LIGHTHOUSE INSTITUTO ESPAÑOL DE ANALISTAS

Seresco

EQUITY - SPAIN
Sector: Software

Closing price: EUR 3.80 (3 May 2023)
Report date: 4 May 2023 (12:45h)

Initiation of Coverage
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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The time is NOW

A SHARP JUMP IN REVENUE (AS OF 2023) … The 2018–2021 period (CAGR of 0%) was hardly representative of SCO's real growth potential. It was held back by the temporary halt of operations in one business line (land registry management and cartography) and affected by the pandemic. The 2022 performance (+11%) sets the standard for real potential growth in sales. Our baseline scenario for 2022-2025e calls for growth in revenue to EUR 56.0Mn by the end of the period (+18.1% CAGR 2022-2025e, excluding inorganic growth except the February 2023 acquisition of ELO-SI, with a contribution of 2.3p.p. to CAGR).

…THANKS TO ITS ABILITY TO GROW ORGANICALLY. For several reasons: (i) a highly diversified product/service portfolio, (ii) the take-off of land registry management and cartography (+67.6% CAGR 2022-2025e) and (iii) acceleration in the company's international growth (with a negligible impact until now on the revenue mix; 7% of sales in 2022).

WIDER MARGINS. According to our scenario, SCO should increase revenue in 2023e to c. EUR 45Mn (+32.4% vs 2022; +24.5% organic) and recurring EBITDA to EUR 5.1Mn (+50.5% vs 2022) on the back of ongoing margin improvement (Rec. EBITDA margin in 2023e of 11.4% vs 7.4% in 2021). Its capacity for cash generation should leave gearing below 1.1x ND/recurring EBITDA in 2023e (vs 2.2x in 2021).

MOMENTUM: SCO looks set to show a "jump" in revenue. Therefore, 2023e will be a key year to gauge whether, as we expect, the performance delivered in 2022 will continue and organic growth rates can level off at around +11%. It can use this to take advantage of operating leverage and show growth in EBITDA (CAGR 2022-2025e, c.+30%). The jump in revenue and margins in 2022 sets the standard ('the litmus test') of what to expect in 2023e-2025e.

A LOW-RISK PLAY ON THE DIGITAL TRANSFORMATION WITH A COMPANY THAT HAS ALREADY BEGUN (2022) TO TAKE OFF. The sector driver is obvious, but not enough. The key lies in the expected organic growth of revenue and the multiplier effect of wider margins. This is a company whose business model is predicated on low (operational, business, financial) risk. On our 2023e estimates, SCO would be trading on an EV/rec. EBITDA of 7.9x, which should ease to 5.1x in 2025e (vs a peer average of 11.1x). The standard of what we expect going forward (2023e-2025e) is what we saw in 2022. So, the time to keep an eye on SCO's numbers is NOW.

Market Data

Market Cap (Mn EUR and USD)	36.5	40.3
EV (Mn EUR and USD) (1)	40.5	44.8
Shares Outstanding (Mn)	9.6	
-12m (Max/Med/Mín EUR)	4.30 / 3.65 / 3.04	
Daily Avg volume (-12m Mn EUR)	n.m.	
Rotation(2)	2.1	
Factset / Bloomberg	SCO-ES / SCO SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)(6)

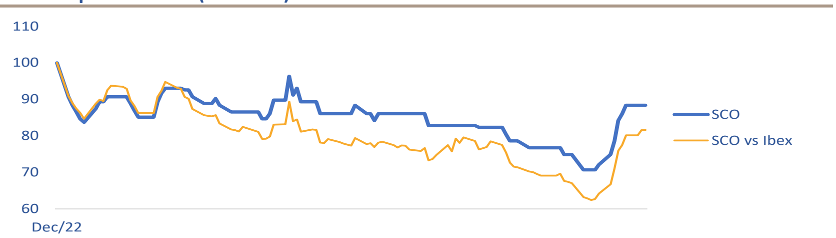
Suárez García Family	62.0
Treasury stock	7.9
Tomás Reinares Fernández	5.9
Manuel Angel Busto Riego	5.4
Free Float	12.6

Financials (Mn EUR)	2022	2023e	2024e	2025e
Adj. nº shares (Mn)	9.6	9.6	9.6	9.6
Total Revenues	34.0	45.0	51.0	56.0
Rec. EBITDA	3.4	5.1	6.8	7.9
% growth	*49.0*	*50.5*	*32.9*	*16.3*
% Rec. EBITDA/Rev.	*10.0*	*11.4*	*13.3*	*14.1*
% Inc. EBITDA sector(3)	*9.0*	*12.0*	*19.6*	*15.7*
Net Profit	1.9	3.0	4.3	5.2
EPS (EUR)	0.19	0.32	0.44	0.54
% growth	*-90.4*	*62.2*	*41.0*	*20.8*
Ord. EPS (EUR)	0.19	0.32	0.44	0.54
% growth	*-93.0*	*66.8*	*41.0*	*20.8*
Rec. Free Cash Flow(4)	1.4	1.0	3.2	3.9
Pay-out (%)	*28.3*	*20.0*	*20.0*	*20.0*
DPS (EUR)	0.06	0.06	0.09	0.11
Net financial debt	4.5	5.4	3.1	0.2
ND/Rec. EBITDA (x)	1.3	1.1	0.5	0.0
ROE (%)	*39.8*	*45.5*	*44.6*	*38.7*
ROCE (%)(4)	*22.0*	*30.7*	*34.6*	*37.0*

Ratios & Multiples (x)(5)	2022	2023e	2024e	2025e
P/E	19.5	12.0	8.5	7.1
Ord. P/E	20.1	12.0	8.5	7.1
P/BV	6.7	4.6	3.2	2.4
Dividend Yield (%)	*1.5*	*1.7*	*2.3*	*2.8*
EV/Sales	1.19	0.90	0.79	0.72
EV/Rec. EBITDA	11.9	7.9	6.0	5.1
EV/EBIT	15.1	9.4	7.0	6.0
FCF Yield (%)(4)	*4.0*	*2.8*	*8.9*	*10.8*

(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 6.2%. For more details see page 11.

Relative performance (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	15.2	-1.0	n.a.	-5.0	n.a.	n.a.
vs Ibex 35	16.2	0.6	n.a.	-13.9	n.a.	n.a.
vs Ibex Small Cap Index	21.5	9.8	n.a.	-10.8	n.a.	n.a.
vs Eurostoxx 50	15.2	-2.2	n.a.	-16.4	n.a.	n.a.
vs Sector benchmark(3)	19.2	4.5	n.a.	-17.6	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).

Revenue growth 'is' the real equity story: CAGR 2018-2021, 0%; +11% in 2022; CAGR 2022-2025e, +18%

An Oviedo-based Spanish tech company, with five business lines and 63% of sales from the private sector

Listed on BME Growth in December 2022, SCO is a Spanish tech company (operating in the software provider subsector), based in Oviedo (Asturias, Spain) and with operations in Spain, Portugal, Colombia and Peru. In 2022, 93% of sales came from Spain. SCO has clients is a wide range of sectors, such as services, industry, chemicals, engineering/construction, food, retail and automotive. Government agencies had a 37% weighting in the 2022 revenue mix. The company currently has five business lines: (i) payroll and personnel administration, (i) IT infrastructures, systems and services, (iii) consulting and software development, (iv) digital transformation and (v) land registry management and cartography.

What is SCO today? What can we expect for the company's most immediate future (2023e-2025e) in terms of operating results and cash generation? And, finally, what can we expect from a business like SCO's in the longer term?

A) SCO's performance "until 2022" was shaped by three main drivers: consolidation in the Spanish market, objective to grow internationally and IPO.

Listed on BME Growth in December 2022 to drive (organic and inorganic) growth.

SCO is a traditional company (not a "new entrant"), founded in 1969. Its business is largely Spain-centric (with deep roots in northern Spain), although plans are to expand its international operations (via Latam), which now contribute 7% of revenue. 2018 featured a watershed moment for the company, when several shareholders, led by Antonio Suárez García, José Carlos Suárez García and Tomás Reinares Fernández, the current chairman, CEO and secretary of the board, respectively, acquired 98% of SCO's shares. In December 2022, the company held its IPO and was listed on BME Growth to, among other objectives, increase the company's financial capabilities and flexibility so it could execute its growth strategy (consistent with its international growth plan).

The "snapshot" until 2022 was one of a highly diversified tech company (five business lines) and a well-established (and profitable) client base. And aspirations to grow in markets (countries, sectors) where it already has a footprint. Exposure of the business to the public sector is high (c. 1/3 of revenue from government agencies). Inorganic growth has been largely negligible (the first large acquisition came in 2023: ELO-SI, a personnel management company, with c. EUR 3 Mn of revenue) and the balance sheet has had low gearing. That's SCO until 2022.

A) Single-digit growth (CAGR 2018-2022, c.+3% for revenue) with extremely low risk. But indicating that the "take-off" started in 2022 (+11%).

Looking at the performance of key metrics in the 2018–2022 period, we see SCO characterised by:

A diversified business mix with room to increase revenue, from EUR 34.0Mn in 2022…

- **High diversification, with three main business lines…** In 2022, the weighting in the sales mix by business line was as follows: (i) 34% payroll and personnel administration, (ii) 32% IT infrastructures, systems and services, (iii) 23% consulting and software development, (iv) 5% digital transformation, and (v) 6% land registry management and cartography.

… and improvement in the EBITDA margin to 10.2% in 2022 (vs 7.0% in 2018).

- **…"jump" in revenue in 2022:** Revenue totalled EUR 34.0Mn in 2022 (EUR 30.8Mn in 2018). The main growth drivers in 2022 were payroll and personnel administration (11% vs 2021), land registry management and cartography (117% vs 2021) and IT infrastructures, systems and services (10% vs 2021). The "jump" in sales in 2022 is particularly significant in comparison with the trends seen over the previous four years, in which there was virtually no growth (except in 2021, recouping the ground lost in 2020) and sales were largely stable at around EUR 30Mn.

And with recurring FCF in 2022 of EUR 1.4Mn (vs EUR 0.1Mn in 2021), resulting in a reduction in the ND/EBITDA multiple to 1.3x in 2022 (vs 4.9x in 2019)

- **Profitability (revenue growth without margin improvement):** despite the contraction in gross margin in recent years (86.2% in 2022 vs. 88.2% in 2019) due to the change in the business mix and the current economic landscape, the EBITDA margin reached 10.2% in 2022 (vs 7.0% in 2018). This is down to the company's ability to improve its operating leverage as it grows or maintain the weighting of its higher-margin business lines (e.g., payroll and personnel administration).

- **And with (regularly) positive recurring FCF:** SCO achieved recurring FCF in 2022 of EUR 1.4Mn (vs EUR 0.1Mn in 2021). This enabled it to pay down net debt by EUR 0.5Mn in 2022 (1.3x ND/recurring EBITDA 2022 vs 4.9x in 2019), leaving the company in a good position to execute its growth strategy.

This implies a low-risk business model (well established client base, growth in known markets and no "industrial" risk)

To summarise, a backward-looking analysis focused on the past five years shows three main takeaways:

- A low-risk business model. This is a real distinctive trait in the technology sector. This low risk is not subjective, but rather objective/tangible:
  - An established client base that can contribute recurring revenue; i.e., provide a "floor" to revenue. This would explain the performance in the 2018–2022 period.
  - Growth by exploiting known markets (Spain, Latam) and not penetrating completely new markets (thereby avoiding the risk arising from any geographical expansion).
  - No "industry" risk: growth is not through creating new products but leveraging/improving existing products.
  - No P&L risk: EBITDA is comfortably above breakeven, thanks to an appropriately sized cost structure.
  - Poised to continue generating positive FCF. This implies a business that can self-finance its organic growth.
  - A sound balance sheet: low net debt, which FCF generation alone systematically brings down.
  - Healthy FCF generation and low financing gearing, which point to low risk/low probability of reckless inorganic growth. Either by type of business acquired or by price. The company does not rely on or even really need to grow via M&A (which explains why acquisitions have been few and far between until now).

Showcase its ability to increase revenue in 2022 (+11%), which until now had been hidden …

- A hidden or, at least, not evident ability to grow. The real results did not come until 2022, looking at the performance of revenue (+11%).

… and with an appropriately sized and sensible cost structure. Capacity of absorbing strong growth in revenue (EBITDA ratio of 7.4% in 2021; 10.0% in 2022)

- Margin performance. Until 2022, SCO may have been seen as a stock with little downside risk to EBITDA (with a stable EBITDA margin of 7%), but scant upside potential. The results for 2022 showed that the cost structure is not only appropriately sized, but also sensible. Moreover, it can absorb strong growth in revenue and has plenty of scope for sharp improvement in the Recurrent EBITDA margin (7.4% in 2021; 10.0% in 2022; i.e., a 35% improvement).

For all these reasons, 2022 earnings are important in our view as they portray a different company. A company capable of achieving much higher growth in revenue than expected. And with operating leverage that can accommodate wider margins, which also bodes well for EBITDA and FCF.

B) 2023e–2025e: step-up in size, steady improvement in margins and ongoing cash generation

¿ What can we expect from SCO in coming years in terms of growth, profitability and recurring FCF generation?

Organic growth (18.1% CAGR 2022–2025e) to EUR 56.0Mn in 2025e …

- **Huge organic revenue growth (18.1% CAGR 2022–2025e)…** Our baseline scenario for 2023e-2025e shows organic revenue growth (including the acquisition made early this year of personnel management company ELO-SI, with 2023e revenue of EUR 2.7 Mn) to EUR 56.0Mn by the end of the period and EUR 45.0Mn in 2023e (+18.1% CAGR 2022-2025e). The fastest growing business line should be land registry management and cartography (67.6% CAGR 2022–2025e). For the rest of the business lines, our estimates point to low double-digit organic growth.

… with a gradually increasing recurring EBITDA margin (to 14.1% in 2025e vs 10.0% in 2022)

- **With a gradually increasing recurring EBITDA margin.** For 2023e we estimate a recurring EBITDA margin of 11.4% (vs 10.0% in 2022), gradually improving to 14.1% in 2025e thanks to the ability of the business to leverage its operating structure. This, coupled with a sharp increase in revenue, makes up one of the pillars of SCO's equity story.

Which will lift recurring FCF generation to EUR 3.9Mn in 2025e (vs EUR 1.4Mn in 2022). Leaving SCO close to being net cash positive in 2025e

- **Which will drive FCF generation…** Our estimates point to positive recurring FCF generation in 2023 of EUR 1.0Mn (20% of recurring EBITDA, recurring FCF yield of 2.8%) that, due to the momentum of EBITDA growth, will increase to EUR 3.9Mn in 2025e (recurring FCF yield 2025e of 10.8%). Below FCF, we project a 20% pay-out (EUR 0.6Mn in 2023e). The dividend yield would be 1.7% in 2023e and 2.8% in 2025e taking the current share price.

- **...enabling SCO to practically become net cash positive in 2025e.** In 2022, SCO's net debt decreased by EUR 0.5Mn to EUR 4.5Mn (recurring ND/EBITDA 2022: 1.3x). Gearing metrics should remain at conservative levels in 2023e (recurring ND/EBITDA 2023e of 1.1x). Forecast cash generation leaves scope to lower net debt and enable the company to achieve a positive net cash position in 2025e. This leaves the door open for continued inorganic growth.

In conclusion, 2022 heralds a step-up in size …

In conclusion, 2022 results heralded a step-up in SCO's size: 1) organic growth of 11%; 2) momentum gained in international sales (weight in the 2022 mix of 7.1% vs 6.2% in 2021); 3) land registry information update agreement in Colombia (EUR 3.7 Mn), and 4) wider margins. In the early part of 2023e, inorganic growth, led by the acquisition of ELO-SI, overshadowed organic growth.

All these factors underlie our numbers and basically prompt us to factor into our financial projections three assumptions we see as logical: 1) organic growth of +11%; 2) "jump" in growth in the land registry management and cartography division; and 3) the impact of the ELO-SI acquisition.

… while 2023e will be a key year to gauge whether (as we expect) the performance delivered in 2022 will continue.

As illustrated, all these arguments are purely revenue-related This is the only question mark, making 2023e a key year to gauge whether, as we expect, the performance delivered in 2022 will continue and organic growth rates can level off at around +11%. This is the main assumption underlying our estimates. We believe the company has already entered (since 2022) a stage of high revenue growth, something that until now has been invisible.

Our forecast of strong growth in margins and EBITDA is merely the 'mathematical' result of our revenue estimates. And although this grow is striking and extremely positive, the focus should be elsewhere. All eyes should be on top-line revenue performance. The rest (i.e., margins, EBITDA, positive FCF, low debt) is the result of "pulling that thread". Our estimates suggest that SCO's 'concealed' revenue potential will really become visible this year.

B) What can we expect from SCO in the very long term?

Now, SCO boasts a model that aims to accelerate its development via both organic and inorganic growth. More importantly, in our view the potential for margin improvement over the longer term (post-2025e) could be even greater than estimated given the scalability of part of the business (proprietary product). With a clear business model, a conservative balance sheet (e.g., low level of financial gearing) and cash generation capacity. And underpinned by a sector offering an opportunity: the digital transformation.

SCO should theoretically be at the right time and place to seize the opportunity afforded by the digital transformation.

To put this another way, SCO would theoretically be in the right place (i.e., the tech sector) at the right time (pandemic-induced acceleration in digital transformation processes) and in perfect shape to grow (generating cash and trading at an ND/recurring EBITDA multiple 2023e of 1.1x). Nevertheless, the company is not without risks: (i) a fiercely competitive sector - growth in the number of players has outpaced sector revenue, reflecting a high level of fragmentation (business risk) - and (ii) technological disruption from the dependence on technological products and services, which means the need for permanent updates.

The last question we can ask is how today's share price is factoring in SCO's prospects and business model. Again, the idea is simple. The step-up in scale we estimate in our baseline scenario indicates that SCO is (still?) trading at extremely low multiples. Especially considering that we are talking about a tech company able to deliver strong growth and improve margins with low risk. That is what our financial projections indicate.

The standard of what we expect going forward (2023-2025) is what we saw in 2022. So, the time to keep an eye on SCO's numbers is NOW.

Chart 1. Revenue performance and its impact on EV/Sales multiple

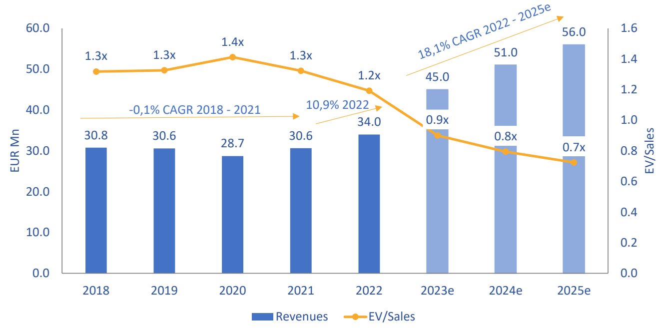
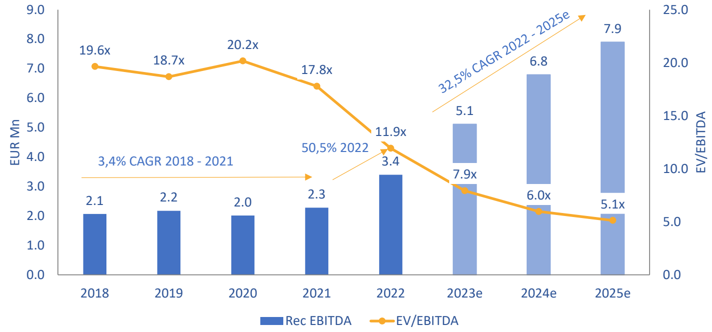


Chart 2. Recurrent EBITDA performance and its impact on EV/ Rec EBITDA multiple



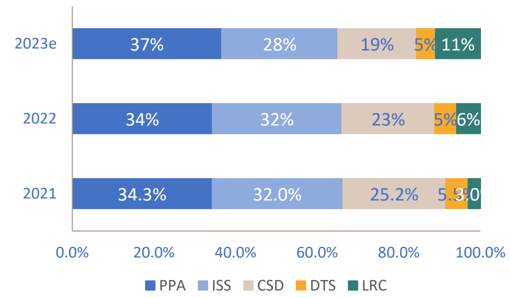
The company in 8 charts

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	

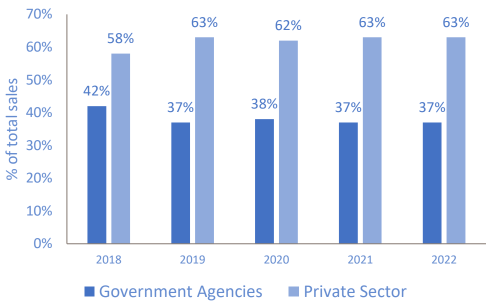
Source: Gartner

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



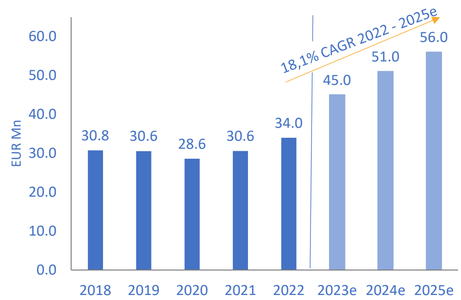
Note: (i) PPA: Payroll and personnel administration, (ii) ISS: IT infrastructures, systems and services, (iii) CSD: Consulting and software development, (iv) DTS: Digital transformationy (v) LRC: Cartography

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

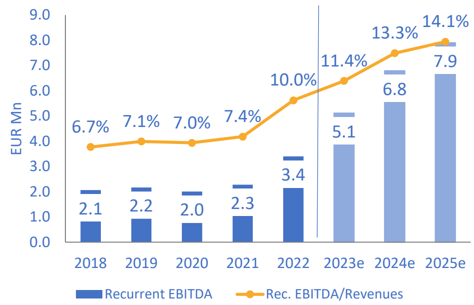


Note: some of its clients include Ence, Airbus, Jacobs, JLL, IDEPA, FEGA...

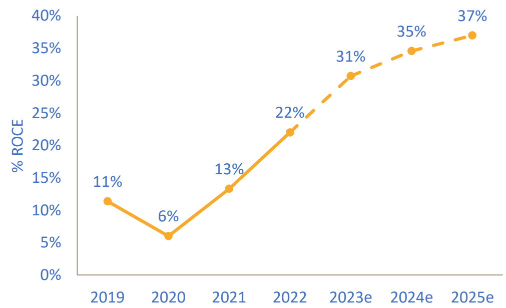
With capacity to deliver organic revenue growth (18.1% CAGR 2022–2025e)



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

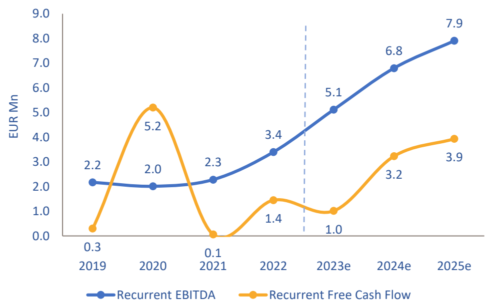


… …boosting the return on capital employed (ROCE 22% in 2022)

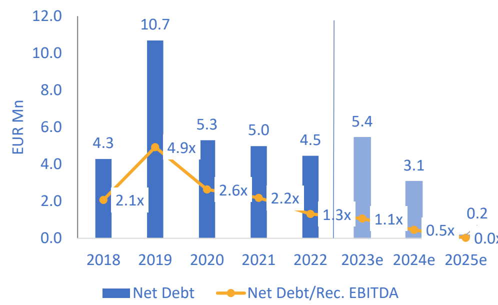


Note: We have excluded financial assets from capital employed.

And lifting recurring cash flow generation to EUR 3.9Mn in 2025e (vs EUR 1.4Mn in 2022) …



… And lifting recurring cash flow generation to EUR 3.9Mn in 2025e)

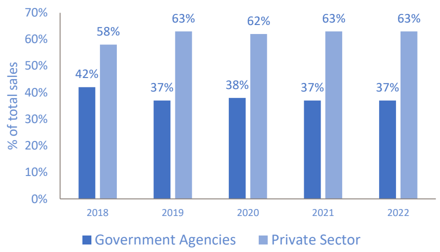


Tech company with over 50 years of history (i.e., not a "start-up"). With a "real" and profitable client base

Founded in 1969, Seresco (SCO) (Mkt. Cap of c. EUR 36.5Mn) is an expert in IT infrastructures and systems and payroll and personnel administration services. It also specialises in land registry management and cartography, and in software development. SCO has been listed on BME Growth since December 2022.

The company has over 50 years of history and operations in Spain, Portugal, Colombia and Peru, although 93% of sales in 2022 were generated in Spain. SCO's strategy involves growing in its existing segments and geographical markets and penetrating new markets in Spain and abroad, with its sights set especially on Latin America. The objective is to provide stability and soundness to the company through the economic cycle's various stages and maintain a well-diversified client mix; the target is to have a 50/50 split between government agencies and private businesses. In 2022, private clients made up 63% of sales and government agencies 37%. SCO has clients in the services, industry, chemicals, engineering/construction, food, retail and automotive industries, along with public institutions and government agencies.

Chart 3. % of sales by type of client



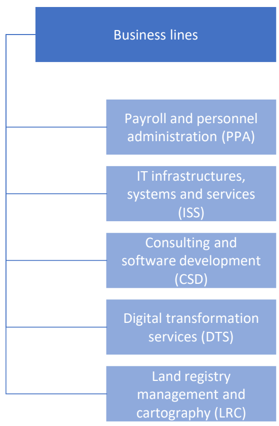
Given the company's highly diverse services offering, SCO's main peers in each segment are: (i) payroll and personnel administration: Sopra Steria (a French group recognised for its consulting, digital services and software development, which also specialises in human resources solutions) and ADP (a US group specialised in cloud-based management solutions for, e.g. HR, payroll, talent), (ii) IT infrastructures, systems and services: Indra (a Spanish consulting and technology group) and Izertis (a technological consultancy that provides software, infrastructure and cybersecurity solutions and is also listed on BME Growth), (iii) consulting and software development: Capgemini (a French group that provides consulting, technology and digital transformation services) and Altia (a company that offers consulting, development and maintenance services of advanced technology solutions and services, and is also listed BME Growth), (iv) digital transformation services: SAP (a German software company that develops enterprise software to manage business operations) and (v) land registry management and cartography: AECOM (a US infrastructure engineering group that provides services in transportation, buildings and water, including geospatial and geographic information systems).

Performance shaped by three main drivers: consolidation in the Spanish market, objective to grow internationally and IPO

SCO was incorporated in 1969. In the ensuing years, it began its growth in Spain by setting up the land registry management and cartography division and opening offices. In 1995, it embarked on its international expansion, although 93% of its sales are generated in Spain. 2018 featured a watershed moment for the company when several shareholders, led by Antonio Suárez García, José Carlos Suárez García and Tomás Reinares Fernández, the current chairman, CEO and secretary of the board, respectively, acquired 98.18% of Seresco's shares.

Finally, in December 2022, the company held its IPO and was listed on BME Growth to, among other objectives, increase the company's financial capabilities and flexibility so it could execute its growth strategy.

Chart 4. Business Lines.



A diversified business model with sustained and profitable growth, backed by an "already" well established client base

At present, SCO operates through five business lines:

- **Payroll and personnel administration (34% of sales in 2022)*:*** provision of outsourced payroll and personnel administration services based on proprietary tools, methodology and teams. Its target clients are businesses in Spain and Portugal with over 400 employees. The company offers its clients different service levels with both a license model (where the solution is installed at the client) and an outsourcing model (end-to-end process management).

In short, it offers a one-stop service that can include payroll management, talent management, employee portal, occupational health and safety and balanced scorecard. This business line's key features are: (i) its level of recurrence (clients of over 20 years, with annual renewal), (ii) its high operating leverage since management of more payrolls does not necessarily imply higher personnel expenses and (iii) its high switching costs for clients.

It processes more than 3.6Mn payslips a year and has nearly 201 employees. Success stories include outsourced payroll management for Air Liquide, Roche, Alcampo, Vestas, Ence, Peco and Grupo Alsa…

- **IT infrastructures, systems and services (32% of sales in 2022):** (i) ICT services: outsourcing services for government agencies and private businesses, with user help desks, microcomputer services, IT infrastructures, networks, etc., (ii) governance, risk and compliance, with a proprietary tool (Krio); providing implementation, oversight and evaluation services of companies' internal control and (iii) cybersecurity, which includes prevention, preparation, monitoring, surveillance and early warning, incident response and forensic analysis services.

  Roughly 30% of employees in the business line (234) are certified, making SCO eligible for public procurement (nearly 45% of activity). The company has a strategic commitment to cybersecurity services (high specialisation and high demand). It acquired two companies in recent years to bolster this area. One of this business line's success stories is the hardware and software infrastructure support, maintenance and installation project for Central Lechera Asturiana's centres.

- **Consulting and software development (23% of sales in 2022):** (i) software management (maintenance of computer applications integrated into the client's production chain), (ii) agriculture and livestock consulting and software development services, (iii) software development technical assistance services and (iv) innovation, where it has two of its own platforms targeting market niches: (1) "Cultiva Decisiones": an agriculture platform that enables clients to control their operations using artificial intelligence and satellite connections. (2) "VayaVaca": a digital cattle trading platform for professionals.

  Government agencies have a 70% weighting in this business line, which has around 140 employees. A success story is the tailored development of a field inspection system for on-the-spot verification of aid files related to the common agricultural policy. Noteworthy clients include Arcelor and Stellantis.

- **Digital transformation services (5% of sales in 2022):** this activity is conducted primarily in Spain and comprises three blocks: (i) Digital maturity, an end-to-end digitalisation services, including digital strategy assessment and design, (ii) Implementation of Sage cloud management products and (iii) Internet of things (IoT) solutions, in which the company has three proprietary applications: (1) Takson (cloud-based application comprising a smart system for online property valuation), (2) Nubia (cloud-based application specialised in engagement assurance process execution and management, e.g. for audits and inspections) and (3) Data (IT solutions for process improvement through automated data capture, analysis and processing).

  The digital transformation area is characterised by its high recurrence thanks to revenue from application maintenance and a license-based system (SaaS). The company has c.300 clients, some of which for over 25 years. This business has a team of c.30 employees. A success store is the NUBIA platform, which SCO uses to enhance the implementation of Grupo EULEN projects.

- **Land registry management and cartography (6% of sales in 2022):** operations in Spain and Latin America, with a team of c.40 employees. SCO offers geographic information system (GIS) solutions for capturing and using data. It has developed two of its own GISs: (i) Mapstorm (a cloud-based platform for collaborative publication and production of map information, marketed as a SaaS) and (ii) MapHurricane (a cloud-based application based on Mapstorm, which generates land registry information for integration into the company's land registry management activity production chain).

Chart 5. Revenue by business line.

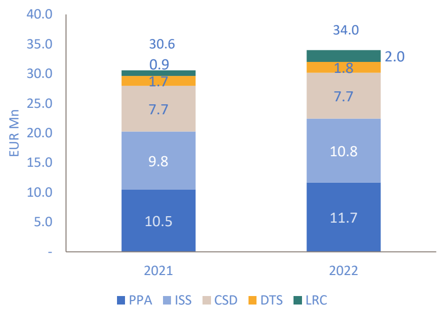
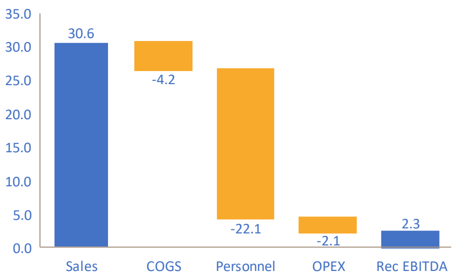
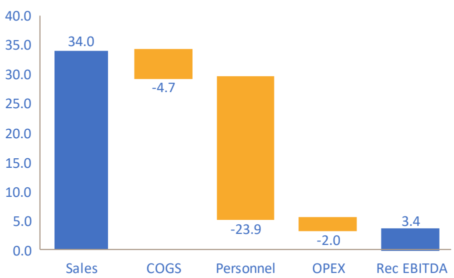


Chart 6. Recurrent EBITDA 2021



Note: The headcount at the end of 2021 was 650 employees.

Chart 7. Recurrent EBITDA 2022



Note: We have adjusted for IPO costs (EUR c.0.3Mn). The headcount at the end of 2022 was 712 employees.

Contracts for this business are entered into with Spanish and international government agencies. SCO is one of only a handful of companies certified by SEGIPSA (the company in charge of updating and maintaining Spain's land registry). A success story is the production of the topographical map of several regions of Morocco. The company also has projects in other countries, e.g., Ecuador, Bolivia and Costa Rica…

Competitive advantage: a loyal client base on which to build its growth

SCO's main competitive advantage over potential competitors is:

- **A "well established" client base**: with more than 50 years of operation in the sector under its belt, SCO has built up a broad client base by focusing on forging long-term relationships. This gives the company keen insight into their needs and how they do business with their own customers, which results in high switching costs for them. For instance, 10% of the payroll and personnel administration business clients have been with SCO for more than 20 years and 40% for more than 15 years. This exposes the company to low business risk compared to other sector players.

Inorganic growth strategy: targeting profitable companies and those that can generate synergies with SCO's current service offering

The company intends to grow inorganically. SCO has set up an in-house M&A department to analyse potential opportunities. It has already made three acquisitions over the past few years:

- SIGEA (all cash deal) in 2019 (merger with SCO in 2021 with effect for accounting purposes from 2020). This acquisition helped speed up the cybersecurity area's deployment and bring in highly skilled staff in this branch of activity.

- SE Programa en Windows S.L in 2022, for EUR 0.75 Mn (financed 40% with debt and 60% with equity) plus an earnout. This company is a B2B wifi infrastructure solutions and security services provider.

- A 76.87% stake in ELO Sistemas de Informacao LDA (ELO-SI) from Portugal in February 2023, for EUR 1.4Mn (financed with proceeds from a capital increase). The company has a purchase option on the remaining 23% based on an EBITDA multiple and performance by the investee by 2027. ELO specialises in providing time and attendance, access control management and field data collection solutions and services. It has over 600 clients and 28 employees. This enables SCO to grow its client base and provides cross-selling opportunities for complementary solutions between the two companies.

Recent performance (-5y) shows: profitable revenue growth and a recurring ND/EBITDA multiple of 1.3x (2022)

Looking at performance of key metrics (e.g. sales, gross margin, rec. EBITDA) (see Table 1), SCO's business in the 2018–2022 period featured:

Table 1. Key metrics 2018-2022

EUR Mn	2018	2019	2020	2021	2022
Total Revenues	30.8	30.6	28.7	30.6	34.0
Total Revenues growth		*-0.6%*	*-6.1%*	*6.7%*	*10.9%*
Gross Margin	**25.7**	**27.0**	**25.2**	**26.5**	**29.3**
Gross Margin (o/Revenues)	*83.4%*	*88.2%*	*87.8%*	*86.4%*	*86.2%*
Operating expenses	(23.6)	(24.8)	(23.2)	(24.2)	(25.9)
% o/revenues	*-76.7%*	*-81.1%*	*-80.8%*	*-79.0%*	*-76.3%*
Recurrent EBITDA	**2.1**	**2.2**	**2.0**	**2.3**	**3.4**
Rec. EBITDA/Revenues	*6.7%*	*7.1%*	*7.0%*	*7.4%*	*10.0%*
EBITDA	**2.2**	**2.3**	**2.1**	**2.4**	**3.5**
Rec. EBITDA/Revenues	*7.0%*	*7.5%*	*7.4%*	*7.7%*	*10.2%*
EBIT	**1.7**	**1.2**	**0.9**	**1.6**	**2.7**
Rec. EBIT/Revenues	5.5%	3.9%	3.3%	5.2%	7.9%

- **Ability to deliver top-line growth (held back only by the temporary halt of operations in one business and the pandemic).** Sales fell in 2019 and 2020 due to: (i) lost revenue in the land registry management and cartography division in 2021 caused by the pandemic-related delay in and absence of public tenders - the company spent that time investing in solutions (in its bid to expand internationally) - and (ii) the impact of the pandemic on the consulting and software development business line. In 2020, revenue fell by just c.6% vs 2019 thanks to the resilience of certain revenue-producing activities, such as payroll and personnel administration (2020 put the defensive traits of SCO's business model on display).

In 2021, activity returned to 2019 levels (EUR 30.6Mn), while growth gained momentum in 2022. Sales that year increased by 10.9% to EUR 34.0Mn. Driving this growth was higher revenue in the payroll and personnel administration (11% vs 2021), the land registry management and cartography (117% vs 2021) and the IT infrastructures, systems and services (10% vs 2021) businesses).

- **Profitability:** while gross margin has contracted in recent years (due to the change in the business mix and the current economic landscape), the Recurrent EBITDA margin reached 10.0% in 2022 (vs 6.7% in 2018). Meanwhile, the company has invested in developing its structure so as to adapt to high revenue volumes going forward. Below EBITDA: (i) amortisation and depreciation increased in 2019 from the goodwill arising on the merger between SCO and Ocseres and the acquisition of SIGEA (amortised over 10 years) and (ii) capitalised costs amounted to EUR 0.3Mn and EUR 0.2Mn in 2021 and 2022, respectively.
- **With net debt of EUR 4.5Mn in 2022 (1.3x ND/recurring EBITDA):** SCO ended the year with an ND/recurring EBITDA ratio of 1.3x (vs 4.9x in 2019) (see Table 2), illustrating a healthy balance sheet for the company's growth. The bulk of SCO's debt is from bank borrowings (EUR 2.7Mn non-current and EUR 3.2Mn current).
- **And with scope for recurring FCF generation.** SCO achieved recurring FCF in 2022 of EUR 1.4Mn (vs EUR 0.1Mn in 2021). It was affected by (i) working capital of EUR -0.6Mn, (ii) CAPEX for both property, plant and equipment and intangible assets of EUR -0.8Mn (2.5% of sales vs a peer average of 1.9%) (iii) taxes of EUR 0.5Mn and (iv) impact from financial results of EUR -0.1Mn.

Chart 8. Revenue and gross margin evolution

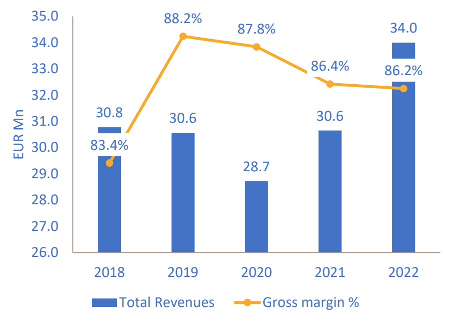


Chart 9. Recurrent EBITDA

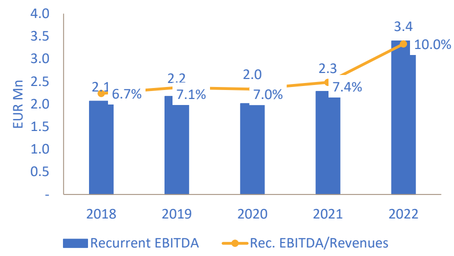
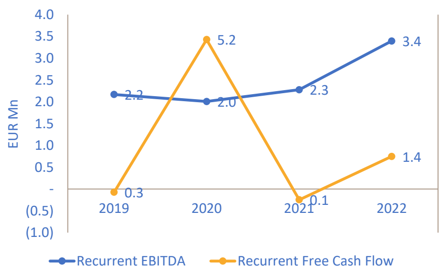


Table 2. Net Debt

EUR Mn	2018	2019	2020	2021	2022
Long term debt	2.0	7.5	6.5	4.8	3.6
Short term debt	4.6	3.6	1.2	1.8	3.2
Cash	(2.3)	(0.4)	(2.5)	(1.6)	(2.4)
Net Debt	**4.3**	**10.7**	**5.3**	**5.0**	**4.5**
Net Debt/Rec EBITDA	2.1x	4.9x	2.6x	2.2x	1.3x

Chart 10. Recurring FCF per year 2019-2022



A shareholder structure controlled by the Suárez García family (c.62%), ensuring that interests are fully aligned with the market. Free float c.13.%

The company has no institutional investors. The Suárez García family controls, directly and indirectly, nearly 62% of SCO's capital. The biggest shareholders are Carlos Suárez (CEO since 2018 and director 2000), with a 14.4% stake, and Antonio Suárez (chairman of the board since 2018 and director since 2008), with a 10.8% stake. (See table 3)

Table 3. Shareholders structure

Name	% Capital
D. José Carlos Suárez García	14.4%
D. Antonio Suárez García	10.8%
D. Enrique Suárez García	8.6%
Dña. María Purificación Suárez García	6.8%
D. Luis Suárez García	6.6%
D. Guillermo Suárez García	6.4%
D. Tomás Reinares Fernández	5.9%
D. Manuel Angel Busto Riego	5.4%
Treasury Stocks	7.9%
Management	6.2%
Other Suárez Garcia family members	8.4%
Free Float	12.6%
Total	100%

In conclusion, what is SCO today? It is essentially a tech company with scant business risk and a (proven) ability to deliver profitable growth

Nowadays, SCO is a Spanish tech company with four main business lines: (i) payroll and personnel administration outsourcing and (ii) IT infrastructures, systems and services, (iii) consulting and software development and (iv) land registry management and cartography (from its projection in LATAM). The equity story suggests a model that seeks a step-up in size (organic, M&A and revenue synergies) without stressing the business' profitability and with low risk. This equity story is predicated on:

- A well-established client base and strong brand image (in northern Spain) built up over the company's long history.
- A long-term investment and business development strategy, with a focus on margins and with scant execution risk.

- Scalability: once the products are developed or the client process is outsourced, the structure is scalable, theoretically impacting margins.

- Proven ability to generate positive recurring FCF (stable) and with a prudent level of net debt.

- Capacity for growth via profitable M&A. This represents an accelerator of growth (velocity). The M&A activity seen to date suggests sensible acquisitions: an easy fit with the company's product/strategy model. And without losing the focus on profitability.

Digital transformation: a constant growth driver with plenty left in the tank

SCO operates in the technology sector, specifically in the ICT (information and communications technology) subsector. Technology companies rarely have just one business line/product, but rather cover different layers of services. The company has five business lines: (i) payroll and personnel administration, (i) IT infrastructures, systems and services, (iii) consulting and software development, (iv) digital transformation services and (v) land registry management and cartography. This enables SCO to offer a one-stop service.

The current macroeconomic landscape is affected by supply chain disruptions, unbridled inflation and the war in Ukraine. Even so, companies are still investing in technology and consulting firm IDC thinks they will continue do so in the coming years. They consider investment in technology to be a way to obtain/keep their competitive edge and tackle the challenges arising in the market.

Research carried out in 2019 by Accenture (consulting 8,300 executives) showed that leaders (i.e., companies in the top 10%) which adopted new technologies in the organisation grew revenue at more than twice the rate of the laggards (those in the bottom 25%). The same study in 2021 showed that the leaders had widened the gap and were growing five times faster than the laggards. In 2021, technology adoption (e.g., automation, data, cloud, IT infrastructure, AI) of those consulted stood at 93%, up from 76% in 2019.

Global IT market: sustained growth, underpinned by structural factors

Consulting firm Gartner forecasts worldwide IT spent to total USD 4.5 trillion (Tn) in 2023, an increase of 2.4% from 2022. The IT market can be divided up between: (i) data centre systems, (ii) software, (iii) devices, (iv) IT services and (v) communications services. Forecast growth for 2023 is uneven, led by software and IT services, with increases of 9.3% and 5.5%, respectively, while the devices (e.g., PCs, printers) segment is expected to decline by 5.1% (see Table 4).

Table 4. Worldwide IT Spending Forecast

(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 TI	4,385,270		4,491,471	

Source: Gartner

One of the main factors undermining/delaying somewhat the growth of companies is the fierce competition for hiring skilled IT staff, which are becoming increasingly scarce. Skilled IT workers are migrating towards technology and service providers who can keep up with (increased) wage requirements, development opportunities and career prospects. This is driving the IT services market since companies are looking to bring in outside IT staff for implementation and support. Gartner expects spending on consulting in 2023 to reach USD 265 Bn (+6.7% vs 2022).

Looking at Latin America (the natural market for expansion of many Spanish companies), IDC forecasts GDP growth of 2.1% in 2023, but 12% growth in investment in cloud, network, storage and other professional services. Technologies such as artificial intelligence (AI), machine learning, automation and robotics are expected to grow by 69% in 2023.

Global M&A trends in the technology sector indicate that the industry is underpinned by/seeking long-term structural growth factors. Companies' digitalisation and innovation process to adapt to an increasingly change environment is not going away. According to PwC, the current macro backdrop will cause M&A dealmakers to be more cautious in 2023. However, given the current situation, it expects cash-rich companies to seize the opportunities that arise in the market.

The consultant expects sectors to be led by: (i) software, driven by business models with predictable and growing revenues (e.g., SCO develops solutions for obtaining and exploiting geographic data), is a segment that is growing rapidly with companies' digital transformation; and (ii) IT services, such as cybersecurity, devOps, software development and digital transformation. Talent scarcity will drive businesses to make acquisitions. Recurring revenue enabled by managed services propositions and reselling SaaS (software as a solution) solutions is making IT services companies more attractive to investors. Charts 11 and 12 clearly show growth in M&A deal volumes and value since the pandemic. By 2H 2022, they had returned to the average of previous years.

Chart 11. Number of transactions globally

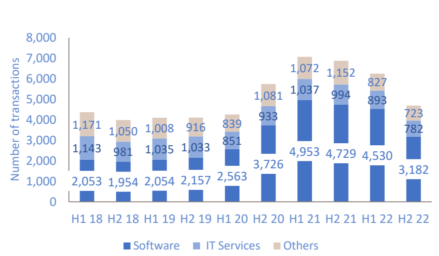
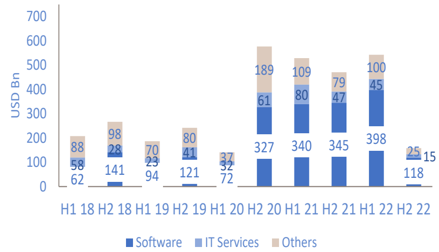


Chart 12. Transaction value



Source: PwC
Note: Other includes semiconductors, internet, hardware and other technologies.

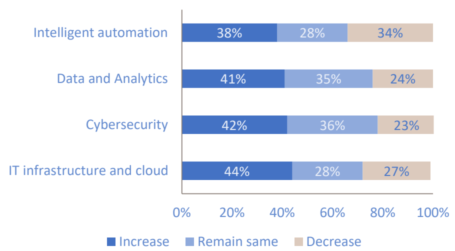
Some recent deals done by SCO peers, especially smaller ones (see Table 5), were carried out at low multiples: EV/EBITDA 8.7x (average) and EV/EBITDA 8.1x (median).

Table 5. Comparable transactions

Buyer	Date	Country	Target	% acquired	Value (M€)	EV/EBITDA
Gigas Hosting S.A	sep.-22	España	Tpartner Network Services S.L	100%	13.4	7.5x
Altia Consultores S.A	jul.-22	España	Bibomática Sociedad Anónima	100%	24.0	9.1x
Altia Consultores S.A	jul.-22	España	Wairbut S.A	100%	5.4	6.8x
Izertis S.A	jun.-22	España	Sidertia Solutions S.L	100%	15.6	7.4x
Izertis S.A	abr.-22	España	3ASIDE Consultores S.L	100%	4.3	12.8x
Izertis S.A	ago.-20	España	Solid GEAR Projects S.L	100%	1.2	8.6x

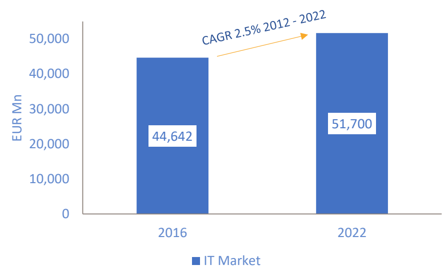
Source: Crowe

Chart 13. Surveyed executives' technology investment plans



Source: Capgemini

Chart 14. Spanish IT market



According to Capgemini, investment in technology is set to increase in the next 12-18 months (see Chart 13), as: (i) 39% of organisations surveyed plan to increase investment in technology, (ii) a similar portion is planning to maintain it, (iii) overall investment is forecast to grow 7% and (iv) 72% of executives surveyed plan on leveraging technology to reduce costs over the long term.

In Europe, IDC expects ICT spending to reach EUR 1.2 Tn in 2023 and surpass EUR 1.4 Tn in 2026 (+5.4% CAGR 2021–2026). In 2023, it expects growth of 4.2% vs 2022, driven by the Scandinavian countries and the United Kingdom. Software will be the fastest growing technology in both Europe and globally.

Accenture, in its "*Accelerating Europe's path to reinvention"* report, says European companies are behind in using technology for top-line value creation. Less than half stand above the global average for technology penetration and mastery. This deficit is hindering their transformation efforts. This shows how much work is left to be done. However, it represents an opportunity for companies driving their digital transformation.

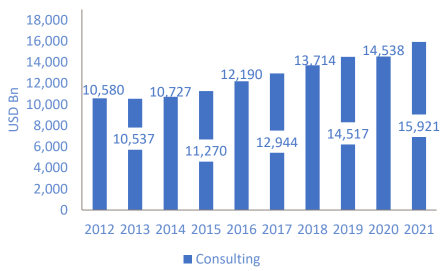
For Spain (SCO's main market), IDC says the IT market ended 2022 with a value of EUR 51.7 Bn (+4.2% vs 2021; +2.5% CAGR 2016–2022). It is forecast to grow at a CAGR 2023–2026 of +3.9%. For 2023, it estimates that 40% of revenues will come from the sale of products and digital services.

Meanwhile, consulting sector revenue in Spain outpaced GDP in the 2012-2021 period (see Chart 16), illustrating structural growth ability fuelled by companies' need to digitalise. According to the Spanish association of consulting firms (Asociación Española de Empresas de

Source: Ametic e IDC

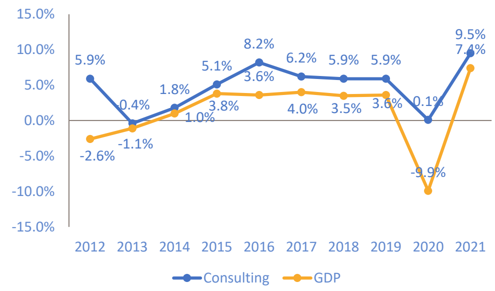
Consultoría or AEC), sector revenue in 2021 amounted to EUR 15.9 Bn (vs EUR 10.6 Bn in 2012) (see Chart 15).

Chart 15. Spanish consulting sector



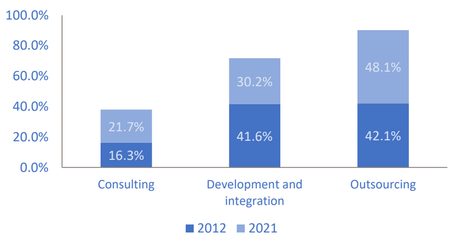
Source: AEC

Chart 16. Consulting sector growth vs. Spanish GDP growth (at constant prices)



Source: Spanish Association of Consulting Firms.

Chart 17. % of total consulting revenues by business type



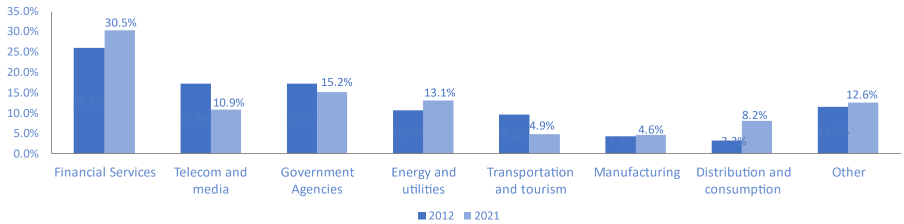
Source: AEC

Consulting firms offer their clients a wide variety of services under three categories: (i) consulting, (ii) development and integration and (iii) outsourcing. Consulting has gone from representing 16.3% of revenue in 2012 to 21.7% of the total in 2021. Meanwhile, outsourcing's share of sector revenue increased from 42.1% to 48.1% in the same period, while the weight of development and integration services decreased from 41.6% to 30.2% (see Chart 17).

Looking solely at the outsourcing subsector, its revenue rose continuously (+6.2% CAGR 2012-2021). Behind this growth is the outsourcing of activities that are not part of companies' core business and can be performed more effectively by other companies. A case in point is the outsourcing of (highly recurring) payroll and human resources services. In 2021, revenue from outsourcing services totalled EUR 7.7 Bn, broken down as follows: (i) application management services (EUR 3.9 Bn; 51.2% of the total), (ii) IT outsourcing (EUR 2.3 Bn; 30.6%) and business process outsourcing (EUR 1.4 Mn; 18.2%).

The sectors demanding consultancy services most in 2021 were: (1) financial services (also ranked first in 2012), (2) government agencies (third in 2012) (3) energy and utilities (fourth in 2012) and (4) telecommunications and media (second in 2012) (see Chart 18).

Chart 18. Demand for consulting services by sector



Source: AEC

Digital agenda for Europe: objectives for 2030

With the European digital agenda for 2030, the European Commission set the path for accelerating the digital transformation. Some of the digital targets include: (i) a digitally skilled population and at least 20 million ICT specialists by 2030, (ii) the digital transformation of businesses, promoting and using the cloud and AI and stepping up financing to double the number of unicorns in the EU, (iii) secure and sustainable digital infrastructures and (iv) the digitalisation of public services.

To achieve these targets, the European Commission is establishing multi-country projects that should be able to: (i) combine the investments of the EU budget and (ii) support an interconnected, interoperable and secure digital single market.

In Spain, the Digital 2026 agenda (update of the original Digital Spain agenda published in 2020) comprises eight specific digital plans to channel the digitalisation process, including: (i) the National Plan for Digital Skills (budget of EUR 3.6 Bn) (ii) the SME Digitalisation Plan (EUR 5.0 Bn) (iii) the Public Administration Digitalisation Plan (EUR 3.2 Bn) and (iv) the National Cybersecurity Plan (EUR 1.0 Bn).

In conclusion, the ICT sector is underpinned by a long-term structural trend; i.e., the digital transformation. Moreover, it is a cross-cutting trend, affecting both the public and private sectors. Large and small companies. All industries

The digital transformation is a lever of technological innovation and business development, resulting in economic modernisation and social progress. From a sector viewpoint, the main trends and challenges that lie ahead are:

- **Digital transformation:** the pandemic showed companies that digitalisations is more important now than ever. Technological advances are enabling companies and markets to transform their business models (e.g., new ways of driving businesses digitally). This is prompting businesses to move faster and requiring competitors to have a strong ability to adapt/react. In turn, this is making for a more competitive backdrop that is becoming increasingly dynamic. The result is that companies are now coexisting in a "digitally demanding" environment.
- **Highly competitive and fragmented market.** The number of IT companies in Spain increased from 15,000 in 2016 to 18,000 in 2021 (+2.9% CAGR 2016–2021) according to the Spanish Digital Industry Association (Asociación de Industria Digital) vs a CAGR for revenue in the same period of +2.5%. The Spanish IT market is a hotspot for M&A action given its high fragmentation and continuous technological innovations.
- **Development/competition for talent:** companies' transformation process requires new talent as generally internal talent is not prepared, heating up competition for skilled workers.
- **Public-private partnerships:** budgets earmarked for spending on investment in technology are increasing to accelerate the digital transformation and maintain the competitiveness of European companies.

In short: the IT sector has found in the digital transformation a (clear and strong) growth driver for years to come. This driver combines public interest in development (financing, regulation) with private sector interest/need to take advantage. In theory, it's the "best of all possible worlds"

Strong revenue growth (+18.1% CAGR 2022-2025e) and steady improvement in margins.

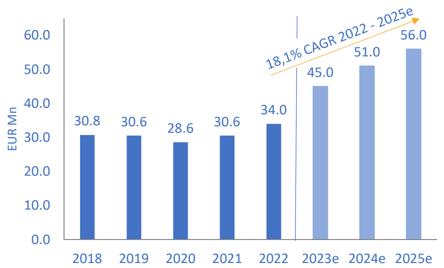
FY 2022 results featured: (i) revenue growth of 10.9%, driven by the land registry management and cartography (+117% vs 2021), payroll and personnel administration (+11% vs 2021) and IT infrastructures, systems and services (+10% vs 2021) business lines, (ii) expansion in the recurring EBITDA margin to 10.0% (vs 7.4% in 2021) thanks to the company's high operating leverage, (iii) ability to generate recurring FCF, which totalled EUR 1.4Mn (vs EUR 0.1Mn 2021) and (iv) a reduction in the ND/recurring EBITDA multiple to 1.3x (vs 2.2x in 2021).

This now leaves us to ask ourselves: What is the business' capacity for organic growth? What levels of profitability can be achieved in a favourable scenario? And in a stressed scenario? What is SCO's recurring cash generation capacity?

Scope to accelerate revenue growth (+18.1% CAGR 2022–2025e) ...

Our baseline scenario for 2023e-2025e calls for growth in revenue to EUR 56.0Mn by the end of the period (+18.1% CAGR 2022-2025e, excluding inorganic growth except the February 2023 acquisition of ELO-SI, with a contribution of 2.3p.p. to CAGR). However, given the current characteristics of the sector (highly fragmented and intense M&A), the company's net debt position (EUR 4.5Mn; 1.3x ND/recurring EBITDA 2022) and recurring FCF generation capacity, we can expect to see more acquisitions (not included in our numbers) during the forecast period. What do we think will be the main growth drivers? By business line:

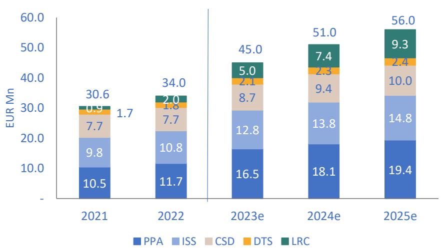
Chart 19. Total revenues (2018 – 2025e)



- **Payroll and personnel administration (PPA):** we estimate organic growth of c.+18.0% in 2023e to EUR 13.8Mn, underpinned by: (i) net addition of new clients (companies with more than 400 employees in Portugal and Spain) to the captive client base, as once a solution is installed or a service is outsourced, the switching cost for the client is high, and (ii) increases in the price of the solution. The company has earmarked EUR 1.3Mn for the upgrade and technological evolution of the application over the coming years. Meanwhile, the acquisition of ELO-SI in February 2023 paves the way for growth in the Portuguese market (and provides opportunities for cross-selling of solutions). On our estimates, this acquisition will have an impact on sales in 2023e of EUR c.2.7Mn. We estimate total sales of EUR 16.5Mn. Our forecasts put revenue at EUR 19.4Mn in 2025e (+18.4% CAGR 2022–2025e). The weight of this business line should remain largely stable at around 35% in 2025e (vs 34% in 2022).

- **IT infrastructures, systems and services (ISS):** We estimate growth for this business of 19.0% in 2023e (EUR 12.8Mn), driven above all by new clients. This business line's key features are: (i) the high weight of the IT Service Centre contract with the regional government of Asturias (EUR 3.5Mn), which has been renewed automatically until (possibly) the end of 2023e, when it will be up for renewal for 4+2 years, exposing the company to a "theoretical" risk of loss of the client (c.13 % of total revenue in 2022) but "mitigated" by SCO's long-standing relationship with the client, (ii) the strong growth forecast for the cybersecurity area (c.6% of revenue for this line), driven by strong industry tailwinds and acquisitions made over the past few years and (iii) the pipeline of contracts likely to be signed. Overall, we estimate sales of EUR 14.8Mn in 2025e (11.2% CAGR 2022–2025e). On our estimates, the weight of this business line will represent 26% in 2025e (vs 32% in 2022).

Chart 20. Revenue by business line



- **Consulting and software development (CSD):** we estimate growth of c.12% for 2023e to EUR 8.7Mn, driven by exposure to a segment with strong structural growth in recent years. The majority of this line's revenue comes from consulting and software development services for agriculture and livestock raising. Total sales are estimated to reach EUR 10.0Mn in 2025 (+9.0% CAGR 2022–2025e). The business line's weight should diminish to 18% of total sales in 2025 (vs 23% in 2022).

- **Digital transformation services (DTS):** forecast growth in sales of +15.0% in 2023e to EUR 2.1Mn. The business line's main growth drivers are: (i) reselling of licenses of Sage (as an SaaS; lending recurrence to the business), with which it has entered into a strategic alliance - SCO is trying to migrate its clients over to this (higher priced and higher margin) solution - and (ii) increase in price for proprietary solutions installed at clients. We estimate 2025e sales of EUR 2.4Mn (+10.1% CAGR 2022–2025e). This would lower its weight in the revenue mix to 4% (vs 5% in 2022)

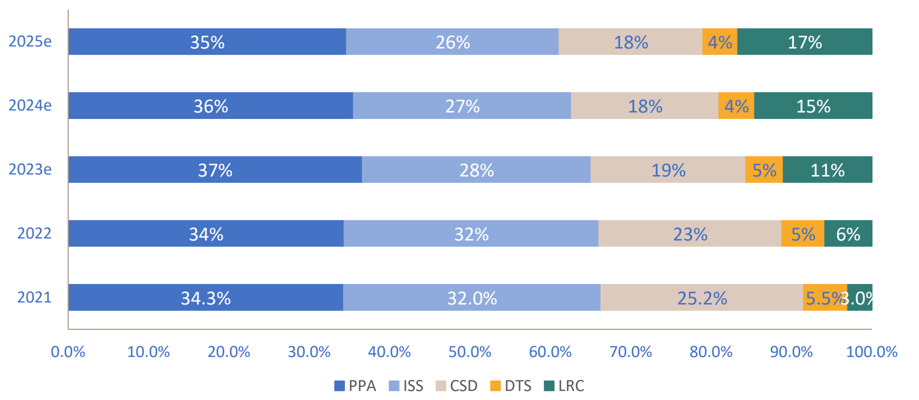
- **Land registry management and cartography (LRC):** this is the fastest growing business line. We estimate c.+150% growth to EUR c.5.0Mn in 2023e from EUR c.2.0Mn in 2022. The company enjoys strong visibility in this business line (from the order backlog) in 2023e. Growth drivers include (i) the "catch-up" of public tenders, in both Spain and abroad after the pandemic-related delays and (ii) the 7-month EUR 3.7Mn contract (signed in October 2022) for the update of land registry information of seven municipalities in Colombia. We estimate sales in 2025e of EUR 9.3Mn (+67.6% CAGR 2022–2025e), which would result in a significant increase in this line's weight in the revenue mix to 17% in 2025e (vs. 6% in 2022).

Overall, we are looking at medium/high double-digit growth in all the company's business lines, led by the land registry management and cartography business. This would give rise to a change in the revenue mix in the 2023e-2025e period and raise total sales to EUR 56.0Mn (+18.1% CAGR 2022–2025e).

Underpinning the numbers is the company's strategy, predicated on two pillars:

- Increase in scale (gradual): this began materialising (only just) in 2022 but should take off in the 2023-2025 period ("doubling" revenue).
- International expansion: the weight of international operations in the mix is still small (<10%) but in 2022 began "making" a credible argument for revenue growth (especially in the Land registry management and Cartography area).

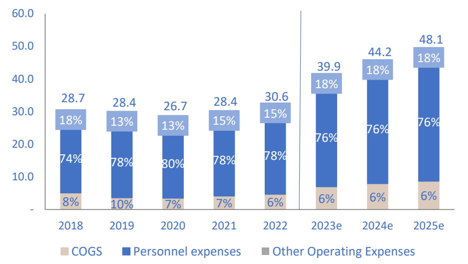
Chart 21. Revenue mix by business line



…with a gradual improvement in recurring EBITDA margin to 14.1% in 2025e.

In 2023e, we estimate an increase in overhead to EUR 32.9Mn (+26.9% vs 2022) resulting from EUR c.30.4Mn of personnel expenses (+26.9% vs 2022; 67.5% of 2023e sales) associated with indirect labour and EUR 2.5Mn of other operating expenses (+27.0% vs 2022; 5.6% of sales). The "jump" in overhead is mostly the result of strong growth, the acquisition made early this year and upward pressure on wages in the technology sector. Thanks to the capacity of the software business (proprietary product), we project a gradual increase in operating leverage for the 2023e–2025e period.

Chart 22. Cost Structure



Our estimates for 2024e and 2025e are pricing in a gradual improvement in the recurring EBITDA margin to 14.1%. This, coupled with a sharp increase in revenue, makes up one of the pillars of SCO's equity story: confirm the improvement in margins on the back of the business' "theoretical" ability to leverage its size. Noteworthy here is that this increase in overhead (costs) has already occurred. And its first effect, through operating leverage, was visible in 2022 (+2.6 p.p. in EBITDA margin in 2022 vs 2021). We assume there is significant room for further margin improvement (additional c.+4 p.p. to 2025e).

Chart 23. Recurrent EBITDA (32,4% CAGR 2022 – 2025e)

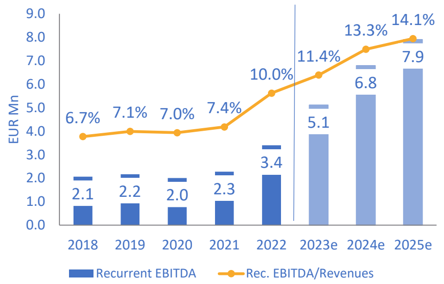
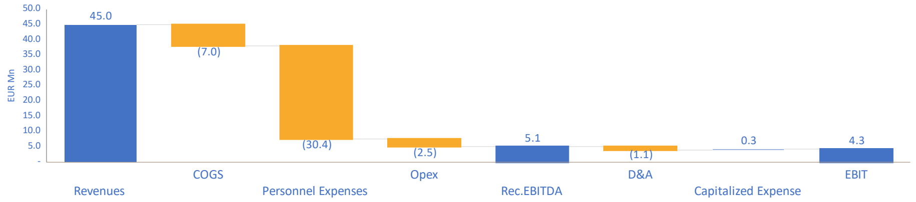


Chart 24. From revenue to EBIT 2023e



ROCE vs WACC: "proven" and (even more important) increasing value creation.

Meanwhile, looking at the return on capital employed (excluding goodwill and financial assets), 2021 marked a turning point: ROCE 13% vs 6% in 2020). If our organic growth estimates hold true, ROCE would rise to 37% in 2025e as the business is inherently capital-light (and with ability to grow considerably in revenue). This also poses a competitive risk, especially in a sector constantly under stress from technological disruption.

Assuming a WACC of 10.5%, the company would have systematically commanded a ROCE above cost of capital except in 2020. The ROCE-WACC spread appears so large (2021 and 2022) that there is a plenty of room to manoeuvre by stepping up investment and, thus, guarantee an optimal competitive position. This lends credibility to the business model and strengthens the recurring idea of a low-risk tech stock.

Table 6. Return on capital employed.

	2019	2020	2021	2022	2023e	2024e	2025e
ROCE	11%	6%	13%	22%	31%	35%	37%

Note: we have excluded financial assets from capital employed.

Net profit of EUR 5.2Mn in 2025e.

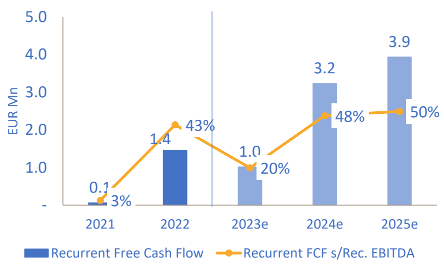
We estimate a cost of debt of 7% (as at the date of this report). Despite low debt (ND/EBITDA 2023e of 1x) and capacity to generate cash, we do not expect finance costs to have a significant impact. Increasing exposure to Latin America would result in higher foreign currency risk (above all from the land registry management and cartography activity), but it would still be insignificant to 2025e.

We estimate net profit for 2023e of EUR 3.0Mn. For 2024e and 2025e, we project net profit of EUR 4.3Mn and EUR 5.2Mn, respectively. There is a strong probability of growth via M&A, but we have not factored this into our numbers.

Free cash flow: EBITDA growth will fuel cash generation…

The working capital/revenue ratio was 9.5% in 2022, held back mostly the EUR 8.5Mn of receivables (vs EUR 8.0Mn in 2021; due to the revenue recognition method and the weight of government agencies in the revenue mix). On our estimates, this ratio will rise in coming years due to the increasing weight of public agencies in the overall business mix, due among other reasons to the strong growth expected in land registry management and cartography sales (average current assets/sales ratio of c. 13% for 2023e-2025e).

Chart 25. Recurrent FCF growth and % of Recurring EBITDA



We are estimating average CAPEX (2023e–2025e) of nearly EUR 0.8Mn (up slightly from 2022; CAPEX 2022 of EUR 0.7Mn). In 2022, total investment (including capitalised R&D costs + CAPEX) amounted to 2.8% of revenue. For 2023e, we estimate EUR 0.3Mn of capitalised costs and EUR 0.9Mn of CAPEX (i.e., total investment ratio of 2.6% of 2023e revenue).

Our baseline scenario includes positive recurring FCF generation in 2023 of EUR 1.0Mn (20% of recurring EBITDA, recurring FCF yield of 2.8%) that, due to the momentum of EBITDA growth, will increase to EUR 3.9Mn in 2025e (recurring FCF yield 2025e of 10.8%).

Chart 26. From Recurrent EBITDA to Recurrent FCF 2023e

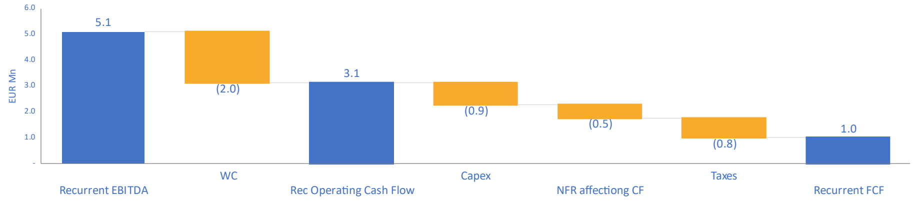
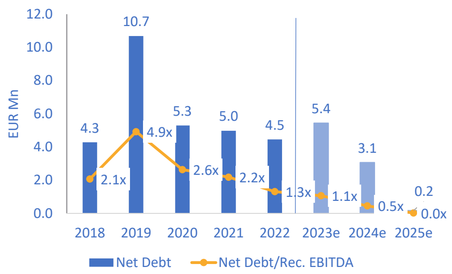


Chart 27. Net debt and Recurring ND/EBITDA multiple



…which will inevitably be reflected in net debt, enabling SCO to become net cash positive in 2025e. This illustrates SCO's investment capacity

In 2022, SCO's net debt decreased by EUR 0.5Mn to EUR 4.5Mn (recurring ND/EBITDA 2022: 1.3x). It debt comprises mostly bank borrowings.

Gearing metrics should remain at conservative levels in 2023e (ND/recurring EBITDA 2023e of 1.1x). Forecast cash generation leaves scope to lower net debt and enable the company to achieve a positive net cash position in 2025e. This bodes well for further growth via M&A (which represents a growth accelerator).

In conclusion, strong revenue growth (18.1% CAGR 2022–2025e) and continued margin improvement. The balance sheet position makes M&A-led growth a credible option

The current snapshot is that of an ICT company operating in a sector with sustained growth over the long term (see Industry section), underpinned by the digital transformation, which has accelerated because of the pandemic. Our estimates (2023e - 2025e) hinge on:

- Growth in revenue (18.1% CAGR 2022–2025e). The fastest growing business lines will be land registry management and cartography (67.6% CAGR 2022e-2024e) and payroll and personnel administration (18.4% CAGR 2022-2025e; impacted by the acquisition made in early 2023e). Growth is supported by penetration of new markets in Spain and internationally thanks, among other things, to: (i) proprietary solutions, (ii) reselling of Sage solutions and (iii) long-term growth of the cybersecurity area (which still only makes up a small percentage of sales).

- Ability to continue taking advantage of the operating leverage from an existing structure and steering growth towards higher-margin areas that are increasing their weight in the mix (cartography, payroll and personnel).

- Increase in recurring FCF generation (driven by the improvement in recurring EBITDA). Here, we think the keys will be: (i) better working capital management and ii) optimisation of critical CAPEX in a sector where companies need to "strike the right balance" (avoid the risk of negative FCF, but also avoid the risk of having their solutions become obsolete).

- A healthy balance sheet from the outset (2022). The balance sheet should become even stronger over the period, opening the door for both organic growth and, more importantly, M&A.

In summary, what do these numbers tell us? What is the idea surrounding and our view of the company? After a period (2019-2021) that was hardly representative of SCO's real growth potential, 2022 could set the standard for what the company can offer investors over the medium and long term.

- A highly diversified product/service portfolio, which means the business model is inherently exposed to less risk.

- Two 'new' opportunities for growth indicated in the numbers for 2022: the take-off of the Cartography business (after a wasted 2019 and 2020) and acceleration in the company's international growth (with a negligible impact until now on the revenue mix).

- Capacity for average organic growth of 10-15% (already visible/tangible in 2022).

- A real chance to conclude satisfactory/sensible M&A deals that can accelerate the company's growth. The February 2023 transaction (i.e., the ELO-SI acquisition) adds to potential growth this year (up to c.+30%). The M&A argument for SCO is clear: positive recurring EBITDA, low ND (1.3x EBITDA) and systematically positive cash generation; operations in a sector with ongoing consolidation; and the purchase of companies as a logical (and often cheap) way to grow. We are bound to see more acquisitions.

As illustrated, all these arguments are revenue-related and are the only unknowns. Therefore, 2023 will be a key year to gauge whether, as we expect, the performance delivered in 2022 will continue and organic growth rates can level off at around 11%. This is the main assumption underlying our estimates. We believe the company has already entered (since 2022) a stage of high revenue growth. But one that still seems 'concealed'.

Our forecast of strong growth in margins and Recurrent EBITDA (with the Rec. EBITDA margin rising from 10% in 2022 to 14.1% in 2025) is merely the 'mathematical' result of our revenue estimates. And although this grow is striking and extremely positive, the focus should be elsewhere. All eyes should be on top-line revenue performance. The rest (i.e., margins, EBITDA, positive FCF, low debt) is the result of "pulling that thread". Our estimates suggest that SCO's 'concealed' revenue potential will really become visible this year.

Valuation inputs

Inputs for the DCF Valuation Approach

	2023e	2024e	2025e	Terminal Value [1]
Free Cash Flow "To the Firm"	0.0	3.6	4.2	53.3

			Best Case	Worst Case
Market Cap	36.5	At the date of this report		
Net financial debt	4.5	Debt net of Cash (12m Results 2022)		
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)	3.3%	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	11.1%	Ke = Rf + (R * B)	9.9%	12.4%
Equity / (Equity + Net Debt)	89.1%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	10.9%	D	=	=
WACC	10.5%	WACC = Kd * D + Ke * E	9.4%	11.7%
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	4,015.0	11.4	10.8%	6.7	8.5%	0.8	4.6%	12.0%	7.6%	13.8%
ADP	ADP-US	80,725.8	26.4	10.6%	18.3	9.3%	5.1	6.5%	27.7%	5.1%	15.5%
Indra	IDR-ES	2,118.1	10.5	8.8%	5.1	6.8%	0.5	4.3%	10.6%	9.8%	10.2%
Izertis	IZER-ES	196.2	28.2	n.a.	10.4	17.6%	1.4	18.2%	13.4%	0.1%	n.a.
Capgemini	CAP-FR	28,858.0	14.6	10.4%	8.8	9.2%	1.4	6.6%	15.9%	6.7%	13.1%
Altia	ALC-ES	220.1	15.2	n.a.	9.3	n.a.	1.0	n.a.	10.4%	6.0%	n.a.
SAP	SAP-DE	151,548.3	23.4	17.1%	16.8	14.0%	4.8	8.8%	28.7%	3.3%	23.7%
AECOM	ACM-US	10,303.4	22.1	17.1%	13.9	7.2%	2.0	n.a.	14.5%	5.4%	6.6%
Comparables			19.0	12.5%	11.1	10.4%	2.1	8.2%	16.6%	5.5%	13.8%
SCO	SCO-ES	36.5	12.0	30.5%	7.9	24.3%	0.9	11.5%	11.4%	2.8%	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%	7.5	5.4x
Central	13.3%	6.8	6.0x
Min	12.0%	6.1	6.6x

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

Rec. FCF EUR Mn	CAPEX/Sales 24e		
EBITDA 24e	1.4%	1.6%	1.8%
7.5	4.0	3.9	3.8
6.8	3.3	3.2	3.1
6.1	2.7	2.6	2.5

Scenario	Rec. FCF/Yield 24e		
Max	10.9%	10.7%	10.4%
Central	9.1%	8.9%	8.6%
Min	7.3%	7.0%	6.8%

What could go wrong?

We consider risks to be those that could have a significant negative impact on our projections, mainly those for operating profit and free cash flow:

1. **Competition and business risk:** SCO's industry is highly fragmented, which can pose business risk of loss of clients and/or pressure on prices and margins due to the arrival of competitors with a more attractive technology that could result in a reduction in expected revenue. A 5% reduction in forecast organic growth of revenue (assuming an unchanged gross margin in relative terms and overhead) in 2023e would result in a 28.1% reduction in recurring EBITDA.

2. **Technological disruption:** SCO's business depends directly on products and services that are essentially technological, which means they must be permanently updated so as not to become obsolete. Technological changes anticipated by clients can affect demand over the medium and long term. And the ability of SCO to respond to these is in itself a risk.

3. **Increase in CAPEX requirements**: As the company's IT solutions are already developed, we do not expect SCO to need significant CAPEX in the medium term. However, continuous technological disruptions could lead to a situation in which SCO must step up CAPEX to adapt to market trends and meet client needs.

4. **High exposure to government agencies**: SCO's high business exposure to government agencies (37% of sales in 2022) affects the company's working capital because of the longer average payment period.

5. **Working capital management:** trade receivables in 2022 amounted to EUR c.8.5Mn, or 25% of sales (vs c.EUR 8.0Mn in 2021; 26% of sales). Therefore, if clients experienced financial difficulties or failed to partially or fully meet their contractual obligations, this could undermine the collection of invoices and trade bills (thereby affecting FCF due to working capital consumption). This risk is logically reduced by the weight of government agencies in the client portfolio (c.1/3 of revenue in 2022).

6. **High client concentration:** in 2022, the group's five largest clients accounted for nearly 42% of consolidated revenue (vs 43% in 2021). The partial or total loss of these clients would have a material impact on sales.

7. **High business concentration in Spain:** sales in Spain represented 93% of the total in 2022 (vs 94% in 2021). An economic slowdown in Spain could have a negative impact on the business.

8. **Lower-than-expected operating leverage:** Our estimates point to a reduction in fixed overhead (assume a small variable component), taking the total (personnel expenses + other operating expenses) to 73.1% of revenue in 2023e (vs 76.3% in 2022). Maintaining overhead at 76.3% would reduce the 2023e Rec. EBITDA margin to 8.2% (vs c.11.4% estimated). This would imply a 27.9% reduction in estimated 2023e Rec. EBITDA.

9. **Lack of M&A discipline:** both the current economic backdrop and the specific dynamics of the sector (trend towards concentration) will open up short- and medium-term inorganic growth opportunities. Part of the company's growth strategy is predicated on inorganic growth. This in itself implies a risk in relation to potential acquisition targets. Widespread interest in the sector to acquire small players with growth potential may result in increased competition in M&A, posing a risk of value destruction through higher prices.

A board controlled by the Suárez García family. And with independent members making up a third

Table 7. Board of directors

	Position	Status	Date
D. Antonio Suárez García	Presidente	Proprietary	2008
D. José Carlos Suárez García	Consejero Delegdo	Executive	2000
D. Tomás Reinares Fernández	Secretario Consejero	Proprietary	1975
D. Ruperto Iglesias García	Consejero	Other external	2022
D. Luis Pardo Cespedes	Consejero	Independent	2022
D.Max Federico Gosch Riaza	Consejero	Independent	2022

Table 8. Shareholders structure

Name	% Capital
D. José Carlos Suárez García	14.4%
D. Antonio Suárez García	10.8%
D. Enrique Suárez García	8.6%
Dña. María Purificación Suárez García	6.8%
D. Luis Suárez García	6.6%
D. Guillermo Suárez García	6.4%
D. Tomás Reinares Fernández	5.9%
D. Manuel Angel Busto Riego	5.4%
Treasury Stocks	7.9%
Management	6.2%
Other Suárez Garcia family members	8.4%
Free Float	12.6%
Total	100%

SCO was founded in 1969 by, among others, Tomás Reinares, the current secretary of the board and owner of a 5.9% stake. The Suárez García family are the company's controlling shareholders (c.62% of share capital). José Carlos Suárez (CEO since 2018 and director since 2000) has a 14.4% ownership interest and Antonio Suárez (chairman of the board since 2018 and director since 2008) a 10.8% ownership interest. SCO has been listed on BME Growth since December 2022.

1. **A board of directors with high exposure to the share price...** SCO's board of directors currently has six members (Table 8), who directly control c.31% of the company's capital. The board must have a minimum of three and a maximum of 10 members. Of the current six members, one is an executive director (José Carlos Suárez, CEO; but a *de facto* proprietary director), two are proprietary (the chairman and the secretary), two are independent directors and one other external director. The tenure for directors is four years, although they may be re-elected for equal periods and there is no limit to the number of terms a director can serve.

2. **Independence of committees** The audit committee is chaired by and composed mainly of independent directors (66.7% of total).

3. **Remuneration of the board of directors.** Directors receive the following remuneration for performance of their duties: (1) a fixed amount of EUR 1,800 (gross) plus fees for attending board meetings, updated annually in line with the CPI and (2) variable remuneration comprising: (i) a combined amount for all directors (distributed evenly) equal to 8% of the operating profit reported in the audited financial statements when dividends are distributed, and (ii) company shares worth an amount capped at EUR 0.4Mn per year (1.2% of the number of shares at the current market price). Directors are not entitled to variable remuneration if they are independents or members of the audit committee. Total remuneration paid to members of the board of directors in 2022 was EUR 0.2Mn (vs EUR 0.1Mn in 2021).

4. **Remuneration of senior managers**. The (11) members of the management committee receive (i) fixed annual remuneration and (ii) variable remuneration (cash bonus) based on the company's profit for the year. The company also has a share-based scheme for committee members and other middle managers based on the company's results. Total remuneration paid to management committee members in 2022 was EUR 1.2Mn (vs EUR 1.1Mn in 2021; c.5% of personnel expenses).

5. **Shareholder remuneration.** There is no obligation under the company's articles of association to distribute dividends. However, the company intends to pay out 20% of profit for the year in future, although this will depend on certain factors, e.g., the company's results, financial position, cash requirements. The company paid out EUR 0.2Mn in dividends in 2021 and EUR 0.5Mn in 2022. For 2023e, we estimate a pay-out of 20% (EUR 0.6MN; EUR c.0.1 per share).

6. **Conflicts of interest.** There are no material transactions with related parties of the owners in contracting suppliers/clients or in the company's investment decision-making.

7. **ESG policy.** The company has the following policies in place, all approved by the board: (i) information security, (ii) service management, (iii) environmental and (iv) occupational health and safety. Moreover, since 2014, the company has been running the *Nóminas Solidarias* project (payroll-giving scheme), under which it makes an annual donation (e.g., to the food bank) based on its growth.

Appendix 1. Financial Projections

Balance Sheet (EUR Mn)	2018	2019	2020	2021	2022	2023e	2024e	2025e
Intangible assets	0.3	0.6	0.4	0.2	0.3	1.6	1.4	1.2
Fixed assets	1.2	1.1	1.0	1.2	1.2	1.8	2.2	2.5
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 Intangilbles	-	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	12.6	14.2	16.0
Total assets	**14.0**	**20.4**	**14.5**	**15.2**	**16.3**	**20.7**	**22.1**	**23.7**
Equity	3.3	3.5	3.7	3.9	5.4	7.9	11.3	15.4
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	5.4	3.1	0.2
Current Liabilities	6.4	6.2	5.4	6.2	6.4	7.4	7.7	8.1
Equity & Total Liabilities	**14.0**	**20.4**	**14.5**	**15.2**	**16.3**	**20.7**	**22.1**	**23.7**

									CAGR	
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**	**45.0**	**51.0**	**56.0**	*2.5%*	*18.1%*
Total Revenues growth	*n.a.*	*-0.6%*	*-6.1%*	*6.7%*	*10.9%*	*32.4%*	*13.4%*	*9.7%*		
COGS	(5.1)	(3.6)	(3.5)	(4.2)	(4.7)	(7.0)	(7.9)	(8.7)		
Gross Margin	**25.7**	**27.0**	**25.2**	**26.5**	**29.3**	**38.0**	**43.1**	**47.3**	*3.4%*	*17.3%*
Gross Margin/Revenues	*83.4%*	*88.2%*	*87.8%*	*86.4%*	*86.2%*	*84.5%*	*84.5%*	*84.5%*		
Personnel Expenses	(21.3)	(22.1)	(21.4)	(22.1)	(23.9)	(30.4)	(33.6)	(36.4)		
Other Operating Expenses	(2.3)	(2.7)	(1.8)	(2.1)	(2.0)	(2.5)	(2.7)	(3.0)		
Recurrent EBITDA	**2.1**	**2.2**	**2.0**	**2.3**	**3.4**	**5.1**	**6.8**	**7.9**	*13.3%*	*32.5%*
Recurrent EBITDA growth	*n.a.*	*5.2%*	*-7.4%*	*13.4%*	*49.0%*	*50.5%*	*32.9%*	*16.3%*		
Rec. EBITDA/Revenues	*6.7%*	*7.1%*	*7.0%*	*7.4%*	*10.0%*	*11.4%*	*13.3%*	*14.1%*		
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**	**5.1**	**6.8**	**7.9**	*12.7%*	*31.6%*
Depreciation & Provisions	(0.5)	(1.1)	(1.2)	(1.0)	(1.0)	(1.1)	(1.3)	(1.5)		
Capitalized Expense	-	-	-	0.3	0.2	0.3	0.3	0.3		
Rentals (IFRS 16 impact)	-	-	-	-	-	-	-	-		
EBIT	**1.7**	**1.2**	**0.9**	**1.6**	**2.7**	**4.3**	**5.8**	**6.7**	*12.0%*	*36.0%*
EBIT growth	*n.a.*	*-30.3%*	*-21.0%*	*70.4%*	*67.6%*	*60.7%*	*35.0%*	*16.0%*		
EBIT/Revenues	*5.5%*	*3.9%*	*3.3%*	*5.2%*	*7.9%*	*9.6%*	*11.4%*	*12.0%*		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	(0.1)	(0.5)	(0.4)	(0.6)	(0.1)	(0.5)	(0.5)	(0.3)		
Income by the Equity Method	-	-	-	-	-	-	-	-		
Ordinary Profit	**1.6**	**0.7**	**0.5**	**1.0**	**2.6**	**3.8**	**5.3**	**6.5**	*12.8%*	*36.2%*
Ordinary Profit Growth	*n.a.*	*-55.3%*	*-22.5%*	*76.4%*	*165.5%*	*48.2%*	*41.0%*	*20.8%*		
Extraordinary Results	-	-	-	-	-	-	-	-		
Profit Before Tax	**1.6**	**0.7**	**0.5**	**1.0**	**2.6**	**3.8**	**5.3**	**6.5**	*12.8%*	*36.2%*
Tax Expense	(0.3)	0.2	(0.2)	(0.5)	(0.7)	(0.8)	(1.1)	(1.3)		
Effective Tax Rate	*18.3%*	*n.a.*	*29.5%*	*52.0%*	*26.9%*	*20.0%*	*20.0%*	*20.0%*		
Minority Interests	-	-	-	-	-	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**1.3**	**0.9**	**0.4**	**0.5**	**1.9**	**3.0**	**4.3**	**5.2**	*9.7%*	*40.3%*
Net Profit growth	*n.a.*	*-28.8%*	*-58.1%*	*20.3%*	*304.0%*	*62.2%*	*41.0%*	*20.8%*		
Ordinary Net Profit	**1.2**	**0.6**	**0.3**	**0.6**	**1.8**	**3.0**	**4.3**	**5.2**	*10.5%*	*41.7%*
Ordinary Net Profit growth	*n.a.*	*-52.5%*	*-48.1%*	*106.4%*	*193.9%*	*66.8%*	*41.0%*	*20.8%*		

									CAGR	
Cash Flow (EUR Mn)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023e**	**2024e**	**2025e**	**18-22**	**22-25e**
Recurrent EBITDA						**5.1**	**6.8**	**7.9**	*13.3%*	*32.5%*
Rentals (IFRS 16 impact)						-	-	-		
Working Capital Increase						(2.0)	(1.2)	(1.6)		
Recurrent Operating Cash Flow						**3.1**	**5.6**	**6.3**	*30.0%*	*31.6%*
CAPEX						(0.9)	(0.8)	(0.8)		
Net Financial Result affecting the Cash Flow						(0.5)	(0.5)	(0.3)		
Tax Expense						(0.8)	(1.1)	(1.3)		
Recurrent Free Cash Flow						**1.0**	**3.2**	**3.9**	*23.5%*	*39.5%*
Restructuring Expense & Other non-rec.						-	-	-		
- Acquisitions / + Divestures of assets						(1.4)	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**(0.4)**	**3.2**	**3.9**	*22.8%*	*47.0%*
Capital Increase						-	-	-		
Dividends						(0.6)	(0.9)	(1.0)		
Net Debt Variation						**1.0**	**(2.4)**	**(2.9)**		

The financial statements for 2018 - 2020 correspond to the parent company but are not consolidated (the variation is minimal). For the years 2021 - 2022 they are consolidated

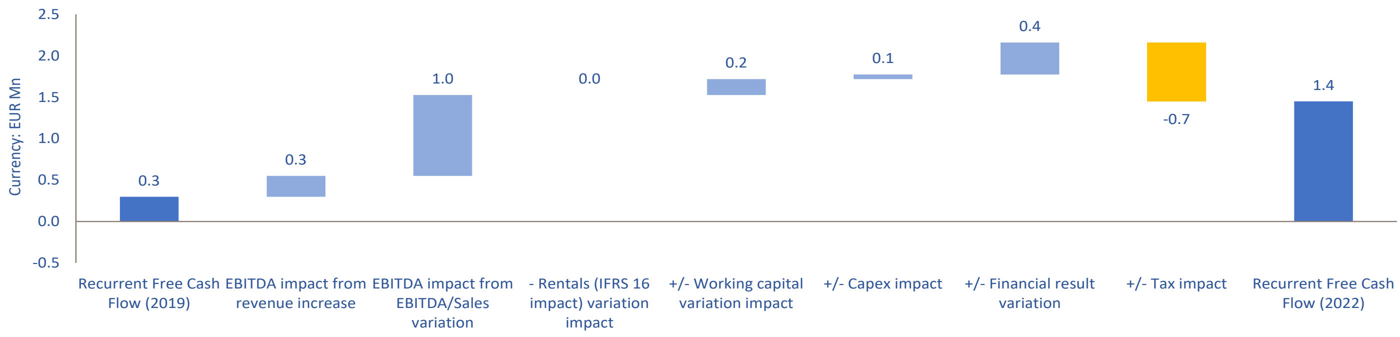
Appendix 2. Free Cash Flow

A) Cash Flow Analysis (EUR Mn)	2019	2020	2021	2022	2023e	2024e	2025e	CAGR 19-22	CAGR 22-25e
Recurrent EBITDA	**2.2**	**2.0**	**2.3**	**3.4**	**5.1**	**6.8**	**7.9**	*16.1%*	*32.5%*
Recurrent EBITDA growth	*5.2%*	*-7.4%*	*13.4%*	*49.0%*	*50.5%*	*32.9%*	*16.3%*		
Rec. EBITDA/Revenues	*7.1%*	*7.0%*	*7.4%*	*10.0%*	*11.4%*	*13.3%*	*14.1%*		
- Rentals (IFRS 16 impact)	-	-	-	-	-	-	-		
+/- Working Capital increase	(0.8)	4.1	(0.5)	(0.6)	(2.0)	(1.2)	(1.6)		
= Recurrent Operating Cash Flow	**1.4**	**6.1**	**1.7**	**2.8**	**3.1**	**5.6**	**6.3**	*26.9%*	*31.6%*
Rec. Operating Cash Flow growth	*141.7%*	*345.5%*	*-71.3%*	*59.5%*	*12.8%*	*77.7%*	*13.7%*		
Rec. Operating Cash Flow / Sales	*4.5%*	*21.1%*	*5.7%*	*8.2%*	*7.0%*	*10.9%*	*11.3%*		
- CAPEX	(0.8)	(0.3)	(0.6)	(0.7)	(0.9)	(0.8)	(0.8)		
- Net Financial Result affecting Cash Flow	(0.5)	(0.4)	(0.6)	(0.1)	(0.5)	(0.5)	(0.3)		
- Taxes	0.2	(0.2)	(0.5)	(0.5)	(0.8)	(1.1)	(1.3)		
= Recurrent Free Cash Flow	**0.3**	**5.2**	**0.1**	**1.4**	**1.0**	**3.2**	**3.9**	*69.2%*	*39.5%*
Rec. Free Cash Flow growth	*106.8%*	*n.a.*	*-98.9%*	*n.a.*	*-30.1%*	*218.6%*	*21.8%*		
Rec. Free Cash Flow / Revenues	*1.0%*	*18.1%*	*0.2%*	*4.3%*	*2.3%*	*6.3%*	*7.0%*		
- Restructuring expenses & others	-	-	-	-	-	-	-		
- Acquisitions / + Divestments	(0.0)	(0.2)	0.4	0.1	(1.4)	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	(0.3)	-	-	-		
= Free Cash Flow	**0.3**	**5.0**	**0.5**	**1.2**	**(0.4)**	**3.2**	**3.9**	*63.2%*	*47.0%*
Free Cash Flow growth	*106.3%*	*n.a.*	*-90.9%*	*170.7%*	*-131.2%*	*935.9%*	*21.8%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	*0.8%*	*14.3%*	*0.2%*	*4.0%*	*2.8%*	*8.9%*	*10.8%*		
Free Cash Flow Yield (s/Mkt Cap)	*0.8%*	*13.8%*	*1.3%*	*3.4%*	*n.a.*	*8.9%*	*10.8%*		

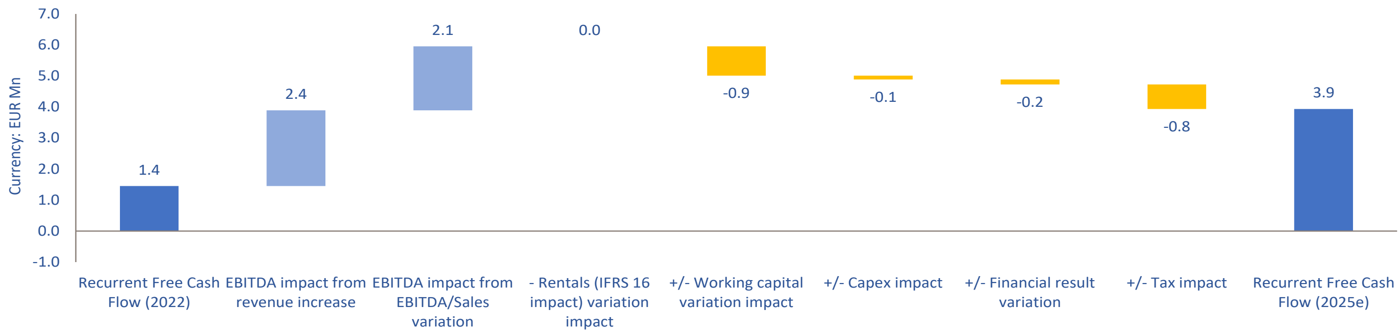
B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2019	2020	2021	2022	2023e	2024e	2025e
Recurrent FCF(FY - 1)	**(4.4)**	**0.3**	**5.2**	**0.1**	**1.4**	**1.0**	**3.2**
EBITDA impact from revenue increase	(0.0)	(0.1)	0.1	0.2	1.1	0.7	0.7
EBITDA impact from EBITDA/Sales variation	0.1	(0.0)	0.1	0.9	0.6	1.0	0.4
= Recurrent EBITDA variation	**0.1**	**(0.2)**	**0.3**	**1.1**	**1.7**	**1.7**	**1.1**
- Rentals (IFRS 16 impact) variation impact	-	-	-	-	-	-	-
+/- Working capital variation impact	4.5	4.9	(4.6)	(0.1)	(1.4)	0.8	(0.3)
= Recurrent Operating Cash Flow variation	**4.6**	**4.7**	**(4.3)**	**1.0**	**0.4**	**2.4**	**0.8**
+/- CAPEX impact	(0.3)	0.5	(0.3)	(0.1)	(0.1)	0.0	(0.0)
+/- Financial result variation	(0.1)	0.1	(0.2)	0.5	(0.4)	0.0	0.2
+/- Tax impact	0.5	(0.4)	(0.3)	0.0	(0.3)	(0.3)	(0.2)
= Recurrent Free Cash Flow variation	**4.7**	**4.9**	**(5.1)**	**1.4**	**(0.4)**	**2.2**	**0.7**
Recurrent Free Cash Flow	**0.3**	**5.2**	**0.1**	**1.4**	**1.0**	**3.2**	**3.9**

C) "FCF to the Firm" (pre debt service) (EUR Mn)	2019	2020	2021	2022	2023e	2024e	2025e	CAGR 19-22	CAGR 22-25e
EBIT	**1.2**	**0.9**	**1.6**	**2.7**	**4.3**	**5.8**	**6.7**	*31.2%*	*36.0%*
** Theoretical Tax rate*	*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)	(0.9)	(1.2)	(1.3)		
Recurrent EBITDA	**2.2**	**2.0**	**2.3**	**3.4**	**5.1**	**6.8**	**7.9**	*16.1%*	*32.5%*
- Rentals (IFRS 16 impact)	-	-	-	-	-	-	-		
+/- Working Capital increase	(0.8)	4.1	(0.5)	(0.6)	(2.0)	(1.2)	(1.6)		
= Recurrent Operating Cash Flow	**1.4**	**6.1**	**1.7**	**2.8**	**3.1**	**5.6**	**6.3**	*26.9%*	*31.6%*
- CAPEX	(0.8)	(0.3)	(0.6)	(0.7)	(0.9)	(0.8)	(0.8)		
- Taxes (pre- Financial Result)	-	(0.3)	(0.5)	(0.7)	(0.9)	(1.2)	(1.3)		
= Recurrent Free Cash Flow (To the Firm)	**0.6**	**5.5**	**0.7**	**1.3**	**1.4**	**3.6**	**4.2**	*31.5%*	*45.6%*
Rec. Free Cash Flow (To the Firm) growth	*114.6%*	*824.6%*	*-87.3%*	*93.9%*	*5.8%*	*152.9%*	*15.4%*		
Rec. Free Cash Flow (To the Firm) / Revenues	1.9%	19.1%	2.3%	4.0%	3.2%	7.1%	7.4%		
- Acquisitions / + Divestments	(0.0)	(0.2)	0.4	0.1	(1.4)	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	(0.3)	-	-	-		
= Free Cash Flow "To the Firm"	**0.6**	**5.3**	**1.1**	**1.1**	**0.0**	**3.6**	**4.2**	*25.2%*	*54.2%*
Free Cash Flow (To the Firm) growth	*114.0%*	*821.1%*	*-79.5%*	*3.7%*	*-97.9%*	*n.a.*	*15.4%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)	*1.5%*	*13.5%*	*1.7%*	*3.3%*	*3.5%*	*8.9%*	*10.3%*		
Free Cash Flow "To the Firm" - Yield (o/EV)	*1.4%*	*13.1%*	*2.7%*	*2.8%*	*0.1%*	*8.9%*	*10.3%*		

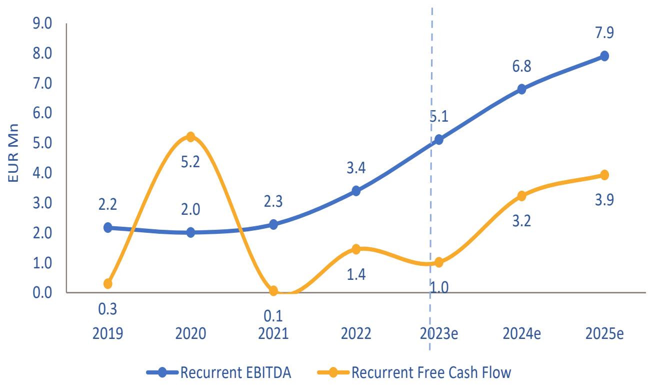
Recurrent Free Cash Flow accumulated variation analysis (2018 - 2022)



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



Recurrent EBITDA vs Recurrent Free Cash Flow



Appendix 3. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	36.5	
+ Minority Interests	-	12m Results 2022
+ Provisions & Other L/T Liabilities	0.0	12m Results 2022
+ Net financial debt	4.5	12m Results 2022
- Financial Investments	0.4	12m Results 2022
+/- Others		
Enterprise Value (EV)	**40.5**	

Appendix 4. Main peers 2023e

	EUR Mn	Sopra Steria	ADP	Indra	Izertis	Capgemini	Altia	SAP	AECOM	SCO
Market data	Ticker (Factset)	SOP-FR	ADP-US	IDR-ES	IZER-ES	CAP-FR	ALC-ES	SAP-DE	ACM-US	SCO-ES
	Country	France	United States	Spain	Spain	France	Spain	Germany	United States	Spain
	Market cap	4,015.0	80,725.8	2,118.1	196.2	28,858.0	220.1	151,548.3	10,303.4	36.5
	Enterprise value (EV)	4,532.5	82,137.7	2,157.5	217.9	31,949.7	213.4	150,883.6	12,055.3	40.5
Basic financial information	Total Revenues	5,626.0	16,217.0	4,008.6	156.8	22,889.9	222.0	31,357.4	5,977.3	45.0
	Total Revenues growth	*10.3%*	*8.6%*	*4.1%*	*22.9%*	*4.1%*	*4.8%*	*1.6%*	*-49.8%*	*32.4%*
	2y CAGR (2023e - 2025e)	*4.6%*	*6.5%*	*4.3%*	*18.2%*	*6.6%*	*n.a.*	*8.8%*	*n.a.*	*11.5%*
	EBITDA	676.0	4,484.5	426.5	21.0	3,634.6	23.0	9,001.5	868.4	5.1
	EBITDA growth	*22.6%*	*14.8%*	*10.3%*	*27.2%*	*5.4%*	*10.6%*	*21.5%*	*10.8%*	*47.5%*
	2y CAGR (2023e - 2025e)	*8.5%*	*9.3%*	*6.8%*	*17.6%*	*9.2%*	*n.a.*	*14.0%*	*7.2%*	*24.3%*
	EBITDA/Revenues	*12.0%*	*27.7%*	*10.6%*	*13.4%*	*15.9%*	*10.4%*	*28.7%*	*14.5%*	*11.4%*
	EBIT	496.0	4,035.7	324.3	12.3	2,974.5	19.4	8,722.4	744.0	4.3
	EBIT growth	*31.4%*	*17.3%*	*13.1%*	*37.0%*	*8.9%*	*12.8%*	*58.2%*	*17.4%*	*60.7%*
	2y CAGR (2023e - 2025e)	*7.2%*	*9.2%*	*8.3%*	*33.9%*	*9.8%*	*n.a.*	*14.1%*	*9.0%*	*25.1%*
	EBIT/Revenues	*8.8%*	*24.9%*	*8.1%*	*7.8%*	*13.0%*	*8.7%*	*27.8%*	*12.4%*	*9.6%*
	Net Profit	302.6	3,070.7	203.8	7.1	1,936.8	14.1	6,184.5	466.5	3.0
	Net Profit growth	*22.1%*	*15.1%*	*18.6%*	*64.8%*	*25.2%*	*14.6%*	*170.8%*	*32.5%*	*62.2%*
	2y CAGR (2023e - 2025e)	*12.5%*	*9.2%*	*10.0%*	*40.4%*	*10.5%*	*n.a.*	*15.5%*	*10.4%*	*30.5%*
	CAPEX/Sales %	*1.5%*	*1.5%*	*1.5%*	*10.2%*	*1.5%*	*n.a.*	*3.3%*	*1.8%*	*1.9%*
	Free Cash Flow	304.7	4,108.4	208.3	0.2	1,929.1	13.1	5,009.9	561.4	(0.4)
	Net financial debt	435.8	473.7	(78.4)	41.6	1,703.5	10.5	(1,689.0)	1,239.5	5.4
	ND/EBITDA (x)	0.6	0.1	n.a.	2.0	0.5	0.5	n.a.	1.4	1.1
	Pay-out	*31.0%*	*54.9%*	*25.7%*	*0.0%*	*30.1%*	*24.4%*	*38.2%*	*10.6%*	*20.0%*
Multiples and Ratios	P/E (x)	11.4	26.4	10.5	28.2	14.6	15.2	23.4	22.1	12.0
	P/BV (x)	1.9	n.a.	1.9	3.8	2.6	n.a.	3.3	4.4	4.6
	EV/Revenues (x)	0.8	5.1	0.5	1.4	1.4	1.0	4.8	2.0	0.9
	EV/EBITDA (x)	6.7	18.3	5.1	10.4	8.8	9.3	16.8	13.9	7.9
	EV/EBIT (x)	9.1	20.4	6.7	17.8	10.7	11.0	17.3	16.2	9.4
	ROE	*16.4*	*118.8*	*17.8*	*13.4*	*17.8*	*n.a.*	*14.1*	*19.9*	*45.5*
	FCF Yield (%)	*7.6*	*5.1*	*9.8*	*0.1*	*6.7*	*6.0*	*3.3*	*5.4*	*2.8*
	DPS	*4.63*	*4.02*	*0.30*	*0.00*	*3.43*	*0.05*	*2.02*	*0.35*	*0.06*
	Dvd Yield	*2.4%*	*2.1%*	*2.5%*	*0.0%*	*2.1%*	*1.6%*	*1.6%*	*0.5%*	*1.7%*

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).

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Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
04-May-2023	n.a.	3.80	n.a.	n.a.	Initiation of Coverage	Enrique Andres Abad