



# Vitec Software Group

Sector: SaaS/serial acquirers

## Q4 2024: Solid y/y improvement in cash conversion

Redeye updates its estimates and valuation following Vitec releasing its Q4 2024 report. Fourth-quarter figures beat our top-line estimates, while EBITA came in slightly below what we pencilled in. Encouragingly, free cash flow to equity has roughly doubled over the last year. We expect Vitec to deliver solid organic growth and moderate acquired growth in 2025e. We update our estimates and raise our base case.

### Strong recurring revenue growth

Q4 2024 sales of cSEK927m beat our projection by c9%, fuelled by both recurring and non-recurring revenue growth. EBITA was c4% lower than we pencilled in. Encouragingly, LTM lease-adjusted FCFE has risen from cSEK272m (c81% of net income) in Q4 2023 to cSEK564m (c138%) in Q4 2024. Sales grew by c9% organically y/y in 2024, while M&A contributed c11%. We raise our 2025e net sales and recurring revenue estimates by c10-11% while nudging up our EBITA estimate by c4% to cSEK1.2bn.

### Scaling M&A volume, room for further acquisitions

Vitec closed seven acquisitions in 2024 (acquisition-year sales of cSEK470m), up from six in 2023 (c471m) and five in 2022 (c433m). We appreciate the company ramping its M&A volume and see decent headroom for more M&A. Specifically, the company's net interest-bearing debt/EBITDA of c1.6x (c1.9x in Q4 2023) and total net debt/EBITDA of c2.3x (c2.7x) provide financial capacity for moderate acquired growth (combined with seasonally strong cash flow in Q1). We model six M&A deals in 2025e, with cSEK52m in annual sales per acquiree).

### Valuation: New base case SEK615 (582)

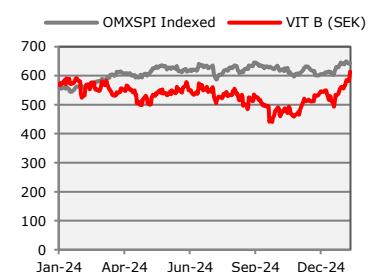
We raise our base case from SEK582 to SEK615 per share based on updated estimates and extending our forecast period by one year. Similarly, we increase our valuation range from SEK251-924 to SEK258-1,005 per share. The share currently trades at an EV/EBITA of c21x and a P/E of c43x based on our 2025e projections. We believe earnings growth will drive Vitec's share price appreciation and view M&A and quarterly reports as primary catalysts.

Key Financials (SEKm)	2022	2023	2024	2025e	2026e	2027e
Net sales	1,978	2,778	3,334	4,065	4,662	5,321
<i>Sales growth</i>	26%	40%	20%	22%	15%	14%
EBITDA	711	1,066	1,349	1,553	1,804	2,085
EBITA	537	840	977	1,221	1,423	1,651
<i>EBITA Margin (%)</i>	27%	30%	29%	30%	31%	31%
Net Income	245	339	410	570	663	766
EV/Sales	7.0	7.6	6.1	5.7	5.1	4.6
EV/EBITDA	22.1	22.4	17.0	16.8	14.8	13.2
EV/EBITA	29.3	28.4	23.5	21.4	18.8	16.7

### FAIR VALUE RANGE

BEAR	BASE	BULL
258	615	1,005

### VIT B VERSUS OMXSPI



### REDEYE RATING

4	4	4
People	Business	Financials

### KEY STATS

Ticker	VITB.ST
Market	Nasdaq Sthlm
Share Price (SEK)	614.0
Market Cap (SEKbn)	24.5
Net Debt (SEKbn)	2.2
Free Float (%)	95
Avg. daily volume ('000)	59.0

### ANALYSTS

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## Investment thesis

### Case: Serial acquirer in the European VMS market

Vitec is a software company and serial acquirer of European VMS companies—asset-light businesses with strong moats, providing high-margin revenue streams the parent company can re-deploy for additional acquisitions and investments in organic growth at high returns. We believe Vitec's inorganic investment opportunities position it for premium-growth prospects (c14% net sales CAGR until 2033e) in the coming years.

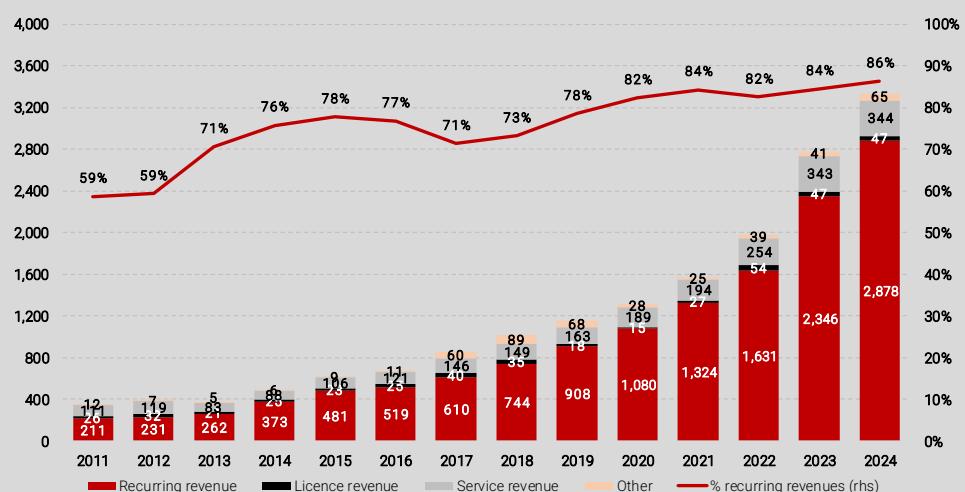
### Evidence: Acquired growth

Vitec grew recurring revenues from some SEK211m in 2011 to around SEK2.9bn in 2024, representing a CAGR of c22%. At the same time, the company has increased free cash flow to equity (FCFE) at a CAGR of c28%. This growth mainly derived from acquisitions (median acquired net sales growth of c17% per year in 2020-2024), but also solid organic growth (median c7% per year in 2020-2024). Since its founding, Vitec has completed 59 M&A deals, reaching pro-forma LTM sales of some SEK3.6bn in Q4 2024, with c87% of this being recurring revenues. We believe Vitec can efficiently scale M&A volume in coming years and continue its growth trajectory in the coming decade.

#### Supportive analysis 1: Growing recurring revenues

Vitec's acquisition-driven growth strategy has been highly successful, increasing net sales and FCFE at respective CAGRs of c19% and c28% in 2011-2024. Recurring revenues increased from c59% to c86% of Vitec's net sales over that time. We believe this underlines the highly recurring nature of its VMS product sales, providing stable cash flows that can fuel future M&A. VMS software is usually mission-critical to customers' businesses and rarely represents more than 1% of total costs. Switching costs and customer lock-in are thus entrenched, giving VMS companies robust pricing power and low customer churn. We understand Vitec's annual churn is lower than 1%.

#### Vitec Software Group: Sales by revenue stream

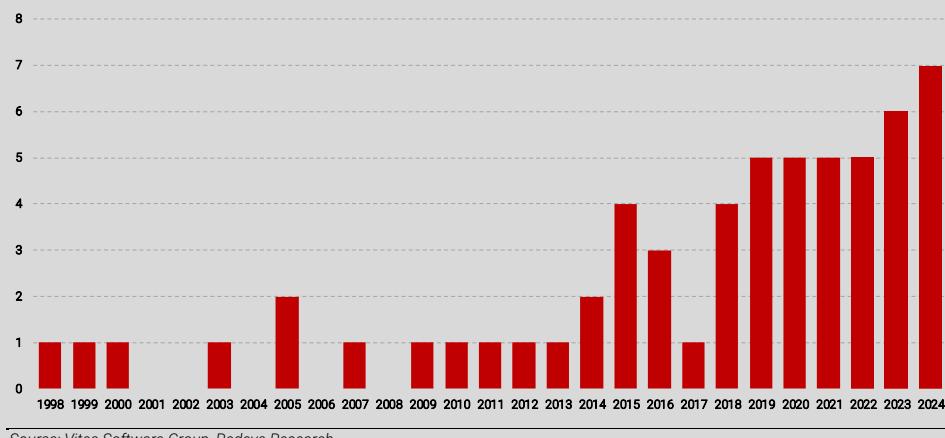


Source: Vitec Software Group, Redeye Research

### Supportive analysis 2: Increasing deal volume fuels ongoing growth

In recent years, Vitec has increased its number of closed M&A deals to about five to seven per annum. We judge Vitec has plenty of room to scale deal volume further in the long term. The company estimates some 500-1,000 potential acquisition targets in the Nordic region, with a similar number in the Netherlands. These geographies alone thus offer some 1,000-2,000 relevant VMS targets. Vitec's 45 business units are distributed across geographies and industries, minimising customer and industry concentration risk at the parent company level. Its largest subsidiary accounted for c12% of sales in Q4 2024, while the largest and 10 largest customer(s) accounted for c1.5% and c8% of sales, respectively.

#### Vitec Software Group: Number of acquisitions per year



#### Challenge I: Betting on prudent capital allocation

Vitec does (and should) reinvest most of its cash in acquisitions. As cash returns to shareholders in the coming decade(s) will likely remain limited, even considering dividends, Vitec primarily represents an investment in its management's ongoing prudent capital allocation. As Vitec buys high-quality SaaS companies at somewhat higher valuations than end-of-life on-prem firms, initial FCFE yields and returns on M&A are often limited. Instead, we believe the investment case mainly relies on Vitec choosing firms that can continue to grow sales and profits at decent clips. We judge CEO Olle Backman is starting to build a solid track record, with the company having closed 33 of its 59 M&A deals since he joined in 2019.

#### Challenge II: Scaling acquisition volume

Vitec's M&A volume is still relatively modest, with some five to seven acquisitions per annum in recent years. We believe the company must efficiently scale deal volume to maintain its historical growth trajectory. Another alternative is larger acquisitions, but those tend to come with higher valuations. In the long term, scaling M&A volume will likely require decentralising (smaller) M&A deals. We thus believe Vitec must successfully promote the most competent capital allocators to key positions. Best-in-class peer Constellation Software has shown it is possible to carry out over 100 VMS acquisitions per year.

#### Valuation: Quality at a reasonable price

Our base case fair value estimate amounts to SEK615 per share. Our bull and bear cases equal SEK1,005 and SEK258 per share, respectively. We judge the share could reach our base case within c12 months provided additional acquisitions and profitable growth materialise.

We believe the most significant catalysts for the share are new acquisitions, quarterly reports, and broadening the geographical scope of the company's M&A agenda.

## Counter-thesis

### **Increasing competition brings serial acquirer flywheel to a screeching halt**

Increasing amounts of capital chasing the same VMS deals may push up price tags, decreasing multiple arbitrage in Vitec's future M&A deals. Paying higher valuations would reduce the company's return on new acquisitions. We will closely monitor its future acquisitions for any multiple creep upward. Importantly, we judge it is essential for Vitec to maintain its status as preferred buyer and perpetual owner, allowing it to make acquisitions even in the face of higher bidders.

### **Increasing cost of debt**

We judge Vitec has reached a maturity where it can continue to execute on its acquisition agenda with cash flows from operations and debt raises as its primary sources of cash, supplemented with opportunistic share issues. However, increasing interest rates and potentially stricter lender covenants may reduce its optimal degree of leverage. More expensive and restrictive debt could reduce Vitec's return on equity. We judge that the company will maintain leverage corresponding to a net interest-bearing debt/LTM EBITDA level of some c1.0-2.0x, and c0.5-1.0x EBITDA in contingent considerations, in line with its current level.

## Q4 2024 review

In summary, Vitec's Q4 2024 figures beat our sales estimates, while EBITA came in slightly below what we pencilled in. Cash conversion has improved markedly over the last year, and the company has posted strong growth in subscription-based recurring revenues. Considering solid organic growth, moderate leverage, and seasonally strong cash flows in Q1, we believe Vitec has a solid position to continue its growth journey in 2025e.

### Vitec Software Group Q4 2024: Actuals versus estimates

Vitec Q4 2024: Actuals versus estimates					
(SEKm)	Q4 2024e	Q4 2024a	Diff vs est.	Q4 2023a	Q3 2024a
<b>Net sales</b>	<b>854.1</b>	<b>926.9</b>	<b>9%</b>	<b>740.3</b>	<b>809.3</b>
Recurring revenues	721.4	769.3	7%	610.9	717.8
Other revenues	126.3	157.6	25%	129.4	91.5
Future M&A	6.4	na	na	na	na
Growth y/y (%)	15%	25%	10%	28%	15%
Recurring revenues	18%	26%	8%	35%	17%
Other revenues	-2%	22%	24%	2%	5%
<b>EBITDA</b>	<b>334.8</b>	<b>427.4</b>	<b>28%</b>	<b>288.0</b>	<b>313.8</b>
EBITDA margin (%)	39%	46%	7%	39%	39%
<b>EBITA</b>	<b>265.9</b>	<b>255.5</b>	<b>-4%</b>	<b>213.0</b>	<b>238.3</b>
EBITA margin (%)	31%	28%	-4%	29%	29%
<b>EBIT</b>	<b>187.9</b>	<b>177.7</b>	<b>-5%</b>	<b>145.9</b>	<b>170.7</b>
EBIT margin (%)	22%	19%	-3%	20%	21%

Source: Vitec Software Group (historical figures), Redeye Research (forecasts)

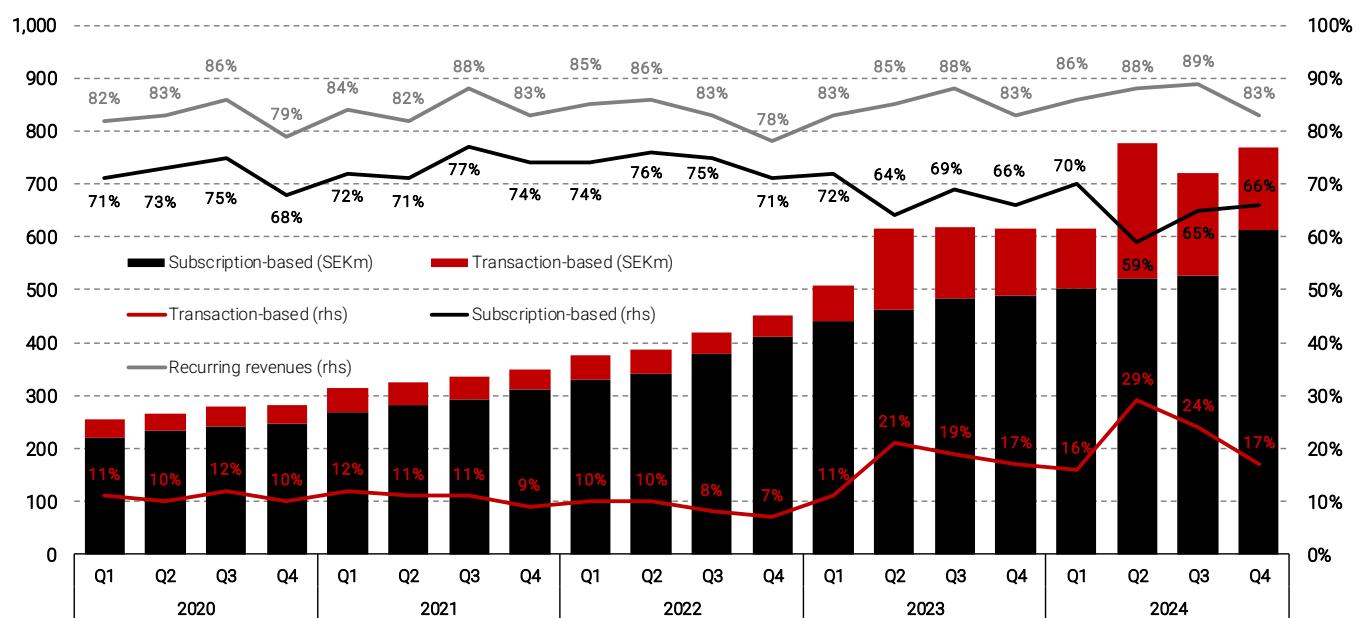
### Financials Q4 2024: Sales

Q4 2024 net sales came in at cSEK927m (c740m in Q4 2023), c9% above our estimate of cSEK854m. Recurring revenues amounted to c769m (c611m), c7% higher than our estimate of cSEK721m, or c6% higher than our estimate including future M&A. While unexpectedly high non-recurring revenues were part of the revenue beat this quarter, we are particularly encouraged by the strong development of recurring revenues, growing c7% q/q. We understand that recurring revenues benefitted from both continued organic growth and recent M&A.

Net sales growth in Q4 2024 equalled c25% y/y (c28%), c10%-points above our estimate of c15%. Recurring revenues grew c26% y/y (c35%), c8%-points higher than our estimate of c18%, or c7%-points higher than our estimate including future M&A. LTM organic recurring revenue growth came in at c11% for 2024 versus our average estimate of c10% for the year.

Aligning with the usual seasonal pattern, transaction-based recurring revenues decelerated sequentially, comprising c17% of sales (c24-29% in Q2-Q3 2024, c16% in Q4 2023). As a percentage of sales, subscription-based recurring revenues remained roughly stable sequentially, nudging up from c65% in Q3 2024 to c66% in Q4 2024. Both transaction- and subscription-based recurring revenues grew by c25% y/y, fuelled by organic growth and recent M&A. Pro-forma, transaction- and subscription-based recurring revenues grew organically by c18% and c9% y/y in 2024.

## Vitec Software Group: Transaction- and subscription-based revenues (% of net sales)



Source: Vitec Software Group (historical figures), Redeye Research (chart structuring)

Overall, we positively view Vitec beating our top-line estimates and maintaining solid organic growth, especially for recurring revenues. We understand that non-recurring revenues received a boost this quarter due to project-based work, which we anticipate will result in growing recurring revenues during 2025e. We believe Vitec starts 2025e from a solid position, enabling continued organic growth combined with moderate acquired growth.

#### Financials Q4 2024: Profitability

Note: We treat acquisition-related costs as an operating expense, i.e., an 'above EBITDA' item in the income statement (the company treats it as a 'below EBITA' expense). Further, we treat unrealised FX gains/losses as a 'below EBIT' expense/income, but Vitec treats it as an operating expense/income. Our EBITA estimate represents EBIT before acquisition-related amortisations.

EBITDA for the fourth quarter came in at cSEK427m (c288m), c28% above our estimate of cSEK335m. Consequently, EBITDA margin equalled c46% (c39%), c7%-points higher than our estimate of c39%. However, note that EBITDA for the quarter benefitted from a cSEK87m contingent consideration revaluation, which nets out on the EBITA and EBIT level due to corresponding intangible impairments.

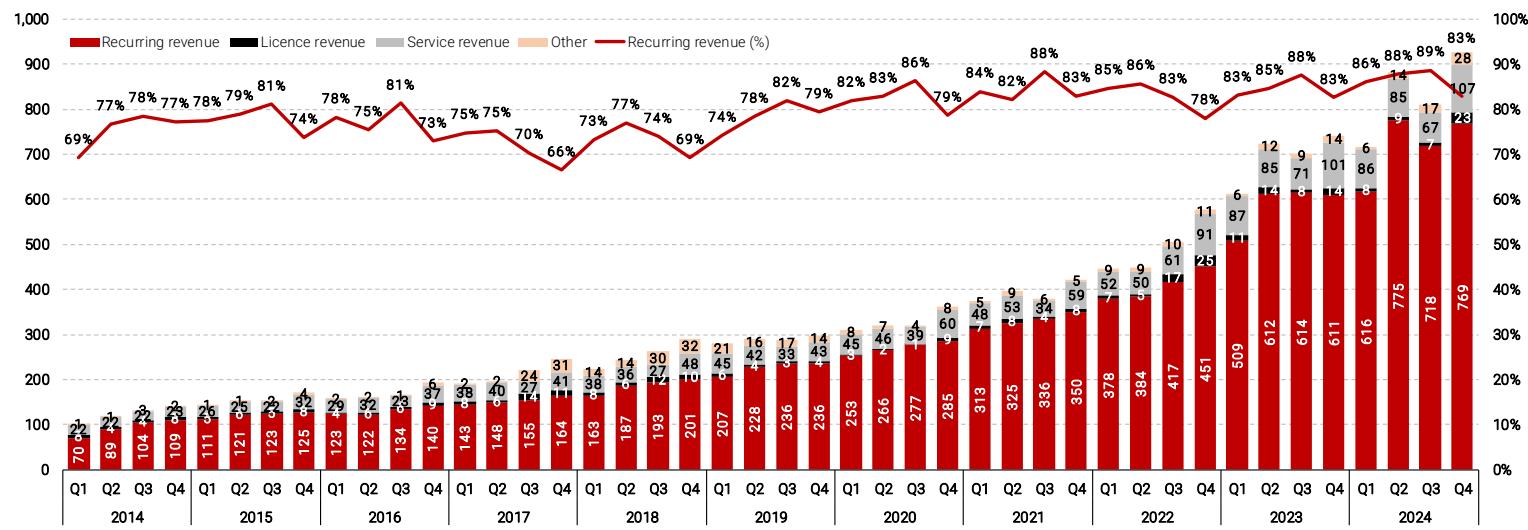
EBITA amounted to cSEK256m (c213m), c4% below our estimate of cSEK266m. Thus, EBITA margin amounted to c28% (c29%), c4%-points lower than our estimate of c31%.

EBIT came in at cSEK178m (c146m), c5% below our estimate of cSEK188m. Consequently, EBIT margin came in at c19% (c20%), c3%-points lower than our estimate of c22%.

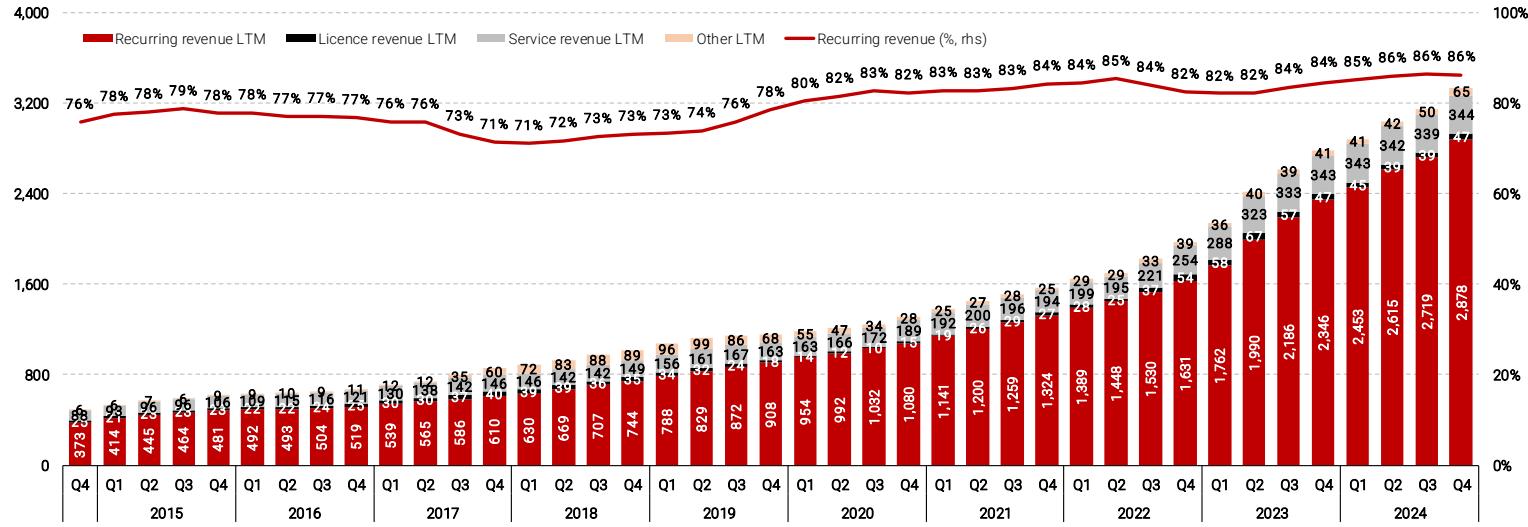
Overall, EBITA roughly matched our projections as Vitec's sales beat offset lower margins than we pencilled in. An increased share of non-recurring revenues boosted sales but also had a margin-dilutive effect during the quarter. We appreciate the company maintaining decent margins, albeit slightly lower than we pencilled in.

## Vitec Software Group: Quarterly and LTM segment sales and profitability

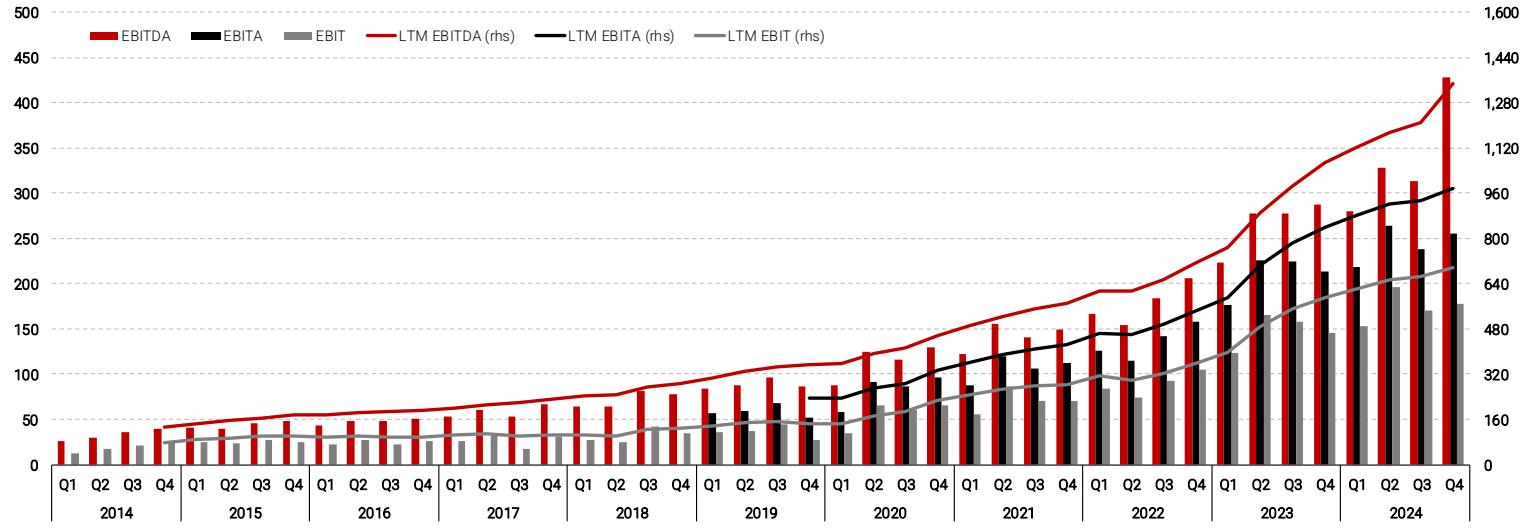
## Vitec Software Group: Segment sales Q1 2014-Q4 2024 (SEKm)



## Vitec Software Group: LTM segment sales Q4 2014-Q4 2024 (SEKm)



## Vitec Software Group: EBIT, EBITA, and EBITDA Q1 2014-Q4 2024 (SEKm)



Source: FactSet (historical figures), Vitec Software Group (historical figures), Redeye Research (chart structuring)

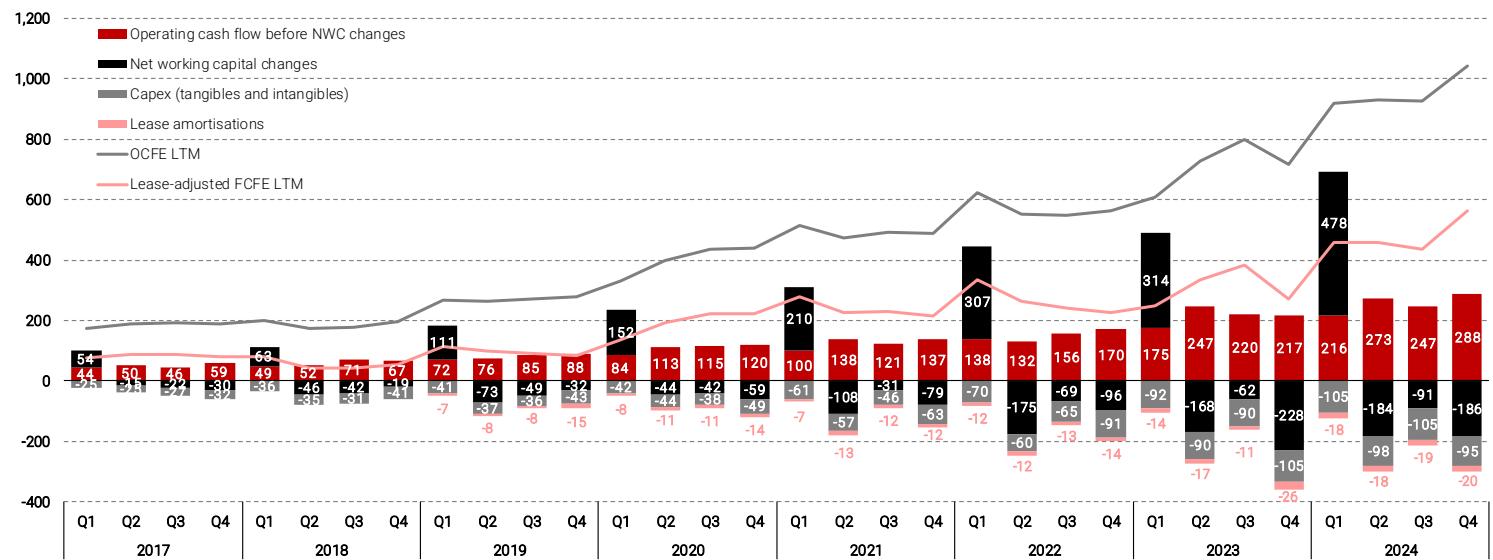
### Financials Q4 2024: Cash flow and leverage

Operating cash flow rose from cSEK-11m in Q4 2023 to cSEK102m in Q4 2024, mainly deriving from higher profits and more favourable working capital changes. LTM lease-adjusted free cash flow to equity (FCFE) has risen from cSEK272m in Q4 2023 and cSEK435m in Q3 2024 to cSEK564m in Q4 2024. We are encouraged by Vitec's improving cash conversion, with lease-adjusted FCFE coming in at c138% of net income in 2024, up from c80% in 2023.

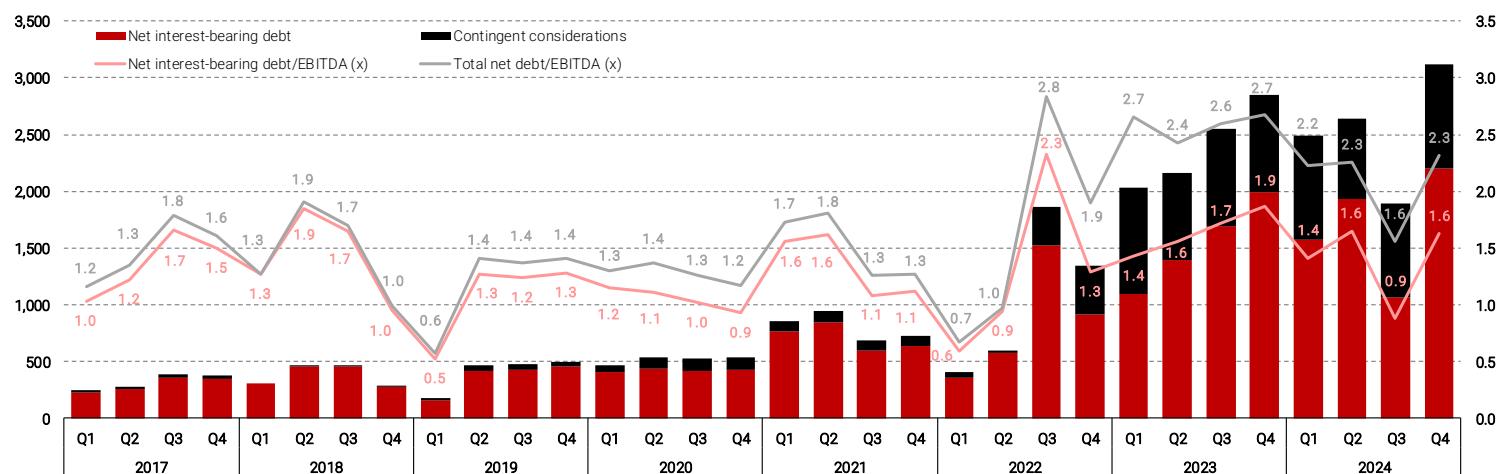
Net interest-bearing debt/EBITDA has fallen from c1.9x in Q4 2023 and risen from c0.9x in Q3 2024 to c1.6x in Q4 2024. We judge the sharp increase q/q mainly derives from cSEK1.0bn in acquisition spend during Q4 2024. Similarly, net debt/EBITDA including contingent considerations has decreased from c2.7x in Q4 2023 and increased from c1.6x in Q3 2024 to c2.3x in Q4 2024. Given seasonally strong cash flows in Q1 and a general improvement in cash conversion, we judge Vitec has moderate financial headroom for M&A without taking on excessive leverage or issuing new shares.

### Vitec Software Group: Cash flows and leverage

Vitec Software Group: Operating cash flow to equity (OCFE) and free cash flow to equity (FCFE) in Q1 2017-Q4 2024 (SEKm)



Vitec Software Group: Net interest-bearing debt and contingent considerations in Q1 2017-Q4 2024 (SEKm)



Note: Lease-adjusted FCFE = Operating cash flow less capex and lease amortisations

Source: Vitec Software Group (historical figures), Redeye Research (chart structuring)

### Scaling M&A volume nicely

Vitec closed three acquisitions in Q4 2024. It acquired Dutch Olyslager Group (cSEK155m 2024 sales, c99% recurring) and Roidu (cSEK31m, c83%) in November. Further, it bought Dutch Figlo (cSEK54m, c78%) in December 2024.

Vitec closed seven acquisitions in 2024, up from six in 2023 and five in 2022. Average acquisition-year sales per acquiree has decreased from cSEK87m in 2022 and cSEK78m in 2023 to cSEK67m in 2024. However, note that both 2022 and 2023 figures skewed higher due to the opportunistic larger acquisitions of ABS (2022 sales cSEK257m) and Enova (2023 sales cSEK335m). As an aside, while ABS seems to have faced a slower market, with sales slightly down to cSEK234m in 2024, Enova has grown solidly, with sales rising to cSEK424m in 2024.

### Vitec: Historical key financials and M&A

SEKm	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Net sales</b>	<b>313</b>	<b>360</b>	<b>389</b>	<b>372</b>	<b>492</b>	<b>618</b>	<b>675</b>	<b>855</b>	<b>1,017</b>	<b>1,156</b>	<b>1,313</b>	<b>1,571</b>	<b>1,978</b>	<b>2,778</b>	<b>3,334</b>
<b>Recurring revenues</b>	<b>174</b>	<b>211</b>	<b>231</b>	<b>262</b>	<b>373</b>	<b>481</b>	<b>519</b>	<b>610</b>	<b>744</b>	<b>908</b>	<b>1,080</b>	<b>1,324</b>	<b>1,631</b>	<b>2,346</b>	<b>2,878</b>
Net sales growth (%)	116.9%	14.7%	8.2%	-4.5%	32.4%	25.7%	9.2%	26.6%	18.9%	13.7%	13.5%	19.7%	25.9%	40.4%	20.0%
Recurring revenues growth (%)	23.9%	21.4%	9.3%	13.7%	42.1%	28.9%	7.9%	17.6%	21.9%	22.0%	19.1%	22.6%	23.2%	43.8%	22.7%
Organic growth net sales (%)	11%	-2%	1%	nd	2%	2%	-5%	1%	nd	nd	nd	-2%	7%	6%	9%
Acquired sales growth (%)	108%	17%	7%	nd	30%	24%	14%	25%	nd	nd	17%	15%	17%	29%	11%
FX/other (%)	nd	nd	-1%	-2%	3%	4%	0%								
Pro-forma org. growth recurring revenues (%)	nd	6.0%	5.6%	4.2%	7.1%	11.0%	13.7%	10.8%							
<b>EBITA*</b>	<b>30</b>	<b>47</b>	<b>56</b>	<b>54</b>	<b>92</b>	<b>131</b>	<b>133</b>	<b>171</b>	<b>212</b>	<b>247</b>	<b>345</b>	<b>440</b>	<b>582</b>	<b>876</b>	<b>1,002</b>
EBITA margin (%)	9.5%	13.1%	14.5%	14.5%	18.8%	21.2%	19.7%	20.0%	20.8%	21.4%	26.3%	28.0%	29.4%	31.5%	30.0%
<b>Net income attributable to parent</b>	<b>14</b>	<b>25</b>	<b>31</b>	<b>30</b>	<b>49</b>	<b>78</b>	<b>67</b>	<b>79</b>	<b>97</b>	<b>102</b>	<b>161</b>	<b>207</b>	<b>245</b>	<b>339</b>	<b>410</b>
Net margin (%)	4.5%	6.9%	8.0%	8.1%	10.0%	12.6%	9.9%	9.3%	9.5%	8.8%	12.2%	13.2%	12.4%	12.2%	12.3%
Share count, year-end (m)	21.3	21.8	25.7	26.5	29.4	29.4	29.4	29.8	32.3	32.6	32.8	35.0	37.3	37.5	39.8
<b>EBITA/share</b>	<b>1.40</b>	<b>2.15</b>	<b>2.19</b>	<b>2.03</b>	<b>3.14</b>	<b>4.46</b>	<b>4.52</b>	<b>5.73</b>	<b>6.55</b>	<b>7.59</b>	<b>10.52</b>	<b>12.55</b>	<b>15.58</b>	<b>23.34</b>	<b>25.14</b>
<b>EPS</b>	<b>0.66</b>	<b>1.13</b>	<b>1.21</b>	<b>1.14</b>	<b>1.67</b>	<b>2.66</b>	<b>2.27</b>	<b>2.66</b>	<b>3.00</b>	<b>3.14</b>	<b>4.90</b>	<b>5.90</b>	<b>6.56</b>	<b>9.04</b>	<b>10.29</b>
<b>Number of acquisitions</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>7</b>
Previous year sales**	73	13	50	47	145	109	102	145	108	158	161	219	355	450	360
Previous sales/acq	73	13	50	47	73	27	34	145	27	32	32	44	71	75	51
Acquired sales***	89	16	60	55	120	107	114	178	122	157	163	224	433	471	470
Acquired EBT***	10	4	11	5	11	10	17	16	23	22	31	88	154	156	143
EBT margin (%)	10.9%	24.8%	18.2%	9.4%	9.1%	9.5%	14.9%	9.1%	18.6%	13.9%	19.0%	39.5%	35.6%	33.0%	30.5%
Acquired sales/acq	89	16	60	55	60	27	38	178	31	31	33	45	87	78	67
<b>Acquired EBT/acq</b>	<b>10</b>	<b>4</b>	<b>11</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>6</b>	<b>16</b>	<b>6</b>	<b>4</b>	<b>6</b>	<b>18</b>	<b>31</b>	<b>26</b>	<b>20</b>
<b>Net cash deployed on acq</b>	<b>39</b>	<b>5</b>	<b>46</b>	<b>17</b>	<b>149</b>	<b>86</b>	<b>152</b>	<b>89</b>	<b>134</b>	<b>219</b>	<b>167</b>	<b>1,260</b>	<b>1,144</b>	<b>1,286</b>	<b>1,618</b>
CCs for previous acq	0	0	8	17	0	5	15	2	24	11	6	70	86	247	357
Purchase consideration****	39	8	39	48	101	81	141	107	110	240	184	1,215	1,205	1,076	1,306
Contingent consideration	0	8	18	45	0	10	24	0	11	48	74	44	417	659	408
<b>Total consideration</b>	<b>39</b>	<b>16</b>	<b>57</b>	<b>93</b>	<b>101</b>	<b>90</b>	<b>165</b>	<b>107</b>	<b>121</b>	<b>288</b>	<b>257</b>	<b>1,259</b>	<b>1,621</b>	<b>1,735</b>	<b>1,714</b>
Contingent/total (%)	0%	50%	32%	49%	0%	11%	14%	0%	9%	17%	29%	3%	26%	38%	24%
Sales multiple initial***** (x)	0.4	0.5	0.6	0.9	0.8	0.8	1.2	0.6	0.9	1.5	1.1	5.4	2.8	2.3	2.8
<b>EBT multiple initial***** (x)</b>	<b>4.0</b>	<b>2.0</b>	<b>3.5</b>	<b>9.2</b>	<b>9.3</b>	<b>7.9</b>	<b>8.3</b>	<b>6.6</b>	<b>4.8</b>	<b>11.0</b>	<b>5.9</b>	<b>13.8</b>	<b>7.8</b>	<b>6.9</b>	<b>9.1</b>
Sales multiple total***** (x)	0.4	1.0	1.0	1.7	0.8	0.8	1.4	0.6	1.0	1.8	1.6	5.6	3.7	3.7	3.6
<b>EBT multiple total***** (x)</b>	<b>4.0</b>	<b>4.0</b>	<b>5.2</b>	<b>18.0</b>	<b>9.3</b>	<b>8.9</b>	<b>9.6</b>	<b>6.6</b>	<b>5.3</b>	<b>13.2</b>	<b>8.3</b>	<b>14.3</b>	<b>10.5</b>	<b>11.2</b>	<b>12.0</b>

Note: \*estimates for 2010-2012 as Vitec has not disclosed EBITA for these years; remaining years as reported by Vitec without adjustments, \*\*reported local currency figures converted to SEK using average exchange rate in acquisition year, \*\*\*full-year pro forma figures disclosed for acquired companies in the year of acquisition; 2010-2015 net sales and EBT figures include estimates due to insufficient disclosure; 2024 figures represent EBITA instead of EBT, \*\*\*\*net of acquired cash; partial payments with convertibles included in initial purchase consideration, \*\*\*\*\*based on full-year figures in year of acquisition, EV/EBITA for 2024

Source: Vitec company filings (financial figures), Redeye Research (table structuring)

Vitec's acquirees for 2024 continued to sport high margins. Specifically, the seven companies acquired in 2024 seemingly sported EBITA margins of c30-31%. According to our calculations, Vitec paid c9x 2024 EBITA initially and c12x in total for these companies. While that seems a little high at first glance, we understand Vitec paid 'normal' multiples based on run-rate earnings at the time of acquisitions. In other words, 2024e's acquirees seemingly grow their sales, and

especially earnings, at a nice clip. We note that 2024's acquiree's collectively sported an EBITA margin of c43% since consolidation versus c23% pre-consolidation, supporting the notion of margins scaling during the year.

Overall, we appreciate the company scaling M&A volume. Importantly, Vitec focuses on buying high-quality SaaS firms, which tend to come at a slightly higher valuation than end-of-life on-prem companies. While the free cash flow yields and ROICs on these acquisitions is lower initially, we judge they grow their intrinsic value over time. In contrast, milking end-of-life on-prem firms for cash flows creates a model that relies on spinning the M&A wheel ever faster. Both models work, but the route to value creation differs.

## Financial estimates

### Estimate revisions

We nudge up our 2025e organic recurring revenue growth to c9% (c7%), driven by organic growth remaining solid and us anticipating a pick-up of sales to new customers in 2025e. We leave our estimate of non-recurring revenues shrinking by c-2% organically unchanged.

We now model net sales of cSEK4.1bn (previous estimate c3.7bn) and recurring revenues of cSEK3.4bn (c3.1bn) this year. Our estimate upgrade derives from higher-than-expected M&A in 2024 and higher organic growth. Therefore, we now pencil in net sales and recurring revenues to grow at c22% (c14%) and c18% (c8%) in 2025e. Including future M&A, we model recurring revenues of cSEK3.6bn (c3.3bn), corresponding to growth of c24% (c15%) y/y.

Considering sales upgrades but lower-than-expected margins in Q4, we nudge up our 2025e EBITDA, EBITA, and EBIT estimates to cSEK1,553m (c1,469m), cSEK1,221m (c1,170m), and cSEK850m (c831m), respectively. Therefore, we lower our EBITDA, EBITA, and EBIT margin projections to c38% (c40%), c30% (c32%), and c21% (c22%) for 2025e.

We expect Vitec to continue its acquisition-led growth strategy in the coming quarters, though it is impossible to predict when additional M&A deals will occur. We leave our M&A estimates unchanged and model six acquisitions in 2025e. We project that Vitec's multiples paid roughly align with recent years. Specifically, we pencil in that valuations will align with aggregate acquisition multiples in 2019-2024, i.e. c2.8x acquisition-year sales initially and c3.7x in total.

### Vitec Software Group: Estimate revisions

Vitec Software Group: Estimate changes (SEKm)			
SEKm	2025e	2026e	2027e
<b>Net sales</b>			
Old	3,712	4,287	4,921
<b>New</b>	<b>4,065</b>	<b>4,662</b>	<b>5,321</b>
% change	10%	9%	8%
<b>Recurring revenues</b>			
Old	3,057	3,277	3,513
<b>New</b>	<b>3,393</b>	<b>3,637</b>	<b>3,899</b>
% change	11%	11%	11%
<b>EBITA</b>			
Old	1,170	1,393	1,624
<i>margin</i>	32%	32%	33%
<b>New</b>	<b>1,221</b>	<b>1,423</b>	<b>1,651</b>
<i>margin</i>	30%	31%	31%
% change	4%	2%	2%
<b>Net income</b>			
Old	551	660	773
<i>margin</i>	15%	15%	16%
<b>New</b>	<b>570</b>	<b>663</b>	<b>766</b>
<i>margin</i>	14%	14%	14%
% change	3%	1%	-1%

Source: Redeye Research

## Preview Q1 2025e

We pencil in net sales of cSEK902m in Q1 2025e (c716m in Q1 2024), with cSEK775m (c616m) in recurring revenues. Further, we estimate that EBITDA will amount to cSEK335m (c280m) in the first quarter, corresponding to an EBITDA margin of c37% (c39%). We gauge that Q1 2025e EBITA and EBIT will amount to cSEK261m (c219m) (EBITA margin c29% (c31%)) and cSEK179m (c153m) (EBIT margin c20% (c21%)), respectively.

## Vitec Software Group: Quarterly PNL estimates

Vitec Software Group: Quarterly estimates (SEKm)																					
(SEKm)	2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	2024	Q1 2025e	Q2 2025e	Q3 2025e	Q4 2025e	2025e
<b>Net sales</b>	<b>1,571</b>	<b>447</b>	<b>449</b>	<b>505</b>	<b>578</b>	<b>1,978</b>	<b>613</b>	<b>724</b>	<b>701</b>	<b>740</b>	<b>2,778</b>	<b>716</b>	<b>882</b>	<b>809</b>	<b>927</b>	<b>3,334</b>	<b>902</b>	<b>1,049</b>	<b>1,008</b>	<b>1,107</b>	<b>4,065</b>
Recurring revenue	1,324	378	384	417	451	1,631	509	612	614	611	2,346	616	775	718	769	2,878	775	895	852	870	3,393
Non-recurring revenue	247	68	64	87	127	347	104	111	87	129	432	100	108	91	158	457	107	114	96	157	475
Future M&A	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	20	39	59	80	198
EBITDA	569	167	154	184	206	711	223	277	277	288	1,066	280	328	314	427	1,349	335	400	364	455	1,553
<b>EBITA</b>	<b>426</b>	<b>125</b>	<b>115</b>	<b>142</b>	<b>158</b>	<b>541</b>	<b>176</b>	<b>226</b>	<b>224</b>	<b>213</b>	<b>840</b>	<b>219</b>	<b>264</b>	<b>238</b>	<b>256</b>	<b>977</b>	<b>261</b>	<b>314</b>	<b>281</b>	<b>365</b>	<b>1,221</b>
EBIT	284	84	74	93	105	356	123	165	157	146	592	153	196	171	178	698	179	218	189	263	850
Net income	207	62	53	62	68	245	77	97	85	80	339	86	119	108	97	410	115	151	126	179	570
Net sales growth (%)	20%	20%	13%	33%	37%	26%	37%	61%	39%	28%	40%	17%	22%	15%	25%	20%	26%	19%	25%	19%	22%
EBITDA margin (%)	36%	37%	34%	36%	36%	36%	36%	38%	40%	39%	38%	39%	37%	39%	46%	40%	37%	38%	36%	41%	38%
<b>EBITA margin (%)</b>	<b>27%</b>	<b>28%</b>	<b>26%</b>	<b>28%</b>	<b>27%</b>	<b>27%</b>	<b>29%</b>	<b>31%</b>	<b>32%</b>	<b>29%</b>	<b>30%</b>	<b>31%</b>	<b>30%</b>	<b>29%</b>	<b>28%</b>	<b>29%</b>	<b>29%</b>	<b>30%</b>	<b>28%</b>	<b>33%</b>	<b>30%</b>
EBIT margin (%)	18%	19%	16%	18%	18%	18%	20%	23%	22%	20%	21%	21%	22%	21%	19%	21%	20%	21%	19%	24%	21%
Net income margin (%)	13%	14%	12%	12%	12%	12%	13%	13%	12%	11%	12%	12%	14%	13%	10%	12%	13%	14%	12%	16%	14%

Note: Our EBITA estimate represents EBIT before acquisition-related amortisations

Source: Vitec Software Group (historical), Redeye Research (forecasts)

### Financial Estimates 2024-2033e

In the long term, we continue to pencil in organic recurring revenue growth of c7% annually while non-recurring revenues shrink at c-2% per year. We estimate that net sales will grow at a CAGR of c14% from cSEK3.3bn in 2024 to cSEK11.1bn in 2033e. Our 2033e net sales estimate consists of existing recurring revenues growing to cSEK5.9bn, existing non-recurring revenues shrinking to cSEK407m, and future M&A contributing cSEK4.7bn.

We expect EBITDA margin to expand from c40% in 2024 to c42% in 2033e, primarily driven by acquisitions of companies with higher margins than the group has today. Further, we expect organic operating leverage to constitute a secondary contributor to margin expansion. Similarly, we expect EBITA and EBIT margin to increase from c29% and c21% in 2024 to c34% and c25% in 2033e. Note that we assume the company will capitalise development costs corresponding to c13% of net sales over time.

### Vitec Software Group: Annual PNL estimates

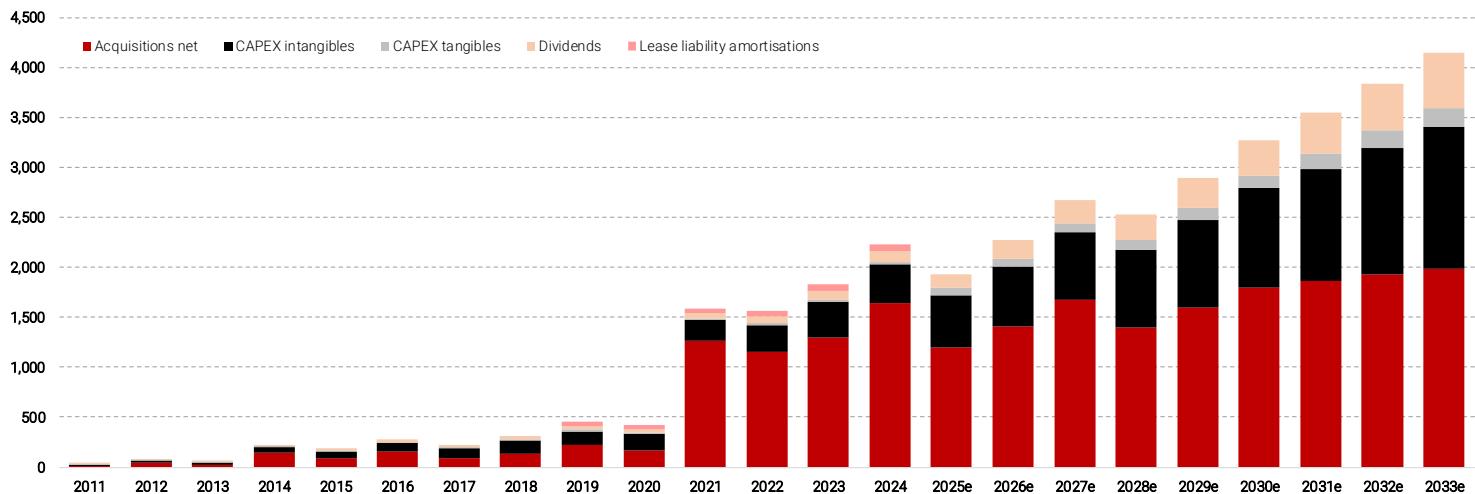
Vitec Software Group: Estimates 2025e to 2033e (SEKm)															
(SEKm)	2019	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e
<b>Net sales</b>	<b>1,156</b>	<b>1,313</b>	<b>1,571</b>	<b>1,978</b>	<b>2,778</b>	<b>3,334</b>	<b>4,065</b>	<b>4,662</b>	<b>5,321</b>	<b>6,040</b>	<b>6,848</b>	<b>7,775</b>	<b>8,792</b>	<b>9,884</b>	<b>11,056</b>
Recurring revenue	908	1,080	1,324	1,631	2,346	2,878	3,393	3,637	3,899	4,180	4,481	4,803	5,149	5,520	5,917
Non-recurring revenue	249	232	247	347	432	457	475	466	457	448	440	431	423	415	407
Future M&A	0	0	0	0	0	0	198	560	965	1,412	1,928	2,541	3,220	3,950	4,732
EBITDA	354	457	569	711	1,066	1,349	1,553	1,804	2,085	2,397	2,751	3,162	3,619	4,118	4,650
<b>EBITA</b>	<b>236</b>	<b>332</b>	<b>426</b>	<b>537</b>	<b>840</b>	<b>977</b>	<b>1,221</b>	<b>1,423</b>	<b>1,651</b>	<b>1,903</b>	<b>2,192</b>	<b>2,527</b>	<b>2,902</b>	<b>3,311</b>	<b>3,747</b>
EBIT	144	225	284	356	592	698	850	997	1,165	1,352	1,567	1,817	2,098	2,408	2,737
Net income	102	164	207	245	339	410	570	663	766	886	1,035	1,209	1,407	1,631	1,875
Net sales growth (%)	14%	14%	20%	26%	40%	20%	22%	15%	14%	14%	13%	14%	13%	12%	12%
EBITDA margin (%)	31%	35%	36%	36%	38%	40%	38%	39%	39%	40%	40%	41%	41%	42%	42%
<b>EBITA margin (%)</b>	<b>20%</b>	<b>25%</b>	<b>27%</b>	<b>27%</b>	<b>30%</b>	<b>29%</b>	<b>30%</b>	<b>31%</b>	<b>31%</b>	<b>32%</b>	<b>32%</b>	<b>33%</b>	<b>33%</b>	<b>33%</b>	<b>34%</b>
EBIT margin (%)	12%	17%	18%	18%	21%	21%	21%	21%	22%	22%	23%	23%	24%	24%	25%
Net income margin (%)	9%	12%	13%	12%	12%	12%	14%	14%	14%	15%	15%	16%	16%	16%	17%
<b>Net IB debt/EBITDA</b>	<b>1.3</b>	<b>0.9</b>	<b>1.1</b>	<b>1.3</b>	<b>1.9</b>	<b>1.6</b>	<b>1.7</b>	<b>1.8</b>	<b>1.9</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>
EV/Sales	5.0	7.8	10.9	7.0	7.6	6.1	5.7	5.1	4.6	4.1	3.7	3.3	3.0	2.7	2.4
EV/EBITDA	18.2	25.2	34.1	22.1	22.4	17.0	16.8	14.8	13.2	11.7	10.3	9.2	8.1	7.2	6.4
<b>EV/EBITA</b>	<b>27.3</b>	<b>34.8</b>	<b>45.6</b>	<b>29.3</b>	<b>28.4</b>	<b>23.5</b>	<b>21.4</b>	<b>18.8</b>	<b>16.7</b>	<b>14.7</b>	<b>13.0</b>	<b>11.5</b>	<b>10.1</b>	<b>9.0</b>	<b>8.0</b>
EV/EBIT	44.7	51.2	68.5	44.2	40.3	32.9	30.7	26.8	23.6	20.7	18.1	15.9	14.0	12.3	10.9
<b>P/E</b>	<b>59.0</b>	<b>68.3</b>	<b>94.3</b>	<b>63.8</b>	<b>64.8</b>	<b>52.9</b>	<b>42.9</b>	<b>36.9</b>	<b>31.9</b>	<b>27.6</b>	<b>23.6</b>	<b>20.2</b>	<b>17.4</b>	<b>15.0</b>	<b>13.1</b>

Note: Our EBITA estimate represents EBIT before acquisition-related amortisations

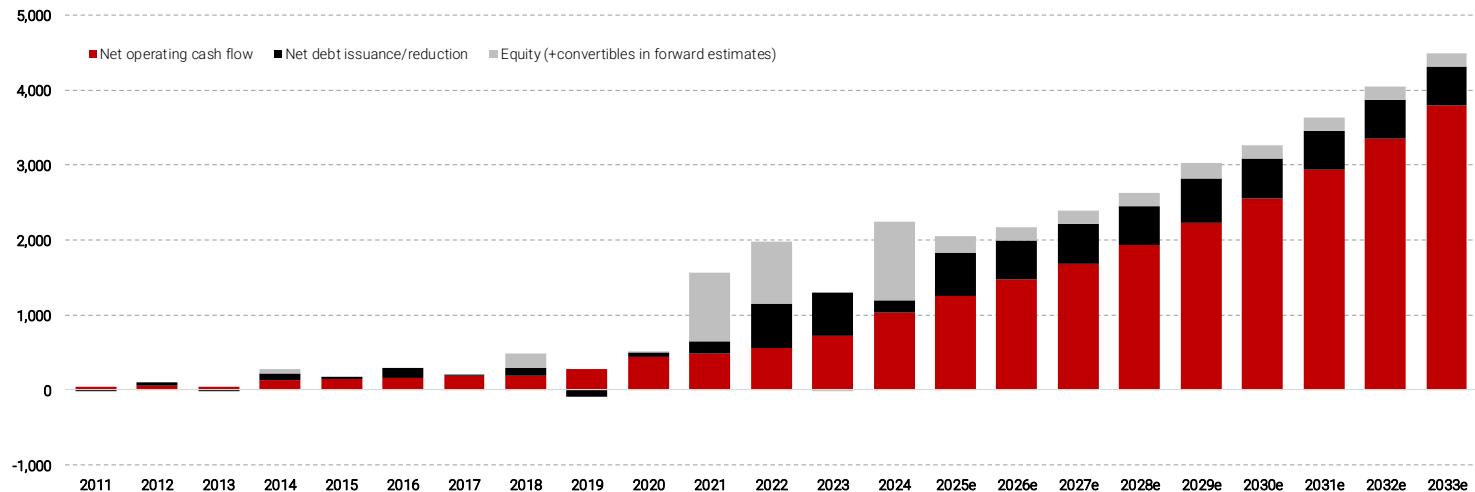
Source: Vitec Software Group (historical), Redeye Research (forecasts)

### Vitec Software Group: Sources and uses of cash

#### Vitec: Uses of cash (SEKm)



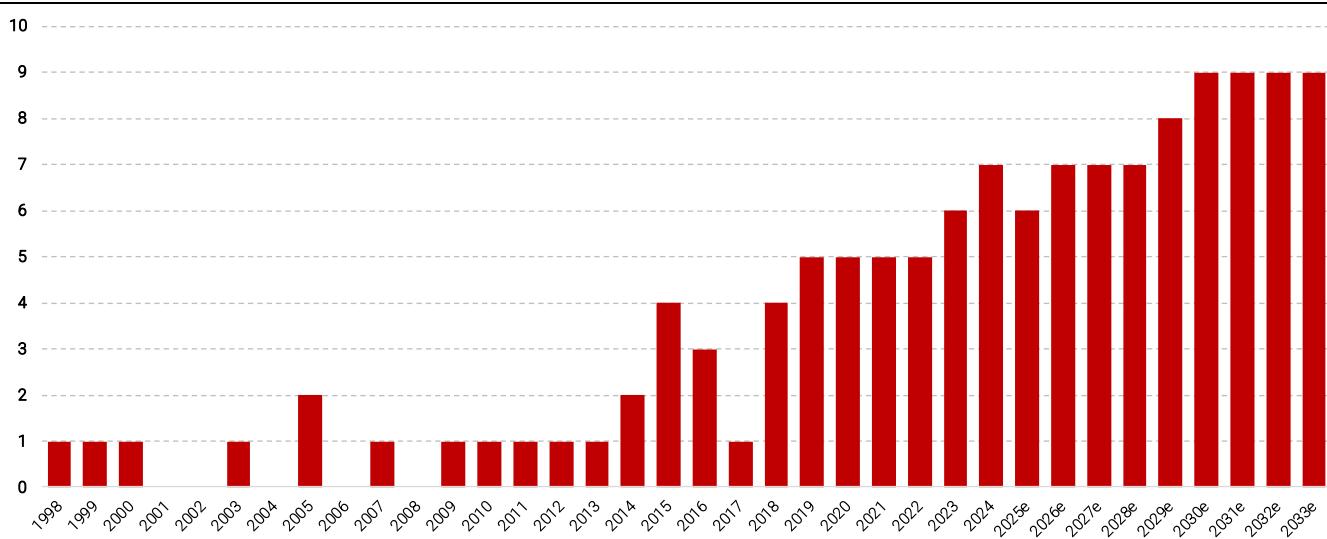
#### Vitec: Sources of cash (SEKm)



Note: Lease amortisations included in capex tangibles in forward estimates

Source: FactSet (historical figures), Vitec Software Group (historical figures), Redeye Research (forecast)

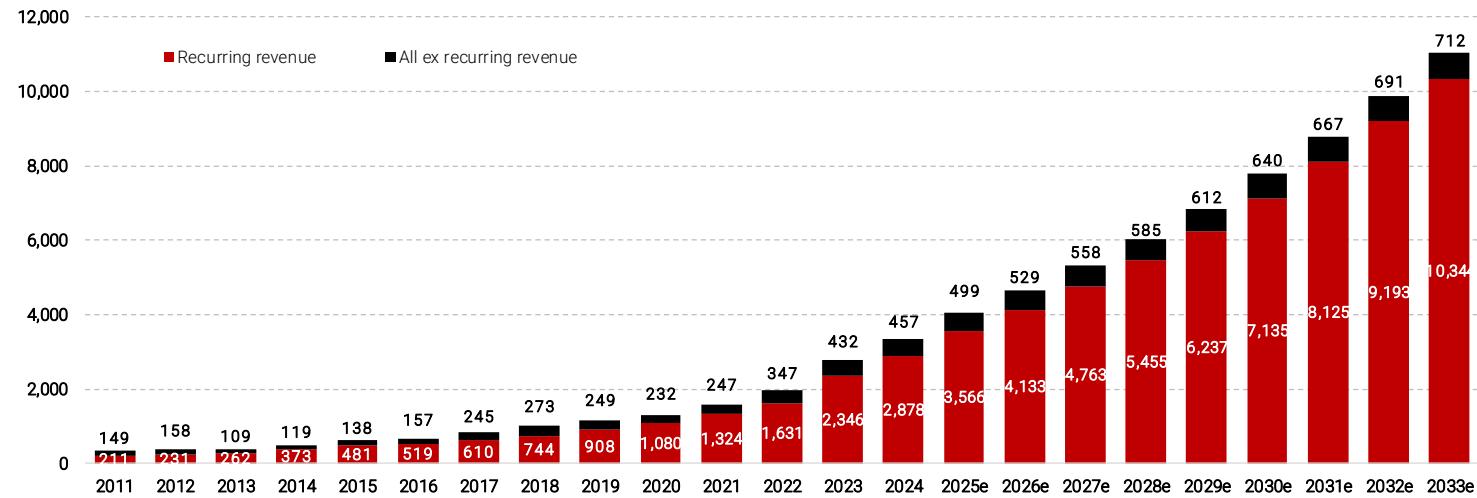
### Vitec Software Group: Number of acquisitions per year



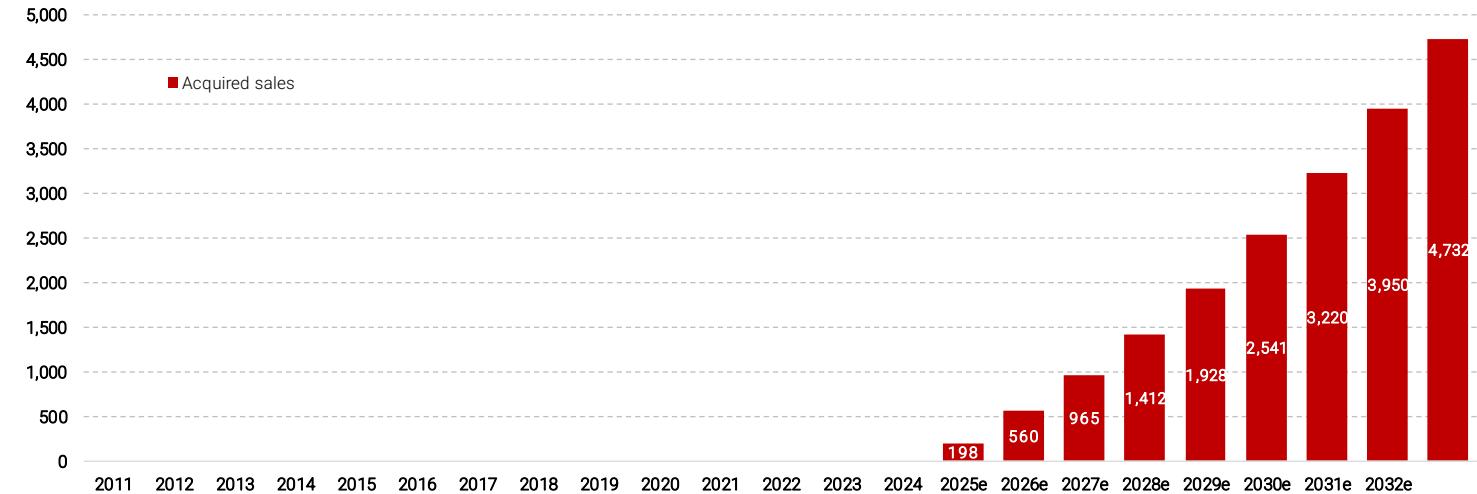
Source: Vitec Software Group (historical figures), Redeye Research (estimates)

## Vitec Software Group: Recurring and non-recurring revenue streams

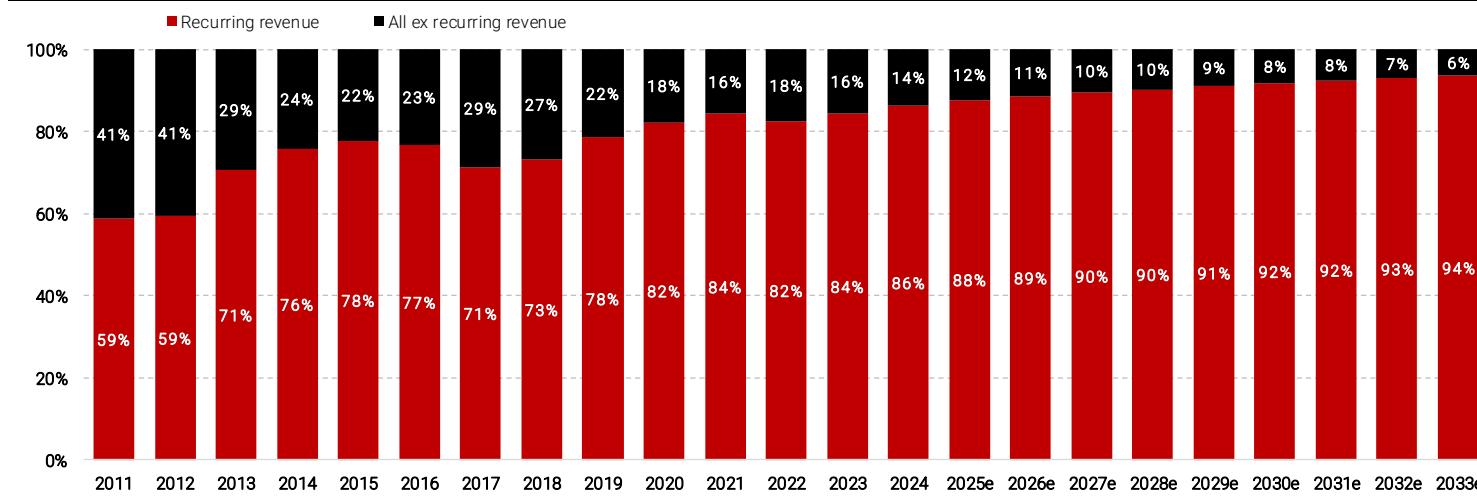
## Vitec Software Group: Sales by revenue stream 2011-2033e (SEKm)



## Vitec Software Group: Cumulative sales from future M&amp;A in Redeye estimates (SEKm)



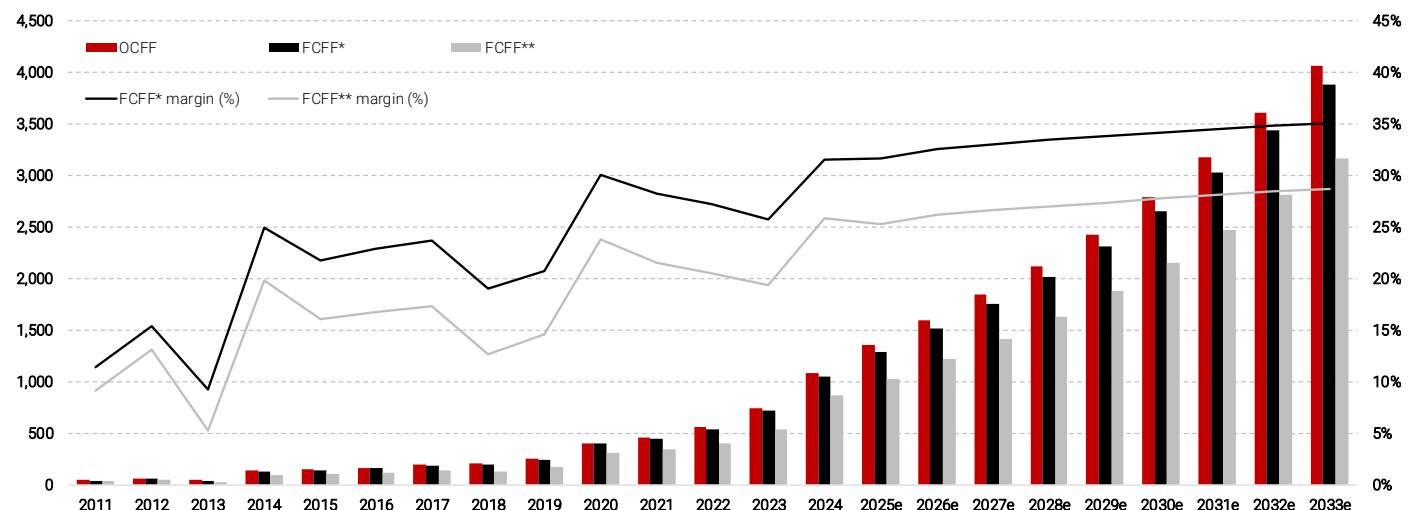
## Vitec Software Group: Revenue streams as percentage of net sales 2011-2033e (%)



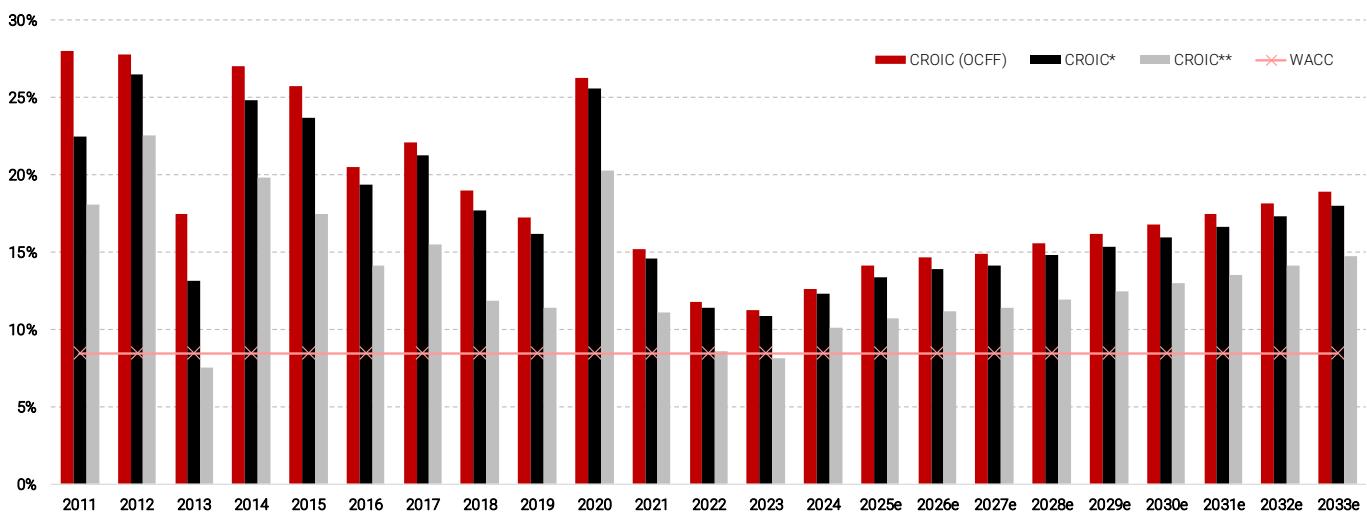
Source: Vitec Software Group (historical figures), Redeye Research (forecast)

## Vitec Software Group: FCF forecasts and returns

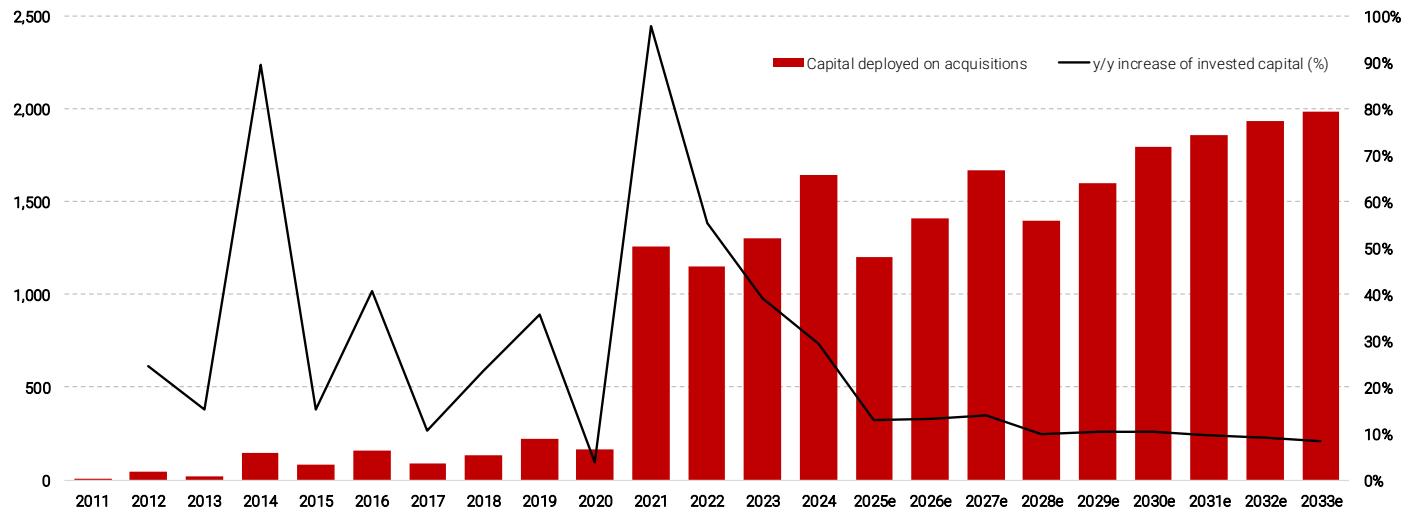
## Vitec Software Group: FCFF and FCFF margin over time (SEKm)



## Vitec Software Group: CROIC over time (%)



## Vitec Software Group: Net capital deployed into acquisitions (SEKm)



Note: CROIC(OCFF) = CROIC calculated with lease-adjusted operating cash flow to firm in the numerator \*(CROIC using) FCFF defined as lease-adjusted OCF less investments in tangible assets, \*\*(CROIC using) FCFF defined as lease-adjusted OCF less investments in tangible assets and 50% of investments in intangible assets

Source: Vitec Software Group (historical figures), Redeye Research (forecast)

## Valuation

We use a discounted cash flow (DCF) analysis for our valuation. We employ scenario-based analysis, with a realistic base case, an optimistic bull case, and a pessimistic bear case. We also employ a relative peer valuation to inform our DCF analysis. We use a weighted-average cost of capital (WACC) amounting to c8.5%.

Our base case fair value estimate amounts to SEK615 per share. Our bull and bear cases equal SEK258 and SEK1,005 per share, respectively. Notably, our valuation already considers dilution from the use of equity/convertibles in future M&A that we pencil in. We believe the share could reach our base case in c12 months as recurring revenues and profitability from new acquisitions materialise in reported numbers, organic growth continues, and the company executes on additional acquisitions at reasonable valuations.

### **Base case: SEK615 per share**

Our base case assumes Vitec executes its acquisition-driven growth strategy, in line with our financial estimates described in the previous section:

- Reported sales grow at a CAGR of c14% in 2024–2033e, reaching SEK11.1bn
- EBIT margin expands to c25% in 2033e
- Terminal growth of c2.5% per year and terminal EBIT margin of c25%

### **Bull case: SEK1,005 per share**

Our bull case assumes Vitec exceeds our forecasts thanks to lower acquisition multiples than we model in our base case and stronger organic growth than we pencil in. We model:

- Sales grow at a CAGR of c18% in 2024–2033e, reaching SEK15.0bn
- EBIT margin expands to c30% in 2033e
- Terminal growth of c3% per year and terminal EBIT margin of c30%

### **Bear case: SEK258 per share**

Our bear case assumes Vitec underperforms our base case forecasts owing to weaker organic growth and more pricey acquisitions than we assume in our base case. We model:

- Sales grow at a CAGR of c10% in 2024–2033e, reaching SEK8.0bn
- EBIT margin contracts to c15% in 2032e
- Terminal growth of c1% per year and terminal EBIT margin of c15%

### Sensitivity analysis

The required rate of return varies across investors, potentially making different WACCs relevant for our analysis. Moreover, given the large number of VMS acquisition targets and the sheer size of the VMS market in Europe, Vitec could arguably sustain premium growth beyond 2033e. As a proxy, one could vary terminal growth somewhat above long-term GDP growth. However, this is a crude proxy, given that it is mathematically impossible for any company to grow faster than the overall economy in perpetuity. Lastly, c75% of the DCF present value in our base case comes from cash flows in 2033e and beyond. Therefore, terminal EBIT margin considerably affects our fair value estimate.

As shown below, we have conducted a sensitivity analysis investigating the effect of varying WACC, terminal EBIT margin, and terminal growth rate on our base case fair value estimate. We are relatively confident in Vitec's ability to expand its EBIT margin to c25% in the long term. The considerable effect of varying WACC is not surprising either, in our view. Notably, we judge that the substantial impact of small variations in long-term growth further reinforces how dependent Vitec's fair value is on the company's long-term ability to sustain premium growth. Considering this, we believe an investment in Vitec essentially represents a bet on management's long-term ability to allocate capital to maximise shareholder value.

#### Sensitivity analysis: Base case fair value estimate

	Weighted Average Cost of Capital (WACC)					
	10.5%	9.5%	8.5%	7.5%	6.5%	
Terminal EBIT margin	15%	312	367	<b>440</b>	543	699
	20%	369	437	<b>528</b>	657	852
	<b>25%</b>	<b>425</b>	<b>506</b>	<b>615</b>	<b>770</b>	<b>1,005</b>
	30%	482	576	<b>703</b>	883	1,158
	35%	538	645	<b>790</b>	996	1,312
Terminal growth	10.5%	9.5%	<b>8.5%</b>	7.5%	6.5%	
	1.5%	389	456	<b>543</b>	661	827
	2.0%	406	479	<b>576</b>	710	906
	<b>2.5%</b>	<b>425</b>	<b>506</b>	<b>615</b>	<b>770</b>	<b>1,005</b>
	3.0%	447	537	<b>661</b>	843	1,133
	3.5%	472	573	<b>717</b>	935	1,306

Source: Redeye Research

### Relative valuation: Peer multiples

We use peer valuation to inform our fundamentally derived DCF fair value estimate. We compare Vitec's valuation multiples as well as growth and profitability prospects with those of other Scandinavian SaaS companies and serial acquirers that we deemed relevant for comparison.

Vitec seems to trade at a considerable premium EV/Sales multiple compared to other (primarily Scandinavian) serial acquirers. Its 2025e-2026e EV/EBITA and P/E multiples only represent slight premiums to peer multiples based on our estimates. The company trades at EV/Sales multiples that exceed the median of SaaS peers included in our comparison. Based on our estimates, Vitec's EV/EBIT multiples for 2025e-2026e roughly align with SaaS peer medians.

Overall, we judge our peer analysis suggests that Vitec trades at a fair valuation. This conclusion aligns with our base case, which roughly aligns with the share's current level.

#### Vitec Software Group: Peer valuation serial acquirers

Serial Acquirers Company	EV		EV/Sales			EV/EBITA			Sales Growth			EBITA margin			P/E	
	(SEKm)	2024(e)	2025e	2026e	2024(e)	2025e	2026e	2024(e)	2025e	2026e	2024(e)	2025e	2026e	2024(e)	2025e	2026e
Lifco	178,769	6.8	6.2	5.8	30.3	27.0	25.0	7%	8%	5%	23%	23%	23%	49.9	44.0	40.3
Indutrade	118,676	3.6	3.4	3.1	25.3	22.7	20.8	2%	6%	5%	14%	15%	15%	40.2	35.1	31.5
Addtech	91,431	4.2	3.9	3.6	28.2	25.9	23.7	8%	7%	6%	15%	15%	15%	46.2	40.7	36.4
Lagercrantz	51,029	5.4	4.9	4.5	31.1	27.3	24.9	15%	9%	7%	18%	18%	18%	48.5	41.6	37.3
Addlife	25,847	2.5	2.3	2.1	23.1	20.5	18.2	5%	6%	6%	11%	11%	12%	86.4	53.8	41.3
Vitec (FactSet consensus)	26,255	8.0	7.1	6.6	30.9	26.6	23.9	18%	12%	7%	26%	27%	28%	57.5	45.5	38.8
Addnode	17,018	2.3	2.7	2.5	19.8	18.0	16.2	1%	-17%	6%	12%	15%	15%	39.4	36.0	30.1
OEM	16,786	3.2	3.0	n/a	n/a	n/a	n/a	5%	n/a	n/a	n/a	n/a	n/a	29.6	28.4	n/a
Sdipitech	11,992	2.3	2.0	1.8	11.9	10.5	9.2	10%	9%	10%	19%	19%	19%	20.3	15.6	13.0
Beijer Alma	12,844	1.8	1.7	1.5	13.1	11.7	10.5	3%	6%	4%	14%	14%	15%	15.7	16.4	13.9
Volati	11,490	1.5	1.3	1.2	16.9	12.4	11.0	0%	14%	4%	9%	10%	11%	37.4	20.3	16.8
Bergman & Beving	10,536	2.1	1.9	1.8	20.6	17.7	16.1	6%	8%	5%	10%	11%	11%	36.4	29.2	25.7
Momentum Group	9,485	3.3	3.0	2.8	28.1	25.7	23.8	26%	6%	4%	12%	12%	12%	45.1	40.2	37.1
MedCap	6,011	3.3	2.8	2.5	18.3	16.0	13.1	14%	15%	10%	18%	18%	19%	28.8	26.4	21.5
Idun Industrier	4,413	2.0	1.9	1.8	18.9	16.9	16.0	6%	6%	4%	14%	14%	15%	29.2	28.1	26.7
<b>Vitec (Redeye est.)</b>	<b>26,669</b>	<b>6.1</b>	<b>5.7</b>	<b>5.1</b>	<b>23.5</b>	<b>21.4</b>	<b>18.8</b>	<b>20%</b>	<b>22%</b>	<b>15%</b>	<b>29%</b>	<b>30%</b>	<b>31%</b>	<b>52.9</b>	<b>42.9</b>	<b>36.9</b>
Mean*	39,506	3.5	3.2	3.0	22.6	19.9	18.0	9%	7%	6%	15%	16%	16%	40.7	33.4	29.3
Median*	16,786	3.2	2.8	2.5	21.9	19.2	17.2	6%	7%	5%	14%	15%	15%	39.4	35.1	30.8

Note: 2024(e) FactSet multiples based on current market cap, while Redeye multiples are based on year-end 2024 market cap, \*excluding Redeye estimates

Source: FactSet (retrieved 05 February 2025), Redeye Research (table structuring)

#### Vitec Software Group: Peer valuation software

Nordic B2B Software Company	EV		EV/Sales			EV/EBIT			Sales Growth			EBIT margin				
	(SEKm)	2024(e)	2025e	2026e	2024(e)	2025e	2026e	2024(e)	2025e	2026e	2024(e)	2025e	2026e	2024(e)	2025e	2026e
Addnode	17,018	2.3	2.7	2.5	26.5	24.0	20.4	1%	-17%	6%	9%	11%	12%			
Admicom	2,965	7.3	6.5	5.6	24.7	22.6	17.8	4%	10%	13%	30%	29%	31%			
OMDA	1,203	2.8	2.6	2.4	41.7	20.8	15.5	3%	8%	6%	7%	13%	16%			
Formpipe	1,273	2.4	2.1	1.8	29.0	15.5	10.1	1%	9%	10%	8%	14%	18%			
Fortnox	46,888	22.8	18.6	14.9	54.1	41.0	31.8	25%	21%	22%	42%	45%	47%			
Lemonsoft	1,344	4.1	3.7	3.4	17.5	14.6	12.9	11%	7%	6%	23%	25%	26%			
Lime	4,732	6.9	5.9	5.0	35.4	27.4	22.5	19%	14%	14%	19%	22%	22%			
SmartCraft	4,296	8.8	7.3	6.1	30.2	22.9	17.8	25%	16%	15%	29%	32%	34%			
Upsales	476	3.1	2.8	2.4	18.3	16.0	13.8	5%	11%	18%	17%	18%	18%			
Vitec (FactSet consensus)	26,255	8.0	7.1	6.6	37.1	31.4	27.8	18%	12%	7%	22%	23%	24%			
<b>Vitec (Redeye est.)</b>	<b>26,669</b>	<b>6.1</b>	<b>5.7</b>	<b>5.1</b>	<b>23.5</b>	<b>21.4</b>	<b>18.8</b>	<b>20%</b>	<b>22%</b>	<b>15%</b>	<b>21%</b>	<b>21%</b>	<b>21%</b>			
Mean*	10,645	6.9	5.9	5.1	31.5	23.6	19.0	11%	9%	12%	21%	23%	25%			
Median*	3,630	5.5	4.8	4.2	29.6	22.8	17.8	8%	11%	11%	21%	22%	23%			

Note: 2024(e) FactSet multiples based on current market cap, while Redeye multiples are based on year-end 2024 market cap, \*excluding Redeye estimates

Source: FactSet (retrieved 05 February 2025), Redeye Research (table structuring)

### Historical multiples

Vitec has experienced considerable multiple expansion over the past ten years. This multiple expansion is certainly not unique to Vitec, with most companies in the software or technology sector having experienced substantial multiple expansion during years of low interest rates and bullish market sentiment. Similar expansion occurred for many serial acquirers. Despite a decline from peak levels seen in 2021, many of these companies have retained premium valuations despite higher interest rates.

Vitec trades somewhat above its median multiples over the last 10 years (sourced from FactSet). Specifically, the company trades at premiums of c7-22% when considering 10-year median P/FCF, P/E, EV/EBIT, and EV/EBITDA. While it trades at a considerable premium of c44% to its 10-year median EV/Sales, we consider this increase justified due to Vitec's margin expansion in the past decade.

#### Vitec Software Group: Historical trading multiples

Last 10 years	P/FCF - LTM	P/E - LTM	EV/S - LTM	EV/EBIT - LTM	EV/EBITDA - LTM
Mean	21.5	49.1	6.3	38.3	19.7
Median	20.9	48.4	5.6	34.7	18.3
Highest	42.7	101.1	16.1	84.4	43.8
Lowest	1.1	5.8	2.1	14.4	8.2
75th percentile	27.6	69.1	8.9	50.5	24.7
25th percentile	14.3	29.8	3.4	25.9	13.1
Current	25.4	58.4	8.1	36.9	20.7
Premium (+) or discount (-) to median	22%	21%	44%	7%	13%
Last two years	P/FCF - LTM	P/E - LTM	EV/S - LTM	EV/EBIT - LTM	EV/EBITDA - LTM
Mean	28.0	63.0	8.6	39.9	23.0
Median	27.7	60.8	8.2	36.7	22.3
Highest	39.3	83.7	11.2	58.0	33.3
Lowest	18.1	44.6	6.4	28.7	16.3
75th percentile	32.4	72.2	9.9	48.8	26.5
25th percentile	22.7	55.5	7.5	33.4	19.0
Current	25.4	58.4	8.1	36.9	20.7
Premium (+) or discount (-) to median	-8%	-4%	-2%	1%	-7%

*LTM = last twelve months; Current multiples from FactSet, might differ slightly from rest of this report (Redeye) because of minor differences in calculation of underlying accounting metrics.*

Source: FactSet (retrieved 05 February 2025), Redeye Research (table structuring)

Looking at the same multiples over the last two years, Vitec trades at slight discounts of c2-8% relative to two-year medians for all except EB/EBITA (c1% premium). Applying Vitec's median EV/EBITDA multiple of 22x for the last two years to our 2025e-2026e EBITDA estimates would result in a fully diluted share price of some SEK725 in 12 months and cSEK838 in 24 months. Applying a more conservative EV/EBITDA multiple of 18x to our 2025e-2026e EBITDA estimates would result in fully diluted share prices of cSEK582-672 per share, suggesting a roughly fair valuation right now.

## Vitec Software Group: Historical trading multiples



Source: FactSet (retrieved 05 February 2025), Redeye Research (graph structuring)

## Summary Redeye rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

### Rating changes in the report

#### **People:** 4 (5, lowered due to updated rating questions)

Vitec has a proven M&A record in the VMS industry, with some 59 acquisitions since its inception. Co-founder Lars Stenlund is still involved in the company as chair of the board. Collectively, management and the board own shares worth some 4.8% of capital and 22.9% of votes. We judge that solid share ownership among management and board members aligns their interests with shareholders', ensuring continued prudent capital allocation. Vitec is a software company and a serial acquirer demonstrating a clearly communicated strategy of acquisition-driven growth with some five to six M&A deals per year recently. The company has acted opportunistically on an attractively priced stock, conducting share issues at relatively high valuations to acquire private VMS companies at much lower valuations. Executive compensation appears reasonable. The company is business-savvy and has shareholder-oriented board members. Vitec chooses to pay a dividend despite facing higher-return alternatives such as internal reinvestment or acquisitions and conducting opportunistic share issues.

#### **Business:** 4 (Unchanged)

Vitec is a software company and a serial acquirer; more specifically, it is a niche acquirer according to Redeye's M&A classification system. The company's acquisition-driven growth strategy has been highly successful thus far, increasing net sales and FCFE at respective CAGRs of c19% and c28% from 2011 to 2024. From 2011 to 2024, recurring revenues increased from c59% to c86% of Vitec's net sales. The company's recurring revenues provide highly stable cash flows that management can re-deploy into acquisitions and organic growth investments. VMS companies are asset-light businesses with dominant positions in niche markets that are too small to attract much competition. However, the amount of capital seeking to acquire these companies has increased in recent years. Vitec's subsidiaries deliver mission-critical software to customers with low churn and high switching costs. We judge the European VMS market is highly fragmented by industry and country, providing potential acquisition targets for years to come. Vitec operates in a highly profitable industry with a slow-changing market and long product cycles. Vitec is diversified at the parent company level, despite numerous subsidiaries with considerable concentration on a specific industry or customer group. The primary risk we see in Vitec's acquisition-driven growth strategy is overpaying: focusing on empire building instead of maximising shareholder value. We are not aware of any significant sustainability-related incidents. The company is not dependent on raising money from capital markets, although it employs equity and debt opportunistically to optimise shareholder returns and minimise its weighted average cost of capital (WACC). The company's cash return on invested capital amounted to c10% in 2024, exceeding its estimated WACC of c8.5%.

#### **Financials:** 4 (Unchanged)

The company has increased net sales and FCFE at respective CAGRs of c19% and c28% from 2011 to 2024. According to our definition (operating cash flow to firm less maintenance CAPEX), we judge Vitec's FCF margin ranged from c20%-26% in 2020-2024. The company's EBIT margin exceeds its goal of at least 20%, and we believe it can reach c25% in 2033e. Low churn and high customer retention make cash flows from Vitec's VMS subsidiaries stable and resilient. Given Vitec's high multiples and ready access to capital, acquisition-driven growth enables sales growth above the industry average.

	2024	2025e	2026e	2027e	DCF Valuation Metrics		Sum FCF (SEKm)		
<b>INCOME STATEMENT</b>					Initial Period (2025-2033)		8,498		
Net sales	3,334	4,065	4,662	5,321	Momentum Period (2034-2034)		NA		
Cost of Revenues	460	528	606	692	Stable Period (2034-)		20,442		
Gross Profit	3,334	4,065	4,662	5,321	Firm Value		28,940		
Operating Expenses	1,985	2,512	2,858	3,236	Net Debt (last quarter)		2,201		
EBITDA	1,349	1,553	1,804	2,085	Equity Value		26,738		
Depreciation & Amortization	651	703	807	921	Fair Value per Share		615		
EBIT	698	850	997	1,165					
Net Financial Items	-157	-99	-124	-156					
EBT	541	751	873	1,008	<b>CAPITAL STRUCTURE</b>	2024	2025e	2026e	2027e
Income Tax Expenses	131	180	210	242	Equity Ratio	0.5	0.5	0.5	0.5
Non-Controlling Interest	0	0	0	0	Debt to equity	0.5	0.5	0.6	0.6
Net Income	410	570	663	766	Net Debt	2201	2641	3262	4064
					Capital Employed	8,640	9,873	11,051	12,293
					Working Capital Turnover	-5.9	-7.3	-8.4	-9.5
<b>BALANCE SHEET</b>									
<b>Assets</b>					<b>GROWTH</b>				
<b>Current assets</b>					Revenue Growth	21%	21%	15%	14%
Cash & Equivalents	244	372	276	-1	Basic EPS Growth	14%	39%	16%	15%
Inventories	4	4	5	6	Adjusted Basic EPS Growth	14%	39%	16%	15%
Accounts Receivable	659	803	921	1,051					
Other Current Assets	0	0	0	0					
Total Current Assets	906	1,180	1,202	1,056	<b>PROFITABILITY</b>				
					ROE	8%	10%	11%	11%
					ROCE	11%	13%	13%	13%
					ROIC	9%	10%	10%	10%
					EBITDA Margin (%)	40%	38%	39%	39%
					EBIT Margin (%)	21%	21%	21%	22%
					Net Income Margin (%)	12%	14%	14%	14%
<b>Non-current assets</b>					<b>VALUATION</b>				
Property, Plant & Equipment, Net	182	185	190	198	Basic EPS	10.3	14.3	16.6	19.2
Goodwill	5,052	5,870	6,828	7,964	Adjusted Basic EPS	10.3	14.3	16.6	19.2
Intangible Assets	3,864	4,132	4,447	4,824	P/E	52.9	42.9	36.9	31.9
Right-of-Use Assets	0	0	0	0	EV/Revenue	6.1	5.7	5.1	4.6
Shares in Associates	0	0	0	0	EV/EBITDA	17.0	16.8	14.8	13.2
Other Long-Term Assets	80	80	80	80	P/B	32.9	30.7	26.8	23.6
Total Non-Current Assets	9,178	10,267	11,544	13,067					
					<b>SHAREHOLDER STRUCTURE</b>				
					Capital Group			7.5%	4.8%
					Cliens Fonder			5.6%	3.6%
					SEB Investment Management			5.3%	3.4%
					Thomas Eklund			4.2%	2.7%
					Lannebo Kapitalförvaltning			4.1%	2.6%
<b>Liabilities</b>					<b>SHARE INFORMATION</b>				
<b>Current liabilities</b>					Reuters code			VITB.ST	
Short-Term Debt	212	212	212	212	List			Nasdaq Stockholm	
Short-Term Lease Liabilities	0	0	0	0	Share price			614	
Accounts Payable	72	98	112	128	Total shares, million			39.8	
Other Current Liabilities	1,159	1,264	1,371	1,490					
Total Current Liabilities	1,444	1,573	1,695	1,830					
<b>Non-current liabilities</b>					<b>CAPITAL % VOTES %</b>				
Long-Term Debt	2,232	2,801	3,326	3,851	Capital Group			7.5%	4.8%
Long-Term Lease Liabilities	0	0	0	0	Cliens Fonder			5.6%	3.6%
Other Long-Term Liabilities	1,504	1,504	1,504	1,504	SEB Investment Management			5.3%	3.4%
Total Non-current Liabilities	3,736	4,305	4,830	5,355	Thomas Eklund			4.2%	2.7%
					Lannebo Kapitalförvaltning			4.1%	2.6%
<b>CASH FLOW</b>					<b>SHARE INFORMATION</b>				
NOPAT	529	646	758	885	Reuters code			VITB.ST	
Change in Working Capital	118	-15	3	4	List			Nasdaq Stockholm	
Operating Cash Flow	1,041	1,258	1,473	1,690	Share price			614	
Capital Expenditures	-25	-69	-79	-90	Total shares, million			39.8	
Investment in Intangible Assets	-378	-520	-597	-681					
Investing Cash Flow	-2,048	-1,792	-2,084	-2,443					
<b>ANALYSTS</b>									
Financing Cash Flow	1,097	663	514	476	Christian Binder			Redeye AB	
Free Cash Flow	638	669	797	919	Niklas Sävås			Mäster Samuelsgatan 42, 10tr	
								11157 Stockholm	

## Redeye rating and background definitions

### Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

### People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

### Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

### Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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## Disclaimer

### Important information

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

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### Redeye Rating (2025-02-06)

Rating	People	Business	Financials
5p	5	7	1
3p - 4p	127	114	37
0p - 2p	20	31	114
Company N	152	152	152

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### CONFLICT OF INTERESTS

Christian Binder owns shares in the company: No

Niklas Sävås owns shares in the company: No

Redeye performs/has performed services for the Company and receives/has received compensation from the Company in connection with this.