

EL.EN.

BUY

SECTOR: Industrials

Price (Eu):

16.40

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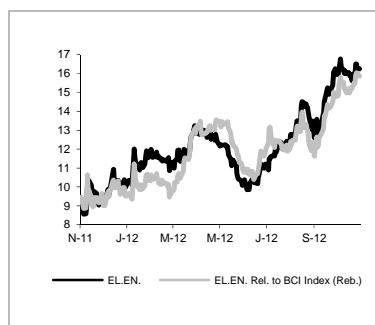
Target Price (Eu):

20.10

## Positive Results; Actively Working On Corporate Structure

- 3Q12 results: improving financials, healthy cash generation.** El.En posted sales of Eu33.5mn in 3Q12, up 10.0% YoY (after posting 14.6% growth in 1Q12 and 8.3% in 2Q12) and in line with our estimate. The Medical business performed well (driven by sales of lasers for aesthetic treatments); the Industrial business was broadly flat due to slowdowns in Brazil and China, whereas the service business grew steadily. In 312 EBITDA almost doubled to Eu3.0mn and D&A were unchanged at Eu1.3mn. As a result, EBIT jumped to Eu1.7mn; the margin on sales increased to 5.2% from 0.9% in 3Q11, boosted by sound operating leverage. El.En posted a pre-tax profit of Eu1.1mn, up 32.5% YoY and 75.3% above our estimate despite net financial charges of Eu0.7mn due to negative changes in the USD/EUR exchange rate in the quarter. El.En's net cash position increased (above our expectation) from Eu5.3mn at June 2012 to Eu7.8mn at September 2012, due to active working capital management.
- Positive triggers from minorities buyout and sale of Cynosure shares.** In October, for a total of Eu5.6mn, El.En bought a 40% stake in Quanta System (Eu21.2mn of sales in 2011, EBIT of Eu0.8mn) and a 10% stake in DEKA MELA (Eu23.7mn of sales in 2011, EBIT of Eu1.4mn), and now owns 100% and 85% of the share capital in the respective two companies. A few days ago, in conjunction with Cynosure's rights issue, El.En sold some of its shares (840k out of about 3mn) for USD20.5 each, cashing in a total of Eu12.9mn and reducing its stake to 13%, forfeiting control of the US company and the right to consolidate it. In our opinion, both transactions are value-accretive in the sense that they reduce the weight of minorities and make the group's structure less complex: this could potentially lead to a stock re-rating.
- 2012 guidance reaffirmed.** Management stated that "the current situation allows... to confirm for the full year forecasts of a 10% increase in turnover and operating profit of 5% on revenues for El.En ex-Cynosure". Our estimates are in line with the guidance provided: we forecast sales of Eu151.6mn, equal to a top line growth of 10.3% (+10.8% in 9M12, +9.0% in 4Q12E), and EBIT of Eu7.7mn, or 5.1% of sales (vs. 5.1% in 9M12, 4.9% in 4Q12E). The major changes to our 2012 estimates (pre-tax +59.7%, reported net profit +236.5%) are due to the net capital gain of Eu5.6mn from the sale of Cynosure shares. 2012 restated net profit would otherwise have been cut by 20.7% given higher net financial charges. Our 2013 and 2014 estimates remained broadly unchanged.
- BUY confirmed, target price lowered to Eu20.1.** Our new target price, based on an SoP valuation which adds the value of El.En without Cynosure (based on a DCF model, net of minorities) to the market value of El.En's 13% stake in Cynosure, is mainly the result of Cynosure's negative stock performance (-18.2% since our last report dated 5th September 2012). We reiterate our positive stance on the stock as El.En should benefit from its high exposure to the medical and aesthetic treatment sector, which enjoys sustainable growth drivers, and from the industrialisation of fast-growing countries such as Brazil and China, which should benefit the industrial laser systems business. Given the net capital gain booked, upcoming positive catalysts could include an additional buyout of minorities (relevant shareholders are in Wuhan Penta Chutian and in With Us) and/or an extraordinary dividend payment.

### EL.EN. - 12m Performance



Eu/USD: 1.275 2012; 1.30 2013/14

RATING: Unchanged

TARGET PRICE (Eu): from 22.8 to 20.1

Change in EPS est:	2012E	2013E
	-20.7%	-1.5%

### STOCK DATA

Reuters code: ELEN.MI  
Bloomberg code: ELN IM

Performance	1m	3m	12m
Absolute	1.9%	32.1%	67.2%
Relative	7.0%	33.0%	68.1%
12 months H/L:	16.77/8.55		

### SHAREHOLDER DATA

No. of Ord. shares (mn):	5
Total No. of shares (mn):	5
Mkt Cap Ord (Eu mn):	78
Total Mkt Cap (Eu mn):	78
Mkt Float - ord (Eu mn):	33
Mkt Float (in %):	42.7%
Main shareholder:	
Cangioli Andrea	13.4%

### BALANCE SHEET DATA

	2012
Book value (Eu mn):	94
BVPS (Eu):	21.71
P/BV:	0.7
Net Financial Position (Eu mn):	20
Enterprise value (Eu mn):	29

	2011A	2012E	2013E	2014E	
Sales (Eu mn)	133	137	152	166	
Ebitda (Eu mn)	13	11	13	16	
Net profit (Eu mn)	2	1	7	4	
EPS - New (Eu)	0.456	0.149	0.358	0.665	
EPS - Old (Eu)			0.451	0.675	
DPS (Eu)	0.200	0.000	0.143	0.266	
Ratios & Multiples	2010A	2011A	2012E	2013E	2014E
P/E	35.6	nm	45.4	24.4	19.7
Div. Yield	1.2%	0.0%	0.9%	1.6%	2.0%
EV/Ebitda	5.7	5.8	2.2	1.7	1.4
ROCE	10.4%	6.0%	8.8%	11.6%	12.9%

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**EL.EN. - KEY FIGURES**

		2010A	2011A	2012E	2013E	2014E
	Fiscal year end	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	133	137	152	160	166
	EBITDA	13	11	13	16	17
	EBIT	8	5	8	10	11
	Financial income (charges)	0	0	0	0	0
	Associates & Others	(1)	(0)	5	(1)	(1)
	Pre-tax profit (Loss)	8	5	12	9	11
	Taxes	(4)	(3)	(4)	(4)	(4)
	Tax rate (%)	-48.7%	-55.8%	-29.1%	-44.6%	-40.3%
	Minorities & discontinue activities	(2)	(1)	(1)	(2)	(2)
	Net profit	2	1	7	3	4
	Total extraordinary items			6		
Ebitda excl. extraordinary items	13	11	13	16	17	
Ebit excl. extraordinary items	8	5	8	10	11	
Net profit restated	2	1	2	3	4	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	5	5	5	5	5
	EPS stated fd	0.456	0.149	1.519	0.665	0.826
	EPS restated fd	0.456	0.149	0.358	0.665	0.826
	BVPS fd	18.800	19.008	21.709	22.523	23.516
	Dividend per share (ord)	0.200	0.000	0.143	0.266	0.330
	Dividend per share (sav)					
Dividend pay out ratio (%)	43.9%	0.0%	11.9%	40.6%	42.4%	
<b>CASH FLOW (Eu mn)</b>	Gross cash flow	5	5	11	7	7
	Change in NWC	(16)	(10)	1	(2)	(2)
	Capital expenditure	(5)	(5)	(5)	(6)	(6)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(16)	(10)	7	3	5
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	0	(1)	0	(1)	(1)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	(27)	8	19	2	3	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	37	36	33	33	33
	Net working capital	47	57	56	58	60
	Long term liabilities	(3)	(3)	(5)	(5)	(5)
	Net capital employed	81	90	84	86	88
	Net financial position	10	2	20	23	26
	Group equity	91	92	105	109	113
	Minorities	9	10	11	13	15
Net equity	82	82	94	96	98	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	78	78	78	78	78
	Adjustments (associate & minorities)	(7)	13	29	29	29
	Net financial position	10	2	20	23	26
	Enterprise value	76	63	29	27	24
<b>RATIOS(%)</b>	EBITDA margin*	10.1%	7.9%	8.6%	9.7%	10.2%
	EBIT margin*	6.3%	3.7%	5.1%	6.2%	6.7%
	Gearing - Debt/equity	-11.0%	-2.0%	-19.5%	-21.0%	-22.9%
	Interest cover on EBIT	nm	nm	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	10.4%	6.0%	8.8%	11.6%	12.9%
	ROE*	5.4%	0.9%	8.3%	3.4%	4.1%
	EV/CE	0.9	0.7	0.3	0.3	0.3
	EV/Sales	0.6	0.5	0.2	0.2	0.1
	EV/Ebit	9.0	12.4	3.8	2.7	2.1
Free Cash Flow Yield	-18.2%	-15.9%	13.8%	5.5%	9.2%	
<b>GROWTH RATES (%)</b>	Sales	30.3%	3.6%	10.3%	5.8%	3.8%
	EBITDA*	484.2%	-18.8%	21.0%	18.3%	9.7%
	EBIT*	nm	-39.1%	51.2%	28.6%	13.1%
	Net profit	nm	-67.3%	917.5%	-56.2%	24.1%
	EPS restated	nm	-67.3%	139.8%	86.0%	24.1%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

## 3Q12 Results

Excluding Cynosure, El.En posted sales of Eu33.5mn in 3Q12, up 10.0% YoY (after posting 14.6% growth in 1Q12 and 8.3% in 2Q12) and in line with our estimate. The Medical business performed well (driven by sales of lasers for aesthetic treatments); the Industrial business was broadly flat due to slowdowns in Brazil and China, whereas the service business grew steadily.

EBITDA almost doubled in 3Q12 to Eu3.0mn and D&A were unchanged at Eu1.3mn. As a result, EBIT jumped to Eu1.7mn; the margin on sales increased to 5.2% from 0.9% in 3Q11, boosted by sound operating leverage.

El.En posted a pre-tax profit of Eu1.1mn, up 32.5% YoY and 75.3% above our estimate despite net financial charges of Eu0.7mn due to negative changes in the USD/EUR exchange rate in the quarter.

In the first nine months of 2012, the industrial division reported a 2.3% YoY increase in sales to Eu26.6mn, with sales of cutting lasers, the reference market that represents 70% of sales in the division, up 3.2% YoY, while emerging markets (mainly China and Brazil) experienced a slowdown.

Sales of medical systems showed a double digit increase (+14.9% YoY to Eu61.4mn) as a result of strong growth (+24.2% YoY) in lasers for aesthetic treatments (the biggest application representing 63% of the division sales). The service business went well, with sales up 11.3% YoY to Eu20.3mn.

By geographical area, sales in Italy grew by 5.6% YoY, Europe was up 6.6% YoY, while sales in the Rest of the World increased by 13.9% YoY.

El.En's net cash position increased from Eu5.3mn at the end of June 2012 to Eu7.8mn at the end of September 2012, above our expectations.

### El.En ex Cynosure 2012 Quarterly Results

(€ mn)	1Q11A	1Q12A	2Q11A	2Q12A	3Q11A	3Q12A	3Q12E	A v E	9M11A	9M12A
<b>Sales</b>	<b>30.9</b>	<b>35.4</b>	<b>36.4</b>	<b>39.4</b>	<b>30.4</b>	<b>33.5</b>	<b>33.0</b>	<b>1.5%</b>	<b>97.7</b>	<b>108.3</b>
YoY growth %		14.6%		8.3%		10.0%	8.4%			10.8%
<b>EBITDA</b>	<b>2.4</b>	<b>2.4</b>	<b>3.7</b>	<b>3.9</b>	<b>1.5</b>	<b>3.0</b>	<b>2.1</b>	<b>42.9%</b>	<b>7.6</b>	<b>9.3</b>
Ebitda margin %	7.8%	6.8%	10.1%	9.9%	5.0%	9.0%	6.4%		7.8%	8.6%
YoY growth %		0.2%		6.3%		96.1%	37.3%			22.5%
Total D&A	(1.4)	(1.2)	(1.5)	(1.3)	(1.3)	(1.3)	(1.1)		(4.1)	(3.7)
<b>EBIT</b>	<b>1.0</b>	<b>1.2</b>	<b>2.2</b>	<b>2.6</b>	<b>0.3</b>	<b>1.7</b>	<b>1.0</b>	<b>74.2%</b>	<b>3.5</b>	<b>5.6</b>
Ebit margin %	3.3%	3.5%	6.0%	6.6%	0.9%	5.2%	3.0%		3.5%	5.1%
YoY growth %		22.4%		18.8%		n.m.	n.m.			61.2%
Net financials & Participations	(1.0)	(0.6)	(0.2)	0.3	0.5	(0.7)	(0.4)		(0.7)	(1.0)
<b>Pretax Profit</b>	<b>0.0</b>	<b>0.6</b>	<b>2.0</b>	<b>2.9</b>	<b>0.8</b>	<b>1.1</b>	<b>0.6</b>	<b>75.3%</b>	<b>2.8</b>	<b>4.6</b>
YoY growth %		n.m.		46%		32%				65.1%

Source: Company data and Intermonete Sim

## Guidance

In the press release management stated: "Third quarter financial results confirm the trend for the year; they are satisfactory, with Cynosure and overall consolidated financials better than expected, while consolidated financials without Cynosure were in line with expectations. The current situation allows, for sub-consolidated financials drafted with Cynosure excluded, confirmation of full year forecasts made at the beginning of the year: a 10% increase in turnover and an operating profit margin of 5% of sales".

## Estimates

We left estimates for EI.En broadly unchanged for the 2012-2014 period. Changes to our 2012 estimates (pre-tax profit +59.7%, reported net profit +236.5%) are due to the net capital gain of Eu5.6mn from sales of Cynosure shares. 2012 restated net profit would therefore be 20.7% lower given higher net financial charges. Our 2013 and 2014 estimates remained broadly unchanged.

EI.En ex Cynosure Change in estimates				
(€ mn)	2011A	2012E	2013E	2014E
<b>Sales new</b>	<b>137.4</b>	<b>151.6</b>	<b>160.3</b>	<b>166.3</b>
Sales old		151.6	159.7	166.6
<b>% change</b>		<b>0.0%</b>	<b>0.4%</b>	<b>-0.2%</b>
<b>EBITDA new</b>	<b>10.8</b>	<b>13.1</b>	<b>15.5</b>	<b>17.0</b>
EBITDA old		13.5	15.5	17.0
<b>% change</b>		<b>-3.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>EBIT new</b>	<b>5.1</b>	<b>7.7</b>	<b>9.9</b>	<b>11.2</b>
EBIT old		8.0	9.8	11.0
<b>% change</b>		<b>-3.8%</b>	<b>1.5%</b>	<b>1.8%</b>
<b>Pretax Profit new</b>	<b>4.8</b>	<b>12.3</b>	<b>9.4</b>	<b>10.7</b>
Pretax Profit old		7.7	9.3	10.6
<b>% change</b>		<b>59.7%</b>	<b>1.6%</b>	<b>0.9%</b>
<b>Group Net profit new</b>	<b>0.7</b>	<b>7.3</b>	<b>3.2</b>	<b>4.0</b>
Group Net Profit old		2.2	3.3	4.2
<b>% change</b>		<b>236.5%</b>	<b>-1.5%</b>	<b>-5.5%</b>
<b>Restated Net profit new</b>		<b>1.7</b>		
Restated Net Profit old		2.2		
<b>% change</b>		<b>-20.7%</b>		

Source: Company data and Intermonte Sim

### El.En ex Cynosure P&L Estimates

(€ mn)	2007A	2008A	2009A	2010A	2011A	2012E	2013E	2014E	CAGR11-14E
<b>Sales</b>	<b>110.3</b>	<b>140.0</b>	<b>101.8</b>	<b>132.6</b>	<b>137.4</b>	<b>151.6</b>	<b>160.3</b>	<b>166.3</b>	<b>6.6%</b>
YoY growth %		26.9%	-27.3%	30.3%	3.6%	10.3%	5.8%	3.8%	
<b>EBITDA</b>	<b>12.3</b>	<b>18.5</b>	<b>2.3</b>	<b>13.3</b>	<b>10.8</b>	<b>13.1</b>	<b>15.5</b>	<b>17.0</b>	<b>16.2%</b>
Ebitda margin %	11.1%	13.2%	2.2%	10.1%	7.9%	8.6%	9.7%	10.2%	
YoY growth %		50.2%	-87.6%	484.2%	-18.8%	21.0%	18.3%	9.7%	
Total D&A	(2.7)	(4.6)	(3.7)	(5.0)	(5.7)	(5.4)	(5.6)	(5.8)	
<b>EBIT</b>	<b>9.6</b>	<b>13.8</b>	<b>-1.5</b>	<b>8.4</b>	<b>5.1</b>	<b>7.7</b>	<b>9.9</b>	<b>11.2</b>	<b>30.0%</b>
Ebit margin %	8.7%	9.9%	-1.4%	6.3%	3.7%	5.1%	6.2%	6.7%	
YoY growth %		44.7%	-110.5%	-674.6%	-39.1%	51.2%	28.6%	13.1%	
Net financial charges	17.7	(0.1)	(0.6)	(0.7)	(0.3)	4.6	(0.5)	(0.5)	
<b>Pretax Profit</b>	<b>27.3</b>	<b>13.8</b>	<b>-2.0</b>	<b>7.7</b>	<b>4.8</b>	<b>12.3</b>	<b>9.4</b>	<b>10.7</b>	<b>30.9%</b>
Taxes	(4.6)	(5.1)	(0.9)	(3.7)	(2.7)	(3.6)	(4.2)	(4.3)	
Minorities	(1.0)	(0.6)	(0.2)	(1.8)	(1.4)	(1.4)	(2.0)	(2.4)	
<b>Group Net Profit</b>	<b>21.6</b>	<b>8.1</b>	<b>-3.1</b>	<b>2.2</b>	<b>0.7</b>	<b>7.3</b>	<b>3.2</b>	<b>4.0</b>	<b>76.9%</b>
Net margin %	19.6%	5.8%	-3.0%	1.7%	0.5%	4.8%	2.0%	2.4%	
YoY growth %		-62.5%	-137.9%	-171.6%	-67.3%	917.5%	-56.2%	24.1%	

### Restated Group Net Profit

1.7

Source: Company data and Intermonte Sim

## Valuation

### SOP

For our valuation of the EI.En Group, we have used a sum of the parts (SoP) model, adding together the value of EI.En without Cynosure (based on a discounted cash flow model, net of the cashflow pertaining to minority shareholders) and the market value of EI.En's 13% stake in Cynosure (NASDAQ: CYNO US). Our new target price of Eu20.1, which is 11.7% lower than in our last note dated 5<sup>th</sup> September 2012, is the result of a lower market value for Cynosure (-18.2%).

#### EI.En Group - SOP (€ mn)

	Method	€ mn	€ per share	previous (05-09-2012)	change
EI.En ex Cynosure	DCF, net of minorities	59.0	12.2	8.9	37.3%
EI.En stake in Cynosure	market value	38.1	7.9	13.9	-43.1%
<b>Total Equity Value</b>		<b>97.1</b>	<b>20.1</b>	22.8	-11.7%
EI.En Share Price			16.3	14.3	13.4%
<b>potential upside</b>			<b>23.9%</b>	59.1%	

Source: Intermonte Sim

Once we restate EI.En Group's EV for the value of its stake in Cynosure (Eu38.1mn based on market prices) we can see that EI.En ex-Cynosure (even adding back Eu9.2mn, the book value of its minority interests at 1H12) is trading at undemanding multiples based on current market prices.

#### EI.En ex Cynosure multiples at our DCF fair value

	2011	2012	2013	2014
P/E	81.9	34.2	18.4	14.8
EV/Sales	0.43	0.39	0.37	0.35
EV/Ebitda	5.5	4.5	3.8	3.5
EV/Ebit	11.6	7.7	6.0	5.3

Source: Intermonte Sim

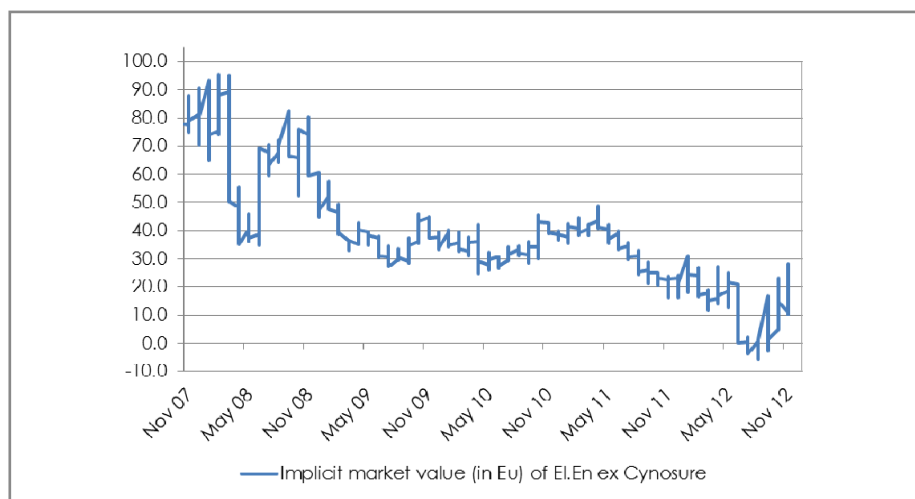
#### EI.En ex Cynosure multiples at current market prices

	2011	2012	2013	2014
P/E	30.2	23.3	12.5	10.1
EV/Sales	0.24	0.19	0.17	0.14
EV/Ebitda	3.1	2.2	1.7	1.4
EV/Ebit	6.5	3.8	2.7	2.1

Source: Intermonte Sim

The implicit market value of EI.En net of its stake in Cynosure (valued at market prices) has decreased significantly in the last few years.

#### EI.En - Implicit market value net of Cynosure



Source: Factset

## Peer Group

### El.En Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>Cynosure</b>	<b>18.0</b>	<b>EUR - Euro</b>	<b>240</b>	<b>1.3%</b>	<b>-16.1%</b>	<b>14.3%</b>	<b>98.8%</b>	<b>98.8%</b>	<b>146.3%</b>
<b>El.En</b>	<b>16.4</b>	<b>EUR - Euro</b>	<b>79</b>	<b>3.1%</b>	<b>33.1%</b>	<b>32.9%</b>	<b>64.4%</b>	<b>69.1%</b>	<b>23.8%</b>
Syneron Medical Ltd.	6.0	USD - US Dollar	214	-17.9%	-25.8%	-26.5%	-29.2%	-22.8%	-21.8%
Palomar Medical Technologies Inc.	6.5	USD - US Dollar	127	-0.5%	-9.1%	-0.2%	-9.6%	9.2%	-25.6%
Cutera Inc.	7.0	USD - US Dollar	99	18.8%	15.5%	27.1%	21.8%	22.2%	33.4%
Biolase Inc	1.5	USD - US Dollar	45	-9.8%	9.0%	-23.8%	-25.2%	-33.2%	39.5%
Solta Medical Inc.	2.0	USD - US Dollar	140	-10.0%	-15.9%	-7.5%	-15.8%	20.8%	31.9%
<b>Medical avg</b>				<b>-3.9%</b>	<b>-5.3%</b>	<b>-6.2%</b>	<b>-11.6%</b>	<b>-0.8%</b>	<b>11.5%</b>
<b>Italy Fixed</b>	<b>263.7</b>	<b>EUR - Euro</b>	<b>363,448</b>	<b>-3.3%</b>	<b>2.1%</b>	<b>13.3%</b>	<b>2.2%</b>	<b>-0.4%</b>	<b>-28.2%</b>

Source: Factset

### El.En Peer Group - Multiples Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales 2012	EV/Sales 2013	P/BV 2012	P/BV 2013
<b>Cynosure</b>	<b>18.0</b>	<b>EUR - Euro</b>	<b>240</b>	<b>1.9</b>	<b>1.6</b>	<b>2.8</b>	<b>2.5</b>
<b>El.En</b>	<b>16.4</b>	<b>EUR - Euro</b>	<b>79</b>	<b>0.2</b>	<b>0.2</b>	<b>0.7</b>	<b>0.7</b>
Syneron Medical Ltd.	6.0	USD - US Dollar	214	0.6	0.5	1.5	1.4
Palomar Medical Technologies Inc.	6.5	USD - US Dollar	127	0.9	0.8	1.1	1.1
Cutera Inc.	7.0	USD - US Dollar	99	0.6	0.5	1.3	1.3
Biolase Inc	1.5	USD - US Dollar	45	1.1	0.9	4.3	3.7
Solta Medical Inc.	2.0	USD - US Dollar	140	1.3	1.2	2.1	2.0
<b>Medical avg</b>				<b>0.9</b>	<b>0.8</b>	<b>1.5</b>	<b>1.4</b>

Source: Factset consensus estimates for peer group, Intermonte estimates for El.En

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**DETAILS ON STOCKS RECOMMENDATION**

Stock NAME	EL.EN.		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (€):	20.10	Previous Target (€):	22.80
Current Price (€):	16.40	Previous Price (€):	14.30
Date of report:	21/11/2012	Date of last report:	05/09/2012

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