



ISSUER RATING

Long-term Rating

Tendencia: Estable

Fecha de primer rating: 07/09/2023

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Rating action and rationale

- EthiFinance Ratings assigns for the first time a "BB" rating with a stable outlook to Grupo Oesía.
- The rating is based on the strong allure of the sectors where the company operates (information and communication technology consulting, and defence, security, aeronautics and space technology). These are characterised by high barriers to entry, reasonable profitability, low volatility and strong growth prospects. In addition, group's revenue growth is robust and there is sustained revenue growth (CAGR₁₈₋₂₂ of 25.8%), reaching a record level in 2022 (€183.2m). It should also be noted that in 2022, it reached a framework agreement for financial restructuring that has made it possible to adjust the debt schedule, and obtain a two years grace period. This has enabled it to invest in capital-intensive projects in the industrial engineering sector. As a result, and benefiting from its ability to generate funds, the group has a high level of liquidity (>2x).
- However, the rating is limited by a financial structure marked by tight levels of financial autonomy (¹Equity/TFD: 47.5%), indebtedness (¹NFD/EBITDA: 4.1x and EBITDA/interest: 4.3x), as well as by the company's limited size in the two sectors in which it operates. Other factors include the risk of dependence on certain customers, despite its high credit quality, and the concentration of the digital area's turnover in the domestic market. The company's rating is not expected to improve in the short to medium term. The company's rating is not expected to improve in the short to medium term.
- In line with our methodology, the *information and communication technology sector (ICT consultancy) and the defence, security, aeronautics and space technology sector* present a medium ESG risk (heatmap sector between 3 and 3.5) due to their impact on the environment. This assessment leads to a sectoral analysis that is not affected by this factor. With regard to the company's ESG analysis, the group's policies are considered adequate (ESG score between 1 and 4), which also has a neutral impact on the rating.
- EthiFinance Ratings was provided (by the OESIA Group) with detailed financial projections for analysis and evaluation purposes, although these are not included in the report at the company's request, due to its sensitivity. This rating is conditional on the Group's forecasts for the current and coming years being met.

Description

Oesía Networks, S.L. is a multinational company with 100% Spanish and private capital. It follows a dual business model, dedicated to digital and industrial engineering. It develops and implements innovation and transformation projects in 40 countries in four continents. The activity is specialised in the digital transformation of large companies (58% of total turnover and 33% at EBITDA business level, in 2022), as well as in the design, development and manufacture of solutions for national security applied to aerospace, naval and land platforms (42% of total turnover and 67% at EBITDA business level, in 2022). In FY 2022, turnover reached €183.2m (+16.3% YoY) with EBITDA of €19.5m (EBITDA margin of 10.7%) and an NFD¹/EBITDA ratio of 4.1x (NFD¹/EBITDA 6.4x in 2021).

¹Total financial debt has been adjusted to include non-recourse factoring: €32.7m (2020), €27.3m (2021), €31.9m (2022).

Fundamentals

Business profile

Sector analysis

- **Mature and solid sector, with a high concentration in several reference groups, strong competition due to current technological disruption, as well as high entry barriers and growth prospects.** The information and communication technology consultancy (ICT consultancy) and defence, security, aeronautics and space technology (TEDAE) sectors are among the fastest growing in Spain, and are of strategic importance for the economy and society. After the pandemic, the ICT sector in Spain has become a strategic pole for the transformation of the production model and the recovery of the economy. Both sectors (ICT consultancy and TEDAE) are mature, resilient and highly concentrated. In 2021, the five main players in the ICT sector and TEDAE sectors accounted for 41% and 70% of the turnover in Spain, respectively. They have high barriers to entry, as they require high integration costs, technical know-how, labour costs and recurrent investment in R&D&I (the ICT and TEDAE sector devote 4.5% and 10% of total turnover respectively to innovation). These sectors combine activities with very different rates of return, but the mix of services provided typically results in modest (sector) margins of between 3% and 8% EBIT.
- **The sector's ESG exposure is medium.** In general, the use of natural resources in the provision of services is limited and the impact is mostly indirect. It should be noted that customer service, the quality of services, and benefits received are important in this industry. These are key issues that, together with price, can quickly affect reputation, sales and profitability.

Competitive positioning

- **A niche player which, despite its limited size in terms of turnover, is positioned as a strategic partner for the main Spanish companies and public institutions, with favourable growth prospects.** Grupo Oesia is positioned as a niche player in markets that are strategic for the company, with a very small weight of less than 1% within the highly concentrated ICT (total turnover of €15.9 bn) and TEDAE (€11.6 bn) sectors. Despite its limited size, it is positioned as a strategic partner thanks to a more than 45 years track record, and a high degree of specialisation in digital transformation and development for national security (aerospace, naval and land). In addition, the group's differentiated know-how, highly specialised technologies, products, and proprietary technologies give it a competitive edge over other players. These enable it to maintain steady growth, even though its operating margin is slightly lower than that of its main competitors. Although, it is expected to improve this the coming years and return to pre-pandemic levels (around 8%).
- **The group has a large customer portfolio, but it is concentrated within the top players. It also provides a wide range of products and services, and although the digital engineering activity is mainly concentrated in the domestic market, the industrial engineering activity is geographically diversified to an extent.** The Group has two business areas ("digital" and "industrial"), in which it operates in six sectors ("public administration and healthcare", "banking and insurance", "industry", "services and utilities", "telco & high tech", and "aeronautics, space, naval and terrestrial"). The Oesia Group is present in 40 countries on four continents, with a moderate diversification in the industrial sector, where the international market represents 52% (29% Europe, 13% Middle East, 5% USA and 5% Asia-Pacific). The rest, although they are national clients, most of them come from international programmes. However, the digital business is highly concentrated in Spain (97% of total turnover). The client portfolio is highly concentrated (the top 10 represent 53% and 65% of the digital and industrial sectors, respectively, of total turnover in 2022), it has recurring relationships over 20 years with top-level clients (Telefónica, Inditex, Orange, CaixaBank, Agencia Tributaria, Navantia, Airbus, etc.) in all its sectors. It also has its own products and a broad portfolio of services and solutions, based on its extensive experience and differentiated knowledge.

Governance

- **Grupo Oesía has an experienced management team, controlled by the president and general manager.** In 2014, following a Buy in Management Buy Out (BIMBO) operation, the former reference shareholders (mainly financial institutions) left the company's capital and the control was taken over by the chairman, Mr Luis Furnells Abaunz (98.5%), and the CEO, Mr Héctor Roldán Sánchez (1.5%), through the companies Heisenberg 2014 (90%) and Heisenberg Five (10%). The group's financial policy is characterised by a structure with a low self-financing capacity, which implies a high dependence on external resources. This has forced the group to enter into various refinancing agreements, in order to increase the flexibility of its debt service, and the compatibility of its maturities. The 2022 refinancing agreement has enabled the debt schedule to be adjusted, with a two-year grace period, which will allow investments to be made in capital-intensive industrial engineering projects.
- **ESG Policy.** According to the ESG data analysed by EthiFinance Ratings, Grupo Oesía has a neutral ESG exposure (score of 2.5). The company received recognition as one of the best companies to work for in 2022 (according to Forbes and Sigma dos study), and for its level of gender diversity in the Board of Directors (44% women). Additionally, the reduction of the carbon footprint for the fourth consecutive year, the extensive use of renewable energy, and several important certifications in different areas of the company stand out.

Financial profile

Cash-flow and leverage

- **Growth in FFOs supported by increase in EBITDA.** In 2022, EBITDA increased significantly (+37% YoY) to €19.5m. It had recovered from the two previous years' declines (-23.6% in 2021 and -13.6% in 2020) that was attributed to the Covid-19 global pandemic, international inflationary pressures, and supply chain tensions. EBITDA growth was uneven between the two business lines, with the industrial line benefiting from the reactivation of major defence programmes with growth of 56%. The digital line suffered a slight decline (-2.9% YoY) due to one-off effects, particularly in the Telecom & High Tech and Services & Utilities (ISU) sectors, as a result of the company's strategic focus on high value-added activities. It is worth highlighting the company's ability to generate cash flow from operations (€20.4m; +45.2% YoY), as well as the efficient management of working capital/. These allowed the CFO to reach €27.7m (4.9 times higher than in 2021), which, together with the reduction in expansion capex, enabled it to avoid the negative free cash flow of last year, and reach €20m in 2022 (-€5.9m in 2021).
- **Financial leverage still high in 2022, but with a significant downward trend, expected to be at a more appropriate level in 2023.** In 2022, given the cash generated during the year (€16.8m), cash and cash equivalents increased to €27.5m (+174.8% YoY), leading to a reduction of net financial debt (NFD: €79.7m; €47.8m excluding non-recourse factoring in 2022 and NFD: €90.9m; €63.6m excluding non-recourse factoring in 2021) by -12.3%. The NFD/EBITDA ratio has improved (reduction of NFD/EBITDA by 2.3x; 6.4x in 2021) to 4.1x (2.4x and 4.5x excluding non-recourse factoring in 2022 and 2021 respectively), as well as the interest coverage (EBITDA/Interest: 4.3x). However, they are at levels considered to be tight. Moreover, given the current EURIBOR trend and the lack of interest rate hedging, the limited interest coverage could deteriorate. On the other hand, it should be noted that the group has signed a refinancing agreement that has allowed it to restructure the repayment schedule, introduce a two-year grace period and extend the maturity to 2030. These provide greater flexibility, and allows the maturities to be compatible with the investments set out in the business plan; particularly in the aerospace and defence programmes. It should be noted that this agreement includes a commitment by the financial institutions to maintain working capital during the term of the agreement.

Solvency

- **Adjusted financial autonomy, but sustainable recurrent growth derived from the reinvestment of results.** Although the Oesía Group's financial structure is characterised by a still modest level of financial autonomy (ratio of equity to total financial debt), the equity has experienced recurrent growth (CAGR₁₈₋₂₂ of 122.8%),

favoured by the reinvestment of profits. It should stand at 47.5% (67.6% excluding non-recourse factoring) at the end of 2022 (+8.4pp compared to 2021).

Liquidity

- A comfortable liquidity position, supported by the generation of operating cash flow, and the restructuring of the debt schedule. Following the 2022 refinancing agreement, the group has extended the maturity of its debt and granted a two-year grace period. In addition, given the generation of FFO (€20.3m), cash (€27.4m) and undrawn credit lines, it has a high level of liquidity (>2x). This makes it likely that the Oesía Group will have no difficulty in meeting its commitments in the medium term.

Modifiers

Disputes

- The group has no ongoing controversies

Country risk

- It has not been determined that there is a conditioning country risk, as most of its operations are concentrated in Spain and Europe.

Main financial figures

Main financial aggregates. Thousands of euros.				
	2020	2021	2022	22vs21
Invoicing	161.444	157.544	183.249	16,3%
EBITDA	18.671	14.271	19.554	37,0%
EBITDA margin	11,6%	9,1%	10,7%	1.6pp
EBIT	11.509	6.610	9.610	45,4%
EBIT margin	7,1%	4,2%	5,2%	1.0pp
EBT	7.651	3.333	5.414	62,4%
Total Assets	163.825	167.101	198.176	18,6%
Equity	39.608	39.468	50.935	29,1%
Total Financial Debt	107.888	100.913	107.260	6,3%
Net Financial Debt	80.383	90.883	79.697	-12,3%
PN/DFT	36,7%	39,1%	47,5%	8.4pp
DFN /EBITDA	4,3x	6,4x	4,1x	-2,3x
Funds From Operations	18.561	14.030	20.370	45,2%
FFO/DFN	23,1%	15,4%	25,6%	10.1pp
EBITDA/Interest	4,3x	3,7x	4,3x	0,5x

¹Total financial debt has been adjusted by including non-recourse factoring: €32.7m (2020), €27.3m (2021), €31.9m (2022) and, ¹Total financial debt excluding non-recourse factoring: €75.2m (2020) €73.6m (2021), €75.3m (2022), ²Net financial debt excluding non-recourse factoring: €47.7m (2020), €63.6m (2021), €47.8m (2022), ³Net financial debt excluding non-recourse factoring/EBITDA: 2.6x (2020), 4.5x (2021), 2-4x (2022).

Rating Sensitivity

Factors that may (individually or collectively) impact the rating:

- **Positive factors (↑).**

Recover the pre-pandemic EBIT margin (>8%) and improve debt levels (NFD/EBITDA below 2x and Ebitda/Interest above 5,5x), Increase financial autonomy (Equity/TFD above 55%).

- **Negative factors (↓).**

Deterioration of EBITDA margin (<10%) and EBIT margin (<5%), Worsening EBITDA/interest (<3,5%) and deterioration of debt ratios (NFD/EBITDA above 4,5x and FFO/NFD below 15%) and adjusted Equity/TFD (below 40%).

Credit Rating

Credit Rating	
Business Profile	BB+
<i>Sectoral Analysis</i>	<i>BBB+</i>
<i>ESG adjustment</i>	<i>No</i>
<i>Competitive Positioning</i>	<i>BB-</i>
<i>Governance</i>	<i>BB-</i>
Financial Profile	BB-
<i>Cash flow and debt</i>	<i>BB-</i>
<i>Solvency</i>	<i>BB-</i>
ESG Company	No
<u>Anchor Rating</u>	BB
<i>Modifiers</i>	<i>No</i>
<u>Rating</u>	BB

Regulatory information

Fuentes de información

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- Página web corporativa.
- Información publicada por los Boletines Oficiales.
- Rating book facilitado por la compañía.

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