Milan, 06 October 2023

**Italian Equity Research – New Coverage**

# TALEA GROUP

**BUY**

*Sector: Consumers*

Price: Eu8.80 - **Target: Eu13.70**

## E-commerce is Fertile Ground for Growth in Retail Media


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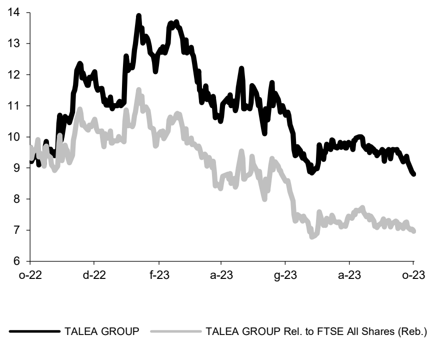
| Stock Rating | |
|---|---|
| **Rating:** | BUY (New Coverage) |
| **Target Price (Eu):** | 13.70 (New Coverage) |

**Next Event**
3Q Results Out 24 October

**TALEA GROUP - 12M Performance**




| Stock Data | | | |
|---|---|---|---|
| Reuters code: | | | TALEA.MI |
| Bloomberg code: | | | TALEA IM |
| **Performance** | **1M** | **3M** | **12M** |
| Absolute | -8.3% | -2.0% | -8.9% |
| Relative | -4.0% | 1.1% | -35.2% |
| 12M (H/L) | | | 13.90/8.80 |
| 3M Average Volume (th): | | | 3.57 |

| Shareholder Data | |
|---|---|
| No. of Ord shares (mn): | 7 |
| Total no. of shares (mn): | 7 |
| Mkt Cap Ord (Eu mn): | 60 |
| Total Mkt Cap (Eu mn): | 60 |
| Mkt Float - Ord (Eu mn): | 17 |
| Mkt Float (in %): | 28.2% |
| Main Shareholder: | |
| RIAC Holding S.r.l. | 55.6% |

| Balance Sheet Data | |
|---|---|
| Book Value (Eu mn): | 38 |
| BVPS (Eu): | 5.53 |
| P/BV: | 1.6 |
| Net Financial Position (Eu mn): | -32 |
| Enterprise Value (Eu mn): | 92 |

- **Cultivating Growth in Health and Wellness E-commerce.** Talea is the leading e-commerce player in the Italian Health & Wellness sector (17% market share). 95% of company revenues come from e-commerce (Consumer Area). The company operates in different markets: Pharmaceutical & Health (with 5 different brands and websites), Beauty, and Orthopaedics. Starting from the data generated by site visitors (>60mn in 2022), Talea profiles consumer purchasing behaviour, enabling the development of highly customised marketing solutions for the companies that sell on its websites (Co-marketing). Recently the company set up the Talea Media brand to sell proprietary advertising space and traffic visibility to industrial companies. The Co-Marketing business and Talea Media (advertising), in conjunction with Valnan Communication, form the so-called Industrial Area (aimed at companies working in the industry).
- **Leader in a highly-attractive market with multiple websites and brands.** The Italian online Health & Wellness market is still under-developed (6% of the total market vs. 20% in Germany), fragmentation is high (top 50 players have >80% market share), and the customer approach is based on repeated purchases of high-margin products. Operating with multiple websites and brands offering distinct value propositions, Talea reaches a sizeable audience to which it offers a vast product assortment (100k SKU in 2022 enabled by automated logistics), driving the average order value (€45 in 2022) upwards. This extensive, diverse audience makes Talea's websites the ideal framework for companies to advertise their branded products through Talea Media. With this new area, Talea can seize the opportunities offered by a growing market (EU retail media 27% CAGR in 2022-26).
- **Strong revenue growth and improving profitability up to 2025.** We forecast 2025 revenues of €224.5mn (management target €220-230mn), with the Consumer area representing 93% of the total and the Industrial area the remaining 7%, up from 5% in 2022. We expect the contribution from Talea Media (generating revenues as of 2024) to improve margins, letting the company achieve 2025 EBITDA of €12.9mn with a 5.7% margin, consistent with management's target of €13-14mn/6% margin. As for cash flow, we expect the company to report increasingly positive figures in 2024/2025 and reach a net debt of €22.9mn at YE25. We think Talea will continue to invest to develop its business, while always maintaining a balanced approach.
- **Initiating coverage with a BUY recommendation and Eu13.7 TP.** We appreciate Talea's business model. In our view, the company operates in an attractive market and has the opportunity to consolidate its market share by continuing to acquire small players, as it has just done with Doc Peter (a consolidation process is necessary because small online operators are not sustainable and do not have the minimum scale required to play the game). Thanks not only to a larger scale**,** but also to its ability to extract value through co-marketing initiatives and advertising contracts (Talea Media), Talea is able to extract major synergies from this strategy, also leveraging on its existing logistics hubs. Our DCF valuation leads to a target price of Eu13.7 per share.

| Key Figures & Ratios | 2021A | 2022A | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| Sales (Eu mn) | 82 | 116 | 149 | 180 | 216 |
| EBITDA Adj (Eu mn) | 3 | 3 | 3 | 7 | 13 |
| Net Profit Adj (Eu mn) | 0 | -1 | -2 | 1 | 5 |
| EPS New Adj (Eu) | -0.015 | -0.139 | -0.283 | 0.168 | 0.727 |
| EPS Old Adj (Eu) | | | | | |
| DPS (Eu) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| EV/EBITDA Adj | nm | nm | 36.0 | 12.7 | 6.5 |
| EV/EBIT Adj | nm | nm | nm | 29.0 | 10.2 |
| P/E Adj | nm | nm | nm | 52.4 | 12.1 |
| Div. Yield | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Net Debt/EBITDA Adj | 5.2 | 8.5 | 12.5 | 4.1 | 1.8 |