

Reply SpA

Technology
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Profiting from digital transformation

Reply's network of entrepreneurial businesses continues to generate double-digit revenue growth combined with double-digit operating margins. We expect to see further bolt-on acquisitions in the UK and Germany, and entry into the US via acquisition will be another key milestone for the business. The share price has performed well over the last year and is now more reflective of the company's performance.

Replicating Italian success in the UK and Germany

The Reply group is a network of independent companies operating in specialist technology and consulting areas. Management is keen to replicate the Italian breadth of expertise across its two other divisions, which broadly represent the DACH Region (Germany division: 17% of FY16 revenues) and the UK and Benelux (UK division: 13% of FY16 revenues). The growth strategy has been to develop in-house expertise supplemented with the acquisition of businesses in key new areas of technology. Reply continues to target acquisitions in the UK and Germany and to invest further in Breed Reply, its Internet of Things incubator. Reply is also keen to enter the US market, and is carefully evaluating US acquisition targets. With net cash of €35m and access to credit lines, Reply has funds available for expansion.

Strong financial performance maintained in H117

Reply has achieved a revenue CAGR of 12% from 2011-16 and maintained double-digit growth in H117 with revenue growth of 14.3% (11% organic). Over the five-year period, the group has grown EBIT margins from 10.6% to 12.8%, with a small uptick to 12.9% in H117. While Italian margins are within the company's target range, UK and German margins still have room for expansion. Growing the scale of both businesses should help, and increasing brand awareness of Reply in both geographies should aid staff hiring and retention.

Valuation: PIR scheme boosts share price

The Reply share price is up 45% year to date. We believe that some of this upside is due to the new Italian PIR individual savings schemes, which provide tax benefits for investing in certain Italy-listed stocks. Consensus forecasts reflect the company's targeted double-digit organic revenue growth and 12-14% EBIT margins. On a P/E basis, the stock trades at a small premium to peers, justified in our view by Reply's ability to grow consistently at double digits while achieving operating margins in the low teens.

Price €42.7
Market cap €1,597m

Share price graph



Share details

Code	REY
Listing	MI
Shares in issue	37.4m
Net cash (€m) at end H117	35.3

Business description

Reply offers consulting, systems integration and application management services, specialising in the creation and implementation of solutions based on new communication networks and digital media. The main regions of focus are Italy, Germany and the UK.

Bull

- Innovative, entrepreneurial attitude.
- Experienced management.
- Strong margins.

Bear

- Acquisition risk.
- Challenge of finding enough sufficiently qualified staff.
- Large exposure to Italian economy.

Analyst

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Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	705.6	88.9	1.52	0.25	28.0	0.6
12/16	780.7	97.4	1.81	0.29	23.6	0.7
12/17e	886.3	111.7	2.07	0.32	20.6	0.7
12/18e	971.3	125.7	2.35	0.36	18.2	0.8

Source: Reply, Bloomberg

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