

June 16, 2017

**Dear clients and colleagues,**

We have reiterated our positive bias towards the construction space on many occasions. The trend in the new build residential and commercial markets keeps improving globally. We believe improvement in residential and commercial construction drives positive momentum to several other submarkets of the economy. Palfinger, a company we added to our international portfolios last year, is a good example.

Palfinger is a leading premium manufacturer of truck-mounted and mobile lifting solutions. The company offers innovative, reliable and cost-effective lifting solutions for use on commercial vehicles and in maritime applications. It has a global network of more than 4,500 service and sales centers in more than 130 countries. Palfinger is the world leader in the production of loader cranes, with close to 150 models to offer. Its competitive position supplies a high level of differentiation and allows Palfinger to charge premium prices, which results in superior profitability. The company is well-balanced geographically with 58% of sales coming from Europe, 23% from the Americas and 19% from the Asia Pacific region. For its fiscal year 2016, Palfinger reported sales of €1,357M and an EBIDA of €173M. The Palfinger family owns 59% of the company.

#### **Market size**

- The global market size for mounted lifting solutions is approximately €4.5B. This market is expected to grow slightly better than global GDP.

#### **Growth strategy**

- Innovation in hydraulic lifting solutions results in a higher average selling price per unit.
- Palfinger will continue to acquire niche businesses in order to gain expertise or access to certain markets (Asia, US).
- Ramping up select production sites and cost management measures should improve efficiency.
- The joint venture with Sany in China has now turned profitable.

#### **Strengths**

- Oligopolistic market with high barrier to entry in the hydraulic lifting solutions and transport chain segments.
- Palfinger enjoys a strong position in its core markets. It ranks number one globally with a 35% market share (it is the dominant player in Europe and in the Americas).
- The management team has a solid track record of improving margins over time.
- Palfinger, which focus on the quality of its products and innovation, benefits from a strong reputation among its client.
- Palfinger maintains a well-diversified customer base in several industries.
- With a strong balance sheet, we believe the company is well-positioned to increase market share and acquire smaller players in its markets.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS<sup>®</sup>) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

**Opportunities**

- The overall trend for infrastructure and construction spending is positive. Thanks to strong exposure to the construction industry, Palfinger should greatly benefit from this trend.
- Replacement cycle: The number of trucks in use is still below its historical peak, but usage and fleet age are increasing.
- The acceleration of debt repayment will allow the company to continue to grow via bolt-on acquisitions.
- Improving the revenue mix by increasing the service and spare parts segment.
- CO2 restrictions and weight reduction requirements favour industry innovators.

**Risks**

- As an industrial company, Palfinger is exposed to the economic cycle.
- Client orders and construction spending can be cyclical.
- The Marine business could remain slow with low oil prices.

Have a good weekend.

The Global Alpha Team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS<sup>®</sup>) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.