DE' LONGHI

OUTPERFORM

Sector: Consumers

Price: Eu32.96 - **Target: Eu40.00**

First Take: Coffee and Nutrition to Drive Growth

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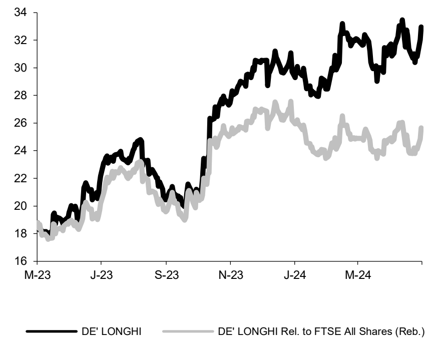
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 39.00 to 40.00
	2024E	**2025E**	**2026E**
Chg in Adj EPS	0.0%	0.0%	9.5%

DE' LONGHI - 12M Performance



Stock Data			
Reuters code:			DLG.MI
Bloomberg code:			DLG IM
Performance	**1M**	**3M**	**12M**
Absolute	4.9%	15.3%	74.4%
Relative	3.6%	9.1%	46.4%
12M (H/L)			33.46/18.00
3M Average Volume (th):			113.37

Shareholder Data	
No. of Ord shares (mn):	150
Total no. of shares (mn):	151
Mkt Cap Ord (Eu mn):	4,928
Total Mkt Cap (Eu mn):	4,928
Mkt Float - Ord (Eu mn):	1,790
Mkt Float (in %):	36.3%
Main Shareholder:	
The Long E Trust (De'Longhi Fam.)	57.0%

Balance Sheet Data	
Book Value (Eu mn):	2,027
BVPS (Eu):	13.42
P/BV:	2.5
Net Financial Position (Eu mn):	496
Enterprise Value (Eu mn):	4,483

- We attended De'Longhi's Capital Markets Day in Treviso, where we had the opportunity to meet De Longhi's entire management and gain a direct sense of the impressive industrial and operational developments that the company is constantly rolling out, together with a full review of the newest products and cutting-edge production technologies at the local factory.
- **Clear, achievable targets.** Management unveiled its main financial objectives and strategic guidelines for the 2024-2026 period, which in light of management comments and presentations seem reasonable and within reach. Coffee was indicated as the main growth driver, riding the new wave of coffee-based drinks (hot and cold) and the new proprietary technologies developed by De'Longhi to address these macro trends. Coffee remains the segment with the highest potential in terms of geographical expansion and product development. The recently-acquired La Marzocco, together with Eversys, form a key part of this strategy, as professional coffee is one of the most promising sub-segment. Nutrition is the other big trend at the core of the company's strategy, mainly to be addressed through the Capital Brands product ecosystem of personal and hand-held blenders, together with the main kitchen appliances product portfolio. Key targets are shown below:
  - **2024-2026 revenues CAGR +7-9% (including La Marzocco) equivalent to mid-single-digit growth at constant scope;**
  - **profitability to improve by 130-230bp by 2026, compared to 14.4% in 2023;**
  - **cash generation, before dividends and any extraordinary operations, expected at Eu280-320mn per year on average, after c.Eu150mn annual CapEx;**
  - **use of cash: focus on potential external growth opportunities for geographical and product expansion**
  - **Payout for the period confirmed at 40%**
  - **Continued focus on M&A**
- **Comment and revision to estimates.** The mid-point of 2026 targets is c.3% above current consensus on the top line and 5-6% on adj. EBITDA, adding further visibility to expected margin expansion. We highlight that even the mid-point of company guidance targets record-high profitability (16.3%), which we think is within reach given the additions made to the business and the operational optimisation that management is implementing (one example being the re-calibration of A&P investments).
- **OUTPERFORM confirmed, target Eu40 (from Eu39).** After yesterday's CMD we remain convinced that business fundamentals are robust, with particularly resilient coffee trends and still-untapped opportunities, especially in areas such as North America and China where the company continues to increase its penetration and brand recognition, as well as other regions where De'Longhi is consolidating its leadership. We believe current results and prospects, especially in the very resilient coffee segment but also in the nutrition arena, show that the company is ready to benefit in full from positive momentum, partly thanks to a strong pipeline of product launches that will hit the market throughout 2024. M&A remains a powerful catalyst for the stock and is still very likely in the medium term, even though management is now focusing on the integration of recent acquisition La Marzocco. New estimates bring our target price to Eu40 per share. The stock is now trading almost in line with historical levels at c.8x EV/EBITDA and 16x P/E, which in our opinion no longer reflects the value of the new scope of the company and its prospects.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	3,158	3,076	3,395	3,626	3,879
EBITDA Adj (Eu mn)	362	444	521	567	628
Net Profit Adj (Eu mn)	177	250	290	317	357
EPS New Adj (Eu)	1.175	1.658	1.919	2.099	2.366
EPS Old Adj (Eu)	1.175	1.658	1.919	2.099	2.160
DPS (Eu)	0.480	0.677	0.784	0.857	0.966
EV/EBITDA Adj	8.2	6.1	8.6	7.6	6.6
EV/EBIT Adj	7.3	6.5			
P/E Adj	28.0	19.9	17.2	15.7	13.9
Div. Yield	1.5%	2.1%	2.4%	2.6%	2.9%
Net Debt/EBITDA Adj	-0.8	-1.5	-1.0	-1.1	-1.4

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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

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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 %

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