08 October 2021

Commissioned research: Netcompany – An acquisition with potential, but also a shift in Netcompany's strategy

Marketing material commissioned by Netcompany

On 8 November, Netcompany announced the acquisition of Luxembourg-based Intrasoft International, which will strengthen Netcompany's position within the EU and also give a broader European foothold. While still early days, the acquisition boosts potential to tap into the significant digitalisation investments planned by the EU and its member states, where Intrasoft's various platforms are expected to play an important role. But we also see the acquisition as a shift in Netcompany's strategy, as Intrasoft will be operated as independent and with limited integration. The reasons for this are likely many, but the size of Intrasoft (2,800+ employees) alone would make integration difficult. Netcompany should know Intrasoft well given its cooperation in the past and, not least, following the significant win in 2020 when the two companies in combination won the development contract for delivering a platform to handle customs declarations when importing and exporting goods to/from Denmark. One key question left due to lack of financial disclosure is the reasons behind the lower profitability and not least the growth potential. Intrasoft has rapidly grown its order backlog (H1 2021: ~3.5x 2020 revenue), albeit the timing of the backlog was left close to unanswered, which makes it difficult to gauge the growth potential, but we note that the value of backlog increased by EUR ~200m in H1 2021 compared to end 2020, which is close to same level as the 2020 revenue. Netcompany is to pay EUR 235m (of which EUR 15m is in existing shares), equal to 2020 EV/EBITDA of 13x, which appears to be a less demanding valuation, not least when taking the future prospects into account. Still, given the size of Intrasoft, Netcompany's reported numbers will likely be diluted in the next few years and will be less impressive than what we have been used to.

The acquisition price: EUR 235m (EV) as a combination of EUR 217m in cash and EUR 18m in shares (existing). A refinancing is expected in 2022.

Approval: The transaction is expected to be approved by Q4 2021.

Intrasoft Internal: Is owned by Greek listed (ATHEX: INTKA) Intracom Holdings (92%) and management.

Track record: According to todays investor call, Intrasoft has not in the past had any larger troublesome IT projects, which in our view is an important parameter when evaluating the quality of the delivery model and IT competences.

EU position: According to Netcompany: "Among Top-3 IT service providers for EU institutions focusing on helping EU international institutions support and implement their policies".

Financial data: Netcompany has not provided much financial data about Intrasoft and hence we are left with the historical data. In 2020, Intrasoft delivered 11% revenue growth and lifted its EBITDA margin by ~1% to 9.1%.

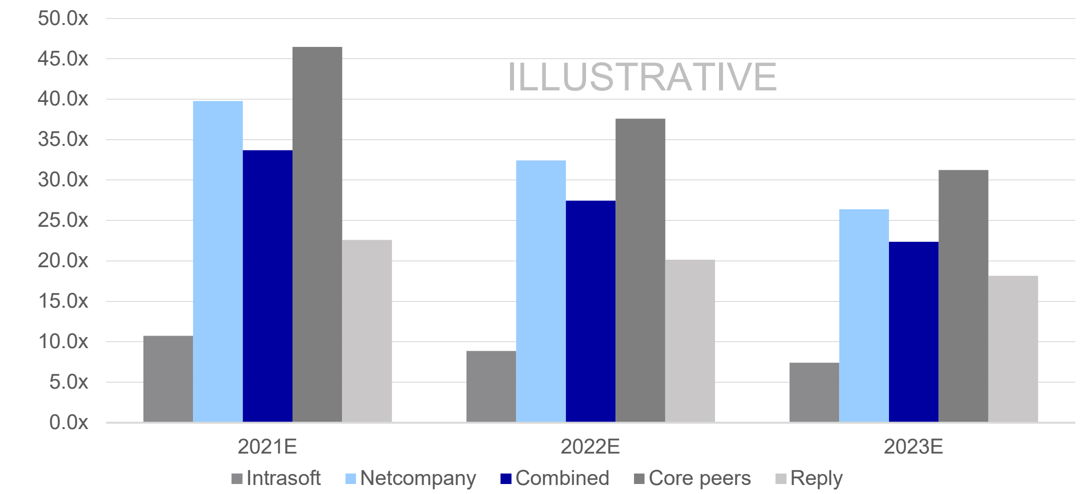
The combined company: Based on the simple assumptions that Intrasoft will grow revenue by 10% per year (same as in 2020) and continue to expand its EBITDA margin by 1 pp per year (same trend as the last couple of years), the combined company would look like this (see table below):

NETCOMPANY + INTRASOFT (EURm)

	2019	2020	2021E	2022E	2023E
Revenue	**507**	**578**	**674**	**769**	**883**
Netcompany	329	381	457	530	621
Intrasoft	178	197	217	239	263
Revenue growth	**-**	**14.0%**	**16.6%**	**14.1%**	**14.8%**
Netcompany	-	15.7%	20.0%	16.0%	17.0%
Intrasoft	-	10.8%	10.0%	10.0%	10.0%
EBITDA	**104**	**127**	**143**	**173**	**209**
Netcompany	90	109	121	147	177
Intrasoft	14	18	22	26	32
EBITDA margin	**20.5%**	**21.9%**	**21.2%**	**22.5%**	**23.7%**
Netcompany	27.3%	28.5%	26.5%	27.7%	28.6%
Intrasoft	8.1%	9.1%	10.1%	11.1%	12.1%

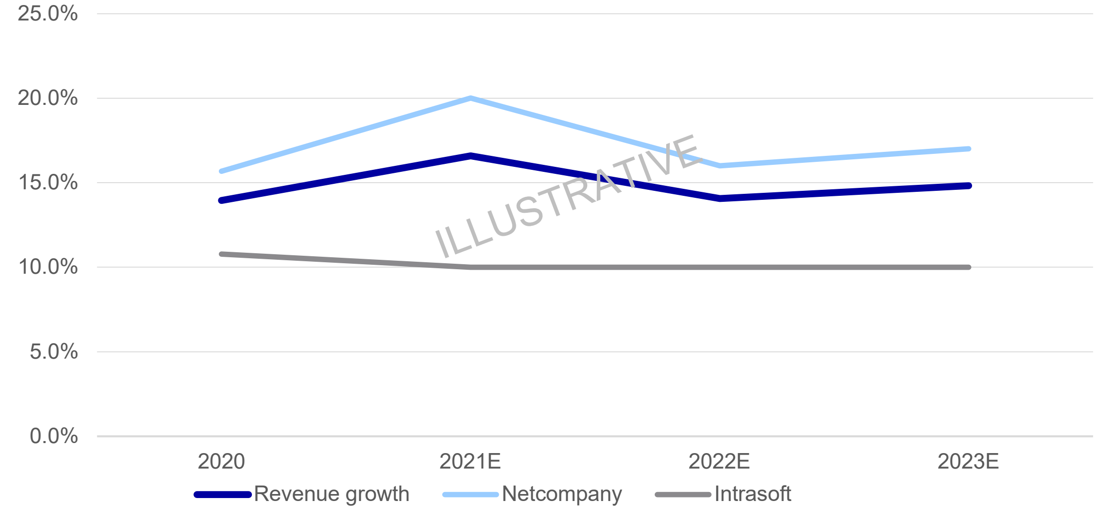
Source: Company data and Nordea estimates

NETCOMPANY + INTRASOFT: EV/EBITDA (X)



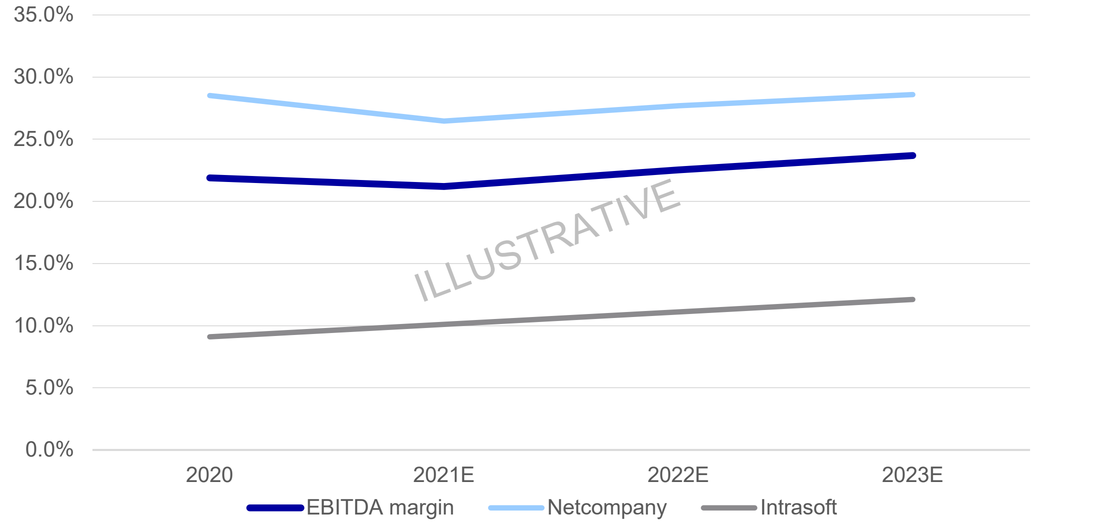
Source: Company data and Nordea estimates

NETCOMPANY + INTRASOFT: REVENUE GROWTH (%)



Source: Company data and Nordea estimates

NETCOMPANY + INTRASOFT: EBITDA MARGIN (%)



Source: Company data and Nordea estimates

SUMMARY TABLE - KEY FIGURES						
DKKm	2018	2019	2020	2021E	2022E	2023E
Total revenue	2,053	2,454	2,839	3,406	3,951	4,623
EBITDA (adj)	555	674	809	901	1,094	1,322
EBIT (adj)	399	516	645	796	995	1,226
EBIT (adj) margin	19.4%	21.0%	22.7%	23.4%	25.2%	26.5%
EPS (adj, DKK)	4.14	7.84	9.36	12.13	15.40	19.04
EPS (adj) growth	24.3%	89.5%	19.4%	29.5%	27.0%	23.7%
DPS (ord, DKK)	0.00	0.00	1.00	2.00	2.00	2.00
EV/Sales	5.8	6.8	11.1	10.3	8.8	7.3
EV/EBIT (adj)	30.0	32.3	48.9	44.2	34.8	27.6
P/E (adj)	53.2	40.4	66.5	58.1	45.7	37.0
P/BV	6.1	7.7	12.8	11.8	9.6	7.8
Dividend yield (ord)	0.0%	0.0%	0.2%	0.3%	0.3%	0.3%
FCF Yield bef A&D, lease adj	1.2%	2.5%	1.6%	1.4%	1.9%	2.3%
Net debt	998	826	402	7	-580	-1,308
Net debt/EBITDA	1.9	1.2	0.5	0.0	-0.5	-1.0
ROIC after tax	10.7%	13.3%	16.3%	25.0%	30.2%	35.8%

Source: Company data and Nordea estimates

Completion date: 08 Oct 2021, 12:16 CET

Nordea analyst: Claus Almer

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