

2023-03-17

### About Exsitec

Whatever digital tools you may need to grow your business, Exsitec got you covered. Founded in year 2000, Exsitec helps Nordic mid-sized enterprises to digitalize their business by combining and integrating hand-picked software solutions from well established vendors into a well-oiled entirety. The company has found its sweet spot within the value chain, being the middleman between its ~4000 customers and its 15+ software vendor partners. Acting as the extended sales organization of the software vendors, the company reaps the benefits from the software vendors large investments into R&D via a rev-share model. This allows software vendors to both scale more rapidly and to focus more on product development, while the end customer gets a single point of contact for all its digitalization needs. Hence, Exsitecs positioning within the value chain is a win for everyone involved, yielding both satisfied customers and suppliers as the company grows, a network effect hard to compete with.

The future success of the company is dependent upon the following:

#### 1) Improved operational efficiency in certain acquired business units.

After an acquisition made in Norway of a business similar to Exsitec's, operational inefficiencies have dampened the profitability of the entire group. However, the problem in the Norwegian business entity looks to be highly temporary, and there are already signs of a turnaround taking place.

#### 2) Continued acceleration of software subscription revenue.

With an average rev/share of 50 %, recurring net revenue from software subscriptions have increased with a CAGR of +81 % for the past three years, both through selective M&A and by growing organically. Continued growth in software revenue is a major key in realizing the economies of scale inherent to the business model, as this revenue stream alone holds a gross margin of 100 %.

#### 3) Skills supply.

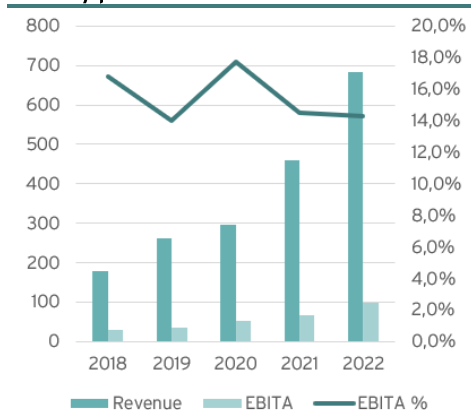
As growth in revenue from software subscriptions is dependent on the consulting business, finding, training and retaining employees who can fulfill the needs of the customer is extremely important. Exsitec has had many successful trainee programs in the past, but the company is very reliant on being an attractive employer. The company has previously experienced bottlenecks in growth due to being understaffed.

(MSEK)	2021	2022E	2023E	2024E	2025E
Net sales	460,2	656,6	760,5	844,4	925,6
Growth - %	57,6%	42,7%	15,8%	11,0%	9,6%
Adj.EBITA	77,0	92,0	128,3	158,1	187,5
Adj.EBITA - %	16,7%	14,0%	16,9%	18,7%	20,3%
EV/adj.EBITA	24,6x	20,6x	14,8x	12,0x	10,1x

### Key facts

CEO	Johan Kallbad
List	First North
Ticker	EXS
Share price (SEK)	140,0
NOSH (millions)	12,9
Market cap (MSEK)	1792
Target price (SEK)	216,3
TSR	57,4%
2 year CAGR	25,4%

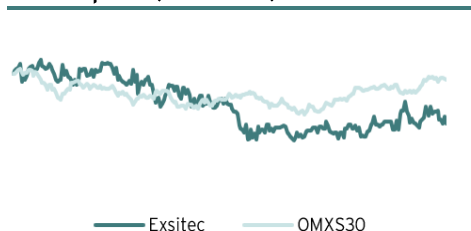
### Yearly performance



### Analytiker

Jacob Benon  
[jacob.benon@hotmail.com](mailto:jacob.benon@hotmail.com)

### Share price (12 months)



## Reasons to own (+19)

An asset light and scalable business model, generating a 5-year avg.ROIC of 23,9 % incl. goodwill	5
Business model characterized by network effects and switching costs, with a low churn of ~1-2 %	5
Proven M&A strategy financed by CFFO and a strong balance sheet of ND/LTM EBITDA 1,4x	4
Highly experienced management & chairman of the board, owning 27 % of the shares outstanding	3
Highly diversified customer base with no individual customer generating more than 1 % of revenue	2
<b>Total score</b>	<b>19</b>

## Reasons not to own (-13)

Contradicting capital allocation strategy: Double digit ROCE and ROIC while maintaining dividends	-5
Upsell dependent on continuously proving customer value and that the customer itself grows	-3
Concentrated base of suppliers where ~80 % of software revenue derives for 4 suppliers' software	-2
Dependent on successfully recruiting to maintain growth	-2
50 % longer order cycle in Q4'22 may indicate a more pending market climate in the short term	-1
<b>Total score</b>	<b>-13</b>

## Disclaimer

*The information contained in this analysis is not intended as, or should not be understood as financial advice. I am not a professional analyst, and all views and opinions expressed in this document is my own. I recommend you to always do your own research before buying or selling stocks, or seek professional advice.*

*At the time of writing, Jacob Benon personally own shares in Exsitec.*

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This analysis is commissioned



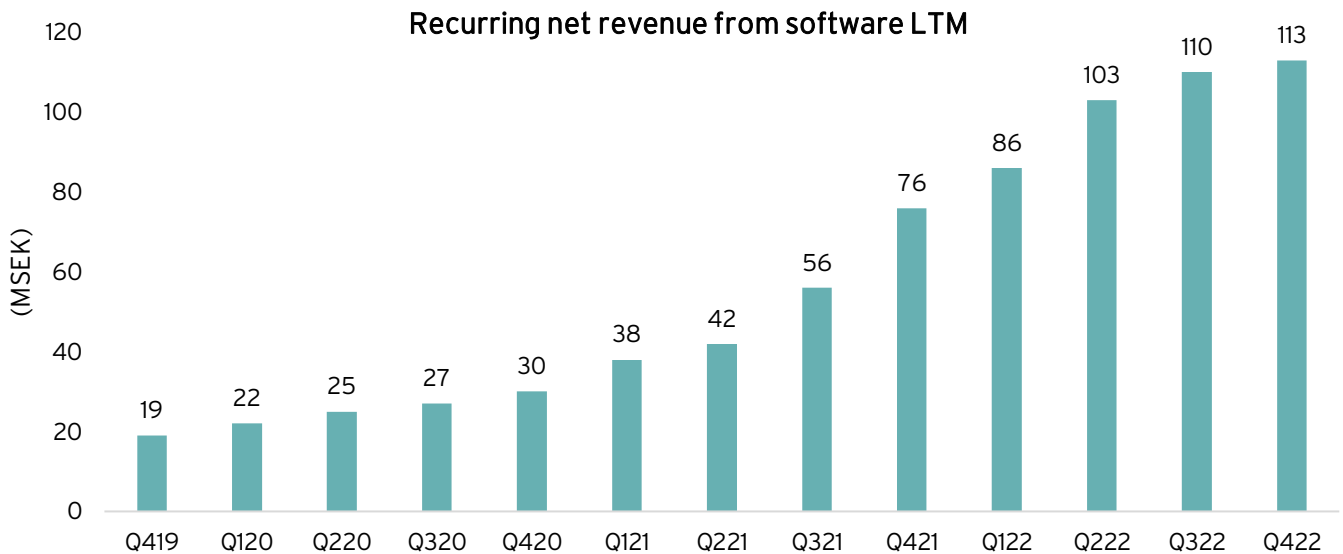
### Business model

Since its inception, Exsitec has made thousands of integrations across a broad base of customers in all kinds of industries. Over time, this have yielded an extensive knowledge base of what works best for each specific type of customer and made possible for the company to generate vast amounts of structural capital not visible in the company's balance sheet. Don't get me wrong, every customer is unique, but in many cases the customer's problems are not. This does not necessarily mean that there is one software and one type of integration to rule them all, but rather that Exsitec have most probably completed a similar project before. This makes it easier for Exsitec to provide a strong value proposition and make the customer successful in using their digital solutions.

The business model is aimed in favor for long term gains for short term pains. Apart from being a reseller of software, the company integrates these well into the customers relevant systems and provides support services (10 % of LTM revenue). The integrations and support services are priced on the low end due to primarily two reasons:

- 1) The integrations are to be seen as a facilitator for the customer to add additional software's in the future, making it easy for the customer to invest in a new digital tool that enhances the customer's business rather than to squeeze out every penny possible from the actual integrations made.
- 2) If Exsitec can get more customers to choose their support services, that means more control over the customers usage of the systems. When a customer does not know how to utilize the full potential of the software or is stuck in using the software for a specific task, Exsitec is the first to know. Helping the customer maximize the ROI of current system will further incentivize them to buy additional software.

Exsitec's network of ~4000 customers and a handful of software vendors becomes more valuable as it expands. Exsitec owns the customer, and as more customers enters the network and more integrations are made, the larger the potential for upsell is for each individual software vendor. A new customer buying an e-commerce software from one supplier could also lead to a new customer for software vendors supplying Business Intelligence solutions further down the road. The vast amounts of insights and customer feedback that Exsitec's customer base generates as it grows is considerably valuable for the software vendors, improving product development, which in turn leads to a better product.



Date	Commitment	Success rate
IPO Q3'20	Sales growth of +15 % with an EBITA-margin of 15 % (over time)	100%
Q4'20 report	Establish Exsitec in Norway and strengthen the market position within e-commerce	100%
Q4'21 report	"Support revenue is a prioritized area of growth going forward."	100%
Q4'21 report	"We consider ourselves to be navigating our organisation well despite a growth rate high above our financial goals."	40%
Q4'22 report	Business unit in Norway should improve profitability in Q1'23 to at around the same levels as the same quarter last year.	<i>In progress</i>
Q3'21 report	Sales exceeding 1bn SEK with an EBITA-margin of at least 20 % some time during 2023-2025	<i>In progress</i>

## Valuation

With an increasing share of software revenue, Exsitec is in my view a company sub scale with a long growth runway, high returns on capital, an experienced management and a clear M&A strategy. The company considers M&A to be a vital part of their business, and the business should in my view not be compared against a peer group of traditional IT-consultants. Hence, I choose to base my valuation of the company by using a peer group consisting of mainly Swedish serial acquirers with high returns on capital (see appendix.1). ROCE is used as a metric to compare the return on capital generated across the peer group to both equity and debt holders, as this capital is mainly used for value creating M&A activities. I consider EV/EBITA to be the most relevant valuation metric for the peer group as it takes into account the differences in both capital structure and accounting standards where some companies within the peer group amortize goodwill. However, as the recent rise in interest rates and cost of capital now starts to reflect in the companies' income statement, I also think a P/E comparison within the peer group is reasonable to some extent. Therefore, my valuation of the company is based on a 50/50 share between EV/EBITA and P/E for comparable companies.

The median EV/NTM EBITA multiple for the peer group is 15,4x. However, as the scatter plot in appendix.2 shows, companies with a more comparable ROCE (above 20 %) to Exsitec have multiples ranging between 17,6-23,5x. These companies are generally more well established and vastly larger than Exsitec. Therefore, I consider Exsitec to be fairly valued with a discount to these, but with a premium to the whole peer group. A target multiple of 16,5x yields a premium valuation of 7 % to the peer group, and a discount of -7 % to the company with the lowest valuation of those with a ROCE > 20 %. If the same logic is applied to the P/E multiple, a target P/E multiple of 19,7 is derived.

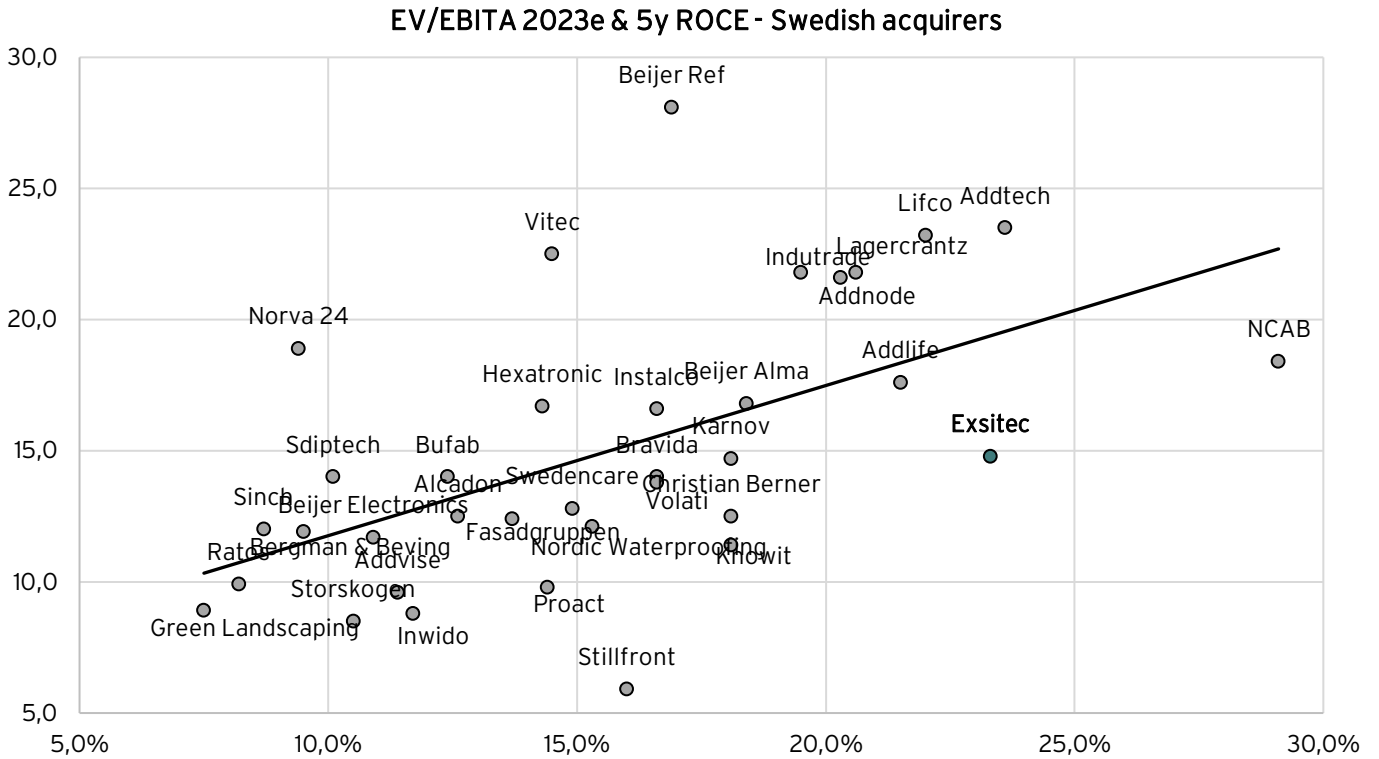
As I expect Exsitec to improve both its EBITA and net profit margin quite drastically during the next three years, I choose to base my valuation on the company's estimated EBITA and net profit in year 2025. If the story plays out as expected, my view is that in the beginning of year 2025, Exsitec is fairly valued at 216,3 SEK per share. Due to the high return on capital and the strong FCF generation of the business (107 % of net profit in 2022), investors will experience an EV contraction of 89m SEK in total during two years, also included in the target price. Investors can also expect dividends of totally 2,86 % during the next two years, yielding an upside of 57,36 % and a CAGR of 25,4 % during the next two years.

## Appendix 1 - Peer table

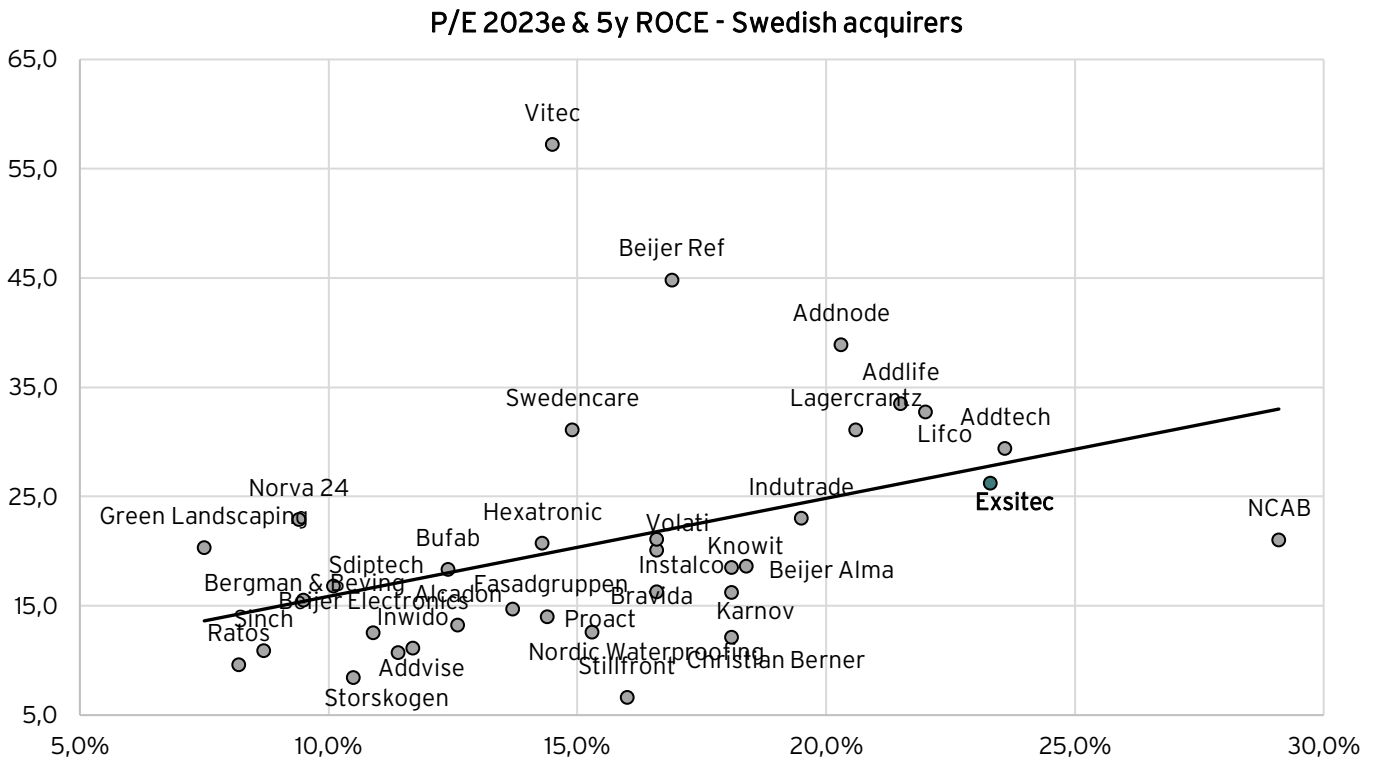
Company name (figures in MSEK)	EV	EV/EBITA 2023e	P/E 2023	5y Avg ROCE
NCAB	9 900	18,4	21,0	29,1%
Addtech	52 200	23,5	29,4	23,6%
Lifco	97 800	23,2	32,7	22,0%
Addlife	17 500	17,6	33,5	21,5%
Lagercrantz	26 300	21,8	31,1	20,6%
Addnode	16 300	21,6	38,9	20,3%
Indutrade	83 100	21,8	23,0	19,5%
Beijer Alma	14 200	16,8	18,6	18,4%
Christian Berner	558	12,5	12,1	18,1%
Karnov	7 700	14,7	16,2	18,1%
Knowit	6 600	11,4	18,5	18,1%
Beijer Ref	69 300	28,1	44,8	16,9%
Instalco	14 800	16,6	20,1	16,6%
Bravida	23 800	14,0	16,3	16,6%
Volati	9 200	13,8	21,1	16,6%
Stillfront	13 700	5,9	6,6	16,0%
Nordic Waterproofing	4 800	12,1	12,6	15,3%
Swedencare	5 500	12,8	31,1	14,9%
Vitec	19 500	22,5	57,2	14,5%
Proact	3 100	9,8	14,0	14,4%
Hexatronic	26 300	16,7	20,7	14,3%
Fasadgruppen	6 400	12,4	14,7	13,7%
Alcadon	1 600	12,5	13,2	12,6%
Bufab	13 200	14,0	18,3	12,4%
Inwido	7 200	8,8	11,1	11,7%
Addvise	2 600	9,6	10,7	11,4%
Beijer Electronics	3 300	11,7	12,5	10,9%
Storskogen	27 100	8,5	8,4	10,5%
Sdiptech	12 100	14,0	16,8	10,1%
Bergman & Beving	4 700	11,9	15,5	9,5%
Norva 24	6 800	18,9	22,9	9,4%
Sinch	34 900	12,0	10,9	8,7%
Ratos	22 400	9,9	9,6	8,2%
Green Landscaping	6 200	8,9	20,3	7,5%
<b>Exsitec</b>	<b>1 792</b>	<b>14,8</b>	<b>26,2</b>	<b>23,3%</b>
<b>Mean (exkl exsitec)</b>	<b>19 725</b>	<b>15,0</b>	<b>20,7</b>	<b>15,4%</b>
<b>Median (Exkl exsitec)</b>	<b>12 650</b>	<b>13,9</b>	<b>18,4</b>	<b>15,1%</b>

Source: Factset, S&P Global, Own estimates and calculations

### Appendix 2 - Scatter plot (EV/EBITA 2023E)



### Appendix 3 - Scatter plot (P/E 2023E)



## Appendix 4- Income Statement

MSEK	2018	2019	2020	2021	2022	2023E	2024E	2025E
Net sales	177,7	261,9	292,1	460,2	656,6	760,5	844,4	925,6
Other income	0,2	0,2	4,3	-1,1	25,6	0,0	0,0	0,0
<b>Revenue</b>	<b>177,9</b>	<b>262,1</b>	<b>296,4</b>	<b>459,1</b>	<b>682,2</b>	<b>760,5</b>	<b>844,4</b>	<b>925,6</b>
Costs for external subcontractors, licenses and direct costs	-27,4	-55,4	-56,6	-31,3	-50,1	-53,2	-59,1	-64,8
Merchandise	0,0	-5,5	-8,1	-8,5	-6,7	-7,2	-8,0	-8,8
Other external costs	-21,6	-31,1	-29,8	-44,1	-68,1	-84,5	-87,1	-93,5
Personnel costs	-98,1	-131,7	-147,2	-285,4	-420,1	-483,7	-528,5	-567,5
Acquisition related personnel costs	0,0	0,0	0,0	-6,6	-15,1	-13,9	-5,7	0,0
Depreciation and impairments of tangible assets	-1,5	-1,3	-1,4	-15,9	-23,0	-1,5	-1,5	-1,5
Other operating expenses	0,0	-0,3	-0,8	-0,8	-1,5	-2,0	-2,0	-2,0
<b>EBITA</b>	<b>29,9</b>	<b>36,8</b>	<b>52,5</b>	<b>66,6</b>	<b>97,5</b>	<b>114,4</b>	<b>152,4</b>	<b>187,5</b>
<i>EBITA %</i>	<i>16,8%</i>	<i>14,0%</i>	<i>17,7%</i>	<i>14,5%</i>	<i>14,3%</i>	<i>15,0%</i>	<i>18,1%</i>	<i>20,3%</i>
<b>Adj. EBITA</b>	<b>29,9</b>	<b>36,8</b>	<b>48,8</b>	<b>77,0</b>	<b>92,0</b>	<b>128,3</b>	<b>158,1</b>	<b>187,5</b>
<i>Adj. EBITA %</i>	<i>16,8%</i>	<i>14,1%</i>	<i>16,7%</i>	<i>16,7%</i>	<i>14,0%</i>	<i>16,9%</i>	<i>18,7%</i>	<i>20,3%</i>
Depreciation and impairments of intangible assets	-31,7	-34,6	-37,8	-10,8	-18,3	-18,0	-22,0	-26,0
<b>EBIT</b>	<b>-1,9</b>	<b>2,2</b>	<b>14,7</b>	<b>55,8</b>	<b>79,2</b>	<b>96,4</b>	<b>130,4</b>	<b>161,5</b>
<i>EBIT %</i>	<i>-1,1%</i>	<i>0,8%</i>	<i>5,0%</i>	<i>12,2%</i>	<i>11,6%</i>	<i>12,7%</i>	<i>15,4%</i>	<i>17,5%</i>
Net financial income/expenses	-1,8	-1,4	-1,1	-2,8	-5,3	-3,9	-3,1	-0,6
<b>EBT</b>	<b>-3,6</b>	<b>0,9</b>	<b>13,6</b>	<b>53,0</b>	<b>73,9</b>	<b>92,6</b>	<b>127,3</b>	<b>161,0</b>
Tax expense	-6,0	-8,3	-11,0	-12,8	-17,8	-20,0	-27,5	-34,8
Minority interests	0,0	0,5	0,0	0,0	0,0	0,0	0,0	0,0
<b>Net profit</b>	<b>-9,7</b>	<b>-7,0</b>	<b>2,5</b>	<b>40,2</b>	<b>56,1</b>	<b>72,6</b>	<b>99,8</b>	<b>126,2</b>

*Note: Future acquisitions are NOT included in my estimates.*

## Appendix 5 - Balance Sheet

MSEK	2018	2019	2020	2021	2022	2023E	2024E	2025E
Goodwill	134,9	117,6	80,2	261,1	341,6	355,5	361,2	361,2
Other intangible assets	0,0	0,0	0,0	119,1	148,1	131,7	111,3	86,9
Tangible fixed asset	4,1	4,2	3,7	12,3	12,5	13,0	13,5	14,0
Right-of-use assets	0,3	0,0	0,0	39,1	27,5	30,0	32,0	34,0
Other long-term receivables	0,0	0,3	1,3	1,1	1,8	1,8	1,8	1,8
Deffered tax assets	0,0	0,0	0,0	1,1	1,0	1,0	1,0	1,0
<b>Total fixed assets</b>	<b>139,3</b>	<b>122,2</b>	<b>85,3</b>	<b>433,9</b>	<b>532,4</b>	<b>535,1</b>	<b>537,2</b>	<b>539,3</b>
Finished goods and merchandise	0,3	0,2	0,6	1,4	1,2	1,2	1,2	1,2
Accounts receivables	34,5	46,2	47,0	109,6	119,3	133,1	146,6	159,7
Other receivables	0,0	2,0	1,8	0,7	14,6	14,6	14,6	14,6
Prepayments and accrued income	14,7	20,6	23,0	32,3	34,9	34,9	34,9	34,9
<i>Cash &amp; cash equivalents</i>	<i>11,5</i>	<i>5,0</i>	<i>59,2</i>	<i>82,8</i>	<i>46,3</i>	<i>21,4</i>	<i>38,1</i>	<i>73,7</i>
<b>Total current assets</b>	<b>60,9</b>	<b>74,1</b>	<b>131,6</b>	<b>226,8</b>	<b>216,4</b>	<b>205,2</b>	<b>235,4</b>	<b>284,2</b>
<b>TOTAL ASSETS</b>	<b>200,2</b>	<b>196,3</b>	<b>216,9</b>	<b>660,7</b>	<b>748,8</b>	<b>740,2</b>	<b>772,6</b>	<b>823,5</b>
<i>Equity and liabilities</i>								
<b>Total equity</b>	<b>100,8</b>	<b>98,6</b>	<b>147,7</b>	<b>294,0</b>	<b>363,8</b>	<b>409,0</b>	<b>478,2</b>	<b>566,1</b>
Deferred taxes	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Liabilities to credit institutions (long term)	38,3	26,3	1,8	100,8	85,1	85,1	42,5	0,0
Lease liabilities (long term)	0,0	0,0	0,0	19,3	9,2	11,7	13,7	15,7
Other liabilities	0,0	4,6	2,4	3,3	17,2	17,2	17,2	17,2
Deferred tax liabilities	0,0	0,0	0,0	25,1	31,1	31,1	31,1	31,1
<b>Total long term liabilities</b>	<b>38,3</b>	<b>30,9</b>	<b>4,2</b>	<b>148,5</b>	<b>142,6</b>	<b>145,1</b>	<b>104,5</b>	<b>64,0</b>
Liabilities to credit institutions (short term)	12,9	12,9	0,7	42,9	54,3	0,0	0,0	0,0
Lease liabilities (short term)	0,0	0,0	0,0	17,0	15,2	15,2	15,2	15,2
Accounts payable	13,7	17,2	20,3	42,2	38,2	36,2	39,9	43,5
Current tax liabilities	2,0	3,9	6,4	11,8	16,8	16,8	16,8	16,8
Other short term liabilities	10,1	13,1	16,8	51,9	46,5	46,5	46,5	46,5
Accruals and deffered income	15,0	19,7	20,9	52,3	71,4	71,4	71,4	71,4
<b>Total short term liabilities</b>	<b>53,7</b>	<b>66,8</b>	<b>65,0</b>	<b>218,2</b>	<b>242,4</b>	<b>186,1</b>	<b>189,8</b>	<b>193,4</b>
<b>Total equity and liabilities</b>	<b>200,2</b>	<b>196,3</b>	<b>216,9</b>	<b>660,7</b>	<b>748,8</b>	<b>740,2</b>	<b>772,6</b>	<b>823,5</b>



## Appendix 6 - Cash Flow

MSEK	2018	2019	2020	2021	2022	2023E	2024E	2025E
<i>Cash flow from operating activities</i>								
Profit or loss after financial items	-3,6	0,9	13,6	53,0	73,9	92,6	127,3	161,0
Adjustment for items not included in cash flow	32,6	35,9	39,2	33,3	56,3	33,4	29,2	27,5
Income tax paid	-6,0	-6,4	-8,6	-13,6	-17,9	-20,0	-27,5	-34,8
<b>CF from operating activities before changes in WC</b>	<b>22,9</b>	<b>30,3</b>	<b>44,3</b>	<b>72,7</b>	<b>112,3</b>	<b>106,0</b>	<b>129,0</b>	<b>153,7</b>
<b>Change in working capital</b>	<b>-6,7</b>	<b>-8,8</b>	<b>4,7</b>	<b>-21,3</b>	<b>-20,8</b>	<b>-15,7</b>	<b>-9,9</b>	<b>-9,6</b>
<b>Cash flow from operating activities</b>	<b>16,2</b>	<b>25,0</b>	<b>49,0</b>	<b>51,4</b>	<b>91,6</b>	<b>90,3</b>	<b>119,2</b>	<b>144,2</b>
<i>Investing activities</i>								
Acquisition of subsidiaries, net of cash and cash equivalents	-1,5	-19,2	0,0	-242,0	-78,3	-13,9	-5,7	0,0
Buy out of minority interests	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Change in long-term receivables	0,0	0,0	-1,0	0,3	-0,3	0,0	0,0	0,0
Investment in intangible assets	0,0	-1,5	-0,4	-0,2	-3,4	-2,0	-2,0	-2,0
Investment in tangible assets	-1,6	-2,2	-0,8	-3,1	-2,5	-1,6	-1,6	-1,6
<b>Cash flow from investing activities</b>	<b>-3,2</b>	<b>-22,8</b>	<b>-1,2</b>	<b>-244,9</b>	<b>-84,5</b>	<b>-17,5</b>	<b>-9,3</b>	<b>-3,6</b>
<i>Financing activities</i>								
New issuance, net of transaction expenses	3,1	0,0	47,6	133,9	0,0	0,0	0,0	0,0
Borrowings	1,5	6,3	0,0	155,0	50,0	0,0	0,0	0,0
Amortization of loans	-13,2	-14,9	-38,2	-16,1	-56,2	-54,3	-42,5	-42,5
Principal repayments of lease liabilities	0,0	0,0	-0,9	-13,3	-19,8	-20,8	-21,6	-22,4
Dividend to shareholders	0,0	0,0	0,0	-16,4	-19,1	-22,6	-29,0	-39,9
Currency exchange differences	0,0	0,0	-0,2	0,0	0,0	0,0	0,0	0,0
Transactions with non-controlling interests	0,0	0,0	-0,1	-26,1	0,0	0,0	0,0	0,0
Share buybacks	0,0	0,0	-0,8	0,0	0,0	0,0	0,0	0,0
<b>Cash flow from financing activities</b>	<b>-8,6</b>	<b>-8,6</b>	<b>6,4</b>	<b>217,0</b>	<b>-45,1</b>	<b>-97,7</b>	<b>-93,2</b>	<b>-104,9</b>
<b>Cash flow for the period</b>	<b>4,5</b>	<b>-6,5</b>	<b>54,2</b>	<b>23,5</b>	<b>-38,1</b>	<b>-24,9</b>	<b>16,7</b>	<b>35,7</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>7,0</b>	<b>11,5</b>	<b>139,9</b>	<b>59,2</b>	<b>82,8</b>	<b>46,3</b>	<b>21,4</b>	<b>38,1</b>
Exchange rate difference on cash and cash equivalents	0,0	0,0	0,0	0,1	1,6	0,0	0,0	0,0
<b>Cash and cash equivalents at the end of the period</b>	<b>11,5</b>	<b>5,0</b>	<b>194,0</b>	<b>82,8</b>	<b>46,3</b>	<b>21,4</b>	<b>38,1</b>	<b>73,7</b>