

Wanbao-ACC

Investment Opportunity in the Household Compressors Industry

June 2021





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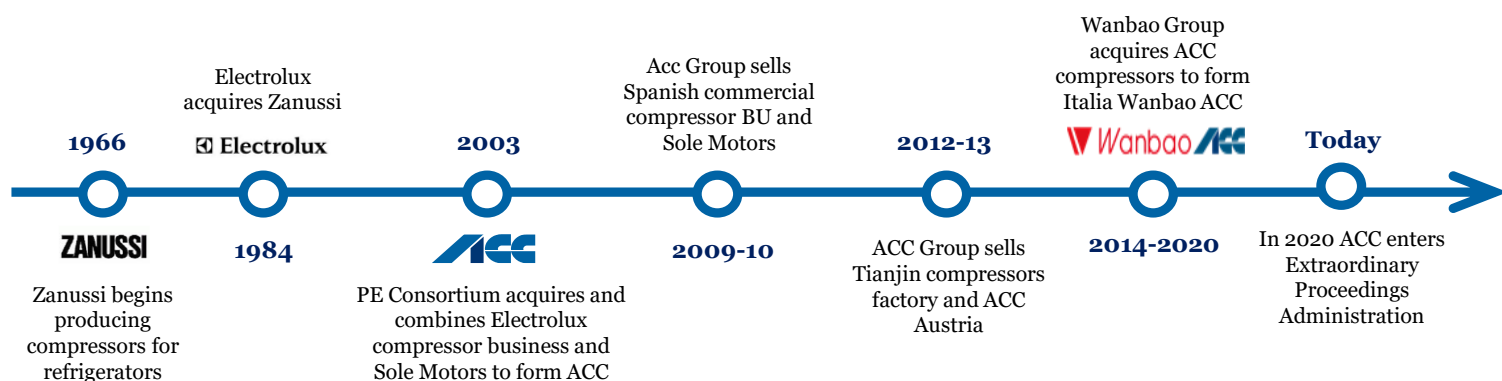
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Company Overview

Italia Wanbao ACC (the “**Company**”) **manufactures compressors** (single speed and variable speed) for the European refrigerators industry in the Italian plant located in Mel (Belluno).

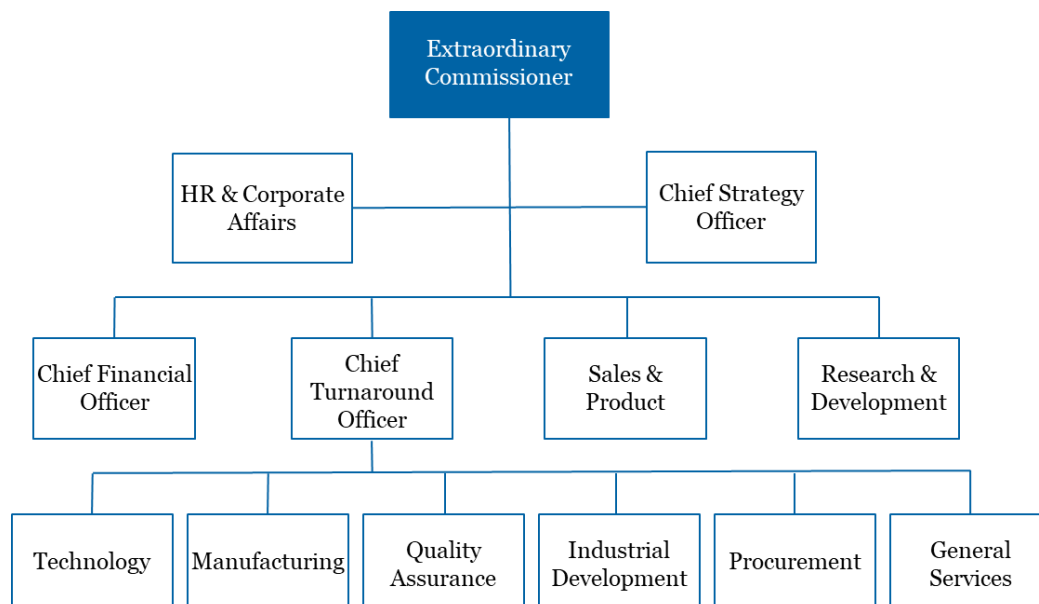
In 2020, the Company has gone under Extraordinary Proceedings Administration and started a strategic repositioning process.



Source: Management

Organizational Structure

As of May 2021, **total employees are no. 310** (exl. the Extraordinary Commissioner), of which 264 work in the operations and the remaining 46 in the other Corporate functions, 20 in R&D, 7 in AFC, 2 in Sales, 11 Purchasing, 3 HR and 3 Technology.



Source: Management

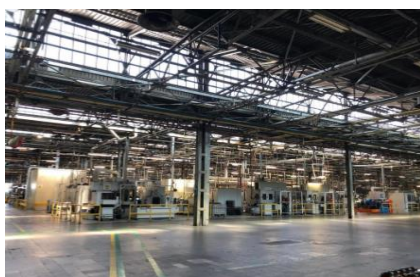
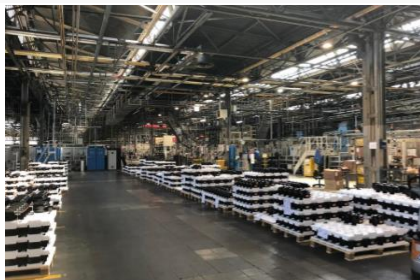
Company Overview

Facilities

- ❑ The **plant productive** areas, located in Viale Vasco Salvatelli MEL, no. 4 - 32026 Borgo Valbelluna (BL), include:
 - **cold molding / die-casting departments / stators departments** where, through moulding, are produced the covers of compressors, the internal components for die-casting and the stators;
 - **paint department** for finished compressors with “ELECTROPHORESIS process”. It is a low environmental impact immersion process in which the adhesion of the particles of water-based paint on the part occurs due to electric effect;
 - **mechanical and assembly department** where the mechanical processing of internal components are executed and also the assembling of all the parts of the compressor, including final testing and packaging;
 - **motor test laboratory**, two **acoustics chambers** (reverberant and semi-anechoic room), four certified **Application Engineer climate controlled rooms**, **tribology and compressor life test laboratory**. The application Engineer, electrical motor and acoustic camera is VDE certified and is used also to test customer appliance;
 - the plant is composed by also minor departments such as **mechanical workshop**, **shipments and utilities areas**;
 - a third-party property for industrial use consisting mainly in the body of the building, with a total gross area of about 141.400 mq, in a external aprons of handling, in canopies, in a lightweight constructions, in a reception and in small buildings housing plants for production.



- ❑ The **production** is organized into **2 lines** on **2-3 shifts** (8h each) **5 days** per week.
- ❑ **Installed prod. capacity: 3.1m pcs/year.**
- ❑ **Current prod. volume: 1.8-2.7m pcs/year.**
- ❑ Mel facility relies also on several **laboratories** (chemical, acoustic, quality) that have the goal of supporting the production and improving the product quality.
- ❑ Within the facility there is also a space dedicated to the **wastewater treatment**.
- ❑ The Company also has a Sales Office located in Viale Lino Zanussi no. 11 - 33170 Pordenone (PN).



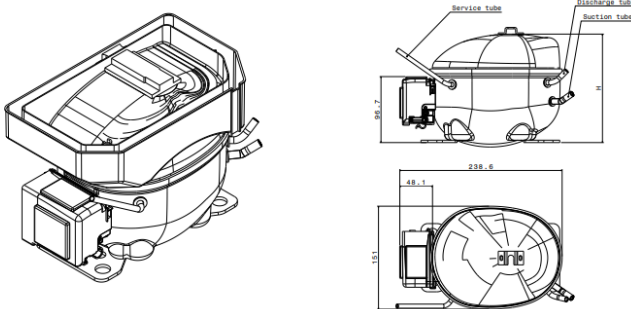
Product Portfolio

Wanbao ACC compressors portfolio currently consists of **4 different single speed** families with different efficiency levels and **3 variable speed** families.

All models are newly equipped with **full aluminum motors**, which allow great performance, quality and competitiveness.

The main difference between single speed and variable speed compressor is that the latter is equipped with an **electronic board** enabling it to **continuously adjust the speed** and, as a consequence, **to save energy** (up to 40% with respect to single speed compressors)

Single speed compressor



A single speed compressor is powered by an **induction motor** of **fixed rotation speed or frequency**, generally around 50 or 60Hz.

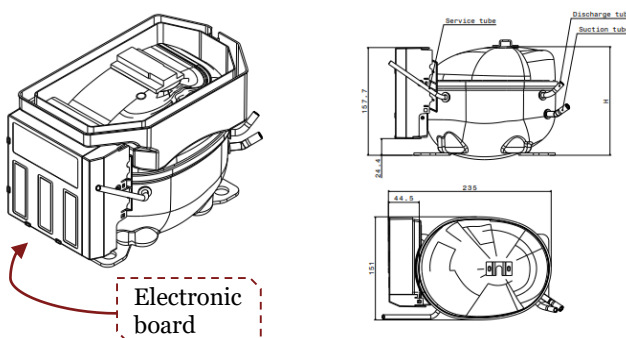
The **cooling capacity** of the refrigeration system is thus regulated by the operation cycle of the compressor alternating its On-Off time.

At every cycle of On, a **high energy demand** is used to recover the compressor speed and the system condition. The internal system temperature **significantly varies** along the compressor time of Off and On.

The different categories of single speed compressors differ in the level of efficiency and include the following product families:

- HMK: characterized by a lower level of efficiency, with a COP between 1.49 and 1.53;
- HTK: characterized by a level of efficiency in line with the sector average, with a COP between 1.55 and 1.70;
- HKK: characterized by a high level of efficiency, with a COP between 1.71 and 1.80;
- HXK: made up of high-end products, with a COP between 1.83 and 1.91.

Variable speed compressor



A variable speed compressor is powered by a brushless AC with permanent **magnetic motor** controlled by an **inverter** (electronic board), that can **continuously adjust** the compressor **speed**, from 30% up to 150% of its average speed.

The **cooling capacity** of the refrigeration system in this case is controlled by the speed of the compressor.

The general **energy saving** may result up to 40%, with other advantages like **lower noise** and a **more stable internal temperature**. It also helps the food preservation and freshness.

The main variable speed compressor produced by the Company is the HKK_VSD model which is the most technologically advanced product and characterized by a COP between 1.91 and 1.93. In recent years the Company has been involved in the development project of the variable speed compressor (so-called Project 139, having a COP until 2.1) within which two new models have already been developed (HXK_VSD and HBK_VSD), which are positioned as the most efficient and low noise compressors on the market.

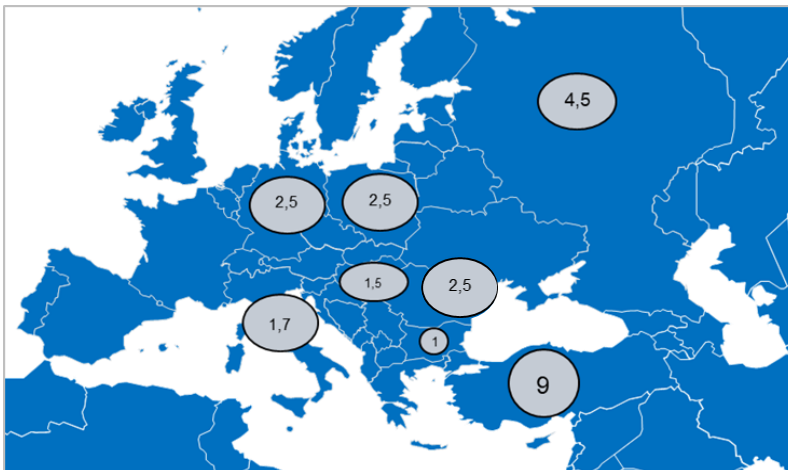
Market Overview – Household Refrigerators

The **large electrical household appliance industry** remains one of the **leading sectors of the Italian manufacturing**, with a turnover **exceeding 15 billion**, including more than 10 billion in exports, with a trade balance surplus of over 6 billion. About **9 million pieces are produced in Italy**, including refrigerators, washing machines, dishwashers, ovens and hobs (the peak reached was almost 30 million pieces in the years '80). There are over **35,000 direct workers** and about **100,000 indirect workers** (components, distributors,...).

Since the '90s a productive relocation has occurred from the Western Countries to Turkey and East Europe. In Europe (**EU28 + TK**), **approximately 27 million refrigerators are manufactured**; the main productive countries are Turkey and Russia, whereas Italy occupies the 6th place with 1,7 million pieces.

The strong global competition has more than halve the companies existing in Europe in 2005. In Italy, **Candy** and **Indesit** have been disposed to respectively **Haier** and **Whirlpool** and a national manufacturer is not longer present.

Moreover, it is increasing the import of Asian products (especially Chinese), which are sold using European brands.



Countries (in Europe)	Refrigerators produced (million pieces)
Turkey	9,0
Russia	4,5
Poland	2,5
Romania	2,5
Germany	2,5
Others	1,8
Italy	1,7
Hungary	1,5
Bulgaria	1,0
Total	27,0

The potential customer base is quite stable, as a consequence of the long process of products homologation and the need of a limited range of products on a large-scale base to be applied to the refrigerators. Thus, **the market is mainly driven by recurring customers**.

Also, **each customer relies on 2/3 trusted suppliers** and over the years have gained much more bargaining power toward compressor producers leveraging on the overcapacity of the sector and on the fact that Chinese/South American producers are able to deliver similar products at a much lower price.

Today only two companies produce in Italy about 1.7 million refrigerators: Electrolux in Susegana (TV) about 800 thousand built-in refrigerators; Whirlpool in Cassinetta (VA) about 600 thousand built-in refrigerators and in Siena 300 thousand freezers.



Market Overview – Compressors

Data highlight a **significant relocation of the compressor world production towards China**, which in **2020 hosts the 72% of the total production**, increasing by 57% from 2000.

The other manufacturing areas lose importance, going from 75% of the total compressor production in 2000 to 28% in 2020. This reduction is more visible in Europe, where, however, are present the headquarters of the main manufacturers of household refrigerators.

Values in mln	2000	2000 % on the total	2010	2010 % on the total	2020	2020 % on the total
Europe	30	30%	15	10%	3	2%
America	30	30%	20	13%	22	12%
China	15	15%	90	60%	130	72%
Asia (other countries)	25	25%	25	17%	25	14%
Total	100	100%	150	100%	180	100%

The **European market of compressors** for the domestic refrigerators industry accounts for **28m compressors per year**, of which ca. **66% single speed** and ca. **34% variable speed**.

In the recent years, starting from 2014, the **price of single speed compressors went down dramatically** (-30%) due to: a) **the overcapacity of producers** and b) the **higher demand for variable speed products**, especially in China. In this context, producers have pursued the efficiency in the production especially through: i) aggregation among competitors, ii) **massive R&D investments** in order to reduce the platform's costs or to innovate the products, iii) localization in country with lower production's costs.

On the left, the graph shows the **European market trend of compressors**. The market forecasts the current and next year to be flat at the total volume of 28m pcs, but with the possible risk of a decrease.

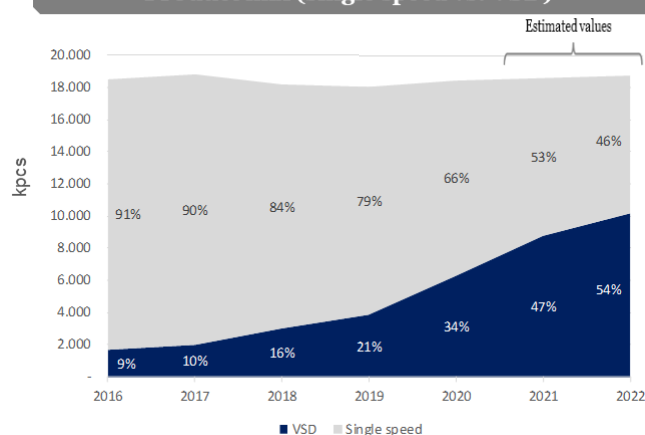
On the right, the graph shows the **expected product mix** path for the current and next year (data coming from the forecasted demand of top 5 domestic refrigerator producers). The **market is experiencing a change in the product mix** with the variable speed taking hold at the expense of single speed compressors. This trend is expected to continue in the future years and is a result of a **technological change** that is being established in the market.

European market trend (million of pcs)



Source: Management

Product mix (single speed vs. VSD)



Source: Management

Market Overview – Competitors

Most manufacturers are of Asian origin and some of them are vertically integrated. Following the procedure of Extraordinary Administration, the former owner Wanbao has become a competitor of ACC.

The following companies, although operating globally, represent ACC main competitors.



- **Jiaxipera**: a China group founded in 1988, is currently the largest manufacturer of compressors in the world with more than 35 million compressors produced each year. The company sells its products in more than 30 countries and collaborates with leading Oems including Haier, Bosch, Whirlpool and Electrolux;
- **Nidec**: a Japanese group founded in 1973, traditionally active in the field of electric motors, in 2019 acquired from Whirlpool Embraco, Brazilian company active in the production of domestic and commercial compressors since 1971 with a production of over 30 million compressors;
- **TEE**: a Turkish company active in the production of compressors since 1975, part of the household appliance group Arcelik to which sells 100% of production;
- **Donper**: a Chinese company active in the production of compressors since 1966 with a current production of over 20 million compressors;
- **GMCC**: a Chinese company owned by MIDEA Group active in the production of compressors since 1995 with a production of over 25 million compressors, still little present in the European market except Turkey.

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ACC Key elements

ACC is now under Extraordinary Proceedings Administration with the purpose of being sold in the immediate future; despite the EPA period, ACC still has considerable strengths, which are reported below:



the strategic positioning of ACC, which is located in the middle of European refrigerators production system and it is the last «non-asian» household Compressors Company in the world;



the quality of the K-model, ACC fixed speed compressor is considered to be one of the best compressor ever realized and it is ranked yet in the top market thanks to its performances;



the development of the variable speed compressors (VSD);



the strong and consolidated relationships with historical top-line clients (e.g. Electrolux, Bosch and Whirlpool), both for single speed and variable speed compressors;



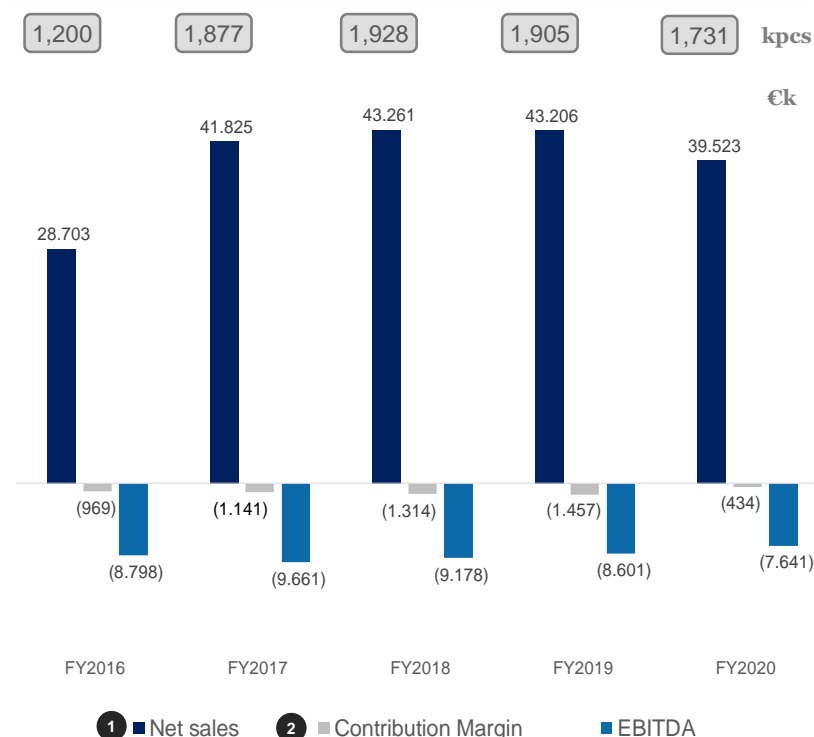
the bond between ACC and the territory which allows to seize the opportunities generated in terms of widespread skills, technical resources (a rich cold chain is present) and expert work force.

Besides all the strength's points aforementioned, the acquisition of ACC Wanbao may seize considerable benefits arising, among others, from:

- Significantly increasing the value of production leveraging the already present cost structure;
- Consolidating the commercial strategy, allowing to progressively increase the contribution margin through variable speed line strengthening and achieving a decrease in the cost of production;
- Achieving a positive operating margin with a strong growth outlook.

Historical Performance

P&L Main Figures



Source: Management

Balance Sheet

Italia Wanbao ACC S.r.l.

€'000	FY2016	FY2017	FY2018	FY2019	FY2020
Intangible fixed assets	2.878	2.508	2.202	34	25
Tangible fixed assets	4.592	5.539	5.457	5.516	5.174
Financial fixed assets	347	344	348	339	341
Fixed assets 1	7.818	8.392	8.007	5.890	5.541
Inventories	6.886	8.925	9.847	9.256	8.780
Trade receivables	4.308	4.897	6.141	6.572	2.306
Trade payables	(3.712)	(5.995)	(4.920)	(7.195)	(7.423)
Advance payments	-	-	-	(3)	(32)
Trade working capital	7.482	7.827	11.068	8.630	3.632
Other assets	3.352	5.055	2.421	1.683	3.331
Other liabilities	(3.025)	(3.006)	(2.730)	(2.698)	(5.599)
Net working capital	7.809	9.876	10.760	7.615	1.364
Net Invested Capital 2	15.627	18.268	18.767	13.505	6.905

Source: Management

1 Net sales increased by Eur 14,5 million from 2016 to 2019 (CAGR 14,6%), however, **pressure on pricing** has determined a progressive further contribution margin reduction. In 2020 Net Sales decrease due to the lower quantity of compressors sold.

2 A huge impact on the negative profitability at the Contribution margin level is attributable to the **direct materials** used in the production accounting for approx. 77% of Sales in 2019 and for approx. 74% in 2020.

The contribution margin is negative in the period 2016-2020, but, as a result of the change in the productive mix and thanks to the price increase, it shows a slightly improvement in 2020. The use of aluminum in place of copper has permitted to partially decrease the cost of direct materials.

1 Since the main building located in Mel has been sold in 2007, the total amount of **net fixed assets** is mainly composed of machinery used for the production.

The most significant part of the assets is the inventory, totaling approx. €8,8 m in FY 2020.

2 In 2020, the financial debt of Wanbao-ACC is null and a certain amount of cash is outstanding to sustain the current business.

Extraordinary Procedure and next steps

Bidding process	On 6 th May 2021, MED authorized the sale of Italia Wanbao ACC business, it will be carried out through a tender procedure. The awarded buyer will be selected considering the offer price and the reliability of the bidder and its business plan, including the preservation of jobs.
Advantages for the acquirer	There are debts which will remain excluded from the sale process and, therefore, will remain as an obligation of the vendor. These liabilities include the debts relating to the activity of Wanbao-ACC prior to the date of the declaration of insolvency. The liabilities related to the activity starting from the declaration of insolvency can be considered as part of the complex sold, following to a price agreement.
Company Valuation	The Extraordinary Commissioner appointed an Expert that provided for an evaluation of the Company Complex ex art. 62 of D.lgs. 270/99.

SALES PROCEDURE			
Phase	Activities	Duration (max)	Estimated Period
I	Publication of the call for expressions of interest	15 days	from 14 June 2021 to 27 June 2021
	Sending Info Memorandum to potential interested parties		
II	Evaluation of the expressions of interest received	11 days	from 28 June 2021 to 8 July 2021
	Sending to interested parties the communication of admission to the Data Room, its rules and a list of documents that will be made available at that time		
III	Opening of the Data Room and Due Diligence	45 days	from 12 July 2021 to 22 August 2021
	Deadline for Q&A presentations		from 12 July 2021 to 4 August 2021
	Possible visit to the production site		to be defined
IV	Sending binding offers to the Notary	15 days	from 22 August 2021 to 6 September 2021
V	Evaluation of binding offers	30-45 days	to be defined
	Preparation of the MED Application for the Award Proposal		
	Possible phase of relaunch on the price Award		
VI	Final contract negotiation	60-90 days	to be defined
	MED authorization stipulates a definitive contract		
	Signing of the transfer contract		

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