EL.EN. OUTPERFORM

Price (Eu): 23.55

Target Price (Eu): 26.80

SECTOR: Industrials

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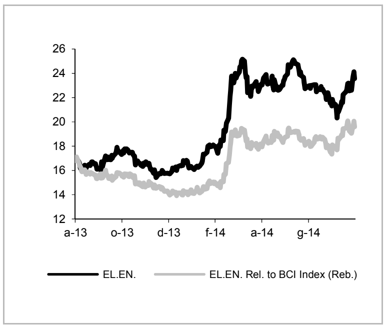
2Q Results Build On Positive 1Q Trends; 2014 Outlook Reaffirmed

- **Solid quarterly results.** El.En posted a 6.2% YoY increase in sales to Eu42.8mn, in line with our forecast. By region, sales grew in the Rest of the World category (+12.1%) due to buoyant Chinese demand for cutting laser systems, and Europe excluding Italy (+8.6%), but declined in Italy itself (-6.9%) after strong 1Q14 performance. By division, sales of industrial laser systems were up 18.0%, while medical and aesthetic laser system sales were flat (-0.4%); after-sales services went up 10.7%. EBIT came to Eu2.9mn, up 15.4% YoY but 10.8% short of our forecast despite lower depreciation. The margin on sales went down by 20bps YoY to 6.7%: operating leverage was neutralised by a less profitable sales mix. Pre-tax profit came to Eu3.4mn, more than doubling YoY.
- **Net profit boosted by one-offs in 1H, healthy balance sheet.** 1H14 net profit surged YoY from Eu1.3mn to Eu8.5mn: this strong earnings growth was boosted by the sale of Cynosure shares and the release of reserves held for the Asclepion-Palomar dispute. Finally, the net cash position decreased QoQ from Eu43.1mn as at March 2014 to Eu40.0mn as at June 2014, mostly due to the dividend payment. In August El.En acquired a 19.5% stake in the American distributor Quanta Aesthetic Lasers. The distributor generated USD6.8mn in revenues and USD450k in EBIT in 2013, and is rapidly growing sales and margins.
- **2014 outlook reaffirmed, estimates unchanged.** Management stated: "the positive outcome of the first six months allows us to confirm annual ordinary growth and profitability guidance, which is for 5% revenue growth with an improvement on 2013's EBIT; the available cash position will enable investments aimed at the development of the existing activities, also through acquisitions of complementary activities". Following the release of solid 1H14 results, we have kept our estimates unchanged. For FY14, we forecast sales growth of 5.7% to Eu166.3mn, organic EBIT of Eu10.3mn (equal to a margin of 6.2%, up 10bps YoY), and reported net profit of Eu9.9mn. The net cash position is expected to reach Eu42.5mn at year's end.
- **OUTPERFORM reaffirmed, target price of Eu26.8.** We maintain a positive recommendation, as El.En is expected to benefit from its exposure to both the medical and aesthetic treatment sectors, which enjoy sustainable growth drivers. Furthermore, in the industrial laser systems business, industrialisation in fast-growing markets such as Brazil and China should stimulate growth. Our valuation, based on an SoP that adds the value of El.En net of minorities to the market value of El.En's 4.5% stake in Cynosure, yields Eu26.8 per share. The stock remains clearly undervalued, although we stress that without additional information on the strategic uses of cash and/or an active management of the residual stake in Cynosure, any further re-rating is unlikely in the short term. To this extent, the recent acquisition of a 19.5% stake in the American distributor Quanta Aesthetic Lasers is good news, as it demonstrates the company's commitment to reposition itself in the large, strategically important North American market.

Key Figures	2012A	2013A	2014E	2015E	2016E
Sales (Eu mn)	151	157	166	175	185
Ebitda (Eu mn)	13	14	15	16	17
Net profit (Eu mn)	23	6	10	5	5
EPS - New (Eu)	0.651	1.260	2.054	0.961	1.040
EPS - Old (Eu)		1.260	2.054	0.961	1.040
DPS (Eu)	0.500	0.500	0.822	0.385	0.416

Ratios & Multiples	2012A	2013A	2014E	2015E	2016E
P/E	36.2	18.7	11.5	24.5	22.6
Div. Yield	2.1%	2.1%	3.5%	1.6%	1.8%
EV/Ebitda	6.8	5.5	4.0	3.6	3.2
ROCE	6.5%	8.8%	11.0%	10.6%	11.0%

EL.EN. - 12m Performance



Eu/USD: 1.35 2014; 1.30 2015

RATING: Unchanged
TARGET PRICE (Eu): from 26.50 to 26.80

Change in EPS est:	2014E	2015E
	0.0%	0.0%

STOCK DATA

Reuters code:	ELEN.MI
Bloomberg code:	ELN IM

Performance	1m	3m	12m
Absolute	8.8%	0.2%	40.2%
Relative	11.3%	4.7%	19.9%
12 months H/L:			25.15/15.42

SHAREHOLDER DATA

No. of Ord. shares (mn):	5
Total No. of shares (mn):	5
Mkt Cap Ord (Eu mn):	114
Total Mkt Cap (Eu mn):	114
Mkt Float - ord (Eu mn):	48
Mkt Float (in %):	*42.7%*
Main shareholder:	
Cangioli Andrea	13.4%

BALANCE SHEET DATA	2014
Book value (Eu mn):	136
BVPS (Eu):	28.26
P/BV:	0.8
Net Financial Position (Eu mn):	42
Enterprise value (Eu mn):	60

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Intermonte

EL.EN. - *KEY FIGURES*		2012A	2013A	2014E	2015E	2016E
	Fiscal year end	31/12/2012	31/12/2013	31/12/2014	31/12/2015	31/12/2016
PROFIT & LOSS (Eu mn)	Sales	151	157	166	175	185
	EBITDA	13	14	15	16	17
	EBIT	7	10	12	11	12
	Financial income (charges)	(1)	(1)	(1)	(1)	(1)
	Associates & Others	(0)	2	5	0	0
	Pre-tax profit (Loss)	6	11	16	11	11
	Taxes	(3)	(4)	(4)	(4)	(5)
	Tax rate (%)	-48.5%	-40.0%	-28.2%	-41.1%	-40.8%
	Minorities & discontinue activities	20	(0)	(1)	(2)	(2)
	Net profit	23	6	10	5	5
	Total extraordinary items					
	Ebitda excl. extraordinary items	13	14	15	16	17
	Ebit excl. extraordinary items	7	10	12	11	12
	Net profit restated	3	6	10	5	5
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	5	5	5	5	5
	EPS stated fd	4.809	1.260	2.054	0.961	1.040
	EPS restated fd	0.651	1.260	2.054	0.961	1.040
	BVPS fd	23.278	26.588	28.257	29.219	30.259
	Dividend per share (ord)	0.500	0.500	0.822	0.385	0.416
	Dividend per share (sav)					
	Dividend pay out ratio (%)	10.4%	39.7%	40.0%	40.0%	40.0%
CASH FLOW (Eu mn)	Gross cash flow	6	9	15	11	12
	Change in NWC	17	2	(2)	(3)	(3)
	Capital expenditure	(3)	(0)	(6)	(6)	(6)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	(16)	(9)	23	6	5
	Acquisitions, divestments & others	(36)	(21)	17	3	2
	Dividend	(0)	(4)	(2)	(4)	(2)
	Equity financing/Buy-back	1	(4)	0	0	0
	Change in Net Financial Position	(35)	4	21	2	3
BALANCE SHEET (Eu mn)	Total fixed assets	57	67	70	70	65
	Net working capital	52	50	52	55	58
	Long term liabilities	(3)	(4)	(21)	(20)	(14)
	Net capital employed	106	112	101	105	109
	Net financial position	18	22	42	45	48
	Group equity	124	134	144	150	157
	Minorities	12	6	7	9	11
	Net equity	112	128	136	141	146
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	114	114	114	114	114
	Adjustments (associate & minorities)	11	16	11	11	11
	Net financial position	18	22	42	45	48
	Enterprise value	85	76	60	58	55
RATIOS(%)	EBITDA margin*	8.3%	8.7%	9.0%	9.1%	9.3%
	EBIT margin*	4.9%	6.1%	7.1%	6.3%	6.4%
	Gearing - Debt/equity	-14.4%	-16.2%	-29.5%	-29.7%	-30.6%
	Interest cover on EBIT	5.5	8.1	23.6	22.0	23.6
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	6.5%	8.8%	11.0%	10.6%	11.0%
	ROE*	22.4%	5.1%	7.5%	3.3%	3.5%
	EV/CE	0.7	0.7	0.6	0.6	0.5
	EV/Sales	0.6	0.5	0.4	0.3	0.3
	EV/Ebit	11.4	7.9	5.1	5.3	4.6
	Free Cash Flow Yield	-15.5%	-9.5%	22.4%	5.9%	5.1%
GROWTH RATES (%)	Sales	10.1%	4.1%	5.7%	5.1%	5.7%
	EBITDA*	15.7%	9.8%	9.2%	6.7%	6.9%
	EBIT*	46.7%	28.2%	23.1%	-6.8%	7.3%
	Net profit	nm	-73.8%	63.0%	-53.2%	8.2%
	EPS restated	nm	93.6%	63.0%	-53.2%	8.2%

** Excluding extraordinary items*

Source: Intermonte SIM estimates

Results

El.En. Quarterly Results

(€ mn)	2Q13A	2Q14A	2Q14E	*A v E*	1H13A	1H14A	1H14E	*A v E*	FY13A	FY14E
Sales	**40.3**	**42.8**	**43.0**	**-0.4%**	**73.8**	**80.4**	**80.6**	**-0.2%**	**157.4**	**166.3**
YoY growth %		6.2%	6.7%			8.9%	#DIV/0!			5.7%
EBITDA	**3.8**	**3.6**	**4.3**	**-16.3%**	**5.9**	**7.0**	**7.7**	**-9.1%**	**13.7**	**15.0**
Ebitda margin %	9.5%	8.4%	10.0%		8.0%	8.8%	9.6%		8.7%	9.0%
YoY growth %		-6.4%	11.9%			18.6%	30.4%			9.2%
Total D&A	(1.1)	(0.7)	(1.1)		(2.2)	(0.6)	(0.9)		(4.2)	(3.2)
EBIT	**2.8**	**2.9**	**3.2**	**-10.8%**	**3.7**	**6.5**	**6.8**	**-5.0%**	**9.6**	**11.8**
Ebit margin %	6.9%	6.7%	7.4%		5.1%	8.1%	8.5%		6.1%	7.1%
YoY growth %		3.0%	15.4%			73.7%	82.9%			23.1%
Net financials & Participations	(1.1)	0.5	0.0		(0.3)	4.9	4.3		1.1	4.0
Pretax Profit	**1.7**	**3.4**	**3.2**	**6.4%**	**3.4**	**11.4**	**11.2**	**1.8%**	**10.7**	**15.8**
Pretax margin %	4.2%	8.0%	7.4%		4.6%	14.1%	13.8%		6.8%	9.5%
YoY growth %		101.2%	89.1%			235.4%	229.3%			47.7%
Taxes					(2.1)	(2.3)	(3.3)		(4.3)	(4.5)
tax rate					-60.8%	-20.6%	-30.0%		-40.0%	-28.2%
Minorities and disc. Operations					(0.1)	(0.5)	(0.7)		(0.3)	(1.4)
Group net profit					**1.3**	**8.5**	**7.1**	**19.5%**	**6.1**	**9.9**
YoY growth %						575.7%				63.0%

Source: Company data and Intermonte Sim

Estimates

El.En. Change in estimates

(€ mn)	2013A	2014E	2015E	2016E
Sales new	**157.4**	**166.3**	**174.9**	**184.8**
Sales old		166.3	174.9	184.8
% change		**0.0%**	**0.0%**	**0.0%**
EBITDA new	**13.7**	**15.0**	**16.0**	**17.1**
EBITDA old		15.0	16.0	17.1
% change		**0.0%**	**0.0%**	**0.0%**
EBIT new	**9.6**	**11.8**	**11.0**	**11.8**
EBIT old		11.8	11.0	11.8
% change		**0.0%**	**0.0%**	**0.0%**
Pretax Profit new	**10.7**	**15.8**	**10.5**	**11.3**
Pretax Profit old		15.8	10.5	11.3
% change		**0.0%**	**0.0%**	**0.0%**
Group Net profit new	**6.1**	**9.9**	**4.6**	**5.0**
Group Net Profit old		9.9	4.6	5.0
% change		**0.0%**	**0.0%**	**0.0%**

Source: Company data and Intermonte Sim estimates

El.En. Income statement estimates

(€ mn)		2011A	2012A	2013A	2014E	2015E	2016E	CAGR13-16E
Sales		**137.4**	**151.2**	**157.4**	**166.3**	**174.9**	**184.8**	**5.5%**
	YoY growth %	3.6%	10.1%	4.1%	5.7%	5.1%	5.7%	
EBITDA		**10.8**	**12.5**	**13.7**	**15.0**	**16.0**	**17.1**	**7.6%**
	Ebitda margin %	7.9%	8.3%	8.7%	9.0%	9.1%	9.3%	
	YoY growth %		15.7%	9.8%	9.2%	6.7%	6.9%	
Total D&A		(5.7)	(5.0)	(4.2)	(3.2)	(5.0)	(5.3)	
	of which non-recurrent				*1.5*			
EBIT		**5.1**	**7.5**	**9.6**	**11.8**	**11.0**	**11.8**	**7.2%**
	Ebit margin %	3.7%	4.9%	6.1%	7.1%	6.3%	6.4%	
	YoY growth %		46.7%	28.2%	23.1%	-6.8%	7.3%	
Net financial charges		(0.3)	(1.4)	(1.7)	(0.5)	(0.5)	(0.5)	
Other income				2.8	4.5			
Pretax Profit		**4.8**	**6.1**	**10.7**	**15.8**	**10.5**	**11.3**	**1.9%**
Taxes		(2.7)	(3.0)	(4.3)	(4.5)	(4.3)	(4.6)	
Income from continued op.		*2.1*	*3.1*	*6.4*				
Income from discontinued op.		*(2.4)*	*26.7*	*0.0*				
Net Profit before minority interest		**(0.3)**	**29.8**	**6.4**	**11.3**	**6.2**	**6.7**	**1.4%**
Minority interest from continued op.		*(1.4)*	*(1.0)*	*(0.3)*	*(1.4)*	*(1.5)*	*(1.7)*	
Minority interest from discontinued op.		*1.4*	*(5.6)*	*0.0*				
Group Net Profit		**-0.3**	**23.2**	**6.1**	**9.9**	**4.6**	**5.0**	**-6.2%**
	Net margin %	-0.2%	15.3%	3.9%	6.0%	2.7%	2.7%	
	YoY growth %		n.m.	n.m.	63.0%	-53.2%	8.2%	

Source: Company data and Intermonte SIM estimates

Valuation

El.En. - Valuation summary

	Method	*€ mn*	*€ per share*	*previous (19/05/14)*	*change*
El.En	DCF, net of minorities	112.2	*23.3*	*23.3*	*-0.2%*
Stake in Cynosure	market value	16.9	*3.5*	*3.2*	*9.6%*
Total Equity Value		**129.1**	***26.8***	*26.5*	*1.1%*
El.En Share Price			*23.6*	*23.5*	*0.2%*
potential upside			***13.7%***	*12.9%*	

Source: Intermonte Sim

EL.EN. Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
EL.EN.	**23.6**	**EUR**	**113.6**	**8.8%**	**0.2%**	**31.0%**	**49.9%**	**40.2%**	**74.8%**
AMADA CO.	980.0	JPY	365,412.7	-2.6%	1.7%	15.7%	5.7%	32.4%	164.2%
COHERENT INC.	64.5	USD	1,608.0	7.8%	7.8%	-5.4%	-13.3%	14.3%	35.4%
CYMER	---	USD	---	---	---	---	---	---	---
FIDIA	3.0	EUR	15.3	0.2%	-6.7%	-6.2%	26.9%	32.4%	10.3%
GSI GROUP	12.8	USD	438.3	9.2%	4.7%	2.2%	14.1%	50.1%	42.6%
PRIMA INDUSTRIE	13.2	EUR	138.3	0.3%	-6.3%	12.7%	42.6%	43.5%	48.2%
ROFIN-SINAR TECH	24.0	USD	671.0	8.5%	2.1%	2.1%	-11.3%	4.4%	10.6%
Mean performance				**4.6%**	**0.5%**	**7.4%**	**16.4%**	**31.1%**	**55.2%**
Italy Fixed	20,450.5	EUR	265,691	-3.0%	-4.9%	0.0%	7.8%	21.0%	36.9%

Source: FactSet

EL.EN. Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	EV/Sales 2014	EV/Sales 2015	EV/Ebitda 2014	EV/Ebitda 2015	EV/Ebit 2014	EV/Ebit 2015	P/E 2014	P/E 2015	Div Yield 2014	Div Yield 2015
EL.EN.	**23.6**	**EUR**	**113.6**	**0.4**	**0.3**	**4.0**	**3.6**	**5.1**	**5.3**	**11.5**	**24.5**	**3.5%**	**1.6%**
AMADA CO.	980.0	JPY	365,412.7	1.1	1.1	9.1	8.5	11.6	10.4	20.8	18.0	2.6%	2.8%
COHERENT INC.	64.5	USD	1,608.0	1.8	1.6	10.9	8.2	15.0	10.3	20.4	15.4		
CYMER		USD											
FIDIA	3.0	EUR	15.3										
GSI GROUP	12.8	USD	438.3							17.5	14.7		
PRIMA INDUSTRIE	13.2	EUR	138.3	0.6	0.6	6.4	5.6	9.3	7.9	13.4	10.8	0.0%	0.0%
ROFIN-SINAR TECH	24.0	USD	671.0	1.0	0.9	10.9	7.0	16.1	8.9	29.7	17.3	0.0%	0.0%
Median				**1.0**	**0.9**	**9.1**	**7.0**	**11.6**	**8.9**	**18.9**	**16.3**	**1.3%**	**0.8%**

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

El.En. Peer Group - Absolute Performances

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
Cynosure	**22.0**	**U.S. Dollar**	**476.4**	**20.2%**	**5.2%**	**-24.0%**	**-12.4%**	**-4.2%**	**-22.4%**
El.En	**23.6**	**Euro**	**113.6**	**-1.6%**	**1.4%**	**13.8%**	**2.4%**	**39.1%**	**13.7%**
Syneron Medical Ltd	7.6	U.S. Dollar	278.0	3.1%	-3.6%	-5.8%	-15.1%	21.1%	-2.9%
Cutera, Inc.	7.3	U.S. Dollar	104.8	-1.9%	0.4%	-5.5%	-0.9%	4.3%	23.9%
BIOLASE, Inc.	1.6	U.S. Dollar	70.9	-2.1%	16.3%	-27.4%	-20.9%	23.1%	23.0%
Medical avg				**-0.3%**	**4.4%**	**-12.9%**	**-12.3%**	**16.2%**	**14.7%**
Italy FTSE Mib				**-1.4%**	**-3.4%**	**0.6%**	**8.2%**	**22.0%**	**39.2%**

Source: Factset

El.En. Peer Group - Multiple Comparison

Stock	Price	Ccy	Mkt cap	Capi/Sales 2014	Capi/Sales 2015	P/E 2014	P/E 2015	EV/EBITDA 2014	EV/EBITDA 2015
El.En	**23.6**	**EUR - Euro**	**113.6**	**0.59**	**0.56**	**9.9**	**21.1**	**4.1**	**3.7**
Syneron Medical Ltd	7.6	U.S. Dollar	278.0	1.0	0.9	40.5	20.4	12.5	25.7
Cynosure	22.0	U.S. Dollar	476.4	1.3	1.2	18.0	14.8	9.7	6.9
Cutera, Inc.	7.3	U.S. Dollar	104.8	0.7	0.7				
BIOLASE, Inc.	1.6	U.S. Dollar	70.9	1.9	1.6				
Medical avg				**1.2**	**1.1**	**29.2**	**17.6**	**11.1**	**16.3**

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

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The stock price indicated is the reference price on the day prior to the publication of the report.

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Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms. As at June 30th 2014 Intermonte's Research Department covered 146 companies.

Intermonte's distribution of stock ratings is as follows:
BUY: 20.13%
OUTPERFORM: 34.42%
NEUTRAL: 44.15%
UNDERPERFORM: 1.30%
SELL: 0.00%

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (31 in total) is as follows:

BUY: 21.88%

OUTPERFORM: 43.75%

NEUTRAL: 34.37%

UNDERPERFORM: 0.00%

SELL: 0.00%

CONFLICT OF INTEREST

In order to disclose its possible conflicts of interest Intermonte SIM states that:

- within the last year, Intermonte SIM managed or co-managed/is managing or is co-managing (see companies indicated in bold type) an Institutional Offering and/or , managed or co-managed/is managing or is co-managing (see companies indicated in bold type) an offering with firm commitment underwriting of the securities of the following Companies: Ascopiave, Banca Ifis, Banca Carige, Banca Popolare di Sondrio, Creval, Fincantieri, GreenItaly1, MPS, Poltrona Frau, Salini Impregilo, Tecnoinvestimenti, Triboo Media.
- Intermonte SIM is Specialist and/or Corporate Broker and/or Broker in charge of the share buy back activity of the following Companies: Banca Etruria, Banca Ifis, Be, Biancamano, B&C Speakers, Bolzoni, Carraro, Cattolica Assicurazioni, Credito Valtellinese, Datalogic, DeA capital, Digital bros, EL.En, ERG, Ferrovie Nord Milano,Milano, Fiera Milano, Fintel Energia Group, Gefran, GreenItaly1, IGD, Innovatec, Kinexia, Lucisano, Mondo TV, Primi sui Motori, QF Alpha Immobiliare, QF Beta Immobiliare, Recordati, Reno de Medici, Reply, Saes Getters, Servizi Italia, Sesa, Snai, Tamburi Investment Partners, TESMEC, TBS Group, Ternienergia, TXT e-solutions, Vittoria Assicurazioni, VRWay Communication.
- Intermonte SIM acted as Global Coordinator in the GreenItaly1 IPO on the AIM Italia market and will receive a success fee if a business combination is approved by the shareholders.
- Intermonte SIM SpA and its subsidiaries do not hold a stake equal to or over 1% of common equity securities and/or warrants of any of the aforementioned subject companies, with the exception of: GreenItaly1.
- Intermonte SIM SpA has provided in the last 12 months / provides / may provide investment banking services to the following companies: Atlantia, Carraro, Kinexia, RCS Media, Saes Getters

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	**EL.EN.**		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	26.80	Previous Target (Eu):	26.50
Current Price (Eu):	23.55	Previous Price (Eu):	22.65
Date of report:	01/09/2014	Date of last report:	19/05/2014

INTERMONTE SIM is MIFID compliant - for our Best Execution Policy please check our Website www.intermonte.it/mifid
Further information is available