

## Italy – Industrial & MedTech

## Strong sales growth bolstered by the Medical Devices division

9<sup>th</sup> November 2023

### 9M-23 PRELIMINARY SALES

RIC: VLT.MI  
BBG: VLT IM

9M-23 preliminary sales confirmed the strong growth trend of the Medical Devices division, now accounting for almost 60% of the total, as well as the good performance of the Industrial division. Valtecne is now well on track to meet our FY-23 top line estimate and is poised to seize several business opportunities in its reference market in 2024, in order to enrich its value proposition.

#### Rating:

**Buy**

#### Price Target:

**€ 7.00**

Upside/(Downside): 50.9%

Last Price: € 4.64

Market Cap.: € 28.3m

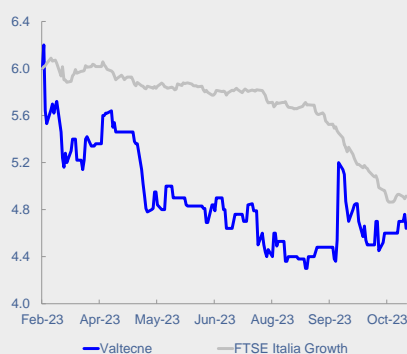
1Y High/Low: € 6.50 / € 4.30

Avg. Daily Turn. (3M, 6M): € 10k, € 7k

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>	2.2%	0.9%	n.a.
<b>Rel.to FTSE IT Growth</b>	6.9%	14.4%	n.a.
<b>Rel.to Peers</b>	0.7%	7.8%	n.a.

#### Analysts:

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

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

#### 9M-23 revenues corroborate our FY-23 expectation

In 9M-23, Valtecne reported strong top line growth primarily driven by the outstanding performance of the Medical Devices division, which is clearly benefitting from the capex plan carried out in the previous years in order to expand the production capacity and cope with the ever-increasing share of wallet stemming from existing customers along with the acquisition of new ones. In addition, the Industrial division also posted growing results, exhibiting resilience amid an uncertain macroeconomic environment. Our FY-23 revenues estimate of € 28.6m now should be easily attainable for the company, as 9M-23 turnover represents more than 83% of it. We left estimates, rating and PT unchanged.

Revenues by business line - € m	9M-23	% on tot.	9M-22PF	% on tot.	% YoY
Medical Devices	14.1	59.0	9.5	50.1	47.8
Industrial	9.8	41.0	9.5	49.9	3.3
<b>Revenues</b>	<b>23.8</b>	<b>100.0</b>	<b>19.0</b>	<b>100.0</b>	<b>25.6</b>

#### Exceptional Medical Devices division's growth drove top line up by 25.6% YoY

Revenues soared by 25.6% YoY to € 23.8m (€ 19.0m in 9M-22). The Medical Devices division went up by 47.8% YoY to € 14.1m (€ 9.5m in 9M-22), namely almost 60% of total revenues. These outstanding results undoubtedly confirm the soundness of the management's decision to accelerate the Medical Devices division's growth in light of considerably higher profitability and more promising opportunities. The Industrial division reached € 9.8m, up by 3.3% YoY, accounting for ca. 40% of the total (ca. 50% in 9M-22), despite some signs of a slowdown in certain industries where Valtecne operates.

#### Q3-23 showed the resilience of the Industrial division

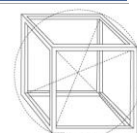
We have calculated that, in Q3-23, Valtecne totalled approximately € 6.8m compared to roughly € 5.3m in Q3-22, up by ca. 28% YoY. The Medical Devices division reported ca. € 4.0m, up by 47% YoY, confirming the growth trend unveiled in H1-23 and still not showing signs of slowdown due to the seasonality of the business. Historically, the second half of the year is weaker than the first for Valtecne, both in terms of revenues and profitability. In Q3-23, the Industrial division contributed ca. € 2.8m (vs ca. € 2.6m in Q3-22), growing ca. 8% YoY, mainly because of a weak Q3-22 counterbalanced by a stronger Q4-22.

#### A remarkable year with several business opportunities to be seized in 2024

FY-23 marks a historical year for Valtecne: firstly, the decision to go public in March on the fortieth anniversary of the foundation and, secondly, the permanent overtake of the Medical Devices division, set up in 2012, over the Industrial one. As regards FY-24, the company's management will be mainly focused on strengthening the orthopaedics product portfolio by entering new segments and taking advantage of M&A opportunities to gain key customers.

#### 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%	17.2%
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	-	1.57	1.10	0.94	0.78
EV/EBITDA Adj. x	-	6.9	4.5	3.9	3.2
EV/EBIT x	-	11.2	6.5	5.6	4.6
PER x	-	11.4	8.1	7.6	6.8
Free Cash Flow Yield	-	-1.8%	2.7%	9.2%	10.4%



## The Company at a Glance

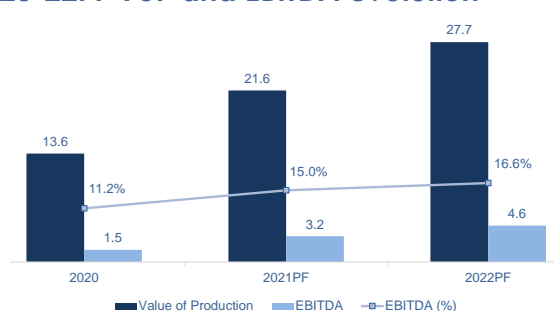
Established in 1983 by the Executive Chairman Vittorio Mainetti, Valtecne is a specialised contract manufacturer of high-precision components, operating as a first, second or third level supplier to Original Equipment Manufacturers (OEMs). The company runs its operations through two business lines, namely 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.

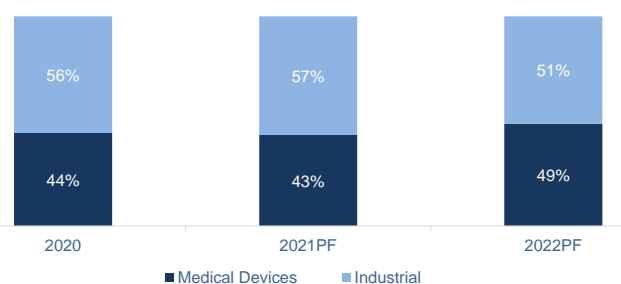
In the 2016-22 period, Value of Production showed a double-digit growth rate, i.e. CAGR<sub>16-22PF</sub> of 14.2%, prompted by the outstanding expansion of the Medical Devices division (CAGR<sub>16-22PF</sub> of 24.3%), and the steady progression of the Industrial business line (CAGR<sub>16-22PF</sub> 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.

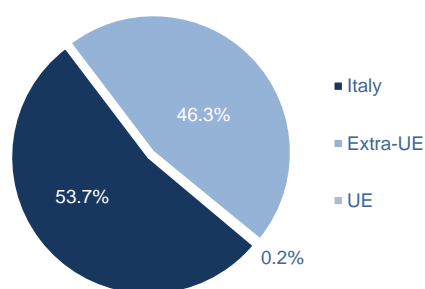
### 2020-22PF VoP and EBITDA evolution



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



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



### Shareholder Structure

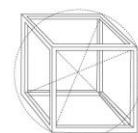
Shareholder	# m	%
KPM Srl (direct ownership)	3.76	61.6%
KPM Srl (bare ownership)	0.84	13.8%
Paolo Mainetti	0.39	6.4%
Other Shareholders (< 5.0%)	0.05	0.8%
Free Float	1.06	17.3%
<b>Total</b>	<b>6.11</b>	<b>100.0%</b>

### 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.	18.2	15.6
Jabil Inc	0.51	0.47	6.4	5.9	9.4	8.5	13.2	12.3
Lisi SA	0.91	0.84	7.6	6.6	16.1	12.9	17.9	13.6
Scanfil Oyj	0.61	0.54	6.7	6.0	8.7	8.0	10.4	11.0
Vimi Fasteners SpA	0.70	0.58	5.5	4.5	16.9	10.7	10.3	7.3
West Pharmaceutical Services Inc	8.31	7.56	29.5	25.9	35.4	30.8	42.0	38.0
<b>Median</b>	<b>0.70</b>	<b>0.58</b>	<b>6.7</b>	<b>6.0</b>	<b>16.1</b>	<b>10.7</b>	<b>15.6</b>	<b>13.0</b>
<b>Valtecne SpA</b>	<b>1.10</b>	<b>0.94</b>	<b>4.5</b>	<b>3.9</b>	<b>6.5</b>	<b>5.6</b>	<b>8.1</b>	<b>7.6</b>

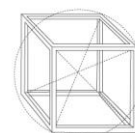
Sources: CFO SIM, Refinitiv Eikon

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





Income statement (€ 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
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
Balance sheet (€ m)	2021PF	2022PF	2023e	2024e	2025e
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)
Cash Flow statement (€ m)	2021PF	2022PF	2023e	2024e	2025e
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 (CFE)	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
Financial ratios	2021PF	2022PF	2023e	2024e	2025e
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	238.3
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%
Per share figures	2021PF	2022PF	2023e	2024e	2025e
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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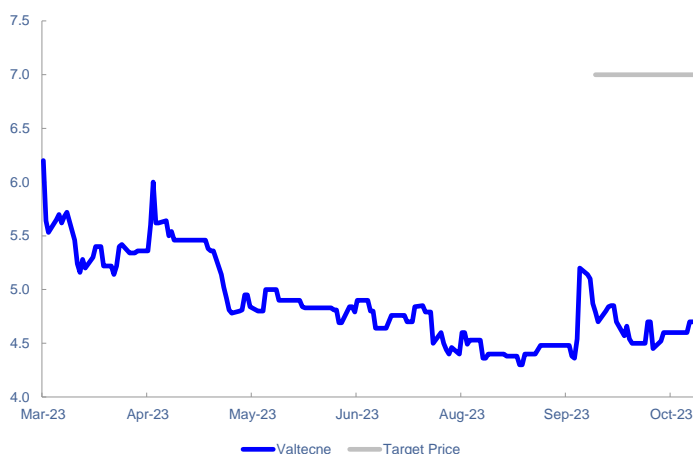
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DATE	TARGET PRICE	RATING
09/11/2023	€ 7.00	BUY
27/09/2023	€ 7.00	BUY

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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

