DE' LONGHI

OUTPERFORM

Sector: Consumers

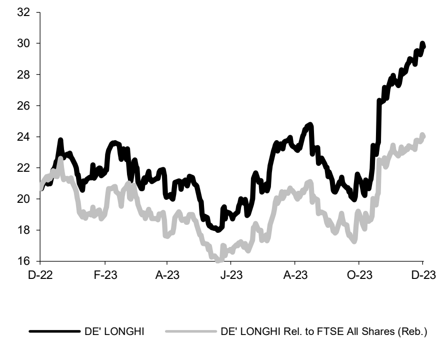
Price: Eu29.80 - **Target: Eu37.50**

Creating A Top Player In The Professional Coffee Machines

Francesco Brilli +39-02-77115.439
francesco.brilli@intermonte.it
Andrea Randone: +39-02-77115.364
andrea.randone@intermonte.it

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 31.00 to 37.50
	2023E	**2024E**	**2025E**
Chg in Adj EPS	0.0%	0.0%	0.0%

DE' LONGHI - 12M Performance



Stock Data			
Reuters code:			DLG.MI
Bloomberg code:			DLG IM
Performance	**1M**	**3M**	**12M**
Absolute	8.8%	39.0%	44.1%
Relative	4.6%	33.1%	20.1%
12M (H/L)			30.02/18.00
3M Average Volume (th):			110.69

Shareholder Data	
No. of Ord shares (mn):	150
Total no. of shares (mn):	151
Mkt Cap Ord (Eu mn):	4,455
Total Mkt Cap (Eu mn):	4,455
Mkt Float - Ord (Eu mn):	1,618
Mkt Float (in %):	36.3%
Main Shareholder:	
The Long E Trust (De'Longhi Fam.)	57.0%

Balance Sheet Data	
Book Value (Eu mn):	1,837
BVPS (Eu):	12.16
P/BV:	2.5
Net Financial Position (Eu mn):	436
Enterprise Value (Eu mn):	4,066

- **Business combination with La Marzocco.** Yesterday evening De'Longhi announced a business combination between Eversys (100% owned by De'Longhi SpA) and La Marzocco, a leading company in the production and distribution of semi-automatic coffee machines and coffee grinders, which is expected to generate c.Eu240mn in turnover and c.Eu30mn in adj. EBITDA in FY23 (it is 62.6% owned by De'Longhi Industrial – DLG SpA's parent company). This move will create a hub of global standing in the highly valuable and fast-growing professional coffee machine segment. <u>We warmly welcome the news, especially the terms and technical details of the transaction, which in our opinion has been structured in a highly transparent manner, with a genuine interest in value creation for DLG and stakeholders and fair valuations</u>. We have always advocated that De'Longhi should widen its professional coffee machines business, adding weight to Eversys (c.Eu132mn turnover in FY23E) through M&A, and we believe this deal perfectly serves the purpose of becoming a major, global, premium player in the sector.
- **Transaction details.** De'Longhi SpA will control 61.5% of a new business entity owning both La Marzocco and Eversys in exchange for (i) the transfer of Eversys to the new entity and (ii) the acquisition of 41.2% of shares in La Marzocco, both from De'Longhi Industrial and minority shareholders, for a total consideration of c.USD374mn (net of any adjustments; c.Eu340mn) to be paid at transaction closing, expected in March 2024. This amount will be fully covered by the company's own resources: the NFP as at the end of 9M23 was positive for Eu326mn, with cash and cash equivalents worth Eu1.25bn, and management indicated with confidence that the FY23 NFP could be in the black for c.Eu500mn.
- **Implied valuation: c.15x EV/EBITDA is fair for professional coffee machines.** The overall EV of the transaction has been valued by DLG's BoD at USD1,402.4mn (c.Eu1.276.2mn), the sum of Eversys (USD494.6mn) and La Marzocco (USD907.7mn), which in FY23E have combined revenues of Eu372mn (FY23E) and adj. EBITDA of Eu87mn (23.4% adj. EBITDA margin). This implies an overall EV/EBITDA multiple of 14.7x, which according to our opinion and based on similar transactions is fair for this kind of highly profitable and fast-growing business.
- **Accretive from day 1 even without considering synergies.** DLG is adding a business with an adj. EBITDA margin of 23.6% (FY23E) which compares to our expectations of 14.1% for the group. Based on our very preliminary calculations and not making specific assumptions on synergies, the addition of La Marzocco will result in EPS accretion, starting at c.7% in 2024 and increasing to 8% in 2025. This value could rise further when examining synergies in detail.
- **OUTPERFORM confirmed; target to Eu37.5 (from Eu31).** We are not including the new assumptions in our model, as the deal will probably be closed in 1Q24 (March). Still, we are updating the risk-free rate in our DCF valuation (from 4.5% to 4%) and adding 8% upside for EPS accretion from the transaction. This results in a target price of Eu37.5 per share or c.25% upside to yesterday's close.

Key Figures & Ratios	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**
Sales (Eu mn)	3,222	3,158	3,084	3,174	3,285
EBITDA Adj (Eu mn)	515	362	436	468	486
Net Profit Adj (Eu mn)	311	177	249	274	291
EPS New Adj (Eu)	2.081	1.175	1.646	1.812	1.924
EPS Old Adj (Eu)	2.081	1.175	1.646	1.812	1.924
DPS (Eu)	0.743	0.480	0.672	0.740	0.786
EV/EBITDA Adj	9.1	8.2	9.3	8.5	7.9
EV/EBIT Adj	13.4	7.3	9.6		
P/E Adj	14.3	25.4	18.1	16.4	15.5
Div. Yield	2.5%	1.6%	2.3%	2.5%	2.6%
Net Debt/EBITDA Adj	-0.8	-0.8	-1.0	-1.1	-1.4

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