

BUY (unchanged)

IZERTIS

SPAIN | INFORMATION TECHNOLOGY

1H23 results: on track to reach 2023 targets; reiterating Buy

Price (€)	8.38
Target Price (€)	10.50
Target Return	25.3%
Ticker	IZER SM
Shares Out (m)	25
Market Cap (€m)	207

Key Estimates	2022a	2023e	2024e
P/E (x)	53.6	43.3	26.6
P/CF (x)	20.5	16.6	13.1
EV/EBITDA (x)	18.8	15.5	12.2
P/BV (x)	4.4	4.1	3.4
Div yield (%)	0.0	0.0	0.0

Performance (%)	1D	1M	YTD
Price Perf	0.2	-1.2	1.7
Rel IBEX 35	0.2	0.4	-9.7

Source: Company data, FactSet and JB Capital estimates

Izertis (IZER) released an in-line set of 1H23 results, with revenues and EBITDA broadly aligned with our estimates. We expected an increase in revenues (+44% YoY) and EBITDA (+66% YoY), mainly driven by inorganic growth (+29% revenues YoY). Net income missed our estimates (-4%) due to higher-than-expected financial costs and taxes. On the other hand, Net Debt was better than expected, at €46m vs our €47m estimate, due to higher FCF generation on the back of lower capex, implying a 2.5x ND/EBITDA LTM. IZER reiterated its 2027 guidance (€250m of revenues, €33m of EBITDA). With a 25% upside to our target price and a sound track record in delivery on plans, we reiterate Buy for IZER.

Revenues growing at a good pace: IZER's strategy of focusing on high value-added IT services is bringing high revenue growth (+44% YoY in 1H23). The Digital segment (including Software Engineering, Cx Transformation and Data & Intelligence services) has increased sales by +64% YoY, mainly due to the acquisition of Autentia, a company highly focused on these IT services acquired in March this year. However, this is not the only segment growing in double digits, as Cybersecurity & Cloud (+30% YoY) and Business solutions (+23% YoY) also posted strong growth.

In a good position to meet 2023 targets: At EBITDA level, the Company achieved an EBITDA of €8.5m in 1H23, on track to reach and possibly beat its FY2023 target of €12.5m. The company also improved EBITDA Mg reaching 14.2%, (+193bps YoY) thanks to Autentia's higher margins (34% EBITDA Mg) and cross-selling from IZER's improved portfolio of solutions and services. We expect Izertis to continue this positive trend in 2H23 and outpace the Spanish IT market (+6% YoY in 2023e, according to the AEC).

Net Debt rising due to acquisitions (2.5x ND/EBITDA LTM 1H23): The Company's net debt reached €46m in 1H23, representing a 197% HoH increase, mainly due to the acquisitions of Autentia and Techsociety (€37m) in March this year. In addition, the number of shares outstanding increased by 1% HoH due to the realisation of earnouts (+300k new shares) during the semester.

Figure 1: IZER 1H23 results review

	1H22	1H23	YoY	vs JB Capital
Total Revenues	41.6	59.9	44%	0%
Cybersecurity, Governance, Cloud &	17.1	22.2	30%	-3%
Digital	18.3	30.0	64%	-1%
Business Solutions	4.6	5.6	23%	-3%
Other	1.7	2.1	25%	92%
Opex	-36.5	-51.4	41%	-1%
EBITDA	5.1	8.5	66%	-1%
EBITDA Mg (%)	12.3%	14.2%	1.93p.p	0.12p.p
Amortizations	-3.5	-3.5	1%	3%
EBIT	1.7	5.0	201%	-4%
Net Financials	-0.5	-1.9	250%	5%
Profit Before Taxes	1.1	3.1	178%	4%
Taxes	-0.5	-1.1	138%	22%
Minorities	0.0	-0.1	245%	-31%
Net Attrib Profit	0.7	2.0	206%	-4%
ND	29.8	46.0	55%	-2%

Source: Company data and JB Capital estimates



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Figure 2: IZR comparable peers

IT Peers	Last	FX	Mkt Cap	P/E (x)		EV/EBITD		ND/EBITD	
	LC		€m	2023e	2024e	2023e	2024e	2023e	2024e
EPAM	256.8	USD	14,164.8	25.6	23.3	16.3	14.9	-2.2	-2.2
Globant	194.5	USD	7,856.2	33.9	28.4	18.9	15.8	-0.5	-0.5
Reply	86.2	EUR	3,224.9	17.6	15.2	9.6	8.6	-0.3	-0.3
Endava	58.8	USD	3,231.0	22.5	30.4	15.0	18.6	-0.7	-0.7
Nagarro	67.7	EUR	932.6	17.5	13.9	10.1	8.3	2.1	2.1
Novabase	4.8	EUR	126.0	13.6	11.3	8.7	7.7	0.1	0.1
Average				21.8	20.4	13.1	12.3	-0.2	-0.2
Izertis	8.4	EUR	206.5	43.3	26.6	15.5	12.2	3.4	2.3

Source: JB Capital estimates and Bloomberg prices as of 29/09/2023

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 model, 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.

Valuation

We value IZER by using a DCF model, including not only organic growth but also the potential value creation of inorganic deals. We carry out our valuation using explicit FCF through 2027, which we discount to 2023 at an 8.0% dynamic WACC. We also consider a 3x ND/EBITDA target coverage, together with a 2.0% terminal growth rate due to its positioning in IT value-added services. We therefore reach a €380m EV, which we adjust for our ND estimate of €57m (which includes the €3.8m bond conversion in 2023 and €18m earnouts), equity accounted, minorities at 4.4x P/BV and a 20% standard liquidity discount.

Figure 3: IZR valuation

	SOTP (€m)	
Enterprise Value	380	DCF (WACC 8.1%, WACC TV 8.0%; g=2%)
Investments in JVs	2.4	
Convertible option	-1.0	
Net Debt (Incl. Earn Outs)	-57.0	
Minorities	-1	
Equity Value	324	
Liquidity disc (20%)	-65	
# Shares	24.6	
Target Price (€/Share)	10.50	

Source: JB Capital estimates

Recommendation

We reiterate our Buy rating, given IZER's 25% upside potential and the growth prospects of its Digital business. The market is not considering the growth potential derived from its inorganic ambitions (acquisitions traditionally closed below current ratios). We expect the Group to reach normalised multiples in 2026 (8.4x EV/EBITDA). Moreover, IZER should deliver positive FCF (after acquisitions) from 2024 onwards and offer significant deleveraging from that year.

P&L

€m	2019a	2020a	2021a	2022a	2023e	2024e	2025e
Revenues	48	53	68	92	126	153	183
EBITDA	4	5	7	12	17	21	24
Depreciation	-3	-4	-6	-6	-8	-8	-8
Provisions	0	0	0	0	0	0	0
Other	0	2	0	0	0	0	0
EBIT	1	4	2	6	9	13	15
Net financial result	0	-1	-1	-2	-3	-3	-2
Associates	0	0	0	0	0	0	0
Non-recurrent results & others	0	0	0	0	0	0	0
PBT	0	2	1	4	6	10	13
Taxes	0	-1	0	0	-2	-3	-3
Results from discontinued operations	0	0	0	0	0	0	0
Minorities	0	0	0	0	0	0	0
Net Attributable profit	0	1	0	4	5	8	10

BALANCE SHEET

€m	2019a	2020a	2021a	2022a	2023e	2024e	2025e
Tangible assets	2	2	2	4	3	2	2
Intangible assets	20	27	40	76	104	113	121
Financial assets & Associates	2	2	2	2	2	2	2
Other L/T assets	2	5	6	5	6	7	8
Inventories	0	0	1	1	1	1	1
Account Receivable	13	12	15	24	31	27	32
Other S/T assets	2	1	1	1	1	1	1
Cash & cash equivalents	4	15	38	36	21	24	22
TOTAL ASSETS	45	64	104	149	170	179	191
Shareholders' equity	15	24	30	45	50	60	72
Minority interests	0	0	0	0	0	0	0
L/T Financial debt	9	17	28	36	47	40	34
L/T Provisions	0	0	0	0	0	0	0
Other L/T liabilities	na	na	na	na	na	na	na
S/T Financial debt	9	8	13	8	8	8	8
Accounts payable	8	10	11	18	22	27	33
Other S/T liabilities	0	0	5	17	17	17	17
TOTAL LIABILITIES	44	62	99	141	162	169	180

Source: Company data, FactSet and JB Capital estimates

CASH FLOW STATEMENT

€m	2019a	2020a	2021a	2022a	2023e	2024e	2025e
EBITDA	4	5	7	12	17	21	24
Net financial result	0	1	0	0	0	0	0
Dividends collected	0	0	0	0	0	0	0
Taxes	0	0	-1	0	-2	-3	-3
Change in Working Capital	1	1	-1	-1	-3	8	1
Other CF from operations	0	0	0	-1	0	0	0
Cash Flow from Operations	5	7	5	10	12	26	21
CAPEX	-7	-7	-6	-21	-38	-16	-16
Disposals	0	0	0	1	0	0	0
Financial investments	0	0	0	0	0	0	0
Other CF from investments	0	0	0	0	0	0	0
Cash Flow from Investments	-7	-7	-5	-20	-38	-16	-16
Dividends	0	0	0	0	0	0	0
Change in capital stock	3	5	4	23	0	0	0
Treasury stock variation	0	0	0	0	0	0	0
Debt variation (net)	0	0	0	0	0	0	0
Other CF from financing	0	0	0	0	0	0	0
Cash Flow from Financing	3	5	4	23	0	0	0
Exchange rate effect	0	0	0	0	0	0	0
Net increase in cash & cash equivalents	1	5	3	13	-26	10	5
Net debt variation	-1	5	-5	-17	-26	10	5

Per share data/ Leverage/ Profitability/ Valuation

	2019a	2020a	2021a	2022a	2023e	2024e	2025e
Last price (€)	3.9	7.5	8.0	8.2	8.4	8.4	8.4
Number of shares (m)	21	22	23	25	25	25	25
Market capitalization (€m)	57	112	192	198	207	207	207
Net Debt	14	10	14	32	57	47	42
EV (€)	71	122	206	230	264	254	249
EPS (€)	0.01	0.06	0.02	0.15	0.19	0.31	0.40
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DPS (€)	0.00	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	0.0
ND/EBITDA (x)	3.5	1.8	2.0	2.6	3.4	2.3	1.8
ND/(Equity + ND) (%)	48.2	29.1	32.3	41.0	53.4	43.7	36.8
EBITDA margin (%)	8.4	10.0	10.7	13.3	13.5	13.6	13.0
EBIT margin (%)	2.0	7.1	2.3	6.8	7.5	8.4	8.5
ROE (%)	1.6	5.8	1.3	8.2	9.6	12.9	13.8
ROCE (pre-tax) (%)	3.5	8.1	2.1	5.9	7.6	10.0	11.6
EV/EBITDA	17.4	23.1	28.4	18.8	15.5	12.2	10.4
EV/EBIT	73.9	32.2	130.6	36.7	28.1	19.8	16.1
FCFe yield (%)	nm	0.3	nm	nm	nm	4.9	2.3
FCF/EV (%)	nm	1.4	nm	nm	nm	5.0	2.9
P/E	225.5	81.2	490.3	53.6	43.3	26.6	20.7
P/CF	17.4	21.3	32.0	20.5	16.6	13.1	11.3
P/B	3.7	4.7	6.4	4.4	4.1	3.4	2.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, FactSet and JB Capital estimates

PROFITABILITY

FY End Dec (%)	2019a	2020a	2021a	2022a	2023e	2024e	2025e
Gross Margin	67.0	69.9	74.1	81.0	81.5	82.0	82.0
EBITDA Margin	8.4	10.0	10.7	13.3	13.5	13.6	13.0
EBIT Margin	2.0	7.1	2.3	6.8	7.5	8.4	8.5
EBT Margin	1.0	3.6	1.1	4.3	5.0	6.8	7.3
Net Margin	0.5	2.6	0.6	4.0	3.8	5.1	5.4
Return on Assets	0.6	2.1	0.4	2.5	2.8	4.3	5.2
Return on Equity	1.6	5.8	1.3	8.2	9.6	12.9	13.8
Return on Capital Employed	3.5	8.1	2.1	5.9	7.6	10.0	11.6
Return on Investment	-0.3	-0.1	-0.4	1.3	1.0	3.1	4.2

VALUATION

FY End Dec (x)	2019a	2020a	2021a	2022a	2023e	2024e	2025e
P/E	225.5	81.2	490.3	53.6	43.3	26.6	20.7
P/E (diluted)	225.5	81.2	490.3	53.6	43.3	26.6	20.7
P/BVPS	3.7	4.7	6.4	4.4	4.1	3.4	2.9
P/Tangible BVPS	3.7	4.7	6.4	4.4	4.1	3.4	2.9
P/CFPS	17.4	21.3	32.0	20.5	16.6	13.1	11.3
P/FCFPS	34.8	30.8	35.9	19.8	12.9	10.5	9.2
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Div payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV	71	122	206	230	264	254	249
EV/Sales	1.5	2.3	3.0	2.5	2.1	1.7	1.4
EV/EBIT	73.9	32.2	130.6	36.7	28.1	19.8	16.1
EV/EBITDA	17.4	23.1	28.4	18.8	15.5	12.2	10.4
Net Debt/EBITDA	3.5	1.8	2.0	2.6	3.4	2.3	1.8
FCFe yield (%)	nm	0.3	nm	nm	nm	4.9	2.3
FCF / EV (%)	nm	1.4	nm	nm	nm	5.0	2.9
Net Debt / (Equity + Net Debt)	48.2	29.1	32.3	41.0	53.4	43.7	36.8

Source: Company data, FactSet and JB Capital estimates

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Automocion, S.A., Promotora de Informaciones S.A. (PRISA), Prosegur Cash, S.A., Tubacex, S.A., Pharma Mar, S.A., Arima Real Estate Socimi, S.A., Merlin Propiedades Socimi, S.A., Grenergy Renovables, S.A., Soltec Power Holdings S.A, CIE Automotive, S.A.'s and Opdenergy Holding S.A.; it carries out Arima Real Estate Socimi, S.A.'s and Pharma Mar S.A.'s share buyback plan and it carries out Ibersol, SGPS, S.A.'s, Aedas Homes, S.A.'s, and Prosegur Cash, S.A.'s buy-back programmes. Additionally, it was liquidity provider of Codere, S.A., CIE Automotive, S.A and Lar España Real Estate Socimi, S.A., and it carried out CIE Automotive, S.A., Pharma Mar, S.A., CTT - Correios de Portugal, S.A.'s, Promotora de Informaciones S.A. (PRISA)'s, Prosegur Cash, S.A.'s, Prosegur, Compañía de Seguridad, S.A.'s, Tubacex, S.A.'s, Neinor Homes, S.A.'s, Lar España Real Estate Socimi, S.A.'s, CIE Automotive, S.A.'s and Arima Real Estate Socimi, S.A.'s and Grenergy Renovables, S.A.'s buy-back programmes. JB Capital provides brokerage services to Iberdrola S.A. Furthermore, JB Capital has provided and may provide brokerage services to the issuers listed above and JB Capital may be involved in other programmes involving shares of the companies included in this report. As a result, investors should be aware that JB Capital may have a conflict of interest that could reasonably affect the objectivity of this research report.

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