

# La Doria

Q119 results

## Working towards a transformation

The challenging economic backdrop continues, as expected, but La Doria has delivered a good start to 2019. There was some benefit due to UK customers stockpiling ahead of a potential hard Brexit, but it is hard to quantify. Organic growth of 2% was mainly volume-driven, while margins were down due to higher production costs, which were only partially offset by increased volumes and pricing. The industrial plan set out in March 2018 continues to be delivered, with several new production lines added during FY18 and the UK logistics platform undergoing a significant upgrade. We leave our estimates unchanged ahead of the all-important seasonal campaigns and our fair value remains €13.60.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/17	669.1	39.7	98.1	23.0	8.3	2.8
12/18	687.9	33.1	88.2	18.0	9.3	2.2
12/19e	690.0	35.0	82.4	20.0	9.9	2.4
12/20e	717.6	39.7	93.5	21.0	8.8	2.6

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

## Q119 results

Organic growth of 2% benefited from Brexit-related stockpiling. Although the company has not quantified this, we estimate the impact could be c 50bps, and is likely to unwind in Q2, though this is likely to be offset by improvement in other markets. At a divisional level, the vegetables and sauces businesses were up, while the tomato and fruit businesses were down. The group EBITDA margin contracted 60bps to 6.2% due to higher production and raw material costs.

## Continuing to invest for the future

In March 2018 La Doria announced the implementation of an investment plan to shift the business mix further towards its value-added products (which are faster-growing, command higher margins and are less exposed to seasonal cycles). The plan also targets cost reductions by closing some industrial sites, extending and automating warehouses, and improving logistics. The overall project capex over the FY18–21 period is expected to be €122m, with €45m invested in FY18 and €50m forecast for FY19. To date, the plan has been executed on schedule and on budget.

## Valuation: €13.60 per share

Our estimates are unchanged following the Q1 results. Consequently, our DCF model still indicates a fair value of €13.60 per share (unchanged), suggesting the current share price offers a good entry point. La Doria trades on 9.9x FY19e P/E, a c 30% discount to its private-label peer group. On EV/EBITDA it trades at 7.4x FY19e, a c 15% discount. We believe La Doria remains an attractive proposition, given the strength of its market position in the private-label segment, as well as management's commitment to improving the stability and visibility of the business by reducing its reliance on the more volatile tomato line, while continuing to invest in the business in order to maintain its competitive edge.

## Food & beverages

29 May 2019

**Price** €8.19

**Market cap** €254m

Net debt (€m) at 31 March 2019 122

Shares in issue 30.9m

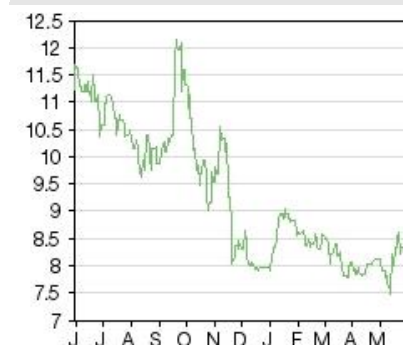
Free float 37%

Code LD

Primary exchange Borsa Italia (STAR)

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 1.6 (3.5) (24.3)

Rel (local) 9.0 (1.3) (17.8)

52-week high/low €12.14 €7.48

## 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) markets. It enjoys leading market share positions across its product ranges in the UK, Italy, Germany and Australia.

## Next events

H119 results 12 September 2019

9m 19 results 13 November 2019

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## 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. It has a presence in both the 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 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 chairman and co-CEO, and Andrea Ferraioli is co-CEO. Iolanda Ferraioli, Diodato Ferraioli and Enzo Lamberti are members of the Board, meaning the family fills five of the nine board positions and owns 63% of the group's share capital.

### Valuation: Significant upside remains

We calculate a DCF-based fair value of €13.60 per share, or c 65% upside. As ever, there is good visibility regarding the current year's numbers: pricing for the tomato, vegetable, fruit and sauces lines is complete and costs are fully calculated, as the 2018 seasonal campaigns are over and the annual pricing rounds have occurred. Conversely, the outcome of the 2019 seasonal campaigns (affecting mainly FY20) is still unknown. Success here would provide a catalyst for the shares. The updated three-year rolling industrial plan, announced in March, follows the stated strategy to transform the business by shifting the product mix towards higher-margin products, while ensuring competitiveness is maintained on the more commoditised lines. The investment plan, announced in March 2018, continues to be executed. We also look at La Doria's key metrics compared to its peer group. At 9.9x 2019e P/E and 7.4x 2019e EV/EBITDA, it trades at c 30% and c 15% discounts, respectively, to its peers.

### Q119 results

Q119 group revenue was €183.8m, up 2.7% on the prior year. Organic growth was 2%, mainly driven by volume increases, though pricing was also positive on the manufacturing side. The trading activities of LDH witnessed particularly strong revenue growth (+9.2%) despite strong competition. Performance was boosted by customer stockpiling ahead of a feared hard Brexit on 29 March, though it is hard to gauge the precise impact on sales (we estimate c 50bps). Q1 group EBITDA was €11.4m vs €12.2m in the prior year, with margin contracting 60bps to 6.2% due to continued raw material pressures and higher production costs. Over the next few years, we expect the benefits of the industrial plan will come through and will help to improve margins. Management is currently targeting a 9.4% EBITDA margin in FY21; we forecast 8.8% and this compares to FY18 reported (trough) margin of 7.7%. In the shorter term, we expect Q2 to witness similar trends to those in Q1 in terms of higher raw material and production costs. In addition, the Brexit-related stockpiling should unwind, though we believe this should be compensated by improvements in other geographies. Q3 and – to a greater extent – Q4 will partially depend on the results of the 2019 seasonal campaigns.

### Sensitivities: Raw materials still a key variable

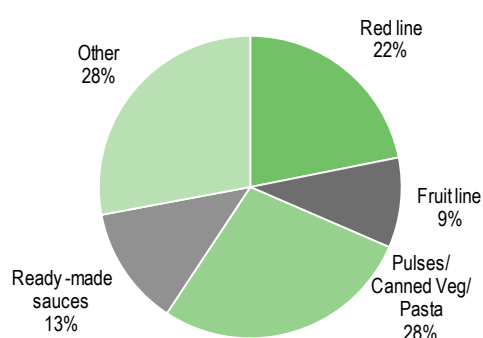
La Doria's key sensitivities include:

- input cost inflation on the agricultural commodities it processes to manufacture its products;
- the supply/demand balance affecting the achievability of price inflation on finished goods (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: A private-label champion

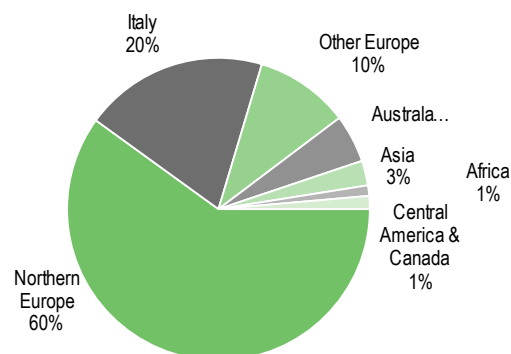
La Doria is the leading Italian producer of tinned tomatoes, and processed pulses and vegetables for the Italian and international markets. It is the largest producer of private-label (PL), ready-made sauces. It is the second-largest producer of fruit juices and beverages in the Italian market. Exhibits 1 and 2 below break down revenues by category and by geography. In FY18, 20% of revenue was from the domestic market and 80% 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 (FY18)**



Source: La Doria data

**Exhibit 2: Group revenue split by geography (FY18)**



Source: La Doria data

La Doria supplies a wide selection of European and international food retailers. Tesco remains its largest customer, but the customer base includes Asda, Sainsbury's, Carrefour, Morrisons, Walmart, Aldi, Lidl and many more. 95% of La Doria's 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 from the increasingly discerning consumer, who prefers high-quality, private-label products.

Over the past decade or so, the group strategy has been to gradually shift the sales mix of the group towards non-seasonal, value-added products, in order to reduce the volatility of results and to increase margins. For example, in FY08, the tomato business (red line) accounted for 31% of sales and 60% of EBITDA. In FY18 the tomato business represented 22% of sales and we estimate c 30% of EBITDA. The business plan announced in March builds on last year's industrial plan. The strategy remains to:

- expand the higher-margin product lines;
- invest in the premium and organic segments (which are also higher margin);
- extend the group's geographic reach to faster-growing markets; while
- strengthening the group's existing positions by reducing costs in order to remain competitive.

## The business plan to FY22

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 industrial plan set out in March 2018 continues to be implemented, and the new targets published in March 2019 were below prior guidance, as illustrated in Exhibit 3 below. Management cut its expectations in light of the tough trading

environment. In particular, the introduction of European duties on imports of dried pulses from the US was unexpected, and the 2018 tomato campaign was the toughest in recent years.

**Exhibit 3: Current vs prior financial targets (2019–21e)**

€m	2019e			2020e			2021e		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	712	691	-2.9%	736	721	-2.0%	757	742	(2.0%)
EBITDA	65	53	-18.5%	71	64	-9.9%	79	70	(11.4%)
EBIT	48	38	-20.8%	54	45	-16.7%	59	48	(18.6%)
PBT	46	35	-23.9%	52	43	-17.3%	57	47	(17.5%)
Net profit	34	26	-23.5%	38	32	-15.8%	43	35	(18.6%)
Net debt	117	148	26.5%	96	131	36.5%	66	101	53.0%
EBITDA margin (%)	9.1%	7.7%	150bps	9.6%	8.9%	-80bps	10.4%	9.4%	-100bps
EBIT margin (%)	6.7%	5.5%	-120bps	7.3%	6.2%	-110bps	7.8%	6.5%	-130bps

Source: La Doria data

We compare our forecasts to guidance in the Financials section on page 9.

The industrial plan was borne out of the prevailing circumstances, namely an increasingly challenging competitive environment, and the ever-increasing clout of the major retailers, particularly in the private-label category.

The industrial plan aims to transform the business by:

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

This is being implemented via a major investment plan, which is expanding and reshaping capacity while increasing efficiency and reducing costs. The overall capex spend over the FY18–21 period is expected to be €122m, with €45m invested in FY18 and €50m forecast for FY19.

The industrial plan is based on two strategic aims: revenue growth and margin expansion.

## Revenue growth

The 2019 strategic guidelines confirm those set out in 2018 and are as follows:

- Expand higher value-added product ranges, investing in the premium and organic/bio segments, which are higher margin.
- Strengthen existing group market positions in international markets, for example Germany, France, Scandinavia, Japan and Australia.
- Extend growth in markets where La Doria is currently under-represented (mainly the US), or where there is high potential, such as emerging markets (China, South-East Asia, Latin America).
- Assess acquisition opportunities to extend the range, in particular with the objective of reducing the group's exposure to the volatile tomato line.

## 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, investment in new technology should continue to improve efficiency, thus reducing costs and hence driving up margins.

During FY18 the group increased its production capacity in sauces by installing a new production line at its Parma plant. All sauces are now produced in the same location, as the Acerra plant was closed. A new automated warehouse facility was also installed at the Parma site, doubling storage capacity. A new can production line was added at the Sarno plant, and tomato-based products

manufacturing capacity was increased at the Fisciano site by adding a new aseptic production line. In the UK, La Doria subsidiary LDH is implementing an extensive, highly automated logistics platform.

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. As discussed above, most of these new lines were installed during FY18.
- rationalising industrial sites by closing the Acerra plant and streamlining production. Again, as discussed above, the Acerra plant was successfully closed during FY18 so this objective has been met.
- 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. This is a large and complex investment, and the first phase of the UK logistics platform overhaul has been completed, though the automated facility is not expected to be fully operational until FY21.
- management's published targets point to an EBITDA margin of 9.4% by FY21 vs 7.7% reported in FY18 and also expected in FY19. We forecast margins of 7.7% in FY19 and 8.8% in FY21, as detailed in Exhibit 6.

## Business overview

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La Doria operates in four distinct categories, namely tomato-based products, pulses and vegetables, ready-made sauces, and fruit-based products. In addition, it also sells both its products and those of third parties through a holding in its UK subsidiary, LDH. We look at each of these in turn.

### Tomato-based products – the red line

La Doria is the largest producer in Italy of peeled and chopped tomatoes and it is market leader in UK, German, Scandinavian Australian and Japanese private-label canned tomatoes. As illustrated in Exhibit 1, the red line (tomato-based products) contributed 22% of revenues in FY18.

La Doria's tomato business is seasonal and can 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 huge 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 pricing still comes under pressure if campaign conditions are imperfect.

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 2018 the tomato campaign was difficult due to the poor climatic conditions, particularly from the middle of August. This resulted in lower yields, which combined with less land dedicated to tomato

cultivation caused the overall Italian tomato crop to come in at 4.65m tonnes, down 10.5% on the 2017 crop. The problems were compounded by poor crop quality and intermittent supply, thus resulting in higher production costs (due to lower industrial yields and lower processing efficiency). In addition, tin plate and energy costs were also higher.

On the demand side, Italian tomato consumption continues to decline: during FY18 the market (including the discount channel) was down 4.3% in both volume and value terms (source: IRI Infoscán). This compares to volumes down 0.5% in FY17 and value down 1.8%. The brands increased their promotional activity in the face of a declining market, and hence private-label share was down to 30.8% in FY18 from 31.7% in FY17 (source IRI Infoscán).

In contrast, a number of La Doria's larger export markets expanded. In the UK the tomato-based products market was up 1.8% in volume terms and 2.1% in value terms (source: Kantar Worldpanel). Private label outperformed the market by growing 4.2% and gaining 160bps share to reach 71.6% market share. Conversely, brands contracted by 3.6% and lost share.

## 2019 outlook

It is still early days for the 2019 campaign, but our current forecast is for a 5–7% increase in total tomato production at national level, to 4.9–5.0m tonnes. La Doria management expects fresh tomato pricing to be up compared to FY18, though quality of the crop and industrial yield are still to be determined. The drop in production in 2018 caused sector destocking, which has resulted in a recovery of market prices for tomato-based products. 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 FY18.

FY18 was mainly affected by the 2017 summer harvest. This witnessed substantially improved harvests compared to the prior year, and hence a reduction in raw material costs. The 2018 summer harvest was broadly stable in terms of crop quality and quantity, and hence procurement prices were also flat. That said, in H218 pulse prices were affected by customs duties levied by the EU in response to US duties that became applicable to certain goods. As mentioned above, tin plate prices were higher in FY18. All this resulted in higher production costs.

On the consumption side, during FY18 the Italian canned vegetable market was down 4.3% in volume terms and 3.5% in value terms (source: IRI InfoScan). The private-label segment gained 40bps of volume share to 60.4%. In the UK, La Doria's key product in the category is private-label baked beans. In 2018 the overall baked beans market grew in both volume (+0.9%) and value (+1.3%). Private-label share gained significantly (+7.5% in volume terms) and was up 270bps to 43.8% (source: Kantar Worldpanel).

La Doria management is keen to further expand the vegetable line, and indeed part of the investment in the industrial plan was 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. Further expanding the vegetable line would therefore help improve group efficiency and reduce the volatility of the overall group.

## Outlook

We expect costs will continue to be elevated also due to the duties levied by the EU, and therefore margins are likely to remain at FY18 levels.



## The fruit line

During FY18 the fruit business accounted for 9% of revenues (Exhibit 1). La Doria remains the market leader in Italian private-label fruit juices and fruit beverages, and has a number two position in the Italian market overall. The profitability of the fruit line is below that of other segments, as it has suffered through years of underperformance caused by weak economic conditions, reduced consumption and a general industry overcapacity. As for the other divisions, 2018 pricing was mainly driven by the 2017 crop, which featured a slight increase in supply, and hence a small decline in procurement prices. The 2018 crop, however, witnessed a reduction in supply due to cold spring weather, and hence a slight increase in pricing.

On the demand side, during FY18 the Italian fruit juice market was down 4.8% in volume terms and 5.4% in value terms (source: IRI InfoScan). The private-label segment had stable volume market share at 44%.

## Sauces

La Doria is the market leader in Italy in private-label pasta sauce, and the segment accounted for 13% of revenues in FY18 (see Exhibit 1). FY18 was a tough year, as the segment was hit by raw material price increases, while fierce competition led to pricing declines.

During the year the overall Italian market (excluding the discount channel) witnessed growth in both value (+3.5%) and volume (+2.1%) terms (source: IRI InfoScan). Tomato-based sauces volumes were up 1%, while pesto sauce volumes were up 7% (source: IRI InfoScan). Private-label tomato-based sauce volumes were up 6.3%, and pesto sauce volumes were up 12.9%. Private label holds a c 17% market share in both subcategories, up from c 16% in FY17 (source: IRI InfoScan).

In the UK, the sauces market (excluding pesto) was down 1.3% in volume terms, and 5.7% in value (source: Kantar Worldpanel). Private-label share grew by 410bp to 47% at the expense of the brands. The pesto market was up significantly, with volume growth of 8.2% and value up 10.6%. Again, private-label share expanded, and now stands at 70.3%.

## Other lines (trading as 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 28% of group sales in FY18.

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.

## Valuation

We illustrate La Doria's valuation versus its peers in Exhibit 4 below. On 2019 estimates, La Doria currently trades at a c 30% discount on P/E, which we believe is unwarranted given the company's balance sheet is conservatively managed. On EV/EBITDA, La Doria trades at a c 15% discount.

**Exhibit 4: Benchmark valuation of La Doria relative to peers**

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2019e	2020e	2019e	2020e	2019e	2020e
Greencore	£932.9	13.2	11.2	8.3	7.9	2.9	3.2
Ebro Foods	£2,871.1	16.8	15.3	9.8	9.2	3.3	3.4
Bonduelle	€ 896.9	11.3	10.1	6.9	7.8	1.9	2.1
Valsoia	€ 126.4	18.3	N/A	9.4	N/A	3.2	N/A
<b>Peer group average</b>		14.9	12.2	8.6	8.3	2.8	2.9
La Doria	€ 253.9	9.9	8.8	7.4	6.7	2.4	2.6
<b>Premium/(discount) to peer group</b>		(33.3%)	(28.2%)	(14.1%)	(19.3%)	(13.7%)	(11.3%)

Source: Edison Investment Research estimates and Bloomberg consensus. Note: Prices as at 28a May 2019.

Our primary valuation methodology is a 10-year DCF analysis, and we calculate a fair value of €13.60, or c 65% upside from the current level. This is based on our assumptions of a 1.5% terminal growth rate and a 7.0% terminal EBIT 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 €14.90 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 EBIT margin of 5.6% (which compares to La Doria's reported EBIT margin of 5.1% in 2018, and 6.2% in 2017) and a terminal growth rate of -0.5%. We expect La Doria's 2018 EBIT margin to mark a trough level due to the tough competitive environment. We forecast an EBIT margin of 5.4% in FY19. We also expect revenues to continue growing and currently forecast a 2.4% revenue CAGR 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.

**Exhibit 5: DCF sensitivity (€/share) to terminal growth rate and EBIT margin**

		EBIT margin					
		5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
Terminal growth	-2.5%	6.8	7.4	7.9	8.5	9.1	9.6
	-1.5%	7.4	8.0	8.6	9.3	9.9	10.6
	-0.5%	8.1	8.8	9.6	10.3	11.1	11.8
	0.5%	9.0	9.9	10.8	11.7	12.5	13.4
	1.5%	10.4	11.4	12.5	13.6	14.7	15.7
	2.5%	12.4	13.8	15.1	16.5	17.9	19.2
	3.5%	15.9	17.7	19.6	21.4	23.3	25.2

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

### Q119 results

Q119 group revenue was €183.8m, up 2.7% on the prior year. Organic growth was 2%, mainly driven by volume increases, though pricing was also positive on the manufacturing side. The trading activities of LDH witnessed particularly strong revenue growth (+9.2%) despite an aggressive market. Performance was certainly boosted by customer stockpiling ahead of a feared hard Brexit on 29 March, though it is hard to gauge the precise impact on sales: we estimate c 50bps. Q1 group EBITDA was €11.4m vs €12.2m in the prior year, with margin contracting 60bps to 6.2% due to continued raw material pressures and higher production costs.

During the quarter the red line witnessed revenue contraction of 2.4% driven by lower volumes (pricing was up). The pulses and vegetables business had an excellent quarter, with sales up 8.5%, with growth principally driven by volumes. The sauces segment also experienced a strong quarter, with revenues up 1.8%. The fruit line was down 6% in revenue terms during the quarter, as fierce competition and reduced consumption continue to feature in the segment despite cost increases (mostly sugar). The 'other lines' business saw revenues up 4.6%; as discussed above this was partly driven by customers stockpiling ahead of a feared hard Brexit, which never came to pass. Some unwinding of this is thus to be expected during Q2.

By geography, domestic sales were down 6.5%, while international sales were up 4.8% at constant currency.

We make no changes to our forecasts. We have extended our model to FY22, and we illustrate below our forecasts versus La Doria's targets. Our forecasts are broadly in line with current targets for FY19, and below management's targets for FY20 and FY21. Nevertheless, our DCF valuation still points to significant upside for the shares. The balance sheet remains conservative: net debt/EBITDA should peak in FY19 at 2.8x as capital is invested in the industrial plan, but leverage should rapidly decline in FY20 and FY21. We expect the outcome of the 2019 campaigns to be partially known by the H1 results (scheduled for September), but a clearer picture will not emerge until later on in the year. 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: Edison forecasts vs company targets**

	2019e			2020e			2021e		
	Target (€m)	Forecast (€m)	Diff (%)	Target (€m)	Forecast (€m)	Diff (%)	Target (€m)	Forecast (€m)	Diff (%)
Revenue	691	690	(0.1%)	721	718	(0.5%)	742	739	(0.4%)
EBITDA	53	53	(0.0%)	64	59	(8.3%)	70	65	(7.3%)
EBIT	38	37	(2.7%)	45	42	(7.4%)	48	46	(4.4%)
PBT	35	35	(0.1%)	43	40	(7.7%)	47	44	(6.6%)
Net profit	26	26	(1.8%)	32	29	(9.5%)	35	32	(8.5%)
Net debt	148	148	(0.1%)	131	129	(1.9%)	101	97	(3.6%)
EBITDA margin	7.7%	7.7%	0bps	8.9%	8.2%	(70bps)	9.4%	8.8%	(66bps)

Source: La Doria, Edison Investment Research estimates

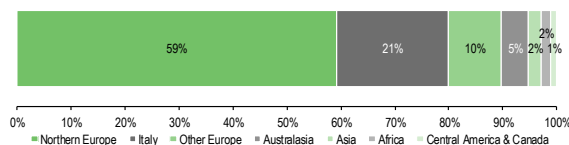
**Exhibit 7: Financial summary**

	€m	2017	2018	2019e	2020e	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		669.1	687.9	690.0	717.6	739.1	761.3
Cost of Sales		(555.7)	(581.7)	(583.4)	(603.9)	(618.3)	(636.1)
Gross Profit		113.4	106.2	106.5	113.7	120.8	125.2
EBITDA		60.1	52.8	53.0	58.7	64.9	67.6
Operating Profit (before amort. and except.)		41.6	34.8	37.0	41.7	45.9	47.6
Intangible Amortisation		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
FX Gain / (loss)		0.2	3.2	0.0	0.0	0.0	0.0
Operating Profit		41.8	37.9	37.0	41.7	45.9	47.6
Net Interest		(1.9)	(1.7)	(2.0)	(2.0)	(2.0)	(2.0)
Profit Before Tax (norm)		39.7	33.1	35.0	39.7	43.9	45.6
Profit Before Tax (FRS 3)		39.9	36.3	35.0	39.7	43.9	45.6
Tax		(9.5)	(8.9)	(9.4)	(10.7)	(11.8)	(12.3)
Profit After Tax (norm)		30.4	27.3	25.5	29.0	32.0	33.3
Profit After Tax (FRS 3)		30.4	27.3	25.5	29.0	32.0	33.3
Average Number of Shares Outstanding (m)		31.0	31.0	31.0	31.0	31.0	31.0
EPS - normalised fully diluted (c)		98.1	88.2	82.4	93.5	103.3	107.4
EPS - (IFRS) (c)		98.1	88.2	82.4	93.5	103.3	107.4
Dividend per share (c)		23.0	18.0	20.0	21.0	22.0	22.0
Gross Margin (%)		16.9	15.4	15.4	15.8	16.3	16.4
EBITDA Margin (%)		9.0	7.7	7.7	8.2	8.8	8.9
Operating Margin (before GW and except.) (%)		6.2	5.1	5.4	5.8	6.2	6.3
<b>BALANCE SHEET</b>							
Fixed Assets		174.0	203.5	246.0	254.2	254.4	242.4
Intangible Assets		6.1	5.5	4.8	4.1	3.4	2.7
Tangible Assets		149.9	175.9	216.6	215.3	205.0	193.7
Investments		18.0	22.1	24.5	34.7	45.9	45.9
Current Assets		394.2	419.4	378.1	403.0	437.7	474.9
Stocks		209.5	204.4	201.3	205.3	207.1	213.1
Debtors		106.5	110.2	107.6	109.1	110.9	114.2
Cash		66.7	86.8	51.2	70.6	101.7	129.6
Other		11.5	18.0	18.0	18.0	18.0	18.0
Current Liabilities		(209.8)	(242.3)	(234.4)	(238.5)	(241.3)	(244.9)
Creditors		(142.1)	(148.4)	(140.5)	(144.6)	(147.5)	(151.0)
Short term borrowings		(67.6)	(93.9)	(93.9)	(93.9)	(93.9)	(93.9)
Long Term Liabilities		(131.5)	(139.3)	(122.8)	(122.8)	(122.8)	(122.8)
Long term borrowings		(97.2)	(105.2)	(105.2)	(105.2)	(105.2)	(105.2)
Other long term liabilities		(34.3)	(34.1)	(17.6)	(17.6)	(17.6)	(17.6)
Net Assets		227.0	241.4	266.9	295.9	327.9	349.6
<b>CASH FLOW</b>							
Operating Cash Flow		35.4	48.2	41.3	46.6	52.3	49.6
Net Interest		(1.9)	(1.7)	(2.0)	(2.0)	(2.0)	(2.0)
Tax		0.0	0.0	0.0	0.0	0.0	0.0
Capex		(17.6)	(46.5)	(56.0)	(15.0)	(8.0)	(8.0)
Acquisitions/disposals		(0.4)	0.0	0.0	0.0	0.0	0.0
Financing		0.0	0.0	0.0	0.0	0.0	0.0
Dividends		(7.7)	(9.6)	(8.9)	(10.1)	(11.2)	(11.6)
Other		(2.4)	(4.6)	(10.0)	(0.0)	0.0	0.0
Net Cash Flow		5.4	(14.1)	(35.6)	19.4	31.1	27.9
Opening net debt/(cash)		104.8	98.2	112.3	147.9	128.5	97.4
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0
Other		1.2	(0.0)	(0.0)	0.0	(0.0)	0.0
Closing net debt/(cash)		98.2	112.3	147.9	128.5	97.4	69.5

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	11.17
Andrea Ferraioli	9.95
Rosa Ferraioli	9.66
Iolanda Ferraioli	9.66
Giovanna Ferraioli	9.66
Raffaella Ferraioli	9.66
Teresa Maria Ferraioli	9.66

**Companies named in this report**

Greencore (GNC.LN), Ebro Foods (EBRO.SM), Bonduelle (Bon.EN), Valsoia (VLS.IM), Tesco (TSCO.LN), Carrefour (CARR.PA), Casino (CASP.PA)

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