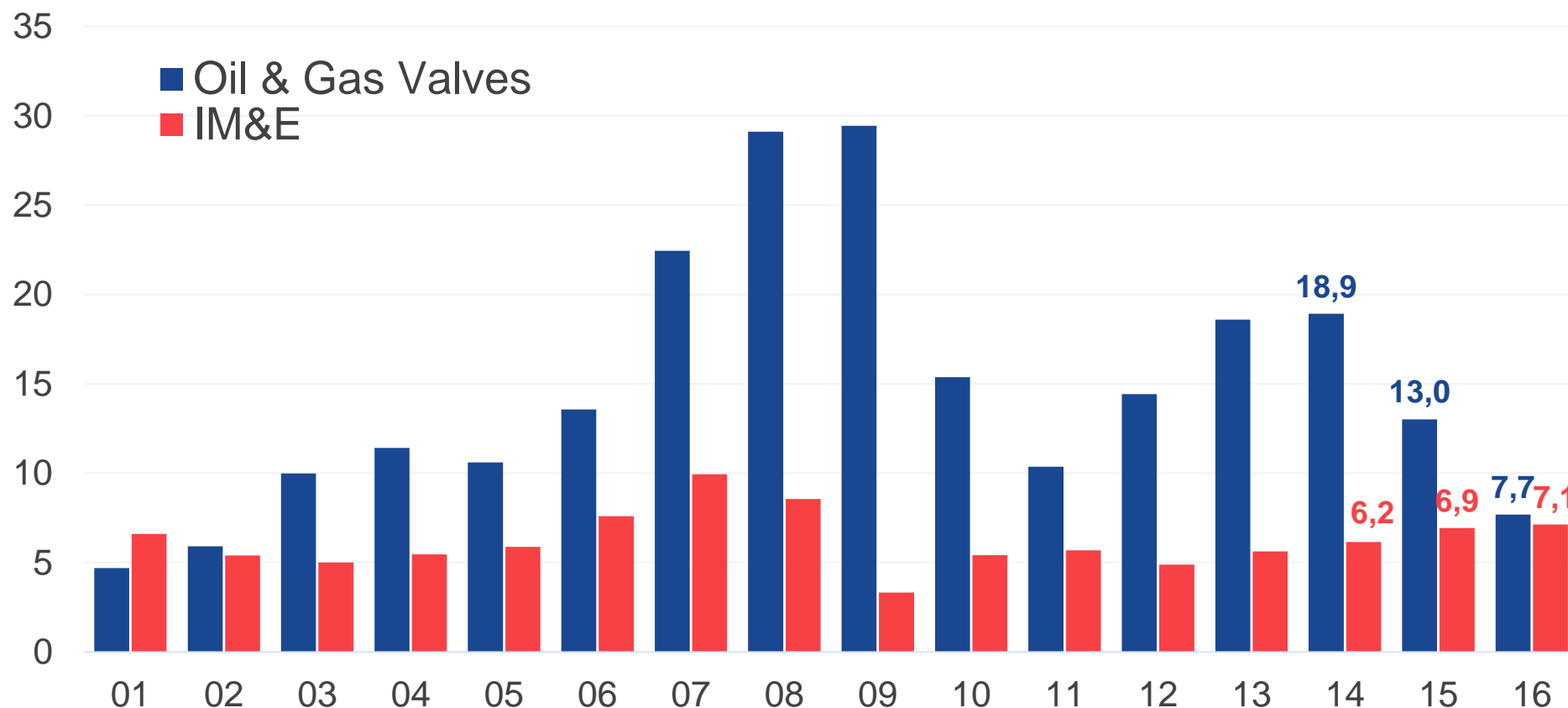


Source: oil & gas valves: Prometeia's calculation on balance sheet of a sample of 96 firms for a production value of 3.1 € billion in 2016, IM&E: Prometeia, Analisi dei settori industriali

The industrial profitability evolution

Roi is still above the IM&E average, but profitability is declining

Industrial profitability, Roi (Return On Investment)



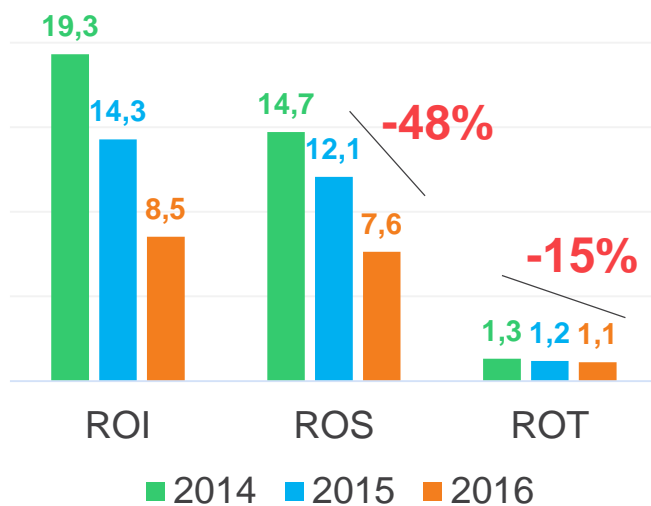
Source: oil & gas valves: Prometeia's calculation on balance sheet of a sample of 96 firms for a production value of 3.1 € billion in 2016, IM&E: Prometeia, Analisi dei settori industriali

Why profitability is declining?

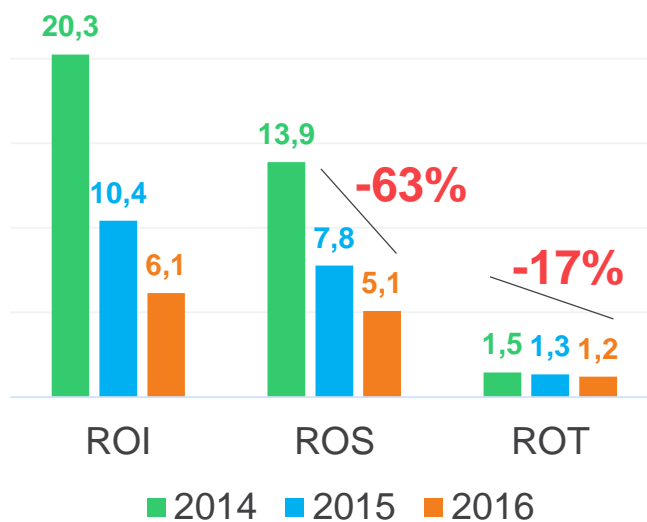
Return on sales is strongly decreasing...

Industrial profitability: Roi and its components (Return on sale and Capital turnover)

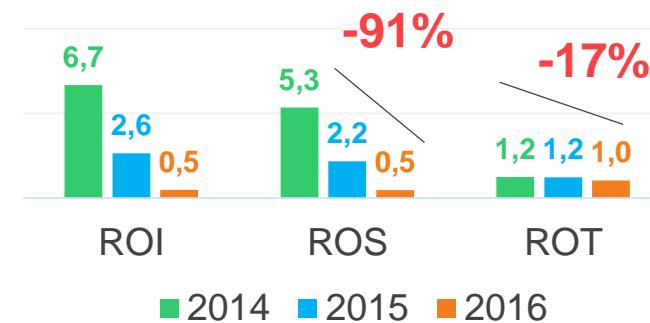
Large-size companies



Medium-size companies



Small-size companies

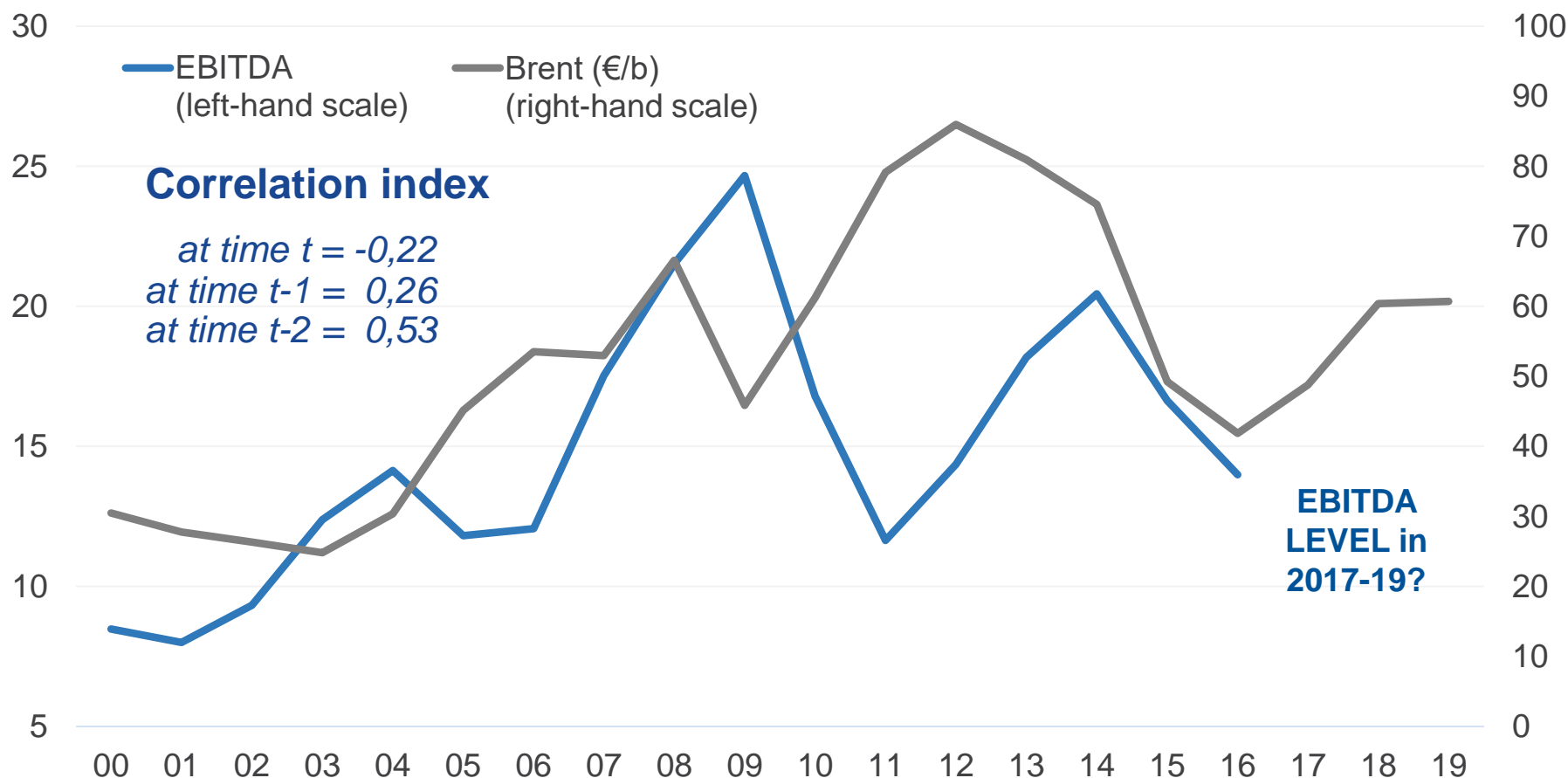


Source: oil & gas valves: Prometeia's calculation on balance sheet of a sample of 96 firms for a production value of 3.1 € billion in 2016, IM&E: Prometeia, Analisi dei settori industriali

...because EBITDA is still suffering the oil price dynamics

But in 2017....

EBITDA of Italian companies of oil & gas valves (% share of production value) and Brent price (€/b)

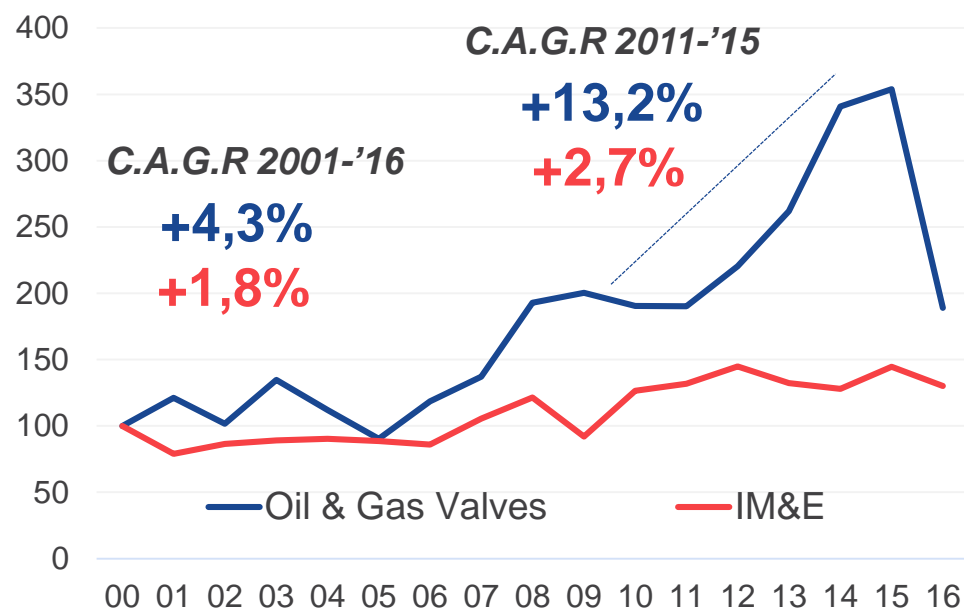


Source: Oil & gas valves: Prometeia's calculation on balance sheet of a sample of 96 firms for a production value of 3.1 € billion in 2016, IM&E ; Brent: Prometeia, Analisi e previsioni dei prezzi delle commodity

Is there also an efficiency problem?

No. The decline in Capital turnover is linked to the relevant increase in investments

**Fixed capital investments: index
2000=100**



**Capital intensity: % share on
production value**



Source: Oil & gas valves: Prometeia's calculation on balance sheet of a sample of 96 firms for a production value of 3.1 € billion in 2016, IM&E

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Oil & gas valve international trade

World imports and Italy's share

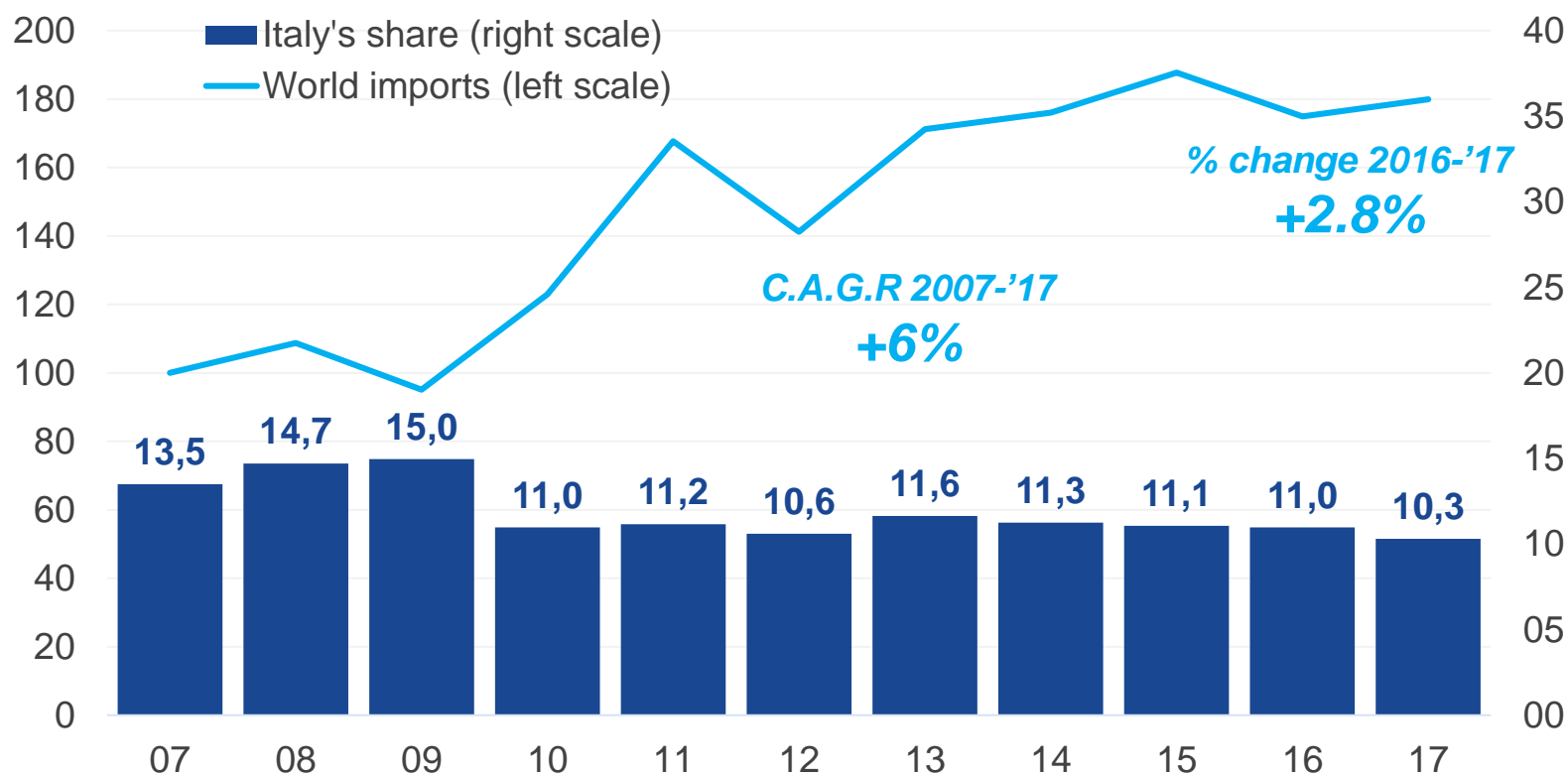
World imports 2017

€ 27.6 billion

Italian exports 2017

€ 2.8 billion

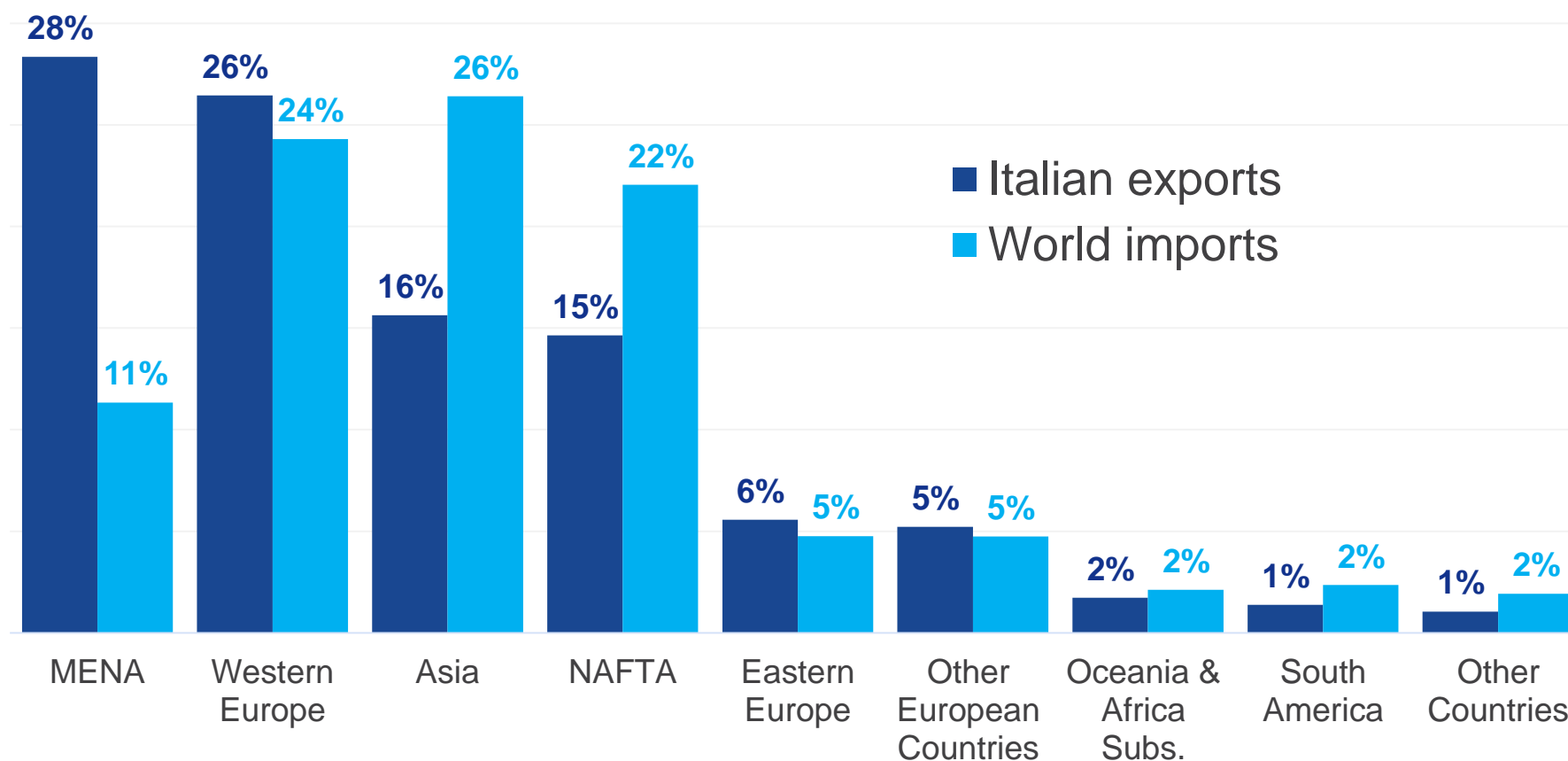
World imports (2007=100) and Italy's share (%)



Geographical framework

The high level specialisation of italian exports in MENA markets

World imports and Italian exports: geographical framework (% share)

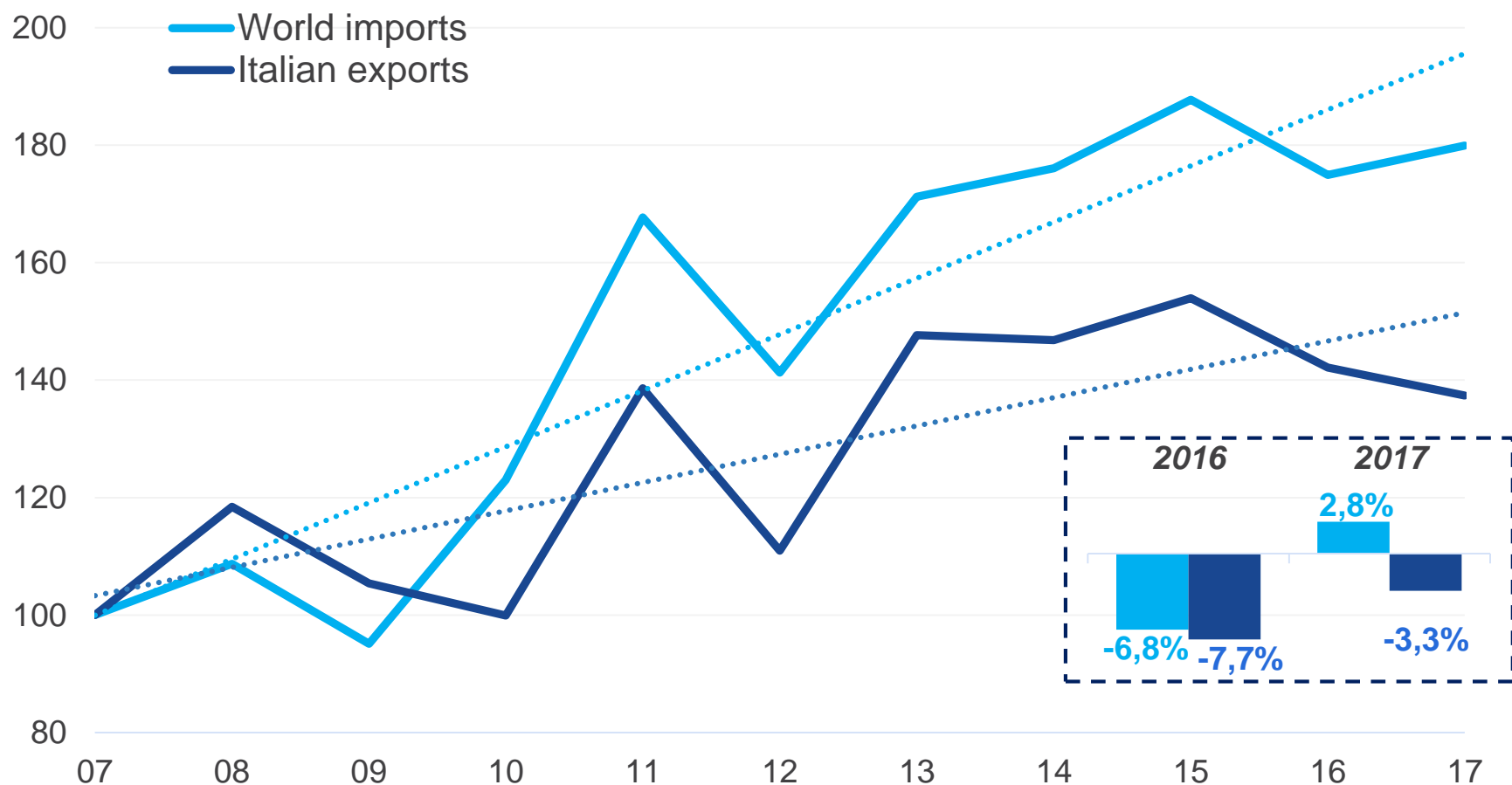


Source: Prometeia's calculation on ITC data

Italian exports

In 2017 the negative trend continued, however less marked than 2015-'16

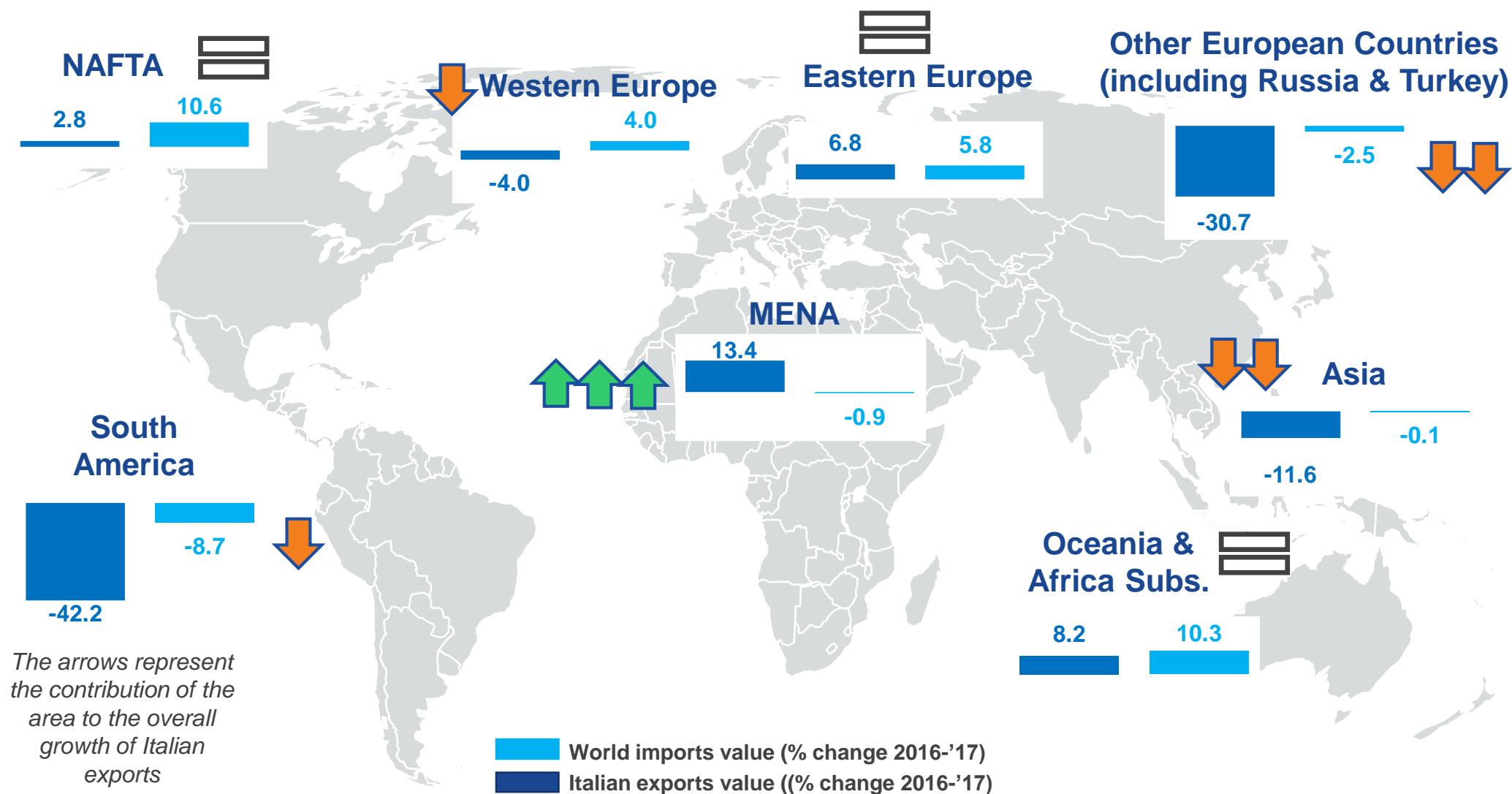
World imports and Italian exports of oil & gas industrial valves (2007=100 on euro data)



Source: Prometeia's calculation on ITC data

International trade map 2017

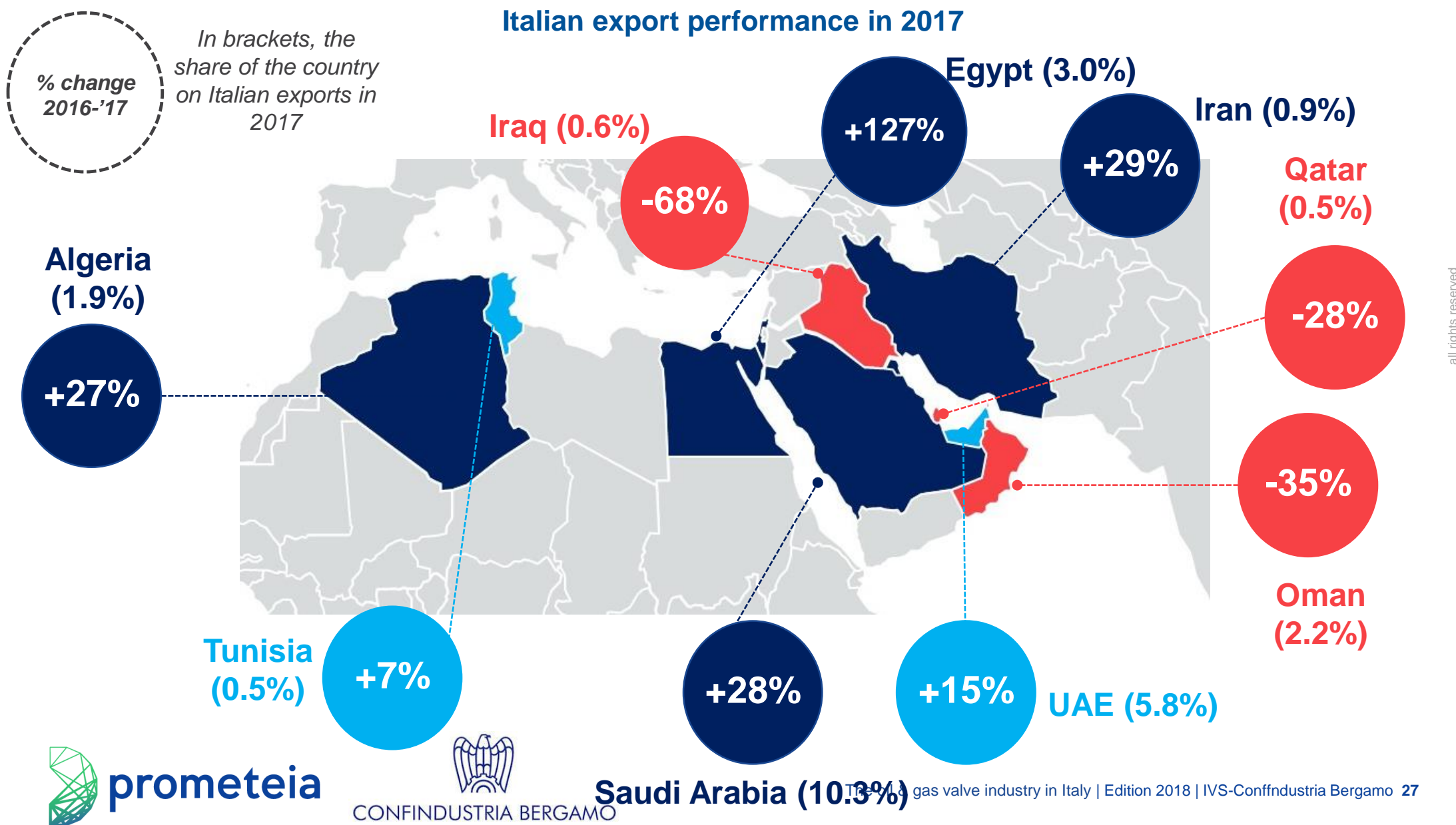
Italy grew significantly in MENA, against the further falls seen in ASIA and O.E.C.



Source: Prometeia's calculation on ITC data

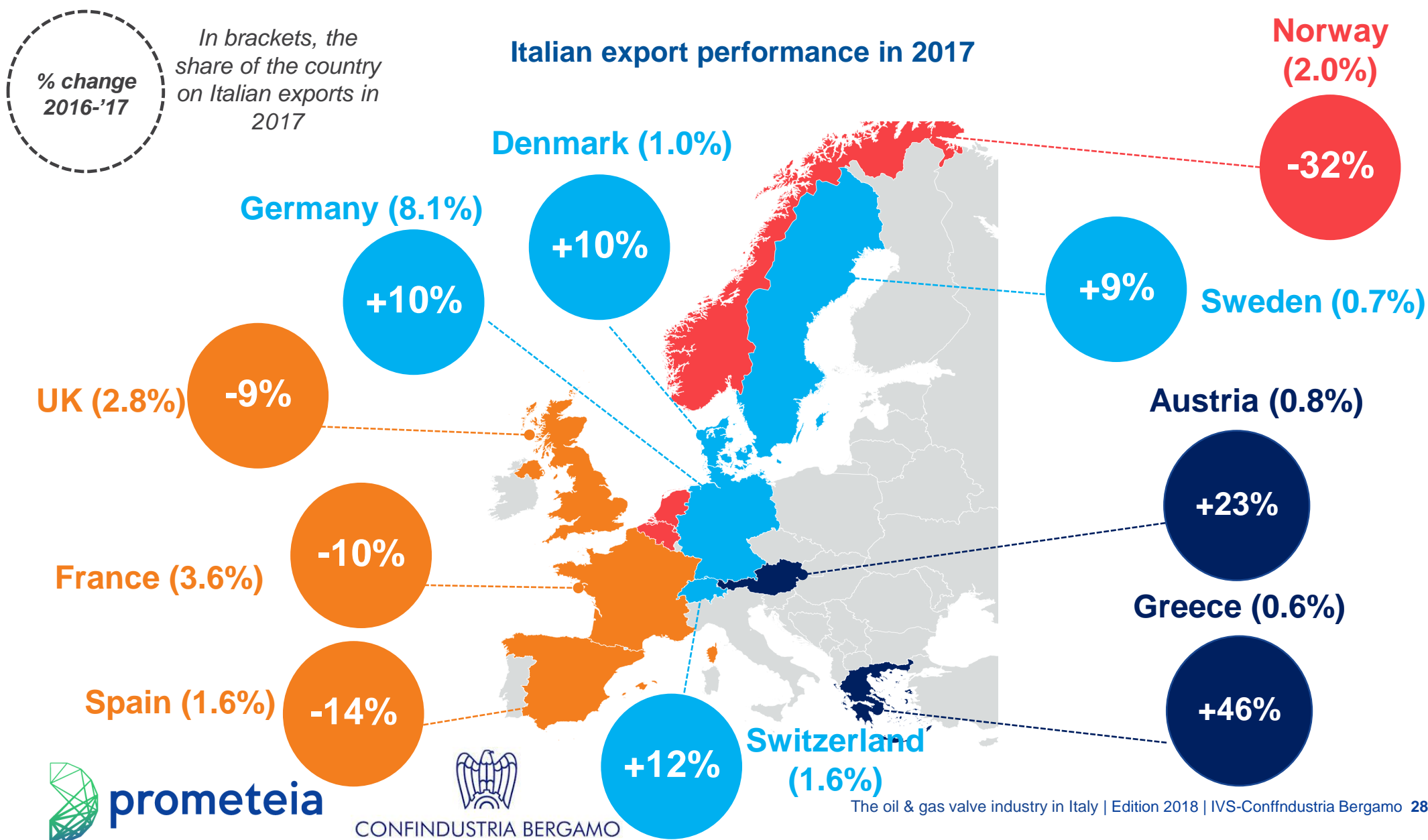
Italian export in MENA markets

Significant growth in Egypt and Saudi Arabia, contraction of sales in Oman



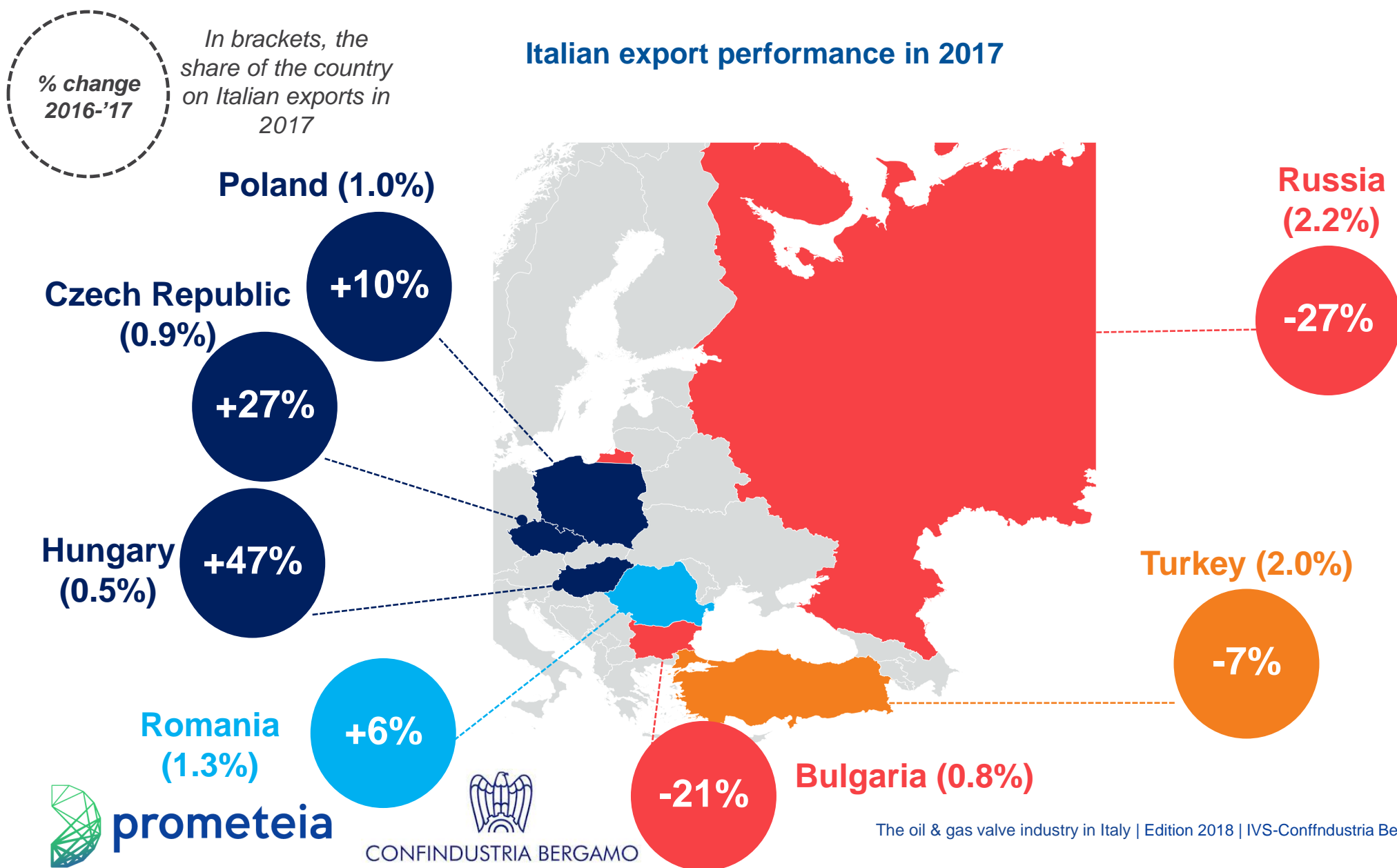
Italian export in Western Europe markets

+10% in Germany, there was a decline of sales in France, UK and Spain



Italian export in Eastern Europe markets

Negative results in Russia and Turkey, there was an increase in Central Europe countries



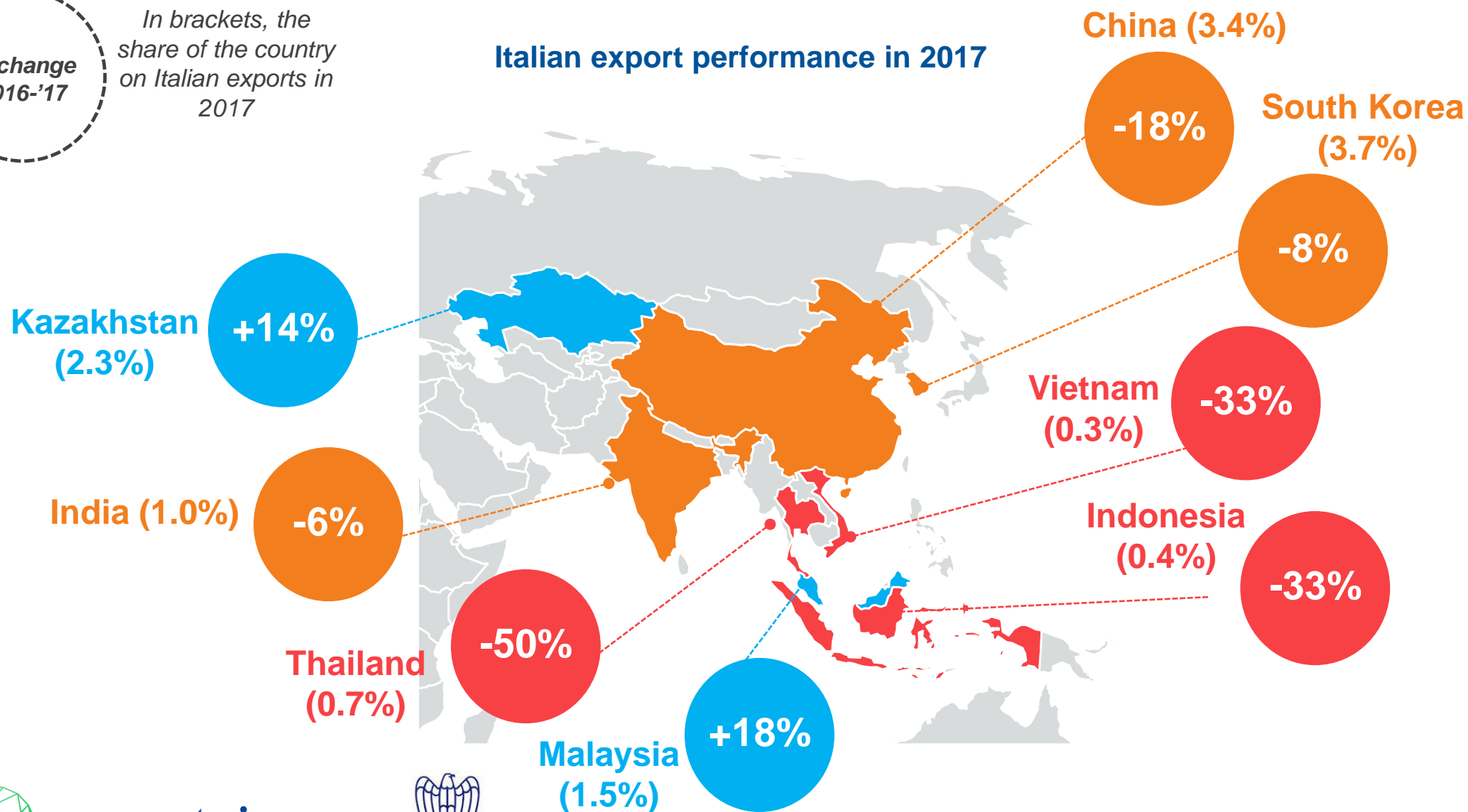
Italian export in Asian markets

Sharp and uniform drop in Southeast area, except Malaysia

% change
2016-'17

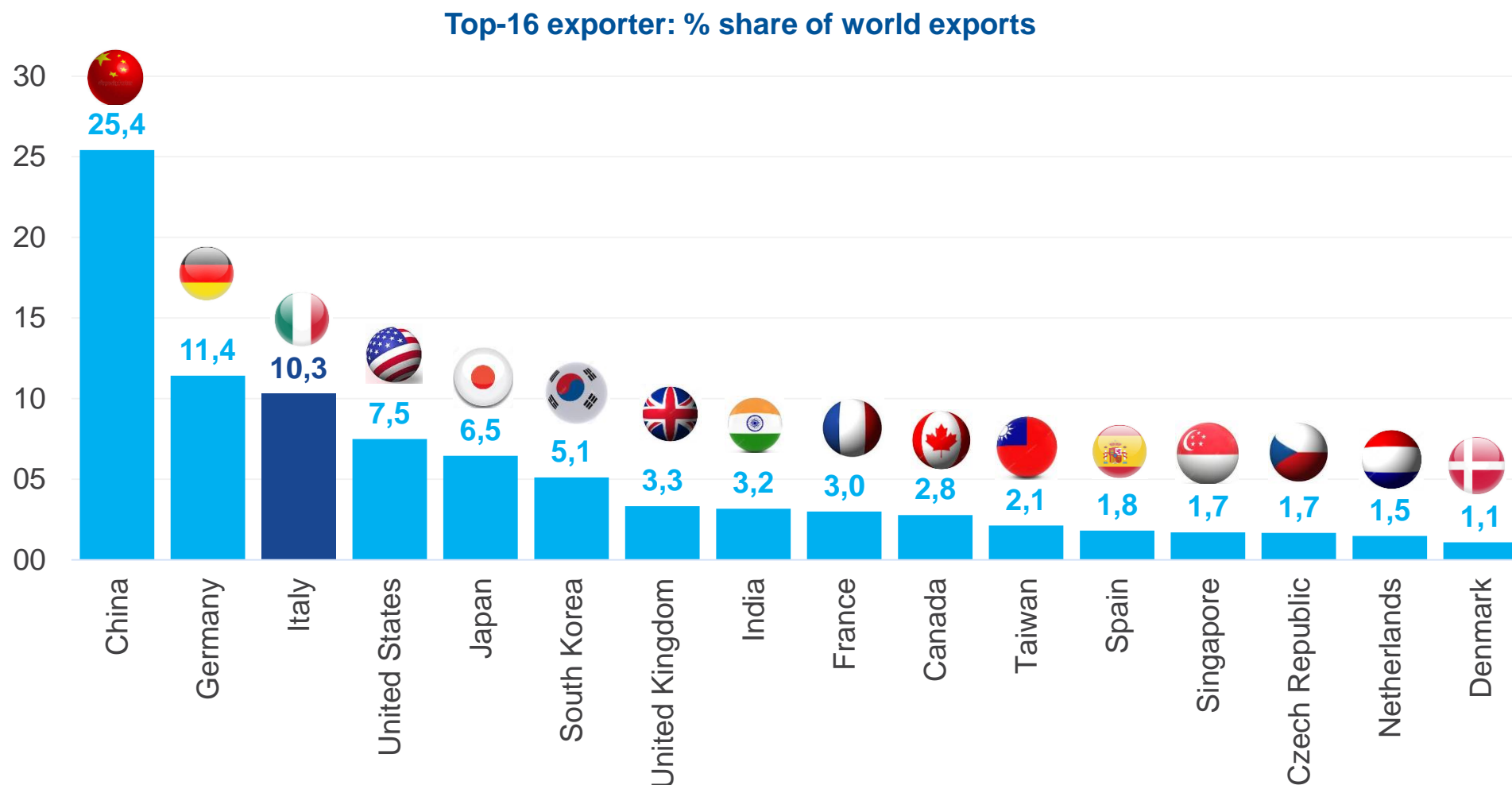
*In brackets, the
share of the country
on Italian exports in
2017*

Italian export performance in 2017



The main exporter countries

Italy is third in the world ranking

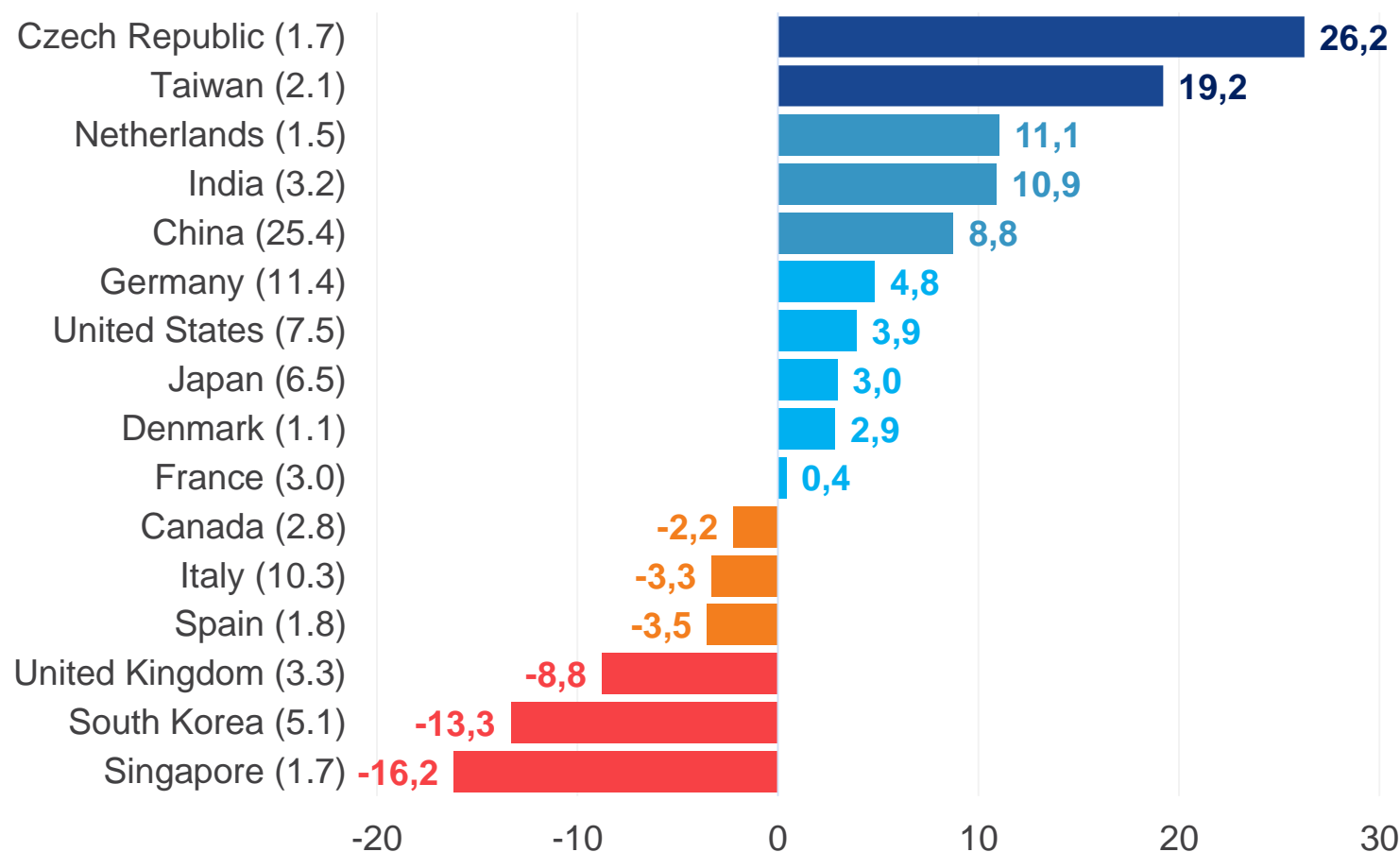


Source: Prometeia's calculation on ITC data

Italy's and its competitors' performance in 2017

Czech Republic, Taiwan and Netherlands on the top of the ranking

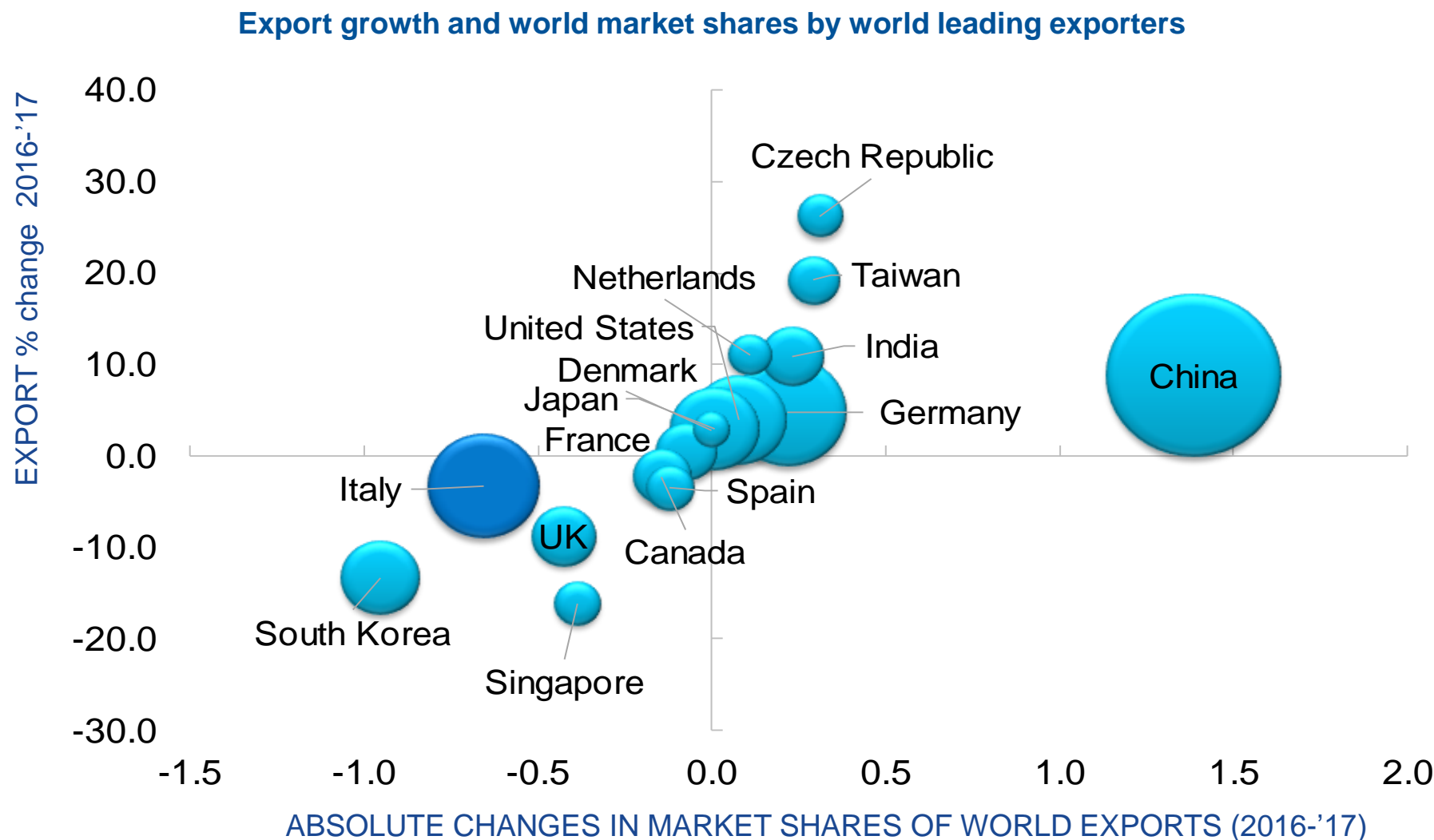
Export growth (% change 2016-'17) and world market shares (In brackets) by world leading exporters



Source: Prometeia's calculation on ITC data

Italy's and its competitors' performance in 2017

China continue to expand, Germany is the only big European player to gaining market share



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Next update
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BERGAMO - ITALY

**3RD INTERNATIONAL EXHIBITION AND CONFERENCE
ON VALVE AND FLOW CONTROL TECHNOLOGIES**

**ENTE FIERA
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