Siili Solutions

Extensive report

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Inderes corporate customer

This report is a summary translation of the report “Kansainväliset toiminnot ajavat tuloskasvua” published on 11/17/2022 at 6:30 am

International operations drive earnings growth

Siili has grown nicely over the last two years while continuously improving its profitability. The company has also implemented two acquisitions in line with its strategy, accelerating internationalization and strengthening its public sector business. Siili is now clearly on a more solid footing and ready to pursue the growth and profitability targets of coming years, which were raised in spring. However, in the short term, economic uncertainty increases uncertainty and we expect slightly more moderate growth and profitability than the targets suggest. The expected return (~15%) and highly attractive valuation (22-23e EV/EBIT 9x and 7x) support a strong positive view of the share while providing a safety margin against risks. We reiterate our EUR 17.5 target price and raise our recommendation to Buy.

The company has a proven base for profitable growth

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 the competition for talent, and making successful acquisitions. At the end of the decade, Siili built a foundation for the next international growth phase and turned profitability to good levels. Siili's core is based on digital experience in addition to which the company has focused, relatively independent international operations. In the past two years, the company has implemented two acquisitions reflecting the growth areas of the strategy, strengthening the public sector and internationalization.

Internationalization and acquisitions drive growth

In the big picture, Siili's value creation has historically been based largely on acquisitions. In its strategy, Siili aims for growth 1) in Finland among current customers and more strongly in the public sector, 2) in international customers through Siili Auto and Supercharge, and 3) through acquisitions. International operations account for about 25% of revenue and are growing well. In Finland, Siili's operations are focused on the Helsinki metropolitan area and now the company is recruiting outside the region, which improves the cost structure. In addition, with the directed share issue in the early summer, the company will have more leeway for new acquisitions, even after the latest acquisition.

We expect slightly more cautious development than the targets in the coming years

Last spring, Siili updated its financial targets and expects 20% annual revenue growth in 2023-2026. The share of organic growth is about half. In the next few years, we expect organic growth to be slightly below the targets and as a whole the 20% growth target requires new acquisitions. In terms of profitability, Siili's EBITA % target is 12% of revenue, which is above the average level of the sector. We expect profitability to be good 10% over the next few years and thus slightly below the company's target level. We believe international operations will support profitability and Finnish operations still limits achieving the strategy target.

Valuation picture is very attractive

Siili's investment profile has strengthened into an earnings grower in recent years thanks to the turnaround. The comparability of valuation multiples is made more difficult by the minority structures of Siili's acquisitions, but EV ratio calculations take minorities into account. With our estimates Siili's adjusted EV/EBIT ratios for 2022 and 2023 are 9x and 7x, which is a very attractive level. The expected return, consisting of 10% earnings growth, a 2% dividend yield and the upside in the multiples exceeds the equity return requirement. Key risks are related to economic uncertainty and its impact, as well as growth in international operations slowing down.

Recommendation

Buy
(previous Accumulate)

EUR 17.50
(previous EUR 17.50)

Share price:
13.90

Key figures

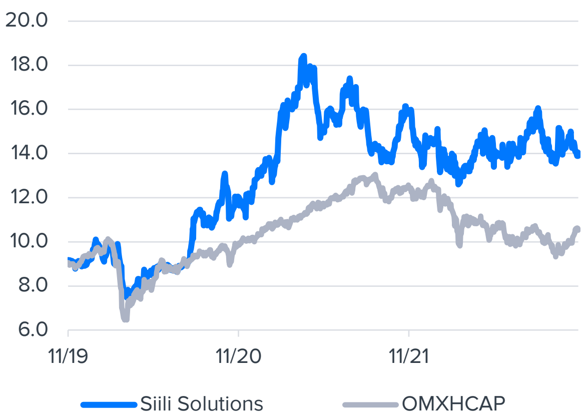
	2021	2022e	2023e	2024e
Revenue	99	118	133	143
growth-%	19%	19%	13%	7%
EBIT adj.	9.3	12.3	13.7	14.9
EBIT-% adj.	9.3 %	10.5 %	10.3 %	10.5 %
Net Income	5.1	6.4	8.5	9.6
EPS (adj.)	0.98	1.05	1.25	1.39
P/E (adj.)	15.0	13.3	11.1	10.0
P/B	4.1	2.6	2.3	2.0
Dividend yield-%	1.2 %	1.8 %	2.2 %	2.5 %
EV/EBIT (adj.)	12.4	8.8	7.3	6.1
EV/EBITDA	9.6	7.0	6.1	5.0
EV/S	1.2	0.9	0.8	0.6

Source: Inderes

Guidance (Unchanged)

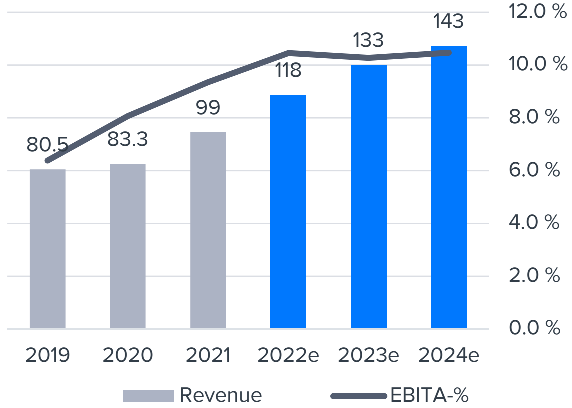
The revenue in 2022 is estimated to be 102–117 million euros and the adjusted operating profit (EBITA) 10–13 million euros.

Share price



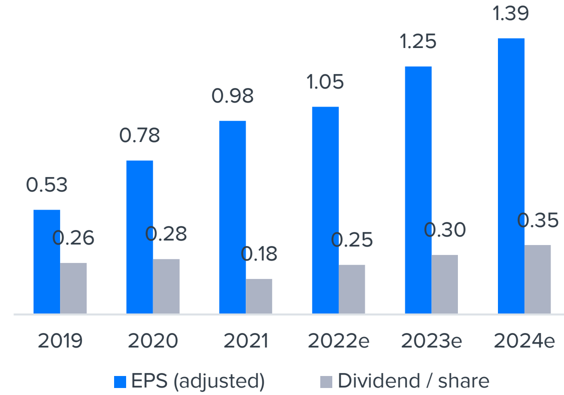
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Value creation through strong organic growth, driven especially by internationalization, but also by an attractive public sector
- Extremely good demand outlook in sector
- Success of new strategy and operating model
- M&A

Risk factors

- Tightening competition for talent, attrition and wage inflation
- Attrition of the management team and its impact especially on Finnish operations
- Successful internationalization
- Growth management
- Successful acquisitions
- Organization’s ability to renew itself
- The economic situation also creates uncertainty in the IT services market

Valuation	2022e	2023e	2024e
Share price	13.9	13.9	13.9
Number of shares, millions	7.66	8.12	8.12
Market cap	113	113	113
EV	108	100	91
P/E (adj.)	13.3	11.1	10.0
P/E	16.6	13.3	11.8
P/FCF	16.5	10.0	9.0
P/B	2.6	2.3	2.0
P/S	1.0	0.8	0.8
EV/Sales	0.9	0.8	0.6
EV/EBITDA	7.0	6.1	5.0
EV/EBIT (adj.)	8.8	7.3	6.1
Payout ratio (%)	31.6 %	28.8 %	29.6 %
Dividend yield-%	1.8 %	2.2 %	2.5 %

Source: Inderes

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

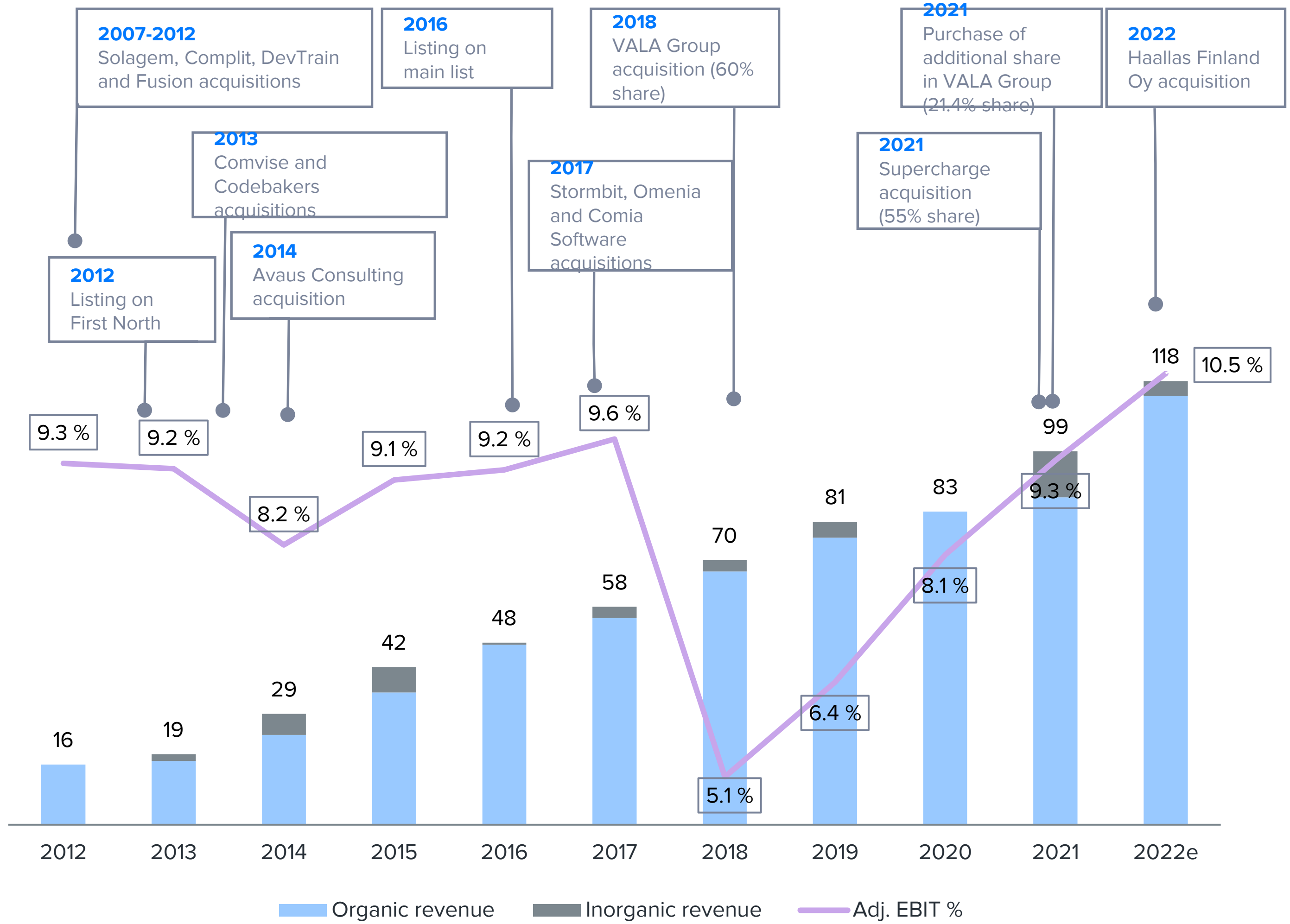
2012
Listing on First North (main list in 2016)

99 MEUR (+19 % vs. 2020)
Revenue 2021

9.3 MEUR (9.3% of revenue)
Adj. EBIT 2021

24%
Share of international revenue in 2022

994
Personnel at the end of Q3'22



Source: Siili / Inderes

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Company description and business model 1/5

Expert company in digitalization

Siili, established in 2005, is a technology independent consulting company specializing in design and technical implementation of software systems.

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, software quality assurance and testing, cloud and managed services, and digitalization solutions for the automotive industry.

With its staff of over 900 experts and revenue of good EUR 100 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 and to the international markets through acquisitions.

Historical value creation through organic and inorganic growth

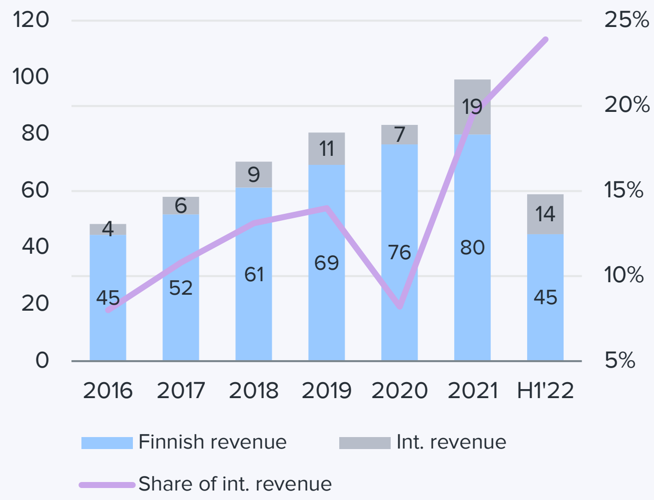
Siili's history is described by a strong expansion in its offerings and growth in the 2010s through acquisitions. However, after a long period of strong growth, the company had to reinvent itself in 2018, when the matrix organization model, built for the needs of the resource business, no longer supported the needs of the solution business. In 2018- 2019 Siili carried out an extensive organization model and strategy overhaul and the company built the basis for its next stage. At the beginning of 2022, the company's CEO changed and the company's management team was compressed. In the spring, the company announced its transition to a stronger growth phase and now the company targets 20% growth, about half of which is organic, and a 12% EBITA margin.

Siili has grown by 11% organically and by 15% including acquisitions in 2015-2021. At the same time, the company's EBITDA % has been between 6 and 12%. Throughout its history, the company has carried out 12 acquisitions. Our view is that Siili's historical value creation has been based on acquisitions and growth and, in recent years, on improving profitability, even though Siili has still not reached the level of the most profitable companies in the sector.

Main market in Finland and international market as a growth driver

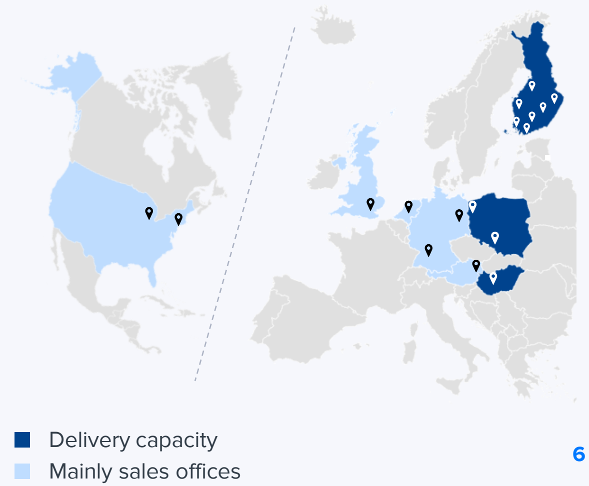
Siili's main customer sectors include the public sector, the financial sector, manufacturing and the service sector, as well as the automotive sector (abroad). Siili is particularly strong in the financial sector. The company's primary customer organizations are Finland's 500 largest companies and the public sector. The company aims to grow by serving its customers in a wide range of digital service development and expanding its expertise and customer base through selected acquisitions. Siili's strengths include an agile network-like operating model.

Revenue distribution and profitability



Operating countries

Q3/2022, countries with offices



Source: Siili, Inderes

Company description and business model 2/5

Siili's offices can be divided into sales and delivery offices. Delivery capacity mainly in Finland, Poland and Hungary. The remaining offices are mainly sales offices. In Finland, Siili has offices (10 in total) in Helsinki, Oulu, Tampere, Turku, Jyväskylä, Joensuu and Seinäjoki. The company also has offices in Wroclaw and Szczecin in Poland. The independent Siili Auto operates in Wroclaw, Szczecin, Berlin, Stuttgart and Detroit. Supercharge's deliveries come entirely from Hungary and it has sales offices in London, Amsterdam, Vienna, New York and Helsinki (Helsinki and New York opened in 2022).

In H1'22, the revenue of Siili's international operations represented 24% of total revenue. Internationalization is one of the corner stones of the company's strategy and Siili aims for a clearly faster growth rate in its international operations compared to its domestic operations.

Business structure

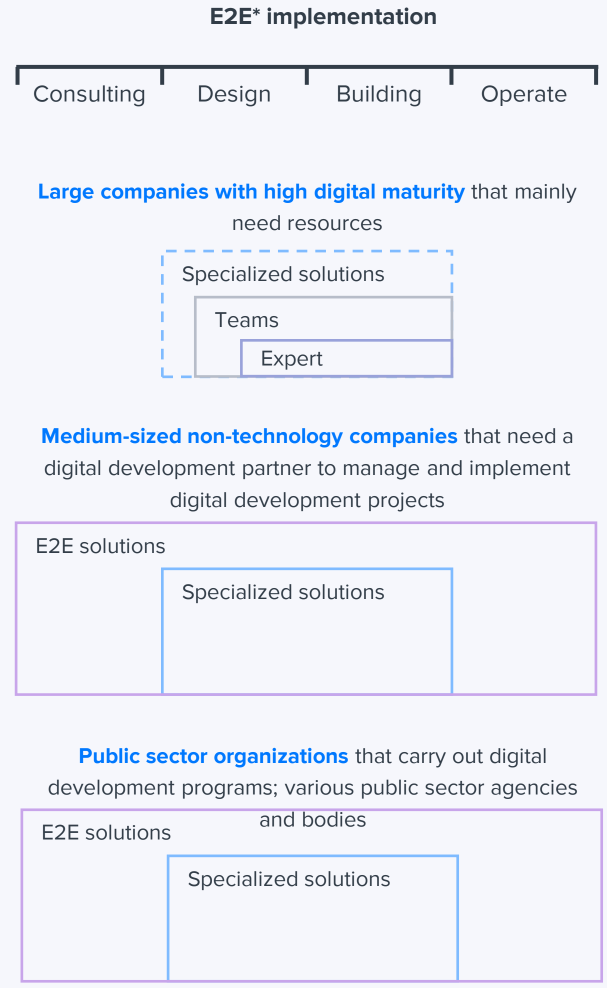
Siili reports revenue distributed into international and domestic revenue. The company aims to serve its customers in a comprehensive manner offering specialized end-to-end solutions, teams and individual experts depending on the need and situation. In addition to Finland, there is supply capacity in Poland and for Supercharge in Hungary. We see this as a factor that boosts Siili's competitiveness, as it has its own direct, high-quality, but cheaper resources in Poland. According to Siili, customer companies are often reluctant to buy directly from, .e.g., a Polish company but Siili can act as an intermediary and at the customer's premises in Finland, but some of the production can be carried out by an international team in Poland. This type of a delivery model typically raises Siili's margins. 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. Siili's own knowhow is complemented, and flexibility is increased by the Siili One partner network. The network-like operating model enables serving international customers in the production units of various countries. The aim is profitable growth. Siili is working to become more of an end-to-end solution provider. On the other hand, Siili One is mainly a resource supplier, providing teams and experts, especially for customers with high digital maturity.

The subsidiaries are independent business units with a sharp focus, productized offerings and international growth potential. The subsidiaries have their own sales, but the companies' services are also sold as part of Siili's offering.

The subsidiaries currently include VALA Group Oy and Siili Auto Oy that act as independent legal companies, as well as the Hungarian Supercharge.

Siili's aim is to become a strategic level partner for the customer organizations that can manage extensive and complex solutions. In terms of subsidiaries, the aim is to create more replicable specialized service concepts that have international growth potential.

Siili's main customer segments



Source: Siili, Inderes
*E2E= end-to-end solutions over the service life cycle

Company description and business model 3/5

Siili Auto builds digital user interfaces for modern cars utilizing several technologies. The company sees considerable international growth potential in Siili Auto and the shortage of experts is even more clearly the bottleneck than in other sectors. The unit has been set up by Siili. Siili Auto suffered significantly from COVID but made a strong turn in 2021 and has continued to grow this year. We estimate that the company's revenue in 2021 was about EUR 10 million and fully international. The company has sales offices in Detroit, Berlin and Stuttgart, but development is mostly done from Poland.

VALA Group focuses on software testing, test automation and quality assurance. VALA also has internationalization potential and is working closely with, .e.g., Qt, where it already works with international customers. This year VALA Group has been more closely integrated into Siili and its services are often part of end-to-end solutions. We estimate that its revenue was EUR ~10-13 million in 2021. In 2017, prior to the acquisition, VALA's EBITDA margin was 24%, which is a very strong level for a service company. Siili first bought 60% of VALA in 2018 and then an additional 21.4% in 2021.

Supercharge is a Hungarian innovation, design and development partner for digital services, founded in 2010, with a large international customer base. It is an end-to-end solution provider that builds digital solutions (e.g. mobile apps) for its customers. All deliveries are made from Hungary and it has sales offices in London, Amsterdam, Vienna, New York and Helsinki. The company has successfully duplicated its model to new countries and grown rapidly in recent years. The Hungarian corporate tax rate is only 9%, which means that each EBT euro is about 14% more valuable than a euro recorded in Finland. We estimate that its revenue in 2021 was about EUR 13 million. Siili owns 55% of the company.

Siili has changed its operating model considerably in recent years. In 2012-2017, Siili applied a matrix organization. In 2018, Siili became a network of independent units. In 2019, Siili created its current corporate structure and the strategy was concretized the following year. At the same time, Siili's brand and organization were updated in line with the strategy. The company has also renewed all operational background systems to support the new structure.

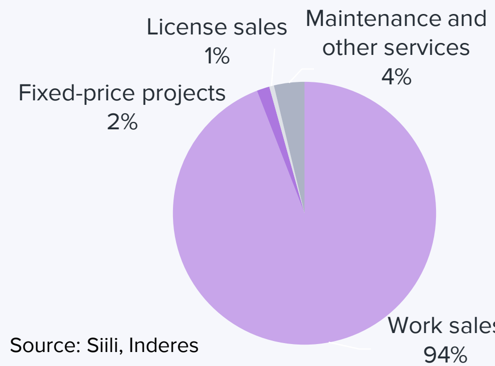
Siili's current operating model tries, in a way, to combine the best sides of an inclusive digitalization consultant and a capital investor that rears specialized digitalization companies. It has an excellent track record of creating and developing new units. Siili offers expertise, capital and customers to its subsidiaries, thus creating a good environment for the entrepreneur to grow and develop new business operations. Subsidiaries, in turn, bring the sharpest experts to Siili's projects and value creation potential for Siili's shareholders with controlled risks. In acquisitions, Siili selectively integrates companies, aiming to integrate especially at the customer interface and to support administration.

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. The seniority is somewhat of a competitive advantage on which to build but is also reflected as a higher cost level than among its peers.

Siili's subsidiaries

SIILI.	End-to-end solution deliveries for customers
SUPER CHARGE	Building digital innovations for the customer
siili_auto	Development of digital user interfaces and driving experiences for the automotive industry
VALA	Test automation and quality assurance services
SIILI.One	Building software development teams for customers

Revenue distribution by revenue group, % of revenue H1'22



Source: Siili, Inderes

Company description and business model 4/5

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. Siili also has a strong history on the resource side, which, in our view, is clearly hampering the cultural shift to an end-to-end solution provider. We believe the challenge of the organization structure is the risk that the company turns into a silo-like organization and there is no common customer message. In addition, strong internationalization can bring cultural and management challenges.

Business model pure expert service 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, revenue is typically based on long framework agreements, but customers can assess their resource needs every 3 months. We estimate that the company carries very limited project risks in its business operations (H1'22: fixed-price projects 2% of revenue). Siili also has continuous maintenance agreements that can include reselling of cloud capacity. The maintenance business is still relatively small (H1'22: 4%), but the focus of customer purchases is constantly shifting from projects towards continuous development.

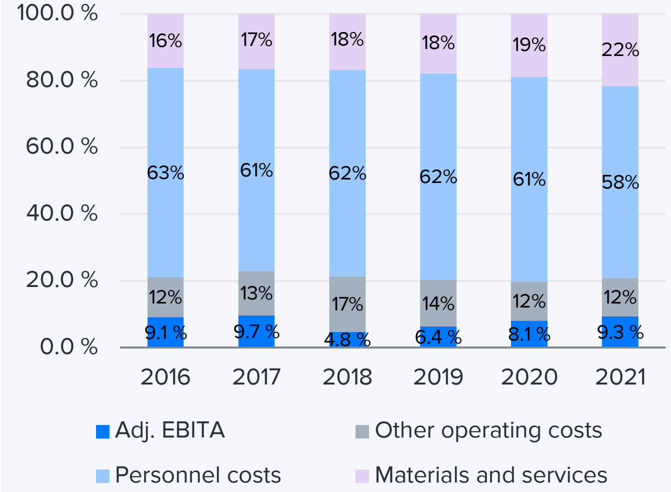
To some extent, Siili uses more subcontracting than its peers to respond to demand fluctuation, acquire specific expertise, and offer an option to experts who want to work with a freelance model that has become common in the industry in recent years (Siili One is Siili's answer to this trend). Materials and service amounted to 22% of revenue in 2021. The share of materials and services has increased by about six percentage points over the last five years. Subcontracting provides flexibility to demand fluctuation in an otherwise fixed cost structure (personnel costs are mainly based on fixed monthly salaries). However, the scaling potential of the fixed cost structure is very limited due to the fact that, after a certain point, growth in the service business always requires additional resource investments.

The key operational management tool in the IT services sector is the billable utilization of employees, which is directly linked to profitability. Good levels, depending on the company, are around 75-85%. We believe that Siili has managed to control its billable utilization well after the drop in 2018, but we expect there is still some room for improvement in billable utilization. However, too high billable utilization is not good either, as it would not leave room for personnel development and would not be good for the ability of employees to cope or enjoy their work.

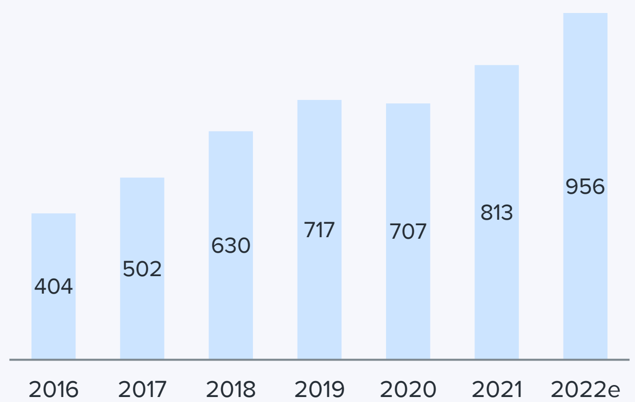
In the 2010s, the sector's key challenge was the shortage of experts and wage inflation, as well as stagnate customer prices. Siili's aim is to become more of an end-to-end solution provider and move away from being merely a resource supplier. This way, the company aims to improve its own pricing power and combat the pressure created by wage inflation.

To this end, Siili has recently recruited experienced solution sales experts to its sales organization. Selling end-to-end solutions, rather than just resources, will also enable Siili to make better use of junior employees. Employee attrition is also one of the key factors in wage inflation, as the wages of new

Siili's cost structure
% of revenue



Development of number of personnel
average during year



Source: Siili, Inderes

Company description and business model 5/5

employees are typically above average. In the whole sector attrition climbed high in 2021 after the exceptionally low level during COVID and this was also the case for Siili.

In a pure expert business such as Siili's, employee satisfaction and employer attractiveness are one of the key factors for the company's success. We believe that critical factors for employees include pay and various salary models, culture, interesting projects, the possibility to change tasks in-house, management model, possibilities to take responsibility, and the reputation of the organization.

Siili has been successful in Universum's IT sector employer rankings and in the 2022 student survey it was number 18 in Finland and number 18 in the professional survey. Siili is well known both among students and professionals. Siili has managed to improve its ranking steadily in recent years, but this year Siili's ranking dropped in the professional survey. We do not believe you should look at the ranking of individual years too closely, because there are probably quite a lot of variation in the results, but the longer-term trends are interesting. However, we believe it is rather difficult for Siili to distinguish itself from other new-generation agile players (Vincit, Reaktor, Futurice, etc.), but it is important that it continues to be able to distinguish itself from old large organizations (e.g. Tietoevry) and customer companies.

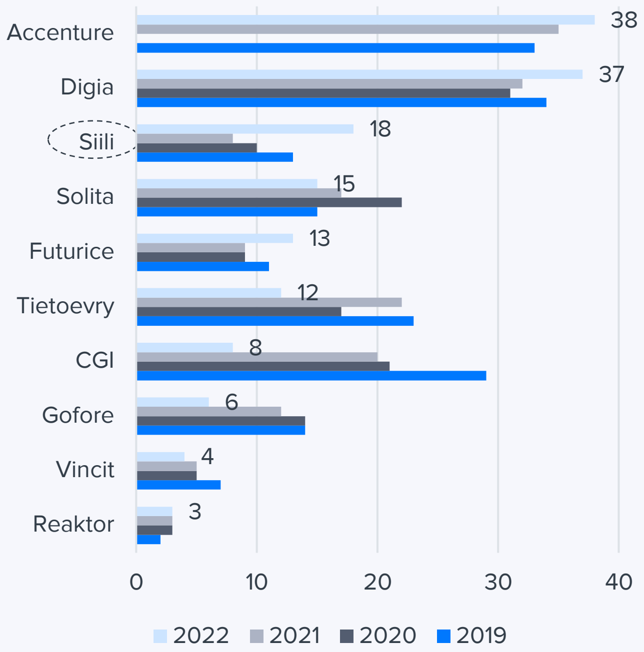
Business is very capital-light

Siili's business is based on work done by experts. In practice, service production requires no other investments than the tools of the experts. In addition, the company's income and expenses are almost simultaneously generated due to quick invoicing cycles, so the business does not tie up working capital.

Opening new offices requires non-recurring investments, such as premises and sales, and recruitment, and it often takes some time before they start to generate income and billable utilization increases. Opening a new country naturally requires more resources than opening a new city, e.g., in Finland where the existing organization can be used more efficiently in support functions. Getting a new city into reasonable profitability can take months and a new country from a year upwards. However, investments are typically quite small, hundreds of thousands of euros. The scale and time span for profitability vary greatly depending on the nature of the operations.

Growing the business organically is therefore at its best highly capital-efficient and the need for growth capital is mainly linked to acquisitions. As a whole, Siili has a good historical track record of sensible capital allocation, and we believe that it has also succeeded in creating clear shareholder value through acquisitions, which is indicated by its very strong annual return of almost ~20% on the stock market.

Universum's World's Most Attractive Employers ranking*,
Ranking (low > high)



Source: Siili, Inderes
*Only companies ranked in top-50 are included in the graph

Partners

Technology suppliers and communities

Subcontractors, talent resources

Operations

Siili units

Subsidiaries

Parent company operations

Marketing and go-to-market

Support services

Business development

Service areas

Digital strategy and innovation

Design

Tailored digital services and software development

Data, analytics and AI

Quality assurance and software testing

Cloud and managed services

Software automation

Automotive industry

Business idea

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

SIILI

- Strong track record in acquisitions and recognizing market trends
- Established position in the Finnish IT services market and delivery units in Poland and Hungary
- Significant international revenue and growth potential

Sales channels

Direct sales to end customers

Chain of subcontractors (automotive industry)

Competition

IT generalists

Medium sized players on the IT market

Customer sectors

Manufacturi
ng

Financial

Public sector

Services

Automotive industry (abroad)

Cost structure

813 people (2021)
90 MEUR (2021)

Personnel costs *(63% of costs)*

Subcontractors and purchases *(24%)*

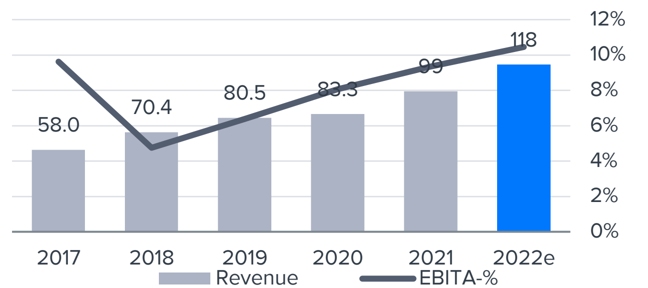
Other operating expenses *(10%)*

Tangible depreciation *(3%)*

Income streams

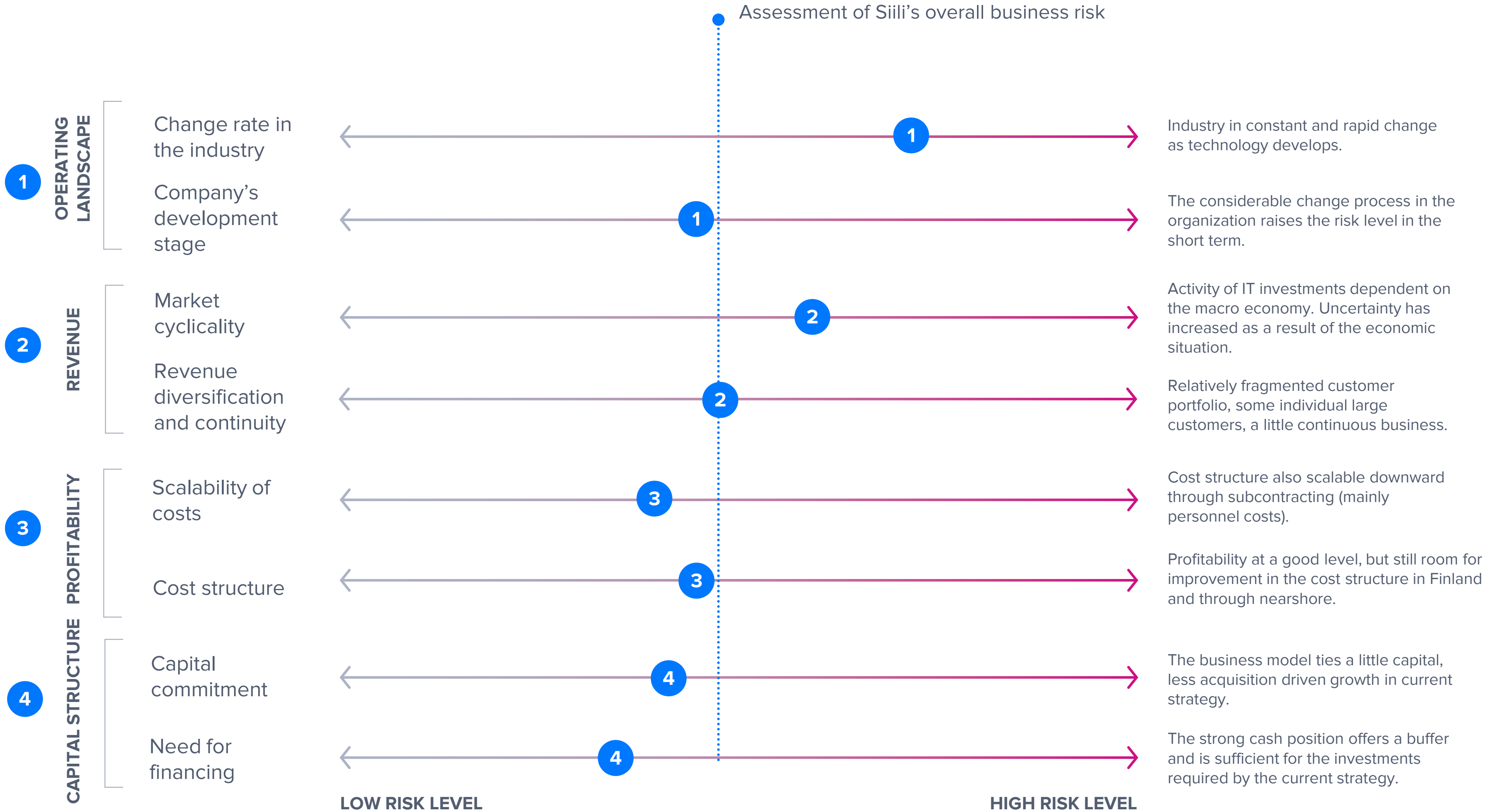
Revenue, 99 MEUR
EBITA 9.3 MEUR (2021)

Project and expert work



Source: Inderes, Siili

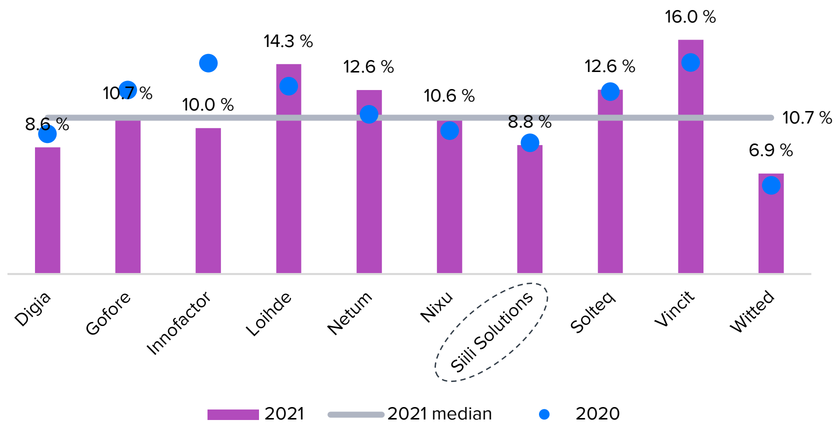
Risk profile of the business model



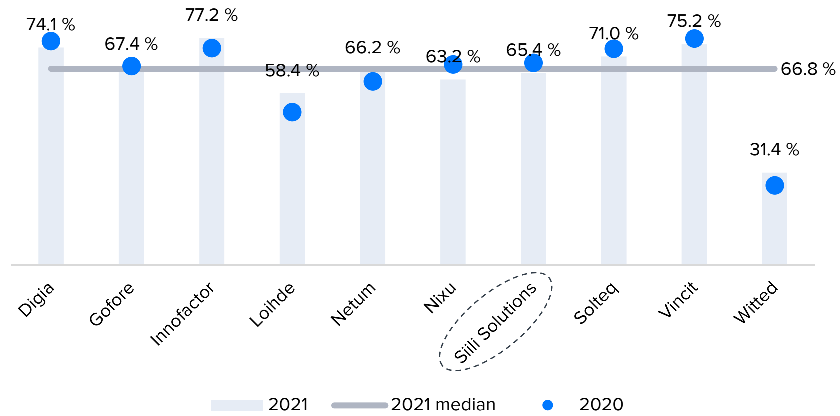
Source: Inderes

Relevant reported indicators relative to peers

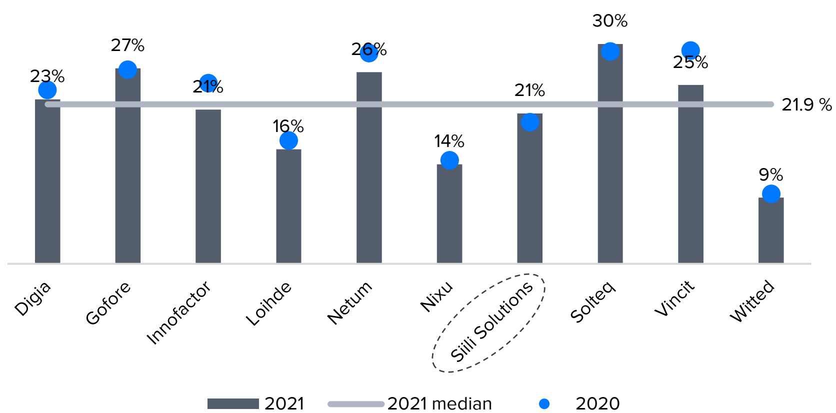
Other costs relative to revenue (%)



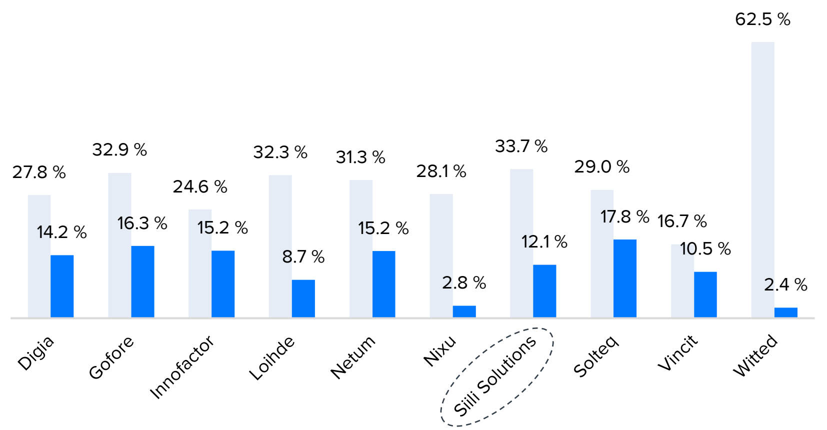
Share of personnel costs of all operating costs (%)



Revenue margin after material and services and personnel costs (%)



Margin after personnel costs and other costs and EBITDA margin (2021, %)



IT service market 1/8

Large overall market

According to various research institutes, the size of the Nordic (Sweden, Norway, Finland, Denmark) IT service market was USD 25 billion in 2019. The Finnish IT service market has in turn been estimated to be divided into some EUR 3.5 billion private and some EUR 1.1 billion public sector.

According to the 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 definition of the IT service market and its euro-denominated size continues becoming obscure as the role of IT and technology continues rising from the engine room to the operational core in various industries because 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, transformation management and service design.

Market growth driven by digital services

According to various estimates, the conventional service areas are expected to grow by an average of 2-4% p.a. New digital services are expected to grow by as much as 10% depending on the area. Market growth is slowed down by decreasing demand for conventional infra and older generation software solutions.

By service area, according to our research the areas growing faster than the market are cloud services, transformation management, data & analytics, and cybersecurity. Tietoevry expects cloud services to grow by 15%, data & analytics by 15%, core software by 10%, and automation and DevOps by 20%. In our opinion, Tietoevry is one of the best players to assess market development in the Nordic countries because the company has an extensive IT offering, and it operates in most customer sectors and has strong geographical presence in all Nordic countries. By customer sector, Tietoevry reported that it expects the health care sector to grow by an average of 5-6%, public sector by 4-5%, energy sector by 3-4%, the forest industry by 6-7%, and banking and payment solutions by 4-9% in 2020-2023.

Since 2015, Siili has grown organically slightly faster than the general market, which is logical when the company is positioned in the fastest growing areas. 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.

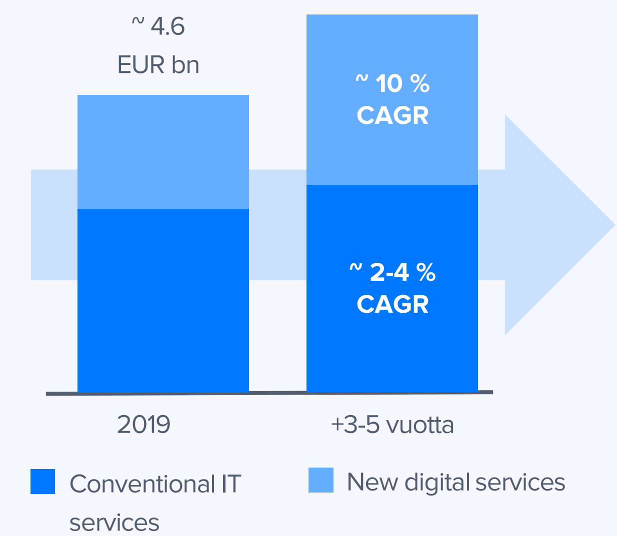
Long-term growth outlook of the market

The digitalization of society requires a huge number of hands to build, integrate and maintain new applications, which means that the long-term demand fundamentals of IT consulting companies are strong.

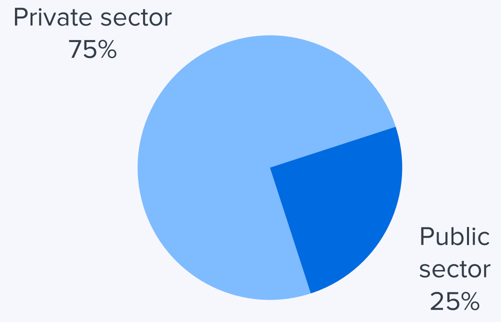
Therefore, IT service companies offer investors a good opportunity to invest in the digitalization trend with the more limited risk profile of the service business. One can expect the market to grow more quickly than the macro economy in the long term.

Finnish IT market,
2019, EUR billion

Finnish market and growth picture



Market distribution by buyer group,
2019, % of the market



Source: IDC, Tutkihankintoja.fi

IT service market 2/8

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. Thanks to the digitalization revolution and accelerating technological change, IT purchases are changing, which requires IT companies to have the ability to adjust their offering constantly.

The shift on the market towards IT investments that create new business and differentiating factors that began in the 2010s continues as the quest for cost efficiency is 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.

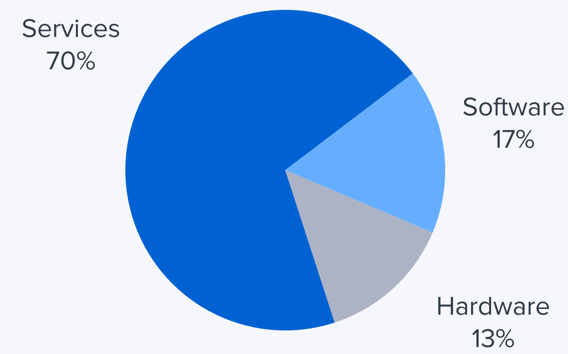
The desired expertise areas are increasingly linked to new digital services and less to background systems. The market revolution created strong growth potential for many original players of the new era (e.g. Futurice, Solita, Reaktor, Siili, Gofore and Vincit), that are profiled as developers of new 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.

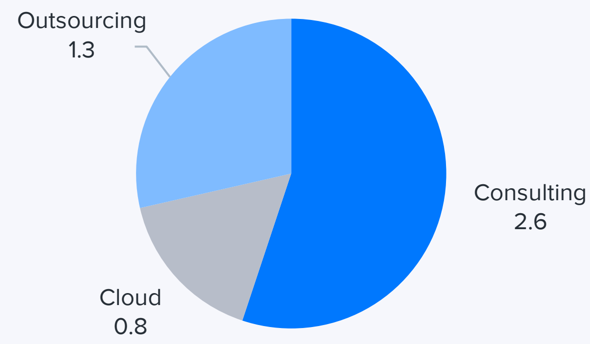
A clear trend on the market has in recent years been that IT purchases become more serious as the customer organizations have realized that you cannot get a short cut to digitalization by buying digital applications bypassing data administration. Organizations' established data systems will not disappear, 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 mainly by acquiring talent, 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 decade. 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.

Finnish IT market,
2019, EUR billion



Finnish IT service market,
2019, EUR billion



Source: Radareco Nordic Outlook 2019

IT service market 3/8

Three different market areas

We have divided the IT service markets into three sections as follows:

Market for new digital services, that includes development of new digital services (tailored software development). This has been the strongest growing area on the markets that was practically born only in the past decade. Well-known players on the markets are, e.g., Reaktor, Futurice, Nitor, 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.

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, Fellowmind (former eCraft), Bilot and IT generalists in particular such as Tietoevry and CGI. Market growth has been slow in this area and a high threshold to enter the market is typical.

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 Tietoevry, Fujitsu) and the threshold for entering the market is high because the market has required economies 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.

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, 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. Customers' purchases continue to shift 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 strongly developing in a direction where the paths of conventional and new players cross and the boundary between new and conventional IT continues to blur.

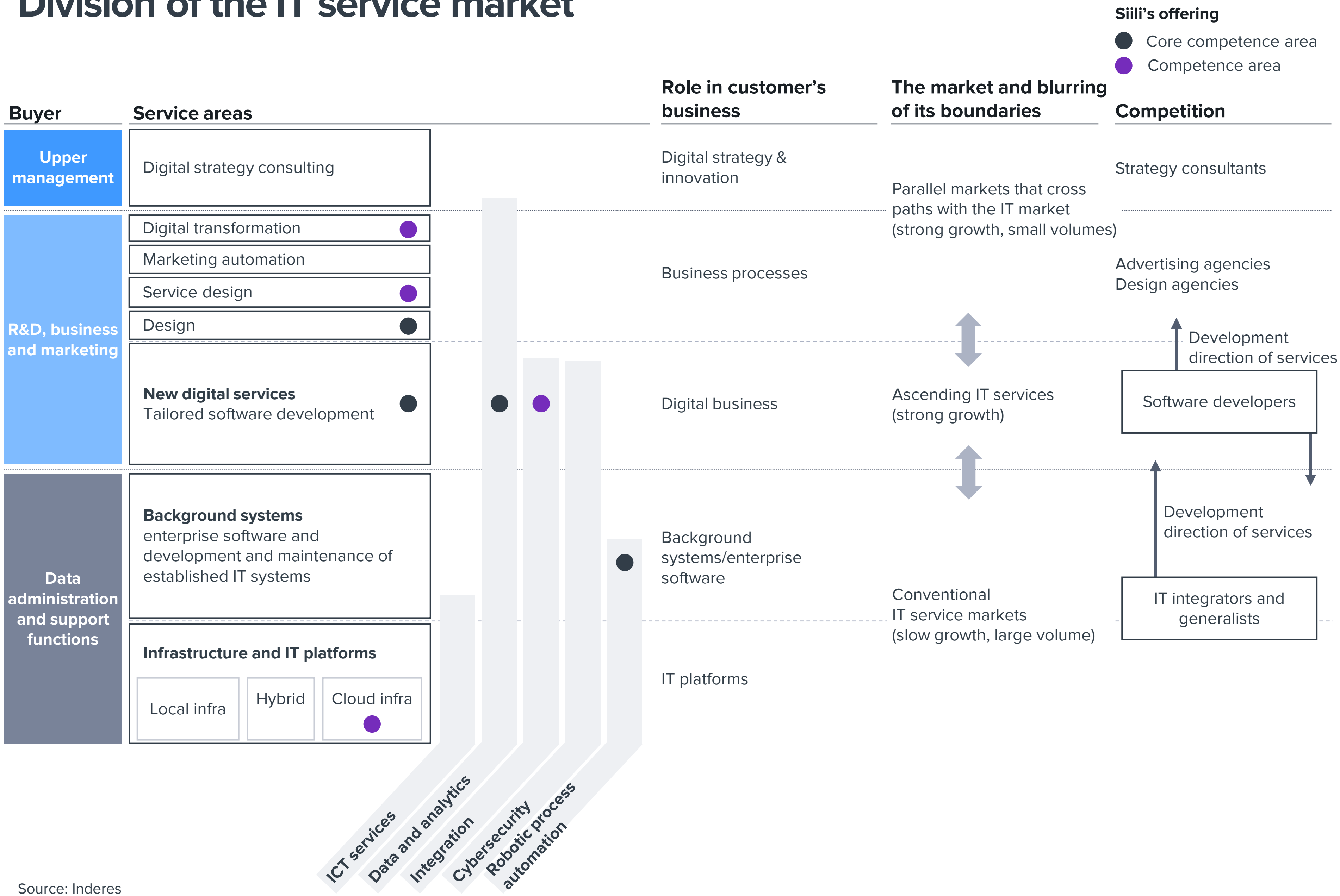
Background system expertise makes a comeback and one must know how to utilize related data

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, in recent years moved to a stage where one must be able to integrate new digital services and especially related data more tightly with the customer's background systems to get full business 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 and the market is picking up. The importance of integration and data expertise also becomes emphasized.

In background systems, the competitive landscape is much more stable, the entry threshold is higher and customer relationship are long lasting. It is also difficult to build the capabilities required for background systems.

Division of the IT service market



Source: Inderes

IT service market 4/8

This trend towards a life cycle approach is one challenge for pure digital service developers like Siili in the competition with generalists. The company aims to respond by building capabilities for continuous development, maintenance and cloud infrastructure. According to our view, data and integration expertise are among Siili's strengths.

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:

Data and analytics are becoming one of the hottest trends on the market based on sector comments. Data is becoming a strategic competitive factor in several industries and the precondition for future AI solutions. For example, Tietoevry and Digia have raised data to the core of their strategies. The challenge for customers is to combine data from silo-like data administration throughout the organization to marketing and business management. IT companies that have a combination of understanding in analytics, machine learning, and business are the winners.

Cyber security is still a relatively small share of IT service suppliers' offerings but like data it is becoming an increasingly strong competition and hygiene factor. Buyers focus increasingly on cybersecurity, and a lack of this expertise is a clear reputation risk for suppliers. The geopolitical situation has further increased demand. Several companies in the sector are currently building and strengthening this capability.

Automation and robotic process automation are also becoming more important as service areas. Automation enables increased productivity, flexibility, scalability, and improved quality, as well as a customer experience without large and expensive system projects. Companies in the sector have developed or acquired this expertise and Digital Workforce in particular specializes in robotic process automation.

Subcontractor networks and building them is one of the clear trends of recent years. Companies partly patch-up their recruitment needs this way and increase flexibility.

Building nearshore capabilities has been a clear trend in recent years. With COVID, telecommuting has enabled this more widely. However, the cost level (wages) in nearshore countries has also increased but selling expert resources still allows good profitability potential and helps solve the expert shortage.

Very little direct or indirect effects **of the war in Ukraine** have been seen on the business of IT service companies, in practice only in Tietoevry's business. On the other hand, the virtually elimination of capacity from Russia and Belarus and the reduction in Ukrainian capacity will increase demand for other European countries. At the same time, large organizations have begun to assess their purchasing decisions from outside Europe more closely (e.g. India has not condemned Russia, which has resulted in some caution).

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. Creative, design-centered players have been the winners.

The IT market still does least of what is talked about most. The volume of services related to the biggest terms (AI, VR, AR, IoT, NLP, etc.) is still small on a sectoral level. These are, however, likely to become considerable service areas over the next five years.

Cloud revolution still divides the market. 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 moves 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 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.

IT service market 5/8

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 edge has been based on offshore cost efficiency are the losers. Players who can combine local presence near the customer with sufficient cost efficiency by utilizing high-quality nearshore resources are the winners.

Large, multi-year high-risk ERP implementation projects (SAP, Oracle, IBM) are no longer carried out to the same extent 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.

Buying IT as large projects will decrease further 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 seek new value production based and more scalable pricing models 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.

Lack of experts, wage inflation and customer prices are the nut to crack in the sector

According to our view, lack of experts and stronger wage inflation than customer prices is one of the key medium- and long-term challenges to which a solution should be found. It becomes increasingly difficult over time to solve this equation through continuously improving efficiency.

The expert market is in a chronically challenging situation and within it we believe that especially among more experienced experts, companies must be able to stand out with other factors than merely wage levels. In our opinion these factors include, e.g., interesting customer projects and a good work environment for career development. With the lack of experts it is also important to be able to hold on to existing talent and minimize staff attrition. In recent years, the sector has tried to solve the lack of experts by increasing and building own outsourcing networks.

Based on discussions we have had with various companies, wage inflation has been between 2% and 5% in recent years depending on emphasized skills. Tietoevry estimate wage inflation to be 4% on average (updated in Q1 report, previously 3%) in 2022, which is lower than other sector comments. Currently nothing indicates that the wage inflation is slowing down. The recession that seems inevitable could curb wage inflation in the shorter term, as in a weak economic environment attrition typically decreases, but at the same time high inflation creates additional pressure on pay raises. This is partly controlled by using geographically cheaper workforce, which is not, however, a fully sustainable solution for the problem in the long run.

The development of customer prices has for years been 0-2% based on sector comments and thus clearly more modest than wage inflation. Personnel costs represent roughly two-thirds of costs in the sector and thus comparison with wage inflation is not one-to-one, but the effect is still negative for nearly all players in the sector. As a rule of thumb, customer prices are higher in the private sector while contracts in the public sector are conventionally long and thus offer continuity and predictability which enables better management of billable utilization.

IT service market 6/8

In the short- and medium-term, wider use of junior resources would solve the lack of experts, alleviate wage inflation, and increase efficiency. Wider use of nearshore working would also solve the lack of experts in the short term and could curb wage inflation in the companies. In the medium and long term also those who can generate added value for customers and thus raise customer prices will be winners.

Features we expect from future market winners

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 battle will also be outside pure talent competition. In our view, the sector's success factors change and the winners in the next five years will be:

Companies capable of continuous renewal. The IT service market is sort of in a constant transformation. Reacting to these changes and recognizing them in advance is crucial for one's success. In an accelerating technological change, experts' ability to change also becomes key. Failure in this renewal exercise would directly affect current customer relationships, acquisition of new customers, relative competitive position, and thus long-term value creation potential. We believe that sustainable competitiveness of the IT service market must be built on constant ability to change.

We believe that companies that **are better able to combine junior resources** will grow more strongly and profitably. A god example of this is the Danish IT service company Netcompany. Wider use of junior resources in Finland would to some extent also require a change in buyers (away from the CV model to buying solutions).

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 that 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 can build a dynamic organization model that has the agility to react to a rapidly developing market. Many companies in the sector suffer from inefficient, inflexible, hierarchal, and silo-like organization structures, which makes renewal difficult when the market changes.

Data and analytics are becoming an increasingly critical part of the delivery and an ability to generate added value for the customer and competitive advantage for the supplier. The role of the service area is already important but becoming even more important and also enables wider and more efficient use of AI and machine learning.

Sources of competitive advantage in market

- Ability to renew
- Ability to react
- Life cycle offering
- Hot expert areas:
    - Transformation ability
    - Data utilization
    - Cyber security
- Agility and speed
- Experts' abilities (CV)

Added value in the market

- Digitalization and digital transformation
- Business approach
- Developing new business
- Data utilization

Source: Inderes

IT service market 7/8

Acquisitions and consolidation continue in the sector

Consolidation of the IT service sector was active throughout the last decade and has continued as surprisingly lively despite the hot market. However, we believe many companies in the sector would have preferred to continue more active inorganic growth as well and put strong balance sheets into productive work.

In the big picture, most companies in the sector have a high interest in M&A transactions. Consolidation is driven by the desire to expand the expertise portfolio, geographical expansion and increase supply capacity. We believe, however, that most companies in the sector do not have a critical need for acquisitions, and the need is driven by other issues, like strategic objectives. Growth alone is a relatively 'poor' reason for acquisitions and, in our view, the greatest benefit will come through the expansion of the expertise portfolio, which will strengthen competitiveness and generate revenue synergies. For an acquisition to be successful it is important that strategies and cultures are compatible.

Most companies in the sector have strong balance sheets and virtually all have healthy profitable businesses, which consistently generate good cash flow and further strengthen the balance sheet. Of course, it is possible to use own shares and many companies have also utilized this option. However, the valuation level of several companies is currently relatively low and the use of own shares does not offer the same opportunities for creating shareholder value.

In our view, using leverage in corporate acquisitions remains a good option with a reasonable interest rate level, given the good growth environment. A moderate leverage would also improve equity efficiency.

Capital investors are also still active and building IT expert houses. A couple of years ago Triton acquired HiQ that was listed in Sweden In addition, several capital investors have continued consolidating smaller IT service companies.

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, and the KnowIT and Cybercom mergers. An interesting scenario could be to combine two players in the mid-market to better challenge large generalists like the merger of Bilot and Vincit. In our view a merger should have clear revenue synergies and factors that strengthen competitive advantages. We believe there are unlisted players on the Finnish market whose expert focus, geographical presence and customer portfolio would fit in well with listed players. 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.

Clear expert areas that in recent years have been acquired to strengthen the offering include consulting, transformation management, data and analytics, and automation expertise utilizing robotics. Arrangements have naturally also been made for delivery capacity.

One year ago we examined IT service companies and their interest in M&A transactions, need for transactions, opportunities offered by the balance sheet and the company's attractiveness as an acquisition target. The estimates below are our views and the full comment can be read here (in Finnish). We have added Witted and Digital Workforce to the list this spring.

	Digia	Gofore	Innofactor	Loihde	Netum	Siili	Solteq	Tietoevry	Vincit	Digital Workforce	Witted
Interest in transactions	4	4	3	4	4	4	3	4	4	4	4
Need for transactions	2	3	2	2	2	3	2	1	2	4	2
Balance sheet enables acquisitions	3	5	2	5	2	3	2	3	4	5	4
Interesting acquisition target	2	3	3	2	3	2	4	1	3	4	2

1=lowest, 5=highest.

Source: Inderes' estimates

IT service market 8/8

Comments based on latest earnings periods

Company-specific Q3 figures for the IT services sector are seen in the table on the right.

Key findings from the sector in Q1-Q3 are:

- Organic growth was strong in H1 (median 9%) and strengthened in Q3 (to 18%). Many companies in the industry have been remarkably successful in recruiting. Experts clearly come from outside listed companies. Many have also recruited younger talent to address talent shortages and wage inflation.
- Profitability was good in Q1. There were clear company-specific profitability challenges in Q3, which, however, should be mainly short-lived. Q3 showed a slight improvement in profitability overall.
- Attrition has decreased this year from last year's high levels. To a large extent, attrition is still above the normal 10%, but there is also clearly lower attrition in the sector (Gofore and Netum).
- A summary of the entire IT service sector for Q1 can be read here and for Q2 here.

Short-term outlook for the sector

Company-specific 2022 estimates for the IT services sector are seen in the table on the right.

Key findings on the short-term outlook:

- We expect customer demand to remain quite good overall in the short term, but the geopolitical situation and economic uncertainty have also increased the uncertainty in the IT services sector, especially among private sector customers.
- The expert market is still a key bottleneck for many companies, but the best recruiters in the sector have been successful and the expert shortage has not been a major constraint for them.
- Profitability is mainly depressed by company-specific internal challenges in the sector.
- However, attrition has partly decreased in the sector and we expect it to decrease more extensively in H2. Economic uncertainty typically limits expert attrition.
- Declining attrition is likely to dampen strongest wage inflation. Thus, we also expect wage inflation to moderate somewhat in the short term at sector level. There are, however, differences between companies.
- There have been indications of price increases in customer purchases, but the sample remains small and it is still too early to take a broader sector approach.
- Over the past few years, the public sector has become a very attractive market due to healthy, predictable and growing overall demand.
- Many have also recruited younger talent to address talent shortages and wage inflation.
- Different salary models are a strength when recruiting the more experienced end of the spectrum, because professionals value different things.
- In practice, all players utilize subcontracting to facilitate expert availability.

Table of actual figures

	Q3'22		
Q3'22	Growth, %	Organic growth, %	EBIT % adj.
Digia	15%	10%	9%
Digital Workforce	21%	18%	-14%
Gofore	47%	32%	12%
Innofactor	22%	13%	6%
Loihde	21%	8%	3%
Netum*	48%	23%	11%
Siili	20%	20%	9%
Solteq	-4%	-8%	-4%
Tietoevry	7%	8%	14%
Vincit	69%	20%	9%
Witted	55%	45%	-3%
Average	29%	17%	5%
Median	21%	18%	9%

Source: Companies and Inderes. *H1 figures.

Table of 2022 estimates

	2022e (after Q3 report)		
	Growth, %	Organic growth, %	EBIT % adj.
Digia	11%	7%	10%
Digital Workforce	14%	12%	-8%
Gofore	40%	28%	14%
Innofactor	8%	5%	7%
Loihde	18%	6%	3%
Netum*	41%	24%	13%
Siili	19%	15%	11%
Solteq	1%	-4%	3%
Tietoevry	4%	6%	13%
Vincit	37%	10%	7%
Witted	81%	62%	1%
Average	25%	16%	7%
Median	18%	10%	7%

Source: Inderes, *H1

Sector acquisitions in the Nordic countries

Acquisitions in the IT service sector in Nordic countries

Date	Buyer	Target	Revenue MEUR	EBITDA MEUR	EBITDA %	Personnel	EV MEUR	EV/Sales	EV/EBITDA
11/22	Solteq	S2B Energia Oy				10			
11/22	Loihde	Onrego	7.1	0.5	7%	30	4.3	0.6x	~9x
11/22	Gofore	eMundo	~8	0.8	9%	96	8.0	~1x	~8x
10/22	Digia	Avalon	2.4	0.4	15%	24			
10/22	Siili	Haallas	5.8	0.9	~15 %	>50	3.75-9.0	0.6x-1.6x	4x-10x
09/22	Witted	Nexec Oy	12.8	0.7	5.8%	80	8.3-12	0.7x-0.9x	11x-16x
06/22	Digia	Productivity Leap Oy	5.5	1.2	22%	35			
06/22	Innofactor	Invenco Oy	6.3	0.4		50	3-7	0.5x-1.1x	8x-19x
06/22	KnowIT	Marketing Clinic Oy	10.5			60	8.5-10	1.0x	
05/22	Pinja	Oiwa	2.1			25			
04/22	Digia	MOST Digital	3.0	0.0	0%	34			
01/22	Gofore	Devecto	10.7	2.0	19%	130	21-26	2.0x-2.4x	10x-13x
01/22	Solteq	Enerity Solutions Oy	2.2	0.3	~15 %	>20	4.5	2x	15x
11/21	Norvestor	Pinja	40.0			450			
11/21	HiQ	Lamia	8.3	2.7	33%	90			
10/21	NetCompany	Intrasoft International S.A.	197.0	18.0	9%	2,800	235	1.2x	13.1x
10/21	Netum	Cerion Solutions Oy	3.6	0.5		38	6-7.1	~1.8x	9x
10/21	Bilot	Motley	4.1	0.2		40	5.1	1.2x	26x
09/21	KnowIT	Capacent (management consulting)				50			
08/21	HiQ	Advicon				25			
08/21	Advania	Visolit				1,200			
05/21	eCraft (Fellowind)	Project-IT	12.0			30			
05/21	Eficode	Beecom (SUI)	10.0	1.5	15%	58	10	1.0x	6.7x
05/21	Loihde (former Viria)	Talent Base Oy	7.4	1.1	15%	58	10	1.4x	10x
05/21	HiQ	Scandio (GER)				100			
05/21	KnowIT	Cybercom				1,200			13x
04/21	Vincit	Bonsky Digital	2.7	0.2	7%	30	2.7-3.0	1.0x-1.1x	13x-15x
03/21	TSS	Innofactor's Prime business	>2			15			
02/21	Aucerna	TietoEVRY's oil and gas business	~50			430	155	3.2x	
02/21	Solteq	Partiture Oy	2.4	1.0	40%	16		1x	2x-3x
02/21	Gofore	CCEA and Celkee Oy	5.6	1.2	21%	50		1.1x	5.1x
12/20	IBM	Nordcloud	80.0			490			
12/20	Digia	Climber (SE, FI, DK, NED)	13.8	0.7	5%	77	8-14	0.6x-1.0x	12x-20x
12/20	Siili	Supercharge (Hungary)	9.0	2.1	23%	115	17	~1.8x	~8x
08/20	Triton	Hiq	~180	~25	14%	1,500	~340	1.9x	13.6x
08/20	Bilot	CastorIT	7.3	0.9	12%	60	8.8	1.2x	10x
08/20	Gofore	Qentinel	12.0	1.7	14%	100	8.9-10.9	~0.9x	~6.4x
08/20	Pinja (Protacon)	PiiMega							
11/19	Solita	Ferrologic	13.1			100			
11/19	Fellowmind	eCraft and Orango							
06/19	Tieto	Evry	1,290.0	180	14%	9,400		1.4x	9x
06/19	Digia	Accountor Enterprise Solutions	12.7	0.8		114	9.0	0.7x	6x
05/19	Eficode	Praqma (SE, NO, DK)	5.5			46			
03/19	Nixu	Ezenta (DK)	8.8					0.7x-0.9x	
03/19	Nixu	Vesper Group (SE)	1.6					1.0	
03/19	CGI (bid)	Acando (SE and 2018 actual figures)	280.0	28	10%	2,100	410	1.5x	14.6x
02/19	Digia	Starcut	~1.5		~5 %	19			
02/19	Gofore	Silver Planet	7.2	1.8	0.3	40	10.8	1.5x	6.0x
01/19	eCraft	Evry (Fi - Dynamics operations)				40			
01/19	Vincit	LeanCraft	3.0	>1	>30%		5.5	1.8x	5.5x

Competitive landscape 1/5

Competitors on three levels

Following the fragmented structure of the Finnish IT service market the competitive landscape is also fragmented. At the top level we feel the competitive field can be divided into three layers.

The first layer is international IT generalists whom according to different market sources hold a market share of around 50%. Such global giants include, e.g., Tietoevry, CGI, Fujitsu, Accenture and CapGemini. The second layer is suppliers with revenue of around EUR 20-150 million and their combined market share is estimated to be around 30%. The third layer and thus the tail-end of the market includes smaller solution houses that employ less than 200 people.

Siili's competitors

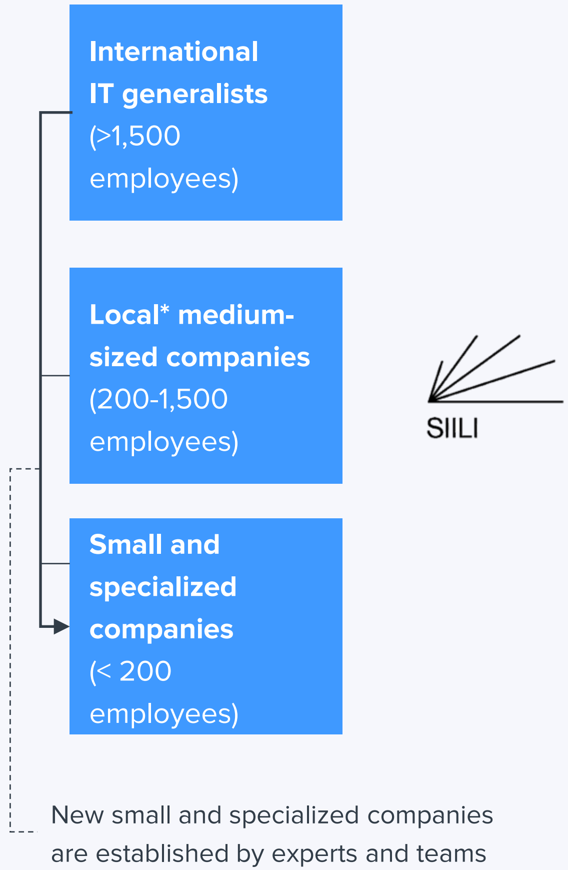
Siili's competitors are large, often international IT generalists and smaller software developers. Examples of generalists are Tietoevry, CGI, Capgemini and Accenture. Among smaller software developers, Reaktor, Idea (Capgemini), Gofore, Futurice, Vincit and Solita can be mentioned as competitors. It 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.

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 against IT expert hubs like Ework Group and Witted, as well as against other IT service companies' subcontractor networks. Crucial in this area is the ability to attract talent and pair them with customer needs. However, competition has tightened in recent years.
- 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 Tietoevry), as well as specialized players aiming for the market (like Nordcloud), and several IT service companies (like Gofore).

Dynamics of the competitive landscape



*There are also international or internationalizing companies among medium-sized companies like Siili

Source: Inderes

Competitive landscape 2/5

Various ways to combat the scale of big players

We feel the clearest strengths of large IT generalists are extensive resources and offerings, which are often strengthened with cost-efficient offshore production. The customer and industry portfolios of these players are typically extensive. Customer and industry understanding is also often deeper than for smaller players. Strong background system expertise lies at the core of IT generalists genetic ancestry.

In practice this means that the solutions of these companies are both very business critical and established from the customer's viewpoint. In addition, these background system deliveries are also technically very challenging and high-risk projects, which raises the threshold of market entry. The key sources of competitive advantages of IT generalists can in our opinion be summarized as large resources, the costs the customer faces if changing suppliers, and high thresholds to enter the market.

Next to agility, small companies usually need some expert spearhead to be competitive against large generalists. Smaller companies also break into customers through some other buyer than IT management by selling digitalization solutions, for example, directly to the business. Thus, smaller companies do not necessarily ever face the customer’s established system supplier in competition. Large generalists and small suppliers often operate in slightly different areas. In recent years, the biggest players in the sector have, however, started strengthening their abilities in the development of new digital services, which has made the competition tighter (e.g. more overlapping).

Because the revenue model in the industry is capital light and personnel intensive the thresholds to enter the industry are also low in general. Many new payers on the IT service market have been born when experts that have left established IT generalists have founded their own companies. We believe the biggest weakness of smaller players is that they often get stuck in the value chain and must serve end customers only as a part of the value chain. Therefore, small companies are not necessarily able to offer ambitious experts interesting career paths which also makes it more difficult to grow the business and improve the company’s position in the value chain. In the competition for experts the key assets of small companies are usually cultural.

Competitive advantages are constantly being built

Despite the good growth outlook in the industry there is a lot of competition as there are several suppliers on the market, and, as stated before, the thresholds to enter the market are low. We also believe that the preconditions to stand out merely with technical skills and individual point solutions are small. In the long term, we believe competitive advantage must be built based on more extensive skills that aim at strategic partnerships. This in turn requires that the company’s operations offer continued dynamism, flexibility, and renewal ability. To be successful in the long term, we believe companies must be able to read the development of both technologies and customer needs and react to these changes by building their own capabilities.

Siili’s competitive factors

Strengthening factors

- 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
- Growing nearshore resources

Weakening factors

- 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
- Tight expert market burdens growth

Source: Inderes

Competitive landscape 3/5

Considering this, we believe that building truly sustainable competitive advantages is structurally hard. We do not, however, consider this to be a barrier for long-term value creation.

Growth and profitability of the peer group

The figure on the following page examines the growth and profitability of listed and unlisted Finnish and other Nordic IT service companies as does the table on page 46. The comparison also includes some US players that operate globally and play an important role in the European market, as well as Kainos from Great Britain.

The annual growth of the peer group has been around 20% on average in 2017-2021, **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. Siili has also accelerated its growth with several acquisitions. Strong organic growers have been, e.g., Eficode, Witted, Sulava, Siili, Vincit, Futurice, Netum Gofore, Reaktor, Netcompany, and in recent years also Digia. 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, however, already grown relatively into a larger size class and maintaining the growth rate is becoming more challenging, which was visible as slowing organic growth in 2019-2021. A company that stands our clearly is the Danish Netcompany that despite its over 3,500 experts has been able to grow organically in the service business by ~20% p.a. and generate a nearly 30% EBITDA margin.

In terms of profitability, the average for the peer group is 12% measured by EBITDA % at an annual level in 2017-2021 (2016-2020 11.5%). On average, the profitability of the companies is on a healthy level. The IFRS-16 amendment raised the EBITDA margins of companies using IFRS accounting by some 1 to 3 percentage points starting from 2019 (more moderate effect when examining averages). This weakens 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. Among Finnish companies Gofore, Solita, Sofigate, Netum and Reaktor are among the stars, as well as Netcompany from Denmark, Kainas from Great Britain, Enea from Sweden and Globant, Endava and Epam from the United States.

Growth drivers

Long-term

- Digitalization will accelerate and grow the market
- IT will become more of a key area of companies' business and strategy
- The definition of the IT service market becomes broader
- Internationalization and increasing nearshore
- M&A

Short-term

- Increasing customer prices
- Recruitment - employee image, low attrition
- Improving efficiency through billable utilization and/or process efficiency
- Increasing subcontracting
- M&A

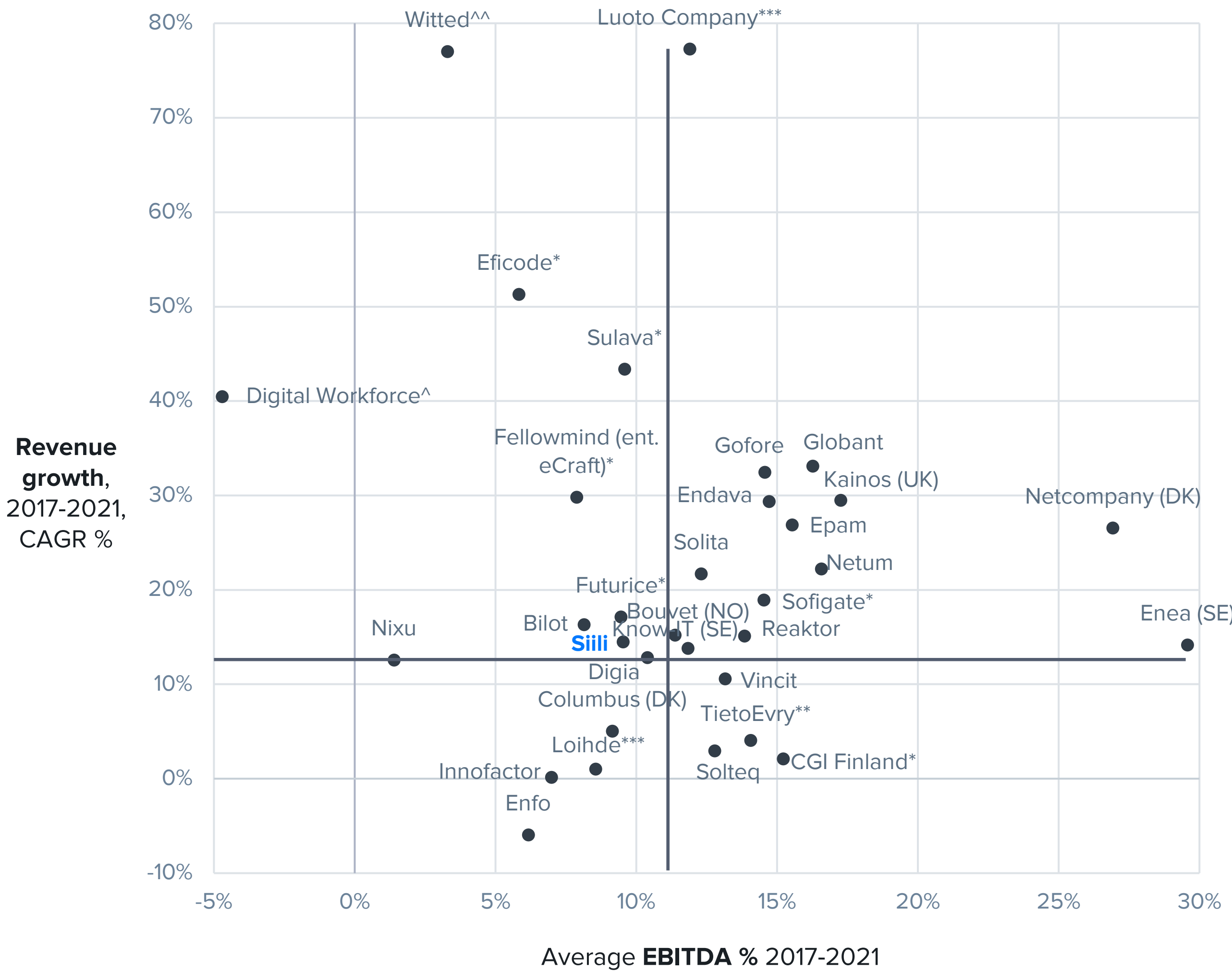
Profitability drivers

Short-term

- Billable utilization
- Attrition management
- Controlling wage inflation
- Improving efficiency
- New operating methods caused by COVID (e.g. telecommuting) and thus permanently lowered share of fixed costs and probable drop in travel expenses

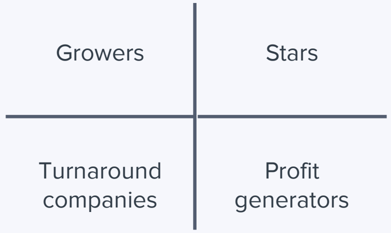
Competitive landscape 4/5

Competitors' financial development 5 years



Source: Inderes, companies
*2016-2020
**Contains independent figures of Tieto and Evry first for 2017-2020
*** 2018-2021
^EBITDA % -10.7% and ^^growth 102%
Figures include the IFRS 16 amendment starting from 2019

Profile of competitive field



Stars

- Forerunners with a history of profitable growth
- Mainly small and agile players that have positioned themselves and invested in growing areas of the IT service market
- The organization structures of stars are light, and they are highly business oriented

Growers

- Companies that are growing but whose investments depress profitability
- Growth has often been accelerated with acquisitions

Profit generators

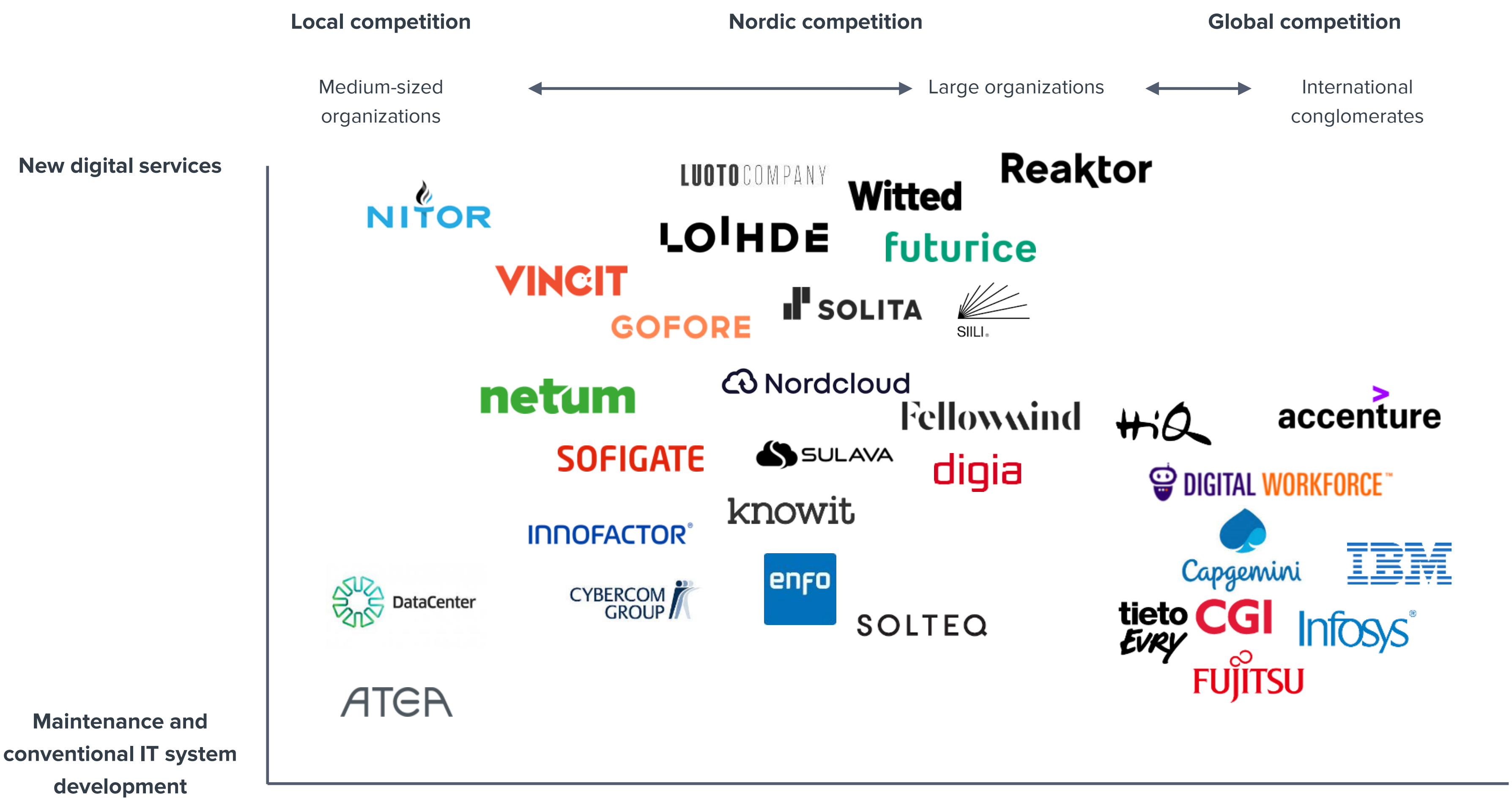
- Companies whose customers have high costs of changing supplier, for example due to tailored software solutions
- Profitability partially optimized at the expense of growth

Turnaround companies

- Mainly conventional IT companies that are in transition or have not been fully capable to adjust to the IT market revolution

Competitive landscape 5/5

Finland’s market structure based on customer size and service area-specific positioning



Source: Companies, Inderes

Strategy and financial objectives 1/4

Digital experience as spearhead

In 2018-2020, Siili created a base for the company's next growth stage. In the operating model released at the end of 2019, the company was divided into the core business ('Core') and independent businesses ('Portfolio'). In 2020, Siili specified its strategy and the company will focus more on developing the digital experience and accelerating its internationalization. Historically, international growth focused on Siili Auto, but in 2020 it was sought also in other businesses. The strategy was implemented and international growth was later boosted with the successful Supercharge acquisition. Now the company's businesses work more closely together and merge more into a single entity.

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 competition has also tightened both in designing and developing digital services after the strong growth boom of several years.

Siili's strategic focus areas are:

1. Siili's growth focus is on designing and developing comprehensive digital services and as a new area also on the public sector
2. In the businesses of subsidiaries, competitive advantage is sought through specialized units
3. Accelerating internationalization

Siili offers digital service development that covers the entire life cycle. The aim is to become a key strategic level partner for the customer organizations that can manage extensive and complex solutions. The targets are in line with the trends of the IT market. In the future, Siili is also more focused on expansion in the public sector. In recent years, the public sector has become an increasingly attractive customer segment due to large long-term contracts that increase business predictability. In October, the company strengthened its public sector expertise with the Haallas acquisition.

In terms of subsidiaries, Siili continues to try to grow new businesses itself and acquire specialized companies. The businesses have a clear sharp focus, productized offerings and international growth potential. So far, the successes of the portfolio strategy have been Siili Auto, VALA Group and Robocorp, that progressed to a successful exit. Robocorp still continues as an important cooperation partner for Siili. Siili Auto has recovered after the challenges of COVID and the market potential is also interesting in the long term.

In terms of the third focus area, internationalization, the company still seems very growth driven both in terms of acquisitions and organic growth. The company has a unit in Poland that reflects the strategy and operating model of the Finnish business. In addition, Supercharge has implementation in Hungary and several sales offices internationally. The aim is to buy several new digital service development companies, which we expect to happen mainly in Europe.

Strategic focus:

Siili's growth focus is on designing and developing comprehensive digital services and on increasing public sector business

In the businesses of subsidiaries, competitive advantage is sought through specialized units

Accelerating internationalization

Siili's growth drivers:

Organic growth

- Recruitment
- Billable utilization
- Customer prices

M&A

- International expansion
- Expanding the expertise portfolio
- Depending on the structuring, main ownership or full acquisition

Strategy and financial objectives 2/4

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. The revenue potential from success is naturally what is sought for the high investment risk. Siili's Supercharge acquisition is a good example of successful geographic expansion through acquisition, which also brought new expertise to the company.

More ambitious but realistic financial targets for 2023-2026

Siili targets an annual revenue growth of 20% in 2023-2026, of which organic growth accounts for about half. The company aims for growth 1) in Finland among current customers and more strongly in the public sector, 2) in international customers through Siili Auto and Supercharge, and 3) through acquisitions. During the previous strategy period, the company did not meet the annual organic growth target of 10%, but this year it is well on the targeted organic growth path. In the next few years, we expect organic growth to be slightly below the targets and as a whole the 20% growth target requires new acquisitions.

In terms of profitability, Siili's EBITA % target is 12% of revenue, which is above the average level of the sector (sector 2021: 10%). Previously, the company's target was 10% EBITA %. The company's profitability has improved for over 3 years in a row and increased to 12% in Q1, and we expect 11% EBITA % in 2022. We see potential for profitability in line with the strategy and sustainable higher profitability (~12%, as in Q1'22), but we expect more proof from the company that the turnaround in Finnish operations continues and that strong performance in other businesses continues before raising our profitability estimates. We believe international operations will drive profitability and Finnish operations still limits achieving the strategy target.

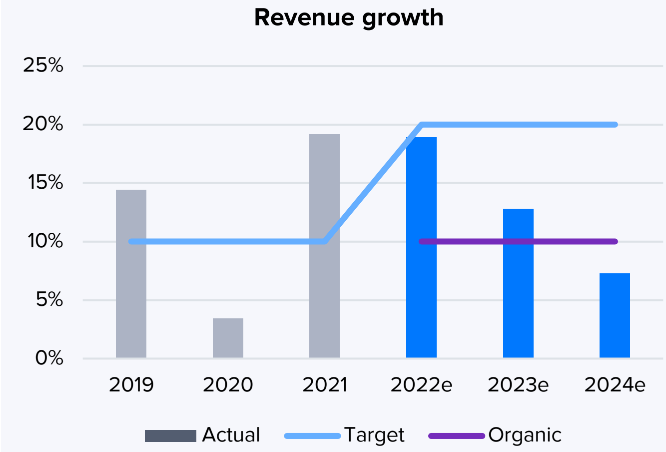
The company's dividend policy is to distribute 30 to 70% of earnings as dividends. We expect the company to invest in acquisitions and to be at the lower end of the dividend range in the next few years.

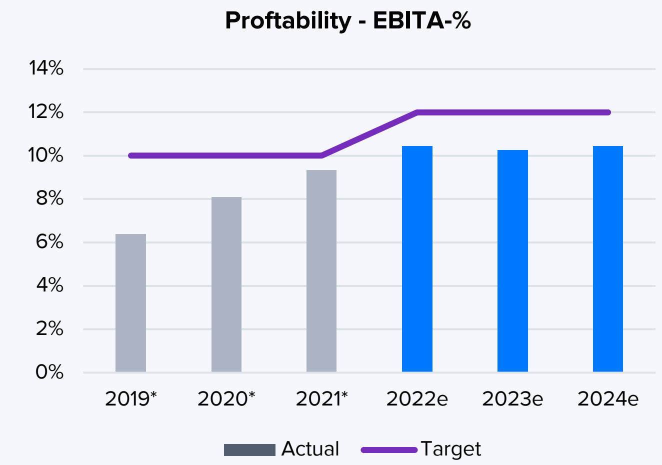
Internationalization drives earnings growth

Until 2020, Siili's international operations practically consisted only of Siili Auto's, which suffered greatly from the uncertainty caused by COVID. Siili Auto is a very autonomous unit and the business is growing fast and supported by cash flow. 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 relatively 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.

Financial objectives





Strategy and financial objectives 3/4

The company accelerated the growth of international operations by opening a new business in Poland at the end of 2020. The company sees the Polish expert market as highly interesting and, although the salary levels have increased there, it is still an attractive nearshore market from where to make deliveries to higher customer price markets. In addition, with the Supercharge acquisition Hungary opened with low cost level delivery capacity and sales offices in markets with attractive price points like Great Britain.

We expect the company's international operations to drive earnings growth in the coming years. We believe 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 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 12 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. This structuring has proven to work in the VALA Group and Supercharge acquisitions. Similar models have also worked for other players in the sector, as the key employees of the target company have stronger incentives to develop the company further. However, in the latest Haallas acquisition the company bought the entire share capital.

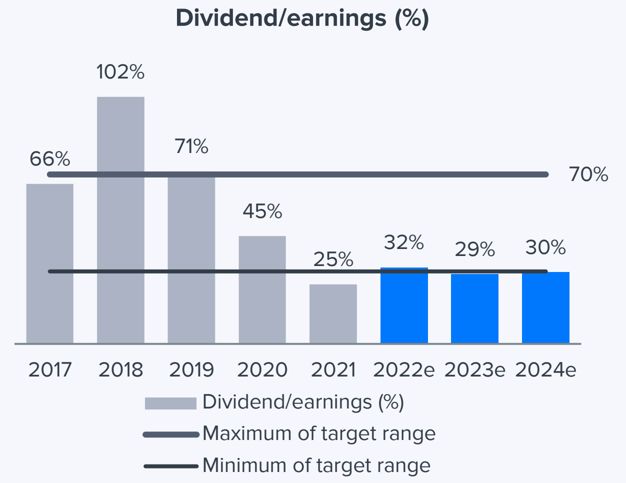
Throughout its history, Siili has been disciplined in valuing its acquisitions. The purchase prices examined with EBITDA ratios have been relatively moderate at 3x to 8x.

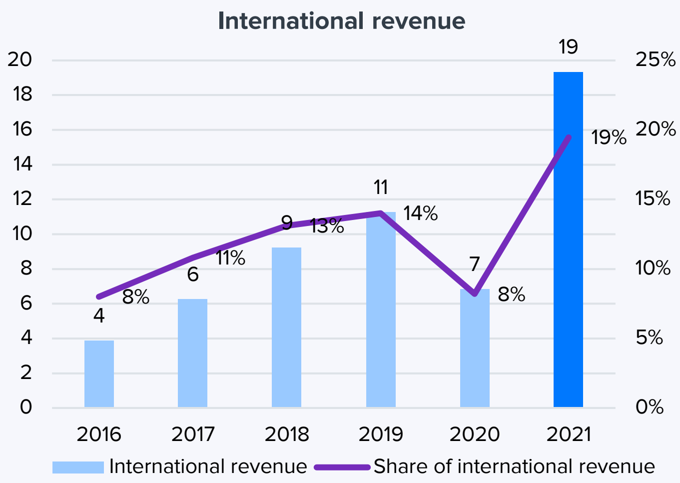
Based on the strategic message and financial targets, Siili is clearly active in acquisitions. The company has recruited a M&A transaction officer and has started to map potential acquisition targets. We expect that new purchases can be made in Finland or abroad. Internationally the company seeks well-managed companies with similar strategies as Siili has in Finland or additional delivery capacity in Poland. The company aims for 1-2 acquisitions per year to avoid overlarge purchases and to have better risk management.

According to the company, the key acquisition criteria are cultural compatibility, healthy business and the valuation level. We believe it is very difficult to succeed in acquisitions without cultural compatibility.

Siili's model enables developing 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.

Financial objectives





Strategy and financial objectives 4/4

October acquisition strengthened public sector expertise

Haallas is a company specializing in design, technology and data that operates in Joensuu, Oulu, Lappeenranta and Helsinki. Haallas has a strong foothold in the digital transformation of the public sector. The company employs more than 50 people. Haallas separated from Valamis Group, where it was incorporated this year.

The transaction is well structured and consists of a fixed purchase price of EUR 3.75 million and a possible additional purchase price, the amount of which will be determined based on the 2022 financial statements. The additional purchase price will at most be EUR 5.25 million and shall be paid in the financial year 2023. With the price paid now, the valuation of the transaction is cheap but the additional purchase price is large and will probably be paid at least in part. If the additional purchase price is paid in full and the business has not developed positively in 2022, the valuation of the deal is tight. Koko kommentti luettavissa [tästä].

More leeway for acquisitions after the share issue, even after the Haallas transaction

The company collected EUR 15 million in gross assets in a directed issue last summer to boost inorganic growth. However, we believe the issue was carried out at a low valuation level and thus creating shareholder value is a bit more challenging. The transaction could have been made in connection with a possible acquisition, which would also have potentially committed the owners of the acquisition target. In our view, the company should preferably find a transaction with an EV/EBIT of under 9x to make the purchase more likely to generate shareholder value for existing owners. The company can still also use own shares as a means of payment when an acquisition target is found.

We believe Siili still has leeway for new acquisitions after the Haallas acquisition.

Possible redemption of minority owners

Siili now owns about 81% of VALA Group, as the company acquired 21% more in 2021. Minority shareholders who continue to work for the company have the right to dispose of their holdings annually after 2022. If certain conditions are met, Siili also has a redemption right to the shares. In our view the risks of redeeming the remaining shares may well outweigh the benefits achieved if the business is still dependent on minority shareholders.

Siili still owns 55% of Supercharge. We find it very possible that the company will redeem more holdings like in VALA Group but not the entire remaining holding, This way, Supercharge founders and current minority owners would continue to have stronger incentives to develop the company. The shares can be redeemed gradually during 2024–2026. The purchase price is determined by Supercharge's profitability in 2023-2025. Based on management comments, the valuation multiples of the redemption are 'standard industry level', which we believe is EV/EBIT 9-10x.

Siili's M&A transactions

Comvise Oy	2012	2013
Revenue, MEUR	1.7	1.8
EBITDA, MEUR	0.4	0.6
EBITDA %	24%	33%
EV/S	1.2	1.1
EV/EBITDA	4.9	3.3

Codebakers Oy	2013	2014
Revenue, MEUR	3.3	3.3
EBITDA, MEUR	0.0	0.3
EBITDA %	-1%	9%
EV/S	0.5	0.5
EV/EBITDA	neg.	5.6

Avaus Consulting Oy	2013	2014
Revenue, MEUR	7.4	8.9
EBITDA, MEUR	1.4	1.8
EBITDA %	19%	20%
EV/S	1.2	1.0
EV/EBITDA	6.3	4.8

Strombit		2016
Revenue, MEUR		0.5
EBITDA, MEUR		0.1
EBITDA %		12%

Omenia Oy	2016	2017e
Revenue, MEUR	1.9	3.0
EBITDA, MEUR	0.3	0.5
EBITDA %	16%	17%
EV/S max.	1.6	1.0
EV/EBITDA max.	10.0	6.0

VALA Group	2017	2018
Revenue, MEUR	5.8	7.2
EBIT	1.4	1.5
EBIT-%	24%	21%
EV/S max.	1.7	
EV/EBIT max.	7.3	

Supercharge	2019	2020e
Revenue, MEUR	7.5	9.4
EBITDA, MEUR	1.8	2.1
EBITDA %	24%	22%
EV/S max.	2.2	1.8
EV/EBITDA max.	9.3	8.1

Haallas	2021
Revenue, MEUR	5.8
EBITDA, MEUR	0.9
EBITDA %	16%
EV/S	0.6x-1.6x
EV/EBITDA	4x-10x

Siili's differences to the closest listed peer companies

	GOFORE	VINCIT	SIILI
Profile/approach to the market	Digital change management and implementation	Top expert in software development, strong technology expert. Also ERP expertise through the Bilot merger	Developing the digital experience by combining design, data and software development Independent growth businesses in Portfolio companies
Core service areas	Software development services Digitalization consulting services Quality assurance services	Service design Digital service development ERP expertise Software maintenance	Design Digital service development Software development and maintenance Data and analytics Quality assurance
Customers	Public sector 60% Top 5 customers account for 31% of revenue	Fragmented, several size categorizes Role of public admin is small but growing Does not report distribution	Focuses on large companies The role of public administration is small but growing
Internationalization	The company is looking for growth in particular in Germany, but operations also in Spain and Estonia 9% of revenue	USA 17% of revenue	Central Europe and USA 24% of revenue
Business model	Pure specialist company, sales focus heavily of hourly billing	Mainly hourly billing Role of maintenance agreements growing	Hourly-charged expert work and project deliveries based on hourly invoicing
Long-term growth and profitability targets	>20 % growth, of which about half is organic 15% EBITA %	Will publish targets in Q4	20 % growth, about half is organic 12% EBITA %
2022 objectives	No guidance, but good market visibility with monthly business reviews	Guidance: revenue EUR ~84 million and adjusted EBIT over 6.0%	Siili's guidance indicates revenue and result growth
Regional focus (Finland)	Tampere Helsinki Turku Jyväskylä	Tampere Helsinki Turku Oulu	Helsinki Oulu Tampere Seinäjoki
Personnel Q3'22	1,126	844	994

Source: Inderes

Past development 1/2

Strong growth in 2010-2019

Siili's revenue grew very strongly from EUR 8 million to EUR 99 million in 2010-2021. Average annual growth was thus 26%. The company's organic growth has on average been around 20% annually. Growth has been supported by 11 acquisitions worth some EUR 37 million. At the same time, profitability (EBITDA %) has been stable at 9 to 12% until 2017. The level has been satisfactory considering the sector. 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 2.1 MEUR) of VALA Group acquired in 2018, the EBITA % of Siili's other operations was around 4%, while many peers in the sector reached a level of 10%-15%.

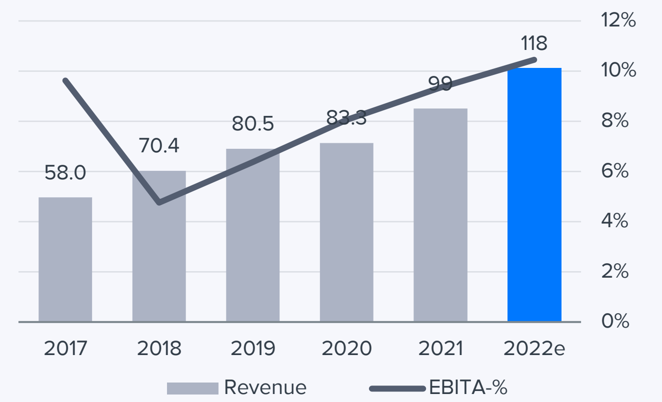
On a path of profitability improvements after a dip

After the profitability dip in 2018, Siili has worked decisively to improve profitability and the Group's EBITA % has risen from 6.8% to 9.3% in 2021. This is partly affected by VALA Group and Supercharge acquired in 2018 and 2021, which are clearly more profitable than the rest of the Group and have grown rapidly. If Supercharge is adjusted from 2021 figures, Siili would have generated an 8.3% EBITA margin, which is approximately the same as in 2020. Given the problems of Siili Auto in 2020 and the assumed strong development of VALA, it would appear that there is still some potential for improvement in Finnish operations.

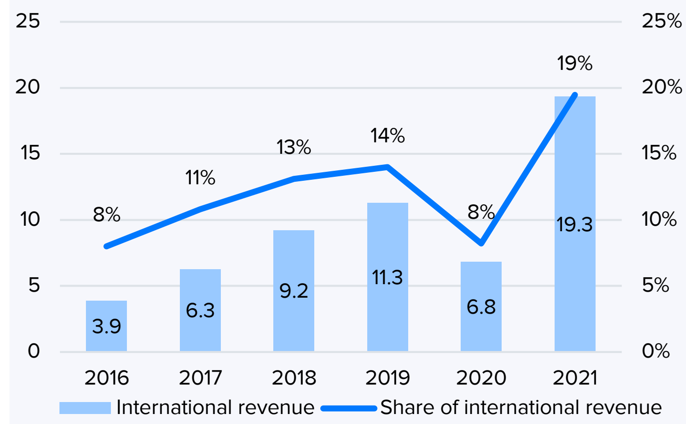
The sudden braking in the automotive industry's value chain caused by COVID clearly hit Siili Auto's business, which probably had a clear effect on group level profitability 2020. In our opinion, after the 2020 braking, the demand situation turned good again in 2021. If fast international revenue grow continues, we believe Siili still has potential to improve profitability from current record levels (H1'22 EBITA%: 11%) and also considering that Finland's profitability seems to still be relatively low.

We believe the cost structure and offering of Finnish core activities in part limits the profitability potential compared to the closest peers. A key reason is the fact that the company's talents focus on more senior resources and on the Helsinki metropolitan area, which affects the cost structure but is not correspondingly reflected in customer prices. A solution would be a stronger transition to solution sales and away from resource supplier sales, which is what the company is aiming for in the long term. In addition, the company has opened several offices outside the Helsinki metropolitan area over the past two years, which over time improves the cost structure and thus the profitability potential.

Revenue and profitability development



International revenue



Source: Inderes

Past development 2/2

Balance sheet is very strong after the issue

Siili's balance sheet is very strong and ready for M&A transactions, a foretaste of which was seen recently when Siili acquired Haallas Finland Oy. At the end of H1'22, the equity ratio was 41% and gearing (excluding contingent consideration for acquisitions and IFRS-16 lease liabilities) was -62%. The company had EUR 37 million in cash assets and EUR 13 million in interest-bearing debt. So the company's net cash was about EUR 24 million, from which we can deduct the estimated EUR 6 million used to acquire Haallas Finland Oy.

In June, Siili carried out a directed share issue to a limited number of domestic and international institutional investors. Siili raised total gross assets of EUR 14.6 million in the share issue. We believe Siili carried out the issue with a low valuation (2022e EV/EBIT under 9x) and we found the issue surprising considering Siili's healthy balance sheet, strong cash flow and the current very low valuation of the share. The issue is preparation for M&A transactions. However, the company has successfully implemented acquisitions in the past, which on the other hand increases confidence in sensible capital allocation.

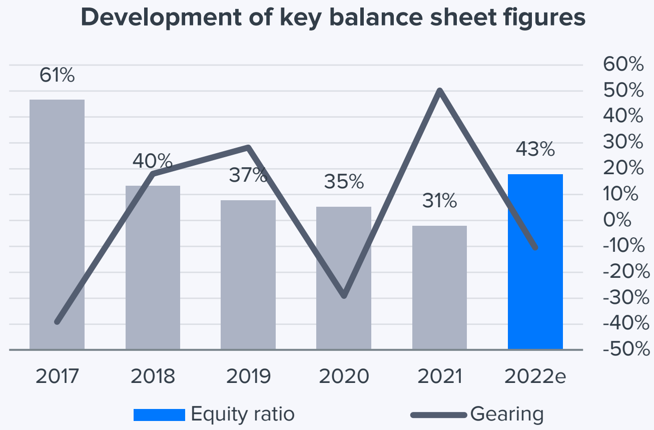
Siili's balance sheet is strong but not quite as liquid as it looks since it is not possible to transfer funds from Hungary except as dividends. As a result, we do not have full visibility of how much money is 'immediately available'. However, we understand that the impact is small. Siili must also be prepared to pay additional purchase prices for VALA and Supercharge, because the sellers also have the option to sell if they so wish, which means Siili must redeem the share.

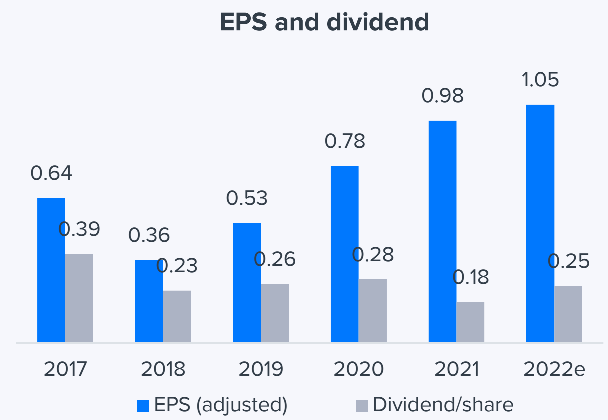
Group figures are somewhat muddled by Supercharge and VALA Group, of which Siili currently owns 55% and 81.4%, and which are fully consolidated into Group figures due to sell and buy options of the contracts.

Siili and Supercharge Holding Zrt have the right to trade for the remaining 45% of the shares in Supercharge gradually in 2024-2026. The price is determined by Supercharge's profitability in 2023-2025. At the time of acquisition, a conditional additional purchase price of EUR 7.6 million was recorded in the balance sheet. In H1'22 the fair value was around EUR 7.1 million, mainly affected by exchange rate fluctuations in Hungary.

In connection with the previous redemption (in 2021) a new contract was signed for the remaining 18.6% in VALA Group whereby minority owners have the right to dispose of their holdings annually after 2022. If certain conditions are met, Siili also has a redemption right to the shares. An additional purchase price debt of EUR 6.1 million was recorded on this. In H1'22, the fair value was around EUR 7.0 million, which indicates that VALA has continued to develop strongly.

Siili has around EUR 5 million in acquisition-related capitalized customer relationships in its balance sheet that generate around EUR 1.3 million annual depreciation that depresses the result. We adjust this depreciation item and other intangible depreciation in our calculation of the adjusted result because they do not have a cash flow effect. There is EUR 28 million in goodwill in the balance sheet, being the largest asset item together with cash assets of the EUR 97 million balance sheet total. It is normal that goodwill is generated when acquiring specialist companies operating with light balance sheets.





Spurce: Inderes

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 billable utilization is 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 factors for profitability are wage costs, customer prices, success in project management (mainly hourly invoicing) and billable utilization, which are also affected by expert attrition. In addition to its own experts, Siili also uses subcontractors (Siili One), which gives flexibility to business, but the margin is typically lower than for own experts.

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.

Siili's minority holdings are fully consolidated in the income statement and balance sheet. The company owns about 81% of VALA Group and 55% of Supercharge.

Good earnings growth driven by international operations in 2022

Siili's guidance is that revenue in 2022 is estimated to be EUR 102–117 million and the adjusted operating profit (EBITA) EUR 10–13 million.

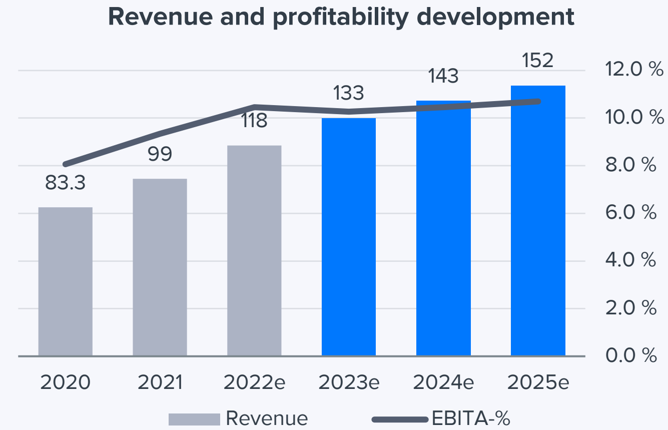
We keep our estimates unchanged. We estimate revenue to grow by 19% to EUR 118 million in 2022, mainly organically. Thus, we expect revenue to slightly exceed the guidance. We believe organic growth will be driven by strong recruitment and higher billable utilization. Geographically, growth is driven by international business, but domestic operations are also growing.

We expect EBITA to rise to EUR 12.3 million or 10.5% of revenue (2021: 9%). The profitability improvement is driven by better billable utilization in Finland and the growth in Supercharge that has better profitability.

In lower result lines we adjust the result for PPA depreciation of acquisitions (some 1.7 MEUR p.a.), whose adjustment we consider justified due to comparability and because they have no cash flow effect.

2023-2024

In Q2, Siili updated its long-term targets (2023-26) and aims for 20% growth, of which organic growth accounts for about half. In terms of profitability, Siili's EBITA % target is 12% of revenue, which is above the average level of the sector (sector 2021: 10%).



Income statement	2021	2022e	2023e	2024e	2025e
Revenue	**99.3**	**118**	**133**	**143**	**152**
EBITDA	12.0	15.5	16.5	18.1	19.4
EBIT excluding non-recurring items	**9.3**	**12.3**	**13.7**	**14.9**	**16.2**
EBIT	7.6	10.7	12.0	13.2	14.5
PTP	6.4	8.4	10.6	12.0	13.5
Net profit	5.1	6.4	8.5	9.6	10.8
EPS (adjusted)	**0.98**	**1.05**	**1.25**	**1.39**	**1.54**
EPS (reported)	**0.73**	**0.84**	**1.04**	**1.18**	**1.33**

Key indicators	2021	2022e	2023e	2024e	2025e
Revenue growth %	19.2%	18.9%	12.8%	7.3%	6.1%
Adjusted EBIT growth %	37.7%	33.0%	10.8%	9.3%	8.4%
EBITDA %	12.1%	13.2%	12.4%	12.7%	12.8%
Adjusted EBIT %	9.3%	10.5%	10.3%	10.5%	10.7%
Net profit %	5.2%	5.4%	6.4%	6.7%	7.1%

Source: Inderes

Estimates 2/2

In 2023-2024, we expect the company to grow 7-9% organically, which is better than the overall level of the IT service sector. The growth rate is also below the company's ambitious over 10% organic growth rate guidance. Sustainable over 10% growth would be an excellent performance in the current market and in Siili's size category. However, it is possible in individual years, as in 2022e.

We expect EBITA profitability to be good 10% in 2023-24. Siili's profitability drivers in the medium and long term are the success of the digital experience strategy, which would push the company higher in the value chain and justify higher customer pricing. In addition in the shorter term, due to COVID, customers' attitude to telecommuting better enables 'nearshore'-type working across borders, which increases flexibility and improves billable utilization. In terms of the cost structure, growth in units outside the Helsinki region and mitigating the senior division enables more cost-efficient resourcing.

Our profitability forecast for Siili reflects the average or a slightly better level than that of the sector. The company also gets strong tailwinds from Supercharge's estimated strong profitability and as its share of revenue increases, it will also start supporting the Group's profitability more strongly. Siili still needs to prove the sustainable efficiency of its new structure and continuous growth of international business before we can justify profitability estimates that reflect its financial targets.

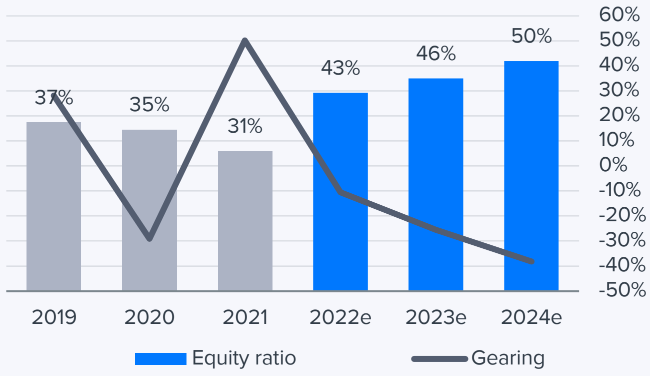
Long term estimates

In the long term, Siili's estimates are highly dependent on how the company's internationalization continues and on possible new acquisitions, which we naturally do not include in the estimates, but it offers an interesting option. In 2025-2029, we estimate that Siili will grow by 4-6% annually. Thus growth in our estimates is slightly better than market growth. Throughout the sector, growth is restricted especially by the availability of talent and profitability by wage inflation. We expect EBITA % to remain at 10% in the long term too. Thus, earnings growth is mainly driven by revenue growth in our estimates in the short and medium term.

After the issue, the balance sheet permits even better for acquisitions

With the share issue, the company's balance sheet strengthened further (close on 15 MEUR). We have also consolidated the Haallas acquisition into our estimates with the estimated EUR 6 million purchase price. Thus, in our estimates the company's net cash stands at EUR 4 million at the end of 2022, which easily enables redemption of the minority shares and new acquisitions. In our estimates, the equity ratio and gearing are 43% and -10% respectively.

Development of key balance sheet figures



EPS and dividend

Source: Inderes

Estimates

Income statement	2019	2020	H1'21	H2'21	2021	H1'22	H2'22e	2022e	2023e	2024e	2025e
Revenue	**80.5**	**83.3**	**48.7**	**50.5**	**99.3**	**58.9**	**59.2**	**118**	**133**	**143**	**152**
EBITDA	**7.1**	**9.1**	**5.6**	**6.5**	**12.0**	**8.0**	**7.5**	**15.5**	**16.5**	**18.1**	**19.4**
Depreciation	-3.4	-3.8	-2.2	-2.3	-4.5	-2.3	-2.5	-4.8	-4.5	-4.9	-4.9
EBIT (excl. NRI)	**5.2**	**6.7**	**4.3**	**5.0**	**9.3**	**6.4**	**5.9**	**12.3**	**13.7**	**14.9**	**16.2**
EBIT	**3.7**	**5.3**	**3.4**	**4.2**	**7.6**	**5.7**	**5.0**	**10.7**	**12.0**	**13.2**	**14.5**
Net financial items	-0.4	1.0	-0.5	-0.6	-1.1	-1.5	-0.9	-2.4	-1.4	-1.2	-1.0
PTP	**3.3**	**6.3**	**2.7**	**3.7**	**6.4**	**4.2**	**4.1**	**8.4**	**10.6**	**12.0**	**13.5**
Taxes	-0.8	-1.9	-0.7	-0.5	-1.2	-1.1	-0.8	-1.9	-2.1	-2.4	-2.7
Net earnings	**2.6**	**4.4**	**2.0**	**3.1**	**5.1**	**3.1**	**3.3**	**6.4**	**8.5**	**9.6**	**10.8**
EPS (adj.)	**0.53**	**0.78**	**0.41**	**0.56**	**0.98**	**0.50**	**0.54**	**1.05**	**1.25**	**1.39**	**1.54**
EPS (rep.)	**0.36**	**0.63**	**0.29**	**0.45**	**0.73**	**0.41**	**0.43**	**0.84**	**1.04**	**1.18**	**1.33**

Key figures	2019	2020	H1'21	H2'21	2021	H1'22	H2'22e	2022e	2023e	2024e	2025e
Revenue growth-%	14.4 %	3.4 %	10.7 %	28.7 %	19.2 %	20.8 %	17.1 %	18.9 %	12.8 %	7.3 %	6.1 %
Adjusted EBIT growth-%		30.8 %	32.6 %	42.3 %	37.7 %	51.1 %	17.6 %	33.0 %	10.8 %	9.3 %	8.4 %
EBITDA-%	8.8 %	10.9 %	11.4 %	12.8 %	12.1 %	13.6 %	12.7 %	13.2 %	12.4 %	12.7 %	12.8 %
Adjusted EBIT-%	6.4 %	8.1 %	8.8 %	9.9 %	9.3 %	11.0 %	10.0 %	10.5 %	10.3 %	10.5 %	10.7 %
Net earnings-%	3.2 %	5.3 %	4.1 %	6.2 %	5.2 %	5.3 %	5.6 %	5.4 %	6.4 %	6.7 %	7.1 %

Source: Inderes

Investment profile

Earnings growth more strongly driven by revenue and international operations

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. However, the company's investment profile has changed from this era and the company's next growth path is more strongly built outside Finland's borders, different expertise areas and customer segments. The company's profitability has improved for several years and is already slightly better than the sector. Thus, profitability is already at a good level and higher estimates require further evidence of international growth and sustainable profitability considering the uncertain outlook of the general economy.

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

We believe Siili is positioned in growing areas of the IT market and seeks growth in the public sector. We feel, the service portfolio that covers the entire IT life cycle built by Siili is well positioned in market demand. The company has updated its customer message and sharpened its 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. In addition, the company seeks expansion to the attractive public sector, which still requires proof, however.

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 3-5% and several of Siili's expertise areas clearly faster than this (median organic growth of listed companies 5-10% in recent history). Long-term demand fundamentals have strengthened when COVID forced many dormant industries to digitize and strengthen their IT core. However, in the short term, the outlook is uncertain, particularly in the private sector, due to the general economic situation.

Internationalization drives earnings growth. Siili Auto recovered well from COVID and the customer segment still has significant potential. In 2021, the company accelerated international growth with the Supercharge acquisition, which we believe has continued strong and profitable development. Siili's nearshore activities in Poland and in the Hungarian units will continue to enable good growth and profitability potential. In addition, possible new business templates and internationalization are interesting growth opportunities.

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 tie up much capital 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 has improved clearly in recent years, as earnings development and cash flow have been good for a longer time.

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, however. 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. In addition, Siili Auto operates in a cyclical market and the value chain position is relatively weak, raising the risk profile, even though the automotive market itself has good long-term prospects.

With the new CEO Siili's management team is clearly compressed, which increases efficiency. At the same time, however, a lot of Siili experience has left the company, which, after the turn seen in recent years, creates a risk of slight discontinuity.

An investor should bear in mind that minority interests are fully consolidated into the income statement and balance sheet. However, clear visibility of these parameters is poor, which creates some uncertainty about Siili's own performance and effects on the valuation of the share.

Like the IT services sector, Siili's general company-specific risks are success of acquisitions and success in international growth. In the past Siili has not been very successful in integrating the profitability levels of acquired companies. However, in the case of Supercharge and VALA Group acquisitions, this risk has been well managed with the minority structure and the company is not tightly integrated into the core of Siili.

Investment profile

1. **Strong long-term growth fundamentals on Siili's markets**

2. **Siili's core is positioned in growth areas of the IT markets with a sharper strategy**

3. **Clear growth potential in international business**

4. **Growth and value creation through M&A transactions**

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
- Supercharge has a good track record of international profitable growth and the continuation of this creates clear growth potential
- 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
- High attrition in management creates a risk of discontinuity

Source: Inderes

Valuation 1/2

Valuation

Peer group

In our view, Siili should be positioned among Nordic IT service companies. In the competitive field, the company stands out with its subsidiary structure and strongly growing international business. Due to a generally, 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 general we find IT service companies to be an attractive sector to own due to the strong demand fundamentals in the industry in the short and long term. There is still dispersion between the companies' differences due to the different strategies of the companies and the different stages of their implementation. However, the dispersion has narrowed, as companies that were previously in transition (Innofactor and Digia) have succeeded in their transformation.

In the sector, we generally favor adjusted EV/EBIT ratios due to good comparability and strong balance sheets. We have adjusted goodwill and PPA depreciation from EBIT. The comparability of EV/EBITDA ratios between peers is hampered by the mentioned goodwill and PPA depreciation as well as other differences in IFRS and FAS accounting rules, and thus the information value of the ratio may be weak. However, with a hot M&A market, putting strong balance sheets to profitable work has become more challenging. Therefore, we have also included the P/E ratio more strongly in the valuation multiples of the sector next to the EV/EBIT ratio.

For Siili, the minority shares of the VALA Group and Supercharge acquisitions makes the comparability of valuation multiples more difficult. Thus, we mainly look at the adjusted EV/EBIT ratios in Siili, since EV takes minority interest into account.

Siili's adjusted EV/EBIT ratios for 2022-23 are 18% and 26 % below the Finnish peers. We find the relative valuation level very attractive, but in general we regard the sector as undervalued, which somewhat undermines relative comparability.

Valuation multiples

In Siili's estimates we adjust the intangible PPA deprecation of acquisitions (~1.7 MEUR p.a.). We consider the adjustments justified due to comparability and because they have no cash flow effect.

Peer group valuation	EV/EBIT		P/E	
Company	2022e	2023e	2022e	2023e
Digia*	11.3	9.3	11.7	10.9
Digital Workforce*				
Gofore*	15.7	12.2	20.0	16.1
Loihde*	10.3	12.1	42.5	25.4
Innofactor*	9.4	8.1	10.4	9.2
Netum Group*	11.4	9.3	15.3	12.2
Nixu*	32.9	12.2	64.4	16.6
Solteq*	32.3	14.7	31.7	18.2
Tietoevry*	9.5	9.0	10.5	10.2
Vincit*	11.4	7.0	13.4	10.7
Witted Megacorp*	158.9	31.6	667.6	46.3
Bouvet	15.7	14.2	19.3	17.5
Enea	20.6	17.6	14.6	26.4
KnowIT	14.5	13.0	13.7	13.2
Netcompany Group	22.8	19.2	25.5	21.2
Siili Solutions (Inderes)	**9.4**	**7.9**	**14.1**	**11.8**
Median all	**15.1**	**12.2**	**17.3**	**16.3**
Difference % cf. median	***-38%***	***-36%***	***-18%***	***-27%***
Median Finnish	**11.4**	**10.7**	**17.6**	**14.1**
Difference % cf. median	***-18%***	***-26%***	***-20%***	***-16%***

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

Valuation 2/2

With our estimates, Siili's 2022-23 adjusted EV/EBIT ratios are 9 x and 8x. In absolute terms, the multiples are very attractive, especially considering Siili's good growth and profitability trend.

With the net sales based EV/S ratio, Siili is priced at 1.0x and 0.8x ratios for 2022 and 2023. The valuation is in line with the peers, which is explained by the average profitability of Siili's sector.

Components of the expected return 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 10% (from the 2022e level) in coming years driven mainly by revenue but also increased profitability.

With our dividend estimates the dividend yield is 2%. 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 ~30% of the result.

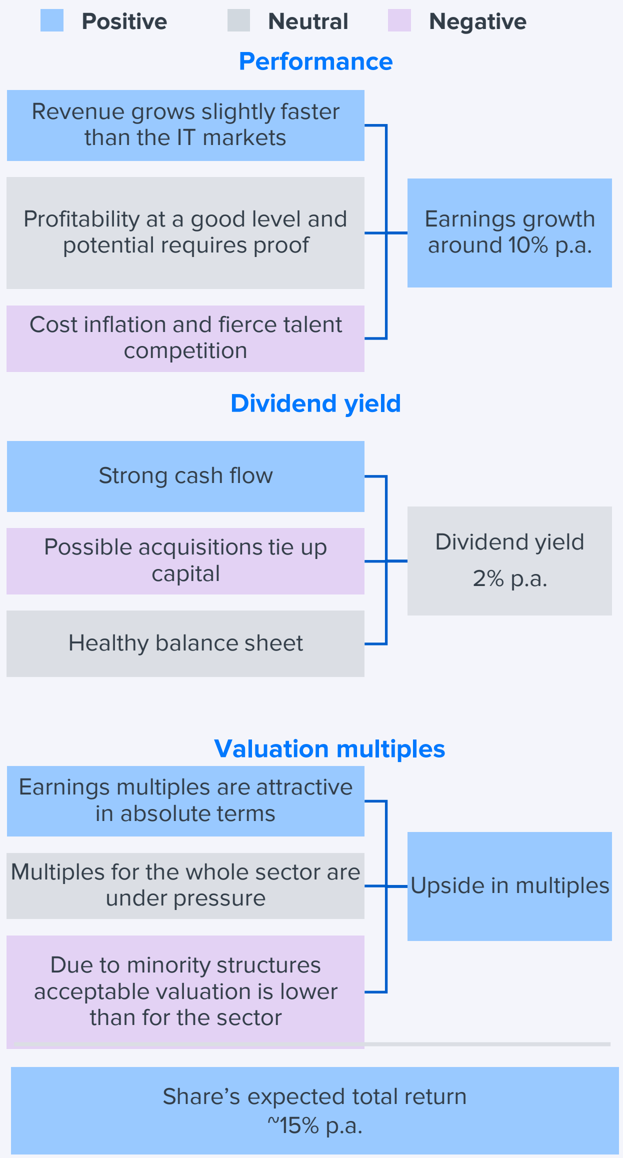
We find the expected return consisting of earnings growth (~10%), dividend yield (~2%) , and the upside in the multiples, attractive (~15%) and above the equity return requirement.

DCF analysis

Our DCF model indicates a value of EUR 18.8 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 and the share of rapidly growing international businesses increases. In the long term, we expect growth to stabilize to the IT market level of 4 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 8.5% in the terminal. Profitability in the estimate is the sector average.

The average cost of capital (WACC) used is 9.2% and the cost of capital is 9.7%. The weight of the perpetual assumption is a moderate 50%. Based on the DCF model, Siili's share is currently priced below the company's fair value. If the company continues to show strong growth and stable/improved profitability its valuation can also gradually start relying on longer-term expectations.

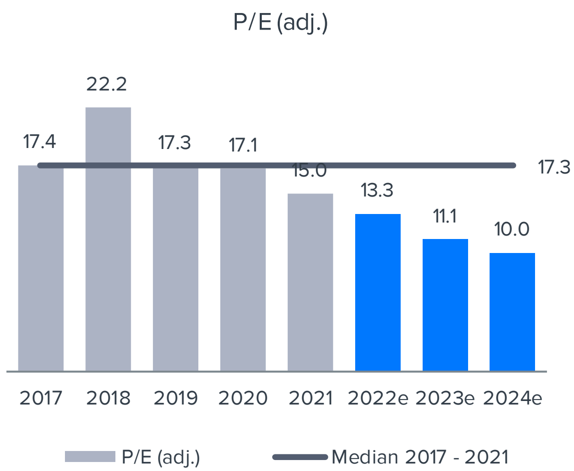
TSR drivers 2022-2024

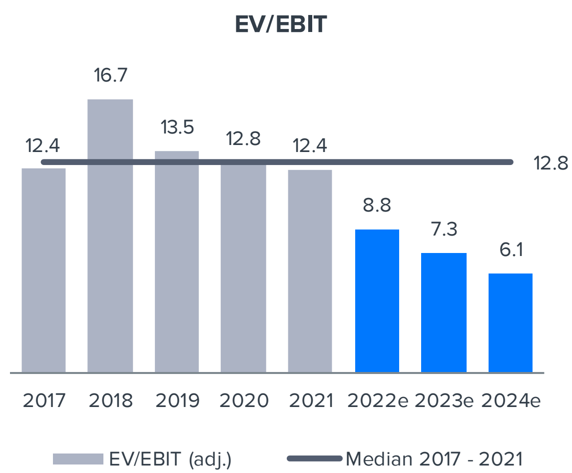


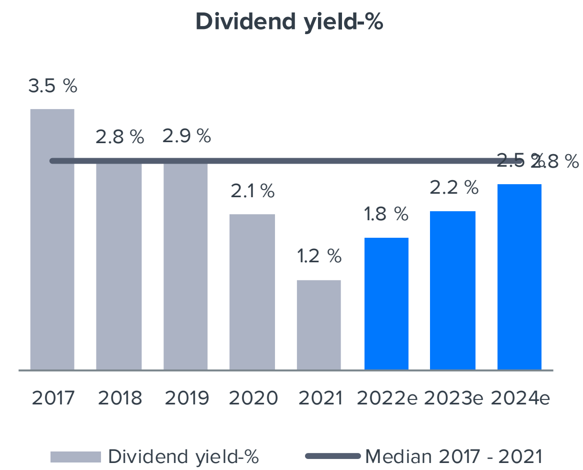
Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	11.1	8.10	9.12	13.3	14.6	**13.9**	**13.9**	**13.9**	**13.9**
Number of shares, millions	7.00	7.00	7.00	7.00	7.02	**7.66**	**8.12**	**8.12**	**8.12**
Market cap	77	57	64	93	102	**113**	**113**	**113**	**113**
EV	69	60	70	86	115	**108**	**100**	**91**	**81**
P/E (adj.)	17.4	22.2	17.3	17.1	15.0	**13.3**	**11.1**	**10.0**	**9.0**
P/E	18.7	35.9	25.0	21.1	20.0	**16.6**	**13.3**	**11.8**	**10.5**
P/FCF	81.6	neg.	neg.	4.8	neg.	**16.5**	**10.0**	**9.0**	**8.4**
P/B	3.7	2.9	3.1	4.3	4.1	**2.6**	**2.3**	**2.0**	**1.7**
P/S	1.3	0.8	0.8	1.1	1.0	**1.0**	**0.8**	**0.8**	**0.7**
EV/Sales	1.2	0.9	0.9	1.0	1.2	**0.9**	**0.8**	**0.6**	**0.5**
EV/EBITDA	11.7	14.7	9.8	9.5	9.6	**7.0**	**6.1**	**5.0**	**4.2**
EV/EBIT (adj.)	12.4	16.7	13.5	12.8	12.4	**8.8**	**7.3**	**6.1**	**5.0**
Payout ratio (%)	66%	102%	71%	45%	25%	**32%**	**29%**	**30%**	**30%**
Dividend yield-%	3.5 %	2.8 %	2.9 %	2.1 %	1.2 %	**1.8 %**	**2.2 %**	**2.5 %**	**2.9 %**

Source: Inderes







Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
Company	**MEUR**	**MEUR**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**
Digia*	181	202	11.9	9.9	9.6	8.1	1.2	1.0	12.4	11.5	3.0	3.4
Digital Workforce*	45	31					1.2	1.1				
Gofore*	343	333	15.9	12.4	14.7	11.4	2.2	1.7	20.2	16.3	1.6	1.8
Loihde*	69	38	10.4	12.3	4.1	7.7	0.3	0.3	42.8	25.6	1.8	1.8
Innofactor*	36	46	9.7	8.3	5.9	5.2	0.6	0.6	10.8	9.6	5.1	6.1
Netum Group*	45	45	11.4	9.2	10.6	9.1	1.4	1.3	15.2	12.2	3.9	4.4
Nixu*	46	50	33.3	12.4	15.6	8.9	0.8	0.7	65.3	16.8		
Solteq*	26	56	32.2	14.7	8.4	5.9	0.8	0.7	31.4	18.0		3.7
Tietoevry*	3022	3683	9.8	9.3	8.8	7.8	1.3	1.2	10.9	10.6	5.5	5.9
Vincit*	76	67	12.0	7.4	15.7	6.8	0.8	0.6	14.0	11.2	2.2	5.2
Witted Megacorp*	63	54	143.4	28.4		27.6	1.0	0.7	610.5	42.3		
Bouvet	571	594	16.3	14.8	13.5	12.5	2.0	1.8	20.2	18.4	4.5	4.9
Enea	173	202	19.8	16.9	8.0	7.4	2.3	2.3	13.9	25.1		
Knowit	592	669	14.3	12.8	9.2	8.3	1.1	1.0	13.4	13.0	3.2	3.5
Netcompany Group	2339	2615	23.0	19.4	18.8	15.4	3.6	3.2	25.7	21.4	0.5	0.8
Siili Solutions (Inderes)	**113**	**108**	**8.8**	**7.3**	**7.0**	**6.1**	**0.9**	**0.8**	**13.3**	**11.1**	**1.8**	**2.2**
Mediaani kaikki			**15.1**	**12.4**	**9.6**	**8.2**	**1.2**	**1.0**	**17.7**	**16.5**	**3.1**	**3.7**
Diff-% to median			***-42%***	***-41%***	***-28%***	***-26%***	***-22%***	***-28%***	***-25%***	***-33%***	***-41%***	***-41%***
Mediaani suomalaiset			**11.9**	**11.1**	**9.6**	**8.0**	**1.0**	**0.7**	**17.7**	**14.2**	**3.0**	**4.0**

Operational development of the peer group

	Market cap	EV	Revenue growth % (CAGR)			Adj. EBIT growth % (CAGR)			Adj. EBIT growth per share (CAGR)			Adj. EPS growth (CAGR)			Adj. EBIT %					Net profit margin		Net gearing	Net debt/ Adj. EBIT**
	2022	2022e	18-21	22e	22e-24e	18-21	22e	22e-24e	18-21	22e	22e-24e	18-21	22e	22e-24e	20	21	22e	23e	24e	21	22e	22e	22e
Netum	45	45	24%	41%	9%	15%	27%	14%	NaN	27%	14%	NaN	12%	17%	18%	14%	13%	14%	14%	2%	5%	1%	0.0
Solteq	28	58	7%	1%	6%	33%	-76%	74%	33%	-76%	74%	63%	-81%	83%	10%	11%	3%	5%	7%	6%	-6%	124%	6.5
Innofactor	36	46	2%	8%	5%		8%	7%		9%	7%		41%	11%	7%	7%	7%	7%	7%	7%	5%	38%	2.1
Digia	172	193	12%	11%	6%	34%	-4%	11%	35%	-4%	11%	39%	-1%	9%	12%	11%	10%	11%	11%	8%	7%	29%	1.2
Tietoevry	2913	3574	21%	4%	4%	30%	2%	4%	11%	2%	4%	6%	7%	5%	13%	13%	13%	13%	13%	10%	6%	37%	1.8
Vincit	74	65	12%	37%	14%	0%	10%	35%	-2%	-7%	26%	2%	-16%	23%	14%	8%	7%	8%	9%	6%	0%	-23%	-1.7
Siili Solutions	116	112	12%	19%	10%	37%	33%	10%	37%	23%	6%	39%	7%	15%	8%	9%	10%	10%	10%	5%	5%	-10%	-0.4
Gofore	338	328	27%	42%	16%	29%	43%	17%	24%	37%	16%	24%	36%	17%	14%	14%	14%	14%	14%	9%	9%	-12%	-0.5
Nixu	46	49	9%	16%	9%			91%			91%			141%	1%	0%	2%	6%	8%	-2%	1%	26%	4.7
Witted Megacorp Oyj	64	56	93%	81%	36%		-47%		NaN	NaN		NaN	NaN		4%	2%	1%	2%	5%	2%	-1%	-48%	-15.5
Digital Workforce	41	27	24%	14%	16%				NaN			NaN			-3%	-4%	-8%	-2%	4%	-16%	-12%	-93%	
Loihde	69	37	1%	17%	10%	-15%	56%	21%	NaN	59%	23%	NaN	-47%	68%	4%	2%	3%	2%	4%	1%	-2%	-33%	-10.7
Median	**67**	**57**	**12%**	**17%**	**9%**	**30%**	**9%**	**16%**	**29%**	**9%**	**15%**	**32%**	**7%**	**17%**	**9%**	**9%**	**7%**	**7%**	**8%**	**5%**	**3%**	**-5%**	**0.0**
Average	**328**	**382**	**20%**	**24%**	**12%**	**20%**	**5%**	**29%**	**23%**	**8%**	**27%**	**29%**	**-5%**	**39%**	**8%**	**7%**	**6%**	**7%**	**9%**	**3%**	**1%**	**3%**	**-1.1**

Source: Inderes

Adj. EBIT and EPS does not consider goodwill depreciation.

Inderes' data on the number of shares has been used in calculating the adjusted EPS figures which does not take treasury shares into consideration. In the year of listing, only the number of shares after the listing are included. If the company was not listed in the review years, the value for per share figures is NaN.

If earnings growth figures include negative divisors or dividends, or if the initial earnings level is very low (EBIT % <1.0%), the value is empty.

In the net debt/adj. EBIT divisor, the average of the current year estimate and the previous year is used in the EBIT. If the EBIT is negative or close to zero, the value is empty. Absolute net debt is the difference between EV and the market cap

Source: Companies, Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	**26.5**	**41.1**	**44.9**	**43.8**	**42.3**
Goodwill	18.8	28.1	28.1	28.1	28.1
Intangible assets	2.7	6.8	10.2	8.6	7.0
Tangible assets	0.5	0.9	2.0	2.5	2.6
Associated companies	0.1	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	4.4	5.2	4.5	4.5	4.5
Deferred tax assets	0.0	0.1	0.1	0.1	0.1
Current assets	**34.8**	**40.4**	**55.2**	**63.3**	**71.0**
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	13.2	20.0	20.1	22.6	24.3
Cash and equivalents	21.7	20.4	35.1	40.7	46.7
Balance sheet total	**61.4**	**81.5**	**100**	**107**	**113**

Source: Inderes

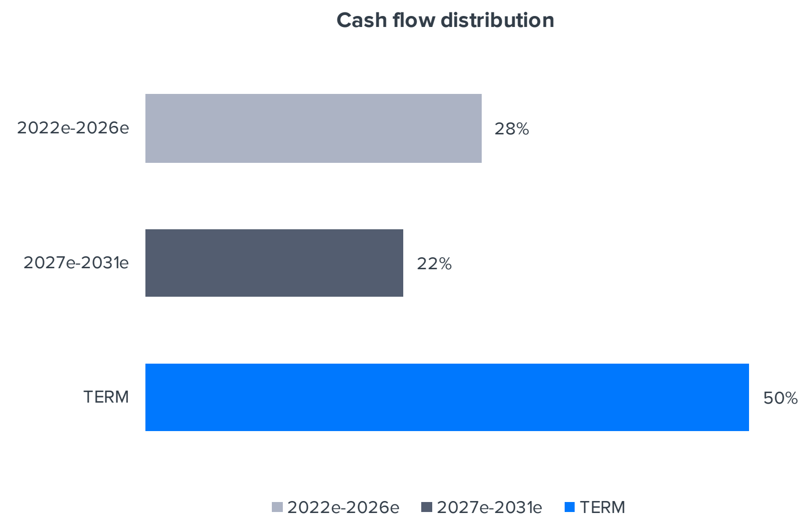
Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	**21.6**	**24.9**	**43.2**	**49.7**	**56.8**
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	9.3	12.2	16.3	22.8	29.9
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	12.2	12.6	26.8	26.8	26.8
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**14.8**	**29.7**	**31.1**	**29.5**	**26.5**
Deferred tax liabilities	2.1	1.5	1.5	1.5	1.5
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	12.6	28.2	29.6	28.0	25.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	**25.1**	**27.0**	**25.8**	**28.0**	**30.0**
Short term debt	2.7	4.7	1.0	0.0	0.0
Payables	22.3	22.3	24.8	28.0	30.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	**61.4**	**81.5**	**100**	**107**	**113**

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	19.2 %	18.9 %	12.8 %	7.3 %	6.1 %	5.0 %	4.0 %	4.0 %	4.0 %	4.0 %	2.1 %	2.1 %
EBIT-%	7.6 %	9.1 %	9.0 %	9.3 %	9.6 %	9.0 %	9.0 %	9.0 %	9.0 %	9.0 %	8.5 %	8.5 %
EBIT (operating profit)	**7.6**	**10.7**	**12.0**	**13.2**	**14.5**	**14.3**	**14.9**	**15.5**	**16.1**	**16.8**	**16.2**	
+ Depreciation	4.5	4.8	4.5	4.9	4.9	4.9	4.4	4.1	3.9	3.8	3.9	
- Paid taxes	-1.9	-1.9	-2.1	-2.4	-2.7	-2.8	-3.0	-3.1	-3.2	-3.4	-3.3	
- Tax, financial expenses	-0.2	-0.6	-0.3	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-6.8	2.4	0.6	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	
Operating cash flow	**3.0**	**15.5**	**14.7**	**15.9**	**16.9**	**16.7**	**16.6**	**16.8**	**17.1**	**17.5**	**16.9**	
+ Change in other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-19.0	-8.6	-3.4	-3.4	-3.4	-3.5	-3.5	-3.5	-3.6	-3.6	-3.8	
Free operating cash flow	**-16.0**	**6.8**	**11.3**	**12.5**	**13.4**	**13.2**	**13.1**	**13.3**	**13.5**	**13.8**	**13.2**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-16.0	6.8	11.3	12.5	13.4	13.2	13.1	13.3	13.5	13.8	13.2	188
Discounted FCFF		**6.8**	**10.2**	**10.4**	**10.2**	**9.2**	**8.3**	**7.7**	**7.2**	**6.8**	**5.9**	**84.1**
Sum of FCFF present value		167	160	150	139	129	120	112	104	96.7	90.0	84.1
Enterprise value DCF		**167**										
- Interesting bearing debt		-32.9										
+ Cash and cash equivalents		20.4										
-Minorities		0.0										
-Dividend/capital return		-1.3										
Equity value DCF		**153**										
Equity value DCF per share		**18.8**										

Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	6.0 %
Equity Beta	1.30
Market risk premium	4.80%
Liquidity premium	1.00%
Risk free interest rate	2.5 %
Cost of equity	**9.7 %**
Weighted average cost of capital (WACC)	**9.2 %**

Source: Inderes



Summary

Income statement	2019	2020	2021	2022e	2023e
Revenue	80.5	83.3	99.3	**118.1**	**133.2**
EBITDA	7.1	9.1	12.0	**15.5**	**16.5**
EBIT	3.7	5.3	7.6	**10.7**	**12.0**
PTP	3.3	6.3	6.4	**8.4**	**10.6**
Net Income	2.6	4.4	5.1	**6.4**	**8.5**
Extraordinary items	-1.4	-1.4	-1.7	**-1.6**	**-1.7**

Balance sheet	2019	2020	2021	2022e	2023e
Balance sheet total	55.9	61.4	81.5	**100.1**	**107.1**
Equity capital	20.5	21.6	24.9	**43.2**	**49.7**
Goodwill	18.8	18.8	28.1	**28.1**	**28.1**
Net debt	5.8	-6.3	12.5	**-4.5**	**-12.7**

Cash flow	2019	2020	2021	2022e	2023e
EBITDA	7.1	9.1	12.0	**15.5**	**16.5**
Change in working capital	0.5	7.0	-6.8	**2.4**	**0.6**
Operating cash flow	6.6	15.5	3.0	**15.5**	**14.7**
CAPEX	-6.9	-0.6	-19.0	**-8.6**	**-3.4**
Free cash flow	-0.3	19.5	-16.0	**6.8**	**11.3**

Valuation multiples	2019	2020	2021	2022e	2023e
EV/S	0.9	1.0	1.2	**0.9**	**0.8**
EV/EBITDA (adj.)	9.8	9.5	9.6	**7.0**	**6.1**
EV/EBIT (adj.)	13.5	12.8	12.4	**8.8**	**7.3**
P/E (adj.)	17.3	17.1	15.0	**13.3**	**11.1**
P/E	3.1	4.3	4.1	**2.6**	**2.3**
Dividend-%	2.9 %	2.1 %	1.2 %	**1.8 %**	**2.2 %**

Source: Inderes

Per share data	2019	2020	2021	2022e	2023e
EPS (reported)	0.36	0.63	0.73	**0.84**	**1.04**
EPS (adj.)	0.53	0.78	0.98	**1.05**	**1.25**
OCF / share	0.94	2.22	0.43	**2.02**	**1.81**
FCF / share	-0.04	2.79	-2.28	**0.89**	**1.39**
Book value / share	2.94	3.08	3.54	**5.64**	**6.11**
Dividend / share	0.26	0.28	0.18	**0.25**	**0.30**

Growth and profitability	2019	2020	2021	2022e	2023e
Revenue growth-%	14%	3%	19%	**19%**	**13%**
EBITDA growth-%	73%	29%	32%	**29%**	**6%**
EBIT (adj.) growth-%	54%	31%			**47%**
EPS (adj.) growth-%	45%	47%	26%	**7%**	**20%**
EBITDA-%	8.8 %	10.9 %	12.1 %	**13.2 %**	**12.4 %**
EBIT (adj.)-%	6.4 %	8.1 %	9.3 %	**10.5 %**	**10.3 %**
EBIT-%	4.6 %	6.4 %	7.6 %	**9.1 %**	**9.0 %**
ROE-%	12.7 %	20.9 %	22.1 %	**18.9 %**	**18.2 %**
ROI-%	10.5 %	26.5 %	15.9 %	**16.4 %**	**15.9 %**
Equity ratio	36.8 %	35.2 %	30.5 %	**43.2 %**	**46.4 %**
Gearing	28.2 %	-29.1 %	50.2 %	**-10.5 %**	**-25.5 %**

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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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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
12-06-17	Accumulate	12.00 €	11.34 €
15-08-17	Accumulate	12.50 €	11.80 €
28-02-18	Reduce	12.50 €	12.05 €
05-04-18	Accumulate	11.80 €	10.25 €
15-08-18	Accumulate	12.50 €	11.20 €
19-10-18	Accumulate	9.80 €	8.50 €
22-02-19	Accumulate	9.80 €	9.04 €
28-02-19	Accumulate	9.40 €	8.68 €
02-05-19	Accumulate	9.60 €	9.00 €
15-08-19	Accumulate	9.60 €	8.66 €
14-10-19	Accumulate	10.00 €	9.26 €
28-02-20	Buy	11.00 €	8.96 €
31-03-20	Accumulate	9.00 €	7.72 €
29-04-20	Accumulate	9.70 €	8.46 €
12-08-20	Buy	12.00 €	10.15 €
28-10-20	Accumulate	12.50 €	11.70 €
07-12-20	Accumulate	13.00 €	12.15 €
18-12-20	Accumulate	13.00 €	12.10 €
22-02-21	Accumulate	17.00 €	15.90 €
30-04-21	Reduce	17.50 €	17.86 €
19-08-21	Accumulate	17.00 €	15.88 €
28-10-21	Accumulate	17.00 €	15.10 €
21-02-22	Accumulate	16.00 €	14.00 €
29-04-22	Buy	17.50 €	14.75 €
19-08-22	Accumulate	17.50 €	15.85 €
28-10-22	Accumulate	17.50 €	14.80 €
17-11-22	Buy	17.50 €	13.90 €

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