Milan, 05 May 2023

Italian Equity Research – 1Q23 Preview

REPLY

OUTPERFORM

Sector: Industrials

Price: Eu103.10 - **Target: Eu136.50**

Reassuring Quarterly Results Ahead

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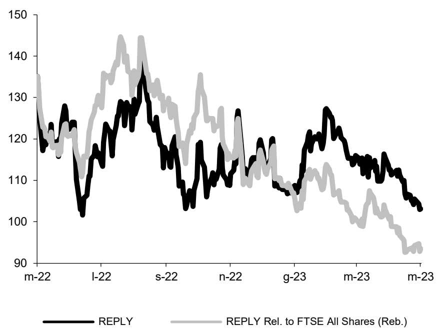
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-1.0%	-0.2%	-0.3%

Next Event 1Q23 results
Results Out 15 May 2023

REPLY - 12M Performance



Stock Data			
Reuters code:			REY.MI
Bloomberg code:			REY IM
Performance	**1M**	**3M**	**12M**
Absolute	-8.4%	-19.0%	-23.7%
Relative	-6.9%	-17.6%	-33.9%
12M (H/L)			138.30/101.60
3M Average Volume (th):			42.46

Shareholder Data	
No. of Ord shares (mn):	37
Total no. of shares (mn):	37
Mkt Cap Ord (Eu mn):	3,857
Total Mkt Cap (Eu mn):	3,857
Mkt Float - Ord (Eu mn):	2,121
Mkt Float (in %):	55.0%
Main Shareholder:	
Alika (Rizzante family)	39.8%

Balance Sheet Data	
Book Value (Eu mn):	1,135
BVPS (Eu):	30.38
P/BV:	3.4
Net Financial Position (Eu mn):	227
Enterprise Value (Eu mn):	3,630

- **Double-digit organic top line growth expected to have continued in 1Q23.** We expect Reply to post 1Q23 revenues of Eu518.9mn, up 17.7% YoY or 10.0% in organic terms (i.e. net of ForEx and M&A contributions). In more detail, we expect all the regions to have enjoyed 10% organic growth. In Region 1 (60% of quarterly sales, mainly generated in Italy but also covering US activities) Italian activities are expected to have performed strongly enough to offset a less brilliant US performance; in Region 2 (20% of quarterly sales generated entirely in Germany) the growth rate includes the contribution of newly-acquired Fincon (+18.9% expected impact); finally in Region 3 (20% of quarterly sales, mainly generated in the UK but also in France and other regions) UK business is expected to have remained solid while the turnover includes the contribution of newly acquired Wemanity (+21.6% expected impact).
- **EBITDA margin forecast at 15.6%.** Quarterly EBITDA should have come to Eu81.0mn, up 14.3% YoY, a 15.6% margin on sales that corresponds to a 50bp YoY contraction, reflecting the dilutive impact from the consolidation of the recent acquisition of Wemanity (net of which the EBITDA margin would have stayed flat YoY). Below EBITDA, we do not expect any significant surprises, with EBIT seen at Eu66.5mn, a 12.8% margin on sales. Net cash, excluding the impact of IFRS16, should have stood at Eu260mn at the end of March 2023, with positive quarterly net cash generation of Eu64mn linked to favourable working capital seasonality.
- **Change in estimates.** In light of our 1Q23 forecast, we are leaving our 2023-2025 revenue forecasts unchanged, still implying 10% like-for-like growth. Looking at margins, we are trimming our forecasts by a few basis points, coming into line with the top end of management's indication for an EBITDA margin of 14-16%. This revision is linked to the recent acquisitions, Fincon and Wemanity, which are initially slightly margin-dilutive (especially Wemanity), but we expect steady improvements in the coming years. All in all, we broadly confirm 2023, 2024 and 2025 EPS. It is worth noting that Reply, even after the important acquisitions announced in 2022, still has a net cash position and management is seeking new targets in the UK, US and Germany.
- **OUTPERFORM confirmed; target Eu136.5 unchanged.** 1Q23 results should show a continuation of Reply's convincing business momentum. Despite the uncertain macro scenario we consider our 2023 and 2024 forecasts quite visible thanks to excellent group positioning in the most innovative areas of a digital sector that should remain relatively well protected from a downturn in GDP. Chairman Mario Rizzante in particular sees great opportunities from the integration of automation, artificial intelligence, and connected objects, areas where the group plays a leading role. After the recent weak share performance, we strongly reiterate our positive view on the stock: in our view it trades at an unjustified discount to Accenture.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	1,484	1,891	2,169	2,385	2,623
EBITDA Adj (Eu mn)	263	340	344	383	423
Net Profit Adj (Eu mn)	151	191	203	227	253
EPS New Adj (Eu)	4.027	5.106	5.413	6.081	6.762
EPS Old Adj (Eu)	4.027	5.106	5.468	6.092	6.783
DPS (Eu)	0.800	1.000	1.100	1.200	1.300
EV/EBITDA Adj	19.0	13.7	10.6	9.0	7.7
EV/EBIT Adj	23.9	16.4	12.7	10.8	9.2
P/E Adj	25.6	20.2	19.0	17.0	15.2
Div. Yield	0.8%	1.0%	1.1%	1.2%	1.3%
Net Debt/EBITDA Adj	-0.7	-0.2	-0.7	-1.0	-1.4