REPLY

OUTPERFORM

Sector: Industrials

Price: Eu126.60 - **Target: Eu153.00**

A Convincing Set of Results and a Promising Outlook

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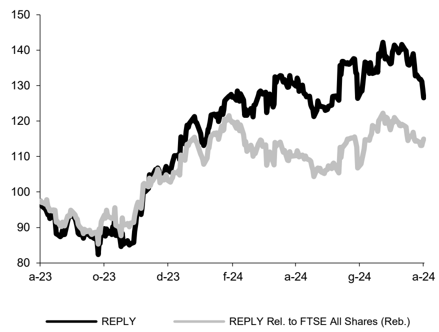
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	0.1%	0.2%	0.1%

Next Event 3Q24 Results
Results Out 14 November 2024

REPLY - 12M Performance



Stock Data			
Reuters code:			REY.MI
Bloomberg code:			REY IM
Performance	**1M**	**3M**	**12M**
Absolute	-7.1%	2.7%	29.9%
Relative	-2.9%	7.6%	19.7%
12M (H/L)			142.20/82.40
3M Average Volume (th):			36.48

Shareholder Data	
No. of Ord shares (mn):	37
Total no. of shares (mn):	37
Mkt Cap Ord (Eu mn):	4,736
Total Mkt Cap (Eu mn):	4,736
Mkt Float - Ord (Eu mn):	2,605
Mkt Float (in %):	55.0%
Main Shareholder:	
Alika (Rizzante family)	39.8%

Balance Sheet Data	
Book Value (Eu mn):	1,280
BVPS (Eu):	34.26
P/BV:	3.7
Net Financial Position (Eu mn):	356
Enterprise Value (Eu mn):	4,380

- **A strong set of 2Q24 results.** On 1 August, Reply reported 2Q24 revenues of Eu560.0mn, in line with our estimates and up 8.0% YoY, or +7.7% organically, i.e. excluding a minor ForEx contribution, marking an acceleration compared to the 1Q24 performance (+6.1%). In more detail: Region 1 and Region 2 (63.7% and 19.4% of quarterly sales respectively) outpaced 1Q24, posting +9.9%/+12.6% organic growth. On the other hand, Region 3 (16.9% of quarterly sales, mainly generated in the UK and France) was down 2.3% YoY organically. EBITDA was a positive surprise, up 27.6% YoY to Eu93.2mn and 4.9% better than expectations. The surprise was mainly achieved thanks to improvements in Region 1 (from 17.1% to 20.6% on sales) and in Region 2 (from 8.0% to 9.7%) while Region 3 was weaker (from 8.4% to 7.4%). Below EBITDA, 2Q24 saw Eu2.4mn of one-off expenses and Eu3.2mn of losses on investments, another non-recurring item. Pre-tax profit therefore closed at Eu73.2mn, just 2% better than expectations, but 42% YoY higher regardless. Net liquidity as at end-June 2024 was Eu364mn, improving by Eu136mn YoY but almost Eu45mn lower than expectations: the gap was related to higher cash taxes (+Eu35mn) and payments of some earn-outs (Eu11mn).
- **Quarterly trends and outlook.** The outlook appears supportive: since the beginning of the year, Reply has seen increased interest in applications related to the use of artificial intelligence, an area where it has gained a leading position on the market. The 3Q24 performance should be in line with 1H24; they see a strong pipeline. In terms of M&A, at the moment they are in advanced discussion with a UK company, while another possible deal in Germany is at an earlier stage. At the same time, they have a pipeline of discussions in the US.
- **Updating our estimates.** We believe market conditions will remain positive and we consider Reply to be well positioned to continue to outperform the industry. As for 2024, we confirm our assumptions that foresee 10% organic growth in Region 1 and Region 2, while we are trimming the organic forecast in Region 3 from 3.0% to 1.5%. For FY24, we are raising our EBITDA margin assumption slightly, staying on the safe side (16.1% margin expected in 2H24E, in line with 1H24).
- **Outperform, confirmed, target Eu153 unchanged.** We appreciated the results, both in terms of organic revenue growth, achieved in a rather challenging market, and in terms of margins. Management appeared confident of business opportunities coming from the AI revolution, a technology where Reply can continue to capitalize on its early investments, and which is being embedded in a large number of new solutions. Finally, it is worth noting that the Reply board has approved a proposal to go before the EGM scheduled for 17 September 2024 to amend the articles of association in order to enable enhancement of the loyalty voting scheme in line with new Italian legislation. This decision may not please some investors, but it remains an understandable choice by the controlling shareholder to have the option in the future to evaluate paper acquisitions in relevant markets such as the USA or manage any generational transitions in the controlling holding company (the Rizzante family controls 51% of the Alika holding company).

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	1,891	2,118	2,301	2,530	2,783
EBITDA Adj (Eu mn)	340	352	372	409	450
Net Profit Adj (Eu mn)	191	187	202	227	252
EPS New Adj (Eu)	5.106	4.990	5.408	6.058	6.740
EPS Old Adj (Eu)	5.106	4.990	5.400	6.047	6.735
DPS (Eu)	1.000	1.000	1.100	1.200	1.300
EV/EBITDA Adj	13.7	10.5	11.8	10.2	8.8
EV/EBIT Adj	16.4	12.6	15.1	13.0	11.1
P/E Adj	24.8	25.4	23.4	20.9	18.8
Div. Yield	0.8%	0.8%	0.9%	0.9%	1.0%
Net Debt/EBITDA Adj	-0.2	-0.6	-1.0	-1.3	-1.7

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 4.0% and a risk premium of 5.5% are being used.
Frequency of research: quarterly.
Reports on all companies listed on the S&PMIB40 Index, most of those on the MIDEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.
A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.
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BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;
UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;
SELL: stock expected to underperform the market by over 25% over a 12 month period.
Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	23.97 %
OUTPERFORM:	49.59 %
NEUTRAL:	25.61 %
UNDERPERFORM	00.83 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (49 in total) is as follows:

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OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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