Intermonte Securities SIM

Price ord. (Eu):	4,80
Price target 12 m (Eu):	6,20

BCI Index:	1.493
Reuters code:	DLG.MI
Bloomberg code:	DLG IM

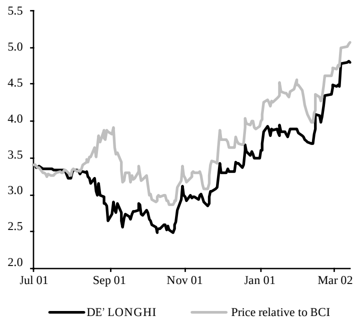
Company Data

No. of shares (mn):	149,50
Mkt Cap. (Eu mn):	717
Market Float (Eu mn):	180
Market Float (%):	25,1%
2001 BVPS (Eu):	4,01
2001 P/BVPS:	1,2
ROE (Curr. Year):	7,9%
ROCE (Curr. Year):	12,0%
3Y CAGR EPS ('01/'04):	24,4%
PEG Ratio:	0,7

Stock Performances:

	1 m	3 m	12 m
Abs:	30,0%	40,3%	
Rel:	27,5%	37,7%	
12M High/Low (Eu):		4.82/2.48	

DE' LONGHI - 12 Months



Source: Datastream

DE' LONGHI *BUY*

Sector : ***Consumers***

Subsector : ***Retail***

Key Figures 2000 - 2004E

Year to 31/12	*Sales (Eu mn)*	*Operating Profit (Eu mn)*	*Net Profit stated (Eu mn)*	*EPS restated (Eu)*	*P/E*	*P/CEPS*	*Div Yield (%)*	*EV/ Ebitda*	*EV/ Ebit*
2000A	1.070	71	9	0,22	21,4	6,6	0,0	7,5	15,1
2001A	1.198	94	26	0,30	16,0	6,3	0,7	7,0	12,2
2002E	1.302	116	43	0,36	13,4	6,4	1,1	6,1	9,7
2003E	1.422	141	60	0,47	10,2	5,6	1,6	5,2	7,7
2004E	1.532	165	77	0,58	8,3	5,0	2,0	4,4	6,1

"Adopt the Penguin!"

- **An international multi-specialist.** De Longhi operates in four business areas –heating, air conditioning, "food&cooking preparation" and "cleaning& ironing", with international sales accounting for 73% of consolidated turnover. 2001 net sales stood at Eu 1.2bn, showing like for like growth of 11.9% YoY, with EBITDA and EBIT up 15.3% and 33% respectively.
- **"Living innovation"…worldwide.** 51% of 2001 net sales came from fast growing markets. Both in these categories and in the more mature ones, turnover growth is driven by De Longhi's high pace in innovating products and by geographical expansion, with the United States and Japan recording the strongest growth.
- **Kenwood adds to growth and profitability.** In 2001, De Longhi acquired Kenwood, for Eu 129.6mn (0.5x 2000 EV/Sales, 6.5x 2000 EV/EBITDA), reinforcing its competitive position in small household appliances and extending its geographical reach to the complementary markets of the UK, France, Germany and Far East. The acquisition also brought in a manufacturing base in China, which will help to reduce manufacturing costs. In 2001, Kenwood posted turnover growth of 13.2%. Synergies from Kenwood integration, fully on track, are expected at least at Eu 33mn, at EBITDA level, in 3 years (2001-2003).
- **2002-2004 estimated EPS CAGR: +26.8%.** We expect turnover to continue growing at a 2002-04 CAGR of 8.5%, with EBITDA and EBIT CAGRs of 12.1% and 19.3% respectively. EBITDA growth will benefit from a more profitable sales mix and a reduction in manufacturing costs thanks to the efficiency programs implemented and the Kenwood synergies. Together with decreasing financial expenses and a slightly better tax rate, this will lead to a restated net profit CAGR of 27.6%. Estimated EPS growth is slightly lower due to the potential capital increase following the exercise of stock options (from 2004 onwards).
- **BUY, target Eu 6.2.** We are initiating our coverage with a BUY recommendation, target Eu 6.2. In fact, although the stock has largely outperformed the Italian market, De Longhi is still undervalued according to both a DCF model (Eu 6.47) and a peer group valuation (Eu 5.86). Our target was obtained by averaging the results of the two. At target, the stock would trade at an undemanding 2001-04 PEG ratio of 0.85. BUY, Eu 6.2.

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DE' LONGHI - Key Figures

PROFIT&LOSS (Eu mn)	2000pf	2001A	2002E	2003E	2004E
Total sales	1.070	1.198	1.302	1.422	1.532
EBITDA	142	164	185	209	223
EBITA	94	112	134	159	184
EBIT	71	94	116	141	165
Associates	4	1	0	0	0
Financial income (charges), others	(36)	(40)	(37)	(34)	(30)
Extraordinary	(2)	(6)	(1)	0	0
Pre-tax profit (Loss)	37	50	78	107	135
Taxes	(28)	(23)	(35)	(47)	(58)
Minorities	(0)	(0)	(0)	(0)	(0)
Net profit	9	26	43	60	77
Net profit restated	25	39	54	70	87
PER SHARE DATA (Eu)	**2000pf**	**2001A**	**2002E**	**2003E**	**2004E**
Total shares out (mn)	112	150	150	150	150
EPS stated	0,08	0,20	0,29	0,40	0,51
EPS restated	0,22	0,30	0,36	0,47	0,58
CEPS restated	0,72	0,76	0,75	0,85	0,95
BVPS	3,35	4,01	3,74	4,07	4,51
Dividend per share (ord)	0,00	0,03	0,05	0,07	0,10
Dividend pay out ratio (%)	0,0%	18,7%	18,7%	18,7%	18,7%
BALANCE SHEET (Eu mn)	**2000pf**	**2001A**	**2002E**	**2003E**	**2004E**
Total fixed assets	649	638	611	584	558
Net working capital	403	389	417	451	483
Long term liabilities	(51)	(55)	(56)	(58)	(61)
Net capital employed	1.000	972	971	976	980
Net financial position	(625)	(447)	(411)	(368)	(279)
Group equity	375	525	560	609	683
Net equity	375	525	560	608	683
CASH FLOW (Eu mn)	**2000pf**	**2001A**	**2002E**	**2003E**	**2004E**
Gross cash flow	75	89	111	127	143
Change in NWC	(61)	14	(28)	(34)	(32)
Capital expenditure	(23)	(55)	(41)	(41)	(41)
Acquisitions & divestments	10	0	(1)	0	0
Other cash items	(5)	130	(5)	(8)	1
Net cash flow	(4)	178	36	43	71
RATIOS (%)	**2000pf**	**2001A**	**2002E**	**2003E**	**2004E**
EBITDA margin	13,3%	13,7%	14,2%	14,7%	15,2%
EBIT margin	6,6%	7,9%	8,9%	9,9%	10,8%
Tax rate	75,0%	46,5%	45,0%	44,0%	43,0%
ROCE	7,1%	9,7%	12,0%	14,4%	16,9%
ROE	2,5%	5,9%	7,9%	10,2%	11,9%
Debt/equity	166,6%	85,1%	73,4%	60,4%	43,5%
Capex as % of sales	2,2%	4,6%	3,2%	2,9%	2,7%
NWC as % of sales	37,6%	32,4%	32,0%	31,7%	31,5%
GROWTH RATES (%)	**2000pf**	**2001A**	**2002E**	**2003E**	**2004E**
Sales	13,9%	11,9%	8,7%	9,3%	7,7%
EBITDA	12,1%	15,3%	12,9%	12,7%	11,4%
EBIT	27,8%	33,1%	23,0%	21,1%	17,5%
Net profit	nm	185,0%	63,0%	39,1%	28,5%
EPS restated	16,5%	33,8%	19,7%	30,7%	23,1%

2000 figures are pro-forma (include Kenwood and acquisitions made at the end of 2000)

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1. Shareholders Structure

1.1 IPO

De' Longhi was listed on the Italian stock market in July 2001 through an IPO for 37.5mn shares. As a result, the float now amounts to 25.08%, while the controlling stake held by the De' Longhi family has dropped from 100% to 74.92%.

De' Longhi - Shareholders Structure Pre and Post the IPO

	Outstanding shares before the global offering	%	Global Offering	Outstanding shares after the global offering	%
Number of shares	**112,000,000**		**37,500,000**	**149,500,000**	
De' Longhi Soparfi	111,999,660	**99.9%**		111,999,660	**74.92%**
Giuseppe De' Longhi	340	**0.0%**		340	**0.00%**
Mercato				37,500,000	**25.08%**

Source: Company data & Intermonte SIM

1.2 Stock Option Plan

With the deliberation of 18th April 2001, the BoD has the authority to launch a capital increase within 5 years, by issuing of a maximum of 7.5mn new ordinary shares (5% of capital). In 2001, 6.9mn options were assigned to 63 employees, with an exercise price equal to that of the IPO (Eu 3.4). If matured, and if the growth target were achieved, 50% of the options will be exercisable as of 2004, and the remainder from 2005 until 28/02/06.

2. Company Description

2.1 Markets

De' Longhi has a leadership position in four different markets:

- Heating;
- Air conditioning & treatment;
- Cooking and food preparation;
- Cleaning and ironing.

De' Longhi's Product Range

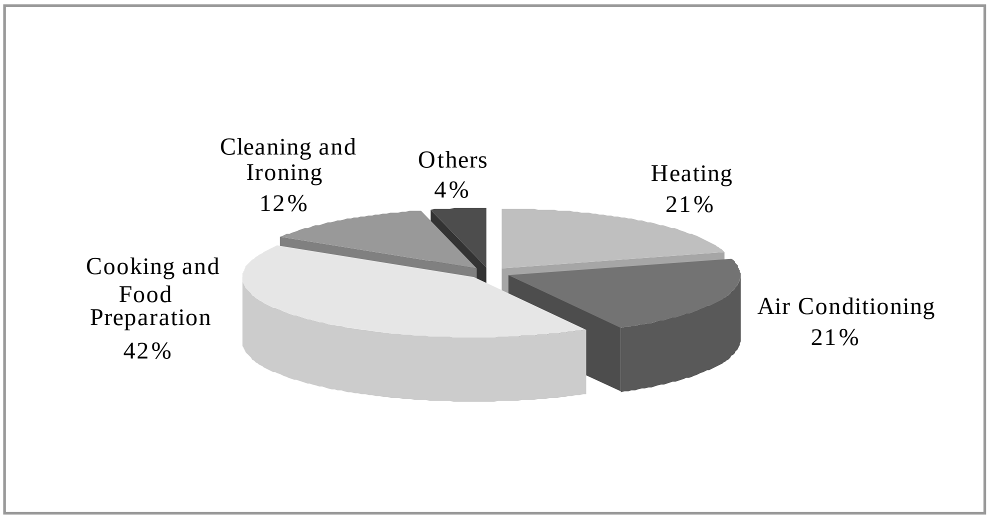
Source: Company

The cooking & food preparation segment accounts for the largest part of consolidated turnover (42%); heating and air conditioning accounts for the same amount (21%), while cleaning and ironing is the smallest contributor.

The remainder, "others", incorporates revenues from the sale of accessories, spare parts, raw materials and services.

Due to the seasonality of heating and air conditioning, their contribution to consolidated turnover varies according to the climate each year.

2001 Net Sales Breakdown by Business

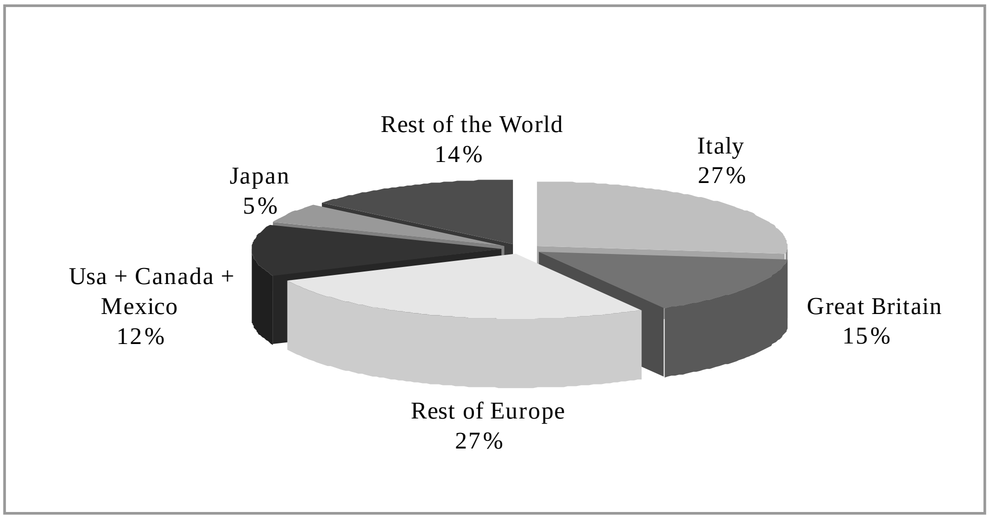


Source: Company data

The company is highly international: turnover generated in Italy only amounts to 27% of total turnover.

At international level, De' Longhi has been able to best consolidate its presence on the markets of the United Kingdom (15% of total turnover) and the rest of Europe (27%). In the USA (12%, 1998-2001 CAGR: 32%) and Japan (5%, 1998-2001: 39%), despite the high growth rates in recent years, the company has achieved a low level of penetration, and therefore there is still high potential for growth.

Net Sales Breakdown by Geographical Area



Source: Company data

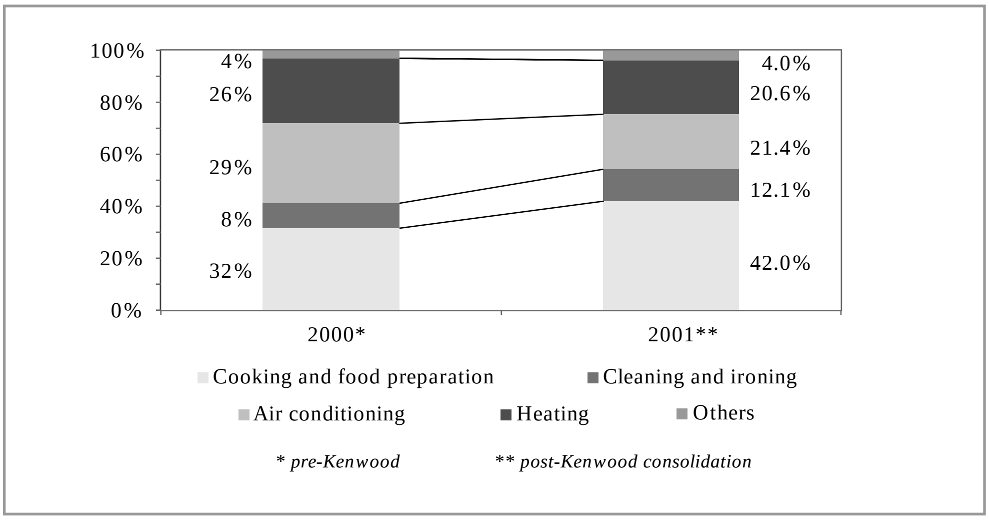
2.2 Kenwood Acquisition

In April 2001, through its subsidiary De' Longhi S.A, the De' Longhi group acquired 100% of Kenwood Appliances Plc for Eu 129.6mn (Eu 76.4mn cash, plus Kenwood's debt of Eu 53.2mn at 31/12/2000).

This company is head of a British group with a consolidated position on the domestic market (UK) and on foreign markets in the cooking & food preparation and cleaning & ironing segments.

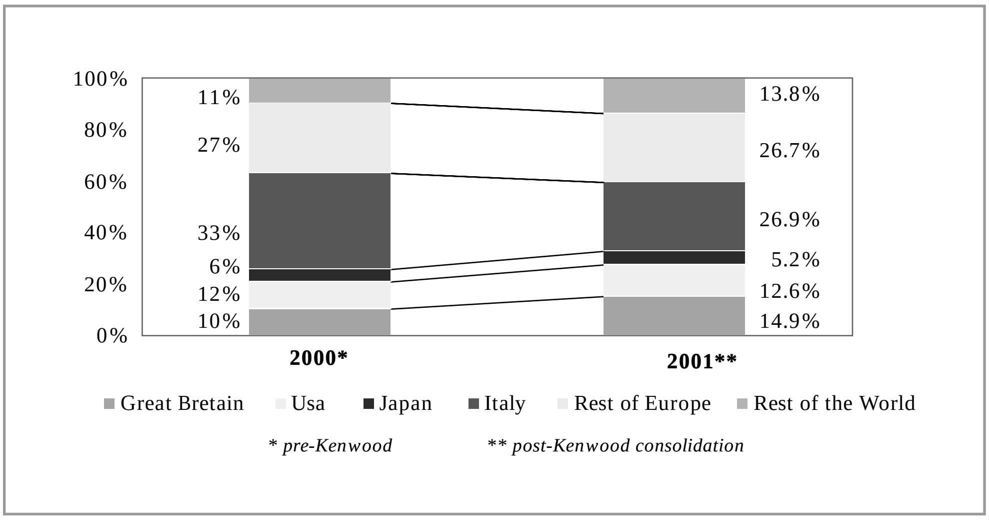
The acquisition made a lot of strategic sense due to the fact Kenwood and De' Longhi's businesses, and the geographical areas covered by them, are highly complementary, which has allowed De' Longhi to reinforce its position in the small household appliances sector in the UK, USA and Japan.With Kenwood, De' Longhi acquired well-known brands on the market (Kenwood and Ariete in particular), distribution presence in UK, France, Germany, South Africa and the Far East and a large production site in China, with the possibility of moving parts of its production to a country with highly competitive manufacturing costs.

Kenwood Impact on Business Breakdown



Source: Company data & Intermonte SIM

Kenwood Impact on Geographic Breakdown



Source: Company data & Intermonte SIM

The tables below show De' Longhi's main brands, including the newly acquired ones, per business segment. Two of its brands are very strong on an international scale (De' Longhi and Kenwood), positioned at the premium end of the market. In addition De' Longhi owns various European and local brands (Simac, Vetrella, SuperCalor, Ariagel, Radel, Elba, Superclima Climaveneta and Ariete).

De' Longhi - Business Areas and Brands

Market	Market Segment	Brand Name	Main Models
Heating Systems	Mobile Products	De' Longhi, La Supercalor, Radel	Dragon, Radia, Rapido, Caldobagno
	Fixed Products	De' Longhi,Radel	
Air Conditioniting & Treatment	Portable air conditioners	De' Longhi, Ariagel,Superclima,Mizushi	Pinguino, Tasciugo
	Wall-mounted air conditioner	De'Longhi, Ariagel, Superclima, Radel, Climaveneta	
	Thermo-cooling machinery and systems	De' Longhi, Climaveneta	
	Other air treatment products	De' Longhi, Ariagel, Superclima	
Cookimg & Food Preparation	Cooking Appliance	De' Longhi, Kenwood, Ariete	Sfornatutto, Friggimeglio, Kenwood Chef, Pastamatic,Gelataio, Gratì, Passì
	Stoves	De' Longhi, Elba	
	Food preparation	De' Longhi, Kenwood, Simac, Ariete	
Cleaning & Ironing Systems	House cleaning	De' Longhi, Simac, Ariete,Vetrella	Colombina, Vaporì, Triplo Simac, Stiromeglio, Stirella, Stiromatic
	Ironing	De'Longhi, Kenwood, Simac, Ariete	

Source: Company data

De' Longhi's Brands

Source: Company data

2.3 Segments

De' Longhi's activities share the concepts of *"living innovation"* & *"wellbeing"*: all products, in fact, satisfy consumer needs in terms of being practical and highly functional, enhancing the quality of living at home.

De' Longhi's Equity

Most of the products sold are positioned in the medium-high end of the market and are sold at a premium price due to their innovative content in terms of performance, design and health. Between the four business areas there are large synergies from both a technological and productive point of view.

The success of De' Longhi's multi-specialist approach is proven by the fact that the group is leader or co-leader in every segment, and is able to maintain and improve its position by applying the know-how and ability acquired in each area to all of the others in which it operates.

- *Heating:* this activity is concentrated on the production of *portable heaters* (e.g. Dragon De' Longhi, Rapido De' Longhi), and *fixed heating systems* (radiators). The heating market is a mature one with fast growing market niches, such as portable heating. De' Longhi's growth depends highly on the capacity to innovate (e.g. bathroom heating, heated towel rails, fan heathers).

- *Air conditioning & treatment:* De' Longhi's products in this segment range from the area of *portable air conditioning* (e.g. Pinguino, possibly De' Longhi's most well-known brand), *fixed air conditioning*, *thermo- cooling machines* (used to air condition medium-large commercial and residential buildings) and other products for air treatment (*humidifiers, dehumidifiers, purifiers*). This market is growing fast. Thanks to the high level of technological innovation of De' Longhi's products and the complete range offered by the company, the group is market leader and is therefore well positioned to take advantage of the market growth. In this segment in particular, given the changes in the global regulations to protect the ozone layer (Kyoto protocol), we believe that, as the only producer in the world, De' Longhi will benefit from its capacity to create products that use natural gases and refrigerants, which have a low environmental impact. In this area, product innovation also involves solutions that use the internet for long distance control of the air conditioners, increasing the practicality of appliances.

- *Cooking & food preparation:* in this market, De' Longhi is active in four main segments:

  Coffee machines: the market has extremely high growth potential due to the low level of penetration in all the geographical markets and the rapid expansion of the "coffee culture".

  Fryers: a segment in which the group holds the leadership position in both Italy and the UK and a dominant position at international level, with a patented and technologically innovative product that allows for a significant reduction in the amount of oil used for cooking.

  Electric ovens and small kitchen appliances: penetration is high in this segment, but it is also one of the fastest growing segments for De' Longhi: the group has, in fact, been able to reach a dominant position both in Italy and abroad, with innovative design solutions and technological content that have been welcomed by the market (e.g. retro style products, products featuring inox steel, voice command ovens).

  Food preparation products: the excellent position achieved in this segment is due to the Kenwood acquisition. Within this very mature market, the group leverages on its well-known brands, the product quality and the wide range of products offered (60 models).

- *Cleaning & ironing:* De' Longhi produces a wide range of household cleaning and ironing products. The growth of these markets is driven by the innovative use of steam for both multifunctional cleaning systems and ironing systems. De' Longhi is the market leader in Italy.

De' Longhi's Markets

Market	Target Market Size (Eu mn)	2001 Sales	Segment Maturity	Main Competitors
Heating Systems	3,100	246	high, but some niches	Glen Dimplex, Sanyo Argo, Philips
Air Conditioning and Treatment	41,000	257	low	Carrier, Aermec, Mitsubishi
Cooking and Food Preparation	17,000	503	medium	Seb, Braun, Saeco, Philips
Cleaning and Ironing Systems	10,000	145	medium	Polti, Seb, Hoover, Philips, Dyson

Source: Company data and Intermonte SIM

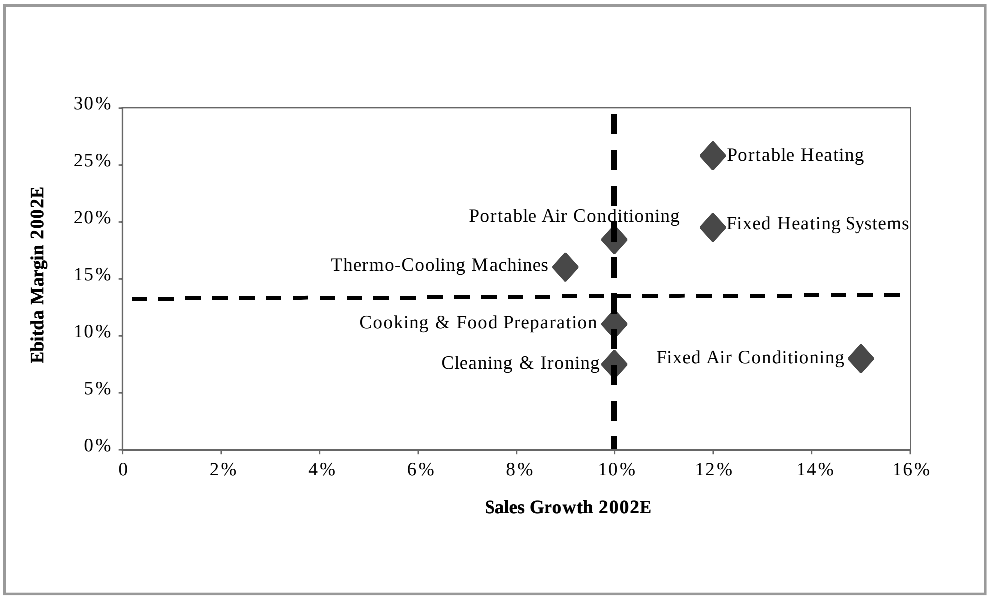
De' Longhi's Competitive Position

Markets	De'Longhi Competitive Position
Portable Heating	Global Leader
Fixed Heating	Relevant at European level
Portable Air Conditioning	Global leader
Fixed Air Conditioning	Relevant in Italy
Thermo Cooling Machines	Domestic Leader
Air Treatment Products	Europen Leader and World Co-leader
Ovens Top	Domestic Leader
Fryers	World Leader
Espresso Coffee Machines	N.A. and Japanes Leader and relevant position in Europe
Food Preparation Products	Uk Leader and relevant position in Europe
House Cleaning and Ironing Products	Domestic Leadership

Source: Company data

As can be seen in the following graph, the most attractive segments in terms of turnover and profitability growth rates are Portable Air Conditioning and Heating. Cooking and Food Preparation and Cleaning & Ironing present lower (although still attractive) growth rates, and structurally lower margins. The importance of these segments has increased significantly since the Kenwood acquisition.

Growth and Profitability by Segment



Source: Intermonte SIM estimates

3. Strategy

3.1 Top Line Growth

The main drivers of top line growth are:

- **De' Longhi's presence in high growth market segments:**
  - *Air conditioning;*
  - *Portable heating;*
  - *Coffee machines;*
  - *Stylised small kitchen appliances;*
  - *Innovative steam vacuums;*
  - *Advanced ironing systems.*

More than 50% of De' Longhi's 2001 turnover was generated in high growth segments.

- **The technological innovation:** By continuously investing in R&D (so far, around 3.5% of turnover per annum), over time, De' Longhi has acquired a vast amount of technologically advanced know-how, enabling it to launch innovative products, often anticipating client's needs (e.g. remote control air conditioning) or developments in environmental regulation (e.g. use of natural gas in refrigeration systems).

- **The differentiation of products:** as well as having high technological content, De' Longhi products differ from those of competitors thanks to their modern and original design, which allows them to be positioned in the medium-high end of the market range, less sensitive to price fluctuations.

- **The geographical expansion:** despite the fact that the group holds a dominant position in all the product categories on the domestic and European markets, it has so far only achieved a low level of penetration. Two markets in particular, the USA and Japan, are still expanding fast and are therefore characterised by high growth rates due to rapid changes in client needs. In Europe too, the Kenwood acquisition, with the complementary nature of the geographical areas covered, has increased the growth opportunities on the U.K., French, German, Far Eastern, Australian and New Zealand markets.

- **One-off effects:** The competitive void created by bankruptcy of Moulinex, which owned Krups, has created, since 4Q01, many opportunities for De' Longhi, due to the temporary absence of Krups products on the market and to the discontinuity from Krups' integration following SEB acquisition.

3.2 Ebitda Growth

Profitability growth is driven by:

- **The increase in volumes;**

- **A better sales mix:** the highest growth segments are those with the highest EBITDA margins (air conditioning, portable heating). Moreover, within each segment, innovation leads to a shift towards premium price products, which have higher margins (e.g. automatic coffee machines);

- **The reduction of labour costs:** mainly as a result of the company's decision to move some production to China and to increase the outsourcing of some finished products from the Far East (Chinese production and the outsourced products will be raised up to 50% from the current 20%, in the medium-long term);

- **The increase in efficiency:** thanks to the automation of production processes, use of SAP extended to the whole group, rationalisation of product codes, improvement of direct deliveries and centralisation of inventories and back order functions;

- **One-off effects:** in 2002, the group will benefit from a reduction in raw material costs of around 2%, with the cost of steel down 15% with respect to 2001.

Kenwood's integration will play an important role with regards to both the top line growth and the reduction of costs.

3.3 Impact of Kenwood Integration

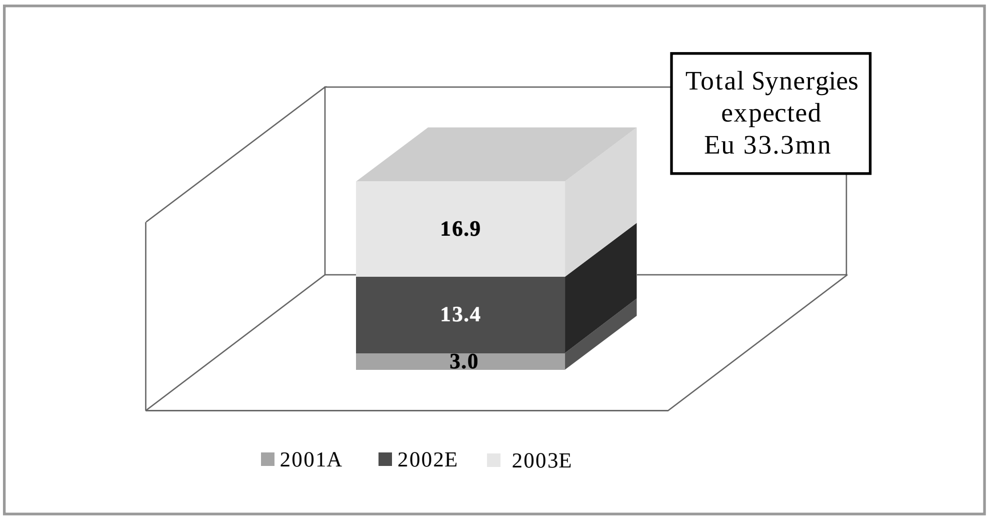
- *At top line level*, the two groups are highly complementary (product range/ geographical markets). This will create growth opportunities, with the "stretching" of both brands and the sale of the two product lines in each market.
- *In terms of profitability*, De' Longhi estimates that the integration of Kenwood, which is proceeding as planned, will generate synergies of at least Eu 33mn in terms of EBITDA over the next three years, most of which will derive from a decrease in the cost of goods sold and in production costs (which is heavily impacted by the group's commercial and productive presence in China), as well as from the integration of commercial and logistic structures and the reduction of overheads.

Kenwood Synergies

(Eu mn)	2001	2002E	2003E
Total	**3.0**	**13.4**	**16.9**
of which:			
Purchasing	2.0	6.5	7.0
Commercial		3.0	4.5
Distribution		0.0	1.0
Logistic		0.9	0.9
Overheads	0.9	1.0	1.0
Production		2.0	2.5

Source: Company & Intermonte SIM estimates

Kenwood Synergies (Eu mn)



Source: Company data and Intermonte SIM estimates

4. 2001 Results

In 2001, De' Longhi recorded a large increase in turnover to Eu 1,198mn, +11.9% YoY (+10% volumes, +2% price mix, -1% prices), with EBITDA up +15.3% and EBIT rising by 33.1%. Net profit, at Eu 26.3mn, grew by 186% YoY. 4Q01 saw an improvement in the trend in terms of turnover and EBITDA growth.

2001 Results

	9M00	4Q00	FY00	9M01	4Q01	FY01
Net Sales	**722.1**	**348.0**	**1070.1**	**802.2**	**395.7**	**1197.9**
growth				*11.1%*	*13.7%*	*11.9*
EBITDA	**82.6**	**59.6**	**142.3**	**94.9**	**69.2**	**164.1**
growth				*14.8%*	*16.0%*	*15.3%*
EBIT	**31.9**	**39.0**	**70.9**	**43.6**	**50.8**	**94.4**
growth				*36.7%*	*30.1%*	*33.0%*
Pre-Tax profit	**1.4**	**35.9**	**37.3**	**13.8**	**35.8**	**49.6**
growth				*871.0%*	*-0.3%*	*32.8%*

Source: Company data

All growth data refers to 2000 financials on a pro-forma basis, which includes the industrial activities previously held by the De' Longhi family and acquired by De' Longhi SpA in December, 2000, as well as Kenwood, in the consolidation base.

4.1 Net Sales

In 2001, the group posted a double digit turnover growth in all its business areas, with the exception of Air Conditioning & Treatment (+5.2% YoY), due to a colder summer season than usual, which penalised the sale of most weather sensitive products (portable air conditioning).

Growth exceeded 13% in 1H01 and 4Q01, which benefited from the lack of Krups products on retailers' shelves after Moulinex's bankruptcy in September 2001. 3Q01 was negatively affected by the lack of new products launches, which were delayed until the following quarter.

2001 Sales Growth Breakdown by Business

	9M01	4Q01	FY01
Heating	15.5%	16.6%	16.0%
Air Conditioning and Treatment	6.5%	0.1%	5.2%
Cooking and Food Preparation	8.7%	17.5%	11.6%
Cleaning and Ironing	28.1%	8.4%	21.3%
Others	4.4%	18.5%	7.7%
Total Group Net Sales	**802.2**	**395.6**	**1197.9**
growth	*11.1%*	*13.7%*	*11.9%*

Source: Company data

As for geographical areas, growth rates were extremely high in North America, with a strong 4Q01, driven by the launch of new products, the introduction of the product range to some new major retailers and the market opportunity created by the absence of Krups from the market. Japan recorded a growth of 15%, driven by coffee machines and heating. In general, the group posted double digit growth in all of the countries in which there is a direct presence (excluding Germany). Italy suffered due to the lack of air conditioning sales, with growth during the year nevertheless significant. In 4Q01, the Rest of Europe benefited from the absence of Krups events, while the Rest of the World was negatively impacted by the energy crisis in Brazil.

2001 Sales Growth Breakdown by Country

	9M01	4Q01	FY01
Italy	4.4%	5.7%	4.8%
Great Britain	13.8%	9.2%	12.2%
Rest of Europe	5.4%	15.6%	8.6%
Usa + Canada + Mexico	30.7%	57.7%	38.6%
Japan	13.5%	16.2%	14.9%
Rest of the World	18.2%	-1.1%	12.4%
Total Group	**802.2**	**395.6**	**1197.9**
growth	*11.1%*	*13.7%*	*11.9%*

Source: Company data

4.2 Profitability

EBITDA growth stood at 15.3% YoY, higher than the sales growth, with an EBITDA margin of 13.7%, from 13.3% in 2000, sustained by lower labour costs (efficiency programs and greater use of Chinese operations). During the year, EBITDA did not benefit from the sales mix, due to the underperformance of the Air Conditioning & Treatment segment, which represents one of the highest EBITDA margin businesses within the company.

Thanks to operating leverage, EBIT growth was even higher, at 33.1%, with an EBIT margin of 7.9% (from 6.6% in 2000). Margin growth was particularly high in 4Q01 due to the heavy increase in turnover and the weight of heating product sales (the group's most profitable business) during winter time.

EBITDA and EBIT Trend in 2001

	9M00	4Q00	FY00	9M01	4Q01	FY01
Ebitda Margin	11.5%	17.1%	13.3%	11.8%	17.5%	13.7%
Ebitda Growth				*14.8%*	*16.0%*	*15.3%*
Ebit Margin	4.4%	11.2%	6.6%	5.4%	12.8%	7.9%
Ebit Growth				*36.7%*	*30.1%*	*33.1%*

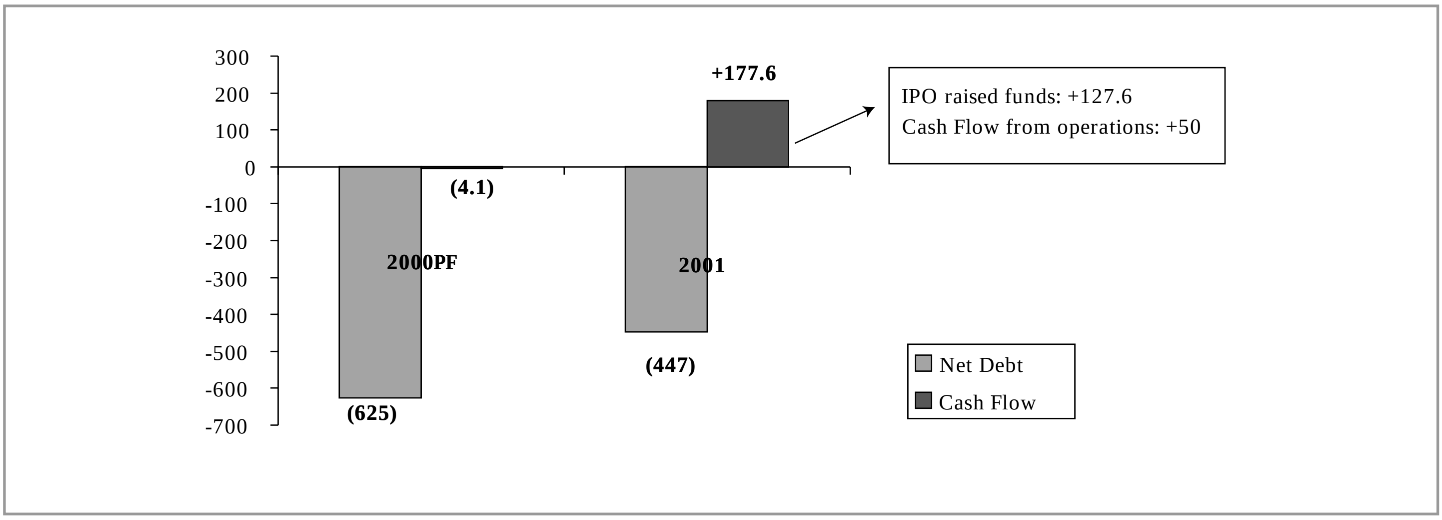
Source: Company data

Below the line, net profit benefited from the lower tax ratio with respect to 2000, posting a FY growth of 186%.

4.3 Net Financial Position

Finally, in 2001, De' Longhi was able to reduce its net financial position to Eu 447mn (debt/equity: 0.9) from Eu 625mn in 2000, thanks to the funds raised with the IPO (Eu 127.5mn) and to the huge cash generation from operating activities (around Eu 50mn). The latter was particularly high due to the significant reduction in net working capital (from 37.6% on net sales in 2000 to 32.4% in 2001), in spite of the increase in sales growth, helped by strict inventory control and the favourable balance of receivables and payables.

2001 Net Debt Reduction (Eu mn)



Source: Company data

5. Estimates

5.1 Net Sales

We expect net sales to continue to increase at a 2001-04 CAGR of 8.5%, sustained by high innovation and by international growth in the United States and Japan, as well as in the European markets (UK, Germany, France, Spain) following the acquisition of Kenwood, which had highly complementary geographical markets.

In particular, we expect a CAGR of around 10% for the heating and the air conditioning businesses, the former representing a mature market that enjoys high growth in some niche markets, such as modern fixed bathroom radiators and mobile heaters, and the latter being a high-growth market. In both of these markets, De' Longhi is well positioned to take advantage of market trends, having leading market shares, distribution assets in the fastest growing geographical markets - the UK, United States and Japan - a wide and innovative product portfolio and ecologically sound products. The last element represents a strong competitive advantage in Europe, in light of the fact that the EU has prohibited the use of the refrigerant gas R22 (from 1/6/02 for cooling systems and from 1/1/04 for heating systems) in order to protect the ozone layer.

We also expect sustained growth in the other two business segments (CAGR: 8%), which deal with more mature markets, due to the launch of new products (such as automatic coffee machines in cooking & food preparation), the leverage of Kenwood brands and distribution assets, and the penetration of the new geographical markets.

2002 - 2004 Estimated Growth by Business

	2000	2001	2002E	2003E	2004E
Heating	17.6%	16.0%	12.0%	10.5%	9.1%
Air Conditioning and Treatment	7.4%	5.2%	10.9%	9.8%	9.8%
Cooking and Food Preparation	14.3%	11.6%	10.0%	7.0%	7.0%
Cleaning and Ironing	8.8%	21.3%	10.0%	7.0%	6.0%

Source: Company data & Intermonte SIM estimates

In 2002, we expect the company to benefit from the absence of Krups from the market and from the recovery of the Air Conditioning, following a bad season last year, offset by a negative exchange rate effect.

5.2 Profitability

We estimate an EBITDA CAGR in 2001-04 of 12.3%, higher than the turnover growth, as we expect the improved sales mix, the drop in raw material and labour costs and the synergies from Kenwood's integration will be only partially offset by higher services costs, due to:

- the increase in advertising and promotional spending necessary to sustain the innovation activity and to exploit Kenwood brands;
- the increased use of outsourced components and finished products.

As for the divisional breakdown, volume growth will sustain the EBITDA growth of the heating and the air conditioning businesses. The high advertising costs and the re-launch of Kenwood in 2002 will counterbalance the positive effects of the higher value added products sold in Cooking & Food Preparation; while we estimate that the positive impact of innovation, in terms of profitability, will be fully evident in Cleaning and Ironing.

EBIT will benefit from the operating leverage, emphasised by depreciation & amortisation diminishing slightly over 2002-04, with a 2001-04 EBIT CAGR of 20.5%.

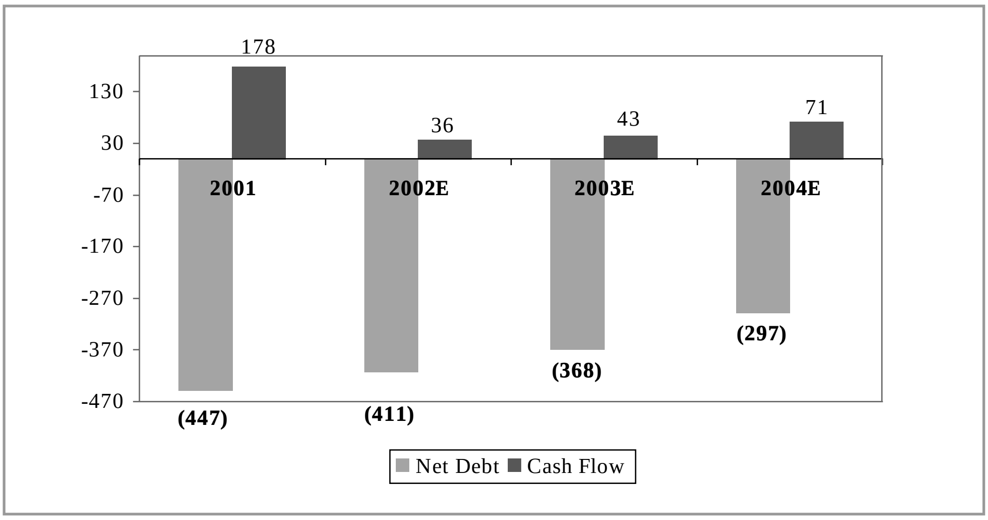
2002 - 2004 Estimated EBITDA & EBIT Growth

	2001E	2002E	2003E	2004E
Ebitda	**164.14**	**185.28**	**208.87**	**232.71**
growth	*15.3%*	*12.9%*	*12.7%*	*11.4%*
margin	13.7%	14.2%	14.7%	15.2%
EBITDA MARGIN BY BUSINESS				
Heating	23.7%	24.2%	24.6%	25.0%
Air Conditioning	14.0%	14.6%	15.3%	15.8%
Cooking and Food Preparation	11.0%	11.0%	11.5%	12.0%
Cleaning and Ironing	7.0%	7.5%	8.0%	8.5%
Depreciation and Amortisation	(51.80)	(50.78)	(49.83)	(48.98)
Goodwill amortization	(17.90)	(18.30)	(18.30)	(18.30)
Ebit	*94.44*	*116.20*	*140.74*	*165.43*
growth	*33.1%*	*23.0%*	*21.1%*	*17.5%*
margin	**7.9%**	**8.9%**	**9.9%**	**10.8%**

Source: Company Data & Intermonte Securities Estimates

Below the line, we estimate that the net result will benefit from decreasing financial expenses, following net debt reduction over the period, and from a slightly improved tax ratio. Being that goodwill is almost fully tax deductible, we forecast a restated net income CAGR in 2002-04 of 27.6%. EPS growth over the same period stands at 26.8%, following the exercising of options through a capital increase in 2004.

2001 - 2004 Estimated Net Debt/Cash Flow (Eu mn)



Source: Company data & Intermonte SIM

De' Longhi - Consolidated P&L

(Eu mn)	1999 pf	2000 pf	2001	2002E	2003E	2004E
Net Sales	**939.3**	**1,070.2**	**1,197.9**	**1,302.0**	**1,422.5**	**1,531.8**
growth	*4.2%*	*13.9%*	*11.9%*	*8.7%*	*9.3%*	*7.7%*
Raw materials	(457.2)	(530.0)	(596.4)	(638.0)	(697.0)	(750.6)
as % on net sales	*48.7%*	*49.5%*	*49.8%*	*49.0%*	*49.0%*	*49.0%*
Services	(194.0)	(232.8)	(260.2)	(292.9)	(320.1)	(344.6)
as % on net sales	*20.7%*	*21.8%*	*21.7%*	*22.5%*	*22.5%*	*22.5%*
Other operating costs	(9.2)	(5.6)	(9.1)	(9.1)	(10.0)	(10.7)
as % on net sales	*1.0%*	*0.5%*	*0.8%*	*0.7%*	*0.7%*	*0.7%*
Value added	**278.8**	**301.7**	**332.2**	**362.0**	**395.4**	**425.8**
as % on net sales	*29.7%*	*28.2%*	*27.7%*	*27.8%*	*27.8%*	*27.8%*
growth	*10.5%*	*8.2%*	*10.1%*	*8.9%*	*9.3%*	*7.7%*
Labour costs	(142.5)	(150.2)	(157.2)	(165.1)	(171.8)	(178.7)
as % on net sales	*15.2%*	*14.0%*	*13.1%*	*12.7%*	*12.1%*	*11.7%*
Provisions and write-offs	(9.4)	(9.2)	(10.9)	(11.6)	(14.8)	(14.4)
EBITDA	**126.9**	**142.3**	**164.1**	**185.3**	**208.9**	**232.7**
Ebitda margin	*13.5%*	*13.3%*	*13.7%*	*14.2%*	*14.7%*	*15.2%*
growth	*38.8%*	*12.1%*	*15.3%*	*12.9%*	*12.7%*	*11.4%*
Depreciation and Amortisation	(49.0)	(48.6)	(51.8)	(50.8)	(49.8)	(49.0)
EBIT before goodwill	**77.9**	**93.8**	**112.3**	**134.5**	**159.0**	**183.7**
Ebita margin	*8.3%*	*8.8%*	*9.4%*	*10.3%*	*11.2%*	*12.0%*
growth	*72.4%*	*20.3%*	*19.8%*	*19.7%*	*18.2%*	*15.5%*
Goodwill amortization	(22.4)	(22.8)	(17.9)	(18.3)	(18.3)	(18.3)
EBIT	**55.5**	**71.0**	**94.4**	**116.2**	**140.7**	**165.4**
Ebit margin	*5.9%*	*6.6%*	*7.9%*	*8.9%*	*9.9%*	*10.8%*
growth	*142.2%*	*27.8%*	*33.0%*	*23.0%*	*21.1%*	*17.5%*
Net Financial income	(28.5)	(35.6)	(39.9)	(36.7)	(33.6)	(30.3)
Other Income (loss)	(21.1)	2.0	(4.9)	(1.0)	0.0	0.0
Pre-Tax profit	**5.9**	**37.4**	**49.7**	**78.5**	**107.1**	**135.1**
Taxes	(13.1)	(28.0)	(23.1)	(35.3)	(47.1)	(58.1)
Minorities	(0.0)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)
Net Profit	**(7.1)**	**9.2**	**26.4**	**43.0**	**59.8**	**76.8**
net margin %	*-0.8%*	*0.9%*	*2.2%*	*3.3%*	*4.2%*	*5.0%*
growth	*-79.2%*	*-229.3%*	*186.0%*	*63.0%*	*39.1%*	*28.5%*
Tax Rate	*219.8%*	*75.0%*	*46.5%*	*45.0%*	*44.0%*	*43.0%*
Restated Net Profit	**21.5**	**25.1**	**39.1**	**53.6**	**70.0**	**87.2**
Growth Rate	*-237.8%*	*16.5%*	*56.2%*	*36.9%*	*30.7%*	*24.6%*

Source: Company data and Intermonte SIM estimates

De' Longhi - Group Balance Sheet & Cash Flow

(Eu mn)	1999 pf	2000 pf	2001	2002E	2003E	2004E
BALANCE SHEET						
Net Working Capital	**336.2**	**402.5**	**388.5**	**416.6**	**450.9**	**482.5**
Tangible Assets	216.373	198.1	193.7	194.7	195.9	196.9
Intangible Assets	471.155	441.603	435.1	406.5	378.4	351.4
Financial Assets	18.9	9.1	9.6	9.6	9.6	9.6
Long Term Liabilities	(41.6)	(51.5)	(54.8)	(56.2)	(58.4)	(60.6)
Net Capital Employed	**1001.0**	**999.8**	**972.1**	**971.1**	**976.4**	**979.9**
Net Cash (Debt)	**(620.7)**	**(624.8)**	**(447.1)**	**(411.1)**	**(367.8)**	**(297.2)**
Minorities	0.17	0.3	0.2	0.2	0.2	0.2
Shareholders Equity	380.2	374.7	524.9	559.8	608.4	682.5
Treasury shares	0	0	0	0	0	0
Group Net Equity	**380.4**	**375.0**	**525.1**	**560.0**	**608.6**	**682.7**
Net Capital Employed	**1001.0**	**999.8**	**972.2**	**971.1**	**976.4**	**979.9**

(Eu mn)	1999 pf	2000 pf	2001E	2002E	2003E	2004E
CASH FLOW						
Net Income	(7.1)	9.2	26.3	43.0	59.8	76.8
Depreciation & Amortization	71.42	71.4	69.8	69.1	68.1	67.3
Provisions and writedowns, net of applications	(2.7)	(5.4)	(7.5)	(1.0)	(1.0)	(1.0)
Gross Cash Flow	**61.5**	**75.2**	**88.6**	**111.0**	**126.9**	**143.0**
Change in Working Capital	(18.9)	(61.3)	14.0	(28.1)	(34.3)	(31.6)
Operating Cash Flow	**42.6**	**13.9**	**102.6**	**82.9**	**92.6**	**111.5**
Capex (Fixed assets)	(8.0)	(19.9)	(35.9)	(39.5)	(39.8)	(39.8)
Capex (Intangibles)	(0.9)	(3.4)	(19.5)	(2.0)	(1.4)	(1.5)
Acquisitions/ Disposals	0	0	0	(0.5)	0	0
Net disposal of financial assets	0.6	9.9	0	0	0	0
Dividends Distributed	0.0	0.0	0.0	(4.9)	(8.0)	(11.2)
Stock Capital Increase	51.1	8.3	127.6	0	0	11.7
Others	51.6	(13)	2.8	0	0	0
Cash Flow	137.0	(4.1)	177.6	36.0	43.3	70.6
Initial Net Financial Position	(757.7)	(620.7)	(624.7)	(447.1)	(411.1)	(367.8)
Final Net Financial Position	(620.7)	(624.7)	(447.1)	(411.1)	(367.8)	(297.2)
Average Net Financial Position	(689.2)	(622.7)	(535.9)	(429.1)	(389.5)	(332.5)

Source: Company data and Intermonte SIM estimates

6. Valuation

We are initiating coverage with a BUY recommendation and a target price of Eu 6.2 per share (30% upside). Our target price is the average result of a DCF model (Eu 6.47) and a peer group valuation (Eu 5.86).

The DCF model values De' Longhi at Eu 968mn, or Eu 6.47 per share (upside: 35%), assuming a terminal WACC of 8.9% (risk free 5.5%, risk premium 4.5%, beta 0.9, target debt level 10%) and a terminal growth of 2.5%.

DCF Model

De' Longhi (Eu mln)	**2002E**	**2003E**	**2004E**	**2005E**
Ebita	134.5	159.0	183.7	196.1
Amortization & Depreciation	50.8	49.8	49.0	42.4
Change in Working Capital	(28.1)	(34.3)	(31.6)	(12.1)
Capex	(41.5)	(41.3)	(41.4)	(42.4)
Tax	(60.5)	(70.0)	(79.0)	(84.3)
Free Cash Flow	*55.2*	*63.4*	*80.8*	*99.7*
Free Cash Flow/Mkt Cap. (%)	*7.7%*	*8.8%*	*11.3%*	*13.9%*
Discounting Factor	1.00	0.93	0.86	0.77
Discounted Free Cash Flow	**55.2**	**59.0**	**69.6**	**77.1**
	2002E	**2003E**	**2004E**	**2005E**
WACC	**7.27%**	**7.45%**	**7.75%**	**8.94%**
Terminal Growth				**2.5%**
Actual Value Free Cash Flow	**184**			
Terminal Value	1,549			
Discounted Terminal Value	**1,198**			
Total Equity Value	**1,382**			
02 Cash/(Debt)	-411			
Minorities	3			
Total Value (Eu mn)	**968**			
N. of shares	149.5			
Value per share (Eu)	**6.47**			
Potential Upside (Downside)	*34.9%*			

Source: Intermonte SIM estimates

De' Longhi's valuation vs. peers are shown in the table in the next page. The stock trades almost in line in terms of EV/EBITDA, while it trades at 2% discount on 2002 P/E and on 14% discount on 2003 P/E, due to the positive impact of diminishing financial expenses and a slightly lower tax rate on De' Longhi net profit growth.

Peer Group Valuation

	Price (Eu)	Mkt Cap (Eu mn)	2002 P/E	2003 P/E	2002 EV/EBITDA	2003 EV/EBITDA
Seb	89.95	1389	15.3	13.0	7.0	6.2
Azkoyen	8.25	176	12.3	12.1	3.8	3.7
Merloni Elettrodomestici	8.25	903	10.2	8.7	3.6	3.0
Saeco	2.78	556	11.1	8.9	6.0	4.6
Electrolux	20.37	7443	13.2	11.7	6.3	5.9
Whirlpool	85.41	5709	12.3	10.5	5.9	n.a.
Black & Decker	52.64	4204	16.9	14.0	7.3	6.6
Maytag	50.47	3874	18.2	16.8	9.8	n.a.
Sector Average			**13.7**	**12.0**	**6.2**	**5.0**
De' Longhi	**4.80**	**718**	**13.4**	**10.3**	**6.1**	**5.2**
De' Longhi Premium/(Discount) to Peers		*26.5%*	*-2.1%*	*-14.3%*	*-1.7%*	*3.7%*

Source: Intermonte SIM for Saeco, Merloni; JCF Consensus Data for the others

We based our De'Longhi peer valuation on Saeco and Merloni, given that we cover directly these stocks, Saeco is similar in terms of strong expected growth and Merloni is similar in terms of EBITDA and EBIT margin structure, as shown in the tables below. In addition, the stocks are the closest in terms of market capitalization.

Saeco, Merloni, De Longhi Expected Growth

	2001-04 EPS CAGR	2002-04 EPS CAGR
Saeco	27.5%	18.7%
Merloni	16.5%	13.2%
De Longhi	**24.4%**	**26.8%**

Source: Intermonte SIM estimates

Saeco, Merloni, De Longhi EBITDA & EBIT Margin

	2002 EBITDA margin	2003 EBITDA margin	2002 EBIT margin	2003 EBIT margin	2002 Net margin	2003 Net margin
Saeco	27.0%	28.2%	20.0%	21.9%	10.9%	12.5%
Merloni	12.0%	12.2%	7.3%	7.6%	4.2%	4.4%
De Longhi	14.2%	14.7%	8.9%	9.9%	3.3%	4.2%

Source: Intermonte SIM estimates

De' Longhi trades at a premium to both Saeco and Merloni.

De' Longhi's Premium vs. Saeco & Merloni

	Price (Eu)	Mkt Cap (Eu mn)	2002 P/E	2003 P/E	2002 EV/EBITDA	2003 EV/EBITDA
Merloni Elettrodomestici	8.25	903	10.2	8.7	3.6	3.0
Saeco	2.78	556	11.1	8.9	6.0	4.6
De' Longhi	**4.80**	**718**	**13.4**	**10.3**	**6.1**	**5.2**
De' Longhi Premium/ (Discount) to Saeco-Merloni			*26.1%*	*16.3%*	*27.9%*	*35.7%*
De' Longhi Premium/ (Discount) to Saeco			*20.9%*	*15.0%*	*2.3%*	*12.1%*
De' Longhi Premium/ (Discount) to Merloni			*31.8%*	*17.5%*	*70.7%*	*72.0%*

Source: Intermonte SIM

The premium is related to higher growth expected; as shown in the table below, De' Longhi's 2002-2004 peg ratio is the lowest, although all the stocks trade at undemanding ratios.

Saeco, Merloni, De Longhi Peg Ratios

	Price	Mkt Cap	2001-04 EPS CAGR	2001 P/E	Peg Ratio
Saeco	2.78	556	27.5%	16.3	0.59
Merloni	8.25	903	16.5%	12.5	0.76
De Longhi	**4.80**	**718**	**24.4%**	**16.0**	**0.66**
			2002-04 EPS CAGR	**2002 P/E**	**Peg Ratio**
Saeco			18.7%	11.1	0.59
Merloni			13.2%	10.2	0.77
De Longhi			**26.8%**	**13.4**	**0.50**

Source: Intermonte SIM estimates

We chose to compare the stocks at EV/EBITDA level in order to stress the profitability improvement determined by operations (a valuation on P/E would have yielded to a very similar result). We based our comparison on 2002, on which we have higher visibility, considering Saeco's and Merloni's average ratio at target price (Saeco, Eu 4.6 per share, Merloni: Eu 10 per share), which implies a 2002 EV/EBITDA multiple of 6.96x.

Peer Group Valuation

Saeco-Merloni (2002 EV/Ebitda at target)	x6.96
De' Longhi EV (Eu mn)	1,290
De' Longhi Net Debt (Eu mn)	(411)
De' Longhi Minorities (Eu mn)	2.9
De' Longhi Total Value (Eu mn)	**875**
N. of Shares	149.5
Fair Value (Eu)	**5.86**
Potential Upside (Downside)	*22%*

Source: Intermonte SIM estimates

This yields a valuation for De' Longhi of Eu 875mn, or Eu 5.86 per share (upside: 22%).

By averaging the results of the two valuation methods, we obtain our target of Eu 6.2 per share.

At our target, the stock would trade at a PEG ratio of 0.85 (2001P/E: 16x, 2001-04 EPS CAGR: 24.4%). A peg ratio of 1 would justify a share price of Eu 7.31.

Ratios at Target Price

	Target Price (Eu)	Mkt Cap (Eu mn)	2002 P/E	2003 P/E	2002 EV/EBITDA	2003 EV/EBITDA	2001-2004 Peg Ratio
Saeco Multiples at target (Eu 4.6)	4.6	920	18.3	14.7	9.7	7.8	0.98
Merloni Multiples at target (Eu 10)	10.0	1,090	12.3	10.6	4.2	3.6	0.92
De Longhi Multiples at target (Eu 6.2)	6.2	927	17.3	13.2	7.2	6.2	0.85
De Longhi Premium/ (Discount) to Saeco, Merloni			*12.9%*	*4.6%*	*3.9%*	*8.5%*	

Source: Intermonte SIM