

# Siili Solutions

Extensive report

12/2020

# Growth at a reasonable price

Over the past two years, Siili has created a basis for the company's next growth stage. The new, more focused strategy targets stronger growth and internationalization both in terms of the Core business, as well as the Portfolio units. According to our view, the company still has work to do in fixing the profitability base of the Core business. At the current share price, Siili offers investors growth driven by the digitalization trend at a reasonable price. We reiterate our Accumulate recommendation and EUR 13 target price.

## New phase starting after acquisition driven decade

In the 2010s, Siili grew quickly to become part of the Finnish IT service markets medium players by positioning its products in the growth areas of the IT markets, being successful in talent competition, and making successful acquisitions. At the end of the decade, the company started building a foundation for the next growth stage, which has been reflected as weak result development in recent years. Now the company has turned profitability to a positive trend and the latest acquisitions (VALA Group, Robocorp and Supercharge) seem to be creating value. In the new more focused strategy, Siili's operating model include the Core business and Portfolio businesses that focus strongly on selected competence areas. In the three-pillar strategy, Core focuses on the digital experience, Portfolio businesses develop and grow specialized, productized businesses, and Siili also tries to accelerate its internationalization, especially in Core.

## Still much room for improvement in profitability foundation

In the big picture, Siili's value creation has largely been based on acquisitions and, next to the growth driven strategy, we expect the company to pay more attention to maintaining a good foundation for profitability. The company's organic growth has over the past decade been strong (>20%) in line with the market for digital services. Excluding the independent VALA Group portfolio company, Siili's EBITA % is, however, below 5% and among the weakest in the sector even though Siili's products belong to attractive service areas. We see a risk in the company still having structural profitability challenges in Core and it will take time to fix these. Inversely, Siili has considerable potential to improve its profitability and the company's share price does not, according to our view, reflect this potential

## Demand outlook on the market and profitability improvement offer preconditions for strong result growth

The long-term growth outlook for Siili and its target markets is promising both in terms of Finnish and international operations. The effect of the coronavirus on Siili and the sector also seems to remain moderate. We estimate that Siili will grow by 14% and 8% in 2021 and 2022, when growth will be boosted by the latest Supercharge acquisition. We expect the company to continue improving its profitability as EBITA % will rise to 9.4% in 2021 and to 10.1% in 2022, which we still consider modest in light of the company's long-term profitability potential. In our estimates, earnings growth will rise to around 20% in coming years.

## At the current valuation, the share offers growth at a reasonable price

With our estimates, Siili's 2021 EV/EBIT is 11x, which we consider a neutral level considering the uncertainty related to the company's profitability turnaround continuing. Our earnings growth estimate of 15 to 20% in coming years combined with a 4 to 6% dividend yield upholds good expected returns relative to the risks.

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## Recommendation



**Accumulate**

(previous Accumulate)

**EUR 13.00**

(previous EUR 13.00)

**Share price:**

12.10

## Key indicators

	2019	2020e	2021e	2022e
<b>Net sales</b>	81	84	96	104
<b>Growth %</b>	14%	4%	14%	8%
<b>EBIT adjusted</b>	5.1	6.1	9.0	10.5
<b>EBIT % adjusted</b>	6.4%	7.2%	9.4%	10.1%
<b>Net profit</b>	2.6	6.0	5.3	6.6
<b>EPS (adjusted)</b>	0.53	0.63	0.99	1.18

<b>P/E (adjusted)</b>	17.3	19.3	12.2	10.3
<b>P/B</b>	3.1	3.4	3.1	2.7
<b>Dividend yield %</b>	2.9%	3.0%	4.0%	4.6%
<b>EV/EBIT (adjusted)</b>	12.3	12.9	10.6	8.6
<b>EV/EBITDA</b>	8.9	9.2	8.2	7.0
<b>EV/Net sales</b>	0.8	0.9	1.0	0.9

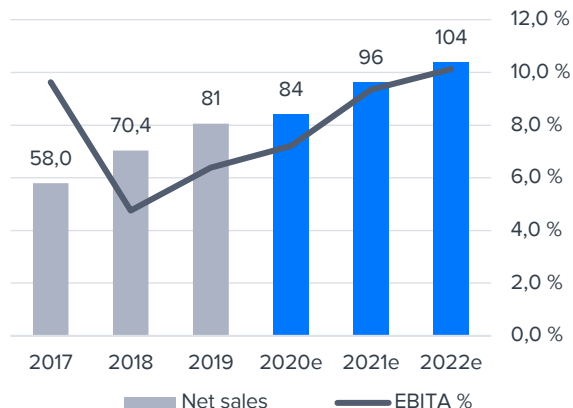
Source: Inderes

## Share price



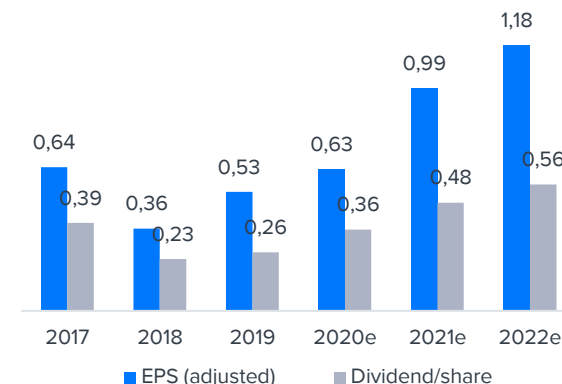
Source: Thomson Reuters

## Net sales and EBITA %



Source: Inderes

## EPS and dividend



Source: Inderes



### Value drivers

- Value creation through strong organic growth, acquisitions and internationalization
- Clear potential for improvement in profitability
- Extremely good demand outlook in sector
- Success of new strategy and operating model

### Risk factors

- Tightening competition for talent and wage inflation
- Successful acquisitions
- Successful internationalization
- Growth management
- Organization's ability to renew itself

### Valuation

- There is upside potential in the share if the company returns to a normal profitability path
- Lower valuation than for sector
- Upside potential in valuation indicators if profitability rises to the level of the sector
- Good dividend yield and earnings growth outlook for coming years support valuation

# Siili in brief

Siili is a specialist in digitalization solutions. The company is a combination of a digital agency and a technology powerhouse. The company offers expertise in transforming visions into stand-out digital strategies, data into clear insights, and ideas into impactful innovations and services.

## 2005

Year of establishment

## 2012

Listing on First North (main list in 2016)

## EUR 81 million (+14% vs. 2018)

Net sales 2019

## EUR 7.1 million (9% of net sales)

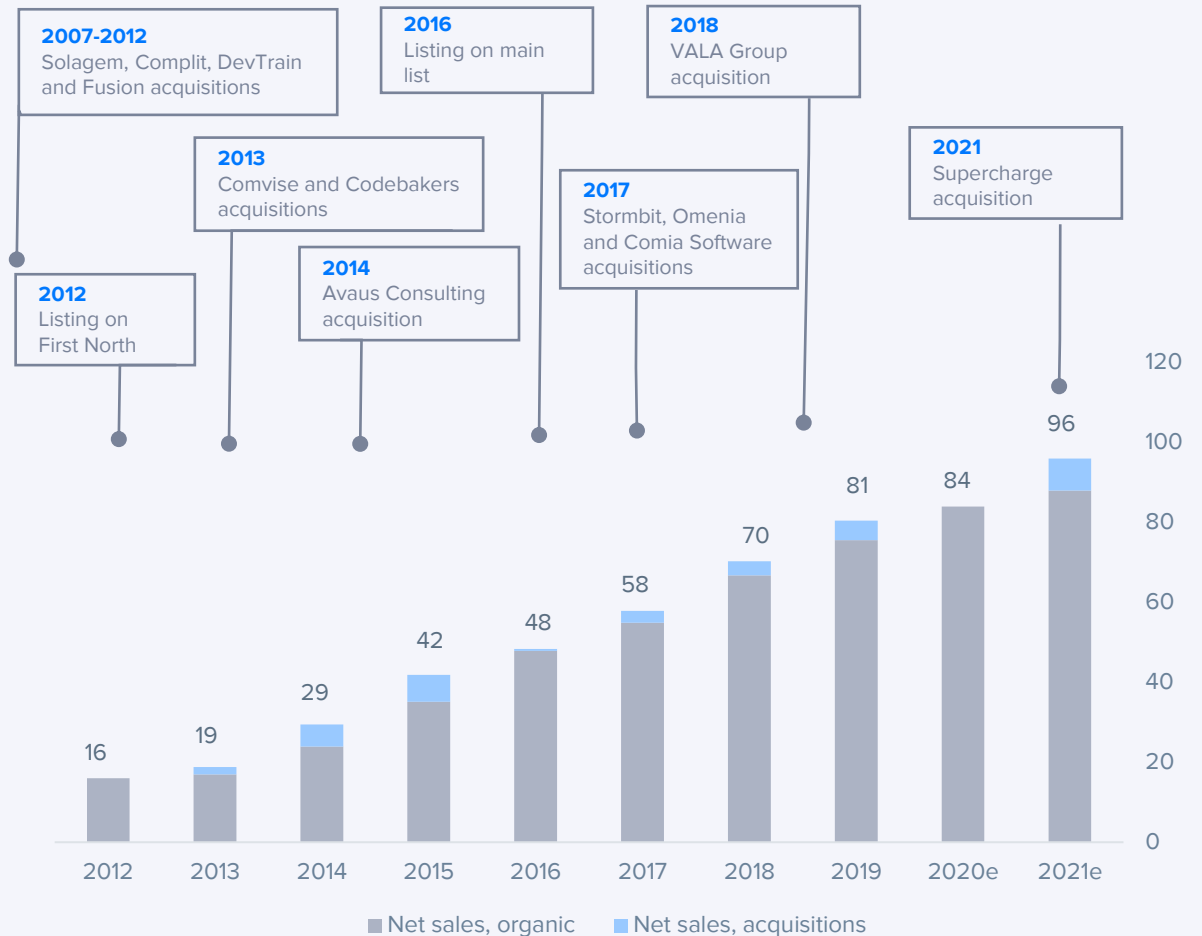
EBITDA 2019

## 14%

Share of international net sales in 2019

## 737

Personnel 2019



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# Company description and business model 1/2

## Expert company in digitalization

Siili, established in 2005, is a technology independent consulting company specializing in creative design and technical implementation of software systems. The company's spearhead is to combine a digital design agency with a technology powerhouse.

Siili's roots lie in talent resourcing of software developers from where Siili has over the past decade grown into a comprehensive IT service and solution provider through acquisitions and expanding its areas of expertise. The company's current solution areas cover talent resourcing, designing and developing of new digital services tailored to the customer, delivering comprehensive IT solutions, software automation, cloud services, and digitalization solutions for the automotive industry.

With its staff of around 700 experts and net sales of EUR 80 million, Siili is one of several medium-sized, successful "new age" players on the Finnish IT markets that have been able to grow considerably over the past decade by focusing on the growing new digital service areas of the IT markets. Siili has displayed a good vision and ability to react to the trends on the IT markets, and the company has successfully expanded into the market's growth areas through acquisitions.

## Acquisition driven value creation in the past

Siili's history is described by a strong expansion in its offerings and growth in the 2010s through acquisitions. After a long strong growth phase, the company had to reinvent itself in 2018. In 2018 to 2019 Siili carried out an extensive organization

model and strategy overhaul and the company built the basis for its next stage. At the end of 2019, a new CEO took over and the company announced it was moving into its next growth stage. Now the company aims for over 10% organic growth and even stronger international growth.

According to our estimates, Siili has grown organically by an average of 24% per year and supported by six acquisitions by a total of 29% per year during the 2010s. At the same time, the company's EBITDA % has been between 6 and 12%. Throughout its history, the company has carried out 11 acquisitions. Siili's historical value creation has, according to our view, been based on acquisitions and growth as the company's profitability has, in light of the sector, been passable over the past decade.

## Main market in Finland, internationalization strengthening

Siili's customer sectors include the public sector, the financial sector, manufacturing and the service sector, as well as the automotive sector (abroad). The company's primary customer organizations are Finland's 500 largest companies and the public sector. The company tries to grow and stand out from the competition through an agile and network-like operating model, its specialized portfolio units, and by mastering the digital experience.

In Finland, Siili has offices in Helsinki, Oulu, Tampere and Seinäjoki. The company also has offices in Wrocław and Szczecin in Poland. The independent Siili Auto operates in Wrocław, Szczecin, Berlin, Stuttgart and Detroit. As a result of the latest Supercharge acquisition, the company will also have offices in Budapest, London and Amsterdam.

In 2019, net sales from Siili's international operations represented 14% of total net sales.

Internationalization is one of the corner stones of the company's strategy and Siili aims for double the growth rate in its international operations compared to its domestic operations.

## Business structure – Core & Portfolio

At the end of 2019, Siili specified its strategy and operating model. At the same time, Siili divided its business into two parts, Siili Core and portfolio companies.

Core services are the company's core business and cover the entire life cycle of IT services. Siili Core is the frame for Siili's operations in Finland. In Finland, Siili has good growth potential in designing services related to the digital experience and in creative technological implementation. The company's competitiveness in Finland is at its best among medium-sized and large customers. Core's own knowhow is complemented, and flexibility is increased by the Siili One partner network. In addition to Finland's Core, the company has opened a new Core unit in Poland last autumn to accelerate international growth. The strategy and business model of the Polish Core operations correspond with the model used in Finland. As a result of the Supercharge acquisition announced in December, the company will also establish a Core unit in Hungary in early 2021. The network-like operating model enables serving Core's international customers in the production units of various countries. Core aims for profitable growth. The aim is to produce larger solutions for customers and become a strategic partner.

# Company description and business model 2/2

The portfolio companies are independent business units with a sharp focus, productized offerings and international growth potential. Portfolio companies have their own sales, in addition to which their services are sold as part of Core's offering.

The portfolio currently includes VALA Group Oy and Siili Auto Oy that act as independent legal companies. In addition, Skaler that focuses on software robotics and automation is currently being moved from Core to Portfolio. Siili Auto builds digital user interfaces for modern cars utilizing several technologies and is responsible for the majority of Siili's current intentional net sales. VALA Group focuses on software testing and quality assurance. The ownership structures of the Portfolio companies are flexible, and the structure is implemented with a model best suited for each situation. The exit from the Robocorp portfolio company in spring 2019 is one example of Siili's ability to nurture and create independent successful businesses.

## Management model

Siili has changed its operating model considerably in recent years. The previous management model worked well in the 2012 to 2017 strategy period when Siili grew strongly through acquisitions and systematically built its position on the IT markets. The old matrix organization that was managed from the top no longer worked in the significantly larger size class, and the company had to renew the basic structures of its business in order to be able to continue growing.

In 2018, Siili moved towards a network consisting of independent units where hierarchy is abolished, administrative roles are cut, and personnel is involved by transferring more power and

responsibility to customer teams. In 2019, Siili created the Core and Portfolio organization structure. In 2020, the strategy was made more concrete while Siili's brand and the Core organization were renewed to correspond with the strategy. Core operations are independent cost centers but also work together in the same projects. Portfolio companies can operate under different business models and they have independent sales. The role of administration and the parent company is to offer support services and develop business operations. The company has also renewed all operational background systems to support the new structure.

Siili's new management model tries, in a way, to combine the best sides of an inclusive digitalization consultant and a capital investor that rears specialized digitalization companies. Siili offers expertise, capital and customers to portfolio companies, thus creating a good environment for the entrepreneur to grow and develop new business operations. Portfolio companies, in turn, bring the sharpest experts to Siili's projects and value creation potential for Siili's shareholders with controlled risk.

If successful, the new operating model could bring scalability, cross selling and better billable utilization, flexibility, innovation and attractiveness as an employer to the organization. We believe the challenge of the organization structure is the risk that the company turns into a silo-like Core and Portfolio organization, focus disappears, and there is no common customer message. In addition, strong internationalization can bring cultural and management challenges. We also believe Siili, like many other agile digital developers, faces the

challenge of the organization's sales and culture focusing on selling resources instead of solving the customer's problems. Players in the sector do, however, show a clear trend towards becoming a stronger partner for their customers.

## Business model is expertise sales

Siili's business model is high-end expertise sales with various delivery models. We estimate that most of the business is hourly-charged sales of expert resources and part is solution delivery sales that can be based on a fixed project delivery, hourly work or a combination of these. Legally net sales is typically based on long framework agreements. We believe the company has a highly limited number of project risks in its business. Siili also has continuous maintenance agreements that can include reselling of cloud capacity. The maintenance business is still rather limited, but the focus of customers' purchases is constantly shifting from projects towards continuous development work.

The spearhead of Core's strategy is the digital experience, including digital service development that covers the entire life cycle. The aim is to become strategic level partners for the customer organizations that can manage extensive and complex solutions. In terms of Portfolio, the aim in business is more replicable specialized service concepts that have international growth potential.

The strengths of Siili's business model are a modest risk level, stable profitability and cash flow. From an expert's viewpoint, the company's personnel focus on senior experts and the capital region. This is somewhat of a competitive advantage on which to build but is also reflected as a higher cost level than among its peers.

## Partners



Technology suppliers and communities





Subcontractors, talent resourcer

## Operations

Core units 

Portfolio companies 


Parent company operations 

Marketing and go-to-market 

Support services

Business development

## Service areas


Digital strategy and innovation 


Design 

Tailored digital services 

Data, analytics and AI 

Software development 

Cloud and continuous services 

Software automation 

Automotive industry 

## Business idea

**Silli combines a digital design agency with a technology powerhouse in a unique manner.**



- Business divided into core operations and portfolio companies
- Strong track record in acquisitions and recognizing market trends
- Digital experience (DX) is the spearhead, as well as specialized portfolio units
- Established position on Finland's IT service market
- International growth potential

## Sales channels



Direct sales to end customers



Chain of subcontractors (automotive industry)

## Competition



IT generalists

Agile software developers

## Customer sectors



Manufacturing



Financial



Public sector



Services



Automotive (abroad)

## Cost structure



Personnel costs (68% of costs)



Subcontractors and purchases (20%)



Other operating expenses (12%)

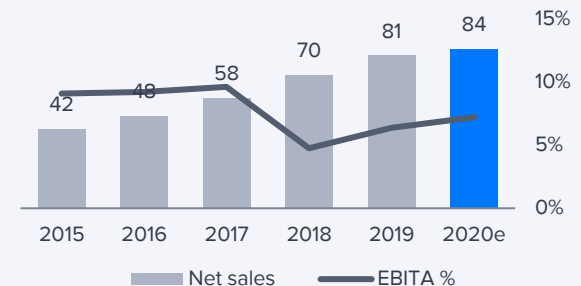
737 employees (2019)  
EUR 74 million (2019)



Project and expert work

## Income flow

Net sales EUR 81 million  
EBIT EUR 5.1 million (2019)





# IT service markets 1/5

## Market size and definition

### Market size and definition

According to IDC, the size of the Nordic (Sweden, Norway, Finland, Denmark) IT service market was USD 24.4 billion in 2018. IDC has estimated that the Nordic market will grow by an average of 3.2% annually to USD 29.5 billion by 2023. According to the conventional definition of IT service markets, the market includes areas like IT consulting, software development services, integration and implementation services, outsourcing services, software maintenance and support, and IT infrastructure services. The IT service market and the definition of its euro-denominated size is becoming obscure as the role of IT and technology is becoming part of the operational core in various industries as a result of digitalization. Thus, the operating field of IT service companies crosses paths with new parallel markets that have not conventionally been considered part of the IT markets. These include, for example, strategy consulting, change management, design and service design.

### Long-term growth outlook of the market

The digitalization of society requires a huge number of hands to build, integrate and maintain new applications, which leads us to believe that the long-term demand fundamentals of IT consulting companies are strong. Therefore, IT service companies offer investors a good chance to invest in the digitalization trend with the more limited risk profile of the service business. One can expect the market to grow more quickly than the macro economy in the long term.

In the 2010s, Siili has grown in line with the overall market. The company has also grown strongly through acquisitions and modified its offering well by foreseeing market trends. The company, for example, invested in design already in the early 2010s, years before the rest of the market stormed this service area.

### Effects of the coronavirus and current market outlook

The corona pandemic causes a speed bump in the highly favorable cycle that has lasted for five years on the IT market. One could say that the market was overheated before the pandemic, especially due to the competition for talent, which means a slight stabilization is healthy for the market.

The corona pandemic affects the IT market through the weakening macro economy. The development of companies in this sector has so far been primarily good as existing projects have continued and organizations have easily adapted to telecommuting. Profitabilities have been strong nearly throughout the industry thanks to lower cost structures due to the coronavirus and reorganization measures. Negative effects have mainly been seen in customer industries that have suffered immediately from the situation, and in companies that focus on project business. In the public sector, existing budgets support demand and new large projects have been launched also during the pandemic. In our opinion, the situation already seems far better than in spring. There is naturally still uncertainty connected to 2021 but, as a whole, the sector will survive the corona year with only small scratches.

According to an estimate by TietoEVRY, the IT markets will decline by 3 to 7% in 2020, which in our view is a pessimistic estimate in light of Finnish listed companies. In Siili, the corona pandemic affects the operations of Siili Auto in particular, but since the steep drop in demand in spring, demand has now returned to a path of recovery.

When looking beyond the pandemic, we believe the growth fundamentals of the IT market will strengthen as the situation forces customers to invest in electronic business. For many customer organizations, the pandemic is probably the last push for a digital transformation, which for years remained a buzz word.

The pandemic also changes the working methods and cost structure of IT service companies. We believe that looking past the pandemic, especially network-like working methods and use of nearshore resources, will become more common. This improves Finnish companies' preconditions for internationalization on Central European markets where companies' digital maturity is clearly lower than in the Nordic countries. In addition, the efficiency of companies in this sector is supported by smaller office needs and lower travel costs.

### Changing nature of IT investments divide the market

The continuously strengthening digitalization revolution launched a new era on the IT markets in the 2010s, which has redivided the market and generated new ways to operate on the market.

# IT service markets 2/5

Thanks to the digitalization revolution IT purchases are changing, which requires IT companies to have the ability to adjust their offering constantly. In the 2010s, a shift was seen on the market towards IT investments that create new business and differentiating factors when the quest for cost efficiency was no longer enough in the competition. This means that the IT buyer is often a business unit or product development not data administration or support function. The desired expertise areas are increasingly linked to new digital services and less to background systems. The market revolution created a strong growth opportunity for many players that were born in the new era (like Futurice, Solita, Reaktor, Siili, Gofore and Vincit) that through their offering have profiled themselves as developers of new digital services.

Conventional players were initially slow to adapt their offering and culture to better correspond with the changing purchasing behavior and demand for service areas.

The change on the IT service markets in the 2010s can be illustrated in a simple way by dividing the market into new digital services that grow strongly and into the faltering traditional software system development. Dividing the market in two is, however, becoming irrelevant, as new digital services cannot be discussed separately from the core business systems.

A clear trend on the market now is that IT purchases become more serious as the customer organizations have realized that you cannot get a short cut to digitalization by buying digital applications bypassing data administration.

Organizations' established data systems will not disappear, but they must be modernized to work as platforms for new digital services. IT investments are directed at new functionalities that are built with interface solutions on top of existing systems. Correspondingly, this trend has restored competitive advantage to more "conventional" players, while many, primarily digital service developers that have succeeded by acquiring talent, have faced clear challenges in recent years and have been forced to reassess their strategies. As a result of increasing digital maturity in customer organizations, they have also become more demanding buyers and active in building their own software development teams.

As a result of the above-described revolution, the IT service market has undergone a considerable change over the past 10 years. Over the coming 10 years the change rate on the market will accelerate further and due to the complexity of technology and rapid development, it will become harder for companies to predict change. Thus, we believe that the ability of the companies in the sector to react and change will become increasingly important.

## Internal division and development direction of the market

We have divided the IT service markets into three sections (page 11) as follows:

**1. Market for new digital services**, that includes development of new digital services (tailored software development). This has been the strongest growing area (our estimate >15%) on the markets that was practically born only in the past good five years. Well-known players

on the markets are, e.g., Reaktor, Futurice, Nitor, Bitfactor, Siili and Vincit, in addition to which large IT generalists have also started investing in this area but have been late to the game. Characteristic for this market is a low threshold to enter the market.

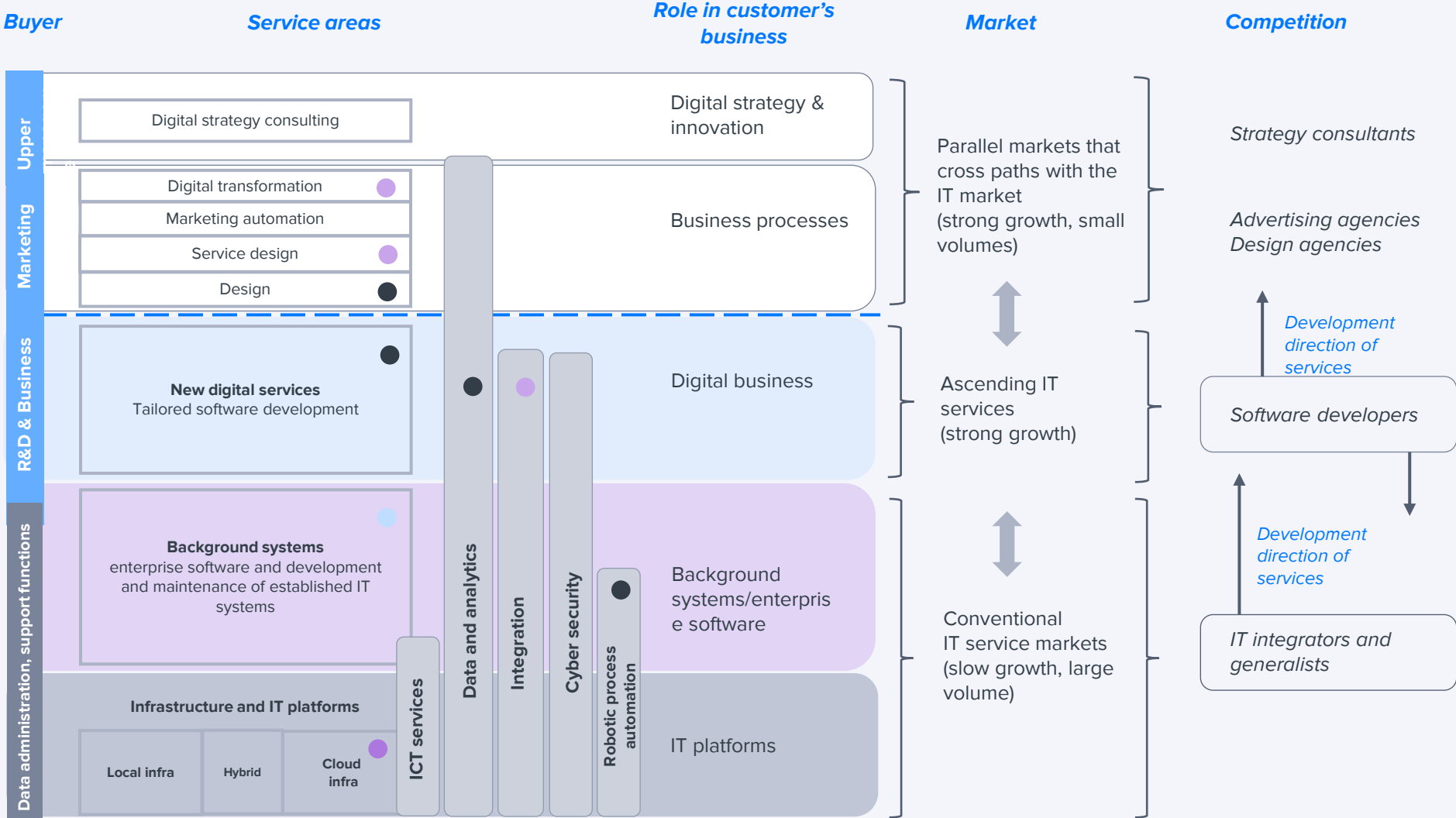
- 2. Market for background IT systems and enterprise software**, that includes ERP extensively and related systems covering primarily delivery, tailoring, integration and maintenance of firmware. Known players on this market in Finland include, e.g., Innofactor, Enfo, Solteq, Digia, Sofigate, eCraft, Bilot and IT generalists in particular (such as TietoEVERY and CGI). Market growth has been slow in this area and a high threshold to enter the market is typical for this area.
- 3. Market for IT platforms**, that mainly covers infrastructure services (local, hybrid and cloud) and ICT outsourcing. This market has mainly been the strength of IT generalists (like TietoEVERY, Fujitsu) and the threshold for entering the market is high because the market has required benefits of scale and investments. As a result of the cloud revolution, a redistribution of the market is ongoing that has generated new quickly growing players (like Nordcloud) and many medium-sized IT consultants (like Gofore, Siili and Enfo) are also entering the field. This market has rapidly shrinking (local infra) and drastically growing (cloud platforms) areas.

Cross-cutting service areas of these three markets are, for example, data and analytics, integration, cyber security and robotic process automation.

# Division of the IT service market

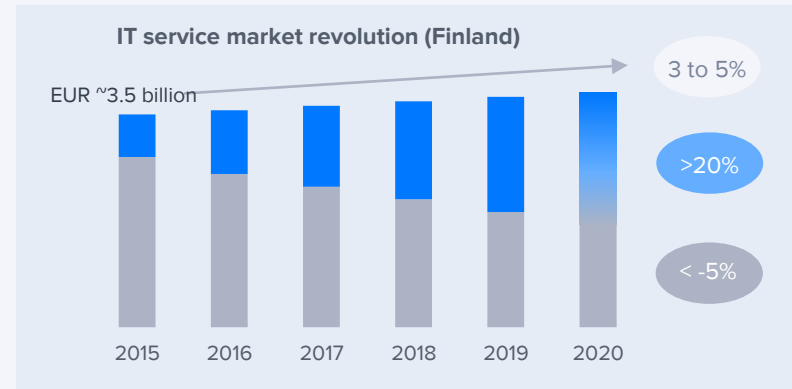
**Siili's offering**

- Core competence area
- Competence area

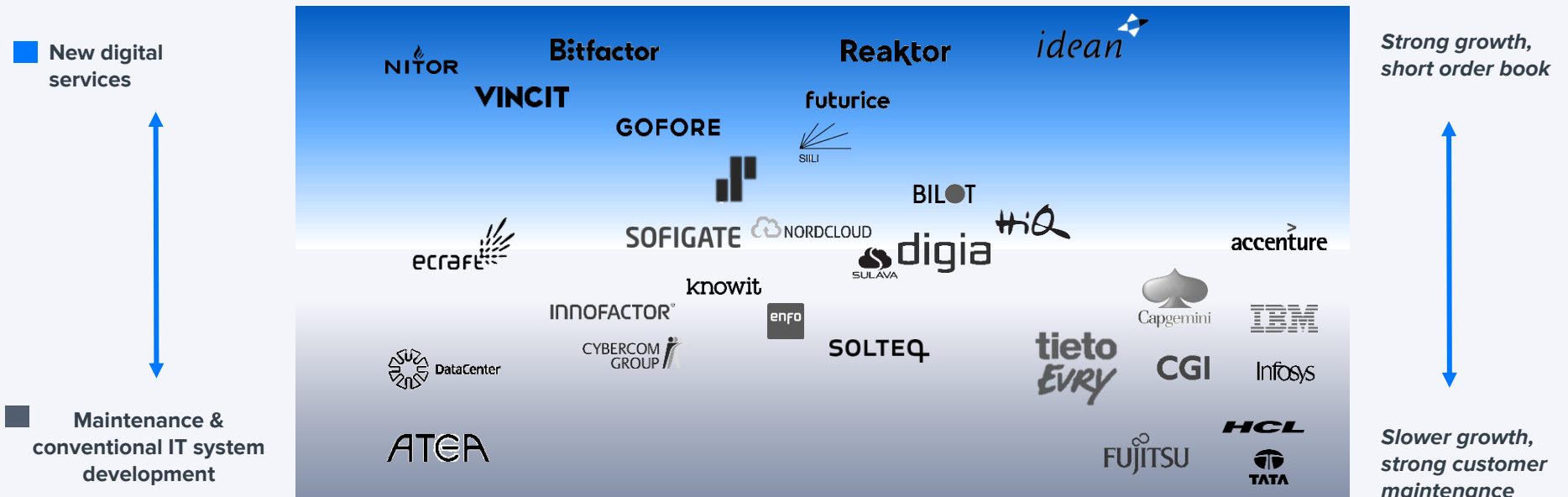


Source: Inderes

# Markets and value chain



Positioning of IT companies on the Finnish market by main target group and service area



# IT service markets 3/5

In recent years, the most visible trend on the market has been IT players striving to win over customers already when digitalization projects are being planned (digital consulting, service design and design), as selling one hour of design work has translated into selling multiple hours of software development work. Many players seek a stronger position in the value chain by strengthening their consulting service expertise, in which case the IT supplier manages the projects and resources and does not merely deliver them. This trend has been visible as several acquisitions on the market. In addition, many IT consultants try to expand into strategy level consulting, granted with varying degrees of success.

Another clear trend for the players in this sector is the life cycle approach, as many new players now try to build the ability to offer software maintenance as well. Customers' purchases are also strongly shifting from software development projects towards continuous software development, which changes the nature of the markets. Common for the strategies of all medium-sized and large players is also a strive towards the position of a more business critical partner for the customer. The know-how and offering of small software developers does not in this case reach deep enough into the customer's IT systems and processes. This development may accelerate market consolidation.

We believe the Finnish IT service market is now more strongly developing in a direction where the paths of conventional and new players cross and the boundary between "new" and "conventional" IT becomes blurred.

## Background system expertise is making a comeback

The strongest demand on IT markets has for years been in developing digital services and in software development that is still quite experimental by nature. According to our view, the market has, however, moved to a stage where one must be able to integrate new digital services and related data more tightly with the customer's background systems in order to get full benefits from the new solutions. Customers also have increasing needs to modernize their background systems because an old ERP system may act as a break for the development of digitalization solutions. Thus, the nature of the ERP market that has suffered from slow growth for a long time will change, and the market is picking up. The importance of integration and data expertise also becomes emphasized.

This trend towards a life cycle approach is one challenge in the competition with generalists from the viewpoint of digital service developers like Siili. The company is trying to respond to this challenge by improving its abilities for continuous development work, maintenance and cloud infrastructure. According to our view, data and integration expertise are among Siili's strengths.

## The corona pandemic shifts competition from experts to customers

Strong demand and the competition for talent it has generated has, over the past five years, emphasized culture and recruiting know-how as a competitive factor on the IT markets. The winners in this trend have in recent years been small and agile players that often stand out through their

culture and organization model. Such players have been, e.g., Vincit, Reaktor, Futurice, Solita and Gofore. Manufacturing has also become increasingly active in competing for the same talent, which has tightened the competition further. Now, as a result of the pandemic, the market has shifted more towards a situation where the competition is tightest for customers' orders instead of for talent. This changes the market's competitive nature in the short term even though the competition for talent is likely to continue for years in the big picture. This can alleviate the availability of talent and cost inflation but tighten price competition.

## Cost inflation and pricing environment

In general, the pricing level for the IT sector is on a healthy base but a weakening economic situation can later lead to price pressure. Based on discussions with various companies, wage inflation has been close to 5% in 2018 to 2019. Based on the companies' comments, accelerated cost inflation has not been fully carried forward to prices because long-term framework agreements often makes it difficult. This has depressed companies' profitabilities in recent years. Despite the weak economic outlook there has been relatively few cooperation negotiations announced in the sector since the start of the pandemic, and these have primarily only resulted in temporary layoffs. Slightly tightening price competition is compensated by cost inflation easing off. TietoEVRY commented in December that wage inflation had been at the lower end of the 3 to 5% range in 2020, and the company expects it to rise slightly in 2021.

# IT service markets 4/5

## Acquisitions and consolidation

Consolidation of the IT service sector was active throughout the past decade. It has been typical for the sector to patch up shortcomings in strategic expertise areas with acquisitions.

Many players have strong cash positions and acquisitions are part of their strategy. When the pandemic broke out, all acquisitions halted but there have been signs of more activity in the autumn. The pricing of the companies in the sector has increased over the past five years and this high pricing has also spilled over to the unlisted side (page 41). Valuations that have risen close to that of listed companies weaken buyers' preconditions to carry out acquisitions that create shareholder value. Thus, the recipe that was highly efficient five years ago, where listed companies bought unlisted companies with lower valuation utilizing their own shares, no longer works as well.

We believe that acquisitions were on ice during the uncertainty caused by the pandemic due to large differences of opinion between buyers and sellers. Now visibility is better thanks to the effects from the first wave and the coronavirus vaccine, which has relaunched acquisition activity in both smaller and larger size classes during autumn.

Foreign players are also looking for acquisition objects in Finland, which increases the consolidation pressure in the sector. From the viewpoint of international investors, Finland is interesting because of an exceptional market of medium-sized digital service developers and the expertise of these players.

As the market for digital service development is becoming more mature and the various areas of the IT market become integrated, a broader consolidation is likely as was seen in the Tieto and EVRY merger. An interesting scenario could be the merger of two medium-sized players like Siili into a stronger player to challenge the large generalists. In terms of Siili's value creation over the next 10 years, the company's role in the wider consolidation development in the sector is also key.

## Future winners on the market in our view

The clearest winners on the IT markets in the past five years have been companies specialized in developing new digital services that have been particularly successful in the competition for talent. The market for digital services has now reached a clearly more mature stage and the next match will be outside pure talent competition. In our view, the sector's success factors change and the winners in the next five years will be:

- The owners of strong customer relationships with a strategic partner role among customers, the ability to manage large IT projects and scale operations through a strong subcontractor network. Small players that hold the role of subcontractor and that have focused more on talent competition than on customers are weak when the macro market weakens.
- Companies with strong integration and background system expertise and the ability to provide maintenance and continuous services. Strong maintenance players are also strong when the market weakens. This is the

weakness of many medium-sized digital service developers.

- Companies that are able to build a dynamic organization model that has the agility to react to a rapidly developing market. Many companies in the sector suffer from inefficient and inflexible, hierarchal and silo-like organization structures, which makes renewal difficult when the market changes.
- Companies that maintain a clear strategic focus. Several companies in the sector suffer from growing pains as they are unorganized after the rapid expansion.

## Market trends

### Trends in organizations' IT purchases

According to our view, the digitalization revolution will drive customers' purchasing behavior towards the following trends, where there are both winners and losers:

- Large, multi-year high-risk ERP implementation projects (SAP, Oracle, IBM) are no longer carried out and the nature of this market changes. Established ERP systems will not disappear from customers, but they will remain in maintenance mode by existing IT suppliers and they will be moved to the cloud. Companies invest in modernizing ERP systems so that they do not become a bottleneck for digitalization projects. Generalists dependent on large projects have been the losers. Smaller players that have integration expertise are often the winners.



# IT service markets 5/5

- Buying IT as large projects will decrease and move towards smaller, iterating processes and continuous development. Slowly reacting project organizations are the losers. Players that have expertise in agile software production, the ability to manage the services of several suppliers, and the ability to generate continuous services are the winners.
- As business-oriented purchasing becomes more common, IT companies will seek new value production based, more scalable pricing models in order to break their business model away from poorly scalable sales of expert resources.
- IT investments shift from investments that make the customers' business support processes more efficient towards core business processes or investments that improve the end product itself. Players that have conventionally served business support processes and ERP stakeholders are the losers. Developers of new digital service with technological know-how, expertise in background systems and business savvy are the winners.
- Ownership of customers' IT budgets becomes blurred and moves from a CIO role more towards the role of business directors and marketing. Players that understand the customer's business and industry are the winners.
- The IT market still does least of what is talked about most. The volume of services related to the biggest hype terms (AI, VR, AR, IoT, NLP, etc.) is still small on a sectoral level. These are, however, likely to create considerable service areas over the next five years.
- User orientation and the customer experience continue growing. Rising areas include, e.g., digital service design, design and customer experience. Know-how in these areas will become the biggest competitive factor when selecting IT suppliers. Many players have patched up this area through acquisitions. Small, creative, design-centered players have been the winners.
- The cloud revolution redistributes the markets. Customers' IT operations are moved to the cloud at an accelerating speed due to the benefits, and because it is often a precondition for new digital business models. Players with strong cloud technology expertise are the winners. The big losers are players in conventional local IT infrastructure.
- Conventional reselling of software licenses has moved to the cloud and software companies try to take over a larger share of the value chain when moving to SaaS models. License commissions of software resellers have decreased in recent years. Players that are dependent on license reselling are the losers. Customers are the winners.
- Customer organizations becoming silo-like will be a challenge for IT company sales. In addition to data administration, the IT buyer is increasingly marketing or product development, but building of a digital business requires cooperation between these areas and the ability to manage the whole. Players that manage large entities and who can address the customer's management and marketing are the winners.
- Data and analytics are again becoming one of the hottest trends on the market. Data is becoming a strategic competitive factor in several industries and the precondition for future AI solutions. The challenge for customers is to combine data from silo-like data administration throughout the organization also to marketing and business management. IT companies that have a combination of understanding in analytics, machine learning, and business are the winners.
- The importance of cheaper offshore resources as a competitive factor will diminish further as it is hard to generate new digital services reliably, fast enough and cost efficiently with offshore resources located on another continent. Robotic process automation further weakens the competitive advantage of cheap labor. These trends will bring back the competitive advantage based on costs in IT expertise from Asia to Europe. Players whose competitive advantage has been based purely on offshore cost efficiency are the losers. Players who can combine local presence near the customer with sufficient cost efficiency by utilizing nearshore and/or offshore resources proportionately will be the winners. Robotic process automation experts are also among the winners.

# Competition 1/2

## Competition and peer group

### IT generalists and specializers as competitors

Finland's IT service markets of some EUR 4.0 billion is divided between large international generalists (e.g. TietoEVRY, CGI, Fujitsu, Accenture, CapGemini), some 20 medium-sized players like Siili with net sales of around EUR 20 to 100 million, and numerous small players. We estimate that generalists represent over EUR 2 billion of the market, medium-sized players over EUR 1 billion, and smaller companies with less than 100 employees the remainder of the market. In an international comparison, the Finnish market is characterized by a strong medium-sized players' market.

Siili's competitors are large, often international IT generalists and smaller software developers. Examples of generalists are TietoEVRY, CGI, Capgemini and Accenture. Among smaller software developers, Reaktor, Idean (Capgemini), Gofore, Futurice and Solita can be mentioned as competitors. It is, however, hard to pick clear individual main competitors due to the fragmented sector. Siili is positioned between these players with an operating model that tries to combine the agility of a small player with creative know-how, strong technology expertise and sufficient deliverability and service portfolio to respond to the needs of large customer organizations. Among its customer organizations, the company tries to gain the role of a critical partner by participating in the IT and digitalization investment projects from the customer's established IT supplier.

### Differentiating factors of conventional players

The strength of IT generalists in the competition is extensive resources and a wide selection, which is often supported by offshore production and its cost efficiency. In addition, they often have deeper understanding of customers and the industry than smaller players. These players that are strong in background systems are often well-established among their key customers, and the systems are business critical for the customers, which gives them a competitive advantage. In addition, system deliveries are often challenging and high-risk projects, which raises the threshold of market entry.

Typically, IT generalists have developed their customers' IT systems for over a decade and a big chunk of customers' IT budgets go to the maintenance and development of these existing old systems. This, combined with these players' insightful contract structures, secures the position of large IT companies in the competition. Despite wide-spread criticism, the position of large IT generalists on the market is well-established and they have also shown ability renew themselves alongside the trends on the IT markets.

### Differentiating factors of small players

Small players often break into large customers through some other buyer than data administration, which means they may not be competing against the customer's established system supplier. These players typically stand out in competition by their agility, better service or expertise in specialization areas. In addition, their ability to change and react to the changes on the

IT markets is often better. Small size can be a benefit when the customer needs creativity, speed and agility in a project.

### Competitors in the competence areas

Siili can challenge both conventional IT system integrators and small creative offices. The company competes against large IT generalists in nearly all of its operational areas. The competition by service area is:

- In software development of digital services (Digital Experience) and in creative design the closest competitors are, e.g., Vincit, Reaktor, Gofore, Futurice and Solita. In large system projects the competitors also include IT service companies with large product portfolios (like Digia and TietoEVRY).
- In software automation, competitors include established IT generalists and specialized players (like Digital Workforce).
- Siili One competes with IT expert hubs like Ework Group and Mavericks. Crucial in this area is the ability to attract talent and pair them with customer needs.
- In the automotive industry the competitive field is fragmented, and competition consists of global IT consultants and several players specialized in the sector.
- In the Cloud Managed Services area Siili challenges, in particular, large IT generalists (like Tieto), as well as specialized players aiming for the market (like Nordcloud), and several IT service companies (like Gofore).



# Competition 2/2

## Growth and profitability of the peer group

The figure on page 19 examines the growth and profitability of listed and unlisted Finnish and other Nordic IT service companies. Bilot has been included in and Enea removed from the peer group,

The average annual growth of the peer group in 2015 to 2019 has been 18% (2014 to 2018: 18%), which is explained by market growth, rapid organic growth of several small players and acquisitions between several players. The companies that have grown most strongly have expanded both through acquisitions and organically. Strong organic growers have been Vincit, Siili, Solita, Futurice, Gofore and Reaktor, and in recent years also Digia. Siili has also accelerated its growth with several acquisitions. Growth has been slowest for the largest players that have suffered from the market revolution (like TietoEVRY, CGI, Know-IT).

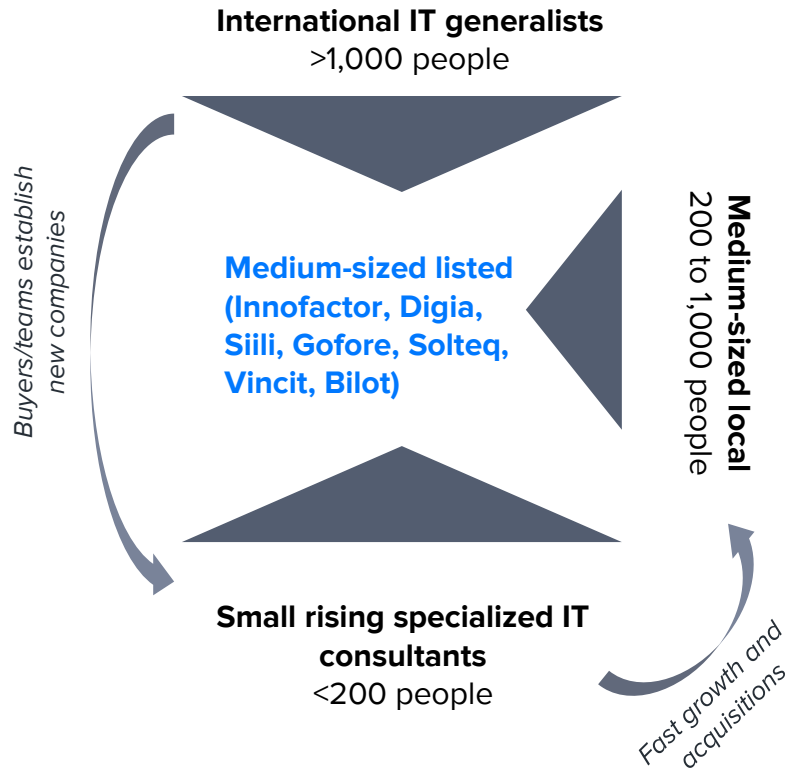
When examining growth, you can see that small, specialized players have clearly reached the fastest growth on the Finnish IT markets. This reflects the faltering of the demand for conventional system development, and IT demand focusing on new areas to which smaller and more agile players have been able to respond more efficiently. Over the past few years many formerly small and agile players have grown into a relatively larger size class and maintaining the growth rate is becoming more challenging, which was visible as slowing growth in 2019.

In terms of profitability, the average for the peer group is 10% measured by EBITDA % at an annual

level in 2015 to 2019 (2014 to 2018 11.5%). Siili's profitability has been slightly below the levels for the sector. On average, the profitability of the companies is on a healthy level. The IFRS-16 amendment raised the EBITDA % of companies using IFRS accounting by some 1 to 3 percentage points for 2019 (more moderate effect when examining averages), which decreases comparability with the period preceding 2019, and especially with companies using FAS accounting. In the IT service sector, we have considered an EBITDA level of over 10% to be a good profitability level (excluding the IFRS-16 effect). Companies should not be satisfied with single-digit profitability levels. Large generalists TietoEVRY and CGI have generated good profitability despite slow growth, which is based on their strong market position and software business.

By comparing the combination of profitability and growth over the past few years, a few players stand out above the rest. The star players are Eficode, Futurice, Reaktor, Gofore and Vincit. On the Swedish market, the clear winner is HiQ that has been able to revise its business model to respond to market trends.

# Siili's competitive pressure



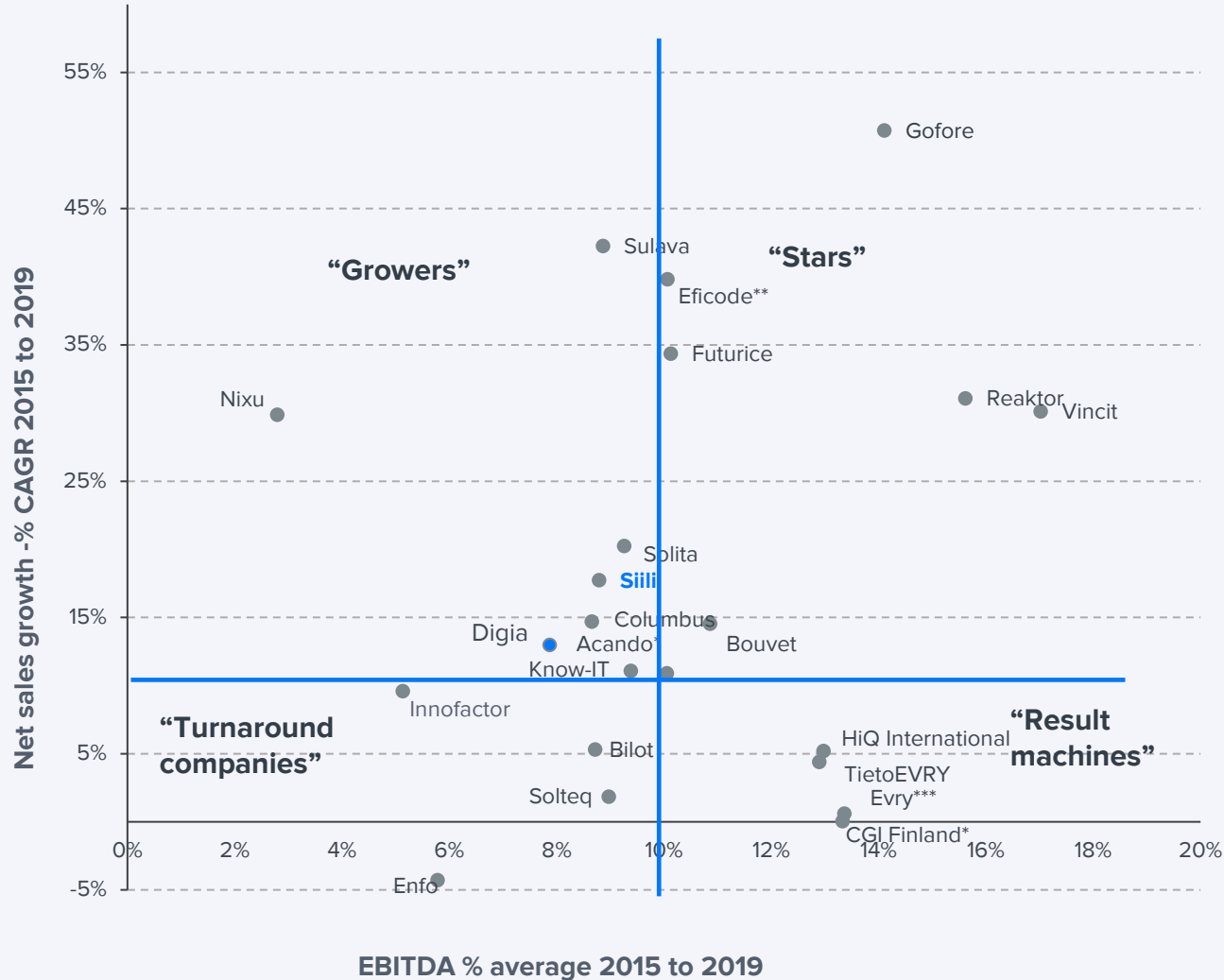
## Siili's strengths

- Ability to deliver complex projects vs. small players
- Agility, ability to react and renew vs. large generalists
- Talent management and ability to attract talent
- Competence in digital experience (DX)
- Sharp competence points in certain service areas

## Siili's weaknesses

- Narrower offering vs. generalists with extensive offshore resources, extensive offering and ability to deliver large high-risk projects
- Several small agile players as challengers, several service areas have a low entrance threshold
- No considerable maintenance business or continuity as of yet, but the company continues building this
- Expert market depresses growth

# Development of the competitive field



**Stars** are the forerunners on the market that have reached strong growth and profitability. These are primarily small and agile players that have positioned themselves and invested in growing areas of the IT markets and operate with a light organization structure. These are often more business-oriented than players serving data administration.

**Growers** are primarily companies that have reacted to the market revolution but due to their growth investments their profitability has been lower than average. Many have accelerated growth with acquisitions.

**Result machines** are companies that have a strong hold on existing customers, for example through tailored software solutions, which means that they have reached good profitability despite slow growth.

**Turnaround companies** are primarily “conventional IT” companies that are in transition or they have not been fully capable to adjust to the IT market revolution.

Source: Inderes, companies and Asiakastieto  
 \*2014 to 2018, \*\*2015 to 2019e and \*\*\* EVRY as independent  
 Figures include the IFRS-16 amendment for 2019

# Strategy 1/ 3

## Digital experience as spearhead

During 2018 to 2020, Siili has created a basis for the company's next growth stage. In the new operating model released at the end of 2019, the company was divided into core business ("Core") and independent businesses ("Portfolio").

In November 2020, Siili clarified its strategy and the company will focus more on developing the digital experience and accelerating its internationalization. The company is still divided into the Core unit and specialized Portfolio companies. In the past, international growth has focused on Siili Auto, but in future it will also be sought for international Core units. According to our view, the strategy still positions Siili in the growth areas of the IT market with a clearer customer message and focus. This is important as there have been signs of tightening competition both in designing and developing digital services after the strong growth boom in recent years.

Siili's strategic focus areas are:

1. In Core, the focus of growth lies in digital experience services
2. In Portfolio businesses, competitive advantage is sought through specialized units
3. Accelerating internationalization

Core offers digital service development that covers the entire life cycle. The aim is to become even a stronger strategic level partner for the customer organizations that can manage extensive and complex solutions. The objectives follow the trends

on the IT market and Siili's earlier strategy but with a clearer focus.

In terms of Portfolio, Siili continues to try to grow new businesses itself and acquire specialized Portfolio companies. The businesses have a clear sharp focus, productized offerings and international growth potential. So far, Portfolio's successes have been VALA Group and Robocorp, that progressed to a successful exit. Robocorp still continues as an important cooperation partner for Siili. Siili Auto is currently suffering from a difficult market situation, but the long-term potential of the market is interesting. In addition, Skaler that focuses on RPA (robotic process automation) and automation is currently being moved from Core to Portfolio. Portfolio companies also cooperate with Core units.

In terms of internationalization that is the third focus area, the company seems clearly more growth driven both in terms of acquisitions and organic growth. The company has established a new Core unit in Poland that reflects the strategy and operating model of the Finnish Core unit. The aim is also to buy digital service development companies in Europe. In December, Siili announced the Supercharge acquisition, which will become a new Core unit in Hungary.

Typically, internationalization has been difficult for companies in this sector. This is due to, for example, opening up a new market usually requires considerable investments, and the company does not have similar recognition required for talent and customer acquisition on the new market as on the home market. Thus,

acquisitions are a natural path for expansion.

## A strategy of combining two operating models stands out but comes with its challenges

Siili's Core business offers life cycle services related to tailored digital solutions to large customers mainly in Finland, which, in the big picture, is a similar strategy as that of the company's closest domestic peers. The Portfolio model, in turn, differs slightly from the masses. In Portfolio, the company builds more specialized businesses the growth of which Siili aims to support and accelerate. Portfolio businesses are developed as separate businesses and the company can exit from them, but they have no predetermined exit goals. The Portfolio model offers many benefits, for example in terms of flexibility, agility, acquisitions, experts' career paths and sales synergies. In the long term, the main challenge in combining two operating models that require different management is, in our opinion, manageability and maintaining strategic focus. So far, the development of VALA Group and Siili Auto has been encouraging, which has proven that the model based on independent business operations is working.

# Strategy 2/ 3

## Financial objectives

Siili's objective is to reach over 10% organic growth and 10% EBITA margin in 2021 to 2022. In international operations, the company aims for double the growth rate compared to domestic operations. The company's dividend policy is to distribute 30 to 70% of earnings as dividends. Our estimate for 2021 and 2022 growth is 14% and 8% respectively and the corresponding EBITA margins are 9.4% and 10.1%.

We feel the growth target is ambitious and currently expect the company to grow faster than the market organically, but we expect the company not to reach the 10% target in 2021 to 2022 (estimate 7%). For the past year, profitability (2020e EBITA % 7%) is still modest, but the trend is on the correct path. According to our view, Siili should have potential for clearly higher and double-digit profitability levels. For the time being we do not see this potential realizing in the next couple of years and our estimates are relatively cautious.

We see preconditions for considerable result growth for the company in coming years when profitability normalizes, and strong organic growth continues as a result of a favorable demand situation on the IT service market. We estimate that Siili still can grow through billable utilization without the company having to recruit new employees at the same rate. Siili sees profitability potential in pricing and billable utilization. When examining growth potential, we believe the company has the fastest and biggest potential through billable utilization. Raising pricing is partly market driven and partly changing the company's profile, which both come through more slowly.

## Internationalization

Siili's international business, that at that this point mainly consists of automotive industry customers, represented 14% of the company's net sales in 2019 and operates as a highly autonomous unit. The coronavirus hit the unit but looking beyond the pandemic the business grows quickly and supported by cash flow, but its profitability is weaker than in domestic operations. Digitalization of the automotive industry is a considerable growth opportunity, which Siili tries to tap into by combining creativity with technology expertise.

Challenges caused by the traditionally closed value chain of the automotive industry for a new player like Siili, are demanding buyers with strong negotiation powers and their challenging high-risk development projects. There is strong demand and growth in the sector, but the target market is very difficult.

Now the company boosts growth in international operations by opening a new Core business in Poland. In addition, with the Supercharge acquisition a Core unit will also open in Hungary, which leads us to believe that the international operations will double to close to EUR 20 million in net sales in 2021.

The growth objective of international operations is to grow twice as quickly as domestic operations. In practice, this means over 20% growth. We feel that the automotive business is the part of Siili that is easiest to separate from the company, and an exit is a viable option for the company in the long run. The Core units in Hungary (Supercharge) and Poland are more clearly part of the company's core operations, and here we see clear synergy with

domestic operations as Siili expands to Central European customer relationships through its network-like operating model.

## Acquisitions

Siili has strong experience in acquisition-driven growth, and the company's current structure was mainly formed through 11 acquisitions carried out over time. Acquisitions have mainly been carried out to acquire new complementing areas of expertise through which the company's current service areas have been formed. The acquisitions have been relatively small, and they have been tightly integrated. The company's most recent acquisitions have been structurally different and in these, the company has only acquired a majority of the acquisition target. Now the company seeks well-managed international companies with similar strategies as Siili has in Finland, and on new geographical areas.

Based on the strategic message, Siili is clearly active in acquisitions. Early 2021 will still be spent completing and digesting the Supercharge acquisition. After this, we expect that new acquisitions could be carried out both in Finland and abroad within both Core and Portfolio. After the Supercharge acquisition, the company still has a strong balance sheet (2021e net cash EUR 3 million) that still offers preconditions for acquisitions. Siili's latest completed acquisition with a slightly different structure of VALA Group has, thus far, been proof of the Portfolio model working when developing acquisition targets.

## Strategy 3/ 3

For example, as part of Siili, VALA has reached bigger customers, which it previously could only have reached as part of the subcontractor chain. VALA has continued its excellent development under Siili's ownership.

From a portfolio viewpoint, the company also develops operations independently and a natural path at some point could also be an exit. Siili generated over 30-fold revenue from an exit when it sold its minority holding in RoboCorp Technologies, Inc.

The 2019 net sales of the most recent acquisition, Supercharge was EUR 7.5 million and EBITDA EUR 1.8 million or over 20% of net sales. In 2016 to 2019, the annual average net sales growth has been 51% for Supercharge. The company currently employs some 115 persons in Budapest, London and Amsterdam. Supercharge operates with a network-like model so that the top consultants work near the client at the London and Amsterdam offices and a majority of technical implementation is carried out in Hungary. With the units in Poland and Hungary, Siili's network to serve demanding international customers strengthens in line with the company's strategy.

Throughout its history, Siili has been disciplined in pricing its acquisitions. The purchase prices examined with EBITDA ratios have been relatively moderate at 3x to 8x.

### Latest acquisitions

<b>Comvise Oy</b>	<b>2012</b>	<b>2013</b>
Net sales, EUR million	1.7	1.8
EBITDA, EUR million	0.4	0.6
EBITDA-%	24%	33%
EV/Net sales	1.2	1.1
EV/EBITDA	4.9	3.3
<b>Codebakers Oy</b>	<b>2013</b>	<b>2014</b>
Net sales, EUR million	3.3	3.3
EBITDA, EUR million	0.0	0.3
EBITDA-%	-1%	9%
EV/Net sales	0.5	0.5
EV/EBITDA	neg.	5.6
<b>Avaus Consulting Oy</b>	<b>2013</b>	<b>2014</b>
Net sales (EUR million)	7.4	8.9
EBITDA, EUR million	1.4	1.8
EBITDA-%	19%	20%
EV/Net sales	1.2	1.0
EV/EBITDA	6.3	4.8
<b>Strombit</b>		<b>2016</b>
Net sales (EUR million)		0.5
EBITDA, EUR million		0.1
EBITDA-%		12%
<b>Omenia Oy</b>	<b>2016</b>	<b>2017e</b>
Net sales, EUR million	1.9	3.0
EBITDA, EUR million	0.3	0.5
EBITDA-%	16%	17%
EV/Net sales max.	1.6	1.0
EV/ EBITDA max.	10.0	6.0
<b>VALA Group</b>	<b>2017</b>	<b>2018</b>
Net sales, EUR million	5.8	7.2
EBIT	1.4	1.5
EBIT %	24%	21%
EV/Net sales max.	1.7	
EV/EBIT max.	7.3	
<b>Supercharge</b>	<b>2019</b>	<b>2020e</b>
Net sales, EUR million	7.5	9.4
EBITDA, EUR million	1.8	2.1
EBITDA-%	24%	22%
EV/Net sales max.	2.2	1.8
EV/EBITDA max.	9.3	8.1

# Siili's strategy and objectives

Guidance for 2020	<b>2019</b> Net sales EUR 81 million EBITA EUR 3.3 million	<b>2020 guidance</b> Net sales and EBITA will grow from 2019	
Objective for 2021 to 2022	<ul style="list-style-type: none"> <li>• Organic growth over 10% and strategic acquisitions that expand expertise</li> <li>• EBITA % 10%</li> <li>• International operations will grow 2x at the rate of domestic operations</li> </ul>		
Capital structure	<ul style="list-style-type: none"> <li>• Net debt/ EBITDA &lt;2</li> <li>• Temporary deviation from target possible due to weighty reasons</li> </ul>		
Dividend policy	<ul style="list-style-type: none"> <li>• 30 to 70% of net income</li> </ul>		
Operating objectives	<b>2019</b> Adopting new structures and systems in daily business operations	<b>2020</b> Adjusting to exceptional market conditions and generating new independent business areas	<b>2021</b> → Generating new independent business areas, growing into a bigger size class (midcap)

# Strategy positioning

	Software developers	Medium-sized	IT generalists (like Tieto)
<b>Example</b>	Siili, Solita, Vincit, Futurice, Reaktor, Gofore	Digia, Solteq, Innofactor	TietoEVRY, CGI, Accenture
<b>Genetic heritage</b>	New digital services, digitalization solutions	Background systems Digital services growing	Background systems
<b>Strengths</b>	Talent competition Agility Change rate Low organization model Positioning on growing areas No substantial project risks	Integration know-how Background system expertise Role of business-critical supplier Extensive offering Established customers	Offshore/nearshore talent Global deliverability Most extensive offering Strong customer maintenance
<b>Weaknesses</b>	Remaining in the role of talent resourcer Maintenance abilities Ability to deliver turnkey solutions	Exposure to project risks Need to renew and invest Remaining a loser	Need for constant renewal Change rate Heavy organization
<b>Typical specialization</b>	All customer sizes and industries Selected service areas	Large/medium-sized organizations Often industry focus All service areas	Large/global customers Extensive industry expertise All service areas
<b>Growth and profitability at the moment</b>	Strong growth on current market Strong profitability on current market	Good organic growth Acquisitions as growth drivers Satisfactory/weak profitability	Modest organic growth Growth through acquisitions Good profitability
<b>Consolidation</b>	Small specializers as acquisition targets, aim to expand offering	Small specializers as acquisition targets, aim to strengthen offering, larger mergers possible	Acquisition targets often medium-sized specialized players, also large acquisitions on an international level



# Past development

## Strong growth in 2010 to 2019

Siili's net sales grew very strongly from EUR 8 million to EUR 81 million in 2010 to 2019. Average annual growth was thus 29%. The company's organic growth has on average been an estimated 24% annually. Growth was supported by six acquisitions worth some EUR 25 million. At the same time, profitability (EBITDA %) has been stable at 9 to 12% until 2017. The level has been satisfactory considering the sector, but weaker in recent years. The challenge for profitability has been that acquiring more profitable targets than Siili itself has never been reflected in Siili's own margins. We believe that this was caused by sometimes challenging integrations, even if acquisition-driven growth has otherwise been strongly value creating.

In 2018, Siili had grown out of its structures and had to rearrange its foundations for the next growth stage, due to which the EBITA profitability of 2018 to 2019 was a modest 5% and 6% respectively. Adjusted for the strong 2019 result (EBIT EUR 2.1 million) of VALA Group acquired in 2018, the EBITA % of Siili's other operations is around 4%, while many peers in the sector reach a level of 10% to 15%.

The still weak profitability of Core operations in 2019 raises the question of the reasons behind these profitability challenges. We believe this is the sum of several factors. The main reason is billable utilization, which the company is now paying special attention to. In addition, the fact that the company's talents focus on more senior resources and on the Helsinki region affects the cost structure but is not correspondingly reflected in customer

prices. We feel that the company's basic business structures are built for higher volumes, which is why volume growth is a key driver for profitability. Margins and volumes in the company's sector are often achieved using younger resources, while Siili has focused on experienced experts.

## On a path of improving profitability

2020 has been a good year for Siili considering the circumstances. The company's net sales has grown by good 4% in January to September 2020, and we estimate that net sales will grow by 4% to EUR 84 million for the whole year. The sudden braking in the automotive industry's value chain caused by the coronavirus clearly hit Siili Auto's business, which probably had a clear effect on group level profitability. In our view, after the braking during spring the demand situation has now stabilized and will recover.

In terms of profitability, we expect the 2020 EBITA to be EUR 6.1 million or 7.2% of net sales in 2020 (2019: 6.4%). In lower result rows Siili recorded some EUR 4.6 million in non-recurring sales gains in H1'20 from selling Robocorp's shares. Siili Solutions records the sales gain from shares as tax-free in the income statement because the company considers the Robocorp shares it owned were part of its fixed assets whose transfer is tax-free income in the company's view. In addition, financial expenses included a EUR 1.8 million financial expense recorded due to changes in the fair value of unrealized additional purchase price debt of VALA Group Oy's shares, because VALA Group's performance relative to the acquisition agreement has been favorable. We have adjusted Robocorp's sales gain and VALA Group's expense in the net

income. Thus, we estimate the adjusted earnings per share to grow by 10 cents to 63 cents in 2020.

## Strong balance sheet

Siili's already strong balance sheet and cash position was strengthened further by the return on the Robocorp investment received in early 2020. The equity ratio at the end of H1'20 was 40% and gearing -54%. The company's cash in hand was EUR 19 million and it had EUR 6 million in interest-bearing debt.

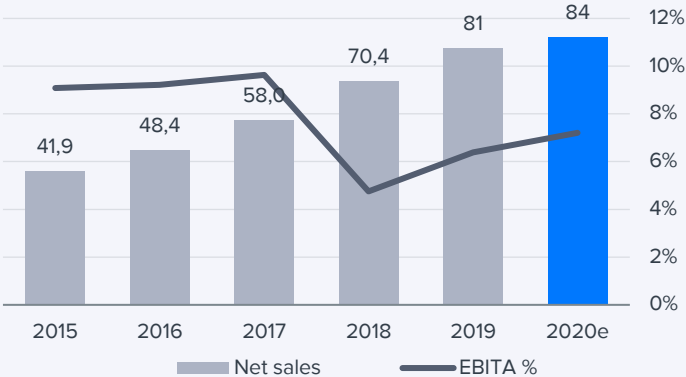
The transition to IFRS16 slightly changes the key indicators of Siili's balance sheet and result. From 2018 onwards, we have presented the company's result and balance sheet in accordance with the estimated effects of IFRS16. The transition has an estimated one percentage point increasing effect on the EBITDA margin. Thus, we have examined more comparable indicators for the company, i.e., the EBITA margin and adjusted EBIT margin.

Siili has around EUR 3.5 million in acquisition-related capitalized customer relationships in its balance sheet that generate above EUR 1 million annual depreciation that depresses the result. We adjust for this depreciation in our adjusted result calculation. There is EUR 19 million in goodwill in the balance sheet, being the largest asset item of the EUR 49 million balance sheet total. It is normal that goodwill is generated when acquiring specialist companies operating with light balance sheets.

Our 2021 balance sheet estimate includes accounts for estimated effects of the Supercharge acquisition. In the big picture, the balance sheet still remains strong.

# Past development

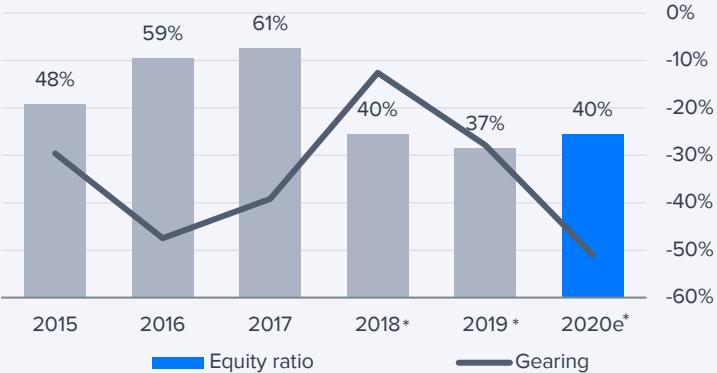
Net sales and profitability development



International operations



Development of balance sheet key figures



EPS and dividend



Source: Inderes

\*IFRS16 adjusted

# Estimates 1/2

## Predictability of the business model

In the big picture, Siili's business model is simple expertise sales. In a good demand environment, the number of net recruitments in the past 6 months practically determines the company's ability to grow organically over the next 6 months, in addition to which utilization rates are a key variable for growth and especially profitability. A key driver for the business model is to make the customer demand and the right experts meet.

Key determining factors in terms of profitability are wage costs, experts' daily rates and project pricing, successful project management and utilization rates. In addition to its own experts, Siili to some extent uses subcontractors that are sold to customer projects with a margin.

Siili carries no considerable project risk in its business, but in practice, problem projects tend to be patched up in the industry with unbilled work and cutting prices so that the customer relationship is maintained. Especially when moving to bigger customers and projects, project risks become emphasized, which means smaller players do not have the risk-taking ability or sufficient volume to participate in bigger projects.

## Growth accelerates in 2021

We do not expect any major trend shifts in Q4'20. We estimate that the company's net sales will grow by 4% to EUR 84 million and adjusted EBITA to be EUR 6.1 million or 7.2% of net sales (2019 EBITA EUR 5.1 million). Our estimates are in line with Siili's guidance that estimates that net sales and adjusted EBITA will be higher than in the year before (2019:

net sales EUR 81 million and EBITA EUR 5.1 million).

In 2021, we expect net sales to grow by 14% to EUR 96 million thanks to the Supercharge acquisition. Our estimate assumes that the deal is consolidated from the beginning of March. Our organic growth estimate for 2021 is 7%. We believe organic growth will be driven by higher billable utilization. Our Supercharge estimates involve uncertainty because we only have the figures for 2019 and the company has historically grown very strongly. We estimate that Supercharge will grow by 25% to EUR 9.4 million in 2020 and by 15% to EUR 10.8 million in 2021. Supercharge is consolidated in our estimates starting from March 2021.

In terms of profitability, we expect EBITA % to rise to 9.4% in 2021 (2020: 7.2%). In lower result rows we adjust the result from acquisitions' PPA depreciation (some EUR 2.0 million per year), whose adjustment we consider justified due to comparability and because they have no cash flow effect.

The profitability improvement is driven by better billable utilization and the Supercharge acquisition that has better profitability. We see potential for considerable profitability improvement in the company's Core business, which means our estimates can be seen as relatively moderate.

Income statement	2020e	H1'21e	H2'21e	2021e
<b>Net sales</b>	<b>84.0</b>	<b>49.2</b>	<b>46.9</b>	<b>96.1</b>
<b>Operating margin</b>	<b>8.5</b>	<b>5.8</b>	<b>5.8</b>	<b>11.6</b>
Depreciation and impairment	-3.8	-2.3	-2.3	-4.6
<b>Operating profit excluding non-recurring items</b>	<b>6.1</b>	<b>4.5</b>	<b>4.5</b>	<b>9.0</b>
<b>Operating profit</b>	<b>4.6</b>	<b>3.5</b>	<b>3.5</b>	<b>7.0</b>
Net financial expenses	2.4	-0.2	-0.2	-0.3
<b>Profit before taxes</b>	<b>7.0</b>	<b>3.3</b>	<b>3.3</b>	<b>6.6</b>
Taxes	-1.0	-0.7	-0.7	-1.3
<b>Net profit</b>	<b>6.0</b>	<b>2.7</b>	<b>2.7</b>	<b>5.3</b>
<b>EPS (adjusted)</b>	<b>0.63</b>	<b>0.52</b>	<b>0.52</b>	<b>0.99</b>
<b>EPS (reported)</b>	<b>0.86</b>	<b>0.38</b>	<b>0.38</b>	<b>0.76</b>

Key indicators	2020e	H1'21e	H2'21e	2021e
<b>Net sales growth %</b>	4.3%	11.8%	17.1%	14.3%
<b>Growth % of adjusted operating profit</b>	17.6%	39.8%	58.0%	48.3%
<b>Operating margin %</b>	10.1%	11.8%	12.3%	12.1%
<b>Adjusted operating profit %</b>	7.2%	9.1%	9.6%	9.4%
<b>Net profit %</b>	7.2%	5.4%	5.7%	5.5%

Source: Inderes

# Estimates 2/2

## Years 2022 to 2023

In 2022 to 2023, we estimate the company will grow by 7 to 8%, and organically by around 7%. The growth rate is below the company's ambitious over 10% organic growth rate guidance. Over 10% growth would be an excellent performance in the current market and in Siili's size category.

We expect EBITA profitability to rise to 10 to 11% in 2022 to 2023 driven by higher billable utilization. In addition, due to the coronavirus, customers' attitude to telecommuting better enables "nearshore"-type working across borders, which increases flexibility and improves billable utilization. We do not expect that certain fixed costs that have decreased due to the coronavirus to return to the pre-corona levels relative to net sales, which supports profitability. Other profitability drivers for Siili are the success of the digital experience strategy, which would push the company higher in the value chain and justify higher customer pricing. In terms of the cost structure, growth in units outside the Helsinki region and mitigating the senior division would enable more cost-efficient resourcing.

Our profitability estimate for Siili reflects the sector's average profitability level. The company is also boosted by VALA Group's and Supercharge's excellent (around 20%) profitabilities. Siili still has to prove the efficiency of the new structure before we find it justified to estimate higher profitabilities. The current estimated profitability improvement already offers strong earnings growth if materialized.

In our estimate, Siili's 2022 to 2023 earnings growth (CAGR-%) is around 20%. In terms of the

result, one should note that the company consolidates the VALA Group and Supercharge ownership in full, and minorities are not depreciated in income statement accounting. Thus, the company's EPS gives a more positive picture than reality. These minority structures also make pricing of the company difficult, as we do not know the more detailed terms of the ownership. The minorities should in any case be considered as a discount in the share valuation.

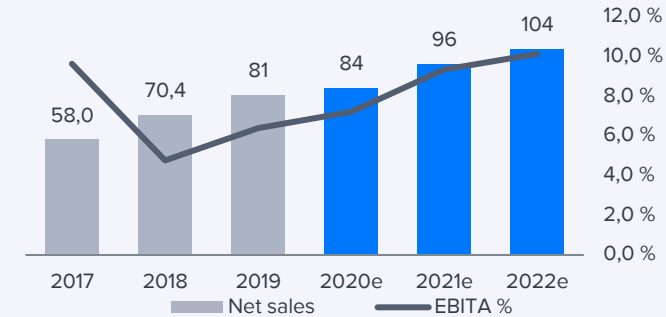
### Long term estimates

In the long term, Siili's estimates are largely dependent on how the company's internationalization kicks off and how much the company accelerates. In 2024 to 2028, we estimate that Siili will grow by 3 to 5% annually. Thus, growth will even out in our estimates to the level of market growth. Growth throughout the sector is restricted especially by the availability of talent. As growth slows down, we estimate EBITA % to drop to a little below 10%.

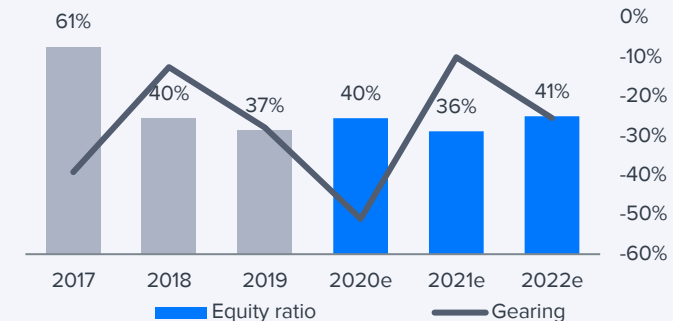
### Balance sheet still healthy after Supercharge acquisition

The balance sheet that includes the Supercharge acquisition in early 2021 is still very healthy. In our estimates, the equity ratio and gearing are 36% and -10% respectively. We estimate the company's net cash to stand at EUR 3 million at the end of 2021. VALA Group and Supercharge minority holdings have also been fully consolidated in Siili's balance sheet.

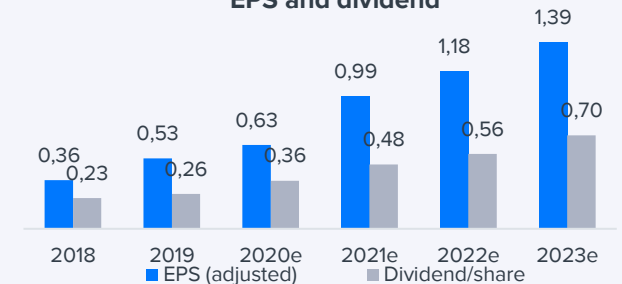
Net sales and profitability development



Development of balance sheet key figures



EPS and dividend



Source: Inderes

# Investment profile

## Profitability improvement also expected from a growth company

Siili has been a success story in the 2010s and the company has a strong track record in value creation and ability to hit the growth areas of the IT markets through acquisitions. The company's investment profile cannot, however, rely too much on past development because Siili is a different company in terms of management and organization structure than a few years ago. Siili's "next version" still has limited proof of profitable growth at the moment. The market environment has also become more challenging in terms of continued growth. Siili is currently at this watershed reinventing itself a couple of years after initiated changes.

Like other IT consultants Siili offers investors the opportunity to invest in the digitalization trend with the more limited risk profile of a service company, which is one of the clear strengths of the investment profile.

**In our view, Siili is positioned on the growth areas of the IT markets.** The service portfolio that covers the entire IT life cycle built by the company is, in our view, well positioned in market demand. The company has renewed its customer communication and sharpened the Core strategy into the digital experience (DX). If successful, the company will move to a position of a strategic partner among its customers, which supports growth and profitability development.

**The market has good long term demand fundamentals.** The demand fundamentals of the IT service market have been strong for a long time, driven by digitalization. The whole market will grow

at an annual rate of 3 to 5% and several of Siili's expertise areas clearly faster than this. As a result of the coronavirus, the long-term demand fundamentals have strengthened when the virus has forced many dormant industries to digitize and strengthen their IT core.

## Automotive industry, new business templates and internationalization offer growth opportunities.

The Siili Auto business grew by an estimated average of nearly 50% per year in 2017 to 2019, which reflects the strong potential. The coronavirus brought a sudden braking but did not remove the potential. In addition, new Portfolio business templates and internationalization are interesting growth opportunities. According to our understanding, Finnish IT expertise is valued around the world and the network-like operating model becoming more common enables entrance into international customer relationships.

## Siili has considerable earnings growth potential.

We feel the company has considerable earnings growth potential through the profitability improvement in Core. Our estimate expects gradual profitability improvement to the sector level, but the company should have realistic possibilities for better profitability than this. However, the company must first prove that the new structure works and show a stronger earnings turnaround.

## Strong balance sheet offers strategic leeway.

Nearly throughout its history, Siili has operated with a strong balance sheet and net cash position. Strong cash flow also constantly strengthens the balance sheet. The growth does not really tie up the balance sheet and, thus, the company has good

leeway for investments and acquisitions, where the company has good proof of value creation.

## Risk profile

Siili's risk profile weakened clearly when the company's earnings development broke in 2018. Now the company has stabilized the situation, and a small turn is visible. Siili still has to prove its structure in accordance with the new operating model and show a stronger result turnaround.

On a general level, the risk profile of Siili's business model is modest due to the nature of the service business, and because the company carries no substantial project risks or develop new businesses with negative cash flow.

The company's business structure that operates with several companies, different structures and in different countries increases complexity. As the complexity of the structure increases so does the risk of losing focus and turning a blind eye towards weakly performing businesses as strong businesses compensate for the overall costs.

The clearest risks are primarily how successful acquisitions are and success in international growth. In the past, the company has not been very successful in integrating the profitability levels of acquired companies.

The coronavirus still creates uncertainty on the markets, but in our view Siili and the entire IT service sector have successfully navigated through the pandemic and the situation looks better after the autumn.

# Investment profile

- 1. Strong long-term growth fundamentals on Siili's markets**
- 2. Core positioned on growth areas of the IT markets with a sharper strategy**
- 3. International growth potential in Portfolio businesses**
- 4. Siili has clear potential to improve profitability from the current level**
- 5. Strong balance sheet and capacity for investments**

## Potential



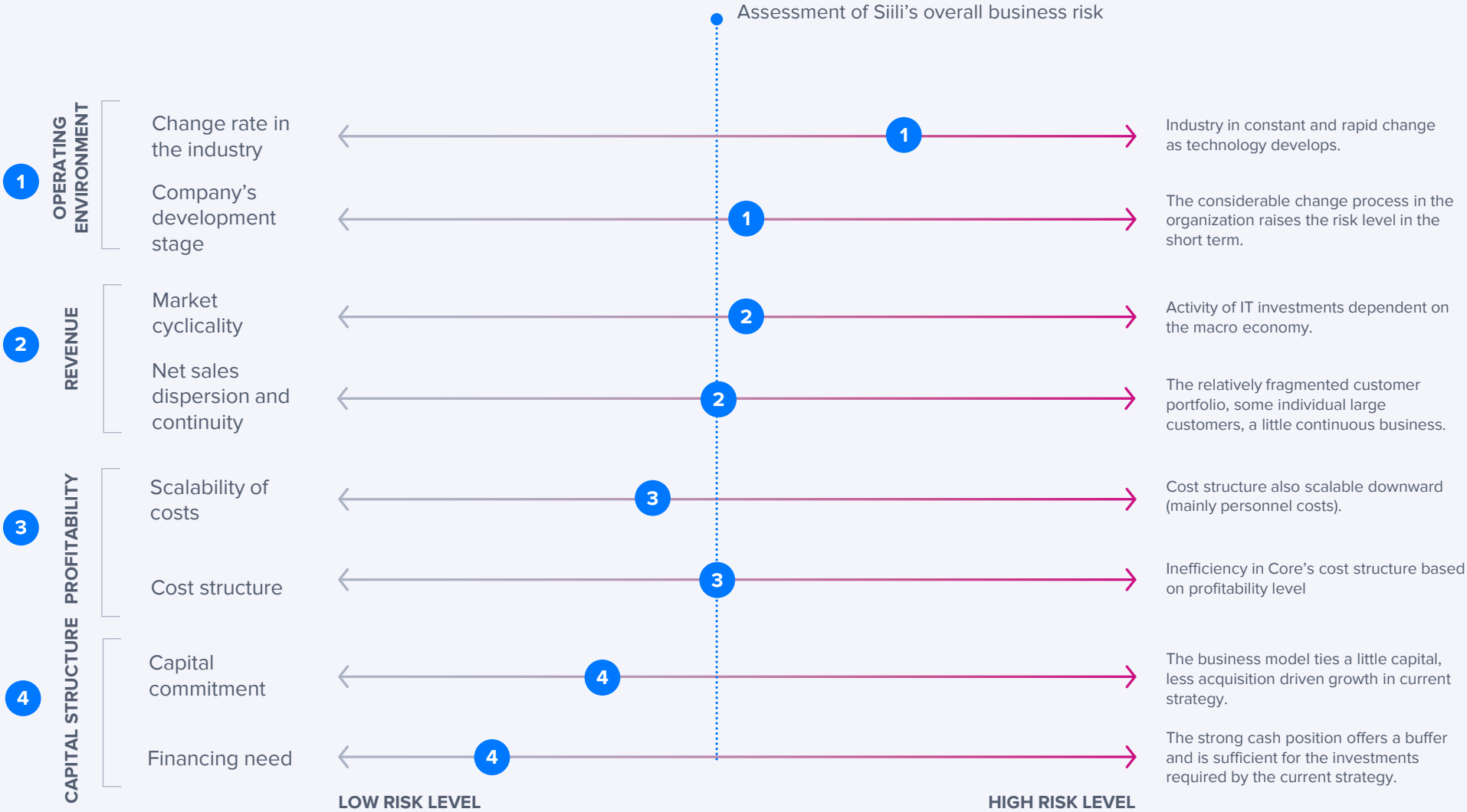
- Siili still has potential to grow clearly faster than the market on the Finnish IT markets
- Profitability rising to peer group level would mean considerable earnings growth
- Siili has considerable international growth potential in the automotive industry
- Siili's role in the consolidation of the IT market can offer shareholders' opportunities for returns

## Risks



- Talent competition on IT markets makes profitable growth difficult
- Strong fluctuations in Siili Auto's demand
- Success of internationalization and acquisitions
- Uncertainty of the general economic situation

# Risk profile of the business model





# Valuation

## Valuation level and peer group

In light of our estimates, the valuation level of Siili's share is moderate both absolutely and relatively. Due to a relatively homogeneous peer group the peers support the share pricing relatively strongly, and also steers market behavior. In the peer group, we have used Inderes' estimates for the companies we cover, which takes into account GWA and improves comparability between Finnish IT service companies.

In our estimates we adjust the result from acquisitions' PPA depreciation (some EUR 2.0 million per year), whose adjustment we consider justified due to comparability and because they have no cash flow effect.

The minority shares from the VALA Group and Supercharge acquisitions makes the comparability of Siili's valuation multiples more difficult. We primarily examine the 2021 EV/EBIT multiple, as this way the Supercharge acquisition is included, and we take the value of minorities into account in the EV calculation. With our estimates, Siili's 2021 EV/EBIT is 11x, which we still consider moderate. We also still see potential in Siili to clearly improve the profitability level we estimate for 2021 (EBITA 9.4%), which means that the company has good preconditions for double-digit earnings growth in coming years.

With the net sales based EV/net sales indicator, Siili is priced at 0.9x and 1.0x multiples for 2020 and 2021. The valuation is clearly lower than that of the peer group, which is explained by Siili's lower

profitability. Net sales-based pricing references the shares low valuation. According to our estimate, Siili would be priced at sector level multiples when the company returns to its normal profitability path.

We expect Siili to continue to distribute two-thirds of its earnings as dividends in coming years. This corresponds with a dividend yield of 4 to 6% in 2021 to 2023e, which is a good level for the sector.

## Components of the expected returns for the share

We examine the expected returns for Siili's shares from the viewpoint earnings growth, dividend yield and the accepted valuation multiple.

According to our estimate, the company has preconditions to reach annual earnings growth of around 15 to 20% (from the 2021e level) in coming years driven by profitability. With our dividend estimates the dividend yield is 4 to 6%. Strong cash flow provides good preconditions for relatively high distribution of profits, but we believe the company will strive for inorganic growth as well. In our estimates the payout ratio is around 60% of the result. We consider the company's 2021 result-based valuation of EV/EBIT 11x to be neutral at most, in light of our estimate of reasonable earnings growth.

Thus, we estimate that the share's return expectation consisting of dividend yield and earnings growth will be around 20%. The return expectation is competitive but the assumptions behind it still involves a relatively high risk, which is especially due to limited proof concerning profitability.

## DCF analysis

Our DCF model indicates a fair value of EUR 13.8 per share for Siili. In the model, we expect the company to grow organically slightly faster than the IT market at ~7% in the next couple of years as the company positions itself in growth areas within the market. In the long term, we expect growth to stabilize to the IT market level of 3 to 5% while the perpetual assumption is 2%. We estimate that the company's EBIT % will recover to a historical level of around 9% in coming years and then drop to a very cautious 5% in the perpetual assumption. In the estimate, the profitability is the sector average or slightly below as in the current situation we see no basis for the company reaching better profitability than the sector.

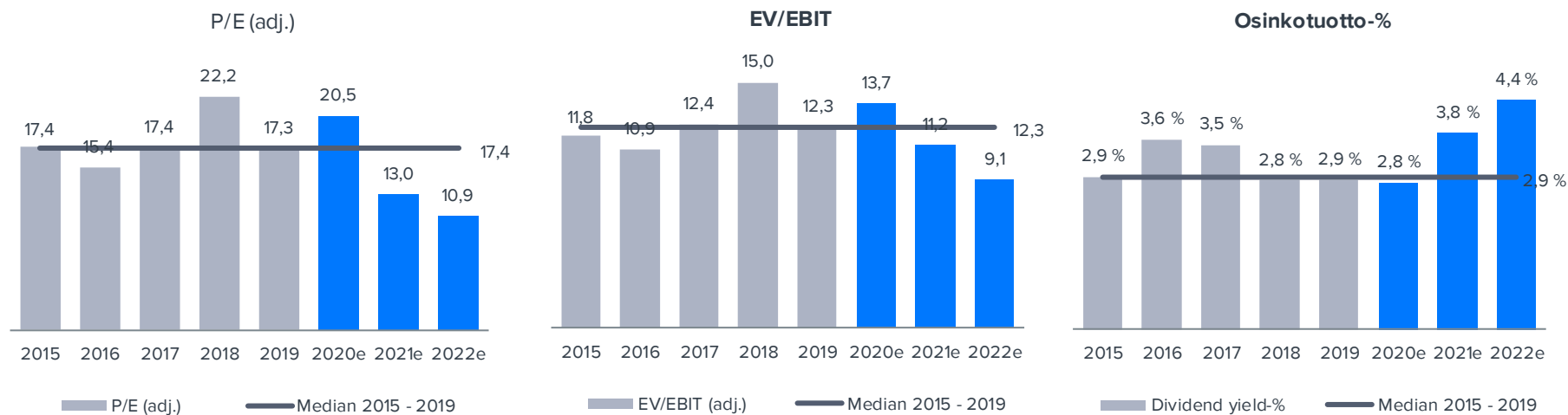
The average cost of capital (WACC) used is 7.9% and the cost of capital is 8.3%. The weight of the perpetual assumption is a moderate 45%. The DCF value also takes into consideration the VALA Group and Supercharge minority shares. Based on the cautious assumptions of our DCF model, Siili's share is currently priced below the company's fair value. The market's pricing behavior is, in our opinion, explained by the company's weak 2018 and limited proof of profitability recovering at this time.



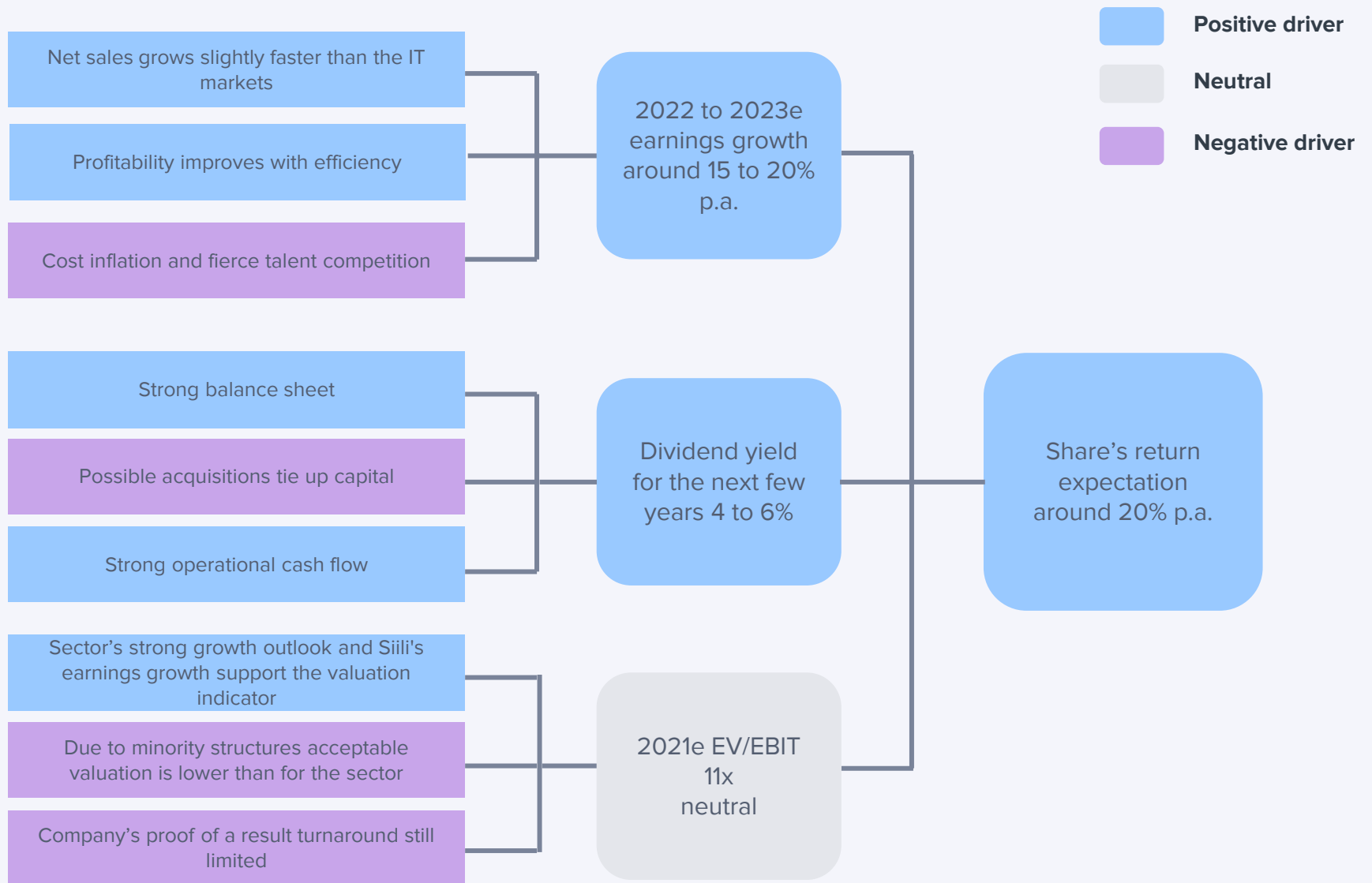
# Valuation table

Valuation	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Share price	8,00	8,26	11,1	8,10	9,12	<b>12,8</b>	<b>12,8</b>	<b>12,8</b>	<b>12,8</b>
Number of shares, millions	6,02	6,68	7,00	7,00	7,00	<b>7,00</b>	<b>7,00</b>	<b>7,00</b>	<b>7,00</b>
Market cap	48	57	77	57	64	<b>90</b>	<b>90</b>	<b>90</b>	<b>90</b>
EV	45	49	69	54	63	<b>83</b>	<b>100</b>	<b>95</b>	<b>89</b>
P/E (adj.)	17,4	15,4	17,4	22,2	17,3	<b>20,5</b>	<b>13,0</b>	<b>10,9</b>	<b>9,2</b>
P/E	19,6	17,3	18,7	35,9	25,0	<b>14,9</b>	<b>16,9</b>	<b>13,5</b>	<b>11,0</b>
P/FCF	19,0	31,5	81,6	neg.	12,2	<b>8,0</b>	<b>&gt;100</b>	<b>10,4</b>	<b>9,1</b>
P/B	4,2	3,2	3,7	2,9	3,1	<b>3,6</b>	<b>3,2</b>	<b>2,9</b>	<b>2,6</b>
P/S	1,1	1,2	1,3	0,8	0,8	<b>1,1</b>	<b>0,9</b>	<b>0,9</b>	<b>0,8</b>
EV/Sales	1,1	1,0	1,2	0,8	0,8	<b>1,0</b>	<b>1,0</b>	<b>0,9</b>	<b>0,8</b>
EV/EBITDA	11,1	10,2	11,7	13,2	8,9	<b>9,8</b>	<b>8,7</b>	<b>7,4</b>	<b>6,1</b>
EV/EBIT (adj.)	11,8	10,9	12,4	15,0	12,3	<b>13,7</b>	<b>11,2</b>	<b>9,1</b>	<b>7,3</b>
Payout ratio (%)	57,1%	65,2 %	66,1%	102,0 %	71,3 %	<b>41,8 %</b>	<b>63,2 %</b>	<b>59,0 %</b>	<b>60,0 %</b>
Dividend yield-%	2,9 %	3,6 %	3,5 %	2,8 %	2,9 %	<b>2,8 %</b>	<b>3,8 %</b>	<b>4,4 %</b>	<b>5,5 %</b>

Source: Inderes



# EPS drivers 2021e to 2023e



# Peer group valuation

Peer group valuation Company	Share price	Market value million	EV million	EV/EBIT		EV/EBITDA		EV/Net sales		P/E		Dividend yield %	
				2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e
Bilot*	7.00	35	25	30.7	11.0	24.4	9.9	1.4	1.0	38.8	19.1	1.1	1.9
Digia*	7.04	189	204	12.1	10.7	9.7	8.8	1.5	1.3	14.1	12.5	2.0	2.4
Gofore*	16.80	235	221	19.9	16.6	20.9	16.3	2.8	2.3	26.2	21.7	1.6	6.8
Innofactor*	1.27	47	56	11.7	9.5	7.5	6.5	0.8	0.8	12.2	11.1	2.4	3.1
Nixu*	9.18	68	74	63.7	52.2	36.3	24.2	1.4	1.2	554.9	74.5		4.7
Solteq*	2.72	53	77	14.4	11.9	7.6	6.4	1.3	1.2	21.4	14.7	1.1	1.8
TietoEVERY*	26.90	3,186	4,129	11.8	10.7	12.9	9.1	1.5	1.4	12.4	11.3	4.8	5.0
Vincit*	6.74	81	78	10.4	9.2	9.7	8.9	1.5	1.3	14.5	13.4	2.1	2.2
Bouvet	672.00	653	634	21.1	20.6	17.4	16.7	2.8	2.5	28.2	27.6	3.1	3.3
Enea	190.40	404	421	22.5	18.4	15.0	11.9	4.7	4.1	28.0	22.1		0.7
Knowlt	312.50	603	589	19.3	16.5	15.1	13.1	1.8	1.6	25.4	22.8	1.6	2.2
<b>Silli Solutions (Inderes)</b>	<b>12.10</b>	<b>85</b>	<b>78</b>	<b>12.9</b>	<b>10.6</b>	<b>9.2</b>	<b>8.2</b>	<b>0.9</b>	<b>1.0</b>	<b>19.3</b>	<b>12.2</b>	<b>3.0</b>	<b>4.0</b>
<b>Average</b>				<b>21.6</b>	<b>17.0</b>	<b>16.0</b>	<b>12.0</b>	<b>1.9</b>	<b>1.7</b>	<b>70.6</b>	<b>22.8</b>	<b>2.2</b>	<b>3.1</b>
<b>Median all</b>				<b>19.3</b>	<b>11.9</b>	<b>15.0</b>	<b>9.9</b>	<b>1.5</b>	<b>1.3</b>	<b>25.4</b>	<b>19.1</b>	<b>2.0</b>	<b>2.4</b>
<b>Difference % cf. median</b>				<b>-33%</b>	<b>-10%</b>	<b>-38%</b>	<b>-17%</b>	<b>-37%</b>	<b>-25%</b>	<b>-24%</b>	<b>-36%</b>	<b>50%</b>	<b>64%</b>
<b>Median Finnish</b>				<b>13.3</b>	<b>10.8</b>	<b>11.3</b>	<b>9.0</b>	<b>1.4</b>	<b>1.3</b>	<b>18.0</b>	<b>14.1</b>	<b>2.0</b>	<b>2.8</b>
<b>Difference % cf. median</b>				<b>-3%</b>	<b>-2%</b>	<b>-18%</b>	<b>-9%</b>	<b>-35%</b>	<b>-21%</b>	<b>8%</b>	<b>-13%</b>	<b>50%</b>	<b>43%</b>

Source: Thomson Reuters / \*Inderes' adjusted estimate. NB! The market value used by Inderes does not take into consideration treasury shares.

# Income statement

Income statement	2017	2018	H1'19	H2'19	2019	H1'20	H2'20e	2020e	H1'21e	H2'21e	2021e	2022e	2023e
Revenue	58,0	70,4	40,7	39,8	80,5	44,0	40,0	84,0	49,2	46,9	96,1	104	111
EBITDA	5,9	4,1	3,5	3,6	7,1	4,4	4,0	8,5	5,8	5,8	11,6	12,9	14,6
Depreciation	-0,8	-1,6	-1,7	-1,7	-3,4	-1,9	-1,9	-3,8	-2,3	-2,3	-4,6	-4,4	-4,4
EBIT (excl. NRI)	5,6	3,6	2,6	2,6	5,2	3,2	2,8	6,1	4,5	4,5	9,0	10,5	12,2
EBIT	5,2	2,5	1,9	1,9	3,7	2,5	2,1	4,6	3,5	3,5	7,0	8,5	10,2
Net financial items	0,0	-0,2	-0,1	-0,3	-0,4	2,6	-0,2	2,4	-0,2	-0,2	-0,3	-0,2	0,0
PTP	5,2	2,3	1,8	1,6	3,3	5,1	2,0	7,0	3,3	3,3	6,6	8,3	10,2
Taxes	-1,0	-0,7	-0,4	-0,3	-0,8	-0,6	-0,4	-1,0	-0,7	-0,7	-1,3	-1,7	-2,0
Net earnings	4,1	1,6	1,3	1,2	2,6	4,5	1,5	6,0	2,7	2,7	5,3	6,6	8,1
EPS (adj.)	0,64	0,36	0,27	0,26	0,53	0,33	0,30	0,63	0,52	0,52	0,99	1,18	1,39
EPS (rep.)	0,59	0,23	0,19	0,17	0,36	0,64	0,22	0,86	0,38	0,38	0,76	0,95	1,16

Key figures	2017	2018	H1'19	H2'19	2019	H1'20	H2'20e	2020e	H1'21e	H2'21e	2021e	2022e	2023e
Revenue growth-%	19,7 %	21,4 %	19,1%	10,1%	14,4 %	8,2 %	0,4 %	4,3 %	11,8 %	17,1%	14,3 %	8,0 %	7,0 %
Adjusted EBIT growth-%		-35,2 %	34,0 %	52,1%	42,5 %	24,4 %	10,7 %	17,6 %	39,8 %	58,0 %	48,3 %	17,0 %	16,2 %
EBITDA-%	10,2 %	5,8 %	8,7 %	8,9 %	8,8 %	10,0 %	10,1%	10,1%	11,8 %	12,3%	12,1 %	12,4 %	13,2 %
Adjusted EBIT-%	9,6 %	5,1%	6,4 %	6,4 %	6,4 %	7,3 %	7,1%	7,2 %	9,1%	9,6%	9,4 %	10,1%	11,0 %
Net earnings-%	7,1%	2,2 %	3,3 %	3,1%	3,2 %	10,2 %	3,8 %	7,2 %	5,4 %	5,7%	5,5 %	6,4 %	7,3 %

Source: Inderes

# Balance sheet

Assets	2018	2019	2020e	2021e	2022e
<b>Non-current assets</b>	<b>26,0</b>	<b>29,5</b>	<b>28,2</b>	<b>48,7</b>	<b>47,1</b>
Goodwill	18,8	18,8	18,8	26,8	26,8
Intangible assets	5,6	4,2	2,9	3,9	2,1
Tangible assets	1,1	0,8	0,9	4,9	5,1
Associated companies	0,0	0,0	0,0	7,5	7,5
Other investments	0,0	0,2	0,0	0,0	0,0
Other non-current assets	0,4	5,6	5,6	5,6	5,6
Deferred tax assets	0,0	0,0	0,0	0,0	0,0
<b>Current assets</b>	<b>22,8</b>	<b>26,3</b>	<b>33,3</b>	<b>27,1</b>	<b>28,5</b>
Inventories	0,0	0,0	0,0	0,0	0,0
Other current assets	0,0	0,0	0,0	0,0	0,0
Receivables	12,7	14,5	15,1	17,3	18,7
Cash and equivalents	10,0	11,9	18,1	9,8	9,8
<b>Balance sheet total</b>	<b>48,8</b>	<b>55,9</b>	<b>61,5</b>	<b>75,8</b>	<b>75,6</b>

Source: Inderes

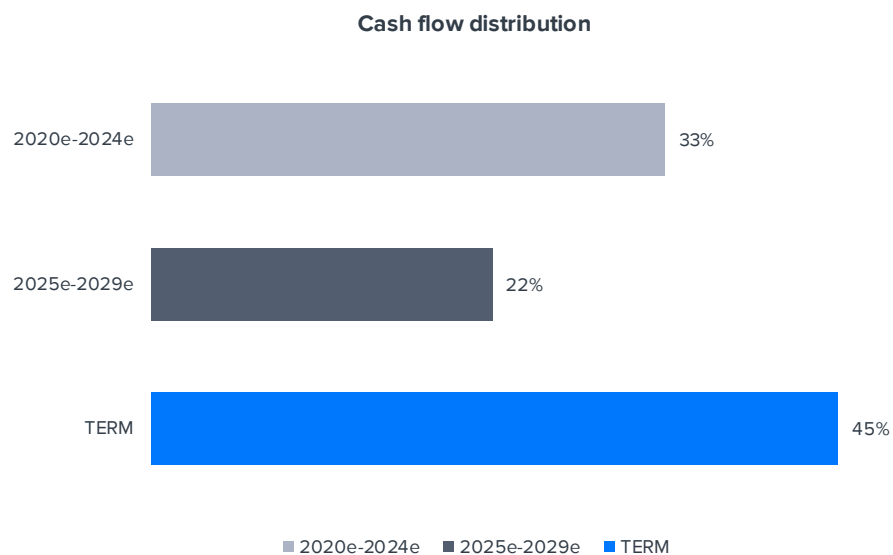
Liabilities & equity	2018	2019	2020e	2021e	2022e
<b>Equity</b>	<b>19,6</b>	<b>20,5</b>	<b>24,8</b>	<b>27,6</b>	<b>30,9</b>
Share capital	0,1	0,1	0,1	0,1	0,1
Retained earnings	6,7	7,6	11,8	14,6	17,9
Hybrid bonds	0,0	0,0	0,0	0,0	0,0
Revaluation reserve	0,0	0,0	0,0	0,0	0,0
Other equity	12,9	12,9	12,9	12,9	12,9
Minorities	0,0	0,0	0,0	0,0	0,0
<b>Non-current liabilities</b>	<b>13,4</b>	<b>15,8</b>	<b>16,5</b>	<b>25,5</b>	<b>20,5</b>
Deferred tax liabilities	1,2	0,9	0,9	0,9	0,9
Provisions	0,0	0,0	0,0	0,0	0,0
Long term debt	6,2	5,1	4,5	6,0	1,0
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	6,0	9,8	11,1	18,6	18,6
<b>Current liabilities</b>	<b>15,7</b>	<b>19,5</b>	<b>20,2</b>	<b>22,7</b>	<b>24,3</b>
Short term debt	1,4	1,0	1,0	1,0	1,0
Payables	14,3	16,6	17,3	19,8	21,4
Other current liabilities	0,0	1,9	1,9	1,9	1,9
<b>Balance sheet total</b>	<b>48,8</b>	<b>55,9</b>	<b>61,5</b>	<b>75,8</b>	<b>75,6</b>

# DCF calculation

DCF model	2019	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	TERM
<b>EBIT (operating profit)</b>	<b>3,7</b>	<b>4,6</b>	<b>7,0</b>	<b>8,5</b>	<b>10,2</b>	<b>10,5</b>	<b>10,3</b>	<b>10,0</b>	<b>10,3</b>	<b>9,3</b>	<b>6,8</b>	
+ Depreciation	3,4	3,8	4,6	4,4	4,4	2,6	2,5	2,5	2,6	4,1	3,6	
- Paid taxes	-1,1	-1,0	-1,3	-1,7	-2,0	-2,1	-2,1	-2,0	-2,1	-1,9	-1,4	
- Tax, financial expenses	-0,1	-0,3	-0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
+ Tax, financial income	0,0	0,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Change in working capital	2,4	0,1	0,3	0,2	0,2	0,1	0,1	0,1	0,1	0,1	0,1	
<b>Operating cash flow</b>	<b>8,3</b>	<b>7,9</b>	<b>10,5</b>	<b>11,4</b>	<b>12,8</b>	<b>11,1</b>	<b>10,9</b>	<b>10,6</b>	<b>10,9</b>	<b>11,6</b>	<b>9,1</b>	
+ Change in other long-term liabilities	3,8	1,3	7,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Gross CAPEX	-6,9	-2,5	-17,6	-2,8	-2,9	-3,0	-3,0	-3,1	-3,0	-3,2	-4,0	
<b>Free operating cash flow</b>	<b>5,2</b>	<b>6,6</b>	<b>0,4</b>	<b>8,6</b>	<b>9,9</b>	<b>8,1</b>	<b>7,8</b>	<b>7,5</b>	<b>7,9</b>	<b>8,4</b>	<b>5,1</b>	
+/- Other	0,0	4,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCFF	5,2	11,3	0,4	8,6	9,9	8,1	7,8	7,5	7,9	8,4	5,1	87,6
<b>Discounted FCFF</b>		<b>11,3</b>	<b>0,4</b>	<b>7,4</b>	<b>7,9</b>	<b>6,0</b>	<b>5,4</b>	<b>4,8</b>	<b>4,6</b>	<b>4,6</b>	<b>2,6</b>	<b>44,2</b>
Sum of FCFF present value		99,1	87,8	87,4	80,0	72,1	66,1	60,7	56,0	51,4	46,8	44,2
<b>Enterprise value DCF</b>		<b>99,1</b>										
- Interesting bearing debt		-6,2										
+ Cash and cash equivalents		11,9										
-Minorities		-6,0										
-Dividend/capital return		-1,8										
<b>Equity value DCF</b>		<b>97,0</b>										
<b>Equity value DCF per share</b>		<b>13,8</b>										

Wacc	
Tax-% (WACC)	20,0 %
Target debt ratio (D/(D+E))	10,0 %
Cost of debt	6,0 %
Equity Beta	1,10
Market risk premium	4,80 %
Liquidity premium	1,00 %
Risk free interest rate	2,0 %
<b>Cost of equity</b>	<b>8,3 %</b>
<b>Weighted average cost of capital (WACC)</b>	<b>7,9 %</b>

Source: Inderes



# Summary

Income statement	2017	2018	2019	2020e	2021e	Per share figures	2017	2018	2019	2020e	2021e
Net sales	58.0	70.4	80.5	<b>84.0</b>	<b>96.1</b>	EPS (reported)	0.59	0.23	0.36	<b>0.86</b>	<b>0.76</b>
Operating margin	5.9	4.1	7.1	<b>8.5</b>	<b>11.6</b>	EPS (adjusted)	0.64	0.36	0.53	<b>0.63</b>	<b>0.99</b>
Operating profit	5.2	2.5	3.7	<b>4.6</b>	<b>7.0</b>	Operational cash flow/share	0.73	0.48	1.19	<b>1.12</b>	<b>1.50</b>
Profit before taxes	5.2	2.3	3.3	<b>7.0</b>	<b>6.6</b>	Free cash flow/ share	0.14	-0.40	0.75	<b>1.61</b>	<b>0.06</b>
Net profit	4.1	1.6	2.6	<b>6.0</b>	<b>5.3</b>	EPS	2.97	2.81	2.94	<b>3.54</b>	<b>3.94</b>
Nonrecurring items	-0.4	-1.2	-1.4	<b>-1.4</b>	<b>-2.0</b>	Dividend/share	0.39	0.23	0.26	<b>0.36</b>	<b>0.48</b>


Balance sheet	2017	2018	2019	2020e	2021e	Growth and profitability	2017	2018	2019	2020e	2021e
Balance sheet total	33.9	48.8	55.9	<b>61.5</b>	<b>75.8</b>	Net sales growth %	20%	21%	14%	<b>4%</b>	<b>14%</b>
Shareholders' equity	20.8	19.6	20.5	<b>24.8</b>	<b>27.6</b>	EBITDA growth %	24%	-31%	73%	<b>19%</b>	<b>37%</b>
Goodwill	11.6	18.8	18.8	<b>18.8</b>	<b>26.8</b>	Adjusted net sales growth %	25%	-40%	54%	<b>18%</b>	<b>48%</b>
Net liabilities	-8.1	-2.5	-5.7	<b>-12.6</b>	<b>-2.8</b>	Adjusted EPS growth %	19%	-43%	45%	<b>19%</b>	<b>58%</b>
						Operating margin %	10.2%	5.8%	8.8%	<b>10.1%</b>	<b>12.1%</b>
Cash flow	2017	2018	2019	2020e	2021e	Adjusted EBIT %	9.6%	4.8%	6.4%	<b>7.2%</b>	<b>9.4%</b>
Operating margin	5.9	4.1	7.1	<b>8.5</b>	<b>11.6</b>	EBIT %	8.9%	3.5%	4.6%	<b>5.5%</b>	<b>7.3%</b>
Change in net working capital	0.3	-0.5	2.4	<b>0.1</b>	<b>0.3</b>	ROE %	21.3%	7.8%	12.7%	<b>26.6%</b>	<b>20.3%</b>
Operational cash flow	5.1	3.3	8.3	<b>7.9</b>	<b>10.5</b>	ROI %	25.5%	10.2%	13.9%	<b>32.5%</b>	<b>21.6%</b>
Investments	-4.2	-12.2	-6.9	<b>-2.5</b>	<b>-17.6</b>	Equity ratio	61.4%	40.3%	36.8%	<b>40.3%</b>	<b>36.4%</b>
Free cash flow	0.9	-2.8	5.2	<b>11.3</b>	<b>0.4</b>	Gearing	-39.2%	-12.6%	-27.9%	<b>-51.0%</b>	<b>-10.0%</b>

Biggest shareholders	% of shares
Erina Oy	11.8%
Elo Mutual Pension Insurance Company	9.2%
Lamy Oy	7.0%
Varma Mutual Pension Insurance Company	3.7%
eQ Pohjoismaat pienyhtiö	3.1%

Multiples	2017	2018	2019	2020e	2021e
EV/Net sales	1.2	0.8	0.8	<b>0.9</b>	<b>1.0</b>
EV/EBITDA (adjusted)	11.7	13.2	8.9	<b>9.2</b>	<b>8.2</b>
EV/EBIT (adjusted)	12.4	15.0	12.3	<b>12.9</b>	<b>10.6</b>
P/E (adjusted)	17.4	22.2	17.3	<b>19.3</b>	<b>12.2</b>
P/B	3.7	2.9	3.1	<b>3.4</b>	<b>3.1</b>
Dividend yield %	3.5%	2.8%	2.9%	<b>3.0%</b>	<b>4.0%</b>

Source: Inderes

# Siili's differences to the closest listed peer companies

	<b>GOFORE</b>	<b>VINCIT</b>	 <b>SIILI</b>
<b>Profile/approach to the market</b>	Digital change management and implementation	Top expert in software development, strong technology expert	Developing the digital experience by combining design, data and software development Independent growth businesses in Portfolio companies
<b>Core service areas</b>	Software development services Digitalization consulting services Quality assurance services	Service design Digital service development Software maintenance	Design Digital service development Software development and maintenance Data and analytics
<b>Customers</b>	Public sector 70% TOP 44% of net sales 2019	Fragmented, several size categorizes Role of public sector small Does not report distribution	Focuses on large companies Role of public sector small
<b>Internationalization</b>	Experimental, small steps and controlled risks Germany, Italy, Spain, Estonia 11% of net sales	Experimental, small steps and controlled risks USA 11% of net sales	Lean start-up approach USA, the UK, Central Europe 9% of net sales (+Supercharge ~10%)
<b>Business model</b>	Pure specialist company, sales focus heavily of hourly billing	Mainly hourly billing Role of maintenance agreements growing Role of own products growing	Hourly billing but role of project deliveries growing
<b>Long-term growth and profitability targets</b>	Close on ~10% annual growth 15% EBITA %	Does not announce targets	>10% organic growth 10% EBITA %
<b>2020 objectives</b>	Gofore now estimates that its 2020 net sales will exceed the upper limit of its previous net sales range guidance of EUR 76 million	Net sales and adjusted operating profit will grow in 2020	Siili estimates that both net sales and adjusted operating profit will be higher than in the year before
<b>Regional focus</b>	Tampere Helsinki Turku Jyväskylä	Tampere Helsinki Turku Oulu	Helsinki Oulu Tampere Seinäjoki
<b>Personnel H1'20</b>	610	482	701



# Acquisitions in the IT service sector

## Acquisitions in the IT service sector in Nordic countries

Date	Buyer	Target	Net sales Million EUR	EBITDA Million EUR	EBITDA %	Personnel	EV million	EV/ net sales	EV/operating margin
Dec 20	Digia	Climber (SE, FI, DK, NED)	14	0.7	5%	77	8 to 14	0.6X to 1.0x	12X to 20x
Dec 20	Silli	Supercharge (Hungary)	9	2.1	23%	115	17	~1.8x	~8x
Aug 20	Triton	Hiq	~180	~25	14%	1,500	~340	1.9x	13.6x
Aug 20	Bilot	CastorIT	7.3	0.9	12%	60	8.8	1.2x	10x
Aug 20	Gofore	Qentinel	12.0	1.7	14%	100	8.9 to 10.9	~0.9x	~6.4x
Aug 20	Pinja (Protacon)	PiiMega							
Nov 19	Solita	Ferrollogic	13.1			100			
Nov 19	Fellowmind	eCraft and Orango							
Jun 19	Tieto	Evry	1,290	180	14%	9400		1.4x	9x
Jun 19	Digia	Accountor Enterprise Solutions	12.7	0.8		114	9.0	0.7x	6x
May 19	Eficode	Praqma (SE, NO, DK)	5.5			46			
Mar 19	Nixu	Ezenta (DK)	8.8					0.7X to 0.9x	
Mar 19	Nixu	Vesper Group (SE)	2					1.0	
Mar 19	CGI (bid)	Acando (SE and 2018 actual figures)	280	28	10%	2,100	410	1.5x	14.6x
Feb 19	Digia	Starcut	~1.5		~5%	19			
Feb 19	Gofore	Silver Planet	7.2	1.8	0.3	40	10.8	1.5x	6.0x
Jan 19	eCraft	Evry (Fi - Dynamics operations)				40			
Jan 19	Vincit	LeanCraft	3.0	>1	>30%		5.5	1.8x	5.5x
Oct 18	Elisa	Fenix Solutions	2.7	0.6	>20%		4.5-5.4	1.7X to 2.0x	7.5X to 9.0x
Aug 18	Infosys	Fluido	18.0				65.0	3.6	
Aug 18	Digia	Mavisystems Oy	3.2			34			
Aug 18	Gofore	Solinor	4.0	0.5	0.1	50	4.0	1.0x	7.7x
Aug 18	Silli	Vala Group (Silli's holding 60%)	5.8	1.4	0.2	80	6.0	1.7	7.0
Apr 18	Apax Digital Fund	Solita	76.1			650			
Mar 18	Viria	BitFactor	14.0			150			
Mar 18	Digia	Avarea	3.6			41			
Apr 18	Sofigate	Csolutor (FI)	6.9			50			
Jan 18	Sofigate	Headstart (FI)	5.0						
Janu 18	Solteq	TM United A/S (DK)	4.8	0.5	0.1	35	3.5	0.7x	7.3x

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Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Date	Recommendation	Target price	Share price
3/30/2016	Accumulate	EUR 8.00	EUR 7.50
8/14/2016	Accumulate	EUR 8.20	EUR 7.83
10/10/2016	Reduce	EUR 8.40	EUR 8.50
3/1/2017	Accumulate	EUR 10.50	EUR 9.48
6/12/2017	Accumulate	EUR 12.00	EUR 11.34
8/15/2017	Accumulate	EUR 12.50	EUR 11.80
2/28/2018	Reduce	EUR 12.50	EUR 12.05
4/5/2018	Accumulate	EUR 11.80	EUR 10.25
8/15/2018	Accumulate	EUR 12.50	EUR 11.20
10/19/2018	Accumulate	EUR 9.80	EUR 8.50
2/22/2019	Accumulate	EUR 9.80	EUR 9.04
2/28/2019	Accumulate	EUR 9.40	EUR 8.68
5/2/2019	Accumulate	EUR 9.60	EUR 9.00
8/15/2019	Accumulate	EUR 9.60	EUR 8.66
10/14/2019	Accumulate	EUR 10.00	EUR 9.26
2/28/2020	Buy	EUR 11.00	EUR 8.96
3/31/2020	Accumulate	EUR 9.00	EUR 7.72
4/29/2020	Accumulate	EUR 9.70	EUR 8.46
8/12/2020	Buy	EUR 12.00	EUR 10.15
10/28/2020	Accumulate	EUR 12.50	EUR 11.70
12/7/2020	Accumulate	EUR 13.00	EUR 12.15
12/18/2020	Accumulate	EUR 13.00	EUR 12.10



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