

# GPI

Sector: Industrials

# OUTPERFORM

Price: Eu8.48 - Target: Eu12.30

## Strong EBITDA Growth, Though Investments Weigh on Cash Flow

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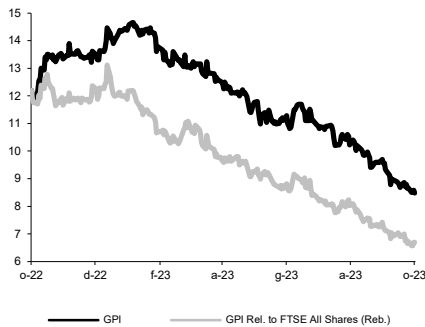
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### Stock Rating

|                    |                     |       |       |
|--------------------|---------------------|-------|-------|
| Rating:            | Unchanged           |       |       |
| Target Price (Eu): | from 17.20 to 12.30 |       |       |
|                    | 2023E               | 2024E | 2025E |
| Chg in Adj EPS     | -16.1%              | 0.9%  | 3.0%  |

### GPI - 12M Performance



### Stock Data

|                         |            |           |            |
|-------------------------|------------|-----------|------------|
| Reuters code:           | GPI.MI     |           |            |
| Bloomberg code:         | GPI IM     |           |            |
| <b>Performance</b>      | <b>1M</b>  | <b>3M</b> | <b>12M</b> |
| Absolute                | -11.3%     | -22.2%    | -30.5%     |
| Relative                | -7.6%      | -18.3%    | -57.1%     |
| 12M (H/L)               | 14.66/8.48 |           |            |
| 3M Average Volume (th): | 12.27      |           |            |

### Shareholder Data

|                           |       |
|---------------------------|-------|
| No. of Ord shares (mn):   | 29    |
| Total no. of shares (mn): | 29    |
| Mkt Cap Ord (Eu mn):      | 245   |
| Total Mkt Cap (Eu mn):    | 245   |
| Mkt Float - Ord (Eu mn):  | 86    |
| Mkt Float (in %):         | 35.0% |
| Main Shareholder:         |       |
| FM Srl (F. Manzana, CEO)  | 46.6% |

### Balance Sheet Data

|                                 |      |
|---------------------------------|------|
| Book Value (Eu mn):             | 250  |
| BVPS (Eu):                      | 8.66 |
| P/BV:                           | 1.0  |
| Net Financial Position (Eu mn): | -354 |
| Enterprise Value (Eu mn):       | 599  |

■ **1H23 results: EBITDA better, net debt higher than expected.** In 1H23, GPI reported better-than-expected EBITDA amid stronger organic growth and profitability in the Software and Other divisions, although net debt was higher than expected. Revenues were €193mn (€190mn exp.), +14% YoY o/w 7% organic and 8% from M&A (Tesi), EBITDA was €26.0mn (€24.5mn exp.), +50% YoY for a 13.5% margin up 3.2pp, but net profit was €0.6mn (€2.0mn) due to higher D&A and net financial charges. Net debt was €174mn vs. €160mn exp. due to higher CapEx (Software R&D, new HQ and a clinic in Basilicata) and NWC absorption (mainly relating to Consip).

■ **2023 guidance ex-Evolucare P&L in line, but net debt worse.** GPI foresees pro-forma revenue of €460mn, EBITDA of €88mn (~19% margin) and net debt of €340mn (ex-minorities and IFRS16, net debt/EBITDA at 3.2x, compliant with 3.5-3.75x covenant). Net of Evolucare, guidance is consistent with our pre-event forecast at P&L level (revenue €415mn and EBITDA of €70mn) with higher Software and Other offsetting lower Care, though worse on net debt at ~€170mn vs. our €150mn.

■ **Evolucare: reinforce Software and foreign presence with cross-selling synergies.** Announced in June and closed in August after French government approval, GPI acquired 96.6% of Evolucare (the Evolucare CEO retains 3.4%, with put & call options expiring in 2028). Evolucare is a software company focused on Hospital Information Systems and Critical Care in the French healthcare sector (86% of total). In FY22, revenue came to €43mn, EBITDA €16mn and net debt €56mn. The rationale is to strengthen GPI's foreign presence and generate commercial synergies through cross-selling (projected to exceed 10mn). EV was €172mn, a ~11/10x FY22A/23E EV/EBITDA, with an outlay of €109mn paid through GPI's available liquidity (€154mn in 1H23).

■ **Disposal of "Pay": debt reduction and higher focus on core business.** GPI is evaluating the disposal of non-strategic businesses, starting with "Pay". Pay offers electronic payment services, generating annual revenues of ~€14mn, a 2018-23 CAGR of +34% and EBITDA of ~€6mn for a ~40% margin (~8% of group pro-forma EBITDA). We await more visibility before including any benefits, as the process is still in its infancy, while if successful it would reduce net debt and increase focus on the core business.

■ **Change in estimates.** We are updating our model to reflect both organic and external factors. Before Evolucare, our adj. EBITDA forecasts are confirmed (+SW, +OT, -CA), but EPS would decline by -20% on average in 2023-25 due to higher D&A and net financial charges (higher debt & interest rates). Including Evolucare, group EPS increases slightly by +2% in 2024/25 (when the full contribution takes effect) while FY23 net debt goes to €354mn from €148mn due to Evolucare and worse FCF (higher CapEx and NWC).

■ **OUTPERFORM, TP €12.3.** We attribute GPI's weak YTD stock performance (-39%) to a combination of factors: i) negative performance of small caps (-10%); ii) lower cash generation due to Consip revenue acceleration and higher CapEx seen already in mid-February with FY22 results; iii) the re-leverage coming from the acquisition of Evolucare in the current high interest rate environment (despite its strategic value). In that sense, the improvement the BoD is seeking to bring about in cash generation (also thanks to the new CFO) could become a key factor for the equity story. As technology is an enabler of better, more coordinated healthcare while offering overall cost savings, we expect GPI to benefit from investments in healthcare digitalisation given its market position and broad product range. Our TP goes to €12.3 from €17.2 due to higher net debt, higher WACC (8.2% vs. 7.5% prev.) on a higher risk-free rate and lower EV/EBITDA amid panel de-rating (avg ~7.3x from 8.5x). We confirm our OUTPERFORM rating in light of the upside, as negativity already seems to be priced in.

| Key Figures & Ratios   | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------|-------|-------|-------|-------|-------|
| Sales (Eu mn)          | 327   | 360   | 427   | 487   | 504   |
| EBITDA Adj (Eu mn)     | 50    | 54    | 76    | 95    | 99    |
| Net Profit Adj (Eu mn) | 11    | 10    | 15    | 25    | 28    |
| EPS New Adj (Eu)       | 0.621 | 0.343 | 0.546 | 0.880 | 0.989 |
| EPS Old Adj (Eu)       | 0.621 | 0.343 | 0.650 | 0.872 | 0.959 |
| DPS (Eu)               | 0.500 | 0.500 | 0.500 | 0.500 | 0.000 |
| EV/EBITDA Adj          | 7.4   | 9.8   | 7.9   | 6.4   | 5.9   |
| EV/EBIT Adj            | 15.7  | 20.5  | 14.8  | 10.5  | 9.5   |
| P/E Adj                | 13.7  | 24.7  | 15.5  | 9.6   | 8.6   |
| Div. Yield             | 5.9%  | 5.9%  | 5.9%  | 5.9%  | 0.0%  |
| Net Debt/EBITDA Adj    | 3.1   | 2.6   | 4.7   | 3.8   | 3.5   |