

# Zalaris

Q125 results

## Setting longer-term targets

Zalaris reported another record quarter, with revenue growth of 13.1% y-o-y on a constant currency (cc) basis and adjusted EBIT margin expansion of 3.2pp y-o-y to 14.1%. Well on the way to meeting its FY26 target of achieving revenue of NOK1.5bn and an EBIT margin of 13–15%, management has set a new target to achieve revenue of NOK2bn by FY28 (equivalent to a CAGR of 10% from FY24–28). We estimate that there is material upside to the current share price if the company is able to maintain growth at this rate.

Year end	Revenue (NOKm)	PBT (NOKm)	EPS (NOK)	DPS (NOK)	P/E (x)	Yield (%)
12/23	1,134.0	10.8	0.95	0.00	86.5	N/A
12/24	1,346.3	80.7	2.70	0.90	30.4	1.1
12/25e	1,494.5	145.2	5.06	0.96	16.2	1.2
12/26e	1,626.0	186.7	6.38	1.36	12.9	1.7

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

## Q125: Another record quarter

Managed Services (MS) grew Q125 revenue by 19.4% (16.2% cc) y-o-y and Zalaris Consulting by 6.8% (3.9% cc), resulting in group revenue growth of 16.2% (13.1% cc). Revenue drop through plus improvements in the German MS business supported 50% growth in adjusted group EBIT and 427% growth in diluted EPS to NOK1.37. We have slightly increased our MS revenue forecasts, resulting in upgrades to adjusted EBIT and EPS for FY25 and FY26. The strategic review is still ongoing with the outcome expected by the end of Q2.

## Positive outlook, despite economic uncertainty

Management has added a new target of reaching revenue of NOK2bn by FY28 at an EBIT margin of 13–15%. In the shorter term, Zalaris is not directly affected by the recently announced US tariffs, although customers may be more hesitant to make investment decisions. Management highlighted that in uncertain times, the need to reduce costs and increase flexibility encourages the use of outsourcing, benefiting Zalaris. As a European-based and operated business, customers benefit from data protection regulations and minimise exposure to US politics.

## Valuation: Double-digit growth supports upside

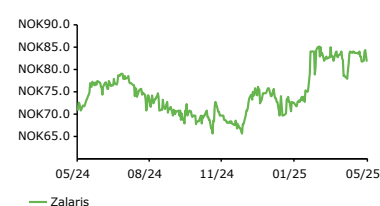
The stock continues to trade at substantial discounts to both its payroll software and IT services peers. Our previous discounted cash flow (DCF)-based valuation used our forecasts to FY26, followed by conservative revenue growth of 4% and EBIT margins of 13.9%, which generated a valuation of NOK97.5 per share. Based on the new medium-term targets and forecasting average revenue growth of 10% from FY24–28 and 4% thereafter with a 14% margin, the valuation increases to NOK110.1.

Software and comp services

5 May 2025

<b>Price</b>	<b>NOK82.00</b>
<b>Market cap</b>	<b>NOK1,815m</b>
Net cash/(debt) at end Q125	NOK(225.6)m
excluding leases	
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	(1.4)	12.3	14.5
52-week high/low		NOK88.0	NOK65.2

### Business description

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

### Next events

AGM	22 May
H125 results	29 August

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## Review of Q125 results

Zalaris reported strong Q125 results, with revenue growth of 16.2% y-o-y (13.1% cc), adjusted EBIT growth of 49.8% y-o-y and a 3.2pp y-o-y increase in the adjusted EBIT margin to 14.1% (1.0pp higher q-o-q). Now that the APAC business has reached profitability, the company is no longer splitting it out as a separate business but has allocated it to Zalaris Consulting. Adjusted EBIT excludes share-based payments of NOK3.3m, strategic review-related costs of NOK2.5m, amortisation of acquired intangibles of NOK3.5m and the loss generated by vyble of NOK1.0m (held in continuing operations but deemed to be non-core).

### Exhibit 1: Q125 results highlights

NOKm	Q125	Q124	y-o-y	y-o-y cc
Revenue				
Managed Services	277.8	232.7	19.4%	16.2%
Zalaris Consulting	91.5	85.6	6.8%	3.9%
vyble	0.9	0.2	337.3%	
Total revenue	370.2	318.5	16.2%	13.1%
Adjusted EBIT				
Managed Services	54.7	32.4	68.6%	
Zalaris Consulting	8.6	9.3	-7.5%	
HQ (unallocated costs)	(11.1)	(6.9)	61.1%	
Total adjusted EBIT	52.1	34.8	49.8%	
Adjusted EBIT margin				
Managed Services	19.7%	13.9%	5.7pp	
Zalaris Consulting	9.4%	10.8%	-1.5pp	
Total adjusted EBIT margin	14.1%	10.9%	3.2pp	
Reported EBIT	41.7	32.5	28.3%	
PBT	43.0	8.6	396.7%	
PAT	32.2	6.4	401.9%	
Net income after minority interest	32.3	6.6	393.2%	
Basic EPS (NOK)	1.49	0.30	396.7%	
Diluted EPS (NOK)	1.37	0.26	426.9%	

Source: Zalaris

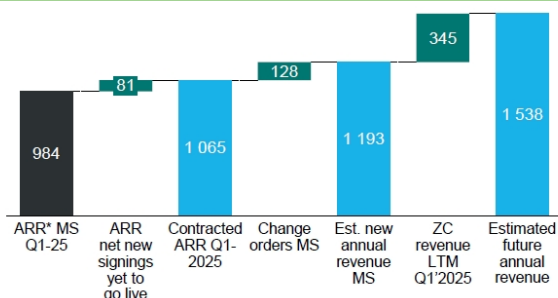
## Managed Services revenue growth drives margin expansion

MS grew revenue 19.4% or 16.2% on a constant currency basis. The business saw growth from all regions in constant currency, with DACH up 27% y-o-y, Northern Europe up 13% and the UK & Ireland up 6%. Net revenue retention was 101% as some customers expanded their geographic footprint and added functionality.

No new material contracts were signed in the quarter, but post quarter-end, a Nordic company with 3,500 employees signed a payroll agreement and another contract is close to being signed. Management noted that the pipeline was strong.

The charts below show the potential progression of revenue for FY25 (this assumes annual change orders are received at 12% of annual recurring revenue (ARR)) and the expected progression of ARR based on contracts signed to date and scheduled go-lives.

### Exhibit 2: Revenue development based on signed Managed Services contracts (NOKm)



Source: Zalaris

### Exhibit 3: Contracted ARR development over time (NOKm)



Source: Zalaris

The increase in revenue combined with the cost reductions from the German restructuring programme resulted in MS

adjusted EBIT increasing 68.6% y-o-y and the margin increasing by 5.7pp to 19.7%. This compares to a margin of 16.8% for FY24.

## Asia-Pacific the main driver of Zalaris Consulting growth

With the APAC business now included in Zalaris Consulting (ZC; previously called Professional Services), revenue increased 6.8% y-o-y helped by strength in APAC and Poland and partially offset by the partial completion of a large consulting project in the UK. A slightly higher allocation of regional overheads resulted in an adjusted EBIT decline of 7.5% and a 1.4pp decline in the margin to 9.4%. The company noted that a significant amount of capacity in ZC is being used in implementation projects for new customers and to deliver change orders, particularly in Germany.

## Gearing falls below 1.0x

Net debt excluding leases declined from NOK247.5m at the end of FY24 to NOK225.6m at the end of Q125, helped by cash flow from operating activities of NOK21.6m. Based on the last 12 months' adjusted EBITDA, Zalaris gearing fell to 0.9x at the end of Q125 compared to 1.2x at the end of FY24.

## Outlook and changes to forecasts

Exhibit 2 highlights how close the company is to hitting its NOK1.5bn revenue target (set for FY26), and the Q125 adjusted EBIT margin is already within the target 13–15% range. Management has now introduced a new target to reach revenue of NOK2bn by FY28, which equates to a revenue CAGR of 10% from FY24 to FY28e. It maintains a conservative view on EBIT profitability, sticking to the 13–15% range, and wants to consistently hit this before raising the margin target.

We have slightly raised our Managed Services revenue forecasts for FY25 and FY26. We have also revised our share count assumptions to reflect treasury shares and potential dilution.

### Exhibit 4: Changes to forecasts

NOKm	FY25e				FY26e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	1,489.4	1,494.5	0.3%	11.0%	1,620.5	1,626.0	0.3%	8.8%
Normalised EBIT	185.9	189.3	1.8%	30.6%	225.9	226.7	0.3%	19.8%
Normalised EBIT margin	12.5%	12.7%	0.2pp	1.9pp	13.9%	13.9%	0.0pp	1.3pp
Company adjusted EBIT	185.9	189.3	1.8%	28.3%	225.9	226.7	0.3%	19.8%
Company adjusted EBIT margin	12.5%	12.7%	0.2pp	1.7pp	13.9%	13.9%	0.0pp	1.3pp
Reported operating profit	150.0	150.9	0.6%	32.8%	190.0	190.8	0.4%	26.5%
Reported operating margin	10.1%	10.1%	0.0%	165.4%	11.7%	11.7%	0.0pp	1.6pp
Normalised PBT	141.8	145.2	2.4%	80.0%	185.9	186.7	0.4%	28.6%
Normalised basic EPS (NOK)	5.35	5.61	4.8%	87.2%	6.91	7.08	2.4%	26.1%
Normalised diluted EPS (NOK)	4.84	5.06	4.6%	87.3%	6.24	6.38	2.2%	26.1%
Reported basic EPS (NOK)	3.73	3.84	2.9%	146.7%	5.29	5.42	2.6%	41.2%
Net debt/adjusted EBITDA (x)	0.8	0.8			0.4	0.4		
Adjusted EBITDA	263.9	267.8	N/A	21.5%	319.9	321.5	0.5%	20.1%
Adjusted EBITDA margin	17.7%	17.9%	N/A	1.5pp	19.7%	19.8%	0.0pp	1.9pp
Net debt (ex leases)	204.2	207.6	1.7%	-16.1%	114.3	120.8	5.7%	-41.8%

Source: Edison Investment Research

**Exhibit 5: Financial summary**

Year end 31 December	NOK'm	2021	2022	2023	2024	2025e	2026e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>							
Revenue		775.3	892.7	1,134.0	1,346.3	1,494.5	1,626.0
Costs		(673.3)	(786.6)	(980.1)	(1,120.0)	(1,224.0)	(1,297.3)
EBITDA		101.9	106.2	153.8	226.3	270.4	328.6
Normalised operating profit		39.8	46.2	85.4	144.9	189.3	226.7
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	(2.5)	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	150.9	190.8
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	145.2	186.7
Profit Before Tax (reported)		15.0	(16.4)	(14.5)	49.5	106.8	150.8
Reported tax		(2.2)	(6.3)	11.5	(16.0)	(23.5)	(33.2)
Profit After Tax (norm)		30.0	(0.2)	22.3	64.7	121.7	153.5
Profit After Tax (reported)		12.8	(22.7)	(3.0)	33.4	83.3	117.7
Minority interests		0.0	1.6	0.8	0.3	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	23.1	65.0	121.7	153.5
Net income (reported)		12.8	(37.1)	(2.1)	33.8	83.3	117.7
Basic average number of shares outstanding (m)		21.3	21.6	21.2	21.7	21.7	21.7
EPS - normalised (NOK)		1.41	0.07	1.09	3.00	5.61	7.08
EPS - normalised fully diluted (NOK)		1.32	0.07	0.95	2.70	5.06	6.38
EPS - basic reported (NOK)		0.60	(1.72)	(0.10)	1.56	3.84	5.42
Dividend (NOK)		0.35	0.50	0.00	0.90	0.96	1.36
Revenue growth (%)		(2.2)	15.2	27.0	18.7	11.0	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	12.7	13.9
<b>BALANCE SHEET</b>							
Fixed Assets		394.6	438.6	469.9	462.7	458.2	452.9
Intangible Assets		308.0	315.0	327.6	341.0	337.6	333.4
Tangible Assets		59.6	81.5	80.0	76.3	75.2	74.0
Investments & other		27.0	42.2	62.3	45.4	45.4	45.4
Current Assets		432.0	467.1	641.6	857.1	1,006.4	1,194.3
Stocks		94.8	135.4	197.1	278.0	349.4	417.7
Debtors		141.4	191.7	262.7	291.9	328.8	357.7
Cash & cash equivalents		176.2	91.8	135.7	221.8	256.6	342.9
Other		19.6	48.2	46.1	65.6	71.7	76.0
Current Liabilities		(213.3)	(669.6)	(407.9)	(531.0)	(590.8)	(655.2)
Creditors		(84.7)	(149.2)	(220.7)	(288.2)	(352.7)	(417.4)
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	346.0	464.3
Minority interests		0.0	(1.6)	(2.4)	(4.8)	(4.8)	(4.8)
Shareholders' equity		209.0	165.2	205.4	265.5	350.8	469.0
<b>CASH FLOW</b>							
Op Cash Flow before WC and tax		43.0	(22.2)	(11.7)	40.9	99.3	150.5
Working capital		(18.6)	(33.2)	(43.1)	5.8	(36.8)	(30.3)
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	58.3	61.8
Tax		(4.8)	(14.4)	(11.5)	(7.9)	(23.5)	(33.2)
Net operating cash flow		44.9	(19.7)	20.1	105.9	119.2	170.6
Capex		(20.6)	(27.8)	(33.9)	(27.5)	(32.5)	(33.6)
Acquisitions/disposals		(43.3)	(11.3)	0.0	41.9	0.0	0.0
Net interest		(11.9)	20.2	38.5	25.6	0.0	0.0
Equity financing		121.8	(17.8)	0.9	(13.3)	0.0	0.0
Dividends		(19.6)	(7.6)	0.0	0.0	(19.9)	(21.3)
Other		0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow		71.2	(64.1)	25.6	132.6	66.8	115.8
Opening net debt/(cash) including leases		275.1	213.9	338.9	362.1	317.4	277.6
FX		(2.2)	(0.1)	(0.8)	(3.3)	0.0	0.0
Other non-cash movements		(7.8)	(60.8)	(47.9)	(84.8)	(27.0)	(29.0)
Closing net debt/(cash) including leases		213.9	338.9	362.1	317.4	277.6	190.8

Source: Zalaris, Edison Investment Research

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