

## El. En. (ELN.IM)

### Sector: Medical & Industrial Laser

#### 9M17: Improved guidance FY2017

January 22<sup>nd</sup>, 2018

#### Investment summary

- El.En. Group is active in the design, production, R&D, distribution and sale worldwide of laser systems. There are two main areas of application, MEDICAL laser devices for medicine and aesthetics and INDUSTRIAL laser solutions for industry manufacturing and restoration.
- The Group grew both through acquisitions and through internal lines, establishing several companies; in the medical sector, the companies that are part of the Group are DEKA, Asclepion, Quanta System, Asa and Cynosure (then exit). With reference to the industrial sector, the Group's Chinese companies (growth for internal lines) are performing very well: now the Group is one of the most important players in China in the laser metal cutting market.
- In light of the results achieved in the 9M and in the current favorable conditions on the main markets, El.En. believes that reaching the 300M€ turnover threshold at the end of the year is a concrete objective, much higher than the guidance at the beginning of the year. The EBIT guidance has also been updated at over 10% of turnover.

#### Latest results

- In the 9M2017 El.En. financial results recorded a record growth in terms of turnover, the revenues increased 21.6% compared to 9M2016 and amounted to 218.4M€ driven by the industrial division, which grew more than 52% yoy, thanks to the performance of Chinese JV – the incidence on the turnover of the industrial sector grew from 34% in 2016 to 43% in 2017. The trend of the medical sector, in particular aesthetics and urology, has also been positive. The Ebitda amounted to 26.5M€ (+15.6% yoy) and profitability declined to 12.2% of revenues due to a change in the sales mix in which industrial sales continues to rise.
- The NFP at 9M2017 was positive (cash) for 75.8M€, down compared to 31/12/2016, as a result of NWC increase and dividends payment for 8.5M€.

#### Valuation

- El.En. has a leading market positioning and important drivers for further growth: the technological shift of recent years has given a major boost to growth in the industrial sector (laser cutting), especially in China but also in the Italian market.
- Company valuation is based on 3-year financial plan, related cash flow projections and TV computed using *Twice's* SGA P/E, the model updated returns a fair value of 31.96€ per share.

#### Risks

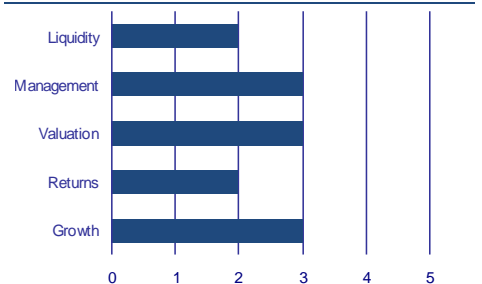
- Company turnover and profitability depend on USD exchange rates trend and the demand trends in the reference markets.

Forecast	16A	17E	18E	19E
Sales (€M)	252.6	302.1	325.1	346.7
EBIT (€M)	27.6	30.5	34.4	38.9
EPS (€)	2.23	1.17	1.31	1.48
Valuation	16A	17E	18E	19E
SHARE PRICE	14.3	26.3	33.8	35.7
EV/EBITDA	6.1	12.2	14.5	13.6
P/E	6.4	22.5	25.7	24.1
Dividend yield	2.8%	1.5%	1.3%	1.4%

#### Key Data

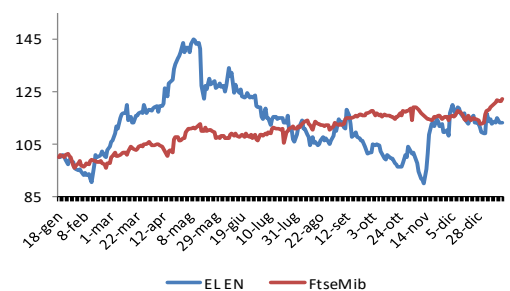
Price (€)	27.3
Market cap (€M)	527.7
Equity Value (€M)	616.8
<b>Fair Value (€)</b>	<b>31.96</b>
P/E LTM	11.8
P/E TTM	11.8

#### Investment Profile from 1 worst to 5 best



#### Stock data

Ticker Bloomberg	ELN.IM
N° of shares (M)	19.3
Free float	41.8%
Main shareholder	Andrea Cangioli (15.2%)
Daily trading volume	49,573 shares



Share Price perf (%)	3M	6M	1Y
Absolute	13.8%	-1.2%	13.3%
Rel. to FtseMib	8.1%	-11.2%	-8.7%

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## FINANCIALS

Income statement (€M)	16A	17E	18E	19E	Balance sheet (€M)	16A	17E	18E	19E
<b>Sales</b>	<b>252.6</b>	<b>302.1</b>	<b>325.1</b>	<b>346.7</b>	LONG LIVED ASSETS	58.2	57.6	64.4	69.2
COGS	142.1	175.8	186.9	197.6	WC	59.2	78.5	84.5	88.4
Gross Profit	110.5	126.3	138.2	149.1	<b>CAPITAL EMPLOYED</b>	<b>117.4</b>	<b>136.1</b>	<b>148.9</b>	<b>157.6</b>
<b>EBITDA</b>	<b>32.4</b>	<b>35.5</b>	<b>39.6</b>	<b>44.1</b>	EQUITY	181.8	196.7	213.5	232.4
Depreciation, Amortization	4.8	5.0	5.2	5.2	MINORITY INTEREST	10.9	10.9	10.9	10.9
<b>EBIT</b>	<b>27.6</b>	<b>30.5</b>	<b>34.4</b>	<b>38.9</b>	PROVISIONS	3.5	3.5	3.5	3.5
Net Financial Results	25.1	0.4	0.4	0.4	PENSIONS (e.g. TFR)	3.9	3.9	3.9	3.9
Income tax	-9.7	-8.4	-9.5	-10.7	NET DEBT (*)	-82.6	-78.9	-82.8	-93.0
<b>Net result before Minority</b>	<b>43.0</b>	<b>22.5</b>	<b>25.3</b>	<b>28.6</b>	<b>CAPITAL INVESTED</b>	<b>117.4</b>	<b>136.1</b>	<b>148.9</b>	<b>157.6</b>
<b>EPS (€)</b>	<b>2.23</b>	<b>1.17</b>	<b>1.31</b>	<b>1.48</b>					
<b>DPS (€)</b>	<b>0.40</b>	<b>0.39</b>	<b>0.45</b>	<b>0.50</b>					
Margin (%)	16A	17E	18E	19E	Ratios	16A	17E	18E	19E
Gross Margin	43.8%	41.8%	42.5%	43.0%	<b>ROCE after tax</b>	<b>14.1%</b>	<b>13.4%</b>	<b>13.9%</b>	<b>15.9%</b>
EBITDA Margin	12.8%	11.7%	12.2%	12.7%	ROE	23.6%	11.4%	11.9%	12.3%
EBIT Margin	10.9%	10.1%	10.6%	11.2%	<b>Capital Turnover</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.4</b>
Net Margin before Minority	17.0%	7.5%	7.8%	8.3%	<b>Net Debt / EBITDA</b>	<b>-2.4</b>	<b>-2.1</b>	<b>-2.0</b>	<b>-2.0</b>
					Gearing	-43.3%	-38.1%	-37.0%	-38.4%
Growth (%)	16A	17E	18E	19E	<b>WC / Sales</b>	<b>23.4%</b>	<b>26.0%</b>	<b>26.0%</b>	<b>25.5%</b>
Sales growth	16.1%	19.6%	7.6%	6.6%	Amortization / Sales	1.9%	1.7%	1.6%	1.5%
EBIT growth	28.4%	10.5%	12.8%	13.1%	<b>Capex / Sales</b>	<b>-12.3%</b>	<b>1.8%</b>	<b>3.7%</b>	<b>2.9%</b>
Net growth	167.9%	-47.6%	12.5%	13.0%	EPS growth	167.9%	-47.6%	12.5%	13.0%
					<b>PEG</b>	<b>3.8</b>	<b>-47.3</b>	<b>205.8</b>	<b>184.9</b>
Cash Flow statement (€M)	16A	17E	18E	19E	Valuation	16A	17E	18E	19E
Cash Flow	47.8	27.5	30.5	33.8	<b>EV/Sales</b>	<b>0.8</b>	<b>1.4</b>	<b>1.8</b>	<b>1.7</b>
+/- Var. Working Capital	5.3	-19.3	-6.0	-3.9	<b>EV/EBITDA</b>	6.1	12.2	14.5	13.6
<b>Operating Cash Flow</b>	<b>53.1</b>	<b>8.2</b>	<b>24.5</b>	<b>30.0</b>	EV/EBIT	7.2	14.2	16.7	15.4
Op. Cash Flow / Sales	21.0%	2.7%	7.5%	8.6%	<b>P/E before Minority</b>	<b>6.4</b>	<b>22.5</b>	<b>25.7</b>	<b>24.1</b>
Capex	31.0	-5.5	-12.0	-10.0	P/B	1.5	2.6	3.1	3.0
<b>FCF</b>	<b>84.1</b>	<b>2.7</b>	<b>12.5</b>	<b>20.0</b>	<b>EV/CE</b>	<b>1.7</b>	<b>3.2</b>	<b>3.8</b>	<b>4.1</b>
FCF / Sales	33.3%	0.9%	3.9%	5.8%	<b>FCF Yield</b>	<b>30.4%</b>	<b>0.5%</b>	<b>1.9%</b>	<b>2.9%</b>
					<b>Dividend yield</b>	<b>2.8%</b>	<b>1.5%</b>	<b>1.3%</b>	<b>1.4%</b>
Stock data	16A	17E	18E	19E					
Number of Shares (M)	19.3	19.3	19.3	19.3					
Share price	14.33	26.26	33.78	35.34					
<b>Market cap (€M)</b>	<b>276.6</b>	<b>506.8</b>	<b>651.9</b>	<b>688.7</b>					

Source: Company data, Twice estimates

(\*) The Group also holds insurance policies of around 12M€ that are not counted in the PFN but are included in the non-current assets.

## Valuation

We valued the Company based on 3 years cash flow projections and terminal value computed using *Twice's Sustainable Growth Adjusted P/E* ("SGAP") methodology. We have introduced in the evaluation a *synthetic index* that aims to measure the ability of the company to generate value for stakeholders sustainable over time that integrates factors with value content (ESG) with financial metrics. The model points out a 31.96€ fair value.

Cash Flow	FY 2017	FY 2018	FY 2019
<b>Sales</b>	<b>302.1</b>	<b>325.1</b>	<b>346.7</b>
<i>Sales growth</i>	19.6%	7.6%	6.6%
<b>EBIT</b>	<b>30.5</b>	<b>34.4</b>	<b>38.9</b>
<i>Margin</i>	10.1%	10.6%	11.2%
<b>Taxes</b>	<b>8.4</b>	<b>9.5</b>	<b>10.7</b>
<i>Tax rate</i>	27.5%	27.5%	27.5%
<b>Net Result</b>	<b>22.5</b>	<b>25.3</b>	<b>28.6</b>
<b>Depreciation</b>	<b>5.0</b>	<b>5.2</b>	<b>5.2</b>
<i>% of sales</i>	1.7%	1.6%	1.5%
<b>Capex</b>	<b>-5.5</b>	<b>-12.0</b>	<b>-10.0</b>
<i>% of sales</i>	-1.8%	-3.7%	-2.9%
Var. Working Capital	-19.3	-6.0	-3.9
Dividends	7.6	8.6	9.7
<b>Free Cash Flow after dividends</b>	<b>-4.9</b>	<b>3.9</b>	<b>10.2</b>

	Test response	Weighting
Management accountability	NEUTRAL	-0.06
Management Performance	YES	0.11
M&A Strategy & Execution	YES	0.04
ESG ranking	NEUTRAL	-0.05
Organic Growth TTM 3y exp	18.5%	0.12
Operating Leverage	3.40	-0.10
Financial Leverage	1.18	0.13
ROS (in %) - Growth TTM	10.9%	0.12
ROI (in %)	23.5%	0.13
<b>SYNTETHIC SCORE (premium/discount)</b>		<b>+ 0.45</b>

<b>Cost of Equity</b>	<b>5.70%</b>
<b>NET RESULT</b>	<b>28.63</b>
SGA PE	23.44
<i>SYNTETHIC SCORE (premium/discount)</i>	<i>+4.5%</i>
<b>SGA PE ADJUSTED</b>	<b>24.49</b>
TV ADJUSTED	701.04
<b>TV ADJ actualized</b>	<b>593.63</b>
Divid actualized	23.15
<b>EQUITY Value (€M)</b>	<b>616.78</b>
Number of Shares (M)	19.30
<b>Equity V. per share ADJ (€)</b>	<b>31.96</b>
<i>Upside/downside</i>	<i>16.89%</i>

Sensitivity analysis		Net result CAGR 2016-2019				
		3.3%	7.7%	12.7%	17.0%	19.4%
Mkt premium	0.9%	49.0				79.0
	2.3%		38.1		49.6	
	<b>3.7%</b>			<b>31.96</b>		
	4.9%		22.1		28.9	
	5.6%	17.4				27.6

#### LEGEND

- *Management accountability: publication or not of the 3-ys BPlan*
- *Management Performance: over/under-performance vs. expectations / BPlan / consensus*
- *M&A Strategy & Execution (past track record in levels of activity e post integration performance)*
- *ESG ranking (relationship with the territory. open innovation. youth employment. corporate welfare energy efficiency. cybersecurity and sensitive data protection - industrial and commercial)*
- *Organic Growth TTM; 3ys expectations → (> 10%)*
- *Operating Leverage → (<2)*
- *Financial Leverage → (>1)*
- *ROS (in %) - Growth TTM; 3ys expectations → (> 10%)*
- *ROI (in %) - Growth TTM; 3ys expectations → (> 10%)*