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Zacks Small-Cap Research

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Viomi Technology Co., Ltd (VIOT-NASDAQ)

VIOT: A deep value growth story delivers solid results. Increasing our estimates and valuation target to $4.50

Viomi reported its second half 2024 results which showed solid performance from the company's continuing operations. Based on a blended valuation of comparable companies and our DCF analysis we are increasing our 12 month valuation target to $4.50/ADS.

Current Price (3/25/25)	$1.94
Valuation	**$4.50**

OUTLOOK

Viomi announced second half results that beat our expectations on the top and bottom line while presenting continuing operations (Water Systems, Consumables and Kitchen Appliances) that appear to be solidly profitable.

Viomi has a very strong partner in Xiaomi and the company appears to be looking to grow in new markets by replicating this model to some degree.

Viomi's strong balance sheet should enable it to pursue multiple growth strategies (expansion, new products, M&A) over the next 3-5 years.

SUMMARY DATA

52-Week High	**$2.38**
52-Week Low	**$0.52**
One-Year Return (%)	**240%**
Beta	**0.64**
Average Daily Volume (sh)	**286,384**
Shares Outstanding (mil)	**68**
Market Capitalization ($mil)	**$132**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**1**
Insider Ownership (%)*	**34**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2025 Estimate	**6.1**
P/E using 2026 Estimate	**4.9**

Risk Level	**High**
Type of Stock	**Small-Value**
Industry	**Home water filtration**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2023		102 A		123 A	225 A
2024		115 A		176 A	290 A
2025		129 E		202 E	331 E
2026		147 E		226 A	374 E

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2023		$0.06 A		$0.17 A	$0.23 A
2024		$0.01 A		$0.11 A	$0.13 A
2025		$0.06 E		$0.25 E	$0.32 E
2026		$0.10 E		$0.30 E	$0.40 E

Zacks Projected EPS Growth Rate - Next 5 Years % **20%**

*2023 & 2024 Revenues Restated/EPS reflect continuing operations

*6 month revenues and EPS may not sum due to different exchange rates

***Insiders control 60% of voting rights**

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KEY POINTS



Source: company presentation

Viomi Technology Reports Second Half and Full Year 2024 Results

On Tuesday, March 25th, Viomi Technology released its second half and full year for 2024. As a result of the company's divestiture of its IoT business in August 2024, the company is a pure-play home water systems and home appliance company. Importantly, the company presented its financial results to show how the continuing operations performed for the first time (the disposed IoT business was reclassified as discontinued operations). Highlights from the company's earnings release include:

- A 43% jump in total revenue home water systems revenue to nearly $176 million in the second half of 2024. Total revenue exceeded our aggressive forecast by 16% or just over $24 million. The company's primary revenue category – Home Water Systems – saw sales jump more than 58% from the previous year to $126.8 million largely due to demand for its water purification systems. We believe that the company saw stronger than anticipated demand for its Kunlun mineralization system. One of the questions investors have had was related to which business lines would be retained after the divestiture and it appears that the kitchen appliance line includes range hoods, gas stoves, small appliances and related installation services. This revenue category grew by an impressive 67% versus the same period of 2023 primarily as a result of increased sales to Xiaomi. Xiaomi launched a new line of gas range tops and hoods (the Mijia line) in the last week of 2024, so we believe that these new sales were incremental to the company's results.

- The company's consumables business was the one blemish on its earnings report as consumables fell 25% from 2023 due to a decrease in water filters sold to Xiaomi. Given the substantial investment the company has made in its Gigafactory for filter manufacturing it will be important to monitor this trend in 2025 and beyond. While securing safe drinking water is one area where consumers tend to invest regardless of their confidence in the economy, if consumers delay filter replacement it could impact the profitability of the company's Gigafactory.

- Viomi's gross margin slipped 840 basis points in the second half of 2024 as a result of the shift in product mix toward more products sold by Xiaomi which accounted for 90% of total sales in the period versus just 80% of sales in the first half of 2024. The lower gross margin on Xiaomi sales could eventually be mitigated by an increase in consumable sales (filters) but we are not forecasting that yet. We also think that the company has the opportunity to expand its margin by negotiating new distribution agreements in Southeast Asia.

- As a result of cost control efforts, the company was able to record a net income from continuing operations of $9.8 million which nearly matched results for the first half of 2024. For the full year of 2024 the company recorded $19.8 million of net income from continuing operations with a 6.8% net margin.

- While the company reported a combined earnings per ADS of $0.11 for the second half of 2024, more than double our forecast of $0.05/ADS, it is important to note that excluding discontinued

operations, the company would have reported earnings per ADS of $0.14 in the second half and $0.29 for the full year of 2024.

- Viomi's ability to generate a significant profit from continuing operations while restructuring its business speaks to the strong demand for the company's core products and its very strong relationship with Xiaomi.
- While Viomi has established its continuing operations as a profitable home water system provider and home appliance company that represents a significant value for investors at the current ADS price, we believe the company's strong balance will give the company flexibility to pursue acquisitions and enter new markets that could enable it to deliver growth rates well above our current conservative estimates. We are increasing our 2025 earnings per ADS to $0.32/ADS (up from $0.12/ADS) and introducing a 2026 estimate of $0.40/ADS.
- Now that we have a clear vision of the company's path forward independent of the discontinued operations, we believe the company can begin to close the valuation gap between itself and the larger profitable water systems companies that trade at more than two to three times the earnings multiple that Viomi trades at today. We are boosting our valuation target to $4.50/ADS which still represents more than 100% upside to the current price and yet would still give the company one of the lowest valuations in the sector at 11x earnings.

Balance Sheet: The company's balance sheet remains very strong with more than 40% of its total assets on 12/31/24 consisting of cash and short-term investments. This is the first balance sheet that the company has published since the disposal of its IoT business and we find it encouraging that the continuing operations have the financial flexibility to fund potential acquisitions, enter new markets or product line expansion.

DIVESTITURE AND RECLASSIFICATION

In August 2024 the company completed its strategic divestiture of its IoT business to the company's CEO for roughly $9 million. The ongoing operations of Viomi today are home water solutions, consumables for the company's water systems (principally filters), and kitchen appliances (range hoods, gas stoves, and small appliances). The company sells Viomi-branded and Xiaomi-branded water purification systems today but the overwhelming majority of the company's sales are Xiaomi-branded products (close to 90% of sales in the second half of 2024).

The divested business was deconsolidated from the company's consolidated financial statements which allows investors to evaluate the company based on the continuing operations as of the date of the divestiture.

Also, in the second half of 2024, the company elected to reclassify its revenue into three categories:

1) Home water systems
2) Consumables
3) Kitchen appliances and other

We think these moves should enable investors to have a clear vision of the growth opportunity for Viomi and the growth drivers of the business in the coming years.

GROWTH PLANS

Now that the company has completed the divestiture of the IoT business and unconsolidated the financial statements we believe that the company and its investors can begin to look forward toward new growth opportunities.

- The company intends to strengthen its position in the domestic Chinese market by highlighting the advanced features of its newest models (including the Kunlun Mineral AI Purifier) and by offering "trade-in" incentives. While the company did not provide any details around whether these incentives would be just for Viomi or Xiaomi systems traded in or if it could be for any water system, but we think this is a good approach to generate demand for purification systems that can drive future filter sales.

- While the company highlighted its US launch during the conference call we found it interesting that the company also indicated that international growth will come from the North American markets and Southeast Asia. Viomi's management highlighted a recent partnership with the leading retailer in Malaysia as one of its new strategies to bring region-specific technology to these markets. We believe Indonesia, Vietnam and Malaysia all represent significant opportunities for the company.

- The company has significant R&D capacity and a deep pool of water purification developers on staff so the company intends to continue to invest in developing new technologies that will enhance its portfolio of products.

- Finally, the company intends to "deepen collaborations with strategic partners" which we saw evidence of in the second half as Xiaomi-related sales grew to nearly 90% of all revenues. While the company's strong reliance on its partnership with Xiaomi is a risk factor, we believe that the deep ties between the two companies (including equity holdings in Viomi) and the three-year contract extension ease those concerns.

VALUATION

Viomi has completed the divestiture of its large, money losing IoT operations and it has now been able to publish results that show strong profitability of its continuing operations. The company's balance sheet is slightly stronger than we forecast and company is well positioned to pursue growth opportunities in emerging markets in Southeast Asia or in North America.

The company's position in the Chinese water purification market appears to be solid as a result of the company's partnership with Xiaomi and recent management additions. We have elected to be conservative with our estimates for 2025 and 2026 but we believe the company could achieve better gross margins and operating margins as the product mix shifts to include more.

We are substantially increasing our 2025 and 2026 earnings per ADS to $0.32 and $0.40, respectively. Based on comparable valuations, our analysis of M&A activity in the industry, our increased 2025 and 2026 earnings per ADS estimates, and our DCF model we arrive at a blended twelve-month valuation target for Viomi of $4.50/ADS.

We have noted increased volatility in the company's shares as trading volumes have increased in recent days and the company was frequently mentioned in a variety of day-trading forums. The stock traded up 25% on the day prior to earnings only to drop 20% on the day after earnings. As with many small-cap stocks, the day-to-day fluctuations in price do not reflect real changes in the fundamentals of the company and we would encourage long-term holders to utilize these swings to find attractive entry points for long-term positions in a growing and profitable business.

Figure 1: Comparable Valuations

Peers Comps Relative Valuation
3/25/25

Company	Ticker	Market Cap*	EV/Sales	EV/Sales	P/E	P/E
Smart home/Appliance Cos in China		(Bil of USD)	**2024E**	**2025E**	**2024E**	**2025E**
Xiaomi Corporation	1810.HK	172,587	2.6x	2.2x	37	30
Midea Group Co	000333.SZ	80,350	1.1x	1.0x	15	14
Haier Smart Home	6690.HK	33,591	0.8x	0.8x	12	11
Gree Electric Appliance	000651.SZ	34,661	1.1x	1.0x	8	8
HiSense Appliance	600060.SZ	5,507	1.1x	1.0x	12	11
Skyworth Appliances	0751.HK	793	NA	NA	NA	NA
Water/Industrial machinery related companies						
A.O. Smith Corporation	AOS	9,700	2.5x	2.3x	18	16
Pentair PLC	PNR	15,000	4.1x	4.0x	19	17
Rinnai Corporation	5947.T	3,328	1.0x	1.0x	NA	NA
Private water companies						
Evoqua	Acquired by Xylem (XYL $30 Bil mkt cap)					
Culligan International	Acquired by BDT Capital Partners					
PUR	P&G sold to Helen of Troy					
Brita SE	Privately held					
Chinese water companies						
Qinyuan Group	Unilever 67% stake sold to Yong Chao Venture Capital					
Angel Group Global	Private					
Viomi	VIOT	136	0.2x	0.2x	6.3x	5.0x

Source: Yahoo Finance and Zacks Small Cap Research

OVERVIEW

Viomi Technology Co., Ltd, (NASDAQ: VIOT) operates in China offering water filtration, mineralization systems and related products as of September 2024. The company has undergone a significant transformation in the past few years and we feel that this transformation from a large, multi-line, unprofitable home appliance and connected home device company into a significantly smaller, yet profitable, water solutions and kitchen appliance company has not been fully understood by investors.

Since the company's IPO in 2018, Viomi has been principally engaged in manufacturing more than 60 products for the Internet of Things (IoT) and home appliance market that sought to offer consumers a cost-effective way to take advantage of increasing connectivity in the home. In the face of stiff competition for connected devices in the home and economic challenges after the Covid-19 pandemic, the company's overall business contracted meaningfully in recent years with revenue falling from $832 million in 2021 to just $351 million in 2023.

The substantial drop in demand and revenue led the management team to completely reassess the company's position in the market in 2024. As a result of this analysis, the company announced in mid-July its intention to divest the company's money losing IoT business to the company's founder and CEO, Mr. Xiaoping Chen, in exchange for RMB 65 million (just over $9 million USD). The divesture of what was historically the company's most significant revenue contributor for less than $10 million may have caused some concern for investors but it appears to be the easiest way for the company to focus on its profitable water solutions business.

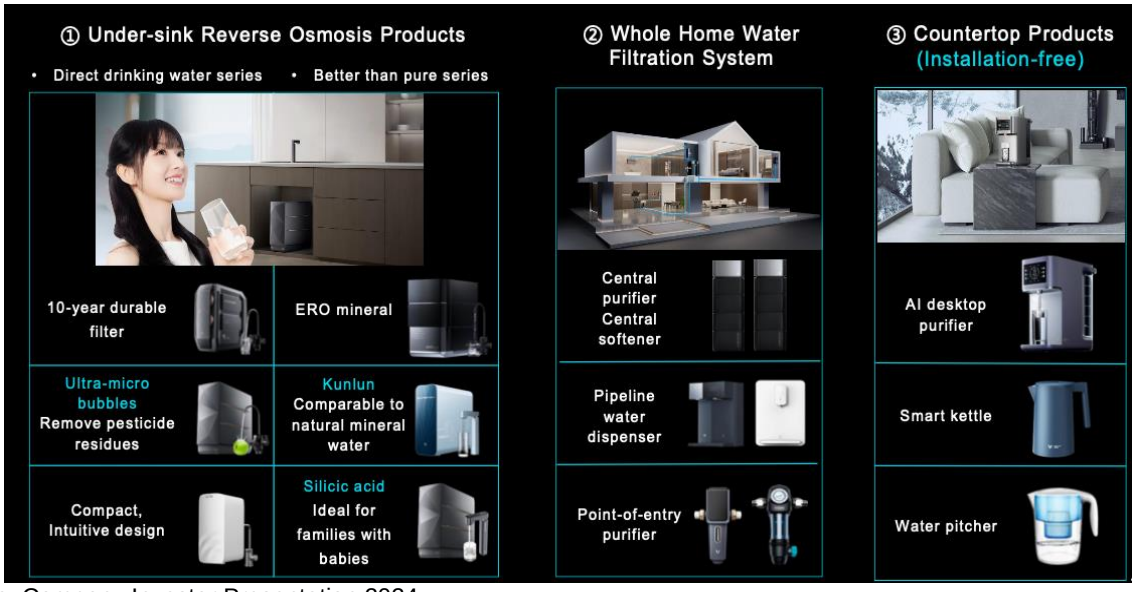
The ongoing operations of Viomi Technology as of the 8/31/24 divestiture are principally related to the sale of

1) Home water systems – under sink filters systems, whole house filters, water softeners, water heaters and water quality meters
2) Consumables – water filters
3) Kitchen appliances and other services – range hoods, gas stoves, small appliances and installation services.

The company's water purification products are sold under both the Viomi brand and the Xiaomi brand (1810.HK HKSE). Xiaomi is the $90 billion smartphone, EV, and consumer electronics giant based in China.

VIOMI'S PRODUCT LINEUP

Figure 2: Viomi's Water Filtration Products



Source: Company Investor Presentation 2024

Viomi's water filtration products consist of under-the-sink reverse osmosis filtration systems, whole house filtration systems, and various small countertop products.

1) **Under-the-sink reverse osmosis products** – The company has a variety of product offerings in the under-the-sink category but the flow rate of the water, the levels of filtration and the degree of connectivity are the key differentiators. Higher flow rates are valued by some consumers who wish to fill large bottles or pots for cooking but it should be noted that these higher flow rates may impact the life of the reverse osmosis membrane because the force of the water being pushed through the membrane will be higher. The company's standard models marketed under the Viomi brand sell for an average price of between RMB 2,000 and RMB 3,000 ($275-$400) while the carbon filter replacements are around RMB 300 – 400 ($40-$55 - higher if it includes mineralization) and the reverse osmosis filters are around RMB 800 – 1000 ($110-$140).

   In March 2024, the company introduced a new line of purifiers called the Kunlun series that not only filters the water coming into a home but also adds up to 6 minerals back to the water to create a "mineral water"-like experience from the tap. While reverse osmosis systems are valued for the ability to remove all contaminants, the process also removes beneficial minerals like calcium, magnesium, or iron. Health-conscious consumers are looking for ways to ensure they have safe drinking water while still consuming these positive minerals and the Kunlun series allows consumers to add these minerals back to the water before consumption.

   In December 2024, the company provided an update on sales of the Kunlun series purifiers on the important Double 11 holiday in China. November 11 is an unofficial holiday in China commonly referred to as singles' day and it has evolved into a major shopping holiday in recent years. The company disclosed in a recent investor presentation that on 11/11/24 they received over 10,000 orders for their Kunlun series models with an average sales price of over RMB 3000 (just over $400/unit). The company also indicated that its water purifier ranking was in the Top 5 at both TikTok and Pinduoduo.

RISKS

- Xiaomi is an important partner, shareholder, and customer of the company. Sales to Xiaomi exceeded 85% of total revenues in the last six months of 2024. Obviously, the loss of Xiaomi as a customer would severely impact Viomi and the valuation of the company's ADSs. The company's relationship with Xiaomi is based on a series of contracts that are subject to early termination by Xiaomi under certain circumstances. The company has extended its relationship for the sale of water products to Xiaomi for another three years through 2027.

- The company is in the middle of a major manufacturing capacity expansion to be completed in 5 years. The first phase of this expansion was completed in 2023 which brought R&D and water purification smart manufacturing to the facility. The second phase of the expansion will include upgrading the water purification supply chain capabilities. If the company experiences delays or increased costs associated with this expansion it could impact the company's ability to operate profitably.

- The company's future growth strategy includes expanding into the US market. Trade tensions between the US and China could severely impact the ability of the company to expand operations in the US.

- The company and its auditors have identified material weaknesses in the company's internal controls over financial reporting, particularly with regard to staff's familiarity with US GAAP. The company has implemented a plan to address these concerns by hiring additional staff who are familiar with US GAAP rules and providing sufficient training to existing staff.

- The company has a dual-class share structure with Class A and Class B shares. The Class B shares entitle the holders to 10 votes at the company's annual meeting versus just one vote for Class A shares. The holders of the Class B shares, principally the company's CEO and a subsidiary of Xiaomi, control over 90% of the voting rights of the company and will be able to exercise substantial control in directing all matters that come before the company for a vote.

- The company's operating entities currently conduct all of its operations in China and the People's Republic of China (PRC) and the government has "significant oversight and discretion" over its business. Additionally, economic challenges in China could have a material impact on the company's business.

- The company's core market – water purification solutions – is competitive in China and there can be no assurances that the company will be able to compete effectively with larger international companies when it enters other markets.

PROJECTED INCOME STATEMENT

Viomi Technology Co., Ltd.
In USD at RMB 7.2993 = 1 USD
3/25/25

(Millions USD; December Year-End)	June H1 24 A	Dec H2 24 A	2024A	June H1 25 E	Dec H2 25 E	2025E	June H1 26 E	Dec H2 26 E	2026
Revenues:									
A related party (Xiaomi)	92.2	157.1	**249.2**	109.9	177.8	**287.7**	125.3	199.1	**324.5**
% change (yoy)									
Third parties	22.5	18.6	**41.1**	19.4	24.2	**43.6**	22.1	27.2	**49.3**
% change (yoy)									
Total Revenues	**115**	**176**	**290**	**129**	**202**	**331**	**147**	**226**	**374**
% change (yoy)									
Cost of Revenues	79	136	215	98	154	252	112	173	285
Gross Profit	**36**	**40**	**75**	**31**	**48**	**80**	**35**	**54**	**89**
% change (yoy)									
Gross Profit Margin	**31.0%**	**22.6%**	**25.9%**	**24.2%**	**23.9%**	**24.0%**	**24.0%**	**23.7%**	**23.8%**
Operating Expenses:									
Research & Development Expense	10	9	20	9	9	19	10	10	19
Selling & Marketing Expense	13	16	29	14	15	29	15	15	30
General & Administrative Expense	4	5	10	5	5	10	5	5	10
Total Operating Expenses	**28**	**30**	**58**	**29**	**29**	**58**	**30**	**30**	**60**
% change (yoy)									
other income, net	2.3	2.2	4.5	2.1	2.0	4.1	1.9	1.9	3.8
Operating Income (Loss)	**10**	**11**	**21**	**5**	**21**	**26**	**8**	**26**	**33**
Interest & Investment Income/(Loss)	1	(1)	1	1	1	2	1	1	2
Other non-operating Income	0	0	0	0	0	-	0	0	0
Income before Taxes	**11**	**11**	**22**	**6**	**23**	**28**	**9**	**27**	**36**
Income (Taxes)/Benefit	(1)	(1)	(2)	(1)	(5)	(6)	(2)	(6)	(8)
Net income from continuing operations	**10**	**10**	**20**						
Net (loss)/income from discontinued operations	(9)	(2)	(11)	0	0	-	0	0	-
Less: Net loss attributable to non-controlling interest	(0)	(0)	(0)	0	0	0	0	0	0
Net Income (Loss) reported	**1**	**8**	**9**	**4**	**18**	**22**	**7**	**21**	**28**
Net Income in $									
EPS reported	**0.00**	**0.04**	**0.04**	**0.02**	**0.08**	**0.11**	**0.03**	**0.10**	**0.13**
Earnings Per ADS	**0.01**	**0.11**	**0.13**	**0.06**	**0.25**	**0.32**	**0.10**	**0.30**	**0.40**
% change (yoy)									
Diluted Shares (weighted average)	206.5	207.0	**206.7**	208.0	208.5	**208.3**	209.0	209.6	**209.3**
ADS outstanding	68.8	69.0	68.9	69.3	69.5	69.4	69.7	69.9	69.8
Margins:									
Gross Margin	31.0%	22.6%	**25.9%**	24.2%	23.9%	**24.0%**	24.0%	23.7%	**23.8%**

1 ADS (American Depository Share) = 3 ordinary shares
* Disposed businesses now reclassified as discontinued operations

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BALANCE SHEET

Viomi Technology Co., Ltd.
Balance Sheet in RMB (RMB 7.2993to US $1.00)
12/31/24

(Renminbi RMB in Millions) 12/31/24

Assets

Current Assets	RMB	USD
Cash and Cash Equivalents	1,026	141
Restricted Cash Current	141	19
Short-term Deposits	115	16
Short-term Investments	73	10
Accounts and Notes Receivable from 3rd Parties (net)	24	3
Accounts and Notes Receivable from Related Party (net)	591	81
Inventories	112	15
Prepaid expenses and other current assets	71	10
Other receivables from related parties	11	2
Total current assets	2,165	297
Non-Current Assets		
Prepaid expenses and other non-current assets	18	2
Property & Equipment (net)	315	43
Deferred Tax Assets	10	1
Intangible Assets (net)	9	1
Right of use asset	3	0
Land use rights, net	58	8
Long-term investment	8	1
Total non-current assets	420	58
Total Assets	**2,586**	**354**

Liabilities

Current Liabilities		
Short-Term borrowing	50	7
Accounts and notes payable	772	106
Advances from customer	12	2
Amount due to related parties	1	0
Accrued expenses and other liabilities	168	23
Income Tax Payable	10	1
Lease liabilities due within one year	2	0
Long-term borrowing-current portion	29	4
Total current liabilities	1,044	143
Non-Current Liabilities		
Accrued expenses	15	2
Long-term borrowing	76	10
Lease liabilities	2	0
Total Liabilities	**1,136**	**156**

Shareholder's Equity

Ordinary Shares	0	0
Treasury Shares	-85	-12
Additional Paid-in Capital	1,374	188
Accumulated Other Comprehensive Loss	2	0
Retained Earnings	153	21
Non-controlling interests	5	1
Shareholder's Equity (Deficiency)	**1,450**	199
Total Liabilities & Shareholder's Equity	**2,586**	**354**

Source: Company Press Release

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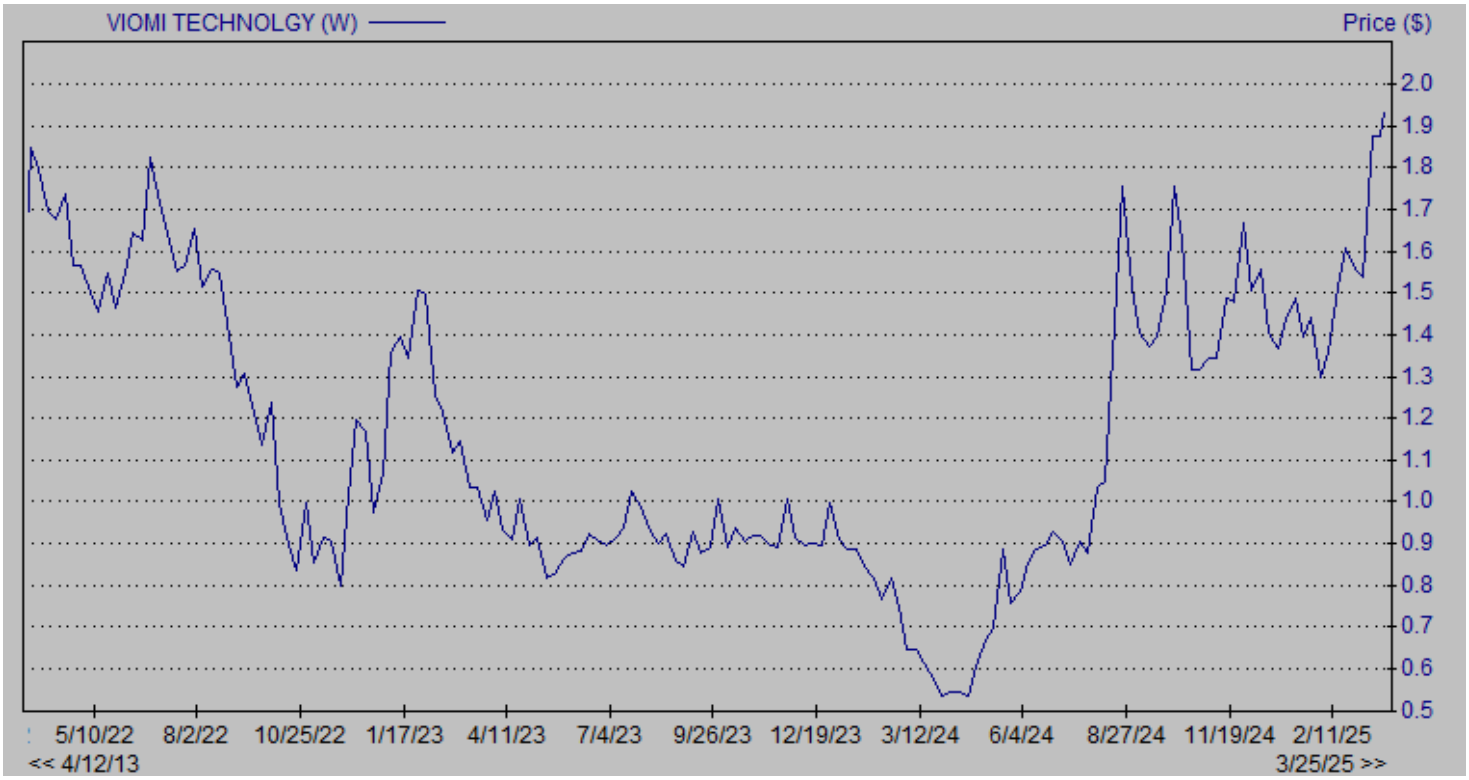
HISTORICAL STOCK PRICE



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