Milan, 13 September 2023

Italian Equity Research – 2Q23 Results

ESPRINET

BUY

Sector: Consumers

Price: Eu4.07 - **Target: Eu7.00**

Lowered Guidance to Reflect a Weaker Market

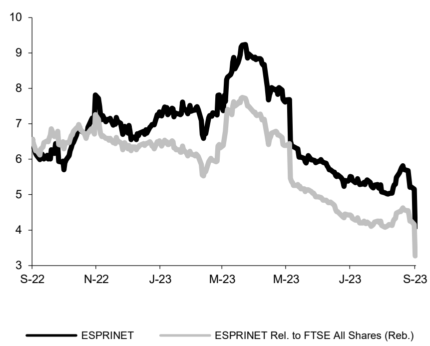
Pietro Nargi +39-02-77115.401
pietro.nargi@intermonte.it
Andrea Randone: +39-02-77115.364
andrea.randone@intermonte.it

Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 10.50 to 7.00
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-36.4%	-36.9%	-30.7%

Next Event

3Q Results Out on Nov 13th

ESPRINET - 12M Performance



Stock Data			
Reuters code:			PRT.MI
Bloomberg code:			PRT IM
Performance	**1M**	**3M**	**12M**
Absolute	-19.9%	-31.5%	-38.0%
Relative	-20.7%	-34.9%	-62.1%
12M (H/L)			9.24/4.07
3M Average Volume (th):			356.53

Shareholder Data	
No. of Ord shares (mn):	50
Total no. of shares (mn):	50
Mkt Cap Ord (Eu mn):	205
Total Mkt Cap (Eu mn):	205
Mkt Float - Ord (Eu mn):	108
Mkt Float (in %):	52.7%
Main Shareholder:	
Shareholder Agreement	25.2%

Balance Sheet Data	
Book Value (Eu mn):	375
BVPS (Eu):	7.44
P/BV:	0.5
Net Financial Position (Eu mn):	-61
Enterprise Value (Eu mn):	272

- **2Q results lower than expected.** PRT has released a weak set of 2Q results, still suffering a pronounced slowdown in market demand, particularly in the B2C market segment. By business division, Screens (-20% YoY) and Devices (-13%) continued the very poor performances, while Solutions (+2%) showed more resilience, albeit below our expectations. By geography, revenues in Italy (Eu555mn) and Spain (Eu294mn) were down -9% and -25% YoY respectively, both underperforming their markets, while revenue in Portugal (Eu38mn) decreased mid-single digit. The loss in market share (screens in particular) was explained as a selective approach on products that do not offer an adequate return on capital. Overall revenue came in at Eu887mn (-14.6% YoY), lower than the Eu908mn est. (-2%). Sales from retailers/e-tailers were down -25%, while IT resellers decreased by -9%.
- **Improving gross margin, but sharp decrease in adj. EBITDA.** Despite gross profit (Eu51mn, 5.75% margin) benefitting from the gradual shift towards low volume and high margin components (Solutions and Services at 23% of total vs. 19.3% in 2Q22), adj. EBITDA (-48% YoY) took a significant hit from the growing incidence of SG&A, and hiring for new projects at the Solutions business. At the bottom line, adj. NI of Eu0.5mn does not include the Eu33mn non-recurring item related to litigation with Italian Tax Office in May.
- **Better cash conversion cycle led to a better net debt.** The LTM moving average cash conversion cycle was 31 days (1-day better YoY and 14 days QoQ), reflecting an expected improvement in inventories, in line with the company's strategy to realign WC dynamics throughout the year. Net debt closed at Eu207mn (Eu341 in 1Q23), reflecting the Eu27mn dividend payment and cash-out for the acquisition of Lidera.
- **Outlook still negative in 2H. FY EBITDA guidance cut 17% at mid-point.** Indications from the most recent reports on B2C demand highlight a deteriorating outlook and predict a flat or even slightly negative sales trend in 2H (contrary to previous outlook projecting first signs of recovery in 3Q/4Q). For such reasons, PRT revised FY23 EBITDA guidance to a Eu70-80mn range, cutting its expectations by 17% at the mid-point (previous guidance Eu85-95mn).
- **Change in estimates.** We are bringing down our estimates towards the low end of the new guidance. For FY24-25, we are implementing a similar revision to estimates as deteriorating macro data prompts us to remain more cautious (also considering a possible slowdown in the higher margin business) despite an easier comparison. The margin revisions mainly reflect lower exploitation of operating leverage.
- **TP cut to Eu7.0 (from Eu10.5)**. Following the sharp reduction in estimates, we reduce our TP to Eu7.00. We continue to believe PRT's market-leading position is secure, as is the management strategy to focus on the value-added segment and avoid a commercial approach yielding a low return on capital that could have positive implications in the medium term, as the digital transformation trend will continue to drive an increase in technology spending, especially in IT services. On the other hand, uncertainty on 2H remains tangible, with a gloomy scenario also expected in 3Q.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	4,691	4,684	4,336	4,598	4,919
EBITDA Adj (Eu mn)	86	91	71	85	100
Net Profit Adj (Eu mn)	44	47	29	35	45
EPS New Adj (Eu)	0.880	0.960	0.572	0.702	0.885
EPS Old Adj (Eu)	0.880	0.960	0.900	1.113	1.277
DPS (Eu)	0.540	0.540	0.000	0.000	0.443
EV/EBITDA Adj	4.8	5.5	3.9	2.6	1.8
EV/EBIT Adj	5.9	6.8	5.3	3.5	2.4
P/E Adj	4.6	4.2	7.1	5.8	4.6
Div. Yield	13.3%	13.3%	0.0%	0.0%	10.9%
Net Debt/EBITDA Adj	-2.6	0.9	0.9	0.1	-0.3