



BANCA COMMERCIALE ITALIANA  
 Research Division  
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# Banca Commerciale Italiana

## EQUITY FLASH

### GRUPPO EDITORIALE L'ESPRESSO



Source: DATAST

Price Ord (Feb 23, 2001)	€7.330
Sector	Media
Reuters	ESPI.MI
Bloomberg	ES IM
Mibtel Index	28,069
Market Cap (€ mil))	3,195
No. Shares, Ord (mil)	430.6
Market Float	34%
<i>Major Shareholder</i>	
Cir	50%
BVPS 2001E (€)	1.11
P/BVPS	6.5
52-Week Range (€)	25.000 / 7.150
Avg Volume (30-day)	1,436,200
Exchange Rate	US/\$ 0.9064
	L/€ 1,936.27

#### Relative Performance – Mibtel Index

1 mo.	3 mo.	12 mo.
-15.0	-15.4%	-56.9%

Dec 31	1999	2000A	2001E	2002E	2003E
Sales (€ mil)	856.8	952.7	1055.4	1141.7	1227.4
EBITDA (€ mil)	143.6	125.9	166.86	209.6	244.6
EBIT (€ mil)	100.2	69.9	112.9	152.6	185.6
% of Sales	11.8	7.3	10.7	13.3	15.1
Net Income (€ mil)	25.9	128.7	21.3	52.3	76.9
EPS (€)	0.06	0.30	0.05	0.12	0.18
P/E	121.6	23.9	147	60	40.8
EV/EBITDA	22.5	25.8	19.4	15.4	13.2

Source: company data, Caboto SIM estimates

#### Target price cut due to Kataweb's prospects. The message remains the same: Steer Clear of Media.

- Espresso's 2000 figures are the result of three different factors: strong growth in the traditional business, a significant loss at Kataweb, and extraordinary items totaling €154 million from the sale of 5% of Kataweb to Unicredito.
- Kataweb's prospects have changed: e-commerce is struggling, the growth of online advertising is slowing, and the need for investment is increasing. On this basis, Espresso is reviewing its new media strategy in favor of less ambitious targets.
- On this basis, and after talking to the company, we have revised our estimates and our valuation, cutting the target price from € 9 to € 7.3 per share. The value of the traditional business remains unchanged (€6), while we have slashed Kataweb's value from € 3 to € 1.3 per share. Our recommendation remains the same: steer clear of media at the moment, given the great uncertainty surround future growth. **HOLD.**

February 26, 2001

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## 2000 RESULTS

Espresso has published its results for the year 2000. The main figures are shown in the table below:

Table 1 - ESPRESSO GROUP – 2000 RESULTS

(€ mil)	2000A	Y/y ch %
<b>Espresso: The Group</b>		
Turnover	952.7	+12.3
EBITDA	125.9	-12.3
EBIT	69.9	-30.2
<i>EBIT Margin</i>	7.3%	+214
Net Income	128.7	
<b>Espresso: Traditional Business</b>		
Turnover	922.2	+8.7
EBITDA	187.2	+30.3
EBIT	140.9	+40.7
<i>EBIT Margin</i>	15.3%	
<b>Espresso: Kataweb</b>		
Turnover	30.5	N.M
EBITDA	-61.9	N.M
EBIT	-71.10	N.M
<i>EBIT Margin</i>	N.M	N.M

NM = Not Meaningful. Source: L'Espresso

These figures are in line with our expectations, with the exception of the €154 million in extraordinary items following the sale of 5% of Kataweb to Unicredito. The decision to book the full amount in 2000 was a last-minute move prompted by the company's advisors (the operation is tax neutral).

The 2000 figures are the result of the following trends:

### **Strong growth in the traditional business**

2000 saw robust growth in advertising: La Repubblica +19% (compared to a market average of 15%), radio +38.3%, and local papers +7.4%. Circulation figures were also good, buoyed in part by promotions (primarily L'Espresso).

### **Significant losses at Kataweb**

The main reasons for this negative result are promotions and start-up costs totaling around €45 million, and the devaluation of participations and other extraordinary costs totaling around €27 million. The company has also decided to charge all the costs of the new initiatives to the Income Statement, rather than capitalizing them.

Despite the loss, we must not lose sight of the positive results recorded in terms of page views (253 million page views in January 2001) and daily users (700,000). On the Web solutions front, current orders already account for one-third of total 2001 turnover.

The group's financial position at the end of 2000 showed debt of €61 million (€ 93 million in 1999) as a result of: a) Kataweb capital increase of €158 million, b) investments totaling € 80 million, and c) the acquisition of participations amounting to € 63 million. Of these totals, Kataweb accounts for € 18 million in capex and €63 in financial investments.

## **WHAT TO EXPECT IN THE FUTURE**

The company has confirmed that its strategy is based on consolidation of the traditional business and the development of its fast-growing businesses, namely the Internet, digital TV and radio.

The first two months of the year 2001 show a positive circulation trend (mainly due to promotions) and continuing growth in advertising: +12% for La Repubblica and local papers, and +10% for radio.

### ***Traditional business***

We expect to see the positive trend continue, albeit at a lower rate than in 2000. We forecast growth in the advertising market of between 8% and 10%, and an increase in newsprint prices of 10-15%. On this basis, we are looking for top-line growth of around 8% and an EBIT margin of 15.6% in 2001.

### ***Kataweb***

E-commerce is struggling, online advertising growth is slowing, and investment requirements are increasing, prompting Kataweb to review part of its strategy. After talking to the company, we believe the major changes will be: a) a reduction in top-line growth expectations: annual growth of between 25-30%, compared with the previous estimates of over 100% p.a.; b) postponement of break-even point at EBITDA level to 2003, versus the previous forecast of 2002; c) reduced importance and investments in e-commerce, which is no longer seen as the strongest future source of profitability. As a result of these changes, losses should be cut. We expect negative EBIT of €43 million and €18.8 million in 2001 and 2002 respectively, and break-even point in 2003 (the company expects to break even in 2002, but previous experience counsels caution).

On the basis of our new figures, calculated using the DCF method, we value Espresso at €7.3 per share. The traditional business accounts for € 6 (no change from our previous valuation), and Kataweb for €1.3. The previous valuation of Kataweb was € 3 per share. The reason for this substantial downgrade is not so much the 2000 results, which were more or less expected, but new information on growth, break-even point and the company's review of strategy (its targets are now less ambitious).

We stand by our view that this is not the right time to invest in media stocks. Although Espresso's traditional business is growing, the growth rate will be lower, while the only potential upside we envisage would come from the sale of a stake in Kataweb (the company is looking for a partner,

Italian or foreign, now that the idea of flotation has been shelved); however, this is no more than speculation at this stage.

## EARNINGS FORECASTS

Table 2 - ESPRESSO GROUP – KEY FIGURES 2000A-2003E

(€ mil)	1999	2000A	2001E	2002E	2003E
Turnover	856.88	952.70	1,055.48	1,141.71	1,227.49
EBITDA	143.68	125.31	166.86	209.66	244.65
EBIT	100.22	69.86	112.92	152.68	185.62
Net Profit	25.90	131.53	21.37	52.32	76.99

Source: Company data, Caboto SIM estimates

Table 3 - ESPRESSO TRADITIONAL BUSINESS – MAIN FIGURES 2000A-2003E

(€ mil)	2000A	%	2001E	%	2002E	%	2003E	%
<b>Turnover</b>								
Circulation	294.83	1.5	296.30	0.5	299.26	1.0	303.75	1.5
Advertising	598.82	13.0	672.73	12.3	726.55	8.0	781.04	7.5
Others	28.56	4.0	29.42	3.0	30.45	3.5	31.66	4.0
<b>Total Turnover</b>	<b>922.21</b>	<b>8.7</b>	<b>998.67</b>	<b>8.3</b>	<b>1056.50</b>	<b>5.8</b>	<b>1116.71</b>	<b>5.7</b>
Operating Costs	-485.00	6.4	-524.60	8.2	-558.74	6.5	-595.50	6.6
Personnel Expenses	-225.00	6.1	-236.07	4.9	-249.05	5.5	-262.75	5.5
Other Expenses	-25.00	-31.4	-35.00	40.0	-28.72	-17.9	-24.13	-16.0
<b>EBITDA</b>	<b>187.21</b>	<b>30.3</b>	<b>203.01</b>	<b>8.4</b>	<b>219.98</b>	<b>8.4</b>	<b>234.32</b>	<b>6.5</b>
Depreciation	-46.25	6.4	-47.00	1.6	-48.50	3.2	-49.00	1.0
<b>EBIT</b>	<b>140.96</b>	<b>40.7</b>	<b>156.01</b>	<b>10.7</b>	<b>171.48</b>	<b>9.9</b>	<b>185.32</b>	<b>8.1</b>
<i>EBIT Margin %</i>	15.3		15.6		16.2		16.6	
Exceptional Items	160.00	N.M	0.00	N.M	0.00	N.M	0.00	N.M
<b>EBIT after Except.</b>	<b>300.96</b>	<b>192.6</b>	<b>156.01</b>	<b>-48.2</b>	<b>171.48</b>	<b>9.9</b>	<b>185.32</b>	<b>8.1</b>
Share from Associates	-0.52	-22.2	-0.52	0.0	-0.52	0.0	-0.52	0.0
Leasing	-6.60	-15.1	-7.78	17.8	-7.78	0.0	-7.78	0.0
Net Interest Expenses	-5.05	N.M	-3.76	-25.5	-1.28	-66.0	1.10	-185.7
<b>Pre Tax Income</b>	<b>288.79</b>	<b>218.4</b>	<b>143.95</b>	<b>-50.2</b>	<b>161.91</b>	<b>12.5</b>	<b>178.12</b>	<b>10.0</b>
Taxation	-61.80	28.7	-75.75	22.6	-84.85	12.0	-93.44	10.1
<i>Rate %</i>	21.4	N.M	52.6	45.0	52.4	-96.3	52.5	
<b>Net Income</b>	<b>226.99</b>	<b>431.9</b>	<b>68.20</b>	<b>-70.0</b>	<b>77.06</b>	<b>13.0</b>	<b>84.69</b>	<b>9.9</b>
<i>Net Margin %</i>	24.6		6.8		7.3		7.6	
Minorities	0.20	-111.3	-1.84	-1022.4	-1.88	2.0	-1.92	2.0
<b>Attributable Income</b>	<b>227.19</b>	<b>455.5</b>	<b>66.36</b>	<b>-70.8</b>	<b>75.18</b>	<b>13.3</b>	<b>82.77</b>	<b>10.1</b>

Source: Company data, Caboto SIM estimates

Table 4 - KATAWEB KEY FIGURES: 2000A-2003E

(€ mil)	2000A	2001E	2002E	2003E	2004E
Turnover	30.49	56.81	85.22	110.78	144.01
EBITDA	-61.90	-36.15	-10.33	10.33	20.66
EBIT	-71.10	-43.08	-18.81	0.30	9.08

Source: Company data, Caboto SIM estimates

**DOCUMENT PREPARED BY BCI**

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