

REPLY

Sector: Industrials

OUTPERFORM

Price: Eu150.80 - Target: Eu175.00

Results Better than Expected, Outlook Remains Promising

Andrea Randone +39-02-77115.364
 andrea.randone@intermonte.it

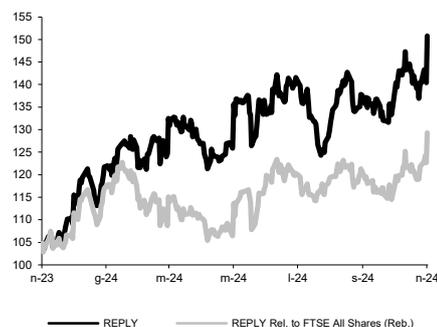
Stock Rating

Rating:	Unchanged		
Target Price (Eu):	from 153.00 to 175.00		
	2024E	2025E	2026E
Chg in Adj EPS	0.6%	2.5%	2.8%

Next Event FY24 Results

Results Out March 2025

REPLY - 12M Performance



Stock Data

Reuters code:	REY.MI		
Bloomberg code:	REY IM		
Performance	1M	3M	12M
Absolute	9.0%	14.7%	43.8%
Relative	9.9%	8.7%	27.1%
12M (H/L)	150.80/103.20		
3M Average Volume (th):	31.56		

Shareholder Data

No. of Ord shares (mn):	37
Total no. of shares (mn):	37
Mkt Cap Ord (Eu mn):	5,642
Total Mkt Cap (Eu mn):	5,642
Mkt Float - Ord (Eu mn):	3,103
Mkt Float (in %):	55.0%
Main Shareholder:	
Alika (Rizzante family)	39.8%

Balance Sheet Data

Book Value (Eu mn):	1,281
BVPS (Eu):	34.29
P/BV:	4.4
Net Financial Position (Eu mn):	256
Enterprise Value (Eu mn):	5,385

■ **A strong set of 3Q24 results.** Reply reported 3Q24 revenues of Eu552.6mn, 1.2% above our estimates and up 8.5% YoY, or +8.4% organically, i.e. excluding a minor ForEx contribution, marking an acceleration compared to the 2Q24 performance (+7.7%). In more detail: Region 1 and Region 2 (61% and 21% of quarterly sales respectively) grew double-digit, posting +11.0%/+10.8% organic growth. On the other hand, Region 3 (18% of quarterly sales, mainly generated in the UK and France) was up 3.2% YoY organically, reverting the weaker 1H24 trend. EBITDA was a positive surprise, up 16% YoY to Eu95mn and 9.6% better than expectations. The margin surprise was driven by all the business areas, with Region 1 from 17.9% to 18.9% on sales, Region 2 stable at 15.6%, and Region 3 from 9.2% to 10.5%. Below EBITDA, 3Q24 saw Eu7.2mn of losses on investments (mark-to-market of a minority stake), a non-recurring item. Pre-tax profit therefore closed at Eu69.7mn, 2% lower than expectations, but 22.8% higher YoY. Net cash as at end-September 2024 was Eu439mn, improving by Eu120mn YoY but a touch lower than expected.

■ **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 4Q24 performance should be in line with 9M24; they see a strong pipeline. Reply is gaining market share in some market segments, such as automotive, that are facing a difficult environment. Looking forward, they repeated that the main focus is on remaining innovative and agile rather than on confirming the current high level of profitability, but at the same time they said AI adoption is enhancing consultant productivity. New start-ups have been established to launch innovative ventures in the most promising market niches (applications for Defence for example). They did not provide further numerical details on the recent acquisition of Solirius in the UK, but they see a big opportunity in enhancing their position with UK central government. In terms of future M&A, they are still scouting new opportunities with a specific focus on the US, where they might also consider larger deals.

■ **Updating our estimates.** In this report, our estimates include the recent acquisition of Solirius (as of November 2024 in terms of P&L and we assume the cash-out in 4Q24). Regarding organic assumptions: for 2024, we expect 4Q24 to be in line with the 3Q24 performance in terms of revenue growth and the EBITDA margin; for FY25, we are raising our EBITDA margin assumption slightly (+12/10bp) to 16.3%.

■ **Outperform, confirmed, target from Eu153 to Eu175.** We appreciate the results in terms of both organic revenue growth (achieved in a market that remains challenging) and 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 many new solutions. Our target price revision is to reflect the consolidation of the recent acquisition, the solid organic developments, and the roll-over of the valuation.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	1,891	2,118	2,298	2,581	2,841
EBITDA Adj (Eu mn)	340	352	384	420	462
Net Profit Adj (Eu mn)	191	187	203	232	259
EPS New Adj (Eu)	5.106	4.990	5.438	6.207	6.926
EPS Old Adj (Eu)	5.106	4.990	5.408	6.058	6.739
DPS (Eu)	1.000	1.000	1.100	1.200	1.300
EV/EBITDA Adj	13.7	10.5	14.0	12.3	10.7
EV/EBIT Adj	16.4	12.6	17.8	15.6	13.4
P/E Adj	29.5	30.2	27.7	24.3	21.8
Div. Yield	0.7%	0.7%	0.7%	0.8%	0.9%
Net Debt/EBITDA Adj	-0.2	-0.6	-0.7	-1.1	-1.5

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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.

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BUY: stock expected to outperform the market by over 25% over a 12 month period;

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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:	28.24 %
OUTPERFORM:	48.09 %
NEUTRAL:	23.67 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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BUY:	55.74 %
OUTPERFORM:	34.43 %
NEUTRAL:	09.83 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short
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