

# REPLY

Sector: Industrials

# OUTPERFORM

Price: Eu93.70 - Target: Eu124.00

## We Expect Margins to Improve in 3Q23 compared to 2Q23

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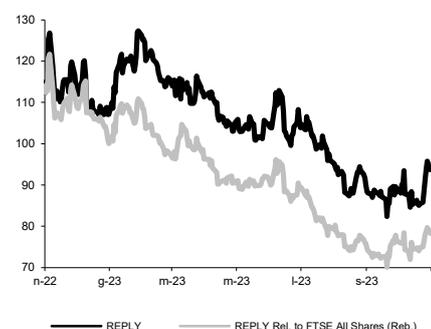
### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 132.50 to 124.00		
	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Chg in Adj EPS</b>	-6.2%	-3.2%	-2.4%

### 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	5.3%	-2.2%	-16.0%
Relative	2.6%	-1.7%	-36.9%
12M (H/L)	127.30/82.40		
3M Average Volume (th):	48.34		

### Shareholder Data

No. of Ord shares (mn):	37
Total no. of shares (mn):	37
Mkt Cap Ord (Eu mn):	3,505
Total Mkt Cap (Eu mn):	3,505
Mkt Float - Ord (Eu mn):	1,928
Mkt Float (in %):	55.0%
Main Shareholder:	
Alika (Rizzante family)	39.8%

### Balance Sheet Data

Book Value (Eu mn):	1,108
BVPS (Eu):	29.67
P/BV:	3.2
Net Financial Position (Eu mn):	182
Enterprise Value (Eu mn):	3,324

■ **Revenues in 3Q23 to remain solid considering a very tough comparison.** We expect Reply to post 3Q23 revenues of Eu510.2mn, up 9.5% YoY or 5.5% YoY in organic terms (i.e. net of ForEx and M&A contributions), marking a slight deceleration on 2Q23 (+8.5%) mainly due to a tougher comparison (organic growth peaked at +18% in 3Q22 vs. 16.3% in 2Q22 and +15.9% in FY22). In more detail: we expect Region 2 (20% of quarterly sales, generated in Germany) to post revenues of Eu104.1mn, up 4.8% YoY, entirely organic, slightly up on the 3.8% witnessed in 2Q23. On the other hand, Region 1 (61% of quarterly sales, mainly generated in Italy but also including US activities) should have risen 7.6% YoY, showing 8.0% organic growth, a bit softer than in previous quarters but still solid. Finally, Region 3 (18.8% of quarterly sales, mainly generated in the UK and France) should have risen 20.5% YoY, entirely thanks to the consolidation of Wemanity, while the organic performance should have been negative by 3%, mainly because of a very tough comparison (organic growth was +29.4% in 3Q22).

■ **3Q23 EBITDA margin forecast at 15%, improving QoQ.** Quarterly EBITDA should have come to Eu76.0mn, up 2.6% YoY, with a 14.9% margin on sales that would correspond to a 100bp YoY drop, but 80bp better QoQ. Italian activities should report margins stable QoQ at 17.1% while the German business should have reached an 13.0% EBITDA margin compared to 8.0% in 2Q23, therefore showing good QoQ recovery despite remaining below the extremely high level recorded in 3Q22 (16.5%). Finally, EBITDA margin in Region 3 should amount to 9.0%, also in this case improving on 2Q23 (8.4%).

■ **Change in estimates.** We believe market conditions will remain supportive for the group in the years to come because its niche positioning in the most innovative segments of the IT market should continue to prove resilient, even when the macro picture is witnessing softer trends. At the same time, we think that some recent acquisitions will need time to align their profitability to group standards and therefore we factor more gradual margin expansion into our estimate model. For 2023 alone, we are assuming some non-cash negative contribution from associates.

■ **OUTPERFORM confirmed; target Eu124.0 from Eu132.5.** Compared to the performance recorded in 2Q23, the business should show an improvement in Region 2 (Germany) while Italy (Region 1) should have continued to do well. In Region 3, France is expected to report a continuation of a positive growth while the UK is expected to suffer from the volatility of some sectors such as retail. The group continues to seek M&A opportunities, but we do not see any deals ready to be announced anytime soon. We believe the group is perfectly positioned to exploit the wave of investments related to the artificial intelligence revolution and, more generally, to digital innovation. Our target revision is partly to reflect our minor estimate revision and, more significantly, to reflect the factoring of a 50bp higher risk-free rate into our DCF valuation model.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	1,484	1,891	2,125	2,336	2,569
EBITDA Adj (Eu mn)	263	340	321	367	407
Net Profit Adj (Eu mn)	151	191	175	210	236
EPS New Adj (Eu)	4.027	5.106	4.683	5.602	6.301
EPS Old Adj (Eu)	4.027	5.106	4.990	5.787	6.455
DPS (Eu)	0.800	1.000	1.100	1.200	1.300
EV/EBITDA Adj	19.0	13.7	10.4	8.7	7.4
EV/EBIT Adj	23.9	16.4	12.8	10.5	8.9
P/E Adj	23.3	18.4	20.0	16.7	14.9
Div. Yield	0.9%	1.1%	1.2%	1.3%	1.4%
Net Debt/EBITDA Adj	-0.7	-0.2	-0.6	-0.9	-1.3