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Commissioned research: Netcompany – CMD: Bullish management and platforms move up in importance

Marketing material commissioned by Netcompany

Netcompany hosted its CMD on 5 April 2022 in Copenhagen. No new medium- or long-term targets were announced, but management appeared rather bullish about future potential, including the Danish business, where it sees ample untapped growth possibilities. Management also focused on the potential from platforms, which are set to have a growing importance for M&A and as a growth driver across the different markets. Netcompany Intrasoft was also in focus at the CMD – the division's CEO gave a good impression and contributed to a better (and highly needed) understanding of that business. The CMD left us with the impression of a bullish management, as always, supported by the business opportunities that should arise from growing investment momentum within digitalisation across Europe. No larger acquisitions should be expected in 2022 and no new hard targets or medium- or long-term ambitions were announced, hence the equity story for now is closely linked to management's vision and execution ability.

Notable highlights from the CMD

Bearish concerns: There have been several trends in 2021, such as high employee churn, a high level of receivables, low revenue growth in H2, etc., which has created some concerns and negative broker reports. The CFO made it clear, however, that he believes these conclusions are wrong, and supported his argument with a variety of data points.

Netcompany believes its **addressable market** is at least DKK 500bn, including DKK 22bn in Denmark, hence it sees ample market shares up for grabs in all markets

The word **"platform"** was mentioned many times during the CMD as an important revenue growth driver. This refers to several aspects of the company but most commonly to the reuse of programme code across its markets and customers. Examples of platforms include the GovTech framework, Smarter Airports, Tax, Customs, Telco and Banking. One important reason that customers choose these platforms is that they are not standard software and are IP-free. The latter means that customers do not have to pay a subscription-based fee and they can differentiate from competitors and contribute to lower opex.

The presentation of **Netcompany Intrasoft** offered more details about the structure of the business, its strategy, and some of the reasons behind its low level of profitability. The revenue share in 2021 was from EU institutions 57% and Greece 34%. Non-EU revenue (43%) is split between public (15%) and private (28%), hence Intrasoft had a relative low revenue coming from the Greece public sector. The fast-growing backlog in 2020 and 2021 has caused some concerns, but the high growth rate was partly due to the EU and its four- to six-years IT budget circle – many projects tender and re-tender during these two years – and Intrasoft proved highly successful. The 9.1% EBITDA margin in 2021 is obviously much lower than Netcompany's performance, which could be partly explained by a less-than-flawless execution within the public sector and heavy use of independent contractors. The latter may dilute the margin by more than 10 pp, hence we expect Netcompany to repeat what it did in the UK – in three to five years, Netcompany Intrasoft will likely have a significantly higher share of its own employees than today, which will have a substantial positive margin impact.

M&A: Compared to past acquisitions, future targets will mainly be selected based on the quality and potential from internally developed platform(s) rather than the number of employees. This may also suggest a higher valuation than we have seen in the past, but cross-selling opportunities and operating leverage should also be larger. An office is planned to open in Stockholm during 2022, hence the strategy for Sweden is organic and will likely be centered around a large contract win.

Norway (2% market share), UK (0.2% share), and Holland (0.1%) are all getting closer to their Netcompany transition and thus closer to Netcompany Denmark's performance.

Denmark (12% market share): The win rate within the public sector was described as stable, while the private sector has seen an acceleration of investments in digitalisation.

Germany: An acquisition in 2023 could be a possibility.

SUMMARY TABLE - KEY FIGURES

DKKm	2019	2020	2021	2022E	2023E	2024E
Total revenue	2,454	2,839	3,632	5,492	6,313	7,263
EBITDA (adj)	674	809	881	1,122	1,311	1,532
EBIT (adj)	516	645	742	892	1,090	1,292
EBIT (adj) margin	21.0%	22.7%	20.4%	16.2%	17.3%	17.8%
EPS (adj, DKK)	7.84	9.36	10.94	13.80	16.75	19.95
EPS (adj) growth	89.5%	19.4%	16.8%	26.1%	21.4%	19.1%
DPS (ord, DKK)	0.00	1.00	0.00	0.00	0.00	0.00
EV/Sales	6.8	11.1	10.2	4.5	3.8	3.2
EV/EBIT (adj)	32.3	48.9	49.9	27.9	22.2	18.0
P/E (adj)	40.4	66.5	64.4	34.0	28.0	23.5
P/BV	7.7	12.8	11.6	6.3	5.1	4.2
Dividend yield (ord)	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%
FCF Yield bef A&D, lease adj	2.5%	1.6%	1.0%	1.9%	3.1%	3.7%
Net debt	826	402	1,817	1,470	724	-152
Net debt/EBITDA	1.2	0.5	2.2	1.3	0.6	-0.1
ROIC after tax	13.3%	16.3%	17.6%	16.4%	19.4%	22.5%

Source: Company data and Nordea estimates

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