

Stevanato Group S.p.A.

4Q23 recap: Vial destocking headwinds linger, but confidence in LT targets

Reiterate Rating: BUY | PO: 36.00 USD | Price: 30.38 USD

4Q sales in line, FY24 guide modestly below expectations

This morning, Stevanato (STVN) reported 4Q23 sales in-line with, and Adj. EPS & EBITDA below, consensus. The FY24 guide was below the Street on slower vial restocking, F/X, and Engineering project timing ([see our earlier First Look for details](#)).

Destocking headwinds through 1H24, Engineering flat

The call focused on the mgmt.'s visibility in the Biopharmaceutical & Diagnostics Solutions (BDS) recovery implied in the FY24 guide, and some unexpected Engineering segment headwinds. In BDS, like peers, destocking of inventory (i.e., vials) built up during the pandemic remains an issue. While mgmt. doesn't yet have full visibility on reorder timelines, we note that the low end of the 9-12% y/y total sales growth guide for FY24 assumes limited restocking. In Engineering, STVN's guide assumes flat y/y growth as they work through supply chain issues and an elevated backlog. In our view, both issues are temporary and should not impact the long-term fundamentals.

Flat adj. EBITDA margin in FY24, but ~30% target kept

The call also discussed at length the puts and takes of FY24 margins. On the one hand, underutilized BDS capacity in 1H24 would pressure FY24 margins, and STVN expects to incur incremental costs throughout the year to ramp up its two facilities in Latina, Italy and Fishers, Indiana (both of which are on track). On the other hand, Engineering margins would see a modest improvement and FY24 would benefit from the ongoing HVS (High-Value Solutions) mix shift. Overall, the adj. EBITDA margin at the midpoint of the FY24 guide is expected to be flat y/y, and the company still expects to reach at ~30% adj. EBITDA margin by FY27.

Trim ests, but maintaining LDD sales growth trajectory

We modestly lower our FY24-26 ests and remain confident that STVN can deliver on its low-double-digit organic sales growth and margin expansion targets. We lower our PO to \$36 (was \$39), now based on 23x (was 24x, down on peer group compression) our FY25E adj. EBITDA est., in line with the peer group average across select drug packaging & delivery and bioprocess vendor companies. We reiterate our Buy rating, as STVN is executing well and market fundamentals remain strong.

Estimates (Dec) (EUR)	2022A	2023A	2024E	2025E	2026E
EPS	0.56	0.58	0.64	0.74	0.85
GAAP EPS	0.54	0.55	0.60	0.72	0.85
EPS Change (YoY)	12.0%	3.6%	10.3%	15.6%	14.9%
Consensus EPS (Bloomberg)			0.66	0.75	0.90
DPS	0.05	0.05	0.08	0.08	0.09
Valuation (Dec)					
P/E	50.8x	47.4x	43.4x	37.6x	32.7x
GAAP P/E	52.7x	50.0x	46.3x	38.6x	32.7x
Dividend Yield	0.2%	0.2%	0.3%	0.3%	0.3%
EV / EBITDA*	28.8x	26.0x	23.5x	19.9x	17.4x
Free Cash Flow Yield*	-1.7%	-4.4%	1.2%	2.1%	3.1%

* For full definitions of *IQmethod*SM measures, see page 4.

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07 March 2024

Equity

Key Changes

(EUR)	Previous	Current
Price Obj.	US\$39.00	US\$36.00
2024E EPS	0.66	0.64
2026E EPS	0.87	0.85
2024E EBITDA (m)	331.6	322.9
2025E EBITDA (m)	382.5	382.0
2026E EBITDA (m)	441.9	436.2

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Stock Data

Price	30.38 USD
Price Objective	36.00 USD
Date Established	7-Mar-2024
Investment Opinion	C-1-9
52-Week Range	22.23 USD - 36.30 USD
Mkt Val (mn) / Shares Out (mn)	8,042 USD / 264.7
Free Float	96.8%
Average Daily Value (mn)	7.76 USD
BofA Ticker / Exchange	STVN / NYS
Bloomberg / Reuters	STVN US / STVN.N
ROE (2024E)	13.1%
Net Dbt to Eqty (Dec-2023A)	29.1%
ESGMeter TM	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Stevanato Group S.p.A.

iQmethodSM – Bus Performance*

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.6%	11.2%	9.7%	10.0%	10.4%
Return on Equity	16.1%	14.5%	13.1%	12.5%	12.5%
Operating Margin	20.2%	19.6%	18.9%	19.2%	20.1%
Free Cash Flow	(132)	(327)	88	153	227

iQmethodSM – Quality of Earnings*

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	0.7x	2.4x	1.6x	1.6x
Asset Replacement Ratio	4.7x	6.9x	3.3x	1.3x	1.0x
Tax Rate	23.8%	23.2%	24.3%	24.6%	24.6%
Net Debt-to-Equity Ratio	-1.0%	29.1%	13.2%	3.6%	-7.4%
Interest Cover	40.5x	19.0x	18.7x	26.4x	38.5x

Income Statement Data (Dec)

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Sales	984	1,085	1,190	1,375	1,535
% Change	16.6%	10.3%	9.7%	15.5%	11.6%
Gross Profit	320	340	372	434	494
% Change	20.6%	6.3%	9.4%	16.8%	13.8%
EBITDA	263	291	323	382	436
% Change	21.6%	10.6%	10.8%	18.3%	14.2%
Net Interest & Other Income	(5)	(11)	(12)	(10)	(8)
Net Income (Adjusted)	148	154	170	195	226
% Change	17.5%	4.6%	10.2%	14.9%	15.8%

Free Cash Flow Data (Dec)

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	143	146	158	191	226
Depreciation & Amortization	50	63	98	118	128
Change in Working Capital	(118)	(118)	119	(38)	(33)
Deferred Taxation Charge	(26)	(77)	(35)	(44)	(53)
Other Adjustments, Net	54	92	68	75	84
Capital Expenditure	(235)	(433)	(320)	(150)	(125)
Free Cash Flow	-132	-327	88	153	227
% Change	NM	-148.9%	NM	74.9%	48.0%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(14)	(14)	(20)	(22)	(24)
Change in Debt	(24)	179	(10)	(10)	(10)

Balance Sheet Data (Dec)

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	229	70	197	318	511
Trade Receivables	213	302	226	261	292
Other Current Assets	404	491	479	552	613
Property, Plant & Equipment	641	1,028	1,250	1,282	1,279
Other Non-Current Assets	173	181	195	225	251
Total Assets	1,660	2,072	2,347	2,638	2,946
Short-Term Debt	71	143	92	34	21
Other Current Liabilities	392	431	462	533	591
Long-Term Debt	148	256	297	345	348
Other Non-Current Liabilities	53	109	40	47	52
Total Liabilities	664	939	892	958	1,012
Total Equity	996	1,133	1,455	1,680	1,934
Total Equity & Liabilities	1,660	2,072	2,347	2,638	2,946

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Healthcare Technology & Distribution

Company Description

Stevanato Group S.p.A. (NYSE: STVN) is a leading global provider of drug containment, drug delivery and diagnostic solutions to the biopharmaceutical and life sciences industries. The company also provides engineering equipment and technologies to support various manufacturing processes. The goal of the company is offer solutions that enhance the packaging, integrity, safety, use, and efficacy of medicines while reducing time to market, total cost of ownership, and supply chain risk.

Investment Rationale

We are positive on STVN and think that the company can grow above the average blended market growth rate of 6% by effectively deploying its healthy balance sheet to expand capacity and enhance competitive positioning, and by leveraging its leading position in high-value solutions (i.e., EZ-Fill vials) and complementary Engineering capabilities to drive market penetration and share gains. We model STVN growing revenue at a 9% CAGR and adj. EBITDA at a 10% CAGR over the next years.

Stock Data

Average Daily Volume 255,433

Quarterly Earnings Estimates

	2023	2024
Q1	0.11A	0.11E
Q2	0.14A	0.14E
Q3	0.15A	0.18E
Q4	0.18E	0.21E

Price objective basis & risk

Stevanato Group S.p.A. (STVN)

Our \$36 price objective (PO) is based on 23x our 2025 adj. EBITDA estimate, in line with the peer group average across select drug packaging & delivery and bioprocess vendor companies. We think that this multiple is warranted as we believe that STVN can leverage its growing high-value solutions portfolio and complementary engineering capabilities to cross-sell and grow above the market.

Downside risks to our PO are GLP-1 demand durability, capacity expansion / utilization risks, adverse customer inventory management swings, unfavorable currency swings, regulatory risks, and slower-than-expected adoption of new products.

Analyst Certification

I, Derik de Bruin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
UNDERPERFORM				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin



US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

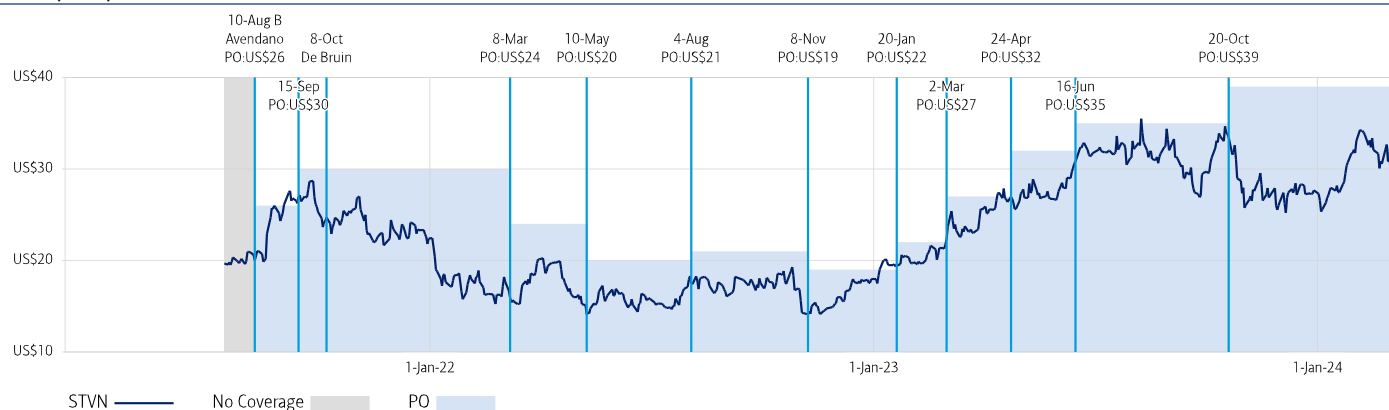
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Stevanato (STVN) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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