

**Strategic Choice
Advisory**
Strategy and Transactions

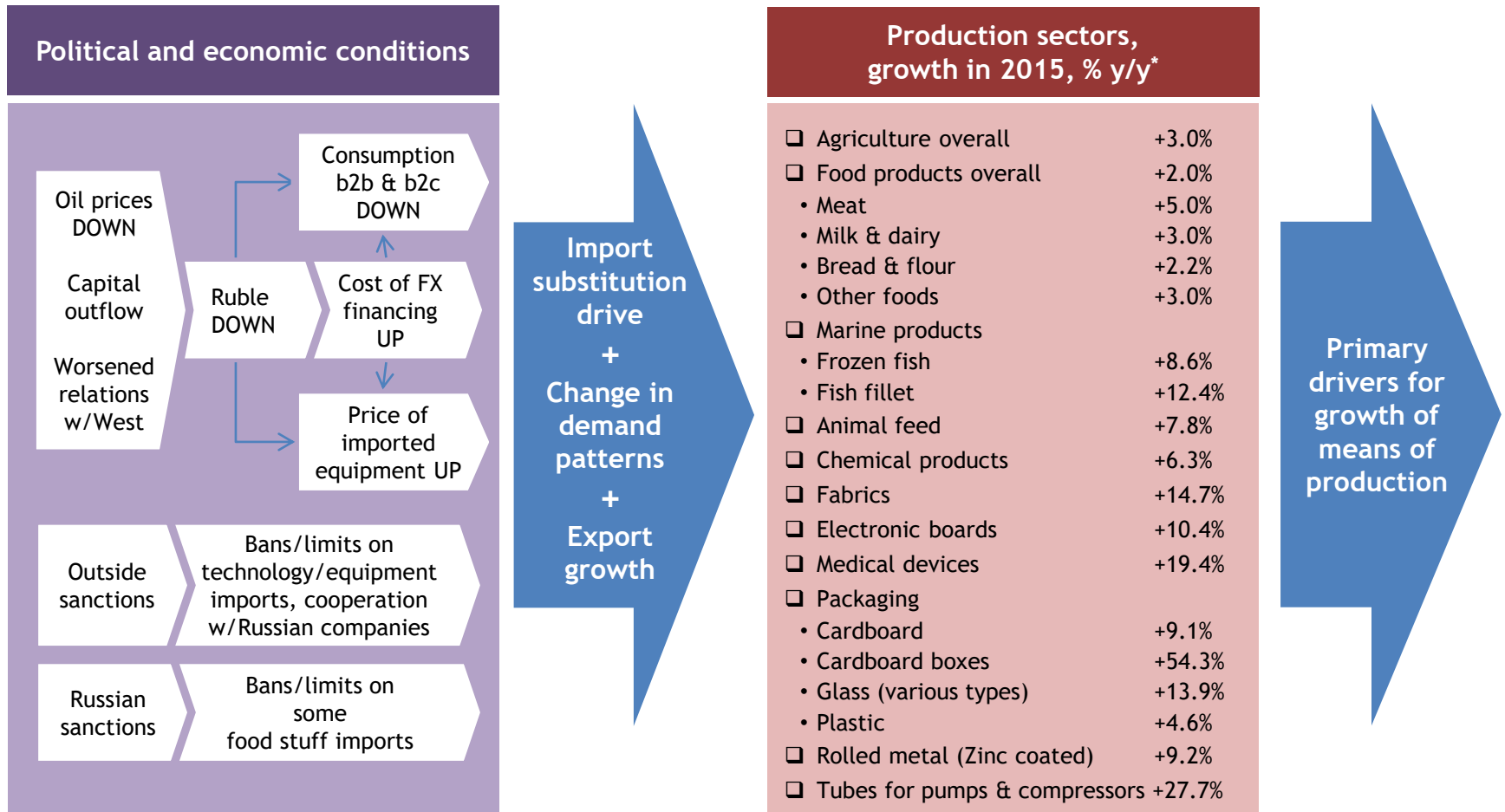
Macro Foresight

**Machine Tools & Equipment Become Major Investment
Opportunity Amid Active Import Substitution**

February 2016



As political and external economic conditions exerted pressure on Russian economy in 2014-2015, a number of economic sectors revealed remarkable flexibility, becoming drivers of change



- Mix of political and economic conditions creates strong drive for import substitution
- First sectors to respond are makers of products needed to substitute barred or prohibitively expensive imports**

Source: Rosstat, SCA analysis

* - These sectors illustrate connection between drive for import substitution and demand for equipment and machine tools required in these sectors

** - Numbers in listed sectors reveal actual growth momentum, not attributable to low base effect, as no corresponding drops were observed in 2014

Production in many segments of Russian-made equipment and machine tools increased in response to growth drivers created by end product sectors

End product sector groups	Primary growth drivers created by groups	Primary driver's imposed requirement*	Fulfilling sector**	2015, % y/y
<input type="checkbox"/> Agriculture	<ul style="list-style-type: none"> • Increase in livestock, poultry, which has to be fed and processed • Growth in crops/horticulture • Export growth 	<ul style="list-style-type: none"> • Feed, pesticides, fertilizers • Processing equip. for meat/ poultry / milk/ dairy • Croppers / feed processing • Packaging 	Croppers and feed processors: <ul style="list-style-type: none"> • tractor mowers • feed grinders 	+14.5% +20.0%
<input type="checkbox"/> Food products <input type="checkbox"/> Marine products	<ul style="list-style-type: none"> • Output growth in domestically made products • Export growth 	<ul style="list-style-type: none"> • Processing & packaging 	Milk processing equipment	+26.5%
<input type="checkbox"/> Chemicals <input type="checkbox"/> Petrochemicals	<ul style="list-style-type: none"> • Output growth in domestically made products • Export growth 	<ul style="list-style-type: none"> • Specialized equipment, supply of basic components • Packaging 	Meat&poultry processing equip.	+15.3%
<input type="checkbox"/> Fabrics <input type="checkbox"/> Other raw materials	<ul style="list-style-type: none"> • Increase of production due to rise in demand for Russian-made apparel 	<ul style="list-style-type: none"> • Manufacturing equipment 	Communication equipment	+14.0%
<input type="checkbox"/> Electronic boards / IC <input type="checkbox"/> Medical devices	<ul style="list-style-type: none"> • Increase in demand for electronic components • High-tech production facilities • Precision equipment 	<ul style="list-style-type: none"> • Creation of new facilities • Domestic production of equipment for making electronic components 	Components w/short life-span: <ul style="list-style-type: none"> • pumps & compressors • electric engines 	+5.2% +2.0%
<input type="checkbox"/> Packaging	<ul style="list-style-type: none"> • Driven by other sectors/ drives need for packaging equipment 	<ul style="list-style-type: none"> • Cardboard, plastic and glass production, packaging equip. 	Machine tool building: <ul style="list-style-type: none"> • forging machines & presses • metal processing presses 	+27.1% +14.0%
<input type="checkbox"/> Metal products (rolled metal, pump tubes, among others)	<ul style="list-style-type: none"> • Higher demand for metal processing equipment (cutting, pressing) • Export growth 	<ul style="list-style-type: none"> • Forging machines, presses, etc. metal-working equip. 		

Source: Rosstat, SCA analysis

* - It is assumed that growth in communication equipment is driven by growth of economy as a whole amid import substitution

** - In this table, fulfilling sectors are those, whose response to primary growth drivers was already evident in 2015

Growth in segments of machine tools and equipment manufacturing depends on timing of pent-up in demand from their customer segments

1 Growth in 2015	2 Growth takes hold*	3 Growth in 2-3 yrs*
<ul style="list-style-type: none">❑ Metal-working equipment :<ul style="list-style-type: none">• forging machines & presses• metal processing presses❑ Components w/short life-span:<ul style="list-style-type: none">• pumps & compressors• electric engines❑ Croppers and initial feed processors:<ul style="list-style-type: none">• tractor mowers• feed grinders	<ul style="list-style-type: none">❑ Equipment for processing:<ul style="list-style-type: none">• agricultural products• foodstuffs• marine products❑ Fabrics manufacturing and other textile processing equipment❑ Chemical and petrochemical manufacturing equipment❑ Equipment for making packaging (cardboard, glass, plastics)	<ul style="list-style-type: none">❑ Equipment for making:<ul style="list-style-type: none">• electronic boards• communication equipment• medical equipment❑ This group of equipment requires more significant investments than groups 1 and 2❑ International partners may be source of know-how and financing

- Growth began in 2015 in sectors that make means of production - from metal cutting equipment and presses, machines for making fodder feed in agriculture, and food manufacturing equipment, to various frequently replaced components and spare parts
- Shortly, other machine tool segments with more significant investment requirements will follow suit

Source: Rosstat, SCA expert estimates

* - Sectors in groups 2, 3 either show modest growth now or are expected to start growing when their corresponding drivers will fully reach them through production chain. Response of some of these segments may depend on combination of several drivers

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