

EQUITY - SPAIN

Sector: Software

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9m Results 2022
 Independent Equity Research

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Opinion ⁽¹⁾: Below expectations

Impact ⁽¹⁾: We will have to lower our estimates

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Business description

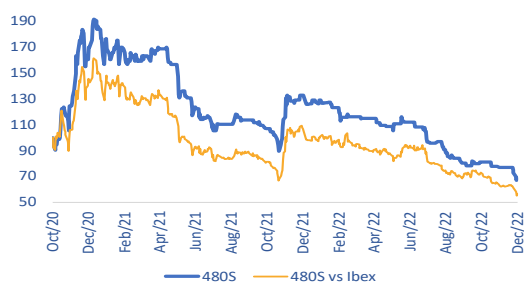
Cuatroochenta (480S), is a technology company specialised in designing, developing and implementing cloud software (SaaS model) and cybersecurity, with proprietary products aimed at optimising specific processes in the business context. Revenues from outside Spain account for c. 25% of the total (mainly Latam). The company has been listed on BME Growth since November 2020. Management controls c. 60% of capital.

Market Data

Market Cap (Mn EUR and USD)	26.7	28.3
EV (Mn EUR and USD) ⁽²⁾	30.3	32.1
Shares Outstanding (Mn)	2.7	
-12m (Max/Med/Mín EUR)	18.98 / 14.63 / 9.60	
Daily Avg volume (-12m Mn EUR)	n.m.	
Rotation ⁽³⁾	9.4	
Factset / Bloomberg	480S-ES / 480S SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Montesinos family	19.5
Sergio Aguado Gonzalez	18.0
Alfredo Cebrían Fuertes	16.6
Pavasal Group	5.3
Free Float	40.5

Relative performance (Base 100)

Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	-10.9	-14.8	-48.4	n.a.
vs Ibex 35	-10.3	-19.9	-47.2	n.a.
vs Ibex Small Cap Index	-9.4	-17.1	-42.7	n.a.
vs Eurostoxx 50	-8.4	-23.6	-43.0	n.a.
vs Sector benchmark ⁽⁴⁾	-5.1	-23.3	-30.4	n.a.

(1) The opinion regarding the results is on reported EBITDA with respect to our estimate for the year (12m). The impact reflects whether, due to the results, we envisage a significant revision (>5% - 10%, depending on the sector) of our EBITDA estimate (for any of the estimated years).

(2) Please refer to Appendix 2.

(3) Rotation is the % of the capitalisation traded - 12m.

(4) vs Stoxx Europe 600 Technology.

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

9m22: very good in revenues (+33%), although the increase in structure is squeezing margins

9M22, REVENUE GROWTH CONTINUES (+33% VS 9M21). 480S closed 9m22 with revenue of EUR 13.1Mn (vs EUR 9.8Mn in 9m21). Strong growth (+33.4% vs 9m21) explained by: (i) continued organic growth (+23% vs 9m21) and (ii) the impact of M&A: acquisition of Fama Systems (March 2021), and Mensamatic (October 2021) that contributed c. EUR 1Mn to revenue. By divisions, we would highlight growth in the cybersecurity business (+121% vs 9m21; with a weighting in the revenue mix of c. 30%).

THE CHANGE IN THE REVENUE MIX HAS SLIGHTLY REDUCED THE GROSS MARGIN. The 9m22 gross margin is 72.4% (vs 74.1% in 9m21 and vs our estimate of 74%). A 1.7p.p. contraction explained mainly by the larger weighting of the cybersecurity business in the revenue mix (a business with a smaller margin, as it includes the marketing of third party licences).

THE LARGE INCREASE IN STRUCTURE CONTINUES TO WEIGH HEAVY ON EBITDA. The big increase in the headcount (approx. 250 employees vs an average of 190 in 2021) drove 9m22 personnel costs to EUR 7.1Mn (+35% vs 9m21). This, plus the increase in other operating costs, prevents (for now) revenue growth from being translated to Rec. EBITDA (EUR 0.2Mn, adjusted to strip out capitalised expenses). A figure that does not include 50% of the EBITDA of Pavabits and Matrix Developments (c. EUR 0.3Mn) as this is equity consolidated.

THE ACQUISITION OF CLOUD FACTORY (IN DECEMBER 2022) STRENGTHENS GROWTH PROSPECTS. In December 480S announced the acquisition of Cloud Factory for EUR 2Mn, a company that in 2021 generated revenue of EUR 1Mn with an EBITDA margin of c. 35%. 480S has thereby incorporated Zoho's CRM that complements its ERP solutions under a SaaS model, expanding its range of niche software for corporates.

IN CONCLUSION: REVENUE IN LINE, LOWER THAN EXPECTED MARGINS. 9M22 results confirm 480S' growth story, the company continuing to grow sales organically at over 20%. Revenues are fully in line with expectations and point to a 2022e with sales of EUR 18Mn (+30% vs 2021). However, higher personnel and operating costs will lead us to downgrade our 2022e Rec. EBITDA estimate (EUR 0.5Mn vs our estimate of EUR 1Mn?).

AND NOW WHAT? NOW IT'S TIME TO UNLOCK THE VALUE OF THE STEP-UP IN SIZE. SOMETHING THAT SHOULD BE VISIBLE IN 2023E. The focus now should be on profiting from the step-up in size in revenues (EUR 18Mn in 2022e vs EUR 6Mn in 2019). In our view, the continuation of the double-digit organic growth seen in recent years allows the company to aspire "mathematically" to improvements in margins. Credible growth, despite cyclical headwinds in 2023e, due to 480S' focus on niche software for corporates under a SaaS model (high recurrence), that points to an improvement in margins as early as 2023e (2023e Rec. EBITDA margin c. 8-10%; Rec. FCF at breakeven and ND of c. EUR 4Mn). Trading at 1.5x 23e EV/Sales (vs > 3x EV/Sales for principal peers), something that is especially attractive given the company's ability to grow revenue at a rate of 15%-20% and the potential for margin improvement that should materialise by leveraging this growth on an already existing structure.

Cuatroochenta (480S) is a BME Growth company

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Appendix 1. Results table

EUR Mn	9m22 Real	9m21	9m22 Real vs 9m21
Total Revenues	13.1	9.8	33.4%
Gross margin	9.5	7.3	30.4%
<i>Gross Margin (%)</i>	<i>72.4%</i>	<i>74.1%</i>	<i>-1.7 p.p.</i>
Personnel expenses	-7.1	-5.2	35.2%
Other operating expenses	-2.2	-1.3	72.2%
Recurrent EBITDA¹	0.2	0.8	-72.9%
<i>Rec. EBITDA/Revenues</i>	<i>1.6%</i>	<i>7.8%</i>	<i>-6.2 p.p.</i>
EBITDA	-0.1	0.8	n.a.
<i>EBITDA/Revenues</i>	<i>-0.9%</i>	<i>7.8%</i>	<i>-8.7 p.p.</i>

Note 1: EBITDA and Rec. EBITDA adjusted to exclude the impact of capitalised expenses (EUR 0.6Mn in 9m22 and EUR 0.3Mn in 9m21). Rec. EBITDA adjusted to strip out the impact of extraordinary items arising from the restructuring of personnel of the companies acquired.

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	26.7	
+ Minority Interests	0.0	6m Results 2021
+ Provisions & Other L/T Liabilities	1.6	6m Results 2021
+ Net financial debt	3.2	6m Results 2021
- Financial Investments	1.3	6m Results 2021
+/- Others		
Enterprise Value (EV)	30.3	

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
23-Dec-2022	n.a.	9.80	n.a.	n.a.	9m Results 2022	David López Sánchez
06-Oct-2022	n.a.	11.20	n.a.	n.a.	6m Results 2022 - Estimates downgrade	David López Sánchez
09-Jun-2022	n.a.	16.60	n.a.	n.a.	3m Results 2022	David López Sánchez
18-Mar-2022	n.a.	16.64	n.a.	n.a.	12m 2021 Preliminary results	David López Sánchez
01-Dec-2021	n.a.	18.83	n.a.	n.a.	9m Results 2021 - Estimates downgrade	David López Sánchez
07-Oct-2021	n.a.	15.96	n.a.	n.a.	6m Results 2021	David López Sánchez
22-Apr-2021	n.a.	24.14	n.a.	n.a.	Initiation of Coverage	David López Sánchez

