JBCapital

BUY

IZERTIS

SPAIN | INFORMATION TECHNOLOGY

Cutting-edge digital growth

Price (€)	8.04
Target Price (€)	10.25
Target Return	27.5%
Ticker	IZER SM
Shares Out (m)	25
Market Cap (€m)	198

Key Estimates	2021a	2022e	2023e
P/E (x)	532.6	121.4	56.6
P/CF (x)	32.2	22.3	18.6
EV/EBITDA (x)	28.7	20.7	16.1
P/BV (x)	6.0	4.4	3.6
Div yield (%)	0.0	0.0	0.0

Performance (%)	1D	1M	YTD
Price Perf	-0.2	-1.7	0.8
Rel IBEX 35	0.5	-7.6	9.2

Source: Company data, FactSet and JB Capital estimates

We initiate coverage of Izertis (IZER) with a Buy rating and a €10.25/shr target price (+28% upside). Izertis 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 operations. Its services mix is biased towards innovative solutions (2/3 of sales in 2021) such as AI, Cloud, IoT and Cybersecurity, and has enabled Izertis to grow faster than the industry (21% vs 5% CAGR for 2018-21, respectively) and improve margins (+2.1pp EBITDA margin in 2018-21). We expect Izertis to continue its growth trend (27% sales CAGR for 2021-27, +13% organic) supported by its value-added mix (87% sales in 2027) and future bolt-on acquisitions (+€15m annual sales in 2023-27). We expect the Group to present a new business plan during 2023 (before successfully completing its current plan); this should act as a catalyst. Finally, we believe the market does not recognize the self-funded inorganic potential of this pure IT consulting Spanish player.

IZER operates in a high-growth industry: The Spanish IT consulting sector in Spain saw 6% CAGR in 2015-21 (AEC), outpacing the Spanish GDP in the past decade (+4pp avg. spread in 2015-21) and leading the sector to reach €16bn (1.1% of Spanish GDP in 2021). We expect this trend to continue (+6% CAGR in 2021-27) and represent a tailwind for IZER.

Group should outpace sector due to its Services mix: Izertis has outpaced the Spanish consulting IT sector during the past few years (+23pp in 2016-21), thanks to its offering in value-added technologies (Digital Transformation and Tech. Infrastructure) and an intense acquisition process of more than 25 small-sized companies from 2015 for an aggregate value of €85m. We expect the Group to deliver a 13% annual organic growth (2021-27 CAGR) vs the +6% of the Spanish IT services sector as a result of its positioning in high-value services (87% of 2023 sales, JBCe).

Bolt-on acquisitions to accelerate growth, but execution is key. The inorganic component is in IZER's DNA in a highly fragmented sector (>300 companies with <€10m sales). Our 2023-27 estimates include acquisitions for an aggregate value of €60m at an average 10x EV/EBITDA, representing €96m contribution to sales in 2027 (35% of the total). Therefore, we expect the Company to reach €277m of sales in 2027 and an EBITDA margin of €38m with a contained leverage (0.1x ND/EBITDA for 2027e).

Izertis should comfortably meet its 2020-23 strategic plan, given its proven track record. The Group targets €125m of sales in 2025 and €12.5m Normalised EBITDA, including inorganic growth. We expect the Group to surpass this EBITDA target with its current perimeter and exceed both metrics with the expected acquisitions of 2023. In fact, the Group has achieved its recent business plan goals. Indeed, we expect Izertis to present a new plan in 2023, ahead of the successful current plan completion.

Our €10.25/shr TP 2023 offers a 28% upside potential. 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 (7.9x EV/EBITDA) after completing the self-funded process. Moreover, IZER should deliver positive FCF (after acquisitions) from 2025 onwards and offer significant deleveraging from that year.


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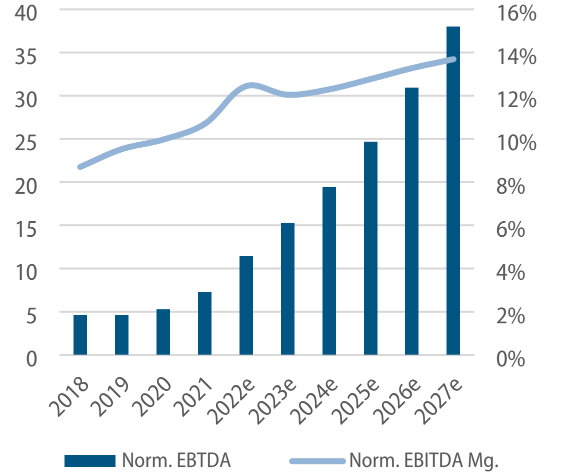
Izertis in six charts

Izertis outperforms a fast growing sector…

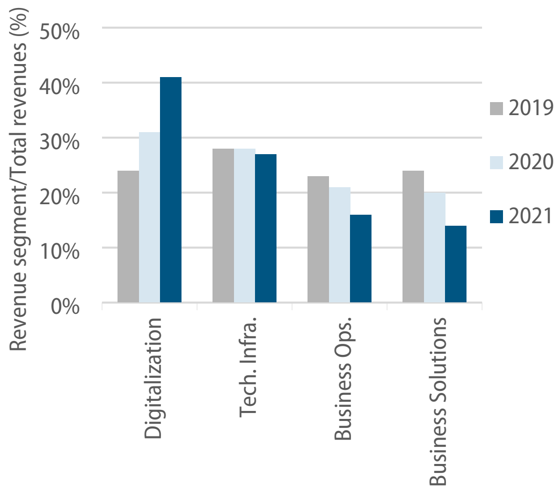
Source: Spanish consultancy association (AEC) and Company data

Izertis is improving margins…



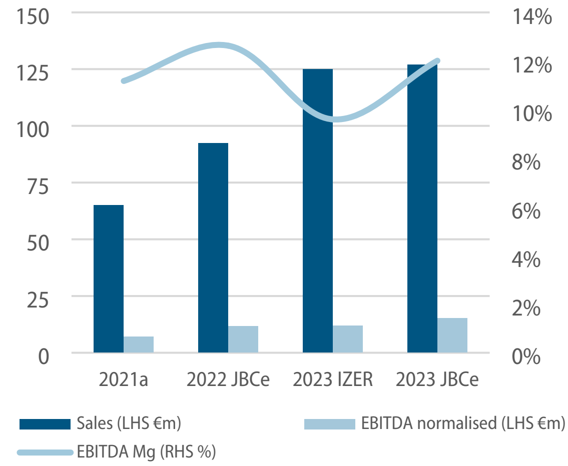
Source: Company data

…thanks to its improving mix with high added-value solutions



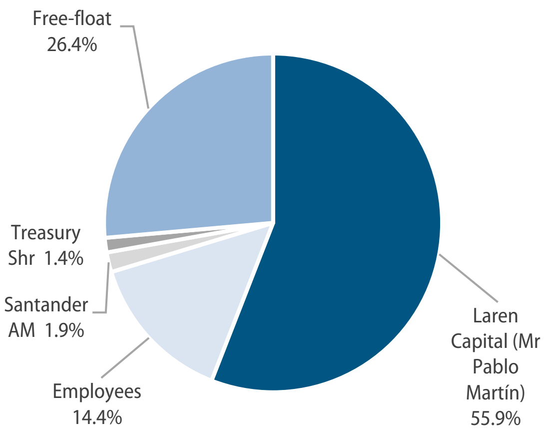
Source: AEC and Company data

…and should comfortably meet its 2023 targets



Source: Company data and JB Capital estimates

Mr. Pablo Martín, its founder, holds 55.9% of the Company



Source: Company data

Izertis offers upside on inorganic M&A

	EV	EV/EBITDA		EV/EBIT	
	€m	2022e	2023e	2022e	2023e
EV	**370**	32.3	24.2	93.4	48.5
ND 2023	-33	**WACC**	**WACC**	**WACC**	
Equity accounted	6	**Explicit**	**TV**	**Avg**	**g**
Minorities (P/BV)	-2	8.1%	8.0%	8.0%	2.0%
Equity (€m)	**341**				
Liquidity disc (20%)	**-68**				
Sh Out (m) - 2021	23.4				
Convertible Sh (m)	0.5				
Acquistions agreed	2.1				
New Acquisitions	0.6				
Shr Fully diluted	**26.6**				
TP 2023e	**10.25**				
vs Last Price	28%				

Source: JB Capital estimates

Executive summary

Izertis 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 operations. About 80% of the Company's turnover comes from Spain, although it currently carries out projects in more than 50 countries. Besides Spain, its most important markets are Portugal and Mexico, which account for almost 20% of sales. Izertis divides its offering into four major business lines: Digital Transformation (Digitalisation, AI, IoT), Technological Infrastructures and Services (Cloud and Cybersecurity), Business Operations (Outsourcing) and Business Solutions (Consulting services).

The sector counts with ample room for new technologies to increase penetration: The uptake of new technologies is far from reaching a plateau in Europe. According to Eurostat-DESI 2021, 75% of SMEs and 50% of large enterprises (LAs) have still not migrated to the public cloud, and 80% and 60% of SMEs and LAs are still not present in online channels. Therefore, the opportunities in the IT sector are significant for a Group such as Izertis, which is focused on digital transformation. In fact, Izertis offers a diversified portfolio of solutions, with a higher weight in new technologies (2/3) that command higher prices due to strong demand and scarcity of available solutions in the market. In this regard, new technology segments, such as Digital Transformation and Technological Infrastructure and Services, offer innovative solutions such as IoT, Cybersecurity and AI. Most of the services in this segment are provisioned through 1 or 2-year contracts with above-average margins. In our numbers we factor in 14% 2021-27 organic sales CAGR for Digital Transformation and +13% for Digital Solutions, which should lead to a Group organic CAGR of 13%. All in all, we expect Izertis to reach a 1.2% market share in 2027 from the 0.4% share in 20201 (3x), which still offers ample growth potential. As a reference, the promising expectations of the sector are supported by Grand View Research that anticipates healthy 2022-30 CAGRs of +38% in AI, +16% in Cloud, +34% in IoT and +86% in Block Chain.

M&A is a key pillar of growth for Izertis and execution is key. Since 2020, Izertis has acquired 16 companies in adherence to its strategic plan (aiming to generate €125m of sales and €12.5m Normalised EBITDA in 2023). We estimate that M&A will contribute 37% of sales growth (€46m in sales) to its 2020-23 plan. We sense an expansion in multiples as the average M&A size has moved to larger corporates. In fact, during 2022, the average multiple for acquired companies by Izertis reached 10x EV/EBITDA (excluding earn-outs); while in the sector, transactions averaged 9.2x in 2019-22. Moreover, we believe the sector is incentivized to explore the inorganic path as traded peers offer richer multiples than those of market transactions. Nonetheless, we believe execution is key as there are plenty of opportunities that have to be closed at disciplined multiples.

We initiate coverage of Izertis with a Buy rating and €10.25/shr target price (28% upside). Our valuation is based on organic and inorganic performance. We estimate the Company will deliver 18.6% sales CAGR in 2021-27 based on its current perimeter and offer 27.4% CAGR including inorganic growth. On the organic side, we anticipate a 14.1% normalized EBITDA margin in 2027 (from 11.2% in 2021 and 12.9% in 1H22). This translates into an overall margin of 13.7% after the new acquisitions are incorporated. In this respect, we forecast acquisitions of €15m sales per year from 2023 to 2027 at a 10x EV/EBITDA acquisition multiple and a 10% EBITDA margin (below Izertis' margin) with an expansion of 4pp in the following four years as a result of their integration into Izertis' structure. Such a multiple is coherent with sector transactions and with Izertis' recent 2022 deals. Moreover, we believe Izertis represents a unique opportunity to be exposed to the highest value-added segment of the Spanish IT services industry.

As regards valuation metrics, Izertis trades above its comparable peers group for 2022-24. We believe this is justified by the higher growth rate of the Company as we estimate Izertis to post 39% EBITDA CAGR for 2021a-2024e vs +25% of its peers. In this regard, we expect the Group to reach normalized multiples in 2026, when we expect it to trade at 7.9x EV/EBITDA and 15x P/E.

Financial estimates and valuation

P&L, 2019a-27e

P&L Summary	2019a	2020a	2021a	2022e	2023e	2024e	2025e	2026e	2027e	CAGR21a-27e
Revenues	**46**	**51**	**65**	**92**	**127**	**158**	**193**	**233**	**277**	**27.4%**
Incr YoY	26.1%	9.5%	28.2%	41.4%	37.9%	24.6%	22.2%	20.5%	19.2%	
Normalised EBITDA	**5**	**5**	**7**	**11**	**15**	**19**	**25**	**31**	**38**	**31.7%**
EBITDA Mg %	10.0%	10.4%	11.2%	12.4%	12.0%	12.3%	12.8%	13.3%	13.7%	**2.5**
EBITDA Incr %	38.5%	14.2%	38.0%	57.3%	33.5%	27.1%	27.0%	25.3%	23.0%	
Impairmetns and Others	-1	2	0	0	0	0	0	0	0	
EBITDA	**4**	**8**	**7**	**11**	**15**	**19**	**25**	**31**	**38**	**32.0%**
EBITDA Mg %	8.5%	15.1%	11.0%	12.2%	12.0%	12.3%	12.8%	13.3%	13.7%	**2.7**
EBITDA Incr %	20.9%	93.2%	-6.2%	56.4%	36.0%	27.1%	27.0%	25.3%	23.0%	
Amortisation	-3	-4	-6	-7	-8	-8	-8	-9	-9	
EBIT	**1**	**4**	**2**	**4**	**8**	**11**	**16**	**22**	**29**	**62.4%**
EBIT Margin	2.1%	7.4%	2.4%	4.3%	6.0%	7.2%	8.5%	9.5%	10.4%	**8.0**
Net financial exp	0	-1	-1	-2	-2	-2	-2	-2	-1	
Profit Before Income Tax	**0**	**2**	**1**	**2**	**5**	**9**	**14**	**20**	**28**	**83.7%**
Income tax	0	-1	0	-1	-1	-2	-4	-5	-7	
Minorities	0	0	0	0	0	-1	-1	-1	-2	
Net income	**0**	**1**	**0**	**2**	**4**	**6**	**10**	**14**	**19**	**93.9%**

Source: Company data and JB Capital estimates

CF, 2019-27e

Cash Flow	2019a	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	CAGR21-27e
PBT	0	2	1	2	5	9	14	20	28	83.7%
- Amortisations	3	4	6	7	8	8	8	9	9	8.3%
- grants	0	0	0	0	0	0	-1	-1	-1	24.8%
- Associates results	0	0	0	0	0	0	0	0	0	n.m.
- Financial results (booked)	0	1	1	2	2	2	2	2	1	9.6%
WC Investment	1	1	-1	-6	-1	1	-2	-1	0	n.m.
Capex	-2	-2	-2	-2	-1	-1	-1	-2	-2	1.2%
Financial results (cash-out)	0	0	-1	-1	-2	-2	-2	-2	-1	9.7%
Taxes (cash out)	0	0	-1	-1	-1	-2	-4	-5	-7	48.5%
Financial Invest/Divest	-5	-5	-4	-17	-13	-15	-15	-15	-15	26.0%
FCF	**-3**	**1**	**-1**	**-17**	**-3**	**0**	**1**	**6**	**12**	**n.m.**
Capital increase	3	5	3	0	0	0	0	0	0	n.m.
Own shares	0	0	0	0	0	0	0	0	0	n.m.
Cash generated	0	6	2	-17	-3	0	1	6	12	31.7%
Forex	0	0	0	0	0	0	0	0	0	n.m.
Others	-1	-2	-7	-2	4	0	0	0	0	n.m.
ND Change	**0**	**3**	**-5**	**-19**	**1**	**0**	**1**	**6**	**12**	**n.m.**

Source: Company data and JB Capital estimates

Balance sheet, 2019-27e

BS	2019a	2020a	2021a	2022e	2023e	2024e	2025e	2026e	2027e	CAGR21-27e
Tangible assets	3	3	3	7	9	10	9	7	7	16%
Intangible assets	20	27	40	60	72	81	90	99	109	18%
Financial assets	2	5	5	5	5	5	5	5	5	0%
Inventories	0	0	1	1	1	2	2	3	3	21%
Receivables & others assets	13	13	15	24	28	31	36	39	42	18%
Cash & equivalents	6	15	38	38	38	38	38	38	38	0%
TOTAL ASSETS	**44**	**62**	**101**	**135**	**153**	**166**	**179**	**191**	**203**	**12%**
Shareholders' equity	15	24	32	45	59	68	78	92	111	23%
Minority interests	0	0	0	0	1	1	2	3	5	62%
Financial debt	19	25	52	71	70	71	70	64	52	0%
Provisions	0	0	0	0	0	0	0	0	0	n.m.
Payables & other liabilities	10	14	17	19	22	26	30	32	35	13%
TOTAL LIABILITIES	**44**	**62**	**101**	**135**	**153**	**166**	**179**	**191**	**203**	**12%**
ND	14	10	14	33	33	33	32	26	14	0%
ND/EBITDA	3.6	1.3	2.0	3.0	2.1	1.7	1.3	0.9	0.4	-1.6

Source: Company data and JB Capital estimates

We expect Izertis to surpass its current business plan targets on the back of its proven track record

Izertis business plans

	Actual	BP	Actual	Actual	BP	Actual	BP	JBCe
Period	**2009**	**2010-2020**	**2020**	**2016**	**2017-2019**	**2019**	**2020-2023**	**2023e**
Revenues (€m)	4.8	50	50.7	18.3	36.6	46.3	125	127
Norm. EBITDA (€)	n.m.	n.m.	5.27	n.m.	n.m.	4.6	12.5	15.3
Norm. EBITDA %	n.m.	n.m.	10.4%	n.m.	n.m.	10.0%	10.0%	12.0%
ND/ Norm. EBITDA (x)	n.m.	n.m.	1.9	n.m.	n.m.	3.6	n.m.	2.1

Source: Company data. Includes organic and inorganic growth

Estimates: We expect Izertis to exceed its targets of €125m sales and €12.5 Normalised EBITDA outlined in its current business plan, for 2020-23. We forecast the Company to beat its sales target by 2% and Norm. EBITDA by 22%, reaching revenues of €127m (€112m based on current perimeter and €15m due to inorganic growth) and a Norm. EBITDA of €15.3m in 2023 (€13.8m based on current perimeter and €1.5m due to inorganic growth). In addition, we believe it should achieve these targets with a controlled level of debt, reaching 2.1x ND/Norm. EBITDA in the same year. The Company's targets and our estimates include inorganic growth.

Company's proven track record in exceeding its business plan targets supports the 2023 targets beat.

Since Izertis launched its first strategic plan in 2009, it has reached all the proposed objectives. Since that year, Izertis has launched two strategic plans, one in 2009 with long-term objectives (2010-20) and one in 2016 with short-term objectives (2017-19), both of which were met or even surpassed. In its first strategic plan, the Company set out to achieve €50m of sales in 2010-20, a 10-fold increase from the 2009 sales figure of €4.8m. This longer-term plan was achieved in the proposed year with a turnover of €50.7m.

In addition, in 2016 the Company began to set shorter-term targets and published its strategic plan for 2017-19. Izertis targeted to double its 2016 revenues of €18.3m and reach €36.6m by 2019. This time it not only achieved but exceeded its target, reaching €36.8m in sales in 2018, one year ahead of plan. In 2019 it achieved €46.3m, 27% ahead of planned targets. Moreover, plans have been focused on sales and the Company has delivered on its targets with contained leverage ratios.

Izertis is currently immersed in its latest published strategic plan, with a target of €125m in revenues and €12.5m Norm. EBITDA between 2020 and 2023. We expect Izertis to beat these figures because of not only its proven track record but also its outstanding organic growth and bolt-on acquisitions incurred in 2021-22.

Izertis organic growth, 2019-21

	2019	2020	2021	Avg 19-21
Technological Infrastructures & Services	7.5%	7.9%	23.8%	13.1%
Business Solutions	0.0%	-8.7%	-13.4%	-7.4%
Business Operations	-1.2%	-1.0%	2.5%	0.1%
Digital Transformation	40.8%	23.2%	39.3%	34.4%
Total	**10.4%**	**5.9%**	**16.4%**	**10.9%**
AEC (IT Consultancy)	**5.9%**	**0.2%**	**9.5%**	**5.2%**
Total spread	**4.5pp**	**5.7pp**	**6.9pp**	**5.7pp**
Technological Infrastructures Spread	1.7pp	7.8pp	14.3pp	7.9pp
Business Solutions Spread	-5.9pp	-8.9pp	-22.9pp	-12.5pp
Business Operations Spread	-7.1pp	-1.1pp	-7.0pp	-5.1pp
Digital Transformation Spread	35.0pp	23.0pp	29.8pp	29.2pp

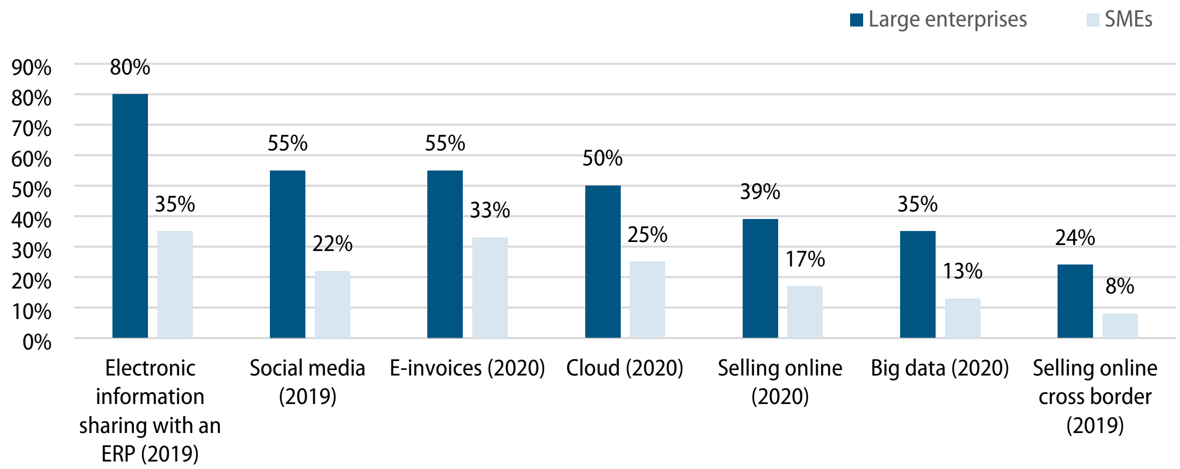
Source: Company data and JB Capital estimates

In addition, we expect the Company to continue outperforming the sector beyond 2023 as a result of its focus on value-added technologies.

Izertis' innovative offering: Izertis has positioned itself in the fastest-growing market segment of IT consulting (11% CAGR in 2015-21), which encompasses the most innovative technologies such as AI, Cloud Services and Cybersecurity. The high demand for such type of solutions has enabled Izertis to evolve organically in Digital Transformation at 36% CAGR and by 14% CAGR in Technological Infrastructure in 2019-21. We expect these areas to reach 14% and 13% organic CAGR in 2021-27, respectively.

Ample room for new technology penetration: The uptake of new technologies is far from reaching a plateau in Europe. According to Eurostat-DESI 2021, 75% of SMEs and 50% of LAs have still not migrated to the public cloud, although the first projects date back 10 to 15 years.

Adoption of digital technologies by enterprises across EU



Source: Eurostat-DESI 2021

We include inorganic growth in our estimates as it is a pillar of Izertis' growth

The IT Services industry is beginning to build certain entry barriers due to the sector's unique characteristics: shortage of qualified personnel in new technologies, limited know-how for some innovative solutions, and partnership dependence. Companies in this sector use M&A to acquire the workforce and know-how of newly emerging technologies that only a few have mastered, thus obtaining high margins due to reduced competition (Nowadays, blockchain solutions and cybersecurity have reached 80% gross margin, JBCe). Izertis is no exception and has closed 30 deals since 1998 and 6 additional deals only in 2022 for an aggregate value of €42m (1/3 paid in cash, 1/3 in shares and 1/3 earn-outs) involving the following companies: Duonet, Okode, Sidertia, Wealize, Aura and Pharma Advisors. All of them operate in innovative segments such as Digital Transformation and Technology.

Given such a track record, we expect the Company to book €15m in annual inorganic sales from 2023 onwards until 2027. We assume 10x EV/EBITDA for these acquisitions (slightly above the 9x for sector transactions in recent years for companies with <15% EBITDA margin) and 10% EBITDA margin for the companies acquired. We estimate that M&A will contribute to reach 37% (€46m sales) of the growth to reach the strategic plan in 2023, and by 2027 we expect acquisitions to represent 35% of total sales.

Cost base, 2019a-2027e

	2019a	2020a	2021a	2022e	2023e	2024e	2025e	2026e	2027e	CAGR21-27e
Opex Current Perimeter	**-44**	**-48**	**-61**	**-85**	**-102**	**-115**	**-129**	**-145**	**-163**	**17.9%**
COGS	-16	-16	-18	-23	-28	-31	-34	-38	-42	15.6%
Personnel expenses	-24	-29	-40	-57	-69	-78	-88	-100	-112	19.0%
Other Expenses	-3	-3	-4	-5	-5	-6	-7	-7	-8	15.2%
New Acq from 2023 EBITDA Norm.	**0**	**0**	**0**	**0**	**2**	**3**	**6**	**9**	**13**	**n.m.**
EBITDA Mg%	0.0%	0.0%	0.0%	0.0%	10.0%	10.8%	11.6%	12.5%	13.0%	n.m.
Current Perimeter EBITDA Norm.	**5**	**5**	**7**	**11**	**14**	**16**	**19**	**22**	**25**	**23.3%**
EBITDA Mg%	10.0%	10.4%	11.2%	12.4%	12.3%	12.7%	13.2%	13.6%	14.1%	2.9
TOTAL EBITDA Norm.	**5**	**5**	**7**	**11**	**15**	**19**	**25**	**31**	**38**	**31.7%**
EBITDA Mg%	10.0%	10.4%	11.2%	12.4%	12.0%	12.3%	12.8%	13.3%	13.7%	2.5

Source: Company data and JB Capital estimates

We believe Izertis will increase margins through price increases in innovative segments, nearshoring and increased scale.

Izertis' commitment towards new technologies has enabled it not only to increase revenues faster than the industry (12% total organic growth CAGR for Izertis vs 5.1% CAGR for the Spanish IT services market in 2018-21) but also to improve its margins (+2pp EBITDA margin in 2018-21). We expect EBITDA margins to continue improving; however, we expect limited improvement (+2.9pp EBITDA margin in 2021-27 on its current perimetre) due to Izertis' cost structure (89% variable costs, JBCe). Moreover, the below-average EBITDA margin targeted in acquisitions should produce a 12.3% Group EBITDA margin in 2023e, compared with the 11.2% recorded in 2021. We believe margin progression will be driven by the following factors:

Increased pricing for scarce technologies: For innovative technologies, prices are not the main issue for a client and price hikes can be passed through. Izertis is repositioning its product mix into more innovative solutions (68% of sales), and we expect the Company to increase prices in line with inflation for the Digital Transformation and Technology Infrastructure & Services areas.

Reducing production costs: Izertis is building a Southern Europe hub of talent to serve its international projects. This nearshoring strategy involves providing services in high-price countries (such as Germany and the UK) from low-cost countries (such as Spain and Portugal) where labour costs are 30% to 40% lower (JBCe).

Increasing scale: Although we expect high sales growth for the Company over the next few years (27.4% CAGR in 2021-27), we believe margins will benefit little due to the cost structure. We estimate 89% of Izertis' cost structure is of variable nature, thereby limiting the operating leverage. Izertis' Labour costs (salaries and wages), Costs of Goods Sold (hardware equipment, licenses, etc.) and Other Expenses accounted for 65%, 29% and 6% of its total costs in 2021.

Organic cost base evolution, 2019a-27e

	2021a	2022e	2023e	2024e	2025e	2026e	2027e	CAGR21-27e
Total Costs	**-60.7**	**-84.7**	**-102.4**	**-115.1**	**-129.1**	**-145.0**	**-162.9**	**17.9%**
Fixed %	11%	10%	10%	9%	9%	8%	8%	
Variable %	89%	90%	90%	91%	91%	92%	92%	
Fixed (€m)	-6.7	-8.5	-9.7	-10.6	-11.2	-12.0	-12.8	11.4%
Variable (€m)	-54.0	-76.2	-92.7	-104.5	-117.9	-133.0	-150.1	18.6%
COGS	-17.6	-23.0	-27.5	-30.7	-34.1	-37.9	-42.1	15.6%
Fixed (€m)	-5.3	-6.9	-7.9	-8.6	-9.2	-9.8	-10.4	12.0%
Variable (€m)	-12.3	-16.1	-19.6	-22.1	-24.9	-28.1	-31.7	17.1%
Personnel	-39.6	-57.1	-69.4	-78.3	-88.3	-99.7	-112.5	19.0%
Fixed (€m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.m.
Variable (€m)	-39.6	-57.1	-69.4	-78.3	-88.3	-99.7	-112.5	19.0%
Other Opex	-3.6	-4.6	-5.5	-6.1	-6.7	-7.5	-8.3	15.2%
Fixed (€m)	-1.4	-1.6	-1.8	-2.0	-2.1	-2.2	-2.4	8.9%
Variable (€m)	-2.1	-3.0	-3.7	-4.1	-4.7	-5.3	-5.9	18.6%

Source: Company data and JB Capital estimates

We expect Izertis to generate positive FCF from 2025 onwards, thanks to increased size and operational improvement

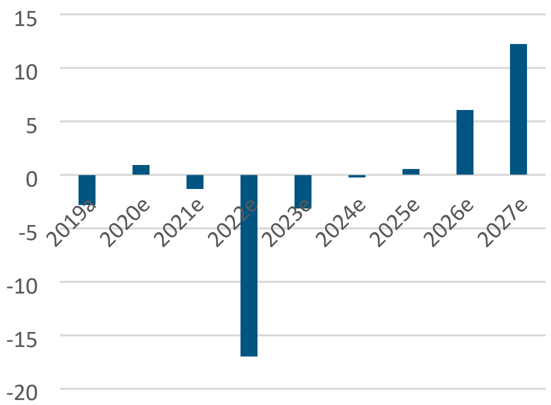
Between 2018 and 2021, Izertis generated cash only in 2020 (€0.9m FCF). This is explained by the strong acquisition activity the Company has carried out during the period (€16m Acq. Capex in 2018-21). Nevertheless, we expect the Company to improve its cash conversion due to the following reasons:

Capex peak in 2022: We expect Acquisition Capex to peak at €17.3m in 2022 due to the 6 acquisitions made during the year (Duonet, Okode, Sidertia, Wealize, Aura and Pharma Advisors). Nevertheless, we forecast a decrease for the next few years (Avg. €15m Acq. Capex per year in 2022-27). Izertis never surpassed the €6m Acquisition Capex during 2018-20 (Avg. 8% Acq. Capex/Total Sales); therefore, we believe 2022 will be an exception (19% Acq. Capex/Total Sales). Thus, we forecast €15m average Acquisition Capex from 2023 onwards, in line with its historical ratio of 8% Acq. Capex/Total Sales. Additionally, we forecast 1% maintenance Capex/Sales in 2023-27, given the asset-light model of the Company.

CFFO improvement: We expect operating cash flow growth to improve (37% CAGR for 2021-27), driven by the increase in sales (27.4% CAGR in 2021-27) and EBITDA margin (+2.9pp in 2021-27). This will drive Izertis' cash conversion (FCF/EBITDA) to reach 32% EBITDA in 2027 (JBCe).

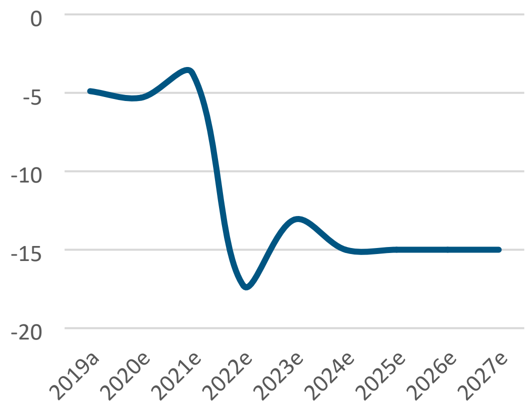
We anticipate a 1.7x ND/EBITDA for 2024, which should steadily decline to reach 0.4x ND/EBITDA in 2027.

Izertis FCF evolution



Source: Company data and JB Capital estimates

Izertis Inv. Capex evolution (€m)



Source: Company data and JB Capital estimates

Izertis to comfortably meet upcoming maturities on a strong cash position

2022-2027 maturities

Maturities	2H22	2023	2024	2025	2026	2027 and beyond	TOTAL
Bank Debt	5.7	7.8	7.1	6.7	5.1	2.3	34.8
Bonds	9.8				3.9		13.7
Others	2.7	5.5	0.2	0.2	0.3	0.3	9.2
Total	**18.2**	**13.3**	**7.3**	**7.0**	**9.4**	**2.6**	**57.7**

Source: Company data and JB Capital estimates

Debt structure

	Total	Bank Debt	Bonds	Others
LT Financial Debt	39.6	29.1	3.9	6.6
ST Financial Debt	18.2	5.7	9.8	2.7
Total	**57.7**	**34.8**	**13.7**	**9.2**
Cash	26.9			
Net Debt 1H22	**30.9**			

Source: Company data and JB Capital estimates

We do not expect liquidity shortages as a result of the €27m held in cash by Izertis at the end of 1H22. Moreover, we highlight that 52% of Izertis debt (5yrs average life) is at fixed rate and that the company delivered a contained 2.3% financial cost on average gross debt in 1H22. As a result of such profile we do not expect the Group to see financial cost tensions in a rising interest rates scenario.

Valuation offers upside based on future inorganic transactions

We initiate coverage of Izertis with a Buy rating and €10.25/shr target price (28% upside). Our valuation for Izertis is based on organic and inorganic performance. We estimate the Company will offer 18.6% sales CAGR in 2021-27, based on its current perimeter, and offer 27.4% CAGR including inorganic growth. On the organic side, we anticipate 14.1% normalized EBITDA margin in 2027 (from 11.2% in 2021 and 12.9% in 1H22), translating into an overall margin of 13.7% after including the new acquisitions. In this respect, we assume the acquisition of €15m sales per year from 2023 to 2027 at 10x EV/EBITDA and 10% EBITDA margin for the newly acquired companies (below Izertis' margin) with a 4pp expansion in the following four years as a result of their integration into Izertis' structure. Such a multiple is coherent with sector transactions (9.2x EV/EBITDA for 2019-22) and with Izertis' 2022 deals that have averaged the aforementioned 10x.

We believe the market appraises Izertis on its current shape (€8.3/shr valuation) and does not factor the potential value creation derived from its inorganic ambitions. In fact, if the Group were not to explore such an avenue, it would count with a net cash position in 2025. Additionally, the consulting IT sector is highly fragmented and there are c.300 small-sized companies that could serve Izertis' inorganic ambitions.

We expect the Group to deliver 27% sales CAGR for 2021-27 and reach 13.7% EBITDA margin in 2027, from the 11.2% recorded in 2021. We estimate the Group to reach normalized multiples in 2026 with 8x EV/EBITDA in that year and to still count with a comfortable ND position (<1x ND/EBITDA), which could even suggest a more aggressive inorganic strategy as Izertis targets a long-term leverage of <3x ND/EBITDA.

Key assumptions in estimates and valuation

€m	2021	2022	2023	2024	2025	2026	2027	CAGR21-27
Izertis organic	16.40%	14.9%	11.8%	12.5%	12.5%	12.6%	12.6%	12.8%
Past acquisitions 2021-2022		26.4%	9.8%	0.0%	0.0%	0.0%	0.0%	
New acquisitions beyond 23e		0.0%	16.3%	12.1%	9.7%	8.0%	6.6%	
Total sales growth		**41.4%**	**37.9%**	**24.6%**	**22.2%**	**20.5%**	**19.2%**	
Current Perimeter sales	65	92	112	126	142	161	181	18.6%
New acq beyond 2023e	0	0	15	32	51	72	96	59.2%
Total sales	**65**	**92**	**127**	**158**	**193**	**233**	**277**	**27.4%**
Current Perimeter EBITDA	7	11	14	16	19	22	25	23.3%
New acq EBITDA beyond 2023e	0	0	2	3	6	9	13	30.4%
Total EBITDA	**7**	**11**	**15**	**19**	**25**	**31**	**38**	**31.7%**
Current Perimeter sales	n.m.	41.4%	21.6%	12.8%	12.8%	12.8%	12.9%	
New acq beyond 2023e	n.m.			112.5%	59.6%	42.0%	33.3%	
Total sales	n.m.	**41.4%**	**37.9%**	**24.6%**	**22.2%**	**20.5%**	**19.2%**	
EBITDA Growth								
Current Perimeter EBITDA		57.3%	20.4%	16.0%	17.3%	16.8%	16.4%	
New acq EBITDA beyond 2023e				129.4%	71.8%	52.5%	38.8%	
Total EBITDA		**57.3%**	**33.5%**	**27.1%**	**27.0%**	**25.3%**	**23.0%**	
EBITDA Margin								
Current Perimeter EBITDA	11.2%	12.4%	12.3%	12.7%	13.2%	13.6%	14.1%	
Inorganic EBITDA			10.0%	10.8%	11.6%	12.5%	13.0%	
Total EBITDA	**11.2%**	**12.4%**	**12.0%**	**12.3%**	**12.8%**	**13.3%**	**13.7%**	

Source: JB Capital estimates

We value Izertis by using a DCF model, with our estimates 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 average 8.0% dynamic WACC (based on the forward 10-year bond rates curve and normalized rates). We also consider a 2.75x ND/EBITDA target coverage (in line with the Group's ambition of <3x), together with a 2.0% terminal growth rate due to its positioning in IT value-added services. Additionally, we equalize capex and amortization figures in our terminal value, in line with our valuation policies. We therefore reach a €370m EV, which we adjust for the 2023 ND estimate of €33m (which includes the €3.8m bond conversion in 2023), equity accounted, minorities at P/BV and a 20% standard liquidity discount, given its reduced size and traded volume. Additionally, we factor the issuance of 0.5m shares associated with the convertible bond (issued in January 2021 and already in the money as the strike price is set at €7.65/shr). Moreover, we adjust the number of outstanding shares by the expected issuance of earn-outs and new acquisitions to be incurred in 2023 (we reach 26.6m shares fully diluted from the current 24.6m shares).

DCF valuation

	2023	2024	2025	2026	2027	TV	
Sales	127	158	193	233	277	291	
EBITDA	15	19	25	31	38	40	
Amorts	-8	-8	-8	-9	-9	-2	
EBIT	8	11	16	22	29	38	
Taxes	-2	-3	-4	-6	-7	-9	
Amorts	8	8	8	9	9	2	
WC	-1	1	-2	-1	0	0	
Capex	-14	-16	-16	-17	-17	-2	
FCF	**-1**	**2**	**2**	**8**	**14**	**29**	**477**
DFCF		1	2	6	10		350
EV Explicit	20	5.3%	8.1%	WACC Exp.	2.0%	g	
EV TValue	350	94.7%	8.0%	WACC TV			
EV	**370**		8.0%	WACC Avg.			
ND 2023	-33						
Equity accounted	6						
Minorities (P/BV)	-2						
Equity (€m)	**341**						
Liquidity disc (20%)	-68						
Sh Out (m) - 2021	23.4						
Convertible Sh (m)	0.5						
Acquistions agreed	2.1						
New Acquisitions	0.6						
Shr Fully diluted	26.6						
TP 2023e	**10.25**						

Source: JB Capital estimates

The following sensitivity analysis is based on organic 2021-27 CAGR and terminal growth rate.

Sensitivity to acquisition multiple (x) and EBITDA margin (y)

					Organic CAGR			
	10.25	16%	15%	14%	13%	12%	11%	10%
	3.5%	15.0	14.3	13.6	12.9	12.3	11.7	11.1
	3.0%	13.8	13.1	12.5	11.9	11.3	10.7	10.2
	2.5%	12.8	12.2	11.6	11.0	10.5	9.9	9.4
g	2.0%	11.9	11.4	10.8	**10.25**	9.7	9.2	8.7
	1.5%	11.2	10.6	10.1	9.6	9.1	8.6	8.2
	1.0%	10.5	10.0	9.5	9.0	8.5	8.1	7.7
	0.5%	9.9	9.4	9.0	8.5	8.1	7.6	7.2

Source: JB Capital estimates

Additionally, we show a sensitivity analysis to our hypothesis on the acquisition multiple and EBITDA margin of the acquired companies beyond 2023.

Sensitivity to acquisition multiple (x) and EBITDA margin (y)

				EV/	EBITDA			
	10.25	7.0	8.0	9.0	10.0	11.0	12.0	13.0
	13.0%	11.3	11.1	10.9	10.7	10.5	10.3	10.1
	12.0%	11.1	10.9	10.7	10.5	10.4	10.2	10.0
	11.0%	10.9	10.8	10.6	10.4	10.2	10.0	9.9
EBITDA mg	10.0%	10.7	10.6	10.4	**10.25**	10.1	9.9	9.8
	9.0%	10.5	10.4	10.2	10.1	10.0	9.8	9.7
	8.0%	10.3	10.2	10.1	9.9	9.8	9.7	9.6
	7.0%	10.1	10.0	9.9	9.8	9.7	9.6	9.5

Source: JB Capital estimates

We also conduct a sensitivity analysis to WACC and terminal growth rate with the following outcome:

Sensitivity to WACC (x) and terminal growth (y)

					g			
	10.25	2.8%	2.5%	2.3%	2.0%	1.8%	1.5%	1.3%
	7.3%	14.1	13.4	12.7	12.1	11.5	11.0	10.6
	7.5%	13.3	12.6	12.0	11.4	10.9	10.5	10.0
	7.8%	12.5	11.9	11.3	10.8	10.4	9.9	9.5
WACC	8.0%	11.8	11.2	10.7	**10.25**	9.8	9.4	9.1
	8.3%	11.1	10.6	10.2	9.7	9.4	9.0	8.7
	8.5%	10.5	10.1	9.7	9.3	8.9	8.6	8.3
	8.8%	10.0	9.6	9.2	8.8	8.5	8.2	7.9

Source: JB Capital estimates

Comparable peers: Izertis offers rich multiples based on future growth

We set a comparable peers group formed by a reduced number of companies separate from the traditional IT companies (such as Accenture and Capgemini), as the latter counts with legacy businesses and the former are mostly concentrated in digital transformation (as is the case for Izertis). Our comparable peer group shows healthy sales growth as a result of this factor (25% sales CAGR for 2021-24 vs +4% for traditional peers) and offers best-in-class EBITDA margins (17.3% in 2023e vs 13.6% for traditional peers).

In this context, target comparables show 23.4x P/E and 12.8x EV/EBITDA for 2023e along with positive FCFEy. With the exception of Novabase, they do not pay dividends (as all cash generated is devoted to growth) and operate with net cash positions (1.3x Net Cash/EBITDA for 2023e). Additionally, we highlight that there are no relevant capex requirements within the sector (2% on average capex/sales as all costs are funneled mainly through opex and personnel expenses), while they offer promising EBITDA growth (25% EBITDA CAGR for 2021-24).

Izertis trades above its comparable peers for 2022-24. We believe this is justified by the higher growth rate expected as we estimate Izertis should post 39% EBITDA CAGR for 2021a-2024e vs +25% for its peers. We expect the Group to reach normalized multiples in 2026, when we forecast it to trade at 8x EV/EBITDA and 15x P/E.

Comparable peers (I)

		Pr.	Mkt Cap	P/E (x)	P/E (x)	P/E (x)	EV/EBITDA (x)	EV/EBITDA (x)	EV/EBITDA (x)	FCFEy (%)	FCFEy (%)	FCFEy (%)
	Ctry	€/Sh	€m	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e
EPAM	US	328.4	18,886	31.9	27.1	22.1	20.4	16.6	12.8	1.8	3.1	3.8
Globant	US	175.7	7,341	35.9	29.4	23.9	19.6	15.6	12.2	1.8	2.7	2.5
Reply	IT	111.1	4,156	23.3	20.3	18.2	13.0	11.2	9.6	3.2	4.3	4.8
Endava	UK	76.3	2,927	35.3	28.0	22.8	23.2	17.5	13.2	3.7	4.3	5.1
Nagarro	GR	116.0	1,598	22.1	20.7	16.6	12.4	10.5	8.3	2.7	4.2	5.2
Novabase	PT	4.3	133	19.1	14.8	12.1	6.0	5.3	4.0	8.2	9.6	10.6
Average				**27.9**	**23.4**	**19.3**	**15.8**	**12.8**	**10.0**	**3.6**	**4.7**	**5.3**
Izertis (JBCe)	**SP**	**8.04**	**198**	**121.4**	**56.6**	**33.5**	**20.7**	**16.1**	**12.8**	**-8.6**	**-1.5**	**-0.1**
Accenture	US	278.0	184,797	25.5	25.2	22.9	15.2	15.2	13.9	4.4	4.0	4.7
Capgemini	FR	178.7	30,798	16.6	15.3	13.8	9.5	8.6	7.5	5.5	6.1	6.8
Alten	FR	121.0	4,183	14.4	13.8	12.9	8.3	7.6	6.6	3.9	5.9	6.3
TietoEVRY	FI	25.5	3,015	11.1	11.0	10.3	7.3	6.9	6.5	7.1	9.3	9.9
Sopra Steria	FR	141.3	2,903	10.4	9.3	8.2	5.1	4.5	3.8	8.1	9.0	9.6
Indra Sistemas	SP	9.3	1,650	9.4	8.8	7.8	4.5	3.9	3.3	10.1	11.4	12.4
Atos	FR	10.9	1,213	54.0	6.5	3.8	3.0	3.1	2.8	-32.4	-41.7	-19.7
Sonda	CH	0.3	297	8.9	6.7	5.8	3.7	3.2	3.1	-32.6	-1.1	1.9

Source: FactSet and JB Capital estimates. Prices as of 17 November 2022

Comparable peers (II)

		Pr.	Mkt Cap	DvDy (%)	DvDy (%)	DvDy (%)	ND/EBITDA (x)	ND/EBITDA (x)	ND/EBITDA (x)	EPS CAGR (%)	Sales CAGR (%)	EBITDA CAGR (%)
	Ctry	€/Sh	€m	2022e	2023e	2024e	2022e	2023e	2024e	2021-24	2021-24	2021-24
EPAM	US	328.4	18,886	0.0	0.0	0.0	-1.9	-2.3	-2.5	23.1	26.6	23.5
Globant	US	175.7	7,341	0.0	0.0	0.0	-1.1	-1.2	-1.4	30.5	31.9	33.9
Reply	IT	111.1	4,156	0.8	0.9	1.1	-0.6	-1.0	-1.3	14.9	16.1	13.0
Endava	UK	76.3	2,927	0.0	0.0	0.0	-1.0	-1.4	-1.6	30.5	32.2	30.8
Nagarro	GR	116.0	1,598	0.0	0.0	0.0	1.0	0.5	0.0	39.4	30.7	34.7
Novabase	PT	4.3	133	10.1	9.9	9.9	-2.9	-2.5	-3.0	6.7	10.0	13.5
Average				**1.8**	**1.8**	**1.8**	**-1.1**	**-1.3**	**-1.6**	**24.2**	**24.6**	**24.9**
Izertis (JBCe)	**SP**	**8.04**	**198**	**0.0**	**0.0**	**0.0**	**3.0**	**2.1**	**1.7**	**149.8**	**34.4**	**39.3**

Source: FactSet and JB Capital estimates. Prices as of 17 November 2022

Comparable peers (III)

		Pr.	Mkt Cap	EBITDA Mg (%)			Capex/Sales (%)			Sales Gr (%)	Sales Gr (%)	Sales Gr (%)
	Ctry	€/Sh	€m	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e
EPAM	US	328.4	18,886	18.1	18.3	18.4	1.7	2.2	1.7	41.2	17.2	22.6
Globant	US	175.7	7,341	20.7	20.7	20.5	4.0	4.9	5.8	50.6	23.4	23.5
Reply	IT	111.1	4,156	16.5	16.1	16.4	2.9	1.8	1.7	25.8	13.1	9.9
Endava	UK	76.3	2,927	24.3	23.6	24.5	2.1	2.6	3.0	41.7	32.0	23.4
Nagarro	GR	116.0	1,598	16.4	15.4	16.0	0.6	0.8	0.7	57.4	20.9	17.3
Novabase	PT	4.3	133	9.5	10.1	10.3	1.3	1.2	1.1	12.2	9.6	8.2
Average				**17.6**	**17.4**	**17.7**	**2.1**	**2.2**	**2.3**	**38.1**	**19.4**	**17.5**
Izertis (JBCe)	**SP**	**8.04**	**198**	**12.2**	**12.0**	**12.3**	**2.5**	**0.8**	**0.8**	**41.4**	**37.9**	**24.6**

Source: FactSet and JB Capital estimates. Prices as of 17 November 2022

Comparable peers (IV)

		Pr.	Mkt Cap	EBITDA Gr (%)	EBITDA Gr (%)	EBITDA Gr (%)	NP Gr (%)	NP Gr (%)	NP Gr (%)	PEG (x)	PEG (x)	PEG (x)
	Ctry	€/Sh	€m	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e
EPAM	US	328.4	18,886	29.1	18.2	23.5	29.8	19.6	23.2	1.1	1.4	1.0
Globant	US	175.7	7,341	58.7	23.1	22.8	50.3	23.7	26.4	0.7	1.2	0.9
Reply	IT	111.1	4,156	17.1	10.7	11.3	16.8	18.2	12.0	1.4	1.1	1.5
Endava	UK	76.3	2,927	36.1	28.0	28.4	46.5	26.7	24.7	0.8	1.0	0.9
Nagarro	GR	116.0	1,598	76.7	13.6	21.8	131.2	12.2	25.2	0.2	1.7	0.7
Novabase	PT	4.3	133	15.4	13.3	11.8	-22.2	28.6	22.2	-0.9	0.5	0.5
Average				**38.9**	**17.8**	**19.9**	**42.1**	**21.5**	**22.3**	**0.5**	**1.2**	**0.9**
Izertis (JBCe)	**SP**	**8.04**	**198**	**56.4**	**36.0**	**27.1**	**353.6**	**129.4**	**70.5**	**0.3**	**0.4**	**0.5**

Source: FactSet and JB Capital estimates. Prices as of 17 November 2022

Spanish IT consulting market by market share 2020 (€m)

Main sector components	Total Turnover	Market Share
Everis (NTT Data)	1,475	10.1%
Minsait	1,159	8.0%
Accenture Spain	1,092	7.5%
IBM Spain	775	5.3%
Inetum	673	4.6%
Capgemini Spain	550	3.8%
Atos Spain	420	2.9%
Seidor	405	2.8%
Izertis	51	0.3%
Other	7,938	54.6%
Total sector	**14,538**	**100.0%**

Source: JB Capital estimates

Epam – EPAM was founded in 1993 and is a leading provider of digital platform engineering, software development and IT services to North American, European and Russian customers. Its key service offerings and solutions are related to engineering, operations, optimization, consulting and design. The Group employs 43K professionals and has delivery locations in the US, Russia, Belarus, Ukraine, Hungary, Poland and India. About 58% of sales are generated in North America, 37% in Europe and 4% in Russia. EPAM serves six industry groups: Financial Services, Travel & Consumer, Business Information and Media, Software & Hi Tech, Life Sciences & Healthcare and Emerging Verticals.

Globant – Headquartered in Luxembourg, Globant offers its services across 55 locations in 15 countries. It generates 64% of revenues in North America, 23% in LatAm and 14% from Europe and Asia. Its industry verticals include Banks, Financial services and Insurance (25% of sales), Media and Entertainment. The Group counts with 23K employees.

Reply – Reply is an Italian-based company specialized in Consulting, System Integration and Digital Services. Reply's offer covers three areas of competence: Processes, Applications and Technologies. Regarding verticals, Reply offers its services in Telco and Media, Banking Insurance and Financial Institutions (25% of sales), Manufacturing and Retail, Energy and Utilities, Government and Defence. Reply uses new technology and communication systems such as Artificial Intelligence, Big Data, Cloud Computing, Digital Communication, Internet of Things, Mobile and Social Networking. Reply counts with a staff of 10.5K and offers the best sales/employee ratio at €140K/employee.

Endava – Endava offers software engineering, cloud transformation, test automation and technology consulting. Endava serves the finance, insurance and healthcare, retail and consumer goods, media and communication industries. Endava´s core activity is concentrated in the UK (41% of sales) and North America (35%), while Europe and Row represent 21% and 3%, respectively. Endava is strongly biased towards payments, financial services and TMT; these segments represent more than 75% of its revenues. The Group develops its operations with the help of its 11.8K FTEs.

Nagarro – Nagarro is a German corporate that offers enterprise and application lifecycle solutions, infrastructure management, digital commerce, IOT, product engineering and consulting services. The Group operates in 32 countries and counts with more than 17K employees. Nagarro generated 35% of its 2021 revenues in North America, 33% in Central Europe, 17% in RoW and 14% in Rest of Europe.

Novabase – Novabase was established in 1989. It is the largest Portuguese IT company and has been listed on the Euronext Lisbon Stock Exchange since 2000. Novabase has offices in Portugal, Spain, the UK, Turkey, the United Arab Emirates, Angola and Mozambique. It has more than 2,000 employees from 17 different nationalities. Novabase has two main businesses: i) Next-Gen and ii) Value Portfolio. Next-Gen delivers world-class services on cognitive and digital areas in more than 25 countries. Its solid track record is grounded on strong engineering skills, the use of human-centered methodologies and an agile mindset. Neotalent (main brand of Value Portfolio) is a leader in matching the right IT talent with clients' specific needs and challenges in Portugal. Focused on value-added services, Neotalent empowers businesses with the best technical expertise and a responsive way of thinking. Novabase generated 45% of its 2021 revenues from its home market. Novabase generated 45% of its 2021 revenues in its home market. We value Novabase at €235m EV, which represents 14x EV/EBITDA 2023e.

Indra - Indra is a leading global technology and consulting company operating in a number of sectors. Indra is one of the world's largest providers of proprietary solutions in certain segments of the Transport and Defence markets, as well as a pioneer in Information Technologies in Spain, Latin America and select European countries. The Group holds an 8% market share in the Spanish IT consulting market, a highly fragmented sector. The Company provides a comprehensive range of IT services with a bias on traditional solutions such as IT outsourcing, nevertheless the company is increasing its exposure to new technologies. It has more than 49K employees, with sales operations in over 140 countries. We value Indra's IT business at €1.3Bn, representing EV/EBITDA multiples of 6.2x which is lower than the sector average due to the bias of its business towards more traditional IT solutions, resulting in lower margins (7.9% EBITDA Mg 2021) and sales growth (4.6% CAGR 2021-2025) in IT.

Company overview

History of the Group

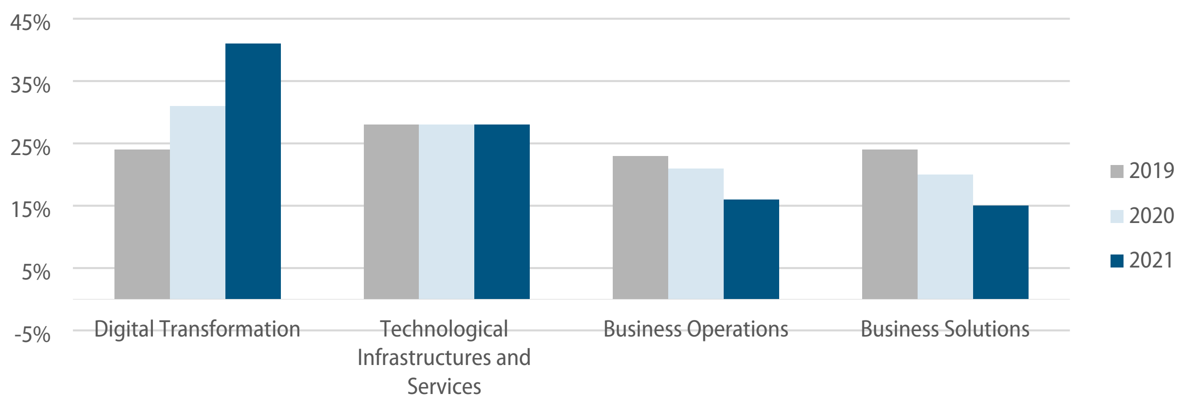
Izertis, founded by Pablo Martin, started operations in 1996 in Asturias, Spain. It began as a local company offering low-value services (such as B2B technological support, general support and maintenance) to micro and small local companies. Between 2005 and 2011, the Company started its national expansion (in Cantabria and Basque country), thanks to the increase in its product portfolio, ERP projects, networks and communication installations, among others. In 2015, the Company established its first foreign franchise, Izertis Mexico. In 2019, Izertis launched an initial public offer (IPO) in Spain, starting trading at 1.7€/shr, since then Izertis has been part of BME Growth ever since. The Company presented its new strategic plan in 2020 (for 2020-23), according to which it expects to achieve €125m in sales and €12.5m normalized EBITDA in 2023. Currently, Izertis has offices in 9 countries, 1,607 employees and €65m of sales (FY21). It continues its integration process, searching for smaller and complementary business companies to accelerate growth.

Company description

Izertis 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 1,600 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.

Business lines weights (as % of total revenues)



Source: Company Data

Digital Transformation (41% sales): This business line includes the integration of digital technology in all areas of a company, improving the way in which it operates and gives value to its clients. Digital transformation takes a customer-driven, digital-first approach to all aspects of a company, from its business models to customer experiences to processes and operations. It uses digital technologies to leverage data to drive smart workflows, faster and smarter decision-making and real-time response to market disruptions. Digital Transformation is divided into three distinct segments:

i.Smart Software Labs: This segment is responsible for software development projects and includes tailormade software, development of mobile apps and Q&A and testing solutions, among others.

ii.Digitalization: This business provides digital transformation services such as content management, paperless processes and business process management to companies. It includes hyper-automation, real-time data sharing, data governance and artificial intelligence solutions among others.

iii.Digital Experience: It covers digital marketing services specialized to develop digital experiences to engage with clients and build durable relationships with them. It includes SEO and online ads, web design, e-commerce and social media solutions.

Technological Infrastructures & Services (27% sales): This business line enables companies, through technological infrastructures like cloud services, to have all their internal and external services everywhere and in every device. This area carries out the design, provision and operation of technological infrastructures under the service lines of data centre solutions, cloud services, workstations and mobility, communications solutions and cybersecurity.

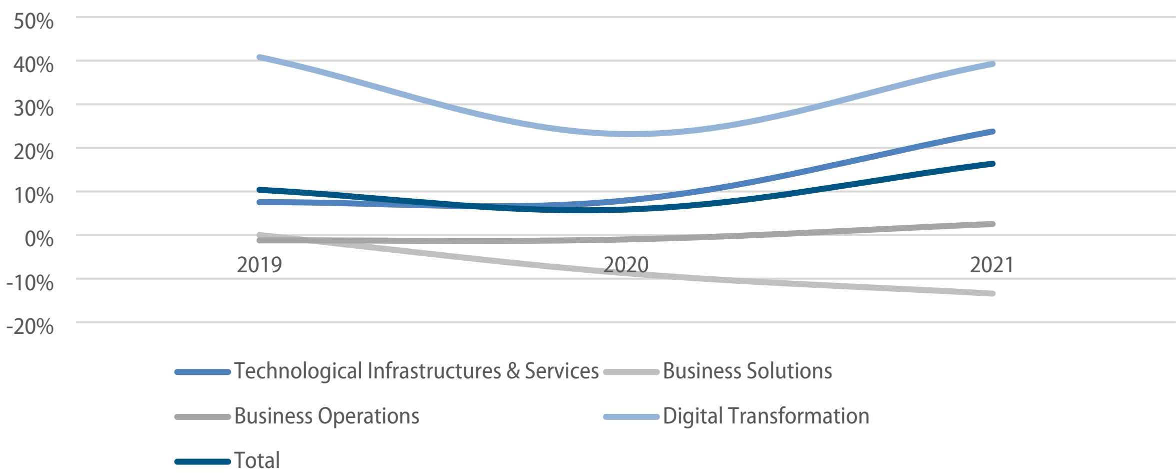
Business Operations (16% sales): It involves the outsourcing of all or part of a company's IT system to Izertis, which takes over the operational responsibility and upgrades the system within the framework of a fixed-price contract over several years. The service provider undertakes to meet specific service levels (through a service-level agreement).

Business Solutions (14% sales): This division provides technological consulting services aimed at continuously improving the client's work processes.

Izertis focuses on new technology solutions.

Izertis is repositioning itself in high-value-added areas such as Digital Transformation and Tech. Infrastructure & Services, enabling it to obtain higher margins (+2pp in 2018-21) as these are innovative technologies compared with the traditional IT outsourcing businesses (such as Business Operations). These two areas have grown from accounting for 52% of the Company's revenues in 2019 to 68% in 2021.

Organic growth per business line

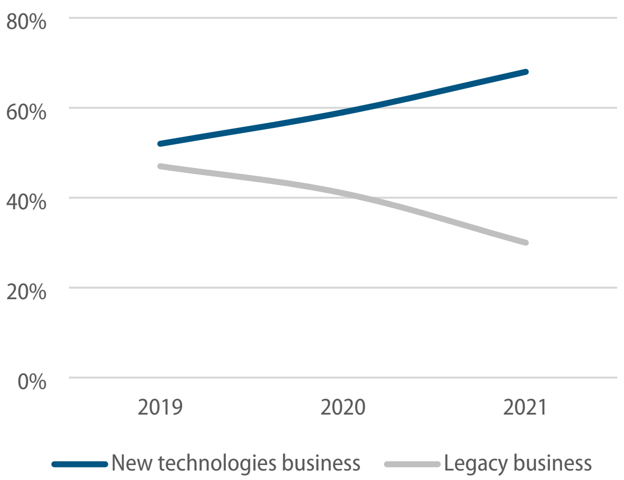


Source: JBCapital estimates

These two areas have gained importance over the past few years due to the emergence of new technologies such as Artificial Intelligence, Hyper-automation, public and private Cloud services, and Cybersecurity. The high demand for such type of solutions has enabled Izertis to expand organically, at 36% CAGR in Digital Transformation and 14% CAGR in Technological Infrastructure in 2019-21. These rates of growth contrast with its more legacy areas, such as Outsourcing (Business Operations) and Business Solutions. These services have been offered to companies for years. Many companies have entered this market, and nowadays the growth and margins of such type of services is lower than for the more innovative solutions. Consequently, Izertis' organic growth in these areas is flat or negative.

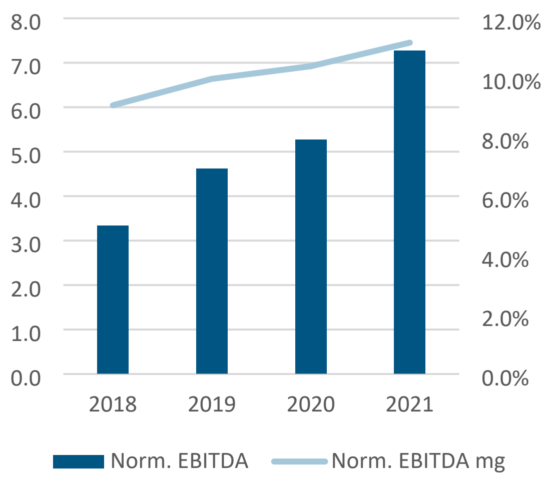
The bet on new technologies has enabled Izertis not only to increase revenues faster than the industry (5.1% CAGR for the Spanish IT services market vs 12% CAGR for Izertis' organic growth in 2018-21), but also to improve its margins (+2pp in 2018-21).

Repositioning of Izertis (% of Total sales)



Source: Company Data

Izertis Norm. EBITDA evolution

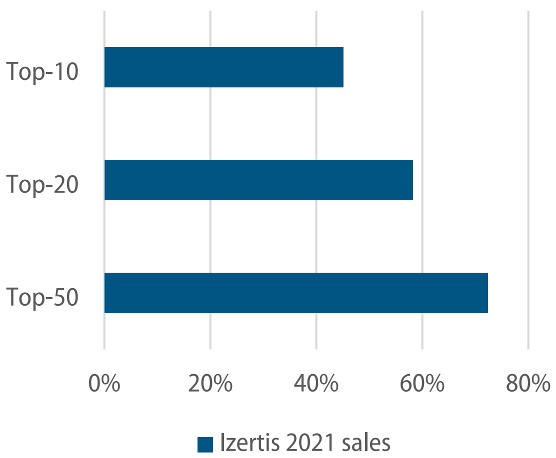


Source: Company Data

Well diversified by customer and sector

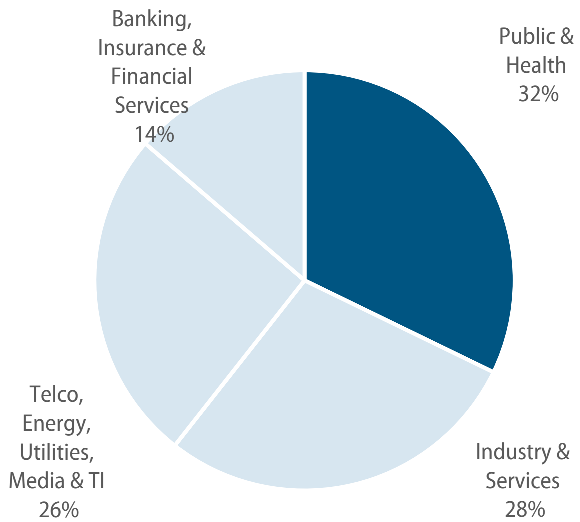
Izertis' sales are not concentrated, as its customers' profiles are diverse and their scope of activity is also diversified. Izertis' top-10 **clients** represent slightly more than 40% of the Company's sales; this is below that of industry competitors (Neurones 45.4%, Infotel 67.6%) and does not show a high level of concentration risk. In addition, Izertis' sales are spread across industries such as Public Telecommunications, Financial Services, Industry and Utilities among others, as its services are in demand across sectors. The industries that generate the most sales for Izertis are public administration and healthcare (32% in 2021). The Company currently works for half of the companies in the Spanish stock market's reference index, the IBEX-35.

Izertis 2021 sales by client



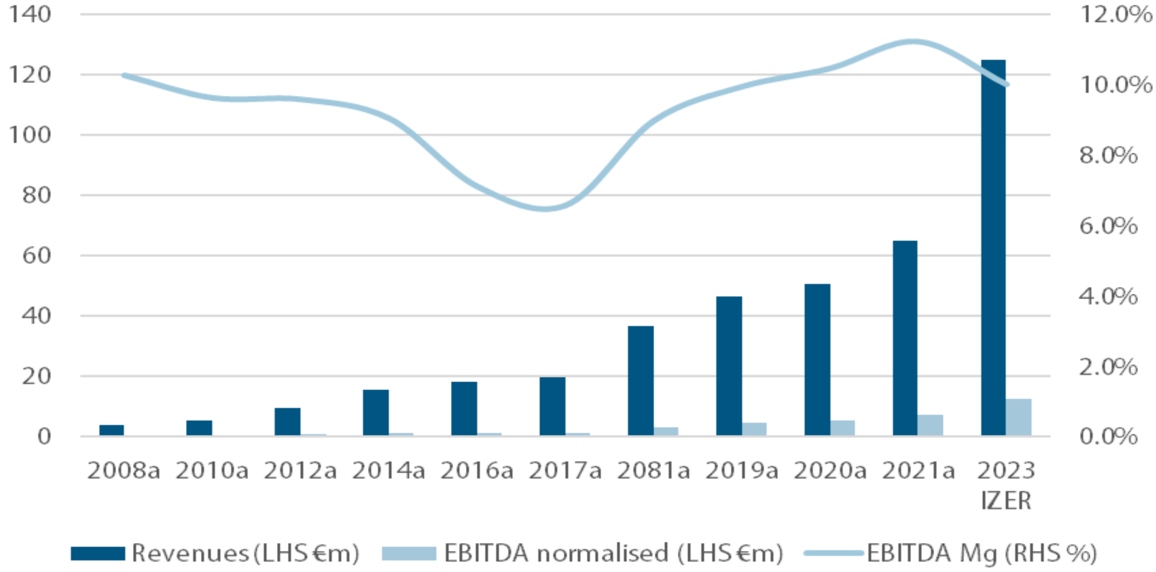
Source: Company Data

Izertis sales by sector



Source: Company Data

Izertis sales and EBITDA evolution



Source: Company Data

Business model based on innovative technologies to deliver superior growth

Izertis' business model is the same for the entire company but with some differences, depending on the technology.

Izertis offers a diversified portfolio of solutions. It has a balanced business mix but with a higher weight in new technologies (2/3), which have higher prices due to strong demand and scarcity of such solutions in the market. Its value proposition is to implement tailormade innovative solutions to digitalize enterprises. The business model of the company may vary slightly, depending on the technologies:

Innovation technologies: New technology segments such as Digital Transformation and Technological Infrastructure and Services offer innovative solutions that have just arrived in the market. Very few companies offer such technologies. As a result, such products and services command very high margins for an initial period of time due to lack of competition in new projects (such as those related to IoT, Cybersecurity and AI), and because niche companies are often sole bidders. However, with time, more companies incorporate these new technologies through M&A or by hiring talented people who have the necessary know-how required to integrate these new technologies. In the long run, all new technologies end up being commoditized. Practically all services in this segment are considered non-recurrent (1-2 year contract length) and revenue visibility is low.

Traditional technologies business model: In traditional segments such as Business Operations and Business Solutions, the rivalry between existing firms is high due to the longevity of products and number of solutions being offered in the market. Products in this segment have suffered commoditization. Margins are lower than in the new technologies segment, but recurrence and visibility of sales is higher because contracts in this block are structured on a long-term basis, with fixed prices from the outset. Recurrent services with guaranteed-performance commitments (SLAs) include long-term contracts concerning areas such as IT department outsourcing (managed services) and third-party applications maintenance.

Depending on the technology, prices may or may not be relevant in the clients' decision-making process. For innovative technologies, prices are not relevant and price hikes can be passed through clients in a normal way. However, for commoditized solutions such as outsourcing, where competition is higher, increasing prices without losing market share is very difficult. In addition, outsourcing contracts are structured at a fixed price from the outset and it is not common in the industry to pass through cost increases, as opposed to innovation technologies.

Innovation technologies: Pros and cons

+	−
Higher prices Price hikes High margins Few competitors Sole bidder	Non-recurrent Low revenue visibility

Source: Company data

Traditional technologies: Pros and cons

+	−
Recurrent revenue stream Revenue visibility in the long term	Low prices Low margins Rarely price hikes Fixed contracts Many competitors

Source: Company data

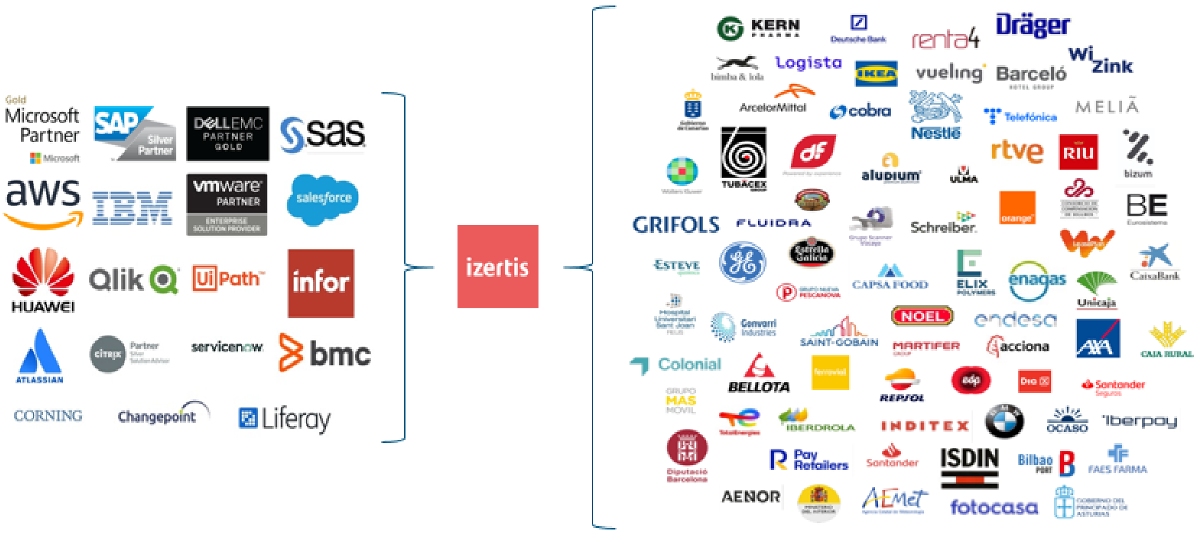
Partners are key in Izertis business model

IT consulting companies such as Izertis offer a distinctive way to gain exposure to trends in technological innovation without necessarily having a strong view on the relative strength of new technologies. Such companies are practically riskless in terms of technology disruption as they are the drive chain from software developers to companies. They are agnostic about technologies and only work with designers of proven solutions, most of which will become standards in their market. Izertis is positioned in-between innovative software developers such as Microsoft, IBM and Amazon Web Services on one hand and companies from all sectors that demand solutions to digitalize their business on the other hand.

Software publishers ally with IT consulting companies such as Izertis to reach out to the maximum possible market share for their products. Izertis pays a fee to access innovative software so it can profit from the integration of these products. This is a win-win relationship. Software companies can focus on the development of new and innovative products, allocating the majority of their resources in R&D, while they partner with Izertis and other IT consulting companies to maximize market penetration of their products, thanks to their large base of IT professionals. Meanwhile, Izertis benefits from the training given by software developers and their innovative products, so it can focus its efforts in two areas, hire and retain suitable IT professionals and gain new contracts with companies where it can implement the solutions of the partners it has allied with.

Izertis currently works with companies such as Microsoft, DellEMC, SAP, Infor, SAS, Huawei, Corning, Salesforce, IBM and BMC. These partners generally have a small sales force. By having access to Izertis' installed base, they benefit from the relationships of trust established with the largest clients. In return, they train Izertis' consultants and provide marketing support. In addition, these companies certify Izertis as the partner of choice among their clients. This enhances Izertis' reputation among its clients and opens the door to new contracts. Izertis has top certifications from Microsoft, SAP, DellEMC and Liferay.

Izertis' Partners and Clients



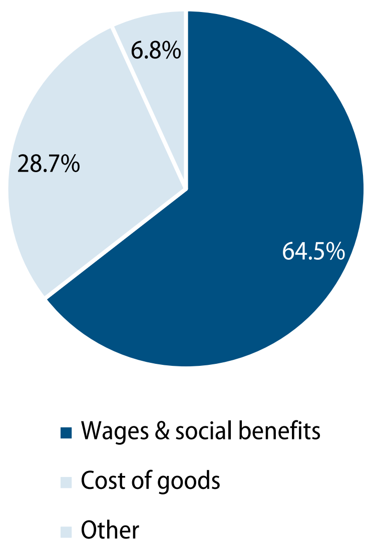
Source: Company data

Izertis' business is founded on its engineers

Izertis does not bear R&D risks but has to deal with aspects such as shortage of engineers, labour cost inflation and talent-related risks. Human resources in the IT consulting industry are scarce and expensive due to low unemployment rates in this market. Nowadays, the Spanish IT sector has an employment rate 50% higher than the average rate of the Spanish labour market (Source: InfoJobs-Esade 2021 research). In addition, IT professionals receive an average salary of €31,898 per year, €7,343 more than the national average (Source: InfoJobs-Esade 2021 research). DigitalES (Spanish Association for Digitalization) expects a moderate but steady growth in salaries (2-5%) for high-value-added and specialized IT profiles over the next few years, as the deficit of technology professionals in Spain stood between 70,000 and 100,000 people in 2021.

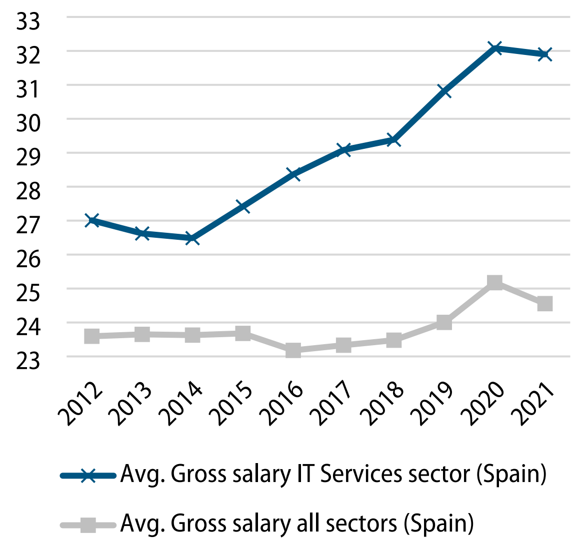
Izertis' most important cost item is wages and social benefits. These represent about 2/3 of the Company's operating costs, which averaged €40K per employee in 2021 (above the sector average of €32K). To cushion this wage inflation and engineers scarcity in Spain, the Company imports talent from other countries with lower average salaries than Spain, such as Portugal and Mexico (where salaries are 60% of those in Spain). Moreover, thanks to its repositioning in high-value-added technologies, the Company is able to pass on increases in labour costs to its customers and has an average sales/employee of €65K vs €60K for comparable peers.

Izertis cost structure, FY2021



Source: Company data

IT Avg. gross salary vs all sectors Avg. gross salary (€ thousands)



Source: Infojobs-Esade 2021 report

The challenge for Izertis is not only to address the correct clients and projects that correspond to its profile but also to control costs and hire enough people that suit the Company's projects. Human resources (HR) service companies and freelancers play a crucial role as they work closely with Izertis to fulfil the positions the Company cannot cover. In addition, it is a flexible tool to respond quickly to increases or decreases in IT services demand without losing talent or incurring high restructuring costs.

Izertis' business model canvas

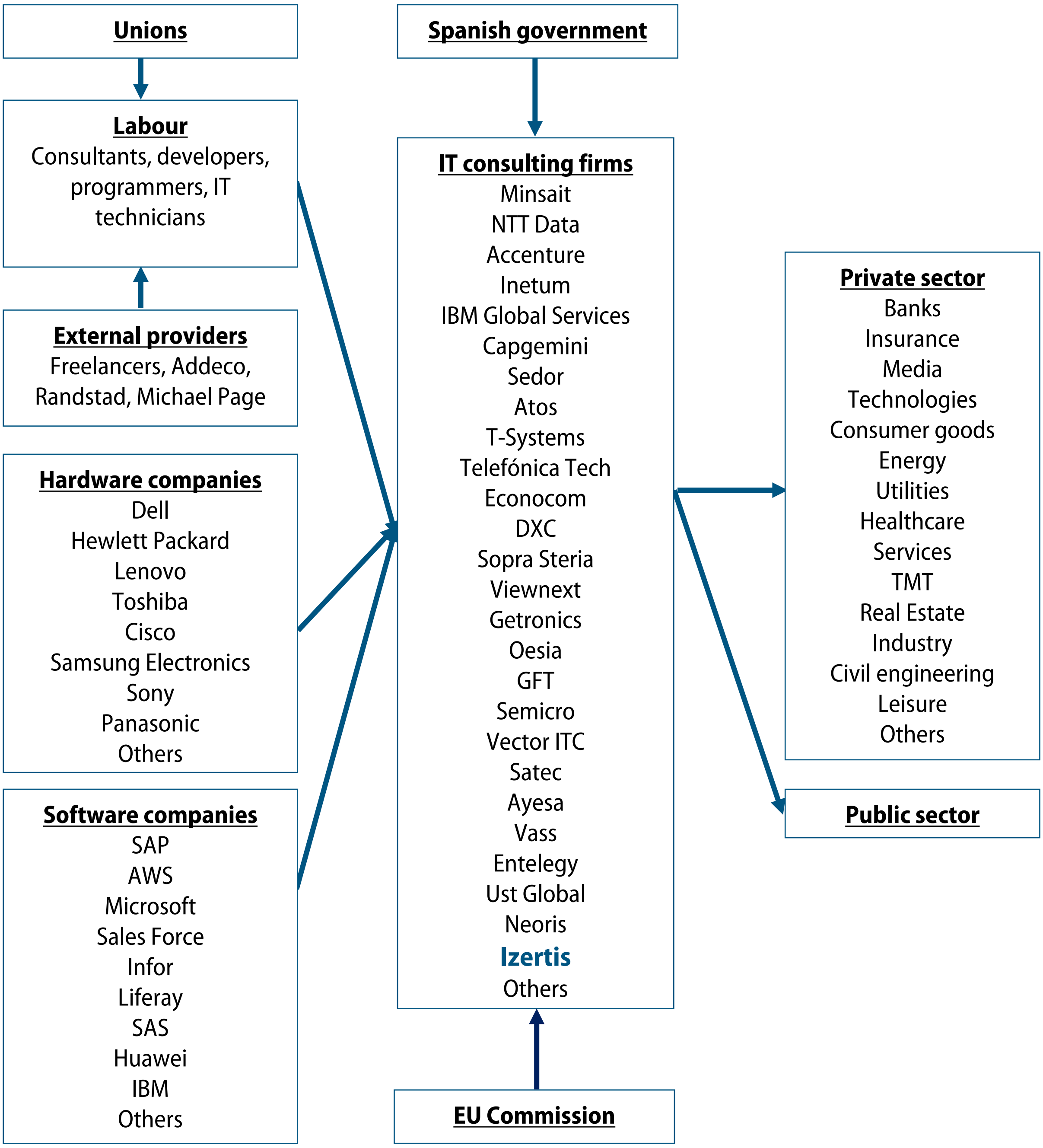
Key Partners	**Key Activities**	**Value Propositions**	**Customer Relationships**	**Customer Segments**
Software publishers Hardware manufacturers Tech-scouts	New technologies implementation Traditional technologies implementation and maintenance	Cutting Edge technologies solutions Fast, flexible and agile IT services Tailor made solutions	Direct relations with company departments or CIO for transversal projects	Banks, Financials & Fintech, Insurances, Real Estate, Public sector, Healthcare, Pharma, TMT, Energy & Utilities, Industry, Services, Tourism, Travel & Leisure, Retail, Logistics & Distribution
	Key Resources		**Channels**	
	Human Resources Partners licenses and certifications		Sales team Partners recommendations	
Cost Structure			**Revenue Streams**	
Human Resources (65%) Software licenses Hardware equipment			Turnkey projects Pay per use Subscription model	

Source: Company data, JB Capital

Companies and constituents that might impact Izertis' profitability

In order to understand the potential interactions of Izertis and the industry, we have created the Spanish IT industry map, divided by suppliers (left side), competitors (centre) and customers (right side). We include external factors such as government and EU Commission actions that could come into play.

Spanish IT consulting industry map



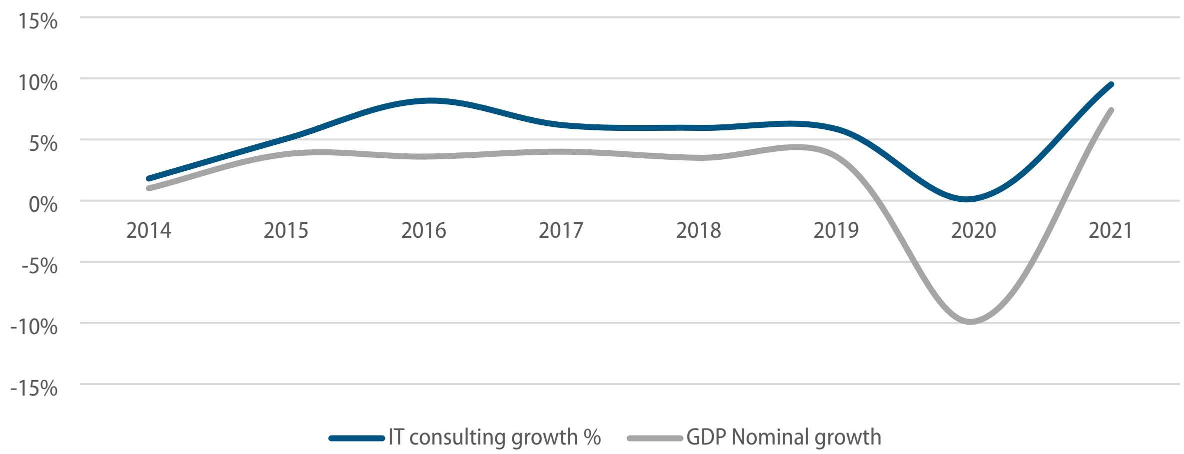
Source: JB Capital estimates

It is clear that companies in the sector are an intermediary between software developers and companies that want to digitise their business, that their major cost input is labour costs and that digitisation affects practically all sectors of the economy.

Izertis benefits from sector tailwinds

Izertis operates internationally in countries such as Mexico and Colombia, but most of its revenues still come from Spain (80%), where the market has followed the same trends of growth as the European industry (According to IDC 6.93% CAGR 2007-2021) over the past few years but at a slower pace. The Spanish IT Services market reached €15.9bn in 2021 (Source: AEC), offering a 4.5% CAGR between 2007 and 2021. The sector's growth rate has been higher than that of Spanish GDP in the past decade (+4pp avg. spread in 2011-21), although it is positively correlated (+0.8, JBCe). We expect this sector growth trend to continue (+6% CAGR in 2021-27) and act as a tailwind for Izertis.

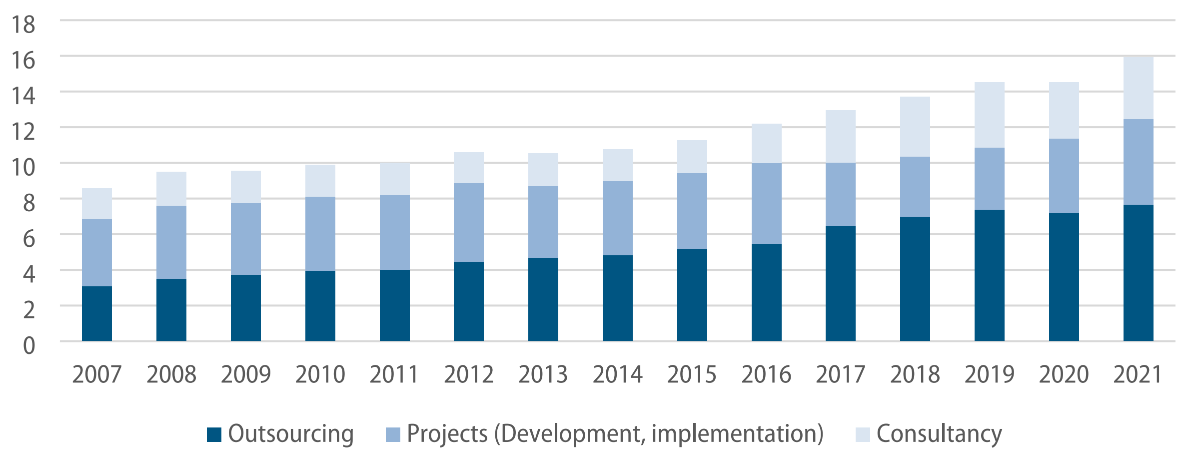
IT consulting industry growth vs spanish GDP nominal growth



Source: Spanish consultancy Association (AEC)

The sector has accelerated its growth in recent years from 3.5% CAGR in 2007-15 to almost double this growth with a CAGR of 6% in 2015-21. Companies such as IBM and Accenture attribute this acceleration in recent years to the increased use of the internet among the population (only 18% of Spaniards considered the internet essential in their lives in 2008, compared with 60% in 2020), which has changed people's consumption habits, and more recently to the Covid-19 pandemic, which has accelerated remote working. We highlight that in the whole period of study, the Spanish IT consulting market has never entered negative growth. There were only two years that generated flat growth in the market: 2013 (matching with the worst period of the financial crisis in Spain) and 2020 (matching with the Covid-19 crisis).

Spanish IT Services market (in €Bn)



Source: Spanish consultancy Association (AEC)

The Spanish Consultancy Association (AEC) divides the market into three segments: Outsourcing, Projects and Consultancy. Of these segments, outsourcing is the most relevant, representing 48% of the market in 2021. This is followed by Projects and Consulting with 22% of the market each. Although Outsourcing still dominates this sector, Consulting, the segment on which Izertis is focusing, is the fastest-growing one, reaching 11% CAGR in 2015-21 compared with Outsourcing, which saw only 6.7% CAGR during this period.

Corporate activity is a growth pillar, but execution is key

M&A is a pillar of growth for Izertis to reach its 2020-23 targets. Since 2020, Izertis has acquired 16 companies in adherence to its strategic plan (aiming to generate €125m in sales and €12.5m Norm. EBITDA in 2023). We estimate M&A to contribute to reach 37% (€46m sales) of the growth in order to reach the strategic plan in 2023. In fact, during 2022, the average multiple for acquired companies by Izertis (with 16% EBITDA margin) reached 10x EV/EBITDA (excluding earn-outs) while larger transactions in the sector have averaged 9.2x in 2019-22 (with a 14% margin).

This high number of acquisitions and their contribution to sales can be explained by the following reasons:

i. A need to obtain the critical size in order to offer services throughout the national territory and to larger companies, leading to improved margins.

ii. To be able to incorporate IT consulting professionals quickly, given the scarcity of talent for innovative technologies and wage inflation in the IT consulting labour market.

iii. In order to offer a full portfolio of services, Izertis usually acquires other companies operating and offering niche services with very profitable and high-growth technologies that will become mainstream in the near future. The fastest way to offer these types of technologies is to acquire such companies.

In fact, the high fragmentation of the market favours acquisitions at reasonable multiples. There are currently more than 300 companies in Spain with sales of less than €10m (Source: National Statistic Institute) that can be a target for Izertis.

Izertis acquisitions, 2012-22

Date	Target	EV	Company sales	Company EBITDA	EV/Sales	EV/EBITDA	EBITDA Mg %
2022	Pharma Advisors	9.5	3.5	0.7	2.7	14.0	19%
2022	Aura	2.8	2.8	0.2	1.0	11.3	9%
2022	Wealize	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
2022	Sidertia	18.3	6.3	2.1	2.9	8.6	33%
2022	Okode	4.8	1.5	0.5	9.6	9.6	33%
2022	Duonet	1.2	2.2	0.2	6.4	6.4	8%
2021	Data Adviser	0.6	1.7	0.1	0.7	6.3	6%
2021	Globe Testing	2.7	2.9	0.3	0.9	10.3	9%
2021	Rebis Consulting	0.8	1.4	0.0	0.6	54.4	1%
2021	3ASIDE Consultors,	2.9	4.0	0.3	0.7	8.5	9%
2020	Queres Tecnologías	0.4	1.6	0.1	0.3	5.9	4%
2020	TicMind Solutions	4.0	1.7	0.8	2.4	5.1	46%
2020	Solid Gear Projects	1.0	1.1	0.1	0.9	7.2	13%
2019	IG Business Solutions	6.6	2.9	n.m.	2.3	n.m.	n.m.
2019	Zinktic	0.6	0.4	n.m.	1.5	n.m.	n.m.
2019	Diligent Solutions,	0.3	0.3	n.m.	1.0	n.m.	n.m.
2019	Covirtia	1.0	0.6	n.m.	1.7	n.m.	n.m.
2018	Program Management Office,	3.3	4.4	n.m.	0.7	n.m.	n.m.
2018	Sparklegend Consultoría	0.9	1.2	n.m.	0.7	n.m.	n.m.
2018	Acordiant Technologies	1.7	1.6	n.m.	1.1	n.m.	n.m.
2018	What About Technologies	0.6	1.0	n.m.	0.6	n.m.	n.m.
2017	Inteligencia Sistemática 4	1.8	3.0	n.m.	0.6	n.m.	n.m.
2016	Sistemas Informáticos Desinor Data	0.3	3.2	n.m.	0.1	n.m.	n.m.
2016	Alsys Information Tecnologies	n.d.	1.6	n.m.	n.d.	n.m.	n.m.
2015	Nexis IT Group	1.1	3.0	n.m.	0.4	n.m.	n.m.
2013	Zesto Digital	0.1	0.4	n.m.	0.2	n.m.	n.m.
2012	Easo Informática de Vizcaya	0.2	1.5	n.m.	0.2	n.m.	n.m.
Average		**2.7**	**2.1**	**0.5**	**1.6**	**12.3**	**16.0%**

Source: Company data and JB Capital estimates

Izertis targets acquisition multiples of 6x-9x EV/EBITDA from 2023 onwards, and the companies acquired should not have net debt. Izertis is committed to maintaining about 2.5x ND/EBITDA to achieve its strategic plan. The payment of acquired companies is divided in three parts:

i) One-third in cash; ii) one-third in variable remuneration, conditional to the acquired company's achievement of sales targets; and iii) the final third in Izertis' shares with a lock-up period of 36 months from the delivery of the shares.

The last two types of payments are designed to increase the acquired company founders' involvement in the game. In addition, founders are also incorporated to Izertis' management team for at least three years, thereby reducing the risk of unfair competition and aligning them with the Company's objectives.

2019-2022 sector transactions

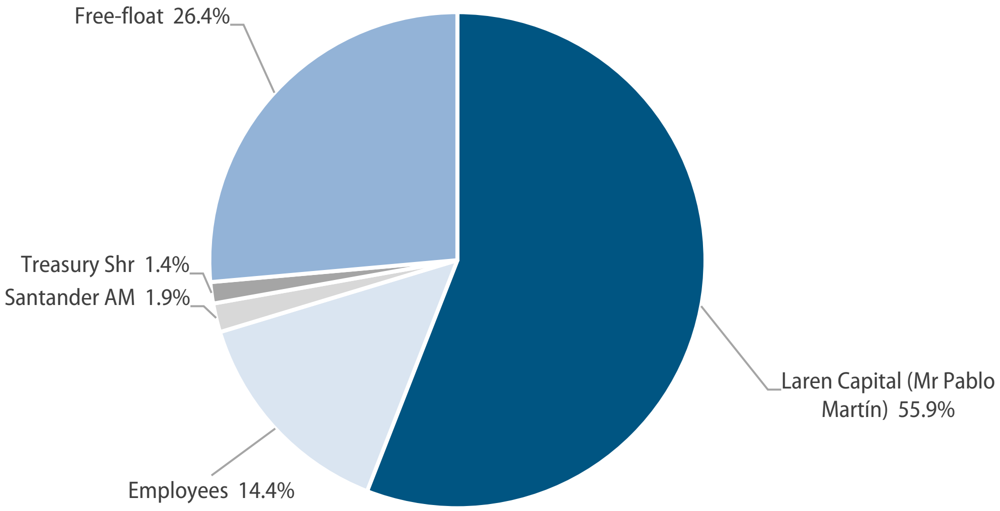
Date	Target	% Hold	Sector	Acquirer	EV	EV/Revenues	EV/EBITDA	EBITDA Mg%
Aug-22	PEN Partnership	100%	IT Consulting	Wavestone	36	1.6	12.6	13%
Jun-22	Piteco	100%	IT Consulting	Deda Group	241	6.2	17.4	36%
Mar-22	Sygnity SA	70%	IT Consulting	Specific Sols	65	1.5	6.7	22%
Oct-21	Devoteam	85%	IT Consulting	Castillon SAS	320	0.5	3.6	13%
Oct-21	Capita plc	100%	Sw solutions	NEC Sw Sols	72	0.9	7.9	14%
Oct-21	Beris	100%	IT Consulting	Tech Mahindra	7	0.7	n.a.	n.a.
Sep-21	SQLI	71%	IT Consulting	DBAY Advisors	185	0.9	11.2	8%
Jul-21	Cancom	100%	IT Consulting	Telefonica	398	2.6	13.5	15%
Jul-21	Datavard	100%	IT Consulting	SNP	20	1.1	9.1	13%
Jul-21	Swiss IT Security	100%	IT Consulting	Triton Partners	450	3.5	n.a.	n.a.
Jun-21	ProData Consult	100%	IT Consulting	Axcel	269	1.3	20.2	7%
Jun-21	it-novum GmbH	100%	IT Consulting	Allgeier	22	1.3	9.5	14%
Jun-21	Vitari	100%	IT Consulting	Exsitec Holding	11	0.9	12.0	8%
May-21	I-Tracing	100%	IT Consulting	Eurazeo; Sagard	165	3.3	n.a.	n.a.
May-21	Cybercom	100%	IT Consulting	Knowit	240	1.5	9.7	15%
Apr-21	Conoa	100%	IT Consulting	Proact IT	10	1.5	10.4	15%
Mar-21	Lutech	100%	IT Services	Apax	500	1.1	8.9	8%
Feb-21	Open	73%	Interac Info Syst	Montefiore	88	0.4	5.9	7%
Jan-21	Millnet BI	100%	IT Integration	Exsitec	11	1.3	6.7	20%
Dec-20	Sensa	100%	IT Sols	Crayon Group	21	5.8	5.8	10%
Jul-20	Techedge	81%	IT Consulting	One Equity	102	5.5	5.5	11%
Jun-20	Progel	100%	Integr and Digital	Impresoft	15	1.5	7.5	20%
Jan-20	Noesis	100%	IT Consulting	Altia	14	0.4	6.1	6%
Apr-19	Assioma	100%	IT Sw	TXT	8	0.9	6.4	14%
Mar-19	Valantic	75%	IT Consulting	DPE Dte	75	0.8	5	17%
Average					**134**	**1.9**	**9.2**	**14%**

Source: JB Capital estimates

Annex I – Shareholding structure and Board of directors

Mr Pablo Martin is the representative of Laren Capital S.L.U. for the exercise of the positions of the chief executive officer and chairman of the board of directors. As a businessman and technology investor since 1996 and founder of Izertis, he has consolidated sustained growth for 25 consecutive years in Izertis, managing to turn a local company into one with national and international expansion and consolidation that reaches turnover figures of more than €65m per year. He is a member of various boards of directors of technology-based companies and advanced services and is an active member of organizations linked to the business world and ICT. Mr. Martín is present directly in Izertis through his investment vehicle Laren Capital, which owns a 55.9% stake of Izertis equity. Izertis' employees hold 14.4% and Santander Asset Management a 1.9%. Free float reaches 26.4%.

Shareholding Structure

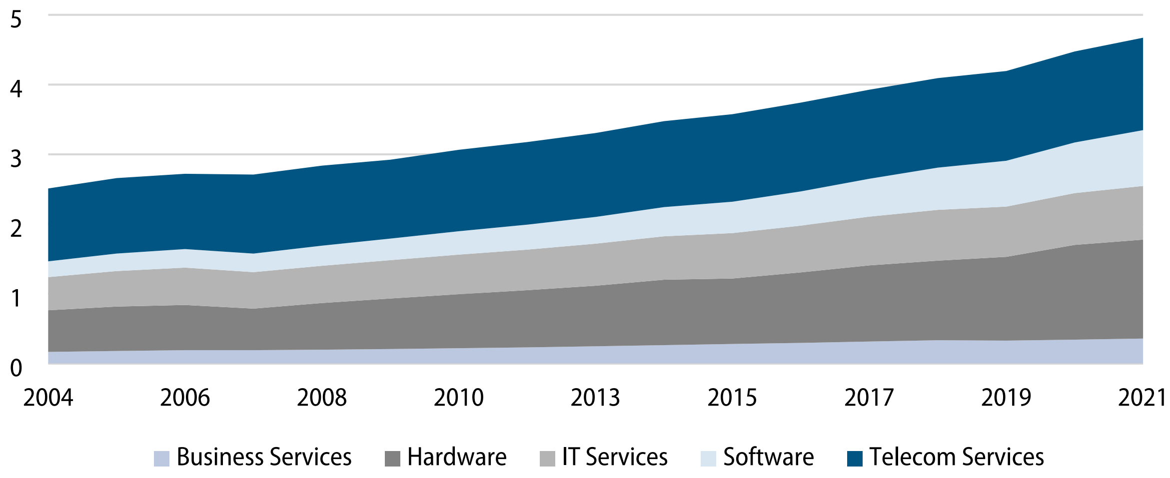


Source: Company data

Annex II - Global IT services market

The global ICT market size reached €4.6tr in 2021 and is expected to reach €5.0tr in 2023 (source: IDC). The market has evolved positively in the past few years with a steady and constant 3.7% CAGR between 2004 and 2021, and an even higher 4.6% CAGR between 2016 and 2021. Developed markets account for the largest share of the IT sector, with the United States accounting for 35% and Europe for 33% of the global market.

Global ITC market size (in €Tn)

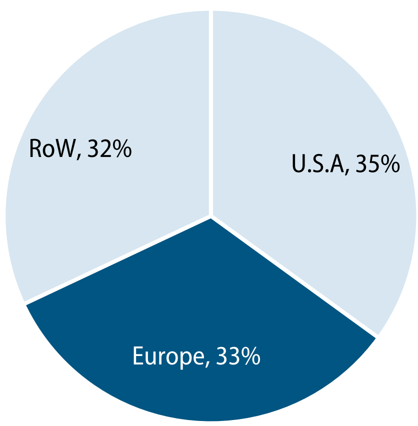


Source: International Data Corporation (IDC)

Developed countries represent more than 2/3 of the global IT services industry. Digitalization affects all productive processes and high production costs derives into digitalization investments to maintain competitiveness. Developed countries are the ones with higher production costs; this is explained by high labour costs and the overwhelming contribution of the service sector to the economy.

The services sector is clearly dominant in the economy of the developed countries (according to the World Bank, services accounted for 67.8% of the Spanish GDP in 2021). In addition, the most important cost component for companies in the service sector is labour (wages, employee benefits and payroll taxes), which accounts for as much as 70% of total business costs (source: Paycor survey). These factors create a favourable enviroment for IT consulting companies in developed countries as companies have incentives to increase efficiency by investing in technology.

Global IT services market share by region (%)

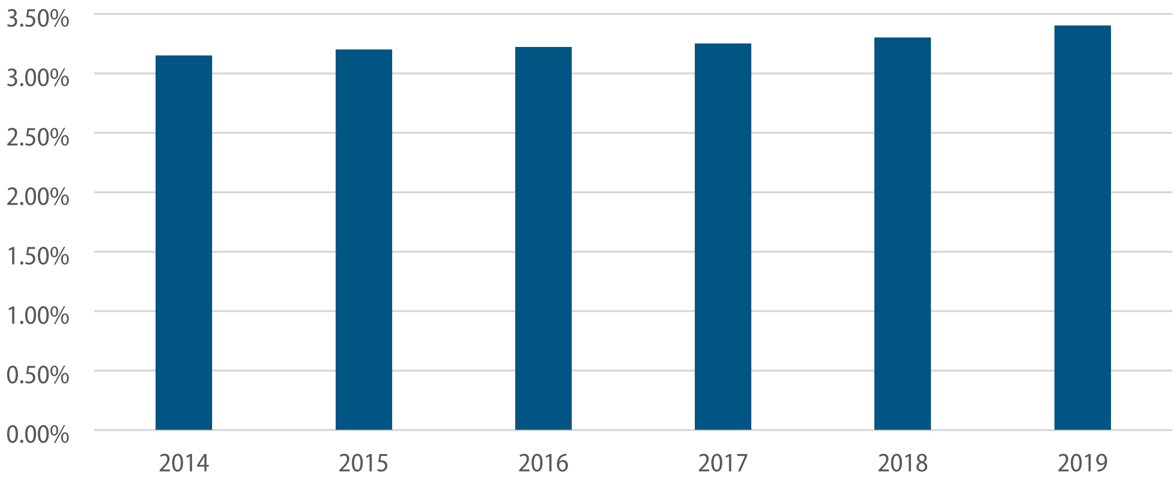


Source: International Data Corporation (IDC)

Productivity can be improved by digitization, which for example reduces the number of FTEs needed for low-value-added and repetitive processes. On the other hand, companies in countries with lower labour costs have no incentive to digitalize as they can easily hire people to do repetitive and low-value-added processes without significantly increasing their labour cost base.

Developments in IT Services sector have led to important changes in methods of production and patterns of employment across the European Union. IT services sector was equivalent to 3.4% of the EU's gross domestic product in 2019 (Source: Eurostat). The ratio of the value added in ICT services to GDP steadily grew up from 3.15% GDP in 2014 to 3.4% GDP in 2019 showing a positive trend and the growing importance of this sector.

IT Services Value added (%) over EU GDP

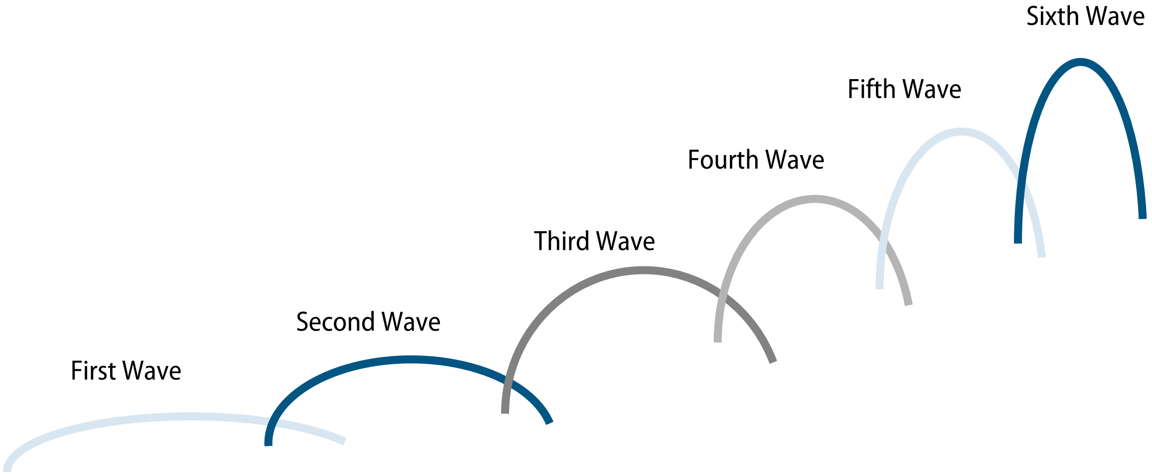


Source: Eurostat (Value added at factor cost is the gross income from operating activities after adjusting for operating subsidies and indirect taxes)

Annex III – Sector trends

Human progress is linked to technological development as productivity improvements boost economic growth and improve living standards. Techonological improvement cycles are occurring in an increasingly shorter period of time. From the first wave of textiles and water power in the industrial revolution to the sixth wave, marked by artificial inteligence and digitalizzation, cycle longevity continues to shorten. This trend has accelerated due to the Covid-19 pandemic.

Shortening wave cycles of innovation



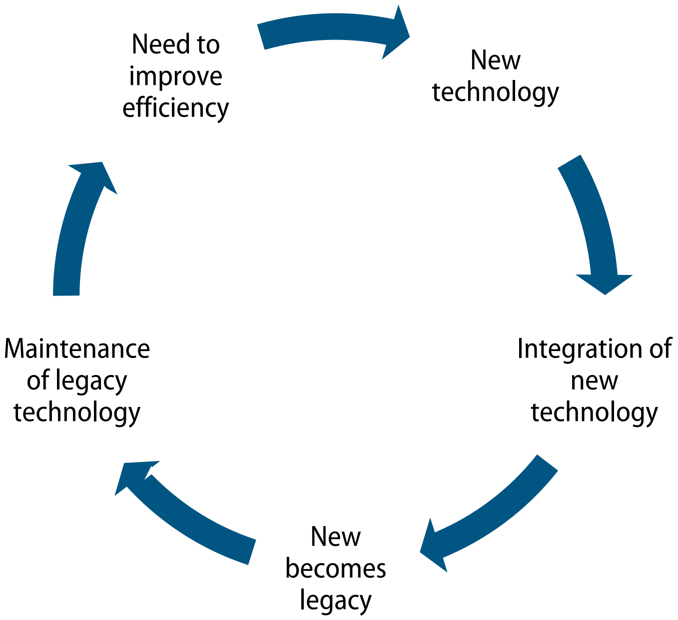
Water Power Textiles Iron	**Steam Power Rail Steel**	**Electricity Chemicals IC engine**	**Petrochemicals Electronics Aviation**	**Digital Network Software New Media**	**AI & IoT Robot & Drones Clean Tech**
60 Years	**55 Years**	**50 Years**	**40 Years**	**30 Years**	**25 Years**
1785	**1845**	**1900**	**1950**	**1990**	**2020**

Source: Edelson Institute

IT consulting services enable companies across sectors to improve their operations and efficiency through technology. Technology innovation is a key enabler of competitive differentiation and the catalyst for transforming many industries. Breakthrough technologies are continually appearing, creating an interminable cycle of innovation. The urging emergence of new technologies is accelerating the obsolescence of companies' IT tools and infrastructures. This creates a permanent favourable bubbling for the dynamics of the market. Therefore, it is quite probable to see a steady and continuous growth in this sector for the long term, as companies need to be constantly updated with the latest technologies in order not only to gain productivity and efficiency but also to maintain it.

Concurrent with new digital applications, companies have to keep managing and maintaining substantial legacy tools and architectures developed over time and based on different technologies. IT departments are forced to make a traditional organization to coexist with operations adapted to digital technologies.

New and legacy technologies cycle for enterprises



Source: JB Capital estimates

P&L

€m	2018a	2019a	2020a	2021a	2022e	2023e	2024e
Revenues	37	46	51	65	92	127	158
EBITDA	3	4	8	7	11	15	19
Depreciation	-2	-3	-4	-6	-7	-8	-8
Provisions	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
EBIT	1	1	4	2	4	8	11
Net financial result	0	0	-1	-1	-2	-2	-2
Associates	0	0	0	0	0	0	0
Non-recurrent results & others	0	0	0	0	0	0	0
PBT	1	0	2	1	2	5	9
Taxes	0	0	-1	0	-1	-1	-2
Results from discontinued operations	0	0	0	0	0	0	0
Minorities	0	0	0	0	0	0	-1
Net Attributable profit	1	0	1	0	2	4	6

BALANCE SHEET

€m	2018a	2019a	2020a	2021a	2022e	2023e	2024e
Tangible assets	2	2	2	2	6	7	9
Intangible assets	12	20	27	40	60	72	81
Financial assets & Associates	1	1	1	1	1	1	1
Other L/T assets	2	2	5	5	5	5	5
Inventories	0	0	0	1	1	1	2
Account Receivable	11	13	12	15	23	27	30
Other S/T assets	0	0	0	1	1	1	1
Cash & cash equivalents	1	6	15	38	38	38	38
TOTAL ASSETS	30	44	62	101	135	153	166
Shareholders' equity	8	15	24	32	45	59	68
Minority interests	0	0	0	0	0	1	1
L/T Financial debt	9	9	17	35	54	54	54
L/T Provisions	0	0	0	0	0	0	0
Other L/T liabilities	1	2	4	5	5	5	5
S/T Financial debt	5	9	8	17	17	17	17
Accounts payable	0	0	0	0	0	0	0
Other S/T liabilities	6	9	10	12	14	17	21
TOTAL LIABILITIES	30	44	62	101	135	153	166

Source: Company data, FactSet and JB Capital estimates

CASH FLOW STATEMENT

€m	2018a	2019a	2020a	2021a	2022e	2023e	2024e
EBITDA	3	4	8	7	11	15	19
Net financial result	0	0	1	0	2	2	2
Dividends collected	0	0	0	0	0	0	0
Taxes	0	0	0	-1	-1	-1	-2
Change in Working Capital	-2	1	1	-1	-6	-1	1
Other CF from operations	0	0	0	0	0	0	-1
Cash Flow from Operations	**1**	**5**	**10**	**5**	**5**	**15**	**20**
CAPEX	-4	-7	-7	-6	-21	-16	-18
Disposals	0	0	0	0	0	0	0
Financial investments	0	0	0	0	0	1	2
Other CF from investments	0	0	0	0	0	0	0
Cash Flow from Investments	**-4**	**-7**	**4**	**-6**	**-21**	**-15**	**-16**
Dividends	0	0	0	0	0	0	0
Change in capital stock	1	3	5	3	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	-3	-1	-2	-7	-2	4	0
Cash Flow from Financing	**-1**	**3**	**3**	**-4**	**-2**	**4**	**0**
Exchange rate effect	0	0	0	0	0	0	0
Net increase in cash & cash equivalents	**-4**	**0**	**16**	**-4**	**-17**	**4**	**4**
Net debt variation	**-13**	**-1**	**4**	**-5**	**-19**	**1**	**0**

Per share data/ Leverage/ Profitability/ Valuation

	2018a	2019a	2020a	2021a	2022e	2023e	2024e
Last price (€)	na	3.9	7.5	8.0	8.0	8.0	8.0
Number of shares (m)	0	21	23	23	25	26	27
Market capitalization (€m)	na	57	117	192	198	212	214
Net Debt	13	14	10	14	33	33	33
EV (€)	na	71	127	206	232	246	248
EPS (€)	na	0.01	0.06	0.02	0.07	0.14	0.24
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 (%)	na	0.0	0.0	0.0	0.0	0.0	0.0
ND/EBITDA (x)	4.0	3.6	1.3	2.0	3.0	2.1	1.7
ND/(Equity + ND) (%)	61.1	48.1	29.5	31.1	42.8	35.5	32.6
EBITDA margin (%)	8.9	8.5	15.1	11.0	12.2	12.0	12.3
EBIT margin (%)	3.4	2.1	7.4	2.4	4.3	6.0	7.2
ROE (%)	6.8	1.5	5.5	1.1	3.7	6.3	9.4
ROCE (pre-tax) (%)	6.7	3.6	8.5	2.2	3.8	6.4	8.9
EV/EBITDA	na	18.0	16.6	28.7	20.7	16.1	12.8
EV/EBIT	na	74.9	33.7	130.6	58.5	32.2	21.7
FCFe yield (%)	na	nm	0.8	nm	nm	nm	nm
FCF/EV (%)	na	nm	1.9	nm	nm	nm	0.8
P/E	na	250.2	89.8	532.6	121.4	56.6	33.5
P/CF	na	17.5	22.6	32.2	22.3	18.6	14.9
P/B	na	3.7	5.0	6.0	4.4	3.6	3.2
Dividend yield (%)	na	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, FactSet and JB Capital estimates

PROFITABILITY

FY End Dec (%)	2018a	2019a	2020a	2021a	2022e	2023e	2024e
Gross Margin	64.0	65.5	68.7	72.9	75.0	78.3	80.6
EBITDA Margin	8.9	8.5	15.1	11.0	12.2	12.0	12.3
EBIT Margin	3.4	2.1	7.4	2.4	4.3	6.0	7.2
EBT Margin	2.6	1.0	3.8	1.1	2.6	4.3	5.9
Net Margin	1.5	0.5	2.6	0.6	1.8	3.0	4.0
Return on Assets	1.9	0.5	2.1	0.4	1.2	2.5	3.8
Return on Equity	6.8	1.5	5.5	1.1	3.7	6.3	9.4
Return on Capital Employed	6.7	3.6	8.5	2.2	3.8	6.4	8.9
Return on Investment	1.3	-0.4	-0.2	-0.5	0.1	0.9	2.5

VALUATION

FY End Dec (x)	2018a	2019a	2020a	2021a	2022e	2023e	2024e
P/E	na	250.2	89.8	532.6	121.4	56.6	33.5
P/E (diluted)	na	248.7	89.4	531.2	122.7	56.5	33.5
P/BVPS	na	3.7	5.0	6.0	4.4	3.6	3.2
P/Tangible BVPS	na	3.7	5.0	6.0	4.4	3.6	3.2
P/CFPS	na	17.5	22.6	32.2	22.3	18.6	14.9
P/FCFPS	na	37.6	19.5	36.5	22.2	14.8	11.7
Div yield (%)	na	0.0	0.0	0.0	0.0	0.0	0.0
Div payout (%)	na	0.0	0.0	0.0	0.0	0.0	0.0
EV	na	71	127	206	232	246	248
EV/Sales	na	1.5	2.5	3.2	2.5	1.9	1.6
EV/EBIT	na	74.9	33.7	130.6	58.5	32.2	21.7
EV/EBITDA	na	18.0	16.6	28.7	20.7	16.1	12.8
Net Debt/EBITDA	4.0	3.6	1.3	2.0	3.0	2.1	1.7
FCFe yield (%)	na	nm	0.8	nm	nm	nm	nm
FCF / EV (%)	na	nm	1.9	nm	nm	nm	0.8
Net Debt /(Equity + Net Debt)	61.1	48.1	29.5	31.1	42.8	35.5	32.6

Source: Company data, FactSet and JB Capital estimates

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