METZLER Capital Markets

Berentzen-Gruppe (BEZ GY) | Consumer Goods

August 16, 2024

Delivering on its promises

Berentzen released sound results for H1/24 (particularly in the light of subdued consumer sentiment), upgraded its full-year EBITDA and EBIT targets and made progress on its medium-term strategy, all of which support our positive investment thesis. We have raised our underlying EBIT estimates for 2024e-2026e, and our DCF-based price target from EUR 8.00 to EUR 8.20. We keep our BUY rating.

- In H1/24, sales declined by -1% YoY, which appears somewhat weak at first glance. However, it must be noted that YoY sales growth was significantly burdened by temporary marketing suspensions/restrictions resulting from tough price negotiations with some food retailers for Puschkin brand products (H1/24 sales: -19% YoY) and for the Mio Mio brand (H1/24 sales: -2% YoY). As price negotiations have been concluded, both brands should show positive growth rates again in H2/24. On the positive side, the gross margin rose by 340bps YoY to 46.0% in H1/24 led by lower prices for raw materials and system components and positive effects from price hikes. Due to a higher gross profit, the adj. EBIT (i.e. excl. one-offs related to the sale of non-core assets) grew from EUR 3.3 m in H1/23 to EUR 5.1 m in H1/24 with an improvement of the adj. EBIT margin by 200bps YoY to 5.7%.

- The upgraded full-year underlying EBIT guidance is a reassuring signal, in our view: After a challenging year 2023, the group now expects the adj. EBIT to increase from EUR 7.7 m in 2023 to EUR 9.0-11.0 m (up from EUR 8.0-10.0 m) in 2024e, highlighting that Berentzen is pursuing a clear plan with regard to its defined growth initiatives.

Fundamentals (in EUR m)[1]	2021	2022	2023	2024e	2025e	2026e
Sales	146	174	186	190	192	200
EBITDA	15	17	16	14	20	23
EBIT	7	8	8	5	11	13
EPS adj. (EUR)	0.39	0.22	0.09	-0.12	0.42	0.61
DPS (EUR)	0.22	0.22	0.09	0.00	0.21	0.31
BVPS (EUR)	5.20	5.34	5.06	4.83	5.25	5.66
Net Debt incl. Provisions	-0	-3	15	18	17	17

Ratios[1]	2021	2022	2023	2024e	2025e	2026e
EV/EBITDA	3.9	3.1	4.4	4.5	3.1	2.8
EV/EBIT	8.9	6.2	9.1	12.3	5.8	4.8
P/E adj.	16.3	25.6	63.4	-40.5	11.7	8.1
Dividend yield (%)	3.5	3.8	1.5	0.0	4.3	6.2
EBITDA margin (%)	10.5	9.6	8.6	7.5	10.6	11.5
EBIT margin (%)	4.6	4.8	4.2	2.8	5.8	6.7
Net debt/EBITDA	-0.0	-0.2	0.9	1.3	0.8	0.7
PBV	1.2	1.1	1.2	1.0	0.9	0.9

[1]Sources: Bloomberg, Metzler Research

Buy — unchanged

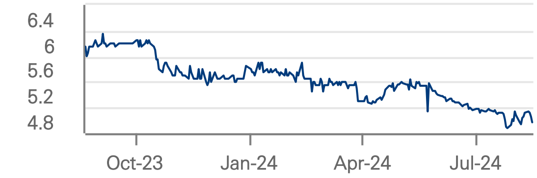
Price* EUR 4.97

Price target EUR 8.20 (8.00)

* XETRA trading price at the close of the previous day unless stated otherwise in the Disclosures

Market Cap (EUR m)[1]	47
Enterprise Value (EUR m)[1]	65
Free Float (%)[1]	79.4

Price (in EUR)[1]



Performance (in %)[1]	1m	3m	12m
Share	-3.7	-11.2	-15.8
Rel. to Prime All Share	-1.7	-7.7	-24.9

Changes in estimates (in %)[1]	2024e	2025e	2026e
Sales	-2.1	-4.7	-4.2
EBIT	-42.6	6.5	7.0
EPS	-152.3	9.1	8.9

Sponsored Research

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H1/24 results indicated that the group is responding well to the changes

The company's reporting for H1/24 provides an early indication that the organisation is responding well to the changes that have been announced under the umbrella of the "Building BERENTZEN 2028" strategy. Margins have recovered as price increases have been accepted by the group's customers, which also underpins that Berentzen has some degree of pricing power versus the big (German) retailers. Moreover, investments in innovation and marketing appear to pay off, which has been proved by the success of the fruit liqueurs in the "Minis" format and the recently launched "Smoothie Shots". The fact that the sound earnings performance in H1/24, and in particular in Q2/24, was not driven by a recovery of the (German) beverage market and/or an improving customer sentiment but due to self-help measures, is positive, in our view. This should make investors more confident with regard to the company's earnings and margin potential in the medium-term, which can be achieved in the context of a potential recovery of the economy and increasing customer budgets.

(Non-core) Asset sale proves that management is highly committed to its medium-term strategy

The intended portfolio measures are gaining traction with the planned sale of the Grüneburg site in Brandenburg (Germany), where Berentzen's Non-alcoholic Beverages are produced and whose local product portfolio - in particular the regional water brand Märkisch Kristall - is of no strategic interest to the group. The Grüneburg plant has burdened earnings and cash flow with the negative impact having increased in the last couple of years due to increased cost inflation. While the intended disposal will negatively impact the EBIT by EUR 4.9 m in the current year, the transaction will largely be non-cash-effective and result in cost savings of up to EUR 1 m per year (with the full effect likely to occur in 2026e) and in a significant improvement of the free cash flow. In addition, the strategic buyer aims to take over business operations (and employees) and will bottle products of the Mio Mio brand as a contract filling partner for Berentzen. With the announcement of the aforementioned asset sales, management has proved, in our view, that it walks the talk, which in turn should increase investors' confidence regarding the speed at which measures are being implemented.

Reflecting deconsolidation effects and a sound margin performance in H1/24

We have adjusted our sales and EBIT estimates for 2024e-2026e to reflect the good operating performance in H1/24 and deconsolidation effects. We have cut our sales forecast for 2024e, 2025e and 2026e by 2%, 5% and 4%, respectively, mainly due to the sale of the Grüneburg plant. Our new revenue estimate for 2024e of EUR 190 m is in-line with the midpoint of the updated guidance range. As the disposal of the Grüneburg plant should be margin accretive from 2025e onwards and given the good profitability performance in H1/24, we have raised our underlying EBIT estimates for 2024e-2026e by 11%, 6% and 7%, with our new underlying EBIT forecast for 2024e being marginally above the midpoint of the guidance range. By 2026e, we now expect the EBIT margin to improve by 250bps (vs. 2023) to 6.7% driven by average underlying sales growth of 3.9% p.a., operating leverage, efficiency enhancement measures and an improving revenue mix (i.e. a higher sales share of the core brands Berentzen, Puschkin and Mio Mio).

We continue to view Berentzen as an attractive self-help story

Looking at the long-term investment case, we think Berentzen is an attractive self-help story. Under the umbrella of the "Building BERENTZEN 2028" transformation plan, several building blocks have been put in place to drive improvements in terms of margin expansion over the next few years. By 2028, Berentzen targets to increase the EBITDA margin to 12% from 8.6% in 2023 and the EBIT margin to 8% from 4.1% in 2023 with the main driving factors including

1) Reshaping and increasing profitability of the Non-Alcoholic Beverages segment

- By 2028 Berentzen aims to achieve a significantly higher earnings contribution from the Non-alcoholic Beverages segment with a stringent concentration on products that carry above-average margins and generate satisfying free cash flows. Its Mio Mio brand is targeted to be the main driver with the goal to increase Mio Mio's divisional revenue share from 41% in 2023 to 71% in 2028. While sounding ambitious at first glance, one has to recognize Mio Mio's past success. Between 2018 and 2023, sales of Mio Mio have increased by a CAGR of ~20%. During this period, Mio Mio has clearly outperformed the German modern lemonades market - where Berentzen competes with well-known players such as fritz-kola, CLUB-MATE and BIONADE -, which posted a revenue CAGR of ~12%. Moreover, the rapid growth at Mio Mio has not been at the expense of profitability. With only one exception, Berentzen could increase the revenue per litre and the contribution margin per litre at Mio Mio each year in 2018 to 2023 thanks to price increases towards the German retailers. It is worth mentioning, that the stronger the beverage brand, the easier it is to achieve price hikes towards the powerful retailers in Germany.
- Another measure will be the adjustment of the sales structure by strengthening the sales force (of the core brands), the so-called push factor. At the same time Berentzen plans a considerable increase of its marketing budget (for the core brands), the so-called pull factor. Moreover, the company will leverage synergies of the sales force in the Spirits and Non-alcoholic Beverages business, which so far still have largely separated structures and organizations.
- Berentzen will shift capacities/human resources from non-core brands to Mio Mio by ceasing products that either carry low margins and/or where the company will likely be unable to raise prices in the future such as contract bottling and regional mineral waters.
- In order to improve efficiency across the entire supply chain, the company will analyse and evaluate all machines, production lines and production sites.
- As energy costs in Germany are expected to remain at rather high levels, Berentzen plans to reduce its energy bill by investing in sustainable energy systems. This should also make the company more independent from price fluctuations in the energy market.

2) Increasing the value of the core brands

- Berentzen has the ambition to expand the turnover of its three core brands from approximately EUR 50 m in 2023 to around 90 m by 2028 with the revenue of 1) Mio Mio growing to EUR 40 m (up from EUR 20 m), 2) Berentzen improving to EUR 35 m (up from EUR 20 m) and 3) Puschkin increasing to EUR 15 m (up from 10 m). With well-known and growing brands that are in high demand among consumers, Berentzen expects to become more important for the large retailers (Aldi, Edeka, REWE and Schwarz Group), which in turn should help the company to negotiate more favourable prices.

- To achieve the aforementioned revenue expansion, the company will extend its sales team and increase its marketing budget. Berentzen will double the sales force of its three core brands by 2028 by adding five sales representatives per year. This should close the historic north-south divide in distribution. In terms of distribution level, Berentzen is strongly represented in northern Germany, while its presence in the south is significantly weaker. Each additional sales representative increases the number of customer visits and thus, the chances of adding Berentzen's products to the retailer's range. In addition, the chance of getting more sales space at the respective retailer increases with each customer visit. With respect to sales promotion, Berentzen will go on the offensive and triple its marketing expenditures for the three core brands by 2028, translating into additional marketing expenses of EUR 1 m per year (+EUR 0.5 m p.a. for Mio Mio and +EUR 0.5 m p.a. for Berentzen and Puschkin).

3) Running a highly efficient private label spirits business

- Berentzen's branded dealer and private label brands are marketed by the subsidiary Pabst & Richardz Vertriebs GmbH. Private-label products are bottled on the basis of service agreements with medium-term and short contract periods. Private label products account for almost half of the total grocery market in Germany. Furthermore, private label products have gained market share in all segments (i.e. price entry, medium and premium) against branded products, due to dwindling consumer purchasing power. In addition to the important price entry-level business, Berentzen also drives forward the development and distribution of exclusive premium retail brands. There are currently two trends in the private-label business that provide a tailwind for Berentzen; the trend towards greater premiumization of the private label spirits market and the intentions of retailers to become less dependent on large global brands. The beauty of Berentzen's private label spirits business is that the company has more negotiation power against retailers as the availability of products is of great importance to them. Going forward, Berentzen will put an even stronger focus on improving margins in the private label spirits business. Therefore, the company will make additional investments in process digitalization, machinery and energy supply, while also developing innovative products.

4) Setting-up new ventures

- The beverage market is highly dynamic as consumer preferences and tastes are continuously evolving. This makes it challenging for beverage companies to anticipate and meet shifting dynamics. Beverage producers must invest in product development and innovation to stay ahead of trends and offer beverages that resonate with consumers. Therefore, Berentzen will increasingly establish innovative beverage ventures but will also close them again immediately if they are not successful. Although establishing new ventures is always associated with a certain level of risk, it is particularly worth mentioning that management has a proven track record in starting/developing and growing beverage ventures. Besides Mio Mio, Citrocasa is a prominent example.

We continue to believe that the "Building BERENTZEN 2028" strategy will not only be the right step towards a more focused beverage company but also improve agility and enable the group to respond more quickly to changing market conditions, while also allowing for higher profitability and better predictability of the financial performance. We see a good chance that the new corporate structure with a more stable, higher margin and improved cash conversion profile relative to history will lead to a re-rating of the share. Clearly, Berentzen faces near-term challenges due to ongoing consumer restraint, but it appears that the all-important core brands, Berentzen & Puschkin (Spirits segment) and Mio Mio (Non-alcoholic Beverages segment) are holding up well and should provide a cushion against (potential) declines elsewhere.

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Capital Markets

company note

Key Data

Company profile

CEO: Oliver Schwegmann — CFO: Ralf Bruehoefner — Haselünne, Germany

Berentzen, headquartered in Haselünne (Germany) is a leading beverage company in Germany and one of the oldest producers of spirits with a history going back to 1758. The business activities of the company include the production and distribution of spirits, non-alcoholic beverages, fresh juice systems as well as tourist and event activities at the Berentzen-Hof in Haselünne

Major shareholders

Marchmain Invest NV (5.5%), MainFirst Bank AG (8.5%), Lazard Frères Gestion SAS (5.1%)

Key figures

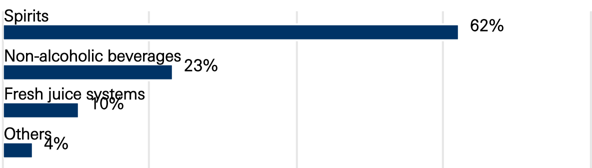
P&L (in EUR m)	2021	%	2022	%	2023	%	2024e	%	2025e	%	2026e	%
Sales	**146**	**-5.5**	**174**	**19.2**	**186**	**6.6**	**190**	**2.5**	**192**	**1.0**	**200**	**4.0**
Gross profit on sales	**68**	**0.0**	**79**	**15.8**	**77**	**-2.5**	**83**	**8.1**	**86**	**2.8**	**90**	**5.2**
Gross margin (%)	46.9	7.9	45.5	-2.9	41.6	-8.5	43.9	5.5	44.7	1.8	45.2	1.1
EBITDA	**15**	**9.5**	**17**	**8.4**	**16**	**-3.9**	**14**	**-11.0**	**20**	**42.9**	**23**	**12.4**
EBITDA margin (%)	10.5	15.9	9.6	-9.1	8.6	-9.8	7.5	-13.1	10.6	41.5	11.5	8.1
EBIT	**7**	**31.4**	**8**	**24.2**	**8**	**-7.6**	**5**	**-31.9**	**11**	**111.3**	**13**	**20.2**
EBIT margin (%)	4.6	39.0	4.8	4.2	4.2	-13.3	2.8	-33.5	5.8	109.2	6.7	15.6
Financial result	**-1**	**50.5**	**-4**	**-195.4**	**-6**	**-34.5**	**-6**	**-8.9**	**-5**	**11.5**	**-5**	**5.6**
EBT	**5**	**135.0**	**4**	**-21.3**	**2**	**-49.6**	**-1**	**-140.5**	**6**	**767.7**	**8**	**44.6**
Taxes	2	60.2	2	26.3	1	-40.2	0	-75.7	2	469.0	2	44.6
Tax rate (%)	30.9	n.a.	49.6	n.a.	58.8	n.a.	-35.2	n.a.	30.0	n.a.	30.0	n.a.
Net income	4	197.0	2	-42.6	1	-58.8	-1	-233.2	4	445.7	6	44.6
Minority interests	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Net Income after minorities	**4**	**197.0**	**2**	**-42.6**	**1**	**-58.8**	**-1**	**-233.2**	**4**	**445.7**	**6**	**44.6**
Number of shares outstanding (m)	9	0.0	9	0.0	9	0.0	9	0.0	9	0.0	9	0.0
EPS adj. (EUR)	**0.39**	**195.5**	**0.22**	**-42.5**	**0.09**	**-58.8**	**-0.12**	**-232.9**	**0.42**	**445.7**	**0.61**	**44.6**
DPS (EUR)	**0.22**	**69.2**	**0.22**	**0.0**	**0.09**	**-59.1**	**0.00**	**-100.0**	**0.21**	**n.a.**	**0.31**	**44.6**
Dividend yield (%)	3.5	n.a.	3.8	n.a.	1.5	n.a.	0.0	n.a.	4.3	n.a.	6.2	n.a.

Cash Flow (in EUR m)	2021	%	2022	%	2023	%	2024e	%	2025e	%	2026e	%
Gross Cash Flow	**13**	**13.4**	**13**	**-5.8**	**3**	**-73.2**	**9**	**180.5**	**11**	**19.4**	**14**	**27.3**
Increase in working capital	**-0**	**n.a.**	**8**	**n.a.**	**6**	**n.a.**	**1**	**n.a.**	**-0**	**n.a.**	**1**	**n.a.**
Capital expenditures	**7**	**44.4**	**9**	**24.0**	**9**	**4.2**	**10**	**2.2**	**9**	**-2.1**	**10**	**2.1**
D+A/Capex (%)	119.0	n.a.	92.3	n.a.	88.3	n.a.	93.7	n.a.	98.5	n.a.	99.6	n.a.
Free cash flow (Metzler definition)	**6**	**-49.3**	**-5**	**-174.4**	**-12**	**-174.2**	**-1**	**94.1**	**2**	**416.9**	**4**	**51.5**
Free cash flow yield (%)	10.2	n.a.	-8.4	n.a.	-22.7	n.a.	-1.6	n.a.	5.0	n.a.	7.5	n.a.
Dividend paid	1	-53.6	2	69.3	2	0.0	1	-59.1	0	-100.0	2	n.a.
Free cash flow (post dividend)	**5**	**-48.0**	**-7**	**-235.3**	**-15**	**-119.8**	**-2**	**89.1**	**2**	**247.0**	**2**	**-34.4**

Balance sheet (in EUR m)	2021	%	2022	%	2023	%	2024e	%	2025e	%	2026e	%
Assets	**142**	**-2.1**	**146**	**2.9**	**145**	**-0.6**	**145**	**-0.2**	**150**	**3.5**	**156**	**3.8**
Goodwill	**6**	**0.0**	**6**	**0.0**	**9**	**50.2**	**9**	**0.0**	**9**	**0.0**	**9**	**0.0**
Shareholders' equity	**49**	**3.4**	**50**	**2.6**	**47**	**-5.5**	**45**	**-4.2**	**49**	**8.8**	**53**	**7.6**
Equity/total assets (%)	34.4	n.a.	34.2	n.a.	32.6	n.a.	31.3	n.a.	32.9	n.a.	34.1	n.a.
Net Debt incl. Provisions	**-0**	**-112.1**	**-3**	**n.m.**	**15**	**696.3**	**18**	**19.8**	**17**	**-5.0**	**17**	**-0.6**
thereof pension provisions	**9**	**-2.7**	**7**	**-17.8**	**8**	**16.9**	**8**	**0.0**	**8**	**0.0**	**8**	**0.0**
Gearing (%)	-0.4	n.a.	-5.1	n.a.	31.9	n.a.	39.9	n.a.	34.9	n.a.	32.2	n.a.
Net debt/EBITDA	-0.0	n.a.	-0.2	n.a.	0.9	n.a.	1.3	n.a.	0.8	n.a.	0.7	n.a.

Structure

Revenue by segment 2023



Sources: Bloomberg, Metzler Research

Disclosures

Recommendation history

Recommendations for each financial instrument or issuer - mentioned in this docu ment - published by Metzler in the past twelve months

Date of dissemination	Metzler recommendation * Previous	Current	Current price **	Price target *	Author ***
Issuer/Financial Instrument (ISIN): Berentzen-Gruppe (DE0005201602)					
07.05.2024	Buy	Buy	5.56 EUR	8.00 EUR	Bauer, Stephan
05.04.2024	Buy	Buy	5.38 EUR	8.00 EUR	Bauer, Stephan
22.02.2024	Buy	Buy	5.60 EUR	8.00 EUR	Bauer, Stephan
06.02.2024	Buy	Buy	5.70 EUR	8.00 EUR	Bauer, Stephan
18.01.2024	Buy	Buy	5.75 EUR	8.00 EUR	Bauer, Stephan
18.10.2023	Buy	Buy	6.10 EUR	8.00 EUR	Bauer, Stephan

* Effective until the price target and/or investment recommendation is updated (FI/FX recommendations are valid solely at the time of publication)

** XETRA trading price at the close of the previous day unless stated otherwise herein

*** All authors are financial analysts

Berentzen-Gruppe

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BUY	The price of the analysed financial instrument is expected to rise in the next 12 months.
HOLD	The price of the analysed financial instrument is expected to largely remain stable in the next 12 months.
SELL	The price of the analysed financial instrument is expected to fall in the next 12 months.

Bonds:

BUY	The analysed financial instrument is expected to perform better than similar financial instruments.
HOLD	The analysed financial instrument is not expected to perform significantly better or worse than similar financial instruments.
SELL	The analysed financial instrument is expected to perform worse than similar financial instruments.

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