

BUY (unchanged)

IZERTIS

SPAIN | INFORMATION TECHNOLOGY

2H23: Top-line below expectations but compensated by higher EBITDA margin

Price (€)	8.40
Target Price (€)	11.50
Target Return	36.9%
Ticker	IZER SM
Shares Out (m)	26
Market Cap (€m)	222

Key Estimates	2022a	2023e	2024e
P/E (x)	53.6	38.4	26.5
P/CF (x)	20.5	17.0	12.9
EV/EBITDA (x)	18.8	14.8	11.6
P/BV (x)	4.1	3.3	2.9
Div yield (%)	0.0	0.0	0.0

Performance (%)	1D	1M	YTD
Price Perf	0.5	-4.5	-8.5
Rel IBEX 35	1.4	-9.0	-14.5

Source: Company data, FactSet and JB Capital estimates

Izertis (IZER) published a 2H23 EBITDA broadly in line with our forecast, at €9.6m (+31% YoY), with better-than-anticipated margins compensating for lower top-line growth (revenues up 21% YoY; -7% vs our estimate), as the company is prioritising profitability over volume. EBIT was €0.4m below our forecast on higher-than-expected D&A, but this was compensated by a one-off tax gain. Thus, Net Income was 4% above expectations. On the balance sheet front, Net Debt was in line with our estimate at €49m, maintaining a Net Debt/EBITDA ratio of 2.6x despite intense M&A activity. Despite the lower-than-expected revenue growth, we believe this set of results confirms IZER's equity story of achieving profitable growth while maintaining reasonable gearing metrics. This turns IZER into a good vehicle to play digital transformation trends. Our target price represents a 37% upside potential for a well-managed business with good long-term growth prospects that is consolidating a fragmented sector. We reiterate Buy.

Double-digit revenue growth in 2H23 (+21% YoY), supported by M&A activity:

Izertis' revenues reached €61.4m in 2H23, a 21% increase YoY – benefiting from the acquisitions made in 2023 (such as Keifi, Autentia and Techsociety) and 2H22 (Pharma Advisors, Aura, Wealizer) – but missing our estimate by 7%. The deviation vs our estimates is mainly explained by weaker-than-expected organic revenue growth, as the company is prioritising profitability over volume.

Improving EBITDA margin. At the EBITDA level, the company reported an EBITDA of €9.6m in 2H23 (+31% YoY) – broadly in line with our estimate – on a better-than-anticipated EBITDA margin of 15.6% (+1.4pp YoY and +0.8pp vs. our expectations). We attribute the improvement in margins to a better product mix (that increases 2H23 gross margin by 4pp YoY to 85.5%) and M&A synergies.

Net debt rising due to acquisitions: Net debt reached €49m in 2023, maintaining a ND/EBITDA ratio of 2.6x despite the M&A, representing a 6% increase vs 1H23, but in line with our estimate. The higher ND mainly results from the Keifi acquisition in October 2023, which was partially compensated by the capital increases carried out in November 2023 to pay for acquisitions' earnouts

Figure 1: 2H23 Results

€m	2H22	1H23	2H23	YoY	HoH	JB Capital est.	vs JB Capital est.
Total Revenues	50.8	59.9	61.4	21%	3%	66.2	-7%
EBITDA	7.3	8.5	9.6	31%	12%	9.8	-2%
EBITDA Mg (%)	14.4%	14.2%	15.6%	1.2p.p	1.4p.p	14.8%	0.8p.p
D&A	-8.2	-3.5	-4.8	-42%	37%	-4.4	8%
EBIT	-0.9	5.0	4.8	n.m.	-4%	5.4	-11%
Net Financials	-1.3	-1.9	-2.3	69%	19%	-1.5	49%
Profit Before Taxes	-2.3	3.1	2.5	n.m.	-19%	3.8	-34%
Taxes	0.2	-1.1	0.5	n.m.	n.m.	-0.8	n.m.
Minorities	-0.1	-0.1	0.1	n.m.	n.m.	-0.1	n.m.
Net Attrib Profit	-2.2	2.0	3.0	n.m.	51%	2.9	4%
ND	31.5	46.0	48.8	55%	6%	48.8	0%

Source: Company data and JB Capital estimates



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Figure 2: Peers

IT Peers	Last Price	FX	Mkt Cap	P/E (x)		EV/EBITDA		EBITDA Mg.		EBITDA CAGR
				2024	2025	2024	2025	2024	2025	
	LC		€m							
EPAM	274.2	USD	14,597.7	26.8	22.8	17.0	14.9	16.8%	16.8%	9.6%
Globant	201.0	USD	7,974.6	30.7	25.7	18.0	14.9	20.1%	20.5%	19.1%
Reply	128.2	EUR	4,796.1	22.7	20.8	12.4	11.3	16.0%	16.1%	9.4%
Endava	33.0	USD	1,752.6	22.4	16.4	12.6	9.3	15.0%	18.4%	6.3%
Nagarro	75.8	EUR	1,044.2	15.2	11.9	8.8	7.2	14.2%	15.2%	13.4%
Average				23.5	19.5	13.7	11.5	16.4%	17.4%	11.6%
Izertis	8.4	EUR	222	26.5	18.4	11.6	9.4	14.8%	15.0%	24.0%

Source: JB Capital estimates and Bloomberg prices as of 09/04/2024

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 1,700 people (89% in Spain, 11% in other countries) and has offices in 9 countries. About 90% of the Company's turnover comes from Spain, although it currently operates in more than 55 countries. Besides Spain, its most important markets are Portugal and Mexico, which account for almost 10% 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 2030, which we discount at an 8.0% WACC together with a 2.0% terminal growth rate due to its positioning in IT value-added services. We therefore reach a €434m EV, which we adjust for our 2024 Net Debt estimate of €50.6m (which includes convertibles and earnouts), factoring, equity accounted JVs and minorities. We then apply a 20% liquidity discount and reach a TP of €11.5/shr.

Figure 3: IZER valuation

	(€m)	Comments
Enterprise Value (€m)	434	DCF (WACC 8.0%, WACC TV 8.0%; g=2%)
Investments in JVs	0.6	
Convertible option	-0.9	
Net Debt (Incl. Earn Outs)	-50.6	
Factoring	-4.2	
Minorities	-0.2	
Equity Value	378.5	
Liquidity disc (20%)	-76	
# Shares	26.4	
Target Price (€/Share)	11.5	

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. Our target price represents a 37% upside potential for a well-managed business with good long-term growth prospects that is consolidating a fragmented sector.

P&L

€m	2019a	2020a	2021a	2022a	2023e	2024e	2025e
Revenues	48	53	68	92	126	158	193
EBITDA	4	5	7	12	18	23	29
Depreciation	-3	-4	-6	-6	-7	-9	-9
Provisions	0	0	0	0	0	0	0
Other	0	2	0	0	0	0	0
EBIT	1	4	2	6	11	15	19
Net financial result	0	-1	-1	-2	-3	-4	-4
Associates	0	0	0	0	0	0	0
Non-recurrent results & others	0	0	0	0	0	0	0
PBT	0	2	1	4	8	11	16
Taxes	0	-1	0	0	-2	-3	-4
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	6	8	12

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	111	119	129
Financial assets & Associates	2	2	2	2	2	2	2
Other L/T assets	1	3	3	1	1	1	1
Inventories	0	0	1	1	1	1	1
Account Receivable	13	12	15	24	30	37	46
Other S/T assets	2	1	1	1	1	1	1
Cash & cash equivalents	4	15	38	36	18	16	17
TOTAL ASSETS	44	62	101	145	168	182	200
Shareholders' equity	15	24	32	48	67	75	87
Minority interests	0	0	0	0	0	0	0
L/T Financial debt	9	17	28	36	36	36	36
L/T Provisions	0	0	0	0	0	0	0
Other L/T liabilities	2	4	12	17	17	17	17
S/T Financial debt	9	8	13	8	8	8	8
Accounts payable	8	10	11	18	23	28	34
Other S/T liabilities	0	0	5	17	17	17	17
TOTAL LIABILITIES	44	62	101	145	168	182	200

Source: Company data, FactSet and JB Capital estimates

CASH FLOW STATEMENT

€m	2019a	2020a	2021a	2022a	2023e	2024e	2025e
EBITDA	4	5	7	12	18	23	29
Net financial result	0	1	0	-2	-3	-4	-4
Dividends collected	0	0	0	0	0	0	0
Taxes	0	0	-1	0	-2	-3	-4
Change in Working Capital	1	1	-1	-1	-1	-2	-2
Other CF from operations	0	0	0	-1	0	0	0
Cash Flow from Operations	5	7	5	8	12	15	19
CAPEX	-7	-7	-6	-21	-42	-17	-19
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	-42	-17	-19
Dividends	0	0	0	0	0	0	0
Change in capital stock	3	5	4	23	13	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	13	0	0
Exchange rate effect	0	0	0	0	0	0	0
Net increase in cash & cash equivalents	1	5	3	11	-17	-2	0
Net debt variation	-1	5	-5	-17	-17	-2	0

Per share data/ Leverage/ Profitability/ Valuation

	2019a	2020a	2021a	2022a	2023e	2024e	2025e
Last price (€)	3.9	7.5	8.0	8.2	9.2	8.4	8.4
Number of shares (m)	21	22	23	25	26	26	26
Market capitalization (€m)	57	112	192	198	222	222	222
Net Debt	14	10	14	32	49	51	50
EV (€)	71	122	206	230	271	273	272
EPS (€)	0.01	0.06	0.02	0.15	0.22	0.32	0.46
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	2.7	2.2	1.7
ND/(Equity + ND) (%)	48.1	29.1	31.0	39.4	42.1	40.2	36.5
EBITDA margin (%)	8.4	10.0	10.7	13.3	14.5	14.8	15.0
EBIT margin (%)	2.0	7.1	2.3	6.8	8.7	9.2	10.1
ROE (%)	1.6	5.8	1.2	7.6	8.6	11.1	13.8
ROCE (pre-tax) (%)	3.6	8.5	2.2	6.1	9.1	11.3	13.8
EV/EBITDA	17.4	23.1	28.4	18.8	14.8	11.6	9.4
EV/EBIT	73.9	32.2	130.6	36.7	24.6	18.7	14.0
FCFe yield (%)	nm	0.3	nm	nm	nm	nm	0.2
FCF/EV (%)	nm	1.4	nm	nm	nm	0.6	1.5
P/E	225.5	81.2	490.3	53.6	38.4	26.5	18.4
P/CF	17.4	21.3	32.0	20.5	17.0	12.9	10.3
P/B	3.7	4.7	6.0	4.1	3.3	2.9	2.5
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	82.2	82.5	82.5
EBITDA Margin	8.4	10.0	10.7	13.3	14.5	14.8	15.0
EBIT Margin	2.0	7.1	2.3	6.8	8.7	9.2	10.1
EBT Margin	1.0	3.6	1.1	4.3	6.1	7.0	8.3
Net Margin	0.5	2.6	0.6	4.0	4.6	5.3	6.2
Return on Assets	0.6	2.2	0.4	2.6	3.4	4.6	6.0
Return on Equity	1.6	5.8	1.2	7.6	8.6	11.1	13.8
Return on Capital Employed	3.6	8.5	2.2	6.1	9.1	11.3	13.8
Return on Investment	-0.3	-0.1	-0.4	1.3	1.4	2.7	4.3

VALUATION

FY End Dec (x)	2019a	2020a	2021a	2022a	2023e	2024e	2025e
P/E	225.5	81.2	490.3	53.6	38.4	26.5	18.4
P/E (diluted)	225.5	81.2	490.3	53.6	38.4	26.5	18.4
P/BVPS	3.7	4.7	6.0	4.1	3.3	2.9	2.5
P/Tangible BVPS	3.7	4.7	6.0	4.1	3.3	2.9	2.5
P/CFPS	17.4	21.3	32.0	20.5	17.0	12.9	10.3
P/FCFPS	34.8	30.8	35.9	19.8	13.0	10.2	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	71	122	206	230	271	273	272
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	24.6	18.7	14.0
EV/EBITDA	17.4	23.1	28.4	18.8	14.8	11.6	9.4
Net Debt/EBITDA	3.5	1.8	2.0	2.6	2.7	2.2	1.7
FCFe yield (%)	nm	0.3	nm	nm	nm	nm	0.2
FCF / EV (%)	nm	1.4	nm	nm	nm	0.6	1.5
Net Debt / (Equity + Net Debt)	48.1	29.1	31.0	39.4	42.1	40.2	36.5

Source: Company data, FactSet and JB Capital estimates

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S.A.'s and Opdenenergy 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 Grenergy Renovables, S.A., Ibersol, SGPS, S.A.'s and Aedas Homes, S.A.'s buy-back programmes. Additionally, it was liquidity provider of Prosegur Cash, S.A., CIE Automotive, S.A. and Lar España 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 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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