

Italian Manufacturing

Industrial Landscape



Key Highlights	A time for disruption and opportunities	Agenda for growth: The company level view	Strategic intent	Capability building	Enablers to execute
-----------------------	---	---	------------------	---------------------	---------------------

Introduction Statement

Pandemic, war, and economic crisis... these are events most people never experienced till today. These last few years have been challenging and disruptive and business leaders around the world had to review the assumptions on which their plans were based on.

How the manufacturing industries will look like in few years? What the customers will want then? What will happen to the global supply chain? Probably these are the questions many business leaders are asking themselves and Oak Universe is well equipped to help them find the right answers.

I was born in Southern Italy and I graduated as an engineer, I always loved the pragmatic problem solving approach I learned in my studies. I spent my initial working years in Italy mostly working in management consulting and I got involved in what was the first Internet revolution at the beginning of this century.

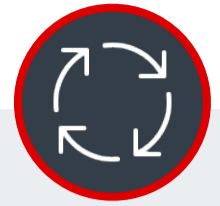
The years 2000-2003 were very dynamic and many companies started to heavily invest in new technologies like ERP systems and Internet based business models. What still surprises me after so many years is that many of those investments were not based on a value creation strategy but more on a bandwagon approach.

We are currently into the IR4 revolution and Oak Universe main focus is value creation and the team can provide all the necessary support to companies to develop and implement value creation strategies leveraging the most effective IR4 tools.



Vincenzo Grittano
Partner / Investment Director

Italian Industrial Landscape



Italy is the 3rd largest industrial economy in Europe, after Germany and France, and it has a long history of manufacturing excellence culminating with the creation of several industrial districts across the country.

The industrial landscape is made mostly of SMEs, almost 80% are categorised as micro companies, small & medium make up 18% while the large companies are 2% of the total.

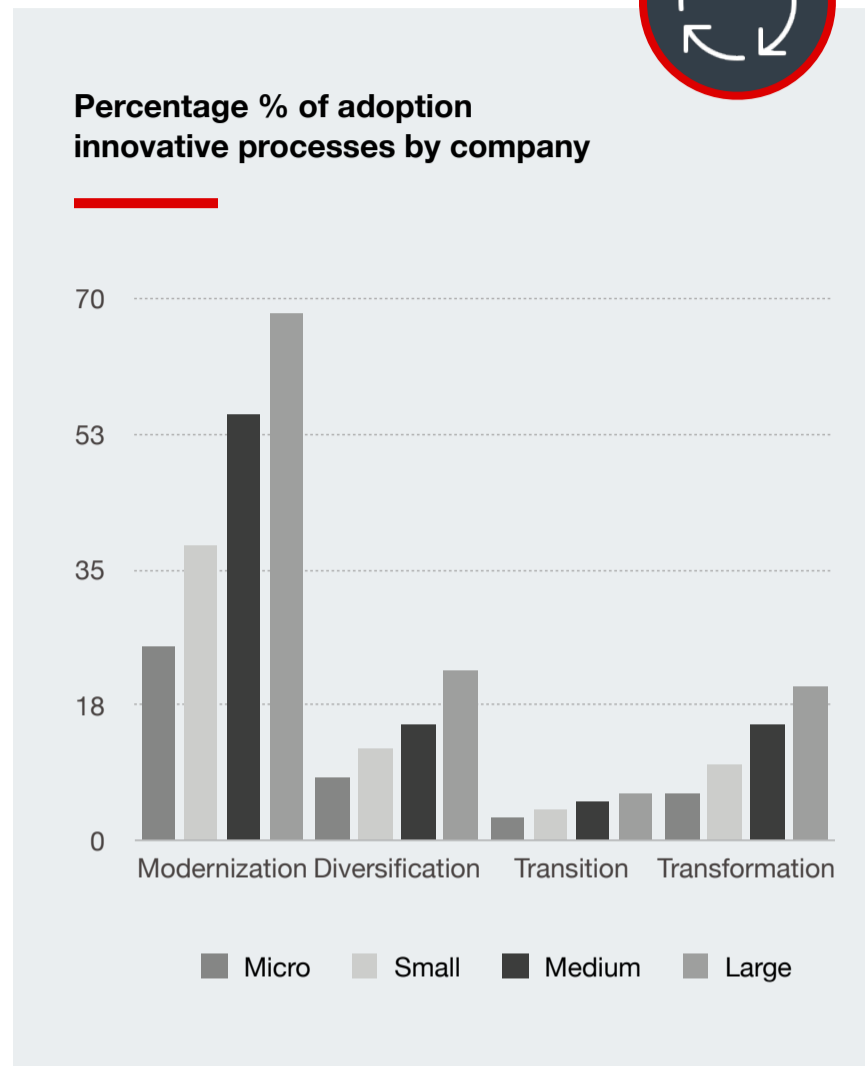
The Italian industrial system is characterised by the widespread presence of family controlled businesses in 2018 over 800 thousands companies fell into this category.

In general the entrepreneur or a member of the family not only controls the company but it is directly responsible for the day-by-day management.

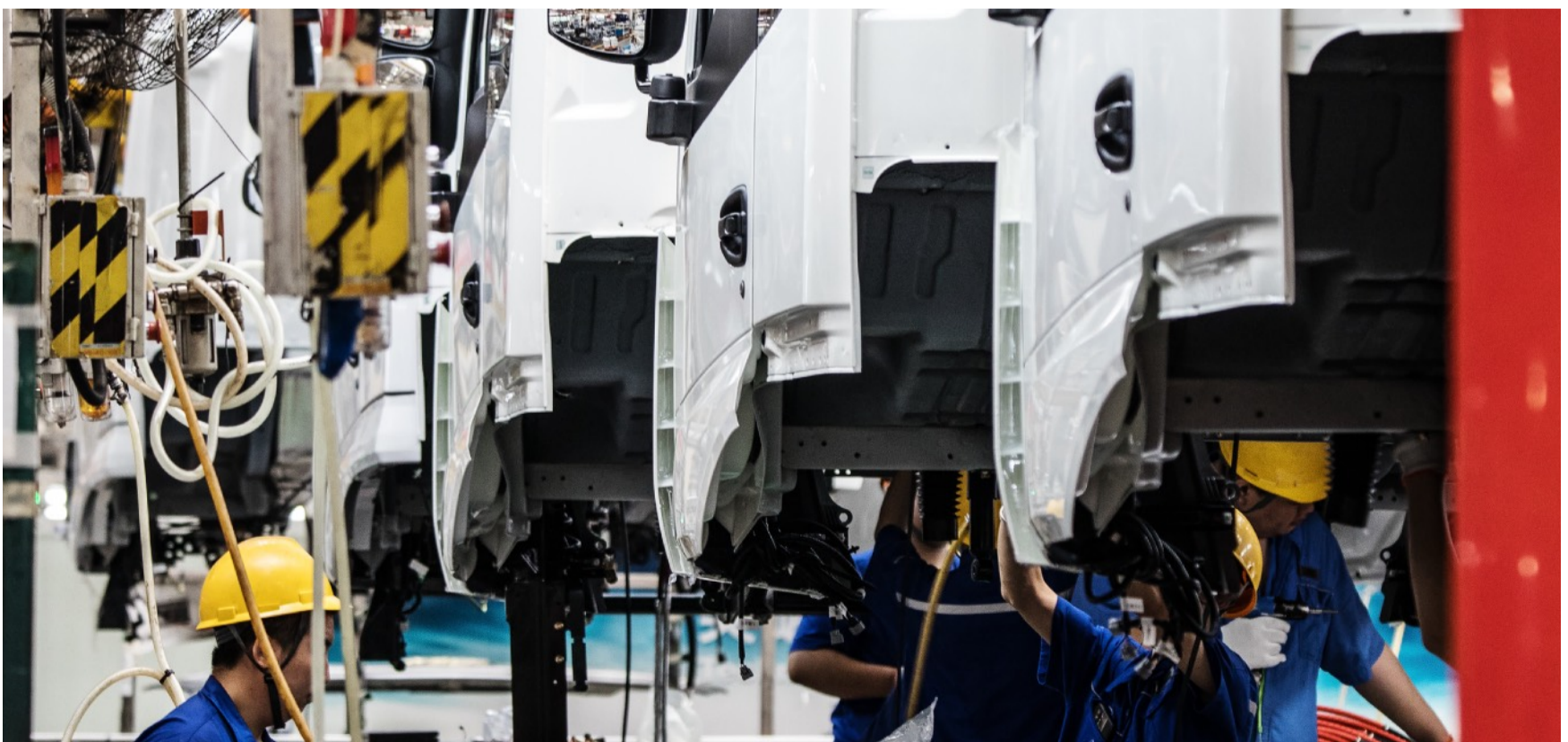
Many companies in order to support their strategic goals have been investing in innovation including technological modernisation, diversification, products development and market expansion.

Technological modernisation of the production processes is the most common change in the Italian SMEs, followed by business diversification, the largest companies are adopting more complex transformations.

The degree of penetration of these innovative processes changes with the industrial sector and company size in average the manufacturing sector has the lowest level along with the small companies.



First who adopts innovative processes are large size companies, followed by medium size companies at all sectors



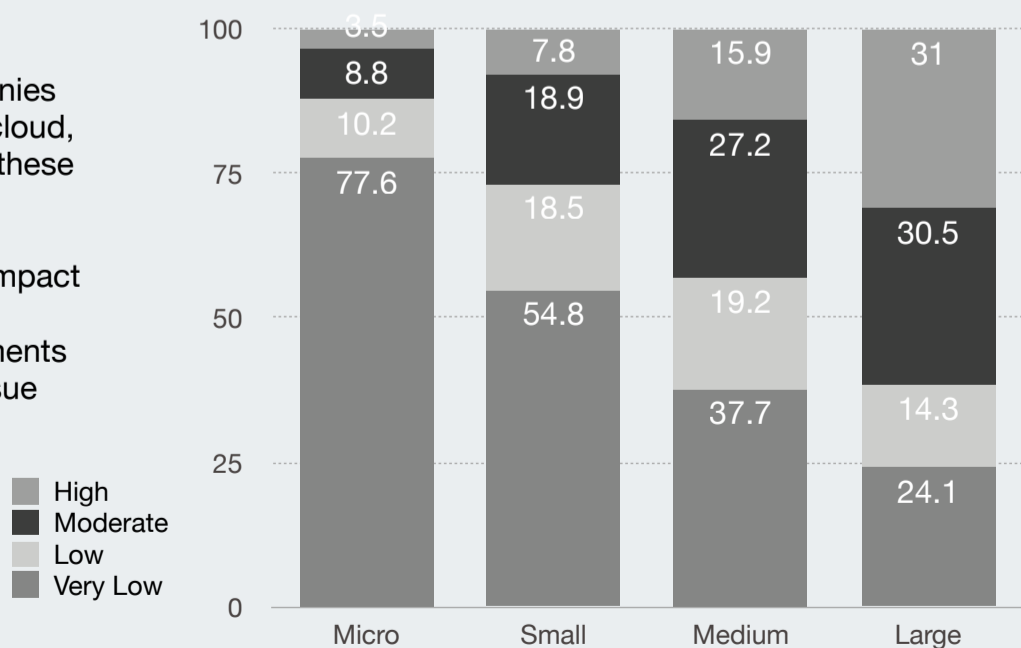
Digital land space



Digitalisation level of Italian companies by size (%)

Italian companies have not yet reached an elevated level of digitalisation many companies tend to invest in digital infrastructures like cloud, optical fiber or ERPs but only in few cases these investments are structural and integrated.

The size of the company has a significant impact on the level of digitalisation achieved large companies better value this type of investments and are financially better positioned to pursue them.



Key Competitive Indicators

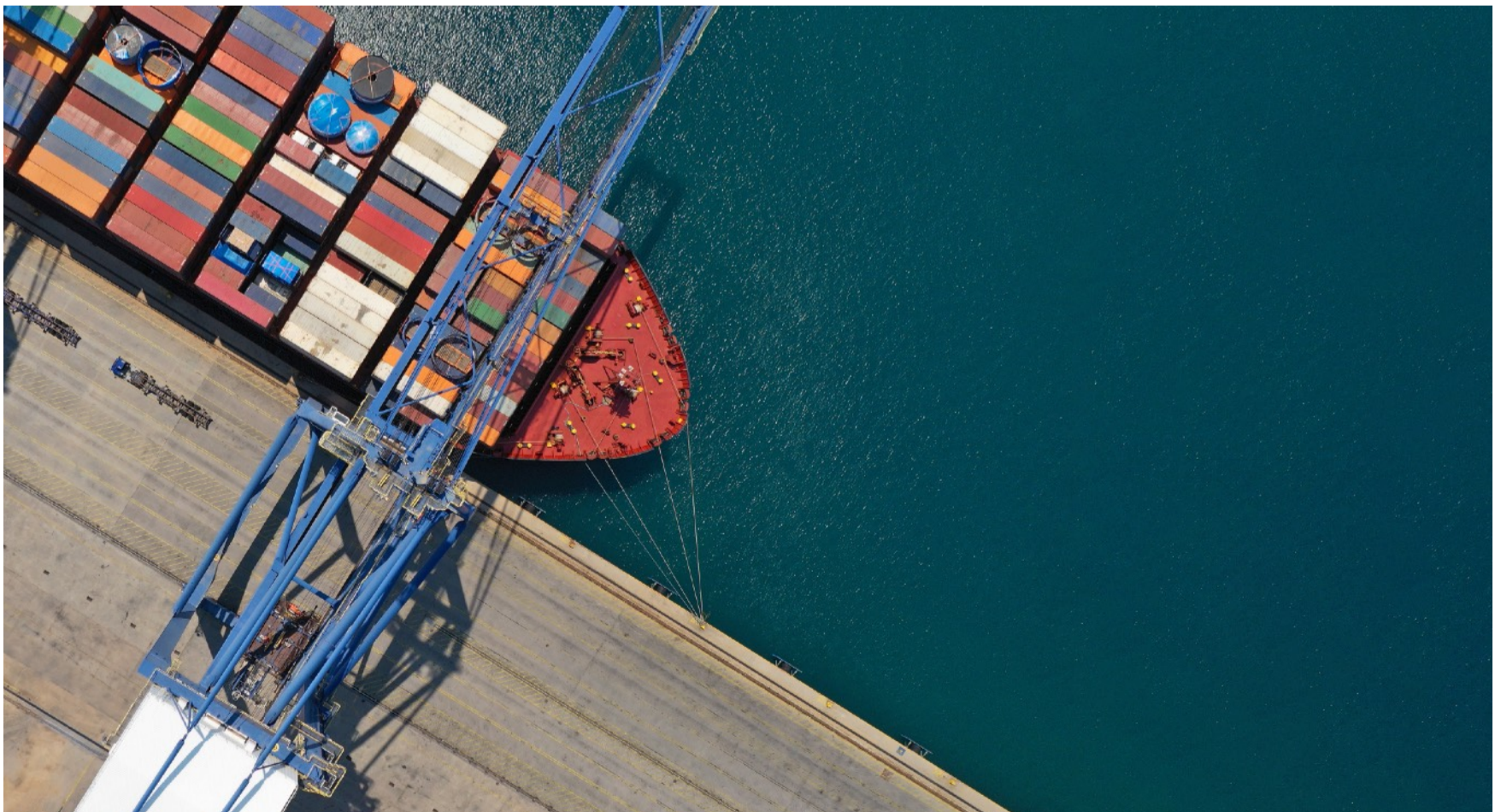
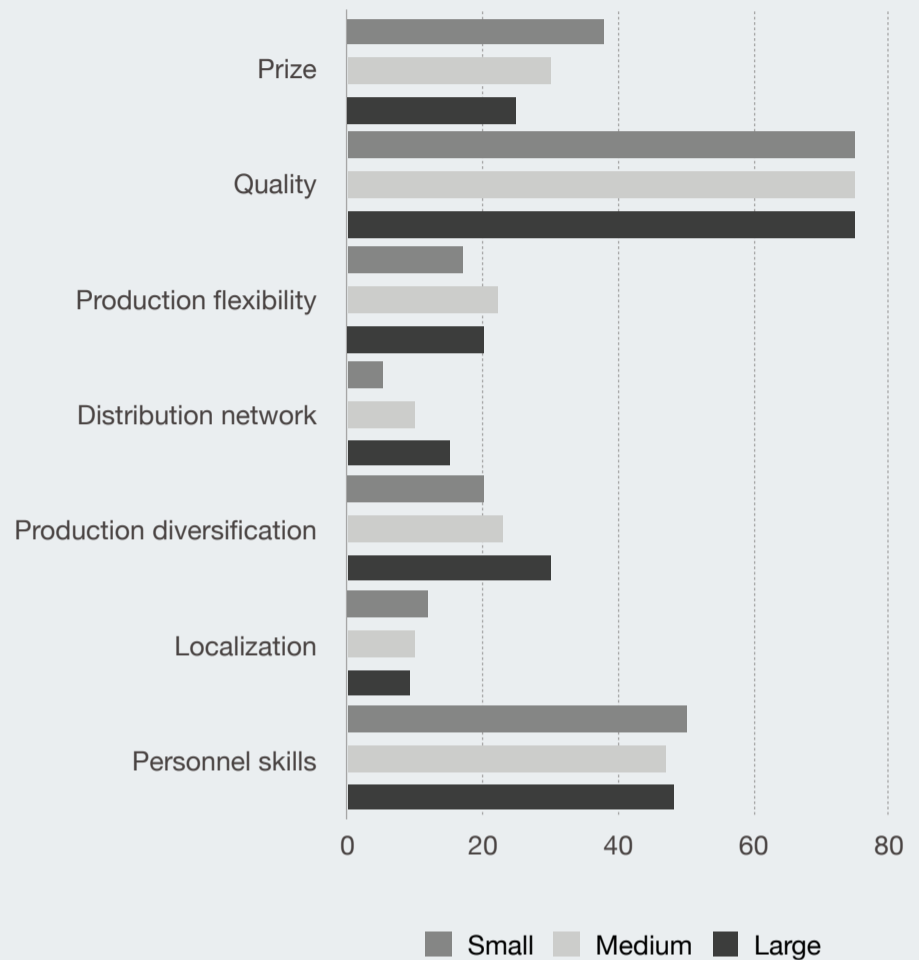


Strength of Italian companies by size (%)

Italian companies have been facing an increasing level of competition from the EU and beyond but in many cases they have been able to leverage their main strengths to retain their market shares.

It is clear that no matter the size all Italian companies mainly focused on their quality and skills to compete nationally and internationally. Localization & prize are slightly more relevant for the smaller companies because of the cluster approach of the industrial sectors.

Larger companies are focused on factors like diversification and distribution network because they are critical in order to reach more distant and different markets.



Ecosystem and Enablers

Italy has never had a coherent or structured ecosystem; the Government has always emphasized the strategic importance of the national industries but it has never been able to address the creation of a structured industrial ecosystem capable of delivering the required support.

The Government, both national and regional, mostly focused on creating and supporting large industries to create and maintain jobs in the country.

The typical case was the set up of Governmental industrial holdings to rescue, restructure and finance private companies, which went bankrupt during economic crisis. With time these companies got also involved in developing new strategic industries and infrastructures like steel, highways and communication networks.

The main weakness of this approach was that its focus on “social welfare” rather than long-term strategic objectives, therefore in many cases it was reliant on unsustainable policies and practices.

On the other hand the setup of large national champions sparked the creation of smaller companies in their supply chain, this was the beginning for many Italian SMEs.

Some industries in time developed their own ecosystem by some sort of natural evolution, examples exist in the food industries with the creation of the Parmigiano Reggiano consortium, which is made up hundreds of farmers, and it has been able to build a renowned product based on quality and price.

The valves cluster in Northern Italy provides an example of a more industrial ecosystem. This cluster includes hundreds of different manufacturers and service providers from coating to forging to machining. The whole cluster has been able to develop and deliver high quality products at very competitive prices and therefore to maintain large market shares even against aggressive new entrants (e.g. Asian manufacturers).

The above examples relied mostly on the self-regulation of the industry, Government contributed in many cases using financial instruments like tax breaks and credit guarantees that are not sustainable in the long term.

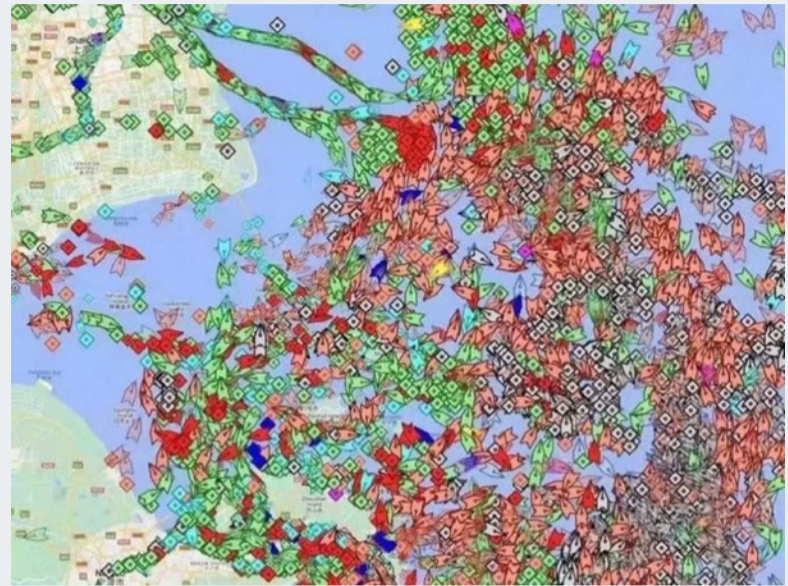
Italy is behind other EU countries in R&D spending. Universities and academia have been heavily involved in researches but too often on purely theoretical subjects and with few notable exceptions disconnected from the industrial world. Corporate spend on R&D has always been limited by financial capability to invest and often Government support was ineffective because not targeting productive R&D activities.



Challenges and Opportunities

The generally accepted globalization strategy based on relocating productions in low cost countries, mainly based in Asia, has been proven to be shortsighted and very risky. The disruption of global supply chain and logistic network highlighted the weakness of an approach based on single sourcing. The recent new lockdowns in China only worsen an already stressed situation.

Traffic jam at Shanghai port



Moreover the recently started war highlighted how much energy policies impact on the manufacturing sector.

Every country in Europe has been hit hard but in Italy the impact is much harder because of the country infrastructure weaknesses.

Italy gave up nuclear energy long time ago after the Chernobyl incident but no much has been done during the years to replace this source of energy.

Most of the country energy is generated by conventional means, gas fired power plant, and they relied mostly on gas imported via pipelines from Russia. Government tried to diversify the energy mix but without much success, attempts to use LNG from Middle East has been

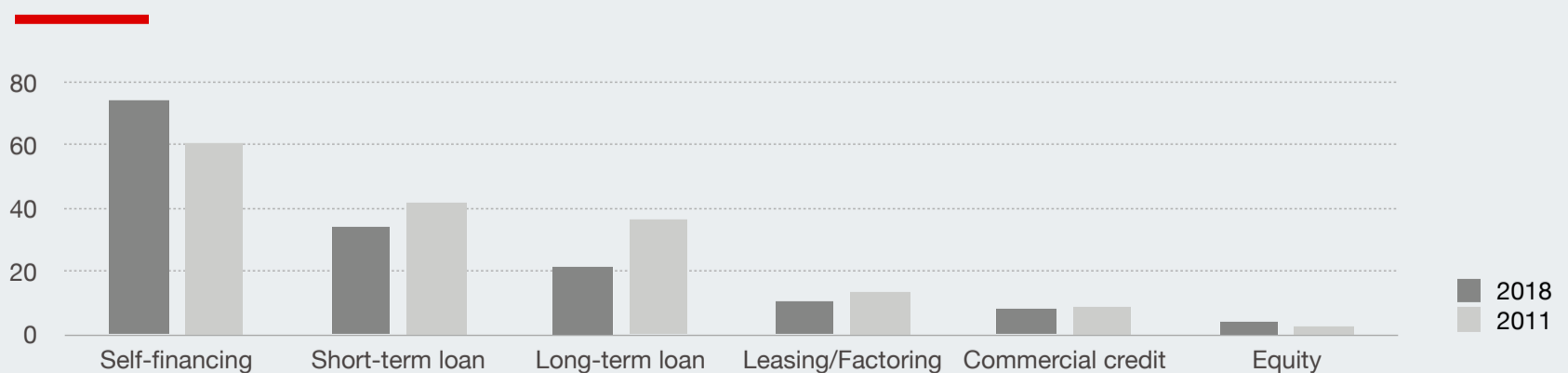
blocked by environmental protests against the construction of LNG terminals and plants. Renewable energy started to pick up but it is still slow because of local bureaucracies and still not able to have a significant impact.

Every company in the last two years has been facing cash flow problems because of the prolonged business shutdowns, many of them would need new finances to fully restart their operations.

Historically Italian companies have preferred external financing like loans to equity injections. This preference is dictated by the “need” of maintaining the family control and therefore avoid shareholders dilution.



Italian companies main sources of financing



Challengers and Opportunities



The following charts show a clear trend in Italian industries, they have been using more and more their own source of financing reducing the overall leverage. The main reason is the pressure of the ECB on national banks to improve their ratios and therefore Italian banks have become more selective in lending practices.

It is also clear that the larger is the company the more common is the use of equity injections even if not yet a preferred tool.

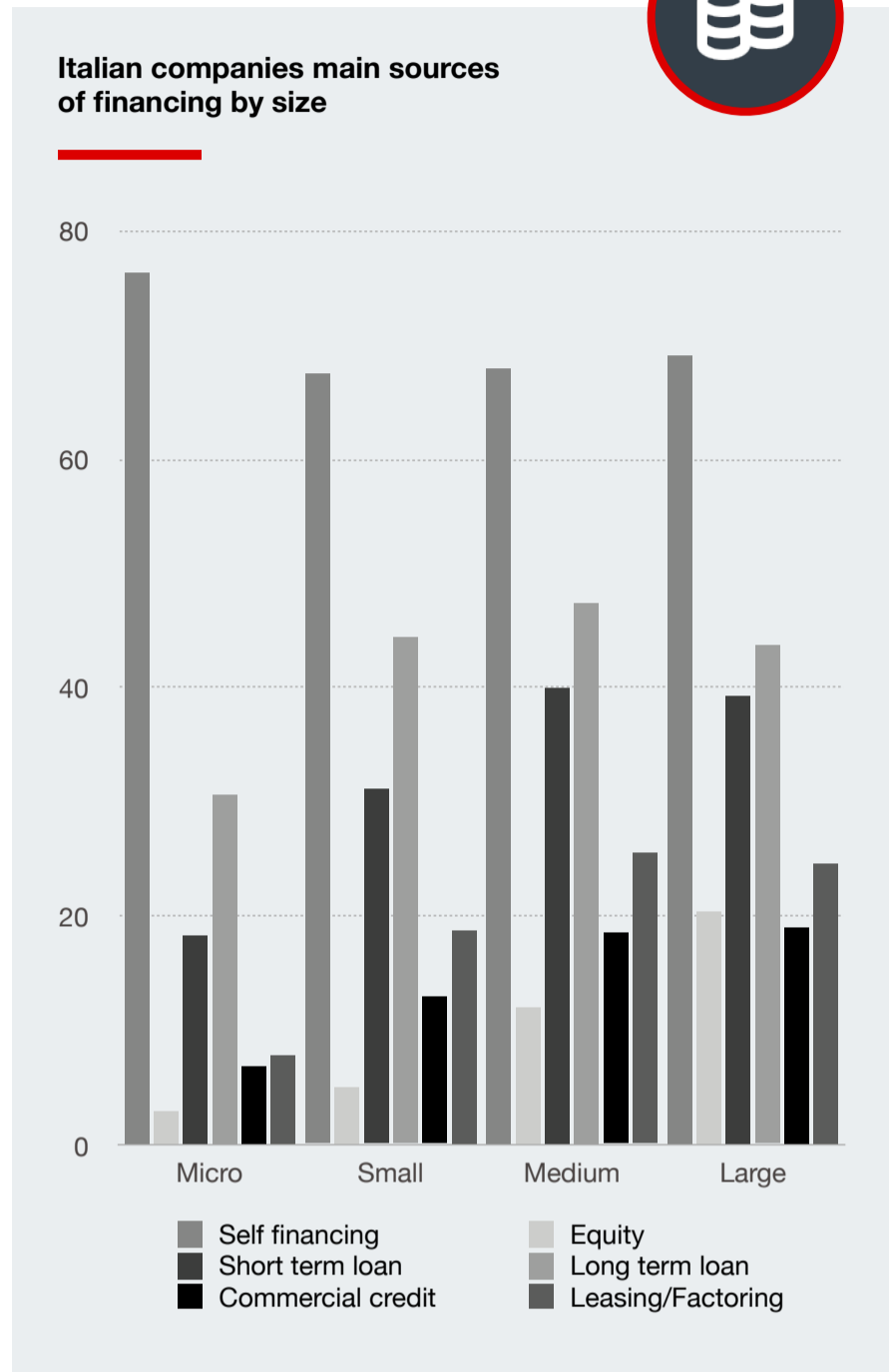
It is commonly said that challenges are opportunities in disguise and it may be true even this time.

The supply chain disruption highlighted that factors like reliability and availability are more important than the simple price.

This new approach creates opportunities in Europe for re-shoring production and to increase vertical integration. Several industries have potentially interesting opportunities in the near future such as manufacturers of electronic components that have been severely impacted by the Asian lockdowns.

Other opportunities will come from the need to improve efficiency and reduce energy consumption; these critical aspects will lead to an increase adoption of digitalisation and implementation of tools like A.I. and smart factories.

Other key success factors will be critical mass and capitalisation, these factors will allow manufacturing companies to compete effectively in the global markets and to take advantages of the new opportunities.



Why Oak Universe and how it works

Oak Universe is an investment firm dedicated to the future of manufacturing in Europe. It is focused on helping privately owned, mid-sized manufacturing businesses achieve the next stage of their growth through the adoption of advanced technologies.

Oak Universe provides not only capital, but also a close partnership, which brings access to know-how, strategic insight and consulting support in undertaking the projects that drive new value and growth.

We will provide the necessary equity without taking the control of the company from the shareholders, the team will work hands in hands with existing shareholders and management to develop a new growth strategy aiming at maximising value creation.

The Oak Universe team of investment and value creation specialists has outstanding backgrounds in corporate management and innovation, management consulting and private equity. But besides our hands-on team, we provide access to a complementary ecosystem of expertise: industry specialists, subject-matter experts, a R&D platform linked to academia and Government-sponsored accelerators and networks.

Oak Universe can help companies with R&D costs by leveraging its ecosystem platform, which is a collaborative environment connecting multiple expertise to support companies with planning and execution of the value creation with advanced technologies and R&D.

Value Creation Ecosystem :

Oak Universe works with owners and management to design and execute a bespoke value creation path, one which overcomes these limiting factors and bridges advanced technology into business value and growth.




Our team at Oak Universe has decades of combined experience with leading companies worldwide, across multiple sectors and the full range of value creation functions.

Value Creation Areas :



Experts and specialist access :

- 
AI/Machine Learning Supply Chain
 Focusing on interconnecting physical and digital value chain enhancements
- 
New Business Models
 Leveraging new technologies to create solution for digital transformation and increase productivity
- 
Mechanical Engineering
 Focusing on digitalisation of products with emphasis on sustainable developments and business systems
- 
Innovation Design Thinking
 Focusing on interconnecting human culture with new ways of working with AI, analytics and machines

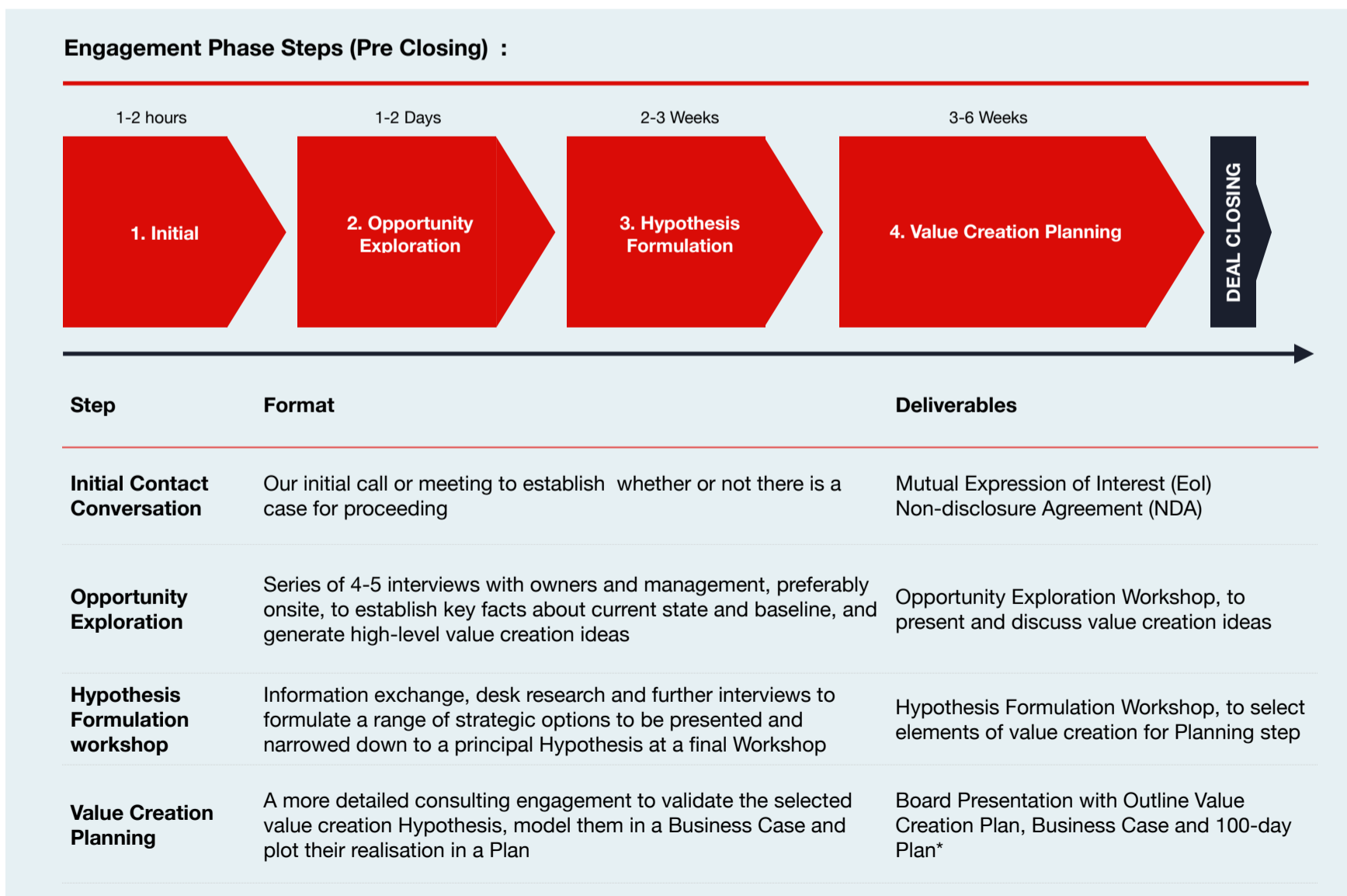
We do not want to take over companies but establish partnerships with the aim of maximising value creation.

A partnership with Oak Universe will typically stretch over 3-5 years, with the pre-closing Engagement Phase critical to aligning investment objectives with value creation transformation initiatives.

Sample of high-level value creation timeline and key activities



The Engagement Phase is at Oak Universe’s expense and is structured to achieve mutual commitment to the process in logical steps, with each step representing a valuable consulting service to the business, generating new insights and opportunities which Management can take forward, irrespective of whether we proceed to close a deal.



Oak Universe

Oak Universe AB

Visiting and postal address: Strandvägen 7, 114 51,
Stockholm, Sweden

Legal Notice

This white-paper (the "Presentation") has been prepared by Oak Universe AB ("Oak Universe" or the "Company") and is provided for information purposes only.

This Presentation may not be used for, or in connection with, any offer to, or solicitation by, any person in any jurisdiction or under any circumstances in which such offer or solicitation would not be authorized or lawful. This Presentation does not constitute or form part of, and should not be constructed as, any offer, invitation, solicitation or recommendation to purchase, sell or subscribe for any securities in the Company in any jurisdiction and does not constitute any form of commitment or recommendation on the part of the Company.

This Presentation may not, without the prior written consent of the Company, be copied, passed on, reproduced or redistributed, directly or indirectly, in whole or in part, or disclosed by any recipient, to any other person, and it may not be published anywhere, in whole or in part, for any purpose or under any circumstances.

This Presentation is not a prospectus and has not been approved or reviewed by any governmental authority or stock exchange in any jurisdiction. Prospective investors must solely rely on their own examination of the legal, financial, taxation and other consequences of an investment in the Company. Prospective investors should not treat the contents of this Presentation as an advice relating to legal, taxation or investment matters.

Certain information contained herein has been obtained from published sources prepared by other parties that the Company has deemed to be relevant and trustworthy. No representation or warranty, express or implied, is made by the Company as to the accuracy, completeness or verification of any information contained in this Presentation. The Company has not made any independent review of information based on public statistics or information from an independent third party regarding the market information that has been provided by such third party, the industry or general publications.

Although efforts have been made to accurately describe the Company, the Company disclaims any and all liability for the content being correct, accurate and complete. In addition to information provided in the Presentation, the Company also

disclaims any and all liability for oral and written information that a potential investor may be provided with by the Company. The Company also disclaims any and all liability for direct and indirect consequences resulting from decisions which are wholly or partly based on information in the Presentation.

Statements in this Presentation, including those regarding the possible or assumed future or other performance of the Company or its industry or other trend projections, constitute forward-looking statements. By their nature, forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors as they relate to events and depend on circumstances that will or may occur in the future, whether or not outside the control of the Company. No assurance is given that such forward-looking statements will prove to be correct. Prospective investors should not place undue reliance on forward-looking statements. They speak only as at the date of this Presentation and the Company do not undertake any obligation to update these forward-looking statements. Past performance does not guarantee or predict future performance. Moreover, the Company do not undertake any obligation to review, update or confirm expectations or estimates or to release any revisions to any forward-looking statements to reflect events that occur or circumstances that arise in relation to the content of this Presentation.

This Presentation as well as any other information provided by or on behalf of the Company in connection herewith shall be governed by Swedish law. The courts of Sweden, with the District Court of Stockholm as the first instance, shall have exclusive jurisdiction to settle any conflict or dispute arising out of or in connection with this Presentation or related matters.