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Zacks Small-Cap Research

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Tom Kerr
312-265-9417
tkerr@zacks.com

scr.zacks.com 10 S. Riverside Plaza, Chicago, IL 60606

Eltek Ltd (NASDAQ: ELTK)

ELTK: Eltek releases 4th quarter and full year 2023 financial results. The company also provided updates on market trends and growth drivers. We maintain our price target of $18.00 per share.

Utilizing a DCF valuation process containing conservative estimates combined with other valuation methodologies, we believe ELTK could be worth **$18.00** per share.

Current Price (3/12/24)	$10.65
Valuation	**$18.00**

OUTLOOK

Eltek Ltd is an established manufacturer of Printed Circuit Boards (PCBs) that is entering a new growth phase due to increases in manufacturing capacity and potential M&A transactions. The company has the potential to grow both revenues and earnings at double-digit growth rates for the foreseeable future if they can execute on their accelerated investment program and maintain technological superiority. The company maintains a strong balance sheet and generates free cash flow. The company's current stock price does not likely reflect the potential level of profitable growth going forward.

SUMMARY DATA

52-Week High	**$22.80**
52-Week Low	**$3.84**
One-Year Return (%)	**147.1**
Beta	**-1.84**
Average Daily Volume (sh)	**156,563**
Shares Outstanding (mil)	**6.7**
Market Capitalization ($mil)	**$71.3**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**2**
Insider Ownership (%)	**72**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**2.2**
Earnings Per Share (%)	**46.6**
Dividend (%)	**N/A**
P/E using TTM EPS	**10.0**
P/E using 2023 Actual	**10.0**
P/E using 2024 Estimate	**9.5**

Risk Level	**Below Avg**
Type of Stock	**Small-Value**
Industry	**Technology**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	$7.2 A	$9.1 A	$8.0 A	$9.5 A	$33.8 A
2022	$9.8 A	$9.1 A	$10.3 A	$10.4 A	$39.6 A
2023	$11.5 A	$11.0 A	$11.9 A	$12.3 A	$46.7 A
2024	$12.0 E	$11.9 E	$13.0 E	$13.8 E	$50.8 E

Earnings Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	$0.04 A	$0.14 A	$0.00 A	$0.65 A	$0.86 A
2022	$0.11 A	$0.13 A	$0.17 A	$0.14 A	$0.55 A
2023	$0.27 A	$0.22 A	$0.36 A	$0.22 A	$1.07 A
2024	$0.26 E	$0.26 E	$0.29 E	$0.31 E	$1.12 E

Quarterly revenues may not equal annual revenues due to rounding. Quarterly EPS may not equal annual EPS due to rounding, dilution or intangibles.

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WHAT'S NEW



Source: nisteceltek.com

Eltek Reports 4th Quarter and Full Year 2023 Results

On March 11, 2024, Eltek announced 4th quarter and full year financial results which were mostly in line with our expectations. Full-year revenue increased to a record $46.7 million in 2023, which was an 18% increase compared to the prior year period in 2022. The increase was attributed to increased production capacity and the ongoing demand for the company's critical PCB products.

Net income was $6.4 million in 2023, which almost doubled from 2022 net income of $3.2 million. EBITDA reached $8.6 million, which was a 91% increase from $4.5 million in 2022. Diluted EPS jumped to $1.07 in 2023, an increase of 93% compared to $0.55 in 2022. This growth is attributed to the efficiency of company operations, ongoing strategic initiatives, and a loyal and supportive customer base.

In the 4th quarter of 2023, revenue climbed to $12.3 million, which was an 18% increase from the prior year period. Net income for the quarter reached $1.3 million and EBITDA for the quarter increased to $2.4 million.

Growth Drivers

The company attributes its success to a multi-pronged approach:

- Innovation: The persistent pursuit of innovation has allowed the company to stay at the forefront of technological advancements, meeting the evolving needs of its defense, aerospace, and medical customers.

- Customer Focus: Building strong, long-lasting relationships with its customers has been a cornerstone of their success. Understanding the unique challenges faced by the defense, aerospace and medical sectors, and their tailored solutions have contributed to customers' success.

- Operational Efficiency: Eltek continues to invest in state-of-the-art manufacturing processes and quality control measures, ensuring the production of reliable and high-performance PCBs.

Market Trends and Outlook

The PCB industry is experiencing mostly positive dynamic shifts which are driven by advancements in technology and evolving market demands. As Eltek primarily operates in the defense, aerospace and medical sectors, the company is well-positioned to capitalize on the following market trends:

- Increasing Demand for Advanced Electronics: The defense and aerospace industries are witnessing a growing need for sophisticated electronic components which drives the demand for high-performance PCBs.

- Emphasis on Reliability and Quality: With critical applications in defense, aerospace and medical devices - reliability and quality are essential. Eltek has consistently delivered PCB solutions that meet the stringent standards of these industries.

- Global Supply Chain Challenges: The industry has faced challenges related to the global supply chain. Eltek has proactively managed these challenges through strategic partnerships and diversified sourcing, ensuring minimal impact on overall operations.

The company has diversified its revenue base by exploring opportunities outside of the traditional defense and medical devices market. For example, Eltek is focused on strengthening collaboration and securing substantial orders for new products with a leading customer whose machinery and technology play a crucial role in the large-scale production of semiconductor chips.

The company is making progress with its $15.0 million Accelerated Investment Program. Customers have financed a portion of this plan which calls for equipment and facilities to increase production capacity. Capital spending may reach $10 million in 2024 as the company executes on this program. The company indicated that there could be possible delays as qualified engineers and essential employees are difficult to source at times.

The ongoing situation in Israel, coupled with the continual rise in defense budgets across European nations and the trade tension between the US and China, continue to influence the demand for the company's high-end PCB products.

In addition, the company mentioned that as a result of the security challenges in Israel and the logistical issues of shipments entering the country and the arrival of the supplier technical team to the country, there may be potential delays in executing the accelerated investment program. Some of the equipment to be implemented in the program come from locations outside of Israel and certain suppliers are reluctant to send engineering and installation teams to Israel at this time.

The company continues to actively pursue the acquisition of a PCB manufacturing company in the U.S. Recognizing the strategic importance of the U.S. market, Eltek anticipates substantial growth in the coming years. The underlying motivation behind the *CHIPS and Science Act* and the *Protecting Circuit Boards and Substrates Act* is to repatriate microelectronics and PCB production to America which will foster increased demand for domestic PCB manufacturing.

$10 Million Public Offering

On February 15, 2024, the company announced the closing of its previously announced public offering of 625,000 ordinary shares at a public offering price of $16.00 per share. Gross proceeds were $10,000,000, before deducting underwriting discounts and offering expenses. There were no dilutive warrants associated with this offering.

The company intends to use the net proceeds from this offering to strategically invest in the expansion of its production capabilities and for general corporate purposes including working capital.

Eltek Places New Purchase Order

On December 18, 2023, the company announced the placement of purchase orders totaling $4.5 million for state-of-the-art machines, software, and a comprehensive service contract. All deliveries were received and installed during the 1st quarter of 2024. These purchase orders are in addition to the three production lines ordered in August 2023.

The first production line has been received and is currently in the commissioning stages. The company also installed an additional press which is a significant component of the accelerated investment plan.

The press is in the final installation stages and in the software adjustment phase. During the first quarter of 2024, the company plans to complete the training of dedicated engineers. This software positions the company to be at the front end of technological advancements in this field.

Valuation and Estimates

Despite the potential capacity improvement delays mentioned above, the growing market demand persists, and is anticipated that this trend will continue in upcoming years. The company indicated that the influence of the current conflict in Israel has not been fully manifested in the company's backlog yet. However, the positive impact of increased domestic defense spending is likely to materialize in the second half of 2024.

We adjust our EPS to account for potential capacity improvement delays and additional management commentary.

Our 2024 annual revenue estimate is now $50.8 million and our EPS estimate is now $1.12. We are maintaining our price target of **$18.00.** That price target, if achieved, would put the stock selling at roughly 16.0x our 2024 EPS estimate of $1.12.

The global market for flex-rigid PCBs is expected to grow at a CAGR of approximately 10% and reach $7.5 billion by 2025. We expect the company's revenues to grow at solid double-digit rates for at least the next 5 years. We expect gross margins to steadily increase to 28% over the next 2-3 years. EBITDA margins could increase from 16.0% in 2023 to 20.0% in coming years depending on gross margins and levels of SG&A spending going forward.

Our primary valuation tool utilizes a Discounted Cash Flow process. Under the scenario described above, our DCF based valuation target is approximately **$18.00** per share. Our target price may be conservative as it does not account for any M&A transactions that would materially increase the company's manufacturing capacity.

KEY INVESTMENT POINTS

Source: nisteceltek.com

- Eltek Ltd. (NASDAQ:ELTK) is a leading Israeli based manufacturer of Printed Circuit Boards with a history dating back to 1970 and approximately 1,500 customers.

- There is a current trend of PCB manufacturing moving from low-cost China manufacturing back to Western markets in Europe and the U.S. due to security and intellectual property issues.

- There are high barriers to entry for new participants in the PCB market with an estimated $35-$50 million total investment required and a 4-5 year time frame before commercial production can commence.

- The company currently has an established 100,000 square foot manufacturing facility located in Petach Tikva, Israel. The facility currently has a revenue capacity in the range of $40-$55 million and has the potential to increase up to $90 million in revenues after the company completes a $15 million accelerated capital investment program and creates additional capacity through acquisitions.

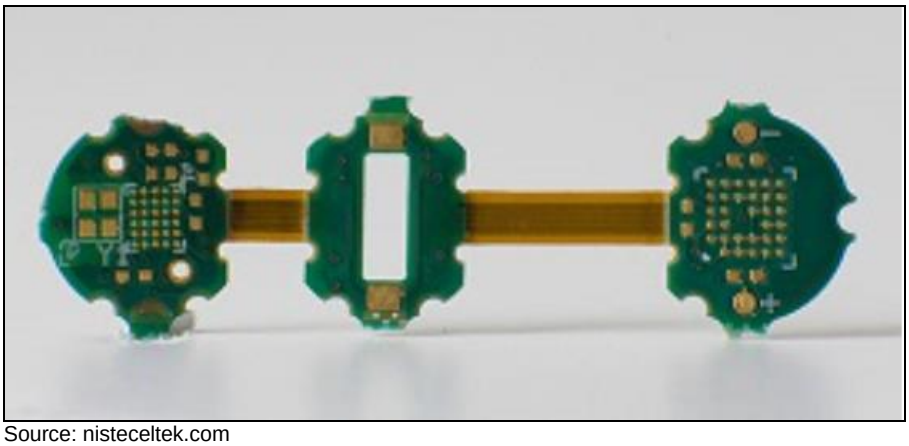
- Approximately 60% of the company's revenues are derived from the defense and aerospace markets and 55% of revenues are derived from Israel. The company is making a strategic effort to increase its presence in North America.

- The company is led by an experienced management team with expertise in manufacturing, technology and distribution.

- The company has approximately $12.1 million in cash on the balance sheet and no bank debt as of 12/31/23. Subsequent to year-end, the company raised $10.0 million in an equity offering.

- The company was founded in 1970 and went public in 1997. The current market capitalization is approximately $71.3 million.

- We believe ELTK stock is worth **$18.00** based on a conservative discounted cash flow (DCF) calculation and peer multiple comparisons.



Source: nisteceltek.com

OVERVIEW

eltek
a Nistec company
Source: nisteceltek.com

Eltek (NASDAQ:ELTK) is a leading global provider of complex Rigid and Rigid-Flex Printed Circuit Boards (PCBs). Established in 1970, Eltek is an AS9100, ISO-9100, Nadcap and ITAR & EAR certified high technology printed circuit board manufacturer. Eltek currently has over 300 employees including strong engineering support and 50 years of success in aerospace, defense, medical and industrial markets where it is recognized as a reliable PCB global leader.

The company manufactures and supplies technologically advanced custom-made circuitry solutions for use in sophisticated and compact electronic products. The company offers specialized services and are a

solution provider in the PCB business, primarily in Israel, Europe, North America and Asia. PCBs are platforms that conduct an electric current among active and passive microelectronics components, microprocessors, memories, resistors and capacitors and are integral parts of the products produced by high technology industries. Eltek's focus is on short run quick-turnaround, prototype, pre-production and low to medium volume runs of high-end PCB products for high growth, advanced electronics applications, mainly flex-rigid PCBs.

The company designs and develops innovative manufacturing solutions pursuant to complex interconnect requirements of original equipment manufacturers (OEMs) and provides customers with a wide range of custom designed PCBs, including complex rigid, double-sided and multi-layer PCBs as well as flexible circuitry (flex and flex-rigid boards) made of several types of high-performance base material. To complement the quick-turnaround, prototype, pre-production and low to medium volume production capabilities and to provide customers with a single source service, the company also acts as an agent for the importation of PCBs from Southeast Asia when customers require high volume production runs.

The company recently commenced Phase 1 of a $15 million capital improvement plan which is expected to substantially increase manufacturing capacity and create a more efficient manufacturing process.

The company has approximately $12.1 million in cash on the balance sheet and no bank debt as of 12/31/23. Subsequent to year-end, the company raised $10.0 million in an equity offering.



Source: nisteceltek.com

PRODUCT DESCRIPTIONS

Eltek develops and manufactures a variety of advanced Printed Circuit Boards. The primary products include rigid PCBs, flex-rigid PCBs, and flex PCBs.

Rigid PCBs - Rigid PCBs are a core product of the industry and can be found in virtually every electronic device. The layer count of these products generally ranges from two and 30 layers, although some PCBs are composed of 42 layers. Approximately 30% of the company's production is Flex-Rigid PCBs.

Flexible PCBs - Flexible boards are thin, lightweight circuits used to interconnect other circuit boards and electronic devices within electronic equipment. Approximately 5% of the company's production is Flex-Rigid PCBs.

Flex-Rigid PCSs - Flex-rigid boards are composed of rigid parts and flexible layers. They generally range from two to 30 layers. Flex-rigid boards provide solutions for electronic systems that impose space and shape restrictions and for systems in which reliability of connectivity is crucial. These products are often

found in military applications (primarily avionics), medical and measurement equipment and the automotive industry, among other uses. Approximately 65% of the company's production is Flex-Rigid PCBs.

Other products produced by Eltek include High-Density Interconnect PCBs and Teflon/Hybrid PCBs.

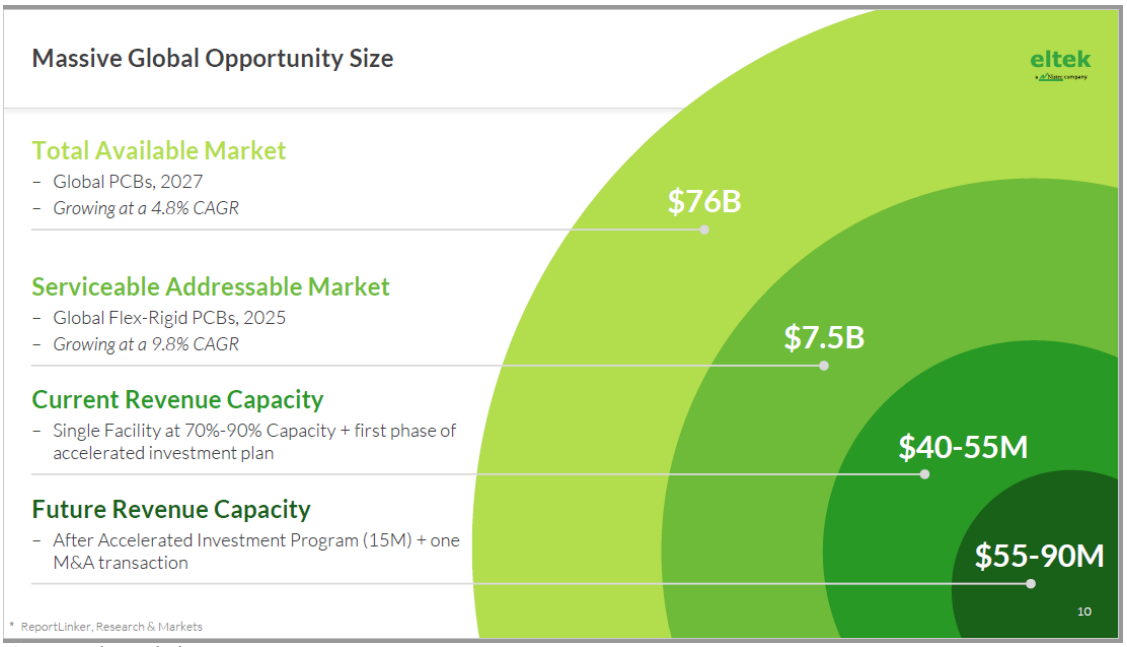


Source: nisteceltek.com

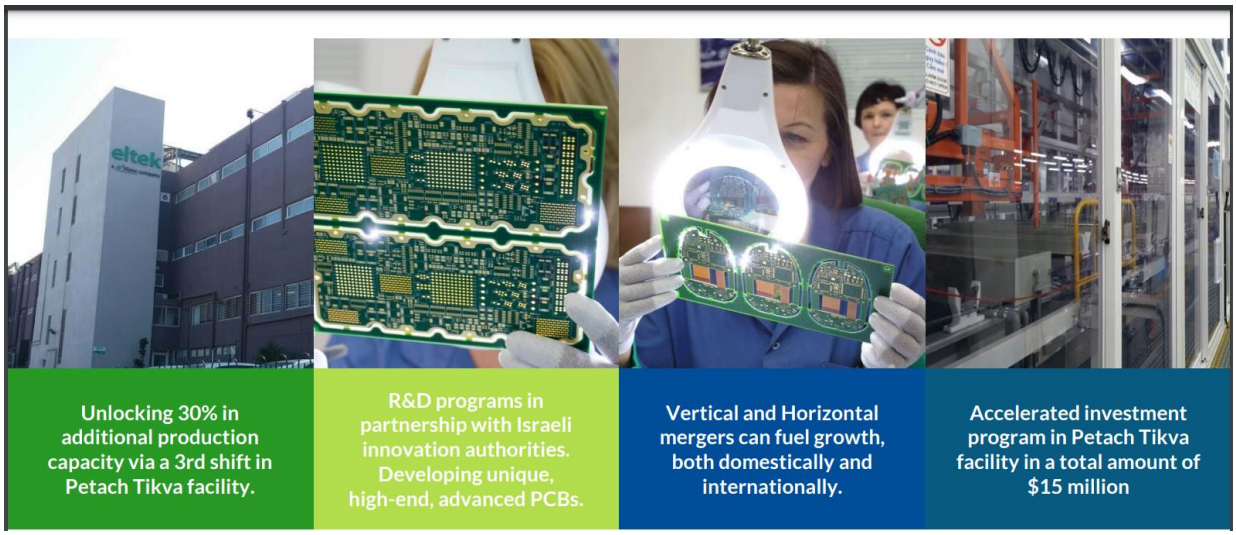
ADDRESSABLE MARKET

The global PCB market is expected to grow to $76.0 billion by 2027 which is a CAGR of almost 5.0%. The majority of that market is low margin rigid PCBs. The higher margin flex-rigid PCB market is expected to grow to $7.5 billion by 2025 which is the current focus of Eltek.

The company currently has revenue capacity of approximately $40-$55 million when operating at 70%-90% utilization and considering the first phase of its capital investment plan at its Petach Tikva facility. After the company's $15 million accelerated investment is completed and considering additional capacity created through an M&A transaction, the company's total revenue capacity could reach up to $90 million.



Source: nisteceltek.com



Source: nisteceltek.com

RISKS

- The company may require additional capital in the future which may not be available based on prevailing market conditions. The lack of sufficient working capital could negatively impact the ability to compete effectively in the future or to expand production facilities. The company may incur operating losses in the future or negative free cash flows from business operations that may require additional capital and funding.

- Pandemics, such as the COVID-19 pandemic, could materially disrupt the company's business and have a negative impact on the company's financial results and financial condition. The company is vulnerable to the general economic effects of epidemics, pandemics and other public health crises. Unlike other industries, as a manufacturer of physical products, the company cannot rely on its main workforce to be working remotely or from home.

- Key customers account for a significant portion of company revenues and the loss of a key customer would have an adverse impact on business and financial results. In the years ended December 31, 2021, 2020 and 2019, a group of affiliated companies accounted for 21.2%, 18.9% and 19.5% of total revenues and another group of affiliated companies accounted for 7.9%, 11.6% and 11.5% over the same periods. The company expects that a significant portion of our future revenues will continue to be dependent on a small number of customers.

- The company is dependent on a select number of suppliers for timely delivery of key raw materials and the loss of one or more of these suppliers or delays in supply of these raw materials would adversely affect manufacturing capabilities. As the majority of PCB manufacturing is centered in Southeast Asia, raw material suppliers may focus their attention and give higher priority to manufacturers in those areas. During the year ended December 31, 2022, purchases from two key suppliers accounted for 21% and 23% of consolidated raw material costs.

- Mr. Yitzhak Nissan, individually and through Nistec Golan, is a controlling shareholder of the company and his voting interest may conflict with the interests of other shareholders. Mr. Nissan, Chairman of the Board and the controlling shareholder of Nistec Golan, beneficially owns 69.6% of Eltek's outstanding ordinary shares. Mr. Nissan and Nistec Golan have the ability to exercise a significant influence over business and affairs and generally have the power to determine all matters submitted to a shareholder vote.

MANAGEMENT

Eli Yaffe
Chief Executive Officer

Mr. Yaffe joined Eltek as CEO in July 2018. Prior to this, Mr. Yaffe served as the CEO of Carmel Forge Ltd. (Aerospace), and before that was CEO of Urdan Industries Ltd. (Defense). Mr. Yaffe holds a B.Sc. degree from the Technion-Israel Institute of Technology, M.Sc. in Mechanical Engineering from Tel Aviv University, and an MBA in Finance & Marketing from Bar-Ilan University.

Ron Freund
VP Finance, and CFO

Mr. Freund joined Eltek in January 2022. Mr. Freund is a senior finance executive with more than thirty years of financial, operational and management experience. Prior to joining Eltek, Mr. Freund held various leadership and senior executive finance positions. Ron was a Senior Partner at Ernst & Young Israel and holds a B.A. degree in Accounting and Economics from the Hebrew University, Jerusalem.

Oriel Sallary
VP, Worldwide Sales and Marketing

Mr. Sallary joined Eltek as VP of Worldwide Sales and Marketing in May 2020. Mr. Sallary has over 25 years of sales experience in the semiconductor industry. Previously, he held various positions including VP Sales and Marketing, senior account executive and sales director at Tritech Ltd., a distribution company in Israel.

Itzik Zemach
VP Operations

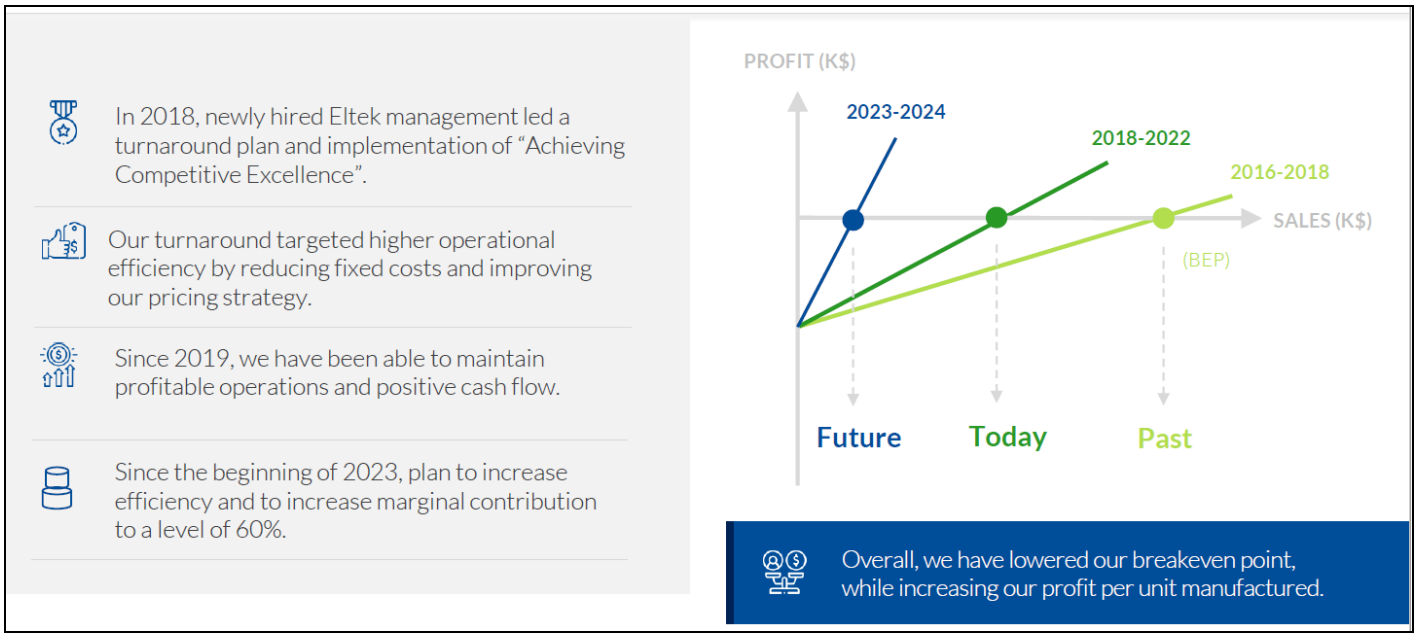
Mr. Zemach Joined Eltek in September 2018 as VP of operations. Prior, Mr. Zemach served as the Plant Manager at “Kahane Group” for 6 years, leading all supply-chain processes, and has spent over 15 years in the electronic parts manufacturing industry. Mr. Zemach holds a B.Sc. degree in Electronic Engineering from Ariel University and an MBA in IT from Bar Ilan University.

SUMMARY

We believe Eltek has the potential to significantly grow its addressable market through organic growth and increases in manufacturing capacity. The management team is highly experienced in all aspects of PCB development, manufacturing, and distribution.

The company's growth pillars include effective business planning which involves appropriate price actions, product rationalization and a strong balance sheet. Steps to improve operational efficiency include adopting Achieve Competitive Excellence (ACE), which is similar to a 6-Sigma program. The company uses big data technology for PCB engineering and plans to expand capacity at its current facility. Market expansion is also a key component of its growth plans with a focus on increasing the penetration of U.S. markets. Currently, only about 20% of total revenues come from North America. The company is also on the lookout for potential capacity additions through targeted mergers or acquisitions.

We believe Eltek has the potential to grow both revenues and earnings at double-digit growth rates for the foreseeable future if they are able to execute on their investment program and maintain technological superiority. The company will also likely increase manufacturing capacity through focused acquisitions.



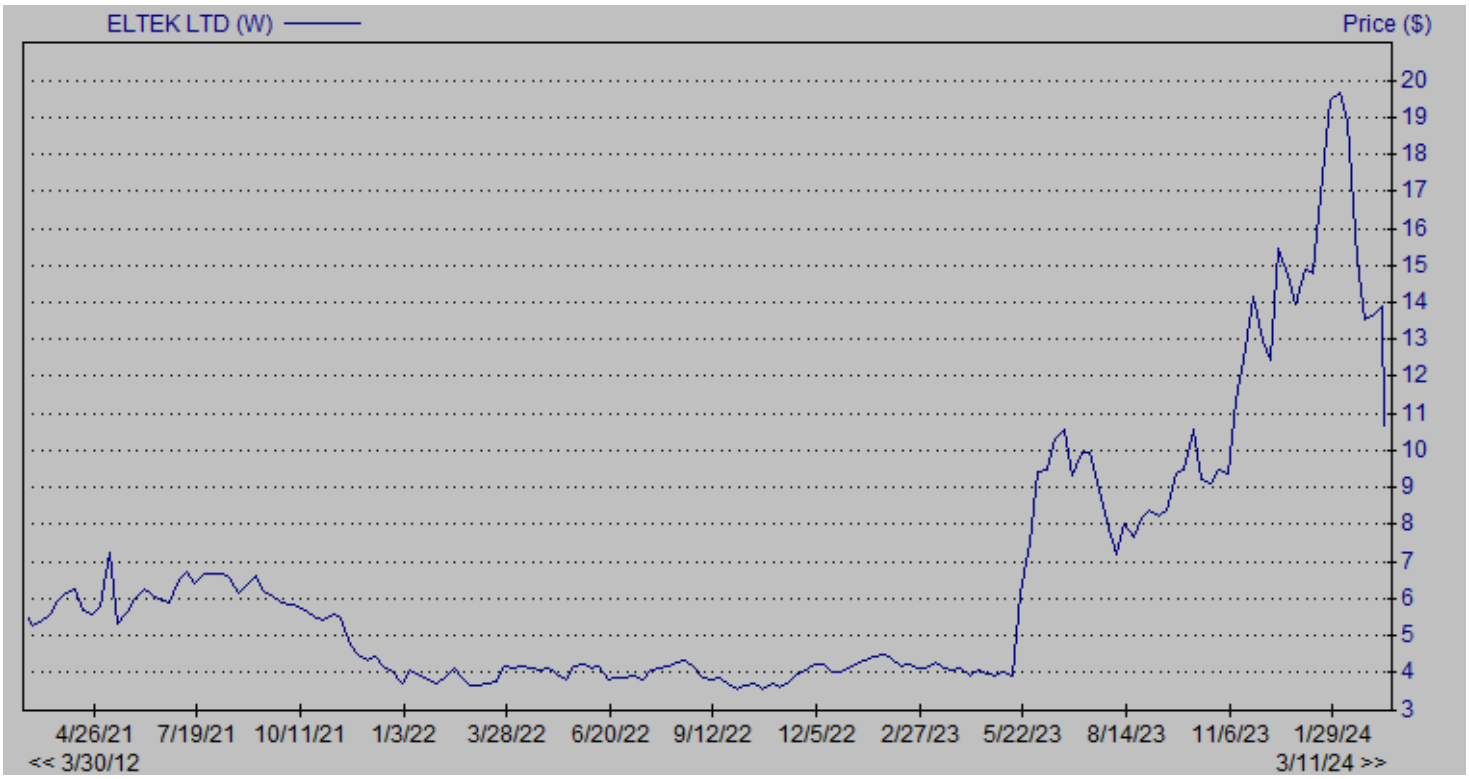
Source: Eltek investor presentation

PROJECTED INCOME STATEMENT

Income Statement	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
Net Sales	**33,823,000**	**39,650,000**	**46,695,000**	**50,816,560**	**56,914,547**
Growth	*-7.9%*	*17.2%*	*17.8%*	*8.8%*	*12.0%*
Cost of Goods Sold	**25,145,000**	**29,839,000**	**32,276,000**	**35,257,284**	**39,345,872**
%	*74.3%*	*75.3%*	*69.1%*	*69.4%*	*69.1%*
Depreciation & Amort	**1,781,000**	**1,541,000**	**1,317,000**	**1,552,000**	**1,552,000**
Gross Profit	**6,897,000**	**8,270,000**	**13,102,000**	**14,007,276**	**16,016,675**
Margin	*20.4%*	*20.9%*	*28.1%*	*27.6%*	*28.1%*
SG&A Expenses	**4,870,000**	**5,207,000**	**5,722,000**	**5,794,762**	**5,968,605**
% of sales	*14.4%*	*13.1%*	*12.3%*	*11.4%*	*10.5%*
Research & Development	**78,000**	**92,000**	**85,000**	**98,844**	**99,832**
% of sales	*0.2%*	*0.2%*	*0.2%*	*0.2%*	*0.2%*
Other	**0**	**0**	**0**	**0**	**0**
% of sales	*14`%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Amortization	**0**	**0**	**0**	**0**	**0**
% of sales	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Operating Income	**1,949,000**	**2,971,000**	**7,295,000**	**8,113,669**	**9,948,238**
Margin	*5.8%*	*7.5%*	*15.6%*	*16.0%*	*17.5%*
EBITDA	**3,730,000**	**4,512,000**	**8,612,000**	**9,665,669**	**11,500,238**
Margin	*11.0%*	*11.4%*	*18.4%*	*19.0%*	*20.2%*
Other Expenses/(Income)	**(41,000)**	**(887,000)**	**(542,000)**	**(796,129)**	**(254,928)**
%	*-0.1%*	*-2.2%*	*-1.2%*	*-1.6%*	*-0.4%*
EBIT	**1,990,000**	**3,858,000**	**7,837,000**	**8,909,799**	**10,203,165**
%	*5.9%*	*9.7%*	*16.8%*	*17.5%*	*17.9%*
Total Interest Exp (net)	**488,000**	**0**	**120,000**	**0**	**0**
%	*1.4%*	*0.0%*	*0.3%*	*0.0%*	*0.0%*
Net Profit Before Tax	**1,502,000**	**3,858,000**	**7,717,000**	**8,909,799**	**10,203,165**
%	*4.4%*	*9.7%*	*16.5%*	*17.5%*	*17.9%*
Income Tax	**(3,537,000)**	**664,000**	**1,364,000**	**1,514,666**	**1,805,960**
% Effective Rate	*-235.5%*	*17.2%*	*17.7%*	*17.0%*	*17.7%*
% Cash Tax Rate	*-235.5%*	*17.2%*	*17.7%*	*17.0%*	*17.7%*
Minority Interests or Preferred Stock	**0**	**0**	**0**	**0**	**0**
Net Profit	**5,039,000**	**3,194,000**	**6,353,000**	**7,395,133**	**8,397,205**
%	*14.9%*	*8.1%*	*13.6%*	*14.6%*	*14.8%*
Non-recurring income (expense)					
Average Diluted Shares Outstanding	5,868,562	5,848,000	5,956,000	6,620,875	6,620,875
Reported FD EPS					
Zacks Cash EPS	**0.86**	**0.55**	**1.07**	**1.12**	**1.27**
Zacks EPS	**0.86**	**0.55**	**1.07**	**1.12**	**1.27**
Consensus Estimates - EPS					

Source: Zacks analyst estimates

HISTORICAL STOCK PRICE



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