The Weir Group (LSE: WEIR) – BUY at target price $40 (+%)

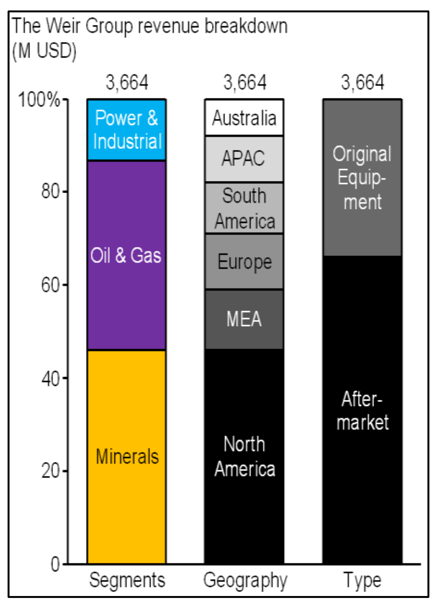
Capital Structure (USD)	
Share P. 4/26/15	26.4
Shares Out. (mm)	213.3
Mkt. Cap. (M USD)	**5625.6**
+ Debt	1562.0
- Cash and Equiv.	268.6
EV (M USD)	**6919.1**
P/B	2.5
Debt/Equity (2014)	1.4
EBIT/Interest (2014)	8.6

Key Stats (USD)	
52 Wk. high/low	141 / 122
Avg. Dly. Volume (mm)	1.2
Shares short (mm)	0.0
Target Pr. (12/31/2017	**39.9**
Upside	51%
Downside scenario	**23.2**
Downside	-12%
Upside/Downside	4.3
Margin of safety	34%
IRR	11.5%

Financials	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (M USD)	**2034.2**	**2089.2**	**2457.1**	**3444.4**	**3814.6**	**3651.5**	**3664.2**	**3568.4**	**3581.8**	**3798.1**	**4097.1**	**4394.8**	**4687.5**
Growth		3%	21%	65%	11%	-4%	0%	-3%	0%	6%	8%	7%	31%
EV/Revenue	*0.7x*	*1.2x*	*2.5x*	*2.2x*	*1.9x*	*2.2x*	*2.0x*	*1.9x*	*2.0x*	*2.1x*	*2.2x*	*2.2x*	*2.1x*
EBIT (M USD)	**252.9**	**282.7**	**438.1**	**613.0**	**704.2**	**736.8**	**603.4**	**621.1**	**659.4**	**739.0**	**813.6**	**863.7**	**910.8**
Growth		12%	73%	117%	15%	5%	-18%	3%	6%	12%	10%	6%	38%
EBIT%	*12%*	*14%*	*18%*	*18%*	*18%*	*20%*	*16%*	*17%*	*18%*	*19%*	*20%*	*20%*	*19%*
EV/EBIT	*5.9x*	*8.7x*	*13.8x*	*12.2x*	*10.4x*	*10.7x*	*12.0x*	*11.0x*	*11.0x*	*11.0x*	*11.0x*	*11.0x*	*11.0x*
EPS (USD)	**1.3**	**1.2**	**0.9**	**1.3**	**2.1**	**2.2**	**2.4**	**2.0**	**2.1**	**2.3**	**2.6**	**2.7**	**2.9**
Growth		*-3%*	*-27%*	*8%*	*60%*	*5%*	*7%*	*-17%*	*7%*	*13%*	*10%*	*6%*	*39%*
P/E	*4.3x*	*8.8x*	*29.1x*	*23.2x*	*14.0x*	*14.4x*	*11.8x*	*13.3x*	*13.8x*	*14.0x*	*13.9x*	*13.8x*	*13.8x*
FCF (M USD)	148.4	185.8	124.6	110.9	229.2	509.9	147	377	409	455	531	530	566
FCF per share (USD)	**0.7**	**0.9**	**0.6**	**0.5**	**1.1**	**2.4**	**0.7**	**1.8**	**1.9**	**2.1**	**2.5**	**2.5**	**2.7**
Growth		*25%*	*-16%*	*-41%*	*106%*	*122%*	*-71%*	*156%*	*9%*	*11%*	*17%*	*0%*	*38%*
EV/FCF	*10.1x*	*13.2x*	*48.6x*	*67.3x*	*31.9x*	*15.4x*	*49.0x*	*18.1x*	*17.7x*	*17.9x*	*16.8x*	*17.9x*	*17.7x*
FCF yield	*13%*	*8%*	*2%*	*2%*	*4%*	*8%*	*2%*	*7%*	*7%*	*6%*	*7%*	*7%*	*7%*
Dividends per share (USD)	**0.3**	**0.3**	**0.4**	**0.5**	**0.6**	**0.6**	**0.7**	**0.5**	**0.5**	**0.6**	**0.7**	**0.7**	**0.8**
Growth		*11%*	*42%*	*57%*	*15%*	*11%*	*5%*	*-23%*	*7%*	*13%*	*10%*	*6%*	*39%*
Dividend yield	*5%*	*3%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*
EV (M USD)	1,500.1	2,446.7	6,059.8	7,461.1	7,317.5	7,873.5	7,214	6,832	7,254	8,130	8,949	9,501	10,019
Share price (USD)	**5.4**	**10.8**	**26.8**	**30.5**	**29.6**	**31.7**	**27.8**	**26.0**	**28.7**	**32.8**	**35.9**	**38.0**	**39.9**
Growth								*-1%*	*9%*	*24%*	*36%*	*44%*	*51%*

I recommend to BUY the Weir Group at $26.4 for a 39% upside to end of 2017 (11.5% IRR including dividends). Further upside beyond that can also be expected based on the compounding nature of the business. The thesis is driven by Weir's strong market position based on significant moats and an ever-increasing installed base that drives high-margin aftersales. The market is currently undervaluing Weir on the back of the slump in world commodity prices, but even at a total implosion in O&G and mining CAPEX Weir is interesting at this price point. Furthermore, the market does not appear to fully appreciate that a slump in commodity CAPEX spend will drive up Weir's share of high-margin aftersales, thus mitigating the profitability impact of a topline decline. Finally, there is significant optionality in a commodity price rebound: when the CAPEX cycle turns Weir will be in a very strong position to capture the upside.

1. SEARCH PROCESS: I have been following Weir for some time on the basis of their strong business model, high moat and compounding characteristic. These are qualities I don't see every day in a business, so when I find one that sport them I tend to continue to keep an eye on them. The market has also appreciated Weir's business over the past couple of years, however, and the security has not been cheap. This changed recently as the drop in commodity prices caused the market to discount Weir's prospects quite significantly. I see this as an excellent opportunity for a long term value investor to buy in to a high quality business at a low price.



2. BUSINESS DESCRIPTION: The Weir Group is a leading global engineering solutions provider focused on designing, manufacturing and supplying innovative products and expert engineering solutions. The Group was founded in 1871, is headquartered in Glasgow UK and has more than 16,000 employees operating in 70 countries through more than 200 manufacturing and service facilities. Weir operates in 3 segments:

The Minerals segment designs, manufactures, and supports products for mining and minerals processing including comminution, slurry transportation and mine dewatering; sand and aggregates; and oil sands. Its products include pumps, hydrocyclones, valves, dewatering equipment, wear-resistant linings, rubber products, crushers, and screening machines. See Figure 1 in the Appendix for products pictures.

The Oil & Gas segment provides products and service solutions for upstream, production, transportation, refining, and related industries. It offers upstream products, such as pressure pumping equipment and services, pressure control products, and rental services; downstream products, including pumps and spare parts for refining and petrochemical industries; engineered mechanical and rotating equipment repairs and upgrades; oilfield and drilling equipment repair and certification services; and asset management and field services. See Figure 2 in the Appendix for product pictures.

The Power & Industrial segment designs and manufactures valves, pumps, and turbines, as well as provides specialist and support services to the nuclear, conventional and renewable power generation, water and wastewater, mid and downstream oil and gas, and general industrial processes. See Figure 3 in the Appendix for product pictures.

3. MOATS: Based on an analysis of the Weir asset value (replacement cost) versus its earnings power, the company sports competitive advantages since earnings power >> asset value under conservative assumption. See Figure 4 in the Appendix for full details. The advantages arguably encompass both to a superior management team and significant moats. The management team will be evaluated in section 7 below. When it comes to moats, Weir is arguably the highest quality manufacturer and global leader in an industry that manufactures highly complex critical components for heavy industry. Furthermore, it has a significant and growing installed base that drives captive, high-margin aftersales.

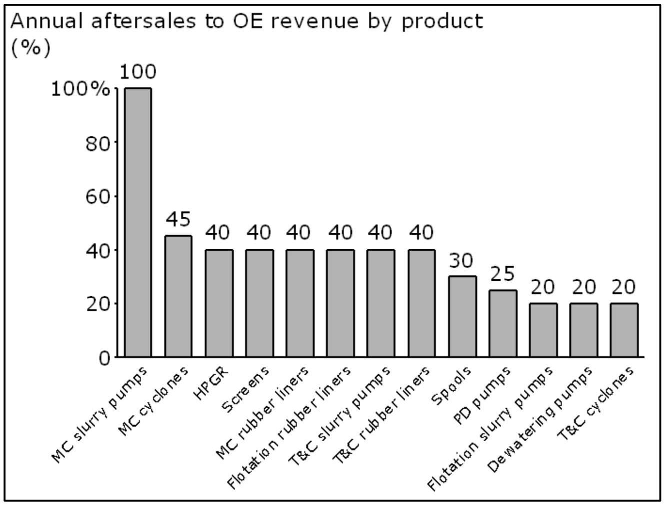
Leadership in highly complex manufacturing niche: Weir manufactures highly engineered products for miners, O&G companies, power plants and heavy industry. The products are typically critical in the sense that operations would stop if they malfunction. The cost of stopping operations for even a short time period far outweighs the cost of Weir's products, and so customers are incentivized to spend money on quality engineering. The products in question are highly complex to both design, engineer and manufacture, and it would take considerable resources to build up an operation that matches Weir's capabilities. Weir is widely known as the industry leader across most of the products they supply. This provides a significant moat against for the business.

*"**The most significant benefit [Weir pumps] bring to Anglo American is a reduction in the risk of downtime, maintenance downtime and required resources. Pumps are critical to our operations. The effect on operations when a key pump breaks down is a direct loss of revenue, as 99% of the processes at operations rely on the movement of slurry pulp and water.**"*
Anglo-American to Mining Weekly

*"Anglo American uses about 30 000 pumps at its operations and, as part of the collaboration, **Weir Minerals redesigned parts of Anglo's pumps, which were retrofitted to existing pumps to yield immediate gains in reliability and power savings**. The retrofits resulted in **the life span of key components being doubled and power consumption being reduced significantly** – in some cases by up to 7%."*
Anglo-American 2014 Procurement Leaders Award entry

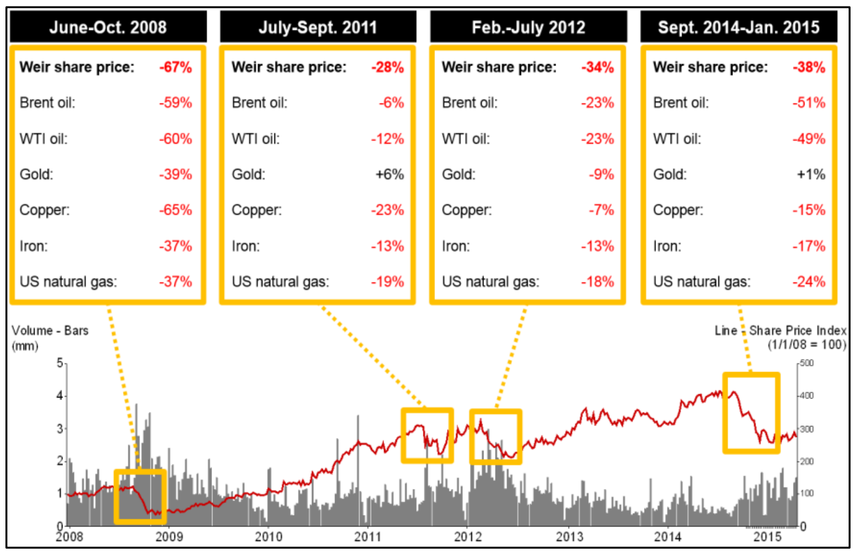
*"Pricing power is supported by a strong technology offering – customer profitability is driven by uptime where **Weir's pumps can demonstrate a competitive advantage in terms of wear life** – and the fact that **Weir's equipment is only a small part of a mine's annual operating costs (<1%)** which makes customers reluctant to change suppliers."*
Societe Generale

Installed base: Weir's business model revolves around selling Original Equipment (OE) at relatively low margins (operating margins of around 12%) to increase the installed base on which they can churn aftersales at high margins (operating margins of around 21%). Given the company's long track record of being best in their field, the Weir installed base at this point is significant. The products in question are heavy duty machinery that are subject to a lot of wear and



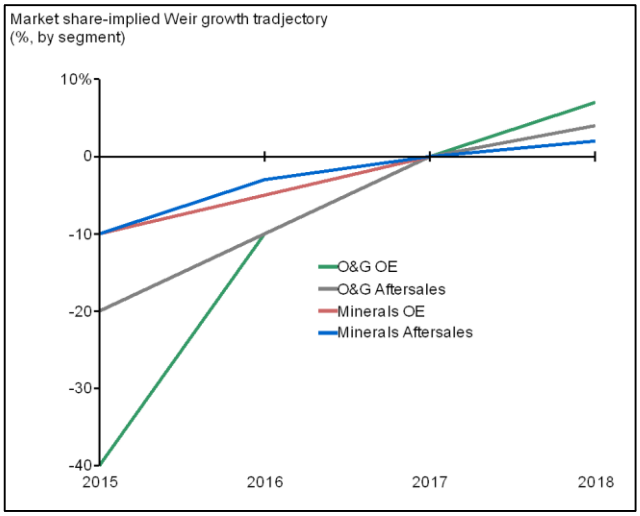
tear. Typically they drive aftersales of between 20 and 100% of OE price every year. The large installed base can therefore be considered a further moat for Weir: more than 65% of their revenue is aftersales and thus captive in the sense that they are the only firm that supplies spare parts to their own machinery.

4. MARKET: The Total Addressable market for Weir in terms of heavy duty engineered machinery is large. See Figure 5 in the Appendix. However, Weir is focusing on attaining in niche segments. Given their competitive advantages (see above) Weir has been quite successful in attaining market leadership across the niches they play on the back of innovation and their global capacity.



The market generally tracks global commodity prices quite closely. Miners and O&G field operators typically adjust CAPEX spending rather swiftly depending on price expectations. The recent drop in commodity prices (see Figure 6 in the Appendix) has thus led to expectations of significant CAPEX reductions across the base of Weir customers. As is evident from the chart on the right, Weir share price tracks world commodity prices closely on the downside on the back of expectations that CAPEX spend will be fall in the near future. Though CAPEX spend on OE likely will take a heavy hit, Aftersales CAPEX is required to continue operations on fields and in mines already in existence. Since those are operating on marginal costs, a continued slump in commodity prices will have less of an impact.

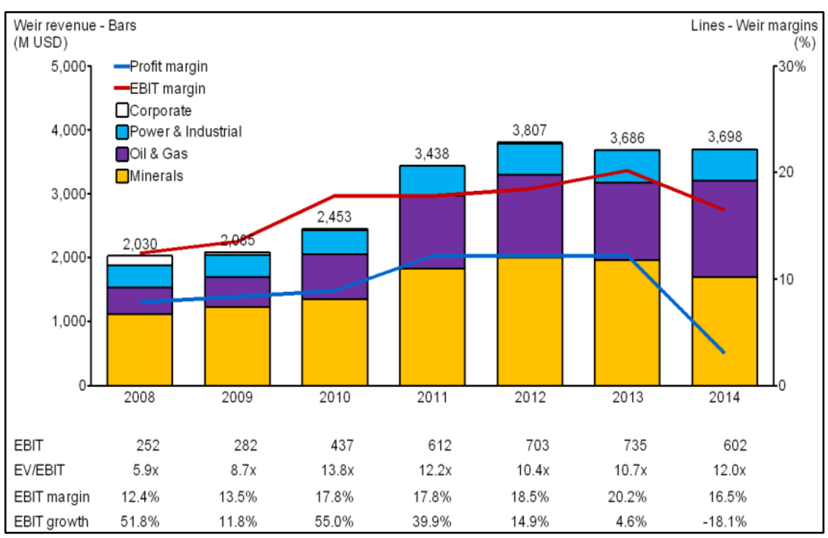
5. THESIS: The market valuation of Weir assumes a severe downturn in customer CAPEX spend leading to a topline implosion. Even at significantly depressed market growth trajectories, however, there are limited further downside to Weir's share price at this level. The graph on the left outlines the growth trajectories the market values in for Weir to 2018. This is excessive. Given demand trajectories for the relevant commodities going forward (see Figure 7 in the Appendix) there appear to be a disconnect between market implied topline growth of Weir and the underlying commodity prices that drives CAPEX spending. A more



realistic scenario (still significant negative growth, but more in tune with what can be implied based in the forward spot prices in Figure 7) yields an upside in the stock of roughly 50% over the same period.

The key behind the thesis lies in the combination of a strong moat, a compounding business model and a market pricing in a cataclysmic scenario in mining and O&G CAPEX spend. Though short term CAPEX levels are likely to decline from current peaks, the magnitude of the decline is likely to be smaller than what the market prices into the Weir stock at present. Furthermore, since OE CAPEX is likely to drop a lot more than Aftersales CAPEX, the Weir revenue split will be driven more towards high-margin aftersales. This will dampen the blow from a topline decline. Finally (and arguably most importantly), the commodity cycle is likely to eventually rebound, bringing with it both a new increase in CAPEX spending and the subsequent elevation of Weir's prospects. At the current price, Weir has marginal downside and should be an excellent prospect for the patient value investor. Beyond this, further optionality exist in Weir pursuing a larger share of the TAM, either through greenfield expansion on the back of their industry-leading engineering capabilities, or through M&A (Weir has a history of successful M&A – see Figure 8 in the Appendix for an overview).

6. VALUATION: Under a more realistic scenario than the current market view, Weir has a roughly 50% upside to 2019 based on a NTM EBIT multiple of 11x and a NTM FCF multiple of 17.7x. Including dividends that would yield an IRR of 11.5% over the period. The 11x EBIT valuation is both below current levels of 11.5x and 5-year averages of 11.8x. Based on Weir's fundamental high quality of business and a normalized long term growth rate of mid-single digits (roughly in line with world GDP growth), 11x is a sensible valuation. It corresponds to a 9% yield which is defensible given the business quality, high moat and compounding characteristic, even as the long term growth prospects are only average.



7. CATALYSTS: The valuation is based on Weir's character as a strong multi-year compounder currently trading at levels that do not appreciate the business quality and prices in a slump in demand that is extremely pessimistic. As such, it is an excellent value investment in the Buffet spirit in that you would be buying a fundamentally great business at a very good price. The upside is connected to Weir's compounding nature on the back of a strong competitive advantage. This will continue to drive profitability in the future as it has done in the past. As such, no specific catalyst is required for the thesis to work: the patient investor will be rewarded in the long term on the back of a profit expansion. However, catalysts that could accelerate a shorter term spikes in the Weir share price include a commodity price rebound and Weir over-performance relative to Street expectations.

8. MANAGEMENT: The Weir management team led by Keith Cochrane (see Figure 9 in the Appendix for his bio) has shown themselves as extremely potent and quite shareholder friendly. They have an excellent track record of capital allocation, led by a clear capital allocation policy that states "Capital allocation: We will encourage capex in pursuit of our growth ambitions subject to Internal Rate of Return (IRR) and achievement of Group free cash flow targets. Planned IRR on capital expenditure projects should not be less than 20%". The quality of the management is evident in the amazing share price trajectory relative to the market from 2008. This has not been achieved on the back of high leverage or speculative M&A, but rather by realizing the compounding nature of the business and shifting the model towards selling OE at low margins to increase the installed base on which they can churn high-margin aftersales (see Figure 10 in the Appendix for further information). The management team is furthermore highly aligned with shareholders: Keith Cochrane holds stock equaling 750% of his base salary, and bonus targets are based 1/3 on EPS growth, 1/3 on ROCE improvement and 1/3 on total shareholder return versus engineering firm peer group (see Figure 11 of the Appendix).

CAPEX return policy

*"Capital allocation: **We will encourage capex in pursuit of our growth ambitions** subject to Internal Rate of Return (IRR) and achievement of Group free cash flow targets. **Planned IRR on capital expenditure projects should not be less than 20%.**"*

The Weir Group Annual Reports

Continued shareholder value focus

*"**All business leaders have a fiduciary duty to do what is best for our shareholders** and Weir will only continue to be based here if the business environment which has helped Weir grow into a truly global company continues to support our ambitions."*

Keith Cochrane on Scottish independence

*"**Any acquisition Weir makes has to meet our strict criteria. Our focus is on shareholder value**."*

Weir on 200M GBP bid for Ludowici in 2012

*"The primary objective of the Group's capital management is to ensure that it maintains robust ratios in order to support its business and **maximize shareholder value**."*

Weir Capital Management policy

9. RISKS: The key risk to the thesis is that CAPEX spending declines more than expected and stays depressed for a very long period of time. The likelihood of this scenario is not very high, though, given world fundamental demand for commodities and O&G. Shorter term volatility in commodity price levels is nothing new, and extractors have a tendency to scale CAPEX spending up and down fast. A short term slump in Weir's prospects should thus be viewed as an opportunity to buy a great stock at a low price rather than as a fundamental deterioration of the business model.

Figure 1 – Weir Minerals product examples

Source: Weir webpage

Figure 2 – Weir O&G product examples

Source: Weir webpage

Figure 3 – Weir Power and Industrial product examples

Source: Weir webpage

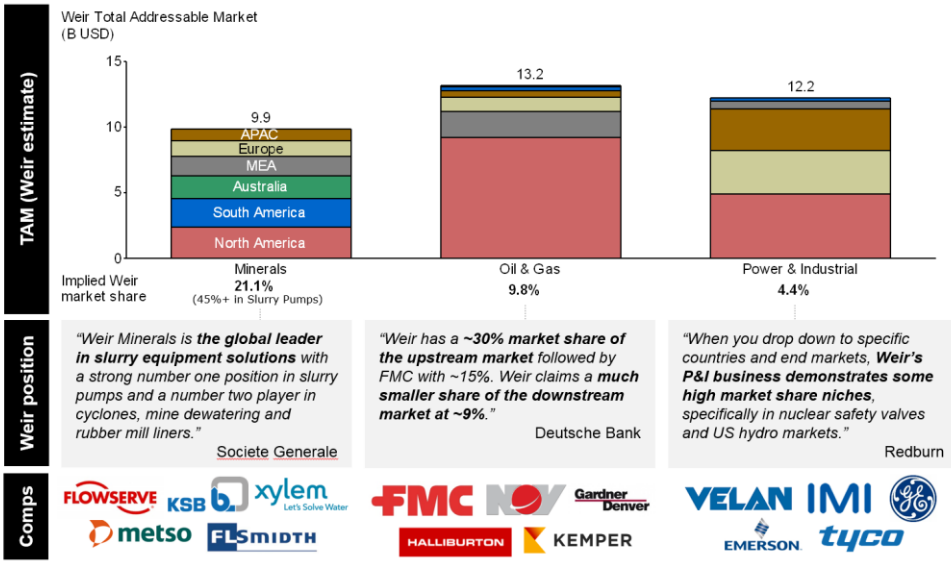
Figure 4 – Weir Earnings Power calculations

Reproduction value of firm	**2014**	**Adjustment**	**Value**	**Notes**
Cash and cash equivalents	178.70	-	178.70	At book
Accounts Receivable	656.30	17.90	674.20	Add back Allowance for doubtful debt
Inventory	551.30	-	551.30	At book - no LIFO reserve
Income Tax Receivables	5.80	-	5.80	At book
Other Current Assets	10.50	-	10.50	At book
Current Assets	1,402.60	17.90	1,420.50	
Plant, Property & Equipment	730.70	-	730.70	At gross book value
Long term investments	33.70	-	33.70	At book
Deferred Tax Assets	22.80	-	22.80	At book
Other Fixed Assets (net)	29.90	-	29.90	At book
Total non-tangible Assets			2,237.60	
Employees			1,630.00	16300 at 100k pounds per employee
Brand names			201.40	Per Weir estimate
Customer relationships			553.40	Per Weir estimate
Software			55.60	Per Weir estimate
Trade marks			78.30	Per Weir estimate
Development costs			33.50	Per Weir estimate
Reproduction value of assets			**4,789.80**	
Accounts Payable	581.40	-	581.40	At book
Construction Contracts	13.80	-	13.80	At book
Current Portion of Long Term Debt	166.10	-	166.10	At book
Current Portion of Taxes Payable	32.10	-	32.10	At book
Provisions	65.10	(65.10)	-	Deducted (conservative estimate)
Other Current Liabilities	11.30	-	11.30	At book
Current Liabilities	869.80	(65.10)	804.70	
Long Term Debt	873.30	-	873.30	At book
Other Payables	25.60	-	25.60	At book
Def. Tax Liability, Non-Curr.	162.50	-	162.50	At book
Provisions	47.40	(47.40)	-	Deducted (conservative estimate)
Retirement Benefit Plan Deficits	98.40	(98.40)	-	Deducted (conservative estimate)
Other Non-Current Liabilities	3.10	(3.10)	-	Deducted (conservative estimate)
Total Liabilities	**2,080.10**	**(214.00)**	**1,866.10**	
Reproduction Value			**2,923.70**	

Earnings power value of firm	Value	Notes
Revenue 2014	2,438.20	
Normalized margin	16.7%	
Normalized EBIT	406.47	
Tax rate	27.0%	
Normalized NOPAT	296.84	
Gross PP&E/Revenue	26%	
Growth CAPEX	2.14	
D&A	106.00	
Maintenance CAPEX	117.96	
NOPAT plus Maintenance CAPEX	284.88	
WACC	7%	Low risk business, some market volatility
Earnings Power	**4,069.70**	
Difference between Earnings power and Asset value	**1,146.00**	

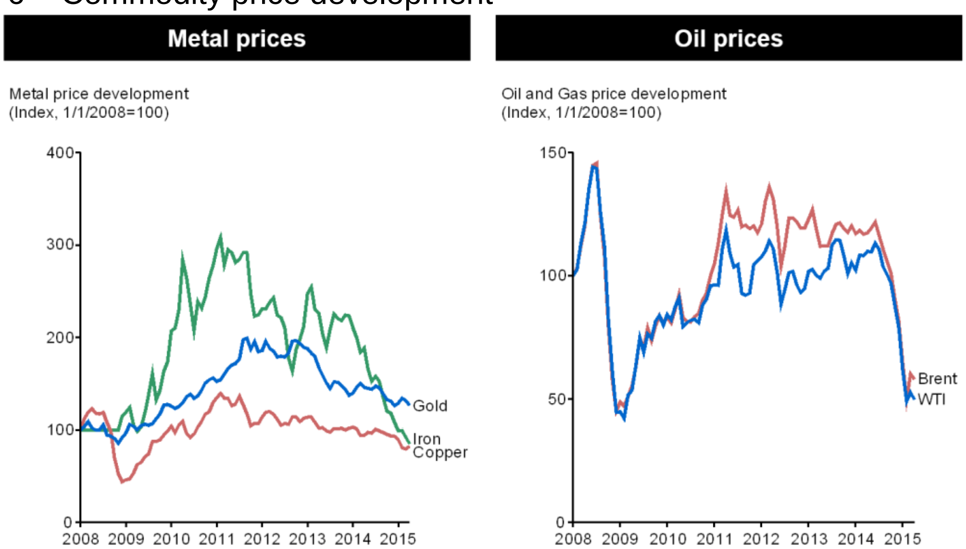
Source: Weir annual reports

Figure 5 – Weir estimated TAM



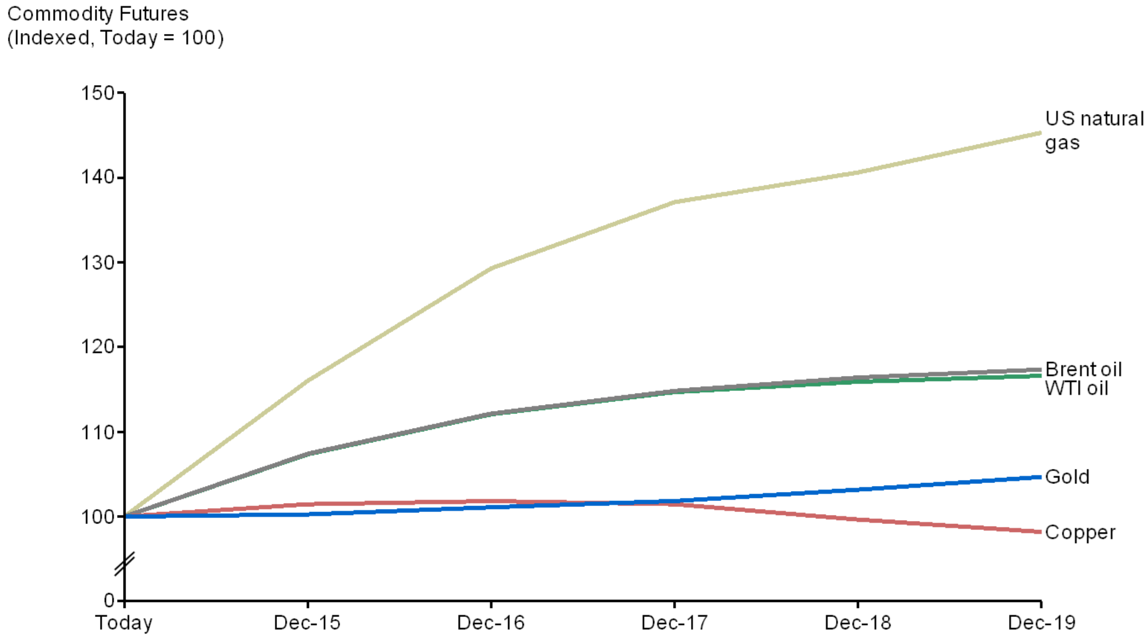
Source: Weir webpage; Weir annual reports; Societe Generale; Redburn; Deutsche Bank

Figure 6 – Commodity price development



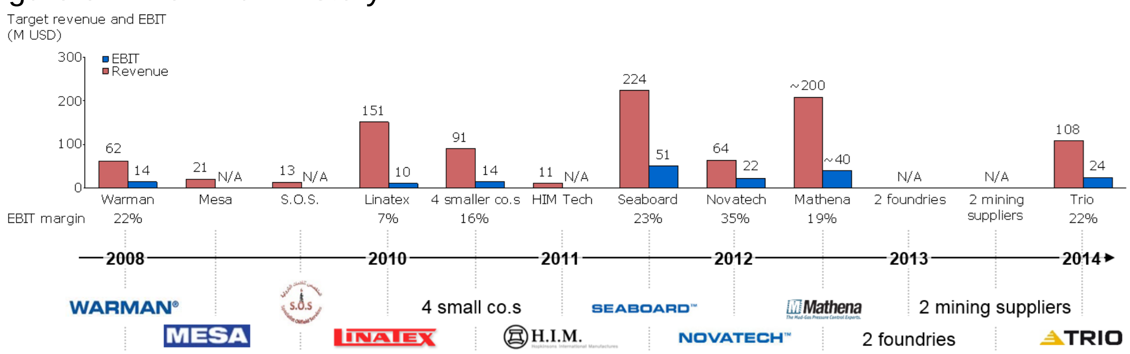
Source: World Bank

Figure 7 – Commodity Futures



Source: Bloomberg

Figure 8 – Weir M&A history



Price	181	41	16	220	170	38	700	178	~510	~15	~70	219
EV/EBIT	13.1x			20.9x	12.0x		13.6x	8.0x	~7.9x			13.8x
Division	Minerals	O&G	O&G	Minerals	O&G, P&I	Minerals	O&G	O&G	O&G	P&I	Minerals	Minerals
Notes	Centrifugal slurry pumps. Weir's first exposure to African market	Cementing pumps for O&G drilling and well services	Oil services firm located in Azerbaijan	Rubber-based anti-wear coating	PCS, BDK, American Hydro, YES	Control and choke valves for power generation and O&G	Wellhead equipment focused on US shale market	Well service valves and seats focused on US shale market	Pressure control rental equipment for on-shore O&G drilling	Cheong, Xmeco	R. Wales (specialist rubber), Aspir (coal centrifuge)	Crushing and separation equipment

Source: Weir annual and half-annual reports; Weir webpage; Factiva

Figure 9 – Management profiles

Keith Cochrane – CEO

- Keith Cochrane joined the Weir Group as finance director in July 2006 and was appointed chief executive in November 2009
- Following a number of years with Arthur Andersen, Keith joined Stagecoach Group plc in 1993. He was appointed finance director in 1996 and group chief executive in 2000
- Joined Scottish Power plc in 2003, where he became director of group finance
- Chartered accountant and a member of ICAS
- **Ownership: 257 788 shares (750% of base salary in 2013)**

"As CEO, Keith set out a frugal finance system, and in 2010 Weir, guided by Keith, had managed to come through the recession in good financial shape. ***Keith has enabled Weir to survive in hard financial times*** *by shifting the business to refocus on aftersales, growing the size of the division dedicated to providing replacement parts for repair equipment."*

World of CEOs

"Keith Cochrane (45), chief executive, The Weir Group: ***Cochrane's first year as boss of Weir could not have gone better with its share price reaching new highs after he lead it through the downturn*** *and being able to generate record profits for 2009 and again in the 2010 half year. […] The father-of-two aims to drive growth through innovation and strong customer relationships.* ***He is on a roll and it looks like that will continue****."*

Scottish Business Insider (Cochrane ranked as #20 of Scottish Business Leaders)

Jon Stanton – CFO

- Jon Stanton joined the Weir Group as finance director in April 2010
- Formerly a partner with Ernst & Young, having joined as a graduate trainee in its Birmingham office in 1988. He was appointed as a partner in its London office in 2001 with lead responsibility for the audit of a number of FTSE 100 multinational clients
- Chartered accountant and a member of ICAEW
- **Ownership: 18975 shares (91% of base salary)**

Steve Noon – Head of Weir O&G

- Appointed divisional managing director of Weir Oil & Gas in March 2009
- Joined the company in 2007 as president of Weir SPM and since 2008 has been managing director Upstream for the Oil & Gas division
- An MBA, CPA, Steve has worked with several multinationals, including Schefenacker Vision Systems, James Hardie Industries and The Toro Company. Before joining Weir, he held the position of president of Schefenacker Vision Systems, North America

Dean Jenkins – Head of Weir Minerals

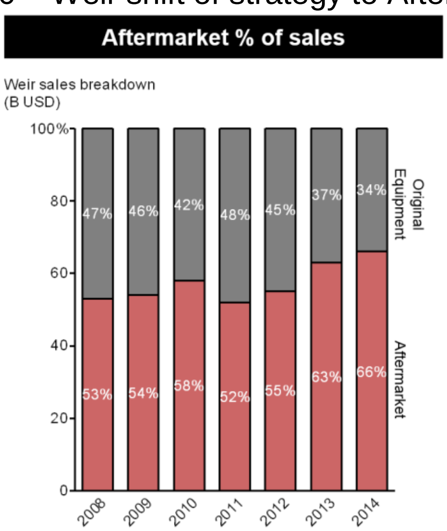
- Appointed divisional managing director in 2012
- Australian citizen and graduate aerospace engineer with extensive experience of engineering materials and logistics best practice, asset management, product development and business restructuring
- Previously worked for Qantas Airlines, and was Chief Executive of UGL Rail Division

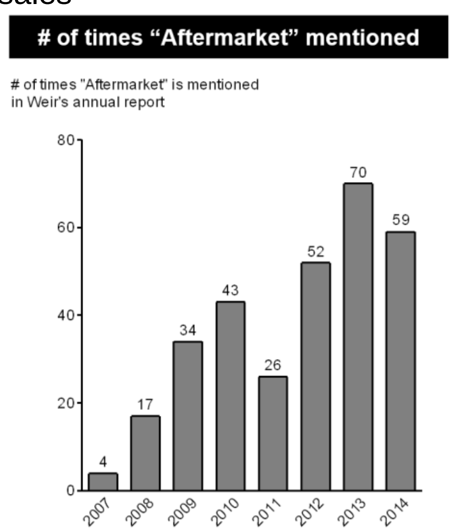
John Heasley – Head of Weir Power and Industrial

- Appointed Divisional Managing Director for Weir Power and Industrial in 2014
- A chartered accountant, he has held a number of senior financial, commercial and operational roles
- At PwC he worked in mergers and acquisitions before joining Scottish Power in business development
- John joined Weir in 2008 as Group Financial Controller

Source: Weir annual and half-annual reports; Factiva

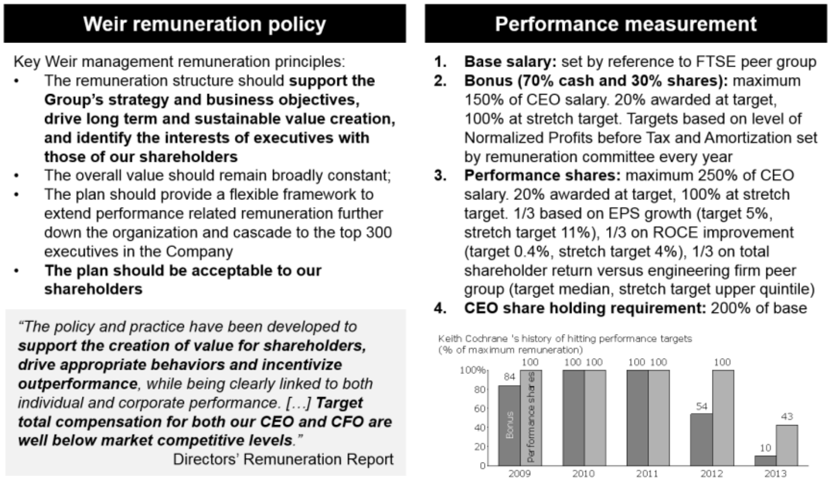
Figure 10 – Weir shift of strategy to Aftersales





Source: Weir annual reports

Figure 11 – Weir remuneration policy

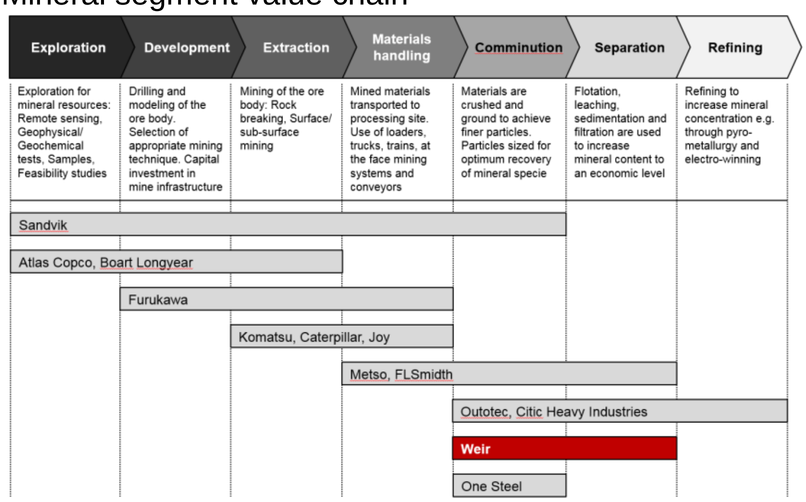


Source: Weir annual reports

Figure 12 – Weir footprint

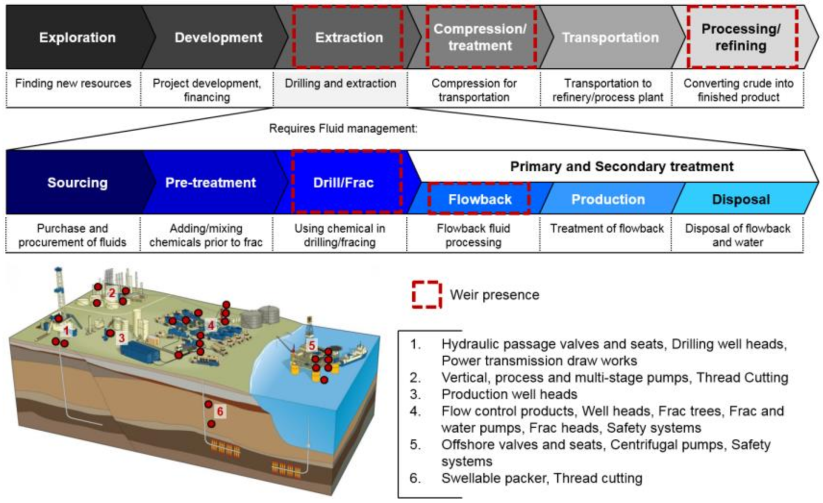
Source: Weir investor report

Figure 13 – Mineral segment value chain



Source: Metso; Company webpage

Figure 14 – O&G segment value chain



Source: PacWest; Weir webpage

Figure 15 – Case studies

Pascua Lama gold mine

- Commissioning date: 2013/14, >25 year life
- Mill capacity: 45,000 tonnes of ore per day
- Gold production: 800,000 ounces per annum
- Weir equipment: <1% annual operating costs
- Visible future revenue stream: > 90% of aftermarket captured

Pascua Lama gold mine, Chile

Revenue profile

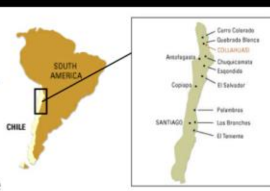
Product	Capex POs (US$m)	Annual aftermarket (US$m)	Planned overhaul (every 5 years) (US$m)
Slurry pumps	13	6	6
Cyclones and valves	4	1	1
Lining (Mills & Cells)	10	9	3
Spools	23	3	4
Services & Others	3	1	0
Total	**53**	**20**	**14**

Aerial view of Pascua Lama ore concentration plant

$53M original equipment generates > $100M aftermarket sales over 5 years

Collahuasi copper mine

- Copper production: 50mt per annum, value £2bn
- Mill capacity: 5 circuits processing 150,000 tonnes/day
- Cost of 1 days downtime for 1 circuit: £2m revenue[1]
- Objective: reduce downtime and enhance performance



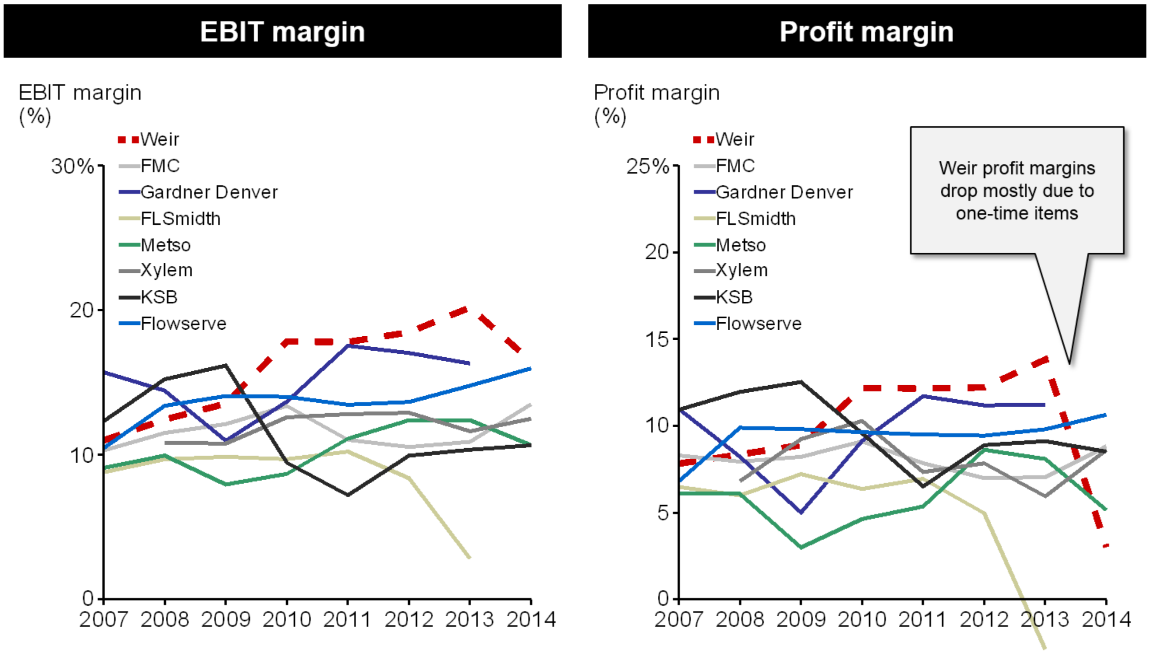
- Equipment installed:
  - *Mill circuit and GEHO PD pumps at greenfield stage*
  - *Service capability enabled replacement of competitors equipment:*
    - *Hydro-cyclones, valves, hoses, spools*
    - *Rubber lined tanks, rubber lined pipe*
    - *Vertical turbine pumps*
  - *Less downtime, lowest overall lifetime cost*

Collahuasi processing plant

Customer intimacy and product capability drives cross selling opportunity

Source: Weir investor day presentations

Figure 16 – Comps



Source: Weir annual reports; CapitalIQ

Figure 11 – Model

Income statement (Pounds)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,390.20	1,635.00	2,292.00	2,538.30	2,429.80	2,438.20	2,374.47	2,383.41	2,527.32	2,726.29	2,924.37	3,119.16
COGS	935.00	1,017.70	1,495.40	1,652.20	1,557.20	1,632.20						
Gross profit	455.20	617.30	796.60	886.10	872.60	806.00						
Operating expenses	226.90	278.10	333.10	337.80	284.90	308.50						
SG&A Expense	230.30	278.60	357.00	373.00	355.70	312.60						
Selling and Marketing	145.80	169.80	211.30	220.80	222.60	213.50						
General and Administrative	84.50	108.80	145.70	152.20	133.10	99.10						
Other operating income (expense)	3.40	0.50	23.90	35.20	70.80	4.10						
Income from Join Ventures	4.60	4.60	4.80	6.40	8.40	10.00						
EBITDA	232.90	343.80	468.30	554.70	596.10	507.50						
D&A	44.80	52.30	60.40	86.10	105.80	106.00						
Depreciation expense	28.20	34.10	37.30	49.40	59.10	61.10						
Ammortization expense	16.60	18.20	23.10	36.70	46.70	44.90						
Operating Income (EBIT)	188.10	291.50	407.90	468.60	490.30	401.50	413.28	438.80	491.78	541.36	574.73	606.10
Financial Income	2.50	1.50	4.30	5.20	3.00	6.00						
Financial Expense	(18.70)	(14.90)	(20.10)	(49.10)	(58.60)	(46.60)						
Impariment of Intangible Assets	-	-	-	-	-	(209.00)						
Other Finance income (expense)	(1.50)	(1.60)	(1.30)	(4.00)	(3.50)	(2.80)						
EBT	170.40	276.50	390.80	420.70	431.20	149.10						
Income Taxes	46.80	77.40	112.40	110.7	95.5	75.40						
Earnings from Discontinued Operations	5.20	(13.60)	19.90	3.30	-	1.00						
Net income	128.80	185.50	298.30	313.30	335.70	74.70	277.65	296.20	333.42	367.60	389.96	410.89
Minority interest in earnings	-	(0.40)	-	(0.30)	(0.80)	(1.60)	-	-	-	-	-	-
Net income to common shares	**128.80**	**185.10**	**298.30**	**313.00**	**334.90**	**73.10**	**277.65**	**296.20**	**333.42**	**367.60**	**389.96**	**410.89**
Avg shares outstanding (basic)	210.30	210.60	211.20	212.20	213.00	213.30	213.30	213.30	213.30	213.30	213.30	213.30
Avg shares outstanding (diluted - split adjusted)	212.00	213.10	213.40	213.50	213.80	213.90	213.90	213.90	213.90	213.90	213.90	213.90
Diluted EPS (Pounds)	**0.61**	**0.87**	**1.40**	**1.47**	**1.57**	**0.34**	**1.30**	**1.38**	**1.56**	**1.72**	**1.82**	**1.92**
Share price	7.18	17.80	20.32	19.70	21.09	18.47	26.04	28.72	32.83	35.91	37.98	39.90
Payout ratio	34%	31%	23%	26%	27%	128%	26%	26%	26%	26%	26%	26%
Dividends	44.16	56.86	69.70	80.64	89.46	93.85	72.19	77.01	86.69	95.58	101.39	106.83
Dividends per share	0.21	0.27	0.33	0.38	0.42	0.44	0.34	0.36	0.41	0.45	0.48	0.50
Dividend Yield	2.93%	1.52%	1.62%	1.93%	1.99%	2.38%	1.30%	1.26%	1.24%	1.25%	1.25%	1.26%

Growth rates (Pounds)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Sales	1390.2	1635.0	2292.0	2538.3	2429.8	2438.2	2374.5	2383.4	2527.3	2726.3	2924.4	3119.2
Growth	*2.7%*	*17.6%*	*40.2%*	*10.7%*	*-4.3%*	*0.3%*	*-2.6%*	*0.4%*	*6.0%*	*7.9%*	*7.3%*	*6.7%*
EBIT	188.1	291.5	407.9	468.6	490.3	401.5	413.3	438.8	491.8	541.4	574.7	606.1
Growth	*11.8%*	*55.0%*	*39.9%*	*14.9%*	*4.6%*	*-18.1%*	*2.9%*	*6.2%*	*12.1%*	*10.1%*	*6.2%*	*5.5%*
Net income to common shares	123.6	198.7	278.4	309.7	334.9	72.1	277.7	296.2	333.4	367.6	390.0	410.9
Growth	*9.4%*	*60.8%*	*40.1%*	*11.2%*	*8.1%*	*-78.5%*	*285.1%*	*6.7%*	*12.6%*	*10.3%*	*6.1%*	*5.4%*

Margins	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EBIT margin	13.5%	17.8%	17.8%	18.5%	20.2%	16.5%	17.4%	18.4%	19.5%	19.9%	19.7%	19.4%
Profit margin	8.9%	12.2%	12.1%	12.2%	13.8%	3.0%	11.7%	12.4%	13.2%	13.5%	13.3%	13.2%

Balance sheet (Pounds)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cash and cash equivalents	57.00	84.00	113.90	391.10	79.10	178.70						
Accounts Receivable	266.40	367.60	535.70	499.90	525.40	656.30						
Trade	240.50	351.40	516.10	478.20	497.10	625.00						
Construction contracts	25.90	16.20	19.60	21.70	28.30	31.30						
Inventory	235.30	310.10	463.80	512.70	485.00	551.30						
Income Tax Receivables	3.40	0.40	11.60	4.10	2.30	5.80						
Other Current Assets	7.20	9.20	6.40	3.60	11.10	10.50						
Current Assets	569.30	771.30	1,131.40	1,411.40	1,102.90	1,402.60						
Plant, Property & Equipment (net)	199.40	257.40	318.90	374.00	398.70	435.00						
Gross PP&E	355.50	440.30	508.80	590.20	639.70	730.70						
Accumulated Depriciation	(156.10)	(182.90)	(189.90)	(216.20)	(241.00)	(295.70)						
Long term investments	9.70	10.30	11.40	12.00	27.10	33.70						
Intangible assets	739.90	954.60	1,415.10	1,454.10	1,614.50	1,638.30						
Goodwill	494.10	597.80	884.10	908.90	971.80	931.30						
Other Intangibles	245.80	356.80	531.00	545.20	642.70	707.00						
Deferred Tax Assets	28.70	27.50	38.70	30.40	17.20	22.80						
Other Fixed Assets (net)	4.50	4.50	0.10	0.80	2.50	29.90						
Total Assets	1,551.50	2,025.60	2,915.60	3,282.70	3,162.90	3,562.30						
Accounts Payable	336.30	410.30	565.40	485.80	476.80	581.40						
Construction Contracts	23.20	21.80	26.80	13.70	12.10	13.80						
Current Portion of Long Term Debt	2.00	6.30	92.00	65.40	26.50	166.10						
Current Portion of Taxes Payable	23.70	29.70	33.40	28.60	36.70	32.10						
Provisions	33.80	45.40	55.50	36.40	28.90	65.10						
Other Current Liabilities	16.80	20.90	28.10	14.70	9.60	11.30						
Current Liabilities	435.80	534.40	801.20	644.60	590.60	869.80						
Long Term Debt	174.20	361.30	695.10	1,014.60	799.60	873.30						
Other Payables	-	1.70	15.50	26.30	22.40	25.60						
Def. Tax Liability, Non-Curr.	60.40	75.50	149.30	162.50	165.50	162.50						
Provisions	36.70	38.50	37.10	33.20	25.70	47.40						
Retirement Benefit Plan Deficits	71.00	65.00	84.70	90.40	71.80	98.40						
Other Non-Current Liabilities	31.00	27.50	15.20	0.80	0.60	3.10						
Total Liabilities	809.10	1,103.90	1,798.10	1,972.40	1,676.20	2,080.10						
Common Stock	26.60	26.60	26.60	26.70	26.70	26.70						
Additional Paid-In Capital	38.00	38.00	38.00	38.00	38.00	38.00						
Treasury Shares	(7.90)	(6.80)	(5.60)	(5.60)	(5.80)	(5.80)						
Retained Earnings	620.40	758.80	974.00	1,209.80	1,479.30	1,430.50						
Reserves	65.10	104.70	82.40	38.20	(56.00)	(14.00)						
Non-controlling interest	0.20	0.40	2.10	3.20	4.50	6.80						
Total Common Equity	742.40	921.70	1,117.50	1,310.30	1,486.70	1,482.20						
Total Liabilities and Equity	1,551.50	2,025.60	2,915.60	3,282.70	3,162.90	3,562.30						
Working Capital	97.20	166.20	321.50	459.20	476.90	541.00	546.13	548.18	556.01	545.26	555.63	561.45
Growth	*3.2%*	*71.0%*	*93.4%*	*42.8%*	*3.9%*	*13.4%*	*0.9%*	*0.4%*	*1.4%*	*-1.9%*	*1.9%*	*1.0%*

Free Cash Flow (Pounds)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
EBIT	188.10	291.50	407.90	468.60	490.30	401.50	413.28	438.80	491.78	541.36	574.73	606.10
Tax	51.66	81.60	117.32	123.30	108.59	203.04	111.59	118.48	132.78	146.17	155.18	163.65
NOP	136.44	209.90	290.58	345.30	381.71	198.46	301.69	320.33	359.00	395.19	419.55	442.45
ΔCAPEX	9.80	58.00	61.50	55.10	24.70	36.30	45.80	45.97	48.74	52.58	56.40	60.16
ΔWorking Capital	3.00	69.00	155.30	137.70	17.70	64.10	5.13	2.06	7.83	(10.75)	10.37	5.82
FCF	**123.64**	**82.90**	**73.78**	**152.50**	**339.31**	**98.06**	**250.77**	**272.30**	**302.43**	**353.36**	**352.78**	**376.47**
Growth	*25.2%*	*-32.9%*	*-11.0%*	*106.7%*	*122.5%*	*-71.1%*	*155.7%*	*8.6%*	*11.1%*	*16.8%*	*-0.2%*	*6.7%*