

Tietoevry

Company report

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This report is a summary translation of the report "Vakaata tuottopotentiaalia alennuksessa" published on 10/27/2023 at 08:43 am EEST

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res.**

Stable return potential at a discount

We raise our recommendation to Buy (was Accumulate) and reiterate our EUR 25.0 target price. Q3 was well in line with our expectations in terms of operational activities and comments. We made only minor adjustments to our forecasts and expect moderate earnings growth from the company driven by revenue and profitability. Tietoevry's good track record maintain confidence in continued positive development in the coming years, although our estimates are clearly below the company's target level. The share's valuation picture is still attractive from several angles (2023e P/E 13x, adj. P/E 10x, DCF EUR 30, SOTP EUR 31 and expected return over 15%) and business areas to be separated provide drivers to dismantle the undervaluation.

Q3 was well in line with our expectations.

Tietoevry's revenue fell by 4% to EUR 660 million in Q3 and was slightly above our and below market expectations. Organic revenue growth slowed to 2% (Q1: 8%, Q2: 3%). However, we feel organic growth was still positive considering the market situation, even though it slowed down well below the strong level of the previous 12 months (7% on average). The order backlog decreased by 1%, reflecting seasonality and the challenging market situation. Tietoevry's EBITA% was 13.0% in Q3. The margin was slightly below our and market expectations. EBITA adjusted for one-off items amounted to EUR 86 million in Q3 (Q3'22: 98 MEUR) and also slightly exceeded our expectations with growth. The result was still limited by high inflation, higher technology costs and a lower number of working days. We believe profitability is supported by the decreased attrition of experts, which affects recruitment costs and, on the other hand, billable utilization. Other result lines were well in line with our expectations.

We expect "only" moderate earnings growth

Demand fundamentals for Tietoevry and the IT services sector are foggy in the short term, but strong in the medium and long term. As expeted, Tietoevry reiterated the guidance it lowered in September and expects organic growth to be approximately 4% and adjusted EBITA-% to be 12.6-13.0% in 2023. We only made minor adjustments to our estimates We expect the company's revenue to decrease by 3 % (organically +3.6 %) and the EBITA margin to be 12.6 % in 2023. In 2024-25, we expect growth to remain at 3% and profitability to rise gradually to 13.3%, which is below the targets (growth 8-10% and EBITA-% 15-16% by 2025) depicting the current challenging market environment. The risk profile of the business continues to be lower than for many Nordic peers especially in the prevailing uncertainty, due to a higher share of recurring business.

Valuation picture has turned very attractive

We feel, the share valuation has become very attractive after the price drop (9%). With our estimates, adjusted P/E and EV/EBIT ratios for 2023 are 9x or almost 40% below peers. The corresponding reported ratios are 13x, but nearly half of the adjustments are PPA depreciation, which does not affect cash flow and we also adjust these for peers. We see the share's absolute valuation as attractive and the relative valuation as highly attractive. The expected return also rises to an attractive level of 15% on the back of 7% earnings growth and a 8% dividend yield alone. The sum-of-the-parts calculation (EUR 26) clearly indicates a higher than current value and is a relevant way to look at valuation when the company is to be split into three parts. The DCF calculation (EUR 30) also indicates a clear upside. We believe the strategic assessments of the operations to be separated are proceeding as planned and the timetables are unchanged. Thus, there will be clear drivers next year to discharge the undervaluation.

Recommendation

Buy

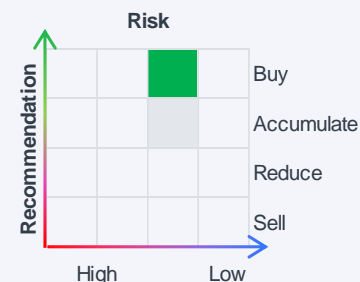
(previous Accumulate)

EUR 25.00

(previous EUR 25.00)

Share price:

19.51



Key figures

	2022	2023e	2024e	2025e
Revenue	2928	2849	2912	2983
growth-%	3.7 %	-2.7 %	2.2 %	2.4 %
EBIT adj.	379	360	375	396
EBIT-% adj.	12.9 %	12.6 %	12.9 %	13.3 %
Net Income	188	179	213	217
EPS (adj.)	2.35	2.19	2.27	2.43

P/E (adj.)	11.3	8.9	8.6	8.0
P/B	1.8	1.4	1.3	1.3
Dividend yield-%	5.5 %	7.7 %	7.9 %	8.2 %
EV/EBIT (adj.)	10.2	9.0	8.4	7.7
EV/EBITDA	9.0	7.9	7.0	6.7
EV/S	1.3	1.1	1.1	1.0

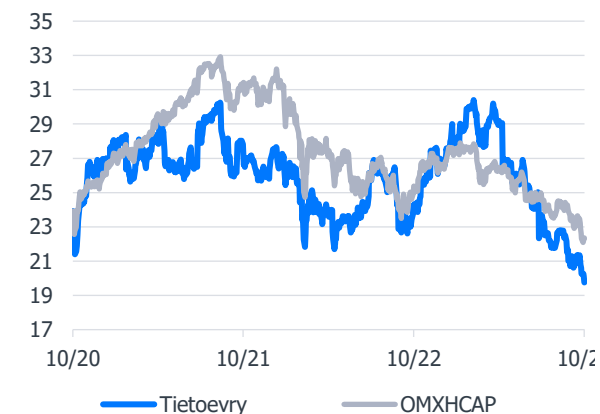
Source: Inderes

Guidance

(Unchanged)

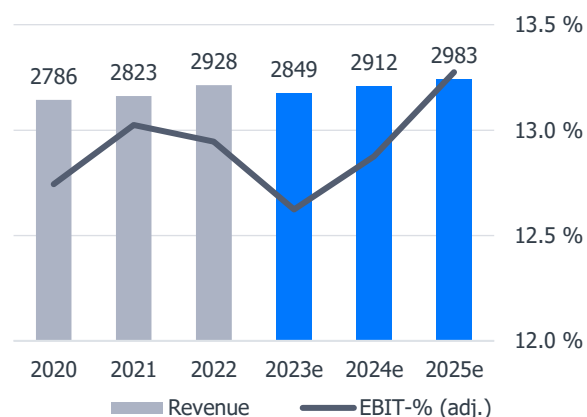
Tietoevry expects organic growth of some 4% and an adjusted EBITA margin of 12.6-13.0% in 2023.

Share price



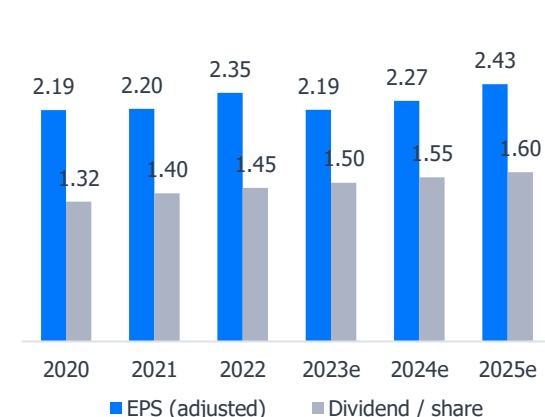
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

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



Risk factors

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

Valuation	2023e	2024e	2025e
Share price	19.5	19.5	19.5
Number of shares, million:	118.4	118.4	118.4
Market cap	2310	2310	2310
EV	3254	3158	3061
P/E (adj.)	8.9	8.6	8.0
P/E	12.9	10.8	10.6
P/B	1.4	1.3	1.3
P/S	0.8	0.8	0.8
EV/Sales	1.1	1.1	1.0
EV/EBITDA	7.9	7.0	6.7
EV/EBIT (adj.)	9.0	8.4	7.7
Payout ratio (%)	99.3 %	86.0 %	87.2 %
Dividend yield-%	7.7 %	7.9 %	8.2 %

Source: Inderes

The report was well in line with our expectations

Revenue continued to grow organically, although growth slowed slightly as expected

Tietoevry's revenue fell by 4% to EUR 660 million in Q3 and was slightly above our and below market expectations. Organically, revenue increased by 2% (Q1: 8% and Q2: 3%). Organic growth was driven by the software business. Exchange rates had a big negative impact of EUR 55 million and fewer working days had a 1.4% negative effect. Business acquisitions, in turn, had a positive impact of EUR 13 million. By business, organic growth was driven by Industry (6%), Care (3%) and Banking (11%). Growth was slowed down by Create (-4%) and Tech Services (-4%) in line with the comments in the September profit warning and the weakened market. However, we feel organic growth as a whole was still positive considering the market situation, even though it slowed down well below the strong level of the previous 12 months (7% on average). The order backlog decreased

by 1%, reflecting seasonality and the challenging market situation. Order backlog development is not yet alarming, but it must naturally improve for the positive development to continue.

Result was in line with our expectations

In Q3, Tietoevry's EBITA-% was 13.0%, and slightly below our and market estimates of 13.1-13.5%. EBITA adjusted for one-off items amounted to EUR 86 million in Q3 (Q3'22: 98 MEUR) and exceeded our expectations in terms of growth and profitability but was a bit below market estimates (84 and 90 MEUR). The result was still limited by high inflation (not only wage inflation), higher technology costs and a lower number of working days. At business level, efficiency measures bore fruit especially in Tech Services, but also in Tietoevry Industry. Market headwind had a negative impact on Tietoevry Create's (consulting) billable utilization. We also believe profitability is supported by the decreased attrition of experts, which

affects recruitment costs and, on the other hand, billable utilization. Other result lines were well in line with our expectations. Thus, adjusted EPS was EUR 0.53 in Q3 and one cent above our and market expectations (0.52).

The company opened the valuation of the MentorMate acquisition

The company now opened the transaction valuation level of the MentorMate acquisition, it was 14.4x (last 12-month EBITA) with the EV/EBITDA ratio and 10.6x considering the synergy sought by the company. Thus, the company seeks relatively large synergies through the arrangement. The valuation is also above the company's own valuation level, which is partly understandable because valuation levels in the US and the consulting business are higher than the Group as a whole. However, this increases the risk of failure from the point of view of value creation.

Estimates MEUR / EUR	Q3'22	Q3'23	Q3'23e	Q3'23e	Consensus		Difference (%)	2023e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	690	660	642	665	642	- 683	3%	2849
EBIT (adj.)	98	86	84	90	77	- 94	1%	360
EBIT	78	62	62	66	56	- 72	0%	258
PTP	75	56	55	58	47	- 61	1%	228
EPS (adj.)	0.63	0.53	0.52	0.52	0.42	- 0.56	2%	2.19
EPS (reported)	0.50	0.37	0.37	0.38	0.32	- 0.42	1%	1.51
Revenue growth-%	6.5 %	-4.4 %	-7.0 %	-3.7 %	-7.0 %	- -1.1 %	2.6 pp	-2.7 %
EBIT-% (adj.)	14.2 %	13.0 %	13.1 %	13.5 %	12.0 %	- 13.7 %	-0,2 %-yks.	12.6 %

Source: Inderes & Vara Research, 11 estimates (consensus)



Watch the video of the Q2 earnings webcast here:



Financial targets and business spin-offs

Tietoevry's targets are ambitious and higher than the current level

Tietoevry is targeting a growth rate of 8-10% and an adjusted EBITA of 15-16% by 2025. The targets are clearly higher than the current performance level, as for 2022 the company estimates organic growth to be 5-7% and adjusted EBITA to be 13.0-13.5%. In addition, the company aims to maintain the net debt/EBITDA ratio at 1-2x (excl. IFRS16 liabilities) and continue increasing dividends annually.

Tietoevry's growth and profitability targets are based on consolidated business objectives. The company has set long-term financial targets for each area. True to its tradition, the company explains well and in detail the objectives of its different businesses and sets out the 2025 targets for each of them.

Industry-specific software solutions and global data-driven development and consulting services (combined): 12-14% annual growth rate and annual adjusted EBITA of 17-19% by 2025. By business, the targets are:

- Tietoevry Create growth 14-16 % and EBITA-% 14-16 %
- Tietoevry Banking growth 10-12% and EBITA-% 16-18%
- Tietoevry Care growth 12-14 % and EBITA-% 28-30 %
- Tietoevry Industry growth 8-10% and EBITA-% 20-22%

Tietoevry Tech Services, i.e. recurring services and transformation: 1-3% annual growth rate and annual adjusted EBITA of 9-11% by 2025.

In our view the objectives are ambitious and well above our and market expectations. The company was successful in organic growth in several segments in 2022 and Q1'23

(3/5 of the businesses have been operating at target levels), but the challenging market situation has now slowed down the growth rate slightly in some businesses. In terms of profitability, 2/5 of the businesses have been operating within target levels in the past year or so.

Separation of the banking business

In connection with its Q2'22 report, Tietoevry also announced that it has decided to initiate a strategic review of Tietoevry Banking, including a process to study the potential separation into an independent company that would be listed on a stock exchange. The aim is to accelerate the growth and profitability of Tietoevry Banking and enhance its strategic and financial flexibility.

We already considered separation as one driver for dissolving the undervaluation. Thus the news was very welcome. If the listing review proceeds favorably, Tietoevry will seek to list the Banking business on a stock exchange in the first half of 2024 (previously in H2'23). The company feels that as an independent company the business has greater opportunities to grow and improve profitability. The business has developed well over the past year, which supports a good price when separated.

Separation of Tietoevry Tech Services business

Tietoevry announced in November that it will also separate Tietoevry Tech Services that focus on continuous services and transformation (former Tietoevry Transform and Tietoevry Connect). These activities are concentrated in slower growing or declining areas of the IT services market. We believe that with the separation the company wants to showcase its other more quickly growing businesses that focus on software solutions with better profitability and data-driven development and consulting services (Tietoevry Create, Tietoevry Banking, Tietoevry

Care and Tietoevry Industry). We feel the separation is in line with the company's strategy and a "new" driver to dissolve the undervaluation of the share.

Combined Tietoevry Transform and Tietoevry Connect is a competitive player focusing on Nordic managed services and customer transformation, serving over 1,000 Nordic companies and public sector customers. The combined annual revenue of the businesses is around EUR 1.2 billion and they employ some 8,000 professionals worldwide. In Q1'23, Tietoevry merged the businesses into Tech Services, which will focus on executing the joint strategy by leveraging the best expertise from both businesses.

Earlier this year, the company appointed new leaders for the two entities to be separated (Banking and Tech Services). In connection with the Q2'23 report, the company reported that strategic assessments are progressing. The strategic assessment of the Banking business is expected to end in Q1'24 (previously H2'23) and Tech Services probably in H1'24.

The planned measures accelerate the strategy execution of the remaining Tietoevry and positions the company as a player focusing on industry-specific software solutions and global data-driven development and consulting services. The combined annual revenue of these Tietoevry businesses is currently around EUR 1.7 billion and they have some 16,000 employees worldwide. The separation allows the businesses to become more competitive in the market and to accelerate value creation.

We have made slight adjustments to our estimates

Estimate revisions 2023e-2025e

- We only made small adjustments to our 2023-2024 estimates. We cut our 2025 forecasts slightly, driven by the weakness of the market
- The slightly higher EPS change in 2024-2025 is based on increased interest costs.

Estimates

- We expect that Tietoevry will grow by 3.6% organically in 2023 and cautiously by 2-3% in 2024-2026 (2022: 6%). The forecasts are therefore well below the 8-10% financial targets driven by market weakness.
- We estimate that adjusted EBITA-% will gradually rise to good 13% in 2025, driven mainly by scalable software and efficiency measures. The estimates are below the company's 15-16% target due to continued strong headwinds of inflation, especially in developing countries, and the challenges of transferring this pressure to customer prices.

Operational result drivers 2023e:

- Price increases support development
- Efficiency programs continue to support development (launched in 2022 and Q1-Q2).
- Tietoevry estimates wage inflation to average 5% in 2023 (2022: 4%), while in Q1 the company estimate was 4-5 % Next year, wage inflation is likely to remain relatively high.
- The company expects non-recurring costs to be around 1.5% of revenue in 2023, including costs related to strategic assessments.

Financial targets

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

Estimate revisions MEUR / EUR	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	2819	2849	1%	2918	2912	0%	3031	2983	-2%
EBITDA	415	409	-1%	453	453	0%	480	459	-4%
EBIT (exc. NRIs)	360	360	0%	386	375	-3%	415	396	-4%
EBIT	260	258	-1%	294	304	3%	321	306	-4%
PTP	234	228	-2%	269	270	0%	298	275	-8%
EPS (excl. NRIs)	2.22	2.19	-2%	2.41	2.27	-6%	2.62	2.43	-7%
DPS	1.50	1.50	0%	1.55	1.55	0%	1.60	1.60	0%

Source: Inderes

Valuation 1/2

Peer group

We have used Finnish, Nordic and global peers in Tietoevry's peer group. We consider the median of this peer group to be a good yardstick for Tietoevry's valuation level. We base the relative valuation on the company's size, competitive position, and scalability, continuity and know-how of the expert portfolio, as well as geographical diversification and predictable business. A lower valuation is supported by the weak revenue development and profitability in the largish Tech Services business (to be separated in 2024). We have also considered the 'constant' restructuring costs, which are higher for Tietoevry than its peers. Tietoevry expects restructuring costs to be 1.5% of revenue or EUR ~45 million in 2023 (2022: ~ 2.0%), representing a good 10% of the operating result. As the company shows strengthening economies of scale and competitive advantages, a slight premium can be accepted for the share compared to the sector valuation.

Valuation multiples

With our estimates, Tietoevry's P/E and EV/EBIT ratios for 2023 are 9x and 9x or almost 40% below peers. In our view, the absolute valuation of the share is attractive and the relative valuation is highly attractive. The company adjusts good 10% more costs from its result than its Finnish peers and considering this the share is still very attractively priced. The reported P/E ratio is 13x and 11x for 2023-2024, but includes PPA depreciation of some 10% of EBIT or EUR 40 MEUR annually, which we adjust from other companies in the sector because it does not affect cash flow and describes operational activities. In addition, dividend yield (7-8%) provides a good baseline return.

According to our view, dismantling the long-standing undervaluation can be triggered by the continuation of organic growth back to the levels at the turn of 2022-23 (6-

9%). The second, and at present the clearest, "dismantler", is the planned business separations that would clarify the structure and bring better growth and profitability conditions for the new business entities. Third, the strategy and segment structure enables new efficiency when segments have their own stronger focus, which was already previously visible as strong organic growth.

The company has been communicating for some time that it is active on the M&A front, which may involve acquisitions (like MentorMate) and smaller divestments in addition to the current spin-offs. This could further strengthen (acquisitions) or clarify the structure (divestments) and reduce the undervaluation. In our view, the drivers to unwind the undervaluation have only strengthened and separation of the units already seems relatively certain.

Components of the expected return for the share

We examine the expected return for Tietoevry's share based on earnings growth, dividend yield and the accepted valuation level. We estimate that the company has the potential for ~7% annual earnings growth in 2024-2025 (compared to 2023 level), driven by growth and profitability. With our growing dividend estimates and average 90 % payout ratio the dividend yield is around ~8 %. A strong cash flow continuously strengthens the balance sheet and provides a good basis for even higher profit distribution and/or inorganic growth.

In our view, there is also room for upside in the valuation multiples of the stock at the moment. Thus, the expected return of the share, consisting solely of dividend yield and earnings growth, is ~15% and considering the upside in multiples around 20%. This is an attractive level, especially given the relatively low risk profile of the company's business.

Valuation	2023e	2024e	2025e
Share price	19.5	19.5	19.5
Number of shares, million	118.4	118.4	118.4
Market cap	2310	2310	2310
EV	3254	3158	3061
P/E (adj.)	8.9	8.6	8.0
P/E	12.9	10.8	10.6
P/B	1.4	1.3	1.3
P/S	0.8	0.8	0.8
EV/Sales	1.1	1.1	1.0
EV/EBITDA	7.9	7.0	6.7
EV/EBIT (adj.)	9.0	8.4	7.7
Payout ratio (%)	99.3 %	86.0 %	87.2 %
Dividend yield-%	7.7 %	7.9 %	8.2 %

Source: Inderes

Valuation 2/2

Sum of the parts

With Tietoevry's strategy and especially the business separations, it's very natural to look at the valuation of the share also from the perspective of the sum of the parts. Tietoevry has announced that it will spin off its Banking business and its Tech Services businesses separately. After the separation, three new entities would be created. The separation of the Banking business will probably progress first (in Q1'24) and Tech Services in H1'24.

The Banking business is currently growing well and profitability is at a good level. The business has good international growth potential. In particular, the business has the potential to further improve profitability through the share of software and ongoing business and scalable growth.

The very mature phase of the Tech Services businesses has depressed Tietoevry's development. Businesses have developed very moderately in terms of revenue and profitability is under constant pressure from fierce price competition.

In our view, the EV/EBITA multiples we use reflect growth and profitability profiles, peers and business continuity. We have used our 2023 projections for the businesses. If the businesses reach their targets in 2025, there is still considerable upside potential in the sum of the parts.

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

With the multiples we applied, we arrive at an unleveraged value of EUR 4.1 billion for Tietoevry, which corresponds to a per share value of EUR 26.(previously EUR 31.4) with the estimated net debt at the end of 2023. Thus, there is a clear upside in the share through the sum of the parts.

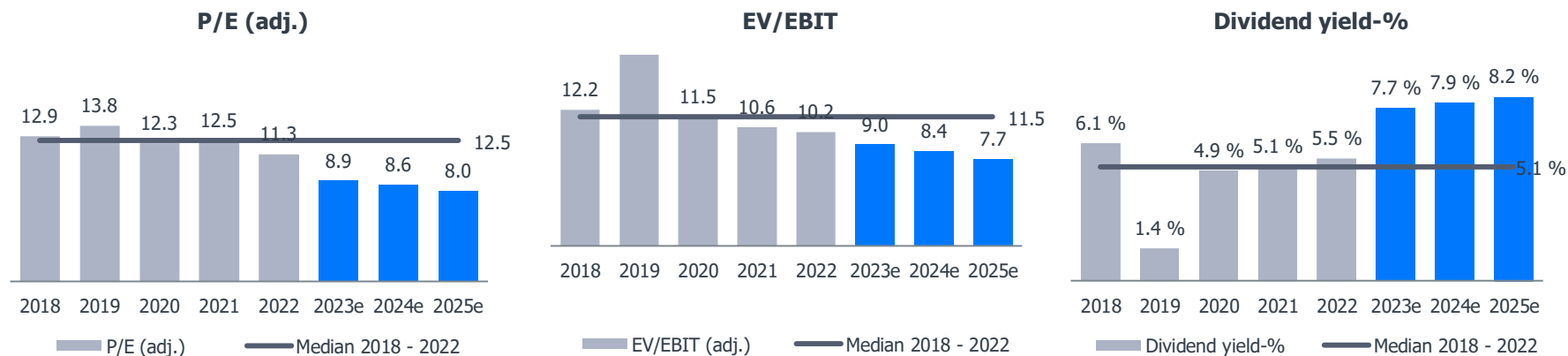
Sum-of-the-parts calculation

Segments	Revenue growth 2023	Organic revenue growth 2023	EBITA-% 2023	EBITA	EV/EBITA multiple	EV	Revenue growth target	EBITA-% target 2025
Tietoevry Create	-1%	2%	13%	109	13x	1,420	14-16%	14-16%
Tietoevry Banking	1%	12%	13%	73	13x	945	10-12%	16-18%
Tietoevry Care	2%	8%	30%	72	13x	939	12-14%	28-30%
Tietoevry Industry	-4%	5%	17%	45	11x	494	8-10%	20-22%
Tietoevry Tech Services	-8%	-3%	8%	85	7x	595	2-4%	10-12%
Others				-24	11.4x	-278		
Group total	-2.7%	3.6%	12.6%	360	11.4x	4,115		
Net debt						944		
Market cap						3,171		
Share price						26.8		

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	23.6	27.7	26.9	27.5	26.5	19.5	19.5	19.5	19.5
Number of shares, millions	73.8	67.9	118.4	118.4	118.4	118.4	118.4	118.4	118.4
Market cap	1741	3283	3181	3254	3140	2310	2310	2310	2310
EV	2045	4067	4097	3900	3851	3254	3158	3061	2945
P/E (adj.)	12.9	13.8	12.3	12.5	11.3	8.9	8.6	8.0	7.4
P/E	14.1	23.8	33.7	11.2	16.7	12.9	10.8	10.6	9.6
P/B	3.6	1.9	2.0	1.8	1.8	1.4	1.3	1.3	1.3
P/S	1.1	1.9	1.1	1.2	1.1	0.8	0.8	0.8	0.8
EV/Sales	1.3	2.3	1.5	1.4	1.3	1.1	1.1	1.0	1.0
EV/EBITDA	9.8	17.7	12.7	7.1	9.0	7.9	7.0	6.7	6.1
EV/EBIT (adj.)	12.2	20.7	11.5	10.6	10.2	9.0	8.4	7.7	7.0
Payout ratio (%)	86.9 %	59.5 %	165.4 %	56.9 %	91.1 %	99.3 %	86.0 %	87.2 %	81.6 %
Dividend yield-%	6.1 %	1.4 %	4.9 %	5.1 %	5.5 %	7.7 %	7.9 %	8.2 %	8.5 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
			2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e
Digja*	136	163	9.2	7.5	7.4	6.3	0.9	0.7	10.4	8.9	3.7	3.9
Digital Workforce*	39	24	44.1	10.4	42.9	9.5	0.9	0.8	64.3	20.7		
Gofore*	335	312	12.3	10.8	11.2	9.9	1.6	1.4	16.6	15.4	2.4	2.7
Loihde*	65	47	31.4	10.3	5.8	3.9	0.3	0.3	67.1	17.3	2.7	2.8
Innofactor*	40	50	8.6	7.6	5.8	5.2	0.6	0.6	10.0	8.9	6.4	7.3
Netum Group*	37	46	13.8	10.6	12.1	9.5	1.2	1.0	13.5	11.1	4.1	4.5
Siili Solutions*	69	71	8.3	7.5	5.9	5.4	0.6	0.5	13.1	11.1	2.9	3.5
Solteq*	15	39		15.9	4.0	3.8	0.7	0.6		36.0		3.8
Vincit*	48	39	9.4	6.0	8.2	5.6	0.4	0.4	16.0	9.8	5.9	6.9
Witted Megacorp*	32	26		15.1		14.7	0.4	0.4		23.6		
Bouvet	485	510	14.8	14.1	12.3	11.8	1.7	1.5	18.0	17.2	4.9	5.3
CombinedX	45	44	6.4	6.1	4.5	4.4	0.7	0.7	8.8	8.3		
Knowit	316	404	15.3	12.2	7.2	6.5	0.7	0.7	18.8	13.9	4.2	4.8
Avensia AB	27	29		14.2	42.2	10.2	0.8	0.8		16.7	1.8	3.5
Netcompany Group	1518	1825	18.7	14.9	13.5	11.7	2.2	2.0	21.7	17.0		
Wipro	22610	20791	13.3	13.2	10.8	10.8	2.0	2.0	18.3	18.0	2.2	1.8
Tata Consultancy	140852	135299	21.6	20.0	19.8	18.4	5.3	4.9	29.3	26.7	2.7	2.1
Atos SE	580	3938	11.5	8.3	4.0	3.9	0.4	0.4	2.2	1.9		
Capgemini SE	28650	32671	11.8	10.9	9.3	8.7	1.4	1.4	14.3	13.3	2.0	2.2
IBM	117962	156901	14.8	14.0	10.9	10.3	2.7	2.6	14.4	13.7	4.7	4.9
Accenture	183880	176177	19.2	18.2	15.8	14.8	2.9	2.8	25.2	24.0	1.5	1.7
Tietoevry (Inderes)	2310	3254	9.0	8.4	7.9	7.0	1.1	1.1	8.9	8.6	7.7	7.9
Average			15.8	11.8	12.7	8.8	1.4	1.3	21.2	15.9	3.5	3.9
Mediaani (kaikki)			13.5	10.9	10.0	9.5	0.9	0.8	16.3	15.4	2.9	3.7
<i>Diff-% to median</i>			-33%	-23%	-21%	-26%	34%	43%	-45%	-44%	162%	118%
Median Finnish companies			10.9	10.3	7.4	5.9	0.6	0.6	14.7	13.2	3.7	3.8
<i>Diff-% to median</i>			-17%	-18%	7%	18%	78%	81%	-39%	-35%	106%	107%
Median international companies			14.8	14.0	10.9	10.3	1.7	1.5	18.1	16.7	2.4	2.9
<i>Diff-% to median</i>			-39%	-40%	-27%	-32%	-34%	-30%	-51%	-49%	215%	178%

Source: Refinitiv / *Inderes' adjusted estimate.. NB! Market cap used by Inderes does not consider own shares held by the company.

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	2024e	2025e	2026e
Revenue	2823	731	739	690	768	2928	744	695	660	750	2849	2912	2983	3064
Tietoevry Create		188	188	172	207	849	223	205	196	218	840	836	861	904
Tietoevry Banking		114	120	112	130	571	142	140	135	160	577	629	679	727
Tietoevry Care		54.4	61.5	48.9	57.1	231	62.8	59.1	52.3	63.0	237	244	256	274
Tietoevry Industry		82.9	78.5	67.4	74.6	273	68.7	63.8	61.4	67.6	261	277	293	311
Tietoevry Tech Services		121	119	105	122	1171	289	266	243	277	1075	1053	1011	961
Eliminations		-76	-77	-73	-83	-167	-41	-38	-28	-35	-142	-127	-118	-112
EBITDA	552	88.3	81.3	117	142	429	107	80	98.1	124	409	453	459	485
Depreciation	-170.0	-42	-42	-40	-39	-162	-39	-39	-36	-37	-151	-149	-153	-154
EBIT (excl. NRI)	368	85	79	98	118	379	92	73	86	109	360	375	396	422
EBIT	382	46	40	78	103	266	69	41	62	87	258	304	306	331
Net financial items	-28.2	-4	-9	-2	-8	-24	-6	-7	-8	-9	-30	-34	-31	-28
PTP	354	42	30	75	95	243	62	35	53	78	228	270	275	303
Taxes	-62.2	-9	-9	-16	-21	-54	-14	-7	-12	-16	-49	-57	-58	-64
Net earnings	292	33	22	59	75	188	48	27	41	62	179	213	217	239
EPS (adj.)	2.20	0.54	0.45	0.63	0.73	2.35	0.56	0.44	0.51	0.67	2.19	2.27	2.43	2.63
EPS (rep.)	2.46	0.28	0.18	0.50	0.63	1.59	0.41	0.23	0.35	0.52	1.51	1.80	1.83	2.02
Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	1.3 %	2.7 %	2.4 %	6.5 %	3.5 %	3.7 %	1.8 %	-6.0 %	-4.4 %	-2.4 %	-2.7 %	2.2 %	2.4 %	2.7 %
Adjusted EBIT growth-%	3.6 %	3.0 %	-10.6 %	3.9 %	14.0 %	3.1 %	8.5 %	-7.6 %	-12.5 %	-7.2 %	-5.1 %	4.3 %	5.6 %	6.7 %
EBITDA-%	19.6 %	12.1 %	11.0 %	17.0 %	18.4 %	14.6 %	14.4 %	11.5 %	14.9 %	16.5 %	14.4 %	15.6 %	15.4 %	15.8 %
Adjusted EBIT-%	13.0 %	11.6 %	10.7 %	14.2 %	15.3 %	12.9 %	12.3 %	10.5 %	13.0 %	14.6 %	12.6 %	12.9 %	13.3 %	13.8 %
Net earnings-%	10.3 %	4.5 %	3.0 %	8.6 %	9.7 %	6.4 %	6.5 %	3.9 %	6.3 %	8.2 %	6.3 %	7.3 %	7.3 %	7.8 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	2713	2565	2702	2672	2638
Goodwill	1944	1847	1985	1985	1985
Intangible assets	388	337	331	286	241
Tangible assets	280	299	310	325	336
Associated companies	16.7	14.2	14.2	14.2	14.2
Other investments	17.0	16.2	10.0	10.0	10.0
Other non-current assets	38.1	20.6	20.6	20.6	20.6
Deferred tax assets	29.9	31.4	31.4	31.4	31.4
Current assets	874	829	845	766	769
Inventories	7.2	5.6	0.0	0.0	0.0
Other current assets	23.3	23.6	23.6	23.6	23.6
Receivables	520	550	655	641	626
Cash and equivalents	324	250	166	102	119
Balance sheet total	3587	3394	3547	3438	3407

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	1821	1719	1686	1722	1756
Share capital	118	116	75.8	75.8	75.8
Retained earnings	500	400	407	443	477
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	1204	1204	1204	1204	1204
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	999	891	806	746	711
Deferred tax liabilities	27.6	24.6	24.6	24.6	24.6
Provisions	22.4	21.7	21.7	21.7	21.7
Interest bearing debt	876	795	710	650	616
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	73.4	49.4	49.4	49.4	49.4
Current liabilities	767	783	1055	970	940
Interest bearing debt	94.0	165	400	300	254
Payables	673	619	655	670	686
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	3587	3394	3547	3438	3407

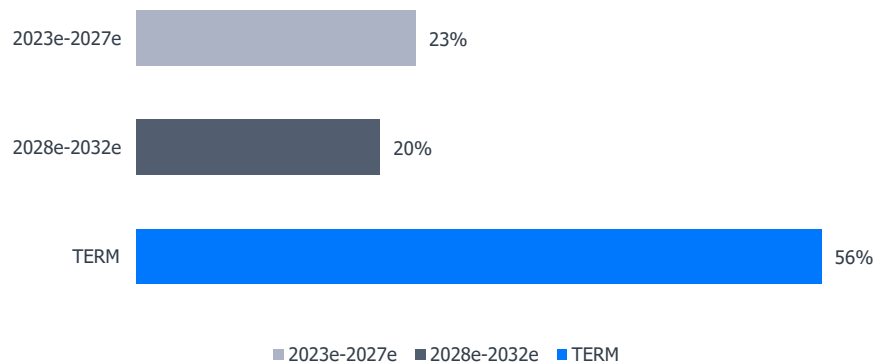
DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	3.7 %	-2.7 %	2.2 %	2.4 %	2.7 %	4.0 %	3.0 %	3.0 %	2.5 %	2.5 %	1.5 %	1.5 %
EBIT-%	9.1 %	9.1 %	10.4 %	10.3 %	10.8 %	11.0 %	11.0 %	11.0 %	10.0 %	10.0 %	10.0 %	10.0 %
EBIT (operating profit)	266	258	304	306	331	351	361	372	347	355	361	
+ Depreciation	162	151	149	153	154	154	154	141	136	133	131	
- Paid taxes	-58.7	-49.4	-56.7	-57.7	-63.7	-68.3	-71.3	-74.3	-69.5	-71.8	-73.5	
- Tax, financial expenses	-5.6	-6.7	-7.3	-6.7	-6.1	-5.5	-4.7	-4.0	-3.5	-2.9	-2.4	
+ Tax, financial income	0.3	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	
- Change in working capital	-83.4	-62.9	29.1	30.5	32.3	3.7	2.9	3.0	2.5	2.6	1.6	
Operating cash flow	281	291	418	425	448	435	442	437	412	416	417	
+ Change in other long-term liabilities	-24.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-14.8	-288.8	-118.1	-119.4	-120.6	-121.9	-123.2	-124.5	-125.8	-127.2	-128.4	
Free operating cash flow	242	1.9	300	306	328	313	319	313	286	289	289	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	242	1.9	300	306	328	313	319	313	286	289	283	4805
Discounted FCFF		1.8	276	262	260	231	219	200	170	160	149	2476
Sum of FCFF present value		4403	4401	4126	3864	3604	3372	3153	2953	2782	2623	2476
Enterprise value DCF		4403										
- Interest bearing debt		-960.0										
+ Cash and cash equivalents		250										
-Minorities		0.0										
-Dividend/capital return		-171.7										
Equity value DCF		3521										
Equity value DCF per share		29.7										

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

Source: Inderes

Cash flow distribution



Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	2786	2823	2928	2849	2912	EPS (reported)	0.80	2.46	1.59	1.51	1.80
EBITDA	323	552	429	409	453	EPS (adj.)	2.19	2.20	2.35	2.19	2.27
EBIT	147	382	266	258	304	OCF / share	1.93	4.42	2.37	2.45	3.53
PTP	122	354	243	228	270	FCF / share	0.32	3.27	2.04	0.02	2.53
Net Income	95	292	188	179	213	Book value / share	13.73	15.38	14.52	14.24	14.54
Extraordinary items	-208	14	-113	-102	-71	Dividend / share	1.32	1.40	1.45	1.50	1.55
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	3605	3587	3394	3547	3438	Revenue growth-%	61%	1%	4%	-3%	2%
Equity capital	1626	1821	1719	1686	1722	EBITDA growth-%	40%	71%	-22%	-4%	11%
Goodwill	1974	1944	1847	1985	1985	EBIT (adj.) growth-%	81%	4%	3%	-5%	4%
Net debt	916	646	710	944	848	EPS (adj.) growth-%	9%	1%	7%	-7%	4%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	11.6 %	19.6 %	14.6 %	14.4 %	15.6 %
EBITDA	323	552	429	409	453	EBIT (adj.)-%	12.7 %	13.0 %	12.9 %	12.6 %	12.9 %
Change in working capital	-67	19	-83	-63	29	EBIT-%	5.3 %	13.5 %	9.1 %	9.1 %	10.4 %
Operating cash flow	229	523	281	291	418	ROE-%	5.7 %	16.9 %	10.6 %	10.5 %	12.5 %
CAPEX	14	-111	-15	-289	-118	ROI-%	5.4 %	13.7 %	9.8 %	9.5 %	11.1 %
Free cash flow	38	387	242	2	300	Equity ratio	45.1 %	50.8 %	50.7 %	47.5 %	50.1 %
Valuation multiples	2020	2021	2022	2023e	2024e	Gearing	56.3 %	35.5 %	41.3 %	56.0 %	49.2 %
EV/S	1.5	1.4	1.3	1.1	1.1						
EV/EBITDA (adj.)	12.7	7.1	9.0	7.9	7.0						
EV/EBIT (adj.)	11.5	10.6	10.2	9.0	8.4						
P/E (adj.)	12.3	12.5	11.3	8.9	8.6						
P/B	2.0	1.8	1.8	1.4	1.3						
Dividend-%	4.9 %	5.1 %	5.5 %	7.7 %	7.9 %						

Source: Inderes

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Accumulate The 12-month risk-adjusted expected shareholder return

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

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

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Recommendation history (>12 mo)

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



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