

Italy – Industrial & MedTech

Medical Devices up by 18% YoY offset the Industrial decline

11th November 2024

Q3/9M-24 PRELIMINARY SALES

RIC: VLT.MI
BBG: VLT IM

9M-24 preliminary sales came in broadly unchanged YoY, as the strong performance of the Medical Devices division, up by 18% YoY, was almost entirely offset by the ongoing downturn affecting the Industrial division. As expected, 2024 turned out to be a year of consolidation, although the ever-increasing Medical Devices division and the solid cash position undoubtedly well-place the company for the years ahead.

Rating:

Buy

Price Target:

€ 7.70

Upside/(Downside): **32.8%**

Last Price: € 5.80

Market Cap.: € 35.7m

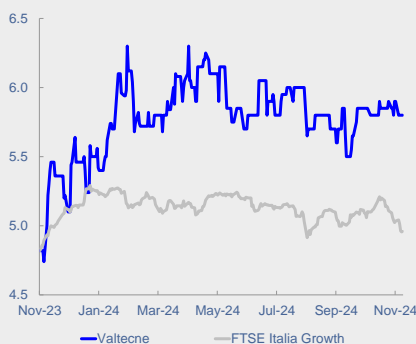
1Y High/Low: € 6.45 / € 4.73

Avg. Daily Turn. (3M, 6M): € 7k, € 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
Absolute	0.0%	1.8%	21.6%
Rel.to FTSE IT Growth	3.4%	2.0%	19.5%
Rel.to Peers	-6.6%	-6.5%	18.2%

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Well on track to reach our FY top line projection. Estimates, rating and PT unchanged

Valtecne posted 9M-24 preliminary sales confirming the remarkable growth trajectory of the Medical Devices division (+17.9% YoY), which is poised to greatly outperform once again its reference market in 2024. However, preliminary sales came in broadly unchanged YoY as a consequence of the weak performance of the Industrial division, continuing to be negatively impacted by a significant downturn affecting the main EU economies where it operates. Nonetheless, Valtecne is well on track to reach our FY-24 top line estimate, albeit likely comprising a different revenues mix, namely a better result for the Medical Devices division along with a more marked decline in the Industrial division. Estimates, rating and PT confirmed.

Revenues by business line - € m	9M-24	% on tot.	9M-23	% on tot.	% YoY
Medical Devices	16.6	69.2	14.1	59.0	17.9
Industrial	7.4	30.8	9.8	41.0	(24.5)
Revenues	24.0	100.0	23.8	100.0	0.5

9M-24 sales came in broadly flat YoY at € 24.0m. Medical Devices division up 18% YoY

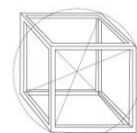
Preliminary sales totalled € 24.0m, showing a tiny increase (+0.5% YoY) compared to € 23.8m posted in the first 9M of 2023. In terms of business lines, the Medical Devices division soared by 17.9% YoY to € 16.6m (€ 14.1m in 9M-23), now accounting for nearly 70% of the total, therefore confirming the soundness of the company's strategy to increase its presence in an industry characterised by favourable long-term trends, steady growth, high profitability as well as entry barriers. On the contrary, the Industrial division fell by 24.5% YoY to € 7.4m compared to € 9.8m registered in 9M-23, negatively affected by a broad-based downturn affecting the main EU economies where it operates. A trend reversal is not expected to occur as early as 2025 and the company's management is stepping up efforts to optimise operations, namely by focusing on the development of new higher-margins products and possibly dispose of product categories having an unsatisfactory profitability level.

Medical Devices division strongly delivered in Q3 despite a YoY tough comparison

Q3-24 preliminary sales came in at € 6.9m, up by 0.8% YoY compared to € 6.8m reported in Q3-23. The Medical Devices division rose by 23.5% YoY to € 4.9m (71.3% of the total), showing a strong upward trajectory notwithstanding the tough comparison with Q3-23, when revenues totalled € 4.0m, up by 46.9% YoY. On the other side, in Q3-24 the Industrial division came in at € 2.0m (28.7% of the total) compared to € 2.8m reported in Q3-23, accelerating its YoY decline. It is worth to remember that Valtecne's business is seasonal, with the second half being inherently weaker than the first both in terms of revenues and profitability.

Valtecne, key financials and ratios

€ m	2022PF	2023	2024e	2025e	2026e
Revenues	24.1	30.7	30.2	32.1	34.0
Value of Production	27.7	31.6	29.5	33.3	35.2
EBITDA	4.6	5.8	5.6	6.5	7.0
Adjusted EBITDA	5.5	7.2	6.8	7.7	8.2
EBIT	3.4	4.3	4.0	4.9	5.3
Net Profit	2.5	3.2	3.0	3.6	4.0
Adjusted NFP (cash)/debt	9.4	1.1	(2.3)	(3.8)	(6.0)
Adjusted EBITDA margin	19.9%	22.8%	23.0%	23.0%	23.3%
EPS stated FD €	-	0.52	0.49	0.60	0.65
EPS growth	-	-	-5.4%	21.0%	9.0%
ROCE	19.5%	17.2%	14.2%	15.6%	15.4%
NWC/Sales	41.2%	34.6%	33.1%	35.1%	35.1%
EV/Sales x	1.64	1.02	1.11	0.99	0.87
EV/EBITDA Adj. x	7.2	4.4	4.9	4.2	3.6
EV/EBIT x	11.7	7.2	8.4	6.6	5.6
PER x	12.2	9.5	11.9	9.8	9.0
Free Cash Flow Yield	-1.7%	6.3%	8.0%	5.9%	8.2%



The Company at a Glance

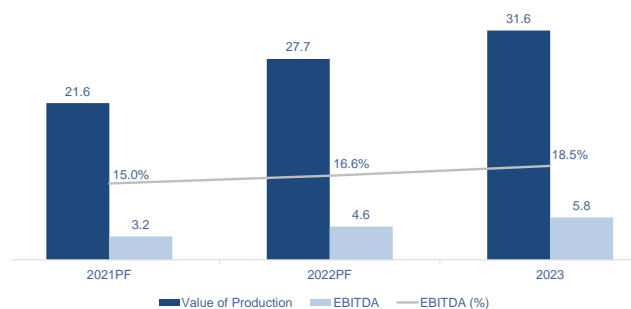
Established in 1983 by the Executive Chairman Vittorio Mainetti, Valtecne is a specialised contract manufacturer of high-precision components, operating as a first, second or third level supplier to Original Equipment Manufacturers (OEMs). The company runs its operations through two business lines, namely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

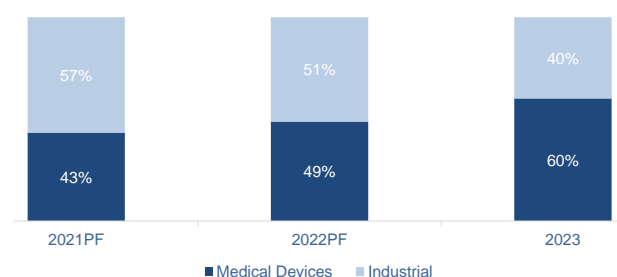
In the 2016-23 period, Value of Production showed a double-digit growth rate, i.e. CAGR₁₆₋₂₃ of 14.2%, prompted by the outstanding expansion of the Medical Devices division (CAGR₁₆₋₂₃ of 25.1%), and the steady progression of the Industrial business line (CAGR₁₆₋₂₃ of 5.5%). Indeed, the bulk of growth 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 ever-increasing effectiveness of surgical procedures.

FY-23 results exhibited Value of Production of € 31.6m, EBITDA of € 5.8m, 18.5% margin, with Net Profit of € 3.2m, 10.1% margin. Net Financial Position stands at € 2.4m cash. Taking into account the IFRS-16 effect, adjusted EBITDA and NFP amounted to € 7.2m (22.8% margin) and € 1.1m (adj. NFP/EBITDA 0.2x), respectively.

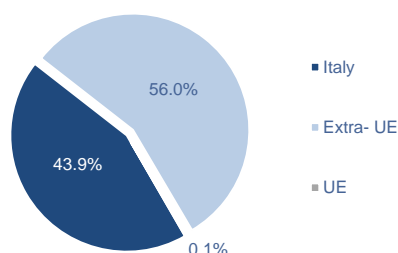
2021PF-23 VoP and EBITDA evolution



2021PF-23 top line evolution by business line



FY-23 top line breakdown by geography



Shareholder Structure

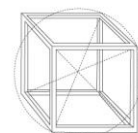
Shareholder	# m	%
KPM Srl (direct ownership)	3.76	61.6%
KPM Srl (bare ownership)	0.84	13.8%
Paolo Mainetti	0.39	6.4%
Other Shareholders (< 5.0%)	0.05	0.8%
Free Float	1.06	17.3%
Total	6.11	100.0%

Peer group multiples table

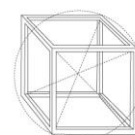
EV & PER multiples x	Sales FY1	Sales FY2	EBITDA FY1	EBITDA FY2	EBIT FY1	EBIT FY2	PER FY1	PER FY2
Integer Holdings Corp	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	26.4	21.9
Jabil Inc	0.60	0.54	7.7	6.9	11.2	9.7	16.8	15.2
Lisi SA	0.89	0.82	7.4	6.4	14.5	11.7	17.4	13.1
Scanfil Oyj	0.70	0.60	7.3	6.3	10.1	8.6	12.8	11.2
Vimi Fasteners SpA	0.56	0.49	4.4	4.0	11.5	9.8	7.4	6.7
West Pharmaceutical Services Inc	8.18	7.63	32.9	27.8	41.8	34.8	48.2	42.0
Median	0.70	0.60	7.4	6.4	11.5	9.8	17.1	14.2
Valtecne SpA	1.11	0.99	4.9	4.2	8.4	6.6	11.9	9.8

Sources: CFO SIM, Refinitiv Eikon

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



Income statement (€ m)	2022PF	2023	2024e	2025e	2026e
Revenues	24.1	30.7	30.2	32.1	34.0
Value of Production	27.7	31.6	29.5	33.3	35.2
Raw material and processing	(8.8)	(10.0)	(8.0)	(9.7)	(10.2)
Services	(4.5)	(4.4)	(4.2)	(4.8)	(4.9)
Personnel expenses	(8.0)	(9.2)	(9.7)	(10.2)	(10.8)
Other opex	(1.7)	(2.2)	(2.0)	(2.2)	(2.3)
EBITDA	4.6	5.8	5.6	6.5	7.0
D&A	(1.2)	(1.5)	(1.6)	(1.6)	(1.7)
EBIT	3.4	4.3	4.0	4.9	5.3
Financials	(0.1)	(0.0)	0.1	0.1	0.1
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	3.3	4.3	4.1	4.9	5.4
Income taxes	(0.8)	(1.1)	(1.1)	(1.3)	(1.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	2.5	3.2	3.0	3.6	4.0
Adjusted EBITDA	5.5	7.2	6.8	7.7	8.2
Balance sheet (€ m)	2022PF	2023	2024e	2025e	2026e
Net Working Capital	9.9	10.6	10.0	11.3	11.9
Net Fixed Assets	7.0	8.2	8.8	9.4	9.8
Equity Investments	0.4	0.4	0.4	0.4	0.4
Other M/L Term A/L	(1.3)	(1.8)	(1.7)	(2.0)	(2.1)
Net Invested Capital	16.0	17.4	17.5	19.0	20.1
Net Financial Debt	5.0	(2.4)	(5.2)	(6.7)	(8.9)
Minorities	0.0	0.0	0.0	0.0	0.0
Group's Shareholders Equity	11.0	19.7	22.7	25.8	29.0
Financial Liabilities & Equity	16.0	17.4	17.5	19.0	20.1
Adjusted Net Financial Debt	9.4	1.1	(2.3)	(3.8)	(6.0)
Cash Flow statement (€ m)	2022PF	2023	2024e	2025e	2026e
Net income before minorities	2.5	3.2	3.0	3.6	4.0
Depreciation	1.2	1.5	1.6	1.6	1.7
Other non-cash charges	0.3	0.9	(0.2)	0.3	0.1
Cash Flow from Oper. (CFO)	4.0	5.6	4.4	5.6	5.8
Change in NWC	(2.3)	(0.7)	0.6	(1.3)	(0.7)
FCF from Operations (FCFO)	1.7	4.9	5.1	4.3	5.1
Net Investments (CFI)	(2.2)	(7.1)	(2.2)	(2.2)	(2.2)
Free CF to the Firm (FCFF)	(0.5)	(2.2)	2.9	2.1	2.9
CF from financials (CFF)	(0.2)	4.6	0.0	(0.6)	(0.7)
Free Cash Flow to Equity (FCFE)	(0.7)	2.3	2.9	1.5	2.2
Financial ratios	2022PF	2023	2024e	2025e	2026e
Adjusted EBITDA margin	19.9%	22.8%	23.0%	23.0%	23.3%
EBIT margin	12.2%	13.7%	13.5%	14.6%	15.0%
Net profit margin	10.3%	10.4%	10.0%	11.3%	11.7%
Tax rate	24.4%	25.9%	26.0%	26.0%	26.0%
Op. NWC/Sales	41.2%	34.6%	33.1%	35.1%	35.1%
Interest coverage x	36.3	163.0	(56.7)	(72.2)	(66.1)
Adj. Net Debt /Adj. EBITDA x	1.71	0.16	n.m.	n.m.	n.m.
Net Debt-to-Equity x	0.46	n.m.	n.m.	n.m.	n.m.
ROIC	15.5%	18.3%	17.2%	19.1%	19.8%
ROCE	19.5%	17.2%	14.2%	15.6%	15.4%
ROACE	20.8%	20.4%	15.0%	16.4%	16.1%
ROE	22.6%	16.1%	13.2%	14.1%	13.7%
Payout ratio	0.0%	0.0%	20.0%	20.0%	20.0%
Per share figures	2022PF	2023	2024e	2025e	2026e
Number of shares # m	-	6.11	6.11	6.11	6.11
Number of shares Fully Diluted # m	-	6.11	6.11	6.11	6.11
Average Number of shares Fully Diluted # m	-	6.11	6.11	6.11	6.11
EPS stated FD €	-	0.52	0.49	0.60	0.65
EBITDA €	-	0.96	0.91	1.06	1.15
EBIT €	-	0.71	0.65	0.79	0.87
BV €	-	3.23	3.72	4.22	4.75
FCFO €	-	0.80	0.83	0.71	0.84
FCFF €	-	(0.36)	0.47	0.35	0.48
FCFE €	-	0.38	0.47	0.25	0.36
Dividend €	-	0.00	0.10	0.12	0.13



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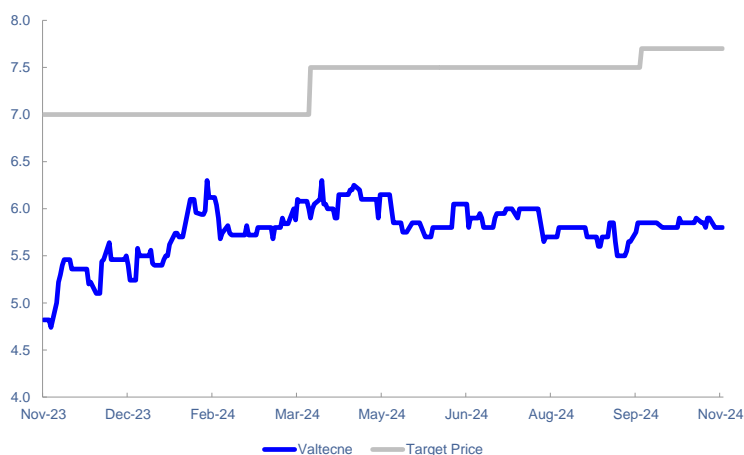
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DATE	TARGET PRICE	RATING
11/11/2024	€ 7.70	BUY
26/09/2024	€ 7.70	BUY
31/07/2024	€ 7.50	BUY
03/04/2024	€ 7.50	BUY
12/02/2024	€ 7.00	BUY
09/11/2023	€ 7.00	BUY

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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

