

REPLY

Sector: Industrials

OUTPERFORM

Price: Eu95.95 - Target: Eu132.50

Temporary Deceleration in Germany, Italy Strong

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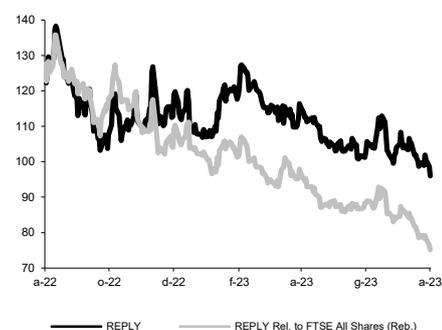
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 133.50 to 132.50		
	2023E	2024E	2025E
Chg in Adj EPS	-3.5%	-3.0%	-2.7%

Next Event 9M23 results

Results Out 14 November 2023

REPLY - 12M Performance



Stock Data

Reuters code:	REY.MI
Bloomberg code:	REY IM

Performance	1M	3M	12M
Absolute	-7.8%	-9.1%	-24.9%
Relative	-11.4%	-16.3%	-52.6%
12M (H/L)	138.30/95.95		
3M Average Volume (th):	51.51		

Shareholder Data

No. of Ord shares (mn):	37
Total no. of shares (mn):	37
Mkt Cap Ord (Eu mn):	3,590
Total Mkt Cap (Eu mn):	3,590
Mkt Float - Ord (Eu mn):	1,974
Mkt Float (in %):	55.0%
Main Shareholder:	
Alika (Rizzante family)	39.8%

Balance Sheet Data

Book Value (Eu mn):	1,120
BVPS (Eu):	29.98
P/BV:	3.2
Net Financial Position (Eu mn):	215
Enterprise Value (Eu mn):	3,375

■ **Organic growth down to 8.5% in 2Q23 but better than expected.** Reply posted 2Q23 revenues of Eu518.3mn, 1.1% better than expected and up 15.5% YoY or +8.5% YoY in organic terms (i.e. net of ForEx and M&A contributions), marking a deceleration compared to previous quarters due mainly to a slowdown in Germany, but still better than our +7.1% organic forecast. In more detail: Region 1 (63% of quarterly sales, mainly generated in Italy but also including US activities) rose 9.2% YoY, showing 9.5% organic growth (a touch lower than expected) thanks to very solid Italian activities, while the US business is gradually improving. Region 2 (19% of quarterly sales, generated in Germany) posted revenues of Eu99.4mn, up 20.9% YoY, witnessing 3.8% organic growth (significantly lower than the 11% growth posted in 1Q23 but better than our -5% assumption), coupled to the contribution from the recently-acquired Fincon (slightly lower than expected). Finally, Region 3 (19% of quarterly sales, mainly generated in the UK and France) was the main positive surprise, up 36.3% YoY to Eu98.3mn, largely thanks to the consolidation of Wemanity but also to organic growth of 11% (vs. just 2.2% expected).

■ **2Q23 EBITDA margin at 14.1% vs. 14.9% expected.** Quarterly EBITDA came to Eu73.0mn, down 0.8% YoY and 4.3% lower than expected, with a 14.1% margin on sales that corresponds to a 230bp YoY reduction (as a reminder, the 2Q22 EBITDA margin benefitted from the release of an Eu11mn accrual, net of which the margin would have been 14.3%, i.e. not far from 2Q23). Italian activities witnessed a normalisation of margins (17.1% - better than expected - vs. the unusually high 18.2% in 2Q22,) while the German business achieved an 8.0% EBITDA margin compared to 11.5% in 2Q22, which offered an easy comparison base. In Germany, the revenue per employee ratio dropped 15% YoY in 2Q23, highlighting the unusually low utilisation of the local workforce, which we expect will gradually recover starting from 3Q23. Finally, the EBITDA margin was also quite low in Region3 (8.4% vs. 11.8% expected) probably because of the dilutive effect of the consolidation of Wemanity.

■ **Change in estimates.** In light of 2Q23 results, we confirm our revenue and EBITDA forecasts that assume 8% organic growth and a 16% EBITDA margin for 2H23. As for 2024 and 2025 estimates, we confirm the assumption of 10% organic growth and a 16% EBITDA margin (i.e., at the top end of the 14-16% range generally indicated by management) because we expect sector dynamics to remain strong. Below the EBITDA line, we are raising D&A and financial charges, driving a 3.5%/3.0% reduction in 2023/24 EPS.

■ **OUTPERFORM confirmed; target Eu132.5 from Eu133.5.** 2Q23 results showed a deceleration of business trends in Germany that we expect to be temporary. We expect profitability to recover in the next quarters and believe the group is perfectly positioned to exploit the wave of investments related to the artificial intelligence revolution.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	1,484	1,891	2,132	2,344	2,578
EBITDA Adj (Eu mn)	263	340	330	376	415
Net Profit Adj (Eu mn)	151	191	187	216	241
EPS New Adj (Eu)	4.027	5.106	4.990	5.787	6.455
EPS Old Adj (Eu)	4.027	5.106	5.170	5.963	6.634
DPS (Eu)	0.800	1.000	1.100	1.200	1.300
EV/EBITDA Adj	19.0	13.7	10.2	8.6	7.3
EV/EBIT Adj	23.9	16.4	12.5	10.3	8.8
P/E Adj	23.8	18.8	19.2	16.6	14.9
Div. Yield	0.8%	1.0%	1.1%	1.3%	1.4%
Net Debt/EBITDA Adj	-0.7	-0.2	-0.6	-1.0	-1.4