

# REPLY

Sector: Industrials

# OUTPERFORM

Price: Eu132.50 - Target: Eu150.00

## A Very Positive Quarter in Terms of Margins and Cash

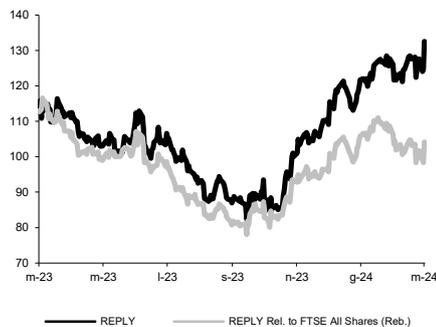
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### Stock Rating

<b>Rating:</b>	Unchanged		
<b>Target Price (Eu):</b>	from 145.00 to 150.00		
	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>Chg in Adj EPS</b>	-2.9%	-3.4%	

**Next Event 1Q24 results**  
 Results Out 14 May 2024

### REPLY - 12M Performance



### Stock Data

Reuters code:	REY.MI		
Bloomberg code:	REY IM		
<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute	9.0%	21.4%	17.6%
Relative	0.6%	9.8%	-9.7%
12M (H/L)	132.50/82.40		
3M Average Volume (th):	46.11		

### Shareholder Data

No. of Ord shares (mn):	37
Total no. of shares (mn):	37
Mkt Cap Ord (Eu mn):	4,957
Total Mkt Cap (Eu mn):	4,957
Mkt Float - Ord (Eu mn):	2,726
Mkt Float (in %):	55.0%
Main Shareholder:	
Alika (Rizzante family)	39.8%

### Balance Sheet Data

Book Value (Eu mn):	1,279
BVPS (Eu):	34.25
P/BV:	3.9
Net Financial Position (Eu mn):	352
Enterprise Value (Eu mn):	4,605

■ **4Q23 results stronger than expected.** Reply reported 4Q23 revenues of Eu570.0mn, up 6.5% YoY, entirely organically, 0.6% lower than expected. In more detail: Region 1 and Region 2 (64.2% and 20.1% of quarterly sales respectively) outperformed the pace witnessed in 3Q23, posting revenues up 9.0% and 8.5% YoY, entirely organic. On the other hand, Region 3 (15.8% of quarterly sales, mainly generated in the UK and France) was down 9.3% YoY, decelerating from 3Q23 (-0.5%), mainly because management adopted a selective approach on certain UK activities with low profitability. Quarterly EBITDA came to Eu116.3mn, up 35.3% YoY on 4Q22, if we adjust last year's quarterly EBITDA for the Eu35.8mn positive one-off effect generated by the release of an accrual set aside during the Covid crisis. This amazing result, a 20.4% margin on sales, was mainly achieved thanks to improvements in Region 1 and Region 3. As at YE23, Reply held net cash (excluding IFRS16) of Eu331.7mn, broadly in line with our estimates, thanks to FCF of Eu187mn. The board proposed a Eu1 DPS, a 20% payout that is not particularly generous but confirms the ambition to close significant new M&A deals.

■ **Looking forward to FY24.** Outlook appears supportive and chairman Mario Rizzante underlines the fact that Reply is well positioned to play the great AI market opportunity as a leader. Financial services and automotive are the two sectors we expect to grow the most. In terms of M&A, Reply continues spotting good targets (focus on Germany, US, UK, and France). The focus is on companies with good margins.

■ **Updating our 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. As for 2024, in Region 1 and Region 2 we confirm our 10% organic growth assumption (with 1Q24 to witness growth in line with 4Q23 and then a gradual acceleration in the remaining quarters), while we trim our short-term forecast for Region 3 on the continuation of a business clean-up. Overall, we now assume 2024 organic growth of 8.7%. Conversely, in terms of the EBITDA margin, we are raising our forecast by 30bp, trying to stay on the safe side. Below EBITDA (revised up 0.8%), we are slightly raising D&A and taxes, yielding a 2.9% downward EPS revision.

■ **OUTPERFORM confirmed; target from Eu145.0 to Eu150.0.** Reply reported a better-than-expected set of 4Q23 results. Even after the recent positive performance, the shares trade at attractive multiples considering the strong growth expected, the flexible cost structure and the excellent management track record, all factors that should be particularly appreciated entering 2024. The group continues to seek M&A opportunities and can count on a strong net cash position, although we do not believe there are any deals ready to be announced any time 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 to reflect the roll-over of our DCF valuation.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	1,891	2,118	2,302	2,532	2,785
EBITDA Adj (Eu mn)	340	352	369	408	450
Net Profit Adj (Eu mn)	191	187	202	226	252
EPS New Adj (Eu)	5.106	4.990	5.400	6.047	6.735
EPS Old Adj (Eu)	5.106	4.612	5.561	6.259	
DPS (Eu)	1.000	1.000	1.100	1.200	1.300
EV/EBITDA Adj	13.7	10.5	12.5	10.8	9.3
EV/EBIT Adj	16.4	12.6	15.9	13.6	11.7
P/E Adj	26.0	26.6	24.5	21.9	19.7
Div. Yield	0.8%	0.8%	0.8%	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&P500 Index, most of those on the MIBEX 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.

Explanation of our ratings system:

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:	26.02 %
OUTPERFORM:	47.15 %
NEUTRAL:	26.02 %
UNDERPERFORM	00.81 %
SELL:	00.00 %

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BUY:	38.78 %
OUTPERFORM:	51.02 %
NEUTRAL:	10.20 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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