

## Italy – Industrial & MedTech

## Robust preliminary sales above our projection

12<sup>th</sup> February 2024

### FY-23 PRELIMINARY SALES

RIC: VLT.MI  
BBG: VLT IM

Valtecne delivered strong FY-23 preliminary sales (+27.5% YoY), mainly driven by the remarkable progression of the Medical Devices division, which came in higher than our forecast and, for the first time since its establishment in 2012, overtook the Industrial one. The latter was negatively affected by a challenging macroeconomic environment, especially in the last quarter of the year.

#### Rating:

**Buy**

#### Price Target:

**€ 7.00**

Upside/(Downside): 14.4%

Last Price: € 6.12

Market Cap.: € 37.4m

1Y High/Low: € 6.50 / € 4.30

Avg. Daily Turn. (3M, 6M): € 23k, € 11k

Free Float: 17.3%

#### Major shareholders:

KPM Srl (bare ownership)	61.6%
KPM Srl (direct ownership)	13.8%
Paolo Mainetti	6.4%



#### Stock price performance

	1M	3M	12M
<b>Absolute</b>	13.3%	26.7%	n.a.
<b>Rel.to FTSE IT Growth</b>	15.4%	20.4%	n.a.
<b>Rel.to Peers</b>	11.2%	17.0%	n.a.

#### Analysts:

Gianluca Mozzali  
+39 02 30343 396  
gianluca.mozzali@cfosim.com

Luca Solari  
+39 02 30343 397  
luca.solari@cfosim.com

#### Revenues up by 27.5% YoY to € 30.7m, above our expectations

Valtecne posted FY-23 preliminary results well above our estimates, driven once again by the impressive growth of the Medical Devices division whereas the Industrial one remained broadly stable YoY. Concerning the former, its huge acceleration was primarily the result of rising volumes, also thanks to a few of Valtecne's key customers which outperformed their reference market. Pending more details about the profitability and CF generation with the release of FY results on 28 March, we have kept our estimates, rating and PT unchanged.

Revenues by business line - € m	FY-23	FY-22PF	% YoY	FY-23e	% Diff
Medical Devices	18.5	11.8	57.2	16.2	13.9
Industrial	12.2	12.3	(0.7)	12.3	(0.7)
<b>Revenues</b>	<b>30.7</b>	<b>24.1</b>	<b>27.5</b>	<b>28.6</b>	<b>7.6</b>

#### Medical Devices division up by 57.2% YoY. Industrial division broadly unchanged YoY

FY-23 revenues rose by 27.5% YoY to € 30.7m, exceeding our estimate by 7.6%. Growth was entirely driven by the Medical Devices division, which soared by 57.2% YoY to € 18.5m (€ 11.8m in FY-22PF), and came in 13.9% higher than our € 16.2m estimate, in the wake of growing volumes and a higher outflow of products linked to the Vendor Managed Inventory - VMI agreements with a few key customers. Consequently, the Medical Devices division's share of revenues exceeded 60% of the total compared to less than 50% in FY-22. The Industrial division reached € 12.3m, largely unchanged YoY, and aligned with our estimate.

#### H2-23 results confirmed the strong growth trajectory of the Medical Devices division

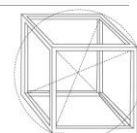
If we take a look at the preliminary figures based on semesters, in 2023, Valtecne confirmed that H2 contributes ca. 45% of FY results due to the inner seasonality of the business, although the revenue mix has completely shifted in favour of the Medical Division. H2-23 revenues were at € 13.7m, up by 31.1% YoY, with the Medical Devices division having grown by 69.5% YoY to € 8.4m (61.2% of total), compared to € 4.9m in H2-22PF (47.3% of total), due to the aforementioned dynamic of the VMI agreements. In H1-23 the Industrial division amounted to € 5.3m, down by 3.4% YoY, although showing a more pronounced decline in Q4, suffering from a general macroeconomic slowdown in several EU economies.

#### Entering the Trauma segment to further expand its offering and customer base

At the beginning of the year, Valtecne announced it had closed its first contract manufacturing agreements in the Trauma segment of the global orthopaedics market, thus continuously enriching its product offering of the orthopaedics instruments and becoming, even more, a landmark supplier for global MedTech leaders. Aside from Trauma, the company's focus in the short term will also be on strengthening its presence in the Spine segment, which it entered in 2018 and where it still has a limited presence.

#### Valtecne, key financials and ratios

€ m	2021PF	2022PF	2023e	2024e	2025e
Revenues	18.8	24.1	28.6	30.6	33.4
Value of Production	21.6	27.7	30.9	32.7	35.5
EBITDA	3.2	4.6	6.1	6.5	7.2
Adjusted EBITDA	3.8	5.5	7.0	7.5	8.2
Adjusted EBITDA margin	17.7%	19.9%	22.7%	22.8%	23.0%
EBIT	2.2	3.4	4.9	5.2	5.7
Net Profit	1.9	2.5	3.5	3.7	4.1
Adjusted NFP (cash)/debt	7.9	9.4	3.2	0.6	(2.4)
EPS stated FD €	-	-	0.57	0.61	0.68
EPS growth	-	-	-	6.8%	11.2%
ROCE	14.6%	19.5%	18.4%	17.2%	16.6%
NWC/Sales	40.8%	41.2%	38.7%	37.2%	35.9%
EV/Sales x	n.a.	1.94	1.42	1.24	1.05
EV/EBITDA Adj. x	n.a.	8.5	5.8	5.1	4.3
EV/EBIT x	n.a.	13.9	8.4	7.3	6.1
PER x	n.a.	15.1	10.7	10.0	9.0
Free Cash Flow Yield	n.a.	-1.3%	2.0%	7.0%	7.9%



## The Company at a Glance

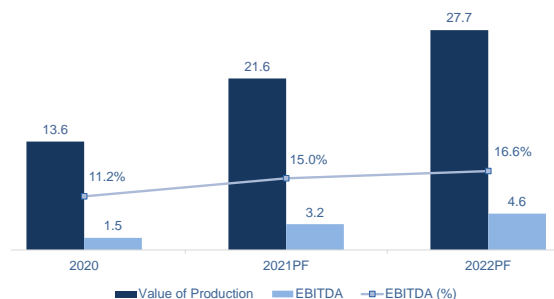
Established in 1983 by the Executive Chairman Vittorio Mainetti, Valtecne is a specialised contract manufacturer of high-precision components, operating as a first, second or third level supplier to Original Equipment Manufacturers (OEMs). The company runs its operations through two business lines, namely Medical Devices and Industrial. The former is dedicated to the production of instruments for orthopaedic surgery and implantable components, while the latter focuses on the manufacturing of mission-critical mechanical parts for industrial processing.

Over 40 years of experience and several investments in technology and machinery has enabled the company to develop undisputed technical know-how in highly complex processing. As of today, Valtecne stands out as a strategic and reliable partner for worldwide leading industrial and MedTech companies, providing its customers with a 'turn-key' service and an ever-expanding product portfolio for both business lines.

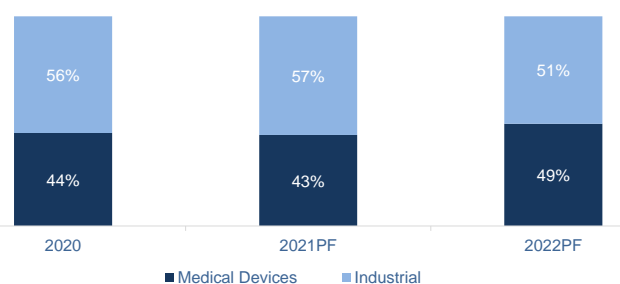
In the 2016-22 period, Value of Production showed a double-digit growth rate, i.e. CAGR<sub>16-22PF</sub> of 14.2%, prompted by the outstanding expansion of the Medical Devices division (CAGR<sub>16-22PF</sub> of 24.3%), and the steady progression of the Industrial business line (CAGR<sub>16-22PF</sub> of 7.3%). Indeed, the bulk of growth derived from the increased share of wallet from the Medical Devices division's existing customers, which managed to outperform the reference market. The growth of the Medical Devices division is driven by underlying long-term favourable trends, such as the aging population and increased effectiveness of surgical procedures.

FY-22 pro-forma results exhibit top line of € 24.1m, EBITDA of € 4.6m, 16.6% margin, with Net Profit of € 2.5m, 10.3% margin. Net Financial Position stands at € 5.0m, corresponding to a healthy NFP/EBITDA ratio of 1.1x. Taking into account the IFRS-16 effect, adjusted EBITDA and NFP amounted to € 5.5m (19.9% margin) and € 9.4m (adj. NFP/EBITDA 1.7x), respectively.

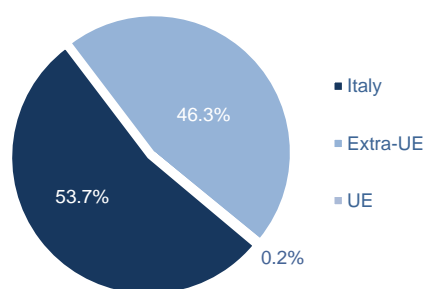
### 2020-22PF VoP and EBITDA evolution



### 2020-22PF top line evolution by business line



### FY-22PF top line breakdown by geography



### Shareholder Structure

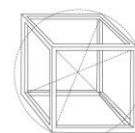
Shareholder	# m	%
KPM Srl (direct ownership)	3.76	61.6%
KPM Srl (bare ownership)	0.84	13.8%
Paolo Mainetti	0.39	6.4%
Other Shareholders (< 5.0%)	0.05	0.8%
Free Float	1.06	17.3%
<b>Total</b>	<b>6.11</b>	<b>100.0%</b>

### Peer group multiples table

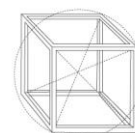
EV & PER multiples x	Sales FY1	Sales FY2	EBITDA FY1	EBITDA FY2	EBIT FY1	EBIT FY2	PER FY1	PER FY2
Integer Holdings Corp	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22.5	18.9
Jabil Inc	0.64	0.58	7.9	7.0	11.9	10.4	16.2	14.6
Lisi SA	0.92	0.86	7.8	6.8	17.1	13.9	19.9	15.0
Scanfil Oyj	0.60	0.53	6.6	5.9	8.6	7.9	10.2	10.7
Vimi Fasteners SpA	0.73	0.61	5.7	4.7	17.6	11.2	11.4	8.1
West Pharmaceutical Services Inc	9.83	9.25	36.1	31.7	41.9	37.7	50.1	45.9
<b>Median</b>	<b>0.73</b>	<b>0.61</b>	<b>7.8</b>	<b>6.8</b>	<b>17.1</b>	<b>11.2</b>	<b>18.0</b>	<b>14.8</b>
<b>Valtecne SpA</b>	<b>1.42</b>	<b>1.24</b>	<b>5.8</b>	<b>5.1</b>	<b>8.4</b>	<b>7.3</b>	<b>10.7</b>	<b>10.0</b>

Sources: CFO SIM, Refinitiv Eikon

Multiples are calculated with EBITDA and NFP in accordance with IFRS-16



<b>Income statement (€ m)</b>	<b>2021PF</b>	<b>2022PF</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Revenues	18.8	24.1	28.6	30.6	33.4
Value of Production	21.6	27.7	30.9	32.7	35.5
Raw material and processing	(6.8)	(8.8)	(9.4)	(9.7)	(10.6)
Services	(3.4)	(4.5)	(4.1)	(4.3)	(4.7)
Personnel expenses	(6.9)	(8.0)	(9.4)	(10.1)	(10.8)
Other opex	(1.2)	(1.7)	(1.9)	(2.0)	(2.1)
EBITDA	3.2	4.6	6.1	6.5	7.2
D&A	(1.0)	(1.2)	(1.2)	(1.3)	(1.5)
EBIT	2.2	3.4	4.9	5.2	5.7
Financials	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)
Re/(Devaluation) of financial assets	0.0	0.0	0.0	0.0	0.0
Forex gain/(loss)	0.0	0.0	0.0	0.0	0.0
Pre-Tax profit	2.2	3.3	4.8	5.1	5.7
Income taxes	(0.3)	(0.8)	(1.3)	(1.4)	(1.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	1.9	2.5	3.5	3.7	4.1
Adjusted EBITDA	3.8	5.5	7.0	7.5	8.2
<b>Balance sheet (€ m)</b>	<b>2021PF</b>	<b>2022PF</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Net Working Capital	7.7	9.9	11.1	11.4	12.0
Net Fixed Assets	5.9	7.0	9.0	9.8	10.5
Equity Investments	0.4	0.4	0.4	0.4	0.4
Other M/L Term A/L	(0.5)	(1.3)	(1.3)	(1.3)	(1.4)
Net Invested Capital	13.4	16.0	19.1	20.3	21.5
Net Financial Debt	4.8	5.0	(0.8)	(3.4)	(6.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Group's Shareholders Equity	8.7	11.0	20.0	23.7	27.8
Financial Liabilities & Equity	13.4	16.0	19.1	20.3	21.5
Adjusted Net Financial Debt	7.9	9.4	3.2	0.6	(2.4)
<b>Cash Flow statement (€ m)</b>	<b>2021PF</b>	<b>2022PF</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Net income before minorities	1.9	2.5	3.5	3.7	4.1
Depreciation	1.0	1.2	1.2	1.3	1.5
Other non-cash charges	(0.5)	0.3	0.4	0.0	0.1
Cash Flow from Oper. (CFO)	2.4	4.0	5.1	5.1	5.8
Change in NWC	(4.0)	(2.3)	(1.1)	(0.3)	(0.6)
FCF from Operations (FCFO)	(1.6)	1.7	4.0	4.8	5.1
Net Investments (CFI)	(2.8)	(2.2)	(3.2)	(2.2)	(2.2)
Free CF to the Firm (FCFF)	(4.4)	(0.5)	0.8	2.6	2.9
CF from financials (CFF)	3.6	(0.2)	5.5	0.0	0.0
Free Cash Flow to Equity (FCFE)	(0.8)	(0.7)	6.3	2.6	2.9
<b>Financial ratios</b>	<b>2021PF</b>	<b>2022PF</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Adjusted EBITDA margin	17.7%	19.9%	22.7%	22.8%	23.0%
EBIT margin	10.2%	12.2%	15.7%	15.9%	16.1%
Net profit margin	10.1%	10.3%	12.2%	12.2%	12.4%
Tax rate	11.9%	24.4%	27.0%	27.0%	27.0%
Op NWC/Sales	40.8%	41.2%	38.7%	37.2%	35.9%
Interest coverage x	31.5	36.3	68.9	62.9	237.9
Adj. Net Debt /Adj. EBITDA x	2.07	1.71	0.45	0.08	n.m.
Net Debt-to-Equity x	0.55	0.46	n.m.	n.m.	n.m.
ROIC	14.1%	15.5%	18.2%	18.4%	19.3%
ROCE	14.6%	19.5%	18.4%	17.2%	16.6%
ROACE	17.9%	20.8%	22.2%	18.4%	17.7%
ROE	21.9%	22.6%	17.5%	15.7%	14.9%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Per share figures</b>	<b>2021PF</b>	<b>2022PF</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Number of shares # m	-	-	6.11	6.11	6.11
Number of shares Fully Diluted # m	-	-	6.11	6.11	6.11
Average Number of shares Fully Diluted # m	-	-	6.11	6.11	6.11
EPS stated FD €	-	-	0.57	0.61	0.68
EBITDA €	-	-	1.00	1.07	1.18
EBIT €	-	-	0.79	0.85	0.93
BV €	-	-	3.27	3.88	4.56
FCFO €	-	-	0.65	0.79	0.84
FCFF €	-	-	0.12	0.43	0.48
FCFE €	-	-	1.02	0.43	0.48
Dividend €	-	-	0.00	0.00	0.00



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DATE	TARGET PRICE	RATING
12/02/2024	€ 7.00	BUY
09/11/2023	€ 7.00	BUY
27/09/2023	€ 7.00	BUY

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- a **BUY** rating is assigned if the target price is at least 15% higher than the market price;
- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/- 15% range identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return over a 12-month period** and not on the basis of the estimated outperformance or underperformance relative to a market index. Thus, the rating can be directly linked to the estimated percentage difference between current and target prices. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated

