

Tietoevry

Company report

7/24/2024 8:00 am EEST



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This report is a summary translation of the report “Vankasti eteenpäin haastavassa markkinassa” published on 7/24/2024 at 8:00 am EEST.

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Steadily ahead in a challenging market

We reiterate our Buy recommendation and EUR 24.0 target price for Tietoevry. Q2 was in line with expectations in terms of operations and commentary, and we left our forecasts broadly unchanged. In 2024, we expect the company's earnings to be at the level of the comparison period, due to a challenging market, but to grow moderately in the coming years. Our forecasts are clearly below the company's target levels. The share's valuation picture is still very attractive from several angles (2024e P/E: 14x, adj. P/E: 9x, DCF: EUR 29, SOTP: EUR 26 and expected return ~20%).

Q2 was operationally well in line with our expectations

Tietoevry's revenue increased by 3% to 715 MEUR, in line with our and market expectations. Organic revenue grew by 1% but working-day adjusted revenue decreased by -1%. By business area, organic growth was best supported by Tietoevry Banking (+5%) and Tietoevry Industry (+5%). Tietoevry's adjusted EBITA was 78 MEUR or 11% of revenue (Q2'23: 73 MEUR), which was well in line with our and consensus forecasts. The improvement in profitability was driven by organic growth and efficiency measures. However, one-off costs were higher than expected, driven by strategic assessments and restructuring costs. As a result, reported EBIT landed at 48 MEUR, below our forecast of 60 MEUR.

Multiple efficiency programs underway across all business areas

In the second quarter, Tietoevry launched an efficiency program in Tech Services and in July in Create, affecting up to more than 500 employees in total. In addition, Tietoevry Create is updating its operating model to achieve greater customer focus, service innovation, global scalability and operational efficiency. Moreover, the company has already implemented efficiency measures in Tietoevry Banking, Care and Industry. In this way, efficiency measures are being implemented in all services. In our view, there is a continuous need for efficiency and reorganization at the scale of Tietoevry. However, the current market situation is creating a greater and more extensive need for restructuring at Tietoevry, as well as at other companies in the industry.

Tietoevry remains cautious in its market commentary, but we expect small earnings growth in the coming years

There were no significant changes in Tietoevry's outlook compared to the company's previous comments, and the company expects the market weakness to continue in H2. The company guides its organic growth to be 0-3% for the full year 2024. In addition, the company expects EBITA to be 12-13% in 2024 (2023: 12.6%). We have left our operating forecasts largely unchanged (-1 to 3%) and expect the company's organic revenue growth to slow to 1% (4-6% in 2022-23), driven by a challenging market. In addition, we expect the adjusted EBITA margin to be 12.6% in 2024 (12.6% in 2023). Profitability is supported by a better revenue mix and lower employee turnover, but limited by wage inflation (4.5%), which is difficult to pass on to customer prices. In 2025-2026, we expect revenue growth of some 3-4% and EBITA to gradually rise to around 13%.

The valuation picture remains very attractive and a strong dividend provides a good base return

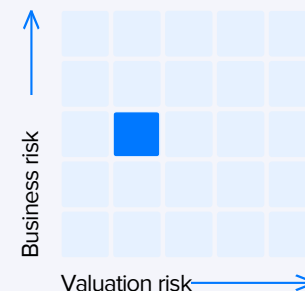
With our estimates, Tietoevry's adjusted P/E and EV/EBIT ratios for 2024 are 9x and almost 50% below peers. The corresponding reported ratios are 12-14x, but almost half of the adjustments are PPA depreciation, which do not affect cash flow and we also adjust these for peers. In our view, the absolute valuation of the share is attractive and the relative valuation is highly attractive. The expected return on the share also rises to an attractive level of nearly 15% on the back of 5% earnings growth and an 8% dividend yield alone. Moreover, the sum-of-the-parts calculation (EUR 26) clearly indicates a higher value than today and is a relevant way to look at the valuation, even if the Banking business remains part of the whole, at least for now. The DCF calculation (EUR 29) also indicates a clear upside.

Recommendation

Buy
(previous Buy)

EUR 24.00
(previous EUR 24.00)

Share price:
18.81



Key figures

	2023	2024e	2025e	2026e
Revenue	2851	2904	2986	3099
growth-%	-2.6 %	1.9 %	2.8 %	3.8 %
EBIT adj.	359	366	380	402
EBIT-% adj.	12.6 %	12.6 %	12.7 %	13.0 %
Net income	172	165	192	213
EPS (adj.)	2.14	2.10	2.22	2.41

P/E (adj.)	10.1	8.9	8.5	7.8
P/B	1.6	1.4	1.4	1.4
Dividend yield-%	6.8 %	8.0 %	8.2 %	8.5 %
EV/EBIT (adj.)	9.7	8.6	8.1	7.5
EV/EBITDA	8.6	7.5	7.0	6.5
EV/S	1.2	1.1	1.0	1.0

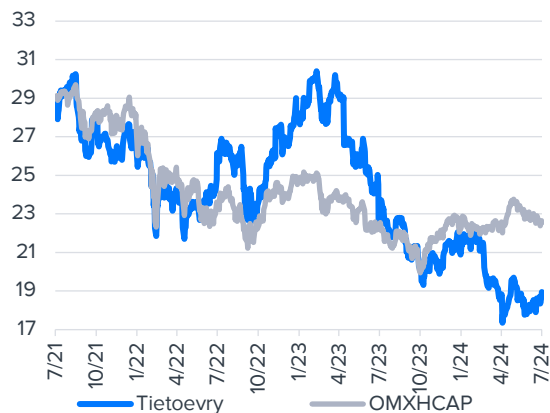
Source: Inderes

Guidance

(Unchanged)

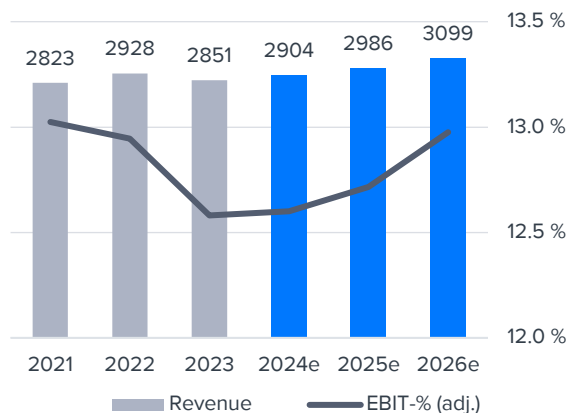
Tietoevry expects organic growth of 0-3% and an adjusted EBITA margin of 12.0-13.0% in 2024.

Share price



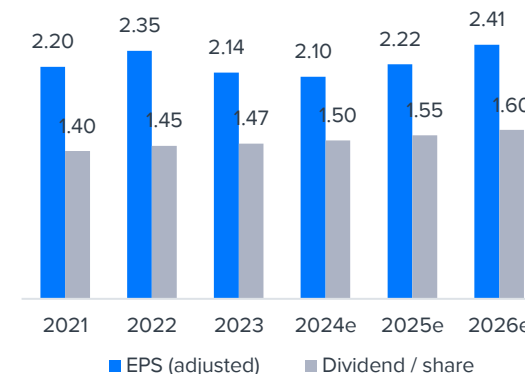
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Strengthened growth outlook
- Increase in the share of highly profitable software product business
- Growing share of new modern IT services
- Acquisitions and divestments of non-strategic businesses
- Business separation



Risk factors

- Decline in competitive position among large customers
- Continuous transformation creates a constant need for restructuring
- Accelerating wage inflation, high employee revenue and a failure in talent competition

Valuation	2024e	2025e	2026e
Share price	18.8	18.8	18.8
Number of shares, millions	118.4	118.4	118.4
Market cap	2227	2227	2227
EV	3147	3089	3015
P/E (adj.)	8.9	8.5	7.8
P/E	13.5	11.6	10.5
P/B	1.4	1.4	1.4
P/S	0.8	0.7	0.7
EV/Sales	1.1	1.0	1.0
EV/EBITDA	7.5	7.0	6.5
EV/EBIT (adj.)	8.6	8.1	7.5
Payout ratio (%)	107.8 %	95.4 %	89.0 %
Dividend yield-%	8.0 %	8.2 %	8.5 %

Source: Inderes

Q2 was operationally well in line with our expectations

Revenue turns to organic growth

Tietoevry's revenue grew by 3% to 715 MEUR, in line with our expectations. Organic revenue grew by 1% but working-day adjusted revenue decreased by -1%. Thus, revenue returned to growth (Q1'24 -2%).

Exchange rates had only a marginal (1 MEUR) positive impact on revenue. M&A supported revenue by a total of 15 MEUR. In the big picture, sluggish growth continues to be driven by a weak demand environment.

By business area, organic growth was supported by Tietoevry Banking (+5%), Tietoevry Industry (+5%) and Tietoevry Care (+1%). Other segments saw a decline, with Tietoevry Create's organic revenue down 2% and Tietoevry Tech Services down 4%. At the business level, the sluggish market is having a particular impact on Create and Tech Services.

In Q2, the order book grew by 2% year-on-year, adjusted for FX effects and M&A. Especially in Banking, we understand that the order book has developed well. The order book development supports the moderate acceleration in growth.

Operating result in line with our expectations

Tietoevry's adjusted EBITA was 78 MEUR or 11% of revenue (Q2'23: 73 MEUR), which was well in line with our and consensus forecasts. The improvement in profitability was driven by organic growth and efficiency measures

By business area, Tietoevry Tech Services' profitability increased to 8% (Q2'23 5%), driven by efficiency measures. The profitability of the Banking, Create and Industry businesses remained close to the level of the comparison period. In Care, profitability declined to 26% from 29% in the prior

year due to investments but remained at a strong level.

However, non-recurring costs were higher than expected, driven by strategic assessments and restructuring costs. As a result, reported EBIT landed at 48 MEUR, below our forecast of 60 MEUR. Other earnings lines were in line with expectations and adjusted EPS increased by one cent to EUR 0.44 in Q2, in line with our and market expectations of EUR 0.45.

In the big picture, cash flow was in line with our expectations in Q2. In Q3, cash flow will be supported by the change in working capital (the end of the quarter does not fall on a weekend).

Estimates MEUR / EUR	Q2'23	Q2'24	Q2'24e	Q2'24e	Consensus		Difference (%)	2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	695	715	706	718	703	731	1%	2904
EBIT (adj.)	73	78	79	79	73	90	-2%	366
EBIT	41	48	60	56	41	63	-20%	259
PTP	35	36	48	45	33	59	-25%	211
EPS (adj.)	0.44	0.44	0.45	0.45	0.38	1.45	-2%	2.10
EPS (reported)	0.23	0.24	0.32	0.30	0.21	0.40	-25%	1.39
Revenue growth-%	-6.0 %	2.9 %	1.6 %	3.3 %	1.1 %	5.2 %	1.2 pp	1.9 %
EBIT-% (adj.)	10.5 %	10.9 %	11.2 %	10.9 %	10.4 %	12.4 %	-0,3 %-yks.	12.6 %

Source: Inderes & Vara Research, 13 forecasts (consensus)

Efficiency programs in all segments

Multiple efficiency programs underway across all business areas

Tietoevry launched an efficiency program in the Tech Services unit in Q2 and in the Create unit in July. Together, they will affect a maximum of just over 500 employees. In addition, Tietoevry Create is updating its operating model to achieve greater customer focus, service innovation, global scalability and operational efficiency. As part of the new operating model, the company is integrating Infopulse, MentorMate and EVRY India, which previously operated independently. The new model may lead to overlap in non-billable administrative and management roles, creating potential for efficiencies. Moreover, the company has already implemented efficiency measures in Tietoevry Banking, Care and Industry. In this way, efficiency measures are being implemented in all services.

In our view, there is a continuous need for efficiency and reorganization at the scale of Tietoevry. However, the current market situation is creating a greater and more extensive need for restructuring at Tietoevry, as well as at other companies in the industry. Especially as the weakness in the IT services market is expected to continue at least into H2'24.

Overall, damage from cyberattack will be minimal

The damage caused by the cyberattack on Tietoevry in March 2024 is currently estimated at less than 10 MEUR. The company estimates that it will take several quarters to resolve customer claims and subsequently settle with the insurer. We have not included the impact of the cyberattack in our forecasts, but we believe some costs are possible. Overall, however, this has a very small impact on the bottom line. On the other hand, we estimate that the

reputational impact is slightly higher, especially in Sweden.

Estimates MEUR / EUR	Q2'23	Q2'24	Q2'24e	Q2'24e	Consensus		Difference (%)	2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	695	715	706	718	703	731	1%	2904
EBIT (adj.)	73	78	79	79	73	90	-2%	366
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PTP	35	36	48	45	33	59	-25%	211
EPS (adj.)	0.44	0.44	0.45	0.45	0.38	1.45	-2%	2.10
EPS (reported)	0.23	0.24	0.32	0.30	0.21	0.40	-25%	1.39
Revenue growth-%	-6.0 %	2.9 %	1.6 %	3.3 %	1.1 %	5.2 %	1.2 pp	1.9 %
EBIT-% (adj.)	10.5 %	10.9 %	11.2 %	10.9 %	10.4 %	12.4 %	-0,3 %-yks.	12.6 %

Source: Inderes & Vara Research, 13 forecasts (consensus)

We lowered earnings estimates slightly

Estimate revisions 2024e-2026e

- We have made minor revisions on the operational side, lowering our earnings forecasts by 1-3%.
- If the divestment of the Tech Services business proceeds as expected and a good price is obtained, we also consider an additional dividend possible at some point. This also depends on solvency, which was 2.2x measured by net debt/EBITDA and above the target level of 1-2x.

Estimates

- We expect that Tietoevry will grow by 1% organically in 2024 and 3-4% in 2025-2026 (2022: 6% and 2023: 4%). The forecasts are therefore well below the 8-10% financial targets driven by market weakness. The upper end of the 2024 guidance (0-3% growth) requires an improvement in the market, which is not expected, so our forecast is naturally at the lower end.
- We estimate that adjusted EBITA-% will rise slightly to around 13% in 2026, driven mainly by scalable software and efficiency measures. Forecasts are below the company's 15-16% target due to demand challenges, continued inflationary headwinds (particularly in emerging markets) and challenges in translating these pressures into customer prices.

Operational result drivers 2024e:

- Price increases support the development somewhat
- Efficiency programs support development (now in all segments)
- Tietoevry estimates wage inflation to be around 4.5% (previously 4-5%) for 2024 (2022: 4% and 2023: 5%). In addition, employee turnover has decreased, which supports profitability
- Tietoevry expects non-recurring costs to be about 1.0 % of revenue in 2024. In addition, the company estimates the cost of strategic assessments to be in the range of 0.3-0.8% of revenue, which we estimate to be at the lower end of the range as a result of the Banking decision.

Financial targets

- Tietoevry is targeting a growth rate of 8-10%
- In terms of profitability, the company is targeting an adjusted EBITA margin of 15-16% by 2025
- In terms of solvency, the company aims to maintain a net debt/EBITDA ratio between 1-2x
- For the dividend, the target is to continue to increase each year

Estimate revisions	2024e		Change	2025e		Change	2026e		Change
	Old	New		Old	New		Old	New	
MEUR / EUR			%			%			%
Revenue	2894	2904	0%	2977	2986	0%	3077	3099	1%
EBITDA	441	422	-4%	447	443	-1%	473	465	-2%
EBIT (exc. NRIs)	364	366	0%	384	380	-1%	411	402	-2%
EBIT	287	259	-9%	294	290	-1%	319	311	-3%
PTP	238	211	-11%	252	243	-3%	282	269	-5%
EPS (excl. NRIs)	2.09	2.10	1%	2.28	2.22	-3%	2.49	2.41	-3%
DPS	1.50	1.50	0%	1.55	1.55	0%	1.60	1.60	0%

Source: Inderes

Valuation 1/2

Peer group

We have used Finnish, Nordic and global peers in Tietoevry's peer group. We consider the median of this peer group to be a good yardstick for Tietoevry's valuation level. We base the relative valuation on the company's size, competitive position, and scalability, continuity and know-how of the expert portfolio, as well as geographical diversification and predictable business. A lower valuation is supported by the weak revenue development and profitability in the largish Tech Services business (to be separated in 2024). We have also considered the 'constant' restructuring costs, which are higher for Tietoevry than its peers. Tietoevry expects restructuring costs to be 1.5% of revenue (excluding costs of strategic assessments), which corresponds to some 15% of the operating result. As the company shows strengthening economies of scale and competitive advantages, a slight premium can be accepted for the share compared to the sector valuation.

Valuation multiples

Our forecast adjusted P/E and EV/EBIT multiples for 2024 are a good 9x or almost 50% below peers. In our view, the absolute valuation of the share is attractive, and the relative valuation is highly attractive. The company adjusts its earnings for about 15% more expenses than its Finnish peers, which means that the stock is still at least attractively priced. The reported P/E multiple is 12-14x for 2024-2025 but includes PPA deductions of just over 10% of EBIT or 40 MEUR per year, which we adjust for peers as it does not affect cash flow and reflects operational performance. In addition, dividend yield (8%) provides a good baseline return.

According to our view, dismantling the long-standing undervaluation can be unwound by the continuation of organic growth back to the levels at the turn of 2022-23 (6-9%). The second "value unwinder" are the planned business separations that would clarify the structure and

bring better growth and profitability conditions for the new business entities. However, this has been put on hold by recent decisions in the Banking business. Tech Services is still being sold. Thirdly, the strategy and segment structure allows for new efficiencies, with segments having their own stronger focus, which is reflected in strong organic growth in 2022-23.

The company has been communicating for some time that it is active on the M&A front, which may involve acquisitions (like MentorMate) and smaller divestments in addition to the current spin-offs. This could further strengthen (acquisitions) or clarify the structure (divestments) and reduce the undervaluation. We believe that the drivers for unwinding the undervaluation are weakening, at least in the short term, as only Tech Services is being spun off.

Components of the expected return for the share

We examine the expected return for Tietoevry's share based on earnings growth, dividend yield and the accepted valuation level. We estimate that the company has the potential for ~5% annual earnings growth in 2025-2026 (compared to 2024 level), driven by growth and profitability. With our growing dividend estimates and average 95% payout ratio the dividend yield is around ~8%. Cash flow continuously strengthens the balance sheet and provides a good basis for profit distribution and/or inorganic growth. In addition, the Tech Service divestment allows for an additional dividend, which depends on the sales price and gearing at the time.

In our view, there is also some upside in the valuation multiples of the stock at the moment. This brings the expected return on the stock, based on dividend yield and earnings growth alone, to just under 15%, and closer to 20% if the upside in valuation multiples is taken into account. This is a particularly attractive level, especially given the relatively low risk profile of the company's business.

Valuation	2024e	2025e	2026e
Share price	18.8	18.8	18.8
Number of shares, millions	118.4	118.4	118.4
Market cap	2227	2227	2227
EV	3147	3089	3015
P/E (adj.)	8.9	8.5	7.8
P/E	13.5	11.6	10.5
P/B	1.4	1.4	1.4
P/S	0.8	0.7	0.7
EV/Sales	1.1	1.0	1.0
EV/EBITDA	7.5	7.0	6.5
EV/EBIT (adj.)	8.6	8.1	7.5
Payout ratio (%)	107.8 %	95.4 %	89.0 %
Dividend yield-%	8.0 %	8.2 %	8.5 %

Source: Inderes

Valuation 2/2

Sum of the parts

With Tietoevry's strategy and especially the business separations, it's very natural to look at the valuation of the share also from the perspective of the sum of the parts. Tietoevry has announced that the Tech Services business will be spun off separately and the Banking business will continue to be a part of Tietoevry. More information on the Tech Services spin-off will be available in the Q3 report. In early July, the company moved the timeline from the end of Q2 to the Q3 report.

Banking growth and profitability returned to a positive trend in Q1, but profitability in Q2 was slightly below the comparison period. The order book developed strongly with Q2. The business has good international growth potential. In particular, the business has the potential to further improve

profitability through software sales, recurring revenue and scalable growth.

The very mature phase of the Tech Services businesses has depressed Tietoevry's development. Businesses have developed very moderately in terms of revenue and profitability is under constant pressure from fierce price competition. However, profitability developed well in Q2. The clearest risk in our view is that the company will not be able to price enough buyer synergies in the purchase price.

In our view, the EV/EBITA multiples we use reflect growth and profitability profiles, peers and business continuity. We have used our 2024 projections for the businesses. If the businesses reach their targets in 2025, there is still considerable upside potential in the sum of the parts.

However, the valuation at the time of separation

depends to a large extent on the current development of the business (growth and profitability), the market situation, the potential, the share of software and the share of recurring revenue.

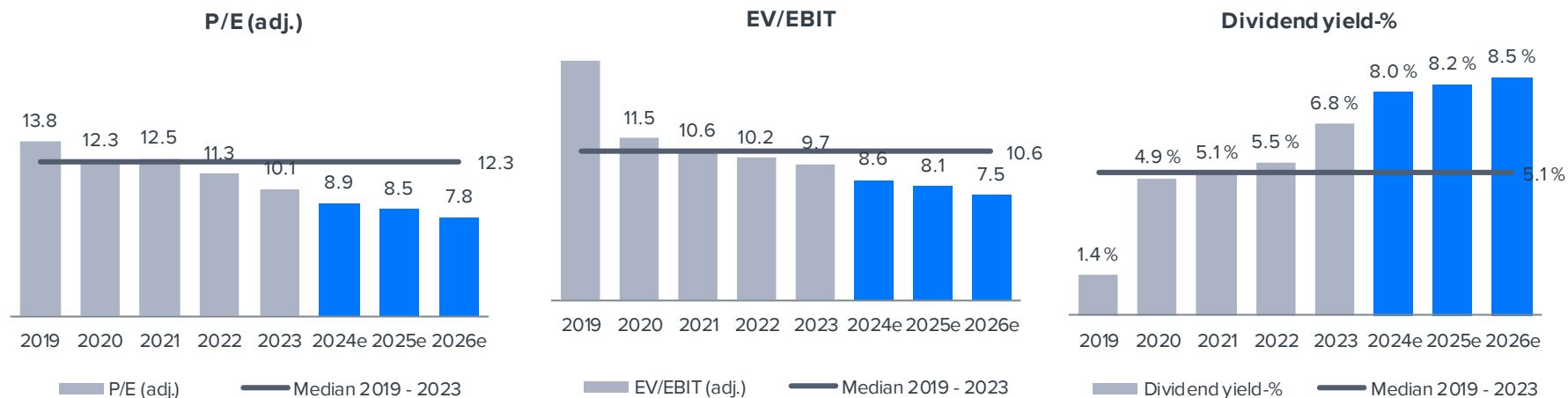
With the multiples we apply, Tietoevry's unleveraged value is 4.0 BNEUR, which corresponds to a per share value of EUR 25.8 with the estimated net debt at the end of 2024 (was EUR 26.4) Thus, there is a clear upside in the share through the sum of the parts.

SOTP calculation	Revenue growth	EBITA-%	EBITA	EV/EBITA	EV	Revenue growth target	EBITA-% target 2025
Segments	2024	2024		multiple			
Tietoevry Create	4%	13%	113	12x	1352	14-16%	14-16%
Tietoevry Banking	5%	13%	75	12x	904	10-12%	16-18%
Tietoevry Care	-2%	29%	66	13x	861	12-14%	28-30%
Tietoevry Industry	4%	16%	45	11x	492	8-10%	20-22%
Tietoevry Tech Services	-4%	9%	91	7x	640	2-4%	10-12%
Others			-25	11.0x	-270		
Group total	1.9%	12.6%	366	10.9x	3980		
Net debt					920		
Market cap					3060		
Share price					25.8		

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	27.7	26.9	27.5	26.5	21.5	18.8	18.8	18.8	18.8
Number of shares, millions	67.9	118.4	118.4	118.4	118.4	118.4	118.4	118.4	118.4
Market cap	3283	3181	3254	3140	2551	2227	2227	2227	2227
EV	4067	4097	3900	3851	3494	3147	3089	3015	2965
P/E (adj.)	13.8	12.3	12.5	11.3	10.1	8.9	8.5	7.8	7.4
P/E	23.8	33.7	11.2	16.7	14.8	13.5	11.6	10.5	9.8
P/B	1.9	2.0	1.8	1.8	1.6	1.4	1.4	1.4	1.4
P/S	1.9	1.1	1.2	1.1	0.9	0.8	0.7	0.7	0.7
EV/Sales	2.3	1.5	1.4	1.3	1.2	1.1	1.0	1.0	0.9
EV/EBITDA	17.7	12.7	7.1	9.0	8.6	7.5	7.0	6.5	6.2
EV/EBIT (adj.)	20.7	11.5	10.6	10.2	9.7	8.6	8.1	7.5	7.1
Payout ratio (%)	59.5 %	165.4 %	56.9 %	91.1 %	101.1 %	107.8 %	95.4 %	89.0 %	86.3 %
Dividend yield-%	1.4 %	4.9 %	5.1 %	5.5 %	6.8 %	8.0 %	8.2 %	8.5 %	8.8 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
			2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e
Digia*	143	157	7.9	6.9	6.5	5.8	0.8	0.7	9.8	8.9	3.6	4.0
Digital Workforce*	48	33	31.7	16.4	23.4	14.8	1.2	1.1	41.6	25.6		
Gofore*	347	323	11.9	10.2	10.4	9.0	1.7	1.5	16.0	14.0	2.3	2.6
Loihde*	67	63	16.0	9.5	6.0	4.5	0.5	0.4	19.5	12.5	3.3	5.0
Innofactor*	59	65	12.4	10.8	8.6	7.2	0.8	0.8	15.7	13.5	4.9	5.5
Netum Group*	37	42	9.0	8.5	8.6	8.1	0.9	0.9	12.6	10.3	4.8	5.4
Siili Solutions*	62	64	8.4	7.3	5.6	4.9	0.5	0.5	11.6	9.9	3.9	4.6
Solteq*	16	40	30.8	11.4	11.4	7.5	0.7	0.7		46.9		
Vincit*	39	27	12.9	5.8	10.5	4.9	0.3	0.3	23.4	10.3	4.3	6.4
Witted Megacorp*	25	17	12.0	5.7	13.9	5.5	0.3	0.3	21.2	11.1		
Bouvet	543	575	15.1	13.6	12.0	11.0	1.8	1.6	18.1	16.5	4.8	5.7
CombinedX	64	64	10.4	7.5	6.3	5.0	0.8	0.7	13.5	9.6		
Knowit	389	466	20.1	12.7	9.0	7.2	0.8	0.8	25.0	13.2	2.3	3.9
Avensia AB	30	35	12.0	9.3	7.7	6.8	1.0	0.9	13.7	10.1	3.2	5.3
Netcompany Group	1957	2265	20.2	16.9	15.0	12.9	2.6	2.3	24.9	19.6		
Wipro	28809	25702	17.3	16.2	13.9	13.3	2.6	2.6	24.1	21.8	1.1	1.8
Tata Consultancy	171478	167564	25.8	23.1	23.8	21.5	6.3	5.9	34.0	30.4	1.7	2.6
Atos SE	113	3286		8.1	4.0	3.3	0.3	0.3	1.1	0.7		
Capgemini SE	33978	36791	12.8	11.6	10.3	9.4	1.6	1.5	16.3	14.8	1.8	2.0
IBM	155928	193090	18.1	16.9	13.3	12.6	3.3	3.2	18.5	17.6	3.7	3.8
Accenture	204753	201897	21.9	20.4	18.1	16.7	3.4	3.2	27.7	25.8	1.5	1.7
Tietoenvy (Inderes)	2227	3147	8.6	8.1	7.5	7.0	1.1	1.0	8.9	8.5	8.0	8.2
Average			16.3	13.7	11.5	9.2	1.5	1.4	21.0	16.4	3.1	4.0
Median (all)			14.0	11.1	10.4	7.8	1.0	0.9	18.5	13.8	3.3	4.0
<i>Diff-% to median</i>			-38%	-27%	-29%	-11%	14%	14%	-52%	-38%	139%	109%
Median Finnish companies			12.2	9.0	9.5	6.5	0.8	0.7	16.0	11.8	3.9	5.0
<i>Diff-% to median</i>			-29%	-10%	-22%	8%	43%	47%	-44%	-28%	103%	63%
Median international companies			17.7	13.6	12.0	11.0	1.8	1.6	18.5	16.5	2.1	3.2
<i>Diff-% to median</i>			-51%	-40%	-38%	-36%	-38%	-35%	-52%	-49%	289%	160%

Source: Refinitiv / *Inderes adjusted forecast. NB: The market value used by Inderes does not take into account treasury shares held by the company.

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	2928	744	695	660	752	2851	734	715	674	782	2904	2986	3099	3213
Tietoevry Create		188	188	172	207	851	224	214	206	241	885	929	985	1044
Tietoevry Banking		114	120	112	130	567	149	148	142	157	596	632	676	717
Tietoevry Care		54.4	61.5	48.9	57.1	236	58.6	58.6	52.3	62.9	232	244	259	274
Tietoevry Industry		82.9	78.5	67.4	74.6	263	69.8	67.3	63.9	71.3	272	286	303	321
Tietoevry Tech Services		121	119	105	122	1075	263	256	236	280	1035	1004	979	954
Eliminations		-76	-77	-73	-83	-141	-30	-29	-26	-30	-116	-108	-103	-98
EBITDA	429	107	80.2	98.1	123	408	103	88	97.1	134	422	443	465	477
Depreciation	-162.2	-39	-39	-36	-38	-152	-41	-41	-41	-41	-163	-153	-154	-154
EBIT (excl. NRI)	379	92	73	86	108	359	89	78	86	113	366	380	402	416
EBIT	266	69	41	62	84	256	63	48	56	93	259	290	311	323
Group items and NRIs	-112.9	-23	-32	-24	-24	-103	-26	-31	-30	-21	-107	-90	-91	-93
Net financial items	-23.7	-6	-7	-8	-14	-35	-12	-12	-12	-12	-49	-47	-41	-36
PTP	243	62	35	53	71	221	51	36	44	80	211	243	269	287
Taxes	-54.2	-14	-7	-12	-16	-49	-12	-8	-9	-17	-46	-51	-57	-60
Net earnings	188	48	27	41	55	172	38	28	35	64	165	192	213	226
EPS (adj.)	2.35	0.56	0.44	0.51	0.63	2.14	0.50	0.44	0.49	0.67	2.10	2.22	2.41	2.53
EPS (rep.)	1.59	0.41	0.23	0.35	0.46	1.45	0.32	0.24	0.29	0.54	1.39	1.62	1.80	1.91
Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	3.7 %	1.8 %	-6.0 %	-4.4 %	-2.0 %	-2.6 %	-1.4 %	2.8 %	2.1 %	3.9 %	1.9 %	2.8 %	3.8 %	3.7 %
Adjusted EBIT growth-%	3.1 %	8.5 %	-7.6 %	-12.5 %	-7.9 %	-5.4 %	-3.4 %	7.1 %	0.3 %	4.5 %	2.0 %	3.8 %	5.9 %	3.4 %
EBITDA-%	14.6 %	14.4 %	11.5 %	14.9 %	16.3 %	14.3 %	14.1 %	12.4 %	14.4 %	17.1 %	14.5 %	14.8 %	15.0 %	14.8 %
Adjusted EBIT-%	12.9 %	12.3 %	10.5 %	13.0 %	14.4 %	12.6 %	12.1 %	10.9 %	12.7 %	14.5 %	12.6 %	12.7 %	13.0 %	12.9 %
Net earnings-%	6.4 %	6.5 %	3.9 %	6.3 %	7.3 %	6.0 %	5.2 %	3.9 %	5.2 %	8.1 %	5.7 %	6.4 %	6.9 %	7.0 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	2565	2619	2596	2583	2572
Goodwill	1847	1907	1886	1886	1886
Intangible assets	337	340	317	277	237
Tangible assets	299	285	313	339	367
Associated companies	14.2	11.6	11.6	11.6	11.6
Other investments	16.2	16.7	10.0	10.0	10.0
Other non-current assets	20.6	34.7	34.7	34.7	34.7
Deferred tax assets	31.4	24.5	24.5	24.5	24.5
Current assets	829	899	831	794	792
Inventories	5.6	8.6	0.0	0.0	0.0
Other current assets	23.6	17.5	17.5	17.5	17.5
Receivables	550	654	639	627	620
Cash and equivalents	250	220	174	149	155
Balance sheet total	3394	3518	3427	3377	3364

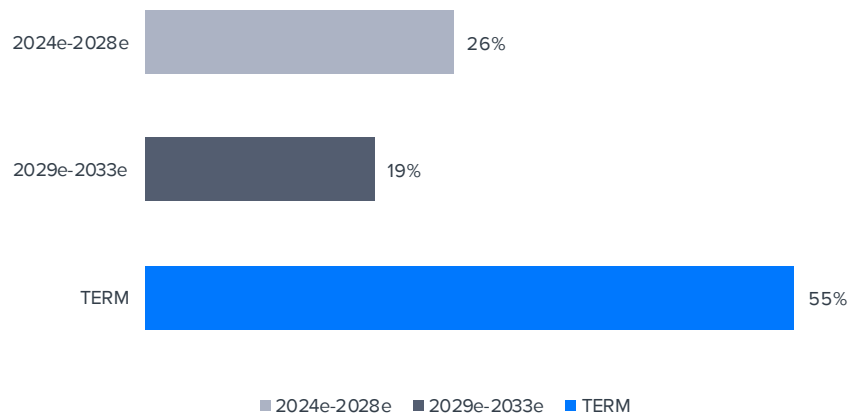
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	1719	1612	1563	1578	1607
Share capital	116	116	75.8	75.8	75.8
Retained earnings	400	293	284	298	328
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	1204	1204	1204	1204	1204
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	891	803	867	830	808
Deferred tax liabilities	24.6	47.5	47.5	47.5	47.5
Provisions	21.7	17.1	17.1	17.1	17.1
Interest bearing debt	795	701	765	729	706
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	49.4	37.3	37.3	37.3	37.3
Current liabilities	783	1103	997	969	949
Interest bearing debt	165	462	329	282	236
Payables	619	641	668	687	713
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	3394	3518	3427	3377	3364

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-2.6 %	1.9 %	2.8 %	3.8 %	3.7 %	3.0 %	3.0 %	2.5 %	2.5 %	2.5 %	1.5 %	1.5 %
EBIT-%	9.0 %	8.9 %	9.7 %	10.0 %	10.0 %	11.0 %	11.0 %	10.0 %	10.0 %	10.0 %	10.0 %	10.0 %
EBIT (operating profit)	256	259	290	311	323	364	375	349	358	367	373	
+ Depreciation	152	163	153	154	154	154	172	165	161	159	158	
- Paid taxes	-18.8	-46.1	-51.1	-56.6	-60.2	-69.4	-73.2	-68.4	-70.7	-73.2	-74.9	
- Tax, financial expenses	-7.8	-10.8	-9.9	-8.8	-7.7	-7.3	-5.7	-5.2	-4.6	-4.1	-3.5	
+ Tax, financial income	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
- Change in working capital	-78.1	50.3	30.7	33.2	3.4	2.9	3.0	2.6	2.6	2.7	1.7	
Operating cash flow	304	416	413	433	412	444	472	444	447	451	454	
+ Change in other long-term liabilities	-16.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-216.3	-140.3	-139.8	-142.4	-145.1	-147.3	-149.6	-151.5	-153.5	-155.6	-164.0	
Free operating cash flow	70.5	276	273	290	267	297	322	292	293	296	290	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	70.5	276	273	290	267	297	322	292	293	296	290	4911
Discounted FCFF		267	246	243	208	216	217	184	171	161	147	2484
Sum of FCFF present value		4545	4278	4032	3788	3580	3364	3147	2963	2792	2631	2484
Enterprise value DCF		4545										
- Interest bearing debt		-1163.1										
+ Cash and cash equivalents		220										
-Minorities		0.0										
-Dividend/capital return		-174.1										
Equity value DCF		3427										
Equity value DCF per share		28.9										

Cash flow distribution

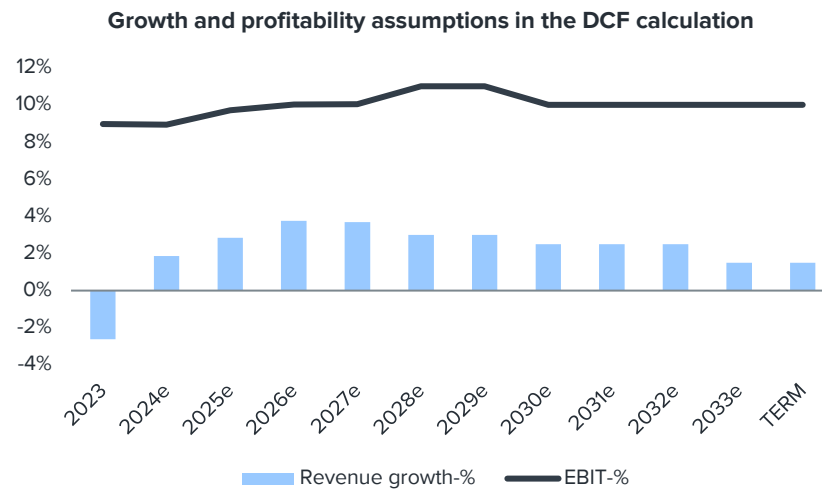
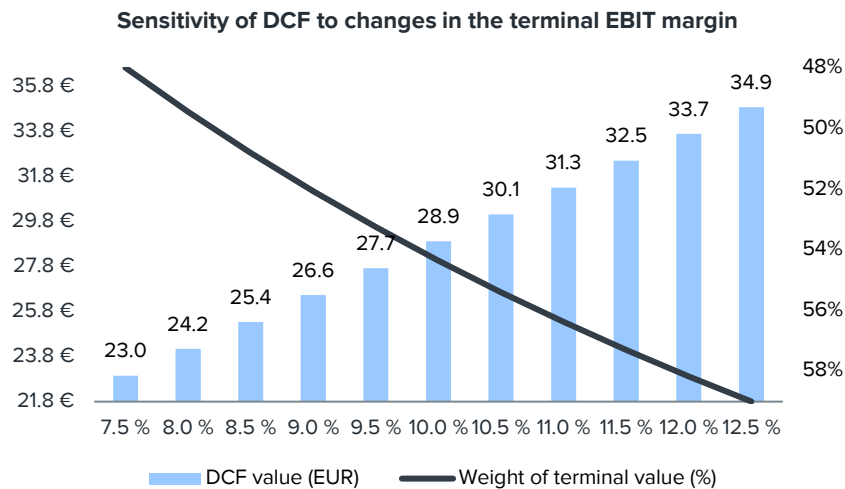
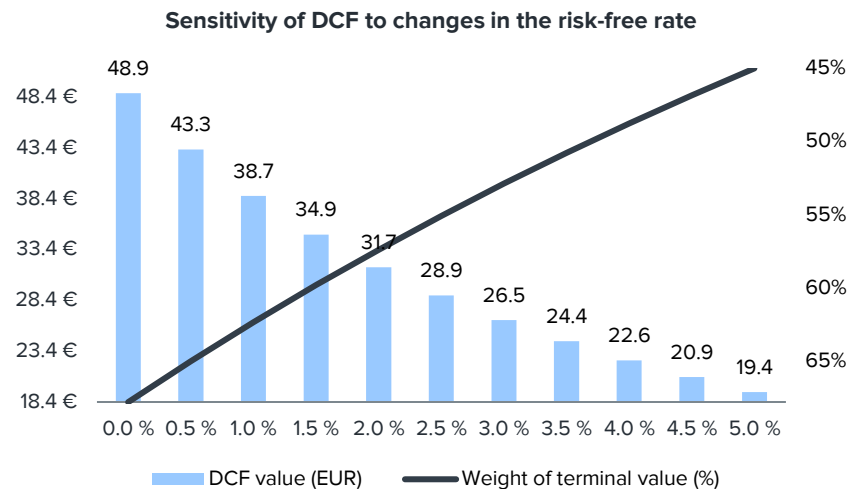
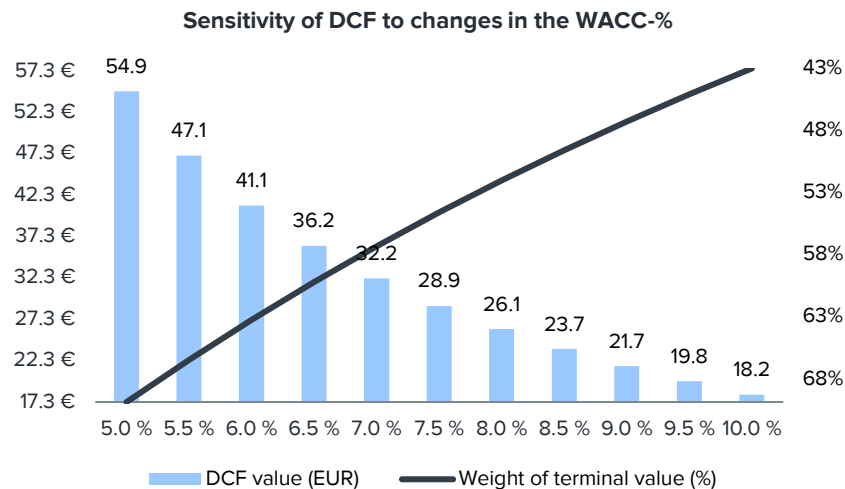


WACC

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	15.0 %
Cost of debt	6.0 %
Equity Beta	1.15
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	8.0 %
Weighted average cost of capital (WACC)	7.5 %

Source: Inderes

DCF sensitivity calculations and key assumptions in graphs



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	2823	2928	2851	2904	2986	EPS (reported)	2.46	1.59	1.45	1.39	1.62
EBITDA	552	429	408	422	443	EPS (adj.)	2.20	2.35	2.14	2.10	2.22
EBIT	382	266	256	259	290	OCF / share	4.42	2.37	2.56	3.51	3.49
PTP	354	243	221	211	243	FCF / share	3.27	2.04	0.60	2.33	2.31
Net Income	292	188	172	165	192	Book value / share	15.38	14.52	13.62	13.20	13.32
Extraordinary items	14	-113	-103	-107	-90	Dividend / share	1.40	1.45	1.47	1.50	1.55
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	3587	3394	3518	3427	3377	Revenue growth-%	1%	4%	-3%	2%	3%
Equity capital	1821	1719	1612	1563	1578	EBITDA growth-%	71%	-22%	-5%	3%	5%
Goodwill	1944	1847	1907	1886	1886	EBIT (adj.) growth-%	4%	3%	-5%	2%	4%
Net debt	646	710	944	920	861	EPS (adj.) growth-%	1%	7%	-9%	-2%	6%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	19.6 %	14.6 %	14.3 %	14.5 %	14.8 %
EBITDA	552	429	408	422	443	EBIT (adj.)-%	13.0 %	12.9 %	12.6 %	12.6 %	12.7 %
Change in working capital	19	-83	-78	50	31	EBIT-%	13.5 %	9.1 %	9.0 %	8.9 %	9.7 %
Operating cash flow	523	281	304	416	413	ROE-%	16.9 %	10.6 %	10.3 %	10.4 %	12.2 %
CAPEX	-111	-15	-216	-140	-140	ROI-%	13.7 %	9.8 %	9.4 %	9.6 %	11.1 %
Free cash flow	387	242	71	276	273	Equity ratio	50.8 %	50.7 %	45.8 %	45.6 %	46.7 %
Valuation multiples	2021	2022	2023	2024e	2025e	Gearing	35.5 %	41.3 %	58.5 %	58.9 %	54.6 %
EV/S	1.4	1.3	1.2	1.1	1.0						
EV/EBITDA	7.1	9.0	8.6	7.5	7.0						
EV/EBIT (adj.)	10.6	10.2	9.7	8.6	8.1						
P/E (adj.)	12.5	11.3	10.1	8.9	8.5						
P/B	1.8	1.8	1.6	1.4	1.4						
Dividend-%	5.1 %	5.5 %	6.8 %	8.0 %	8.2 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
4/26/2018	Reduce	29.00 €	29.86 €
7/23/2018	Accumulate	28.00 €	25.96 €
10/25/2018	Reduce	27.00 €	26.30 €
11/29/2018	Reduce	27.00 €	25.70 €
2/7/2019	Reduce	27.00 €	26.70 €
4/26/2019	Reduce	27.00 €	27.50 €
7/22/2019	Accumulate	26.00 €	23.10 €
10/25/2019	Reduce	26.00 €	25.92 €
12/11/2019	Reduce	27.00 €	26.86 €
2/17/2020	Reduce	29.00 €	30.30 €
3/30/2020	Accumulate	21.00 €	18.69 €
4/29/2020	Accumulate	25.00 €	21.94 €
7/27/2020	Accumulate	28.00 €	26.24 €
10/21/2020	Buy	30.00 €	25.90 €
10/28/2020	Buy	30.00 €	22.66 €
2/18/2021	Buy	30.00 €	26.34 €
4/30/2021	Buy	34.00 €	28.98 €
7/21/2021	Buy	34.00 €	28.36 €
10/27/2021	Buy	34.00 €	26.94 €
2/18/2022	Buy	32.00 €	25.70 €
5/6/2022	Buy	31.00 €	22.72 €
7/25/2022	Buy	31.00 €	26.14 €
10/28/2022	Accumulate	28.00 €	24.34 €
12/1/2022	Accumulate	29.00 €	25.92 €
2/16/2023	Accumulate	33.00 €	29.58 €
5/5/2023	Accumulate	31.00 €	26.56 €
7/24/2023	Accumulate	26.00 €	22.34 €
9/20/2023	Accumulate	25.00 €	21.52 €
10/27/2023	Buy	25.00 €	19.51 €
1/17/2024	Accumulate	25.00 €	21.86 €
2/16/2024	Accumulate	25.00 €	22.10 €
4/26/2024	Buy	24.00 €	17.35 €
7/24/2024	Buy	24.00 €	18.81 €



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