Innofactor

Extensive report

6/28/2022 19:45

Joni Grönqvist
+358 40 515 3113
joni.gronqvist@inderes.fi

Inderes corporate customer

This report is a summary translation of the report "Prosessorista vielä ulosmitattavaa" published on 6/28/2022 at 7:47 pm

Processor still has underutilized potential

Innofactor's turnaround progressed convincingly for a couple of years, driven by a strong Finnish business. Last year, earnings growth stopped and now the company seeks return to growth. Innofactor revised its organizational structure last year and refined the strategy to support stronger growth. We expect modest earnings growth this year and stronger growth in the longer-term requires a solid Nordic business. The foundation for implementing the Nordic growth strategy exists but requires proof of implementation. The potential return of the share, consisting of earnings growth (~ 8%) and dividend yield (>5%) still favors a positive view. We reiterate our Accumulate recommendation and lower the target price to EUR 1.35 due to changes in the valuation landscape and increased required return.

Growth in recurring services supports performance

Throughout its history, Innofactor has grown strongly through acquisitions in Finland and abroad by consolidating the field of IT suppliers specialized in Microsoft. After several acquisitions, in 2016 the company's strategy moved to a stage where focus shifted to constructing a unified Nordic organization. After the slump in 2017-18, the company's turnaround progressed for three years and the share of recurring services has grown strongly in recent years (2017: 35% of net sales and 2021: 56%), which provides business continuity and lowers the risk profile.

Strategy refinement to support stronger growth

In recent years, Innofactor has invested in building a uniform Nordic organization. Last fall, Innofactor revised its strategy and organizational structure to support growth and efficiency more strongly. In June, the company strengthened its data expertise with an acquisition in line with the strategy. It is critical that the company can return its operations in Sweden and especially in Finland to the growth path. In the long term, the company aims to create value from synergies and efficiency in a unified Nordic organization.

We expect moderate earnings growth and realizing the potential requires proof

Innofactor has sustainably turned profitability to satisfactory levels, achieved a strong order backlog, strengthened its balance sheet, and substantially increased the share of recurring sales (>50%). This year, Innofactor focuses particularly on growth and we estimate a 5% increase in the company's net sales driven by the Invenco acquisition. We expect EBITDA (adj.) to remain at the 2021 level at 11.4%, supported by better billable utilization and depressed by wage inflation. We consider the company's long-term goals (20% growth and 20% EBITDA) achievable, but to materialize they require strong uniform performance across the Nordic organization. We expect net sales to grow 3 % organically and EBITDA % to be 12% in 2022-25. Key risks are related to the building of a uniform Nordic organization being prolonged and implementing the growth strategy.

Annual expected return potential supports a positive view

We believe the positioning of Innofactor's valuation is gradually becoming more robust in the profit generator category but this requires continuous evidence. With 2022 multiples (EV/EBIT 9x and PE and 11x) we find the share's valuation neutral and with corresponding multiples for 2023 (8x and 9x) the valuation is attractive but involves uncertainty. The share's return potential of close to 15%, consisting of earnings growth and dividend yield, supports the positive view. The conservative DCF calculation (EUR 1.57) also indicates that the share is attractively priced.

Recommendation

Accumulate
(previous Accumulate)

EUR 1.35
(previous EUR 1.45)

Share price:
1.17

Key figures

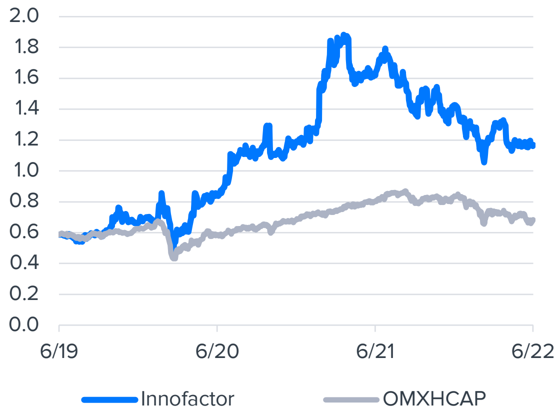
	2021	2022e	2023e	2024e
Revenue	66	70	75	77
growth-%	0%	5%	7%	3%
Käyttökate	10.1	8.0	8.5	8.9
Käyttökate-%	15.2 %	11.4 %	11.4 %	11.6 %
Net Income	4.5	3.7	4.3	4.6
EPS (adj.)	0.07	0.11	0.13	0.14
P/E (adj.)	23.2	11.1	9.2	8.6
P/B	2.2	1.6	1.5	1.4
Dividend yield-%	5.3 %	4.3 %	5.1 %	6.0 %
EV/EBIT (adj.)	14.4	9.4	7.8	6.8
EV/EBITDA	6.3	6.5	5.6	4.9
EV/S	1.0	0.7	0.6	0.6

Source: Inderes

Guidance (Unchanged)

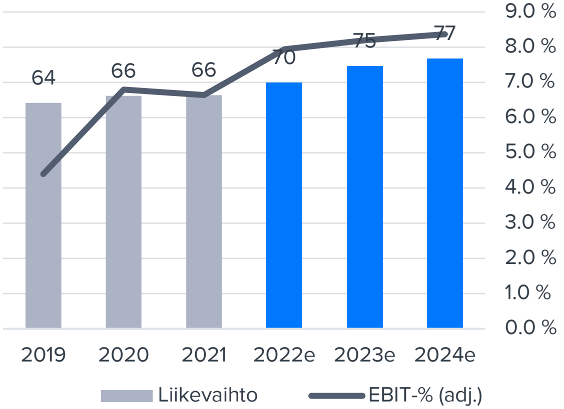
Innofactor's net sales and adjusted operating margin (EBITDA) in 2022 are estimated to increase from the year before (2021: 66.4 MEUR and 7.5 MEUR).

Share price



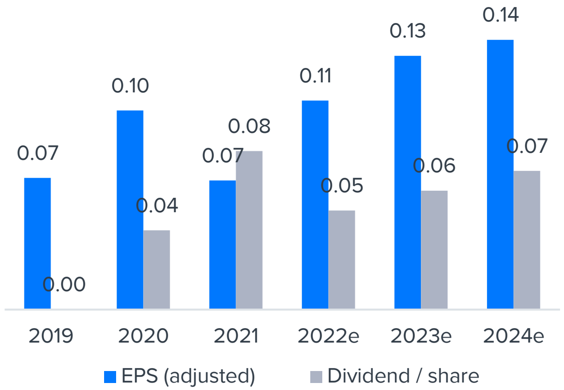
Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Growth and profitability improvement in Sweden, Norway and Denmark
- Turnaround continuing and strengthening
- Restoring investor confidence, even though it has progressed well
- Organic and acquisition-driven growth
- Increasing share of continuous business and own product business

Risk factors

- Failure of the new growth strategy
- Failure in strengthening international business
- Delay in building a Nordic organization
- Internationalization and acquisitions raise the risk level
- Weakening of Microsoft's position
- Geopolitical situation

Valuation	2022e	2023e	2024e
Share price	1.17	1.17	1.17
Number of shares, millions	36.6	36.6	36.6
Market cap	43	43	43
EV	52	48	44
P/E (adj.)	11.1	9.2	8.6
P/E	11.7	10.0	9.4
P/FCF	19.8	7.0	6.7
P/B	1.6	1.5	1.4
P/S	0.6	0.6	0.6
EV/Sales	0.7	0.6	0.6
EV/EBITDA	6.5	5.6	4.9
EV/EBIT (adj.)	9.4	7.8	6.8
Payout ratio (%)	50.0 %	51.2 %	55.9 %
Dividend yield-%	4.3 %	5.1 %	6.0 %

Source: Inderes

Contents

Innofactor in brief

Innofactor is Finland's leading software supplier focusing on Microsoft solutions and one of the leading suppliers in the Nordic countries.

2000
Year of establishment

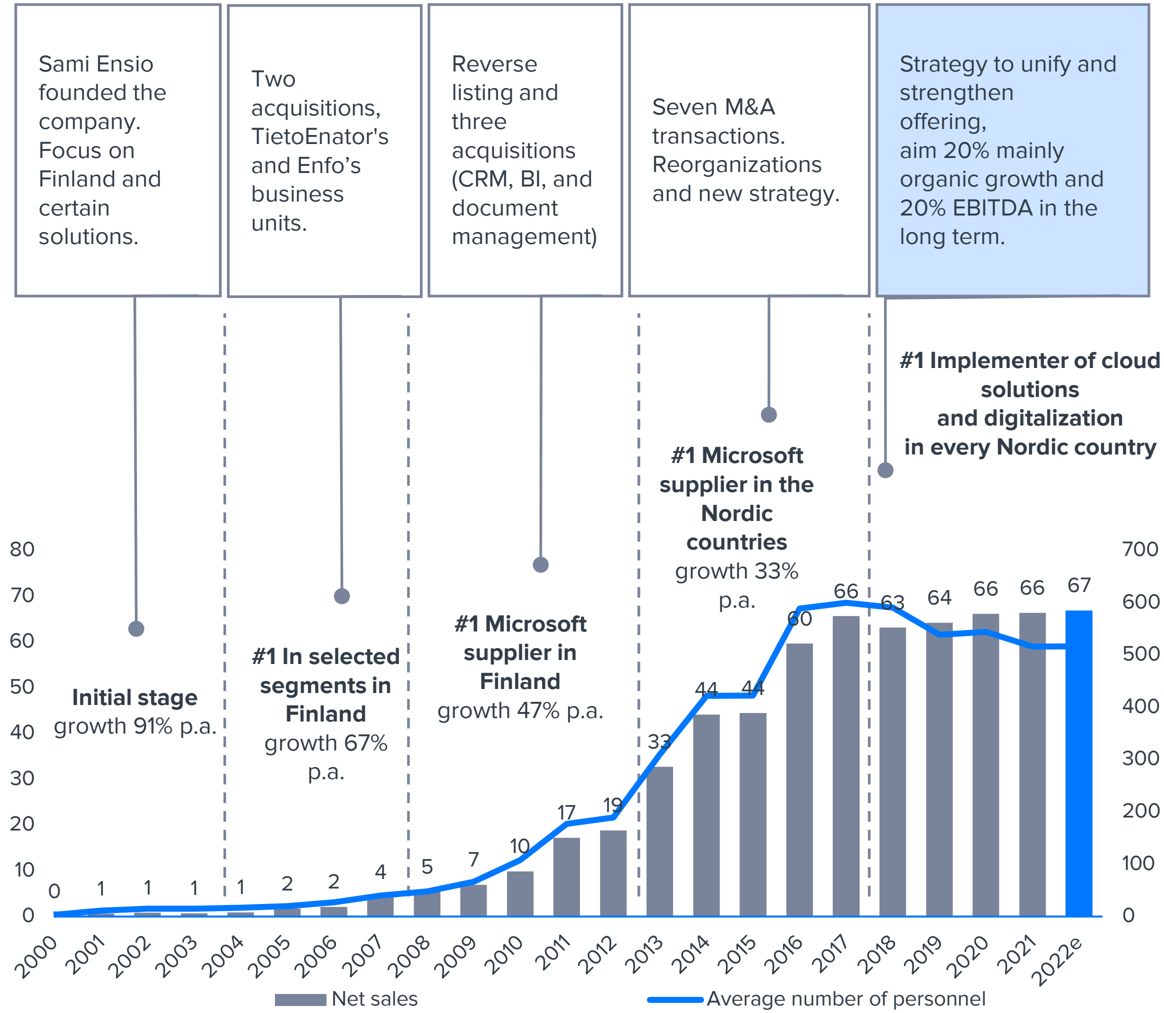
21.1%
Holding of CEO and immediate circle

EUR 66.4 million (+0.3 % vs. 2020)
Net sales 2021

66% Finland
18% Sweden
10% Norway
6% Denmark
Geographical share of net sales

EUR 7.5 million (11% of net sales)
EBITDA (adj.) 2021

502 (-6% vs. Q1'21)
Personnel at the end of Q1'22



Source: Innofactor / Inderes

Company description and business model 1/3

Company description

Entrepreneur-driven growth company

Innofactor established in 2000 is one of the leading software suppliers focusing on Microsoft solution in the Nordic countries. The company's business mainly consists of acting as a system integrator in IT projects, as well as developing and selling own software products and services. The company employs around 550 people in Finland, Sweden, Denmark, and Norway after the Invenco acquisition in 6/2022.

Innofactor's current structure was born out of several M&A transactions. The company was listed on the Helsinki stock exchange by making a reversed listing and acquiring Westend ICT's entire stock at the end of 2010. Since then, the company has grown quickly through acquisitions and with the Lumagate acquisition (2016) the company gained an extensive Nordic platform for further expansion it was seeking. Due to operational challenges, the international growth strategy hit a pit in 2018. The turn for the better began in 2019 and has continued stably especially pulled by the Finnish business.

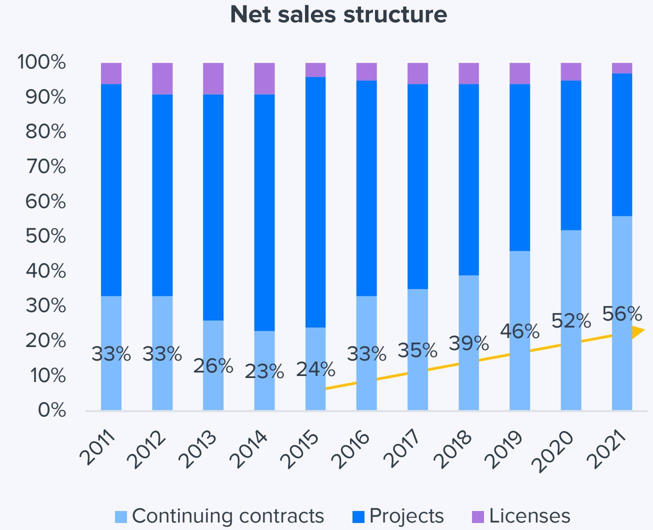
Innofactor's founder entrepreneur Sami Ensio still acts as the company's CEO and Board member and is also the company's biggest owner with a share of some 21%.

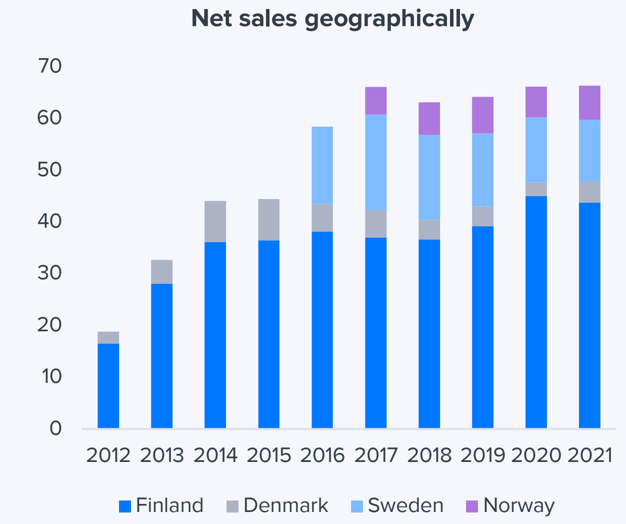
Presence in all Nordic countries

Innofactor has over 1,000 corporations, voluntary sector, and public administration organizations as its customers in Finland, Sweden, Denmark, and Norway. The company opened a new office in Jyväskylä in 2021 to facilitate recruitment and support growth. Innofactor's ten largest customers generated 28% of the company's net sales in 2021. Last year, the company's net sales grew by <1% to EUR 66 million. Of the 2021 net sales, 43% came from corporate customers, 43% from public administration, and 14% from the voluntary sector. The Prime business divested in 2021 will contribute to the decline in the share of the voluntary sector.

Geographically the company has historically expanded through acquisitions. Geographically, 66% of net sales came from Finland last year, 18% from Sweden, 10% from Norway, and 6% from Denmark.

After several acquisitions, in 2017 Innofactor started to build a uniform Nordic service and product offering and a Nordic organization. The company did, however, face several challenges and instead of synergies from acquisitions operational risks materialized. In 2019, the company was, however, able to launch a brisk earnings turnaround. Now the company is in a development stage where the base, especially abroad is still being fixed before returning to a stronger growth stage. To our understanding the company wants to strengthen the offering and size class of international operations. We believe the synergies between the countries have so far been relatively small and the aim is to improve this by continuing to build a uniform Nordic organization. In recent years, the company has harmonized and concentrated its administrative tasks in particular.





Company description and business model 2/3

Business model

System integrator in the Microsoft ecosystem

The business model of Innofactor is that of an IT service company that primarily delivers Microsoft technologies as projects and maintains these technologies. The company has also developed its own software product solutions to support the service business. The aim of the company in the long term is to focus on productizations that increase the scalability and continuity of the business. The company has been able to clearly increase the share of continuous net sales in the long term.

In 2021, 41% of the net sales (2018: 55%) came from delivery projects and consulting, 33% (2018: 20%) from expert work based on continuous agreements, 23% (2018: 19%) from service and software maintenance based on continuous agreements (e.g. Azure cloud services), and 3% (2018: 6%) from license sales.

Innofactor's core business is to mainly work as a system integrator in the Microsoft ecosystem. As a smallish player, Innofactor must specialize on a particular expertise area in the IT market. The company believes its competitive advantage is generated from specializing in Microsoft solutions and in future increasingly from extensive geographic presence. The company's solution offering is extensive and covers all key areas in Microsoft's corporate solutions. The solutions can be delivered to the customer in Microsoft's cloud environment or in the customer's own environment. The need for Innofactor's expertise is further increased by customers' shift to Microsoft's cloud environments.

Innofactor also develops its own software products to support the Nordic service business. Own products built on Microsoft's technologies create competitive advantages in the project business and increase the scalability of the business. Most of the service and software maintenance based on continuous agreements is the company's own products. Thus, the company's own products and productized services already generate stable and quite large income flow. In software products, the company seeks growth especially from the Dynasty product and trade union software. Growth is also supported by sales of solutions and services related to Virtual Datacenter and Azure that to some extent are sold together. In own products there is growth potential especially abroad. At the beginning of June, Innofactor achieved a strategically important opening in Sweden when the Greater Stockholm Fire Brigade selected the company's Dynasty product in a public procurement competition.

Extensive offering of IT services

Innofactor has an extensive life cycle offering of IT services. The offering covers planning, integration, development, and maintenance. The entire offering with all services is rarely sold at once, customers usually first buy one part (proof of concept, e.g. a project) and after this, other additional services (e.g. maintenance services).

Projects are usually relatively short depending on the size of the project. Continuous agreements typically start out as three-year agreements after which they continue as valid until further notice typically for over 10 years as it is hard and expensive for customers to change/arrange competitive bidding for maintenance of Innofactor's solutions.

Business Areas

Digital services
Software Development and DevOps
App and Data Modernization
Process Digitalization
Low-code Development

Business solutions
Sales and Marketing | CRM
Customer Service Enablement
Finance and Operations | ERP
Project and Membership Management

Information and case management
Collaboration and intranets
Document and records management
Case and decision management
Contract and quality management

Data and analytics
Data Platform Modernization
Advanced Analytics and BI
Master Data Management | MDM
AI, real-time Analytics and IoT

Cloud infrastructure
Managed Services and DevOps
Cloud Transformation
Governance and Automation
Migrations

Cybersecurity
und
er
Security Assessment
Hybrid Work Security
Platform and Solution Security
Identity and Access Management | IAM

Around 50 experts

Partners

Microsoft and other technology suppliers

Subcontractors, talent resources

Operations

- Recruitment
- Sales
- Consulting and projects
- Continuous services and support
- Own software products and product development

Business Areas

- Digital services
- Business solutions
- Information and case management
- Data and analytics
- Cloud infrastructure
- Cybersecurity

Business idea

Leading supplier of cloud solutions and digitalization in the Nordic countries

INNOFACTOR®

- Modern digital organization
- More personal digital customer experience
- Secure cloud platform
- Higher operational productivity
- Modern employee experience
- Data oriented business

Objectives

- Innofactor's guidance is that net sales and EBITDA will grow from 2022
- In the long term, the aim is around 20% growth and 20% EBITDA margin.

Competition

IT generalists: accenture, tietoEVRY, CGI, digia, GOFORE, SOLTEQ

Medium sized players on the IT market: LOIHDE, siili_, SOFIGATE, futurice, Reaktor, VINCIT, Witted, INNOFACTOR®, BILOT, SOLITA, idean

Customer segments (2021)

Corporations 43%

Public administration 43%

Voluntary sector 14%

66%

18%

10%

6%

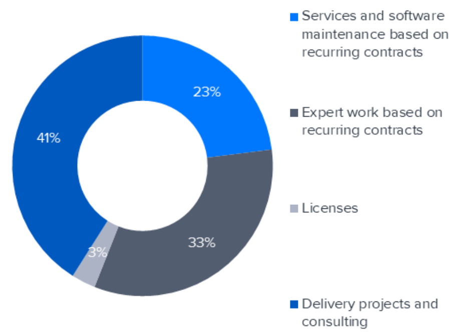
Cost structure

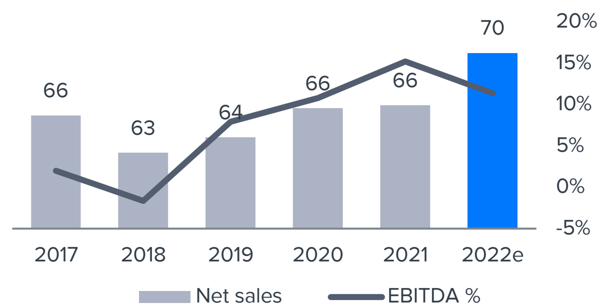
500 employees (2021)
63 MEUR (2021)

- Personnel costs *(68% of costs)*
- Subcontractors and purchases *(14%)*
- Other operating expenses *(10%)*
- Depreciation *(6%)*

Income streams

Net sales EUR 66 million (2021)
EBITDA (adj.) EUR 8 million (2021)





Source: Inderes

Company description and business model 3/3

Thus, there is not similar cost pressure in maintenance as in well-standardized ICT services. The profitability of a customer relationship typically improves over time.

Innofactor refined its offering and structure last fall to better reflect the current strategy. Innofactor's offering includes the following business areas: Digital Services, Business Solutions, Data and Case Management, Data and Analytics, Cloud infrastructure and Cybersecurity. Previously, the company had three business units and a cybersecurity unit announced in August. The company's aim is to recruit a significant number of new experts to the new business units. In June, the company strengthened its data and analytics expertise by acquiring Invenco.

Own products

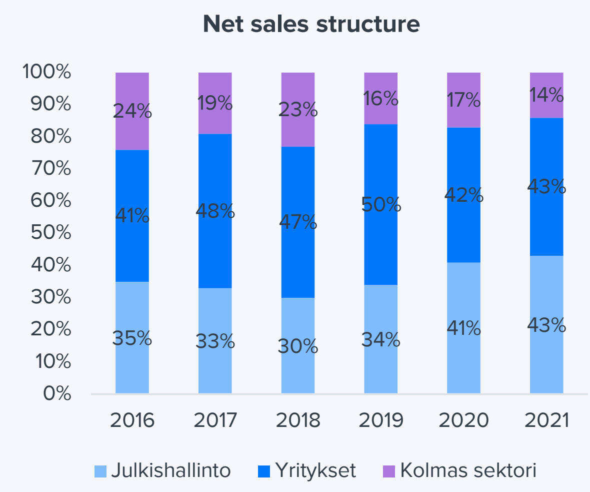
With Innofactor's strategy the role of own software solutions grows, and the company tries to be a continuous service house built more strongly on products. The share of Innofactor's own product's license sales in net sales was good 2% last year and a considerable share of own product sales is visible in maintenance income (23%). Sales of own software products is very scalable net sales. Innofactor spent EUR 3.5 million on product development of its own software products, which represents 5% of net sales (2020: EUR 3.6 million or 5%). The company does not capitalize product development investments in the balance sheet, but they are recognized as expenses in the income statement.

In our view, especially the Dynasty product has been renewed in recent years and its demand is strong and profitability good. The product is currently sold mainly in Finland, but Innofactor is taking steps to expand product sales to Sweden, where the Greater Stockholm Fire Brigade is an important opening.

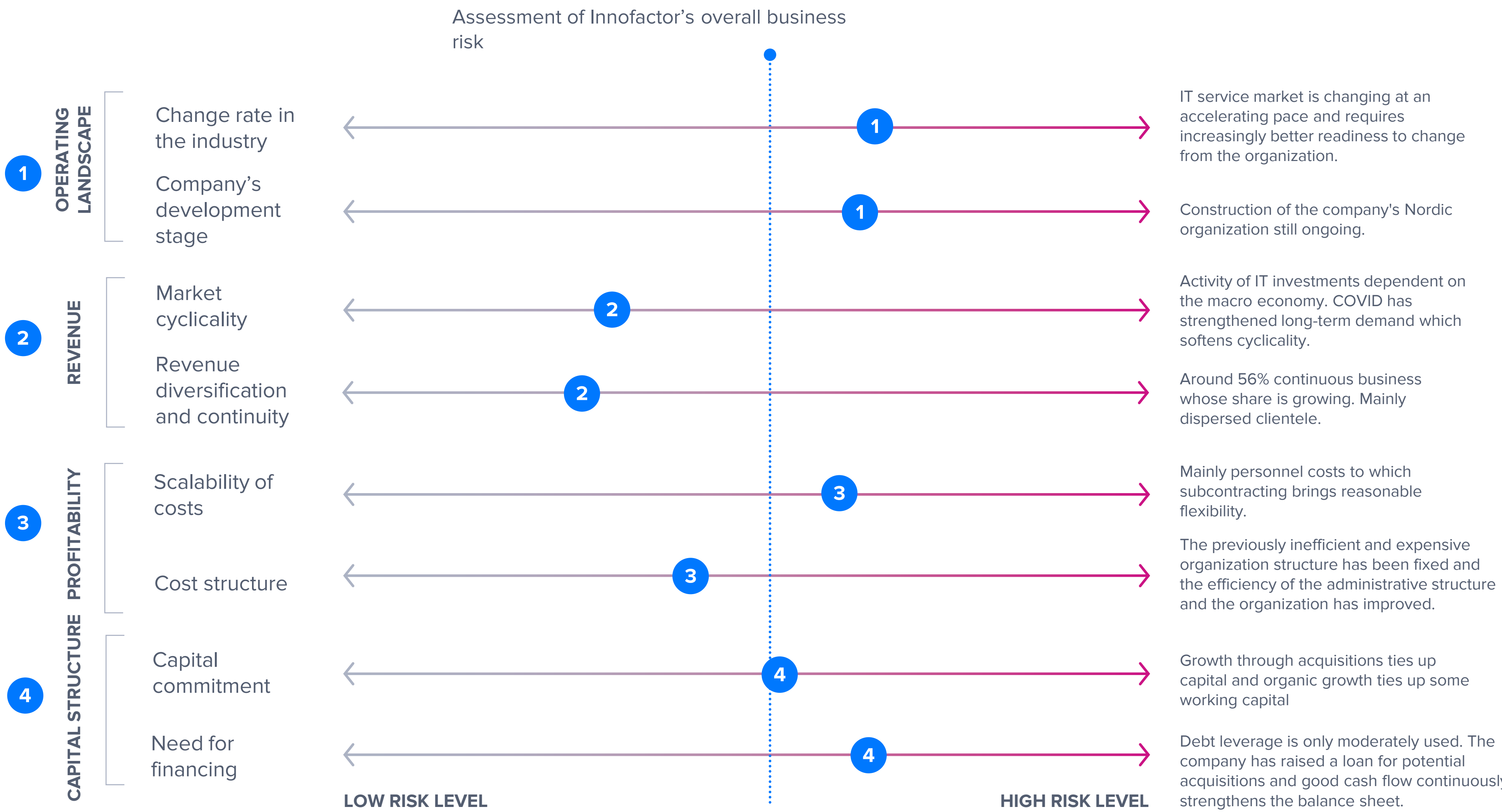
Some 50 people work on Dynasty's R&D, sales and implementation. We feel that the Dynasty product could independently comprise a rather large share of Innofactor's market cap, but we believe that the value is hidden within the Group and determining its value more closely is very challenging because investors have no detailed visibility into its profitability and development.

Innofactor has previously said that it expects its product development costs to rise in the longer term even close to the historic 10% level when the company invests more in its own software. In the next few years we expect product development costs to be at the level of recent years as the company focuses on exploiting growth and profitability with the current offering.

The share of third-party licenses in Innofactor's sales was around 3% last year (2020: 5%). We estimate that the average margin of third-party license reselling (in practice Microsoft) is on average around 20% but there is clear downside pressure in reselling margins throughout the sector.



Risk profile of the business model



Source: Inderes

IT service market 1/7

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.

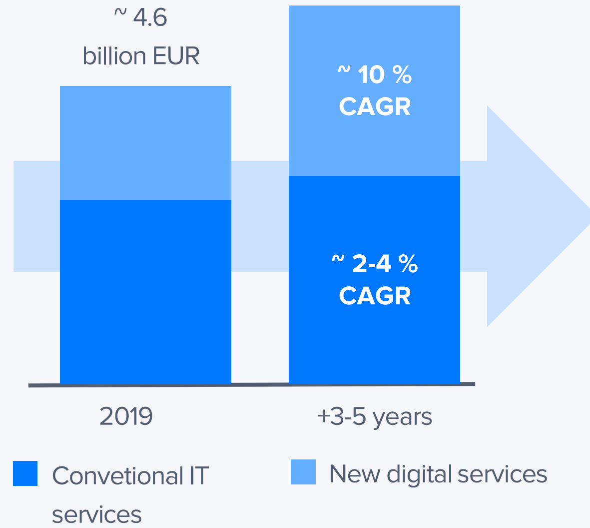
Long-term growth outlook of the market

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.

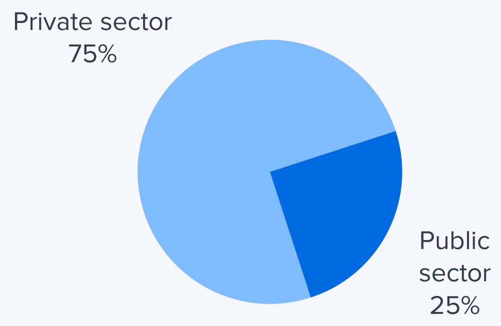
Therefore, IT service companies offer investors a good opportunity to invest in the digitalization trend with the more limited risk profile of the service business. One can expect the market to grow more quickly than the macro economy in the long term.

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 2/7

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.

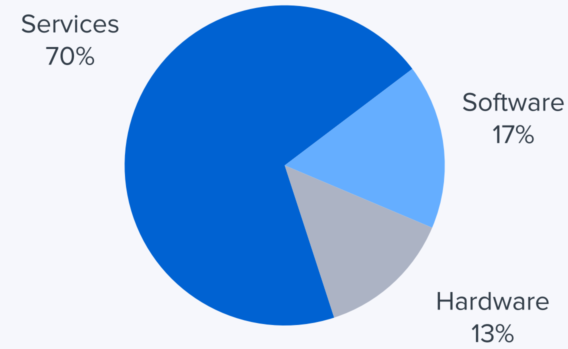
The desired expertise areas are increasingly linked to new digital services and less to background systems. The market revolution created strong growth potential for many original players of the new era (e.g. Futurice, Solita, Reaktor, Sili, Gofore and Vincit), that are profiled as developers of new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

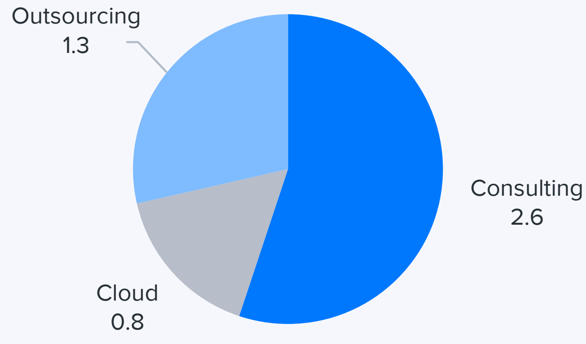
A clear trend on the market has in recent years been that IT purchases become more serious as the customer organizations have realized that you cannot get a short cut to digitalization by buying digital applications bypassing data administration. Organizations' established data systems will not disappear, 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 3/7

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.

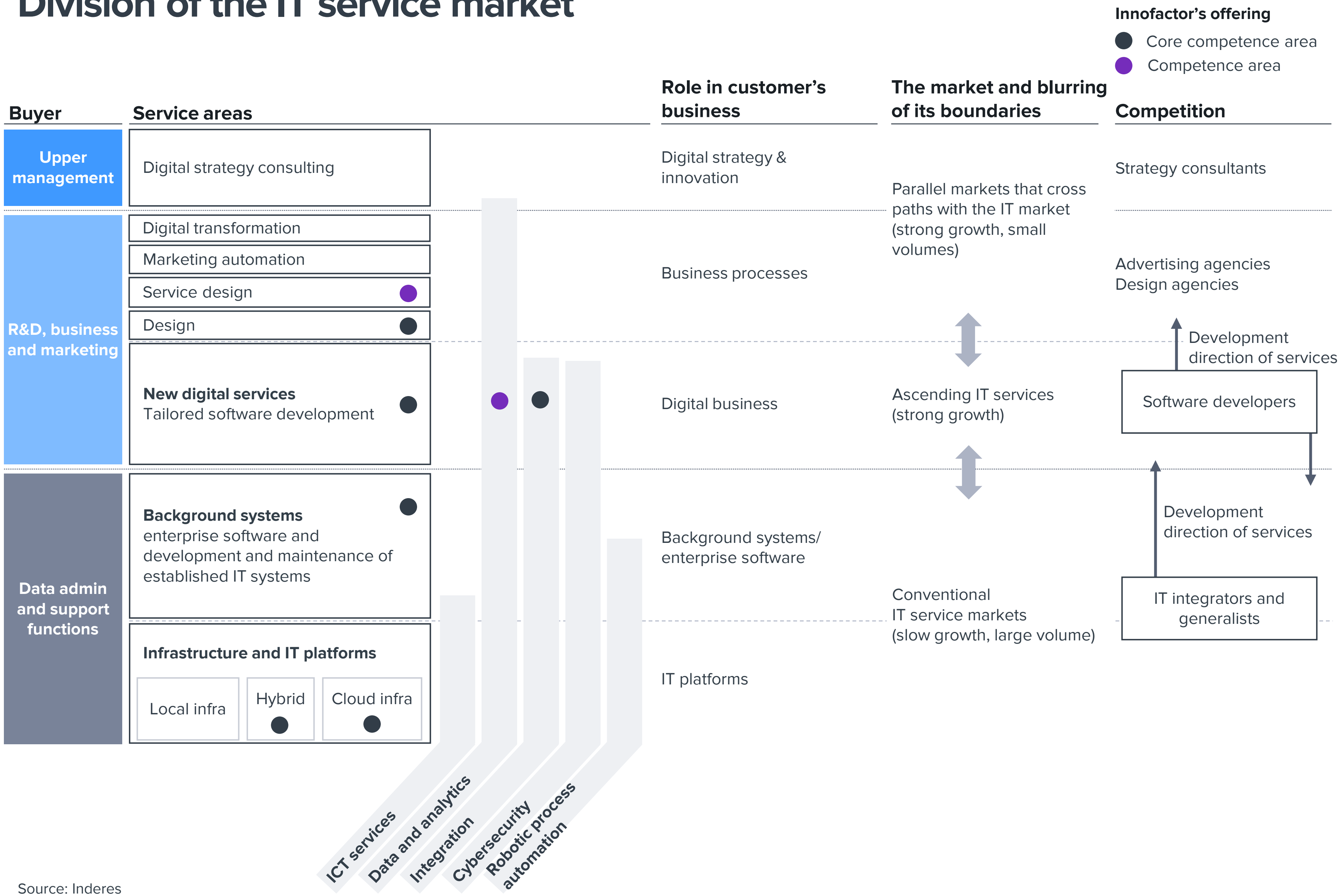
We believe the Finnish IT service market is strongly developing in a direction where the paths of conventional and new players cross and the boundary between new and conventional IT continues to blur.

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.

Division of the IT service market



Source: Inderes

IT service market 4/7

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. This trend towards a life cycle approach is one challenge for pure digital service developers in the competition with generalists.

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. Innofactor just strengthened this expertise through an acquisition.

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. Innofactor has also invested in cyber security and set up a unit in H1'21 to which it has made promising recruitments.

Automation is also becoming more important as a service area. 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.

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

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.

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.

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.

IT service market 5/7

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 software resellers have decreased in recent years. Players that are dependent on license reselling are the losers. Customers are the winners.

Customer organizations becoming silo-like will be a challenge for IT company sales. In addition to data administration, the IT buyer is increasingly marketing or product development, but building of a digital business requires cooperation between these areas and the ability to manage the whole. Players that manage large entities and who can address the customer's management and marketing are the winners.

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 purely on offshore cost efficiency are the losers. Players who can combine local presence near the customer with sufficient cost efficiency by utilizing nearshore and/or offshore resources proportionately will be the winners. Robotic process automation experts are also among the winners.

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 turnover. 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. 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 agreements in the public sector are conventionally long and thus offer continuity. Thus, a shift in the customer focus can if successful be one driver for higher customer prices.

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.

IT service market 6/7

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 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 the 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 7/7

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 net sales 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 debt leverage in acquisitions is a good option when interest rates are low, which 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 net sales 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.

Clear expert areas that in recent years have been acquired to strengthen the offering are consulting, transformation management, as well as data and analytics. Arrangements have naturally also been made for delivery capacity.

In November, 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.

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

1=lowest, 5=highest.
*Situation if IPO is successful

Source: Inderes' estimate

Acquisitions in the Nordic countries

Date	Buyer	Target	Revenue MEUR	EBITDA MEUR	EBITDA-%	Personnel	EV MEUR	EV/Sales	EV/EBITDA
06/22	Innofactor	Invenco Oy	6	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			25			
04/22	Diga	MOST Digital	3	0.0	0 %	34			
01/22	Gofore	Devecto	11	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			450			
11/21	HiQ	Lamia	8.3	2.7	33 %	90			
10/21	NetCompany	Intrasoft International S.A.	197	18.0	9 %	2800	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				1200			
05/21	eCraft (Fellowind)	Project-IT	12			30			
05/21	Eficode	Beecom (SUI)	10	1.5	15 %	58	10	1.0x	6.7x
05/21	Loihde (ent. Viria)	Talent Base Oy	7	1.1	15 %	58	10	1.4x	6.7x
05/21	HiQ	Scandio (GER)				100			
05/21	Knowit	Cybercom				1200			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 ja Celkee Oy	5.6	1.2	21 %	50		1.1x	5,1x
12/20	IBM	Nordcloud	80			490			
12/20	Digia	Climber (SE, FI, DK, NED)	14	0,7	5 %	77	8-14	0.6x-1.0x	12x-20x
12/20	Siili	Supercharge (Hungary)	9	2.1	23 %	115	17	~1.8x	~8x
08/20	Triton	Hiq	~180	~25	14 %	1500	~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 ja Orango							
06/19	Tieto	Evry	1290	180	14 %	9400		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)	2					1.0	
03/19	CGI (tarjous)	Acando (SE and 2018 act. figures)	280	28	10 %	2100	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 businesses)				40			

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 a net sales 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.

Innofactor's competitors

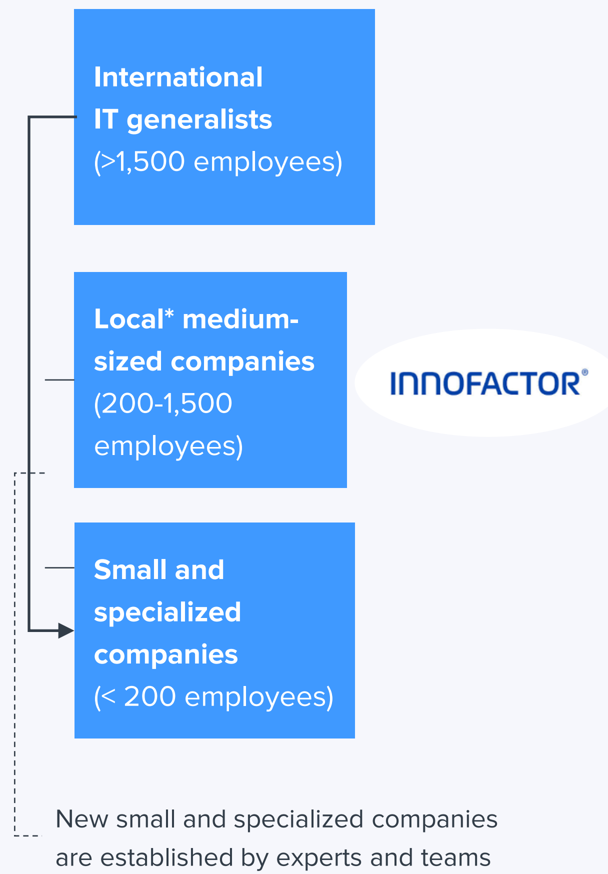
Innofactor's competitors are large often international IT generalists, medium-sized IT service companies, and small players specialized in certain solutions. Examples of generalists are Tietoevry, CGI, Capgemini, Fujitsu and Accenture (Avanade). Among medium-sized IT service companies Digia, eCraft, HiQ and KnowIT can be mentioned as competitors. It is, however, hard to pick clear individual main competitors due to the fragmented sector and Innofactor's Microsoft specialization. Of individual companies, Innofactor faces Tietoevry most often in tender processes. Small software developers (like Vincit, Reaktor and Futurice) mainly operate on different markets and thus Innofactor seldom faces them in competition but with Siili the company participates in some of the same competitive biddings in the area of digital customer experience. In public administration the company faces Gofore in competition who has succeeded in public administration with a strategy based on open-source code. Next to Innofactor, also Digia and eCraft are strong in Microsoft's ERP solutions in Finland. In Microsoft's cloud-based solutions and especially in the Office365 area the company competes with the rapidly growing Sulava.

Innofactor stands out from its biggest competitors with its agility, service, productized offering, local expertise, and know-how in Microsoft solutions. Customer organizations rarely want to buy from players that are clearly bigger than themselves, so the company also has a more natural position among medium sized customers. Innofactor stands out from smaller competitors with its Microsoft expertise, productization, as well as the credibility and references of a larger player.

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.

Dynamics of the competitive landscape



*There are also international or internationalizing companies among medium-sized companies
Source: Inderes

Competitive landscape 2/5

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. 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.

Innofactor's competitive factors

Strengthening factors

- Ability to deliver and maintain business critical systems
- Solid Microsoft expertise
- Productization of offering and own software products
- Good position in public sector in Finland
- Product offering that covers life cycle

Weakening factors

- Facing large generalists with extensive offshore resources
- Several small, agile players as challengers
- Strong competition for experts limits growth
- Excluding other technologies

Source: Inderes

Competitive landscape 3/5

Growth and profitability of the peer group

The figure on page 32 examines the growth and profitability of listed and unlisted Finnish and other Nordic IT service companies. 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. Strong organic growers have been, e.g., Eficode, Witted, Sulava, Siili, Vincit, Futurice, 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 27% 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
- Acquisitions

Short-term

- Increasing customer prices
- Recruitment - employee image, low turnover
- Improving efficiency through billable utilization and/or process efficiency
- Increasing subcontracting
- Acquisitions, even though the hot market partially limits the potential

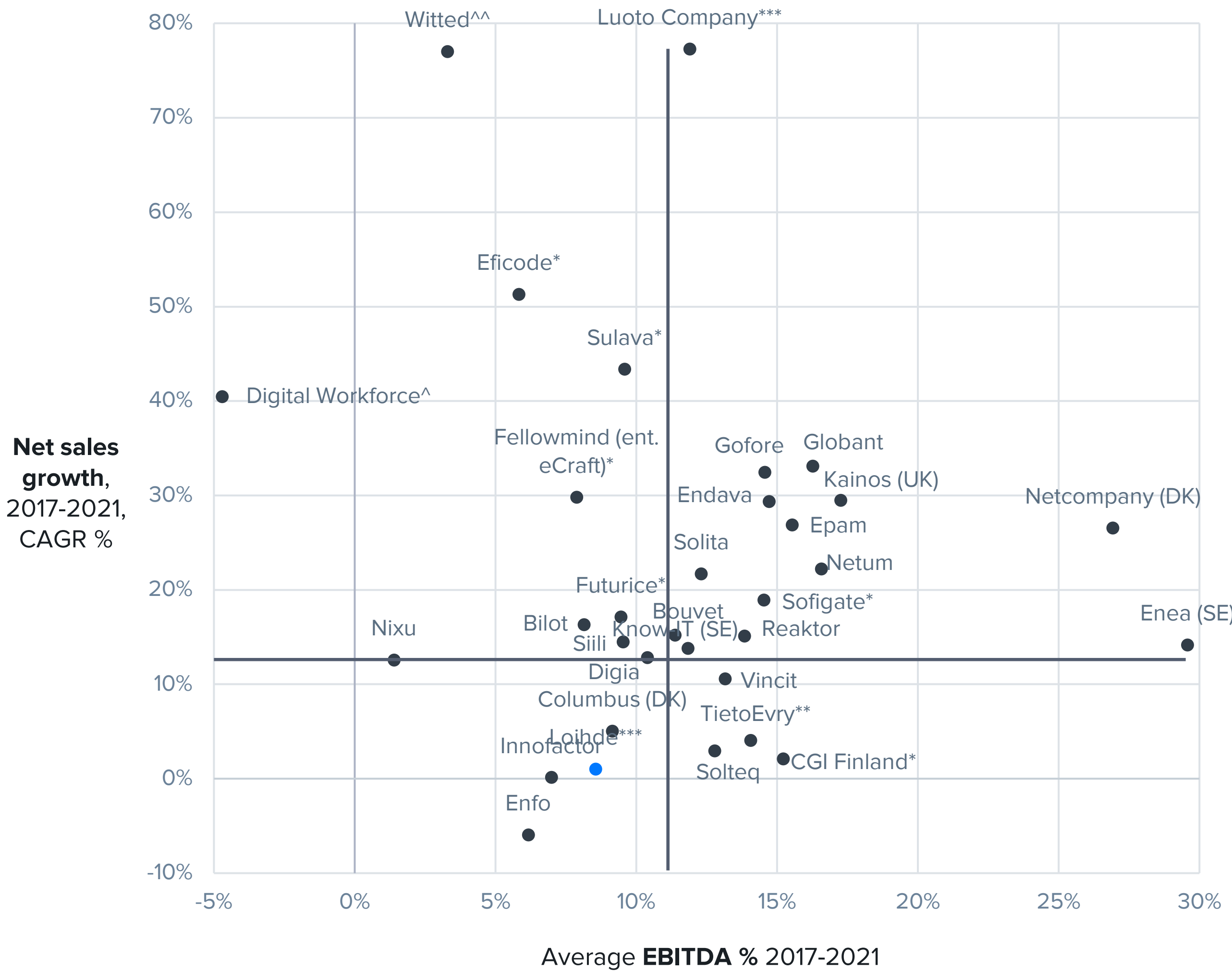
Profitability drivers

Short-term

- Billable utilization
- Improving efficiency
- Controlling wage inflation
- Turnover management
- New operating methods caused by COVID and thus permanently lowered fixed cost efficiency and probable drop in travel expenses

Competitive landscape 4/5

Competitors' financial development



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

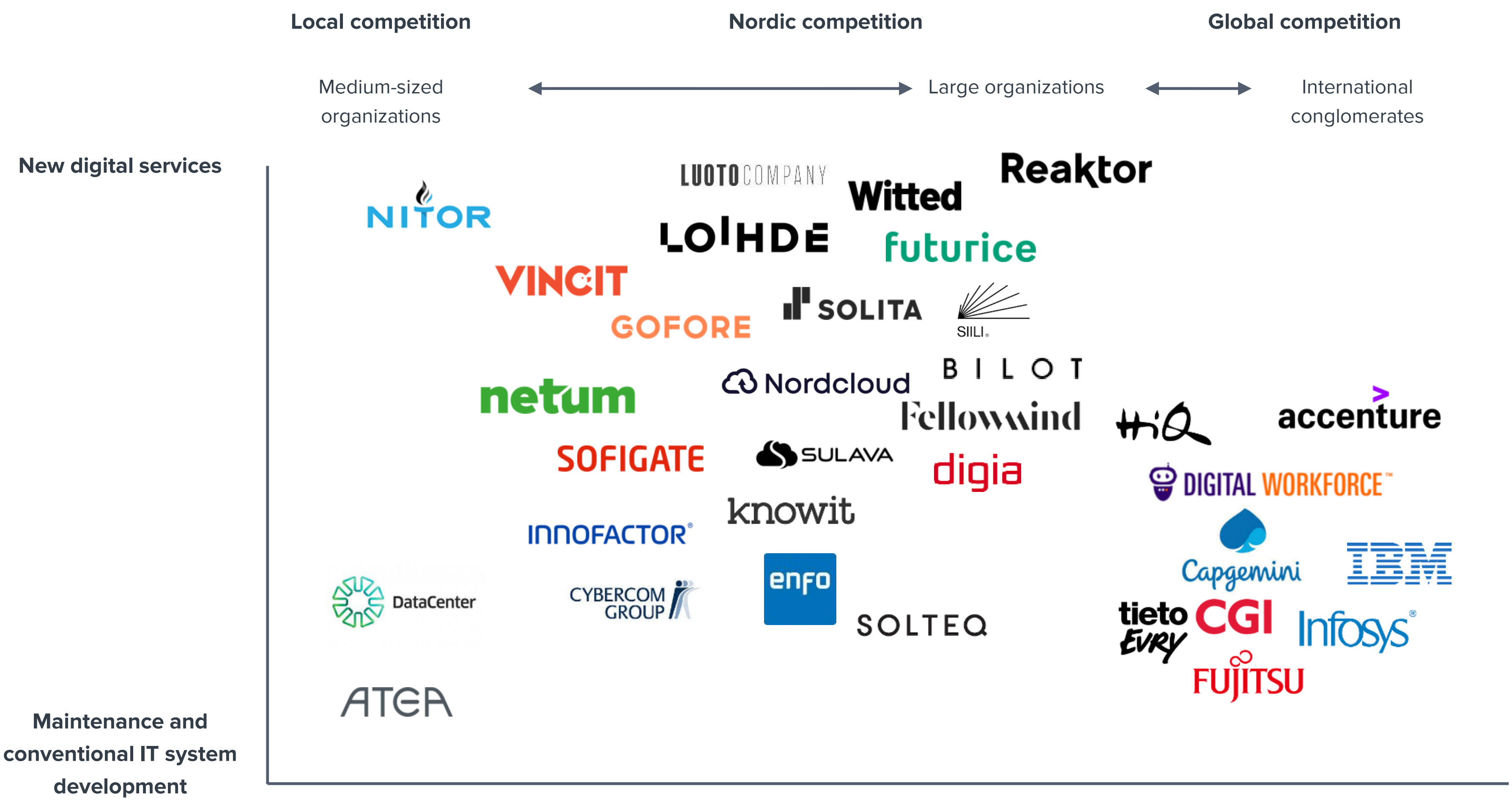
- Companies whose customers have high costs of changing supplier, for example due to tailored software solutions
- Profitability partially optimized at the expense of growth

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

Microsoft solutions in the IT market

Microsoft's position on the IT market is strong

Microsoft has grown clearly faster in several product areas than the rest of the IT market, which also supports Innofactor's strategic choice. We believe Microsoft's position on the IT market is very strong and we see no signs of the position of Innofactor's principal weakening. The demand for Microsoft's products has grown with the cloud transformation and as a company Microsoft has shown its ability to renew itself and has also invested in renewal through acquisitions (e.g. LinkedIn, GitHub).

In its strategy, Innofactor believes Microsoft and thus also its partners will be strong in the key trends that shape the IT markets. These trends include, e.g., software moving to the cloud, mobility, IoT, machine learning and analytics, as well as cyber security and data protection. Microsoft is in a leading position on several IT market areas, its offering is competitive, and its cloud solutions are still growing strongly.

According to Microsoft, the COVID outbreak has accelerated the digital transformation and increased the use and demand of cloud services. Telecommuting and distance learning, sales and customer service, critical cloud infrastructure and security have taken a huge leap forward forced by COVID. Of Microsoft's products, the use of the online meeting service Teams, in particular, is assumed to have grown significantly. Innofactor has developed its own TeamsMate solution next to Microsoft's Teams product that makes it easier to use and manage the product in organizations. TeamsMate's net sales development has been modest so far, but the company still sees future potential in it.

From Innofactor's viewpoint Azure, Office 365 and Dynamics 365 are currently Microsoft's key products. Of the top products, Azure is still most important, but growth of the cloud-based Dynamics 365 product area has also accelerated.

Innofactor also believes that Microsoft's strong product development investments will secure the competitiveness of its products in the long run. Microsoft has spent USD 10-21 billion on product development annually in 2012-2021 financial periods. The level of product development investments is clearly higher than for the main competitors. Headed by the CEO Satay Nadella, Microsoft has moved its focus especially towards digital transformation, cloud platforms, as well as data-driven business and solutions that are more compatible with its competitors' solutions. In 2021, R&D costs (8% and USD 21 billion) were raised by investments in cloud services. Microsoft's key competitors in various corporate solutions include, e.g., IBM, Oracle, HewlettPackard, SAP (ERP), Amazon (cloud services), Google and Salesforce (CRM).

Over the past decade, Microsoft has suffered from weak PC sales but the company's development has been good when examining the corporate solution areas that are key for Innofactor. Especially in the Commercial cloud solution reporting area (e.g. Office 365, Windows Azure Dynamics CRM) growth has been strong and the annualized net sales of Microsoft's cloud solutions in Q3'22 was already nearly EUR 80 billion compared to EUR 60 billion in corresponding period in the year before and the EUR 53 billion before that. On product level, Azure grew by 46% (50%), corporate side Office 365 by 17% (25%), Dynamics 365 product by 35% (45%) and LinkedIn by 34% (25%) in Q3'22.

Growth %	15	16	17	18	19	20	21	Q3'22
Office Commercial product & cloud service	-1%	1%	7%	11%	13%	12%	13%	12%
Server product & cloud service	9%	5%	14%	21%	25%	27%	27%	29%
Dynamics product & cloud service	12%	6%	5%	13%	15%	14%	25%	22%
Commercial cloud - net sales	106%	51%	50%	56%	43%	36%	34%	32%
Office 365 Commercial*	74%	45%	31%	41%	33%	24%	22%	17%

Source: Microsoft, *2015-2017 increase in user numbers, 2018-> net sales growth

As software solutions move to the cloud, success in cloud solutions is key for Microsoft's competitiveness. In market research company Gartner's Magic Quadrant reports on different cloud revolution areas (BI, IaaS and CRM) Microsoft is the only player that is still ranked in the Leaders box in every comparison. In the bigger picture the positioning is at last year's level in all quadrants. According to Gartner, the cloud infrastructure market is still, despite the strong growth, heavily concentrating in the hands of a few players that are in order AWS, Microsoft and Google. Microsoft's position has improved slightly in the cloud infrastructure market quadrant. Microsoft and Salesforce (Tableau) are still at the top of BI platforms, although the gap has narrowed. In addition, several competitors are catching up. Salesforce continues to be at the top of the CRM report followed by several challengers, including a slightly strengthened Microsoft.

Microsoft's competitive position

Gartner's Magic Quadrant for Business Intelligence Platforms

Source: Gartner (January 2022)

Gartner's Magic Quadrant for Cloud Infrastructure as a Service (IaaS)

Source: Gartner (July 2021)

Gartner's Magic Quadrant for the CRM Customer Engagement Center

Source: Gartner (May 2021)

Strategy 1/3

Nordic Microsoft expert

Innofactor has made a strategic choice to focus on technologies and solutions implemented on Microsoft's platforms or that utilize these platforms, where Microsoft's growth exceeds the average growth of the IT service and software market. In terms of customer groups the company focuses on large and medium-sized Nordic companies and public administration organizations with high requirement levels for IT solutions. A strong position in the Microsoft ecosystem makes Innofactor a desired partner for Microsoft which helps the company stay at the forefront of the development of Microsoft's solutions.

New strategy supports growth more strongly

Last fall, Innofactor revised its strategy to support growth more strongly. In strategy work, the company has identified the areas in which the company sees the strongest growth potential from the point of view of its business and Microsoft's solution offering. Innofactor concentrates its offering in line with these growth areas: Digital Services, Business Solutions, Data and Case Management, Data and Analytics, Cloud infrastructure and Cybersecurity. Previously, the company had three business units. In June, the company strengthened its data and analytics expertise with an acquisition.

At the same time, the company adjusted the Finnish organization to correspond to the growth areas of the new strategy, so that Finland comprises the six above-mentioned business units. The aim is to recruit a significant number of new experts to the new business units to be established.

With these measures, the company aims to achieve clearly stronger organic growth and efficiency. In the IT services sector, competition for talent remains strong, as virtually all players in the sector are recruiting, which limits growth in the sector. Thus, a good employer image and the importance of interesting projects as a competitive advantage are further emphasized.

Strengthening the Nordic base still in focus

The company's strategy also continues to focus on harmonizing its operating model and offering at the Nordic level. The company's focus still lies on strengthening its international operation and building a Nordic organization while improving efficiency, which should support continued gradual improvement in profitability. Success of the strategy is no longer strongly tied to finding good acquisition targets, but it depends more on the company's ability to create a uniform and efficient group from the international player it has built with acquisitions. At the beginning of 2021, the company hired a head in Sweden to develop the entire organization's offering and personnel skills who is to unify the offering also geographically. Harmonizing the offering can be achieved through organic growth and selected M&A transactions.

The company tries to avoid becoming a silo-like organization where country units are separate, independent companies and synergies are not utilized. At the end of 2018, the company moved to a lighter self-managed organization structure, which seems very successful in light of costs. Organization levels were cut, and the number of managers decreased in Finland as a historic challenge had been a heavy and expensive organizational structure.

We expect the wide Nordic offering will improve Innofactor's competitiveness in medium-sized and large companies with operations in several Nordic countries. At the same time, the company will be able to utilize cross selling between countries in products and expert areas more strongly. We estimate that the utilization of the synergies between different operating countries is in the initial stages at the moment. If successful, more extensive cross selling of products and expertise between countries could clearly improve Innofactor's organic growth and scalability. Cross-deliveries from Finland and Sweden to Norway and Denmark may have positive effects on the company's profitability, as it is able to utilize the relatively lower personnel costs in Finland and Sweden.

The past three years have been a turn for the better for implementing Innofactor's strategy after the previous weaker development. To our understanding there is still clear potential to be realized in internal efficiency especially through billable utilization outside Finland.

Strategy 2/3

Financial objectives

In 2016, Innofactor published ambitious financial objectives in connection with its strategy. The company targets around 20% growth and some 20% EBITDA in the long term by maintaining a positive cash flow and safeguarding financial solvency. The aim is to pay around one-half of the result as dividends considering the financial position, M&A transactions and development needs.

Innofactor's annual growth target of some 20% that is to be achieved mainly organically is ambitious and requires success in both sales and recruitment and especially in all countries. The company has stated that it is pursuing growth in all business areas, especially cloud solutions, data and analytics, and cybersecurity. At organizational level, organic growth has been lagging behind the growth of the sector in recent years. We do not expect Innofactor to reach the targeted 20% growth for the entire Group, but we believe that the company can accelerate growth supported by the positive demand on the IT service market.

In our view, Innofactor reaching its profitability target requires the company to be highly successful in realizing the synergies between the countries, productization, own software products and sales. In Finland, we believe the company has already reached around 20% EBITDA from time to time, but the weak profitability of other countries depresses the overall picture. The average EBITDA margins of the industry are above 10% and for the best players close to 20%. The aim is not unrealistic considering the occasional track record in Finland and the estimated profitability of the products but requires strong performance from the whole and especially other Nordic countries.

Means to achieve 20% growth target

- Focusing on industries and customer segments with the biggest growth potential and scalability to other Nordic countries. The aim of the organizational structure published by Innofactor last year is to create a better basis for stronger growth. The company has also commented that it is now after COVID focusing more on private sector customers that have a higher average price as a customer sector.
- Increase efficiency in product and service sales. Innofactor's sales organization has been able to develop the order book in 2019-2021 especially in Finland. We estimate there is still a lot of improvement potential in sales in other Nordic countries.
- Efficiency in sales is improved with digital marketing efforts and better sales abilities.
- Focusing on skills governance, recruitment, and resource optimization at a Nordic level. We believe resource optimization still requires a lot of work. There seems to be upside potential in billable utilization and thus recruitment need only in a few expertise areas in Finland.

Means to achieve 20% EBITDA target

- Shift the offerings and focus of net sales more towards own products and services, which has already been happening for several years.
- Developing its own personnel so that customers are ready to pay a higher price, which we believe is difficult in the short term.
- Move to self-managing teams and reduce organizational levels. Innofactor moved towards a self-managing organization at the end of 2018. During 2020 the company's financial administration was centralized to Finland. HR and payroll have also been centralized and made more efficient.
- Improve billable utilization by minimizing unnecessary work or non-billable work. Here the company has progressed well in 2019-2020 and we estimate is that in the short term the company still has clear potential especially in other Nordic countries.

Strategy 3/3

Competitive edge and scalability from own software and productization

Innofactor develops its own software products to support scalability and service sales. As a rule, the company does not develop software products for the global markets but locally to strengthen the offering to existing customers and markets where the company already has a strong presence.

According to the company, Innofactor's own software components act as a key competitive advantage and an important factor in the customer's decision making in many project tenders. Especially when the customer organizations' activities are taken to the cloud it is critical for an IT supplier to own the tools and manage the processes to enable a smooth transition without use being disrupted. In this area, Innofactor has the expertise especially in the Azure environment, including its own Innofactor Virtual Data Center and Managed Azure services. Own software also brings a considerable share of continuous maintenance income and license sales.

With own products built on Microsoft's technologies and platforms Innofactor builds continuity, competitive edge, and scalability for its business. This is a key driver with which the company tries to improve its profitability towards the targeted 20% EBITDA level. Thus, the company can decrease the dependence of the business model on less scalable expert work, which would justify a higher valuation level for the share.

Microsoft expertise as a competitive advantage

Innofactor's key competitive advantage still comes in our understanding from focusing on and specializing in Microsoft solutions. On the other hand, the biggest weakness of the strategy focusing on Microsoft in our opinion is Innofactor's dependence on Microsoft's strategy being successful in the long term and the increasing popularity of open-source code software. Innofactor does not exclude the use of other technologies and Microsoft's strategy also changes constantly, e.g., as a result of the GitHub acquisition. The benefit of competitors that are not technology dependent like Innofactor is that they can select among several technologies to best respond to the customer's problem.

Historically strong growth has been driven by acquisitions

Innofactor has histrionically grown strongly pulled by acquisitions and in our view most of the company's value creation has been based on sensibly built M&A transactions. In practice, companies have been acquired with a structure where only a small amount of cash is paid for the target company and a more significant share with own shares. This has enabled rapid growth without Innofactor needing a strong balance sheet or large amounts of capital in advance. In addition, a large share of the deal price has typically focused on an earnout additional deal price.

The valuation levels of the deals have also without exception been lower than Innofactor's own valuation multiples on the stock exchange. These factors have lowered the risk of paying an excessive price. When looking at the whole, the company has in our opinion managed its capital structure sensibly and utilized a small leverage in the acquisitions. We believe that as a rule the use a small leverage in acquiring service companies with positive cash flow is justified.

However, the company has not been as successful in integrating the deals and realizing profitability synergies. The entrepreneurs of the acquired companies have mainly left Innofactor, integration has been challenging and the turnaround in members of the management group has probably slowed down operational development. The company knows from experience what factors the key risks are related to and can minimize these.

Competitive advantage in carrying out acquisitions comes in turn from the company's experience in M&A transactions and the capital channel enabled by the listing. The Invenco acquisition implemented in June was structured very similarly to previous acquisitions.

Acquisitions outside Finland in future

Innofactor's strategic goal is to grow stronger outside Finland. We expect that in future the company primarily seeks acquisition targets abroad to strengthen these markets to reach similar economies of scale as in Finland and stronger synergies on a Nordic level. We also believe the business of the acquired company must be profitable and sustainable. In addition, the company has communicated its willingness to strengthen cloud expertise and cybersecurity. The company's cash flow continuously strengthens the balance sheet and will provide leeway for smaller acquisitions already next year.

When technology development, companies' strategies or focus change, businesses can also become non-strategic. Innofactor is not excluding business divestments either. In early 2021, the company sold the small non-strategic Prime business to unify its offering.

Summary of Innofactor's strategy

Strategic development projects	Strategic measures	Long term financial objectives
Best Nordic experts **Cloud solutions and digitalization offering**	• Stronger focus on solution areas that offer a large growth potential and scalability. • Making sales of own products and services more efficient in the current clientele • Increasing the weight of productized services • Investing in operational efficiency • Raising the level of expertise and thus higher pricing	• Around 20% annual growth with the aim to achieve most of it organically • Around 20% EBITDA margin • Pay around one-half of the result as dividends considering the company's financial position, possible M&A transactions, and other development needs
• The aim is especially to increase net sales and turn Sweden profitable in 2022 • Strengthening the organizational base especially in other Nordic countries • Stronger level of productization	• The strategy aims at a leading position in every Nordic country • Focus of the business shifts heavily towards own products and services • Honing Nordic activities into a uniform whole and making own processes more efficient • Complementing acquisitions expected possibly already in the short term	• Very ambitious objectives • The company should reach >4% organic growth with the current portfolio • Successful sales and growth in existing customers through cross selling • Reaching the goals needs own solutions to break through strongly

Source: Inderes

Past development

Growth has been strong historically, partly at the expense of profitability

Innofactor's long-term net sales growth has been strong and driven by acquisitions. In the early 2010s, Innofactor's growth was strong (35% on average) organically and driven by acquisitions. In the second half of the 2010s, organic growth has again been weaker, and acquisitions have dominated growth.

Company growth has partly come at the expense of profitability, which has been below other companies in the sector. Before its listing, the company still reached EBITDA levels of over 20%. The company's EBITDA % adjusted for non-recurring items has been between 8% and 12% in 2011-2021, except in 2017-2018 (2% and -2%).

Considering the market situation, last year was satisfactory and potential was unexploited

Innofactor's net sales increased slightly (0.3%) to EUR 66 million in 2021. Organically net sales grew by close on 3%. In the beginning of Q2, Innofactor sold the Prime business (net sales > 2 MEUR), mainly aimed at Finnish parishes.

Geographically, Norway and Denmark grew, while Sweden continued to decline and Finland turned downward. The clearly largest market, Finland, was depressed by the reorganization and a couple of difficult customer agreements. The challenges in Sweden, Innofactor's second largest market, have continued for more than four years, reflecting the challenging nature of a turnaround.

Sales continued as good and the order backlog grew strongly (by an average of 25%) throughout the year creating a stronger base for more sustainable and accelerating growth. In Q2'22, the company also received several orders and based on the company's comments, targeted orders in areas with lower billable utilization.

The high turnover on the IT service market depressed Innofactor and the number of employees fell by 8% to 500 at the end of the year. However, in Q1'22 the company managed to increase its number of employees a bit. Net sales grew, however, and reflects the rising billable utilization. Net sales per employee increased by 6% in 2021. We believe that there is still clear potential in billable utilization.

EBITDA adjusted for the sales gain from the Prime business (2.6 MEUR) was EUR 7.5 million or 11% of net sales (2020: 7.2 MEUR or 11%). Profitability was depressed by high turnover, wage inflation (estimated at 5%) and reorganization of the Finnish business. Depreciation decreased by good EUR 1 million and the EBIT adjusted for the sales gain was EUR 3.9 million (2020: 2.5 MEUR).

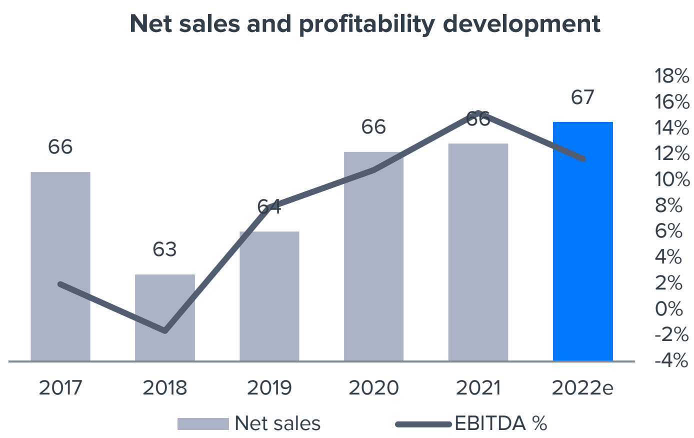
EPS for the full year was EUR 0.12 and the company distribute a capital return of EUR 0.08 per share for 2021. In addition, at the end of the year, the company acquired 800,000 own shares, which corresponds to some EUR 1.2 million or EUR 1.5 per share.

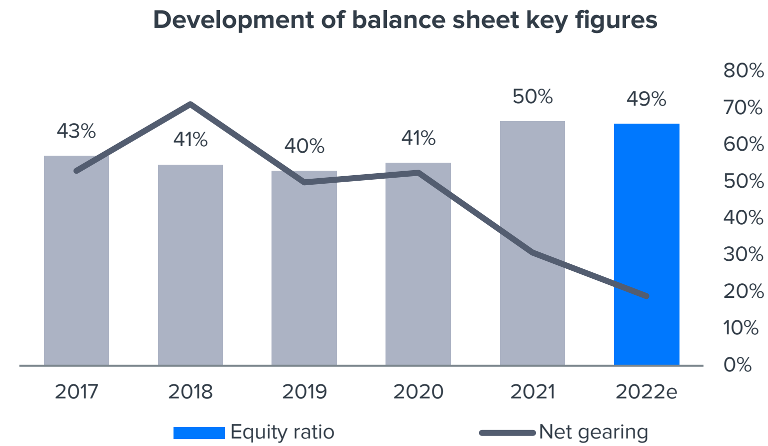
Balance sheet and financing

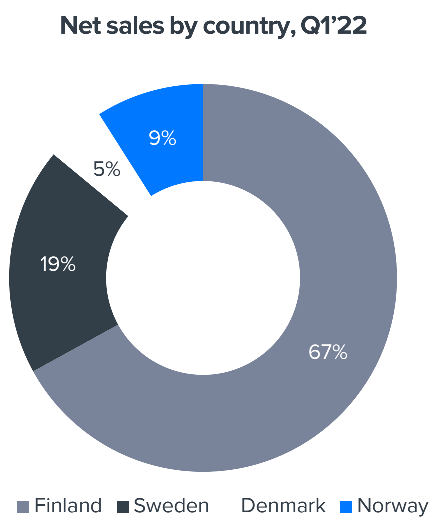
Innofactor's balance sheet strengthened further in 2021 and the equity ratio at the end of Q1'22 was 52% and gearing was 27% (Q1'21 47% and 57%). With the company's steady healthy profitability, its balance sheet is now on a better footing.

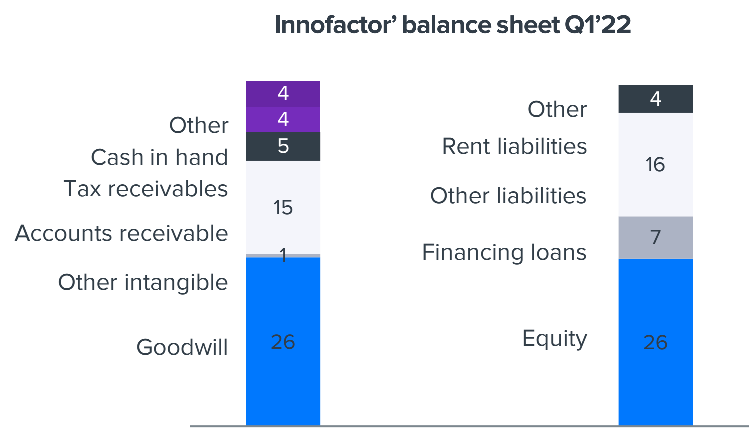
Structure wise the assets of the company's balance sheet are very typical for a service company. At the end of Q1, the company had EUR 26 million in goodwill in its balance sheet representing 49% of the balance sheet. Receivables were EUR 15 million or 27% of the balance sheet. The company also had EUR 5 million or 8% of the balance sheet in tax receivables at the end of Q1. Cash in hand amounted to EUR 4 million or 7% of the balance sheet. The company's cash in hand is exceptionally large and provides leeway for acquisitions, share repurchases and/or dividend payment. In the past, the company has consolidated the market strongly using own shares and bank loans.

Past development









Source: Inderes

Estimates 1/2

We expect earnings growth to continue

In 2022, Innofactor will continue to focus particularly on increasing net sales, with the aim of getting Sweden on a growth path. In terms of sales, we believe focus will be more on the private sector with better average prices. If the shift in focus towards the private sector works, it will support the net sales structure and thus also profitability. Personnel growth is critical to growth and this made an upturn in Q1 and requires continued success to sustain organic growth in the longer term. To facilitate recruitment, the company opened an office in Jyväskylä last year and also received an office in Oulu with the acquisition. However, as we see it the company can now also grow through better billable utilization. The company sees good growth opportunities especially in cloud solutions, data & analytics and cybersecurity. In addition, growth and especially earnings are driven by growth in own product business.

Innofactor's guidance is that 2022 net sales and adjusted EBITDA are expected to grow from the year before (2021: 66.4 MEUR and 7.5 MEUR). We added the Invenco acquisition to our estimates. In addition, based on an extensive analysis, we made minor downward adjustments to operational organic estimates and lowered depreciation (and raised earnings). To summarize, our adjusted earnings estimates increased by an average of some 5%. The estimates do not include synergies at this time. We estimate net sales will grow by 5% to EUR 70 million driven by the Invenco acquisition. Growth will be slightly slowed down by the divestment of the Prime business in Q1. Organically we expect the company to grow by 1%. Growth is supported by a strong EUR 71 million order backlog at the end of Q1'22. In Q2, the company has announced several orders that further increase the order backlog.

The timing of the good order book materializing as sales and assessing the profitability structure of the order book is still difficult. In its annual report, Innofactor opened the structure of the order book and expects EUR 45 million of it to be recognized as income in 2022, which represents a 26% increase in the revenue-generating order book from the comparison period. The order book focuses varyingly on different areas (strong order backlog for Dynasty product) and geographically in different areas, so it has not been directly reflected as dramatic growth.

We estimate that EBITDA will grow to EUR 8.0 million and represent 11.4% of net sales (2021: 7.5 MEUR or 11.3% adjusted for the sales gain). Thanks to Innofactor's improved internal efficiency and own product sales, the company can continue growing faster than the number of personnel in the short term, which supports profitability. We believe, Innofactor still has a lot to improve especially outside Finland, in billing utilization and dependency ratios (productive person per administration). We feel the profitability improvement will be slowed down by wage inflation. We expect depreciation to decrease as a result of amortization of intangible assets. We estimate that adjusted EBIT will be EUR 5.5 million or 7.9% of net sales(2021: 6.6%). As regards the damages related to the additional purchase price of the Lumagate acquisition, we do not expect a solution this year. We expect adjusted EPS to be EUR 0.11 and reported EPS EUR 0.10 per share. We expect the company to distribute a dividend of EUR 0.05 per share for 2022.

Innofactor's growth drivers

- Improving efficiency through billable utilization and/or process efficiency
- Own product solutions
- Recruitment – employee image, low turnover and new cities
- Increasing customer prices
- Acquisitions
- By expertise area, growth is driven by cloud solutions, data & analytics and cybersecurity
- Geographically, growth would be valuable especially outside Finland

Innofactor's profitability drivers

- Billable utilization
- Improving efficiency through processes and resourcing
- Own scalable product solutions
- Increasing customer prices, especially through the private sector
- Cross-border delivery (from Finland and Sweden to Norway and Denmark)
- Controlling wage inflation
- Turnover management
- Recruitment in lower paid areas outside the greater Helsinki region

Estimates 2/2

Medium- and long-term estimates

We expect Innofactor to reach ~3% annual organic growth with the current structure and an EBITDA margin of some 12% in 2023-2025. Our estimate is cautious considering strong market demand and the company's order backlog. On the other hand, given the development of the order backlog in recent years versus net sales development and the challenges in Sweden, we ended up with this development estimate. Growth is slightly below overall market growth. The company has potential to grow faster than the market but this requires a consistent positive development at the Nordic level, which still requires further evidence from the company.

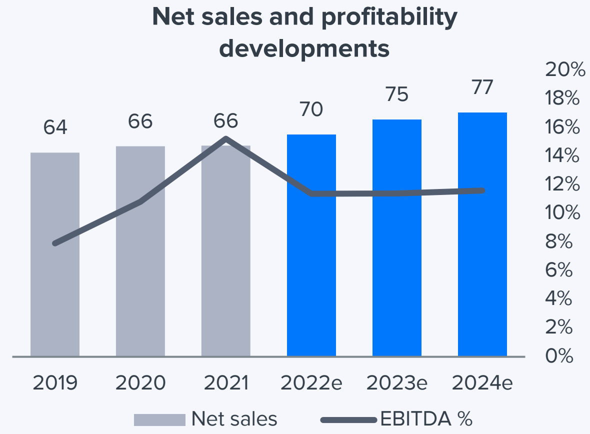
The company's IFRS3 depreciation decreased to a marginal level at the end of 2021, but will now rise driven by the acquisition. Our operational growth estimate practically assumes the level of service companies. The company should have the preconditions to reach better profitability levels than the sector thanks to own products and growth in recurring business but we keep our estimates conservative for the time being due to weaker development in Sweden and Finland.

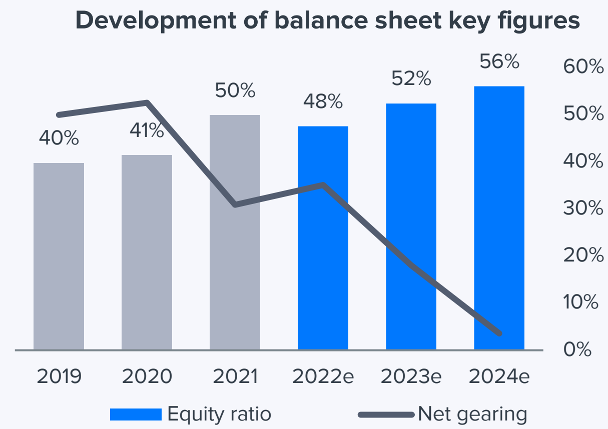
We estimate that the company's EPS will be EUR 0.13 in 2023 and rise to EUR 0.15 in 2025. We decreased dividend estimates by EUR 0.01 or some 15%. We expect that the company will distribute a dividend of EUR 0.06-0.08 in 2023-2025. Dividend estimates correspond to approximately 50% of the profit, which is in line with the company's dividend policy that aims to pay about half of the profit as dividends. Innofactor has repaid most of its loans, which could result in stronger dividend stream than our estimates in the near future if Innofactor does not carry out acquisitions.

Innofactor still has around EUR 5 million tax receivable in its balance sheet, so the company's tax expenses do not have cash flow effect in the next few years. This will support the company's cash flow in coming years. Thus the cash flow per share will be higher than the earnings per share in the next few years if no significant changes take place in working capital and investments.

After 2025, we estimate that Innofactor's net sales will continue growing by 2.5 % until the terminal assumption. At the same time we expect profitability to gradually drop towards 10% EBITDA level in the terminal assumption. Thus, our estimates put the company clearly below its own targets.

In general, the IT service sector and Innofactor have strong cash flow and continuously strengthens the balance sheet. In our estimates, the company's balance sheet strengthens clearly in the next few years and will provide considerable leeway for acquisitions or stronger dividend distribution.





Quarterly estimates and estimate changes

Income statement	2019	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e
Revenue	**64.2**	**66.2**	**17.8**	**17.3**	**13.7**	**17.6**	**66.4**	**17.0**	**17.4**	**15.6**	**19.9**	**69.9**	**74.6**	**76.8**
EBITDA	**5.1**	**7.2**	**4.7**	**2.1**	**1.7**	**1.7**	**10.1**	**2.0**	**1.9**	**1.8**	**2.3**	**8.0**	**8.5**	**8.9**
Depreciation	-4.3	-4.7	-0.8	-0.8	-0.8	-1.1	-3.6	-0.7	-0.5	-0.7	-0.7	-2.6	-2.8	-2.9
EBIT (excl. NRI)	**2.8**	**4.5**	**1.3**	**1.4**	**1.1**	**0.6**	**4.4**	**1.3**	**1.4**	**1.2**	**1.7**	**5.5**	**6.1**	**6.4**
EBIT	**0.8**	**2.5**	**3.8**	**1.3**	**0.9**	**0.5**	**6.5**	**1.3**	**1.4**	**1.1**	**1.6**	**5.3**	**5.7**	**6.0**
Net financial items	-0.8	-0.5	-0.5	0.0	-0.2	-0.2	-0.8	-0.2	-0.2	-0.2	-0.2	-0.7	-0.4	-0.3
PTP	**0.0**	**2.1**	**3.4**	**1.3**	**0.8**	**0.3**	**5.7**	**1.1**	**1.2**	**0.9**	**1.4**	**4.6**	**5.4**	**5.8**
Taxes	0.4	-0.3	-0.7	-0.3	-0.2	0.0	-1.2	-0.3	-0.2	-0.2	-0.3	-1.0	-1.1	-1.2
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**0.4**	**1.8**	**2.6**	**1.0**	**0.6**	**0.3**	**4.5**	**0.8**	**1.0**	**0.7**	**1.1**	**3.7**	**4.3**	**4.6**
EPS (adj.)	**0.07**	**0.10**	**0.00**	**0.03**	**0.02**	**0.01**	**0.07**	**0.02**	**0.03**	**0.02**	**0.03**	**0.11**	**0.13**	**0.14**
EPS (rep.)	**0.01**	**0.05**	**0.07**	**0.03**	**0.02**	**0.01**	**0.12**	**0.02**	**0.03**	**0.02**	**0.03**	**0.10**	**0.12**	**0.13**

Key figures	2019	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e
Revenue growth-%	1.7 %	3.1 %	3.8 %	3.2 %	-2.2 %	-3.8 %	0.3 %	-4.7 %	0.4 %	14.3 %	13.5 %	5.3 %	6.8 %	2.9 %
Adjusted EBIT growth-%		59.2 %	3%	6%	21%	-39%	-2%	-2%	-4%	15%	180%	26%	10%	5.1 %
EBITDA-%	7.9 %	10.8 %	26.2 %	12.1 %	12.4 %	9.4 %	15.2 %	12.0 %	10.7 %	11.6 %	11.3 %	11.4 %	11.4 %	11.6 %
Adjusted EBIT-%	4.4 %	6.8 %	7.6 %	8.2 %	7.7 %	3.4 %	6.6 %	7.8 %	7.8 %	7.7 %	8.3 %	7.9 %	8.2 %	8.4 %
Net earnings-%	0.6 %	2.7 %	14.8 %	5.7 %	4.3 %	1.7 %	6.8 %	5.0 %	5.6 %	4.8 %	5.5 %	5.2 %	5.7 %	6.0 %

Source: Inderes

Estimate revisions	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	**Old**	**New**	**%**	**Old**	**New**	**%**	**Old**	**New**	**%**
Revenue	67.2	69.9	4%	69.9	74.6	7%	72.0	76.8	7%
EBITDA	8.0	8.0	0%	8.6	8.5	0%	9.2	8.9	-3%
EBIT (exc. NRIs)	5.1	5.5	8%	5.8	6.1	5%	6.3	6.4	3%
EBIT	5.1	5.3	4%	5.8	5.7	-1%	6.3	6.0	-4%
PTP	4.4	4.6	5%	5.6	5.4	-4%	6.1	5.8	-6%
EPS (excl. NRIs)	0.10	0.11	10%	0.12	0.13	5%	0.13	0.14	3%
DPS	0.06	0.05	-17%	0.07	0.06	-14%	0.08	0.07	-13%

Source: Inderes

Investment profile

Value creation from growth and own products

For investors Innofactor has historically in the early 2010s been profiled as a quickly growing IT company that acts as the consolidator of its own segment in the Nordic countries. Throughout history Innofactor's value creation has been based heavily on growing through acquisitions. Innofactor has a reasonably good long-term track record especially in acquisition-driven growth but the track record in profitability and integration of acquisitions has not been as good. With the Lumagate acquisition, the company moved in 2017 to a stage where after strong acquisition-driven growth the focus has shifted to building a uniform Innofactor. This change proved harder than expected and created a dip in the growth strategy. The foundation has been built in recent years and it is largely in place (structure, order backlog and profitability), with the exception of Sweden. The new strategy focuses strongly on growth and better efficiency and, reflecting this, value creation is expected to be based more on growth and growth in scalable own products. The company carried out a moderately valued acquisition in June, but the clearest drivers in future will be organic growth and improving profitability.

Positioning establishing to profit generator category

In our view, the positioning of Innofactor’s valuation has climbed out of the turnaround company category and is establishing to the profit generator category. After the 2019 turnaround progressed, the company's share rose significantly, which was justified as the company avoided the crisis scenario and the earnings turnaround progressed stably. During the last year or so, growth and profitability development have come to a halt. The company must prove that the turnaround continues and strengthens for investors’ confidence in the company to improve and the profit generator category to be sustainable.

Next, the company aims to strengthen growth, which should be reflected through billable utilization as a lever in profitability and scaling of own products. Innofactor’s markets are growing and performing well so growth should not hinge on the market situation. Our understanding is that the company still has clear underutilized efficiency in the Nordic operations to make greater use of country-specific efficiency gains. Innofactor also still has underutilized efficiency benefits from unifying the Nordic organization and the offering and processes between the countries.

Ambitious long-term objectives

In our view, Innofactor’s value creation in the long term will still consist of the company's ability to build a uniform Nordic player out of the acquisitions carried out in different countries. Service productization and the role of own products are also important in reaching the company's profitability target, These should be visible as stronger organic growth and better profitability. We do, however, not expect the company to reach its own ambitious 20% primarily organic growth and 20% EBITDA margin target and our own estimates are clearly below the profitability target and especially compared to the growth objectives. We do not, however, find the expectations to be unrealistic as for Finnish operations organic growth has from time to time been an estimated 15% and profitability close to the targeted 20% level.

The main macro-level risk is the geopolitical situation and its impact on the economy. The main sector-specific risks relate to the availability of talent, wage inflation and turnover. The main internal risks within the company are related to the implementation of the growth strategy, especially the turnaround in Sweden, and the construction of a unified Nordic organization becoming prolonged. The long-term risk is the company’s dependence on Microsoft's success. The risks are evened out by Innofactor’s own product business, the current stronger order book, increasing share of continuous services and strong demand outlook, as well as the continued development of Microsoft’s product on the IT market.

Entrepreneur-driven growth company

Innofactor is strongly personified in the biggest owner, the company's founder, and CEO Sami Ensio, who owns some 21% of Innofactor. Ensio established the company in 2000 after which Innofactor has grown strongly with acquisitions and organically under his management. We feel the company as an investment object next to growth-seeking also reflects strong entrepreneurship and personified ownership. The entrepreneur-drive is visible in how despite several challenges the company has been developed in a disciplined manner and unyieldingly.

Investment profile

1. **Template of a Nordic player built through acquisitions**

2. **Foundation for long-term growth in place, but proof still required**

3. **Strong growth fundamentals on the market**

4. **Own products provide continuity and scalability**

5. **Entrepreneur-driven growth company**

Potential

- Organic and inorganic growth
- Still potential for profitability improvement
- Growth, continuity and scalability of own products
- Clear upside in acceptable valuation level
- IT service markets in general and Microsoft solutions performing strongly
- Strong and growing continuous business and own products

Risks

- Further delay in building a Nordic organization
- Weakening employee culture
- Internationalization and acquisitions raise the risk level
- Weakening of Microsoft's market position
- The geopolitical situation and its impact on the economy
- Availability, turnover and wage inflation of experts

Source: Inderes

Valuation 1/2

Value drivers and risks of the share

Overall, Innofactor's turnaround has progressed well, with the exception of some softness in the last year. The company's profitability potential has proven higher than our previous estimates, and the 20% EBITDA target is now actually realistic.

We have divided the value drivers of the share into short (1-5) and long term (6-7). The key value drivers are:

1) The ability to get all countries to an organic growth rate of at least the level of the IT service market of 3-5%.
2) Integration and development of the Invenco acquisition
3) Success in strengthening the post-acquisition organization to raise the efficiency of all countries to a good level.
4) The company's ability to further improve profitability, closer to the long-term target.
5) Strengthening investors' confidence as the turnaround continues.
6) The ability to tie the group together with a unified offering, which would help realize the synergies between the countries.
7) Increasing acceptable valuation level especially as the focus of the business shifts to product business in line with strategic objectives.

Innofactor has clearly more continuity and scalability in its business than many peer companies involved in project business. Continuity holds high value especially in the "normal" tight expert market situation.

The turnaround has progressed well for good two years but there is still work ahead in strengthening and unifying the organization and underutilized efficiency. Historical difficulties in foreign operations and the long-standing challenges in Sweden are still in the back of the mind.

We believe the key risks are:

- Success in the turnaround, strengthening and organizational integration, especially in Sweden, but also in Finland
- Success in the expert market, wage inflation and the turnover of experts
- New challenges appearing Historically the company has faced many surprising challenges especially in other Nordic countries
- The worsening/prolonged geopolitical situation and its economic impact
- The failure of integrating new acquisitions (like Invenco). The company has faced challenges in several integrations
- Microsoft's market position weakening in the IT market in corporate solutions Microsoft's market position has strengthened further in recent years, but the IT market develops and changes quickly
- The favorable cycle of the IT market turning around, which would require a turn for the weaker in the macro economy

Peer group

When examining the business structure Innofactor has next to project work also some own scalable software business. The company should not, however, be equated with pure software companies. Our peer group consists of Nordic IT service companies of which some also have their own software business. We can find a Nordic and Finnish peer group for the company to which the valuation can be compared and supported on.

In general, we consider IT service companies to be a very attractive sector, due to the strong long-term demand fundamentals, capital-light business and low valuation levels. COVID showed that demand continued as good despite the uncertainty. In addition, long-term demand fundamentals have strengthened when COVID forced many dormant industries to digitize and strengthen their IT core.

The dispersion between the companies' valuations is still quite large and, in our view, depicts the different development stages of the companies and different strategies, as well as their various implementation stages.

The undervaluation of Innofactor compared to the sector has slightly narrowed over the last year. The company is now priced 14-23% (good 20% a year ago) below Finnish IT service sector peers with 2022-2023 P/E and EV/EBIT ratios. Tax receivables increase the attractiveness of the valuation. In relative terms, we find the valuation to be neutral considering the uncertainty.

Valuation 2/2

Valuation multiples

The primary valuation multiples we use for Innofactor are adjusted P/E and EV/EBIT. The figures are adjusted for IFRS3 book depreciations from acquisitions. With our estimates, Innofactor's adjusted P/E ratios for this and next year are 11x and 9x, which is absolutely a rather modest level considering the company's potential. The corresponding EV/EBIT ratios are 9x and 8x, which is neutrally valued with 2022 multiples and quite moderately valued with 2023 multiples, considering market uncertainty.

In our view a slightly higher than "normal" P/E level can be accepted for the share due to the company's high tax receivables and the fact that tax expenses do not have a cash flow effect for the company. The book value of the tax receivable is currently EUR 4.5 million, which corresponds to a value of around EUR 0.12 per share. If the current value of this tax receivable would be priced conservatively, e.g., as half of the book value some 5% higher valuation multiples could be accepted for the share.

In our view, a gradually higher valuation can be accepted for the share as growth increases and is geographically wider. In addition, with growth and scalability of own products, a higher valuation can be accepted for the share.

DCF analysis

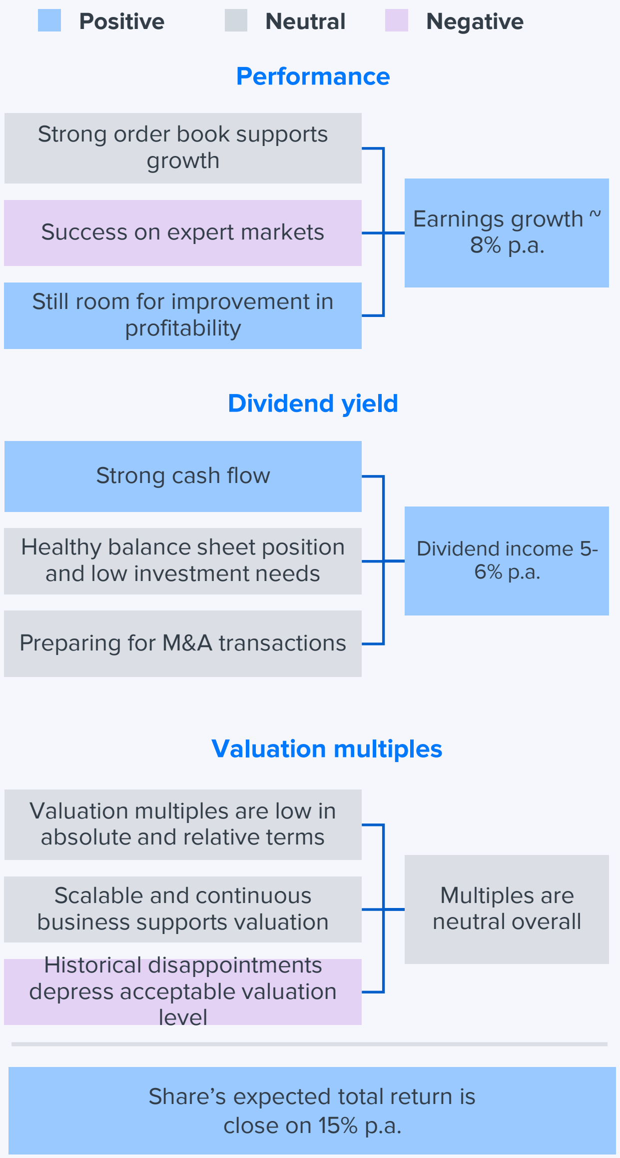
Our DCF model indicates a value of EUR 1.57 per share for Innofactor. In our estimate model the company will grow organically by 3 % in 2023-2025 and achieve a good 12% EBITDA margin. In the long term (after 2025), growth will remain at 2.5% (1.8% in terminal) and EBITDA % will stabilize at 10% level. In the model the taxes in the income statement do not have a cash flow effect in Finland because the company can utilize profits against the tax receivables in the balance sheet. The weight of the terminal assumption is 47% in the model. In the cash flow model, the average cost of capital (WACC) used is 8.9% and the cost of capital is 9.4%. Thus, in light of the cash-flow model based on rather conservative estimates, share pricing seems moderate at the moment.

Components of the expected return for the share

We also examine Innofactor's share from the viewpoint earnings growth, dividend yield and accepted valuation multiples According to our estimate, the company has preconditions to reach annual earnings growth of ~8% in coming years driven by net sales and increased profitability. The dividend also supports the valuation when the company updated its dividend policy two years ago. With our dividend estimates that are in line with the dividend policy (around 50% of the result) the dividend yield is at 5-6%. Strong cash flow provides good preconditions for relatively high distribution of profits, but we believe the company will continue to also strive for inorganic growth in line with its strategy.

The share is neutrally priced with 2022 multiples. Thus the share's expected return consisting of dividend yield and earnings growth is close on 15% and the return/risk ratio is attractive. As the company sustainably returns to an organic growth path, profitability improves and/or Nordic integration progresses a valuation close to the sector average can gradually be accepted for the company.

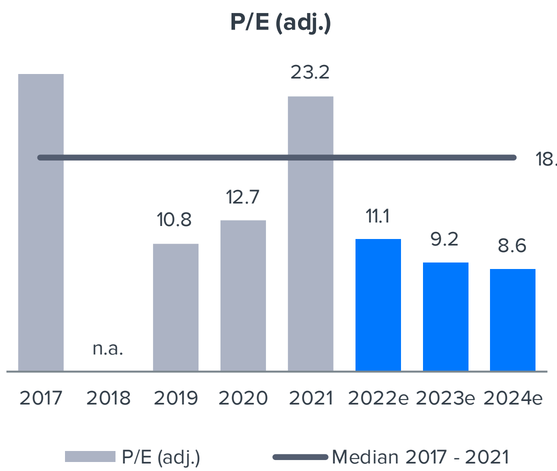
TSR drivers 2022-2024

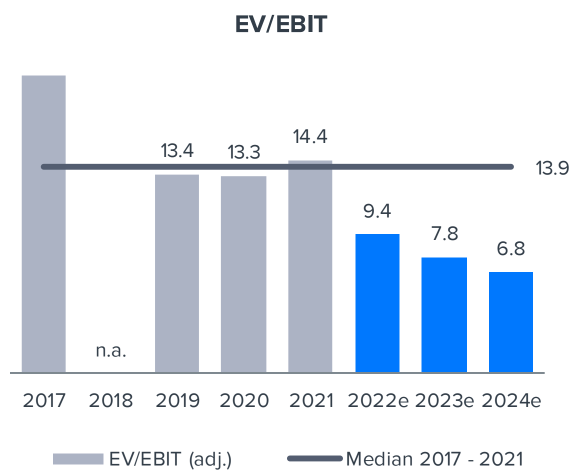


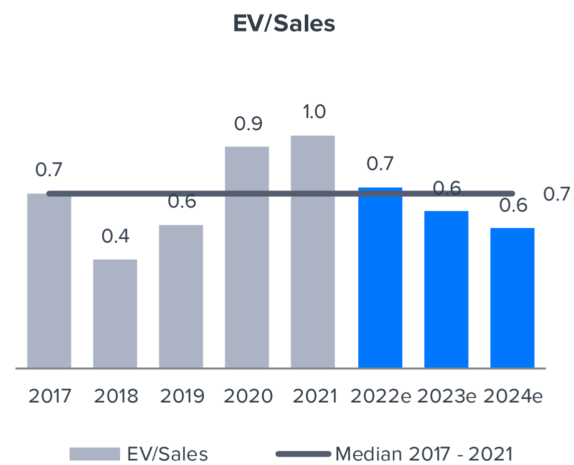
Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	0.94	0.36	0.72	1.28	1.52	**1.17**	**1.17**	**1.17**	**1.17**
Number of shares, millions	37.2	37.2	36.8	37.4	36.6	**36.6**	**36.6**	**36.6**	**36.6**
Market cap	34	13	27	48	55	**43**	**43**	**43**	**43**
EV	47	28	38	60	63	**52**	**48**	**44**	**40**
P/E (adj.)	93.7	n.a.	10.8	12.7	23.2	**11.1**	**9.2**	**8.6**	**7.8**
P/E	neg.	neg.	63.3	27.1	12.3	**11.7**	**10.0**	**9.4**	**8.4**
P/FCF	neg.	neg.	2.7	neg.	7.3	**19.8**	**7.0**	**6.7**	**6.2**
P/B	1.3	0.6	1.2	2.0	2.2	**1.6**	**1.5**	**1.4**	**1.3**
P/S	0.5	0.2	0.4	0.7	0.8	**0.6**	**0.6**	**0.6**	**0.5**
EV/Sales	0.7	0.4	0.6	0.9	1.0	**0.7**	**0.6**	**0.6**	**0.5**
EV/EBITDA	36.1	neg.	7.4	8.4	6.3	**6.5**	**5.6**	**4.9**	**4.2**
EV/EBIT (adj.)	83.2	n.a.	13.4	13.3	14.4	**9.4**	**7.8**	**6.8**	**5.7**
Payout ratio (%)	0.0 %	0.0 %	0.0 %	84.9 %	65.1 %	**50.0 %**	**51.2 %**	**55.9 %**	**57.6 %**
Dividend yield-%	0.0 %	0.0 %	0.0 %	3.1 %	5.3 %	**4.3 %**	**5.1 %**	**6.0 %**	**6.8 %**

Source: Inderes







Peer group valuation

Company	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
		MEUR	MEUR	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e
Digia*	6.95	186	196	10.5	8.8	8.7	7.3	1.2	1.0	12.2	10.9	3.3	2.4
Digital Workforce*	4.40	49	34					1.4	1.3				3.3
Gofore*	21.35	328	306	14.9	13.1	13.8	11.6	2.1	1.9	19.5	17.6	1.9	4.3
Loihde*	11.60	65	26	5.2	4.1	2.4	3.1	0.2	0.2	15.0	12.7	3.4	0.7
Nixu*	5.40	40	44	121.1	17.2	23.8	11.2	0.8	0.7		22.1		3.2
Siili*	14.20	99	113	9.3	8.1	7.6	6.7	1.0	0.9	11.4	10.2	3.5	3.2
Solteq*	2.51	49	78	12.5	9.8	6.7	5.7	1.0	0.9	13.5	10.7	5.6	1.6
TietoEVRY*	24.08	2852	3353	8.8	7.9	7.7	6.5	1.2	1.1	10.0	9.1	6.2	1.6
Vincit*	5.70	70	59	7.4	5.9	6.8	5.6	0.8	0.7	11.2	9.4	4.2	2.4
Netum*	4.08	47	47	11.2	9.9	10.7	9.5	1.6	1.4	14.4	13.2	3.2	3.6
Witted*	4.73	66	56	56.2	18.8	54.1	18.6	1.0	0.7	173.9	30.1		6.2
Bouvet	59.40	593	566	15.2	13.4	12.6	11.2	1.9	1.7	20.8	18.3	4.4	5.0
ENEA	115.20	233	301	18.7	13.4	9.7	8.0	3.1	3.2	14.2	15.1		
KnowIT	292.00	752	775	14.9	13.3	9.9	9.2	1.3	1.2	19.1	17.3	2.6	2.8
Innofactor (Inderes)	**1.17**	**43**	**52**	**9.4**	**7.8**	**6.5**	**5.6**	**0.7**	**0.6**	**11.1**	**9.2**	**4.3**	**5.1**
Average				**23.5**	**11.0**	**13.4**	**8.8**	**1.3**	**1.2**	**27.9**	**15.1**	**3.8**	**3.1**
Median Nordic companies				**12.5**	**9.9**	**9.7**	**8.0**	**1.2**	**1.1**	**14.3**	**13.2**	**3.5**	**3.2**
Diff-% to median				*-25%*	*-20%*	*-33%*	*-29%*	*-36%*	*-39%*	*-22%*	*-31%*	*22%*	*60%*
Median Finnish companies				***10.9***	***9.3***	***8.2***	***7.0***	***1.0***	***0.9***	***13.5***	***11.8***	***3.5***	***3.2***
Diff.-% to median				*-14%*	*-16%*	*-20%*	*-19%*	*-29%*	*-31%*	*-18%*	*-23%*	*22%*	*60%*

Source: Refinitiv / *Inderes' adj. estimate. NB: The market cap Inderes uses does not consider own shares held by the company.

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	**39.6**	**35.7**	**37.6**	**36.6**	**35.5**
Goodwill	26.5	26.4	27.9	27.9	27.9
Intangible assets	2.1	0.6	0.6	0.6	0.6
Tangible assets	4.3	3.7	5.1	5.2	5.2
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.2	0.1	0.1	0.1	0.1
Deferred tax assets	6.4	4.8	3.9	2.8	1.6
Current assets	**17.0**	**15.4**	**16.2**	**20.5**	**21.5**
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	13.9	13.4	14.7	15.7	16.1
Cash and equivalents	3.1	2.0	1.5	4.9	5.3
Balance sheet total	**56.6**	**51.1**	**55.1**	**58.1**	**57.5**

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	**23.4**	**25.5**	**26.2**	**28.7**	**31.1**
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	0.4	3.1	3.9	6.3	8.7
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.1	0.1	0.1	0.1	0.1
Other equity	20.9	20.2	20.2	20.2	20.2
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**12.9**	**7.8**	**10.0**	**9.5**	**6.5**
Deferred tax liabilities	1.8	1.5	1.5	1.5	1.5
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	11.1	6.3	8.5	8.0	5.0
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	**20.2**	**17.8**	**18.9**	**19.9**	**19.9**
Short term debt	4.3	3.5	2.1	2.0	1.5
Payables	16.0	14.3	16.8	17.9	18.4
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	**56.6**	**51.1**	**55.1**	**58.1**	**57.5**

DCF calculation

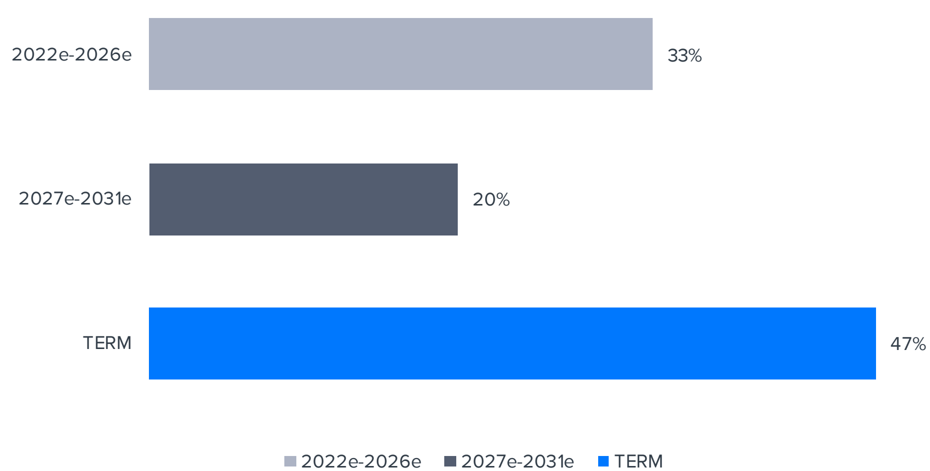
DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	**6.5**	**5.3**	**5.7**	**6.0**	**6.5**	**6.9**	**6.7**	**6.0**	**6.1**	**6.3**	**6.4**	
+ Depreciation	3.6	2.6	2.8	2.9	2.9	2.5	2.6	2.6	3.4	3.1	2.9	
- Paid taxes	0.0	0.0	0.0	0.0	0.0	0.0	-1.4	-1.2	-1.3	-1.3	-1.4	
- Tax, financial expenses	-0.2	-0.2	-0.1	-0.1	0.0	0.0	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	-1.1	1.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	
Operating cash flow	**8.9**	**9.0**	**8.6**	**8.9**	**9.5**	**9.5**	**8.0**	**7.4**	**8.4**	**8.1**	**8.1**	
+ 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	-1.3	-6.8	-2.5	-2.6	-2.6	-2.7	-2.7	-2.8	-2.8	-2.8	-3.0	
Free operating cash flow	**7.6**	**2.2**	**6.1**	**6.4**	**6.9**	**6.8**	**5.3**	**4.7**	**5.6**	**5.3**	**5.1**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	7.6	2.2	6.1	6.4	6.9	6.8	5.3	4.7	5.6	5.3	5.1	72.7
Discounted FCFF		**2.1**	**5.4**	**5.2**	**5.1**	**4.6**	**3.3**	**2.7**	**2.9**	**2.6**	**2.3**	**32.2**
Sum of FCFF present value		68.2	66.2	60.8	55.7	50.6	45.9	42.6	40.0	37.0	34.5	32.2

Enterprise value DCF	**68.2**
- Interesting bearing debt	-9.8
+ Cash and cash equivalents	2.0
-Minorities	0.0
-Dividend/capital return	-2.9
Equity value DCF	**57.5**
Equity value DCF per share	**1.57**

Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	10.0 %
Cost of debt	6.0 %
Equity Beta	1.45
Market risk premium	4.75%
Liquidity premium	0.50%
Risk free interest rate	2.0 %
Cost of equity	**9.4 %**
Weighted average cost of capital (WACC)	**8.9 %**

Source: Inderes

Cash flow distribution



Summary

Income statement	2019	2020	2021	2022e	2023e
Revenue	64.2	66.2	66.4	**69.9**	**74.6**
EBITDA	5.1	7.2	10.1	**8.0**	**8.5**
EBIT	0.8	2.5	6.5	**5.3**	**5.7**
PTP	0.0	2.1	5.7	**4.6**	**5.4**
Net Income	0.4	1.8	4.5	**3.7**	**4.3**
Extraordinary items	-2.0	-2.0	2.1	**-0.2**	**-0.4**

Per share data	2019	2020	2021	2022e	2023e
EPS (reported)	0.01	0.05	0.12	**0.10**	**0.12**
EPS (adj.)	0.07	0.10	0.07	**0.11**	**0.13**
OCF / share	0.22	0.13	0.24	**0.25**	**0.23**
FCF / share	0.27	-0.01	0.21	**0.06**	**0.17**
Book value / share	0.60	0.63	0.70	**0.72**	**0.78**
Dividend / share	0.00	0.04	0.08	**0.05**	**0.06**

Balance sheet	2019	2020	2021	2022e	2023e
Balance sheet total	55.7	56.6	51.1	**55.1**	**58.1**
Equity capital	22.1	23.4	25.5	**26.2**	**28.7**
Goodwill	26.0	26.5	26.4	**27.9**	**27.9**
Net debt	11.1	12.3	7.9	**9.1**	**5.1**

Growth and profitability	2019	2020	2021	2022e	2023e
Revenue growth-%	2%	3%	0%	**5%**	**7%**
EBITDA growth-%	n.a.	n.a.	41%	**-21%**	**7%**
EBIT (adj.) growth-%	n.a.	n.a.	-2%	**26%**	**10%**
EPS (adj.) growth-%	n.a.	n.a.	-35%	**62%**	**21%**
EBITDA-%	7.9 %	10.8 %	15.2 %	**11.4 %**	**11.4 %**
EBIT (adj.)-%	4.4 %	6.8 %	6.6 %	**7.9 %**	**8.2 %**
EBIT-%	1.2 %	3.8 %	9.8 %	**7.7 %**	**7.7 %**
ROE-%	1.9 %	7.7 %	18.4 %	**14.2 %**	**15.6 %**
ROI-%	2.3 %	6.9 %	17.7 %	**14.9 %**	**15.2 %**
Equity ratio	39.7 %	41.4 %	49.9 %	**47.6 %**	**49.4 %**
Gearing	49.9 %	52.6 %	30.8 %	**34.8 %**	**17.9 %**

Cash flow	2019	2020	2021	2022e	2023e
EBITDA	5.1	7.2	10.1	**8.0**	**8.5**
Change in working capital	3.2	-2.0	-1.1	**1.2**	**0.1**
Operating cash flow	8.1	5.0	8.9	**9.0**	**8.6**
CAPEX	-7.0	-2.2	-1.3	**-6.8**	**-2.5**
Free cash flow	9.8	-0.5	7.6	**2.2**	**6.1**

Valuation multiples	2019	2020	2021	2022e	2023e
EV/S	0.6	0.9	1.0	**0.7**	**0.6**
EV/EBITDA (adj.)	7.4	8.4	6.3	**6.5**	**5.6**
EV/EBIT (adj.)	13.4	13.3	14.4	**9.4**	**7.8**
P/E (adj.)	10.8	12.7	23.2	**11.1**	**9.2**
P/E	1.2	2.0	2.2	**1.6**	**1.5**
Dividend-%	0.0 %	3.1 %	5.3 %	**4.3 %**	**5.1 %**

Source: Inderes

Disclaimer and recommendation history

The information presented in Inderes reports is obtained from several different public sources that Inderes considers to be reliable. Inderes aims to use reliable and comprehensive information, but Inderes does not guarantee the accuracy of the presented information. Any opinions, estimates and forecasts represent the views of the authors. Inderes is not responsible for the content or accuracy of the presented information. Inderes and its employees are also not responsible for the financial outcomes of investment decisions made based on the reports or any direct or indirect damage caused by the use of the information. The information used in producing the reports may change quickly. Inderes makes no commitment to announcing any potential changes to the presented information and opinions.

The reports produced by Inderes are intended for informational use only. The reports should not be construed as offers or advice to buy, sell or subscribe investment products. Customers should also understand that past performance is not a guarantee of future results. When making investment decisions, customers must base their decisions on their own research and their estimates of the factors that influence the value of the investment and take into account their objectives and financial position and use advisors as necessary. Customers are responsible for their investment decisions and their financial outcomes.

Reports produced by Inderes may not be edited, copied or made available to others in their entirety, or in part, without Inderes' written consent. No part of this report, or the report as a whole, shall be transferred or shared in any form to the United States, Canada or Japan or the citizens of the aforementioned countries. The legislation of other countries may also lay down restrictions pertaining to the distribution of the information contained in this report. Any individuals who may be subject to such restrictions must take said restrictions into account.

Inderes issues target prices for the shares it follows. The recommendation methodology used by Inderes is based on the share's 12-month expected total shareholder return (including the share price and dividends) and takes into account Inderes' view of the risk associated with the expected returns. The recommendation policy consists of four tiers: Sell, Reduce, Accumulate and Buy. As a rule, Inderes' investment recommendations and target prices are reviewed at least 2–4 times per year in connection with the companies' interim reports, but the recommendations and target prices may also be changed at other times depending on the market conditions. The issued recommendations and target prices do not guarantee that the share price will develop in line with the estimate. Inderes primarily uses the following valuation methods in determining target prices and recommendations: Cash flow analysis (DCF), valuation multiples, peer group analysis and sum of parts analysis. The valuation methods and target price criteria used are always company-specific and they may vary significantly depending on the company and (or) industry.

Inderes' recommendation policy is based on the following distribution relative to the 12-month risk-adjusted expected total shareholder return.

Buy The 12-month risk-adjusted expected shareholder return of the share is very attractive

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

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

The analysts who produce Inderes' research and Inderes employees cannot have 1) shareholdings that exceed the threshold of significant financial gain or 2) shareholdings exceeding 1% in any company subject to Inderes' research activities. Inderes Oyj can only own shares in the target companies it follows to the extent shown in the company's model portfolio investing real funds. All of Inderes Oyj's shareholdings are presented in itemised form in the model portfolio. Inderes Oyj does not have other shareholdings in the target companies analysed. The remuneration of the analysts who produce the analysis are not directly or indirectly linked to the issued recommendation or views. Inderes Oyj does not have investment bank operations.

Inderes or its partners whose customer relationships may have a financial impact on Inderes may, in their business operations, seek assignments with various issuers with respect to services provided by Inderes or its partners. Thus, Inderes may be in a direct or indirect contractual relationship with an issuer that is the subject of research activities. Inderes and its partners may provide investor relations services to issuers. The aim of such services is to improve communication between the company and the capital markets. These services include the organisation of investor events, advisory services related to investor relations and the production of investor research reports.

More information about research disclaimers can be found at www.inderes.fi/research-disclaimer.

Inderes has made an agreement with the issuer and target of this report, which entails compiling a research report.

Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
15-06-18	Reduce	0.80 €	0.79 €
25-07-18	Reduce	0.77 €	0.76 €
09-10-18	Reduce	0.63 €	0.63 €
31-10-18	Reduce	0.52 €	0.50 €
28-01-19	Sell	0.35 €	0.40 €
06-03-19	Reduce	0.45 €	0.47 €
15-05-19	Reduce	0.58 €	0.60 €
05-06-19	Reduce	0.68 €	0.71 €
24-07-19	Accumulate	0.68 €	0.63 €
30-10-19	Accumulate	0.80 €	0.75 €
26-02-20	Accumulate	0.90 €	0.78 €
01-04-20	Reduce	0.68 €	0.66 €
05-05-20	Accumulate	0.90 €	0.84 €
23-06-20	Accumulate	0.95 €	0.90 €
24-06-20	Accumulate	1.30 €	1.19 €
28-10-20	Accumulate	1.40 €	1.28 €
19-02-21	Buy	1.80 €	1.43 €
28-04-21	Reduce	2.00 €	1.97 €
10-06-21	Accumulate	2.00 €	1.72 €
23-07-21	Accumulate	2.00 €	1.86 €
27-10-21	Accumulate	1.80 €	1.59 €
18-02-22	Accumulate	1.50 €	1.33 €
27-04-22	Accumulate	1.45 €	1.24 €
28-06-22	Accumulate	1.35 €	1.17 €

STARMINE ANALYST AWARDS FROM REFINITIV

THOMSON REUTERS ANALYST AWARDS

Inderes' mission is to connect listed companies and investors. We produce high-quality research and content for the needs of our extensive investor community.

At Inderes we believe that open data is every investor's fundamental right. We guarantee investors' access to award-winning research, insightful video content and an active investor community.

For listed companies we ensure that there is always high-quality information available on the company for investors and shareholders for decision making, and that data collected from investors can be utilized by the companies.

Over 100 Finnish listed companies want to serve their shareholders and investors through us by utilizing our company research services, data driven IR services, content creation and consulting.

Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

Award-winning research at **inderes.fi**

Juha Kinnunen
2012, 2016, 2017, 2018, 2019, 2020

Mikael Rautanen
2014, 2016, 2017, 2019

Sauli Vilén
2012, 2016, 2018, 2019, 2020

Antti Viljakainen
2014, 2015, 2016, 2018, 2019, 2020

Olli Koponen
2020

Joni Grönqvist
2019, 2020

Erkki Vesola
2018, 2020

Petri Gostowski
2020

Atte Riikola
2020

Research belongs
to everyone.