

EQUITY - SPAIN
 Sector: Software

 Closing price: EUR 4.50 (28 Dec 2023)
 Report date: 29 Dec 2023 (12:20h)

Estimates downgrade
 Independent Equity Research

Seresco (SCO), is a highly diversified Spanish tech company: payroll and personnel administration, consulting and software development, IT infrastructures and systems, digital transformation, and land registry management and cartography. It also operates internationally (7% of revenue in 2022). Government agencies had a 37% weight in the 2022 revenue mix. SCO has been listed on BME Growth since December 2022.

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Market Data

Market Cap (Mn EUR and USD)	43.2	48.0
EV (Mn EUR and USD) ⁽¹⁾	48.3	53.7
Shares Outstanding (Mn)	9.6	
-12m (Max/Med/Min EUR)	4.70 / 3.59 / 2.94	
Daily Avg volume (-12m Mn EUR)	n.m.	
Rotation ⁽²⁾	2.2	
Factset / Bloomberg	SCO-ES / SCO SM	
Close fiscal year	31-Dec	

2024e: “lift-off” in recurring EBITDA to EUR 7.5Mn (2x rec. EBITDA 2023e)

2023E SHARP TOPLINE GROWTH... The 1H23 results reveal sharp revenue growth to EUR 19.4Mn (+19.5% vs 1H22; EUR 16.2Mn). Some of that growth (EUR 0.7Mn) is attributable to the ELO-SI acquisition (February 2023). Nearly all business lines registered significant growth (>20%). Even so, we are trimming our 2023e revenue forecasts.

Shareholders Structure (%)⁽⁶⁾

Suarez García Family	61.4
Treasury stock	7.0
Tomás Reinares Fernández	5.9
Manuel Angel Busto Riego	5.7
Free Float	12.7

...BUT MARGINS CAME UNDER PRESSURE. 1H23 recurring EBITDA amounted to EUR 1.6Mn (-3pp vs 1H22; margin: 8.0%). This drop is mainly attributable to the sharp jump in staff costs (+17%; changes to the collective bargaining agreement) and the increase in other operating expenses (+44%), to EUR 1.7Mn. Impacted by the M&A growth strategy. Prompting us to trim our estimates for 2023e.

Financials (Mn EUR)

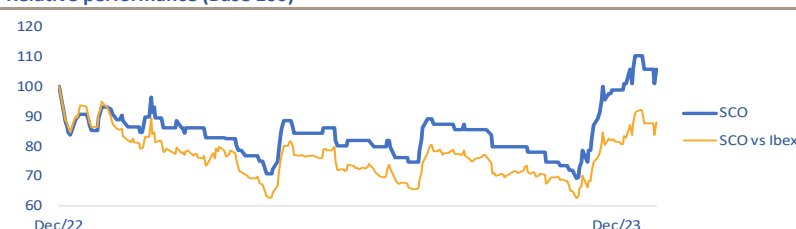
	2022	2023e	2024e	2025e
Adj. n ^o shares (Mn)	9.6	9.6	9.6	9.6
Total Revenues	34.0	41.1	56.3	62.4
Rec. EBITDA	3.4	3.8	7.5	8.4
% growth	49.0	10.6	98.9	12.6
% Rec. EBITDA/Rev.	10.0	9.1	13.3	13.5
% Inc. EBITDA sector ⁽³⁾	16.3	8.4	18.7	21.8
Net Profit	1.9	2.4	4.6	5.4
EPS (EUR)	0.19	0.25	0.48	0.57
% growth	-90.4	26.2	94.4	18.6
Ord. EPS (EUR)	0.19	0.25	0.48	0.57
% growth	-93.0	29.9	94.4	18.6
Rec. Free Cash Flow ⁽⁴⁾	1.4	1.9	4.1	5.4
Pay-out (%)	28.3	20.0	20.0	20.0
DPS (EUR)	0.06	0.05	0.10	0.11
Net financial debt	4.5	6.6	3.8	-0.6
ND/Rec. EBITDA (x)	1.3	1.8	0.5	-0.1
ROE (%)	39.8	36.2	46.7	37.8
ROCE (%) ⁽⁴⁾	22.0	22.4	34.2	36.3

2024E: “LEAP” IN RECURRING EBITDA TO EUR 7.5Mn (+4.1PP VS 2023E). SCO is a clearly in the lift-off phase. 2024e will be key in terms of unlocking operational gearing to record strong EBITDA growth. Our estimates for 2024e call for revenue of EUR 56.3Mn (+36.9% vs 2023e) and recurring EBITDA of EUR 7.5Mn (margin expansion of 4.1pp vs 2023e), fuelled by: (i) consolidation of M&A deals; (ii) very strong growth in land registry management and cartography; and (iii) volume growth across existing customers. For 2025e, we are looking for recurring EBITDA of EUR 8.4Mn (margin: 13.5%).

2024E – 2025E: THE CHANCE TO CAPITALISE ON THE LEAP IN REVENUE. Despite trimming our forecasts for 2023e, SCO's equity story remains intact. The key is still to watch the trend in revenue and how it feeds through to margins. Truly unlocking the potential implicit in the revenue growth and lifting the recurring EBITDA margin above 13% in 2024e is the crux of the company's equity story. This is a company with a low-risk (operational, business, financial) business model. Our 2024e estimates imply an EV/recurring EBITDA multiple of 6.5x (vs c.9.8x for its listed comps). SCO offers a FCF yield of > 9% in 2024e and 2025e.

Ratios & Multiples (x)⁽⁵⁾

	2022	2023e	2024e	2025e
P/E	23.1	18.3	9.4	7.9
Ord. P/E	23.8	18.3	9.4	7.9
P/BV	7.9	5.7	3.6	2.6
Dividend Yield (%)	1.2	1.1	2.1	2.5
EV/Sales	1.42	1.18	0.86	0.77
EV/Rec. EBITDA	14.2	12.9	6.5	5.7
EV/EBIT	18.1	14.8	7.7	6.8
FCF Yield (%) ⁽⁴⁾	3.4	4.5	9.5	12.5

Relative performance (Base 100)


- (1) Please refer to Appendix 3.
 (2) Rotation is the % of the capitalisation traded - 12m.
 (3) Sector: Stoxx Europe 600 Technology.
 (4) Please see Appendix 2 for the theoretical tax rate (ROCE) and rec. FCF calculation.
 (5) Multiples and ratios calculated over prices at the date of this report.
 (6) Others: Management 7.3%

Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	8.2	32.4	18.3	13.6	n.a.	n.a.
vs Ibex 35	7.3	23.7	-3.1	-7.3	n.a.	n.a.
vs Ibex Small Cap Index	7.0	28.6	7.1	2.8	n.a.	n.a.
vs Eurostoxx 50	4.2	22.0	-0.2	-4.5	n.a.	n.a.
vs Sector benchmark ⁽³⁾	2.7	11.7	-10.6	-14.0	n.a.	n.a.

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Factset and Lighthouse.

Seresco (SCO) is a BME Growth company

BME Growth is the segment of BME MTF Equity aimed at small and medium sized companies, directed and managed by the Spanish stock market and is subject to the CNMV supervision. BME MTF Equity is not a Regulated Market but instead falls within the classification of a Multilateral Trading Facility (MTF) as defined under the Markets in Financial Instruments Directive (MiFID). In July 2020, BME Growth obtained the status of SME Growth Market, a new category of EU regulations, which in Spain is called Mercado de Pymes en Expansión.

BME Growth is the Spanish equity market for companies of reduced capitalization which aim to grow, with a special set of regulations, designed specifically for them, and with costs and process tailored to their particular features. Operations in BME Growth (former MAB) started in July 2009. There are currently c.140 companies listed on it. Companies listed on the MAB can choose to present their financial statements under IFRS or the General Accounting Plan (PGC) and Royal Decree 1159/2010 (NOFCAC).

Estimates downgrade

Watch for the trend in revenue and how it feeds through to margins. 2024e rec. EBITDA: EUR 7.5Mn (margin: 13.3%)

SCO's recent results (1H23) revealed: (i) sharp topline growth to EUR 19.4Mn (+19.5% vs 1H22; EUR 16.2Mn). The acquisition of ELO-SI (February 2023) contributed EUR 0.7Mn. With four of the five business lines registering significant growth (>20%). (ii) The shift in business mix (due to the acquisition of Windows SE) eroded the gross margin to 85% (in line with our estimates). (iii) Recurring EBITDA, however, came in at EUR 1.6Mn (-3pp vs 1H22; margin of 8.0%), due to sharp growth in personnel expenses (+17%; revised collective bargaining agreement) and other operating expenses (+44%). Impacted by the M&A growth strategy. This left margins below the level expected for the full year. As a result, we are trimming our estimates for 2023e.

Elsewhere, net debt amounted to EUR 5.3Mn (ND/equity: 0.9x and ND/EBITDA 2022: c.1.5x). Evidencing SCO's low leverage.

Table 1. 1H23 results and previous estimates 2023e

EUR Mn	6m23		6m23 Real	
	Real	6m22	vs 6m22	2023e
Total Revenues	19.4	16.2	19.5%	45.0
Recurrent EBITDA	1.6	1.8	-12.0%	5.1
<i>Rec. EBITDA/Revenues</i>	<i>8.0%</i>	<i>10.9%</i>	<i>-2.9 p.p.</i>	<i>11.4%</i>
EBIT	1.4	1.3	4.8%	4.3
NP	1.0	0.9	7.4%	3.0

And now what? The key is still structural revenue growth and its impact on margins

We are revising our 2023e estimates on the back of SCO's 1H23 earnings release. In 2024e and 2025e we are expecting a leap in revenue and recurring EBITDA (even assuming no new M&A activity). Highlights:

- **Sharp organic revenue growth coupled with strong visibility:** despite the significant growth in revenue reported in 1H23 (+19.5% vs 1H22), we are trimming our 2023e revenue forecast to EUR 41.1Mn (vs our previous estimate of EUR 45Mn). In 2024e and 2025e, however, we are forecasting acceleration in growth to EUR 56.3Mn and EUR 62.4Mn, respectively (up from our previous 2025e estimate of EUR 56.0Mn).

The main drivers for the years ahead include: (i) growth in new customers, adding to the company's "captive" customer base, as once a solution is installed or its management outsourced, the cost of switching again is high (for example, payroll and personnel management); (ii) growth in business volumes from existing customers (cross-selling, boosted by the M&A strategy); (iii) renewal of the IT services management contract for the regional government of Asturias for four years, valued at EUR 16.2Mn, so increasing revenue visibility and recurrence; and (iv) international growth as the land registry management and cartography business line "lifts off".

The company recently announced the execution of two contracts with the Peruvian body tasked with the official registration of informal property (land registry management and cartography business). The first is worth PEN 27.5Mn and USD 2.5Mn and the execution timeframe is 17 months. The second is worth PEN 16.5Mn and USD 1.5Mn and the execution timeframe is 14 months. Combined, the two contracts imply c.EUR 12Mn of revenue.

In other words, we are looking at a leap in scale that began to materialise in 2022. One that will truly become tangible in 2023e-2025e. Thanks to higher order book visibility (as evidenced by the above-mentioned contracts), uncertainty around organic revenue growth in the next couple of years is low. We are talking about a low-risk model.

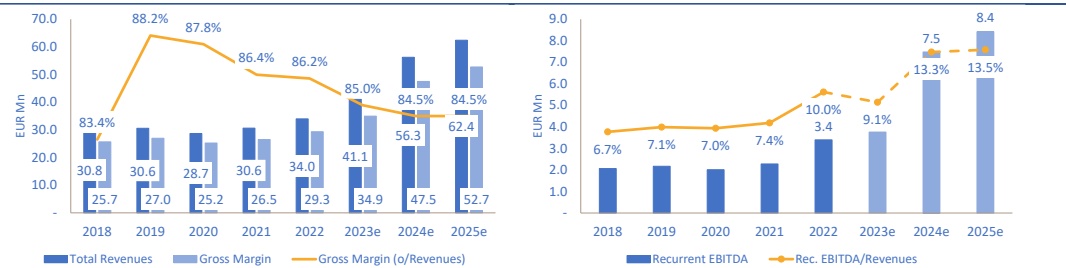
- **Acquisition of 75% of Ciencia e Ingeniería Económica y Social (CIES):** the company acquired CIES for EUR 3.4Mn and has the option to purchase the remaining 25% at a price that will depend on the target's revenue and EBITDA performance. This acquisition reinforces SCO's position in cybersecurity and compliance, a strategic market for the company. It will also allow SCO to cross sell its existing services and products to CIES customers and vice versa.

We are estimating a revenue and EBITDA impact of c.EUR 5Mn and c.EUR 1.8Mn (c.34% of revenue) in 2024e. In 2023e, the deal will only impact the P&L for two months (the acquisition closed at the end of October).

In short, M&A activity presents a real alternative for SCO to accelerate its growth and reinforce its position in core markets, facilitated by the company's positive recurring EBITDA, low starting leverage position (ND/rec. EBITDA: 1.8x) and positive cash flow. Moreover, the M&A strategy can be characterised as sensible and prudent, focused on the acquisition of profitable and cash-generating companies (as borne out by the CIES acquisition).

- Gradual improvement in the recurring EBITDA margin to 13.5% in 2025e...** We are forecasting SCO's gross margin steady at c.85% (in line with our previous estimates and the company's 1H23 results). The ability to continue to eke out economies of scale (overhead is expected to dip from 84.7% of the cost structure in 2022 to 82.1% in 2025e), together with the strategy of focusing the growth strategy on higher-margin areas (cartography, payroll and personnel, cybersecurity) should drive recurring EBITDA to EUR 8.4Mn in 2025e (margin: 13.5%). The scope for unlocking operational gearing in the context of sharp revenue growth was revealed in 2022 (when the EBITDA margin expanded by 2.6pp year-on-year).

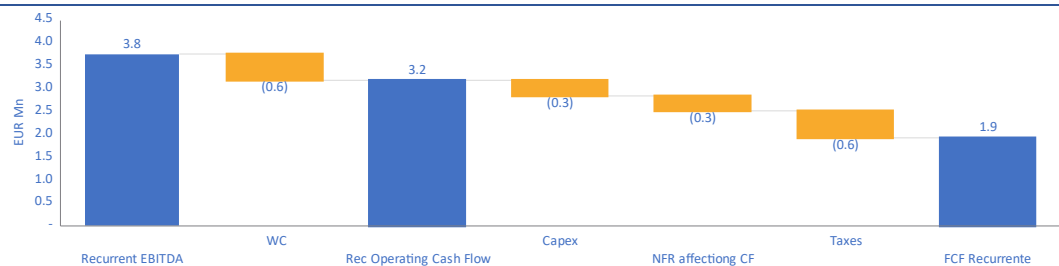
Chart 1. Revenues and recurring EBITDA



- ... nudging recurring cash generation to EUR 5.4Mn that same year (FCF Yield 2025e: 12.5%). Leaving SCO with a net cash position in 2025e.** The growth in recurring EBITDA is expected to push recurring cash generation to EUR 5.4Mn in 2025e (vs EUR 1.9Mn in 2023e). We are estimating average annual CAPEX of EUR 0.4Mn and a financial impact of close to EUR 0.5Mn (derived in part from the consolidation of the companies acquired).

Leverage is expected to remain at conservative levels in 2023e (ND/rec. EBITDA 2023e: 1.8x). That, coupled with the estimated cash generation, would leave SCO in a net cash position in 2025e. In 2023e, M&A activity has implied a cash outflow of EUR 3.9Mn. SCO's solid capital structure leaves the door open to further M&A-led expansion (potentially accelerating growth). Our projections do not factor in any cash outflows for future acquisitions.

Chart 2. From Recurring EBITDA to Recurring FCF 2023e



- ROCE > the cost of capital.** 2022 marked a turning point for SCO's return on capital employed (22% vs 13% in 2021). In 2023e we are estimating a ROCE of 22%, rising to >30% in 2024e and 2025e. If we assume a WACC of 10.1% (see page 11), the ROCE-WACC spread appears high (2021, 2022 and 2023e), suggesting considerable scope for lifting investment and so guaranteeing an optimal competitive position. All of which evidences an astute capital allocation policy.

Table 2. Estimates review.

EUR Mn	2023e (New)	Review (%)	2024e (New)	Review (%)	2025e (New)	Review (%)
Total Revenues	41.1	-8.7%	56.3	10.2%	62.4	11.5%
Recurrent EBITDA	3.8	-26.5%	7.5	10.0%	8.4	6.5%
<i>Recurrent EBITDA growth</i>	<i>10.6%</i>	<i>-40 p.p.</i>	<i>98.9%</i>	<i>66 p.p.</i>	<i>12.6%</i>	<i>-4 p.p.</i>
<i>Rec. EBITDA/Revenues</i>	<i>9.1%</i>	<i>-2 p.p.</i>	<i>13.3%</i>	<i>0 p.p.</i>	<i>13.5%</i>	<i>-1 p.p.</i>
EBIT	3.3	-24.1%	6.3	7.9%	7.1	5.1%
Net Profit	2.4	-22.2%	4.6	7.3%	5.4	5.3%
Recurrent Free Cash Flow	1.9	90.6%	4.1	26.6%	5.4	37.7%
<i>ND/EBITDA</i>	<i>1.8x</i>	<i>0.7x</i>	<i>0.5x</i>	<i>0.1x</i>	<i>-0.1x</i>	<i>-0.1x</i>

In short, we would continue to watch the trend in revenue and its impact on margins. That is ultimately the equity story: lifting the margin >13%.

In our opinion, despite trimming our forecasts for 2023e, SCO's equity story remains intact. On paper, the ITC sector continues to represent a growth opportunity (fuelled by the digital transformation thrust). And SCO is well positioned to tap it: (i) international growth with the "lift-off" of the land registry management and cartography business; (ii) proprietary solutions development (personnel and payroll management software); (iii) an existing customer base that generates recurring revenue (some customers have been with the company for >20 years); (iv) a clear and conservative business model (low leverage) capable of generating cash; and (v) a sensible M&A strategy.

The 2023e results to date confirm our expectation that the 2022 performance would continue, demonstrating the scope for stable organic growth of >13%. In other words, SCO has already embarked (in 2022, confirmed in 1H23) on a period of high growth. The projected growth in recurring EBITDA and margins is the mathematical consequence of the revenue estimate. Truly unlocking the potential implicit in the revenue growth and delivering the estimated recurring EBITDA margin in 2024e is the crux of the company's equity story. On our 2023e estimates, SCO is trading on an EV/rec. EBITDA multiple of 12.9x, a multiple that drops to 5.7x on our 2025e estimate.

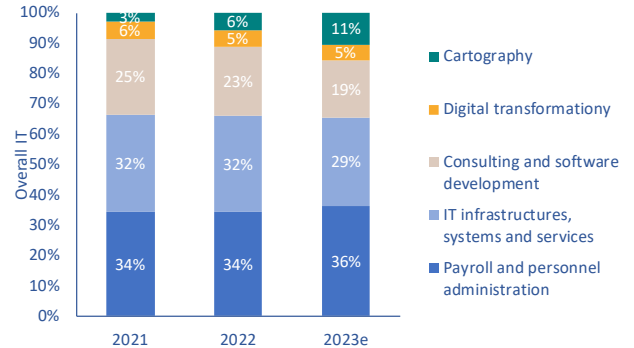
The company in 8 charts

Global IT market (2.4% 2023e), with uneven growth in 2023e led by software (9.3%) and IT services (5.5%)

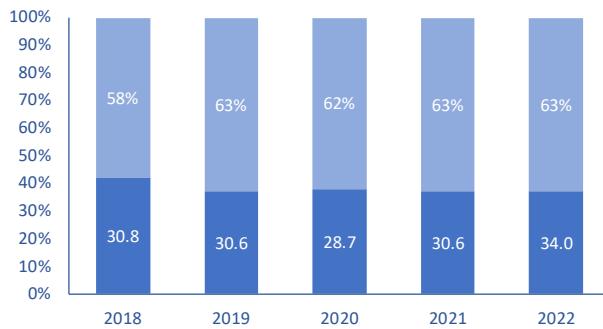
(USD Mn)	2022	2022 Growth %	2023e	2023e Growth %
Data Center Systems	212,376	12.0%	213,853	0.7%
Software	783,462	7.1%	856,029	9.3%
Devices	722,181	-10.6%	685,633	-5.1%
IT Services	1,244,746	3.0%	1,312,588	5.5%
Communications Services	1,422,506	-2.4%	1,423,367	0.1%
Overall IT	4,385,270		4,491,471	2.4%

Source: Gartner

SCO: diversified by both business (focus on proprietary software as a services) ...

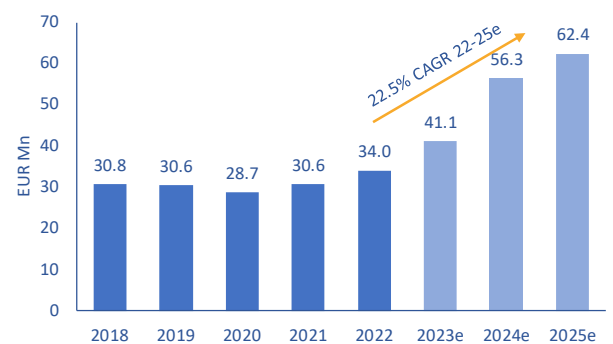


...and client type. In 2022, 63% of sales came from the private sector and the rest from government agencies

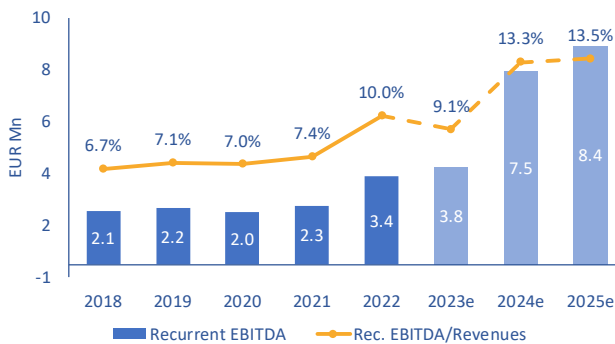


Note: some of its clients include Ence, Airbus, Jacobs, JLL, IDEPA, FEAGA...

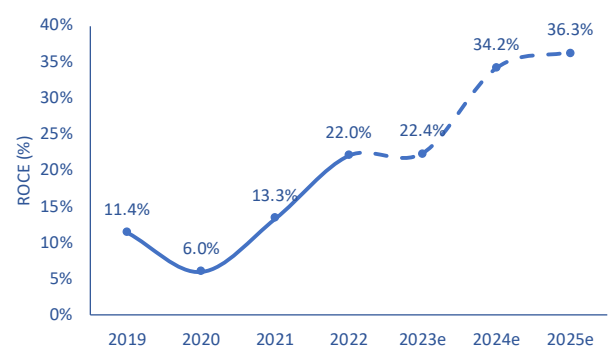
With capacity to deliver revenue growth (22.5% CAGR 22-25e)



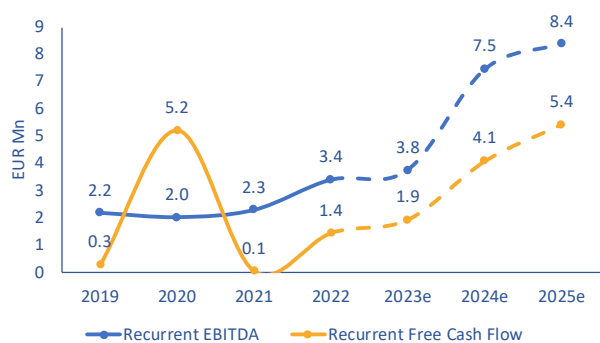
Which should underline a gradual improvement in operating leverage (already visible in 2022) in the 2023e-2025e period...



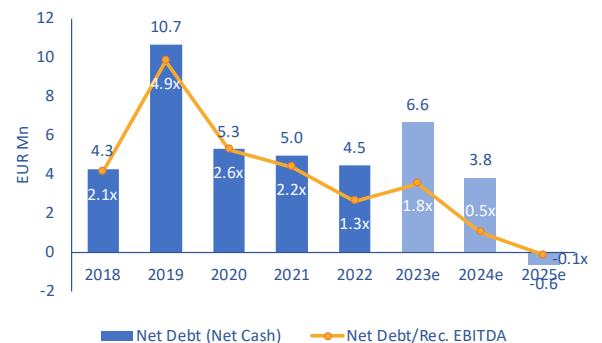
...boosting the return on capital employed (ROCE 22% in 2022)



And lifting recurring free cash flow generation to EUR 5.4Mn in 2025e (vs EUR 1.4Mn in 2022) ...



... which would leave the company in a net cash position in 2025e (Net Debt EUR -0.6Mn)



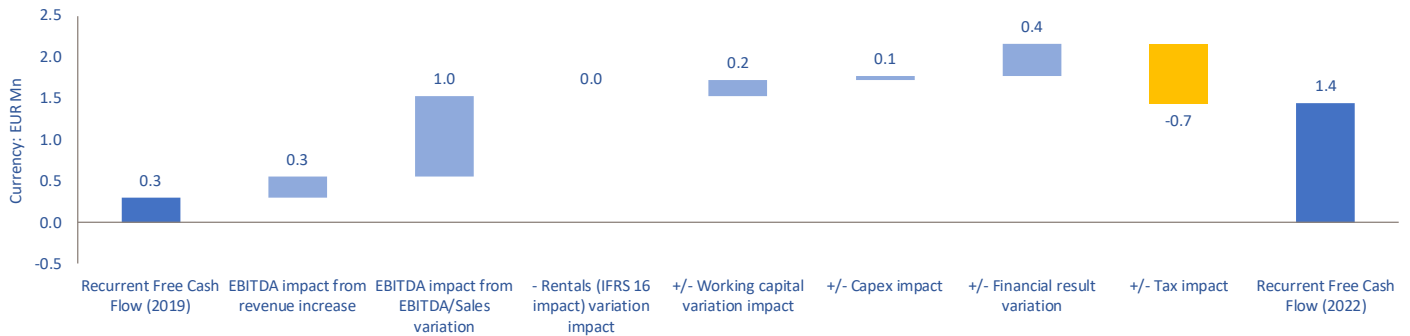
Appendix 1. Financial Projections

Balance Sheet (EUR Mn)	2018	2019	2020	2021	2022	2023e	2024e	2025e	CAGR	
Intangible assets	0.3	0.6	0.4	0.2	0.3	4.4	5.0	4.6		
Fixed assets	1.2	1.1	1.0	1.2	1.2	1.3	1.5	1.5		
Other Non Current Assets	0.6	0.9	0.9	0.6	0.6	0.6	0.6	0.6		
Financial Investments	0.2	0.7	0.5	0.6	0.4	0.4	0.4	0.4		
Goodwill & Other Intangibles	-	4.7	4.2	3.7	4.2	3.8	3.3	2.9		
Current assets	11.7	12.4	7.5	8.9	9.6	11.1	13.5	14.9		
Total assets	14.0	20.4	14.5	15.2	16.3	21.6	24.2	25.0		
Equity	3.3	3.5	3.7	3.9	5.4	7.6	12.0	16.8		
Minority Interests	-	-	-	-	-	-	-	-		
Provisions & Other L/T Liabilities	-	-	-	-	0.0	0.0	0.0	0.0		
Other Non Current Liabilities	-	-	-	-	-	-	-	-		
Net financial debt	4.3	10.7	5.3	5.0	4.5	6.6	3.8	(0.6)		
Current Liabilities	6.4	6.2	5.4	6.2	6.4	7.3	8.4	8.8		
Equity & Total Liabilities	14.0	20.4	14.5	15.2	16.3	21.6	24.2	25.0		
P&L (EUR Mn)	2018	2019	2020	2021	2022	2023e	2024e	2025e	18-22	22-25e
Total Revenues	30.8	30.6	28.7	30.6	34.0	41.1	56.3	62.4	2.5%	22.5%
<i>Total Revenues growth</i>	<i>n.a.</i>	<i>-0.6%</i>	<i>-6.1%</i>	<i>6.7%</i>	<i>10.9%</i>	<i>20.9%</i>	<i>36.9%</i>	<i>11.0%</i>		
COGS	(5.1)	(3.6)	(3.5)	(4.2)	(4.7)	(6.2)	(8.7)	(9.7)		
Gross Margin	25.7	27.0	25.2	26.5	29.3	34.9	47.5	52.7	3.4%	21.6%
<i>Gross Margin/Revenues</i>	<i>83.4%</i>	<i>88.2%</i>	<i>87.8%</i>	<i>86.4%</i>	<i>86.2%</i>	<i>85.0%</i>	<i>84.5%</i>	<i>84.5%</i>		
Personnel Expenses	(21.3)	(22.1)	(21.4)	(22.1)	(23.9)	(28.2)	(36.2)	(40.0)		
Other Operating Expenses	(2.3)	(2.7)	(1.8)	(2.1)	(2.0)	(2.9)	(3.9)	(4.4)		
Recurrent EBITDA	2.1	2.2	2.0	2.3	3.4	3.8	7.5	8.4	13.3%	35.3%
<i>Recurrent EBITDA growth</i>	<i>n.a.</i>	<i>5.2%</i>	<i>-7.4%</i>	<i>13.4%</i>	<i>49.0%</i>	<i>10.6%</i>	<i>98.9%</i>	<i>12.6%</i>		
<i>Rec. EBITDA/Revenues</i>	<i>6.7%</i>	<i>7.1%</i>	<i>7.0%</i>	<i>7.4%</i>	<i>10.0%</i>	<i>9.1%</i>	<i>13.3%</i>	<i>13.5%</i>		
Restructuring Expense & Other non-rec.	0.1	0.1	0.1	0.1	0.1	-	-	-		
EBITDA	2.2	2.3	2.1	2.4	3.5	3.8	7.5	8.4	12.7%	34.4%
Depreciation & Provisions	(0.5)	(1.1)	(1.2)	(1.0)	(1.0)	(1.2)	(1.5)	(1.6)		
Capitalized Expense	-	-	-	0.3	0.2	0.8	0.3	0.3		
Rentals (IFRS 16 impact)	-	-	-	-	-	-	-	-		
EBIT	1.7	1.2	0.9	1.6	2.7	3.3	6.3	7.1	12.0%	38.3%
<i>EBIT growth</i>	<i>n.a.</i>	<i>-30.3%</i>	<i>-21.0%</i>	<i>70.4%</i>	<i>67.6%</i>	<i>22.0%</i>	<i>91.9%</i>	<i>12.9%</i>		
<i>EBIT/Revenues</i>	<i>5.5%</i>	<i>3.9%</i>	<i>3.3%</i>	<i>5.2%</i>	<i>7.9%</i>	<i>7.9%</i>	<i>11.1%</i>	<i>11.3%</i>		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(0.1)	(0.5)	(0.4)	(0.6)	(0.1)	(0.3)	(0.5)	(0.3)		
Income by the Equity Method	-	-	-	-	-	-	-	-		
Ordinary Profit	1.6	0.7	0.5	1.0	2.6	2.9	5.7	6.8	12.8%	38.5%
<i>Ordinary Profit Growth</i>	<i>n.a.</i>	<i>-55.3%</i>	<i>-22.5%</i>	<i>76.4%</i>	<i>165.5%</i>	<i>15.3%</i>	<i>94.4%</i>	<i>18.6%</i>		
Extraordinary Results	-	-	-	-	-	-	-	-		
Profit Before Tax	1.6	0.7	0.5	1.0	2.6	2.9	5.7	6.8	12.8%	38.5%
Tax Expense	(0.3)	0.2	(0.2)	(0.5)	(0.7)	(0.6)	(1.1)	(1.4)		
<i>Effective Tax Rate</i>	<i>18.3%</i>	<i>n.a.</i>	<i>29.5%</i>	<i>52.0%</i>	<i>26.9%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>		
Minority Interests	-	-	-	-	-	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	1.3	0.9	0.4	0.5	1.9	2.4	4.6	5.4	9.7%	42.8%
<i>Net Profit growth</i>	<i>n.a.</i>	<i>-28.8%</i>	<i>-58.1%</i>	<i>20.3%</i>	<i>304.0%</i>	<i>26.2%</i>	<i>94.4%</i>	<i>18.6%</i>		
Ordinary Net Profit	1.2	0.6	0.3	0.6	1.8	2.4	4.6	5.4	10.5%	44.1%
<i>Ordinary Net Profit growth</i>	<i>n.a.</i>	<i>-52.5%</i>	<i>-48.1%</i>	<i>106.4%</i>	<i>193.9%</i>	<i>29.9%</i>	<i>94.4%</i>	<i>18.6%</i>		
Cash Flow (EUR Mn)	2018	2019	2020	2021	2022	2023e	2024e	2025e	18-22	22-25e
Recurrent EBITDA						3.8	7.5	8.4	13.3%	35.3%
Rentals (IFRS 16 impact)						-	-	-		
Working Capital Increase						(0.6)	(1.3)	(1.0)		
Recurrent Operating Cash Flow						3.2	6.2	7.4	30.0%	38.7%
CAPEX						(0.3)	(0.4)	(0.4)		
Net Financial Result affecting the Cash Flow						(0.3)	(0.5)	(0.3)		
Tax Expense						(0.6)	(1.1)	(1.4)		
Recurrent Free Cash Flow						1.9	4.1	5.4	23.5%	55.2%
Restructuring Expense & Other non-rec.						0.3	0.3	0.2		
- Acquisitions / + Divestures of assets						(3.9)	(1.1)	(0.3)		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						(1.7)	3.3	5.4	22.8%	63.1%
Capital Increase						-	-	-		
Dividends						(0.5)	(0.5)	(0.9)		
Net Debt Variation						2.2	(2.8)	(4.5)		

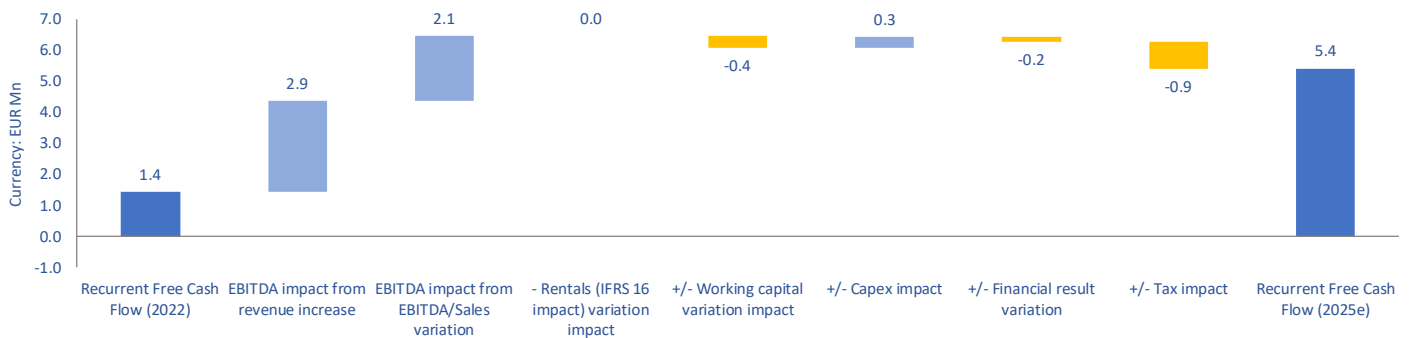
Appendix 2. Free Cash Flow

A) Cash Flow Analysis (EUR Mn)	2019	2020	2021	2022	2023e	2024e	2025e	CAGR	
								19-22	22-25e
Recurrent EBITDA	2.2	2.0	2.3	3.4	3.8	7.5	8.4	16.1%	35.3%
<i>Recurrent EBITDA growth</i>	5.2%	-7.4%	13.4%	49.0%	10.6%	98.9%	12.6%		
<i>Rec. EBITDA/Revenues</i>	7.1%	7.0%	7.4%	10.0%	9.1%	13.3%	13.5%		
- Rentals (IFRS 16 impact)	-	-	-	-	-	-	-		
+/- Working Capital increase	(0.8)	4.1	(0.5)	(0.6)	(0.6)	(1.3)	(1.0)		
= Recurrent Operating Cash Flow	1.4	6.1	1.7	2.8	3.2	6.2	7.4	26.9%	38.7%
<i>Rec. Operating Cash Flow growth</i>	141.7%	345.5%	-71.3%	59.5%	14.6%	93.3%	20.6%		
<i>Rec. Operating Cash Flow / Sales</i>	4.5%	21.1%	5.7%	8.2%	7.8%	11.0%	11.9%		
- CAPEX	(0.8)	(0.3)	(0.6)	(0.7)	(0.3)	(0.4)	(0.4)		
- Net Financial Result affecting Cash Flow	(0.5)	(0.4)	(0.6)	(0.1)	(0.3)	(0.5)	(0.3)		
- Taxes	0.2	(0.2)	(0.5)	(0.5)	(0.6)	(1.1)	(1.4)		
= Recurrent Free Cash Flow	0.3	5.2	0.1	1.4	1.9	4.1	5.4	69.2%	55.2%
<i>Rec. Free Cash Flow growth</i>	106.8%	n.a.	-98.9%	n.a.	33.3%	111.6%	32.5%		
<i>Rec. Free Cash Flow / Revenues</i>	1.0%	18.1%	0.2%	4.3%	4.7%	7.3%	8.7%		
- Restructuring expenses & others	-	-	-	-	0.3	0.3	0.2		
- Acquisitions / + Divestments	(0.0)	(0.2)	0.4	0.1	(3.9)	(1.1)	(0.3)		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	(0.3)	-	-	-		
= Free Cash Flow	0.3	5.0	0.5	1.2	(1.7)	3.3	5.4	63.2%	63.1%
<i>Free Cash Flow growth</i>	106.3%	n.a.	-90.9%	170.7%	-234.6%	297.4%	63.3%		
<i>Recurrent Free Cash Flow - Yield (s/Mkt Cap)</i>	0.7%	12.0%	0.1%	3.4%	4.5%	9.5%	12.5%		
<i>Free Cash Flow Yield (s/Mkt Cap)</i>	0.7%	11.7%	1.1%	2.9%	n.a.	7.6%	12.4%		
B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)									
	2019	2020	2021	2022	2023e	2024e	2025e	CAGR	
Recurrent FCF(FY - 1)	(4.4)	0.3	5.2	0.1	1.4	1.9	4.1		
EBITDA impact from revenue increase	(0.0)	(0.1)	0.1	0.2	0.7	1.4	0.8		
EBITDA impact from EBITDA/Sales variation	0.1	(0.0)	0.1	0.9	(0.3)	2.3	0.1		
= Recurrent EBITDA variation	0.1	(0.2)	0.3	1.1	0.4	3.7	0.9		
- Rentals (IFRS 16 impact) variation impact	-	-	-	-	-	-	-		
+/- Working capital variation impact	4.5	4.9	(4.6)	(0.1)	0.0	(0.7)	0.3		
= Recurrent Operating Cash Flow variation	4.6	4.7	(4.3)	1.0	0.4	3.0	1.3		
+/- CAPEX impact	(0.3)	0.5	(0.3)	(0.1)	0.4	(0.0)	0.0		
+/- Financial result variation	(0.1)	0.1	(0.2)	0.5	(0.2)	(0.2)	0.3		
+/- Tax impact	0.5	(0.4)	(0.3)	0.0	(0.1)	(0.6)	(0.2)		
= Recurrent Free Cash Flow variation	4.7	4.9	(5.1)	1.4	0.5	2.2	1.3		
Recurrent Free Cash Flow	0.3	5.2	0.1	1.4	1.9	4.1	5.4		
C) "FCF to the Firm" (pre debt service) (EUR Mn)									
	2019	2020	2021	2022	2023e	2024e	2025e	CAGR	
EBIT	1.2	0.9	1.6	2.7	3.3	6.3	7.1	31.2%	38.3%
* <i>Theoretical Tax rate</i>	0.0%	29.5%	30.0%	26.9%	20.0%	20.0%	20.0%		
= Taxes (pre- Net Financial Result)	-	(0.3)	(0.5)	(0.7)	(0.7)	(1.3)	(1.4)		
Recurrent EBITDA	2.2	2.0	2.3	3.4	3.8	7.5	8.4	16.1%	35.3%
- Rentals (IFRS 16 impact)	-	-	-	-	-	-	-		
+/- Working Capital increase	(0.8)	4.1	(0.5)	(0.6)	(0.6)	(1.3)	(1.0)		
= Recurrent Operating Cash Flow	1.4	6.1	1.7	2.8	3.2	6.2	7.4	26.9%	38.7%
- CAPEX	(0.8)	(0.3)	(0.6)	(0.7)	(0.3)	(0.4)	(0.4)		
- Taxes (pre- Financial Result)	-	(0.3)	(0.5)	(0.7)	(0.7)	(1.3)	(1.4)		
= Recurrent Free Cash Flow (To the Firm)	0.6	5.5	0.7	1.3	2.2	4.5	5.6	31.5%	61.2%
<i>Rec. Free Cash Flow (To the Firm) growth</i>	114.6%	824.6%	-87.3%	93.9%	62.4%	106.6%	24.9%		
<i>Rec. Free Cash Flow (To the Firm) / Revenues</i>	1.9%	19.1%	2.3%	4.0%	5.3%	8.0%	9.0%		
- Acquisitions / + Divestments	(0.0)	(0.2)	0.4	0.1	(3.9)	(1.1)	(0.3)		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	(0.3)	-	-	-		
= Free Cash Flow "To the Firm"	0.6	5.3	1.1	1.1	(1.7)	3.4	5.4	25.2%	68.1%
<i>Free Cash Flow (To the Firm) growth</i>	114.0%	821.1%	-79.5%	3.7%	-252.7%	296.1%	58.5%		
<i>Rec. Free Cash Flow To the Firm Yield (o/EV)</i>	1.2%	11.3%	1.4%	2.8%	4.5%	9.3%	11.7%		
<i>Free Cash Flow "To the Firm" - Yield (o/EV)</i>	1.2%	11.0%	2.3%	2.3%	n.a.	7.0%	11.1%		

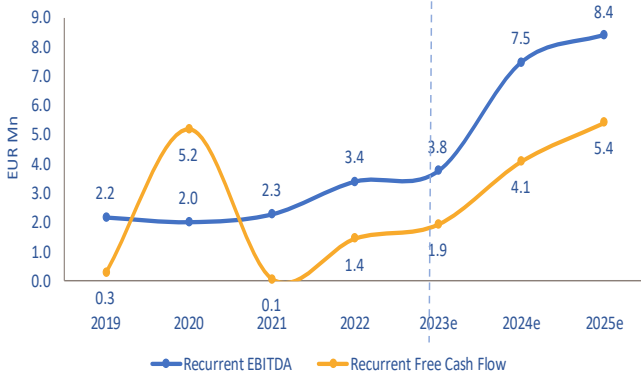
Recurrent Free Cash Flow accumulated variation analysis (2019 - 2022)



Recurrent Free Cash Flow accumulated variation analysis (2022 - 2025e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward



Appendix 3. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	43.2	
+ Minority Interests	0.1	6m Results 2023
+ Provisions & Other L/T Liabilities	0.0	6m Results 2023
+ Net financial debt	5.3	6m Results 2023
- Financial Investments	0.2	6m Results 2023
+/- Others		
Enterprise Value (EV)	48.3	

Appendix 4. Main peers 2023e

	EUR Mn	Sopra Steria	Indra	Izertis	Capgemini	SAP	SCO
Market data	Ticker (Factset)	SOP-FR	IDR-ES	IZER-ES	CAP-FR	SAP-DE	SCO-ES
	Country	France	Spain	Spain	France	Germany	Spain
	Market cap	4,056.1	2,483.8	235.6	32,761.0	171,548.3	43.2
	Enterprise value (EV)	5,041.0	2,731.5	257.3	36,585.6	162,058.5	48.3
Basic financial information	Total Revenues	5,773.1	4,210.0	154.4	22,534.2	31,099.5	41.1
	Total Revenues growth	13.2%	9.3%	21.1%	2.5%	0.7%	20.9%
	2y CAGR (2023e - 2025e)	7.1%	4.8%	19.1%	5.1%	9.6%	23.2%
	EBITDA	685.6	439.0	22.4	3,572.1	9,109.7	3.8
	EBITDA growth	24.3%	13.5%	24.9%	3.5%	22.9%	8.4%
	2y CAGR (2023e - 2025e)	9.0%	7.0%	17.6%	6.9%	13.3%	49.7%
	EBITDA/Revenues	11.9%	10.4%	14.5%	15.9%	29.3%	9.1%
	EBIT	522.1	344.4	13.2	2,959.0	8,725.9	3.3
	EBIT growth	38.3%	20.1%	25.7%	8.3%	58.2%	22.0%
	2y CAGR (2023e - 2025e)	11.9%	7.9%	26.2%	8.1%	14.4%	47.2%
	EBIT/Revenues	9.0%	8.2%	8.5%	13.1%	28.1%	7.9%
	Net Profit	283.1	219.5	6.9	1,950.9	6,134.1	2.4
	Net Profit growth	14.2%	27.7%	23.1%	26.1%	168.6%	26.2%
	2y CAGR (2023e - 2025e)	17.4%	8.2%	42.2%	8.5%	16.5%	51.8%
CAPEX/Sales %	1.7%	2.2%	12.3%	1.4%	2.9%	0.9%	
Multiples and Ratios	Free Cash Flow	301.7	182.9	(2.0)	1,959.4	5,312.7	(1.7)
	Net financial debt	1,006.1	49.4	56.0	1,776.6	(3,535.8)	6.6
	ND/EBITDA (x)	1.5	0.1	2.5	0.5	n.a.	1.8
	Pay-out	32.2%	21.3%	0.0%	29.8%	40.6%	20.0%
	P/E (x)	12.4	11.5	33.9	16.9	26.9	18.3
	P/BV (x)	2.0	2.2	3.5	3.0	3.6	5.7
	EV/Revenues (x)	0.9	0.6	1.7	1.6	5.2	1.2
	EV/EBITDA (x)	7.4	6.2	11.5	10.2	17.8	12.9
	EV/EBIT (x)	9.7	7.9	19.5	12.4	18.6	14.8
	ROE	16.0	19.3	10.3	17.9	13.6	36.2
FCF Yield (%)	7.4	7.4	n.a.	6.0	3.1	4.5	
DPS	4.50	0.27	0.00	3.41	2.13	0.05	
Dvd Yield	2.3%	1.9%	0.0%	1.8%	1.5%	1.1%	

Note 1: Financial data, multiples and ratios based on market consensus (Factset). In the case of the company analyzed, own estimates (Lighthouse).

Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

Appendix 6. Valuation inputs

Inputs for the DCF Valuation Approach

	2023e	2024e	2025e	Terminal Value ⁽¹⁾		
Free Cash Flow "To the Firm"	(1.7)	3.4	5.4	76.1		
Market Cap	43.2	At the date of this report				
Net financial debt	5.3	Debt net of Cash (6m Results 2023)				
					Best Case	Worst Case
Cost of Debt	6.6%	Net debt cost			6.4%	6.9%
Tax rate (T)	20.0%	T (Normalised tax rate)			=	=
Net debt cost	5.3%	Kd = Cost of Net Debt * (1-T)			5.1%	5.5%
Risk free rate (rf)	2.9%	Rf (10y Spanish bond yield)			=	=
Equity risk premium	6.0%	R (own estimate)			5.5%	6.5%
Beta (B)	1.3	B (own estimate)			1.2	1.4
Cost of Equity	10.7%	Ke = Rf + (R * B)			9.5%	12.0%
Equity / (Equity + Net Debt)	89.2%	E (Market Cap as equity value)			=	=
Net Debt / (Equity + Net Debt)	10.8%	D			=	=
WACC	10.1%	WACC = Kd * D + Ke * E			9.0%	11.3%
G "Fair"	2.5%				2.5%	2.0%

(1) The terminal value reflects the NAV of FCF beyond the period estimated with the WACC and G of the central scenario.

Inputs for the Multiples Valuation Approach

Company	Ticker	Factset	Mkt. Cap	P/E 23e	EPS 23e-25e	EV/EBITDA 23e	EBITDA 23e-25e	EV/Sales 23e	Revenues 23e-25e	EBITDA/Sales 23e	FCF Yield 23e	FCF 23e-25e
Sopra Steria	SOP-FR		4,056.1	12.4	15.0%	7.4	9.0%	0.9	7.1%	11.9%	7.4%	15.3%
Indra	IDR-ES		2,483.8	11.5	8.6%	6.2	7.0%	0.6	4.8%	10.4%	7.4%	18.9%
Izertis	IZER-ES		235.6	33.9	36.1%	11.5	17.6%	1.7	19.1%	14.5%	n.a.	n.a.
Capgemini	CAP-FR		32,761.0	16.9	8.3%	10.2	6.9%	1.6	5.1%	15.9%	6.0%	10.3%
SAP	SAP-DE		171,548.3	26.9	18.1%	17.8	13.3%	5.2	9.6%	29.3%	3.1%	19.3%
Comparables				20.3	17.2%	10.6	10.8%	2.0	9.1%	16.4%	6.0%	16.0%
SCO	SCO-ES		43.2	18.3	51.8%	12.9	49.7%	1.2	23.2%	9.1%	4.5%	n.a.

Free Cash Flow sensitivity analysis (2024e)

A) Rec. EBITDA and EV/EBITDA sensitivity to changes in EBITDA/Sales

Scenario	EBITDA/Sales 24e	EBITDA 24e	EV/EBITDA 24e
Max	14.6%	8.2	5.9x
Central	13.3%	7.5	6.5x
Min	12.0%	6.7	7.2x

B) Rec. FCF and Rec. FCF - Yield sensitivity to changes in EBITDA and CAPEX/sales

FCF Rec. EUR Mn	CAPEX/Sales 24e			Scenario	Rec. FCF/Yield 24e		
	EBITDA 24e	0.6%	0.7%		0.8%	Max	Central
8.2	4.9	4.8	4.8	Max	11.3%	11.2%	11.0%
7.5	4.1	4.1	4.0	Central	9.6%	9.5%	9.3%
6.7	3.4	3.4	3.3	Min	7.9%	7.8%	7.6%

LIGHTHOUSE

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
29-Dec-2023	n.a.	4.50	n.a.	n.a.	Estimates downgrade	Enrique Andres Abad
27-Oct-2023	n.a.	3.12	n.a.	n.a.	6m Results 2023	Enrique Andres Abad
12-Jun-2023	n.a.	3.49	n.a.	n.a.	Small & Micro Caps (Spain)	David López Sánchez
04-May-2023	n.a.	3.76	n.a.	n.a.	Initiation of Coverage	Enrique Andres Abad

