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## 2020 Q1 RESULTS CONFERENCE CALL

May 13th, 2020

# Forward looking statement

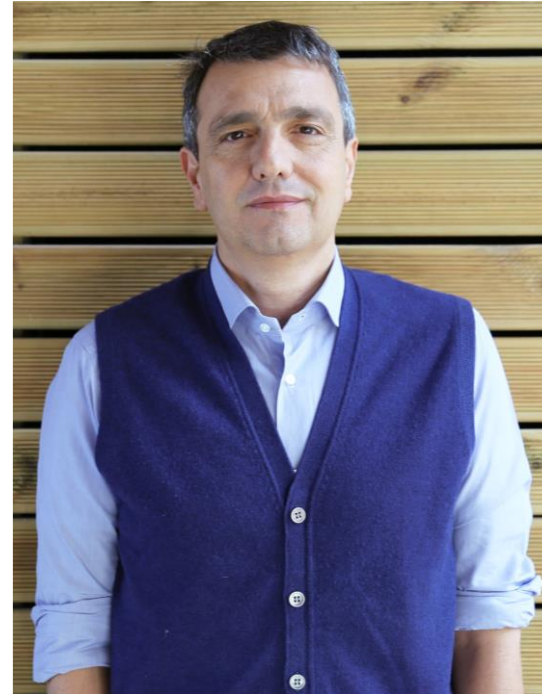


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**ALESSANDRO CATTANI**  
Chief Executive Officer



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**VALERIO CASARI**  
Chief Financial Officer

*Market leader (>25% mkt share) in the strategic IT supply chain for Italy and Spain*

## SOLID FOUNDATION

### Q1 2020

- Sales: +4%
- ROCE: 8.7%
- Net Financial Debt: 127 M€

### FY 2019

- Sales: +10%
- ROCE: 9.8%
- Cash: 272 M€

**Business continuity ensured in all geographies thanks to the activation of contingency plans**

**Liquidity risk management policy based on the utmost prudence**

**Adequate financial solidity and flexibility**

## 2020 CHALLENGE

**Full business continuity throughout the lockdown period**

- 100% smartworking since March 9, 2020
- Protocols aimed at protecting employees

**Soft current trading**

- Trading started to be impacted by Covid-19 from late March
- Sales in April down -19% due to weak demand and shortage of products
- IT distribution down -14%

**Ad hoc initiatives on costs, dividend, buy-back to furtherly strengthen liquidity profile**

**Next months**

- **Uncertainty** on FY 2020 Covid-19 impact on fundamentals also due to business strong seasonality (Q4 weight of approx. 33-35%)

## MID TERM STRATEGIC PILLARS

- Focus on **Customer Satisfaction**
- **Consolidation of leadership** in the Iberian Region
- Implementing **business models** with added-value boost:
  - ✓ Advanced Solutions
  - ✓ XaaS
  - ✓ Outsourcing
- **New markets**
  - ✓ White Goods
  - ✓ Robotics, A.I., Electrical Mobility, 3D Printing

# Solid Foundation





## Q1 2020: 914 M€ (+4% vs 875 M€ in Q1 2019)

596 M€ Italy	3% ▲	492 M€ IT Clients	-1% ▼	522 M€ IT Reseller	5% ▲
298 M€ Spain	6% ▲	294 M€ Consumer Electronics	21% ▲	384 M€ Retailer/E-tailer	6% ▲
20 M€ Other	25% ▲	127 M€ Advanced Solutions	-7% ▼		

## FY 2019: 3,945 M€ (+10% vs 3,571 M€ in FY 2018)

		MKT			MKT			MKT
2.5 B€ Italy	10% ▲	8% ▲	2.0 B€ IT Clients	10% ▲	2% ▲	2.1 B€ IT Reseller	5% ▲	7% ▲
1.4 B€ Spain	6% ▲	6% ▲	1.4 B€ Consumer Electronics	15% ▲	5% ▲	1.9 B€ Retailer/E-tailer	16% ▲	8% ▲
73 M€ Other	29% ▲		0.6 B€ Advanced Solutions	1% ▲	3% ▲			

***14<sup>th</sup> consecutive quarter of y-o-y sales growth***  
***Strong EBIT performance (+24%)***

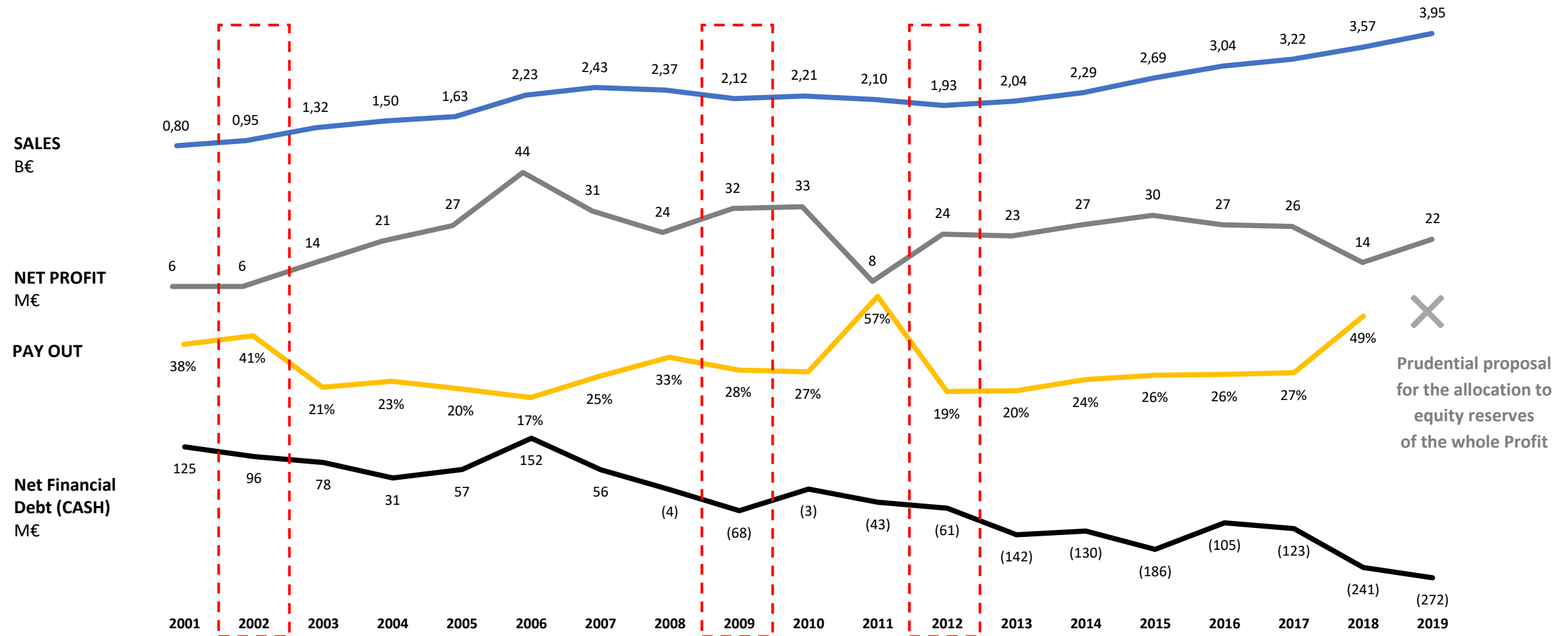
M€	Q1 2020	Q1 2019	FY 2019	FY 2018
Sales	913.8	875.5	3,945.4	3,571.2
EBIT	8.3 (0.91%)	6.7 (0.77%)	41.1 (1.06%)	23.7 (0.66%)

***6<sup>th</sup> consecutive quarter of ROCE sequentially above corporate WACC***

M€	31/03/20	31/03/19	31/12/19	31/12/18
Cash Conversion Cycle (Days)	20	27	23	27
ROCE (%)	8.7%	8.1%	9.8%	9.4%
Net Financial Debt (Cash)	127.1	247.1	(272.3)	(241.0)
Net Financial Debt (Cash) pre-IFRS 16	20.4	168.6	(381.1)	(241.0)

# Historical stable flow of profitability since 2001 even in market downturns

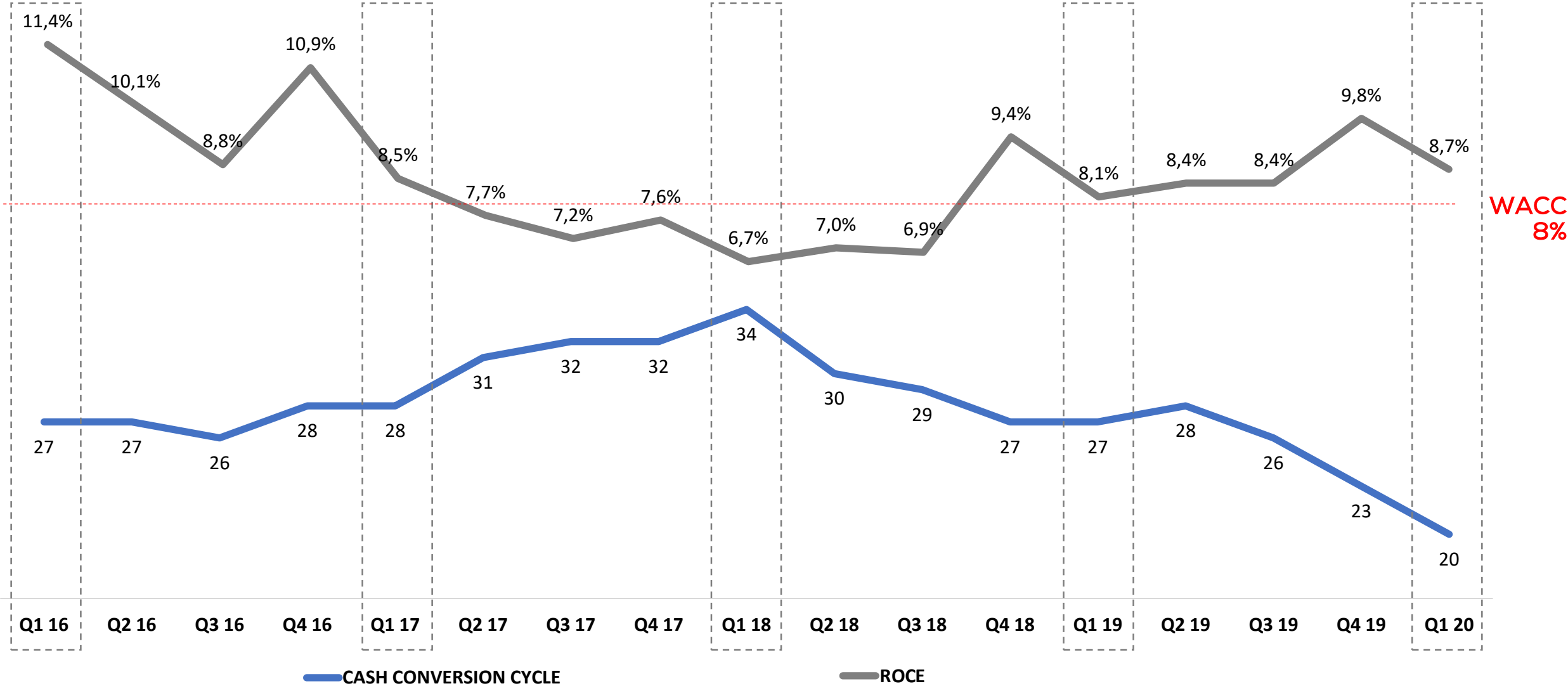
Strong Investor focus and financial discipline to enable a 25% pay-out dividend policy  
440 M€ of cumulated Net Profit since 2001 / 108 M€ of cumulated Dividends paid





# ROCE above WACC since Q4 2018

## WC cash cycle: 20 days, best performance ever



# 2020 Challenge

## Facing Covid-19 effects



## #1

### Technological and operational controls developed over time to deal with different emergency situations

- ✓ Full business continuity throughout the lockdown period
- ✓ 100% smartworking since March 9, 2020
- ✓ Strict safety protocols and working practices aimed at protecting employees in back-offices, centralized logistics and cash&carry network
- ✓ Experience in Italy capitalized to quickly activate similar measures in other countries

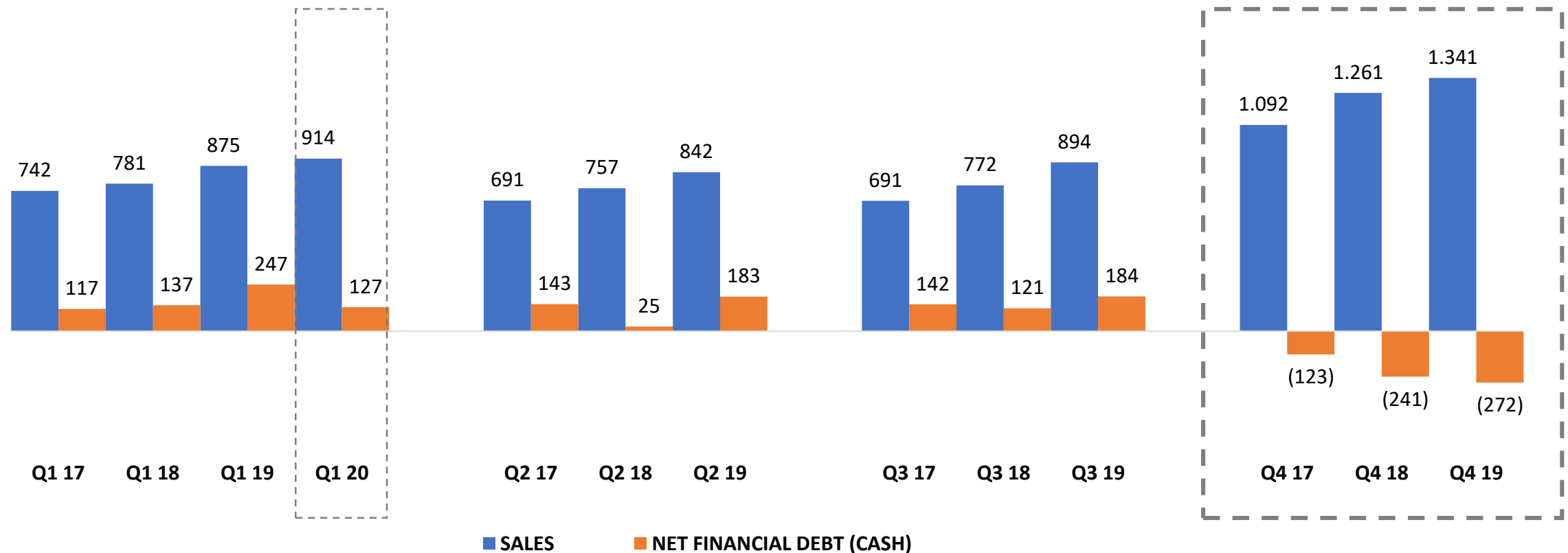
## #2

### Liquidity risk management based on the utmost prudence along the years thus translating into adequate financial soundness and flexibility

### *A series of actions were planned and activated since late March*

- ✓ to **furtherly control costs** from the second quarter onwards, whilst maintaining the ability to meet business recovery when lockdown measures will be eventually lifted
- ✓ to ensure optimal management of working capital mainly through the definition of **deferred payment schemes** with the major suppliers
- ✓ to propose to the shareholders' meeting **to renounce to the distribution of 2020 dividends and to revoke the buy-back plan** approved on 8 May 2019
- ✓ to **furtherly strengthen** an already solid financial structure

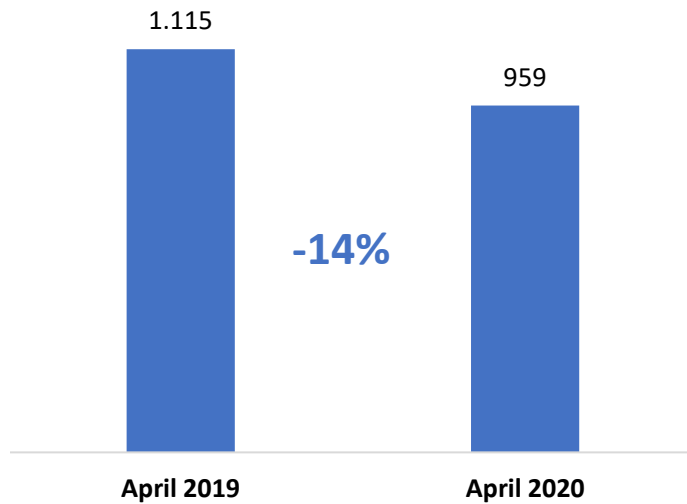
*Seasonality of business entails sales concentration in Q4  
Q4 end-period WC and NFP typically stand at the lowest level of the year*





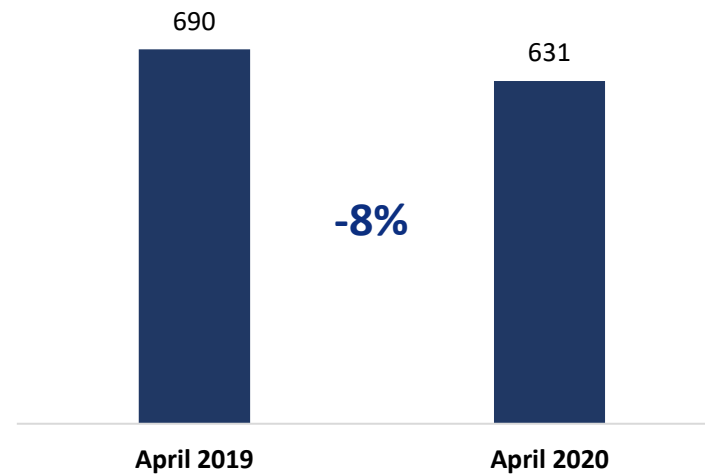
- ✓ The escalation of the pandemic and the progression of restrictions on mobility and industrial activities caused a general shock on demand
- ✓ Trading started to be impacted by Covid emergence from late March, initially in Italy and then in Spain and Portugal
- ✓ Sales in April down -19% being negatively impacted by weak demand and shortage of products especially in notebooks and smartphones
- ✓ Supply chain disruptions mainly in Far East locations gradually normalising: no major effect on product availability expected after May
- ✓ Current estimates on impact of Covid-19 on GDP in Italy, Spain and Portugal in the range between -9/-10% for FY 2020
- ✓ Q2 is expected to be hardly affected although still in an uncertain extent
- ✓ Recovery depending not only on the duration of the lockdown measures and timing of return to normality (Italy, Spain and Portugal are currently re-opening some activities and planning to furtherly lift some of the restrictive measures) but also to the effectiveness of expansion fiscal policies decided by local authorities
- ✓ In the next weeks, as far as the economic scenario shall become clearer, we will update on FY 2020 outlook with the right level of reliability.

## TOTAL MARKET TREND

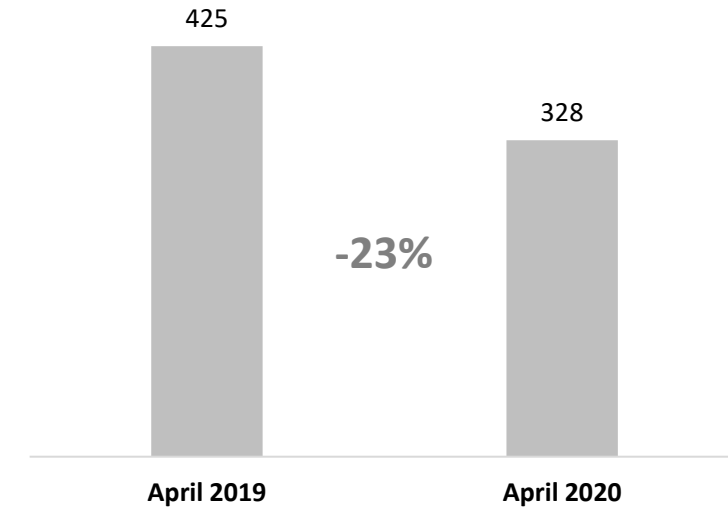


## MARKET TREND BY CLIENT

### IT RESELLER



### RETAILER / E-TAILER



***IT retailer not able to off-set “core” phisycal business  
by chasing e-commerce booming***



# Strategy



Customer Satisfaction	Consolidating leadership in the Iberian Region	Increase Profitability	Address new markets
<i><b>Providing the best Customer Satisfaction:</b> sharply improving the level of CS raising the switch-cost for customers thus positively impacting overall profitability</i>	<i><b>Achieving size in Portugal</b> both through organic growth (HR, logistics and selection of the best vendors) and through M&amp;A</i>	<i>Pushing for a higher weight of <b>Advanced Solutions</b> business</i>  <i><b>XaaS:</b> leveraging our web platform to be an aggregator for IaaS, SaaS, MPS and DaaS contracts</i>	<i><b>White Goods</b> opportunity as far as “tier-2 model” spread into the industry</i>  <i>Be ready to enter markets such as <b>Robotics, AI, Electrical Mobility, 3D Printing</b></i>

- ✓ The Cloud market is quickly becoming one of the hottest growth opportunity in the Advanced Solutions market segment.
- ✓ The pressure on delivering Smartworking solutions is impacting not only the IT Client space, with a surge in notebooks and tablets demand, but the IT infrastructure as well with a growing need of videoconferencing systems, collaboration software and cybersecurity products.
- ✓ Recent announcement from Microsoft about the launch of 1.5 BN€ “Ambizione Italia #DigitalRestart” plan to support the “cloudification” process in Italy demonstrates the strong interest of big tech companies in those countries - Italy and Spain among the others - where digital divide is still both a big challenge and a big opportunity.
- ✓ End-customers will be short of liquidity but in dire need of a modern IT infrastructure to cope with the new socially distanced world awaiting, and the consumption model will turn into an even more appealing opportunity.
- ✓ Our strategy consists in assuming the role of “pure” aggregator/enabler thus enlarging the potential of our B2B marketplace ([www.esprinet.com](http://www.esprinet.com)).
- ✓ We are working on a number of initiatives in both the cloud provisioning platform space, the DaaS-Device As A Service business model as well as pushing hard to enhance our current portfolio of cloud solutions.



# Financials



- ✓ Strong quarterly results still non affected by Covid-19 outbreak and sustained by operational continuity throughout all geographies thanks to business continuity and contingency plan put in place since the very beginning.
- ✓ Sales up +4% mainly due to positive performance in Spain (+6%) and Portugal (+45%); Italy's growth more moderate (+3%)
- ✓ Top-line performance positively impacted by strong momentum in smartphones, smartworking and remote learning-related products (PCs, tablets, consumer printers).
- ✓ Excellent operating profitability:
  - *Gross Profit at 42.3 M€ (+3%), with GP% at 4.63% (4.68% in Q1 2019)*
  - *EBIT at 8.3 M€ (+24%) with EBIT% at 0,91% (0.77% in Q1 2019)*
- ✓ Net income up 15% at 3.9 M€ also benefitting from a reduction in financial expenses of 0.7 M€ due to both lower use of average bank debt and lower gross cost of funding.
- ✓ ROCE-Return on Capital Employed at 8.7%, sequentially down as expected from 9.8% but significantly up year-on-year compared to Q1 2019 level of 8.1%
- ✓ Covid-19 unprecedented emergence persisting after quarter-end:
  - *priority given on measures adopted in order to safeguard health and safety of employees*
  - *execution of pre-emptive actions aimed at softening negative economic and financial impact of the Covid-19 crisis*

# Q1 2020 Financial Highlights



(M/€)	31/03/20	31/03/19
Sales from contracts with customers	913,8	875,5
Gross Profit	42,3	41,0
Gross Profit %	4,63%	4,68%
<b>EBITDA</b>	<b>11,9</b>	<b>10,3</b>
EBITDA %	1,31%	1,18%
<b>EBIT</b>	<b>8,3</b>	<b>6,7</b>
EBIT %	0,91%	0,77%
<b>Net Income</b>	<b>3,9</b>	<b>2,9</b>
Net Income %	0,43%	0,33%

- ✓ Net Invested Capital at 31<sup>st</sup> March 2020 stands at 489.0 M€ and is covered by:
  - Shareholders' equity, including non-controlling interests, for 361.8 M€ (359.0 M€ at 31<sup>st</sup> December 2019)
  - Net financial debt for 127.1 M€ (compared with a cash positive position of 272.3 M€ at 31<sup>st</sup> December 2019)
- ✓ Without considering IFRS 16 Lease liabilities, net debt amounts to 20.4 M€ despite unfavourable working capital seasonality compared to December 31<sup>st</sup>, 2019.
- ✓ Debt-to-equity ratio is 0.35x (0.06x extra IFRS 16 effects).

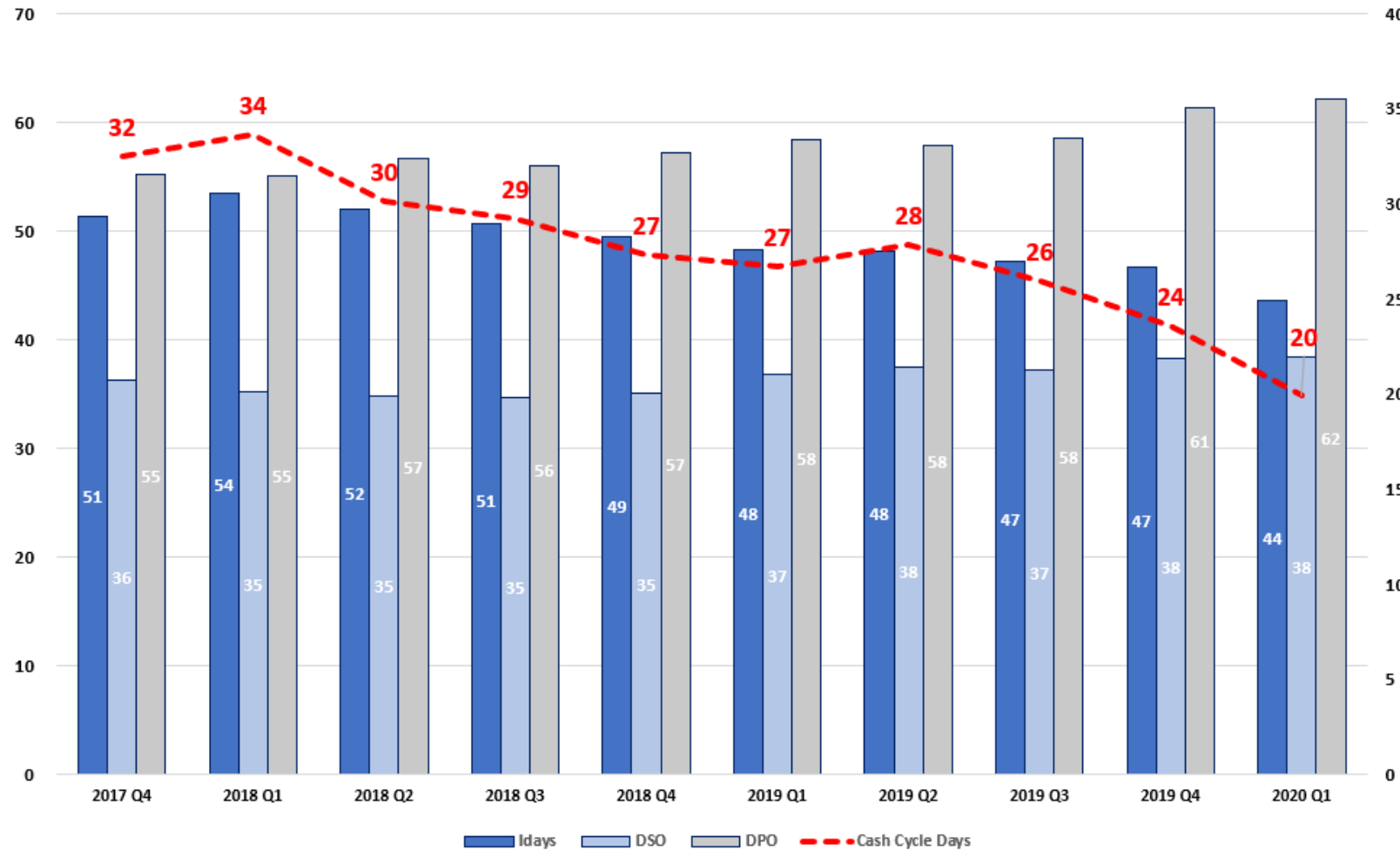
(M/€)	31/03/20	31/12/19
Fixed Assets	118,8	118,7
RoU Assets	104,8	107,3
Operating Net Working Capital	285,5	(121,0)
Other current asset (liabilities)	(2,8)	(1,4)
Other non-current asset (liabilities)	(17,4)	(16,9)
<b>Net Invested Capital</b>	<b>489,0</b>	<b>86,7</b>
Cash	(116,6)	(463,8)
Short-term debt	80,7	18,9
Lease liabilities	106,7	108,8
Medium/long-term debt <sup>(1)</sup>	74,2	78,0
Financial assets	(17,9)	(14,2)
<b>Net financial debt</b>	<b>127,1</b>	<b>(272,3)</b>
<b>Net Equity</b>	<b>361,8</b>	<b>359,0</b>
<b>Funding sources</b>	<b>489,0</b>	<b>86,7</b>
<b>Net financial debt/Equity</b>	<b>0,35</b>	<b>n/s</b>
<b>Net financial debt<sup>(2)</sup>/Equity</b>	<b>0,06</b>	<b>n/s</b>

<sup>(1)</sup> Including the amount due within 1 year

<sup>(2)</sup> Net financial debt ante IFRS 16



# Working Capital Metrics



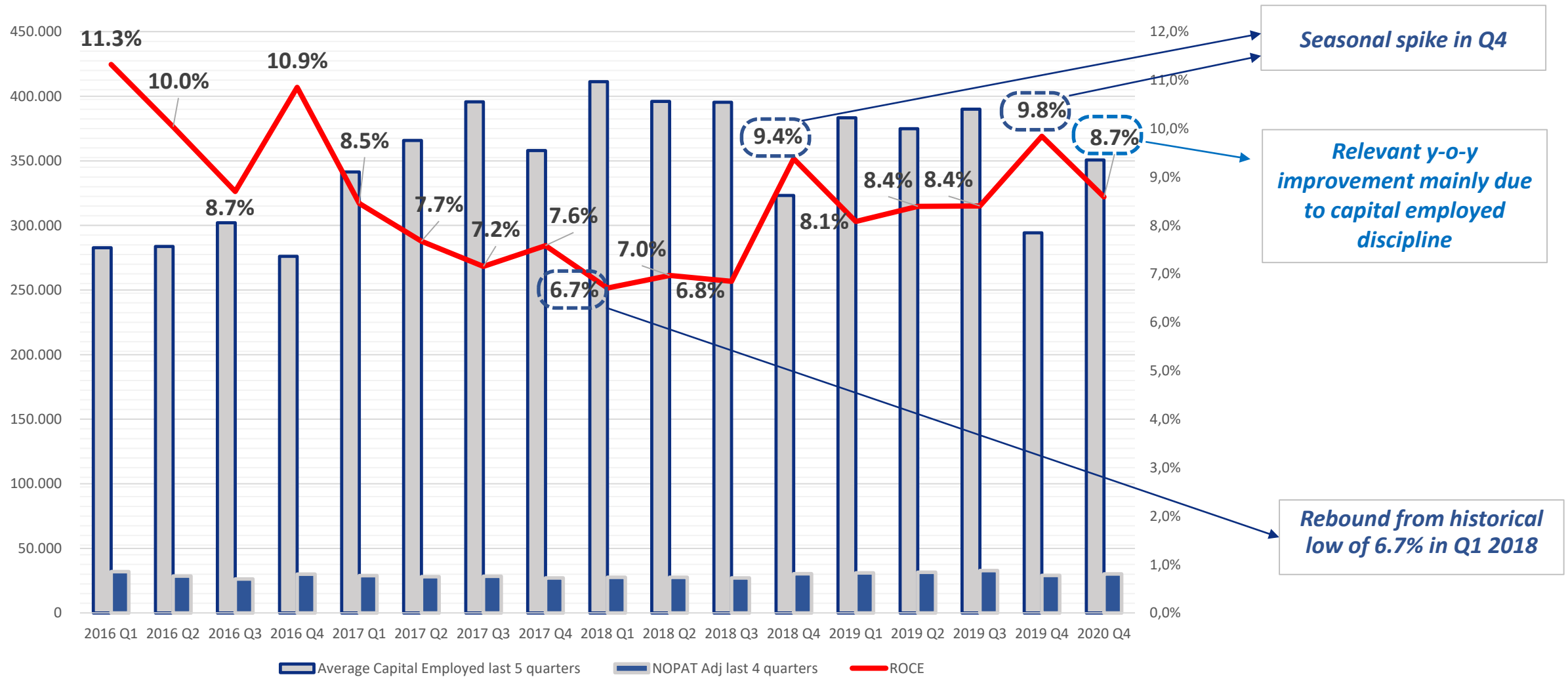
- ✓ Best quarter in last 3 years
- ✓ Continuous reduction in cash cycle days mainly due to strong performance in inventory turnover and suppliers' payment terms
- ✓ At March 31<sup>st</sup> 2020 working capital days stands at 20 days improving both sequentially (-4) and year-on-year (-7)
- ✓ Compared to Q1 2019 metrics, Idays decreased -3.4 days, DSO increased +0.7 days and DPO increased +4.0 days for a total improvement of 7 days from 27 to 20 days

Idays (Inventory Days): 4-qtr average of (quarter-end Inventory / quarterly Sales \* 90)

DSO (Days of Sales Outstanding): 4-qtr average of (quarter-end Trade Receivables / quarterly Sales \* 90)

DPO (Days of Purchases Outstanding): 4-qtr average of (quarter-end Trade Payables / quarterly Cost of Sales \* 90)

# ROCE evolution up to Q1 2020



# ROCE-Return on Capital Employed



## TTM Net Operating Profit After Tax (NOPAT)

M€	TTM ended December 31			TTM ended March 31		
	2017	2018	2019	2018	2019	2020
<b>EBIT</b>	<b>36,7</b>	<b>41,0</b>	<b>39,0</b>	<b>37,3</b>	<b>41,9</b>	<b>40,7</b>
Income taxes on EBIT	-9,5	-10,6	-10,2	-9,7	-10,9	-10,3
<b>NOPAT</b>	<b>27,2</b>	<b>30,3</b>	<b>28,9</b>	<b>27,6</b>	<b>31,0</b>	<b>30,4</b>
Net operating working capital (5-qtr end average)	250,1	227,0	196,7	307,1	288,3	251,7
Net fixed assets (5-qtr end average)	108,0	96,2	97,6	104,3	95,0	99,0
<b>Total average Invested Capital</b>	<b>358,0</b>	<b>323,2</b>	<b>294,3</b>	<b>411,3</b>	<b>383,3</b>	<b>350,7</b>
<b>ROCE</b>	<b>7,6%</b>	<b>9,4%</b>	<b>9,8%</b>	<b>6,7%</b>	<b>8,1%</b>	<b>8,7%</b>
NFP (5-qtr end average)	34,8	-16,3	-54,1	83,3	42,1	-1,8
Shareholders' Equity (5-qtr end average)	323,2	339,5	348,4	328,0	341,2	352,5
<b>Total average Invested Capital</b>	<b>358,0</b>	<b>323,2</b>	<b>294,3</b>	<b>411,3</b>	<b>383,3</b>	<b>350,7</b>
Tax rate	26%	26%	26%	26%	26%	25%

- ✓ **On March 31st, 2020 TTM EBIT down -3% and Net Average Invested Capital improved -9% driving a ROCE of 8.7% (8.1% in Q1 2019)**
- ✓ **ROCE steadily above company WACC-Weighted Average Cost of Capital of 8%.**

### NOTES

<sup>(1)</sup> Trailing Twelve Months is abbreviated as TTM.

<sup>(2)</sup> Net of non-recurring items and excluding IFRS 16 impact.

<sup>(3)</sup> Figurative income taxes on EBIT are calculated using (i) FY 2019 budgeted tax rate of 25% for 2017-18 and (ii) FY 2019 effective tax rate for 2020

<sup>(4)</sup> Based on stock analysts' consensus and weighted cost of capital used by management in "imparing" the value in use of CGUs constituting the Esprinet Group.



# Final Remarks



- ✓ Due to persistent lack of visibility on the length and depth of the emergency, it is not still possible to reasonably assess any short-term impact of Covid-19 crisis.
- ✓ Trading conditions started to be difficult from April: Q2 presumably is shaping-up as the toughest quarter of the year due to the impact of full lockdown measures in most countries (not considering any future re-introduction of containment measures that we can't exclude by far).
- ✓ We are closely monitoring the market situation and modelling economic scenarios with the purpose of revealing FY 2020 outlook hopefully by the end of July.
- ✓ Prompt actions have been taken to strictly control costs and working capital thus mitigating financial impact of Covid-19 and further strengthening Group's financial solidity.
- ✓ We maintain favourable mid-term expectations due to strong fundamentals of ICT market and growing distribution centrality in the tech business system.
- ✓ Customer satisfaction projects already implemented are delivering good results and shall help to sustain long-term profitability in a normalised environment.
- ✓ Despite negative short-term effects on consumers demand and enterprises IT investment we remain confident that our strong competitive positioning and good financial shape will allow us to exploit any opportunities the market will offer in the future.
- ✓ Within this context we do not suspend our M&A activities finding ourselves at the forefront of the ongoing consolidation process of the distribution industry.



# Q & A





# IR Team

**ESPRINET S.p.A.**

T +39 02 40496.1 - [investor@esprinet.com](mailto:investor@esprinet.com)

**IR Top Consulting**

***IR Advisor***

T +39 02 45473884

Maria Antonietta Pireddu - [m.pireddu@irtop.com](mailto:m.pireddu@irtop.com)

Federico Nasta - [f.nasta@irtop.com](mailto:f.nasta@irtop.com)