La Doria

Corporate outlook

An increasingly healthy outlook

Food & beverages

La Doria's share price is up 72% since we initiated coverage in December 2013. Despite this, we still calculate double-digit upside on both DCF and benchmark analysis. As a result of its very strong nine-month results reported on 13 November, we have upgraded our earnings forecasts for 2014-16 by c 6%, although we highlight that this does not yet reflect the recent acquisition of Pa.fi.al. Srl Group (Pfa), which we expect to be double-digit earnings accretive in its first full year.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/12	578.9	20.9	25.3	6.0	29.4	0.8
12/13	604.4	26.6	45.1	12.0	16.4	1.6
12/14e	624.3	38.6	60.8	16.0	12.2	2.1
12/15e	643.1	42.0	70.0	17.0	10.6	2.3

Note: *PBT and EPS (fully diluted) are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Strong nine-month results prompt forecast upgrades

Underlying net profit for the nine months to 30 September 2014 was up 61.8%, predominantly driven by a +54.9% increase in EBIT and a slight reduction in financial charges. We have upgraded our net profit forecasts for 2014- 2016 by c 6%, due to the nine-month outperformance. Our net profit forecasts are now 7.8%, 9.8% and 10.5% ahead of company targets for 2014-16. However, we expect the company to announce a revised rolling three-year plan in early 2015.

Strong financial and strategic rationale to recent M&A

The acquisition of Pfa, completed in November 2014, has both strong strategic and financial rationale. We await detailed guidance on the acquisition including expected cost and revenue synergies. However, before such synergies we expect the acquisition to be double-digit earnings accretive in the first full year of consolidation.

Valuation: Attractive upside pre acquisition synergies

Based on our upgraded forecasts but before the consolidation of Pfa, our DCF model calculates a fair value of €8.60 per share, an attractive 15.6% upside from the current share price, and a 10% upgrade from our previous €7.80 estimate. Despite material share price outperformance absolute and relative over the past 12 months, we calculate that La Doria still trades at a 13-21% discount to its private label peer group at 10.6x and 5.3x 2015 P/E and EV/EBITDA respectively, which we think makes it continue to look attractive.

10 December 2014

Price	**€7.44**
Market cap	**€228m**

Net debt (€m) at 30 September 2014	82.1
Shares in issue	30.6m
Free float	30%
Code	LD
Primary exchange	STAR Borsa Italia
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	16.1	17.5	92.6
Rel (local)	11.1	25.6	76.9
52-week high/low		€7.4	€3.7

Business description

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

Next event

Full year results	February 2015

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Edison profile page

La Doria is a research client of Edison Investment Research Limited

Investment summary

Company description: A healthy choice

Through the parent company La Doria SpA and its 98.3% subsidiary Eugea Mediterranea, La Doria Group is a leading private label (PL) processor and manufacturer of tomatoes, pulses and fruit-based products. The recent acquisition of Pfa helps to re-weight the portfolio up the value chain with a range of value-added pasta sauces and dressings. Through its 51%-owned UK subsidiary LDH (La Doria) Ltd (LDH), it distributes both its own products and other PL products manufactured by LDH's minority shareholders including canned fish and dried pasta..

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, the family fills three of the six board positions and owns 70% of the group's share capital.

Valuation: Material upside

Based on our upgraded forecasts after the strong nine-month results published on 13 November, our DCF model calculates a fair value share price of €8.6: an attractive 15.6% upside. The key sensitivities to our forecast and DCF valuation are outlined below; however, overall we believe the visibility and outlook is steadily improving both short and medium term. For 2015 pricing for both the tomato and vegetable lines is largely complete, and the costs are now almost fully calculated. Medium term, the balance of supply and demand for Italian tomatoes has greatly improved through legislation, with demand fuelled by the growing consumer preference for PL over branded products, and strong international demand for healthy ingredients of Italian origin.

As further support to our DCF valuation, at 12.2x and 5.3x respectively, La Doria trades at a c 12.6% and 20.8% discount to the peer group for 2015 P/E and EV/EBITDA, which we believe to be unwarranted.

Financials: Strong nine-month results leading to upgrades

Having reported a very strong performance for the nine months to 30 September 2014, Exhibit 1 reflects our material forecast upgrades. However, it is also important to highlight these forecasts do not reflect the acquisition of Pfa, which completed in November 2014, and which we expect to be double-digit earnings accretive in its first full year. We await detailed guidance on the acquisition.

Exhibit 1: Forecast upgrades post nine-month results

	EPS (c)			PBT (€m)			EBITDA (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2014e	56.6	60.8	7.4	35.0	38.6	10.3	52.6	56.0	6.5
2015e	64.8	70.0	8.0	39.5	42.0	6.3	57.4	59.9	4.3
2016e	72.1	77.4	7.4	43.5	46.0	5.7	61.8	64.0	3.6

Source: Edison Investment Research estimates

Sensitivities: Improved visibility to drive less volatility

La Doria's key sensitivities include:

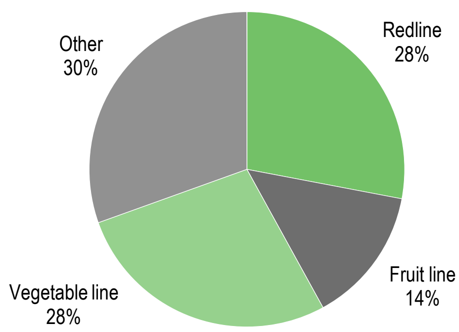
- input cost inflation on the agricultural commodities it processes to manufacture its products;
- the supply/demand balance affecting the achievability of finished goods price inflation;
- consumer consumption patterns and competitive pressures; and
- fx, specifically euro/sterling due to the consolidation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

However, certainly in the short to medium term, we believe the outlook for these sensitivities is improving.

Company description: Leading market share positions

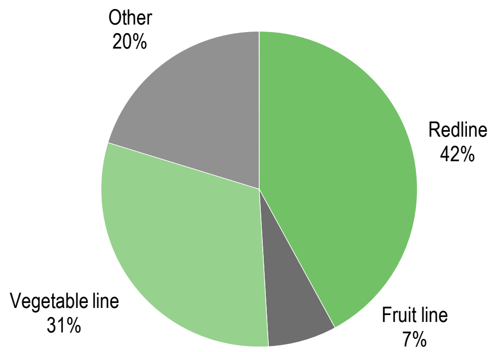
La Doria SpA is the leading Italian producer of tomato-based products – including chopped (c 50%), peeled (c 28%), passata (c 18%) and puree (c 4%) – and processed pulses and vegetables for the domestic Italian and international markets. It is the second-largest producer of fruit juices and beverages in the Italian market. Exhibit 2 and 3 below break down revenues and EBITDA by category.

Exhibit 2: Group revenue split by category (H114)



Source: Company data

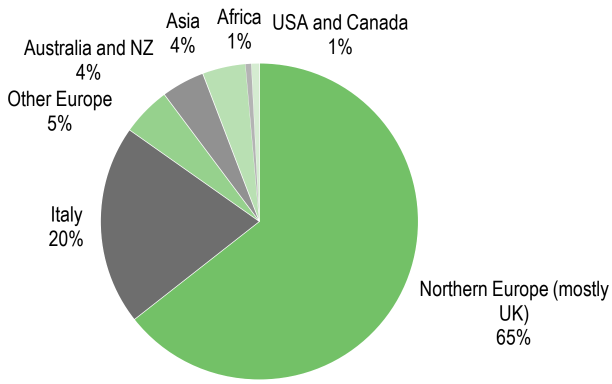
Exhibit 3: Group EBITDA split by category (FY13)



Source: Company data

Exhibit 4 below breaks down revenue by geography. 20% of revenue in the nine months to 30 September was domestic Italian and 80% international. Its largest market by far is the UK (c 60% revenues) gained through its 51% owned subsidiary LDH.

Exhibit 4: Group revenue split by geography (nine months to September 2014)



Source: Company data

Approximately 92% revenues are for the PL segment, with La Doria serving a wide customer base mostly within the Pan European Food retail sector, including Tesco, Sainsbury, Carrefour, Auchan, Selex, Conrad and Waitrose. Its largest customer is Tesco, representing 25% of consolidated revenue. La Doria also has a 'value-added' branded business in the UK under the Cook Italian brand name. Launched in 2011 it still represents a small percentage of group revenue (c 3%), but is fast growing.

With leading market share positions in its largest markets (the UK and Italy), and some of its smaller markets (Japan and Australia), as well as across many of its product categories, La Doria is well positioned to benefit from the increasing consumer preference for high-quality private label products over branded (for more detail see our initiation report published 9 December 2013). In addition, demand for Italian products in some smaller markets is driving revenue growth in these regions well into double digits. Both factors provide a strong structural growth outlook.

Current group financial targets and strategic activities

La Doria outlines its financial targets and its broad strategic activities for a rolling three-year period, usually at the beginning of each financial year, in conjunction with the announcement of the prior year's full-year results. Current business targets published on 26 February 2014 are set out in Exhibit 5 below (they do not include Pfa).

Exhibit 5: Current financial targets 2014-2016 (excl Pfa acquisition)

€m	2013a	2014e	2014e	2016e
Revenue	604.4	640.0	660.0	675.0
growth		5.9%	3.1%	2.3%
EBITDA	43.4	52.5	56.4	60.6
growth		21.1%	7.4%	7.4%
EBIT	31.3	39.1	43.4	47.3
growth		24.8%	11.0%	9.0%
PBT (incl exceptional)	29.2	34.5	38.5	42.3
growth		18.3%	11.6%	9.9%
Net Profit (incl exceptional)	21.2	22.2	24.7	26.8
growth		4.6%	11.3%	8.5%

Source: Company data

While historically performance volatility specifically in the tomato market (red line) has meant that financial targets have not always been met, due to the structural changes within the tomato market outlined in more detail below, since March 2013 financial targets have either been met, exceeded or upgraded, a clear reflection of the improved performance and hence forecast visibility the company now benefits from. We compare our forecasts relative to group guidance in the financials section on page 10 below.

To help achieve these financial guidelines, the company set out the following strategic activities, which we split into growth strategies and efficiency strategies.

Growth strategies

- Further growth in markets where La Doria is a current market leader, including the UK, Japan, Australia and Germany, which have all reported growth in Italian tomato purchases well into double digits over the past five years.
- Improving market share in Italy across its product range, taking advantage of the growing market share of private label over branded products.
- Growth in markets where La Doria is currently under-represented (US and France), through new supply agreements or increasing volumes through existing distributors.
- The development of new markets, with particular focus on emerging markets. In 2012 La Doria joined a consortium of other leading Italian food companies, representing a wide range of specialities and food categories, to promote the quality of Italian food in emerging markets. Although currently small, growth rates in excess of 100% in some of these markets suggest the demand for healthy Italian cuisine is quickly spreading across the globe.
- Extension of higher value-added product ranges; these include ready-made sauces, soups and minestrones, organic pulses and enriched baked beans, which are margin enhancing and have the added benefit of reducing volatility.
- Further use of innovative packaging with a lower environmental impact.
- Increase the market share of Cook Italian. In mid-2011 La Doria launched a range of tomato based products under the 'Cook Italian' range in the UK, again capitalising on the healthy eating characteristic attributed to Italian cuisine.

Efficiency strategies

- Increase the number of long-term contracts with strategic customers, improving volume and pricing visibility, thus helping to reduce profit volatility.
- Simplify the supply chain through direct relations with producers of strategic raw materials, building partnerships and long-term contracts with a smaller number of strategic suppliers.
- Improving efficiency and promoting sustainable development through reducing energy, water consumption and waste, and increasing the use of green energy in its production processes.
- Analysis of M&A opportunities to improve EBITDA margins and reduce volatility.

The red line

As reflected in Exhibits 2 and 3, which show the breakdown of sales and EBITDA by category (before the consolidation of Pfa), tomato-based products (the red line) are the most important individual contributor to group EBITDA.

In our initiation report (published 9 December 2013) we highlighted a number of favourable structural changes that had occurred in the Italian tomato market, shifting the balance of supply and demand in favour of processors. This not only improved the outlook for profitability for La Doria's red-line business, but also, we believe, reduced performance volatility, thus enhanced forecast visibility.

In brief, on the supply side these changes include:

- The implementation of the European Fruit and Vegetable reform in 2011, which materially reduced tomato production in Italy from 5.65m tonnes in 2009 to 4.1m tonnes in 2013 (-27%). This significantly improved the supply and demand imbalance within the Italian tomato industry, reducing excess levels of stock, improving the stability of pricing.
- Sector consolidation has led to a 40% reduction in the number of companies operating in the Italian tomato industry over the last 10 years. This has not only resulted in volume uplifts, but has also tended to result in a more rational pricing environment among the remaining more profitable industry players.

And on the demand side:

- The continued growth of private label market share across its key geographies and categories, with c 92% of group revenues from private label products.
- The increasing demand for 'Italian' tomatoes, the export of Italian tomatoes grew by 31% 2008-12 (Source: Eurostat Data 2013). Approximately 80% of La Doria revenues are exported.

We also outlined a number of internal strategies that, with the external structural changes outlined above, have enhanced profitability, reduce volatility and thus improved performance visibility. These include:

- Adding value to the product mix through enhanced recipe formulations and packaging solutions. These include increasing the mix of 'value-added' ready-to-cook soups and pasta sauces, thus reducing exposure to the lower value added peeled tomato category and increasing its exposure to higher margin combi-safe packaging solutions, away from the more traditional glass and can formats.
- A consistent drive for improved profitability through more focused procurement, fixed cost efficiencies and volume leverage.

The 2014 campaign and outlook for 2015 and beyond

The annual tomato processing campaign runs between the end of July and early October. La Doria negotiates annual contracts, hence prices for the following year with its customers (most of whom are the large European supermarket chains) just before, or during the processing season. These prices are then applied from the point of negotiation until the next pricing round the following year. This gives La Doria good visibility over the outlook for group profitability for Q4 of the current year, and the first three quarters of the following financial year, as by that stage both the volume and pricing of contracts has been established and the total cost of the processing campaign to which the revenues will be attributed to is also broadly known.

Overall, the 2014 tomato processing campaign was an improvement on the previous year. A total of 4.9m tonnes of tomatoes were processed nationally, which, with stock levels already at a record low, has been matched by national and international demand. The total cost of the 2014 campaign was marginally down on last year, a reduction in the raw material cost of tomatoes, tin, labour and energy, was slightly offset by a the lower industrial yield achieved versus the 2013 campaign. However with processing yields lower across the industry, stock levels running into next year remain at historically low levels. With 100% of annual contracts for 2015 now signed, overall prices year on year look to be stable to marginally down, a strong result given the slightly lower cost of the production campaign. In addition La Doria has won a number of new contracts (a few material) in its domestic and international markets, giving a positive outlook for volumes, and hence fixed cost leverage.

The combination of the volume uplift from new contracts, steady to slightly declining prices, but lower cost of production makes for a positive outlook for profitability for the first three quarters of 2015. Going into the 2015 processing campaign, existing stock levels remain at historic lows, giving improved visibility around the medium-term outlook into the end of 2015 and 2016, and thus further confidence around the group at least meeting, if not (as reflected in our own forecast) exceeding its current financial targets for 2014-2016.

The vegetable line

As Exhibits 2 and 3 above show, the vegetable line (mainly pulses and beans) accounted for 28% revenues in H114, and 31% EBITDA for 2013. Private label vegetables had a 59.6% market share in Italy in 2013, growing by 230bp in the year, with La Doria representing 35% of the total private label market (source: Symphony IRI). In the UK La Doria’s key product in the category is private label baked beans, where its subsidiary LDH enjoys 52% share of the private label market (source: Kantar Worldpanel Data).

The 2014 season saw a reduction in the cost of key raw materials for the vegetable line after a significant increase in 2013. Similar to the red line, the outlook for the vegetable line is positive with volumes up as a result of new contract wins. While pricing is expected to be stable to slightly down, the reduced cost of raw materials and increased production efficiencies mean that levels of profitability are expected to stay at the elevated levels reported in 2013 (8.2%, +420bp on 2012).

The vegetable line is an area that La Doria is keen to grow organically, like the more value-added products within the red line, the vegetable line offsets the materiality of the more commoditised red line products. In addition, production in the vegetable line can occur throughout the year, rather than being concentrated within the three months of the tomato processing campaign; so growth in the vegetable line improves the overall industrial efficiency of the group.

The fruit line

Accounting for 14% revenues in H114, but just 7% EBITDA in FY13 as shown in Exhibits 2 and 3 above, the fruit line has suffered years of underperformance partly due to a collapse in demand for fruit juices in the domestic Italian market during the recent period of economic turmoil, and in 2013 a significant increase in raw material costs. However, within a market that shrunk by volume and value by 6.2% and 6.0% in 2013 (source: Symphony IRI), private label volume and value share gained 160bp and 200bp of the total fruit juice market to 42.9% and 37.2% share respectively (source: Symphony IRI), within this La Doria has c.35% of the private label market.

So far in 2014, although the negative pressure on demand due to the economic backdrop is thought to be flattening out, the poor summer weather in Italy has meant that industry volumes in Q3 were down a further c 6% year on year. However, this has been offset by significant reduction in the cost of fruit juice nectars year on year after a sharp increase in 2013, and a reduction in the cost of sugar; hence the total cost of production has been significantly lower year on year. Contracts with major retailers are closed; however, with a number of pricing contracts agreed early in the growing season, La Doria is hopeful that on average, there will not be a material reduction in price year on year, having not been able to pass on strong raw material price increases to retailers in previous years. As such the group hopes to maintain profitability in the sector for 2014 and into 2015.

LDH (La Doria)/Other

La Doria's 51% owned subsidiary LDH is now the leader in the British market for private label tomato based products, pulses, dry pasta and canned tuna. These 'other' categories accounted for 30% sales in H114, and 20% EBITDA for FY13 as shown in Exhibits 2 and 3. The remaining 49% is owned by a combination of Thai Union Group, Di Martino, and management. Importantly LDH's three major shareholders together supply the majority of LDH's ranges across tomatoes, pulses, tuna and pasta.

LDH's main clients include the large supermarket chains in the UK, with Tesco and Sainsbury accounting for c 25% and c 10% of consolidated group sales respectively; hence LDH is currently exposed to the highly competitive environment within the UK food retail sector. However, we believe with 40% share in private label tomato market in 2013 and 52% of private label baked beans in the same year (source: Kantar WorldPanel Data) the group's strong market share position provide a level of assurance, given the importance of consistency and quality of supply of private label products to the retailers and the difficulties they would face changing a supplier given the volumes that LDH distribute to them. As further protection from the current unfavourable industry dynamics in the UK food retail sector, the company is looking to leverage existing relationships with the fast growing discount retailers in other markets to grow share within this channel in the UK.

The acquisition of Pa.fi.al. Srl Group

The announcement on 16 October of the agreement to acquire the Pfa, the holding company for Delfino S.p.A and Althea S.p.A, in our view has a strongly positive impact both strategically and financially. The acquisition completed on 19 November 2014.

Pfa's product portfolio focuses primarily on Italian recipe ready-made sauces (tomato based 57%, meat based 29%, pesto 9%, other 5%), and a dressing business, and operates from two production facilities in Parma and Acerra-NA.

Financial rationale

With an agreed consideration of €65.2m (subject to possible working capital adjustments and the group's closing financial position at the point of completion), the deal looks attractive on reported trailing 2013 revenue and EBITDA multiples of 0.91x and 7.9x respectively. However, with slight revenue growth forecast for 2014, and further margin expansion, on a current forecast basis the deal looks even more attractive.

The acquisition is to be 40% funded out of existing liquidity and 60% by a new loan agreement with Intesa Sanpaolo. The incremental interest charge is expected to be just €1m, making the deal immediately earnings enhancing in low-double digits, pre any synergies, the significant opportunity for which we outline below.

Total group debt is expected to increase to c €160m at completion or 2.4x forecast consolidated net debt/EBITDA for 2014 adjusted to reflect a full year's contribution from Pfa, rather than the six weeks consolidated from the expected date of completion. The group expects to have paid this down to a level below 2x in two years.

Strategic rationale

Aside from the clear financial rationale for the deal, the over-riding strategic rationale is to further shift the production mix of the group to non-seasonal and higher value added products, thus improving operating margins, reducing volatility and thus improving forecast visibility.

Revenue synergies

Similar to La Doria pre acquisition, 73% of Pfa's revenues are international, mostly from Europe. It is present in most of the markets that La Doria is; however, management has identified opportunities to strengthen La Doria's historic position in Belgium, Germany and France and Pfa's positions in the UK, Italy, Australia/New Zealand and Japan through leveraging each other's existing platforms. In addition, there is also is a significant opportunity to expand their respective product categories across each other's existing retail client basis.

Cost synergies

While not explicitly guided by the company, we believe there is significant scope for cost synergies from the acquisition through:

- Combined raw material purchasing
- Improved capacity utilisation across the seven plants under consolidated ownership
- Combined overhead cost reduction

Finally we highlight how the acquisition fulfils a number of the strategic objectives detailed on page 4 above, including:

- Growing market shares in countries it is currently under represented
- Driving further growth in countries where La Doria is already a leader
- Extension into higher value added product ranges
- Reduce emphasis on seasonal tomato processing campaign

Valuation

Given the upgrade to our forecasts for 2014-2016 detailed below, our discounted cash flow calculates a share price of €8.6 a share, 16% upside from the current share price (€7.44), and a 10% upgrade from the €7.80 previous target. Other than the changes in forecasts outlined above, we have made no changes to our core DCF assumptions. We have used a calculated WACC of 8%.

Despite the material outperformance of La Doria's share price over the last year (+67.7% relative to its primary exchange the STAR Borsa Italiana +67.6%), Exhibit 6 below re-enforces the attractive upside we believe La Doria's share price still has, as it trades at a 13-21% discount to peer group on 2015 P/E and EV/EBITDA respectively (before the consolidation of Pfa).

Exhibit 6: benchmark valuation of La Doria relative to peer group

	PE		EV/EBITDA		Dividend Yield	
	2014	2015	2014	2015	2014	2015
Mc Bride	11.2	8.7	4.7	4.2	6.4%	6.5%
Fyffes	8.6	8.6	6.3	6.4	2.3%	2.9%
Parmalat	20.2	18.6	8.2	7.6	1.7%	1.8%
Bonduelle	10.8	9.4	6.0	5.7	2.1%	2.4%
Valsoia	16.0	14.6	9.3	8.4	2.8%	3.0%
Peer group Average	13.4	12.0	6.9	6.5	3.1%	3.3%
La Doria	12.1	10.5	5.8	5.1	2.3%	2.4%
Premium/(discount) to peergroup	-9.7%	-12.6%	-16.2%	-20.8%	-25.9%	-27.2%

Source: Edison Investment Research estimates and Bloomberg consensus. Note: Prices as at 8 December 2014.

We note that given the strength of its share price over the last 12 months, La Doria's dividend yield is now lower than the peer group. We would not expect the company to increase its payout ratio in the short term, given its priority to pay down the debt associated with the Pfa acquisition. However given the cash-generative nature of the group, once net debt/EBITDA is below 2x, we believe there is an opportunity for it to be increased to raise the yield at least in line with the peer group.

Financials

Q3 and nine-month results

On 13 November, La Doria reported a very strong set of Q3 and nine-month results ahead of budget, which, given the relative materiality of Q3 to annual performance, has led us to upgrade our forecasts for 2014, 2015 and 2016, as detailed in Exhibit 7 below.

Consolidated revenue for nine months of €467.6m was 3.3% ahead of the prior year, although only 0.4% on a like-for-like basis once the exchange gain for translating revenue from LDH is removed. Strength came from revenues in the red line (+12.4%), and the vegetable line (+9.7%), with the fruit line declining 5.8%. The weakness of the fruit line was partly due to a decline in industry volumes in the UK canned fruit sub-sector, as well as weakness in the domestic Italian juice market due to the continued weak macroeconomic backdrop. However, some early signs of stabilisation were starting to show through in Q3, with revenues down just 1.3% in the quarter despite some unseasonably cool summer weather. The other line, namely canned tuna, pasta and pet food, distributed by LDH, struggled, with revenues down 4.3%, this was mainly due to structural the weakness in the canned fruit subcategory but also a material, but temporary, weakness in the PL tuna subcategory. UK food retailers have been early adopters of line-caught versus net caught tuna for their PL ranges, which has had the effect of materially increasing PL prices, while the branded competitors have mostly delayed the adoption until it is mandatory at the end of 2015, keeping branded prices down over the short term. Hence the situation is unlikely to improve until FY16. Given that the loss of volume in the tuna category has been c 20%, LDH has done well to offset this weakness with revenue and market share gains in other areas, namely tomatoes and pulses, and the introduction of new categories (pasta sauces), which the acquisition of Pfa will further contribute to.

Despite the weakness of the UK as outlined above, international markets were still the key contributor to revenue growth, reporting revenues up 4.8%, with material contributions from Germany (up 48%), Australia/New Zealand (up 33%), Japan (up 15%) and the Scandinavian countries (up 15.5%). Revenues in the domestic Italian market declined slightly by 2%.

The outperformance of the group's higher-margin red and vegetable lines, in combination with its ability to gain positive output pricing, despite the reduction the prices of a number of key raw material and packaging items, and the group's continued drive towards industrial efficiency, cost containment, and hence fixed-cost leverage, led to a material improvement in both reported EBITDA, €43.9m (+43.5%), and percentage margin, up 260bp to 9.4%.

EBIT of €34m for the first nine months was up 54.8%, with EBIT margin up 240bp at 7.3%. Reported group net profit of €15.7m was 40.3% ahead of last year. However, adjusted for some positive one-off tax adjustments in the prior year reported numbers, underlying net profit was up 61.8%.

Despite the seasonal fluctuation in inventories as a result of the tomato processing campaign occurring during Q3, working capital was only up €6.7m relative to H114, and down €9.4m relative to FY13 due to a material step up in trade payables, reflecting both increased volumes purchased, but also an underlying improvement in payment terms. As a result net debt at 30 September was €82.1m, slightly below the €82.3m level reported at June 2014.

Net equity amounted to €174.3m, an increase from €165m at the end of June 2014 and €153.3m at 31 December 2013.

Edison forecasts

As a result of the very strong performance in the first nine months we have materially upgraded our profit forecast for 2014 to 2016, as Exhibit 7 below shows.

Exhibit 7: Forecast upgrades 2014-2016

			2014			2015			2016
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	643.7	624.3	-3.0%	669.4	643.1	-3.9%	696.2	662.4	-4.9%
EBITDA	52.6	56.0	6.5%	57.4	59.9	4.4%	61.8	64.0	3.6%
PBT	35	38.6	10.3%	39.5	42.0	6.4%	43.5	46.0	5.9%
Net Profit	22.7	23.9	5.5%	25.5	27.1	6.3%	28	29.6	5.7%

Source: Edison Investment Research estimates

We have marginally downgraded our revenue forecasts, in the most part due to the lower than expected revenues from LDH for reasons outlined above. However, we have upgraded our EBITDA, EBIT and net profit forecasts, driven predominantly by the strong gross margin performance for the first nine months of 2014 (+290bp), and the impact that has on FY14, and future years.

Exhibit 8 below shows how our profit forecasts are now ahead of current company targets, however we emphasise again that since March 2013, La Doria has only upgraded targets and guidance, driven in part by the improved structural outlook for the Italian tomato market, but also by the success of internal strategies to drive revenue growth and reduce costs.

Exhibit 8: Difference between current company targets and Edison forecasts

			2014e			2015e			2016e
	La Doria	Edison	difference	La Doria	Edison	difference	La Doria	Edison	difference
Revenue	640.0	624.3	-2.4%	660.0	643.1	-2.6%	675.0	662.4	-1.9%
EBITDA	52.5	56.0	6.7%	56.4	59.9	6.3%	60.6	64.0	5.7%
PBT	34.5	37.0	7.2%	38.5	42.0	9.2%	42.3	46.0	8.9%
Net Profit	22.2	23.9	7.8%	24.7	27.1	9.8%	26.8	29.6	10.5%

Source: Company data and Edison Investment Research estimates

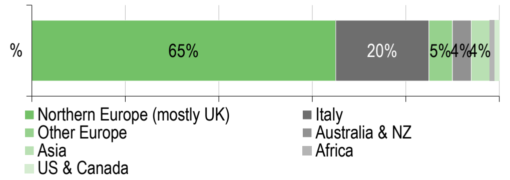
It is also important to note that these forecasts and targets are before the consolidation of Pfa, which, as we highlight above, we believe is likely to drive double-digit earnings accretion in the first full year of ownership, before synergy benefits. We await company guidance on the impact of the acquisition.

Exhibit 9: Financial summary

€ms	2012	2013	2014e	2015e	2016e
December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	578.9	604.4	624.3	643.1	662.4
Cost of Sales	(501.7)	(521.2)	(527.8)	(542.0)	(556.6)
Gross Profit	77.2	83.2	96.6	101.1	105.8
EBITDA	36.6	43.4	56.0	59.9	64.0
Operating Profit (before amort. and except.)	25.5	31.3	43.2	46.9	51.0
Intangible Amortisation	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
FX Gain / (loss)	(0.5)	2.5	(1.6)	0.0	0.0
Operating Profit	24.9	33.8	41.6	46.9	51.0
Net Interest	(4.6)	(4.7)	(4.6)	(4.9)	(5.0)
Profit Before Tax (norm)	20.9	26.6	38.6	42.0	46.0
Profit Before Tax (FRS 3)	20.3	29.2	37.0	42.0	46.0
Tax	(7.7)	(7.9)	(13.1)	(14.9)	(16.4)
Profit After Tax (norm)	12.6	19.7	23.9	27.1	29.6
Profit After Tax (FRS 3)	12.6	21.2	23.9	27.1	29.6
Average Number of Shares Outstanding (m)	28.5	29.5	30.6	30.6	30.6
EPS - normalised fully diluted (c)	25.3	45.1	60.8	70.0	77.4
EPS - (IFRS) (c)	27.5	52.5	61.5	70.9	78.4
Dividend per share (c)	6.0	12.0	16.0	17.0	18.0
Gross Margin (%)	13.3	13.8	15.5	15.7	16.0
EBITDA Margin (%)	6.3	7.2	9.0	9.3	9.7
Operating Margin (before GW and except.) (%)	4.4	5.2	6.9	7.3	7.7
BALANCE SHEET					
Fixed Assets	115.1	114.8	120.3	117.3	114.3
Intangible Assets	4.0	4.0	3.5	3.0	2.4
Tangible Assets	99.2	98.9	104.9	102.5	100.1
Investments	12.0	11.9	11.9	11.9	11.9
Current Assets	321.0	336.1	359.5	386.2	415.6
Stocks	188.1	194.1	192.6	197.8	205.9
Debtors	90.8	89.0	101.8	106.1	109.3
Cash	19.6	27.9	40.1	57.2	75.3
Other	22.6	25.1	25.1	25.1	25.1
Current Liabilities	(236.6)	(214.8)	(224.9)	(226.9)	(229.5)
Creditors	(135.9)	(129.2)	(139.3)	(141.2)	(143.8)
Short term borrowings	(100.6)	(85.7)	(85.7)	(85.7)	(85.7)
Long Term Liabilities	(63.6)	(82.8)	(82.8)	(82.8)	(82.8)
Long term borrowings	(36.9)	(50.7)	(50.7)	(50.7)	(50.7)
Other long term liabilities	(26.7)	(32.1)	(32.1)	(32.1)	(32.1)
Net Assets	135.9	153.3	172.1	193.8	217.7
CASH FLOW					
Operating Cash Flow	22.3	24.4	40.2	37.5	38.9
Net Interest	(4.6)	(4.7)	(4.6)	(4.9)	(5.0)
Tax	0.0	0.0	0.0	0.0	0.0
Capex	(12.0)	(8.3)	(18.3)	(10.0)	(13.0)
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Financing	1.0	1.8	0.0	0.0	0.0
Dividends	(2.2)	(3.7)	(5.1)	(5.4)	(5.8)
Net Cash Flow	4.4	9.5	12.2	17.1	15.1
Opening net debt/(cash)	122.4	118.0	108.5	96.3	79.2
HP finance leases initiated	0.0	0.0	0.0	0.0	0.0
Other	0.0	(0.0)	0.0	(0.0)	0.0
Closing net debt/(cash)	118.0	108.5	96.3	79.2	64.1

Source: La Doria accounts, Edison Investment Research estimates

EDISON

Contact details	Revenue by geography
Via Nazionale 320 84012 Angri Italy +39 081 516611 www.gruppoladoria.com	

CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS 2010-2014	16.5%	ROCE 2013	10.4%	Gearing 2013	0.5	Litigation/regulatory	○
EPS 2012-2014	54.8%	Avg ROCE 2010-2014e	9.8%	Interest cover 2013	6.7	Pensions	○
EBITDA 2010-2014	10.1%	ROE 2013	10.8%	CA/CL 2013	1.6	Currency	◖
EBITDA 2012-2014	25.8%	Gross margin 2014e	15.5%	Stock days 2013	117.2	Stock overhang	○
Sales 2010-2014	8.9%	Operating margin 2014e	7.2%	Debtor days 2013	53.8	Interest rates	◖
Sales 2012-2014	3.8%	Gr mgn / Op mgn 2014e	2.15	Creditor days 2013	78.0	Oil/commodity prices	●

Management team

CEO : Antonio Ferraioli	CFO: Alberto Festa
Antonio Ferraioli joined the company in 1974. He has been CEO since 1984, and is a member of the founding Ferraioli family.	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	10.55
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

Fyffes(FFY.ID), McBride (MCB.LN), Parmalat (PLT.IM), Bonduelle (Bon.EN),Valsoia (VLS.IM)