

BUY (unchanged)

## IZERTIS

SPAIN | INFORMATION TECHNOLOGY

Reassuring 1H24 results support growth story; Buy

Price (€)	10.05
Target Price (€)	12.30
prev. (€)	11.50
Target Return	22.4%
Ticker	IZER SM
Shares Out (m)	26
Market Cap (€m)	265

Key Estimates	2023a	2024e	2025e
P/E (x)	43.0	47.1	26.4
P/CF (x)	16.2	17.5	13.2
EV/EBITDA (x)	14.6	15.0	11.5
P/BV (x)	3.0	3.4	3.0
Div yield (%)	0.0	0.0	0.0
Performance (%)	1D	1M	YTD
Price Perf	0.0	-1.5	9.5
Rel IBEX 35	-0.5	-5.2	-5.6

Source: Company data, FactSet and JB Capital estimates

Izertis' (IZER) 1H24 results showed supportive trends in terms of organic revenue growth and margins. Revenues reached €65.6m with EBITDA at €9.4m, implying a 14.3% EBITDA margin. There were no material M&A during 1H, so we adjust FY24 estimates to reflect that. Given the traditional seasonality of the business – with typically a stronger 2H – we believe the company is on track to reach our FY24 estimates, with revenues of €140m (+15% YoY) and EBITDA of €21m. Despite lowering estimates, we increase our target price by 7% to €12.3/share, as we roll over our valuation to YE25. We believe IZER's equity story remains intact, and it is a good vehicle to play digital transformation trends. Our TP (which includes a 20% liquidity discount) represents a 22% upside potential for a well-managed business with good long-term growth prospects that is consolidating a fragmented sector. We reiterate Buy.

**Izertis's revenue rose 9.5% YoY...** Izertis's posted growth across divisions. By segment, we highlight the performance of IT Governance (+23% YoY), DX Strategy (+16% YoY) and Software Engineering (+10% YoY), consolidating the Autentia and Keifi acquisitions (in March and October 2023, respectively).

**...while maintaining strong margins...** This set of results confirms IZER's ability to achieve profitable growth. Specifically, EBITDA reached €9.4m (€10.1m excluding non-recurring items), implying a 14.3% EBITDA margin (+0.3pp vs 1H23; 15.3% EBITDA margin excluding extraordinary items). A favourable product mix enabled the company to maintain strong margins at the EBITDA level despite significant increase in the workforce (with personnel expenses rising +15%, mainly in the Sales division, which we expect to boost results further in 2H).

**...and reasonable gearing metrics.** IZER closed 1H24 with a net debt of €48.8m (in line with the figure reported at YE23). This represents an ND/adj. EBITDA LTM of 2.5x. The expected improvement in EBITDA should favour the generation of FCF despite the expected inorganic growth.

**Changes to estimates:** We reduce FY24 estimates to reflect the absence of inorganic growth in 1H, as we now include only the impact of the acquisitions made in July and September (Projecting and Digiswit). We trim our FY24e revenue and EBITDA by 12% and 11%, respectively, but Net Debt is also down by 4%. After these changes, we now forecast 2024 revenues of €140m, EBITDA of €21m and Net Debt of €49m.



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Figure 1: 1H24 Results

€m	1H23	1H24	YoY
Total Revenues	59.9	65.6	9.5%
Opex	-50.9	-55.5	9%
Adjusted EBITDA	9.0	10.1	12%
Adjusted EBITDA Mg (%)	15.0%	15.3%	0.28p.p
Extraordinaries	-0.5	-0.7	29%
EBITDA	8.5	9.4	11%
EBITDA Mg (%)	14.2%	14.3%	0.13p.p
Amortizations	-3.5	-4.6	32%
EBIT	5.0	4.8	-4%
Net Financials	-1.9	-2.4	26%
Profit Before Taxes	3.1	2.4	-23%
Taxes	-1.1	-1.0	-5%
Minorities	-0.1	0.0	-52%
Net Attrib Profit	2.0	1.3	-34%
ND	46.0	48.8	6%

Source: Company data

Figure 2: Change to estimates

	2024e	2025e	2026e
Revenues	140	184	233
<i>Previously</i>	158	193	232
$\Delta$ (%)	-12%	-5%	0%
EBITDA	21	28	35
<i>Previously</i>	23	29	35
$\Delta$ (%)	-11%	-5%	0%
Net income	6	10	15
<i>Previously</i>	8	12	16
$\Delta$ (%)	-33%	-17%	-6%
Net debt	48.7	51	48
<i>Previously</i>	51	50	46
$\Delta$ (%)	-4%	1%	5%

Source: JB Capital estimates

Figure 3: Peers

IT Peers	Last Price	FX	Mkt Cap	P/E (x)		EV/EBITDA	
	LC			€m	2024	2025	2024
EPAM	195.0	USD	10,163	19.0	17.6	11.7	11.2
Globant	207.3	USD	8,216	32.4	27.9	19.1	16.5
Reply	134.9	EUR	5,047	23.8	21.4	12.9	11.9
Endava	24.7	USD	1,335	16.6	16.6	11.7	10.6
Nagarro	92.2	EUR	1,270	20.0	16.8	10.6	9.5
<b>Average</b>				<b>22.4</b>	<b>20.1</b>	<b>13.2</b>	<b>12.0</b>
Izertis	10.0	EUR	265	47.1	26.4	15.0	11.5

Source: JB Capital estimates and Bloomberg prices as of 14/10/2024

## Company Description

Izertis (IZER) is a Spanish IT consulting company operating in the fast growing IT services industry. It offers an extended portfolio of solutions to digitalize enterprises and improve their business model, processes and operations. Izertis divides its offering into four major business lines: Digital Transformation (Digitalisation, AI, IoT; 50% of sales), Technological Infrastructures and Services (Cloud and Cybersecurity; 30% of sales), Business Operations (Outsourcing, 12% of sales) and Business Solutions (Consulting services; 9% of sales). It employs more than 1,800 people and has offices in 5 countries. About 83% of the Company's turnover comes from Spain, although it currently operates in more than 30 countries. Besides Spain, its most important markets are Portugal and Mexico, which account for almost 8% of its sales.

## 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 2031, which we discount at an 8.1% WACC together with a 2.0% terminal growth rate due to its positioning in IT value-added services. We therefore reach a €489m EV, which we adjust for our 2024 Net Debt estimate of €49m (which includes convertibles and cash earn-outs) and earn-outs to be paid in shares, factoring, equity accounted JVs and minorities. We then apply a 20% liquidity discount and reach a TP of €12.3/shr.

Figure 3: IZER valuation

	(€m)	Comments
<b>Enterprise Value</b>	<b>489</b>	DCF (WACC 8.1%, WACC TV 8.0%; g=2%)
Investments in JVs	0.3	
Convertible option	-0.9	
Net Debt (incl. cash Earn Outs)	-48.7	
Earn Outs to be paid in shares (reported in equity)	-11.4	
Factoring	-11.1	
Minorities	-0.2	
<b>Equity Value</b>	<b>416.5</b>	
# Shares (m)	27.0	
(-) Liquidity discount (20%) €/shr	-3.1	
<b>Target Price (€/share)</b>	<b>12.3</b>	

Source: JB Capital estimates

## Recommendation

We reiterate our Buy rating. The equity story is both sectorial (boom in digital transformation and tech infrastructure) and micro (positioning in the most innovative segments of the market and operating leverage). This, together of what we have seen in the past (profitable growth maintaining reasonable gearing metrics) makes IZER a rational way to play the digital transformation of businesses. We see additional catalysts, mainly in the form of value-accretive M&A.

## P&amp;L

€m	2020a	2021a	2022a	2023a	2024e	2025e	2026e
Revenues	53	68	92	121	140	184	233
EBITDA	5	7	12	18	21	28	35
Depreciation	-4	-6	-6	-8	-10	-10	-11
Provisions	0	0	0	0	0	0	0
Other	2	0	0	1	0	0	0
EBIT	4	2	6	10	11	17	24
Net financial result	-1	-1	-2	-4	-4	-4	-4
Associates	0	0	0	0	0	0	0
Non-recurrent results & others	0	0	0	0	0	0	0
PBT	2	1	4	6	8	13	20
Taxes	-1	0	0	-1	-2	-3	-5
Results from discontinued operations	0	0	0	0	0	0	1
Minorities	0	0	0	0	0	0	0
Net Attributable profit	1	0	4	5	6	10	15

## BALANCE SHEET

€m	2020a	2021a	2022a	2023a	2024e	2025e	2026e
Tangible assets	2	2	4	6	5	5	4
Intangible assets	27	40	76	117	125	134	143
Financial assets & Associates	2	2	2	2	2	2	2
Other L/T assets	3	3	1	1	1	1	1
Inventories	0	1	1	1	2	2	3
Account Receivable	12	15	24	32	36	47	60
Other S/T assets	1	1	1	3	3	3	3
Cash & cash equivalents	15	38	36	29	29	27	30
TOTAL ASSETS	62	101	145	192	203	222	247
Shareholders' equity	24	32	48	73	78	88	104
Minority interests	0	0	0	0	0	0	0
L/T Financial debt	17	28	36	37	37	37	37
L/T Provisions	0	0	0	0	0	0	0
Other L/T liabilities	4	12	17	25	25	25	25
S/T Financial debt	8	13	8	11	11	11	11
Accounts payable	10	11	18	21	27	35	45
Other S/T liabilities	0	5	17	24	24	24	24
TOTAL LIABILITIES	62	101	145	192	203	222	247

Source: Company data, FactSet and JB Capital estimates

## CASH FLOW STATEMENT

€m	2020a	2021a	2022a	2023a	2024e	2025e	2026e
EBITDA	5	7	12	18	21	28	35
Net financial result	1	0	-2	0	-4	-4	-4
Dividends collected	0	0	0	0	0	0	0
Taxes	0	-1	0	-3	-2	-3	-5
Change in Working Capital	1	-1	-1	-2	1	-3	-4
Other CF from operations	0	0	-1	0	0	0	0
<b>Cash Flow from Operations</b>	<b>7</b>	<b>5</b>	<b>8</b>	<b>13</b>	<b>16</b>	<b>17</b>	<b>22</b>
CAPEX	-7	-6	-21	-20	-16	-19	-20
Disposals	0	0	1	0	0	0	0
Financial investments	0	0	0	0	0	0	0
Other CF from investments	0	0	0	0	0	0	0
<b>Cash Flow from Investments</b>	<b>-7</b>	<b>-5</b>	<b>-20</b>	<b>-20</b>	<b>-16</b>	<b>-19</b>	<b>-20</b>
Dividends	0	0	0	0	0	0	0
Change in capital stock	5	4	23	34	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	-5	0	0	0
<b>Cash Flow from Financing</b>	<b>5</b>	<b>4</b>	<b>23</b>	<b>30</b>	<b>0</b>	<b>0</b>	<b>0</b>
Exchange rate effect	0	0	0	0	0	0	0
<b>Net increase in cash &amp; cash equivalents</b>	<b>5</b>	<b>3</b>	<b>11</b>	<b>23</b>	<b>0</b>	<b>-2</b>	<b>3</b>
<b>Net debt variation</b>	<b>5</b>	<b>-5</b>	<b>-17</b>	<b>-17</b>	<b>0</b>	<b>-2</b>	<b>3</b>

## Per share data/ Leverage/ Profitability/ Valuation

	2020a	2021a	2022a	2023a	2024e	2025e	2026e
Last price (€)	7.5	8.0	8.2	9.2	10.1	10.1	10.1
Number of shares (m)	22	23	25	26	26	26	26
Market capitalization (€m)	112	192	198	215	265	265	265
Net Debt	10	14	32	49	49	51	48
EV (€)	122	206	230	264	314	316	314
EPS (€)	0.06	0.02	0.15	0.19	0.21	0.38	0.54
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)	1.8	2.0	2.6	2.7	2.3	1.8	1.4
ND/(Equity + ND) (%)	29.1	31.0	39.4	40.2	38.4	36.4	31.7
EBITDA margin (%)	10.0	10.7	13.3	14.9	15.0	15.0	15.0
EBIT margin (%)	7.1	2.3	6.8	8.1	8.2	9.5	10.3
ROE (%)	5.8	1.2	7.7	6.9	7.2	11.4	13.7
ROCE (pre-tax) (%)	8.5	2.2	6.2	7.2	8.1	11.5	14.5
EV/EBITDA	23.1	28.4	18.8	14.6	15.0	11.5	9.0
EV/EBIT	32.2	130.6	36.6	27.0	27.5	18.1	13.0
FCFe yield (%)	0.3	nm	nm	nm	0.0	nm	1.0
FCF/EV (%)	1.4	nm	nm	nm	1.2	0.7	2.0
P/E	81.2	490.3	53.3	43.0	47.1	26.4	18.7
P/CF	21.3	32.0	20.5	16.2	17.5	13.2	10.6
P/B	4.7	6.0	4.1	3.0	3.4	3.0	2.6
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 (%)	2020a	2021a	2022a	2023a	2024e	2025e	2026e
Gross Margin	69.9	74.1	81.0	84.0	82.0	82.0	82.0
EBITDA Margin	10.0	10.7	13.3	14.9	15.0	15.0	15.0
EBIT Margin	7.1	2.3	6.8	8.1	8.2	9.5	10.3
EBT Margin	3.6	1.1	4.4	4.6	5.4	7.3	8.7
Net Margin	2.6	0.6	4.0	4.1	4.0	5.5	6.1
Return on Assets	2.2	0.4	2.6	2.6	2.8	4.5	5.7
Return on Equity	5.8	1.2	7.7	6.9	7.2	11.4	13.7
Return on Capital Employed	8.5	2.2	6.2	7.2	8.1	11.5	14.5
Return on Investment	-0.1	-0.4	1.3	0.4	0.9	2.7	4.2

## VALUATION

FY End Dec (x)	2020a	2021a	2022a	2023a	2024e	2025e	2026e
P/E	81.2	490.3	53.3	43.0	47.1	26.4	18.7
P/E (diluted)	81.2	490.3	53.3	43.0	47.1	26.4	18.7
P/BVPS	4.7	6.0	4.1	3.0	3.4	3.0	2.6
P/Tangible BVPS	4.7	6.0	4.1	3.0	3.4	3.0	2.6
P/CFPS	21.3	32.0	20.5	16.2	17.5	13.2	10.6
P/FCFPS	30.8	35.9	19.8	14.3	13.6	11.1	8.8
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	122	206	230	264	314	316	314
EV/Sales	2.3	3.0	2.5	2.2	2.2	1.7	1.3
EV/EBIT	32.2	130.6	36.6	27.0	27.5	18.1	13.0
EV/EBITDA	23.1	28.4	18.8	14.6	15.0	11.5	9.0
Net Debt/EBITDA	1.8	2.0	2.6	2.7	2.3	1.8	1.4
FCFe yield (%)	0.3	nm	nm	nm	0.0	nm	1.0
FCF / EV (%)	1.4	nm	nm	nm	1.2	0.7	2.0
Net Debt / (Equity + Net Debt)	29.1	31.0	39.4	40.2	38.4	36.4	31.7

Source: Company data, FactSet and JB Capital estimates

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October 2022 with Izertis, S.A., in January 2024 with GAM, General Alquiler de Maquinaria, S.A., in January 2024 with Audax Renovables, S.A. and in June 2024 with Natac Natural Ingredients, S.A. about "sponsoring research". Furthermore, JB Capital is liquidity provider of Metrovacesa S.A., Gestamp Automocion, S.A., Promotora de Informaciones S.A. (PRISA), Tubacex, S.A., Merlin Propiedades Socimi, S.A., Grenergy Renovables, S.A., Soltec Power Holdings S.A., and CIE Automotive, S.A.'s; it carries out Arima Real Estate Socimi, S.A.'s share buyback plan and it carries out Ibersol, SGPS, S.A.'s, Aedas Homes, S.A.'s and CTT - Correios de Portugal, S.A.'s buy-back programmes. Additionally, it was liquidity provider of Prosegur Cash, S.A., CIE Automotive, S.A., Lar España Real Estate Socimi, S.A., Pharma Mar, S.A., Opdenergy Holding S.A. and Arima Real Estate Socimi, S.A. and it carried out CIE Automotive, S.A., Prosegur Cash, S.A., Pharma Mar, S.A., CTT - Correios de Portugal, S.A.'s, Promotora de Informaciones S.A. (PRISA)'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, 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, may be providing and may provide in the future brokerage services, or other regulated 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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