

Admicom (ADMCM)



About Admicom

Admicom is a Finnish company that provides software and services to small- and medium-sized enterprises in the construction segment. The company's three primary segments are ERP, project planning, and documentation solutions. Additional value-adding services offered are accounting services as well as training and consulting. The software and services provided are subscription-based.

Overweight

| | |
|---------------|----------|
| Target Price | EUR 58.2 |
| Current Price | EUR 38.3 |
| Upside | 51.7% |

Market Data, EUR

| | |
|------------|-------------------------|
| Exchange | First North Helsingfors |
| Shares (m) | 4.9 |
| MCAP (m) | 191.4 |
| EV (m) | 188.9 |

Forecast, EURm

| | 22A | 23E | 24E |
|---------------|-------|-------|-------|
| Total revenue | 31 | 36 | 43 |
| Rev. growth | 26.9% | 14.3% | 19.8% |
| Gross Profit | 30 | 34 | 41 |
| Gross Margin | 95.3% | 95.0% | 95.0% |
| EBITDA | 14 | 15 | 19 |
| EBITDA Margin | 44.6% | 41.9% | 44.1% |
| EBIT | 11 | 12 | 15 |
| EBIT Margin | 34.2% | 32.4% | 34.4% |

Key Metrics

| | 22A | 23E | 24E |
|-----------|--------|--------|--------|
| EV/EBITDA | 16.2x | 12.5x | 9.9x |
| EV/EBIT | 21.2x | 16.3x | 12.7x |
| ND/EBITDA | (0.2x) | (0.2x) | (0.1x) |
| P/E | 29.0x | 21.1x | 16.7x |
| P/S | 7.2x | 5.3x | 4.4x |
| EPS | 1.6 | 1.8 | 2.3 |

ANALYSTS CONTACT INFORMATION

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Admicom – Revolutionizing the construction industry

Admicom is the market-leading SaaS provider serving the Finnish construction industry. With a 9.0% market share and planned international expansion, there is room for penetrating the EUR 323m market in Finland and selected overseas markets that are up to 10.0x the size of the Finnish market. By strengthening the platform during 2023E-2024E and implementing an accelerated growth strategy from 2024E with a focus on select overseas markets and further acquisitions, Admicom is estimated to grow substantially in both the Finnish market and overseas. The immense growth potential motivates a revenue CAGR of 18.1% from 2022A until 2027E. Despite being the market leader within its niche, Admicom is trading below peer multiples with a forward-looking EV/EBIT multiple of 12.7x in 2024E, whereas the peer group trades at a median EV/EBIT of 20.6x. The discount is due to exaggerated fears regarding the cyclical nature of the business, which in 2022A did not affect growth, as the company was able to grow organically by 12.1%. By an equally weighted DCF and peer valuation, a target price of EUR 58.2 is motivated, implying an upside of 51.7%.

Key takeaways

Strong need for digitalization drives top-line growth

Admicom is set to benefit from the growing need for digitalization within the construction industry. For over two decades, the construction industry has experienced issues regarding improving its productivity. By measuring value-added per hour worked over a 25-year period, annual improvements have been 1.0%, which makes the construction industry the worst-performing sector in this metric. Investments in digitalization are needed to streamline operations and keep up with regulatory requirements. Admicom's software and services help with both automating and digitalizing workflows, allowing companies to increase productivity and stay ahead of regulatory requirements. The value added by Admicom's services motivates a revenue CAGR of 18.1%, ranging from 14.0-24.0% during the period 2022A to 2027E.

Lock in effects create good conditions for future growth

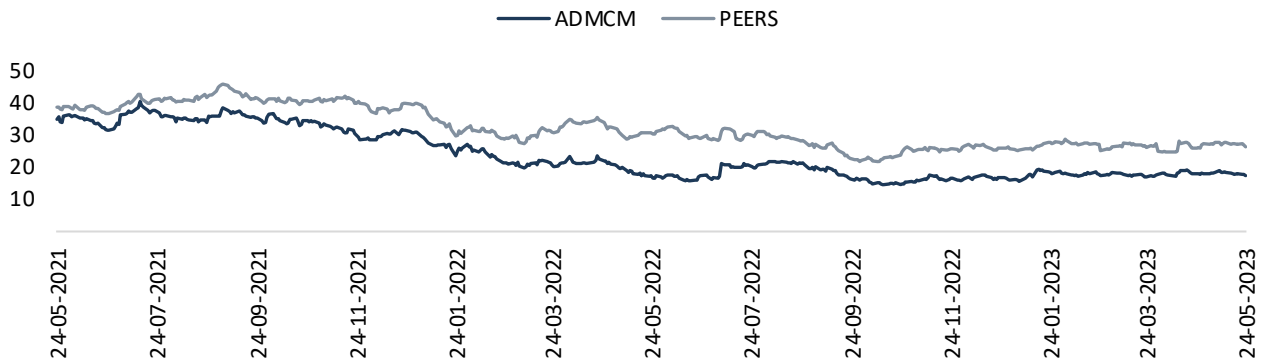
Despite no long-term customer contracts, 89.0-93.0% of revenue has been recurring during the period 2019A-2022A. Churn is limited because the software and services provided to customers are business-critical, thus creating a sticky business model. Since revenue is derived from subscription-based services, enabling Admicom to maintain a stable cash flow. Due to the lock-in effects, the company has the ability to increase prices without affecting the churn rate, and the steady cash flow and pricing power create good conditions for further revenue growth.

Scalable business model enables bottom-line growth

The software provided to customers is standardized, meaning that the marginal cost of adding additional customers is minimal. This makes the business model highly scalable. The scalability enables bottom-line growth, seen in the EBITA-margin expansion from 43.4% in 2022A to 47.5% in 2027E. Furthermore, it allows Admicom to allocate resources to grow its market share in Finland to over 20.0% in 2027E as well as entering markets overseas.

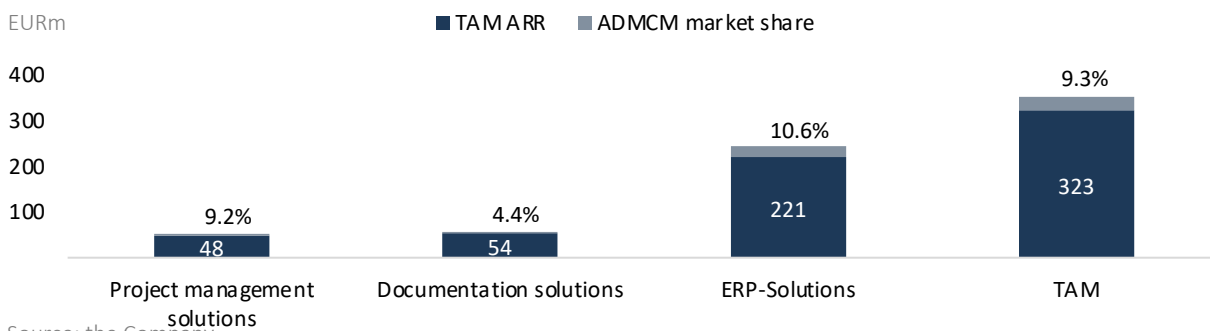
Investment thesis in charts

Historical EV/EBIT multiple compared to peers in SaaS segment



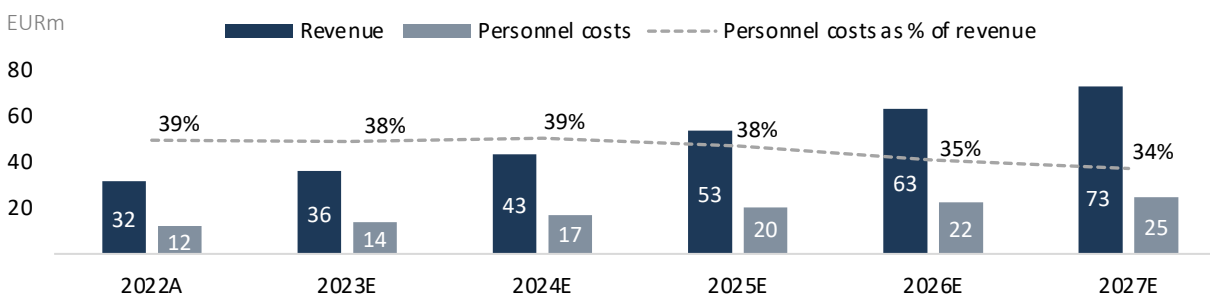
Source: Bloomberg

Large current TAM in Finland giving room for further market penetration



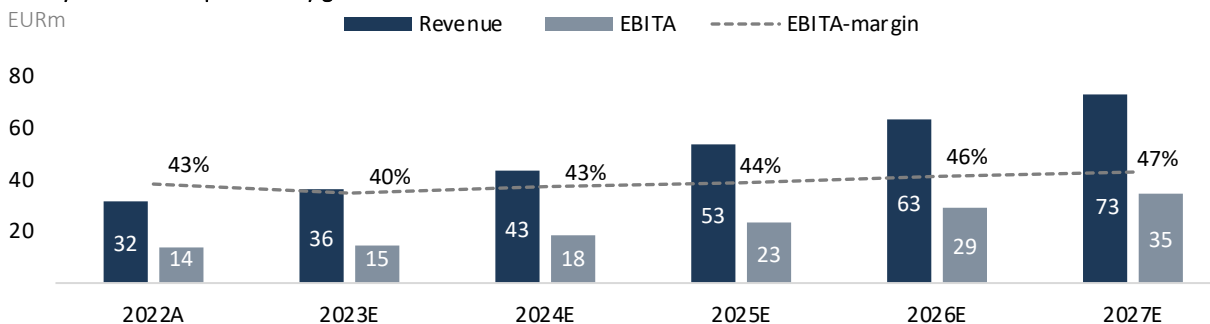
Source: the Company

Revenue growing faster than fixed costs enables margin expansion



Sources: Analyst estimates, the Company

Steady revenue and profitability growth



Sources: Analyst estimates, the Company

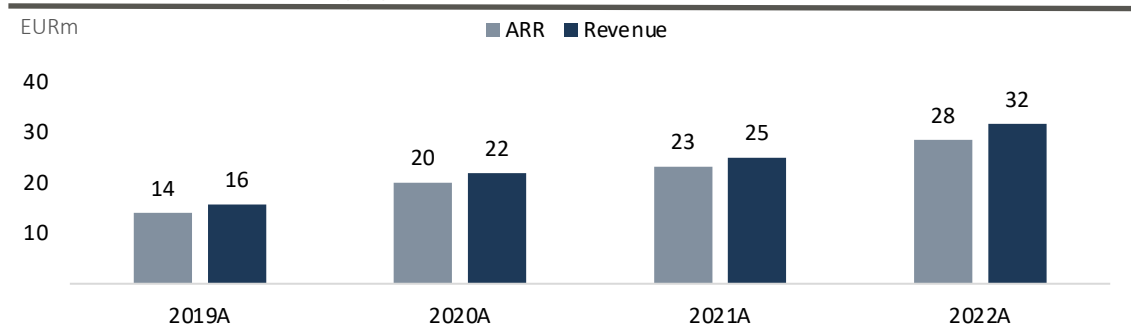
Investment thesis

Strong need for digitalization drives top-line growth

For two decades, the construction industry has faced difficulties with increasing its productivity, with an average increase of only 1.0% annually in labor productivity, thus making construction the lowest performing industry in terms of productivity. This is primarily due to low investments in digitalization. There are multiple drivers for digitalization in the construction industry. For example, a shortage of skilled workers caused by an aging workforce and lack of recruitment will require automation of work methods. With a younger, more digitally literate generation set to take their place, adaptation towards digital solutions is set to increase. Furthermore, legislation aimed at combating climate change will increase regulatory requirements, where comprehensive, machine-readable documents must be filled out. As Admicom is one of the few companies that are niched towards the segment, whilst offering the most comprehensive solutions out of the competitors the company can capitalize on these growing market trends.

Lock in effects create good conditions for future growth

The software and services provided by Admicom have shown to increase customer productivity by an average of 25.0%, which limits churn to bankruptcies and M&A activities. Pricing varies based on the software solution, but the main element is customer user volumes, which are adjusted monthly. The software is considered business-critical for customers as it increases productivity and saves costs, while being very difficult to switch from as the software is implemented into the customers businesses. Continuous price increases have not impacted the recurring revenue, as it has been 89.0-93.0% during 2019A-2022A. Pricing power and a stable revenue stream gives Admicom excellent conditions for further revenue growth, motivating a revenue CAGR of 18.1%, ranging from 14.0-24.0% between 2022A-2027E.



Scalable business model enables bottom-line growth

Admicom's product portfolio is split into three main segments; enterprise resource planning-, project management- and documentation solutions. Its annual recurring revenue in these segments is EUR 30m out of a total addressable market of EUR 323m. Since the software is standardized, the marginal cost per additional customer is low which provides an operating leverage that is displayed through the EBITA margin expansion from 38.0% in 2018A to 43.0% in 2022A. Due to a scalable business model, the EBITA margin is estimated to increase to 47.5% in 2027E. Furthermore, it allows them to allocate resources to penetrate the market, resulting in an expected market share of 20.3% in 2027E in Finland.

Exposure to fluctuations in construction market increases cyclicality

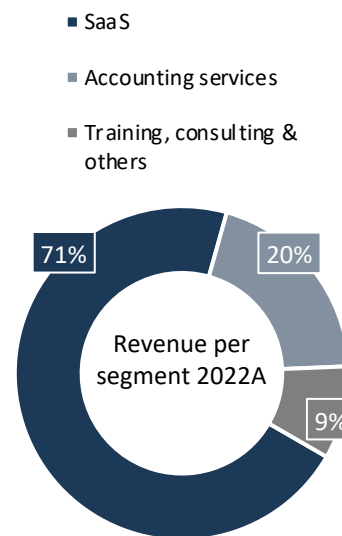
Due to fluctuations within the construction industry, the company becomes more sensitive to cyclicality. The largest threats are customers going bankrupt or customers being acquired by other companies in the industry. However, Admicom has shown resilience during 2022 with a 12.1% organic revenue growth. Still, since revenue is partially linked to customer revenue, the top-line can be affected negatively in harsher economic climates.

Company Overview

Admicom is a Finnish company founded in 2004, focused on providing SaaS-based enterprise resource planning systems, training, consulting, and accounting services to small and medium-sized enterprises in the construction industry. The company is operating in the Finnish market with a planned international expansion in the coming years. Historically, the SaaS segment is the largest source of revenue, with 71.0% of revenue stemming from it in 2022A. Strategy changes in 2022A have shifted focus from being a broad software and accounting provider, to mainly being a software and accounting provider to small and medium-sized enterprises within the construction segment. With strategic acquisitions made in recent years, the product offering has broadened, now offering project management-, documentation- and cost calculation solutions. As Admicom’s software is cloud-based it is accessible through most devices and gives the customer real-time visibility into operations. The services provided aid in automation of workflow and removes time-wasting activities that otherwise would be done manually. Admicom is the market leader within its niche, with over 3,000 customers, as they offer the most comprehensive solution package.

Business Model

Admicom’s product portfolio consists of the main product Adminet incorporated with Admicom’s acquired companies and products, Hillava, Tocoman, and Kotopro. Most revenue comes from recurring invoicing, as services are mainly subscription-based. The pricing model varies based on the product; its SaaS-based ERP software Adminet adjusts pricing based on customer user volumes and annual revenue. With Admicom’s documentation- and project management solutions Kotopro and Tocoman, the monthly fee depends on customer user volume. The pricing model creates flexibility for the customers and benefits Admicom as cash flow is predictable. The average customer is estimated to pay a fee of around EUR 800-1500 each month. Due to the nature of the services provided by Admicom, customers can cut down on administrative work and employees, meaning that they save a sizeable amount of money.



Market Overview

Digitalization in the construction industry is lagging, being one of the least digitized sectors globally. With a highly fragmented construction market, adaptation to new technologies is crucial for increased efficiency and survival. New legislation named “Building Act 2025” aimed at combating climate change has been adopted by parliament in Finland and will require digitalization as documentation must be produced in accordance with certain data models. Few SaaS companies are niched towards the construction industry, as there is only one other company operational in Finland within the niche. Although Admicom provides a more comprehensive solution offering as they offer tools for financial management that the competitor does not. Most competitors provide more general SaaS solutions, which gives Admicom a clear competitive advantage as they offer industry specific solutions that competitors lack. This should benefit the company in further penetration of the EUR 323m market in Finland. Planned international expansions within Europe will widen their TAM as the market size is up to 10.0x larger overseas.

Valuation

Valuation implies a share price of EUR 58.2

The valuation of Admicom is based on an equally weighted DCF and peer valuation. By weighing the DCF and peer valuation equally, a target price of EUR 58.2 is motivated, implying a 51.7% upside.

Attractive market with high valuations motivates higher valuation for Admicom

The SaaS segment is full of companies offering different solution packages to differing customer bases. As Admicom provides the most comprehensive solution on the market, no peer has all the attributes of a direct competitor, but they all offer partial solutions to Admicom. The closest competitor is Norwegian Smartcraft, which provides software solutions to customers within the construction segment. Fortnox and Talenom offer financial management solutions as accounting, while Lemonsoft and Vitec offer more general software solutions to a broader customer base. Despite similar growth estimates and margins, Admicom is traded at a discount compared to peers. The median EV/EBIT of 20.6x is used, implying a target price of EUR 61.8 and a potential upside of 61.1% in 2024E.

| Peers - EURm | Market Data | | Financials | | Valuation |
|---------------|--------------|--------------|------------------|-------------------|--------------------------|
| | Company name | Market Cap | Enterprise value | EBIT-margin 2024E | Revenue CAGR 2022A-2024E |
| Smartcraft | 298 | 283 | 34.9% | 17.1% | 20.6x |
| Lemonsoft | 161 | 152 | 30.1% | 11.7% | 17.9x |
| Fortnox | 3,851 | 3,844 | 44.1% | 33.9% | 42.9x |
| Vitec | 1,802 | 1,884 | 35.4% | 19.7% | 20.0x |
| Talenom | 379 | 433 | 13.5% | 16.3% | 22.3x |
| Median | 379 | 433 | 34.9% | 17.1% | 20.6x |
| Mean | 1,298 | 1,319 | 31.6% | 19.7% | 24.7x |
| Admicom | 191 | 189 | 34.4% | 17.0% | 12.7x |

DCF implies a value over trading price

A five-year DCF based on the estimation of free cash flow to 2027E has been conducted. The cash flows have been discounted with an 8.3% WACC, and a terminal growth rate of 2.0% has been applied to derive the terminal value. The revenue CAGR used for the period 2022A-2027E is 18.1%, and estimates have been made in line with Finnish accounting standards (FAS). The DCF implies a target price of EUR 54.6 and a potential upside of 42.4%.

| DCF valuation breakdown 2027E | |
|-------------------------------------|-------------|
| Terminal growth rate | 2.0% |
| Cost of equity | 8.7% |
| Cost of debt | 1.5% |
| WACC | 8.3% |
| Forecasted value (EURm) | 46 |
| Terminal value (EURm) | 330 |
| Net debt (EURm) | (2) |
| Market cap (EURm) | 270 |
| No. Of shares (m) | 5 |
| Equity value per share (EUR) | 54.6 |
| Upside | 42.4% |

Appendix

| Income statement, EURk | 2018A | 2019A | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E | 2026E | 2027E |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 11,469 | 15,693 | 21,920 | 24,920 | 31,625 | 36,137 | 43,298 | 53,487 | 63,124 | 72,768 |
| COGS | (437) | (540) | (1,059) | (1,395) | (1,491) | (1,824) | (2,186) | (2,700) | (3,186) | (3,673) |
| Gross profit | 11,032 | 15,153 | 20,861 | 23,525 | 30,134 | 34,313 | 41,113 | 50,787 | 59,938 | 69,095 |
| <i>Gross margin %</i> | 96.2% | 96.6% | 95.2% | 94.4% | 95.3% | 95.0% | 95.0% | 95.0% | 95.0% | 95.0% |
| OPEX | | | | | | | | | | |
| Personnel costs | (4,734) | (6,056) | (8,208) | (9,010) | (12,178) | (13,824) | (16,816) | (20,076) | (22,289) | (24,676) |
| Other operating expenses | (1,502) | (1,942) | (2,699) | (2,654) | (3,842) | (5,336) | (5,196) | (6,418) | (7,575) | (8,732) |
| EBITDA | 4,796 | 7,155 | 9,954 | 11,861 | 14,114 | 15,152 | 19,101 | 24,293 | 30,073 | 35,687 |
| <i>EBITDA-margin %</i> | 41.8% | 45.6% | 45.4% | 47.6% | 44.6% | 41.9% | 44.1% | 45.4% | 47.6% | 49.0% |
| Depreciation | (429) | (465) | (409) | (391) | (380) | (558) | (669) | (827) | (976) | (1,125) |
| EBITA | 4,367 | 6,690 | 9,545 | 11,470 | 13,734 | 14,593 | 18,432 | 23,466 | 29,098 | 34,562 |
| <i>EBITA-margin %</i> | 38.1% | 42.6% | 43.5% | 46.0% | 43.4% | 40.4% | 42.6% | 43.9% | 46.1% | 47.5% |
| Amortization | (76) | (76) | (927) | (1,097) | (2,924) | (2,877) | (3,551) | (4,898) | (5,571) | (6,245) |
| EBIT | 4,291 | 6,614 | 8,618 | 10,373 | 10,810 | 11,716 | 14,881 | 18,568 | 23,527 | 28,318 |
| <i>EBIT-margin %</i> | 37.4% | 42.1% | 39.3% | 41.6% | 34.2% | 32.4% | 34.4% | 34.7% | 37.3% | 38.9% |
| Interest income | 15 | 18 | 7 | 3 | 6 | 112 | 93 | 77 | 60 | 44 |
| Interest expenses | (231) | (3) | (16) | (46) | (195) | (217) | (260) | (321) | (379) | (437) |
| EBT | 4,075 | 6,629 | 8,609 | 10,330 | 10,621 | 11,611 | 14,715 | 18,325 | 23,208 | 27,925 |
| <i>EBT-margin %</i> | 35.5% | 42.2% | 39.3% | 41.5% | 33.6% | 32.1% | 34.0% | 34.3% | 36.8% | 38.4% |
| Tax expense | (823) | (1,338) | (1,910) | (2,277) | (2,647) | (2,554) | (3,237) | (4,031) | (5,106) | (6,143) |
| Net income | 3,252 | 5,291 | 6,699 | 8,053 | 7,974 | 9,057 | 11,478 | 14,293 | 18,103 | 21,781 |
| <i>Net margin %</i> | 28.4% | 33.7% | 30.6% | 32.3% | 25.2% | 25.1% | 26.5% | 26.7% | 28.7% | 29.9% |

| EUR | WACC | | | | |
|------------|------|------|------|------|------|
| TGR | 7.3% | 7.8% | 8.3% | 8.8% | 9.3% |
| 3.0% | 79.8 | 70.9 | 63.7 | 57.7 | 52.7 |
| 2.5% | 72.2 | 64.8 | 58.7 | 53.7 | 49.3 |
| 2.0% | 66.0 | 59.8 | 54.6 | 50.2 | 46.4 |
| 1.5% | 60.9 | 55.6 | 51.1 | 47.2 | 43.9 |
| 1.0% | 56.6 | 52.0 | 48.0 | 44.6 | 41.6 |

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Other

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