Milan, 04 August 2023

Italian Equity Research – 2Q23 Results

FILA

OUTPERFORM

Sector: Consumers

Price: Eu8.28 - **Target: Eu10.30**

2Q Release Shows Good Margins. FCFE Seen at Upper End of Guidance

Pietro Nargi +39-02-77115.401
pietro.nargi@intermonte.it

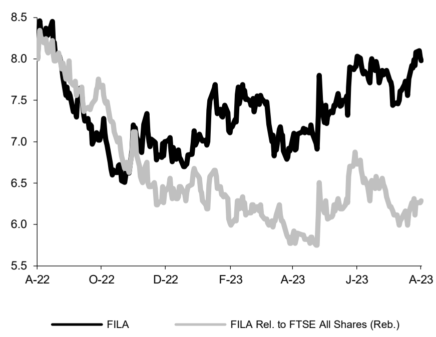
Stock Rating

Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	1.7%	1.4%	1.4%

Next Event

3Q23 Results Out on Nov 14th

FILA - 12M Performance



Stock Data

Reuters code:			FILA.MI
Bloomberg code:			FILA IM
Performance	**1M**	**3M**	**12M**
Absolute	1.5%	10.4%	-0.3%
Relative	-0.8%	2.7%	-27.0%
12M (H/L)			8.46/6.51
3M Average Volume (th):			54.15

Shareholder Data

No. of Ord shares (mn):	51
Total no. of shares (mn):	51
Mkt Cap Ord (Eu mn):	406
Total Mkt Cap (Eu mn):	406
Mkt Float - Ord (Eu mn):	200
Mkt Float (in %):	49.3%
Main Shareholder:	
Pencil	37.8%

Balance Sheet Data

Book Value (Eu mn):	427
BVPS (Eu):	9.05
P/BV:	0.9
Net Financial Position (Eu mn):	-397
Enterprise Value (Eu mn):	848

- **India and Mexico still main drivers of revenue growth in 2Q.** Revenues were up +5.5% YoY to Eu237mn (+7.9% organic), in line with our +4%/ Eu234mn, with India (Asia +27% YoY) and Mexico (Central & South America +19%) the main growth drivers, as expected, driven by strong performance in the school & office business. As anticipated, Europe slowed again (-5% YoY), with an unusually conservative approach from customers leading to decreasing YoY trends for the 4th quarter in a row, while North America was better than expected, up +7% organic, +5.9% reported due to unfavourable ForEx.
- **Margins beat expectations, good WC dynamics.** Adj. EBITDA was Eu47.9mn (+13.9% YoY, 5% above our Eu45.5mn/19.4% margin est.), with a margin of 20.2% (c. +150bp YoY), driven by i) profitability recovery in the US, with a 21.1% margin (17.4% in 2Q22 burdened by workforce and logistics issues); ii) the latest round of price increases, and iii) the impressive performance recorded in the Asian market, with adj. EBITDA at Eu8.8mn (Eu4.0mn in 2Q22). Adj. net income (before minorities) was Eu23.5mn (+20% YoY) and above our €20.9mn estimate; below the line, minority interests of Eu2.4mn almost doubled YoY, leading to adj. group net income of Eu21.2mn (+16% YoY). FCFE was positive at €7mn in 2Q23, (negative Eu-20mn in 2Q22) amid lower WC absorption (mainly due to the repositioning of inventory at lower prices), taking net debt pre-IFRS16 to €407mn, in line QoQ, including the €6mn dividend payment.
- **Conference call feedback: FCFE seen at Eu50mn in FY23.** i) FY23 guidance was confirmed, still pointing to single-digit revenue growth, with adj. EBITDA foreseen increasing at a faster pace than revenues, while FCFE is now envisaged at the high-end of the previous guidance range (Eu40-50mn); ii) no major update on the Doms IPO, with the listing process expected to be closed by YE23; FILA is committed to selling a partial stake for €90mn, leading to a significant improvement in financial leverage; iii) positive market stance for back-to-school campaigns in India, C&SA and US (where it usually starts 3-4 weeks earlier), while management expects a "normal" campaign in Europe, with no important changes compared to 2H22.
- **Change in estimates**. Based on the trends depicted in 2Q, and the confirmation of 2023 guidance, we are raising our margin assumptions slightly, while at bottom line we are including higher minorities. We are also updating our FY24E-25E CapEx estimates to factor in the €30mn average annual investments foreseen by management (as disclosed in the last CMD) aimed at increasing production capacity in India and improving the efficiency of existing plants with the steady implementation of SAP.
- **OUTPERFORM confirmed (target still €10.30).** We believe FY23 represents a key year for FILA, with turnover still driven by emerging markets, and the US restructuring should gradually deliver some improvements in margins and cash generation. On the other hand, visibility on the European market remains limited, casting some shadows over this release. We think, a deal in India may enhance speculative appeal on the stock, bringing out the value of a strategic asset in a country with high birth rates and a population of 350mn children under the age of 14. Regardless of the Indian dossier, we think the recovery in margins and cash generation may create more constructive interest in the stock and lay the foundations for a re-rating. We confirm our recommendation and TP.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	653	765	800	836	869
EBITDA Adj (Eu mn)	109	110	123	128	134
Net Profit Adj (Eu mn)	43	38	38	41	44
EPS New Adj (Eu)	0.833	0.738	0.747	0.802	0.869
EPS Old Adj (Eu)	0.833	0.738	0.735	0.790	0.857
DPS (Eu)	0.230	0.120	0.135	0.144	0.156
EV/EBITDA Adj	9.0	8.1	6.9	6.5	6.0
EV/EBIT Adj	12.5	11.4	9.4	8.7	8.0
P/E Adj	9.6	10.8	10.7	10.0	9.2
Div. Yield	2.9%	1.5%	1.7%	1.8%	2.0%
Net Debt/EBITDA Adj	4.0	3.9	3.2	2.9	2.5