GEOX

OUTPERFORM

Sector: Consumers

Price: Eu0.84 - **Target: Eu1.50**

1H23: Sales in line but beat on profitability. Guidance raised

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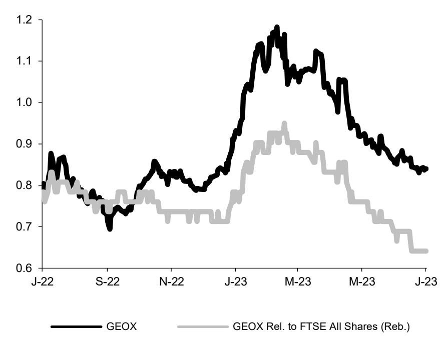
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	nm.	4.1%	4.0%

GEOX - 12M Performance



Stock Data			
Reuters code:			GEO.MI
Bloomberg code:			GEO IM
Performance	**1M**	**3M**	**12M**
Absolute	-1.6%	-17.6%	7.1%
Relative	-9.0%	-25.5%	-27.1%
12M (H/L)			1.18/0.69
3M Average Volume (th):			355.74

Shareholder Data	
No. of Ord shares (mn):	259
Total no. of shares (mn):	259
Mkt Cap Ord (Eu mn):	218
Total Mkt Cap (Eu mn):	218
Mkt Float - Ord (Eu mn):	63
Mkt Float (in %):	28.9%
Main Shareholder:	
Polegato Moretti Mario - LIR srl	71.1%

Balance Sheet Data	
Book Value (Eu mn):	114
BVPS (Eu):	0.44
P/BV:	1.9
Net Financial Position (Eu mn):	-387
Enterprise Value (Eu mn):	605

- **1H23 in line on revenues, surprising profitability level.** 1H23 results came in line with expectations on the top line at Eu354m, +3.8% YoY (our estimate Eu355), driven by wholesale but mitigated - as expected - by unusual weather conditions in May affecting direct sales and reorders and which determined a material QoQ slowdown (1Q23 sales +21.3% YoY).
- **Margins: positive surprise driving guidance revision.** On a positive note, the gross margin was well ahead of expectations thanks to lower markdowns and supply chain efficiencies in 2Q23 which respectively drove +110bps and +260bps gross margin expansions totalling +370bps YoY vs. guidance of +200bps in 1H23. Operating costs decreased by -60bpsYoY in 1H23 thus driving EBIT back to positive levels at Eu3.6m with a margin on sales of 1% vs. Eu-11m last year.
- **Mixed results on financial expenses/bottom line and NFP.** Financial expenses increased by Eu9m YoY following higher cost of debt and negative FX rate differences on RUB (Eu5.9m). This impacted net income which came in negative at Eu9.6m but still materially improving vs Eu-19.6m in 1H22. Net financial debt stood at Eu89.5m vs. Eu49.8m as at Dec.’22 YE
- **Margin expansion guidance raised.** Sales in 2H23 are seen slightly positive, confirming the previous guidance of FY23 sales at +4/+6% YoY, while for FY23 management is now expecting +220/+240 bp GM margin expansion vs. previous implied guidance of +140/+150bps.
- **Change in estimates.** Following management indications we have decided to fine tune revenue growth in 2023 to bring it back within the guidance range, reflecting the external headwinds experienced in 1H23. We increase gross margin expansion as per the new guidance and adjust financial expenses and PFN. Russian ruble FX loss factored in in 2023 financial expenses.
- **Our take after the release: at the very end of the turnaround phase.** Management was able to positively manage operating costs and quickly take advantage of easing input and transportation costs. This resulted in a surprising progression of margins which is sustainable going forward. As we also commented several times in the past, 2023 is a year of transition towards a clean operating model able to deliver margin expansion and cash generation. Still, it has to be noted that GEOX is at the very end of the turnaround path as operating dynamics already testify, with positive sales growth, margin increases, a full reorganization of internal processes and, last but not least, the perfect delivery of the 2022-2024 targets presented back in 2021.
- **OUTPERFORM, target Eu1.5 confirmed.** Geox took the opportunity to embark on a profound turnaround during the pandemic, leaving the company leaner and better placed to tackle the current phase, with a focus on products, brand re-vamping and optimisation of logistical models. The results are already visible despite the one-off headwinds that mitigated its full potential. After the unjustified correction in the last few days, current valuations seem even more depressed than before (the stock is trading at c.5x 2024 EV/EBITDA pre-IFRS16 compared to its historical - and fair - multiple of 8x) and we continue to believe the company is deploying its strategy in a very positive way and ahead of time (volumes, like-for-like sales performance and markdown discipline driving profitability are testament to this). Driven by reported results and prospects, we confirm our OUTPERFORM recommendation.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	609	736	772	822	826
EBITDA Adj (Eu mn)	30	79	103	124	126
Net Profit Adj (Eu mn)	-60	-2	8	35	36
EPS New Adj (Eu)	-0.230	-0.007	0.031	0.133	0.138
EPS Old Adj (Eu)	-0.230	-0.007	0.064	0.128	0.133
DPS (Eu)	0.000	0.000	0.000	0.067	0.069
EV/EBITDA Adj	19.7	6.9	5.9	4.7	4.3
EV/EBIT Adj	nm	nm			
P/E Adj	nm	nm	27.0	6.3	6.1
Div. Yield	0.0%	0.0%	0.0%	7.9%	8.2%
Net Debt/EBITDA Adj	11.1	4.2	3.8	2.9	2.6