# REPLY

# OUTPERFORM

*Sector: Industrials*

Price: Eu104.90 - **Target: Eu125.00**

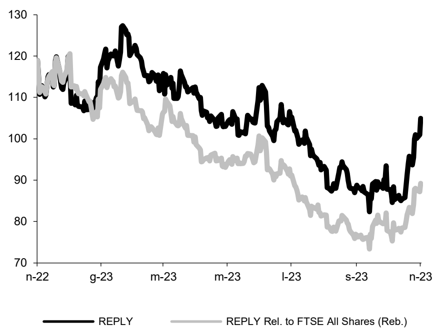
## Margins and Cash Generation Beat Expectations

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

| Stock Rating | | | |
|---|---|---|---|
| **Rating:** | | | Unchanged |
| **Target Price (Eu):** | | | from 124.00 to 125.00 |
| | **2023E** | **2024E** | **2025E** |
| **Chg in Adj EPS** | -1.5% | -0.7% | -0.7% |

**Next Event FY23 results**
Results Out March 2024

**REPLY - 12M Performance**




| Stock Data | | | |
|---|---|---|---|
| Reuters code: | | | REY.MI |
| Bloomberg code: | | | REY IM |
| **Performance** | **1M** | **3M** | **12M** |
| Absolute | 19.5% | 12.4% | -11.8% |
| Relative | 15.3% | 9.6% | -29.3% |
| 12M (H/L) | | | 127.30/82.40 |
| 3M Average Volume (th): | | | 51.20 |

| Shareholder Data | |
|---|---|
| No. of Ord shares (mn): | 37 |
| Total no. of shares (mn): | 37 |
| Mkt Cap Ord (Eu mn): | 3,924 |
| Total Mkt Cap (Eu mn): | 3,924 |
| Mkt Float - Ord (Eu mn): | 2,158 |
| Mkt Float (in %): | 55.0% |
| Main Shareholder: | |
| Alika (Rizzante family) | 39.8% |

| Balance Sheet Data | |
|---|---|
| Book Value (Eu mn): | 1,106 |
| BVPS (Eu): | 29.61 |
| P/BV: | 3.5 |
| Net Financial Position (Eu mn): | 223 |
| Enterprise Value (Eu mn): | 3,701 |

- **Revenues in line with our estimates with 6% organic growth.** Reply posted 3Q23 revenues of Eu509.1mn, in line with our forecasts and up 9.3% YoY or 6.0% YoY in organic terms (i.e. net of ForEx and M&A contributions). This marked 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: Region 2 (20.5% of quarterly sales, generated in Germany) posted revenues of Eu106.6mn, up 7.4% YoY, entirely organic, slightly up on the +3.8% witnessed in 2Q23. On the other hand, Region 1 (60.5% of quarterly sales, mainly generated in Italy but also including US activities) rose 7.1% YoY, showing 8.2% organic growth, a bit softer than in previous quarters but still solid. Finally, Region 3 (19.0% of quarterly sales, mainly generated in the UK and France) was up 22.4% YoY, entirely thanks to the consolidation of Wemanity, while the organic performance was negative by 0.5%, mainly because of a very tough comparison (organic growth was +29.4% in 3Q22).
- **3Q23 EBITDA margin at 16.1%, better than expected, net cash much better.** Quarterly EBITDA came to Eu81.8mn, up 10.3% YoY and 7.5% ahead of our estimates, with a 16.1% margin on sales that corresponds to a 20bp YoY increase, but, even more remarkably, 200bp better QoQ. Region 1 activities reported margins at 17.9% (vs. 17.4% in 3Q22) while the German business reached a 15.6% EBITDA margin compared to 8.0% in 2Q23, therefore showing excellent QoQ recovery, almost reaching the extremely high level recorded in 3Q22 (16.5%). Finally, the EBITDA margin in Region 3 came to 9.2%, again improving on 2Q23 (8.4%). Below the EBITDA line, Reply booked Eu1.6mn of non-recurring costs, Eu11.6mn of losses from investments (likely to be the write-down of some participations) but also net financial income of Eu4.4mn. All in all, profit before taxes came in at Eu56.8mn, in line with our estimate. Importantly, net cash (excluding IFRS16) at the end of September stood at Eu316mn, more than Eu60mn above our estimate and an Eu88mn improvement compared to the end of June 2023.
- **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. For 2023 alone, we are raising EBITDA by 1.7% to reflect the positive quarterly surprise, but we are also factoring in slightly higher non-cash charges below EBITDA. Our current estimates assume 4Q23 revenue and EBITDA growth of 7.1% and 5.5% YoY respectively (net of Eu37.8mn positive one-off booked in 4Q22). As for 2024, we confirm our 10% organic growth assumption and forecast of a 15.7% EBITDA margin, up 30bp YoY. Finally, we are lifting our YE23 net cash forecast by about Eu40mn.
- **OUTPERFORM confirmed; target from Eu124.0 to Eu125.0.** Compared to the performance recorded in 2Q23, the group was able to win back sound profitability. The group continues to seek M&A opportunities, 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 marginal target revision is to reflect the stronger-than-expected cash generation.

| Key Figures & Ratios | 2021A | 2022A | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| Sales (Eu mn) | 1,484 | 1,891 | 2,122 | 2,333 | 2,567 |
| EBITDA Adj (Eu mn) | 263 | 340 | 326 | 366 | 407 |
| Net Profit Adj (Eu mn) | 151 | 191 | 173 | 208 | 234 |
| EPS New Adj (Eu) | 4.027 | 5.106 | 4.612 | 5.561 | 6.259 |
| EPS Old Adj (Eu) | 4.027 | 5.106 | 4.683 | 5.602 | 6.301 |
| DPS (Eu) | 0.800 | 1.000 | 1.100 | 1.200 | 1.300 |
| EV/EBITDA Adj | 19.0 | 13.7 | 11.3 | 9.7 | 8.3 |
| EV/EBIT Adj | 23.9 | 16.4 | 14.1 | 11.8 | 10.0 |
| P/E Adj | 26.0 | 20.5 | 22.7 | 18.9 | 16.8 |
| Div. Yield | 0.8% | 1.0% | 1.0% | 1.1% | 1.2% |
| Net Debt/EBITDA Adj | -0.7 | -0.2 | -0.7 | -1.0 | -1.4 |

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- 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)

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Frequency of research: quarterly.
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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.
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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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| | |
|---|---|
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| OUTPERFORM: | 52.99 % |
| NEUTRAL: | 20.51 % |
| UNDERPERFORM | 01.71 % |
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| | |
|---|---|
| BUY: | 38.78 % |
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| NEUTRAL: | 10.20 % |
| UNDERPERFORM | 00.00 % |
| SELL: | 00.00 % |

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| Emittente | % | Long/Short |
|---|---|---|



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