



# Marble: No Free Lunch In A Shrinking Market

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## 1. Our Key Takeaways

MPD Partners highlights herein the main performance drivers and trends that characterise the marble industry, which is set to **consolidate at a faster pace** all the way through to 2020, if recent trends are anything to go by, in our view. Our focus is on the Italian market, where about **10'000 players** – operating both upstream and downstream activities - are competing in a shrinking market.

Worryingly, despite surging values, **volumes seem to be under pressure** and will likely continue to diminish over the medium term, while prices may not provide a fillip forever. In light of this, one huge risk for sellers is that the longer they wait to monetise their assets, the more likely is that they will have to digest a massive haircut on the value of assets themselves when selling.

Other key findings:

1. **Quarry owners** have significantly **outperformed** slightly less asset-intensive businesses as gauged by operating performances;
2. **Leverage**, if properly applied, is essential;
3. **Vertical integration** should be embraced;
4. IT development and innovative services are of paramount importance;
5. Companies betting on organic growth could be troubled given the length of the current business cycle.

Moreover, **MPD created two portfolios** with different characteristics to measure risk and performance of different players in the marble industry.

Finally, we examine the strategy of **Antolini S.p.A.**, a Verona-based company, which has grown inorganically over the past few years.

## 2. Marble Sector Overview

In 2015, according to Internazionale Marmi e Macchine Carrara S.p.A, worldwide stone trades reached **EUR25.7B**, up 12.4% YoY, with volumes dropping 9.7% during the period. In fact, the average price per ton rose 24% to EUR330.5 from EUR265.5. That is mainly attributable to the improving performances of more expensive products, such as marble, which represented 40% of total trades last year.

In 2015, total volume of marble traded worldwide reached **EUR10.3B**, an increase of 9.4% compared to 2014. Finished marble products, which represent 66% of total marble trades (EUR6.8B), increased by 14%.

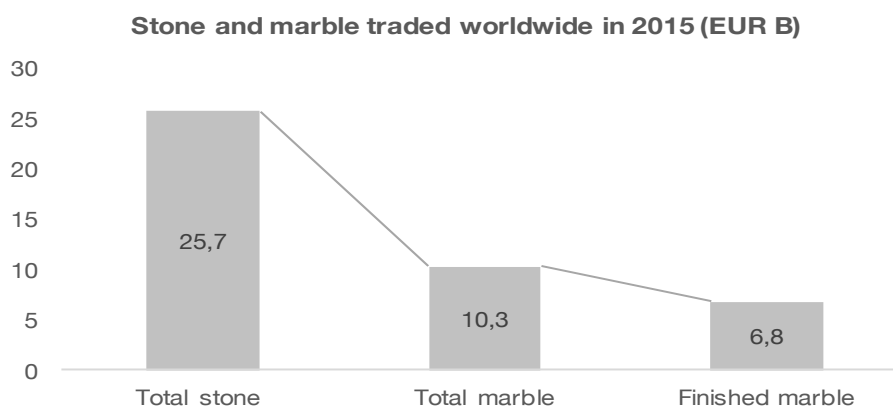


Figure 1

In 2015, China was the marble export leader, which delivered EUR1.7B products (+ 30% YoY) and overtook Turkey for the first time – the latter remained the main player in terms of volumes. On the import side, the US enjoyed largest foreign marble purchases, which reached EUR964M last year (+29% YoY).

As far as the Italian marble market is concerned, in 2015 exports mainly targeted the US (EUR333M) and India (EUR138M), while imports mostly relied on Brazil and India.

Although the exported quantity of raw marble reduced by 7%, the value of trades increased by 3%. Instead, finished marble products increased both in quantity (+3%) and in value (+10%). Meanwhile, import of raw marble drastically dropped in quantity (-19%), but was virtually unchanged in terms of value (-1% YoY). As with finished marble export, import of processed products also increased both in quantity (6%) and in value terms (7%).

ITALIAN MARBLE EXPORT						
	2014		2015		Δ% 2014-2015	
	Tons (M)	EUR (M)	Tons (M)	EUR (M)	% Qty	% Value
Marble blocks and slabs	1.37	331.04	1.28	340.15	-7.07%	2.75%
Finished marble product	0.89	935.81	0.92	1'027.46	2.64%	9.79%
<b>Total marble</b>	<b>2.27</b>	<b>1'266.85</b>	<b>2.19</b>	<b>1'367.61</b>	<b>-3.25%</b>	<b>7.95%</b>
<b>Total natural stone</b>	<b>4.19</b>	<b>1'940.86</b>	<b>3.98</b>	<b>2'064.27</b>	<b>-5.19%</b>	<b>6.36%</b>
Marble / Natural stone	54.01%	65.27%	55.11%	66.25%		
Finished marble / Natural stone	21.27%	48.22%	23.02%	49.77%		

Table 1

ITALIAN MARBLE IMPORT						
	2014		2015		Δ% 2014-2015	
	Tons (M)	EUR (M)	Tons (M)	EUR (M)	% Qty	% Value
Marble blocks and slabs	0.37	96.37	0.30	95.65	-19.04%	-0.75%
Finished marble products	0.07	37.66	0.08	40.22	5.85%	6.80%
<b>Total marble</b>	<b>0.45</b>	<b>134.03</b>	<b>0.38</b>	<b>135.87</b>	<b>-14.88%</b>	<b>1.37%</b>
<b>Total natural stone</b>	<b>1.48</b>	<b>395.01</b>	<b>1.41</b>	<b>418.72</b>	<b>-4.96%</b>	<b>6.00%</b>
Marble / Natural stone	30.18%	33.93%	27.03%	32.45%		
Finished marble / Natural stone	5.04%	9.53%	5.61%	9.61%		

Table 2

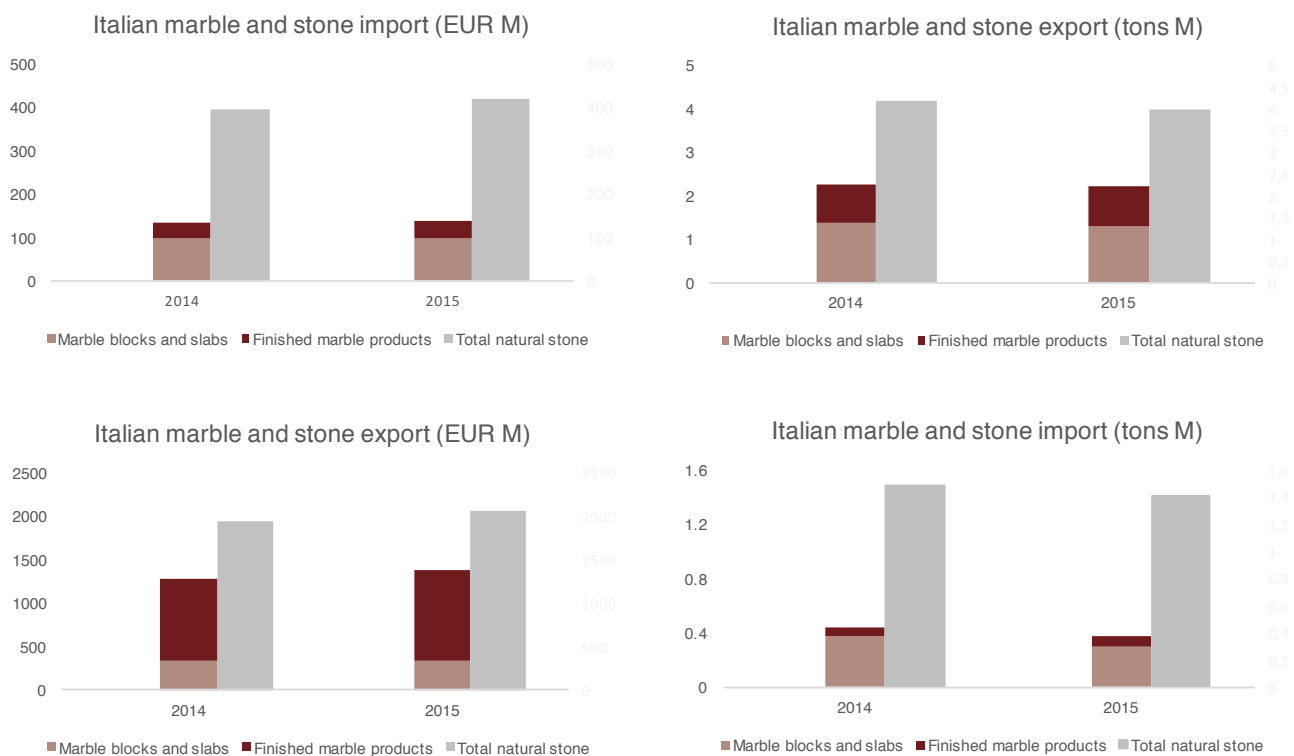


Figure 2

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### 3. Italian Market Segmentation

There are about 10'000 companies extracting and processing marble in Italy, and the vast majority of them includes **small and micro enterprises**: 88% of firms have less than 10 employees, with the average size at 5-6 workers.

There are around **1'000 extractive companies**, which operate in 60 extraction districts. The two more relevant extractive area are:

- **Massa Carrara**: it accounts for around two thousand companies, considering stone extractors, processors and sellers. Historically, firms from Massa Carrara district focused on extraction and treatment of local marble; however, they have recently approached the business of processing different stones and marbles. Local entrepreneurs promised new investments of EUR110M, which should create 250 new jobs.
- **Veneto**: the district includes around one thousand companies operating in the marble industry. The area is specialized in treatment and processing of several stone typologies.

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#### 4. MPD's Marble Portfolios

MPD Partners crafted two portfolios, each of them comprising seven companies operating in the Italian marble industry. **Portfolio A considers owners of marble quarries, while Portfolio B contains only marble resellers.** This analysis aims at highlighting current risk and performances of companies in the same industry but with a different level of vertical integration and role in the marble supply chain.

In order to provide a realistic sample of the two clusters, a geographical selection has been used: portfolio A includes four companies operating in Massa Carrara area, while portfolio B includes four companies operating in Veneto. In fact, Massa Carrara is the main Italian extractive district, while in Veneto, companies are specialized in marble processing.

The portfolios have been valued using the following five variables in order to measure **performance and risk**:

1. 5-year average ROIC
2. 5-year compound annual growth rate of EBIT Margin
3. 5-year average Capex/Sales
4. Net Debt/EBITDA
5. Interest coverage ratio

The first two variables highlight operating profitability over the last five years; the third variable focuses on level of investment, providing insights on future performances; the last two variables value the sustainability of financial leverage. The equal weighted average combination of the variables will produce a score which ranges from 0 to 10.

<b>MPD Marble Portfolio A</b>		<b>MPD Marble Portfolio B</b>	
<b>Company</b>	<b>Plain Vanilla Score</b>	<b>Company</b>	<b>Plain Vanilla Score</b>
Extraction Co A	8.60	Marble Co A	7.20
Extraction Co B	8.40	Marble Co B	7.00
Extraction Co C	6.60	Marble Co C	5.80
Extraction Co D	6.40	Marble Co D	5.80
Extraction Co E	6.00	Marble Co E	5.40
Extraction Co F	6.00	Marble Co F	4.00
Extraction Co G	6.00	Marble Co G	4.00
<b>Portfolio St.Dev.</b>	<b>1.15</b>	<b>Portfolio St.Dev.</b>	<b>1.28</b>
<b>Average</b>	<b>6.86</b>	<b>Average</b>	<b>5.60</b>

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## 5. Antolini S.p.A.: Do The Risks Outweigh The Returns?

Antolini S.p.A. was founded in 1920 in Sant'Ambrogio di Valpolicella – Verona. It started as a small artisan workshop and over the years developed a **diversified and integrated business model** based on own property quarries. Its successful business model may forecast the evolution of companies looking for vertical integration, however even a structured company is not immune from market contraction and economic volatility.

Starting from the sixties the company moved to international markets acquiring new quarries and creating showrooms. Currently the company has 10 showrooms in Italy, **30 property quarries** all over the world and branches in five continents. It has an annual production of one million square metres of stone and employs more than 300 people. This clearly demonstrates the relevance of Antolini S.p.A. in the Italian market.

Over the years, Antolini S.p.A. established itself as one of the marble market leaders through active engagement in **non-organic growth** by expanding geographical and product reach. The company's strategy produced remarkable outcomes in the last five years: Antolini S.p.A. experienced annual revenues growth of around 6% and increasing operating profitability. In addition, cost related synergies allowed Antolini S.p.A. to achieve efficiency, which is highlighted by yearly gross margin growth. However, an **international business exposure** requires attention in interest expenses and foreign exchange volatility.

The company was valued using best industry practices and with the most appropriate **EV/EBITDA multiple**.

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## 6. Macroeconomic Risk & Marble

The marble sector should prepare for **medium to long term market turbulence** arising from international exposure to risk. Top down approach suggests several factors which could have a relevant impact on the industry value. MPD believes that **operating synergies and complementary know-how**, which may arise from a combination between marble extractors and resellers, is a valuable strategy for industry to compete in a challenging environment.

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