Milan, 17 May 2024

Italian Equity Research – 1Q24 Results

SECO

NEUTRAL

Sector: Industrials

Price: Eu3.36 - **Target: Eu3.75**

Continued Destocking Impact. Growth Postponed to 3Q

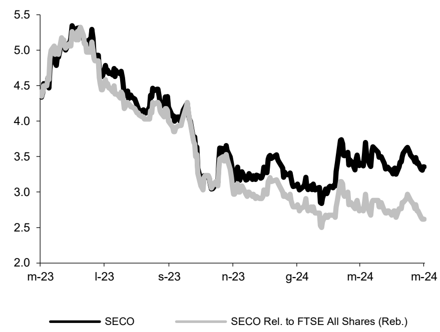
Pietro Nargi +39-02-77115.401
pietro.nargi@intermonte.it
Andrea Randone: +39-02-77115.364
andrea.randone@intermonte.it

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 4.20 to 3.75
	2024E	**2025E**	**2026E**
Chg in Adj EPS	-17.9%	-22.3%	-20.7%

Next Event

Results Out Sep-12

SECO - 12M Performance



Stock Data			
Reuters code:			IOT.MI
Bloomberg code:			IOT IM
Performance	**1M**	**3M**	**12M**
Absolute	3.1%	8.9%	-23.9%
Relative	-2.9%	-2.3%	-52.2%
12M (H/L)			5.34/2.84
3M Average Volume (th):			466.80

Shareholder Data	
No. of Ord shares (mn):	133
Total no. of shares (mn):	133
Mkt Cap Ord (Eu mn):	446
Total Mkt Cap (Eu mn):	446
Mkt Float - Ord (Eu mn):	135
Mkt Float (in %):	30.3%
Main Shareholder:	
DSA Srl	16.6%

Balance Sheet Data	
Book Value (Eu mn):	330
BVPS (Eu):	2.28
P/BV:	1.5
Net Financial Position (Eu mn):	-57
Enterprise Value (Eu mn):	544

- **1Q24 results weak, as expected.** As already anticipated by the company during the FY23 conference call, and consistent with the main 4Q23 trends, 1Q showed another weak set of results, highlighting a negative performance in the edge computing business, with revenues at Eu39.9mn (-18% YoY), partly offset by CLEA (+13% YoY at Eu7.3mn, o/w >50% recurring), although even in that area growth decelerated QoQ (+55% in 4Q23). Geographically, there were sharp reductions in US (-40%), and APAC (-52%), whereas Europe (87% of revenue) was more resilient (-4%). Gross margin was healthy at 56% (47.5% in 1Q23 and c.+60bp vs. our estimate), benefiting from a better mix and a steep drop in prices of electronic components. Adj. EBITDA came in at Eu10.4mn (-13% YoY), a 22.0% margin, in line YoY, while at bottom line, adj. net income was Eu2.4mn, burdened by higher D&A. Adj. net debt was Eu57.3mn (Eu52mn as of 23YE), affected by seasonal WC absorption and in line with our estimate of Eu57mn.
- **No FY24 guidance provided.** As usual the company did not provide official guidance on the remainder of the year. The key qualitative messages released by management during the call were: i) organic growth to remain negative in 2Q, albeit improving QoQ (revenues seen around Eu50mn, i.e. -13% YoY), with positive growth to resume in 2H, probably accelerating gradually on a quarterly basis, as de-stocking from customers is expected to finish by the end of 2Q; ii) room for YoY Gross Margin improvement in FY24 assuming current market circumstances on electronic components prices prevail; iii) two new customers entering mass production on CLEA, increasing the share of recurring revenue (currently, the customer base on the software side is highly concentrated in the vending/distribution segment); iv) two important customers acquired in edge computing (Grundfos and Carel Industries), which are expected to start contributing to revenue by FY25.
- **Factoring weaker 2Q market outlook into our estimates:** we are trimming our FY24 revenue and EBITDA estimates by 8%, assuming market demand in the edge computing business will remain soft in 2Q, in line with management indications. Consequently, we are lowering our FY25/26 estimates, which nevertheless predict a solid return to organic growth, consistent with the messages emerging from the call.
- **NEUTRAL confirmed; TP to Eu3.75:** although the market outlook for the hardware business remains weak (seen to persist in 2Q), qualitative messages on the second part of the year, and particularly a return to double-digit growth in FY25, may rekindle constructive interest in the stock. We believe 2Q will probably represent the low point, and from 3Q onwards, assuming the end of de-stocking from customers, growth should resume the trajectory that was a feature of the stock in previous years. Based on our new estimates, the stock is trading at 10.7x EV/EBITDA on FY24, below the >13x 1YF multiple observed during the high growth years. Therefore, pending a reversal in market demand, we remain NEUTRAL on the stock, updating our DCF-driven TP to €3.75 (from €4.20) following the change in estimates, awaiting greater visibility on a significant return to growth.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	201	210	211	242	266
EBITDA Adj (Eu mn)	44	51	51	60	69
Net Profit Adj (Eu mn)	17	20	18	24	30
EPS New Adj (Eu)	0.151	0.151	0.135	0.180	0.223
EPS Old Adj (Eu)	0.151	0.151	0.165	0.232	0.282
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	20.1	13.8	10.7	8.9	7.5
EV/EBIT Adj	31.5	20.4	16.9	13.2	10.7
P/E Adj	22.2	22.2	24.8	18.6	15.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	2.9	1.3	1.1	0.7	0.4

DISCLAIMER (for more details go to DISCLAIMER)

IMPORTANT DISCLOSURES

The reproduction of the information, recommendations and research produced by Intermonte SIM contained herein and of any its parts is strictly prohibited. None of the contents of this document may be shared with third parties without authorisation from Intermonte.

This report is directed exclusively at market professional and other institutional investors (Institutions) and is not for distribution to person other than "Institution" ("Non-Institution"), who should not rely on this material. Moreover, any investment or service to which this report may relate will not be made available to Non-Institution.

The information and data in this report have been obtained from sources which we believe to be reliable, although the accuracy of these cannot be guaranteed by Intermonte. In the event that there be any doubt as to their reliability, this will be clearly indicated. The main purpose of the report is to offer up-to-date and accurate information in accordance with regulations in force covering "recommendations" and is not intended nor should it be construed as a solicitation to buy or sell securities.

This disclaimer is constantly updated on Intermonte's website www.intermonte.it under LEGAL INFORMATION. Valuations and recommendations can be found in the text of the most recent research and/or reports on the companies in question. For a list of all recommendations made by Intermonte on any financial instrument or issuer in the last twelve months consult the PERFORMANCE web page.

Intermonte distributes research and engages in other approved activities with respect to Major U.S. Institutional Investors ("Majors") and other Qualified Institutional Buyers ("QIBs"), in the United States, via Brasil Plural Securities LLC under SEC 15a-6 guidelines. Intermonte is not registered as a broker dealer in the United States under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC.

ANALYST CERTIFICATION

For each company mentioned in this report the respective research analyst hereby certifies that all of the views expressed in this research report accurately reflect the analyst's personal views about any or all of the subject issuer (s) or securities. The analyst (s) also certify that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation or view in this report.

The analyst (s) responsible for preparing this research report receive(s) compensation that is based upon various factors, including Intermonte's total profits, a portion of which is generated by Intermonte's corporate finance activities, although this is minimal in comparison to that generated by brokerage activities.

Intermonte's internal procedures and codes of conduct are aimed to ensure the impartiality of its financial analysts. The exchange of information between the Corporate Finance sector and the Research Department is prohibited, as is the exchange of information between the latter and the proprietary equity desk in order to prevent conflicts of interest when recommendations are made.

The analyst responsible for the report is not a) a resident of US; b) an associated person of a U.S. broker-dealer; c) supervised by a supervisory principal of a U.S. broker-dealer. This Research Report is distributed in the U.S. through Brasil Plural Securities LLC, 545 Madison Avenue, New York 10022.

GUIDE TO FUNDAMENTAL RESEARCH

The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

CURRENT INVESTMENT RESEARCH RATING DISTRIBUTIONS

Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 31 March 2024 Intermonte's Research Department covered 116 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	25.21 %
OUTPERFORM:	46.22 %
NEUTRAL:	27.73 %
UNDERPERFORM	00.84 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (50 in total) is as follows:

BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

CONFLICT OF INTEREST

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

Intermonte is acting as financial advisor to SGG Holding S.p.A. in relation to the voluntary public tender offer launched on SAES Getters S.p.A.

Intermonte SIM has provided in the last 12 months / provides / may provide investment banking services to the following companies: Aedes, Civitanavi Systems, Cy4Gate, Esprinet, GPI, Greenthesis (formerly Ambienthesis), Growens, Illimity Bank, Maire Tecnimont, SAES Getters, Tinexta, Unidata and WIIT.

Intermonte SIM is acting as counterparty to WIIT Fin S.r.l. in connection with call and put options having WIIT S.p.A. shares and dividends as reference underlying.

Intermonte SIM is Specialist and/or Corporate Broker and/or Sponsor and/or Broker in charge of the share buy back activity of the following Companies: Abitare In, Alkemy, Anima Holding, Antares Vision, Aquafil, Avio, Banca Ifis, Banca Sistema, Civitanavi Systems, Cyberoo, Cy4gate, El.En, Elica, Emak, Esprinet, Fimit - Fondo Alpha, Fine Foods, Franchi Umberto Marmi, Go Internet, GPI, Greenthesis (formerly Ambienthesis), IEG, Iervolino & Lady Bacardi Entertainment, IndelB, Intred, Luve, Matica Fintec, Mondadori, Notorious Pictures, Omer, Pharmanutra, Reevo, Relatech, Reply, Revo Insurance, Sababa Security, Saes Getters, Sciuker Frames, Servizi Italia, Sesa, Seri Industrial, Somec, Star7, Talea, Tamburi, Tinexta, Tesmec, The Italian Sea Group, TXT, Unidata, Webuild and WIIT.

Intermonte SIM has a contractual commitment to act as liquidity provider on behalf of third parties for the following company: Banca Sistema.

Intermonte SIM performes as a market maker for the following companies: A2A, Anima, Atlantia, Autogrill, Azimut Holding, BAMI, Banca Generali, Banca Mediolanum, Brembo, Buzzi, CNHI, Enel, ENI, Exor, Fineco, FCA, FTMIB, Generali, Italgas, Iren, Intesa Sanpaolo, Leonardo, Mediobanca, Moncler, Mediaset, Pirelli&C, Prysmian, Poste, Ferrari, Saipem, Snam, STM, Tenaris, Telecom Italia, Telecom Italia sav, Terna, UBI, Unicredit, Unipol, UnipolSai.

Intermonte SIM, through Websim, which constitute the digital division of Intermonte, acts as a Financial Content Provider on the following companies: Abitare In, Alkemy, Banca Sistema, Bifire S.P.A., B&C Speakers, Cleanbnb, Crowdfundme, Cy4gate, Cyberoo, Digital Bros, Digital Magics, Doxee, Ediliziacrobatica Spa, Eles, Elica, Emak, Esi, Esprinet, Eviso, Fae Technology, Fiera Milano, Fope, FOS, Franchi Umberto Marmi, Giglio Group, GPI, Intercos, Intred, Lventure Group, Maps, Masi Agricola, Matica Fintec, Neodecortech, Notorious Pictures, Osai Automation System, Racing Force Group, Relatech, Reti, Sciuker Frames, Solid World Group, Spindox Digital Soul, Tamburi, Tesmec, Tinexta, Tps Group, Trendevice, Ulisse Biomed, Wiit.

Intermonte SIM SpA holds net long or short positions in excess of 0.5% of the overall share capital in the following issuers:

Emittente	%	Long/Short

INTERMONTE SIM is MIFID compliant - for our Best Execution Policy please check our Website MiFID

Further information is available