



CAREL

CAREL INDUSTRIES S.p.A. 2020 – Q1 Results

8th May 2020

Q1 2020 – Highlights

Thanks to the resilience of its production footprint, CAREL managed to mitigate the negative effects (between -6m€ and -7m€) caused by the temporary lockdown in China and the shutdown of the Italian plant, reporting revenues substantially in line with Q1 2019 (-1.7%).

-1.7%

Revenues
growth rate

- Revenues were substantially in line (-1.7%) with what reported in Q1 2019 in spite of the temporary shutdown of a significant part of CAREL's production facilities accounting for more than 60% of its total production capacity.
- This result is mainly linked to the strategy that the Group has always followed, resulting in the capability to manufacture 90% of CAREL's product platforms in at least 2 plants.

18.2%

EBITDA margin

- **EBITDA margin equal to 18.2%**, ~130bp less than FY 2019 adj., mainly due to the revenue trend and the consequent **lack of the positive effect from operating leverage**.
- CAREL has implemented a number of **initiatives to contain opex**, the effects of which will be fully deployed **in the next few quarters**.

~62m€

NFP

- **Stable NFP compared to FY 2019**, in spite of an expected increase in NWC.

Focus on COVID-19 - Operations



- CAREL has **1 production plant in China**, in Suzhou, accounting for **approximately 30% of the Group's total production capacity**.
- The plant was **shut down for one week**, from 3 to 10 February and gradually returned to full capacity over the following weeks.
- As of today **the plant is running at 115% on planned capacity** and this percentage is going to rise in the next few weeks.



- CAREL has **1 production hub in Italy** (plus a plant owned by its subsidiary Recuperator, located near Milan), accounting for **approximately 30%-40% of the CAREL's entire production**.
- The production hub slowed-down and **ceased operations for approximately 10 days** at the end of March due to the restrictions imposed as a result of the COVID-19 pandemic.
- Production resumed on **7 April** at a limited capacity pertaining to essential activities only, as indicated by the Government. The hub got back to **100% capacity starting from 4 of May**.
- Recuperator plant continued operating during the emergency for the essential activities only and reached **100% capacity starting from the 4 May**.



- **Currently, the Group's total available production capacity is more than 100% of the previously-planned level.**
- The temporary shutdown of the Chinese and Italian plants resulted in a **backlog**, which will be **partly recovered in the following months**.

Focus on COVID-19 - Initiatives

In order to mitigate the impact of COVID-19 on revenues and costs, CAREL has implemented a number of significant initiatives, the effects of which will be deployed also over the next few quarters.



Revenues

The Group took advantage of its capability to manufacture **90% of its product platforms in at least two plants**:

- During the shutdown of the Chinese plant, part of the production was shifted to Brazil and Europe.
- During the shutdown of the Italian plant, part of the production was shifted to Croatia and China.



Costs

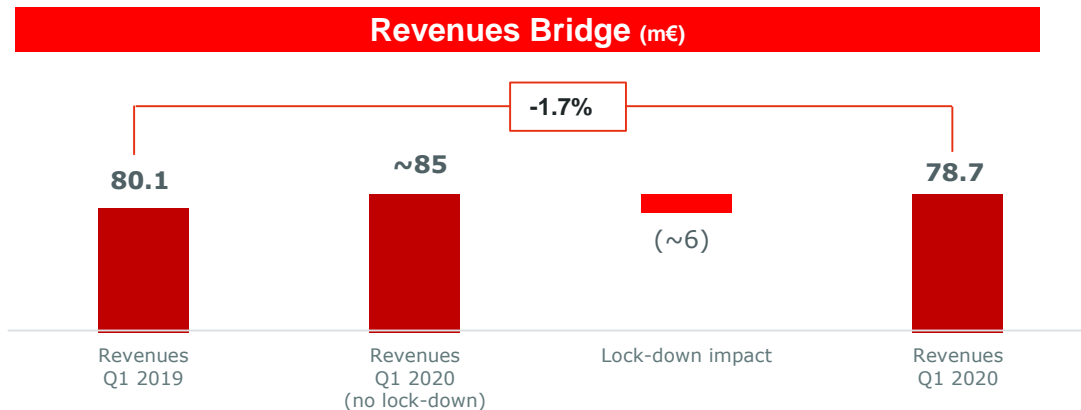
Careful **planning and implementation of cost containment measures**:

- Activation of **Government social scheme** and other tools.
- Strong reduction in discretionary expenses and business travel expenses.

The positive impact on Q1 is limited as part of them were implemented starting from March.

Q1 2020 – Impacted by COVID-19 pandemic

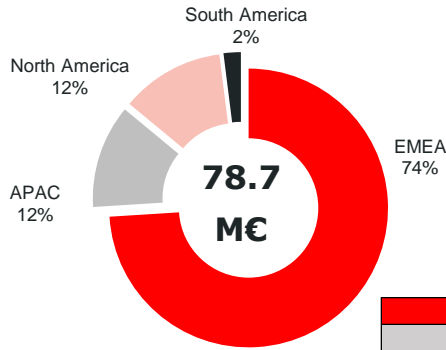
KPIs				
	m€	Q1 2019	Q1 2020	Δ%
Revenue		80.1	78.7	-1.7%
Revenue FX Adj.		80.1	78.7	-1.7%
EBITDA		15.7	14.4	-8.7%
<i>EBITDA/Revenue</i>		19.6%	18.2%	
Net Profit		8.9	7.6	-14.1%
Capex		4.9	2.4	<i>n.r.</i>



- **Revenue -1.7%:** the slight reduction in revenues is fully attributable to the temporary lockdown in China and to the temporary shutdown of the Italian plant. Part of the back-log will be recovered in the next few months.
- **EBITDA -8.7%:** the decrease in EBITDA derives from the performance reported in revenues, combined with the lack of the positive effects usually coming from the operating leverage. The latter is particularly evident in Q1, as this is the quarter in which the annualization of the 2019 hires has the most impact.
- **Net Profit -14.1%:** the decline in net profit is due to operating results (lower revenues/higher D&A).
- **Capex:** Capex reduction in line with expectation, as the expansion of the production footprint was completed at the end of 2019.

Q1 2020 – Revenue breakdowns

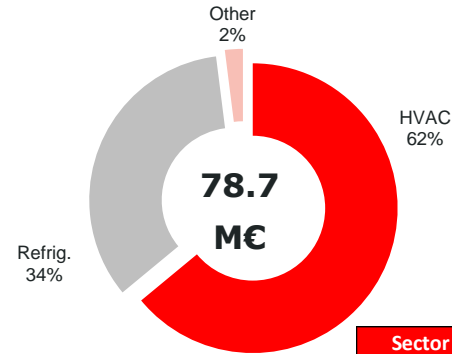
Breakdown by region



Area	Q1 2019	Q1 2020	Δ%	Δ% fx
EMEA	56.9	58.5	2.8%	2.9%
APAC	11.4	9.4	-17.5%	-17.3%
Americas (North)	9.9	9.1	-8.3%	-10.8%
Americas (South)	1.8	1.7	-6.2%	4.7%
Total Revenue	80.1	78.7	-1.7%	-1.7%

- **EMEA** – Driven mainly by a strong recovery in refrigeration and significant performance in Eastern Europe.
- **APAC** – Approx. -3m€ deriving from the lock-down in China.
- **Americas North** – Performance was driven by the combination of a period of expected consolidation (after the outstanding results in 2019) and the slow-down in the US economy due to COVID-19.
- **Americas (South)** – Positive performance net of the FX impact.

Breakdown by sector



Sector	Q1 2019	Q1 2020	Δ%	Δ% fx
HVAC	53.0	50.5	-4.7%	-4.9%
Refrig.	25.8	27.1	4.9%	5.4%
Core Revenue	78.9	77.6	-1.6%	-1.6%
No core	1.2	1.1	-8.8%	-8.8%
Total Revenue	80.1	78.7	-1.7%	-1.7%

- **The trend in HVAC** sector was heavily impacted by the shutdown of the Italian plant.
- **Very positive trend in Refrigeration** sector in Europe, after a significant slow-down in Q2 and Q3 2019.

From EBITDA to Net Profit

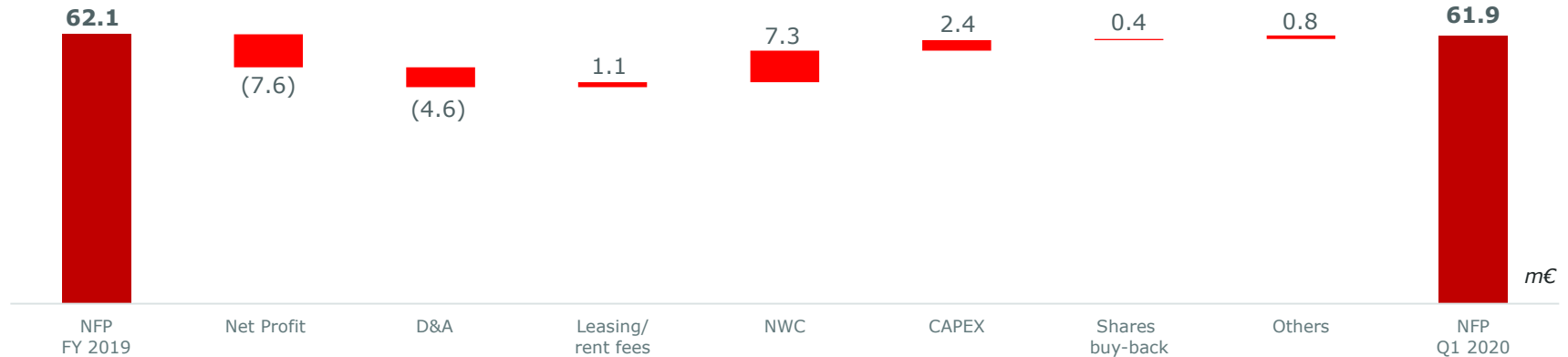
	K€	Q1 '19	Q1 '20	Δ%
EBITDA		15,718	14,355	-8.7%
	<i>D&A</i>	-4,052	-4,613	
EBIT		11,666	9,742	-16.5%
	<i>Financial (charges)/income</i>	-266	-335	
	<i>FX gains/losses</i>	-435	23	
EBT		10,965	9,430	-14.0%
	<i>Taxes</i>	-2,095	-1,822	
	<i>Minorities</i>	-17	-6	
Group net profit		8,854	7,602	-14.1%

- Slightly higher D&A mainly linked to higher Capex in 2019.

- Higher Financial charges **due to increased amount of loans** partially offset by a gain in foreign exchanges (loss in previous quarter)

- **19.3% tax rate**, in line with Q1 2019. By the end of the year, the company confirms an expected tax-rate close to 20%, benefitting also from the renewal of the acknowledgment as High-Tech Enterprise by the Chinese Authorities.

Q1 2020 – NFP Bridge



- **NFP stable** compared to 2019 FY level. **The FFO equal to 12.2m€** covered capex and the increase in NWC.
- **ΔNWC +7.3m€**: the increase in NWC was mainly due to the seasonal trend in receivables.
- At the end of the Quarter the Group has available Cash & Cash Equivalent and available credit lines for about **90m€**.

Closing Remarks

Operations

- In spite of the temporary shutdown of two plants in Q1, which represent more than 60% of CAREL's total production capacity, the **Group's overall strategy again proved its resiliency**.
- **The production footprint expansion plan**, completed in 2019, has been and will be a key element in balancing and mitigating the impact of possible further lockdowns in the future.

Demand

- **Q1 2020 revenues were only slightly impacted by a global slow-down in demand due to COVID-19 pandemic.**
- **A further deterioration is expected in Q2 2020, with a high level of uncertainty and volatility.**

Initiatives

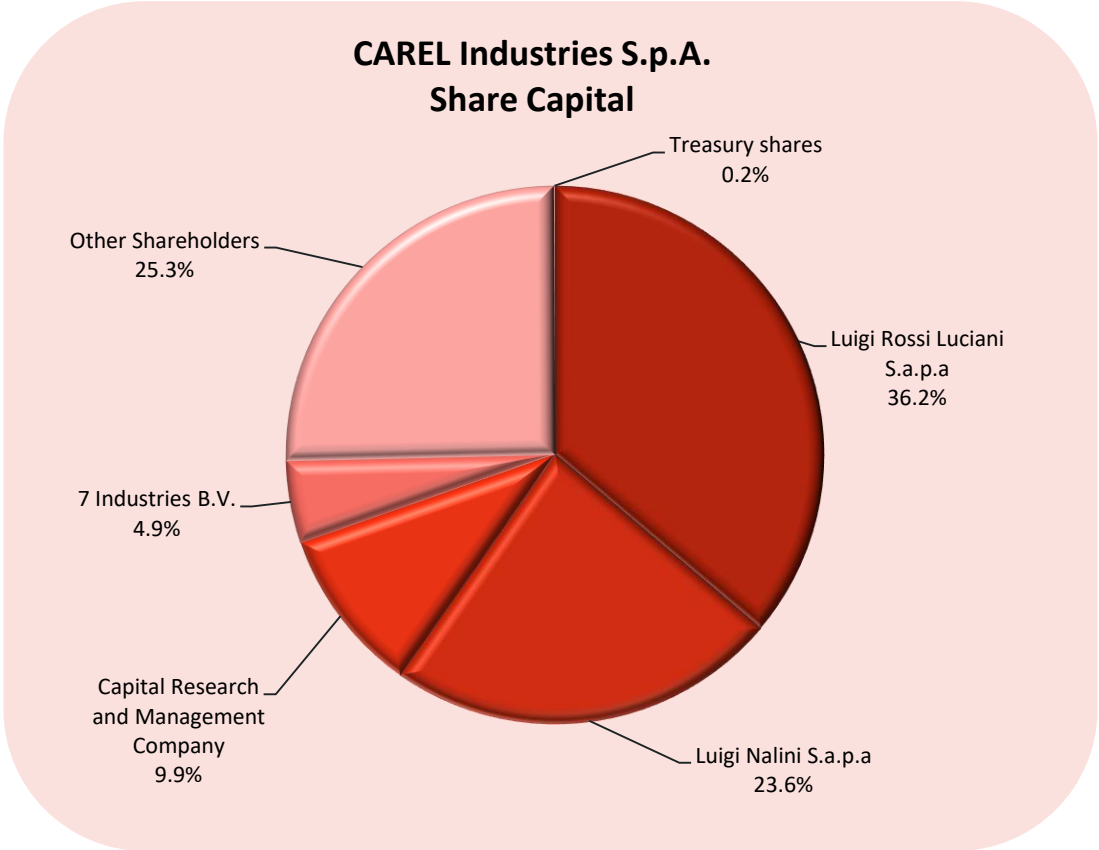
- The Group put in place **several initiatives** to:
 - mitigate the impact of the pandemic on revenues
 - reduce opex and limit non-essential capex
 - improve the liquidity level and its already solid financial profile

Guidance

COVID-19 pandemic limits the visibility on CAREL's 2020 FY expectations. In any case, a further deterioration in demand is foreseeable in Q2 2020, which, combined with the prolonged effect in April of the shutdown of Carel's Italian plant, should lead to a single-digit reduction in 1H 2020 revenues on 1H 2019.

Annexes

Shareholding structure (>3%)



Income statement and Balance Sheet

Income statement

	K€	Q1 2019	Q1 2020	Delta %
Revenues		80,097	78,740	-1.7%
Other revenues		609	649	6.5%
Operative costs		(64,988)	(65,034)	0.1%
EBITDA		15,718	14,355	-8.7%
Depreciation and impairments		(4,052)	(4,613)	13.8%
EBIT (Risultato Operativo)		11,666	9,742	-16.5%
EBT (earn before taxes)		10,965	9,430	-14.0%
Taxes		(2,095)	(1,822)	-13.0%
Net result of the period		8,871	7,608	-14.2%
Non controlling interest		(17)	(6)	-64.8%
Group net result		8,854	7,602	-14.1%

Balance sheet

	K€	FY 2019	Q1 2020	Delta %
Fixed Capital		167,957	166,067	-1.1%
Working Capital		45,232	51,591	14.1%
Employees defined benefit plan		(7,844)	(7,777)	-0.9%
Net invested capital		205,345	209,881	2.2%
Equity		143,220	148,030	3.4%
Net financial position (asset)		62,124	61,851	-0.4%
Total		205,345	209,881	2.2%

Company profile

Leading provider of advanced control solutions for HVAC/R

Growing key markets

- **HVAC:** Industrial, Residential, Commercial
- **Refrigeration:** Food Retail and Food Service

Leadership in premium niches

- **Control solutions**
- **High Efficiency** applications

Innovation focus

- **5 R&D centers** (Italy x3, China and US)
- **c. 6%¹ of Revenues** invested in R&D

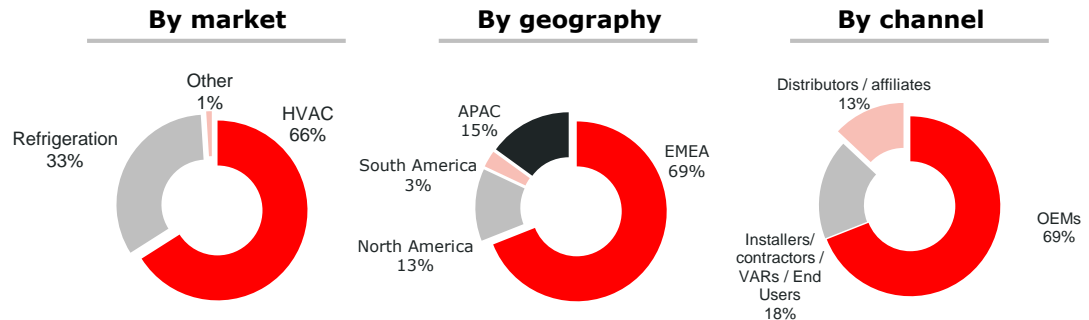
Global footprint

- **9 production plants** (4x Italy, Croatia, Germany, China, US and Brazil)

Key financials – 2019A

Revenue	Adj. EBITDA	EBITDA margin	Net income
€327m	€64m	~19%	€35m
+13% ² CAGR 2015A-19A	+14% ² CAGR 2015-19A	~100bps Margin expansion 2015A-19A	+13% CAGR 2015A-19A

Revenue breakdown - 2019A



Source: Company information as of Mar-20

Note: 1) avg. 2015A-19A; 2) Net of Hygromatik/Recuperator contribution, Revenues CAGR=9.5%, EBITDA adj. CAGR = 10.9%

Note: financial data refer to consolidated accounts of CAREL Industries S.p.a. 2015-2019 IFRS. Comparability might be affected by change in consolidation perimeter

We operate in attractive niches across a wide range of end-markets...

HVAC

Industrial

Data Centers



Industry and Process

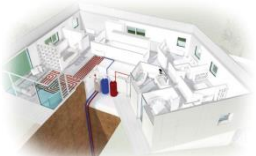


Pharma and Food



Residential

Residential



Commercial

Shopping Centers



Office Space



Recreational



Refrigeration

Food Retail

Convenience Stores



Food Service

Restaurant Chains



Hypermarkets



Refrigerated Merchandisers



...through a one-stop-shop portfolio of components and platforms

Programmable controls



Electronic controls easily programmable and customizable

HMI and unit terminals



User interfaces for units and systems

Parametric controls



Entry level electronic controllers

Heat exchangers



Heat exchangers for AHU

Isothermal humidifiers



Steam production systems

Adiabatic humidifiers and evaporative coolers



Pressure water atomizers

Power solutions



Electrical panels

Sensors and protection devices



Temperature/humidity and air quality sensors

Electronic expansion valves & drivers



Electronic valves for the modulation of refrigerant flow

Speed controllers & inverters



Speed control devices for BLDC compressors

Compressors¹



BLDC compressors

Remote management, monitoring systems, IoT



Solution for local / remote management monitoring and optimization

Services



Innovative services based on the IoT capabilities

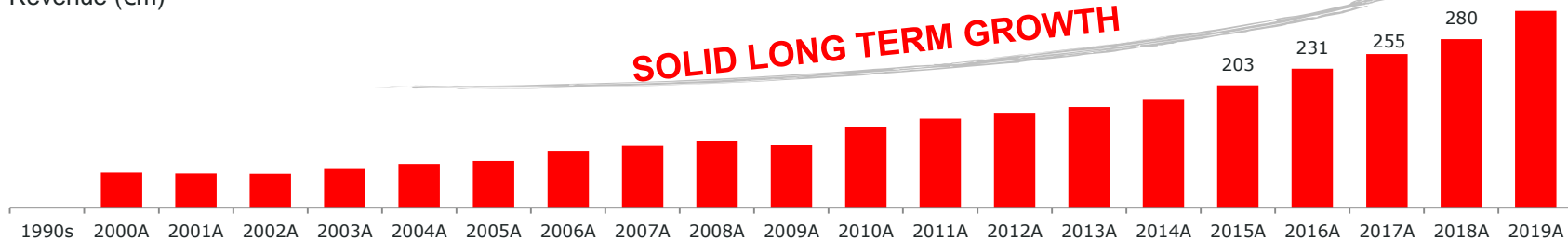
Distinctive ability to meet customers' demand for tailored integrated solutions using standard platforms

Source: Company information as of Mar-20

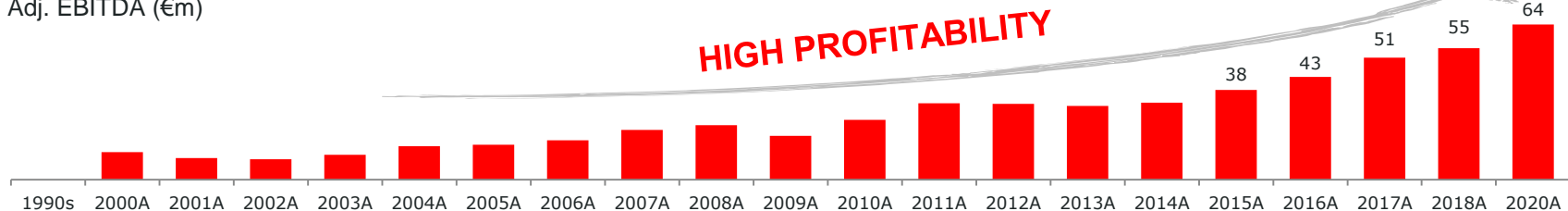
Note: 1) developed with partners

Long track record of profitable organic growth

Revenue (€m)



Adj. EBITDA (€m)

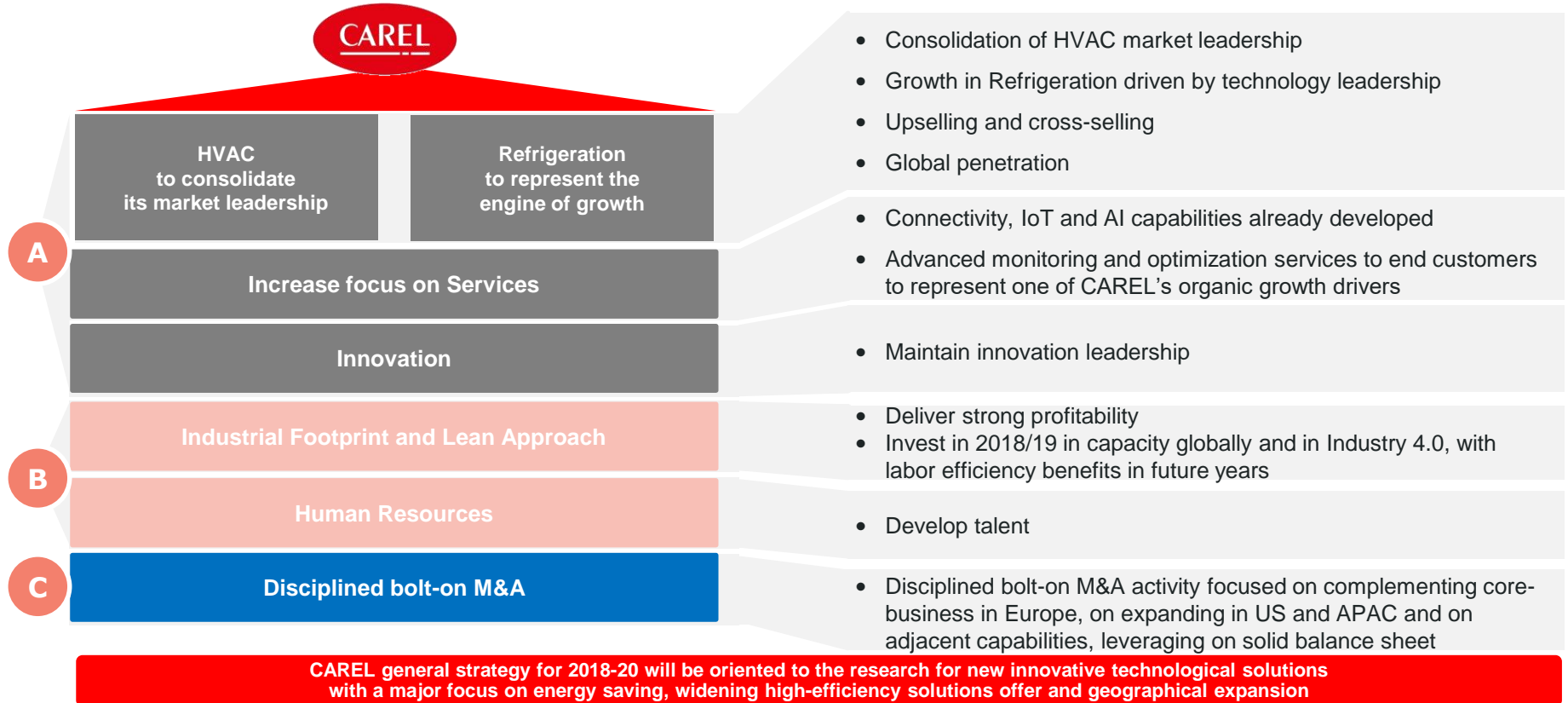


Source: Company information as of Mar-19
 Note: financial data refer to consolidated accounts of CAREL Industries S.p.a. for the period 2011A-2018A (IFRS 2015A- 2018A; ITA GAAP 2011A-2014A) and CAREL S.p.a. for the period 2000A-2010A (ITA GAAP). Comparability might be affected by change in reporting standard and in consolidation perimeter.

Legend: R&D centre Plants Acquisitions of local distributors



Well-articulated strategies to continue the growth track record



Leading provider of advanced energy efficient control solutions



1 High-tech leader in attractive niches of the HVAC/R industry

Focus on attractive niches...

...resulting in leadership positioning

High value applications

...CONSOLIDATED
IN **HVAC** PREMIUM NICHES

...INNOVATION-ORIENTED
IN **REFRIGERATION**

Deep knowledge of final applications is key

33%¹
European market share
in *Chillers*



In Europe

SIGNIFICANT ROOM FOR
FURTHER EXPANSION

Energy efficiency and high performance are critical

46%¹
European market share
in *Roof-tops*



In Europe

BREAK-THROUGH
INNOVATIONS

-50% kWh³
HEEZ energy consumption

Requirement for tailored and customizable solutions

41%¹
market share
In *CCU for Data Centers²*



Higher efficiency⁴
Rotary DC technology

GROWING PRESENCE
Globally

Source: Company information as of Mar-18, BSRIA (Mar-17)

Note: 1) 2016 market shares calculated on # of units based on BSRIA market data and management elaborations; 2) close control units for data centers in US, UK and Italy; 3) tested by third-party laboratory compared to Top-ten EU benchmarks; 4) compared to average semi-hermetic

2 Attractive market growth supported by secular trends

Secular trends...



GROWING POPULATION

- Improvement in **LIVING STANDARDS** increasing demand for HVAC/R



CHANGE IN CONSUMER HABITS

- Focus on **WASTE REDUCTION** in food sector
- Increase in number of convenience stores/**FRESH FOOD**



GLOBAL GROWTH

- **ECONOMIC ACTIVITY** driving demand for HVAC/R



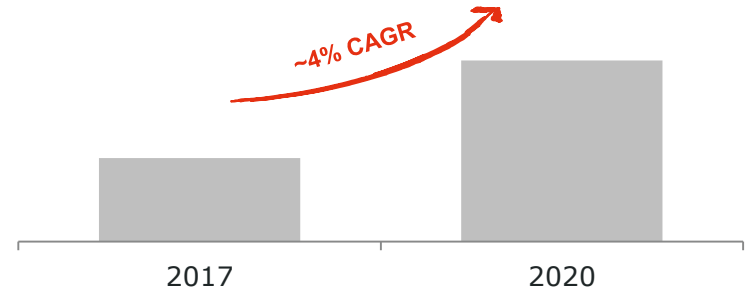
INTERNET OF THINGS

- Increasing adoption of **AUTOMATION TECHNOLOGIES** and **CONNECTED SOLUTIONS**

...supporting attractive market growth

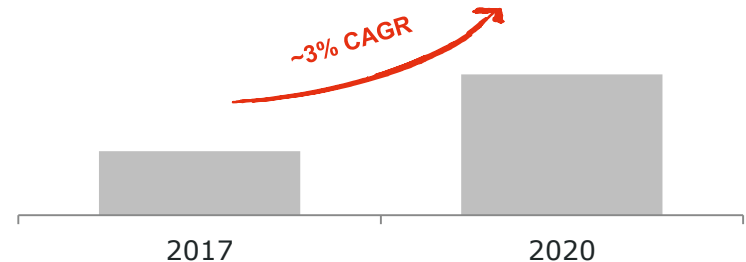
Reference HVAC Market

Market value (€m)¹



Reference Refrigeration Market

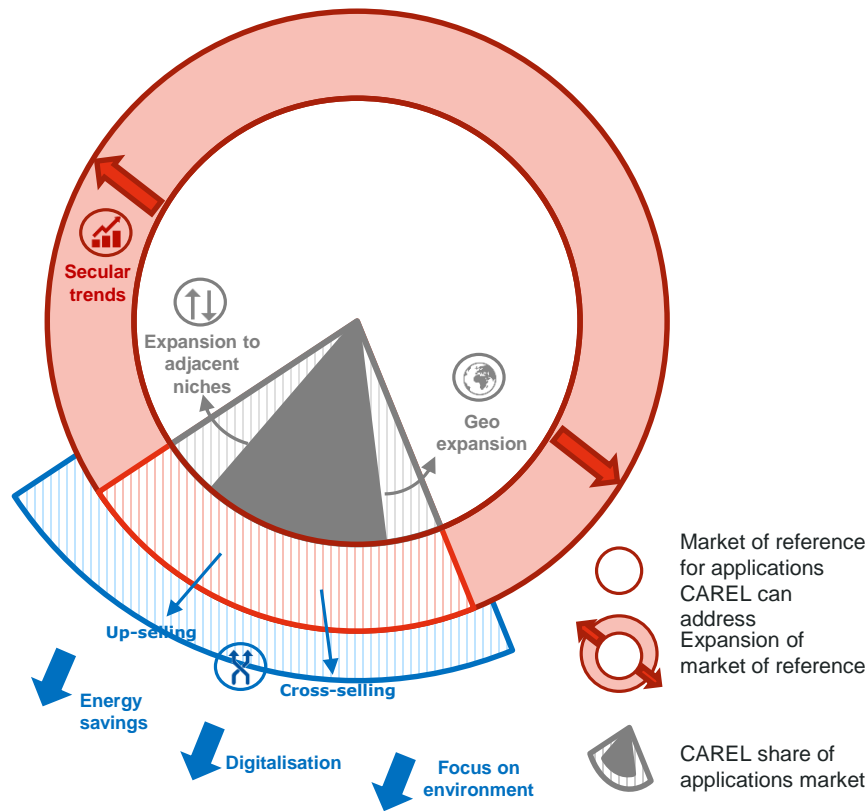
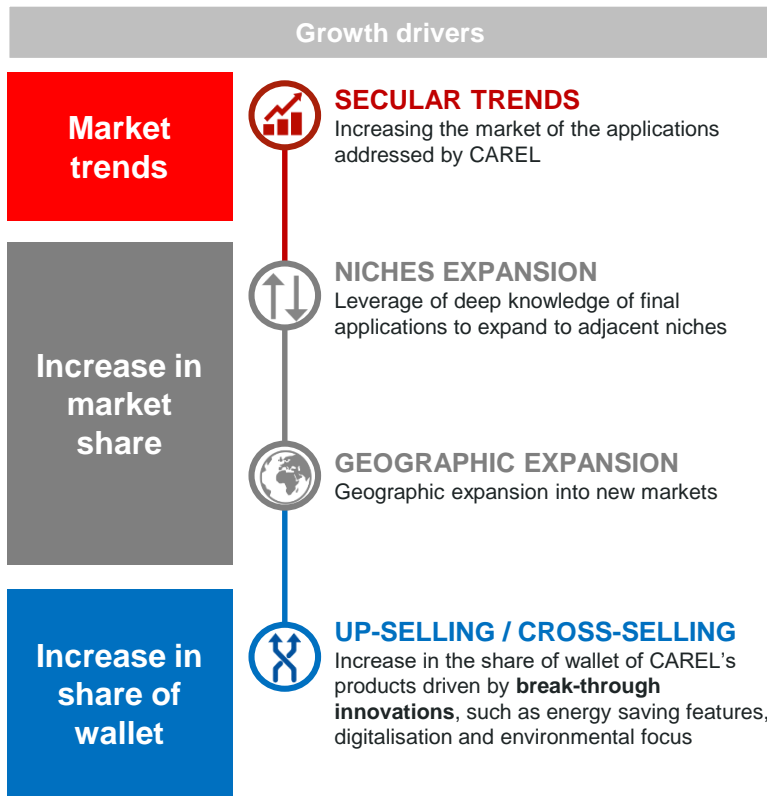
Number of outlets (#)²



Source: Company information as of May-18, BSRIA (Mar-18), PlanetRetail (Dec-17)

Note: 1) Based on management elaboration on BSRIA data on Rooftop, Chillers, AHU and Datacenters applications, based on report dated Mar-2018; 2) Based on management elaboration on PlanetRetail data on Food Retail and Food Service segments

2 Growth is driven by market trends and focused strategic actions...



2 ...and favoured by up-selling and cross-selling

FROM PRODUCT PLATFORMS TO INTEGRATED ELECTRONIC SOLUTIONS...

PRODUCT PLATFORMS



From a **COMBINATION OF PRODUCTS**
FROM DIFFERENT PLATFORMS



To an **ECOSYSTEM TO QUICKLY**
ADOPT NEW TECHNOLOGIES

SYSTEMS



...IN THE HVAC AND REFRIGERATION MARKETS

HVAC

Example of a **CHILLER UNIT**

Before



Refrigeration

Example of a **BEVERAGE COOLER**

Before



3 Positioning and innovation capability hard to replicate

~6% OF REVENUE¹

Invested annually in R&D

13% OF TOTAL WORKFORCE

dedicated to R&D

3 R&D CENTRES

PROPRIETARY SOFTWARE

Vast library of proprietary software modules developed over the past 10 years: **maximizing customizations and reducing time-to-market**

COMBINING 5 DOMAINS

- Hardware & Firmware
- Software
- Mechanics
- Thermodynamics
- IoT

RESEARCH COLLABORATION

With Tier-1 Universities and Research Institutions

TECHNOLOGICAL PARTNERS

Cooperation with technology leaders



Timeline of awards (left side):

- Nov-13**: Electrolux Supplier Award
- Jan-16**: AHR Expo Innovation Award
- Apr-17**: China Refrigeration Innovation Award

Timeline of awards (right side):

- Sep-17**: World Beverage Innovation Award
- Oct-17**: RAC Cooling Industry Award
- Apr-18**: China Refrigeration Award

AWARD WINNING BUSINESS

Source: Company information as of Mar-19
Note: 1) avg. 2015A-18A

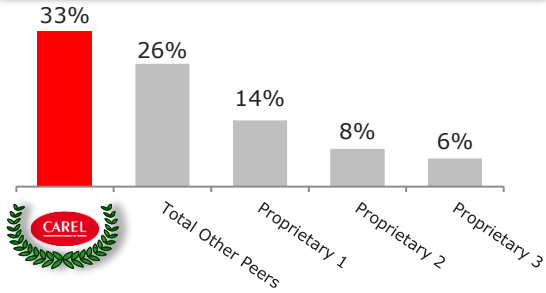


3 Leadership position in HVAC OEM premium niches...

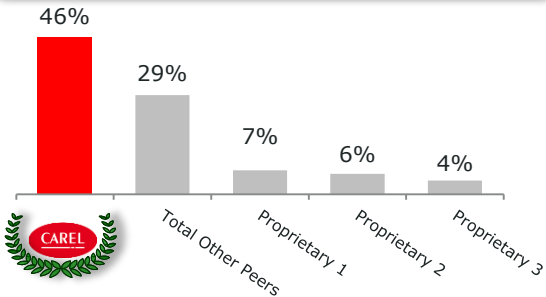
Leadership positioning in premium niches...

...with no perfect comparable

Chiller European Market Share¹



Rooftop European Market Share²



	CAREL	OEM proprietary solutions	Large diversified competitors	EM / Low cost competitors
Vertical niche approach	✓✓✓	✓✓	✓	✓✓✓
Innovation pace & knowledge of final applications	✓✓✓	✓	✓✓	✓✓
Integrated solutions	✓✓✓	✓	✓✓	✓
Global operations	✓✓✓	✓✓	✓✓✓	✓
Flexibility for tailored solutions	✓✓✓	✓✓	✓	✓✓✓
Economies of scale	✓✓✓	✓	✓✓	✓

Source: Management elaborations based on BSRIA data for the year 2016 (based on report dated Mar-17)
 Note: 1) Total other minor proprietary c.13%; 2) Total other minor proprietary c.8%







3

...and leading in innovation in the refrigeration market

Leveraging on HVAC experience...

...CAREL is a leader in innovation

		CAREL	Large diversified competitors	EM / Low cost competitors
 HEOS SISTEMA Waterloo system with DC tech for refrigeration	2014			
 HECU SISTEMA High efficiency condensing unit control for multi-split refrigeration system	2015			
 HEEZ Control solution for refrigerated merchandiser with rotary DC tech	2017			
 EMJ Winner at China Refrigeration award 2018	2018			
		Vertical niche approach	✓✓✓	✓✓✓
		Innovation pace & knowledge of final applications	✓✓✓	✓
		Integrated solutions	✓✓✓	✓
		Global operations	✓✓✓	✓
		Flexibility for tailored solutions	✓✓✓	✓✓✓
		Economies of scale	✓✓✓	✓

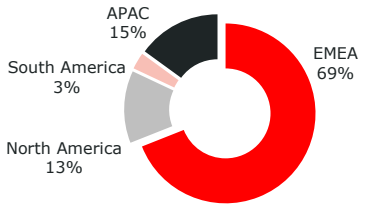
Source: Company info; Management elaborations

4 Highly efficient global operations serving locally...

GLOBAL PRODUCTION FOOTPRINT

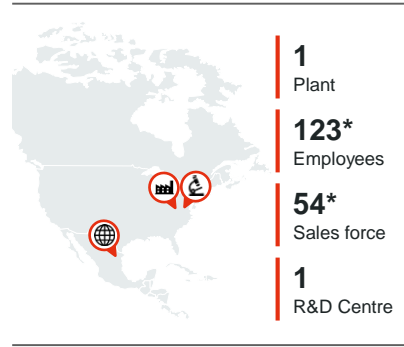
DIRECT AND HIGHLY SKILLED SALES NETWORK

BEST POSITIONED TO CAPTURE GLOBAL GROWTH OPPORTUNITIES

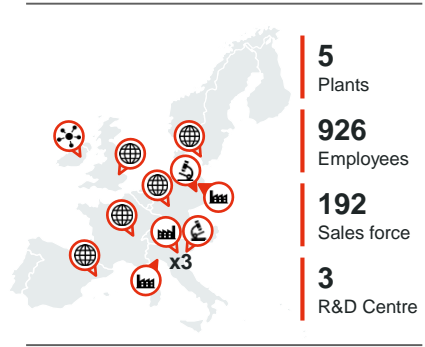


Revenue 2019A breakdown by geography

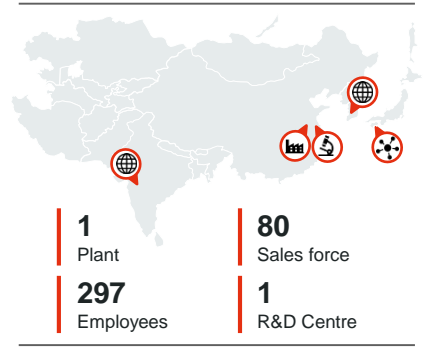
NORTH AMERICA



WESTERN EUROPE



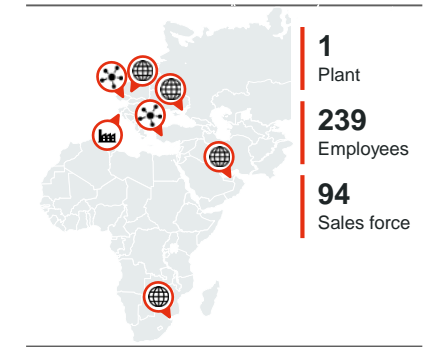
NORTH APAC



SOUTH AMERICA



RoEMEA



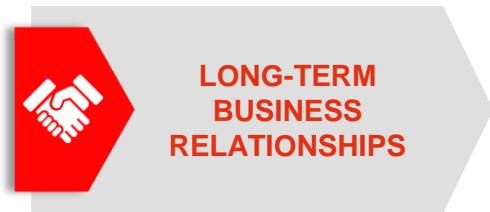
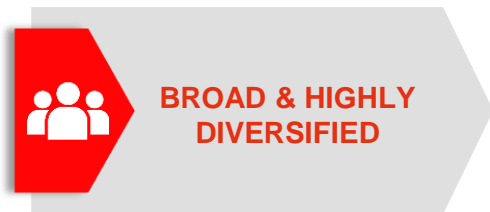
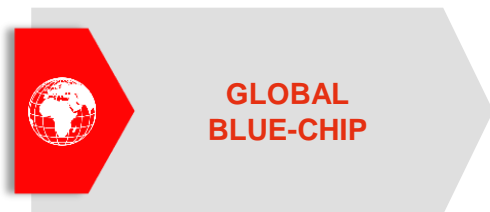
SOUTH APAC



Legend: R&D centres Plants Commercial subsidiaries Affiliates

Source: Company information at 31/12/2019
* Excluding Enersol

4 ...diversified blue-chip customers



HVAC



REFRIGERATION

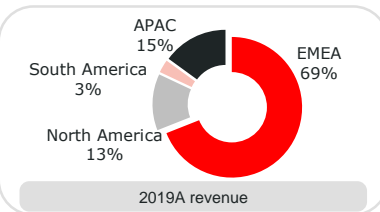


>6,700
Customers

In **c. 100**
countries worldwide

c. 5%
from first customer¹

c. 20%
from top-15 customers²



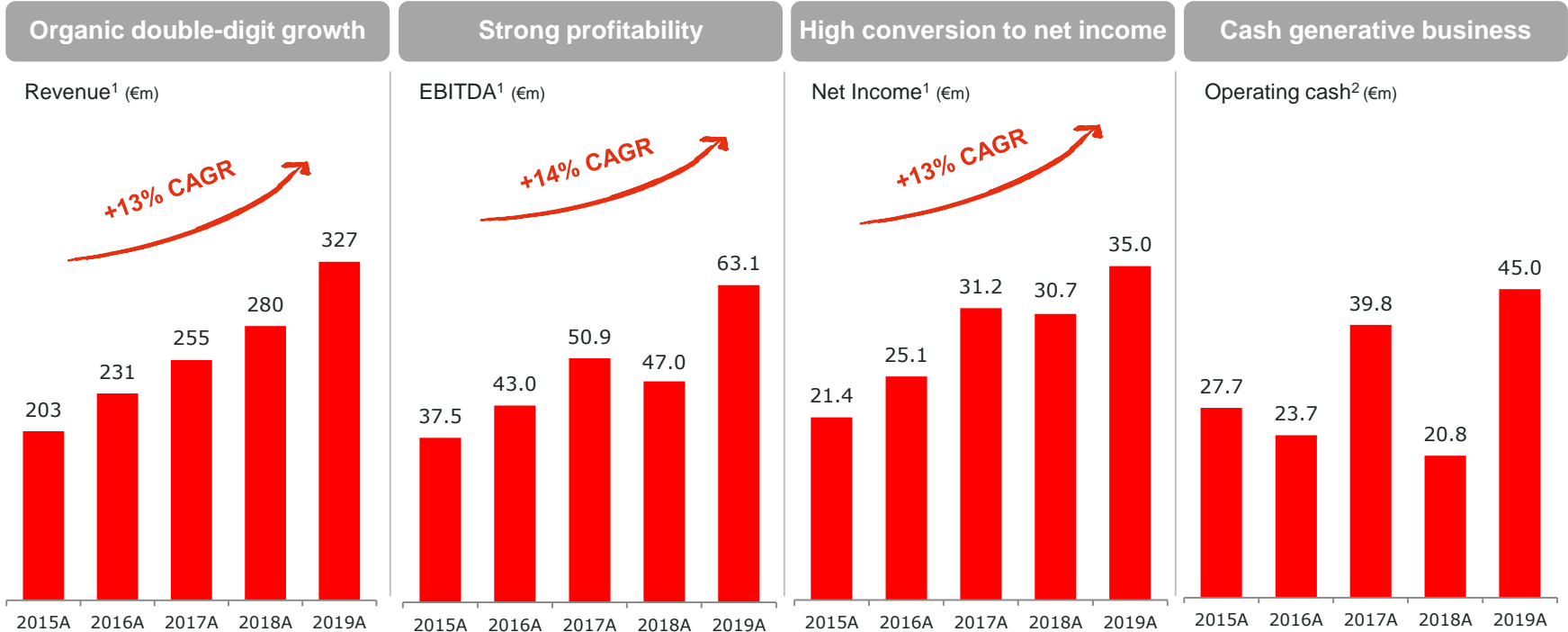
~80%
of Top Customers³
with CAREL for >10y

~70%
of Top Customers³
with CAREL for >10y

Well-established relationships oriented to preserve and enhance the CUSTOMER LIFE-TIME VALUE

Source: Company information as of Dec.19;
Note: 1) as% of 2018 Revenues 2) as of 2018 revenues for each market 3) Top 40 customers accounting for approx. 50% of total revenue for each market

5 Track record of profitable organic growth



Resulting in a solid balance sheet and strong value creation to shareholders

Source: Company information as of Mar-20
 Note: 2015-2019 IFRS

Note: 1) Including the contribution from Hygromatik and Recuperator and the impact of the non recurring IPO Costs (~8m€ in 2018) 2) Operating cash calculated as cash flow from operations - Capex;



6 Global expansion, innovation and services

A



6 Pursuing external growth through disciplined bolt-on M&A



CAREL has performed **detailed analyses and scouting of potential targets**, thus promoting an **opportunistic approach** with a focus on **3 MAIN EXPANSION AREAS**:



M&A

M&A - Recuperator



RECUPERATOR
THE HEAT EXCHANGER



• **Key Data:**

- ✓ Cash-out for equity = 25.7m€
- ✓ Company positive net-cash = 6.9m€
- ✓ 2017 Revenues = 16.4m€
- ✓ EBITDA = 1.7m€
- ✓ Employees = ~60

• **Industrial fitting:**

- ✓ Small-size Company
- ✓ Complementary products
- ✓ Carel's commercial strength
- ✓ Cross-selling

• **Financial fitting:**

- ✓ ~11x EV/EBITDA vs. CAREL'S ~15x
- ✓ Net-Cash in the BS
- ✓ Low impact on Carel's NFP

M&A - HygroMatik

HYGROMATIK[®]
WE HUMIDIFY THE AIR



WE HUMIDIFY THE AIR.



• **Key Data:**

- ✓ Cash-out for equity = 56.1m€
- ✓ Enterprise Value = 59.0m€
- ✓ 2017 Revenues = 15.0m€
- ✓ EBITDA = 4.7m€
- ✓ Employees = ~60

• **Industrial fitting:**

- ✓ Small-size Company
- ✓ Interesting geographic positioning
- ✓ Strong in after-sale services
- ✓ Cross-selling

• **Financial fitting:**

- ✓ ~12.5x EV/EBITDA vs. CAREL's ~15x
- ✓ HygroMatik NFP substantially neutral.

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