

# WIRTEK

Commissioned Equity Research

2022-06-07



wirtek

Committed. Involved. Proficient.



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## Profitable Growth

After a successful acquisition of CoreBuild last year, Wirtek delivered impressive revenue growth in both fiscal year 2021 and during the first three months of 2022.

In April, the Danish IT outsourcing company presented a revised long-term strategy (Accelerate25XL) and now expects 130 MDKK in revenue and 18 MDKK in EBITDA by 2025. If management can materialize on these expectations, Wirtek would deliver an annual growth rate of 30 percent from 2022 to 2025.

During the first quarter of 2022 revenue grew by 111 percent in comparison to Q1/2021, with an impressive organic growth of 41 percent (excl. CoreBuild).

## Listed since 2006

Wirtek was founded over 20 years ago and was the 3<sup>rd</sup> company to be listed on Nasdaq Copenhagen First North Growth Market in 2006. After experiencing strong profitable growth for several years, the Board of Directors have now started to prepare Wirtek for listing on Nasdaq Copenhagen Main Market before end of 2025.

The Board of Directors and Executive Managements ownership exceeds 50 percent of the company's share capital. The CEO Michael Aaen is the largest shareholder, but all Board Members have significant holdings and have been involved in Wirtek for a long time. The high value of insider ownership signals managements strong belief in Wirteks business model.

## Long-lasting client partnerships

Wirtek focuses on building long-lasting strategic client partnerships. As of today, several clients have been with Wirtek for over ten years and on average the company has a client seniority of more than six years. A high percentage of Wirteks revenue is also contracted at the beginning of each fiscal year, which results in high earnings transparency.

## Attractive valuation

Using a discounted cash flow valuation method, Stockpicker establishes a fair value per share of 22.1 DKK. For our base case scenario to materialize, Wirtek must continue to deliver profitable growth in accordance with managements outlook for 2022 and the long-term financial goals set in the Accelerate25XL strategy plan.

### WIRTEK

Target price	22.1 DKK
Recommendation	Buy
Risk	High
Valuation interval	16.4-32.3 DKK
Sector	Technology
Market	Nasdaq First North GM Copenhagen
Ticker	WIRTEK
Latest Report	Q1/2022
Current Share Price	18.2 DKK
Market Cap	132 MDKK
No. of Shares (millions)	7.25
Date	2022-06-06

RETURN	YTD	12M
WIRTEK	-2%	-21%



KEY DATA (MDKK)	Q1/2022	2021	2020
Revenue	16.3	45.4	27.6
EBITDA	2.6	6.2	3.2
Earnings per share (DKK)	0.27	0.66	0.71

Key Data (source: Wirtek & Stockpicker)

## History

The Danish IT outsourcing company Wirtek was founded over 20 years ago back in 2001. The story started when Michael Aaen, the current CEO, founded the company as a spin-off from the Finnish telecommunication company Nokia.

In 2006 the company became the 3<sup>rd</sup> company to be listed on the Nasdaq Copenhagen First North Growth Market and expanded internationally by opening a development and test center in Cluj-Napoca, Romania.

Roughly eight years later, in 2014, Wirtek opened a second office facility in the same city to support their growth. As of today, the company has two offices in Denmark (headquarter and sales) and four development or test centers in Romania.

During last fiscal year, the Danish company had close to 170 colleagues around the world supporting their clients and over 45 MDKK in revenue.

Since the founding of the company, Wirtek has grown both organically and through acquisitions. In 2018, Wirtek acquired the Danish testing consultancy company Software Pro A/S to strengthen their expertise within this business area.

Last fiscal year (2021) the company acquired CoreBuild, which is a Romanian company that consists of two sister companies, CoreBuild SRL and Core Technology Services SRL. Both located close to Wirteks existing outsourcing facilities in Romania and active within the same market.

*The current CEO founded the company as a spin-off from Nokia over 20 years ago*

*Listed 2006 on Nasdaq Copenhagen First North Growth Market*

## Core Values

The three core values of Wirtek is commitment, common sense and proficiency. These three values are described as follows:

*Commitment: "Dedication and care in everything that we do: put people first, act like an owner, commit to quality and clients' success, go the extra mile, come together for others"*

*Common sense: "Sound judgement and realism in everyday life: say it as it is, do the right thing, respect each other, be fair and square, lead with integrity"*

*Proficiency: "Ingenuity and solution-oriented mindset in the way we act: dare to be creative, learn something new every day, share your knowledge, take the initiative, be Agile"*

*Two offices in Denmark and four in Romania*

## Mission

Wirteks mission is to help their clients create quality software solutions and electronic equipment products, as if these were their own.

**IT outsourcing company**

Wirtek is a Danish IT outsourcing company that has been teaming up with companies to help create software solutions and electronic equipment products for over 20 years.

Simply put, the business idea is to outsource IT talent to clients with a margin. However, this can be done in many ways.

**Strong relationships with clients**

Wirtek focuses on building long-lasting strategic client partnerships. As of today, several clients have already been with Wirtek for over ten years.

*Long-lasting strategic client partnerships*

On average, the company has a client seniority of more than six years. Since a high percentage of Wirteks revenue is contracted already at the beginning of each fiscal year, their business model have high earnings transparency.

**Reasonable staff costs**

Most of Wirteks IT-resources are in Romania. Even though 98 percent of the technical colleagues holds at least a bachelor’s degree, staff costs are considerably lower than they would be in Scandinavia. This enables Wirtek to outsource IT competencies at good margins.

*IT-resources based in Romania*

With an ICT workforce of 200 000, Romania ranks 6<sup>th</sup> in the IT Competitiveness Index out of the 23 CEE countries analyzed in a recent report published by Emerging Europe.

**High demand for IT people**

Low unemployment rates and high demand for skilled IT people mean that conventional hiring methods are becoming less effective and that it is hard to find people with the right set of IT skills.

*High demand for IT people*

In addition to that, many companies may need software development services only for a certain project or for a limited timeframe, which creates a demand for IT outsourcing services.



Wirtek work process (source: Wirtek)

Wirtek offers a wide range of IT services. The company teams up with clients to help them create software solutions and electronic equipment products.

**Services**

Wirteks IT services can be divided into two main groups.

*Software Engineering Services* includes services such as product engineering, system architecture and design, software development, quality assurance and product re-engineering.

*Electronic Equipment Services* is a chain of services that Wirtek provide, which includes everything from embedded and integration software development to quality assurance and conformance of final products. One of Wirteks main areas of expertise is communication equipment, such as 5G technology, audio and sensor systems.

*Provides Software Engineering Services and Electronic Equipment Services*

**Collaboration models**

Since there is no one-size-fits-all approach when it comes to IT services that works, Wirtek tries to be as flexible as possible. The company therefore tries to find the collaboration model that is best suited for each client.

To help clients implement long-term business goals for their products, Wirtek can establish and manage a dedicated team under the client's guidance. Wirtek refers to this collaboration model as a *Dedicated Team*.

*Wirtek tries to be as flexible as possible when it comes to collaboration models*

When clients are interested in IT resources for a specific project within a given timeframe or budget, the collaboration method is called *Project Services*. New customers might prefer to try working together on a smaller project, before moving on to a long-term collaboration.

More information about Wirteks services, collaboration models, benefits and technologies can be found on the company's website.

PRODUCT ENGINEERING	SYSTEM ARCHITECTURE & DESIGN	SOFTWARE DEVELOPMENT	QUALITY ASSURANCE	PRODUCT RE-ENGINEERING
Prototyping	Architecture & High-Level Design	Agile Product Development	Functional Testing	Refactoring
Mock-ups and Conceptualization	Software Engineering Best Practices	Iterative Product Development	Automation Testing	Migrations
Technology Stack Audit	Usability & UX		Performance Testing	Performance Enhancements
			Security Testing	Cloud

Software Engineering Services (Source: Wirtek)

Wirtek has been working with startups, mid-sized businesses and enterprises for the past 20 years.

**Long-lasting client partnerships**

Wirtek builds long-lasting strategic partnerships with their clients. On average, the duration of a client partnership is 6+ years and this number increases day-by-day.

Several clients have been with Wirtek for over 10 years, so the quality of the relationship matters as much as the quality of the delivered IT services.

**Geographic segmentation**

During fiscal year 2021 the Danish clients accounted for 51 percent of total revenue (2020: 71 percent). Besides Denmark, USA and the Netherlands accounts for a substantial part of Wirteks revenue. In 2021, USA accounted for 26 percent of total revenue and the corresponding number for the Netherlands was 19 percent.

Through the acquisition of CoreBuild last year, Wirtek expanded their client portfolio with several new clients from USA, the Netherlands, Germany and Romania. Thus, the company reduced their dependence on Danish clients.

Wirtek has also increased their international footprint organically. For example, they received an order from a large US client in September 2021, for the delivery of Cybersecurity services.

**Revenue distribution**

In 2021, software engineering services accounted for 71 percent of total revenue and electronic equipment services for 29 percent.

As of last December 2021, none of Wirteks clients contributed with more than 15 percent of total revenue. Unfortunately, we have not been able to find out how much of the company's revenue that derives from the biggest clients, since this information is not publicly available.

However, Wirtek has no single-client or single-industry dependencies, according to the Chief Executive Officer Michael Aaen.

**LONG-LASTING STRATEGIC CLIENT PARTNERSHIPS**

Mark Information

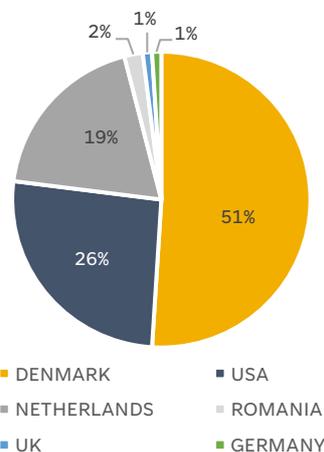
Spectralink

Rushfiles

Keysight

RTX

A handful of Wirteks long-lasting clients (source: Wirtek)



Revenue distribution by country 2021 (source: Wirtek)

*None of Wirteks clients accounts for more than 15 percent of total revenue*

## CoreBuild

The acquisition of CoreBuild during Q2/2021, with integration starting from June 2021, was a significant driver to revenue growth during 2021. Integration of the CoreBuild team was a key priority in 2021 and the earnings effect exceeded management expectations, which led to that Wirtek raised their guidance a second time in August 2021.

According to Wirtek, there is a strong cultural fit between the Danish company and CoreBuild. Through the acquisition they will get access to new international sales channels and gain clients in new countries.

*CoreBuild significant driver to revenue since acquisition*

Wirtek acquired all the assets of two sister companies CoreBuild SRL and Core Technology Services SRL, both located very close to Wirteks existing outsourcing facilities in Cluj-Napoca, Romania.

In 2020 CoreBuild had revenues of 13.5 MDKK and earnings before, interest, taxes, depreciation and amortization (EBITDA) exceeded 1.9 MDKK. This results in an EBITDA-margin of approx. 14 percent, which is higher than Wirtek have had historically.

*Strong cultural fit and strengthened international profile*

### Strengthened international profile

Through the integration of CoreBuild in 2021, Wirtek added 50 new and talented colleagues to their team. They also increased their presence in the USA, the Netherlands and Germany, where CoreBuild has most of their clients.

In many ways, the CoreBuild acquisition can be seen as essential in terms of strengthening the international profile of Wirtek.

#### COREBUILD KEY FACTS

Sector	IT outsourcing
Headquarters	Cluj-Napoca, Romania
Offices (4/2021)	Four development and test centers
Employees (4/2021)	~ 40
Sister companies	CoreBuild SRL and CoreBuild Technology Services
Revenue FY2020	13.5 MDKK
EBITDA FY2020	1.9 MDKK
Webpage	<a href="https://www.corebuild.eu/">https://www.corebuild.eu/</a>

Source: Wirtek & CoreBuild

## Payment

For the CoreBuild companies, Wirtek will pay a maximum of 10.8 MDKK, consisting of an up-front payments of 2.7 MDKK, 1.5 MDKK in Wirtek-shares (based on a share-price of 25 DKK) and an earn-out agreement of 0-6.6 MDKK. The earn-out agreement will be reached by the end of 2022 and settled through 20 percent in cash and 80 percent in shares.

The initial fixed cash payment was done using Wirtek's available cash position and the cash payment related to the earn-out agreement will be done with the cash generated through Wirtek's ordinary positive cash flow.

The initial share payment of 59 494 shares was transferred to the sellers of the CoreBuild companies at closing of the acquisition, whereas the remaining 105 150 shares will be kept by Wirtek as treasury shares until the share payments related to the earn-out are due.

The Board of Directors has agreed to support the acquisition with Wirtek shares from their own holdings of shares. The share payment up to 100 percent of the earn-out target will thus be covered without any dilution of existing shareholders.

If CoreBuild outperform the 100 percent earn-out target, the related share payment of the earn-out in the range from 100 percent up to a maximum of 200 percent will be given either as dilutive warrants, existing shares purchased on market conditions, new Wirtek shares, or a combination of the above.

In a scenario where the CoreBuild acquisition exceeds the 100 percent earn-out target, a dilution of existing shareholders is possible. However, this would require the CoreBuild acquisition to outperform all expectations.

*Wirtek will pay a maximum of 10.8 MDKK for CoreBuild*

*Payment up to 100 percent of the earn-out target will be covered without dilution*



Source: CoreBuild

**Michael Aaen | CEO**

The current Chief Executive Officer Michael Aaen founded Wirtek over 20 years ago and have more than 30 years of experience from the international IT industry. He holds a masters degree in Computer Science from Aalborg University and has been the CEO of Wirtek since its inception in 2001. In addition to his operating role in Wirtek, he is also one of the largest shareholders and a member of the board.

**Emmett King | COO**

Wirteks Chief Operations Officer Emmett King is an American businessman and entrepreneur who has over 30 years of experience from a wide range of industries, such as software development, business consulting and auditing.

*Management consists of a group of seven people*

**Aurora Pestesan | CFO**

Pestesan was appointed as the Chief Financial Officer at the beginning of 2022. With 13 years of experience from corporate and retail banking she is now responsible for e.g., financial control, reporting and capital allocation.

**Adina Balea | Director of Software Engineering Services**

Balea has a technical background and almost ten years of experience in management. She plays a key role in leveraging the talent of developers and strengthening relationships with clients, within the largest business unit Software Engineering Services.

*Growing management team in order to support company's growth*

**Sorin Luca | Director of Electronic Equipment Services**

Luca is passionate about electronics and has long experience from technical management roles. He is the director of the business unit Electronic Equipment Services, which accounts for roughly 30 percent of the group's revenue.

**Réka Borbély-Bándy | Director of Marketing**

Borbély-Bándy is leading the way for Wirtek to change its marketing methods and create a strong brand. Her main mission is to create a marketing ecosystem that will drive growth.

**Emma Marcu | Director of HR & Administration**

As the director of HR & Administration, Emma Marcus role is to keep an eye on results, while answering the needs of the team members, clients and the business.

### **Kent Mousten Sørensen | Chairman of the Board**

Kent Mousten Sørensen has long experience from the field between research and development, management and finance in technology companies. He focuses on data-driven decisions and are involved in several companies as both an investor and board member.

The chairman of the board, Mousten Sørensen holds an Executive MBA in Change Management from Aarhus University and has been the CEO of FG19 Investment and Consulting since year 2000.

Kent Mousten Sørensen has acted as the chairman of the board for Wirtek since 2008.

*Experienced board with knowledge from different business areas*

### **Jens Uggerhøj | Board Member**

Uggerhøj has more than 30 years of experience within management and international sales, including 15 years in manufacturing companies and a five years post in Tokyo as Technology Attaché at the Royal Danish Embassy.

In addition to Wirtek, Uggerhøj acts as the chairman of the board for several other Danish companies, i.e., Jonassen Ventilation, Unic Air and Skandinavisk Industrimontage.

Jens Uggerhøj has been a member of Wirteks board since 2009.

### **Michael Aaen | Board Member**

Michael Aaen was already mentioned on the previous page, since he is also the CEO of Wirtek.

Both the chairman, Mousten Sørensen, and the two members of the board, Uggerhøj and Aaen, have significant holdings in Wirtek and have been involved in the company for over a decade.

This indicates that the board have a strong belief in the company and that decisions are made to achieve long-term goals.

*All board members involved in Wirtek for over a decade*

Owner	Shares	Capital %	Votes %
Michael Aaen*	2 393 778	33.0	33.0
Kent Mousten Sørensen*	958 818	13.2	13.2
Jens Uggerhøj*	357 858	4.9	4.9
Other	3 535 458	48.8	48.8

\* Either directly or by companies wholly or partly owned

Source: Wirtek Q1/2022 report

At the end of December 2021, the Board of Directors and the Executive Management team held a total of approx. 3.7 million Wirtek shares, which corresponds to 52 percent of the company's share capital.

The CEO and Board Member Michael Aaen is by far the largest shareholder in Wirtek. Through his holding company Aaen Holding ApS (and a smaller privately held position), he controls more than 33 percent of the outstanding shares and votes in Wirtek.

The two other Board Members also have significant holdings in the company. Either directly, or by companies wholly or partly owned, Kent Sørensen owns 13.2 percent of Wirtek and Jens Uggerhøj 4.9 percent.

The high value of insider ownership signals managements belief in Wirteks business model and increases the incentive to make the company even more profitable and create shareholder value.

Wirtek purchased own shares from the Board of Directors as part of the CoreBuild acquisition and currently holds 1.5 percent of its own shares.

A warrants-based long-term incentive program (LTIP) was established in 2021 with a total of 900 000 warrants granted for the five-year period 2021-2025, corresponding to a total of nom. 135 000 DKK, which can be utilized by the board and management for new shares at a strike price of 18.3 DKK.

As part of the commitment towards the strategic goals, participants in the LTIP will forego any increases in board fees, salaries and bonuses during a 3-year period (2021 - 2023).

*High value of insider ownership signals managements belief in the company*

*Warrants-based long-term incentive program for board and management*

The global market for IT outsourcing services is expected to grow during the next 5-10 years. Depending on the type of methodology used to analyze and collect data, the value of the market (as of today) and the expected growth rate varies.

**IT outsourcing**

Wirtek mentioned in their annual report for 2021 that the global market for outsourcing of IT Services is predicted to grow 7.7 percent annually and reach a market value of approx. 938 billion USD by 2027.

*Growing demand for IT outsourcing services*

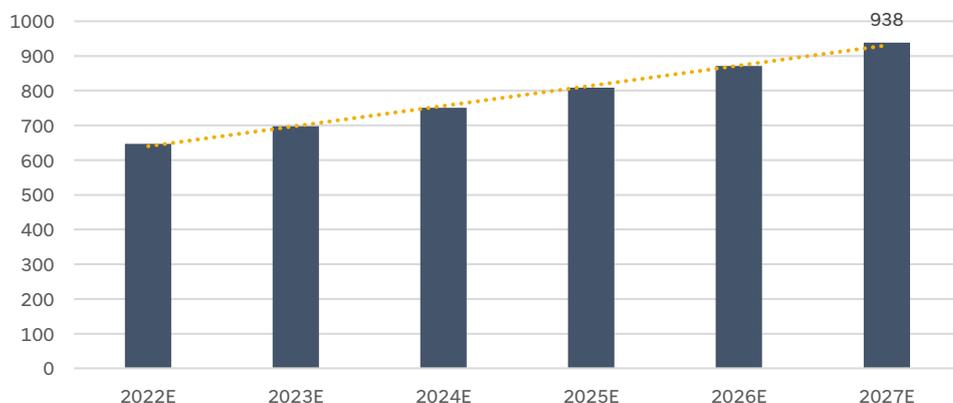
However, the expected growth rate varies widely between different studies. For example, a study conducted by Mordor Intelligence LLP results in an expected growth rate of slightly over four percent annually during the forecast period 2022-2027. According to a survey on Statista, the market for IT outsourcing is expected to have a CAGR (Compounded Annual Growth Rate) of 8.2 percent during 2022-2026, which is slightly higher than the numbers Wirtek presented.

Nevertheless, all studies that Stockpicker has come across confirms that the global market for IT outsourcing services will grow at a good pace. The percentage of companies' IT budget going to outside service providers also seems to have risen globally during the last few years.

*Wirtek will mainly be focusing on customers in North-Western Europe*

Wirtek will mainly be focusing on selected geographical markets in North-Western Europe. As of today, most of Wirteks revenues comes from clients in Denmark (2021: 51 percent), USA (2021: 26 percent) and the Netherlands (2021: 19 percent).

**Global Market outsourcing of IT Services (USD Billion)**



Source: Wirtek annual report 2021

## Global IT talent shortage

Wirtek's most valuable asset is their employees. Since the Danish company's core business is to deliver high-quality IT services to customers, they need to attract and retain IT talent.

As of today, there is a widespread shortage of talent within this area of expertise. Many sources support this statement, but for example 54 percent of companies reported talent shortages in a study conducted by Manpower Group in 2020.

For Wirtek it's therefore crucial to be seen as an attractive employer and we are glad to see that the company has received a 4,7-star rating on Glassdoor. However, only 14 reviews have been submitted.

*Widespread shortage of IT talent*

## Romania one of the top countries for IT outsourcing

Wirtek's outsourcing facilities are in Romania, which many ranks as one of the top countries to outsource software development.

Romania has one of the largest number of certified IT specialists in Europe and is a large exporter of high-quality IT services.

According to the state of European Tech there were close to 120 000 professional developers in Romania in 2019.

There are probably more cost-effective outsourcing destination out there (e.g., India), but if you are searching for high level technical proficiency, Romania is by many considered one of the best. The developers usually master English (and sometimes even German or French), the salary is significantly lower than in the Nordics and Romania is also an EU-country, which might be preferable for some corporations in Europe.

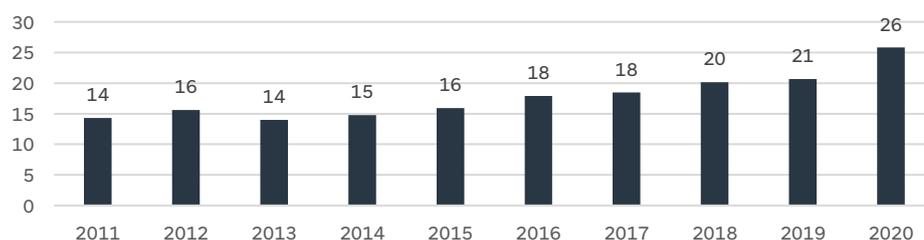
*Cost reduction the primary objective for companies to use outsourcing services*

## Outsourcing objectives

According to Deloitte Global Outsourcing Survey 2020, cost reduction is the primary objective for companies to use outsourcing services. The same study showed that other objectives, such as flexibility, speed to market, access to tools/processes and agility are not nearly as important as cost reduction for most organizations.

## Romania ICT Service Exports

(% of service exports BoP)



Source: World Development Indicators (updated 2022-04-27)

Given the size of the IT outsourcing market, Wirtek has many potential competitors. Therefore, IT outsourcing companies, such as Wirtek, must be able to compete on a global scale in order to continue to deliver. As of today, The Danish company has clients from countries all over the world and all IT outsourcing facilities are in Romania.

Wirtek have not published a list of the competitors that they keep an eye on, since potential competitors can be found all over the world. In the table below are a handful of IT outsourcing companies of similar size as Wirtek. All the companies listed below also have IT outsourcing facilities in Romania.

*IT outsourcing market highly competitive*

As mentioned earlier, Romania is one of the top countries for IT outsourcing services and Wirtek is far from alone offering these type of services. With that said, there are plenty of other competitors in Romania besides the ones mentioned below.

Listed peers (and their valuations) will be discussed later in this commissioned equity research report.

COMPANY	OFFICES	EMPLOYEES	FOUNDED	EXPERTISE	WEBPAGE
Existek	Romania & Ukraine	50-249	2012	Desktop, Mobile and Web Development, Business Automation etc.	<a href="http://www.existek.com">www.existek.com</a>
ServUS Tech	USA & Romania	50-249	2009	Mobile, Web and Custom Software Development etc.	<a href="http://www.servustech.com">www.servustech.com</a>
RebelDot	Romania & Denmark	50-249	2008	Mobile and Web Development, Machine Learning, IT Consulting and Auditing etc.	<a href="http://www.rebeldot.com">www.rebeldot.com</a>
Evozon	Romania	500+	2005	Strategic Consulting, Prototyping & Design, Front & Backend Development etc.	<a href="http://www.evozon.com">www.evozon.com</a>
RoWeb Development	Romania	50-249	2004	Business Applications, Web and Mobile Development etc.	<a href="http://www.roweb.ro">www.roweb.ro</a>

A few competitors (source: Goodfirms.co and Company Webpages)

## Revenue

Wirtek grew its revenue from 11.8 MDKK in 2015 to 27.6 MDKK in 2020. This results in a CAGR of approx. 18.5 percent, which is impressive even though it is from relatively low levels.

In 2021, after the acquisition of CoreBuild, Wirtek achieved 64 percent revenue growth. However, the organic growth was 18 percent and in line with previous years.

In the first quarter of 2022, revenue grew by 111 percent in comparison to Q1/2021, with an impressive organic growth of 41 percent.

*Strong organic growth during the last few years*

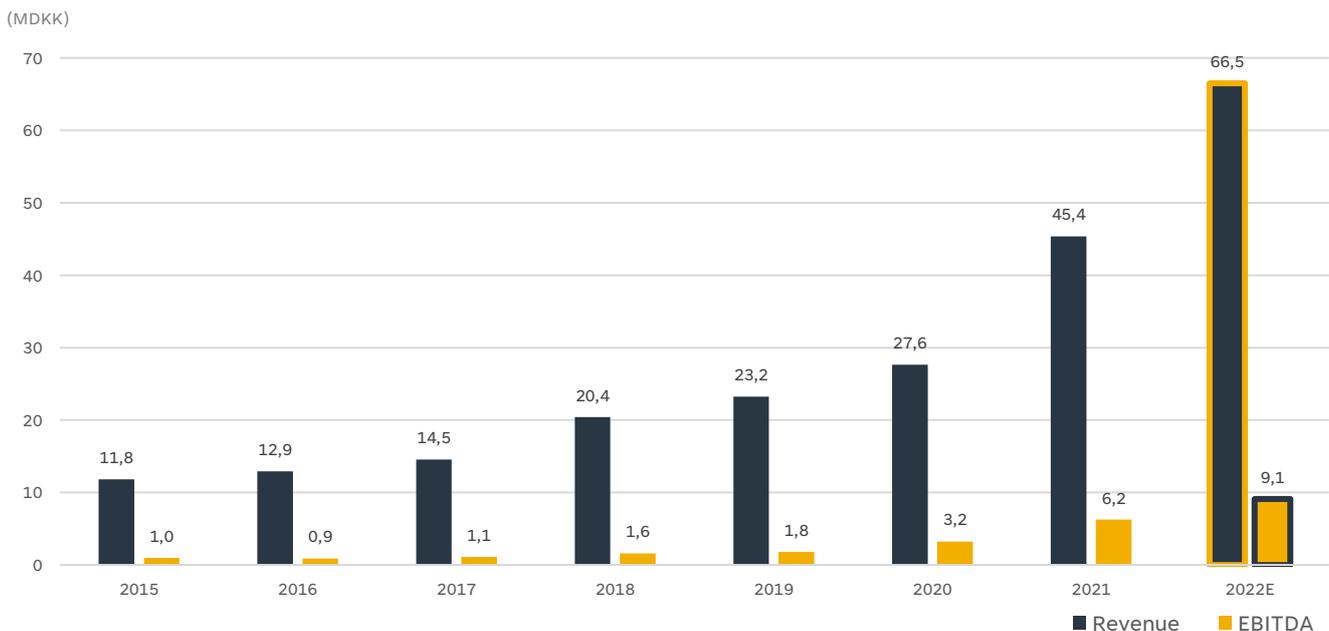
## Profitability

During the last five years (2016-2021), Wirteks earnings before interest, taxes, depreciation and amortization grew from 0.9 MDKK to 6.2 MDKK.

Since Wirtek does not present CoreBuilds numbers separately in their financial reports, we have not been able to establish how big of an effect the acquisition had on EBITDA during last fiscal year. However, over the course of the 5-year period from 2016 to 2020, EBITDA grew with a compounded annual growth rate that exceeded 28 percent.

*Profitability has increased substantially*

Profitability has increased substantially during the past five years. Since 2017, the operating margin have increased year-by-year from below four percent to 12 percent in 2021.



Reported 2015-2021 and Wirteks outlook median 2022  
(Source: Börssdata and Wirtek)

The number of billable colleagues increased to 88 percent in 2021 (2020: 86 percent), which indicates that Wirteks focus on operational efficiency allows them to increase service delivery capacity without increasing overhead costs at the same rate. If this positive trend continues, Wirtek might be able to increase profitability even further.

### Cash Flow & Capital Structure

Despite fast growth, Wirtek have maintained strong positive cash flows from operating activities as well as a strong cash position. Wirtek even paid a dividend of 0.37 DKK per share in April, which is considerably higher than the 0.20 DKK shareholders received last year.

*Strong cash position and robust capital structure despite acquisition*

In 2021, the cash flow from investing activities was approx. -10.6 MDKK, primarily due to the CoreBuild acquisition. As a result, the total cash flow was negative and amounted to -3.1 MDKK. At the end of Q1/2022 the cash holdings were 6.5 MDKK, but part of the cash-position is offset by a credit facility of approx. 4.0 MDKK.

At the end of the first quarter this year, Wirtek had an equity ratio of 37 percent (Q1/2021: 67 percent). The significant reduction is due to the acquisition of CoreBuild, adding a large immaterial asset while 2.6 MDKK in treasure shares for earn-out payment negatively impacts equity.

FINANCIAL HIGHLIGHTS (MDKK)	2017	2018	2019	2020	2021
<b>Income statement</b>					
Revenue	14.5	20.4	23.2	27.6	45.4
EBITDA	1.1	1.6	1.8	3.2	6.2
EBT	0.8	1.4	1.3	3.0	5.2
Profit	0.8	1.0	1.5	4.9	4.8
<b>Balance sheet</b>					
Total assets	4.9	6.8	8.1	14.0	26.7
Equity	2.4	3.0	3.7	7.4	9.4
<b>Cash flows</b>					
Cash flow from operating activities	0.3	2.0	1.2	2.8	6.5
Cash flow from investing activities	-0.1	-0.7	-0.2	-0.1	-10.6
Cash flow from financing activities	-0.6	-0.5	-0.8	-1.1	0.9
Total cash flows	-0.4	0.8	0.3	1.5	-3.1
<b>Key Ratios</b>					
Operating margin	4 %	6 %	7 %	11 %	12 %
Liquidity ratio	190 %	159 %	174 %	208 %	96 %
Equity ratio	50 %	44 %	46 %	53 %	35 %
Return on Equity	32 %	37 %	45 %	88 %	57 %
Earnings per share (DKK)	0.11	0.15	0.22	0.71	0.66

Source: Wirtek & Stockpicker

## Accelerate25

In January 2021, the Board of Wirtek announced a 5-year plan (2021–2025) named Accelerate25. The announcement came after a strong finish of the previous 2018–2020 strategy, where Wirtek raised expectations several times during the COVID-19 epidemic.

The Accelerate25 strategy included both financial and operational goals. By 2025 Wirtek aimed for 100 MDKK in revenue, pre-tax earnings of 10 MDKK and an EBITDA margin exceeding six percent each year. The latter was unexpectedly low, considering Wirtek have had a higher EBITDA-margin than that during the last five years. In fiscal year 2021, Wirtek had an EBITDA-margin that exceeded 13 percent.

The company also communicated two operational goals in the Accelerate25 strategy: one source location outside Romania by 2025 and an employee retention of over 90 percent in 2023.

## Accelerate25XL

In April 2022, Wirtek reviewed its Accelerate25 strategy and announced a revised Accelerate25XL strategy with raised financial goals. In the revised strategy, Wirtek expects 130 MDKK in revenue, an EBITDA of 18 MDKK and earnings before taxes (EBT) of 15 MDKK.

The updated revenue goal will be reached through a combination of double-digit organic growth and further acquisitions.

They also made some changes to the operational goals that was communicated in January 2021. They maintained their goal of one sourcing location outside Romania by 2025 but is now aiming for an employee retention above 85 percent from 2024 (previous target: >90 percent by 2023).

In addition to that, they added a new operational goal: Nasdaq Copenhagen Main Market listing before end of 2025. Since Wirtek has experienced strong profitable growth for several years and expects this to continue, the Board of Directors have started to prepare Wirtek for listing on Nasdaq Copenhagen Main Market. To pave the way for this transition, Wirtek e.g., recruited an experienced CFO this year and aims to implement IFRS during 2022.

FY2025 (MDKK)	Accelerate25XL	Accelerate25
Revenue	130	100
EBITDA	18	10
EBT	15	10

Accelerate25 and Accelerate25XL financial goals by 2025  
(source: Wirtek)

*Presented revised long-term goals in April 2022*

*Preparing for listing on Nasdaq Copenhagen Main Market before end of 2025*

## Organic growth

In 2021, Wirtek generated an organic revenue growth of 18 percent. This is pretty much in line with the annual CAGR that the Danish company has delivered during the past five years.

*Organic growth of 18 percent in 2021*

## CoreBuild

Wirtek completed the acquisition of the two CoreBuild sister companies on April 29 with effect from June 1. CoreBuild played a key role in Wirtek achieving 64 percent revenue growth in 2021, since the organic growth was 18 percent as earlier described.

According to our calculations, revenues from CoreBuild must have exceeded 12 MDKK during the last six months of 2021. CoreBuilds numbers are not presented separately in Wirteks financial reports, but if our calculations are correct, it is impressive since CoreBuild reported a revenue of 13.5 MDKK in FY2020.

*CoreBuild held a key role in Wirteks impressive growth during 2021*

Wirtek mentioned in their annual report for 2021 that the earnings effect from the acquisition exceeded even their most positive expectations, which led to that the Board of Directors increased expectations in August 2021.

In 2020 CoreBuild had an EBITDA-margin of over 14 percent and if they managed to maintain a similar margin during the second half of 2021, CoreBuilds impact on EBITDA would have been close to 1.8 MDKK.

## Outlook 2022

The 25<sup>th</sup> of January Wirtek announced their expectations for fiscal year 2022. They expected the organic revenue to be in the range of 61-66 MDK and to achieve an EBITDA between 7.5 and 8.5 MDKK.

Roughly a month later, Wirtek revised their outlook for 2022 after signing an agreement with a new large client. The company is now expecting revenues of 64-69 MDKK and an EBITDA in the range of 8.6-9.6 MDKK during 2022.

2022E (MDKK)	Announced 03/2022	Announced 01/2022
Revenue	64 – 69	61 – 66
Revenue Growth	41 – 52 %	34 – 45 %
EBITDA	8.6 – 9.6	7.5 – 8.5
EBITDA Growth	39 – 54 %	19 – 39 %

Outlook 2022 by Wirtek in MDKK  
(source: Wirtek)

## Revenue

Since a high percentage of Wirteks revenue is contracted already at the beginning of each fiscal year, Stockpicker considers managements outlook for 2022 reasonable.

Since the company delivered high growth both in fiscal year 2021 and in the first quarter of 2022, we expect Wirtek to reach their revenue target of 130 MDKK by 2025 in our base case scenario through a combination of organic growth and acquisitions. Our estimates are of course based on several things, but the main reasons are that we have a strong belief that management will continue to materialize on expectations and that the underlying market for IT outsourcing will continue to grow at a reasonable pace.

Stockpickers revenue forecast results in a revenue CAGR of approx. 27 percent from 2022-2026.

*A high percentage of Wirteks revenue is contracted already at the beginning of each fiscal year*

## Profitability

We expect Wirtek to further increase the number of billable colleagues and increase profitability. The earnings effect from CoreBuild also exceeded managements expectations in 2021 and before the acquisition, CoreBuild operated with an EBITDA-margin of over 14 percent in 2020.

Stockpickers estimates are to a large extent in line with Wirteks outlook for 2022 and their long-term targets by 2025. Our EBIT forecast, for the five-year period 2022-2026, results in a CAGR of approx. 28 percent.

*Stockpicker expects Wirtek to reach targets set in the Accelerate25XL strategy*

FORECAST	2021	2022E	2023E	2024E	2025E	2026E
(MDKK)						
Revenue	45.4	66.5	86.5	108.0	130.0	150.0
Growth	64%	47%	30%	25%	20%	15%
Gross profit	27.0	39.6	51.5	64.3	77.4	89.4
Gross margin	60%	60%	60%	60%	60%	60%
EBIT	5.4	7.9	10.5	13.2	16.1	18.6
EBIT margin	12%	12%	12%	12%	12%	12%
EBIT growth	77%	46%	33%	26%	22%	16%

Forecast MDKK (source: Stockpicker)

## DCF Valuation

To establish the fair value of Wirtek, we perform a discounted cash flow analysis (DCF). In our base case scenario, we use a required rate of return of 10 percent, which results in a fair value per share of 22.1 DKK.

Our DCF analysis is largely based on revenue and result forecasts and erroneous assumptions may amplify variances in cash flow projections in later years of the model. As mentioned earlier, we are expecting the company to grow revenues with a CAGR of approx. 27 percent during the next five years.

Even though we have a strong belief in managements ability to materialize on expectations, such high growth is hard to accomplish, and a lower growth rate would result in a significantly lower fair value per share. This will be discussed later in this commissioned research report, when we perform a sensitivity analysis.

Even though Wirtek has a long history as a listed company, we consider the level of uncertainty in our forecasts high.

In the DCF valuation we use a required rate of return of 10 percent and a terminal growth rate of three percent. The tax rate is set to 22 percent, which is the corporate income tax (CIT) rate used in Denmark. However, the effective tax rate for Wirtek long-term could be slightly lower, since the standard corporate tax rate in Romania is 16 percent.

Stockpicker establishes a fair value per share of 22.1 DKK

(MDKK)	2022E	2023E	2024E	2025E	2026E
EBIT	7.9	10.5	13.2	16.1	18.6
FCF	6.2	8.3	10.4	12.9	15.1
Terminal value					215.7

Key Assumptions		Fair Value	
Tax rate	22 %	Enterprise Value	172 MDKK
WACC	10 %	Equity Value	160 MDKK
Terminal Growth	3 %	<b>Per share</b>	<b>22.1 DKK</b>

DCF Analysis (source: Stockpicker)

In order to highlight how our forecasts affect our results from the DCF valuation, we perform two separate sensitivity analyses.

**WACC**

In the first scenario, we change the used WACC (Weighted Average Cost of Capital) to illustrate how it affects our fair value per share calculation.

With a required rate of return of 12 percent, the fair value per share drops to 16.4 DKK. If we lower the WACC to eight percent, the fair value per share rises to 32.3 DKK per share.

*Fair value per share drops to 16.4 DKK using a WACC of 12 percent*

**SENSITIVITY ANALYSIS (WACC)**

WACC	12 %	10 %	8 %
Fair value per share (DKK)	16.4	22.1	32.3

Sensitivity analysis (source: Stockpicker)

**Revenue**

If we lower our revenue forecast each year with five percent, without changing the cost base, the fair value per share drops to 12.8 DKK. This is mainly to highlight how our forecasts affect our results from the DCF valuation and we do not consider it realistic that the company’s cost base would remain the same, if revenue growth is substantially lower.

In an optimistic scenario, where Wirtek revenues are five percent higher each year while the cost base remains the same, the fair value per share increases to 31.4 DKK. The above would result in Wirtek reaching their financial targets, set in the Accelerate25XL strategy, before the end of 2025.

*Revenue forecasts subject to uncertainty and strongly affects fair value estimations*

**SENSITIVITY ANALYSIS (REVENUE FORECAST)**

Revenue	0.95x	1.00x	1.05x
Fair value per share (DKK)	12.8	22.1	31.4
WACC	10 %	10 %	10 %

Sensitivity analysis (source: Stockpicker)

In addition to the DCF analysis performed on the previous page, we look at a few commonly used valuation multiples to highlight how these will change over time. Keep in mind that the table and graph presented on this page are based on our estimates for the period 2022–2026.

**P/S**

Since we are estimating high growth during 2022–2026, the Price-to-Sale ratio (P/S) will drop from 2.7 last fiscal year (2021) to below 1.0 by 2025.

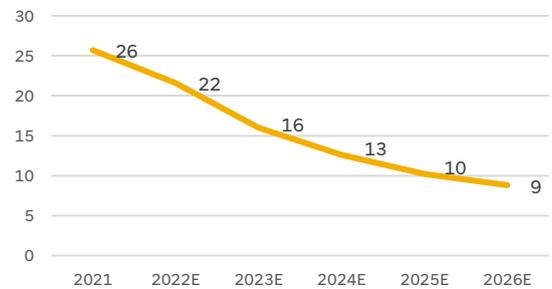
If Wirtek can materialize on our expectations, a P/S ratio below 2.0 on 2022E for a fast-growing company such as Wirtek, can be considered low.

**P/E**

With a price per share of 17.0 DKK, Wirtek trades at roughly 26 times reported earnings from last fiscal year (2021).

A rapid increase in revenue (through organic growth and acquisitions) and a margin in line with last fiscal year, results in a P/E ratio (Price-to-Earnings) of 21.6 on our estimates for 2022. According to our forecasts, the P/E ratio will drop to 16 already next year.

In our DCF analysis we establish a fair value per share of 22.1 DKK, which would result in a market cap of approx. 160 MDKK and a P/E ratio of 28 based on our estimates for 2022.



P/E ratio over time at market cap 123.2 MDKK (Source: Stockpicker)

Valuation Multiples	2021	2022E	2023E	2024E	2025E	2026E
P/S	2.7	1.9	1.4	1.1	0.9	0.8
P/E	25.7	21.6	16.0	12.6	10.2	8.8
Market Cap (MDKK)	123.2	123.2	123.2	123.2	123.2	123.2
Share Price (DKK)	17.0	17.0	17.0	17.0	17.0	17.0
No. of shares (million)	7.25	7.25	7.25	7.25	7.25	7.25

Source: Stockpicker 2022-05-27

It is hard to find any publicly listed peers in the Nordics, with similar business model and size as Wirtek. In the table below are 10 companies of different size listed in Sweden, Finland, Denmark or USA active within the industry Software & IT Services.

The Danish company Wirtek is a pure IT outsourcing company, with long-lasting client partnerships and outsourcing facilities in Romania. None of the companies below operates with a similar business model, which is important to keep in mind.

Even if we exclude the acquisition of CoreBuild, Wirtek have delivered strong revenue and EBIT growth during the last few years. Despite the above and a higher EBIT margin than the peer group, the company seems to be trading at a discount (based on EV/EBIT multiple). This provides support for our DCF valuation, where we established a fair value per share of 22.1 DKK.

However, all companies mentioned in the table below have a larger market cap than Wirtek and a relatively small IT outsourcing company with all outsourcing facilities in Romania, might be seen as a riskier investment by some investors.

Please note that figures below have not been reviewed or corrected and there might be new information available.

Company	Ticker	Country	Currency	Return 1-year	Market Cap (million)	P/S	P/E	EV/EBIT	Revenue CAGR 3-year	Equity Ratio	EBIT margin	Dividend ratio	Info Report
B3 Consulting	B3	Sweden	SEK	119%	939	1,0	13,7	9,8	5%	38%	10%	3,2%	Q1-2022
CAG Group	CAG	Sweden	SEK	18%	614	0,9	17,4	12,2	12%	53%	7%	3,6%	Q1-2022
Formpipe Software	FPIP	Sweden	SEK	-12%	1603	3,3	33,7	24,4	8%	60%	13%	2,4%	Q1-2022
Precio Fishbone	PRCO B	Sweden	SEK	-22%	445	1,8	26,8	17,6	1%	55%	9%	3,9%	Q1-2022
Gofore	GOFORE	Finland	EUR	20%	340	3,3	38,0	25,8	27%	60%	12%	1,3%	Q4-2021
Netum	NETUM	Finland	EUR	-10%	45	2,0	85,2	24,0	-	61%	9%	2,8%	Q4-2021
Bilot	BILOT	Finland	EUR	-47%	23	1,0	33,1	16,9	-	80%	3%	-	Q2-2021
Endava PLC	DAVA	USA	USD	0%	5730	7,2	63,0	48,5	30%	69%	15%	-	Q3-2022
Columbus	COLUM	Denmark	DKK	-23%	1152	0,8	38,9	38,7	-9%	60%	2%	1,4%	Q1-2022
<b>WIRTEK</b>	<b>WIRTEK</b>	<b>Denmark</b>	<b>DKK</b>	<b>-27%</b>	<b>124</b>	<b>2,3</b>	<b>23,3</b>	<b>19,5</b>	<b>32%</b>	<b>37%</b>	<b>11%</b>	<b>2,2%</b>	<b>Q1-2022</b>

Source: Börnsdata (trailing twelve months, downloaded 2022-06-02)

Note: figures not corrected or reviewed and there might be new data available

### Shortage of IT talent

As of today, demand does not seem to be the problem for many IT-companies. Instead, the central issue is the global shortage of IT talent and it is therefore crucial for Wirtek to remain an attractive employer. Due to the demand for IT talent and a higher inflation in Europe, it's possible that we will see wage increases that may result in lower margins for IT-outsourcing companies such as Wirtek. In April, the Danish company lowered their target regarding the employee retention and is now aiming for an employee retention above 85 percent from 2024, compared to the prior target of over 90 percent by 2023.

### Regulatory and political risks

All sourcing facilities are currently based in Romania and Wirteks long-term goal is to have one sourcing location outside of Romania by 2025. Even though Romania is a member country of EU since 2007, the regulatory and political risks can not be ignored.

*The shortage of IT talent may cause problems*

### Fail to achieve growth targets

Wirtek is aiming for a growth rate of 30 percent annually during the next few years and revenue goals will be reached through a combination of double-digit organic growth and further acquisitions. Such a high growth rate is hard to accomplish and even though the acquisition of CoreBuild last year seems to have been a success, acquisitions are far from risk-free. Since the start of the COVID-19 epidemic, Wirtek has delivered strong growth and increased profitability substantially. We are somewhat concerned about sales and margins being boosted during the epidemic, but it is still too early to determine whether this has been the case or not. A weakened global economy may also harm demand, which would make it hard for Wirtek to achieve their targets. After the acquisition of CoreBuild, Wirtek also has a lower equity ratio than peers listed on the previous page.

*Acquisitions important part of the growth strategy*

### Small company

With a market cap of approx. 123 MDKK, Wirtek is still a small company, which generally is associated with higher risk. Key people leaving the company may have major consequences and even though none of Wirteks clients accounts for more than 15 percent of total revenue, a large customer leaving the company would have a substantial impact. Wirtek expanded their client portfolio through the acquisition of CoreBuild, but they are still dependent on Danish customers. The liquidity in the stock is also low, which is important to keep in mind.



## STRENGTHS

- Long history (listed since 2006)
- Strong customer loyalty
- Management/Board major shareholders and have been involved for a long time
- Previously proven ability to execute strategic plans and achieve financial goals
- Large part of revenue contracted already at the beginning of each fiscal year
- Active on a growing market



## WEAKNESSES

- Dependence on Danish customers
- Low market entry barriers
- All sourcing facilities in Romania
- Must compete on a global scale



## OPPORTUNITIES

- Further successful acquisitions
- Continued growth and synergies from CoreBuild acquisition
- Establishment on new fast-growing markets  
(such as Cyber Security Services in 2021)
- Increased profitability due to a higher number of billable colleagues



## THREATS

- Wage increases
- Shortage of talent with IT competencies
- Losing attractiveness as employer
- Risks associated with a small company  
(such as key people leaving the company)
- Regulatory and political risks  
(e.g., all IT resources in Romania)
- Low liquidity stock
- Weakened global economy  
(may harm demand or/and underlying market growth)
- Boosted sales and margins during COVID-19 epidemic

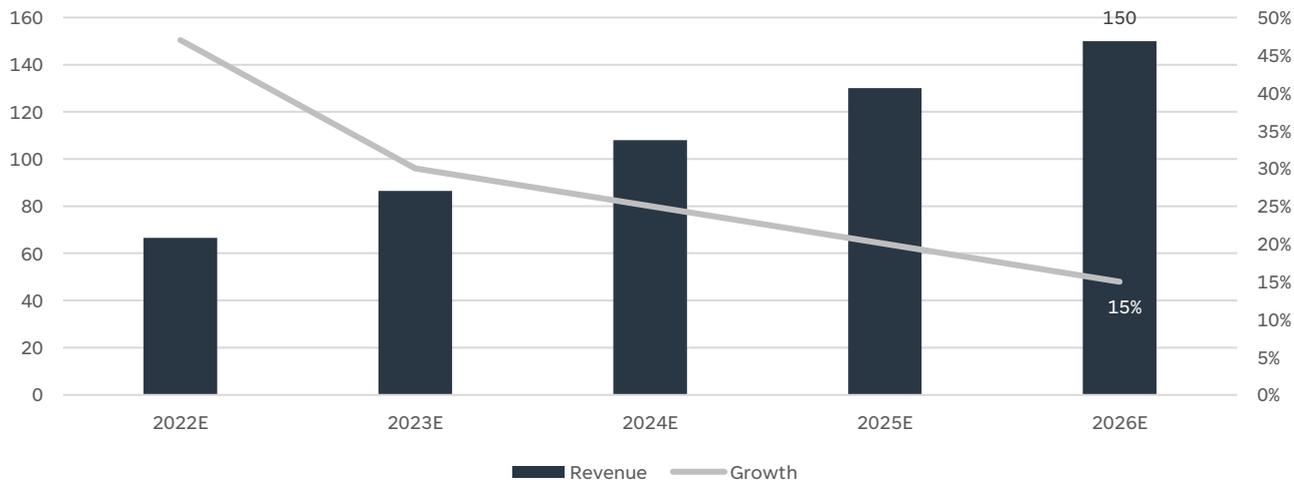


## NEWS (since 01/2022)

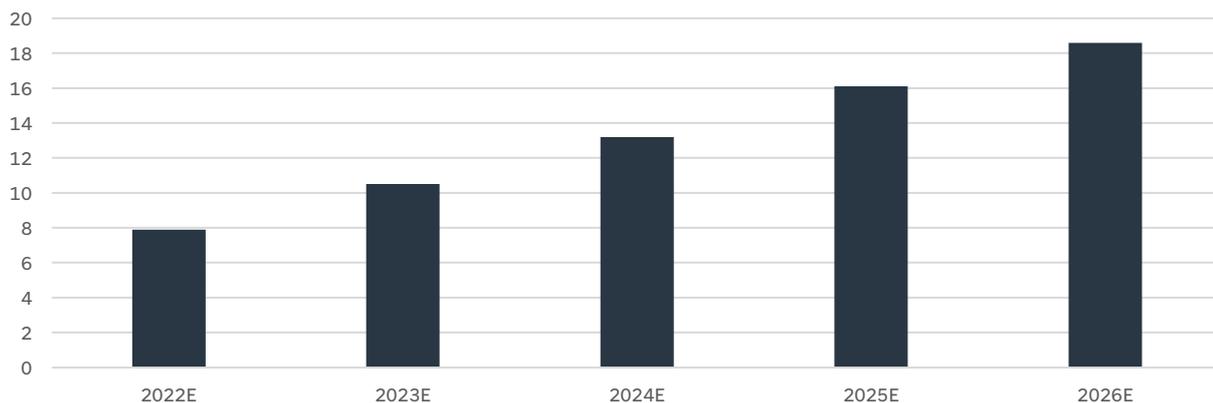
2022-05-25	Offentliggørelse af ledende medarbejders og disses nærtstående transaktioner med aktier i Wirtek A/S
2022-05-10	Interim Report Q1/2022: Revenue Growth of 111%
2022-04-19	Wirtek announces Accelerate25XL strategy - Revenue goal for 2025 raised by 30%
2022-04-06	Minutes from Annual General Meeting in Wirtek A/S
2022-03-15	Notice to convene Annual General Meeting in Wirtek A/S
2022-03-09	Annual Report 2021: Revenue growth of 64% and EBITDA growth of 94%
2022-03-03	Wirtek signs large client contract and increases expectations for 2022
2022-01-25	Wirtek announces expectations for 2022
2022-01-17	Wirtek clarifies expectations for 2021
2021-12-16	Wirtek expands leadership with a new CFO
2021-11-15	Large strategic order from new client in UK
2021-11-10	Interim Report Q3 2021: Revenue growth of 97% and EBITDA growth of 152%
2021-09-07	Strategic order for Cybersecurity services to large US client
2021-08-30	Termination of liquidity provider agreement (inside information)
2021-08-10	Interim Report Q2 2021: Successful CoreBuild acquisition with high impact
2021-08-05	Wirtek raises both revenue and EBITDA expectations for 2021
2021-06-18	Notification of managers and closely related parties' transactions with Wirtek A/S shares
2021-05-31	Wirtek purchases own shares from the Board of Directors as part of the CoreBuild acquisition
2021-05-27	Capital increase in connection with exercise of issued warrants
2021-05-27	Minutes of extraordinary general meeting in Wirtek A/S
2021-05-11	Interim Report Q1 2021: Strong EBITDA growth of 72% in Q1 2021
2021-04-29	Wirtek completes acquisition and raises outlook for 2021
2021-03-04	Wirtek annual report 2020: Revenue grew by 19% and EBITDA was up by 80%
2021-02-17	Wirtek signs non-binding acquisition agreement as a major milestone in the Accelerate25 strategy
2021-01-26	Wirtek announces 2025 strategy with an expected average annual growth of 30%

Press releases (source: MFN)

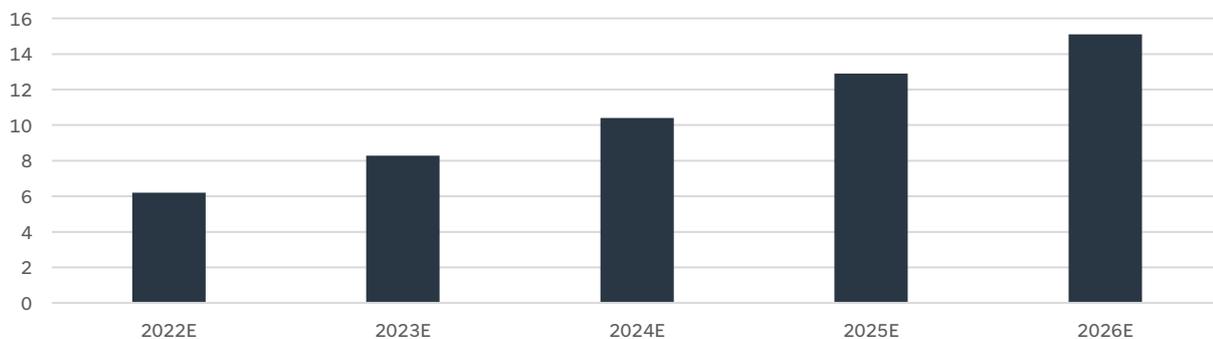
### Revenue & Growth



### EBIT



### Free Cash Flow



Appendix (Source: Stockpicker)



## About Us

Stockpicker was founded in 1997 as a media company providing Swedish retail investors with the digital newspaper Newsletter. The focus of Newsletter was, and still is, providing its readers with stock analysis. Since then, Stockpicker has expanded its offering to retail investors and listed companies. Today Stockpicker provides 6 different email newsletters to an audience of well over 50 000 readers.

Services for companies have evolved from investor targeting and IPO marketing to a full range of services helping small- and mid Cap listed companies with their communication to the investor community. An important part of a fair valuation of a listed company is the support of commissioned research. Since Stockpicker has extensive experience from analyzing stocks and a team of well-educated analysts, the services are very well appreciated among our listed customers.

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