REPLY

OUTPERFORM

Sector: Industrials

Price: Eu103.40 - **Target: Eu133.50**

Temporary Deceleration in Germany To Hit 2Q Results

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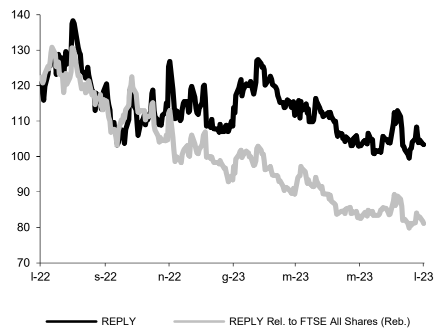
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 136.50 to 133.50
	2023E	**2024E**	**2025E**
Chg in Adj EPS	-4.3%	-1.8%	-1.8%

Next Event 1H23 results
Results Out 1 August 2023

REPLY - 12M Performance



Stock Data			
Reuters code:			REY.MI
Bloomberg code:			REY IM
Performance	**1M**	**3M**	**12M**
Absolute	-0.4%	-8.0%	-15.2%
Relative	-3.2%	-9.4%	-42.7%
12M (H/L)			138.30/99.55
3M Average Volume (th):			47.03

Shareholder Data	
No. of Ord shares (mn):	37
Total no. of shares (mn):	37
Mkt Cap Ord (Eu mn):	3,868
Total Mkt Cap (Eu mn):	3,868
Mkt Float - Ord (Eu mn):	2,128
Mkt Float (in %):	55.0%
Main Shareholder:	
Alika (Rizzante family)	39.8%

Balance Sheet Data	
Book Value (Eu mn):	1,126
BVPS (Eu):	30.14
P/BV:	3.4
Net Financial Position (Eu mn):	221
Enterprise Value (Eu mn):	3,648

- **A temporary slowdown in Germany should have dragged organic growth down to c.7% in 2Q23.** We expect Reply to post 2Q23 revenues of Eu512.8mn, up 14.2% YoY or 7.1% 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 that we expect to be driven by the impact on certain projects of the deterioration of the macro picture and, to a lesser extent, by fewer working days. In more detail, we expect Region 2 (18% of quarterly sales, generated in Germany) to post revenues of Eu92.7mn, up 12.8% YoY, witnessing a mid-single digit organic revenue contraction more than offset by the contribution from the recently-acquired Fincon. On the other hand, Region 1 (65% of quarterly sales, mainly generated in Italy but also including US activities) should have risen 11.0% YoY showing 11.5% organic growth thanks to very solid Italian activities but also to an improving US business. Finally, Region 3 (17.5% of quarterly sales, mainly generated in the UK and France) should have risen 26.9% YoY, largely thanks to the consolidation of Wemanity but also thanks to organic growth of 2.2%.
- **2Q23 EBITDA margin forecast at 15%.** Quarterly EBITDA should have come to Eu76.3mn, up 3.7% YoY, with a 14.9% margin on sales that would correspond to a 150bp YoY drop. Italian activities should report normalisation of margins (16.7% vs. the unusually high 18.2% recorded in 2Q22) while the German business should have reached an 11.0% EBITDA margin compared to 11.5% in 2Q22, which offered an easy comparison base.
- **Artificial intelligence: a major market opportunity**. In a recent press interview, CEO Tatiana Rizzante talked about artificial intelligence, reiterating comments made at the Reply Xchange event held for employees and group clients on 5-6 July in Milan. Tatiana Rizzante is convinced that AI will trigger a new technological revolution in the next decade. At the moment, out of c.200 companies that make up the Reply group, 10 are dedicated to AI, working exclusively in specific areas, such as machine learning, the use of technology to support diagnostics in the medical field, and the implementation of "low-code and no-code" systems to simplify software development. Reply is ready to grasp this major market opportunity.
- **Change in estimates.** In light of our estimates for 2Q23 results, we are trimming our 2023 revenue forecast by 1.4%, now implying 8.5% like-for-like growth taking a more cautious view on Region 2 and Region 3. We are also taking our 2023 EBITDA margin forecast to 15.5% from 15.8%. As for 2024 and 2025 estimates, we are confirming 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.
- **OUTPERFORM confirmed; target from Eu136.5 to Eu133.5.** 2Q23 results should show a deceleration in business trends that we expect to be temporary. We expect growth to recover in 4Q23 and believe the group is perfectly positioned to exploit the investment wave related to the artificial intelligence revolution.

Key Figures & Ratios	2021A	2022A	2023E	2024E	2025E
Sales (Eu mn)	1,484	1,891	2,138	2,351	2,585
EBITDA Adj (Eu mn)	263	340	331	377	416
Net Profit Adj (Eu mn)	151	191	193	223	248
EPS New Adj (Eu)	4.027	5.106	5.170	5.963	6.634
EPS Old Adj (Eu)	4.027	5.106	5.403	6.071	6.753
DPS (Eu)	0.800	1.000	1.100	1.200	1.300
EV/EBITDA Adj	19.0	13.7	11.0	9.2	7.9
EV/EBIT Adj	23.9	16.4	13.4	11.1	9.4
P/E Adj	25.7	20.3	20.0	17.3	15.6
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