El. En. (ELN.IM)

Sector: Medical & Industrial Laser

FY17: Turnover over 300M€ driven by the industrial division

April 18th, 2018

Investment overview

- 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 reached an established market share in its fields of competence through a growth for external and internal lines. The Italian market remained a crucial point for the group's growth, but the foreign market generated the most sizeable share of revenues (80% of the overall sales).
- During 2017 was recorded a relevant development of the industrial division, even though the medical area is still the first one in terms of revenues. In terms of growth drivers, the group focuses on the respect for the environment, safety and health of its consumers, ethics and human rights.

Latest results

- In the FY2017 El.En. showed a remarkable performance in terms of consolidated revenues, which recorded an increase of 21.3% with respect to the previous year. The increase of Ebitda (+11.5%) and Ebit (10.4%) were a bit smaller because of higher costs and the volume of D&A.
- The best performance was achieved by the industrial-area companies which pushed up their revenues volume by 52%, whilst in the medical sector, the growth was mainly supported by aesthetic and physiotherapy activities.
- The net financial position was positive (cash) for 84.4M€; the comparison with FY2016 showed a little improvement, notwithstanding dividends' payment for 9M€ and capex higher than 5M€.

Valuation

- El.En. can rely on a strong maket positioning in both medical and industrial sector. The future growth in the medical division is closely associated to the new body contouring system Onda (to be launched in 2018); we expect the excellent growth of the industrial division to continue also in 2018.
- 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 33.35€ per share.

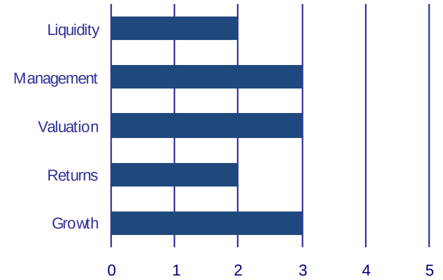
Risks

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

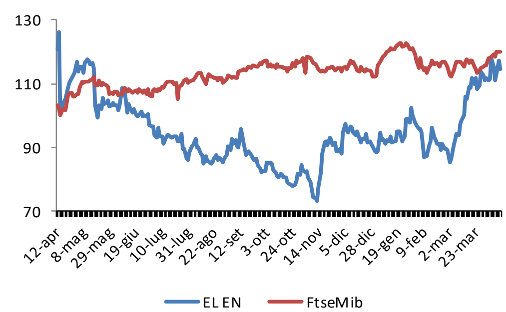
Forecast	**17A**	**18E**	**19E**	**20E**
Sales (€M)	306.5	337.4	377.8	415.6
EBITDA (€M)	36.1	40.1	47.2	54.0
NR before Min (€M)	20.4	25.7	30.6	35.5
NFP (€M)	-84.4	-67.2	-80.8	-98.2
Valuation	**17A**	**18E**	**19E**	**20E**
SHARE PRICE	26.3	32.9	35.3	37.3
EV/EBITDA	11.8	14.3	12.8	11.6
P/E	24.8	24.7	22.3	20.3
Dividend yield	1.5%	1.3%	1.2%	1.1%

Key Data	
Price (€)	32.9
Market cap (€M)	635,0
Equity Value (€M)	643.58
Fair Value (€)	**33.35**
P/E LTM	31.2
P/E TTM	31.2

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



Stock data	
Ticker Bloomberg	ELN.IM
N° of shares (M)	19.3
Free float	46.6%
Main shareholder	Andrea Cangioli (15.2%)
Daily trading volume	140,571 shares



Share Price perf (%)	**3M**	**6M**	**1Y**
Absolute	25.0%	40.9%	14.6%
Rel. to FtseMib	25.7%	36.9%	-5.4%

Contact mail:
er@twiceresearch.it

Latest results (FY2017)

The group results of FY2017 were extremely positive, especially in the Italian market which recorded a 28% growth. The subsidiaries Cutlite Penta and Lasit showed very positive results in the industrial area, exploiting favorable market conditions and the tax breaks guaranteed by the 2017 Finance Law. On the other side, the medical sector growth was strengthened by the new brand Renaissance that reunites Deka and Quanta, but it recorded a revenues' decline in US caused by the sale of Cynosures.

On the other hand, the parent company reported a slight decrease compared to 2016, both in terms of turnover and margins; the EBIT was negative for 1M€ because of turnover decrease, a new sales mix and reorganization costs.

The international footprint of El.En. is corroborated by the foreign markets growth: approx. 20% in Europe and non-UE countries, where the group produces the 80% of its turnover.

- FY2017 revenues exceeded the expected 300M€ threshold; this result is linked to the excellent performance of the industrial activities in the cutting sector that reaches 102M€ (+67% yoy). The main drivers are the increasing domestic demand, which determined revenues up to 60M€, and the progress in the Chinese market which pushed international sales up to 194M€ (64% of the overall revenues).

- In the FY2017 Ebitda showed an increase of approximately 11% yoy. It was worth 36.1M€ and it reflected increasing revenues, but even corresponding growing costs. Indeed, operating costs and staff expenses were heavier compared to FY2016 and they amounted respectively to 37M€ and 54M€.

- The consolidated Ebit was 30.4M€; the D&A costs are fixed to 5.7M€ and the Ebit margin was approx. 10%. It recorded a 10% increase with respect to its 2016 value, even though the volume of D&A was bigger.

- FY2017 net result before minorities was worth 20.4M€; the comparison with the previous year's value was non-meaningful because of a non-recurring capital gain achieved in 2016 (sale of Cynosure shares) that greatly impacted on the net result.

- The ending-period NFP was positive (cash) for 84.5M€; the liquidity reinforcement during the year is linked to the reduction of current financial liabilities.

M€	FY2017	FY2016	% var
Tot Revenues	**306.5**	**252.6**	**+21,3%**
Ebitda	**36.1**	**32.4**	**+11,5%**
Ebitda margin	*11,79%*	*12,82%*	
Ebit	**30.4**	**27.6**	**+10,35%**
Ebit margin	*9,9%*	*10,92%*	
Net Financial Position	**-84.4**	**-82.6**	

At December 31st, 2017, the Parent Company does not own treasury shares; the authorization to purchase treasury shares was conferred by the Shareholders' Meeting resolution of April 28th, 2015 and it ended in October 2016 with no purchase transactions carried out by El.En. S.p.A.

FINANCIALS

Income statement (€M)	17A	18E	19E	20E
Sales	**306.5**	**337.4**	**377.8**	**415.6**
COGS	179.2	199.1	226.7	249.4
Gross Profit	127.3	138.3	151.1	166.2
EBITDA	**36.1**	**40.1**	**47.2**	**54.0**
Depreciation, Amortization	5.7	6.0	6.3	6.5
EBIT	**30.4**	**34.1**	**40.9**	**47.5**
Net Financial Results	-3.2	0.4	0.3	0.4
Income tax	-6.8	-8.9	-10.6	-12.3
Net result before Minorities	**20.4**	**25.7**	**30.6**	**35.5**
EPS (€)	**1.06**	**1.33**	**1.59**	**1.84**
DPS (€)	**0.39**	**0.41**	**0.41**	**0.41**

Balance sheet (€M)	17A	18E	19E	20E
FIXED ASSETS	59.4	78.4	77.3	76.0
WC	68.6	84.3	94.5	106.0
CAPITAL EMPLOYED	**128.0**	**162.7**	**171.8**	**182.0**
EQUITY	190.3	208.0	230.6	258.1
MINORITY INTEREST	14.0	14.0	14.0	14.0
PROVISIONS	3.8	3.8	3.8	3.8
PENSIONS (e.g. TFR)	4.2	4.2	4.2	4.2
NET DEBT	-84.4	-67.2	-80.8	-98.2
CAPITAL INVESTED	**128.0**	**162.7**	**171.8**	**182.0**

Margin (%)	17A	18E	19E	20E
Gross Margin	41.5%	41.0%	40.0%	40.0%
EBITDA Margin	11.8%	11.9%	12.5%	13.0%
EBIT Margin	9.9%	10.1%	10.8%	11.4%
Net Margin before Minorities	6.7%	7.6%	8.1%	8.6%

Growth (%)	17A	18E	19E	20E
Sales growth	21.3%	10.1%	12.0%	10.0%
EBIT growth	10.3%	12.0%	19.9%	16.1%
Net growth	-52.5%	25.8%	19.2%	16.2%

Ratios	17A	18E	19E	20E
ROCE after tax	**14.3%**	**12.6%**	**14.3%**	**15.7%**
ROE	10.7%	12.3%	13.3%	13.8%
Capital Turnover	**2.4**	**2.1**	**2.2**	**2.3**
Net Debt / EBITDA	**-2.2**	**-1.6**	**-1.6**	**-1.7**
Gearing	-42.1%	-30.3%	-33.2%	-36.4%
WC / Sales	**22.4%**	**25.0%**	**25.0%**	**0.0%**
Amortization / Sales	1.9%	1.8%	1.7%	1.6%
Capex / Sales	**1.7%**	**7.4%**	**1.4%**	**1.3%**
EPS growth	-52.5%	25.8%	19.2%	16.2%
PEG	**-47.3**	**96.4**	**115.8**	**125.2**

Cash Flow statem (€M)	17A	18E	19E	20E
Cash Flow	26.1	31.7	36.9	42.0
+/- Var. Working Capital	-9.3	-15.8	-10.1	-11.5
Operating Cash Flow	**16.8**	**15.9**	**26.8**	**30.5**
Op. Cash Flow / Sales	5.5%	4.7%	7.1%	7.3%
Capex	-5.2	-25.0	-5.2	-5.2
FCF	**11.6**	**-9.1**	**21.6**	**25.3**
FCF / Sales	3.8%	-2.7%	5.7%	6.1%

Valuation	17A	18E	19E	20E
EV/Sales	**1.4**	**1.7**	**1.6**	**1.5**
EV/EBITDA	11.8	14.3	12.8	11.6
EV/EBIT	14.0	16.8	14.8	13.2
P/E	**24.8**	**24.7**	**22.3**	**20.3**
P/B	2.7	3.1	3.0	2.8
EV/CE	**3.3**	**3.5**	**3.5**	**3.4**
FCF Yield	**2.3%**	**-1.4%**	**3.2%**	**3.5%**
Dividend yield	**1.5%**	**1.3%**	**1.2%**	**1.1%**

Stock data	17A	18E	19E	20E
Number of Shares (M)	19.3	19.3	19.3	19.3
Share price	26.26	32.90	35.28	37.30
Market cap (€M)	**506.8**	**635.0**	**680.9**	**719.9**

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 Index determines an increase or decrease of up to 10% of the fair value. The model points out a 33.35€ fair value.

Concerning the 3 years' business plan we made the following assumptions:

- Consolidated revenues will increase in FY2018 to 337.4M€, thanks above all to the launch of the new medical system "Onda", whose first sales contribution will be in Q3 2018; this result is in line with the growth perspectives (+10%) announced by the Group.
- In terms of profitability, El.En. performance will be positive, reaching an Ebitda value of approx. 40M€ in the next year; it will represent the 11% of sales. The gross operating profitability should increase in the following periods, converging to share around 12/13% of revenues.
- The Group provides capex equal to 25M€ in 2018, for the following years we expect investments in line with 2017.
- The working capital in the plan period will converge towards its average value of 25% of consolidated revenues.

Cash Flow	FY 2018	FY 2019	FY 2020
Sales	**337.4**	**377.8**	**415.6**
Sales growth	*10.1%*	*12.0%*	*10.0%*
EBIT	**34.1**	**40.9**	**47.5**
Margin	*10.1%*	*10.8%*	*11.4%*
Taxes	**8.9**	**10.6**	**12.3**
Tax rate	*26.0%*	*26.0%*	*26.0%*
Net Result before Minorities	**25.7**	**30.6**	**35.5**
Depreciation	**6.0**	**6.3**	**6.5**
% of sales	*1.8%*	*1.7%*	*1.6%*
Capex	**-25.0**	**-5.2**	**-5.2**
% of sales	*-7.4%*	*-1.4%*	*-1.3%*
Var. Working Capital	-15.8	-10.1	-11.5
Dividends	8.0	8.0	8.0
Free Cash Flow after dividends	**-17.1**	**13.6**	**17.3**

	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 %)	10.9%	-0.06
ROI (in %)	23.5%	0.13
SYNTETHIC SCORE (premium/discount)		**+ 0.27**

Cost of Equity	**5.80%**
NET RESULT	**35.55**
SGA PE	20.19
SYNTHETIC SCORE	2.65%
SGA PE ADJUSTED	**20.73**
TV ADJUSTED	736.76
TV ADJ actualized	**622.11**
Divid actualized	21.46
EQUITY Value (€M)	**643.58**
Number of Shares (M)	19.30
Equity V. per share ADJ (€)	**33.35**
Upside/downside	*1.36%*

Sensitivity analysis		**Net result CAGR 2016-2019**				
		8.0%	*14.8%*	***21.4%***	*24.2%*	*26.3%*
Mkt premium	*1.4%*	40.0				77.6
	2.6%		35.5		52.6	
	3.8%			**33.35**		
	4.3%		28.8		32.8	
	4.7%	22.4				32.5

SYNTHETIC INDEX EXPLANATION

	CRITERIA	WEIGHT	YES/NO	THRESHOLD
1	Management accountability	11%	YES/NO	
2	Management Performance	11%	YES/NO	
3	M&A Strategy & Execution	8%	YES/NO	
4	ESG ranking	10%	YES/NO	
5	Organic Growth *TTM 3y exp*	12%		>10%
6	Operating Leverage	10%		<2
7	Financial Leverage	13%		>1
8	ROS (in %) - *Growth TTM*	12%		>10%
9	EBIT/CIN (in %) - ROI	13%		>10%
		100%		

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 %) → (> 10%)*
- *ROI (in %) → (> 10%)*