

BUY (unchanged)

IZERTIS

SPAIN | INFORMATION TECHNOLOGY

Breaking new digital paths

Price (€)	8.36
Target Price (€)	11.10
prev. (€)	10.50
Target Return	32.8%
Ticker	IZER SM
Shares Out (m)	25
Market Cap (€m)	209

Key Estimates	2022a	2023e	2024e
P/E (x)	53.6	45.2	31.5
P/CF (x)	20.5	17.0	14.3
EV/EBITDA (x)	18.8	15.8	13.1
P/BV (x)	4.1	3.9	3.4
Div yield (%)	0.0	0.0	0.0

Performance (%)	1D	1M	YTD
Price Perf	0.0	-1.4	1.5
Rel IBEX 35	0.9	0.9	-7.2

Source: Company data, FactSet and JB Capital estimates

Investment case: Izertis (IZER) provides high-value-added IT services, including digitalisation services, big data, cloud computing, cybersecurity, Artificial Intelligence (AI), and more. The increasing preference for digitalising business processes is expected to drive demand in the coming years, as the adoption of new technologies in Europe is increasing. According to Eurostat-DESI 2022, a mere 66% of European companies have migrated to the cloud, with only 8% utilising AI and 14% harnessing big data. Following the EU's "Path to the Digital Decade" proposal, at least 75% of EU companies should start using AI, cloud and big data technologies by 2030. This trend should benefit companies such as IZER, which are positioned in the most innovative segments of the market.

IZER has consistently outperformed the Spanish consulting IT sector in recent years, with a substantial lead of 23pp (revenue growth) from 2016 to 2022. We expect the Company to maintain strong growth momentum in the coming years, with a projected 17% revenue CAGR for 2023-28, supported by its strategic positioning. Furthermore, we expect a modest improvement in margins (+50bps, to reach 14% EBITDA in 2028) due to enhanced cross-selling opportunities, derived from its last acquisitions, and access to larger customers, which should drive economies of scale. The Company presented a new strategic plan ahead of schedule due to the early achievement of its targets. In this new [plan](#), IZER expects to reach €250m in revenues and €33m in EBITDA in 2027, in line with our estimates and Bloomberg consensus (3 contributors).

We increase our target price by 6% to €11.10/share after rolling our valuation forward to 2024 (+8% TP impact), despite slightly increasing the risk-free rate to our standard 4% in the explicit and terminal period (-2% TP impact). With a 33% upside to our target price and a sound track record in delivery on plans, we reiterate Buy for IZER. Even though it screens more expensive than peers at 16x EV/EBITDA for 2023e, we estimate it will grow EBITDA by 20% on average up until 2028; this should more than close the gap.

Valuation and rating: We value IZER with a DCF model, using 8% WACC for the explicit and terminal period. In addition, we use a 2% terminal growth rate. We add its stakes in JVs and remove net debt (including earnouts), minorities and provisions. Finally, we apply a 20% standard liquidity discount, given its reduced traded volume.

Recent events: IZER released its 1H23 results on 2 September. Sales (+44% YoY) and EBITDA (+66% YoY) were broadly in line with our estimates. However, Net income missed our forecast (-4%) due to higher-than-expected financial costs and taxes. Net Debt stood at €46m vs our €47m estimate. IZER reiterated its full-year guidance of €12.5m EBITDA for 2023.

Risks: i) Rising labour costs and IT personnel scarcity; ii) deterioration of macroeconomic conditions and the resultant effect on the IT sector; and iii) M&A overpayments and integration risk.

Catalysts: Results releases (2H23 data to be released in 1Q24) could prove a catalyst if IZER sustains top-line growth and improves margins. The Company's shares' admission to the BME Continuous Market, should increase liquidity and also boost the story.



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Summary P&L account

€m	2021a	2022a	2023e	2024e	2025e	2026e
Revenues	68	92	126	153	183	219
EBITDA	7	12	17	21	26	31
EBIT	2	6	9	13	17	21
Net financial result	-1	-2	-3	-4	-4	-4
Associates	0	0	0	0	0	0
Non-recurrent results & others	0	0	0	0	0	0
PBT	1	4	6	9	13	18
Taxes	0	0	-2	-2	-3	-5
Results from discount. Oper	0	0	0	0	0	1
Minorities	0	0	0	0	0	0
Net Attributable profit	0	4	5	7	10	14

Summary Balance Sheet

€m	2021a	2022a	2023e	2024e	2025e	2026e
Tangible assets	2	4	3	3	2	1
Intangible assets	40	76	108	117	126	136
Financial assets & Associates	2	2	2	2	2	2
Inventories	1	1	1	1	1	2
Receivables & other assets	19	26	33	40	47	56
Cash & equivalents	38	36	25	23	25	31
TOTAL ASSETS	101	145	174	187	204	227
Shareholders' equity	32	48	53	61	74	91
Minority interests	0	0	0	0	0	0
Financial debt	41	44	63	63	63	63
Provisions	0	0	0	0	0	0
Payables & other liabilities	28	52	58	62	68	75
TOTAL LIABILITIES	101	145	174	186	205	228

Summary cash-flow statement

€m	2021a	2022a	2023e	2024e	2025e	2026e
CF from operations	7	12	15	19	23	27
WC change	-1	-1	-1	-2	-2	-2
Net Capex	-6	-20	-43	-19	-19	-19
Others	0	-1	0	0	0	0
FCF	-1	-10	-29	-2	2	5
Dividends	0	0	0	0	0	0
Capital increase	4	23	0	0	0	0
Others	0	0	0	0	0	0
Net cash/(Debt) generation	3	13	-29	-2	2	5

Per share data / Leverage / Profitability / Valuation

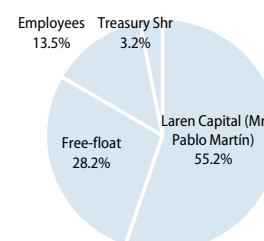
	2021a	2022a	2023e	2024e	2025e	2026e
Price (€)	8.0	8.2	8.4	8.4	8.4	8.4
Number of shares (m)	23	25	25	25	25	25
Market capitalization (€m)	192	198	209	209	209	213
EV (€m)	206	230	270	272	270	269
EPS (reported) (€)	0.02	0.15	0.19	0.27	0.39	0.49
EPS (adjusted) (€)	0.02	0.15	0.19	0.27	0.39	0.49
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0	0.0
ND (€m)	14	32	61	63	61	55
ND/EBITDA (x)	2.0	2.6	3.6	3.0	2.4	1.8
ND/(Equity+ND) (%)	31.0	39.4	53.4	50.6	45.2	38.0
EBITDA margin (%)	10.7	13.3	13.5	13.6	14.1	14.4
EBIT margin (%)	2.3	6.8	7.5	8.4	9.2	9.8
ROE (%)	1.2	7.7	8.7	10.8	13.2	13.8
ROCE (pre-tax) (%)	2.2	6.1	7.5	9.6	11.6	13.2
EV/EBITDA (x)	28.4	18.8	15.8	13.1	10.4	8.5
EV/EBIT (x)	130.6	36.7	28.7	21.2	16.0	12.5
P/E (x)	490.3	53.6	45.2	31.5	21.4	17.0
P/E (adjusted) (x)	490.3	53.6	45.2	31.5	21.4	17.0
P/CF (x)	32.0	20.5	17.0	14.3	11.1	9.5
P/BV (x)	6.0	4.1	3.9	3.4	2.8	2.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, FactSet and JB Capital estimates

BRIEF COMPANY DESCRIPTION

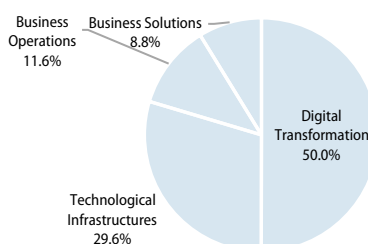
Izertis (IZER) is a Spanish IT consulting company operating in the IT services industry. It offers an extended portfolio of solutions to digitalize enterprises and improve their business models, processes and operations. It employs more than 1,500 people (89% in Spain, 11% in other countries) and has offices in 9 countries. About 80% of the Company's turnover comes from Spain, although it currently operates in more than 50 countries. Besides Spain, its most important markets are Portugal and Mexico which account for almost 20% of its sales. Izertis divides its services across 4 major business lines: Digital Transformation, Technological Infrastructures and Services, Business Operations and Business Solutions.

Shareholding structure



Source: CNMV, Company data and JB Capital estimates

1H23 revenue by segment



Source: Company data and JB Capital estimates

Valuation

	(€m)	Implied multiple
Enterprise Value	410	EV/EBITDA24e 24x
Investments in JVs	0.6	Book value
Convertible option	-1.0	
Net Debt (Incl. Earn Outs)	-61.9	Book value
Minorities	-1	Book value
Equity Value	346	
Liquidity disc (20%)	-69	
# Shares (m)	25.0	
Target Price (€/Share)	11.10	

Source: JB Capital estimates

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