

Italy – Industrial & MedTech

A high-precision strategic partner for global leading companies

27th September 2023

INITIATION OF COVERAGE

RIC: VLT.MI
BBG: VLT IM

Valtecne is a specialised contract manufacturer engaged in the production of instruments for orthopaedic surgery and mission-critical mechanical parts for several industrial processing. Leveraging on an undisputed technical know-how accumulated in over 40 years, Valtecne went public in March 2023 with a clear mission: accelerate the growth of the promising and highly profitable Medical Devices division.

Rating:

Buy

Price Target:

€ 7.00

Upside/(Downside): 37.3%

Last Price: € 5.10

Market Cap.: € 31.2m

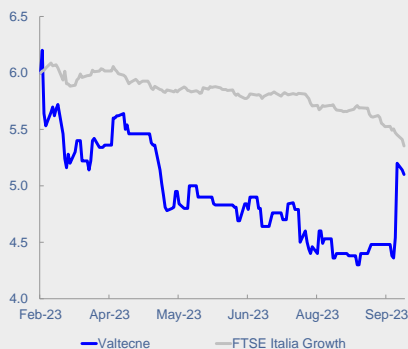
1Y High/Low: € 6.50 / € 4.30

Avg. Daily Turn. (3M, 6M): € 8k, € 8k

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	16.4%	5.4%	n.a.
Rel.to FTSE IT Growth	22.5%	12.6%	n.a.
Rel.to Peers	25.4%	15.4%	n.a.

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Initiation of Coverage with Buy: PT at € 7.00/s, 37.3% upside

CFO SIM initiates coverage of Valtecne with a Buy recommendation and a PT of € 7.00/s, 37.3% upside to current price levels. CFO SIM believes that the DCF model is the most appropriate methodology to get a reasonable valuation, in order to better factor in the medium-/long-term value of the stock and avoid incorporating increased stock market volatility. The DCF model is based on standard small-cap settings, including $g=1.5\%$, $\beta=1$, $WACC=10.5\%$ and a sustainable 25:75 debt/equity balance-sheet structure. In accordance with the DCF model, we obtain a valuation of Valtecne of € 7.00/s.

A highly-specialised contract manufacturer of high-precision components

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.

Sales and EBITDA CAGR_{22PF-25} of 11.5% and 16.4%, respectively

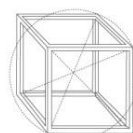
CFO SIM expects Valtecne's revenues to show a double-digit CAGR_{22PF-25} of 11.5%, based on different assumptions for each business lines: 1) Medical Devices is anticipated to grow at a CAGR_{22PF-25} of 20.8%, thanks to a solid increase in volumes driven by accelerated demand from key customers, while 2) Industrial is expected to expand at a CAGR_{22PF-25} of 1.0%. EBITDA and Net Profit are projected to rise at a CAGR₂₂₋₂₅ of 16.4% and 18.7%, respectively, as a result of the greater weight of the more profitable Medical Devices division, and operational efficiency. EBITDA-FCF conversion stands in the region of 30% per year on average in 2023-25, and Net Financial Position, calculated in accordance with domestic accounting principles, is predicted to turn positive by € 0.8m already in 2023. ROCE is predicted to be 18.4%, 17.2% and 16.6% in 2023-25, respectively.

The IPO proceeds will be used to accelerate growth of the Medical Devices division

Valtecne went public with the clear mission to accelerate the growth of the Medical Devices division, given its better long-term growth drivers, profitability, and barriers to entry. In detail, the company's strategy is now focused on: 1) seizing M&A opportunities in the medical devices industry in order to gain new customers and technologies, 2) updating and strengthening its production capacity, and 3) reinforcing its competitive positioning as trusted strategic partner both in Italy and abroad. The IPO proceeds (€ 5.5m) will chiefly be used to take advantage of M&A opportunities, in particular with the aim of accelerating growth in the more promising and profitable Medical Devices division.

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
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)
Adjusted EBITDA margin	17.7%	19.9%	22.7%	22.8%	23.0%
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	-	1.69	1.20	1.04	0.86
EV/EBITDA Adj. x	-	7.4	4.9	4.3	3.5
EV/EBIT x	-	12.1	7.1	6.1	5.1
PER x	-	12.6	8.9	8.4	7.5
Free Cash Flow Yield	-	-1.6%	2.5%	8.3%	9.4%



The Company at a Glance

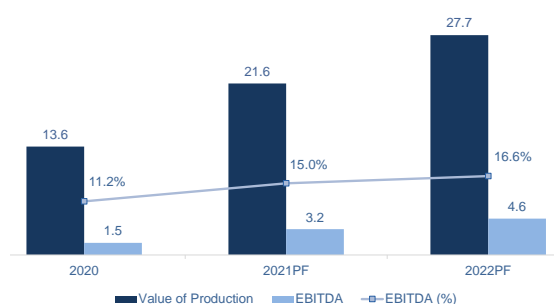
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Over 40 years of experience and several investments in technology and machinery has enabled the company to develop undisputed technical know-how in highly complex processing. As of today, Valtecne stands out as a strategic and reliable partner for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

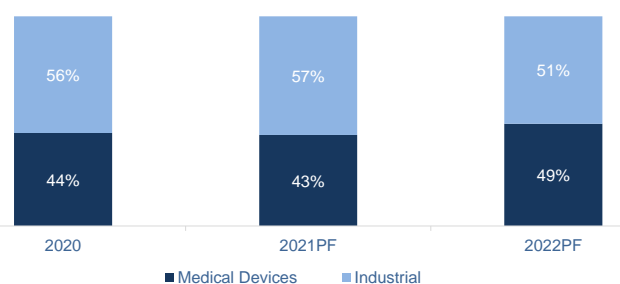
In the 2016-22 period, Value of Production showed a double-digit growth rate, i.e. CAGR_{16-22PF} of 14.2%, prompted by the outstanding expansion of the Medical Devices division (CAGR_{16-22PF} of 24.3%), and the steady progression of the Industrial business line (CAGR_{16-22PF} of 7.3%). Indeed, the 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.

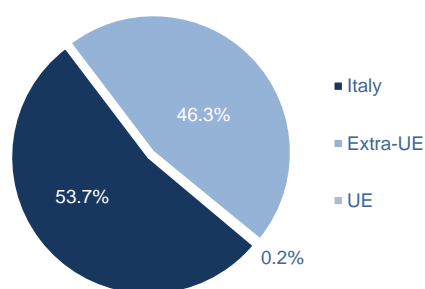
2020-22PF VoP and EBITDA evolution



2020-22PF top line evolution by business line



FY-22PF top line breakdown by geography



Shareholder Structure

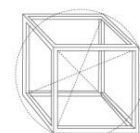
Shareholder	# m	%
KPM Srl (direct ownership)	3.76	61.6%
KPM Srl (bare ownership)	0.84	13.8%
Paolo Mainetti	0.39	6.4%
Other Shareholders (< 5.0%)	0.05	0.8%
Free Float	1.06	17.3%
Total	6.11	100.0%

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.	18.1	15.7
Jabil Inc	0.44	0.41	5.7	5.3	8.9	8.1	12.2	11.4
Lisi SA	0.94	0.85	7.7	6.7	16.5	13.4	17.4	13.3
Scanfil Oyj	0.61	0.54	6.7	6.0	8.6	7.8	10.2	10.3
Vimi Fasteners SpA	0.28	0.26	2.3	2.0	6.7	4.7	12.4	7.7
West Pharmaceutical Services Inc	9.25	8.33	33.1	28.4	39.7	33.7	49.5	43.9
Median	0.61	0.54	6.7	6.0	8.9	8.1	14.9	12.4
Valtecne SpA	1.20	1.04	4.9	4.3	7.1	6.1	8.9	8.4

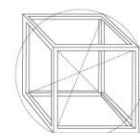
Sources: CFO SIM, Refinitiv Eikon

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

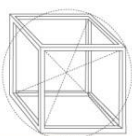




Income statement (€ m)	2021PF	2022PF	2023e	2024e	2025e
Revenues	18.8	24.1	28.6	30.6	33.4
Value of Production	21.6	27.7	30.9	32.7	35.5
Raw material and processing	(6.8)	(8.8)	(9.4)	(9.7)	(10.6)
Services	(3.4)	(4.5)	(4.1)	(4.3)	(4.7)
Personnel expenses	(6.9)	(8.0)	(9.4)	(10.1)	(10.8)
Other opex	(1.2)	(1.7)	(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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1. Investment Summary

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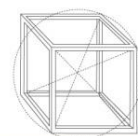
Over 40 years of experience and several investments in technology and machinery has enabled the company to develop undisputed technical know-how in highly complex processing. As of today, Valtecne stands out as a strategic and reliable partner for worldwide leading industrial and MedTech companies, providing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

Valtecne went public with the clear mission to accelerate the growth of the Medical Devices division, given its better long-term growth drivers, profitability, and barriers to entry. In detail, the company's strategy is now focused on: 1) seizing M&A opportunities in the medical devices industry in order to gain new customers and technologies, 2) updating and strengthening its production capacity, and 3) reinforcing its competitive positioning as trusted strategic partner both in Italy and abroad.

CFO SIM expects Valtecne's revenues to show a double-digit CAGR_{22PF-25} of 11.5%, based on different assumptions for each business line: **1) Medical Devices** is anticipated to grow at a **CAGR_{22PF-25} of 20.8%**, thanks to a solid increase in volumes driven by accelerated demand from key customers as well as the acquisition of new strategic contracts with leading MedTech companies, while **2) Industrial** is expected to expand at a **CAGR_{22PF-25} of 1.0%**. **EBITDA and Net Profit are projected to rise at a CAGR₂₂₋₂₅ of 16.4% and 18.7%**, respectively, as a result of the greater weight of the Medical Devices division, which demands much higher margins, and operational efficiency. **EBITDA-FCF conversion stands in the region of 30% per year on average in 2023-25**, and Net Financial Position, calculated in accordance with domestic accounting principles (ITA GAAP), is predicted to turn positive by € 0.8m already in 2023. **Adjusted Net Financial Position is projected to decline** in the same period, turning positive by € 2.4m in 2025. ROCE is predicted to be 18.4%, 17.2% and 16.6% in 2023-25, respectively.

CFO SIM initiates coverage of Valtecne with a Buy recommendation and a PT of € 7.00/s, 37.3% upside to current price levels. CFO SIM believes that **the DCF model** is the most appropriate methodology to get a reasonable valuation, in order to better factor in the medium-/long-term value of the stock and avoid incorporating increased stock market volatility. The DCF model is based on standard small-cap settings, including $g=1.5%$, $\beta=1$, $WACC=10.5%$ and a sustainable 25:75 debt/equity balance-sheet structure.

The principal investment **risks** associated with Valtecne include the following: 1) regulatory changes in the supplier accreditation processes may slow down top line growth; 2) a limited M&A track record; 3) the rise of new breakthrough technology may disrupt current production processes, and 4) an adverse macroeconomic environment could have an impact on the group's performance, although the company's reference markets, especially orthopedics, are rather anticyclical and enjoy long-term favourable trends.



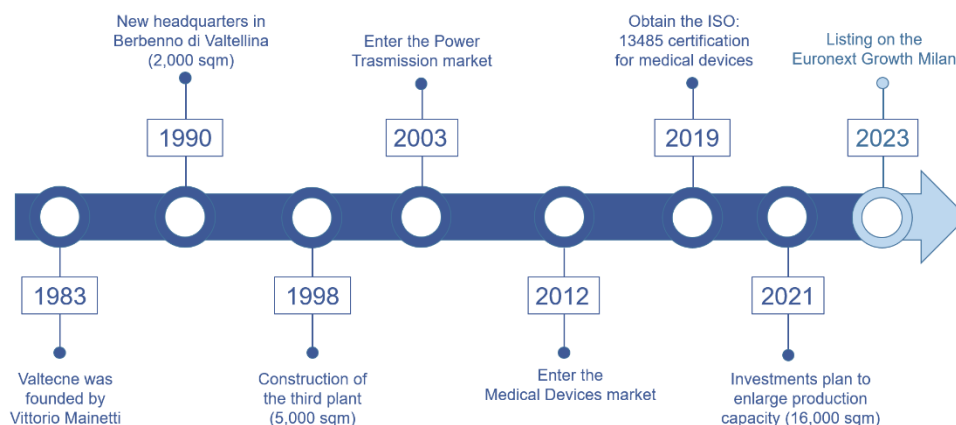
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The company runs a **16,000 sqm manufacture facility** in Berbenno di Valtellina (Sondrio), **equipped with 62 CNC machines able to manufacture 500,000+ components per year**, and employs more than 200 staff carefully organised into several teams to efficiently oversee the entire value chain.

Chart 1 – Valtecne, Company history



Source: CFO SIM's elaboration on company data

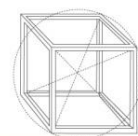
Valtecne organises its operations in two distinct business lines:

- **Medical Devices (48.8% of FY-22PF revenues):** in 2012, Valtecne entered the buoyant MedTech market. The company specialises in the **manufacture of orthopaedic surgical instruments and implants**, mainly intended for joint replacement of hips and knees, extremities, and spine. Orthopaedic components are smaller in size and usually require more sophisticated realisation techniques than those of the Industrial division.

Here, **Valtecne acts as a Tier-1 supplier** for leading Italian and European MedTech companies.

- **Industrial (51.2% of FY-22PF revenues):** Valtecne's historical business consists of third-party manufacturing of **mission-critical components for power transmission**, such as planetary gear carriers, flanged hubs, or plates. Moreover, the company provides mechanical parts for sports cars, trucks, and hydrogen-powered vehicles, along with gas-powered turbine blades for energy generation. **The Industrial division generally offers a 1-year visibility**, coupled with relatively low volatility.

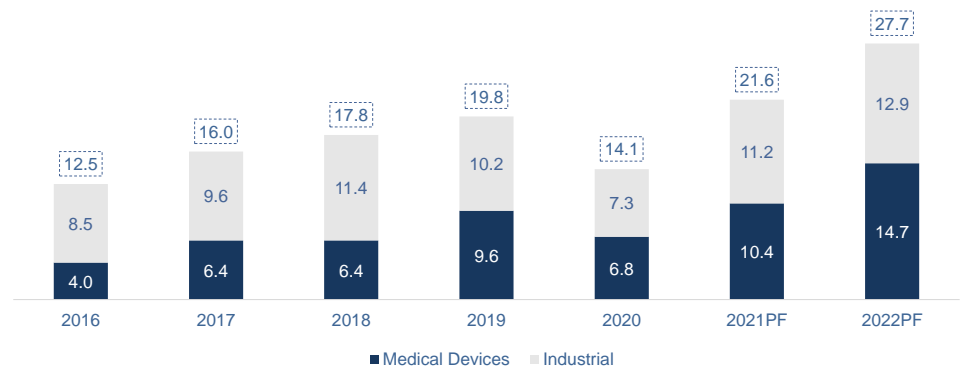
With regard to this business line, **Valtecne operates as a Tier-2 or 3 supplier for Italian industrial groups** which, in turn, directly serve leading global companies in industries such as Automotive, Heavy Machinery and Oil & Gas.



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.

Chart 2 – Valtecne, 2016-22PF Value of Production evolution by business line – € m

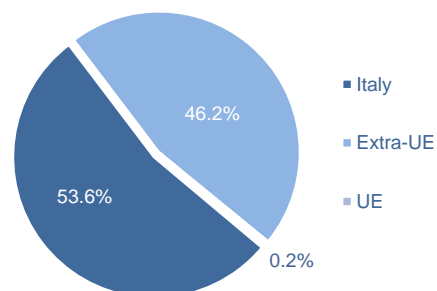


Source: CFO SIM's elaboration on company data

In the 2016-22 period, **Value of Production showed a double-digit growth rate, i.e. CAGR_{16-22PF} of 14.2%**, prompted by the outstanding expansion of the Medical Devices division, which exhibited remarkable organic growth (CAGR_{16-22PF} of 24.3%), and the steady progression of the Industrial business line (CAGR_{16-22PF} 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. It is worth mentioning that the growth of the Medical Devices division is driven by underlying long-term favourable trends, such as 1) the aging population in developed countries, 2) a greater use of joint reconstruction surgery in emerging ones and, 3) the ever-increasing effectiveness of surgical procedures, as a result of technological innovation.

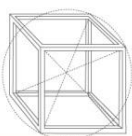
Steady top line growth was accompanied by high profitability: **on a pro-forma basis, FY-22 EBITDA reached € 4.6m, 16.6% margin**, mainly thanks to the more profitable Medical Devices division and enhanced operational efficiencies.

Chart 3 – Valtecne, 2022PF revenues breakdown by geography



Source: CFO SIM's elaboration on company data

From a geographical standpoint, **in FY-22 Valtecne's revenue was generated in two main regions**, namely Italy and Switzerland. In particular, the key customers of the Medical Devices division are leading global MedTech companies based in Italy and Switzerland, while those of the Industrial division are Italian industrial groups with an international footprint, serving multiple end-industries.

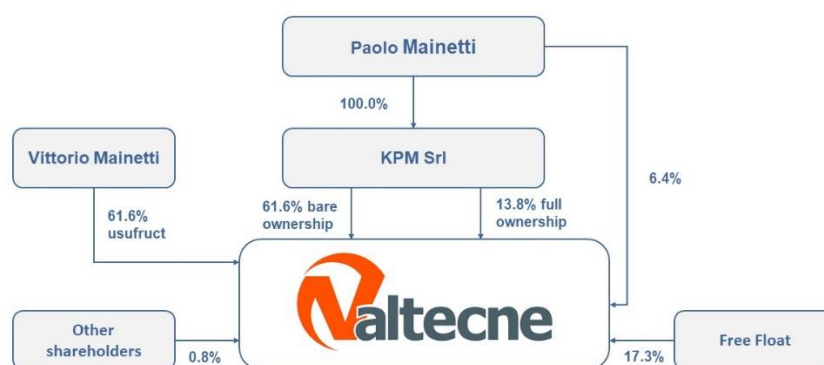


3. IPO Structure & Governance

Valtecne went public on Euronext Growth Milan on 1-Mar-23 at € 5.00/share, corresponding to a post-money market capitalisation of € 30.5m. The free float is 17.3%. The IPO comprised a primary offering for a total amount of € 5.5m. Noteworthy, Valtecne **went public with the clear mission to accelerate the growth of the Medical Devices division**, given its better long-term growth drivers, profitability and barriers to entry.

Currently, KPM Srl holds the bare ownership of 61.6% of the share capital (Vittorio Mainetti enjoys the usufruct) as well as a direct ownership of 13.8%. Moreover, Paolo Mainetti owns 6.4% of Valtecne and, in addition, fully owns KPM Srl.

Chart 4 – Valtecne, current shareholder structure

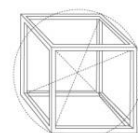


Source: Company data

Furthermore, **pre-IPO shareholders**, KPM Srl, Paolo Mainetti and Vittorio Mainetti, **entered into a 12-month lock-up agreement relating to 100% of their stake** effective from 1-Mar-23. The agreement envisages a further 6-month period with regard to 70% of their stake, once the first lock-up period has expired.

Valtecne has a **structured management team** composed of several key people:

- **Vittorio Mainetti** is the **Chairman** of Valtecne. After a working period in Johannesburg as Head of a gold extraction team, he set up a real estate company in Switzerland. In 1983, he acquired a minority stake in Valtecne, becoming its Sole Director. Then, five years later, he became the major shareholder undertaking the expansion phase.
- **Paolo Mainetti** has been **Chief Executive Officer** of Valtecne since 1994. Moreover, he has been Director and Vice President of KPM Srl since 2013. He held several positions at Confindustria and Federmeccanica: he was President of Confindustria Sondrio from 2009 to 2013, member of the Confindustria National Council from 2011 to 2013, as well as member of the Federmeccanica National Council in 2014. As of today, he is a member of the General and Presidential Council of Confindustria Lecco-Sondrio.
- **Adolfo Ottonello** has been **General Manager** of Valtecne since 2017. He graduated in Electronic Engineering in 1995 at Politecnico di Milano and, three years later, he earned a MBA in Business Administration from the same university. From 1999 to 2001, he worked as a Controller for Infostrada Spa and, in 2001-04 he dealt with business planning, budget & control for H3G SpA. Afterwards, he served as Senior Consultant in Bain & Company in 2004-06, dealing with strategic and organisational advisory activities. Moreover, he held the role of Director of Confindustria Sondrio from 2006 to 2015.



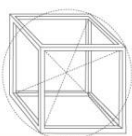
- **Michela Ferrari** was appointed **Chief Financial Officer** of Valtecne in July-23. After graduating in Business Administration at Bocconi University, in 2003 she started her professional career in PepsiCo Beverages Italia Srl, dealing with accounting and administration activities. Subsequently, she gained significant financial experience in major national and multinational companies.
- **Monica Benegola** has served as **Operations Manager** at Valtecne since 2017, coordinating technical, quality control, production, and logistics activities. After obtaining a Master Degree in Chemical Engineering at Politecnico di Milano in 2004, she began her professional career working as a Process and Sales Engineer at SET Srl. In the 2005-2009 period, she worked at Polimeri Europa SpA, an ENI Group company, up to the role of Process Engineering Manager. Then, she joined SAIPEM, gaining valuable experience in offshore international projects, mainly in Africa and South America. Before joining Valtecne, from 2012 to 2016 she held the role of Operations Manager at SBM Offshore, coordinating activities for projects in Southern Asia.

Currently, the **Board of Directors** is made up of 5 members, one of whom being an independent director.

Table 1 – Valtecne, Board of Directors

Name	Role
Vittorio Mainetti	Chairman
Paolo Mainetti	Chief Executive Officer
Adolfo Ottonello	Director, General Manager
Francesco Grimaldi	Director
Andrea Cavallini	Independent Director

Source: Company data



4. The Reference Market

Through its Medical Devices and Industrial divisions, Valtecne chiefly serves two different end-markets, which both have historically exhibited a steady mid-single digit growth rate. However, the orthopaedic devices and industrial gearbox markets are indeed very different from one another in terms of growth drivers, cyclicity, customers and, above all, competitive dynamics.

4.1. Orthopaedic Devices Market

Orthopaedics represents a branch of medicine focused on the prevention or correction of disorders, deformities, and injuries of the skeletal system, which primarily includes joints, bones, muscles, and ligaments. In this regard, **orthopaedic devices, such as implants, aim to correct body posture or restore the normal skeletal function by either the replacement or reinforcement of the injured part.**

In 2017, approximately 22.3 million of orthopaedic surgery procedures were performed worldwide and that number is expected to reach about 28.3 million in 2022.

The main growth drivers are 1) the aging population in developed countries, 2) the improved clinical effectiveness of certain surgical procedures and, 3) a greater use of the latter in emerging countries, where most of the population does not have access to orthopaedic services. Critical equipment comprises a wide range of instruments, mainly including rods, spacers, pins, plates, and screws.

In general, the orthopaedic market is made up of the following segments:

- **Joint Replacement**, which relates to all implants, devices, and technologies enabling the **surgical reconstruction or replacement of a damaged joint**, with the aim of restoring its normal functions. It is broken down into:
 - ✓ Knees
 - ✓ Hips
 - ✓ Extremities (mostly shoulders)
- **Spine**, which addresses the treatment of degenerative disc diseases and hernias, as well as other pathologies such as vertebral fractures or scoliosis. The orthopaedic equipment mainly encompasses plates, screws, artificial discs, rods and all the tools needed to preserve body movement;
- **Trauma**, which generally aims at fixing fractures;
- **Sports Medicine**, which focuses on chronic and acute issues affecting the musculoskeletal system, making use of ad hoc instruments, such as arthroscopy tools, cameras, radio frequency systems, artificial ligaments, tissue removal devices, along with all the absorbable materials;
- **Orthobiologics**, a subset of regenerative medicine, refers to the utilisation of biological substances in the attempt to treat musculoskeletal diseases;
- **Other**

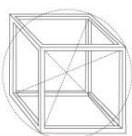
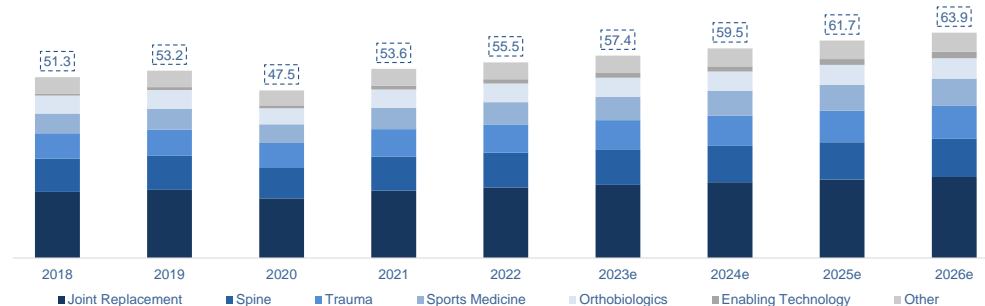


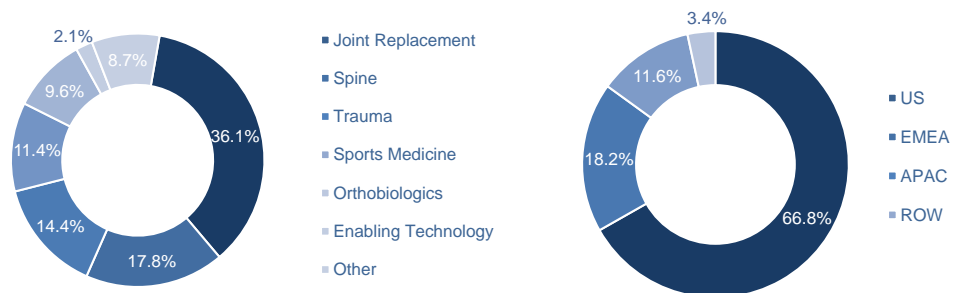
Chart 5 – Valtecne, 2018-26e global orthopaedic market by segment – \$ bn



Source: 'The Orthopaedic Industry Annual Report 2022'

According to Orthoworld's "Orthopaedic Industry Annual Report", in 2022 the Orthopaedic market reached \$ 55.5bn, up by 3.5% YoY, as procedure volumes recovered globally notwithstanding some major headwinds affecting the industry, namely supply chains disruption, inflationary pressures on key raw materials (titanium, resin and silicone), coupled with staffing shortages in the US.

Chart 6 – Valtecne, 2022 orthopaedic market by product segments and geography– %



Source: 2022 'The Orthopaedic Industry Annual Report'

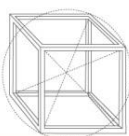
In 2022, the first two product segments had a combined share roughly equal to 54% of total, as Joint Replacement and Spine accounted for 36.1% and 17.8%, respectively. It is interesting to note that, in 2020-22, all products segments maintained approximately the identical percentage weigh on total, thus showing the low volatility and steadiness of the orthopaedic market.

From a geographical standpoint, the US was by far the largest contributor, with a total market share equal to 66.8% in 2022, worth \$ 37.1bn. EMEA represented the second largest market, accounting for 18.2% of total (\$ 10.1bn), followed by APAC (\$ 6.5bn, 11.6% of total).

Table 2 – Valtecne, 2022-26e Orthopaedic market forecast by product segment

Market segment	CAGR _{22-26e}
Joint Replacement	+3.5%
Knees	+3.1%
Hips	+2.7%
Extremities	+7.2%
Spine	+2.3%
Trauma	+3.8%
Sport Medicine	+5.4%
Orthobiologics	+2.1%
Enabling Technology	+11.5%
Other	+3.0%
Weighted Average	+3.6%

Source: 'The Orthopaedic Industry Annual Report 2022'



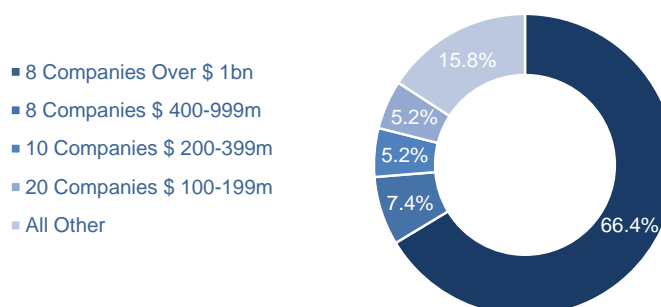
The global orthopaedic market is predicted to exceed \$ 57bn in 2023 (up by 3.4% YoY) and to reach \$ 63.9bn in 2026 (CAGR_{22-26e} of 3.6%).

A positive growth trend is foreseen in all market segments. In particular, **Sport Medicine and Enabling Technology are foreseen to show the highest increase over the upcoming years, exhibiting a CAGR_{22-26e} equal to 5.4% and 11.5%, respectively.** Within the Joint Replacement segment (CAGR_{22-26e} of 3.5%), "Extremities" represents the fastest growing subsegment, with a CAGR_{22-26e} of 7.2%, followed by Knees (3.1%) and Hips (2.7%).

4.1.1 Competitive Landscape in the Orthopaedic Market

The global orthopaedic market comprises more than 1,000 operating companies, and is characterised by few large-sized players, mainly established in the US, enjoying a dominant position thanks to high investment capabilities in R&D and marketing as well as a capillary presence in all the prominent areas.

Chart 7 – Valtecne, 2022 Orthopaedic market concentration – \$ bn



Source: 'The Orthopaedic Industry Annual Report 2022'

On a total addressable market of \$ 55.5bn in 2022, **8 companies recorded total revenues of over \$ 1bn each, having a combined market share of 66.4%**, while only 18 companies worldwide had a turnover ranging from \$ 200m to \$ 1bn. Therefore, **a combined market share equal to roughly 79% of total, worth \$ 43.8bn, is in the hands of 26 companies.** The remainder is spread across several small-medium sized companies with sales below \$200m. All in all, only 46 of the approximately 1,000 companies recorded a top line of more than \$ 100m in 2022.

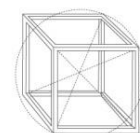
Table 3 – Valtecne, the eight largest orthopaedic companies by revenues - \$ bn

Company	Country	FY-21	FY-22	YoY
Stryker	US	9.04	9.42	4.2%
DePuy Synthes (J&J)	US	8.58	8.59	0.0%
Zimmer Biomet	US	6.83	6.94	1.6%
Smith+Nephew	United Kingdom	3.64	3.61	-0.9%
Medtronic	US	3.22	3.21	-0.3%
Arthrex	US	2.68	2.83	5.6%
Nuvasive*	US	1.14	1.20	5.5%
Globus Medical	US	0.96	1.02	6.8%
Subtotal		36.09	36.82	2.0%
TOTAL		53.64	55.49	3.5%

Source: CFO SIM's elaboration based on company data

*acquired by Globus Medical in Feb-23

The eight largest orthopaedic companies include **Stryker, DePuy Synthes** (fully owned by Johnson & Johnson), **Zimmer Biomet, Smith+Nephew, Medtronic, Arthrex, Nuvasive and Globus Medical.**



In 2021, Stryker ousted DePuy Synthes becoming the first market player, in the wake of the acquisition of Wright Medical, a fast-growing company boasting a leading positioning in the upper extremities, namely shoulder, elbow, wrist and hand.

Furthermore, in Feb-23 Globus Medical, a leading manufacturer of medical devices with a specialisation in musculoskeletal disorders, announced the acquisition of Nuvasive, the 7th player in the above reported table, in an all-share transaction for a total consideration of \$ 3.1bn. The closing occurred on 1-Sep.

4.2. Industrial Gearbox Market

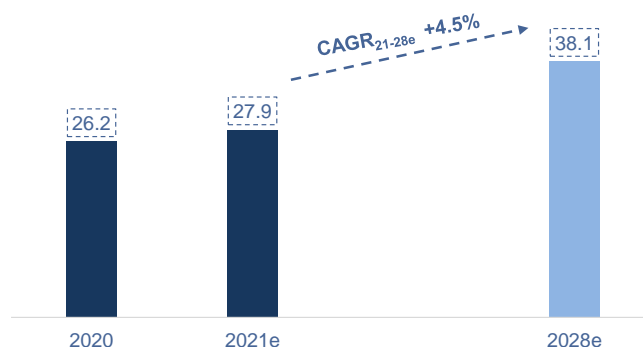
Valtecne's historical business carried out for more than 40 years concerns the manufacture of high-precision components that are critical for power transmission in industrial processes, as well as for other end-markets targeted by the company, namely automotive and energy generation processes.

In particular, Valtecne's main focus lies on industrial gearboxes, that is to say components capable of transferring mechanical energy from one device to another, usually by changing speed, direction and torque between a motor and a shaft. This process fuels industrial machineries, among which excavators, wind turbines, agricultural equipment, and forklifts.

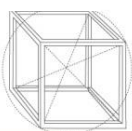
Gearboxes features different types or forms (planetary, helical, bevel, etc.) according to the specific purposes for which they are designed, and find application in a multitude of industries, including:

- **Food & Beverage**, intended for the preparation and processing of industrialised food;
- **Metals & Mining**, for instance to drive travel mechanism and rotation of excavators;
- **Material Handling**, powering equipment such as forklifts, cranes and pallet trolleys;
- **Agriculture**, for instance mills or machineries for soil preparation, sowing and harvesting;
- **Automotive**, used in cars, helicopters, buses, trucks and motorcycles;
- **Renewable power generation**, especially mission-critical gearboxes for wind turbines.

Chart 8 – Valtecne, 2020-28e Industrial Gearbox market – \$ bn



Source: 2021 Industrial Gearbox Market Size report by Fortune Business Insight

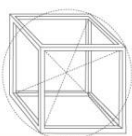


According to Fortune Business Insight, the **global industrial gearbox market** is expected to rise from \$ 26.2bn in 2020 to \$ 38.1bn in 2028 (**CAGR_{20-28e} of 4.5%**), mainly driven by the following long-term structural trends:

- ✓ **Automation of industrial processes** in the automotive, food processing and agricultural machinery industries, with the largest emerging countries like China, Brazil and India driving up demand;
- ✓ **Public investment in renewable power generation**, especially in the European Union, where environmental-friendly directives are expected to make a strong contribution to market growth in the years ahead;
- ✓ **Rising demand for energy-efficient gearboxes**, propelled by fast technological innovations coupled with infrastructure modernisation.

Additionally, **Valtecne manufactures high-precision components intended for valves used in fuel-cell electric vehicles (FCEV)**, powered by hydrogen. The company's main customers are Tier-1 suppliers that directly work with OEMs. According to Fortune Business Insight, the reference market for these critical components is expected to rise (CAGR_{21-28e} of 53.5%) significantly from \$ 1.7bn in 2021 to \$ 34.6bn in 2028.

The global industrial gearbox market is highly fragmented into several companies, a handful of which are Italian, usually located in the country's northern regions **and comprised among Fortune's list of key suppliers of gearboxes for industrial use**. For instance, Bonfiglioli SpA exceeded € 1.2bn in revenues in FY-22, holding a 35% market share for the supply of wind turbine gearboxes to leading global players.



5. Business Model

Valtecne is a specialised **contract manufacturer** of high-precision mechanical components and assemblies, operating as a first, second or third level supplier to Original Equipment Manufacturers (OEMs). **Over 40 years of experience has enabled the company to develop undisputed technical know-how in highly complex processing**, which makes it a strategic and reliable partner for worldwide leading industrial and MedTech companies. The company manufactures mechanical components based upon its customers' designs and guidelines, even if, occasionally, it actively participates in the design and development of new products.

Valtecne provides its clients with a **'turn-key' service**, as the whole production process, from raw materials procurement to logistics and shipment, is carried out internally. The company runs a **16,000 sqm manufacture facility in Berbenno di Valtellina** (Sondrio) and employs **more than 200 staff, carefully organised into several teams** (in the Sales, Technical, Purchasing, Production, Quality Control departments), able to efficiently oversee the entire value chain.

Chart 9 – Valtecne, Business Model



Source: CFO SIM's elaboration based on company data

Valtecne organises its operations in two distinct business lines:

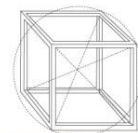
- **Medical Devices (48.8% of FY-22PF revenues):** leveraging on the technical know-how gained in the industrial division, in 2012 Valtecne entered the buoyant MedTech market. The company specialises in the manufacture of **orthopaedic surgical instruments and implants**, mainly intended for joint replacement of hips and knees as well as, to a lesser extent, extremities (shoulders in particular), and spine. Orthopaedic components are smaller in size and usually require more sophisticated realisation techniques than those of the Industrial division.

Here, **Valtecne acts as a Tier-1 supplier** for leading Italian and European medical devices companies.

It is worth pointing out the remarkable growth path of the division over the last 10 years, since it accounted just 2% of revenues in 2013 whereas it reached almost 50% of total at year-end 2022, on a pro-forma basis. Moreover, Valtecne **went public with the clear mission to accelerate the growth of the Medical Devices division**, given its better long-term growth drivers, profitability and barriers to entry.

- **Industrial (51.2% of FY-22PF revenues):** Valtecne's historical business consists of third-party manufacturing of **mission-critical components for power transmission**, such as planetary gear carriers, flanged hubs, and plates. Moreover, the company provides mechanical parts for sports cars, trucks, and hydrogen-powered vehicles, along with gas-powered turbine blades for energy generation. Noteworthy, the Industrial division is broken down into Power Transmission, Automotive and Energy, the former of which is by far the largest contributor, accounting for more than 80% of the division's revenues. Additionally, the Industrial division generally offers a 1-year visibility, coupled with relatively low volatility on a historical basis.

With regard to this business line, **Valtecne operates as a Tier-2 or 3 supplier** for Italian industrial groups with an international footprint, which, in turn, directly serve leading global companies in industries such as Automotive, Heavy Machinery and Oil&Gas.



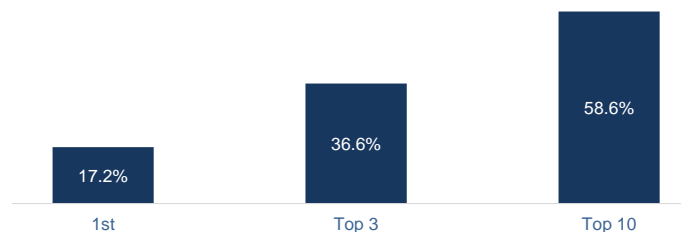
In detail, Valtecne's value chain is structured as follows:

- **Customer Acquisition:** in order to gain a new customer, Valtecne has to undertake a **thorough supplier accreditation process** whose completion, especially for the Medical division, could take **up to 12 months**. Notably, it envisages a meticulous analysis of certifications, along with in-depth inspection of manufacturing plants aimed at verifying compliance with the highest quality standards in terms of production equipment and procedures. Furthermore, even if compliant, a potential supplier such as Valtecne could be asked to revise certain production procedures in order to abide by stricter standards imposed by customer.

In order to be more attractive to potential customers, Valtecne earned two **key sectorial certifications**, i.e. **IATF:16949 (Automotive)** and **ISO:13485 (Medical Devices)**.

- **Procurement:** as Valtecne follows a **'make-to-order' approach**, production commences only when an order is received. Product drawings always contain the needed raw materials and, sometimes, the specific supplier imposed by the customer itself. The main raw materials used within the Industrial division include semi-finished products like cast iron, aluminium, stainless steel and carbon steel while, in the Medical Devices division, stainless steel, titanium, aluminium and biocompatible plastics.

Chart 10 – Valtecne, Top 10 suppliers' concentration



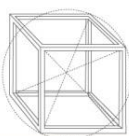
Source: CFO SIM's elaboration based on company data

As of Jun-23, the top 1, top 3 and top 10 suppliers accounted for 17.2%, 36.6% and 58.6%, respectively. The Industrial division's suppliers are mostly Italian, while those of the Medical Devices division are mainly located in Europe.

- **Engineering:** the Technical Department carries out an in-depth analysis of the technical documentation and specifications provided in the customer drawing, also with the help of 3D CAD models. Afterwards, it elaborates an **operative strategy by listing all the production phases**, flanked by all the information about the proper CNC machine and equipment to be used. **Here lies Valtecne's added value and strategic activity.**

Additionally, in the event of a completely new and unknown component, **Valtecne's and the customer's Technical Departments collaborate side by side in the co-design activity.** In this way, the customer can benefit from: 1) a detailed feasibility study by a trusted partner, 2) a continuously improved product design and, 3) reduced overall operating costs.

Production: Valtecne leverages on a state-of-the-art manufacturing process, on the back of considerable 'Industry 4.0' investments carried out over the last 10 years. In detail, **the company makes use of 62 CNC machines** (primarily intended for milling, turning, EDM and broaching), **entirely orchestrated by the internal ERP system**, running five days a week over three shifts. Valtecne performs all the critical and value-added activities in-house, while it entrusts certain phases, such as heat and surface treatment, to third-party suppliers.

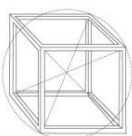


Production complexity differs between the two business lines:

- ✓ **Industrial:** almost every finished component starts from a monolithic piece and usually requires a limited number of processing;
 - ✓ **Medical Devices,** instead, features a high number of processing, **up to 20 phases in certain circumstances,** as well as more complex forms. In addition, these products are mostly made of distinct components that need to be manufactured first, and then assembled in order to obtain the result indicated in the customer's technical drawing. In this regard, Valtecne boasts a dedicated department, having a specialisation in micro-assembly of orthopaedic devices.
- **Quality Control & Logistics:** customer drawing and documentation only comprise information about product sizes and measurement to be respected, but they hardly ever state how control activities must be performed. In this regard, **the Quality Department prepares a 'control plan' for every single production stage,** with the aim of detailing sizes that need to be checked and, for each of them, the control frequency and the most appropriate measurement instruments. With respect to the Medical Devices division, **Valtecne carries out all the final tests before delivery on behalf of the customer,** in some cases according to a shared checklist.

Quality-control equipment includes calibres, micrometres, altimeters, rugosimetres, as well as 5 CMMs (Coordinate-Measuring Machines), entailing a best-in-class approach to ensure products' compliance with the highest quality standards, especially considering the stringent criteria imposed by Medical Devices customers.

Finally, logistics activities are managed through **four warehouses, two for each business line.** Noteworthy, Radio Frequency Identification (RFID) technology is used in the Medical Devices division's warehouse intended for finished products, enabling automatic and time efficient identification by taking advantage of magnetic fields.



5.1 Product Portfolio

Since its foundation in 1983, Valtecne has been continuously refining its expertise in the manufacture of high-precision mechanical components, considerably expanding its product portfolio. Notably, over the last two decades **the company entered new promising markets, such as Power Transmission in 2003 and Medical Devices in 2012**, leveraging on the dynamism and vision of the company's management and several investments in technology and machinery.

By analysing Valtecne's history, it emerges that ever-increasing know-how has always been matched by a series of **targeted investments in order to expand expertise and increase the number of potential new customers**: introduction of 5-axis milling machines (2008), setting up of a metal surface finishing department (2013), introduction of wire-cut EDM machines (2013), establishment of a broaching department (2014) and a Swiss turning department (2018).

In addition, in 2021 Valtecne embarked on a capex plan of almost € 3.0m, primarily with the aim of building a **new production plant entirely dedicated to the Medical Devices division**, the most promising and profitable division, which showed an outstanding growth path. In just 10 years, the **Medical Devices product portfolio has manufactured over 4,000 different orthopaedic instruments and implants**, with a specialisation in the joint replacement of hips and knees. On top of that, since 2016 Valtecne has begun to manufacture surgery equipment for shoulders and spine, considerably enlarging its offer.

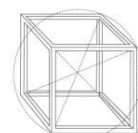
Chart 11 – Valtecne, Medical Devices product portfolio

Application	Main Products					
 Hip						
 Knee						
 Shoulder						
 Spine						

Source: CFO SIM's elaboration based on company data

The Medical Devices product portfolio is divided into the following segments:

- **Hip**: since 2013, Valtecne has been manufacturing surgical instruments such as femoral broaches, trial head forms and cups, rasps, handles, and extractors. Moreover, the company produces a wide range of hip implants, including femoral stems, femoral heads as well as stem collars.
- **Knee**: it mainly includes surgical instruments, for instance tibial cutting guides, milling cutters, forceps, reamers, femoral boxes, drills, and trial components. Additionally, Valtecne manufactures knee implants, namely tibial inserts.



- **Shoulder:** since 2016, Valtecne has been manufacturing a wide range of instruments intended primarily for shoulder reconstruction, among which milling cutters, screwdrivers, chisels, drills, and reamers.
- **Spine:** introduced in 2018, this segment chiefly comprises various screwdrivers, twist drill bits, drill guides, probes, awls, benders, and impactors.

Main raw materials: stainless steel, titanium, cobalt-chrome and biocompatible plastics, such as high molecular density polyethylene and medical grade polypropylene.

The Industrial division represents the historical business of Valtecne, where it operates as a Tier-2 or Tier-3 supplier mainly for Italian industrial groups belonging to different end-industries. Compared to the Medical Devices products, these mechanical parts feature different volumes and weights, mostly requiring fewer processing cycles.

Chart 12 – Valtecne, Industrial product portfolio

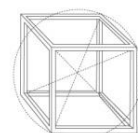
Application	Main Products
 Power Transmission	
 Automotive	
 Energy	

Source: CFO SIM's elaboration based on company data

In detail, the Industrial product portfolio is broken down into four different segments:

- **Power Transmission:** it comprises mechanical parts used in the production of industrial gearboxes, e.g. planetary gear carriers, flanged hubs, inclined plates, boxes, and covers. **This segment is by far the largest contributor to the Industrial division's revenues**, accounting for more than 80% of total.
- **Automotive:** it comprises components intended for the manufacture of trucks, hydrogen-powered vehicles and sports cars, e.g. swash plate, differential housing, cylinder blocks, manifolds for hydrogen valves, cranks, and rocker arms for combustion engines.
- **Energy:** it mainly comprehends gas and steam powered turbine blades and compressor blades, all featuring different sizes and geometries.
- **Others:** it includes various components serving different purposes, such as compressor bodies, cylindrical bodies for actuators, injectors for mixing heads, trolleys for balancing machines, along with rotors for electronic engines.

Main raw materials: cast iron, carbon steel, stainless steel, aluminium and special stainless steel alloys.



6. Strategy

In light of a steady growth path since its foundation in 1983 and the recent IPO, Valtecne's strategy is now focused on: 1) seizing M&A opportunities in the medical devices industry in order to gain new customers and technologies, 2) updating and strengthening its production capacity, and 3) reinforcing its competitive positioning as trusted strategic partner both in Italy and abroad.

The IPO proceeds (€ 5.5m) will chiefly be used to take advantage of M&A opportunities, in particular with the aim of accelerating growth in the more promising and profitable Medical Devices division.

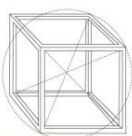
Valtecne's strategy is based on the following pillars, according to the business line:

Medical Devices:

- ✓ **Enlarging the customer base:** leveraging on more than 10 years of know-how in complex medical devices solutions, Valtecne intends to add first-class players to its customer portfolio by strengthening its commercial structure as well as its go-to-market strategies;
- ✓ **Expanding the product portfolio of orthopaedic medical devices,** Valtecne plans to strengthen its product offering in markets segments where it already boasts an ample portfolio (Joint Replacement) or has a limited presence (Spine) by means of 1) targeted investments in production capacity for existing technologies and, 2) internalisation of other key production phases, such as surface finishing. Moreover, the company is expected to enter the Trauma segment by 2023;
- ✓ **Completing the value proposition via M&A:** Valtecne plans to acquire small players operating in other orthopaedic segments, especially those where it has a still limited presence, with the primary purpose of gaining new key customers in order to establish significant cross-selling synergies. The **screening of potential target companies is under way**;
- ✓ **Entering new MedTech subsegments:** in the medium-term, the company is evaluating expansion opportunities in neighbouring MedTech sectors not yet covered, such as Dental and Machinery, where the core mechanical technology and expertise employed are similar to those adopted by Valtecne for its operations.

Industrial:

- ✓ **Diversification of the product mix:** the company's management is planning to diversify the product mix towards high-growth niche segments of the market, such as those related to energy transition and luxury cars, with the aim of mitigating the cyclicity of the division and improve overall profitability;
- ✓ **Improving production efficiency,** by replacing obsolete machinery with cutting-edge equipment in order to attract new potential customers and increase the share of wallet with existing ones;
- ✓ **Strengthening commercial activity:** Valtecne is planning to hire a highly-experienced Business Developer for the Industrial business line, as it did for the Medical Devices division.



7. SWOT Analysis

The SWOT analysis, also known as SWOT Matrix, is a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. A SWOT analysis can be carried out with regard to a product, place, industry or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieving that objective.

- **Strengths:** characteristics of the business that give it an advantage over others.
- **Weaknesses:** characteristics that place the business at a disadvantage vs. others.
- **Opportunities:** elements that the project could use to its advantage.
- **Threats:** elements in the environment that could cause harm or be detrimental for the business or project.

The technique is credited to Albert Humphrey, who led a research project at Stanford University between the 60s/70s using Fortune 500 data.

S.W.O.T. ANALYSIS

STRENGTHS

- ❑ **Strong technical know-how** gained in over 40 years of proven experience in high-precision mechanic
- ❑ An **experienced and well-structured management team**
- ❑ **Long-standing relationships** with leading MedTech companies
- ❑ **Growing share of the more profitable Medical Devices division**

WEAKNESSES

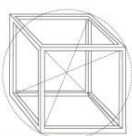
- ❑ **Sales department** needs to be strengthened
- ❑ The **Medical Devices division** relies on **few large-sized customers** with rather high bargaining power
- ❑ Especially for the Medical Devices division, **customer acquisition is a lengthy process**
- ❑ **Limited M&A track record**

OPPORTUNITIES

- ❑ **Riding long-term structural trends** (ageing population, development of emerging markets)
- ❑ **M&A opportunities** to enter new promising segments and internalise significant know-how
- ❑ **Updating production capacity and equipment** to entice new costumers
- ❑ **Vertical integration of upstream phases** could benefit margins

THREATS

- ❑ **New breakthrough technology** may disrupt current production processes
- ❑ **Regulatory changes in the supplier accreditation process** could slow down top line growth



8. Recent Results

In the 2019-22 period, Valtecne grew at a **CAGR_{19-22PF} of 8.3%**, reaching revenues in excess of € 24m in 2022, on a pro-forma basis. Top line progression was driven by high-single digit organic growth of both the Medical Devices and Industrial divisions. Moreover, a more favourable product mix coupled with operational efficiencies allowed profitability to grow more than proportionally compared to top line.

Table 4 – Valtecne, 2022PF-2019 pro-forma key figures

€ m	2022PF	2021PF	2020	2019	% CAGR _{19-22PF}
Medical Devices	11.8	8.1	5.5	9.2	8.7
Industrial	12.3	10.6	6.9	9.8	7.8
Revenues	24.1	18.8	12.5	19.0	8.3
Value of Production	27.7	21.6	13.6	19.1	13.2
EBITDA	4.6	3.2	1.5	2.9	16.4
% margin	16.6	15.0	11.2	15.2	
EBIT	3.4	2.2	0.9	2.3	13.9
% margin	12.2	10.2	6.5	12.0	
Net Profit	2.5	1.9	0.8	1.8	10.6
% margin	9.0	8.8	5.8	9.6	
Adjusted EBITDA	5.5	3.8	1.5	2.9	23.8
% margin	19.9	17.7	11.2	15.2	
NFP debt/(cash)	5.0	4.8	0.1	0.8	88.3
Adjusted NFP debt/(cash)	9.4	7.9	-	-	-

Source: Company data, CFO SIM analysis

As regards the two business lines, the expansion of the Medical Devices division (CAGR_{19-22PF} of 8.7%) mainly resulted from an increased share of wallet from existing customers while the Industrial division (CAGR_{19-22PF} of 7.8%) benefited from a steady rise in volumes combined with a partial pass-through of price increases in raw materials to final customers. Consequently, **since 2019, Valtecne has generated additional revenues of € 5.1m on a pro-forma basis, reaching € 24.1m at year-end 2022.**

Noteworthy is the fact that **the capex plan carried out in 2021-22 allowed the Medical Devices division to significantly increase the share of wallet from existing key customers**, outperforming the reference market, and secure orders from new ones. It is also worth noting that the Medical Devices business line increased its weigh on revenues from 44.4% in FY-20 to 48.8% at year-end 2022, almost equalling the Industrial division, Valtecne's historical business.

In 2022, EBITDA totalled € 4.6m (16.6% margin) on a pro-forma basis, increasing more than proportionately to top line in the wake of 1) increased volumes, 2) partial price increases, and 3) growing sales of the more profitable Medical Devices division. In 2022, **Adjusted EBITDA amounted to € 5.5m, 19.9% margin** (vs € 3.8m, 17.7% margin in FY-21), while Net Profit was € 2.5m, 9.0% margin.

It is worth noting that adjusted EBITDA was calculated by excluding rental fees in accordance with IFRS-16. In fact, Valtecne's financial statements are prepared in compliance with domestic accounting principles (ITA GAAP), but the international accounting standards are adopted with respect to leasing and renting. As a consequence, adjusted EBITDA does not include rental fees whereas the adjusted Net Financial Position includes the figurative debt stemming from the "right-of-use" related to the assets subject to leasing or rental contracts.

Net Financial Position rose from € 0.8m to € 5.0m, primarily on the back of an investment plan aimed at enlarging production capacity, based on: 1) cumulated intangible capex of € 0.5m to implement a new ERP system, and 2) cumulated tangible capex of approximately € 6.5m, mainly geared towards the construction of a new facility dedicated to the Medical Devices division and the acquisition of production machinery. Most of capex, in addition, were covered by generous tax incentives (up to 50% of total)



introduced by the Italian government, in order to prompt 'Industry 4.0' investments. **Adjusted Net Financial Position reached € 9.4m at year-end 2022**, staying at a healthy level (1.7x adj. NFP/EBITDA).

8.1. FY-22 Pro-forma Results

In FY-22, Valtecne reported a good set of results, characterised by double-digit growth of both business lines along with more than proportional EBITDA progression, bolstered by rising volumes and a continuous shift to the more profitable Medical Devices division, notwithstanding inflationary pressures on key raw materials.

In Oct-22, Valtecne's Shareholders Meeting resolved a share capital increase of € 20k, fully subscribed by KPM Srl, the company's main shareholder, via the contribution of its business branch, primarily focused on broaching activities. The transfer of the business branch became effective from 1-Nov 22. In order to provide investors with a comprehensive overview, Valtecne elaborated FY-21 and FY-22 pro-forma figures, by assuming KPM Srl had been consolidated since Jan-21.

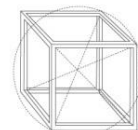
It is worth noting that **the consolidation of KPM Srl has a rather limited impact on FY-22 pro-forma results**, namely roughly € 0.8m on revenues, € 0.3m on EBITDA as well as € 0.2m on Net Profit.

Table 5 – Valtecne, 2022-21 pro-forma results summary

€ m	2022PF	2021PF	% YoY
Medical Devices	11.8	8.1	44.4
Industrial	12.3	10.6	16.3
Revenues	24.1	18.8	28.5
Increase in finished products	2.8	2.5	
Other revenues	0.8	0.4	
Value of Production	27.7	21.6	28.2
Raw material and processing	(8.8)	(6.8)	
Services	(4.5)	(3.4)	
Personnel expenses	(8.0)	(6.9)	
Other opex	(1.7)	(1.2)	
EBITDA	4.6	3.2	41.2
% margin	16.6	15.0	
D&A	(1.2)	(1.0)	
EBIT	3.4	2.2	53.0
% margin	12.2	10.2	
Financials	(0.1)	(0.1)	
Pre-Tax profit	3.3	2.2	52.4
% margin	11.9	10.0	
Income taxes	(0.8)	(0.3)	
Tax rate	24.4%	11.9%	
Minorities	0.0	0.0	
Net Profit	2.5	1.9	30.7
% margin	9.0	8.8	
Adjusted EBITDA	5.5	3.8	44.4
% margin	19.9	17.7	
NFP debt/(cash)	5.0	4.8	5.5
Adjusted NFP debt/(cash)	9.4	7.9	19.5

Source: Company data, CFO SIM analysis

In FY-22, revenues rose by 28.5% YoY to € 24.1m, thanks to solid double-digit growth of both business lines. **The Medical Devices division soared by 44.4% YoY to € 11.8m**, in light of rising volumes driven by existing customers' demand which outperformed the reference market. **The Industrial division reached € 12.3m, up by 16.3% YoY**, mainly due to the transfer of price increases to customers, as volumes remained mostly unchanged.



EBITDA rose more than proportionately to top line, reaching € 4.6m, 16.6% margin (vs € 3.2m, 15.0% margin in FY-21PF), mainly reflecting 1) overall increased volumes, 2) partial price increases, and 3) a higher contribution to sales by the more profitable Medical business line.

Adjusted EBITDA amounted to € 5.5m in 2022, 19.9% margin, compared to € 3.8m, 17.7% margin, in 2021.

EBIT totalled € 3.4m, 12.2% margin, up by 53.0% YoY reported in FY-21, despite higher D&A expenses owed to the investments made to expand production capacity. **Net Profit amounted to € 2.5m, 9.0% margin**, compared to € 1.9m, 8.8% margin, in 2021.

Net Financial Position stood at € 5.0m debt (1.1x NFP/EBITDA) slightly increasing from € 4.8m debt at year-end 2021, primarily as a result of 1) **NWC absorption of € 2.3m owing to a new agreement with two key customers of the Medical Devices division**, and 2) capex of € 2.2m in order to enlarge production capacity.

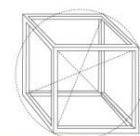
Adjusted Net Financial Position was € 9.4m (1.7x Adj. NFP/EBITDA), compared to € 7.9m in 2021, due to higher lease liabilities, mainly relating to the acquisition of new machinery.

Table 6 – Valtecne, 2022-21 pro-forma trade working capital

€ m	2021PF	2022PF	Δ TWC
Inventories	3.1	5.8	2.6
Receivables	3.1	6.4	3.4
Payables	(2.5)	(4.5)	(2.0)
Trade Working Capital	3.7	7.7	4.0
TWC/Revenues (%)	29%	41%	

Source: Company data, CFO SIM analysis

The abovementioned Medical Devices division's contracts provide that finished products are stocked by Valtecne and delivered with a multi-step approach within a predetermined period. Although the company produces in advance, the entire order is delivered within 12 months. As a consequence, **the agreement improves overall visibility, allows significant production efficiencies and, furthermore, represents another barrier to entry for competitors** that are not able to efficiently employ this kind of mechanism.



8.2. H1-23 Results

Valtecne reported brilliant 2023 interim results, characterised by an outstanding performance of the Medical Devices business line, starting to reap the fruits of the investment plan executed in 2021-22 in order to accelerate its growth. As a consequence, profitability saw a more than proportional growth compared to top line.

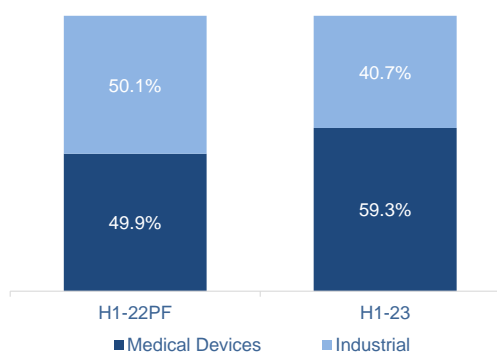
Table 7 – Valtecne, 2023-22PF interim results summary

€ m	H1-23	H1-22PF	% YoY
Medical Devices	10.1	6.8	48.2
Industrial	6.9	6.8	1.4
Revenues	17.0	13.6	24.8
Increase in finished products	(0.3)	0.0	
Other revenues	0.4	0.3	
Value of Production	17.1	13.9	22.8
Raw materials and processing	(5.1)	(4.3)	
Services	(2.2)	(2.1)	
Personnel expenses	(4.6)	(4.0)	
Other opex	(1.1)	(0.7)	
EBITDA	4.0	2.8	44.4
% margin	23.2%	19.8%	
D&A	(0.7)	(0.5)	
EBIT	3.3	2.2	47.0
% margin	19.1%	15.9%	
Financials	(0.0)	(0.0)	
Pre-Tax profit	3.2	2.2	47.6
% margin	18.9%	15.7%	
Income taxes	(0.9)	(0.6)	
Tax rate	27.1%	26.2%	
Minorities	0.0	0.0	
Net Profit	2.4	1.6	45.8
% margin	13.7%	11.6%	
Adjusted EBITDA	4.6	3.1	47.3
% margin	27.0%	22.5%	
NFP debt/(cash) *	(0.4)	5.0	n.m.
Adjusted NFP debt/(cash) *	3.3	9.4	(64.9)

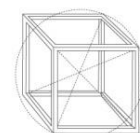
Source: Company data, CFO SIM analysis; * compared to FY-22

In H1-23, Valtecne recorded revenues of € 17.0m, up by 24.8% YoY, mostly driven by an outstanding performance of the Medical Devices division, which soared by 48.2% YoY to € 10.1m, compared to € 6.8m in H1-22, as a result of increased volumes thanks to enlarged production capacity. The Industrial division's revenues were € 6.9m, broadly unchanged YoY. As such, **the Medical Devices division now accounts nearly 60% of the company's revenue**, 10bp higher compared to H1-22.

Chart 13 – Valtecne, H1-23 vs H1-22PF revenues breakdown by business line



Source: CFO SIM's elaboration based on company data



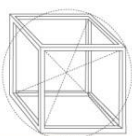
EBITDA soared by 44.4% YoY to € 4.0m, 23.2% margin (vs € 2.8m, 19.8% margin in H1-22), benefitting from 1) rising volumes, 2) the continuous shift of revenues towards the more profitable Medical Devices division, and 3) decreased energy costs. **Adjusted EBITDA rose to € 4.6m, 27.0% margin, compared to € 3.1m, 22.5% margin, in H1-22.**

EBIT reached € 3.3m, 19.1% margin, vs € 2.2m, 15.9% margin, as a consequence of the abovementioned increase in profitability, despite slightly higher D&A expenses. After almost negligible net interest expenses, **Net Profit reached € 2.4m, 13.7% margin**, compared to € 1.6m, 11.6% margin in H1-22, notwithstanding a mildly increased tax rate.

Net Financial Position stood at € 0.4m cash, compared to € 5.0m at year-end 2022. The improvement is mainly related to the fresh proceeds stemming from the IPO, and was partially counterbalanced by 1) NWC absorption of approximately € 2.9m and, 3) Capex of € 2.6m, including about € 1.0m of capitalised listing costs. **Adjusted Net Financial Position came in at € 3.3m, improving from € 9.4m at year-end 2022.**

Notably, **NWC dynamics were impacted by higher inventories due to a new contract with a key customer of the Industrial business line.** In detail, the agreement, similar to those stipulated with some major customers of the Medical Devices division, has a 1-year duration and envisages the early storage of raw materials and semi-finished products by Valtecne. **However, in this case the customer advances the entire cash disbursement.**

The second half of 2023 should confirm the growing trend of the Medical Devices division, in light of a solid order intake, although at a slower pace compared to H1-23, also due to some seasonality that characterises the division's results. In addition, deflationary trends of key raw materials coupled with an economic slowdown could somewhat have an impact on the Industrial division, albeit quite limited.



9. Financial Forecasts

In the 2016-2022 period, **Valtecne reported an outstanding CAGR_{16-22PF} of 14.2% in terms of Value of Production, mainly bolstered by double-digit growth of the Medical Devices division**, coupled with a steady progression of the Industrial division. Notably, in 2021-22 the company carried out a significant investment plan, mainly aimed at expanding considerably the production capacity of the promising Medical Devices division.

Therefore, our top line estimates are based on different assumptions for each business line:

- **Medical Devices** is anticipated to grow at a **CAGR_{22PF-25} of 20.8%**, thanks to a solid increase in volumes driven by accelerated demand from key customers. The bulk of growth will derive from **the acquisition of new strategic contracts with leading MedTech companies** as well as the broadening of the product range in market segments where Valtecne plans to enter (Trauma) or has a limited presence (Spine).
- **Industrial** is expected to expand at a **CAGR_{22PF-25} of 1.0%**. In detail, prolonged inflationary pressures as well as 'higher-for-longer' interest rates are foreseen to slow down industrial production, especially in FY-24. On the other hand, long-term growth drivers, such as demand for components to enable the automation of industrial processes as well as energy-efficiency solutions, are predicted to positively contribute to revenue growth in 2023-25.

It is worth mentioning that the Industrial division's contracts feature a clause that allows Valtecne to rebate price increases to customers, in order to tackle raw materials cost fluctuations. Therefore, inflation risk is rather low. However, rising volumes could be partially counterbalanced by the deflationary effects on main raw materials, which could cause prices to be adjusted downwards.

Further upside, not currently factored in by our estimates, could arise from the diversification of product mix aimed at lessening cyclicality and increasing profitability. The focus will be on certain industrial niches, especially those related to energy transition, where Valtecne will engage to become a supplier of high-precision components to Tier-1 manufacturers of fuel-cells electric vehicles (FCEV).

Overall, **CFO SIM expects revenues to show a double-digit CAGR_{22PF-25} of 11.5%**.

Table 8 – Valtecne, 2022PF-25e top line growth evolution breakdown

€ m	2022PF	2023e	2024e	2025e	% CAGR ₂₂₋₂₅
Revenues	24.1	28.6	30.6	33.4	11.5
Medical Devices	11.8	16.2	18.5	20.7	20.8
Industrial	12.3	12.3	12.1	12.7	1.0
% YoY					
Revenues		18.5	7.1	9.2	
Medical Devices		38.0	14.0	12.0	
Industrial		0.0	(2.0)	5.0	
% on total					
Revenues	100.0	100.0	100.0	100.0	
Medical Devices	48.8	56.8	60.5	62.0	
Industrial	51.2	43.2	39.5	38.0	

Sources: Company data, CFO SIM estimates

The revenue breakdown by business line is expected to exhibit the permanent overtake of the Medical Devices division over the Industrial one. Indeed, the former is anticipated to account for 56.8% in FY-23 and reach 62.0% of total in FY-25, from 48.8% in FY-22PF, in light of its higher growth rate than that of the Industrial business line in the 2022-25 period.

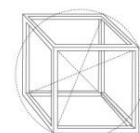


Table 9 – Valtecne, 2022PF-25e profitability evolution

€ m	2022PF	2023e	2024e	2025e	% CAGR ₂₂₋₂₅
Revenues	24.1	28.6	30.6	33.4	11.5
Increase in finished products	2.8	1.8	1.6	1.6	
Other revenues	0.8	0.6	0.5	0.5	
Value of Production	27.7	30.9	32.7	35.5	8.6
Raw material and processing	(8.8)	(9.4)	(9.7)	(10.6)	
Services	(4.5)	(4.1)	(4.3)	(4.7)	
Personnel expenses	(8.0)	(9.4)	(10.1)	(10.8)	
Other opex	(1.7)	(1.9)	(2.0)	(2.1)	
EBITDA	4.6	6.1	6.5	7.2	16.4
% margin	16.6	19.7	20.0	20.4	
D&A	(1.2)	(1.2)	(1.3)	(1.5)	
EBIT	3.4	4.9	5.2	5.7	19.1
% margin	12.2	15.7	15.9	16.1	
Adjusted EBITDA	5.5	7.0	7.5	8.2	14.0
% margin	19.9	22.7	22.8	23.0	

Sources: Company data, CFO SIM estimates

Value of Production is projected to reach € 35.5m in 2025 (CAGR_{22PF-25} of 8.6%). Afterwards, the incidence of raw materials, service costs as well as other operating expenses are anticipated to remain flat or progressively decrease in the 2023-25 period. We expect personnel costs to rise from € 8.0m in 2022 to € 10.8m in 2025, in order to sustain volumes growth.

Following an increased contribution of the Medical Devices division, which demands much higher margins, as well as operational efficiencies, **EBITDA is projected to rise at a CAGR₂₂₋₂₅ of 16.4%, totalling € 6.1m, 19.7% margin in 2023 and € 7.2m, 20.4% margin in 2025**, thus growing more than proportionally to top line. In 2023, **adjusted EBITDA is projected to reach € 7.0m, 22.7% margin**, and € 8.2m, 23.0% margin in 2025.

D&A are expected to steadily increase in 2023-25, reflecting higher capex with the aim of continuously expanding production capacity, in particular as regards the Medical Devices business line. Consequently, **EBIT is expected to amount to € 4.9m, 15.7% margin in 2023**, and to € 5.7m, 16.1% margin, in 2025.

Table 10 – Valtecne, 2022PF-25e below EBIT evolution

€ m	2022PF	2023e	2024e	2025e	% CAGR _{22PF-25}
EBIT	3.4	4.9	5.2	5.7	19.1
% margin	12.2	15.7	15.9	16.1	
Financials	(0.1)	(0.1)	(0.1)	(0.0)	
Re/(Devaluation) of financial assets	0.0	0.0	0.0	0.0	
Forex gain/(loss)	0.0	0.0	0.0	0.0	
Pre-Tax profit	3.3	4.8	5.1	5.7	20.1
% margin	11.9	15.5	15.6	16.0	
Income taxes	(0.8)	(1.3)	(1.4)	(1.5)	
Tax rate	24.4%	27.0%	27.0%	27.0%	
Minorities	0.0	0.0	0.0	0.0	
Net Profit	2.5	3.5	3.7	4.1	18.7
% margin	9.0	11.3	11.4	11.7	

Sources: Company data, CFO SIM estimates

Below EBIT, we expect low financial costs in the coming years on the back of a strong financial position, with an average interest rate on gross debt in the range of 3.5%. Noteworthy, the majority of financial liabilities bear a fixed rate, negotiated at favourable conditions compared to the current macro environment. The tax burden is predicted to be steady at a 27.0% rate. As a result, **Net Profit is expected to grow at a CAGR_{22PF-25} equal to 18.7%**, from € 3.5m, 11.3% margin, in FY-23 to € 4.1m, 11.7% margin, in FY-25.

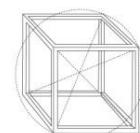


Table 11 – Valtecne, 2022PF-25e Net Financial Position and financial solidity

€ m	2022PF	2023e	2024e	2025e
Year-end NFP debt/(cash)	5.0	(0.8)	(3.4)	(6.4)
Adjusted Year-end NFP debt/(cash)	9.4	3.2	0.6	(2.4)
Gross debt	6.0	6.0	6.0	6.0
EBITDA	4.6	6.1	6.5	7.2
EBITDA Adjusted	5.5	7.0	7.5	8.2
Shareholders' equity	11.0	20.0	23.7	27.8
Minorities	0.0	0.0	0.0	0.0
Interest charges	(0.1)	(0.1)	(0.1)	(0.0)
NFP/EBITDA (x)	1.1	(0.1)	(0.5)	(0.9)
Adjusted NFP/EBITDA (x)	1.7	0.5	0.1	(0.3)
NFP/Equity	0.5	(0.0)	(0.1)	(0.2)
Interest Coverage (EBITDA)	49.3	86.4	79.2	302.3
Debt/Equity	0.5	0.3	0.3	0.2

Sources: Company data, CFO SIM estimates

In 2022-25, CFO SIM forecasts cumulated capex of approximately € 7.6m, roughly € 2.2m per year plus about € 1.0m in FY-23 relative to the capitalisation of listing costs. The main investments will be intended to 1) buy brand new equipment and machinery to strengthen production capacity and, 2) carry out process innovation, leveraging on AI-powered software to improve machining tool management and the whole industrial processing.

As a consequence, **EBITDA-FCF conversion stands in the region of 30% per year on average in 2023-25**, and **adjusted Net Financial Position is projected to decline** in the same period, turning positive for € 2.4m in 2025. Net Financial Position, calculated in accordance with domestic accounting principles (ITA GAAP), is predicted to turn positive for € 0.8m already in 2023, also thanks to the fresh resources raised with the IPO in 2023 (€ 4.5m net of listing costs).

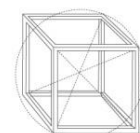
ROE is expected to be 17.5%, 15.7% and 14.9% in 2023-25, respectively. ROCE is predicted to be 18.4%, 17.2% and 16.6% in 2023-25, respectively.

We expect the **Op. NWC/Sales ratio to gradually decline, on average, to 36-37% in the 2023-25 period**, compared to 40.8% in 2021 and 41.2% in 2022, as a result of better management of inventories under the agreements entered into with some major customers of the Medical Devices division. On the other hand, DSO and DPO are predicted to remain broadly stable at 95 and 110 days throughout the period, respectively.

Table 12 – Valtecne, 2022PF-25e Net Working Capital, NFP and profitability evolution

€ m	2022PF	2023e	2024e	2025e
Op NWC	9.9	11.1	11.4	12.0
Inventories	9.3	10.5	10.8	11.3
Receivables	7.2	8.0	8.5	9.2
Payable	(6.5)	(7.5)	(7.9)	(8.5)
Op NWC/Sales (%)	41.2%	38.7%	37.2%	35.9%
Capital Employed	17.3	26.4	30.2	34.3
Capital Employed turnover	0.6	0.9	0.9	1.0
NFP debt/(cash)	5.0	(0.8)	(3.4)	(6.4)
NFP repayment YoY	0.3	(5.9)	(2.6)	(2.9)
ROACE%	20.8	22.2	18.4	17.7
ROCE %	19.5	18.4	17.2	16.6
ROE %	22.6	17.5	15.7	14.9
EBITDA	4.6	6.1	6.5	7.2
CAPEX	(2.2)	(3.2)	(2.2)	(2.2)
Free Cash Flow	(0.5)	0.8	2.6	2.9
EBITDA FCF conversion %	(11.0)	12.6	39.8	40.6

Sources: Company data, CFO SIM estimates



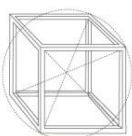
10. Valuation & Risks

CFO SIM initiates coverage of Valtecne with a Buy recommendation and a PT of € 7.00/s, 37.3% upside to current price levels. CFO SIM believes that **the DCF model is the most appropriate methodology to get a reasonable valuation**, in order to better factor in the medium-/long-term value of the stock and avoid incorporating increased stock market volatility.

The **DCF model** is based on standard small-cap settings, including $g=1.5\%$, $\beta=1$, $WACC=10.5\%$ and a sustainable 25:75 debt/equity balance-sheet structure. In accordance with the DCF model, we obtain a **valuation of Valtecne of € 7.00/s**.

We also run a **market multiples analysis**, by setting up a group of companies operating as contract manufacturers of high-precision components for several end-industries and medical devices, or that have a division focused on these activities. However, given that **currently there is not a listed company with a comparable business model to Valtecne's**, we only use our peer group analysis as a cross-check to our DCF model.

We applied the medians of the peer group's EV/EBITDA multiples to Valtecne's metrics, specifically using estimates for 2024-25 and weighted multiples at 50% for both years. As a result, we would attain an **equity valuation of Valtecne equal to € 6.70/s**, thus corroborating the valuation obtained with the DCF methodology.



10.1. DCF

In applying the DCF valuation method, we assess explicit estimates until 2027 and a long-term growth rate of 1.5%. Cash flows are discounted back at a weighted average cost of capital calculated according to the following parameters:

Table 13 – WACC derived from:

Interest costs, pre-tax	3.5%
Tax rate	27.0%
Int. costs, after taxes	2.6%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 200dd mov. avg.)	4.20%
Beta levered (x)	1.00
Required ROE	13.2%

Source: CFO SIM, Refinitiv Eikon

Risk premium at 9.0% factors in the minute size of the company and basically all Euronext Growth Milan market segment related concerns and disquiet that an investor might have. The WACC is computed using a sustainable **25:75 debt/equity** balance-sheet structure and **Beta =1**.

Table 14 – Valtecne, DCF model

€ m	2023e	2024e	2025e	2026e	2027e	TV
EBIT	4.9	5.2	5.7	6.0	6.1	
Tax rate	27.0%	27.0%	27.0%	27.0%	27.0%	
Operating profit (NOPAT)	3.5	3.8	4.2	4.4	4.5	
Change working capital	(1.1)	(0.3)	(0.6)	(0.3)	(0.1)	
Depreciation	1.2	1.3	1.5	1.8	2.0	
Investments	(3.2)	(2.2)	(2.2)	(2.1)	(2.0)	
Free Cash Flows	0.4	2.6	2.9	3.7	4.4	49.5
Present value	0.4	2.3	2.3	2.7	2.9	32.3
WACC	10.5%	10.5%	10.5%	10.5%	10.5%	
Long-term growth rate	1.5%					

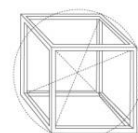
Source: CFO SIM

Table 15 – Valtecne, DCF derived from:

€ m	
Total EV present value € m	42.9
	<i>thereof terminal value</i>
	75.3%
NFP FY-22 + IPO proceeds	0.5
Pension provision	(0.4)
Equity value € m	43.0
#m shares FD	6.11
Equity value €/s	7.00
<i>% upside/(downside)</i>	37.3%

Source: CFO SIM

The application of our DCF model generates an equity value of € 7.00/s for Valtecne.



The following tables illustrate that sensitivity, 1) compared to changes in the terminal growth rate, produces an equity value of € 6.59-7.56/s (perpetuity range between 0.75% and 2.25%), while, 2) if compared to changes in the free risk rate, it produces an equity value of € 6.59-7.53/s (free risk range between 4.95% and 3.45%) and, 3) if compared to changes in the risk premium, including small size premiums, it results in an equity value of € 8.10-6.20/s (risk premium range between 10.50% and 7.50%).

Table 16 – Valtecne, equity value sensitivity to changes in terminal growth rate

€ m	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%
Present value of CF	10.6	10.6	10.6	10.6	10.6	10.6	10.6
PV of terminal value	29.6	30.5	31.4	32.3	33.3	34.4	35.5
Total value	40.2	41.0	41.9	42.9	43.9	44.9	46.1
NFP FY-22 + IPO proceeds	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Pension provision	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Equity value	40.3	41.1	42.0	43.0	44.0	45.0	46.2
Equity value/share €	6.59	6.73	6.88	7.00	7.20	7.37	7.56

Source: CFO SIM

Table 17 – Valtecne, equity value sensitivity to changes in free risk rate

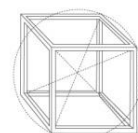
€ m	3.45%	3.70%	3.95%	4.20%	4.45%	4.70%	4.95%
Present value of CF	10.7	10.7	10.6	10.6	10.5	10.5	10.4
PV of terminal value	35.2	34.2	33.2	32.3	31.4	30.6	29.8
Total value	45.9	44.9	43.8	42.9	41.9	41.0	40.2
NFP FY-22 + IPO proceeds	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Pension provision	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Equity value	46.0	45.0	44.0	43.0	42.0	41.2	40.3
Equity value/share €	7.53	7.36	7.19	7.00	6.88	6.74	6.59

Source: CFO SIM

Table 18 – Valtecne, equity value sensitivity to changes in risk premium

€ m	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%
Present value of CF	10.9	10.8	10.7	10.6	10.5	10.4	10.3
PV of terminal value	38.5	36.3	34.2	32.3	30.6	29.0	27.5
Total value	49.4	47.0	44.9	42.9	41.0	39.4	37.8
NFP FY-22 + IPO proceeds	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Pension provision	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Equity value	49.5	47.1	45.0	43.0	41.2	39.5	37.9
Equity value/share €	8.10	7.72	7.36	7.00	6.74	6.46	6.20

Source: CFO SIM



10.2. Market Multiples

Valtecne is as a contract manufacturer that operates as a first, second or third level supplier of high-precision mechanical parts for industrial processing as well as instruments for orthopaedic surgery and implantable components.

We set up a **peer group of companies operating as contract manufacturers of high-precision components for several end-industries and medical devices**, or that have a division focused on these activities. It should be underlined that **currently there is not a proper peer of Valtecne listed on a stock exchange**. In fact, some of the following companies differ from Valtecne in terms of end-markets served and geographical reach. In addition, unlike Valtecne, they also deal with the component design phase.

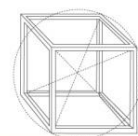
Our peer group encompasses the following companies:

Integer Holdings Corp: a US-based manufacturer of medical device components used by OEMs in the medical industry. The company also develops batteries used in non-medical applications in the energy, military, and environmental markets. The firm organizes itself into two business segments based on the product type: medical and non-medical. The medical segment uses the firm's technologies to produce components and finished medical devices, and it generates most of the revenue. The company earns more than half of its revenue in the United States.

Jabil Inc: a contract manufacturer located in the United States that offers design, production and product management services. It offers Fabrication and Assembly, Supply Chain Management, Fabrication and Assembly Supply Chain Management sourcing and procurement, integrated design and engineering, among others. Jabil caters to a wide range of industries, such as aerospace, automotive, consumer, defense, industrial, healthcare institutions, instrumentation, capital equipment, wearable technologies, medical, mobility and telecommunications, storage and printing industries.

Lisi SA: a France-based manufacturer of fasteners and assembly components for the Aerospace, Automotive, and medical implants industries. LISI designs and delivers parts, components, and high-tech devices for large international companies, such as Airbus, Boeing, BMW, CFAN, Mercedes, PSA, Renault, Safran, VW Group, and Stryker Corporation. Its business is structured in three main areas: LISI Aerospace, LISI Automotive and LISI Medical. The company's portfolio includes such products as fasteners, engine components and special parts for the aerospace industry; threaded fasteners, clipped solutions and mechanical safety components for the automotive industry, and dental components, orthopaedic implants and surgical instruments for the medical market. The company also operates through Termax LLC and Manoir Aerospace.

Scanfil Oyj: a Finland-based contract manufacturer and systems supplier in the telecommunications and electronics industries. The company's telecommunications products comprise equipment systems for mobile and telecommunications networks, network integration, as well as assemblies and testing of telecommunications modules. Additionally, Scanfil Oyj offers supply chain management services, such as sourcing and purchasing, planning of production processes and technologies, manufacture of prototype series, transfer to serial production, product testing, as well as logistics management. Its business is divided into two geographical areas: Asia, where two subsidiaries operate in China, and Europe, including Finland, Hungary, and Estonia.



Vimi Fasteners SpA: an Italy-based B2B provider for industrial companies, with a focus on mechanical components. It operates in the automotive, industrial engines and vehicles, oil and gas, aerospace, and motorsport markets. It provides a wide range of products and services for different applications, such as Engines, Turbochargers, Manifold and Exhaust Systems, Power Transmissions, Braking Systems, Suspensions and Wheels. The Engines offering includes design and production of fastener systems to assemble engine-critical components; Manifold and Exhaust Systems offers fasteners used in high temperature applications; Power Transmissions provides high fatigue resistance fastener systems; Braking Systems embraces braking system-related fastener systems developed in partnership with other companies. It mainly operates in Germany, US, and China.

West Pharmaceutical Services Inc.: a US-based manufacturer engaged in the design and production of integrated containment and delivery systems for injectable drugs and healthcare products. It operates through two segments: Proprietary Products and Contract-Manufactured Products. The Proprietary Products segment offers proprietary packaging, containment solutions, and drug delivery products, along with analytical lab services and other integrated services and solutions. The Contract-Manufactured Products segment serves as a fully-integrated business, focused on the design, manufacture, and assembly of complex devices, primarily for pharmaceutical, diagnostic, and medical device customers. This segment manufactures customer-owned components and devices used in surgical, diagnostic, ophthalmic, injectable, and other drug delivery systems.

Based on CFO SIM's estimates, which only forecast organic growth, **Valtecne offers investors higher Sales, EBITDA and EBIT CAGR₂₂₋₂₅ than its peers' median.**

Furthermore, **Valtecne shows a much higher adjusted EBITDA margin in comparison with peers and broadly aligned ROCE.**

Table 19 – Valtecne, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA margin	Sales CAGR ₂₂₋₂₅	EBITDA CAGR ₂₂₋₂₅	EBIT CAGR ₂₂₋₂₅	ROCE FY1	NFP/ EBITDA
Integer Holdings Corp	US	2,474	1,436	282	19.6%	8.4%	14.8%	25.8%	n.a.	n.a.
Jabil Inc	US	13,001	32,536	2,506	7.7%	1.8%	5.2%	8.5%	22.7%	0.5
Lisi SA	FR	1,023	1,616	199	12.3%	9.1%	9.5%	14.5%	6.5%	2.5
Scanfil Oyj	FI	527	945	86	9.1%	6.0%	12.5%	15.1%	19.9%	0.5
Vimi Fasteners SpA	IT	17	60	7	12.0%	10.3%	15.7%	24.2%	n.a.	n.m.
West Pharmaceutical Services Inc	US	26,232	2,781	776	27.9%	7.0%	6.5%	6.6%	n.a.	n.m.
Median		1,749	1,526	240	12.2%	7.7%	11.0%	14.8%	19.9%	0.5
Valtecne SpA	IT	31.2	28.6	7.0	22.7%	11.5%	14.0%	19.1%	18.4%	0.5

Sources: CFO SIM, Refinitiv Eikon

Table 20 – Valtecne, peer group EV multiple table

x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Integer Holdings Corp	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jabil Inc	0.44	0.41	0.38	5.7	5.3	5.0
Lisi SA	0.94	0.85	0.74	7.7	6.7	5.6
Scanfil Oyj	0.61	0.54	0.52	6.7	6.0	5.8
Vimi Fasteners SpA	0.28	0.26	0.24	2.3	2.0	1.8
West Pharmaceutical Services Inc	9.25	8.33	7.58	33.1	28.4	25.3
Median	0.52	0.54	0.52	6.7	6.0	5.6
Valtecne SpA	1.20	1.04	0.86	4.9	4.3	3.5
% premium/(discount) to peers	131.0	94.2	66.2	(26.6)	(28.8)	(36.5)

Sources: CFO SIM, Refinitiv Eikon

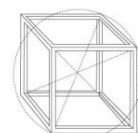


Table 21 – Valtecne, peer group EV & price multiple table

x	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Integer Holdings Corp	n.a.	n.a.	n.a.	18.1	15.7	13.7
Jabil Inc	8.9	8.1	7.5	12.2	11.4	11.0
Lisi SA	16.5	13.4	10.3	17.4	13.3	11.2
Scanfil Oyj	8.6	7.8	7.6	10.2	10.3	9.9
Vimi Fasteners SpA	6.7	4.7	3.9	12.4	7.7	6.0
West Pharmaceutical Services Inc	39.7	33.7	29.3	49.5	43.9	38.9
Median	8.9	8.1	7.6	14.9	12.4	11.1
Valtecne SpA	7.1	6.1	5.1	8.9	8.4	7.5
% premium/(discount) to peers	(20.0)	(24.8)	(33.2)	(39.9)	(32.3)	(32.1)

Sources: CFO SIM, Refinitiv Eikon

We applied the medians of the peer group's EV/EBITDA multiples to Valtecne's metrics, specifically using estimates for 2024-25 and weighted multiples at 50% for both years. As a result, we would attain an **equity valuation of Valtecne equal to € 6.70/s**.

As all companies included in the peer group draw up their financial statements in accordance with either IFRS or US GAAP, Valtecne's EBITDA and Net Financial Position figures are provided on an adjusted basis (i.e. compliant with IFRS-16 accounting principle).

Table 22 – Valtecne, equity assessment, 1#3

€ m	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Valtecne metric	28.6	30.6	33.4	7.0	7.5	8.2
Median Peers (x)	0.52	0.54	0.52	6.7	6.0	5.6
Enterprise Value	13.4	14.7	15.6	42.2	40.2	40.9
Adjusted Net Financial Position	(3.2)	(0.6)	2.4	(3.2)	(0.6)	2.4
Pension Provision	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Valtecne Equity Value	9.9	13.8	17.6	38.6	39.3	42.9
Valtecne Equity Value € /s	1.60	2.30	2.90	6.30	6.40	7.00
% upside/(downside)	(68.6)	(54.9)	(43.1)	23.5	25.5	37.3

Sources: CFO SIM, Refinitiv Eikon

Table 23 – Valtecne, equity assessment, 2#3

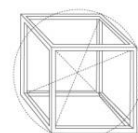
€ m	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Valtecne metric	4.9	5.2	5.7	3.5	3.7	4.1
Median Peers (x)	8.9	8.1	7.6	14.9	12.4	11.1
Enterprise Value	38.7	38.1	38.9	46.8	41.5	41.4
Adjusted Net Financial Position	(3.2)	(0.6)	2.4			
Pension Provision	(0.4)	(0.4)	(0.4)			
Valtecne Equity Value	35.1	37.1	40.9	46.8	41.5	41.4
Valtecne Equity Value € /s	5.80	6.10	6.70	7.70	6.80	6.80
% upside/(downside)	13.7	19.6	31.4	51.0	33.3	33.3

Sources: CFO SIM, Refinitiv Eikon

Table 24 – Valtecne, equity assessment, 3#3

€	FY1	FY2	FY3
EV/Adjusted EBITDA	6.30	6.40	7.00
Weighting	0.0%	50.0%	50.0%
Equity Value	6.70		
% upside/(downside)	31.4%		

Sources: CFO SIM, Refinitiv Eikon



10.3. Peer Stock Performance

Valtecne was listed on Euronext Growth Milan on 1-Mar-23 at € 5.00/share corresponding to a post-money market capitalisation of € 30.5m. **Valtecne now trades slightly below the IPO price**, and reached An intraday 1Y maximum price of € 6.50/s on 1-Mar-23 and a minimum level of € 4.30/s on 21-Sep-23.

Table 25 – Valtecne, peer group and index absolute performance

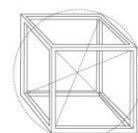
	1D	1W	1M	3M	6M	YTD	1Y
Integer Holdings Corp	(0.2)	(3.2)	(5.9)	(10.0)	(0.2)	14.7	28.4
Jabil Inc	(2.5)	(2.0)	(9.0)	1.5	26.1	54.0	87.0
Lisi SA	(0.2)	(4.1)	(1.3)	(12.2)	(8.9)	12.8	24.4
Scanfil Oyj	(1.2)	(5.3)	(14.9)	(17.2)	3.9	22.5	45.5
Vimi Fasteners SpA	0.0	(0.8)	(5.2)	(3.8)	(4.5)	10.9	13.4
West Pharmaceutical Services Inc	(0.1)	(4.4)	(9.0)	1.6	10.5	59.5	48.5
Median	(0.2)	(3.7)	(7.5)	(6.9)	1.8	18.6	36.9
Valtecne SpA	(0.8)	16.4	16.4	5.4	(0.8)	-	-
MSCI World Index	(1.2)	(3.6)	(4.4)	(2.6)	5.2	9.3	18.1
EUROSTOXX	(0.9)	(2.7)	(4.5)	(3.1)	(1.2)	6.6	19.0
FTSE Italia All Share	(1.0)	(2.5)	(3.2)	1.6	5.1	16.3	30.0
FTSE Italia STAR	(1.2)	(4.0)	(9.2)	(11.1)	(14.3)	(11.0)	(0.3)
FTSE Italia Growth	(1.1)	(2.5)	(6.0)	(7.3)	(10.4)	(9.6)	(6.0)

Source: Refinitiv Eikon

Table 26 – Valtecne, relative performance

	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	0.4	20.0	20.8	8.0	(6.0)	-	-
to EUROSTOXX	0.1	19.1	20.9	8.5	0.4	-	-
to FTSE Italia All Share	0.3	18.9	19.6	3.8	(5.9)	-	-
to FTSE Italia STAR	0.4	20.4	25.6	16.5	13.6	-	-
to FTSE Italia Growth	0.3	19.0	22.5	12.6	9.7	-	-
to Peers Median	(0.6)	20.1	23.9	12.3	(2.6)	-	-

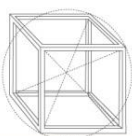
Source: Refinitiv Eikon



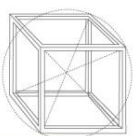
10.4. Risks

The principal investment **risks** associated with Valtecne include:

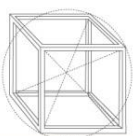
- regulatory changes in the supplier accreditation processes may slow down top line growth;
- a limited M&A track record;
- the rise of new breakthrough technology may disrupt current production processes;
- an adverse macroeconomic environment could have an impact on the group's performance, although the company's reference markets, especially orthopaedics, are rather anticyclical and enjoy long-term favourable trends.



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ANALYST CERTIFICATION

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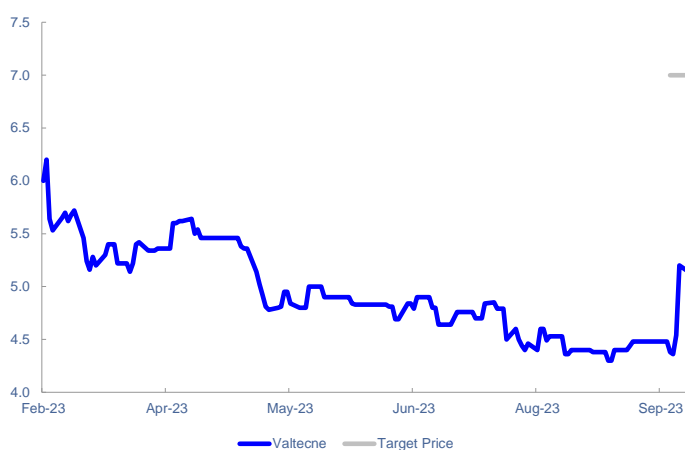
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DATE	TARGET PRICE	RATING
27/09/2023	€ 7.00	BUY

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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

