

Zalaris

Raising margin guidance

Zalaris reported another record quarter of revenue and operating profit. In constant currency (cc), the company reported revenue growth of 13.6% y-o-y in Q424 and 16.1% in FY24, helped by strong growth in Managed Services and APAC. FY24 company adjusted EBIT grew 54% y-o-y to a margin of 11% (+2.5pp y-o-y) and the Q424 margin reached 13%. Management believes the company is on track to hit annualised revenue of NOK1.5bn ahead of its FY26 target and is narrowing its EBIT margin guidance to 13–15% (from 12–15%).

Year end	Revenue (NOKm)	PBT (NOKm)	EPS (NOK)	DPS (NOK)	P/E (x)	Yield (%)
12/23	1,134.0	10.8	0.96	0.00	88.5	N/A
12/24	1,346.3	80.7	2.67	0.90	32.0	1.1
12/25e	1,489.4	141.8	4.84	0.93	17.6	1.1
12/26e	1,620.5	185.9	6.24	1.32	13.7	1.6

Note: PBT and EPS (diluted) are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Managed Services drives record performance

Ongoing implementation of new client contracts as well as geographical and product expansion with existing clients drove 20% cc growth in Managed Services FY24 revenue, and new contracts signed in the period support strong growth in FY25. Professional Services saw a weaker performance due to the phasing of a project in the UK. The adjusted FY24 EBIT margin expanded 2.5pp to 11%, helped by revenue growth and improving profitability in Germany as the profit enhancement programme started to take effect.

Upgrading forecasts

The company stated that it was making good progress with the strategic review, which it expects to complete by the end of Q225. Having previously targeted revenue of NOK1.5bn and an adjusted EBIT margin of 12–15% by FY26, management is now confident that the margin will be in the range 13–15%. We have upgraded our revenue and adjusted EBIT forecasts to reflect Q424 performance, factoring in an adjusted EBIT margin of 12.5% in FY25 and 13.9% in FY26.

Valuation: Upgrades support further upside

The share price is up 44% over the last 12 months. Despite this, it continues to trade at substantial discounts to both its payroll software and IT services peers. We have rolled forward our discounted cash flow (DCF)-based valuation by a year, using our forecasts to FY26, followed by conservative revenue growth of 4% and EBIT margins of 13.9%. This generates a valuation of NOK97.5/share (up from NOK91.1). Evidence of sustained revenue growth above this level and/or higher margins could provide further upside.

FY24 results

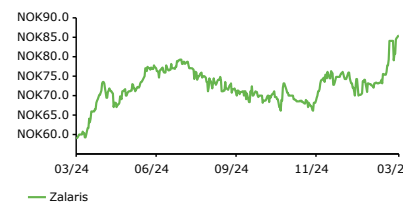
Software and comp services

4 March 2025

Price **NOK85.20**
Market cap **NOK1,868m**

Net cash/(debt) at end FY24 including lease liabilities NOK(317.4)m
 Shares in issue 22.1m
 Free float 65.6%
 Code ZAL
 Primary exchange OSLO
 Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	15.6	24.1	48.1
52-week high/low	NOK87.0		NOK53.0

Business description

Zalaris is a leading provider of comprehensive human capital management and payroll solutions.

Next events

Q125 results 30 April

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Review of FY24 results

Zalaris reported FY24 revenue 3% ahead of our forecast, with growth of 18.7% (16.1% cc). Managed Services revenue increased 22.3% y-o-y (20.1% cc) to NOK1,002.7m, 4.6% ahead of our forecast. Professional Services revenue declined 0.1% (3.3% cc) to NOK290.8m versus our NOK311.6m forecast. The company noted that a project had completed in the UK that had contributed a material level of revenue. Revenue from APAC increased by 135.5% y-o-y to NOK48.2m versus our NOK34.8m forecast. Finally, vyble, which is considered to be non-core, increased 66.1% y-o-y to NOK4.6m.

In Q424, the group grew revenue by 16.5% y-o-y (13.6% cc), with Managed Services growth of 20.3% y-o-y (17.3% cc), Professional Services down 3.5% y-o-y (5.3% cc), APAC up 84.3% y-o-y and vyble up 123.5% y-o-y.

The company generated adjusted EBIT of NOK147.5m in FY24, in line with our forecast and up 54% y-o-y. The margin expanded by 2.5pp to 11.0% for the year. In Q424, adjusted EBIT was 42% higher with a margin of 13.0%, up 2.3pp y-o-y. Management noted that the German profit improvement programme had delivered cost savings faster than expected. Measures being taken to reduce costs include reducing the use of external SAP consultants, changing the mix of onshore/nearshore/offshore and digital workforce and renegotiating terms in existing customer agreements.

After net finance costs of NOK64.2m (which included net FX losses of NOK18.9m), the company reported FY24 PBT of NOK49.5m (NOK80.7m on a normalised basis) and net income after minority interests of NOK34.1m. This equated to a reported basic EPS of NOK1.54 per share and a normalised, diluted EPS of NOK2.67.

The company announced a dividend of NOK0.90, broadly in line with our NOK0.91 forecast.

In FY24, Zalaris generated operating cash flow of NOK131.5m, up 125% y-o-y, and closed the year with net debt (excluding leases) of NOK247.5m, down 21% y-o-y. This equated to net debt/EBITDA of 1.2x, down from 1.4x at the end of Q324 and 2.1x at the end of FY23.

Exhibit 1: FY24 results highlights

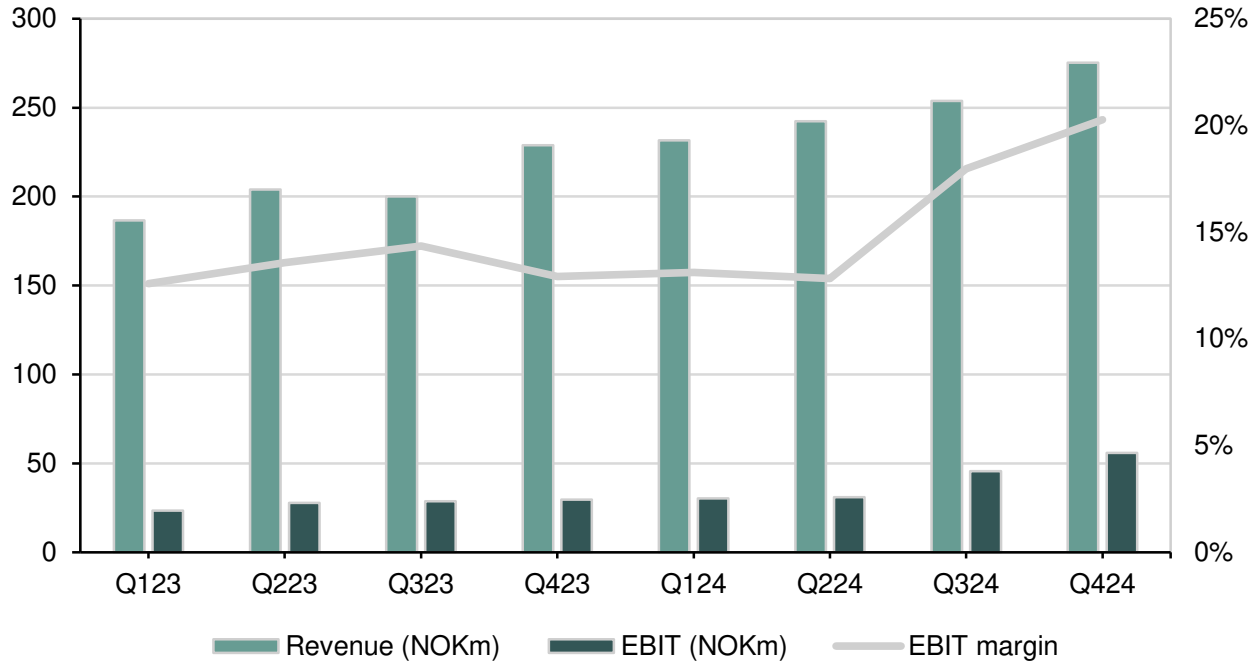
NOKm	FY23a	FY24e	FY24a	Diff	y-o-y
Revenues	1,134.0	1,306.5	1,346.3	3.0%	18.7%
Normalised EBIT	85.4	145.7	144.9	-0.6%	69.7%
Normalised EBIT margin	7.5%	11.2%	10.8%	-0.4pp	3.2pp
Company adjusted EBIT	95.8	147.4	147.5	0.1%	54.0%
Company adjusted EBIT margin	8.4%	11.3%	11.0%	-0.3pp	2.5pp
Reported operating profit	60.1	136.0	113.7	-16.4%	89.0%
Reported operating margin	5.3%	10.4%	8.4%	-2.0pp	3.1pp
Normalised PBT	10.8	111.5	80.7	-27.6%	649.8%
Normalised basic EPS (NOK)	1.11	4.11	2.95	-28.2%	165.5%
Normalised diluted EPS (NOK)	0.96	4.11	2.67	-35.1%	176.7%
Reported basic EPS (NOK)	(0.08)	3.66	1.54	-57.9%	N/A
Net debt/Adjusted EBITDA (x)	2.1	N/A	1.1		
Adjusted EBITDA	152.8	N/A	220.4	N/A	44.3%
Adjusted EBITDA margin	13.5%	N/A	16.4%	N/A	2.9pp
Net debt (ex leases)	314.8	243.7	247.5	1.6%	-21.4%

Source: Zalaris, Edison Investment Research

Recent contract wins provide good visibility in Managed Services

The chart below shows the trend for Managed Services revenue and operating profit on a quarterly basis through FY23 and FY24. Q424 was a record quarter for both revenue and profit, with year-on-year constant currency revenue growth of 25% in DACH, 15% in Northern Europe and 7% in the UK & Ireland. Net revenue retention for the quarter was 104%, highlighting the upsell potential from the existing customer base. In Q424, the business signed a new global contract with a large German IT company for comprehensive payroll and HR services for more than 4,400 employees across nine countries.

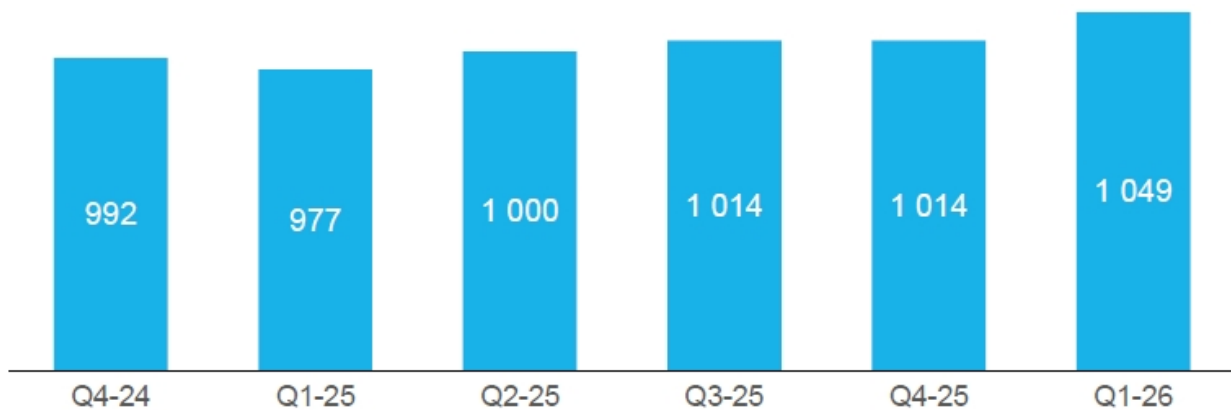
Exhibit 2: Managed Services revenue and EBIT, Q123–Q424



Source: Zalaris

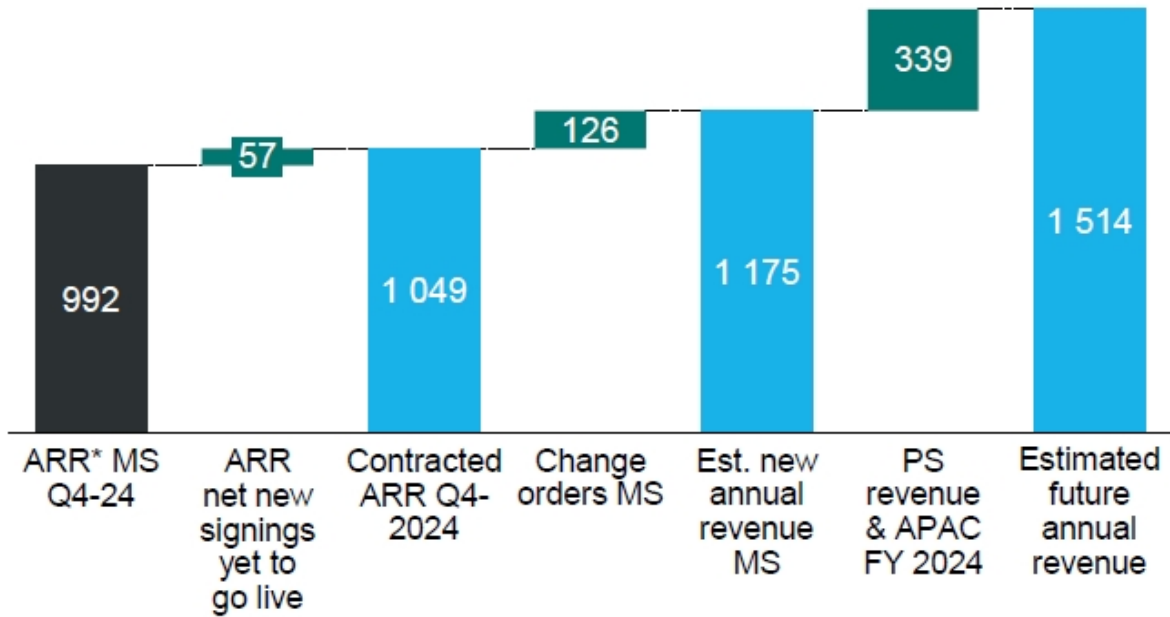
In Q424, the business signed new contracts that should increase future revenue by NOK28m, which, when combined with higher recurring revenue from existing customers, should result in a NOK44m increase in future revenue compared to Q324. The annual recurring revenue (ARR) of net new contracts that have yet to go live is NOK57m (see Exhibit 4). Exhibit 3 shows the expected trend in ARR by quarter from the end of FY24 to Q126, by which time the company expects all current contracts to be fully implemented. The company also expects change orders in the region of 12% of recurring revenue every year.

Exhibit 3: Managed Services contracted ARR development over time (NOKm)



Source: Zalaris

Exhibit 4: Revenue development based on signed Managed Services contracts (NOKm)

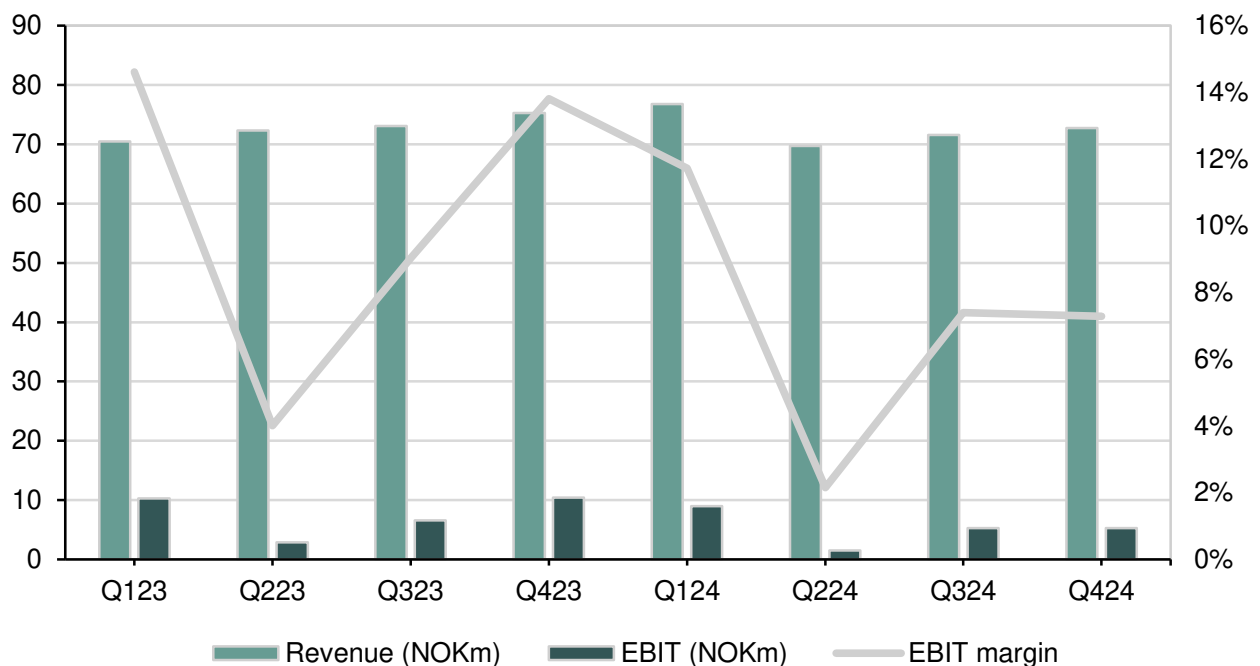


Source: Zalaris

Professional Services becoming Zalaris Consulting

The company is renaming the Professional Services business as Zalaris Consulting. The chart below shows the divisional performance over the last two years. Partial completion of a large consulting project in the UK weighed on revenue in H224. Management noted that capacity is being used to support Managed Services customer implementations and change orders, particularly in Germany.

Exhibit 5: Professional Services revenue and EBIT, Q123–Q424



Source: Zalaris

Outlook and changes to forecasts

The recently secured BPaaS/SaaS contracts in Managed Services as well as expansions of existing contracts provide a strong foundation for growth in FY25, as most should become fully operational in the year. The company maintained its through-cycle estimate for 1.5–3.0% churn per annum and average revenue growth of 10%. To fully benefit from increased revenues, the company is optimising the cost base through near/offshoring, and using automation and AI. Targets for FY25 include further automation of delivery processes and improved use of near- and offshore delivery centres in Latvia, Poland and India.

The company previously set the target to deliver revenue of NOK1.5bn and an EBIT margin of 12–15% (13.5% mid-point) by the end of FY26. With the strong performance in Q424, the company has tightened its EBIT margin guidance to 13–15% (14% mid-point). Annualised Q424 revenue of NOK1.46bn shows how close the company is to reaching its revenue target.

We have revised our forecasts to reflect the Q424 performance. We raise our FY25 revenue forecast by 3.8% and our adjusted EBIT forecast by 9.6%, with a margin of 12.5%. For FY26, we introduce forecasts for revenue growth of 8.8% and an adjusted EBIT margin of 13.9%.

Exhibit 6: Changes to forecasts

NOKm	FY25e		Change	y-o-y	FY26e	
	Old	New			New	y-o-y
Revenues	1,435.3	1,489.4	3.8%	10.6%	1,620.5	8.8%
Normalised EBIT	169.5	185.9	9.6%	28.3%	225.9	21.5%
Normalised EBIT margin	11.8%	12.5%	0.7pp	1.7pp	13.9%	1.5pp
Company adjusted EBIT	169.5	185.9	9.6%	26.0%	225.9	21.5%
Company adjusted EBIT margin	11.8%	12.5%	0.7pp	1.5pp	13.9%	1.5pp
Reported operating profit	151.9	150.0	-1.2%	32.0%	190.0	26.7%
Reported operating margin	10.6%	10.1%	-0.5%	162.8%	11.7%	1.7pp
Normalised PBT	141.5	141.8	0.2%	75.8%	185.9	31.1%
Normalised basic EPS (NOK)	5.27	5.35	1.6%	81.4%	6.91	29.1%
Normalised diluted EPS (NOK)	5.27	4.84	-8.2%	81.4%	6.24	29.1%
Reported basic EPS (NOK)	4.45	3.73	-16.2%	142.4%	5.29	41.7%
Net debt/Adjusted EBITDA (x)	N/A	0.8			0.4	
Adjusted EBITDA	N/A	263.9	N/A	19.7%	319.9	21.2%
Adjusted EBITDA margin	N/A	17.7%	N/A	1.3pp	19.7%	2.0pp
Net debt (ex leases)	197.1	204.2	3.6%	-17.5%	114.3	-44.0%

Source: Edison Investment Research

Exhibit 7: Financial summary

	NOK'm	2021	2022	2023	2024	2025e	2026e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue		775.3	892.7	1,134.0	1,346.3	1,489.4	1,620.5
Costs		(673.3)	(786.6)	(980.1)	(1,120.0)	(1,220.4)	(1,293.5)
EBITDA		101.9	106.2	153.8	226.3	269.0	327.0
Normalised operating profit		39.8	46.2	85.4	144.9	185.9	225.9
Amortisation of acquired intangibles		(11.5)	(11.9)	(13.7)	(14.0)	(14.0)	(14.0)
Exceptionals		0.0	(1.9)	0.0	4.7	0.0	0.0
Share-based payments		(5.7)	(8.7)	(11.6)	(21.9)	(21.9)	(21.9)
Reported operating profit		22.6	23.7	60.1	113.7	150.0	190.0
Net Interest		(7.6)	(40.1)	(74.6)	(64.2)	(44.1)	(40.0)
JVS and associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		32.2	6.1	10.8	80.7	141.8	185.9
Profit Before Tax (reported)		15.0	(16.4)	(14.5)	49.5	105.9	150.1
Reported tax		(2.2)	(6.3)	11.5	(16.0)	(23.3)	(33.0)
Profit After Tax (norm)		30.0	(0.2)	22.3	64.7	118.5	152.9
Profit After Tax (reported)		12.8	(22.7)	(3.0)	33.4	82.6	117.1
Minority interests		0.0	1.6	1.2	0.6	0.0	0.0
Discontinued operations		0.0	(16.0)	0.0	0.0	0.0	0.0
Net income (normalised)		30.0	1.4	23.5	65.3	118.5	152.9
Net income (reported)		12.8	(37.1)	(1.8)	34.1	82.6	117.1
Basic average number of shares outstanding (m)		21.3	21.6	21.2	22.1	22.1	22.1
EPS - normalised (NOK)		1.41	0.07	1.11	2.95	5.35	6.91
EPS - normalised fully diluted (NOK)		1.32	0.07	0.96	2.67	4.84	6.24
EPS - basic reported (NOK)		0.60	(1.72)	(0.08)	1.54	3.73	5.29
Dividend (NOK)		0.35	0.50	0.00	0.90	0.93	1.32
Revenue growth (%)		(2.2)	15.2	27.0	18.7	10.6	8.8
EBITDA Margin (%)		13.2	11.9	13.6	16.8	18.1	20.2
Normalised Operating Margin		5.1	5.2	7.5	10.8	12.5	13.9
BALANCE SHEET							
Fixed Assets		394.6	438.6	469.9	462.7	455.5	447.3
Intangible Assets		308.0	315.0	327.6	341.0	332.9	323.8
Tangible Assets		59.6	81.5	80.0	76.3	77.2	78.2
Investments & other		27.0	42.2	62.3	45.4	45.4	45.4
Current Assets		432.0	467.1	641.6	857.1	1,008.1	1,198.5
Stocks		94.8	135.4	197.1	278.0	349.0	416.9
Debtors		141.4	191.7	262.7	291.9	327.7	356.5
Cash & cash equivalents		176.2	91.8	135.7	221.8	260.0	349.4
Other		19.6	48.2	46.1	65.6	71.5	75.7
Current Liabilities		(213.3)	(669.6)	(407.9)	(531.0)	(590.4)	(654.7)
Creditors		(84.7)	(149.2)	(220.7)	(288.2)	(362.4)	(416.9)
Tax and social security		(38.7)	(41.0)	(49.2)	(66.1)	(66.1)	(66.1)
Short term borrowings		(1.4)	(369.7)	(10.8)	(5.0)	(0.3)	0.0
Other		(88.6)	(109.8)	(127.3)	(171.7)	(171.7)	(171.7)
Long Term Liabilities		(404.3)	(72.6)	(500.6)	(528.1)	(527.9)	(527.6)
Long term borrowings		(374.3)	(43.2)	(468.5)	(505.8)	(505.5)	(505.3)
Other long term liabilities		(30.0)	(29.3)	(32.1)	(22.4)	(22.4)	(22.4)
Net Assets		209.0	163.6	203.0	260.7	345.3	463.6
Minority interests		0.0	(1.6)	(2.4)	(4.8)	(4.8)	(4.8)
Shareholders' equity		209.0	165.2	205.4	265.5	350.0	468.3
CASH FLOW							
Op Cash Flow before WC and tax		43.0	(22.2)	(11.7)	40.9	98.4	149.3
Working capital		(18.6)	(33.2)	(43.1)	5.8	(35.6)	(30.2)
Exceptional & other		(6.2)	28.9	50.1	38.7	21.9	21.9
Net revenue deferred/(recognised)		19.7	41.3	74.7	53.9	58.1	61.6
Tax		(4.8)	(14.4)	(11.5)	(7.9)	(23.3)	(33.0)
Net operating cash flow		33.0	0.4	58.6	131.5	119.4	169.5
Capex		(20.6)	(27.8)	(33.9)	(27.5)	(29.2)	(30.1)
Acquisitions/disposals		(43.3)	(11.3)	0.0	0.0	0.0	0.0
Net interest		(11.9)	20.2	38.5	25.6	0.0	0.0
Equity financing		6.3	(17.8)	0.9	(0.0)	0.0	0.0
Dividends		(19.6)	(7.6)	0.0	0.0	(19.9)	(20.7)
Other		109.7	(38.7)	(20.7)	(40.6)	(32.0)	(29.5)
Net Cash Flow		53.5	(82.6)	43.3	89.0	38.3	89.3
Opening net debt/(cash) including leases		275.1	213.9	338.9	362.1	317.4	274.2
FX		(2.2)	(0.1)	(0.8)	(3.3)	0.0	0.0
Other non-cash movements		(112.6)	207.8	(19.4)	(130.4)	(81.6)	(179.2)
Closing net debt/(cash) including leases		213.9	338.9	362.1	317.4	274.2	184.3

Source: Zalaris, Edison Investment Research

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