LIFT & GOOD LIFTS[1]

1. BRIEF HISTORY OF THE COMPANY

LIFTS & GOOD LIFTS is a family owned business which was founded in 1945. It is an Italian company which designs, manufactures and distributes passengers and goods lifts worldwide. In the 60ies, the founder Mr. Lift invented the "Dumbwaiter": the first service lift with an electrical drive unit. Thanks to the Dumbwaiter in 1966 Mr. Lift was the winner at the "15th International inventors' award" in Brussels.

In the following years the company introduced into the national and international markets the Cory controllers: a large pie of the business for many years. In 1993 the company set up its first subsidiary: LIFTS & GOOD LIFTS BELGIUM that serves mainly the Dutch and the Belgium markets. One year later the company set up LIFTS & GOOD LIFTS FRANCE, for sales and distribution into the French market. In 1998 a third commercial centre was set up in Asia. Sometime later the company built a factory in this area in order to manufacture products for the Asian continent and for other areas.

Year 2007 saw significant changes in the organization, due to the introduction of the Lean methodology.

Since 2000 the two sons of Mr. Lift took over the reins of the company and a new strategy was developed.

In its 50 years of activity LIFTS & GOOD LIFTS has designed, manufactured and installed almost every kind of elevator. However, today the company focuses on a specific niche of the lift market: small freight and passenger lifts.

---

[1] Case based in a real Italian company. The case has been prepared as the basis for class discussion rather to illustrate either effective or ineffective handling of an administrative situation. The name of the company has been changed for confidentiality reasons. The case has been written by Andrea Giannotta and Carlotta Daldoss (UPF MBA Programme) with the collaboration of Oriol Amat, Universitat Pompeu Fabra, 2011.

Today the company is determined to grow without depending on sales to multinationals: as a family owned business, it wants to keep its independence. This commitment is evident in the new Vision, Mission and Strategy.

2. VISION, MISSION AND STRATEGY

Vision:

"To be the customer's best choice in the market of passenger and service lifts for low rise and reduced capacity applications.
To be a World Class Company, renowned for its tradition, capability and innovation".

Mission:

"To create a consistent organization to achieve the following three objectives:

Earnings: firstly by guaranteeing the prosperity of both the company and employees daily; secondly by managing the capital invested efficiently.

Satisfaction: investing in people. They represent and implement company know-how and expertise, creating a motivating environment in line with the Vision statement.

Development: in order to guarantee continuity and long term growth through product innovation and identification of new customers".

Strategy:

The core product of the company is the Dumbwaiter: an established worldwide brand.

Strategy of the Group is to increase sales in domestic and international markets. Growth in exports will be driven by the subsidiary companies and by First Class Partners abroad (aiming to constantly increase the number of those Partners).

3. PAST PERFORMANCE OF THE COMPANY

As shown in figures 1, 2 and 3, this company is facing some difficulties in order to generate wealth, because sales are declining and net income has been negative in the last years.

The drop in sales is due to the construction crisis and the increase in costs is a consequence of the evolution of the stainless steel prices.

	2009		2008		2007		2006		2005	
Fixed Assets	***10.434.106***	***55,80%***	***9.806.975***	***46,59%***	***8.887.945***	***41,15%***	**8.966.623**	***42,33%***	**9.508.175**	***44,28%***
Intangibles	*564.436*		*573.245*		*302.219*		305.448		364.457	
Material	*8.861.464*		*8.282.359*		*4.814.554*		4.779.931		5.259.333	
Other	*1.008.206*		*951.371*		*3.771.172*		3.881.244		3.884.385	
Current Assets	***8.180.259***	***43,75%***	***11.075.005***	***52,61%***	***12.592.715***	***58,31%***	**12.026.852**	***56,78%***	**11.837.738**	***55,13%***
Inventory	*2.579.847*		*3.269.017*		*3.861.611*		3.455.825		3.581.854	
Debtors	*5.427.174*		*6.902.262*		*7.214.888*		7.727.980		6.993.522	
Cash	*173.238*		*903.726*		*1.516.216*		843.047		1.262.362	
Financial interest	*85.481*		*167.475*		*116.629*		188.149		128.334	
TOTAL ASSETS	***18.699.846***	***100,00%***	***21.049.455***	***100,00%***	***21.597.289***	***100,00%***	**21.181.624**	***100,00%***	**21.474.247**	***100,00%***
Equity	***5.350.777***	***28,61%***	***6.591.975***	***31,32%***	***7.840.553***	***36,30%***	**7.793.568**	***36,79%***	**8.834.094**	***41,14%***
Capital	*2.600.000*		*2.600.000*		*2.600.000*		*2.600.000*		*2.600.000*	
Revaluation reserve	*2.781.110*		*6.949.391*		*4.029.691*		*4.029.691*		*4.029.691*	
Legal reserve	*175.374*		*175.374*		*173.025*		*173.025*		*165.741*	
Other reserves	*1.035.487*		*1.035.491*		*990.853*		*2.031.376*		*1.892.982*	
Result	*-1.241.194*		*-4.168.281*		*46.984*		*-1.040.524*		*145.680*	
LT Debt	***5.042.390***	***26,96%***	***2.475.444***	***11,76%***	***2.806.565***	***12,99%***	**3.542.604**	***16,72%***	**3.541.064**	***16,49%***
Debt Banks	*3.397.545*		*479.151*		*514.615*		1.119.480		1.191.774	
Debt Other investors	*70.045*		*137.770*		*203.252*		*266.566*		*327.783*	
Provisions	*1.199.484*		*1.332.553*		*1.488.001*		*1.534.758*		*1.376.914*	
Indemnities	*375.316*		*525.970*		*600.697*		*621.800*		*623.198*	
Other debts									*21.395*	
ST Debt	***8.306.679***	***44,42%***	***11.982.036***	***56,92%***	***10.950.171***	***50,70%***	***9.845.452***	***46,48%***	***9.099.089***	***42,37%***
LOANS	***2.604.261***		***4.452.375***		***2.738.639***		***3.073.101***		***2.113.621***	
Convertible bonds	*1.000.000*									
Debt Banks	*1.536.536*		*4.386.893*		*2.675.325*		*3.011.884*		*2.054.431*	
Debt Other investors	*67.725*		*65.482*		*63.314*		*61.217*		*59.190*	
OTHER C.LIAB.	***952.128***		***953.932***		***773.934***		***668.712***		***1.407.404***	
Other debts	*612.384*		*688.145*		*607.007*		*535.704*		*584.416*	
Tax liabilities	*339.744*		*265.787*		*166.927*		*133.008*		*822.988*	
CREDITORS	***4.750.290***		***6.575.729***		***7.437.598***		***6.103.639***		***5.578.064***	
Subsidiaries	*118*		*230.530*		*1.781*		207.203			
Debt vs. Suppliers	*3.531.090*		*5.281.014*		*6.266.650*		*4.916.396*		*4.611.625*	
Accounts	*547.250*		*638.413*		*704.607*		*574.724*		*598.432*	
Social Security	*359.609*		*393.445*		*415.331*		*334.797*		*320.760*	
Special Income	*312.223*	***1,67%***	*32.327*	***0,15%***	*49.229*	***0,23%***	70.519	***0,33%***	47.247	***0,22%***
TOTAL E. & LIAB.	***18.699.846***	***100,00%***	***21.049.455***	***100,00%***	***21.597.289***	***100,00%***	**21.181.624**	***100,00%***	**21.474.247**	***100,00%***

Figure 1. LIFTS & GOOD LIFTS Balance sheets 2005 - 2009

P&L	2009		2008		2007		2006		2005	
Sales	17.115.645	100,0%	22.151.675	100,0%	24.422.782	100,0%	20.845.732	100,0%	20.228.162	100,0%
Cost of Sales (COGS)	7.445.571	43,5%	11.874.063	53,6%	12.226.704	50,1%	10.449.213	50,1%	9.566.039	47,3%
Gross Margin	9.670.074	56,5%	10.277.612	46,4%	12.196.078	49,9%	10.396.519	49,9%	10.662.123	52,7%
SG&A (no Overhead)	4.313.966	25,2%	4.103.299	18,5%	4.328.095	17,7%	4.075.323	19,5%	3.299.171	16,3%
Overhead	5.222.162	30,5%	5.859.136	26,5%	5.941.084	24,3%	5.540.188	26,6%	5.119.763	25,3%
Other Costs										
Depreciation	783.565	4,6%	2.460.164	11,1%	1.304.840	5,3%	1.643.692	7,9%	769.422	3,8%
EBIT	-649.619	-3,8%	-2.144.987	-9,7%	622.059	2,5%	-862.684	-4,1%	1.473.767	7,3%
Financial Expenses	321.098	1,9%	3.114.767	14,1%	115.166	0,5%	167.002	0,8%	619.383	3,1%
Financial income	258.544		814.279		70.759		74.464		88.369	
EBT	-1.229.261	-7,2%	-4.445.475	-20,1%	436.134	1,8%	-955.222	-4,6%	942.753	4,7%
Taxes	11.933	0,1%	-277194	-1,3%	389.150	1,6%	85.302	0,4%	797.073	3,9%
Earnings	-1.241.194	-7,3%	-4.168.281	-18,8%	46.984	0,2%	-1.040.524	-5,0%	145.680	0,7%
Cash Flow	**-457.629**		**-1.708.117**		**1.351.824**		**603.168**		**915.102**	

Figure 2. LIFTS & GOOD LIFTS P&L Accounts 2005 - 2009

		2009	2008	2007	2006	2005	Ideal
	DEBT RATIOS						
	Debts/ (Equity+ Debt)	0,70	0,69	0,63	0,63	0,59	0,5-0,6
	Debt Quality	0,61	0,83	0,80	0,73	0,72	Bajo
	Cash flow / Loans	-0,05	-0,22	0,21	0,08	0,13	Alto
	Cost of Debt	3,73%	39,52%	1,82%	2,29%	8,77%	< ROI
	Financial Costs / Sales	1,88%	14,06%	0,47%	0,80%	3,06%	1% - 1,5%
	Solvency Ratios						
	Solvency (C. Assets/C. Liabilities)	1,02	0,93	1,16	1,23	1,31	1-1,5
	Liquid Assets	0,70	0,65	0,80	0,88	0,91	1
	Acid	0,02	0,08	0,14	0,09	0,14	0,2-0,3
I	Ratios of trades receiv and payables						
	Trade Receivables	100	98	93	117	109	Bajo
	Trade Payables	138	144	163	126	135	Alto
i	Suppliers' financing	0,82	0,91	1,02	0,75	0,79	>1
I	Assets Ratios						
	Total Assets Rotation	1,64	2,26	2,75	2,32	2,13	Alto
	Current Assets rotation	2,09	**2,00**	**1,94**	**1,73**	**1,71**	Alto
	Fixed Assets Rotation	2,89	**3,63**	3,17	**3,02**	**2,67**	Alto
	Stock Days	126	**100**	115	121	137	Bajo

Figure 3. LIFTS & GOOD LIFTS Ratios 2005-2009

4. FORECAST FOR THE COMING YEARS

The company has prepared a profit and loss forecast for the five coming years (2010-2014) assuming the following hypothesis (see figure 4):

- Sales to get back to 2007 value in five years in a linear way except for 2010 and 2011 (assumed constant for the economic crisis).
- Cost of goods sold connected to oil prices variations. As this is difficult to forecast, we assumed to be equal to a fixed 50% of the cost of sales (49% was the average of the previous five years).
- The number of employees will be reduced during 2010/2011 due to the sales drop. After this period we assume to increase their productivity. This is the rationale behind reducing overheads (%) in the following years.
- In 2010 there will be a one-off investment for 100,000€ on an IT implementation (other costs).
- SG&A (sales, general and administration costs) kept between 17 and 19% as per historical average.
- Depreciation = 850.000€ in 2010. We assume it stays the same for the next five years.
- Financial expenses are higher than the last years due to new borrowings.
- In 2010 there is an extraordinary income for the sale of the companies in Malaysia and The Netherlands for 3,500,000€. This was registered into financial income (not into "No operating income").
- Income Tax at 30%. No taxes when the company generates losses.

P&L ENGLISH	**2010**		**2011**		**2012**		**2013**		**2014**	
Sales	*12.836.734*	*100,0%*	*12.836.734*	*100,0%*	*15.018.978*	*100,0%*	*18.022.774*	*100,0%*	*23.429.606*	*100,0%*
Cost of Sales (COGS)	*6.418.367*	*50,0%*	*6.418.367*	*50,0%*	*7.509.489*	*50,0%*	*9.011.387*	*50,0%*	*11.714.803*	*50,0%*
Gross Margin	***6.418.367***	***50,0%***	***6.418.367***	***50,0%***	***7.509.489***	***50,0%***	***9.011.387***	***50,0%***	***11.714.803***	***50,0%***
SG&A (no Overhead)	*2.588.380*	*20,2%*	*2.329.542*	*18,1%*	*2.562.496*	*17,1%*	*3.203.120*	*17,8%*	*4.003.900*	*17,1%*
Overhead	*4.647.724*	*36,2%*	*4.275.906*	*33,3%*	*4.489.702*	*29,9%*	*4.938.672*	*27,4%*	*5.432.539*	*23,2%*
Other costs	*100.000*									
Depriciation	*850.000*	*6,6%*	*850.000*	*6,6%*	*850.000*	*5,7%*	*850.000*	*4,7%*	*850.000*	*3,6%*
EBIT	***-1.767.737***	***-13,8%***	***-1.037.081***	***-8,1%***	***-392.708***	***-2,6%***	***19.596***	***0,1%***	***1.428.365***	***6,1%***
Financial Expenses	*321.098*	*2,5%*	*320.918*	*2,5%*	*345.437*	*2,3%*	*360.455*	*2,0%*	*374.874*	*1,6%*
Financial income	*3.500.000*		*80.000*		*80.000*		*80.000*		*80.000*	
EBT	***1.411.165***	***11,0%***	***-1.437.999***	***-11,2%***	***-818.145***	***-5,4%***	***-420.860***	***-2,3%***	***973.491***	***4,2%***
Taxes	*423.350*	*3,3%*	*0*	*0,0%*	*-245.443*	*-1,6%*	*-126.258*	*-0,7%*	*292.047*	*1,2%*
Earnings/ Net Profit	***987.816***	***7,7%***	***-1.437.999***	***-11,2%***	***-572.701***	***-3,8%***	***-294.602***	***-1,6%***	***681.444***	***2,9%***
Cash Flow	***1.837.816***		***-587.999***		***277.299***		***555.398***		***1.531.444***	

Figure 4. LIFTS & GOOD LIFTS P & L forecasts 2010-2014

5. VALUATION OF THE COMPANY USING THE DISCOUNTED FREE CASH FLOW METHOD

The Finance Department of the company has prepared a valuation using the discounted free cash flow method. The company estimates that the cost of capital is 8,26% according to the calculations shown in figure 5.

In figure 6 you can see the numbers to calculate the present value of the future free cash flows and the perpetuity; and in figure 7 a sensitivity analysis is shown. In these calculations they have considered a perpetuity (six times the EBIT of year 5) and a discount factor in year 5 of 0,672.

Cost of equity	**11,40%**
Risk Free Bond 5 Years	3,90%
Industry Risk Premium	5,50%
Company Specific Risk Premium	2,00%

Cost of debt	**7,00%**
Interest rate	10,00%
Income Tax	30,00%
WACC	**8,26%**

Figure 5. WACC Calculation for LIFTS & GOOD LIFTS

	2009	2010	2011	2012	2013	2014	Perpetuity
Cash flow	-457.629	1.837.816	-587.999	277.299	555.398	1.531.444	
CAPEX	0	0	0	0	0	0	
Investment in Working Capital	0	0	0	0	0	0	
FCF	**-457.629**	**1.837.816**	**-587.999**	**277.299**	**555.398**	**1.531.444**	**9.188.662**
Discount period	0	1	2	3	4	5	6
Discount Factor	1	0,924	0,853	0,788	0,728	0,672	0,672
Present Value of cash flows	**-457.629**	**1.697.594**	**-501.696**	**218.547**	**404.327**	**1.029.819**	**6.178.914**
Present Value of cash flows	8.569.875						
Present Value Terminal Value	6.178.914						
Present Value	**14.748.789**						

Figure 6. Present value of future free cash flows and perpetuity for LIFTS & GOOD LIFTS (with a terminal value 6 times the EBIT and a WACC of 8,26%)

They have prepared a Valuation Sensitivity analysis and they have found that the value of the company ranges from a minimum of ~ **6,3M€** (terminal multiple = 6 X and WACC = 30%) to a maximum of ~ **25,5M€** (terminal multiple = 10 X and WACC = 6%).

		PRESENT VALUE				
		Terminal Multiple (Multiple of EBIT)				
		6,0	**7,0**	**8,0**	**9,0**	**10,0**
WACC	**6%**	16.302.584 €	18.591.351 €	20.880.119 €	23.168.887 €	25.457.654 €
	8,26%	14.748.789 €	16.808.428 €	18.868.066 €	20.927.704 €	22.987.342 €
	15%	11.093.915 €	12.616.711 €	14.139.507 €	15.662.304 €	17.185.100 €
	20%	9.094.755 €	10.325.660 €	11.556.566 €	12.787.472 €	14.018.377 €
	30%	6.290.834 €	7.115.759 €	7.940.683 €	8.765.608 €	9.590.532 €

Figure 7. Sensitivity analysis for the valuation of LIFTS & GOOD LIFTS

Terminal Multiples between 6 and 10 have been considered, as those are typical for the Italian Manufacturing Industry.

6. VALUATION USING THE MULTIPLES METHOD

To calculate the value using the Multiples method the company has taken industries operating in the same industry and used some of their financial ratios. By assuming these ratios are valid for the company, they get a “comparable” value of Lifts and Good Lift (see figure 8).

The five largest companies in the industry are: Schindler Holding, Kone, Carlo Gavazzi, Zardoya Otis and Monti Ascensori. All the data refer to end of respective fiscal year 2009.

RATIOS	SCHINDLER	KONE	CARLO GAVAZZI SPA	ZARDOYA OTIS	MONTI ASCENSORI
P/E	15.1	16	11.18	20.6	39.18
Earnings 2009	476,690,000 €	466,000,000 €	127,677,000 €	889,400,000 €	185,000 €
VALUE (P/E)*(E)	7,198,019,000 €	7,456,000,000 €	1,427,428,860 €	18,321,640,000 €	7,248,300 €
EBITDA	820,520,000 €	6,450,000,000 €	14,746,000 €	286,500,000 €	2,634,000 €
P/EBITDA	8.77	1.16	96.80	63.95	2.75
EBIT	711,020,000 €	580,000,000 €	11,826,000 €	239,500,000 €	1,190,000 €
P/EBIT	10	13	121	76	6
Share value/Book Value	3.94	2.25	1.42	1.50	0.75
ROI	10.8%	34.0%	22.8%	96.14%	17.51%
ROE	2.94%	39.3%	7.5%	116%	1.06%

Figure 8. Multiples and ratios from different competitors

We must note that Lifts & Good Lift is not comparable in volume of sales to the companies above. However no information is currently available from same-size companies.

Firstly, they retrieved the companies P/E ratios. Secondly, they took their 2009 earnings. Combining the two they get their value.

By using that value, they calculated other ratios: Price/EBITDA and Price/EBIT.

As the company has been suffering losses in the past five years (except for small income in 2007), they decided to value it on year 2005 (earnings more representative of the potential of the industry).

RATIOS	LIFTS & GOOD LIFTS(2005)
P/E	20.41
Earnings 2009	145,680 €
VALUE (P/E)*(E)	2,973,620 €
EBITDA	2,243,189 €
P/EBITDA	1.33
EBIT	1,473,767 €
P/EBIT	2
Share value/Book Value	N/A
ROI	6.86%
ROE	1.65%

By using the average of P/E of the other five companies (20.41) LIFTS & GOOD LIFTS is valued at **2,973,620€.**

Downside of this estimation is that it does not consider the intrinsic value of the company. Also, as this value is quite lower than the others mentioned in this report, chances are that Mr. Lift will not consider the “Multiple Methods”.

Questions

1. Analyse the past financial performance of the company using the figures 1 to 3.

2. Calculate the company value, applying the Book Value Method and the Adjusted Book Value method considering that tangible assets are valued at historical cost, but the company has reports which suggests that the fair value of these assets is 4.970.570€ higher.

3. Analyse the data included in figures 4 to 7 related to the Discounted Free Cash Flow Method and provide an opinion about them.

4. Analyse the data included in figure 8 related to the Multiples Method and provide an opinion about them.

5. Which is the most reasonable range of values for the company according to the previous calculations?

References

Annual Report Gavazzi 2009

www.elevatori.it/contenuto/find-a-partner/find-a-partner-eng-AL.html

www.carlogavazzi.com/en/investors/share-price-development.html

http://investing.businessweek.com/businessweek/research/stocks/financials/ratios.asp?ticker=ZOT:SM

http://www.montiascensori.it/index.php#

http://www.thyssenkrupp.de/fr/08_09/en/corporate_management.html

http://www.kone.com/corporate/en/Investors/Financialinfo/Factsheet/Pages/default.aspx

http://ar.finance.yahoo.com/q/ks?s=KONE

Schindler Annual Report 2009

http://www.schindler.com/company_factsheet.pdf

http://archivio-radiocor.ilsole24ore.com/articolo-802980/italia-s-p-taglia-stima-crescita-2010/