

WIRTEK

Commissioned Equity Research

Update Q2/2022

2022-08-15



wirtek

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Wirtek announced their financial results for the second quarter the 10th of august.

Another strong quarter

The Danish IT outsourcing company delivered a strong second quarter and revenue grew by 59% to 15.4 MDKK compared to the same quarter last year. EBITDA was 1.7 MDKK (Q2/2021: 0.6 MDKK), which resulted in an EBITDA-margin of 11.2%.

The acquisition of CoreBuild last year is of course a key contributor to the successful quarter, but Wirtek's organic growth was perhaps even more impressive and amounted to 27% from April to June.

Financial outlook maintained

Q2 surpassed market expectations and management maintained their previously announced financial targets for fiscal year 2022. Despite the challenging market conditions with IT talent shortage, salary inflation and a weakening global economic environment, Wirtek is aiming for 64-69 MDKK in revenue and EBITDA of 8.6-9.6 MDKK.

In line with strategy

The combination of solid organic growth and growth through acquisitions during the second quarter was in line with the revised Accelerate25XL strategy that Wirtek announced in April this year.

One of Wirtek's operational goals in the Accelerate25XL strategy is to be listed on Nasdaq Copenhagen Main Market before the end of 2025. To pave the way for this transition, Wirtek has made several recruitments and are implementing IFRS this year.

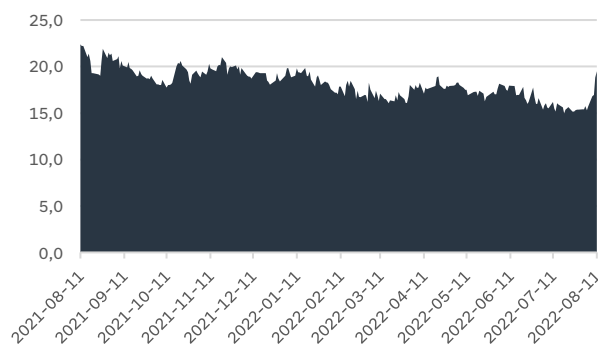
Attractive valuation

Using a discounted cash flow valuation method, Stockpicker establishes a fair value per share of 22.1 DKK. A relative valuation implies that an EV/EBIT target multiple of 22x (based on our EBIT estimate for 2022) is more than justified for a profitable fast-growing company as Wirtek, despite current market uncertainty.

WIRTEK

Target price	22.1 DKK
Valuation interval	16.5-32.1 DKK
Sector	Technology
Market	Nasdaq First North GM Copenhagen
Ticker	WIRTEK
Latest Report	Q2/2022
Current Share Price	18.3 DKK
Market Cap	137 MDKK
No. of Shares (millions)	7.5
Date	2022-08-12

RETURN	YTD	12M
WIRTEK	-1%	-18%



KEY DATA (MDKK)	Q1-Q2/2022	2021	2020
Revenue	31.8	45.4	27.6
EBITDA	4.3	6.2	3.2
Earnings per share (DKK)	0.41	0.66	0.71

Key Data (source: Wirtek & Stockpicker)

Growing market

Due to the digital transformation and global IT talent shortage, the IT outsourcing markets has been constantly growing. The expected growth rate varies widely between different studies and the different services that IT outsourcing companies provide, but all studies that Stockpicker has come across confirms that the IT outsourcing market will grow at a good pace during the next 5-10 years.

*IT outsourcing market
constantly growing*

Long-lasting client partnerships

Wirtek has a client seniority of more than six years and many clients have been with the Danish company for more than 10 years. Due to these long-lasting strategic client partnerships, Wirtek often becomes an integral and crucial part of customers development and test departments. This is the main reason why we expect Wirtek to be able to maintain a slightly higher profitability than most peers. However, margins tend to move towards the industry average in the long run which is important to keep in mind.

*Client seniority of more than
six years and high earnings
transparency*

Future cash flows is to a large extent generated by existing clients, which decreases the financial risk in the company. A high percentage of Wirtek's revenue is also contracted at the beginning of each fiscal year, which results in high earnings transparency.

Strategic acquisitions

Wirtek completed a large acquisition last year when they added 50 new colleagues to their team through the acquisition of the Romanian company CoreBuild. The integration and earnings effect from last years acquisition exceeded our expectations and the ongoing acquisition (that was announced in July) is expected to be closed in a few weeks. Acquisitions will enable Wirtek to gain clients in new countries and strengthen their international profile.

*A solid combination of
organic and acquired growth*

Valuation

Using a discounted cash flow valuation method, Stockpicker establishes a fair value per share of 22.1 DKK. A relative valuation implies that an EV/EBIT target multiple of 22x (based on our EBIT estimate for 2022) is more than justified for a profitable fast-growing company as Wirtek.

Revenue

As mentioned earlier, both total revenue growth and organic revenue growth (excl. CoreBuild) was strong. In comparison to the same quarter last year revenue grew by 59% and the organic growth was 27%.

From April to June, Wirtek had revenues of 15.4 MDKK, which is slightly lower than the 16.3 MDKK that the Danish company presented in the first quarter of 2022. However, January to March is generally a better period for consulting companies, since there are less holidays. This results in more billable working hours in Q1 for IT consulting companies such as Wirtek.

Strong revenue and EBITDA growth in Q2/2022

Costs

Personnel costs in the second quarter were 12 MDKK, which was in line with the first quarter. Most likely personal costs will be slightly higher during the second half of the year when the acquisition that was announced in July closes. Wirtek's external costs during the first two quarters this year was 3.5 MDKK, resulting in a gross margin of 89% so far.

Earnings per share up 70% over the first half of fiscal 2022

Profitability

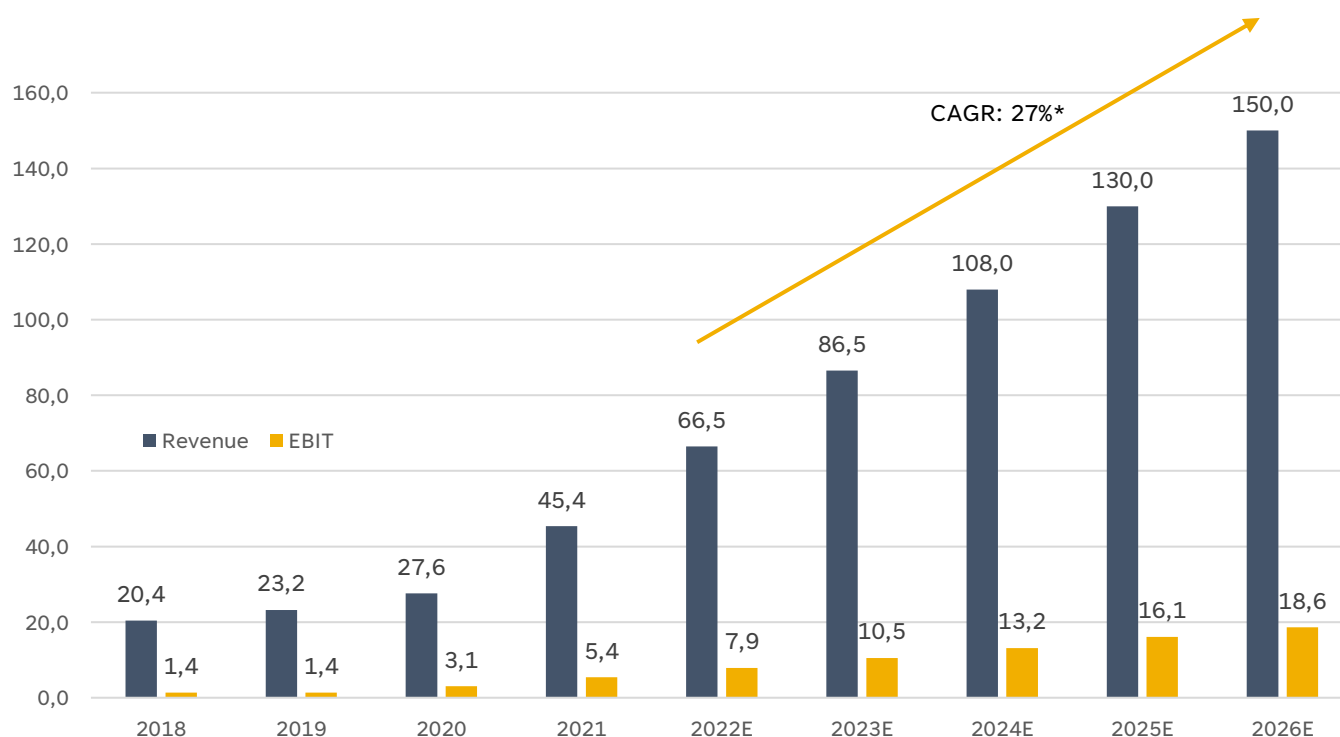
EBITDA amounted to 1.7 MDKK in Q2, resulting in an EBITDA margin of 11.2%. Compared to the same quarter last year, EBITDA grew by approx. 190%. This number is however affected by the CoreBuild acquisition, which is important to keep in mind. The profitability in Q2 can be considered strong, but not extraordinary in any way. Wirtek's EBITDA margin was 15.9% in Q1/2022 and has been above 12% several times during the last three years.

During the first six months of 2022, Wirtek's earnings per share (EPS) was 0.41 DKK (H1/2021: 0.24 DKK).

Cash Flow

Wirtek posted a negative cash flow of 1.4 MDKK in the second quarter, significantly impacted by an earn-out payment for the CoreBuild acquisition. At the end of Q2/2022 the Danish company had cash holdings of 6,4 MDKK, but part of the cash-position is offset by a credit facility of 5.4 MDKK.

Negative cash flow in Q2 due to earn-out payment for the CoreBuild acquisition



Source: Wirtek & Stockpicker forecast

* Incl. acquisitions

FINANCIAL HIGHLIGHTS (MDKK)	2017	2018	2019	2020	2021	H1/2022
Income statement						
Revenue	14.5	20.4	23.2	27.6	45.4	31.8
EBITDA	1.1	1.6	1.8	3.2	6.2	4.3
EBT	0.8	1.4	1.3	3.0	5.2	3.4
Profit	0.8	1.0	1.5	4.9	4.8	3.0
Balance sheet						
Total assets	4.9	6.8	8.1	14.0	26.7	29.8
Equity	2.4	3.0	3.7	7.4	9.4	13.7
Cash flows						
Cash flow from operating activities	0.3	2.0	1.2	2.8	6.5	2.9
Cash flow from investing activities	-0.1	-0.7	-0.2	-0.1	-10.6	-3.9
Cash flow from financing activities	-0.6	-0.5	-0.8	-1.1	0.9	1.3
Total cash flows	-0.4	0.8	0.3	1.5	-3.1	0.3
Key Ratios						
Operating margin	4 %	6 %	7 %	11 %	12 %	11 %
Liquidity ratio	190 %	159 %	174 %	208 %	96 %	125 %
Equity ratio	50 %	44 %	46 %	53 %	35 %	46 %
Earnings per share (DKK)	0.11	0.15	0.22	0.71	0.66	0.41

Source: Wirtek & Stockpicker

On the 15th of July, Wirtek gave a company announcement regarding a signing of a non-binding acquisition agreement. The final closing is expected to take place in late August 2022.

Approx. 15 new colleagues

The company that Wirtek is expected to acquire is according to the press release a profitable and growth-oriented software company providing IT outsourcing services. If the acquisition is successful it will add approx. 15 new colleagues to Wirtek's existing team of 181 colleagues at the end of Q2.

The acquisition will have a positive effect on both revenue and EBITDA already this year. In addition to that the acquisition is expected to strengthen Wirtek's consultancy services and support the international sales expansion.

Payment

The acquisition will be paid partly in cash and partly in Wirtek shares. A significant part of the acquisition cost will also be linked to the financial results of the acquired company over the next few years. The pricing of the shares used is based on the current pricing of Wirtek shares.

In line with strategy

At the moment, we do not have enough information to give a qualified opinion on the expected acquisition. However, acquisitions are an important part of Wirtek's Accelerate25XL strategy and therefore the company announcement did not come as a surprise.

Through the acquisition of CoreBuild in 2021, Wirtek added approx. 50 new colleagues to the team. The acquisition that is expected to take place in August is considerably smaller, which in our opinion is a good thing. We argue that several smaller acquisitions is preferable due to risk management reasons and easier integration process.

All of Wirtek's IT outsourcing facilities are currently in Romania and it is an operational goal for the Danish company to have a source location outside of Romania by 2025. Wirtek did not mention anything about the location of the target company in the press release, so it remains to be seen whether it is in or outside Romania.

Wirtek signed a non-binding acquisition agreement in July

Positive effect on both revenue and EBITDA

The final closing is expected to take place in late August

Following small adjustments have been made to our initial analysis from June after the Q2 report.

Revenue

During January to June, Wirtek had revenues of 31.8 MDKK. Historically, the second half of the year revenue seems to have been slightly stronger for the Danish company than January-June and we therefore feel confident that the Danish company will be able to reach our revenue estimate of 66,5 MDKK in fiscal year 2022.

Revenue and EBIT estimates remain the same

If they add another 15 colleagues (to the existing team of 181 colleagues) through the acquisition that is expected to be closed at the end of August, Wirtek might even be able to exceed our revenue forecast.

Profitability

Personnel costs have now been approx. 12.0 MDKK per quarter this year. Compared to the initial analysis, we have raised our personnel cost prognosis for the forecast period, but this is compensated by lower external costs during the same time period. The above will not have any material affect on our EBIT forecasts in the initial analysis.

Wirtek following the Accelerate25XL strategy

Summary

Wirtek's strong second quarter and the announced non-binding acquisition agreement in July, further confirms that the Danish company is following the Accelerate25XL strategy. As mentioned in our initial report, we have a strong belief that management will continue to materialize on expectations and reach their communicated financial targets. Stockpickers estimates are to a large extent in line with Wirtek's outlook for 2022 and long-term targets by 2025.

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%
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)

As we mentioned in the initial analysis, 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 a selection of 11 companies of different size listed in Sweden, Finland, Denmark, Norway or USA active within the industry IT Services & Software. Future revenue and earnings forecasts are based on other analysts estimates covering these specific companies as well as our own assumptions.

CAGR

The median revenue CAGR for the peer companies during 2021-2023E is 13% and the average CAGR approx. 16%. It is worth noticing that both management and Stockpicker are expecting a considerably higher CAGR of 27% for Wirtek during the forecast period 2022-2026.

EV/Sales

Wirtek is trading at a higher EV/S multiple than the average peer. However, we argue that this is well deserved since the Danish company has been more profitable and delivered stronger margins the last few years than the average selected peer below.

Company	Country	Currency	Market Cap (million)	EV/EBIT		EV/S		P/E	
				2022E	2023E	2022E	2023E	2022E	2023E
B3 Consulting	Sweden	SEK	1090	15	14	1,0	1,0	13	12
CAG Group	Sweden	SEK	616	10	9	1,0	1,0	13	12
Formpipe Software	Sweden	SEK	1450	68	25	2,9	2,6	107	33
eWork	Sweden	SEK	1821	12	11	0,1	0,1	17	15
Gofore	Finland	EUR	354	16	14	2,3	2,0	21	19
Netum	Finland	EUR	47	12	10	1,5	1,4	15	13
Vincit	Finland	EUR	102	10	7	1,0	0,8	12	10
Siili Solutions	Finland	EUR	107	10	9	1,1	1,0	12	11
Endava	USA	USD	5837	41	33	7,1	5,5	78	62
Bouvet	Norway	NOK	6623	17	16	2,2	1,9	22	20
Columbus	Denmark	DKK	1098	17	16	0,7	0,7	18	16
Wirtek	Denmark	DKK	140	19	14	2,2	1,7	18	15
Average				21	15	1,9	1,6	29	20
Median				16	14	1,3	1,2	17	15
Diff. to median				17 %	-2 %	42 %	29 %	7 %	-1 %
Diff. to average				-9 %	-8 %	14 %	2 %	-57 %	-37 %

Source: Stockpicker

Note: Some figures are not corrected or reviewed and there might be new information available

EV/EBIT

Wirtek is currently (2022E) trading at a higher EV/EBIT multiple than the median, but this valuation multiple will drop rapidly due to Wirteks expected profitable growth. Next year (2023E) the Danish company seems to be trading at a discount already in comparison to the median selected peer.

Attractive valuation

In the initial analysis from June, we performed a discounted cash flow analysis (DCF) and established a fair value per share of 22.1 DKK using a required rate of return of 10%. We made some minor adjustments to our forecasts after the Q2 results, but these will not have a significant impact on either revenue, EBIT or our fair value per share estimation from June. However, the second quarter confirmed our belief in managements ability to materialize on expectations and continue to deliver profitable high growth.

Even though a size discount must be considered due to the large difference in market cap between Wirtek and the selected peers on the previous page, we argue that an EV/EBIT multiple of 22x (based on a share price of 22.1 and EBIT forecast for 2022E) provides additional support for the DCF valuation.

Stockpicker maintains a fair value per share valuation of 22.1 DKK

Stockpickers revenue (66.5 MDKK) and EBITDA (9.1) forecast for fiscal year 2022 are in the middle of Wirteks financial guidance interval that was announced in March. Management maintained the financial guidance in the Q2 report but pointed out that it was “based on risk assessment”. If we interpret this correctly, it sure sounds like Q3 have started out well.

IT companies (incl. Wirtek) are currently operating in a challenging environment with geopolitical uncertainties, salary inflation and shortage of IT talent. However, while macro economic uncertainties exist, the market activity level seems to remain healthy.

For now, Stockpickers target price per share remains at 22.1 DKK. If the acquisition is successful, Wirtek will add 15 new colleagues to their team. The final closing of the announced acquisition is planned for late August and conditioned upon satisfactory due-diligence results. After we have received more information about the acquisition, we will evaluate what kind of impact it will have on our forecasts.



STRENGTHS

- Long history (listed since 2006)
- Long-lasting client partnerships
- 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
- IT outsourcing market constantly growing



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)
- Increased profitability due to a higher number of billable colleagues



THREATS

- Salary inflation
- 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 due to COVID-19 environment



NEWS (since 01/2022)

2022-08-10	Wirtek A/S: Interim Report Q2 2022: Revenue growth of 59% and EBITDA growth of 190%
2022-07-14	Wirtek A/S: Wirtek signs non-binding acquisition agreement
2022-06-09	Stockpicker AB initiates research coverage on Wirtek A/S
2022-06-01	Wirtek A/S: Capital increase in connection with exercise of issued warrants
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)

(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	15.3
Terminal value					215.7

Key Assumptions

Tax rate	22%
WACC	10%
Terminal Growth	3%

Fair Value

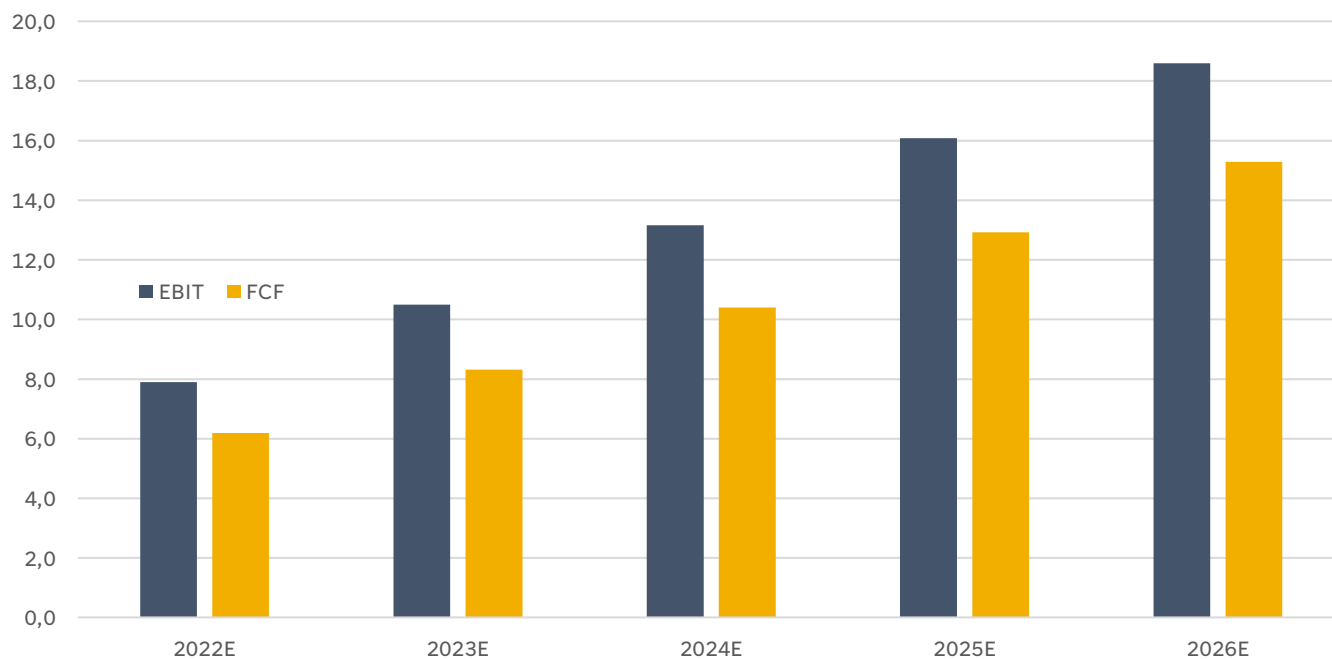
Enterprise Value	174
Equity Value	165
Per share	22.1 DKK

DCF valuation (source: Stockpicker)

SENSITIVITY ANALYSIS (WACC)

WACC	12%	10%	8%
Fair value per share (DKK)	16.5	22.1	32.1

Appendix Sensitivity analysis (source: Stockpicker)



EBIT & FCF (Source: Stockpicker)



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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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