IZERTIS

Highly profitable growth compounder in digitalisation

- **What is Izertis?** Izertis is a founder-led Spanish consulting company offering truly high-value added services to help corporates in their digitalisation plans (software engineering, cloud, cybersecurity, AI), focusing on digital strategy design and implementation for large corporates (clients include Tier 1 players in every sector, as well as public administrations), with limited exposure to the more traditional (and lower growth/margin) business process outsourcing. Izertis reported €117m revenues and €18m EBITDA in 2023, with Spain accounting for 80% of sales.

- **Positives.** 1) Niche player in the fast-growing digitalisation consulting services (expected to grow at 10-20% p.a. through 2027); 2) highly profitable business, with 15% EBITDA margin (vs. 10% for the average Spanish consulting firm); 3) strong management team with a track-record of growth (>20% sales CAGR since inception in 1996) and delivery on its targets; and 4) strong M&A capabilities, having integrated >35 companies since 2010, with margins consistently on the rise and double-digit RoCE.

- **Negatives.** 1) Competitive industry with low barriers to entry; 2) labour-intensive requiring skilled personnel, making talent acquisition and retention key (especially after M&A); 3) fast changing technology in the digital space entails the risk of Izertis becoming obsolete; and 4) lack of geographical diversification.

- **Earnings doubling in the next 3Y.** Izertis' growth outpaces the already fast-growing digitalisation consulting services, thanks to its strong positioning, value-added offer, and M&A. We look for >20% CAGR 2024-26 in both sales & EBITDA, with stable margins. We expect Izertis to exceed its 2027 target (€33m EBITDA) already in 2026. While we expect the share count to increase (+14%) due to M&A, we still expect adjusted EPS to double to €0.73 by 2026. This is all while reducing leverage from 2.6X23 to <2X26.

- **€13.5-15.9 DCF based valuation range.** Our DCF model derives a valuation range of €13.5-15.9 per share, based on different growth assumptions which turns Izertis into a €450-550m revenue company by 2032. Izertis trades above its peer average (12X24E EV/EBITDA vs. 10X), but we think that Izertis' superior growth prospects merits the premium, as do other growth/margin leaders.

Financial Ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
EBITDA (€m)	7.8	12.3	18.1	23.9	30.2	37.5
Net profit (€m)	2.4	3.6	5.0	7.9	10.5	14.5
EPS (€)	0.10	0.15	0.19	0.29	0.37	0.49
Adj. EPS (€)	0.16	0.24	0.35	0.48	0.59	0.73
P/E (x)	78.7	53.9	42.1	30.0	23.8	17.8
P/E Adj. (x)	52.4	33.1	23.5	18.3	15.0	11.9
EV/EBITDA (x)	26.1	18.4	14.3	12.4	10.4	8.7
Debt/EBITDA (x)	2.0	2.8	3.1	2.8	2.4	2.0
P/BV (x)	5.6	4.0	2.9	2.6	2.2	2.0
ROE (%)	10.8	12.2	12.3	14.2	14.9	16.4
DPS (€)	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-

(*) Historical multiples based on average share price of the year

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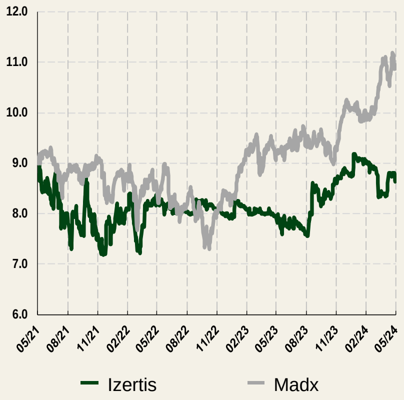
Share Price (*)	€ 8.76

*Share price at the close of 06 May 2024

IZER.MC / IZER SM	
Market Cap	€ 239 m
Enterprise Value	€ 297 m
Free Float	€ 63 m
Nº Shares	27 m
Average Daily Volume	€ 30 k

Performance	1m	3m	12m
Absolute %	4.8	-2.7	10.6
Relative %	4.5	-13.1	-12.4



Shareholders

Pablo Martín 50.5%, Izertis employees 15.5%, Grupo Anémona 6%, treasury stock 0.1%, free float 27.8%

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Key Data

P&L account (€ m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	65	88	117	157	196	242
Opex	(57)	(76)	(99)	(133)	(166)	(205)
EBITDA adj.	**8**	**12**	**18**	**24**	**30**	**38**
D&A	(3)	(3)	(3)	(4)	(5)	(6)
EBIT adj.	**5**	**9**	**15**	**20**	**25**	**32**
PPA amortization	(2)	(3)	(5)	(7)	(8)	(9)
Non-recurring items	-	-	-	-	-	-
EBIT	**4**	**6**	**10**	**13**	**17**	**22**
Net interest	(1)	(2)	(4)	(4)	(5)	(6)
Other non-operating results	(0)	(0)	(0)	(0)	(0)	(0)
EBT	**3**	**4**	**6**	**9**	**12**	**17**
Income tax expense	(0)	(0)	(1)	(1)	(2)	(3)
Discontinued operations	-	-	-	-	-	-
Minorities	0	(0)	(0)	0	0	0
Net profit, reported	**2**	**4**	**5**	**8**	**10**	**14**
Adjustments	1	2	4	5	6	7
Net profit adjusted	**4**	**6**	**9**	**13**	**17**	**22**

Nº of shares (m)	23	25	26	28	29	30
Nº of shares adjusted (m)	23	24	26	27	28	29
Treasury stock (m)	0	0	1	1	1	1

YoY Growth	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	28.2%	36.0%	32.6%	34.2%	24.6%	23.6%
EBITDA adjusted	47.2%	58.0%	47.3%	32.3%	26.3%	24.4%
EBIT adjusted	37.5%	78.5%	61.2%	34.2%	25.3%	25.9%
Net profit adjusted	314.3%	63.6%	51.3%	45.5%	28.5%	29.3%
Net profit, reported	(355.1%)	50.9%	37.8%	58.9%	32.6%	37.9%

Revenues by division	FY21	FY22	FY23	FY24E	FY25E	FY26E
Software Engineering	26%	29%	39%	42%	44%	46%
IT Governance	23%	19%	19%	18%	17%	15%
Cloud & Infra	22%	18%	13%	11%	11%	11%
Business Solutions	16%	12%	9%	7%	6%	5%
Cx Transformation	6%	8%	9%	10%	10%	10%
Enterprise IT security	1%	7%	7%	8%	9%	10%
Data & Intelligence	6%	7%	5%	4%	4%	4%

Per share data	FY21	FY22	FY23	FY24E	FY25E	FY26E
EPS	0.10	0.15	0.19	0.29	0.37	0.49
EPS adjusted	0.16	0.24	0.35	0.48	0.59	0.73
CFPS	0.11	0.32	0.36	0.52	0.65	0.80
FCFPS	(0.30)	(0.71)	(0.74)	(0.35)	(0.21)	(0.13)
BVPS	1.45	2.00	2.83	3.36	3.92	4.46
DPS	-	-	-	-	-	-

Cash flow (€ m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net profit	2	4	5	8	10	14
Depreciation	4	6	8	10	13	15
Minorities	(0)	0	0	(0)	(0)	(0)
Non-cash adjustments	(4)	(2)	(4)	(4)	(5)	(6)
Total cash-flow (CF)	**2**	**8**	**9**	**14**	**18**	**23**
Capex	(2)	(2)	(3)	(5)	(6)	(7)
Working capital investment	(1)	(1)	(2)	(4)	(4)	(5)
Operating FCF	**(1)**	**4**	**5**	**5**	**9**	**11**
Financial investments	-	-	-	-	-	-
Disposals (acquisitions)	(13)	(33)	(31)	(25)	(25)	(20)
Rights issues	7	14	9	10	10	5
Others	1	(3)	(2)	-	-	-
FCF before dividends	**(7)**	**(17)**	**(19)**	**(10)**	**(6)**	**(4)**
Dividends paid	-	-	-	-	-	-
Free-cash-flow (FCF)	**(7)**	**(17)**	**(19)**	**(10)**	**(6)**	**(4)**
Share buybacks	-	-	-	1	-	-
FCF after buy backs	**(7)**	**(17)**	**(19)**	**(9)**	**(6)**	**(4)**

Balance sheet (€ m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' equity	33	48	73	91	112	131
Minority interests	0	0	0	0	(0)	(0)
Provisions and other liabilities	3	6	10	9	8	7
Net debt	17	34	53	62	68	72
Capital invested	**53**	**89**	**136**	**163**	**188**	**210**
Goodwill & PPA intangibles	42	76	117	131	142	149
Fixed operating assets	4	4	6	13	20	29
Non-operating assets	4	5	6	6	6	6
Working capital	4	5	7	13	20	27
Capital employed	**53**	**89**	**136**	**163**	**188**	**210**
Working capital/sales	5.5%	5.3%	5.9%	8.5%	10.0%	11.0%

Financial ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net debt/EBITDA	2.2X	2.8X	2.9X	2.6X	2.3X	1.9X
Net debt adjusted(*)/EBITDA	2.0X	2.8X	3.1X	2.8X	2.4X	2.0X
Gearing	50.0%	70.1%	73.0%	68.3%	61.2%	55.1%
Interest cover	4.6X	3.4X	2.5X	3.1X	3.4X	3.9X

Margins & ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
EBITDA adj. margin	11.9%	13.9%	15.4%	15.2%	15.4%	15.5%
EBIT adj. margin	8.0%	10.6%	12.8%	12.8%	12.9%	13.2%
Effective tax rate	12.2%	7.4%	11.1%	15.0%	15.0%	15.0%
Pay-out	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROCE (EBIT/CE)	11.5%	13.1%	13.3%	13.5%	14.4%	16.0%
ROE	12.6%	14.4%	14.7%	15.8%	16.5%	17.8%

Summary & Investment Case

What is Izertis?
Izertis is a founder-led (50.5% owned by Pablo Martín, who founded the company in 1996 and leads as CEO) Spanish consulting company offering truly high-value added services in the digitalisation space (software engineering, cloud, cybersecurity, AI), focusing on digital strategy design and implementation for large corporates (its clients include the top companies in almost every sector, as well as important public administrations), with limited exposure to the more traditional business process outsourcing services. Compared to the traditional consulting, this approach allows for higher growth and margins, but has lower revenue recurrence and visibility, as it works primarily through projects instead of longer-term contracts. Izertis generated €117m revenues and €18m EBITDA in 2023, operating mostly in Spain (80% of sales).

Digitalisation, a fast-growing industry
The emergence of new technologies (like AI or 5G), their importance for competitiveness, and their increasing complexity, are driving corporates to increasingly rely on consulting firms to implement them. In Spain, consulting (a €19.7bn industry) has outgrown GDP by 5-6pp p.a. over the L5Y, and the services of design and implementation (those to which Izertis is more exposed to) have grown faster still (2pp). There is also plenty of public support, with part of the EU's next generation funds (c.30%) being allocated to help institutions in their digital endeavours (in Spain, the budget for digitalisation is €49bn, equivalent to 4% of GDP and 3X as much as the annual consulting industry). The digitalisation industry is expected to grow 10-20% p.a. through 2027.

Positives
1) Niche player in the fast-growing digitalisation consulting services (expected to grow at 10-20% p.a. through 2027), which Izertis can capture thanks to its superior product offering; 2) highly profitable business with a 15% EBITDA margin (vs. 10% for the average Spanish consulting firm) and consistently profit-making at the bottom line, resulting from the price premium charged on its higher value-added services; 3) strong management team with a track-record of growth (>20% sales CAGR since its inception in 1996), which has delivered on all the strategic targets set since the first plan in 2010, typically exceeding its goals or achieving them a year in advance; 4) strong M&A capabilities, having integrated >35 companies since 2010, with margins consistently on the rise and double-digit RoCE thanks to a solid screening process, integration capabilities, and proper incentives, which should prove a significant growth lever as the industry remains very fragmented.

Negatives
1) Competitive industry (largest player in Spain has c.10% market share) with low barriers to entry, and the strong growth prospects will likely attract more competition from big and small players; 2) labour-intensive business requiring skilled personnel, making talent acquisition and retention key, giving employees bargaining power and leading to an inflationary cost environment; 3) fast changing technology requires agility in adapting to the new trends and developing expertise, or Izertis could end up becoming obsolete; 4) the lack of geographical diversification, with 80% of sales being generated in Spain, and exposure to other countries being spread out.

Doubling profits in the next 3 years
Izertis' growth outpaces the already fast-growing digitalisation consulting services, thanks to its strong positioning and value-added offer, as well as M&A. We expect sales to continue increasing by >20% p.a. through 2024-26, and with margins roughly stable, we expect EBITDA to compound 28% p.a., reaching €38m by 2026. This means that the group should be able to exceed its 2027 target (€33m EBITDA) one year in advance. While we expect the share count to increase (14%) due to M&A, we still expect adjusted EPS to double to €0.73p.s. by 2026.

Solid B/S
Izertis ended 2023 with a net debt of €49m, equivalent to 2.6X EBITDA. We think that the group's leverage position is reasonable, considering that debt includes the maximum potential amounts payable on previous M&A earn-outs, which carry no interest and will be settled in part or in full with the delivery of new shares. Despite the high growth prospects which will require additional M&A investment, we think that leverage should fall gradually to <2X by 2026, although we also expect the share count to increase by c.14% over the period.

€13.5-15.9p.s. DCF-based valuation range
Based on different growth assumptions, which would turn Izertis into a €450-550m revenue company by 2032, we value Izertis on a DCF at €13.5-15.9p.s. Izertis trades above peer average (12X EV/EBITDA vs. 10X), but we think that its superior growth prospects merit the premium, as do other growth/margin leaders (Accenture, Globant, Epam or Netcompany).

IZERTIS: VALUE ADDED PRODUCT PORTFOLIO OF DIGITALISATION CONSULTING SERVICES

Software Engineering

Solutions to accelerate the transition to high-value digital businesses for the user:

- IA Dev
- Agile Dev
- DevSecOps
- Mobile
- Digital Platforms
- ECM & BPM
- Quality Assurance

38.5% of sales

Enterprise & IT Governance

Consulting services to streamline corporate processes:

- IT Governance
- Organization & processes
- Portfolio, program, and project mgmt
- Change mgmt
- PPM/ESM/ITSM solutions

19.2% of sales

Cloud & infra stucture

Consulting focused on cloud-based technological infrastructures:

- Delegated infrastructure mgmt
- Hybrid clouds
- Cloud DevOps
- IT modernization
- Managed services
- Productivity
- Communications

12.5% of sales

Business solutions

Marketing and implementation of end-to-end solutions to increase efficiency, reduce costs, and create a hyperconnected business that links people, data, and processes.

8.8% of sales

Cx transformation

End-to-end digital project development services for strategy conceptualization and digital asset execution:

- Digital Strategy
- Customer Experience
- UX/UI
- Brand & Creativity
- Data Intelligence

8.8% of sales

Enterprise & IT security

Cybersecurity solutions through a 360 security application model:

- Secure architectures
- Cyber assessment
- Audits
- Pentesting
- Red Team
- Incident support
- SO

7.3% of sales

Dx strategy & Tech innovation

Personalized intelligence services and solutions to facilitate strategic decision-making:

- Strategic consulting
- Artificial Intelligence
- Data
- Blockchain
- NLP
- Phygital

4.9% of sales

Source: Izertis

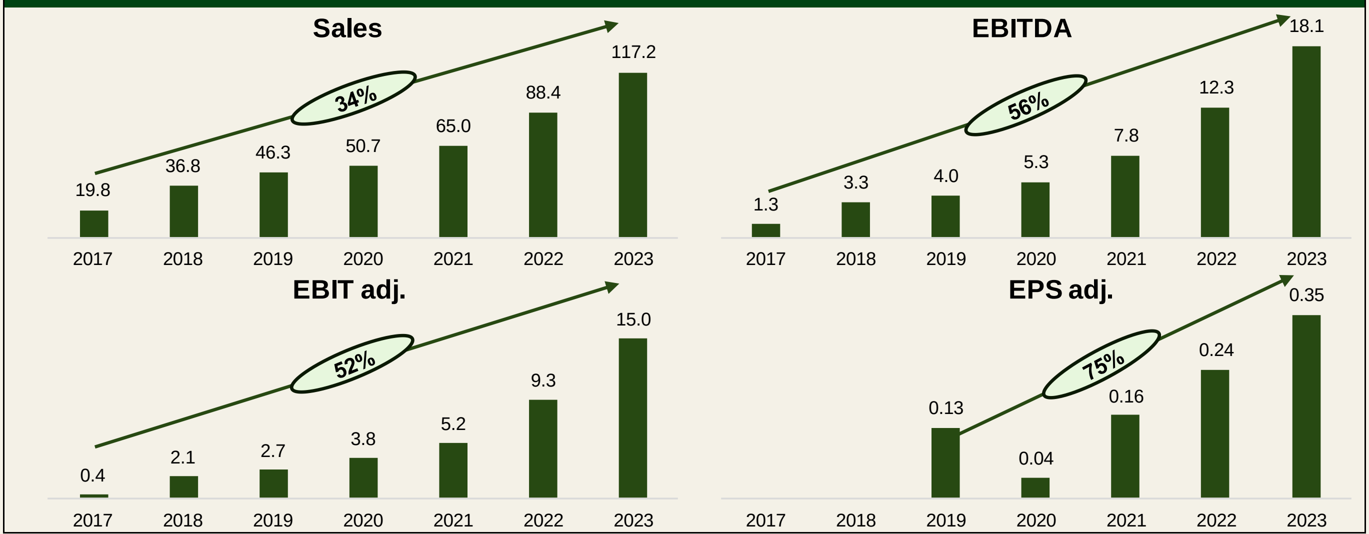
IZERTIS: TIER 1 CLIENT BASE…

Source: Izertis

…AND TECHNOLOGICAL PARTNERSHIPS

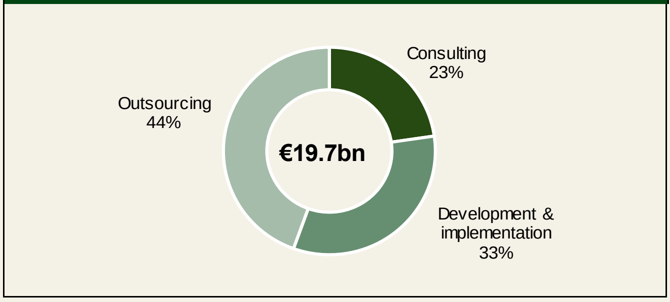
Source: Izertis

IZERTIS: STRONG GROWTH TRACK RECORD (€ M)



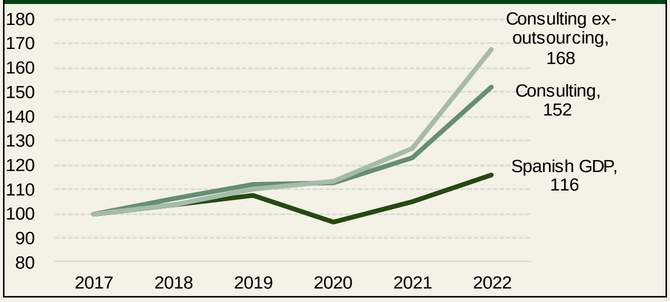
Source: Izertis

SPANISH CONSULTING INDUSTRY…



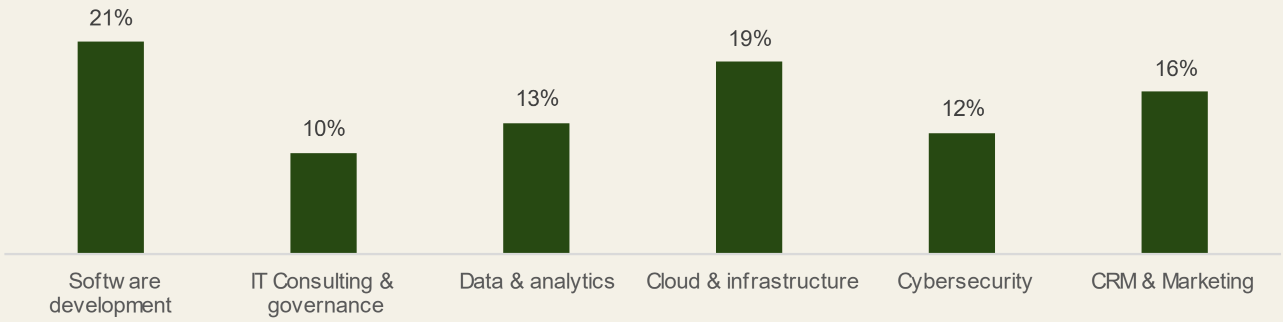
Source: AEC

…OUTGROWS GDP



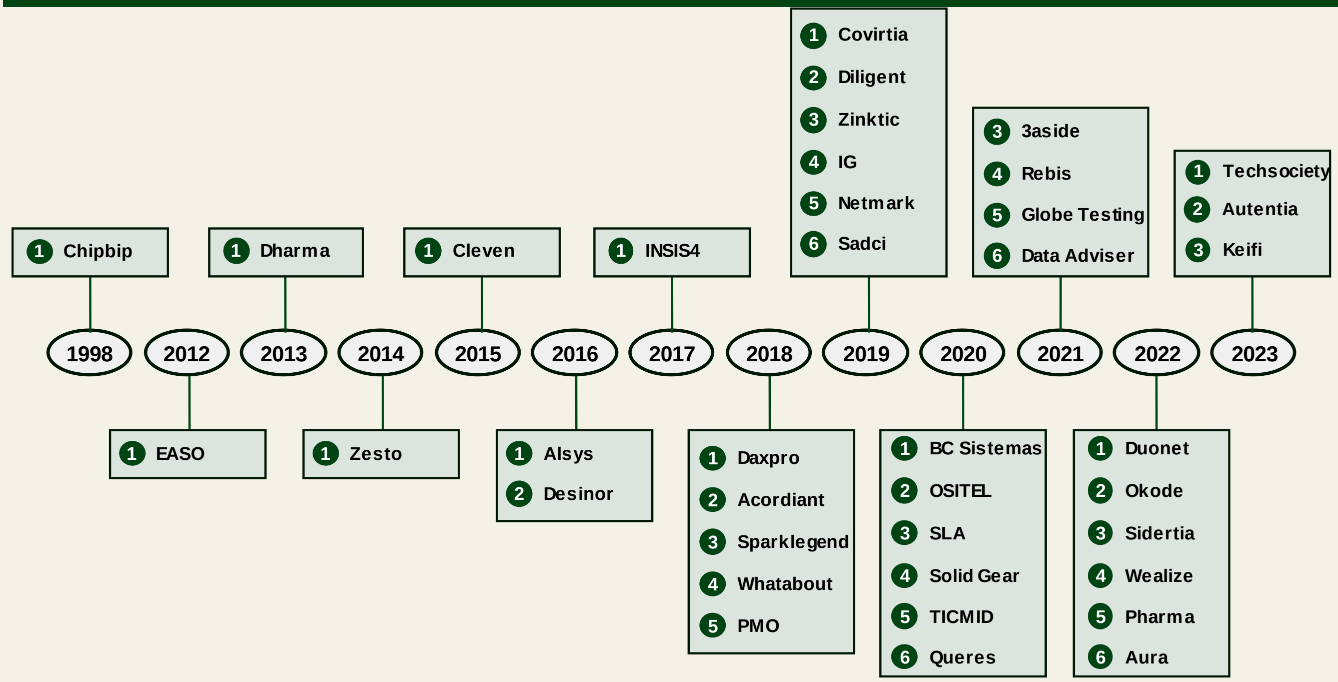
Source: AEC

STRONG GROWTH PROSPECTS FOR THE DIGITALISATION SUBSEGMENT (2022-27 CAGR)



Source: Gartner, SRD, SMI and Deloitte Research through Izertis

IZERTIS: M&A IS A CORE PART OF THE STORY



Source: Izertis

Contents

Valuation

Please note that the valuation model is based on long-term analysis, and that any ranges or discussions below do not constitute a short-term assessment of the likely performance of the shares. In order to better understand the value of the company, we have performed a DCF and have analysed the trading multiples of comparable companies.

1) €13.5-15.9 valuation range through our DCF

Our approach to valuing Izertis is through a discounted cash flow. We have run two scenarios with different levels of optimism. Both scenarios share some common assumptions, including the cost of capital (10.8% WACC, based on 12.2% cost of equity and 7.0% pretax cost of debt) and assume a 2.0% terminal growth rate from 2032, as well as other basic items (25% tax rate, 15% working capital to sales and others). The two scenarios mainly differ on the expected growth rates over 2028-32 (the period comprising the next strategic plan, as the current one ends in 2027), margin, and investment needs (mostly M&A). The table below summarizes the assumptions.

IZERTIS: WACC & VALUATION ASSUMPTIONS

Common terminal assumptions			Conservative	Optimistic
Cost of equity	12.2%	Sales CAGR 2027-32	10%	15%
Cost of debt (pretax)	7.0%	EBITDA margin	15%	16%
WACC	10.8%	D&A to sales	3%	3%
Terminal growth rate (g)	2.0%	Capex to sales	3%	3%
RoIC	13.0%	M&A to sales	–	3%

Source: Alantra Equities

In our conservative scenario, Izertis would be an €450m company by 2035…

a) **Conservative.** In the conservative scenario, we assume that, past 2027, the law of big numbers complicates Izertis maintaining the current growth rates, and thus it slows its sales growth down to 10% p.a., reaching a “steady state” by 2032 of €450m. This would make Izertis a large player in Spain with some international presence. In this scenario, we also assume a 15% EBITDA margin, in line with 2023-25 levels. To achieve this growth, no additional M&A would be needed. Under this scenario, we value Izertis at €434m EV, from which we subtract €62m net debt (2024E including earn-outs and leases), €3m from other liabilities, and add €6m treasury shares. With this, we estimate €375m equity value, equivalent to €13.5p.s.

…in the optimistic one, it would reach €550m

b) **Optimistic.** In this scenario, we assume that Izertis grows at 15% p.a., reaching €550m in revenue by 2032, which means doubling sales again in 5Y after the company delivers in the current plan (€250m sales by 2027). In this scenario, Izertis becoming a large player in Spain with significant presence overseas. The higher sales could allow for greater economies of scale, leading to margin to be slightly higher (15%), but this plan would also require M&A (3% of sales). In this scenario, we value Izertis at €503m EV, and subtract the same items described above, leading to a target equity value of €444m, €15.9p.s.

IZERTIS: DCF VALUATION SCENARIOS

(€ m)	Conservative	Optimistic
EV	**434**	**503**
Net debt, inc. earn-outs, 2024E	(62)	(62)
Non-operating assets/liabilities	(3)	(3)
Treasury shares	6	6
Equity value	**375**	**444**
Number of shares (m)	28	28
TP (€ p.s.)	**13.50**	**15.90**
Current price (€ p.s.)	8.76	8.76
Upside / (downside)	**54%**	**82%**

Source: Alantra Equities

Our valuation implies 18X24, 14X25 & 12X26 EV/EBITDA, and 29X24, 23X25 & 17X26 P/E in our conservative scenario. In the more optimistic one, our valuation implies 21X24, 17X25 & 13X26 EV/EBITDA, and 34X24, 27X25 & 21X26 P/E.

IZERTIS: IMPLIED VALUATION MULTIPLES						
	Conservative			Optimistic		
(X)	2024E	2025E	2026E	2024E	2025E	2026E
EV/Sales	2.8	2.2	1.8	3.2	2.6	2.1
EV/EBITDA	18.2	14.4	11.6	21.1	16.7	13.4
EV/EBIT	21.5	17.2	13.6	24.9	19.9	15.8
P/E	28.9	22.5	17.4	34.2	26.6	20.6

Source: Alantra Equities

2) Peer comparison

We have grouped a set of 16 peers for which we have differentiated into three different groups: 1) large global peers, 2) Specialist peers dedicated primarily to digitalisation; and 3) Spanish peers, including similar small sized companies even though they are not necessarily digitalisation consultants (we have excluded Knowman Mood and Singular people due to a lack of consensus estimates, whereas for LLYC and MAKS we have used our internal estimates).

Izertis trades above peers

Izertis trades at a premium to its peer set in EV/EBITDA (12X24 vs. 10X24) and rouhgly in line in terms of P/E (18-19X). We believe this premium is justified given the superior growth profile of Izertis (>20% growth N2Y vs. <10% for the peers), and its higher profitability (c.16% margins vs 15% for the peers).

IZERTIS: PEER COMPARISON										
			EBITDA Margin		Revenue Growth		EV/EBITDA (X)		P/E (X)	
	Country	Mkt Cap	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Accenture	US	190,425	18.7%	19.0%	1.8%	6.2%	17.2	14.8	25.3	23.6
Capgemini	FR	35,039	16.1%	16.5%	1.5%	6.4%	9.8	8.6	16.7	15.2
NTT Data	JP	21,080	13.7%	15.0%	24.9%	3.9%	8.2	7.4	25.1	21.2
Epam Systems	US	13,255	16.7%	17.4%	3.1%	13.6%	14.3	11.4	24.2	20.7
Large peers			**16.3%**	**17.0%**	**7.8%**	**7.5%**	**12.4**	**10.6**	**22.8**	**20.2**
Globant	LU	7,631	20.6%	20.6%	16.4%	19.3%	16.2	13.2	29.2	24.4
Reply	IT	4,658	15.8%	15.8%	8.1%	9.4%	12.1	10.6	22.2	20.0
Sopra Steria	FR	4,401	12.4%	12.6%	10.7%	5.4%	6.6	5.6	10.7	10.0
Alten	FR	4,165	11.4%	11.8%	4.9%	6.6%	8.3	7.3	13.8	12.2
Tietoevry	FL	2,148	15.3%	16.3%	1.3%	3.5%	6.7	6.0	8.6	8.0
Netcompany	DN	1,957	16.8%	18.2%	10.0%	10.1%	13.3	10.9	24.5	19.2
Endava	US	1,782	15.4%	19.0%	n.a.	13.0%	10.6	7.0	22.1	16.1
Nagarro	DE	1,021	13.7%	14.9%	6.1%	11.3%	8.4	6.4	16.0	12.2
Novabase	PT	170	9.1%	8.8%	n.a.	11.0%	9.2	8.1	26.7	22.9
Specialist peers			**14.5%**	**15.3%**	**8.2%**	**9.9%**	**10.2**	**8.4**	**19.3**	**16.1**
Altia	ES	310	11.4%	12.0%	0.3%	5.0%	11.5	10.3	18.0	15.5
LLYC (AEQ)	ES	112	18.6%	17.9%	29.8%	13.8%	6.0	5.1	8.8	8.0
Making Science (AEQ)	ES	76	5.4%	6.2%	19.5%	14.2%	7.7	6.0	15.3	10.4
Spanish peers			**11.8%**	**12.0%**	**16.5%**	**11.0%**	**8.4**	**7.2**	**14.1**	**11.3**
Total peer average			**14.4%**	**15.1%**	**9.9%**	**9.5%**	**10.4**	**8.7**	**19.2**	**16.2**
Izertis	ES	**231**	**15.2%**	**15.4%**	**34.2%**	**24.6%**	**12.4**	**10.4**	**18.3**	**15.0**

Source: Reuters, Alantra Equities

We think that Izertis' superior growth rates and margins being in the upper range of peers turns it into an aspirational peer to players like Epam, Globant or Netcompany.

I. Izertis at a glance

1) What is Izertis?

Founder-led consulting company focused on truly high-value services for digitalisation

Izertis is a founder-led IT consulting firm specialised in truly high-value added services on the digitalisation spectrum (software engineering, AI, cloud and infrastructure, cybersecurity, etc.), limiting its exposure to more traditional and crowded services like software implementation or business process outsourcing. The strategy relies on service differentiation vs. the large global peers and hyper-specialised consulting firms, for which Izertis offers superior know-how in the latest technologies and more agile execution. To achieve this, the company relies on superior talent and corporate culture, and targets a niche market of mid-sized projects that are often overlooked by larger players, or for which competitors lack the expertise to carry out. We think that the group's track-record demonstrates that it is able to provide such a superior service: it has top-notch client references across all industries (Santander, Mapfre, Inditex, Total, Iberia, GE, MSD, Ministry of Defence), a partnership with all the main technology providers (MS, AWS, Google, Salesforce, IQVIA, Citrix, IBM), >20% sales growth CAGR since inception, above-industry margins, and has been profit making through the years.

IZERTIS: SAMPLE CLIENTS

Source: Izertis

IZERTIS: TECHNOLOGY PARTNERS

Source: Izertis

Service portfolio is based on software engineering, and includes different areas like IT governance, cloud, cybersecurity & others

Izertis typically works through consulting projects (9-month average length) to help large corporates advance in their digitalisation needs. The "base layer" of the service typically includes the study of the client's business goals, identifying how digitalisation can help them achieve their targets, and then engineering software that suits the specific needs of the client. To this base layer, Izertis will add dedicated solutions, either from third parties (MS, AWS, Google, Sales Force, etc.) or developing them from scratch. As a result, the software engineering business line makes up most of the group's revenues (38% in 2023), while the rest of the businesses fluctuate depending on the needs of the clients. The chart below summarizes the main business lines and their weight in 2023 sales. Enterprise & IT Governance (systems to help managing organizations and decision-making), and cloud & infrastructure are the main revenue generating lines at the moment.

IZERTIS: SALES BREAKDOWN

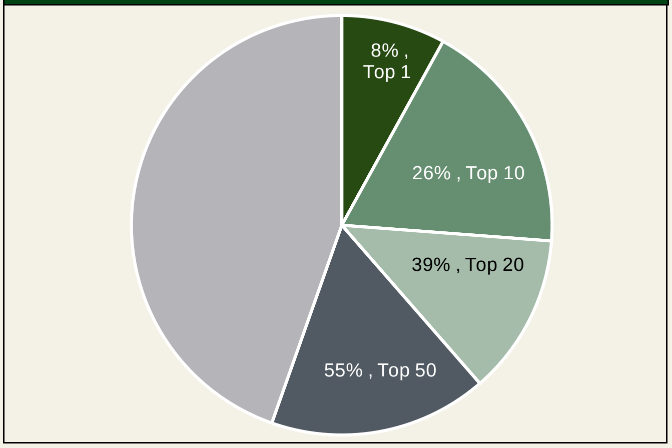
Software Engineering	Enterprise & IT Governance	Cloud & infra structure	Business solutions	Cx transformation	Enterprise & IT security	Dx strategy & Tech innovation
Solutions to accelerate the transition to high-value digital businesses for the user: • IA Dev • Agile Dev • DevSecOps • Mobile • Digital Platforms • ECM & BPM • Quality Assurance	Consulting services to streamline corporate processes: • IT Governance • Organization & processes • Portfolio, program, and project mgmt • Change mgmt • PPM/ESM/ITSM solutions	Consulting focused on cloud-based technological infrastructures: • Delegated infrastructure mgmt • Hybrid clouds • Cloud DevOps • IT modernization • Managed services • Productivity • Communications	Marketing and implementation of end-to-end solutions to increase efficiency, reduce costs, and create a hyperconnected business that links people, data, and processes.	End-to-end digital project development services for strategy conceptualization and digital asset execution: • Digital Strategy • Customer Experience • UX/UI • Brand & Creativity • Data Intelligence	Cybersecurity solutions through a 360 security application model: • Secure architectures • Cyber assessment • Audits • Pentesting • Red Team • Incident support • SO	Personalized intelligence services and solutions to facilitate strategic decision-making: • Strategic consulting • Artificial Intelligence • Data • Blockchain • NLP • Phygital
38.5% of sales	19.2% of sales	12.5% of sales	8.8% of sales	8.8% of sales	7.3% of sales	4.9% of sales

Source: Izertis

82% of sales come from Spain, from a diversified customer base

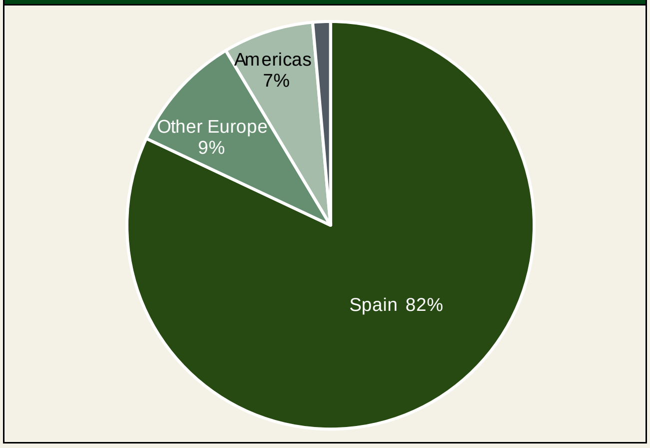
Izertis operates primarily in Spain (82% of sales), and its exposure to other countries is mostly by selling to foreign subsidiaries of Spanish clients. The group has international presence in Portugal, Mexico, Colombia and the US (the latter being a focus market). The company is well diversified in terms of clients, with the top-10 accounting for 26% of total revenues.

IZERTIS: CLIENT CONCENTRATION



Source: Izertis

IZERTIS: 2023 SALES BY GEOGRAPHY



Source: Izertis

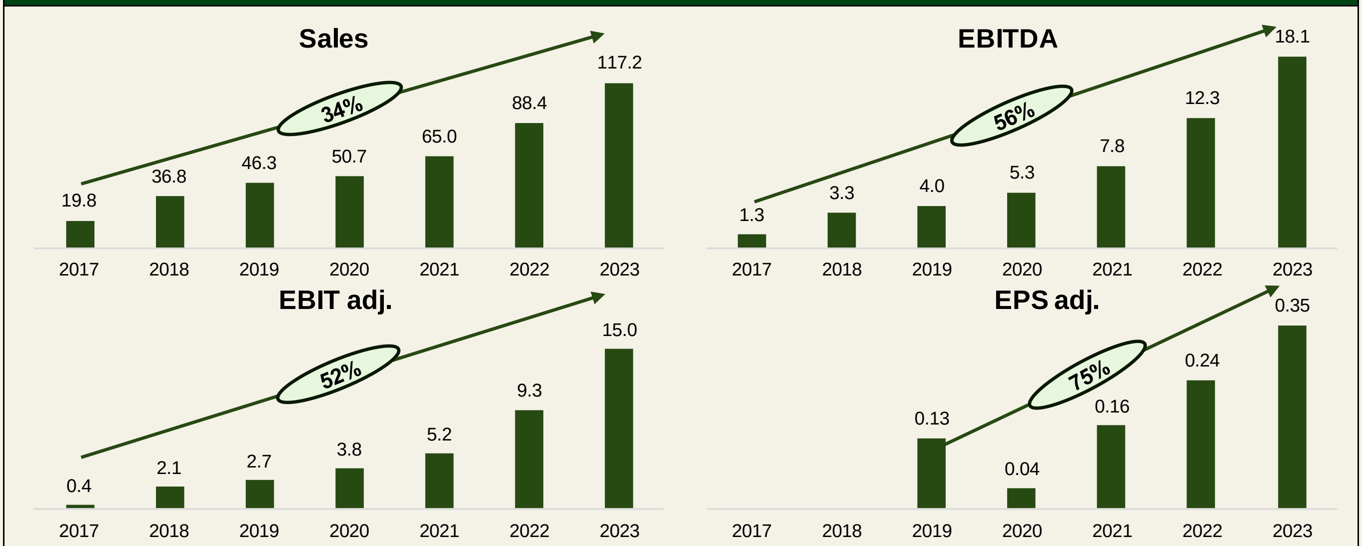
A very important aspect of Izertis' growth story is M&A. To date, Izertis has added 38 companies to its umbrella, with the focus being on acquiring talent and expertise, rather than acquiring revenue and size. Izertis leaves plenty of autonomy to the companies acquired, but provides an ecosystem that can bring in synergies: different teams have access to technologies from other team, allowing for innovative solutions to emerge and cross-selling opportunities.

2) Izertis in numbers

Strong revenue and profit growth track-record

Published annual accounts date from 2017 (2Y prior to the IPO), a period over which the group has increased sales 6X from c.€20m to c.€120m, with a very steady growth rate of 34%. While there are no consolidated financial statements before 2017, the company indicates that it has maintained a 20% sales CAGR over the past 24 years. The growth has brought-in operating leverage and margins have been expanding, allowing EBITDA and EBIT (excluding PPA amortization) to outpace sales and reach >50% CAGR since 2017. In 2023, Izertis generated €121m sales, €18m EBITDA and €16m adjusted EBIT. While the company has grown significantly via M&A, including many acquisitions paid in shares, EPS has jumped from €0.02 (2017) to €0.22 (2023) and, as we will analyse later, return on capital has also been consistently high.

IZERTIS: P&L HISTORICAL PERFORMANCE (€ m)



Source: Izertis

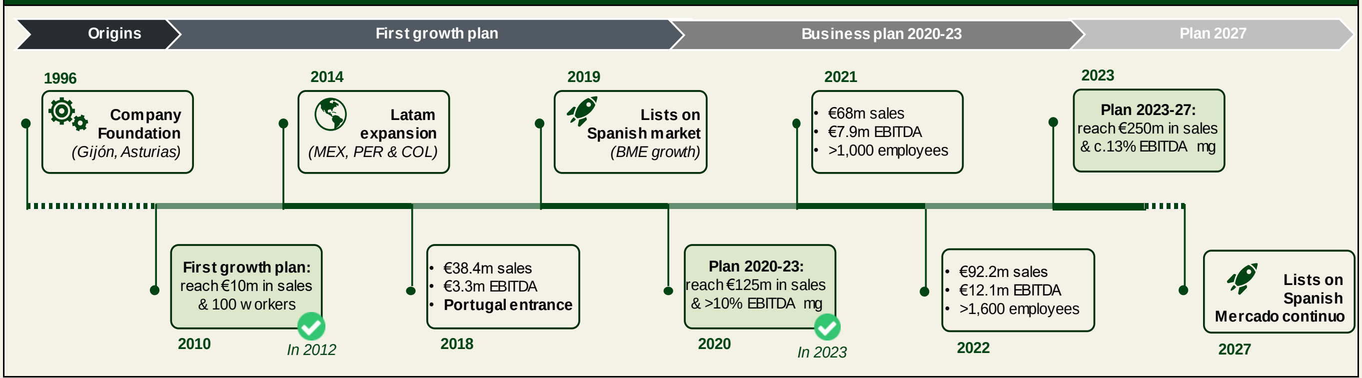
3) Izertis' history

Founder-led company

Izertis was founded by Pablo Martín (current CEO and controlling shareholder with a 50.5% stake) in Gijón (Spain) in 1996, initially focused on traditional technology consulting services. While the company was performing well and by 2010 it was generating c.€5m in annual revenues, management decided to make a change in the strategy and launched its first strategic plan, focusing on value-added technology solutions, growing internationally and engaging in M&A. The target was to grow sales by 10X in 10 years, which the company achieved despite the challenges of the pandemic. The company has also launched other, shorter-term plans (2016-19, 2020-23), and has delivered on all of them, typically surpassing the targets and/or achieving them a year in advance. The company went public in 2019.

Izertis is now in the process of executing its 2022-27 strategic plan, which aims to double sales again over the period, and has ambitions to move from the current alternative stock exchange (BME Growth) market to the main exchange in Spain (Mercado Contínuo).

IZERTIS: GROUP HISTORY



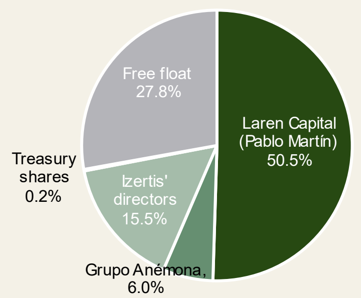
Source: Izertis website

4) Shareholder structure & governance

Izertis is controlled by the founder and CEO Pablo Martín, who holds a 50.5% stake in the company (through his investment vehicle Laren Capital). The second-largest shareholder is Grupo Anémona (Investment vehicle of Pablo Arnús, specialised in digital solutions) with a recently acquired 6% stake. There is a 15.5% stake in the hands of senior employees of Izertis, mostly the executives of the companies that Izertis has acquired over time. The company also has 2% treasury shares, and the remaining 25.9% is free float. The board of directors is composed of 7 members: 4 proprietaries, of which 3 are executive board members (CEO, CFO & COO), and 3 independents. The board is chaired by Pablo Martín.

On top of the executive board members (Pablo Martín, Lourdes Argüelles and Manuel Pasarín), the rest of the management includes Julio López as CSO, Segor Teclesmayer as CPO and Francisco Saez as CCO.

SHAREHOLDER STRUCTURE



Source: Izertis

BOARD MEMBERS

Source: Izertis

MANAGEMENT TEAM

Source: Izertis

s

II. SWOT

1) Strengths and opportunities

Digitalisation is one of the fastest growing services within consulting

a) **Niche player in the fastest growing subsegment.** Consulting services have outgrown GDP by 5-6% over the L5Y and, within consulting, development and integration services outperform other services (by 2pp p.a.). New technologies, like data analytics, cloud, AI or cybersecurity are growing even faster (although hard data is lacking) due to the digitalisation megatrend. Industry experts point to mid/high-teen CAGRs for the next decade, and estimates have ended up conservative over the past few years. Izertis is still early in its company life cycle, having a market share <1% of the Spanish market, and ample room for growth.

Superior product offering allows for higher margins

b) **Highly profitable business.** Izertis sports a 15% EBITDA margin (vs. c.10% for the average Spanish consulting firm), despite lacking significant economies of scale. Izertis achieves this thanks to the premium that its differentiated services generate, which more than compensate for the more senior personnel required to provide them. The company also generates positive net profit (4% net margin, 8% adjusted for PPA), and this has been so since the first data (2017).

Consistently exceeding targets

c) **Strong management team and track-record.** The company is led by the founder, controlling shareholder (50.5% stake) and CEO Pablo Martín, who started the business in 1996. Since then, Izertis has compounded >20% sales CAGR, and has delivered (or exceeded) on all its strategic targets since the first one in 2010, and in many cases, has reached the targets one year in advance. We also think that the current plan (to 2027) will also be achieved early.

A serial acquirer with double digit returns on capital

d) **Good M&A strategy and track-record.** The group has integrated >35 companies since 2010, with the activity accelerating significantly since 2018. The fact that margins (both EBITDA and EBIT, with and without PPA amortization) have consistently trended upwards after the acquisitions reflects well on the good integration capabilities of the business, just as much as financial discipline has allowed for RoCE to remain at double-digit rates throughout 2018-23. We think that this demonstrates value creation through M&A, and this success has been achieved thanks to: a) successful screening for companies with a similar culture and a complementary talent (buying know-how rather than sales/size), to then provide autonomy and make integration as frictionless as possible; b) leveraging the group's client base and extracting technological synergies; and c) proper incentives with delayed earn-outs based on performance and paid in Izertis shares.

2) Weaknesses and threats

Fragmented industry and distributed talent

a) **Competitive industry with relatively low barriers to entry.** The professional services industry is a competitive one and, since the business has low capital intensity and talent is decentralised, there are few barriers to entry. High growth segments like those in which Izertis is present will likely attract competition from big and small players alike.

Employees have bargaining power

b) **Labour intensive, retaining talent is key.** Personnel expenses make up 67% of sales and 80% of the total cost base, and since Izertis specialises in high-value services, this requires the more senior and talented personnel, which gives them bargaining power and leads to wage inflation. Retaining talent after M&A is also a potential source of risk, as Izertis is mostly paying for know-how, and the acquired teams could lower their standards or leave the company after monetising their former business.

Adapt or die

c) **Changing technological environment requires agility.** The frontier of corporate technology is constantly changing, and perhaps even more so recently with the advent of AI and 5G. This requires constant update of know-how to not fall behind competitors, and Izertis could eventually see its know-how become obsolete and no longer in high demand.

Exposed to Spanish IT investment cycles

d) **Limited geographic diversification.** As of 2023, Spain still accounts for c.80% of group revenues, leaving the group exposed to Spanish companies cutting down on their IT spending in times of financial duress. While 20% of sales come from other countries, none of them are significant on their own, as they lack critical mass.

III. Industry analysis

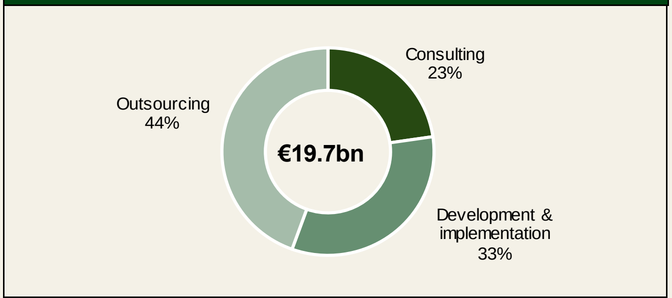
Izertis is positioned in one of the fastest growing segments in consulting: digital transformation, which benefits from a global megatrend and public support that drives structural growth, and has accelerated since the pandemic with the advent of generative AI, and the rollout of 5G technology. That being said, such high growth prospects bring in a large number of players into the market, making the industry highly competitive.

1) An industry growing 10-20% p.a.

€19.7bn industry that outgrows GDP

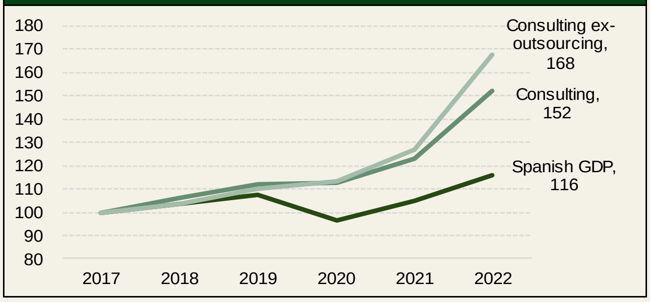
The Spanish consulting industry is estimated to have generated €19.7bn of revenues in 2022 (based on the Spanish association of consulting companies, AEC, data on 2023 is not available yet), and has grown at an 8% CAGR over 2014-22, largely outgrowing Spanish GDP (3.4% CAGR). Within consulting, the development, integration and consulting services (Izertis' core business) are the ones growing fastest (2pp above the overall consulting industry).

SPANISH CONSULTING INDUSTRY 2022



Source: AEC

SPANISH CONSULTING VS. GDP



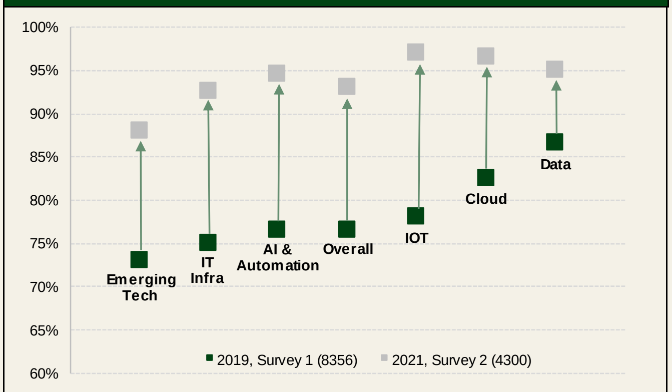
Source: AEC

While there is no hard-data on the growth rate of the IT-specific segment of consulting, we think there is substantial evidence that it should be in the higher-end of the growth spectrum. The logical drivers of this are: a) the increased complexity of new technologies, which lead corporates (and governments) to increasingly rely on external experts to implement them; b) search for efficiency in a competitive industry environment; c) increased amounts of available data (due to the higher number of connected devices gathering data) that requires management, analysis and protection.

Digitalisation is a global megatrend and is here to stay

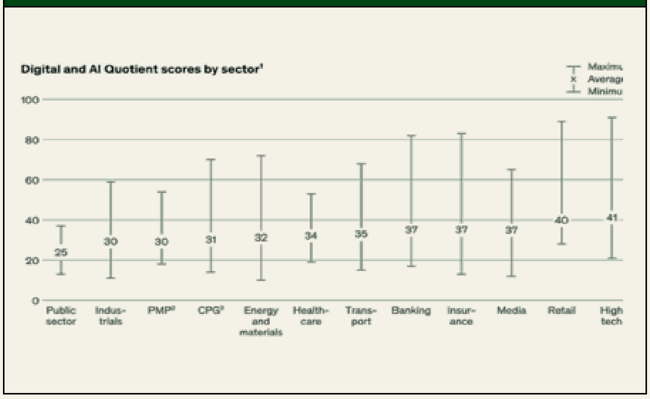
As an example, the chart below (left) shows results from management surveys analysing the degree of adoption (i.e., percentage of responders that claim to have adopted) of different technologies, which increased by c.20pp from 2019 to 2021. Adopting is only the first step of the process, and needs to be followed by integration in business processes and extracting value from it. The chart below (right) shows an index of digital and AI "readiness" as measured by McKinsey across different sectors, with the "high-tech" sector having an average rating of just 41 out of 100.

CEO SURVEY ON ADOPTION OF DIGITAL TECHNOLOGIES



Source: Accenture

DIGITAL & AI READINESS BY SECTOR

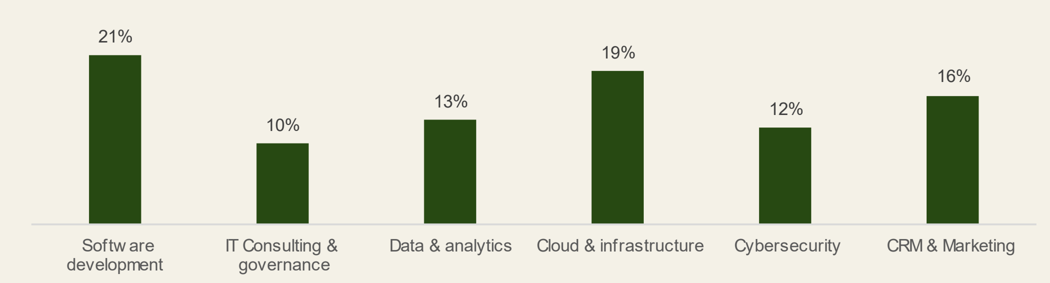


Source: McKinsey

Double digit growth prospects for Izertis' businesses

And since getting ahead on this topic is important for corporates to remain competitive (the same study from McKinsey suggests that digital & AI leaders outperform laggards in their industries by 2-6X in total shareholder return), they have a high incentive to hire consultants to implement the latest technology. On the back of this, the various segments of digital consulting are all expected to grow at double-digit rates over 2023-27. In Izertis' management experience, these industry analyses have typically fallen short of actual industry growth.

2022-27 GROWTH PROSPECTS FOR DIFFERENT DIGITALISATION CONSULTING SERVICES



Source: Gartner, SRD, SMI and Deloitte Research through Izertis

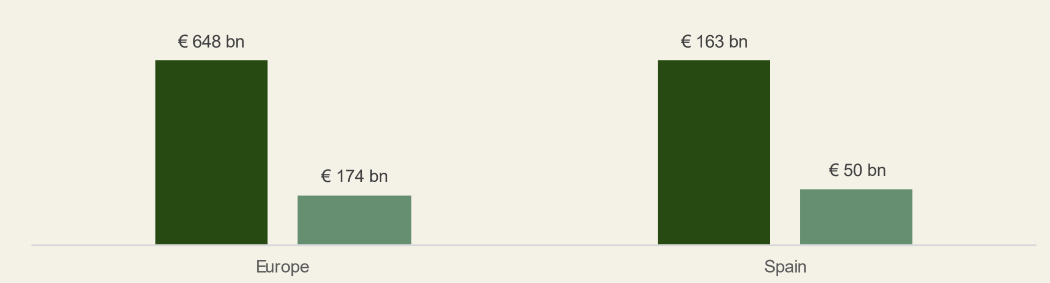
2) European backing

NextGenEU funds for digitalisation in Spain are 3X the size of Spanish consulting

Digitalisation has substantial public support, and has become one of the key strategic targets of Europe as a means to improve productivity. The European Next Generation Funds include a specific digitalisation budget for both grants and loans to the different member states. In the case of Spain, 30% of the €163bn budget, i.e., €49bn (4% of GDP, 3X as much as the annual revenues generated by the consulting industry), should be allocated to digitalisation.

There is also the Digital Europe Programme, with a budget of €7bn, dedicated especially to corporate and public digitalisation, and this includes programs to develop and implement AI, cloud systems, and other forms of digital applications.

EUROPE NEXT GENERATION FUNDS FOR DIGITALISATION



Source: European Commission

We think that this will accelerate the development of digitalisation consulting services, while making corporates and administrations less price sensitive to the costs of such services.

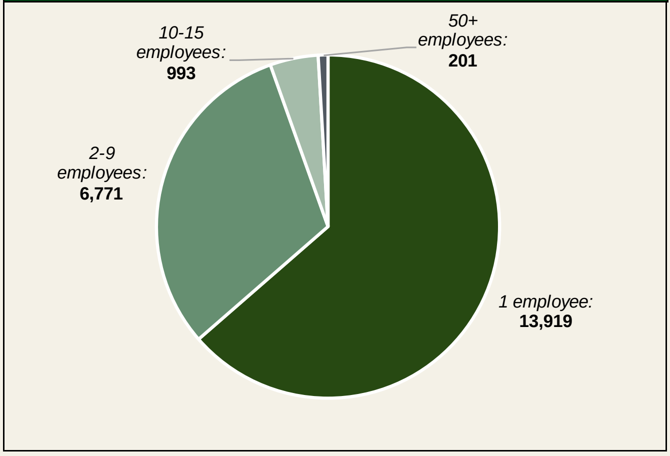
3) The competitive environment

Fragmented industry with low barriers to entry

Professional services are a competitive business due to relatively low barriers to entry (no relevant capital requirements), and the main raw material, knowledge, being largely atomised and distributed, relatively easy to access for companies of any size, and even for individuals to embark on solo projects as a means of self-employment. Consulting, for digitalisation or otherwise, is no different: large corporates, like the Big 4 audit firms (Deloitte, KPMG, PwC & EY) all offer consulting services and have specialised teams for digitalisation, as do also large players like Accenture, Capgemini or Minsait. Along with these and others, are a myriad of small companies, like Izertis or smaller, which have a particular expertise in the very wide area that comprises digitalisation services.

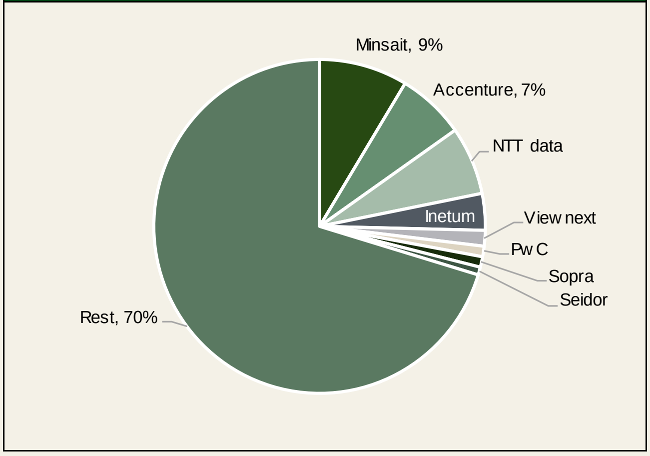
The market is very fragmented. Minsait, which according to some rankings would be the #1 consulting company in Spain by revenues, could have a market share of <10% of the Spanish market. Different sources indicate that, just in Spain, there are 20-50k or more consulting firms. The charts below depict this fragmentation.

NUMBER OF CONSULTING FIRMS IN SPAIN BY HEADCOUNT



Source: INE

LARGEST CONSULTING PLAYERS IN SPAIN

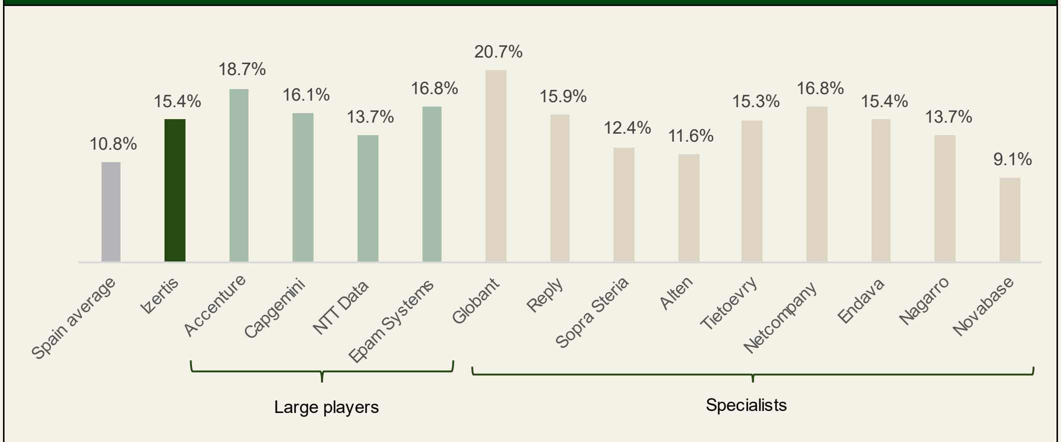


Source: AEC, Indra, Corporate databases and Alantra Equities assumptions

Relatively low margins for companies that do not have an edge

This high fragmentation and competitiveness lead to relatively low margins. According to INE, the average Spanish consulting firm has an EBITDA margin of c.10%, and Minsait, the largest Spanish consulting firm according to different sources, has a margin of 7.6%. However, internationally listed consulting companies largely enjoy double digit EBITDA margins.

CONSULTING INDUSTRY EBITDA MARGIN 2023



Source: INE for Spanish aggregate data, Izertis and Refinitiv for other company data

We find two company archetypes that can achieve competitive advantages in this fragmented market and thus achieve superior profitability.

Large groups have access to workforce relocation to cheaper countries

a) **Large groups with access to economies of scale.** Accenture would be the obvious example, being the world's largest consulting firm with >€60bn global revenue. These players focus on the largest contracts as they have sufficient capabilities to execute global projects, and extract economies of scale by relocating workforce offshore to lower cost countries (India, Eastern Europe, Latin America).

Specialists need to offer a superior product

b) **Hyper-specialised players.** This would include companies that have unmatched expertise in a single solution (e.g., Microsoft Azure implementation, design of CRM systems etc.), giving them an edge due to having implemented the same solution across many companies, and their processes are highly standardised.

c) **Mid-market digital native companies.** Izertis would fall under this category: companies that have an expertise in all the digitalisation solutions needed by corporates, that can integrate different systems, and that aim for a market that is not covered by neither of the above, either due to the other companies lacking the knowledge, for requiring tailor-made solutions, or because the size of the projects is too small to fall under the radar of the other companies.

IV. Strong value proposition should drive growth

1) Outgrowing the industry

With a supportive industry backdrop, we expect Izertis to continue delivering >20% annual sales growth and deliver on its 2027 targets at least one year in advance. Our estimates are based on the following assumptions:

10-20% industry growth in key services

a) **Positioned in the fastest growth segment.** Digitalisation is undergoing a major change in the corporate environment with the development of new data centres, the rollout of 5G, and generative AI. We think that the consulting services that will grow most are those related to incorporating these digital solutions into the corporates, which is the core of Izertis business. In this sense, its business mix should be a driver of outperformance vs. industry growth.

Superior offering allows for market share gains

b) **Superior expertise & niche positioning.** In many cases, the technologies that clients will be requesting are relatively new, and not all consulting firms have expertise to provide them. We think that the larger IT players will likely lack the technical know-how and will rely on niche players (like Izertis) for the more complex and critical tasks. It also focuses in a project size that is not the target of the largest players, reducing its competition.

Low of big numbers does not apply yet

c) **Izertis is still a very small player with ample room for growth.** In Spain, we estimate that Izertis' market share is <0.9% of the Spanish consulting industry (already adjusting the market size to exclude the business process outsourcing which is a non-core activity for Izertis). We think that continuing to compound growth at 20% per year or more will not run into "big number" issues for several years still.

US represents another opportunity

d) **International expansion.** Spain still makes up 80% of sales, but there is some genuine exposure to other geographies (i.e., with a local team, not exported from Spain), including the US and LatAm, which should drive growth organically.

Cross selling should boost sales further

e) **Extracting synergies from past acquisitions.** The key aspect of Izertis' M&A is the acquisition of talent and expertise, rather than the consolidation of sales. This allows for significant cross selling opportunities (selling a newly acquired technology, such as new blockchain applications, to Izertis' client base of large corporates) that are yet to be extracted, especially from the larger deals completed in 2023 (Keifi & Autentia).

2-3 small acquisitions p.a.

f) **Additional bolt-on M&A.** We expect the company to continue integrating teams into the Izertis umbrella.

With Izertis positioned in the fastest growing sub-segments of IT consulting, and likely gaining share thanks to a superior product offering and M&A (synergies and new acquisitions), we estimate that Izertis will largely outpace the aforementioned industry growth prospects. We expect Software engineering to remain the backbone of its sales growth (as it represents the "base layer" of the service it offers), and IT governance solutions, cloud and cybersecurity to be the other main growth drivers.

IZERTIS: SALES GROWTH ESTIMATES BY BUSINESS

(€ m)	2022	2023	2024E	2025E	2026E	23-26 CAGR
Software Engineering	26	45	67	87	111	44%
IT Governance	17	23	28	32	37	22%
Cloud & Infra	16	15	18	21	26	13%
Business Solutions	11	10	11	11	11	2%
Cx Transformation	7	10	15	19	24	36%
Enterprise IT security	6	9	12	17	23	40%
Data & Intelligence	6	6	7	8	9	10%
Group sales	**88**	**117**	**157**	**196**	**242**	**29%**
Sales growth YoY	**36%**	**33%**	**34%**	**25%**	**24%**	

Source: Alantra Equities

Most of the growth should be organic

We estimate that the bulk of the growth should be organic, although we do expect contribution from acquisitions as well.

IZERTIS: SALES GROWTH BREAKDOWN ORGANIC VS. INORGANIC					
	2022	**2023**	**2024E**	**2025E**	**2026E**
Sales (€ m)	**88**	**117**	**157**	**196**	**242**
YoY	36%	33%	34%	25%	24%
o.w. organic	13%	19%	19%	18%	17%
o.w. inorganic	23%	13%	15%	6%	7%

Source: Alantra Equities

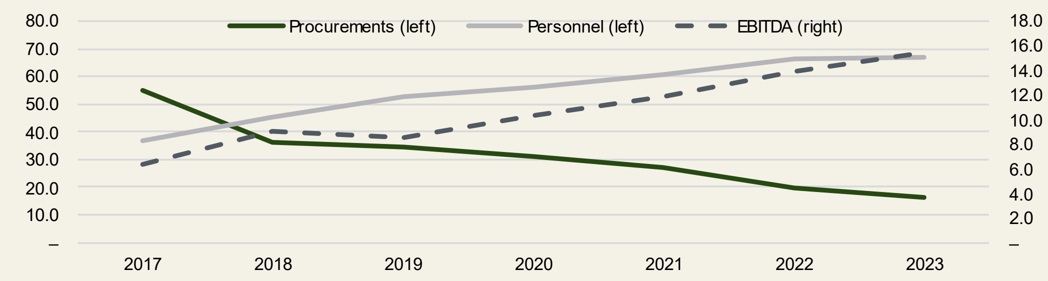
2) Margins improved with size, there could be more upside

Izertis has been expanding its EBITDA margin over the years as it has gained scale, and are already approaching the leading players' levels (and already above the average of Spanish consulting firms, which sits around 10%).

Significant margin improvement as it gains scale

The main driver for the margin expansion is the dilution of procurement costs. These include professional services and the purchase of software licenses. Procurements have fallen from 55% of sales in 2017 to 17% in 2023, partly as a result of internalising work that was previously outsourced, but also due to operating leverage, as growth is not coming from the sale of software licenses, and the outsourcing of central services is largely diluted.

IZERTIS: EBITDA MARGIN EXPANSION SINCE 2017



Source: IZERTIS

We expect the EBITDA margin to stabilise in the 15.0-15.5% range as we think that a substantial portion of the fixed cost dilution has already been achieved, and that part of the growth will come from new geographies where scale is not yet large enough to benefit from operating leverage.

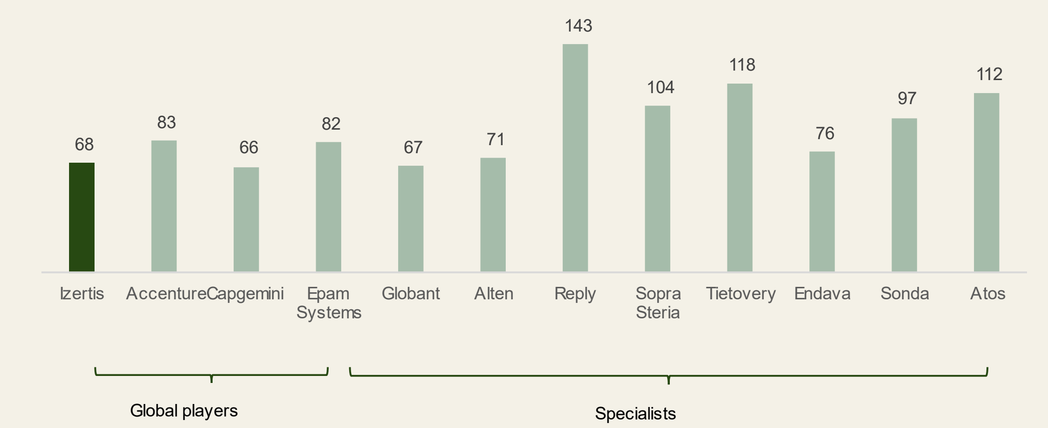
IZERTIS: EBITDA ESTIMATES						
(€ m)	**2022**	**2023**	**2024E**	**2025E**	**2026E**	**2023-26 CAGR**
Sales	88	117	157	196	242	27%
Procurements	(18)	(19)	(26)	(31)	(37)	24%
Personnel	(59)	(78)	(106)	(132)	(163)	28%
Other opex	0	(1)	(2)	(3)	(5)	50%
EBITDA	**12**	**18**	**24**	**30**	**38**	**28%**
Procurements to sales	19.8%	16.5%	16.3%	15.7%	15.1%	
Personnel to sales	66.5%	66.8%	67.3%	67.4%	67.4%	
Other opex to sales	(0.2%)	1.2%	1.2%	1.5%	2.0%	
EBITDA margin	**13.9%**	**15.4%**	**15.2%**	**15.4%**	**15.5%**	

Source: Alantra Equities

Efficiencies in personnel by diluting corporate costs could be achieved in the future

However, we see additional levers for margin expansion in the long-run, mainly on the personnel cost side, which represents by far the group's biggest expense line (67% of sales, 80% of opex). While in our estimates we are assuming that it remains roughly stable in terms of sales, due to continued headcount growth and inflation (both wage increases and employee mix effect), we see upside potential in the medium-term. Firstly, revenue per employee is still relatively low at <€70k/employee: while this is in line with general purpose consulting firms like Capgemini or Minsait, it lags behind tech specialists like Tietoevry, Sopra Steria or Reply (all >€100k/employee). Given that the services provided by Izertis require mostly senior consultants, we think that higher revenue per employee is achievable (thus headcount can grow significantly less than revenues in the future). However, this expansion is unlikely to materialise in the short term, a period over which Izertis is still acquiring talent to further expand its service portfolio. Additionally, larger scale could allow to dilute the personnel costs from the corporate centre and auxiliary services.

REVENUE PER EMPLOYEE OF CONSULTING COMPANIES



Source: Refinitiv

Lastly, large consulting firms (like Accenture) can move workforce offshore to lower cost regions (mostly India). This would represent an additional lever for margin improvement in the future, although we are unsure about the significance of this considering the highly complex services provided by Izertis, which would likely require senior talent and client proximity.

IZERTIS: REVENUE AND COST PER EMPLOYEE ESTIMATES

	2022	2023	2024E	2025E	2026E
Sales (€ m)	88	117	157	196	242
Average headcount (#)	1,537	1,713	2,248	2,722	3,266
Sales per employee (€ '000)	58	68	70	72	74
Cost per employee (€ '000)	38	46	47	49	50
Personnel expenses	59	78	106	132	163
Personnel as % of sales	66	67	67	67	67

Source: Alantra Equities

3) 2027 targets can be achieved one year in advance

Izertis has always delivered on targets

After 2022 results, the company provided revenue and EBITDA targets for 2027 of €250m & €33m, respectively, which implied growing sales by 2.7X and EBITDA almost 3X (CAGRs of 22%). However, the plan has started on a strong footing, with sales +32% and EBITDA +54% in 2023, and there is still additional revenue contribution to be consolidated from completed acquisitions.

With this improved performance, very strong industry trends, its competitive positioning and additional M&A, we think that the targets have been rendered conservative and believe can be achieved one year in advance (as the group has achieved in its two latest plans).

IZERTIS: TRACK-RECORD IN PAST STRATEGIC TARGETS

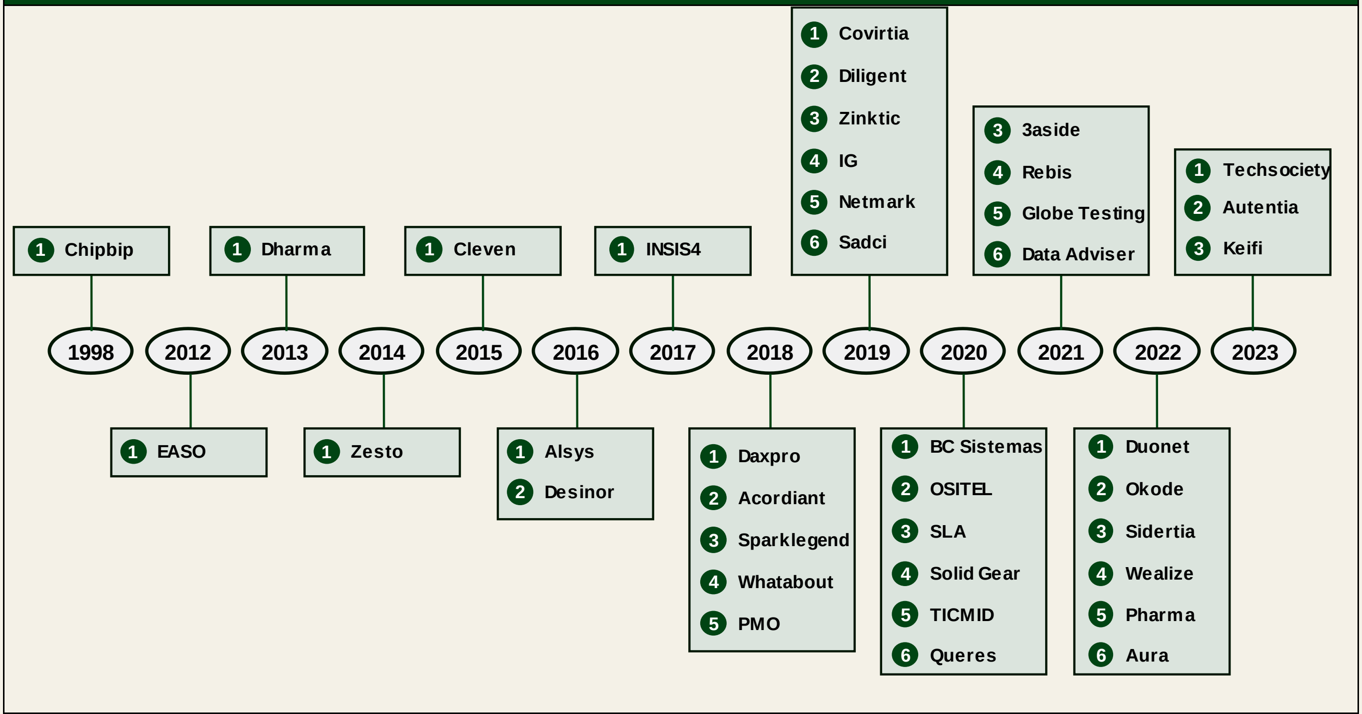
	2010-20 plan		2017-19 plan		2020-23 plan		2022-27 plan	
(€ m)	Target	Actual	Target	Actual	Target	Actual	Target	Estimate
Sales	50	51	37	46	125	117	250	281
EBITDA					13	18	33	43

Source: Alantra Equities

V. Well-oiled M&A machinery

Izertis' success is partly explained by M&A, having acquired over 35 companies since 2010, for a total estimated amount of c.€90m or c.40% of the group's market cap.

IZERTIS: HISTORICAL ACQUISITIONS



Source: Izertis website

1) Izertis' approach to M&A

The M&A strategy of Izertis goes beyond acquiring revenues at the right prices to gain size. We think that the success relies on financial discipline just as much as it does on: a) cultural screening; b) leveraging a common network; and c) proper incentives.

a) **Cultural screening.** Consulting is labour-intensive, and managing people is a difficult endeavour on its own. Integrating another team becomes an even more complex endeavour, and thus the typical industrial roll-up story of acquiring companies and extracting synergies by restructuring typically creates too much friction in an industry like professional services.

Minimising friction and talent loss after M&A

Izertis' M&A goal is not to gain size and cut the headcount, but to acquire talent and know-how, thus the approach is different. The company focuses on companies that share a similar corporate culture, and then provide plenty of autonomy to the acquired business, so integration is almost "plug-and-play" and as frictionless as possible. Izertis avoids distressed companies, and looks for talent that is complementary to the group's talents (gaining expertise in a new technology, or in a new client segment).

This can be observed in the relatively low level of M&A-related charges and restructuring expenses, as well as the relatively low employee turnover compared to other consulting firms.

Extracting cross-selling and technological synergies

b) **Leveraging a common network.** Once a company is integrated under the Izertis umbrella, it gains access to resources that would otherwise be unavailable for a smaller company. This includes extensive client relationships, lower reliance on a single client (thus reducing the need to accept low-value projects to maintain volumes), greater engineering capacity, and access to potentially complementary technologies (e.g., a niche player in data analytics benefitting from the expertise of another niche player in artificial intelligence), which can give rise to new products and solutions to offer to the existing client base.

This is reflected in the strong organic growth of the business, which is higher than inorganic growth and does not slow down after making acquisitions despite the increasing size.

When buying companies with shares makes sense

c) **Proper incentives.** The main asset being acquired is people, and thus there is always the risk that the new employees will either lower their standards (due to losing the ownership of their company) or leave the company (worse still, opening a new company and competing with Izertis). Many companies resort to acquiring majority, but not full ownership so as to keep the former owners with a stake and thus with skin-in-the-game. Izertis, however, does not have minority shareholders, and instead structures acquisitions in two blocks: it firstly pays upfront in cash for the full ownership, and sets an almost equal amount earn-out based on operating delivery, which is then paid in Izertis shares. This helps retain the management of the acquired companies, and incentivises them to work for the betterment of the group and not just their business. As a result of this, Izertis is 15.5% owned by the managers of companies that had been acquired over the years.

Financial discipline is also mandatory

On top of these, financial discipline is as important as in any other company. Izertis' has traditionally made acquisitions paying in cash 6-8X EV/EBITDA upfront. The company then puts in place an earn-out scheme that can reach as much as the original price, but is to be paid in Izertis shares, and upon delivery of EBITDA growth (typically in 2-4 years) that keeps the implied acquisition multiple roughly unchanged. The table below summarizes the historical acquisitions done by the company by year. Note that the economics of old transactions was not disclosed (before the listing), and that the EV includes earn-outs, which could have ended up being lower than originally announced (as companies acquired typically achieve 70-80% of the earn-out).

IZERTIS: HISTORICAL MULTIPLES PAID

	# of companies	EV w/earn-outs (€m)	Sales (€m)	EBITDA* (€m)	EV/Sales (x)	EV/EBITDA (x)
2010-18	8	3.5	13.5	n.m.	0.3	n.m.
2018	5	6.9	8.2	n.m.	0.8	n.m.
2019	6	8.9	4.2	n.m.	2.1	n.m.
2020	6	5.5	10.1	1.0	0.5	5.2
2021	4	7.0	10.0	1.2	0.7	5.9
2022	6	24.6	16.3	2.3	1.5	10.9
2023	3	31.0	18.9	2.9	1.6	10.6

*EBITDA not reported by Izertis

Source: Izertis and Alantra Equities

2) Growth & return on capital demonstrate value creation

A successful rollup story by the numbers

We think that the above allows Izertis to create value with its acquisitions. Many roll-up stories end up delivering strong EBITDA growth as a result of M&A, but fail to deliver net profit or EPS growth due to excessive debt or share count dilution, or start to show a deteriorating return on capital due to the high price paid which shows up as bulging goodwill balances on the capital employed. As a result, the growth brought through M&A of these companies is not value accretive.

Izertis has proven otherwise, seeing strong profit and EPS growth since it was listed (despite the rising share count), and steady double-digit returns on capital (with some volatility when acquisitions are not done early in the year), as shown in the table below. In fact, return on capital stands at record high levels in 2023, even though it is still penalised by the recency of acquisitions.

IZERTIS: GROWTH, MARGINS AND RETURN ON CAPITAL

(%)	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
EBITDA margin	9.1	8.6	10.4	11.9	13.9	15.4	15.2	15.4	15.5
EBIT margin, ex-PPA	5.6	5.8	7.5	8.0	10.6	12.8	12.8	12.9	13.2
EBIT margin, GAAP	3.5	2.1	2.7	5.6	7.1	8.3	8.5	8.7	9.3
Net margin, ex-PPA	3.2	3.3	1.7	5.5	6.7	7.6	8.2	8.5	8.9
Net margin, GAAP	1.6	0.6	(1.9)	3.7	4.1	4.2	5.0	5.4	6.0
Share count growth				4.8	5.1	6.2	5.6	4.9	3.2
EPS growth, ex-PPA				295.4	55.7	42.4	37.8	22.5	25.3
RoCE	13.0	10.5	11.0	11.5	13.1	13.3	13.5	14.4	16.0
RoIC	10.1	9.3	9.1	10.3	12.0	11.9	11.9	12.7	14.0
RoE	22.0	13.7	4.4	12.6	14.4	14.7	15.8	16.5	17.8

Source: Alantra Equities

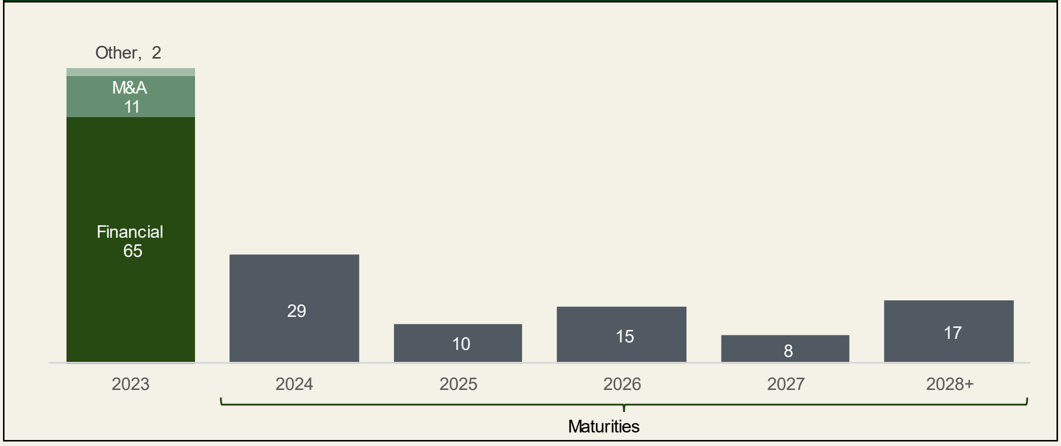
VI. Balance sheet & capital allocation

1) Debt structure

Debt includes all potential earn-outs

Izertis has a total gross debt of €78m, of which €65m is financial debt (bonds and banks), €11m are pending M&A payments and earn-outs, and €2m are other debts. The maturity of the financial debt is spread out in €7-11m annual payments over the next 5Y, plus a bond (€7m) maturing in 2024, and another one (€4m) in 2026, while the pending M&A payments mostly mature in 2024. We highlight that the M&A pending payments are calculated assuming the highest possible achievement on the earn-outs by the acquired companies, and thus the final amounts to be paid are likely to be somewhat lower, and should be paid issuing equity.

IZERTIS: DEBT STRUCTURE AND MATURITY CALENDAR



Source: Izertis

Leverage of 2.9X is affordable and does not curtail M&A

With a gross cash position of €29m, net debt stood at €49m or 2.6X23 EBITDA. The company looks at leverage based on ex-IFRS 16 debt and normalised EBITDA (which excludes some M&A and restructuring charges). If we were to include leases, leverage would be 2.9X.

2) Organic growth requires little capital; M&A is affordable

Izertis is profitable and, despite the high growth rates, the company generates positive organic CF after considering capex and working capital investments. This is due to the business being primarily labour-intensive, with limited capital requirements. Working capital would be the main capital investment, due to clients being large companies & public administration that pay 30-90 days from billing, whilst the costs (mostly wages) are paid monthly.

M&A to remain the main use of funds

Other than that, M&A is the main use of funds, having invested >€30m p.a. over the last couple of years, and an average of c.€10m p.a. in the previous years. Our estimates assume bolt-on acquisitions of €20-25m p.a., which can be funded with a mixture of debt and equity issuing (€5-10m p.a.). Below are the sources and uses of funds since the IPO, and our estimates for 2026.

IZERTIS: GROWTH, MARGINS AND RETURN ON CAPITAL

(€ m)	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Recurring CF	4.8	(0.1)	4.9	1.7	4.2	7.5	14.6	18.3	22.5
Debt financing	3.5	2.3	(4.5)	6.8	17.2	19.1	7.1	4.1	1.8
Equity financing	2.8	6.7	6.3	6.7	14.5	9.4	10.0	10.0	5.0
Total sources	**11.1**	**8.9**	**6.7**	**15.3**	**36.0**	**35.9**	**31.7**	**32.4**	**29.3**
Growth investment	(11.0)	(8.6)	(6.3)	(14.7)	(34.6)	(32.9)	(29.0)	(28.7)	(25.0)
Net interests	(0.1)	(0.3)	(0.4)	(0.6)	(1.4)	(3.0)	(3.2)	(3.7)	(4.3)
Total uses	**(11.1)**	**(8.9)**	**(6.7)**	**(15.3)**	**(36.0)**	**(35.9)**	**(32.2)**	**(32.4)**	**(29.3)**

Source: Alantra Equities

With this, we estimate that the share count will increase in 3.2m (+14% over 2023-26), while net debt will increase €19m (+40%), with leverage remaining <3X over the period. Despite the higher share count and interest expenses, EPS should continue to grow at >20% p.a.

VII. Estimates

1) P&L Estimates

Earnings to double over 2023-26

Izertis is still early in its company life-cycle, and we expect it to deliver >20% annual growth rates across the main P&L lines (from sales, to EPS, even after considering further increases in the share count), which means doubling its size every 3-4Y. Our estimates up to 2026 imply that the company will double EBITDA and EPS vs. 2023 levels, effectively delivering on the strategic plan one year in advance. EPS should also double by 2026 despite a 14% increase in the share count.

IZERTIS: P&L ESTIMATES

(€ m)	2022	YoY%	2023	YoY%	2024E	YoY%	2025E	YoY%	2026E
Sales	88	33%	117	34%	157	25%	196	24%	242
EBITDA	12	47%	18	32%	24	26%	30	24%	38
EBIT, adjusted*	9	61%	15	34%	20	25%	25	26%	32
EBIT	6	56%	10	37%	13	27%	17	31%	22
Net profit	4	38%	5	59%	8	33%	10	38%	14
EPS (€)	0.15	30%	0.19	51%	0.29	26%	0.37	34%	0.49
Net profit, adjusted*	6	51%	9	46%	13	29%	17	29%	22
EPS, adjusted* (€)	0.24	42%	0.35	38%	0.48	22%	0.59	25%	0.73
Number of shares (m)	24	6%	26	6%	27	5%	28	3%	29

* Adjusted for PPA amortization

Source: Alantra Equities

>20% sales growth and margin expansion

We expect sales to grow 27% CAGR over 2023-26, reaching €242m, making it still a relatively small player in the Spanish consulting market (and tiny in the European or global markets). With the EBITDA margin roughly stable, we expect a 28% EBITDA CAGR, reaching €38m by 2026. The company was aiming for €33m normalised EBITDA by 2027, which means surpassing the group's target one year in advance (and we highlight that our EBITDA calculation is GAAP, not adjusted for restructuring or M&A transaction costs). D&A and PPA amortization should increase on growth investments (more premises for the expanding team leading to higher lease D&A, and M&A driving higher amortizations), but we expect adjusted EBIT (ex-PPA amortization) and reported operating profit to both outpace EBITDA growth.

IZERTIS: OPERATING RESULT ESTIMATES

(€ m)	2022	YoY%	2023	YoY%	2024	YoY%	2025	YoY%	2026
Sales	88	33%	117	34%	157	25%	196	24%	242
CoGS	(18)	11%	(19)	32%	(26)	20%	(31)	19%	(37)
Gross profit	**71**	**38%**	**98**	**35%**	**132**	**25%**	**165**	**24%**	**206**
Opex	(59)	36%	(80)	35%	(108)	25%	(135)	24%	(168)
EBITDA	**12**	**47%**	**18**	**32%**	**24**	**26%**	**30**	**24%**	**38**
D&A	(3)	3%	(3)	23%	(4)	31%	(5)	16%	(6)
EBIT, adjusted*	**9**	**61%**	**15**	**34%**	**20**	**25%**	**25**	**26%**	**32**
PPA amortization	(3)	73%	(5)	29%	(7)	22%	(8)	15%	(9)
EBIT	**6**	**56%**	**10**	**37%**	**13**	**27%**	**17**	**31%**	**22**
Gross margin	80.2%		83.5%		83.7%		84.3%		84.9%
EBITDA margin	13.9%		15.4%		15.2%		15.4%		15.5%
EBIT margin, adjusted	10.6%		12.8%		12.8%		12.9%		13.2%
EBIT margin, reported	7.1%		8.3%		8.5%		8.7%		9.3%

*Adjusted for PPA amortization

Source: Alantra Equities

Financial expenses to increase with debt as the group funds its growth phase

Below EBIT, the funding of the growth initiatives will lead to increases in debt, and with a stable cost of debt (c.6% on average for the interest-bearing debt), we estimate that financial expenses will move up from €4m to €6m by 2026. We assume a stable tax rate at 15% (higher than in the past few years as the company becomes more profitable). With this, we estimate adjusted net profit (excluding PPA amortization) to increase 34% CAGR to €22m, and reported net profit +43% CAGR to €14m, both more than doubling.

IZERTIS: NET PROFIT ESTIMATES									
(€ m)	**2022**	**YoY%**	**2023**	**YoY%**	**2024E**	**YoY%**	**2025E**	**YoY%**	**2026E**
EBIT	**6**	**56%**	**10**	**37%**	**13**	**27%**	**17**	**31%**	**22**
Net interest	(2)	116%	(4)	8%	(4)	15%	(5)	16%	(6)
Pretax profit	**4**	**40%**	**6**	**62%**	**9**	**33%**	**12**	**38%**	**17**
Income taxes	(0)	110%	(1)	119%	(1)	33%	(2)	38%	(3)
Net profit	**4**	**38%**	**5**	**59%**	**8**	**33%**	**10**	**38%**	**14**
Net profit, adjusted*	**6**	**51%**	**9**	**46%**	**13**	**29%**	**17**	**29%**	**22**

* Adjusted for PPA amortization

Source: Alantra Equities

EPS to double despite rising share count

We also expect the share count to increase to increase by 14% to 29m shares by 2026 as a result of M&A activity, leading EPS to undergrow net profit by some amount. Still, we expect both adjusted and reported EPS to double over the 2023-26 period.

IZERTIS: EPS ESTIMATES									
	2022	**YoY%**	**2023**	**YoY%**	**2024E**	**YoY%**	**2025E**	**YoY%**	**2026E**
Net profit, adjusted (€ m)	6	51%	9	46%	13	29%	17	29%	22
Net profit (€ m)	4	38%	5	59%	8	33%	10	38%	14
Share count, average (m)	24	6%	26	6%	27	5%	28	3%	29
EPS, adjusted (€)	0.24	42%	0.35	38%	0.48	22%	0.59	25%	0.73
EPS (€)	0.15	30%	0.19	51%	0.29	26%	0.37	34%	0.49

* Adjusted for PPA amortization

Source: Alantra Equities

2) Cash flow, debt and leverage estimates

Positive operating FCF after capex, acquisitions to be partly funded with equity

Cash flow generation should improve with profits, with total cash flow (before capex and working capital) more than doubling by 2026. In terms of capital investments, capex and working capital should both increase with sales, but organic FCF should remain positive and growing. M&A, however, should be the main investment. We assume €25m p.a. over 2024-25 for bolt-on acquisitions, declining to €20m in 2026. While this will be partly funded with capital increases (€5-10m p.a.), Izertis will need to increase its net debt balance by €4-10m p.a.

IZERTIS: CASHFLOW ESTIMATES						
(€ m)	**2022**	**2023**	**2024E**	**2025E**	**2026E**	**24-26E**
Total cash flow	**8**	**9**	**14**	**18**	**23**	**56**
Capex	(2)	(3)	(5)	(6)	(7)	(18)
Working capital	(1)	(2)	(4)	(4)	(5)	(13)
Operating FCF	**4**	**5**	**5**	**9**	**11**	**25**
Acquisitions	(33)	(31)	(25)	(25)	(20)	(70)
Rights issues	14	9	10	10	5	25
Others	(3)	(2)	-	-	-	-
Free cash flow	**(17)**	**(19)**	**(10)**	**(6)**	**(4)**	**(20)**

Source: Alantra Equities

Leverage to remain <3X ND/EBITDA throughout the period

Despite the increasing net debt, we expect leverage to fall thanks to the strong EBITDA growth. Izertis ended 2023 at 2.6X, and we expect it to fall below 2X by 2026. If we adjust debt to include leases, we estimate leverage falling from 2.9X23 to 1.9X26.

IZERTIS: NET DEBT & LEVERAGE ESTIMATES					
(€ m)	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Net debt ex-IFRS 16	32	49	58	64	68
EBITDA, normalised (IZER)	12	19	24	31	38
ND/EBITDA (x)	**2.6**	**2.6**	**2.4**	**2.1**	**1.8**
ND/EBITDA, adjusted (x)*	**2.8**	**2.9**	**2.6**	**2.3**	**1.9**

*Adjusted to include IFRS 16 leases

Source: Alantra Equities

ALANTRA Equities

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