

# La Doria

Q118 results

## Strength in a tough environment

La Doria has delivered a strong set of results despite the challenging economic backdrop in its key markets. Organic growth was an impressive 8.4%, which was mainly volume-driven and broad-based across categories. EBITDA margins were down 30bps due to continued pressure from the supermarkets, mainly in the UK. Management is committed to remaining cost competitive and to shifting the business mix towards the faster-growing, more profitable areas. The new industrial plan, announced in March, should deliver this over the next four years, and targets c 3% revenue and 7% EBITDA CAGR FY17-21.

| Year end | Revenue (€m) | PBT* (€m) | EPS* (c) | DPS (c) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 12/16    | 653.1        | 37.3      | 108.8    | 18.0    | 10.0    | 1.7       |
| 12/17    | 669.1        | 39.7      | 98.1     | 23.0    | 11.1    | 2.1       |
| 12/18e   | 689.2        | 42.2      | 99.3     | 24.0    | 11.0    | 2.2       |
| 12/19e   | 709.8        | 45.5      | 107.1    | 25.0    | 10.2    | 2.3       |

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Strong Q118 results

Q1 results were impressive, with organic growth of 8.4%. This was mainly driven by volume growth, which was witnessed across all categories except the fruit line. Pricing was flat overall, but more of a mixed performance, with price increases on the LDH side due to inflationary currency effects, while the rest of the business – which is the manufacturing side – experienced some price declines. Group EBITDA margin contracted 30bp to 6.8% due to continued pricing pressure.

## Shaping the business for the future

With the FY17 results, La Doria announced its intention to implement an investment plan with the primary objective of shifting the business mix towards its higher value-added products, which are faster growing, and command higher margins. In addition, cost reductions will be targeted by restructuring existing industrial sites (including closure of the Acerra site), extending and automating warehouses, and improving the efficiency of logistics. The plan involves capital expenditure of €115m over the period FY18-21, which also includes an expansion of capacity to cover the planned increase in volume. This has already been incorporated into our forecasts.

## Valuation: €16.10 per share

Based on our forecasts, our DCF model points to a fair value of €16.10 per share (unchanged), or c 50% upside from the current share price. La Doria trades on 11.0x FY18e P/E, a c 40% discount to its private-label peer group, while on 8.0x FY18e EV/EBITDA, it trades at a c 15% discount to the peer group. We note our fair value would be €17.85 if our WACC moved down 40bps to 6.0%. We believe La Doria remains an attractive proposition given the strength of its market position in the private-label segment, and management's commitment to improve the stability and visibility of the business by reducing reliance on the more volatile tomato line.

## Food & beverages

29 May 2018

**Price** €10.90  
**Market cap** €338m

|                                |                     |
|--------------------------------|---------------------|
| Net debt (€m) at 31 March 2018 | 91.2                |
| Shares in issue                | 31.0m               |
| Free float                     | 37%                 |
| Code                           | LD                  |
| Primary exchange               | Borsa Italia (STAR) |
| Secondary exchange             | N/A                 |

## Share price performance



| %                | 1m     | 3m     | 12m   |
|------------------|--------|--------|-------|
| Abs              | (11.2) | (18.5) | (2.2) |
| Rel (local)      | (3.4)  | (16.0) | (4.7) |
| 52-week high/low |        | €17.5  | €10.0 |

## Business description

La Doria is the leading manufacturer of private-label preserved vegetables and fruit for the Italian (20% of revenues) and international (80% of revenues) market. It enjoys leading market share positions across its product ranges in the UK, Italy, Germany and Australia.

## Next events

|              |                |
|--------------|----------------|
| H118 results | September 2018 |
| 9M18 results | November 2018  |

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 Limited**

## Investment summary

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### **Company description: Leading private-label manufacturer**

La Doria is a leading manufacturer and processor of tomatoes, sauces, pulses and fruit-based products. La Doria has a presence in both the domestic Italian market (20% of sales) and internationally (80% of revenue). Over time, management has been trying to shift the product mix towards higher-value and hence higher-margin products, which also tend to exhibit less volatility, and expand into new markets.

La Doria was founded in 1954 by the Ferraioli family. The family maintains active management of the company. Antonio Ferraioli is group CEO and, with Andrea and Iolanda Ferraioli, Diodato Ferraioli and Enzo Lamberti, the family fills five of the nine board positions and owns 63% of the group's share capital.

### **Valuation: Significant upside**

Based on our forecasts, we calculate a DCF-based fair value of €16.10, or c 50% upside. The key sensitivities to our forecasts and valuation are outlined on page 7. For 2018, pricing for the tomato, vegetable and fruit lines is complete and costs are fully calculated, as the 2017 seasonal campaigns are over and the annual pricing rounds have occurred. The outcome for the 2018 campaigns is still unknown, but success here would provide a catalyst for the shares. The industrial plan announced in March is aligned with the strategy to continue to shift the product mix towards higher-margin products, and should also ensure competitiveness is maintained on the more commoditised products.

As further support to our DCF valuation, we look at La Doria's key metrics versus the peer group. At 11.0x 2018e P/E and 8.0x 2018e EV/EBITDA, it trades at c 40% and c 15% discounts, respectively, to its peers.

### **Strong Q118 results despite tough environment**

Q118 consolidated revenue of €179 was up 6.9% on Q117. At constant currency, growth was an impressive 8.4% and was mainly volume-driven. Pricing was broadly flat, but was more mixed across the business, with price increases on the LDH side due to inflationary currency effects, while the manufacturing side of the business experienced some price declines. Group EBITDA margin contracted 30bp to 6.8% due to continued pricing pressure. Over time, we expect that the investment in the industrial plan will help to improve margins (management is targeting 10.4% EBITDA margin in FY21, we forecast 10.2% vs FY17 reported margin of 9.0%). In the shorter term, we expect Q2 to witness trends similar to those in Q1, while Q3 and Q4 will depend on the results of the 2018 seasonal campaigns. The general outlook is for lower raw material costs on the food side, offset by significant cost inflation in packaging and energy costs.

### **Sensitivities: Lower volatility as product mix shifts**

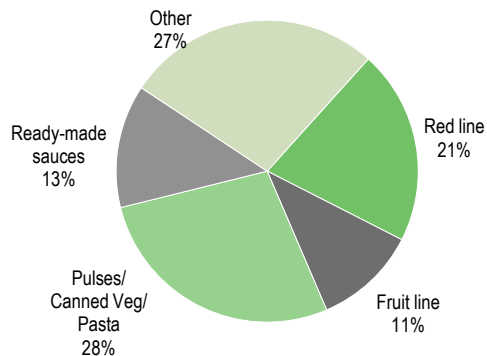
La Doria's key sensitivities include:

- input cost inflation on the agricultural commodities it processes to manufacture its products;
- the supply/demand balance affecting the achievability of finished goods price inflation (particularly for the red line);
- consumer consumption patterns and competitive pressures; and
- FX, specifically euro/sterling due to the consolidation of its trading subsidiary, LDH.

## Company description: Private-label, shelf-stable food

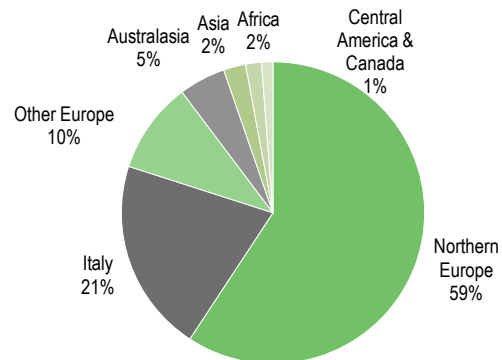
La Doria is the leading Italian producer of tomato-based products, and processed pulses and vegetables for the Italian and international markets. It is the largest producer of private-label (PL), ready-made sauces. It is the second-largest producer of fruit juices and beverages in the Italian market. Exhibits 1 and 2 below break down revenues by category and by geography. In FY17, 21% of revenue was from the domestic market and 79% was international. Its largest market by far is the UK (c 50% revenues), gained through its subsidiary LDH.

**Exhibit 1: Group revenue split by category (FY17)**



Source: La Doria data

**Exhibit 2: Group revenue split by geography (FY17)**



Source: La Doria data

La Doria supplies a wide selection of European and international food retailers, such as Tesco (its largest customer), Asda, Sainsbury's, Carrefour, Auchan, WalMart, Aldi, Lidl and many more. 95% of its sales are in the private-label segment, with 4% of sales deriving from branded products and the remainder from co-packing arrangements for branded manufacturers.

La Doria commands leading PL market share positions in its largest markets (the UK and Italy) and some of its other markets (Germany, Scandinavia, Japan, Australia), and across many of its product categories. It has benefited from its scale and reliability when dealing with its major customers, and also from the increasing consumer preference for high-quality, private-label products.

Over the past five years, management has gradually shifted the production mix of the group towards non-seasonal, value-added products. The acquisition of Pa.f.i.a.l in 2014 helped further this objective. By way of comparison, in FY12, the tomato business accounted for 27% of revenues and 50% of EBITDA. In FY17 the tomato business constituted 21% of sales and we estimate c 30% of EBITDA. The new business plan announced in March should continue to build on this, with plans to expand the higher value-added product lines, invest in the premium and organic segments (which are higher margin), extend the group's geographic reach to faster-growing markets, while strengthening the group's existing positions.

## The new industrial plan

La Doria outlines its financial targets and strategic business plan for a rolling three-year period, usually at the beginning of each financial year. The financial targets outlined in March 2018 were similar to those set out previously, as shown in Exhibit 3 below, with the exception of the new industrial plan. This affects the planned capex, and hence both depreciation and net debt.

| Exhibit 3: Current vs prior financial targets (2018-19e) |       |      |          |       |      |          |
|--|-------|------|----------|-------|------|----------|
| €m   | 2018e |      |          | 2019e |      |          |
|  | Old   | New  | % change | Old   | New  | % change |
| Revenue  | 690.2 | 689  | (0.2)    | 709.3 | 712  | 0.4      |
| EBITDA   | 59.2  | 58   | (2.0)    | 63.5  | 65   | 2.4      |
| EBIT   | 46.4  | 43   | (7.3)    | 50.8  | 48   | (5.5)    |
| PBT  | 43    | 41   | (4.7)    | 48.6  | 46   | (5.3)    |
| Net profit   | 31.7  | 30   | (5.4)    | 36    | 34   | (5.6)    |
| Net debt   | 77    | 121  | 57.1     | 56.3  | 117  | 107.8    |
| EBITDA margin (%)  | 8.6%  | 8.4% | (0.2)    | 9.0%  | 9.1% | 0.2      |
| EBIT margin (%)  | 6.7%  | 6.2% | (0.5)    | 7.2%  | 6.7% | (0.4)    |

Source: La Doria data

We compare our forecasts relative to group guidance in the financials section on page 8.

The new industrial plan was devised on the basis of an increasingly challenging environment featuring significant competition in some countries, and the ever-increasing negotiating power of the major retailers, particularly in the private label segment.

The two main aims of the industrial plan are:

- to strengthen La Doria's leadership in the private-label markets in which it operates; and
- to lay the foundations for future organic growth and improve flexibility to tackle upcoming market challenges. This includes assessing acquisition-led growth opportunities.

This will be articulated through a major investment plan, which will aim to expand and reshape capacity while increasing efficiency and hence reducing costs. We forecast capex of €114m spread across the period FY18-FY21, in line with management guidance. We detail La Doria's current leadership positions in our business review section below.

Management's 2018-21 industrial plan is based on two strategic pillars: revenue growth and margin expansion.

### First pillar: Revenue growth

The 2018 strategic guidelines here are similar to those set out in 2017 and are as follows:

- Extend higher value-added product ranges, investing in the premium and organic/bio segments, which are higher margin.
- Further growth in international markets where La Doria is a current market leader, including the UK, Japan, Australia and Germany.
- Achieve growth in markets where La Doria is currently under-represented (mainly the US), through new supply agreements.
- Develop new markets, in particular emerging markets (China, South-East Asia and UAE). In 2012, La Doria joined Tradizione Italiana, a consortium of 12 leading Italian food companies, representing a wide range of specialities and food categories, to promote the quality of Italian food in emerging markets.
- Continue to develop the ready-made sauces business. This ties in with the overarching objective of reducing the volatility of the business and improving visibility through the development of higher value-added, non-seasonal products, which are also margin enhancing.

- Assess acquisition opportunities to extend the range, in particular with the objective of reducing the group's exposure to the volatile tomato line.

The latter, of course, takes on more significance given the scale of the new investment plan.

## **Second pillar: Margin expansion**

Margin expansion should come through together with revenue growth if the guidelines above are implemented, as improved mix should drive higher margins. In addition, the management wish to continue to improve efficiency through investment in new technology, and this will reduce cost and hence lead to higher margins. More specifically, the investment plan includes:

- an expansion of capacity, mainly focused on ready-made sauces, pulses and the internal production of cans. This is aimed at supporting future growth and commercial development, and driving economies of scale;
- rationalising industrial sites by closing the Acerra plant, and streamlining production;
- increasing efficiency and reducing costs through the improvement and automation of existing warehousing facilities, and establishing a major UK logistics platform to better serve its large-scale retail customers; and
- management's published targets point to an EBITDA margin of 10.4% by FY21 vs 9.0% reported in FY17 and 8.4% expected in FY18. We forecast margins of 8.6% in FY18 and 10.2% in FY21, as detailed in Exhibit 6.

## **The business**

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### **Tomato-based products**

La Doria is the largest producer in Italy of peeled and chopped tomatoes and it is market leader in UK, German, Australian and Japanese private-label canned tomatoes. As illustrated in Exhibit 1, the red line (tomato-based products) contributed 21% of revenues in.

La Doria's tomato business is seasonal, and can also be volatile. Over the last five years or so, the supply of Italian tomatoes has stabilised considerably thanks to legislative reform and structural consolidation. The industry now operates more effectively as a cohort and interests are better-aligned to avoid significant overproduction. Indeed, over the past few years, production has come in broadly in line with expectations, and overproduction seems to be an issue of the past.

Sector consolidation among the producers has also helped pricing, as there were a number of small businesses that at times made seemingly irrational pricing choices. Although consolidation has helped to mitigate the fragmentation issue, some small players still remain and, as a result, 2016 pricing came under pressure.

The annual tomato campaign runs from the end of July to the end of September. Typically, La Doria negotiates annual contracts with its customers, and hence prices, just before or during the processing season. This gives La Doria good visibility over the outlook for its profitability until Q3 of the following year, when the next pricing rounds occur. La Doria establishes both the volume and pricing of the contracts, so by the end of the processing campaign the total cost is broadly known.

In 2017 overall Italian tomato production came in at 5.2m tonnes, vs a forecast of 5m tonnes. Tomato costs were stable vs 2016, but there was inflation in both tin plate and energy costs. On the pricing side, sector de-stocking in early 2017, together with lower production in Southern Italy, helped to keep pricing stable.

On the demand side, private-label growth has been a trend across the consumer space, as the market becomes polarised between the leading brands and private label. The long-term trend of the

secondary and tertiary brands being squeezed is set to continue. Specifically within the tomato-based products space, in FY17 private label overall continued the FY16 trend and lost a bit of share (to 31.7%) due to increased promotional activity by the brands (source: IRI InfoScan). Demand for tomato-based products was down 50bp in volume terms in Italy (source: IRI InfoScan). In contrast, however, in the UK demand for tomato-based products was up 280bp in volume terms (source: Kantar Worldpanel), and private label gained 460bp of share to reach 70.3% market share.

## 2018 outlook

It is still early days for the 2018 campaign, but the current forecast is for a 5-10% decline in total tomato production at national level, to c 5.0m tonnes. La Doria management expects fresh tomato pricing to be flat vis-à-vis FY17, though quality of the crop and industrial yield are still to be determined. Our forecasts reflect this relatively benign outlook.

## Pulses and beans

La Doria is market leader in Italy and the UK in private-label preserved pulses. As shown in Exhibit 1, the vegetable line (pulses and beans) represented 28% of revenues in FY17.

The 2016 season experienced a sharp increase in raw material costs following a poor crop yield, and it was difficult to pass on these increased costs given the fierce competition, which affected 2017 profitability. Conversely, the 2017 season witnessed substantially improved harvests and hence a reduction in raw material costs, although tinned plate costs were up, as discussed above. The Italian canned vegetable market witnessed growth during 2017 of 2% in volume terms and 1.9% in value terms, ie pricing was down very slightly (source: IRI InfoScan). The private-label subsegment, which is where La Doria mainly competes, also increased market share slightly to 60%, while branded share declined (source: IRI InfoScan). In the UK, La Doria's key product in the category is private-label baked beans. In 2017, the overall baked beans market grew volumes (+0.5%) but was down in value (-0.5%). Private label share was improved considerably and was up 360bp to reach market share of 42.6% (source: Kantar Worldpanel).

La Doria management is keen to expand the vegetable line, and indeed part of the investment in the industrial plan is to free up capacity for further production of pulses in carton packaging. Although this division has suffered from competitive pressures in the past – in the UK, in particular, due to Brexit-related effects, it offsets the more commoditised red line products and also has the advantage that production can occur throughout the year, rather than being concentrated in the three summer months of the tomato processing campaign. Expanding the vegetable line would therefore help improve group efficiency, and also help to reduce the volatility of the overall group.

In H118 management expects the business to remain on a positive trajectory as the results of the 2017 harvests continue to come through. However, from Q418 pricing may improve as the new crop season comes through.

## The fruit line

The fruit line accounted for 11% of revenues in FY17 (Exhibit 1). La Doria is the market leader in Italian private-label fruit juices and fruit beverages, and has a number two position in the Italian market overall. However, the profitability of the fruit line is below that of other segments, as it has suffered through several years of underperformance during the recent period of economic difficulties, reduced consumption and a general industry overcapacity. As for the other divisions, 2017 pricing was mainly driven by the 2016 crop, which witnessed stability in the cost of fresh fruit. The 2017 fruit crop, however, saw far greater supply of fresh fruit, which drove a slight reduction in raw material costs. On the other hand the Company also witnessed a reduction in volumes and sales prices. In 2017, the Italian market grew by 1.4% in volume terms (following a 6.9% decline in 2016) and 2% in value terms (source: IRI InfoScan). Management attributes the market

improvement in 2017 to the particularly hot summer in Italy. Private label lost some volume and value share of the total fruit juice market.

## Sauces

La Doria is the market leader in Italy in private-label pasta sauce. The sauces segment accounted for 13% of revenues in FY17, as illustrated in Exhibit 1. During 2017 the Italian market witnessed strong growth in both value (+7.2%) and volume (+7.0%) terms (source: IRI InfoScan). Tomato-based sauces volumes were up 6.5%, while pesto sauce volumes were up 11.6% (source: IRI InfoScan). Private label tomato-based sauce volumes were up 7.7%, and pesto sauce volumes were up 7.3%. Private label holds a c 16% market share in both subcategories (source: IRI InfoScan).

In the UK, the sauces market (excluding pesto) was up 0.8% in volume terms, but suffered a 4% value decline (source: Kantar Worldpanel). Private label share grew by 380bp to 42.8% at the expense of the brands. The pesto market was stable, with flat volumes and value down 0.8%, but again private label share expanded significantly and now stands at 56%.

## Other lines (Trading LDH)

La Doria owns 58.0% of its subsidiary, La Doria Holdings, or LDH. For accounting purposes, it consolidates 100% of its minorities, and treats as debt the value of the put options that exist against it. LDH is the leader in the British market for private-label, tomato-based products, baked beans, dry pasta and canned tuna. The 'other' category is mainly composed of LDH's sales and accounted for 27% of group sales in FY16.

The remaining 42% stake in LDH is owned by a combination of Thai Union Group, Di Martino and management. LDH's three major shareholders – La Doria, Thai Union Group and Di Martino – together supply the majority of its ranges across tomatoes, pulses, tuna and pasta.

During FY17 the 'other' line witnessed a significant increase in pricing, which was partly in response to inflationary raw material costs as a result of Brexit-related FX devaluation.

## Valuation

La Doria's recent share price performance has underperformed relative to the FTSE MIB on a three-month and six-month basis, and is broadly in line on a 12-month basis. On 2018 estimates La Doria now trades at 11.0x P/E and 8.0x EV/EBITDA, with a 2.2% dividend yield. This is at a discount of c 40% on P/E and c 15% on EV/EBITDA to the average of our peer group of private-label and small-cap food manufacturers. A positive outcome of the 2018 campaign should provide a catalyst for the shares.

| Exhibit 4: Benchmark valuation of La Doria relative to peers |                |                |                |                |                |                    |             |
|--|----------------|----------------|----------------|----------------|----------------|--------------------|-------------|
|  | Market cap (m) | P/E (x)        |                | EV/EBITDA (x)  |                | Dividend yield (%) |             |
|  |                | 2017e          | 2018e          | 2017e          | 2018e          | 2017e              | 2018e       |
| Greencore  | £1,275.4       | 12.3           | 11.3           | 8.5            | 7.7            | 3.0%               | 3.3%        |
| Ebro Foods   | € 3,135.8      | 16.8           | 15.8           | 10.0           | 9.4            | 3.1%               | 3.2%        |
| Parmalat   | € 5,444.9      | 28.2           | 23.5           | 9.1            | 8.0            | 0.6%               | 0.6%        |
| Bonduelle  | € 1,045.9      | 14.4           | 12.0           | 7.7            | 6.8            | 1.5%               | 1.6%        |
| Valsoia  | € 152.3        | 21.7           | 20.8           | 11.0           | 10.1           | n/a                | n/a         |
| <b>Peer group average</b>                                    |                | 18.7           | 16.7           | 9.3            | 8.4            | 2.1%               | 2.2%        |
| La Doria   | € 337.9        | 11.0           | 10.2           | 8.0            | 7.4            | 2.2%               | 2.3%        |
| <b>Premium/(discount) to peer group</b>                      |                | <b>(41.2%)</b> | <b>(39.1%)</b> | <b>(13.2%)</b> | <b>(12.3%)</b> | <b>7.1%</b>        | <b>4.1%</b> |

Source: Edison Investment Research estimates and Bloomberg consensus. Note: Prices as at 28 May 2018.

Our primary valuation methodology is a 10-year DCF analysis, and we calculate a fair value of €16.10, or 50% upside from the current level. This is based on our assumptions of a 1.5% terminal growth rate and an 8.0% terminal EBITDA margin. Our WACC of 6.4% is predicated on an equity risk premium of 4%, a borrowing spread of 5% and beta of 0.8. We note our fair value would be €17.85 if our WACC moved down 40bps to 6.0%. Below, we show a sensitivity analysis to these assumptions and note that the current share price is discounting a terminal EBITDA margin of 6.7% (which compares to La Doria's already reported EBITDA margin of 9.0% in 2017) and a terminal growth rate of c 0%. We expect La Doria's EBITDA margin to fall to 8.6% in 2018 in light of the tough competitive environment, and to subsequently recover (we forecast 9.1% in 2019). We also expect revenues to continue growing and currently forecast 3% revenue growth through to FY21 (mainly driven by the more value-added businesses such as sauces, as per management's strategy) and a more conservative 1.7% revenue growth thereafter, falling to 1.5% in perpetuity.

|                 |       | EBITDA margin |      |      |      |      |      |
|-----------------|-------|---------------|------|------|------|------|------|
|                 |       | 6.5%          | 7.0% | 7.5% | 8.0% | 8.5% | 9.0% |
| Terminal growth | -2.5% | 8.5           | 9.0  | 9.6  | 10.2 | 10.8 | 11.3 |
|                 | -1.5% | 9.2           | 9.7  | 10.5 | 11.1 | 11.8 | 12.4 |
|                 | -0.5% | 10.1          | 10.7 | 11.6 | 12.3 | 13.0 | 13.8 |
|                 | 0.5%  | 11.3          | 12.0 | 13.0 | 13.9 | 14.8 | 15.6 |
|                 | 1.5%  | 13.0          | 13.8 | 15.1 | 16.1 | 17.2 | 18.2 |
|                 | 2.5%  | 15.5          | 16.6 | 18.2 | 19.5 | 20.8 | 22.2 |
|                 | 3.5%  | 19.8          | 21.2 | 23.4 | 25.2 | 27.0 | 28.8 |

Source: Edison Investment Research estimates

## Sensitivities

La Doria's key sensitivities include:

- input cost inflation on the agricultural commodities it processes to manufacture its products;
- the supply/demand balance affecting the achievability of finished goods price inflation, particularly for the red line;
- consumer consumption patterns and competitive pressures, particularly in Europe with a subdued economic environment, although La Doria and PL in general tend to benefit from consumers trading down; and
- FX, specifically euro/sterling due to the consolidation of its trading subsidiary, LDH. The UK represents c 50% of group sales.

## Financials

### Q118 results

Q118 consolidated revenue of €179 was up 6.9% on Q117. Organic growth was an impressive 8.4% and was mainly volume-driven. Pricing was broadly flat, but was more mixed across the business, with price increases on the LDH side due to inflationary currency effects, while the manufacturing business experienced some price declines. Group EBITDA margin contracted 30bp to 6.8% due to continued pricing pressure. We expect the usual seasonality in the business to be repeated in FY18, with Q3 a stronger quarter.

During Q118, the red line witnessed strong growth driven by volumes, with broadly flat pricing at group level, though on the manufacturing side, prices were down. The pulses and vegetables business reported similar trends, although for pulses sold on the LDH side, there was some currency-related price inflation.



We note the fruit line was down 11.7% in revenue terms in Q117. This was principally due to the loss of a discount channel order on the domestic Italian market amid extremely aggressive pricing by the competition. Overall prices for the division were also down slightly.

The sauces business experienced strong, volume-driven growth during Q118, while pricing was down slightly. The LDH business also witnessed strong volume growth, but pricing was up due to the currency-related inflation mentioned earlier.

By geography, domestic sales were down 7.4% due to the loss of a number of discount channel contracts, which were no longer considered profitable due to intense competition. International sales were up 12.8% at constant currency.

We make no material changes to our forecasts. We have extended our model to FY21, and we illustrate below our forecasts versus La Doria's own targets for a range of metrics. Our forecasts are broadly in line with current targets. With forecast net debt/EBITDA below 2x (we forecast 2.0 for FY18, reducing thereafter), the balance sheet remains conservative. We expect the outcome of the 2018 campaigns to be known by the Q2 results (scheduled for September). Customer negotiations on the red line side will be almost complete, and good progress should be made in the vegetable, sauces, and fruit lines.

**Exhibit 6: Forecasts vs company targets (€m)**

|               | 2018e       |               |          | 2019e       |               |          | 2020e       |               |          | 2021e       |               |          |
|---------------|-------------|---------------|----------|-------------|---------------|----------|-------------|---------------|----------|-------------|---------------|----------|
|               | Target (€m) | Forecast (€m) | Diff (%) | Target (€m) | Forecast (€m) | Diff (%) | Target (€m) | Forecast (€m) | Diff (%) | Target (€m) | Forecast (€m) | Diff (%) |
| Revenue       | 689         | 689.2         | 0.0      | 712         | 709.8         | (0.3)    | 736         | 731.1         | (0.7)    | 757         | 753.1         | (0.5)    |
| EBITDA        | 58          | 59.2          | 2.0      | 65          | 64.5          | (0.8)    | 71          | 70.1          | (1.3)    | 79          | 76.7          | (2.9)    |
| EBIT          | 43          | 44.2          | 2.7      | 48          | 47.5          | (1.1)    | 54          | 53.1          | (1.7)    | 59          | 58.7          | (0.5)    |
| PBT           | 41          | 42.2          | 2.9      | 46          | 45.5          | (1.1)    | 52          | 51.1          | (1.8)    | 57          | 56.7          | (0.5)    |
| Net Profit    | 30          | 30.8          | 2.6      | 34          | 33.2          | (2.3)    | 38          | 37.3          | (1.9)    | 43          | 41.4          | (3.7)    |
| Net debt      | 121         | 119.8         | (1.0)    | 117         | 114.7         | (2.0)    | 96          | 93.0          | (3.1)    | 66          | 61.7          | (6.6)    |
| EBITDA margin | 8.4%        | 8.6%          | 17bp     | 9.1%        | 9.1%          | (4bp)    | 9.6%        | 9.6%          | (6bp)    | 10.4%       | 10.2%         | (25bp)   |

Source: La Doria, Edison Investment Research estimates

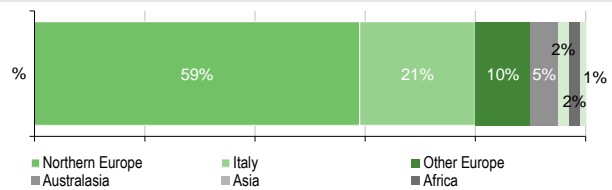
**Exhibit 7: Financial summary**

|  | €m | 2015    | 2016    | 2017    | 2018e   | 2019e   | 2020e   | 2021e   |
|--|----|---------|---------|---------|---------|---------|---------|---------|
| December                                     |    | IFRS    | IFRS    | IFRS    | IFRS    | IFRS    | IFRS    | IFRS    |
| <b>PROFIT &amp; LOSS</b>                     |    |         |         |         |         |         |         |         |
| Revenue                                      |    | 748.3   | 653.1   | 669.1   | 689.2   | 709.8   | 731.1   | 753.1   |
| Cost of Sales                                |    | (616.9) | (545.4) | (555.7) | (575.1) | (589.6) | (604.3) | (618.7) |
| Gross Profit                                 |    | 131.5   | 107.8   | 113.4   | 114.0   | 120.3   | 126.8   | 134.4   |
| EBITDA                                       |    | 77.6    | 56.3    | 60.1    | 59.2    | 64.5    | 70.1    | 76.7    |
| Operating Profit (before amort. and except.) |    | 61.0    | 39.9    | 41.6    | 44.2    | 47.5    | 53.1    | 58.7    |
| Intangible Amortisation                      |    | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Exceptionals                                 |    | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| FX Gain / (loss)                             |    | 3.6     | 8.9     | 0.2     | 0.0     | 0.0     | 0.0     | 0.0     |
| Operating Profit                             |    | 64.6    | 48.8    | 41.8    | 44.2    | 47.5    | 53.1    | 58.7    |
| Net Interest                                 |    | (3.6)   | (2.7)   | (1.9)   | (2.0)   | (2.0)   | (2.0)   | (2.0)   |
| Profit Before Tax (norm)                     |    | 57.4    | 37.3    | 39.7    | 42.2    | 45.5    | 51.1    | 56.7    |
| Profit Before Tax (FRS 3)                    |    | 61.0    | 46.2    | 39.9    | 42.2    | 45.5    | 51.1    | 56.7    |
| Tax  |    | (16.1)  | (12.4)  | (9.5)   | (11.4)  | (12.3)  | (13.8)  | (15.3)  |
| Profit After Tax (norm)                      |    | 44.8    | 33.7    | 30.4    | 30.8    | 33.2    | 37.3    | 41.4    |
| Profit After Tax (FRS 3)                     |    | 44.8    | 33.7    | 30.4    | 30.8    | 33.2    | 37.3    | 41.4    |
| Average Number of Shares Outstanding (m)     |    | 31.0    | 31.0    | 31.0    | 31.0    | 31.0    | 31.0    | 31.0    |
| EPS - normalised fully diluted (c)           |    | 144.6   | 108.8   | 98.1    | 99.3    | 107.1   | 120.3   | 133.5   |
| EPS - (IFRS) (c)                             |    | 144.6   | 108.8   | 98.1    | 99.3    | 107.1   | 120.3   | 133.5   |
| Dividend per share (c)                       |    | 28.0    | 18.0    | 23.0    | 24.0    | 25.0    | 26.0    | 27.0    |
| Gross Margin (%)                             |    | 17.6    | 16.5    | 16.9    | 16.5    | 16.9    | 17.3    | 17.8    |
| EBITDA Margin (%)                            |    | 10.4    | 8.6     | 9.0     | 8.6     | 9.1     | 9.6     | 10.2    |
| Operating Margin (before GW and except.) (%) |    | 8.1     | 6.1     | 6.2     | 6.4     | 6.7     | 7.3     | 7.8     |
| <b>BALANCE SHEET</b>                         |    |         |         |         |         |         |         |         |
| Fixed Assets                                 |    | 177.6   | 173.3   | 174.0   | 220.0   | 236.0   | 246.1   | 253.6   |
| Intangible Assets                            |    | 10.6    | 10.0    | 6.1     | 5.4     | 4.7     | 4.0     | 3.3     |
| Tangible Assets                              |    | 143.3   | 143.9   | 149.9   | 196.6   | 208.3   | 206.0   | 199.7   |
| Investments                                  |    | 23.7    | 19.4    | 18.0    | 18.0    | 23.0    | 36.1    | 50.6    |
| Current Assets                               |    | 398.8   | 367.8   | 394.2   | 358.9   | 372.1   | 402.1   | 438.7   |
| Stocks                                       |    | 199.8   | 187.0   | 209.5   | 195.5   | 200.4   | 205.5   | 207.3   |
| Debtors                                      |    | 107.7   | 103.9   | 106.5   | 106.8   | 110.0   | 113.3   | 116.7   |
| Cash   |    | 77.9    | 62.8    | 66.7    | 45.0    | 50.1    | 71.8    | 103.2   |
| Other  |    | 13.3    | 14.2    | 11.5    | 11.5    | 11.5    | 11.5    | 11.5    |
| Current Liabilities                          |    | (220.7) | (187.9) | (209.8) | (200.5) | (203.2) | (205.9) | (208.5) |
| Creditors                                    |    | (129.3) | (126.4) | (142.1) | (132.9) | (135.5) | (138.3) | (140.9) |
| Short term borrowings                        |    | (91.4)  | (61.5)  | (67.6)  | (67.6)  | (67.6)  | (67.6)  | (67.6)  |
| Long Term Liabilities                        |    | (157.3) | (144.5) | (131.5) | (120.7) | (114.1) | (114.1) | (114.1) |
| Long term borrowings                         |    | (116.6) | (106.1) | (97.2)  | (97.2)  | (97.2)  | (97.2)  | (97.2)  |
| Other long term liabilities                  |    | (40.7)  | (38.3)  | (34.3)  | (23.5)  | (16.8)  | (16.8)  | (16.8)  |
| Net Assets                                   |    | 198.4   | 208.8   | 227.0   | 257.8   | 291.0   | 328.3   | 369.7   |
| <b>CASH FLOW</b>                             |    |         |         |         |         |         |         |         |
| Operating Cash Flow                          |    | 58.2    | 65.7    | 39.9    | 52.1    | 46.8    | 50.7    | 58.9    |
| Net Interest                                 |    | (3.6)   | (2.7)   | (1.9)   | (2.0)   | (2.0)   | (2.0)   | (2.0)   |
| Tax  |    | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Capex  |    | (8.4)   | (13.0)  | (18.7)  | (61.0)  | (28.0)  | (14.0)  | (11.0)  |
| Acquisitions/disposals                       |    | (4.9)   | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Financing                                    |    | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Dividends                                    |    | (9.3)   | (8.4)   | (7.6)   | (10.8)  | (11.6)  | (13.1)  | (14.5)  |
| Other  |    | (23.3)  | (16.3)  | (5.2)   | 0.0     | 0.0     | 0.0     | 0.0     |
| Net Cash Flow                                |    | 8.7     | 25.3    | 6.6     | (21.7)  | 5.1     | 21.7    | 31.4    |
| Opening net debt/(cash)                      |    | 138.2   | 130.1   | 104.8   | 98.2    | 119.8   | 114.7   | 93.0    |
| HP finance leases initiated                  |    | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Other  |    | (0.6)   | (0.1)   | 0.1     | 0.0     | (0.0)   | 0.0     | 0.0     |
| Closing net debt/(cash)                      |    | 130.1   | 104.8   | 98.2    | 119.8   | 114.7   | 93.0    | 61.7    |

Source: Edison Investment Research, company data

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**Revenue by geography**

**Management team**
**CEO: Antonio Ferraioli**

Antonio Ferraioli joined the company in 1974. He has been CEO since 1984 and is a member of the founding Ferraioli family.

**CFO: Alberto Festa**

Alberto Festa joined the company in 2007, having held various positions in a number of Italian consumer products companies.

**Principal shareholders**

|                        | (%)   |
|------------------------|-------|
| Antonio Ferraioli      | 10.17 |
| Andrea Ferraioli       | 9.54  |
| Rosa Ferraioli         | 8.66  |
| Iolanda Ferraioli      | 8.66  |
| Giovanna Ferraioli     | 8.66  |
| Raffaella Ferraioli    | 8.66  |
| Teresa Maria Ferraioli | 8.66  |

**Companies named in this report**

Greencore (GNC.LN), Ebro Foods (EBRO.SM), Parmalat (PLT.IM), Bonduelle (Bon.EN), Valsoia (VLS.IM)

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