Digital Workforce

Extensive report

4/11/2024 8:50 am EEST

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

Inderes corporate customer

This report is a summary translation of the report "Strategia tarkentunut vahvuuksien ympärille" published on 4/11/2024 at 8:50 am EEST.

Strategy refined around strengths

Digital Workforce automates customers' knowledge work processes by utilizing software robotics. In recent years, the focus of the strategy has been on selected industries, in selected growth markets, and on a new platform, which is natural. Focusing on competitive advantages makes earnings growth more credible, but still requires evidence of a stronger breakthrough. In the short term, our forecasts reflect the shift in the company's focus from growth to profitability. The stock's valuation picture has become attractive with the price drop. Thus, we reiterate our EUR 3.4 target price and raise our recommendation to Accumulate (was Reduce).

Digital Workforce is a pioneer in automation that utilizes software robotic

Digital Workforce operates in the large IT service market, in the software robotics and automation vertical, where competition is smaller than in the general IT service sector. The service offering covers the entire lifecycle and includes consulting, development, introduction and maintenance on its platform. Currently, ~40% of revenue is Professional Services and ~60% Continuous Services, reflecting the difference with service-driven IT service companies. The purpose of the business model is to increase the absolute and relative share of Continuous Services, which is highly scalable revenue.

The strategy is focused on selected customer industries based on competitive advantages

The strategy has changed slightly several times over the past couple of years, reflecting the company's development stage in a young but large automation market. The strategy has now naturally focused on the competitive advantages of its own scalable Outsmart platform and customers in the healthcare, banking and insurance sectors. Geographically, the growth focus remains unchanged on the UK, Ireland and the US markets, which corresponds to ~20% of revenue and grew by ~30% in 2023. Driven by the weaker market situation, however, the focus has changed in the short term from growth to profitability. The company has taken several measures to improve profitability in 2024. The company has plenty of funds for inorganic investments, which are focused on the growth markets, especially the US.

Focus has shifted from growth to profitability

Since its listing, Digital Workforce has cut its financial targets twice to make them more realistic. It is now aiming for revenue of 50 MEUR in 2026, which corresponds to ~25% annual growth. The adjusted EBITDA target is over 10% by the end of 2026. We expect the company will grow by 3-14% in 2024-26 driven by continuous revenue, in turn driven by Professional customers' transition to Continuous Services and their ongoing ramp-up. Driven by a weaker economic situation, growth is lower than the company's historical level. We also estimate that EBITDA will gradually increase to good 10%, driven by scalable revenue growth. We consider it very likely that the company will accelerate growth through acquisitions. Key risks are related to the success of new customer acquisition, especially in growth markets, the scalability of the Outsmart platform and possible M&As.

Valuation picture is cautiously attractive, and if the turnaround is successful, there is still upside

Digital Workforce's investment profile is that of a turnaround company that is particularly interesting in the longer term. Based on our forecasts for the next few years, and the valuation multiples we accept for the company, the sum of parts, scenario analysis and DCF, we estimate the fair value range of Digital Workforce's stock is EUR 3.0-4.5 per share. In the current situation, with high market uncertainty and the company's new strategy still in its early stages, our target price is at the bottom of the range and the risk-adjusted expected return exceeds the required return

Recommendation

Accumulate

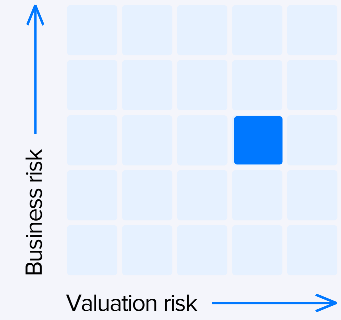
(previous Reduce)

EUR 3.40

(previous EUR 3.40)

Share price:

2.85



Key figures

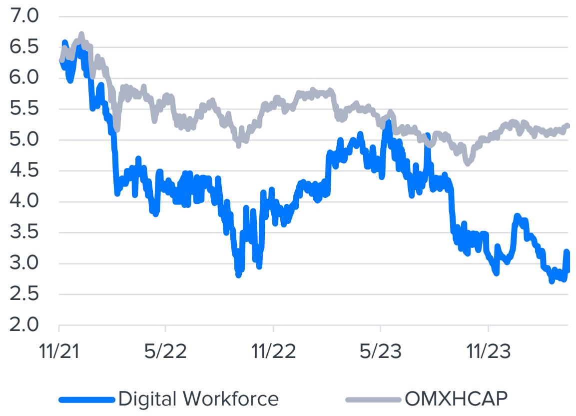
	2023	2024e	2025e	2026e
Revenue	24.9	25.6	27.8	31.7
growth-%	-2%	3%	9%	14%
EBIT adj.	0.0	0.6	1.6	3.7
EBIT-% adj.	-0.2 %	2.2 %	5.8 %	11.7 %
Net Income	-0.7	0.7	1.5	3.1
EPS (adj.)	0.01	0.06	0.14	0.29
P/E (adj.)	>100	47.0	19.7	9.7
P/B	2.3	2.1	1.9	1.6
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	32.3	10.0	3.5
EV/EBITDA	neg.	24.0	8.9	3.3
EV/S	0.87	0.70	0.58	0.41

Source: Inderes

Guidance (Unchanged)

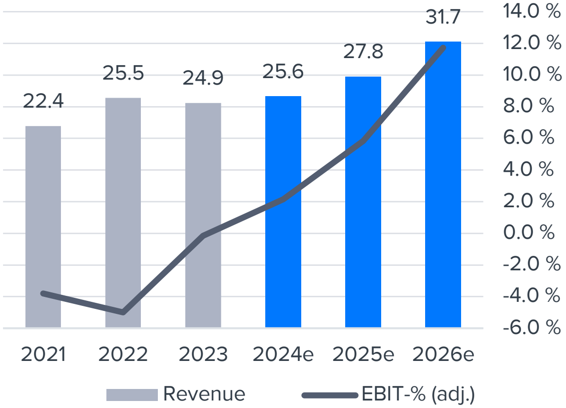
Digital Workforce estimates that full-year revenue in 2024 will be higher and adjusted EBITDA will be positive and improve compared to 2023.

Share price



Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend

Source: Inderes

Value drivers

- Success in new markets (US, UK and Ireland) and accelerating growth
- The Outsmart platform should strengthen the competitive advantage, accelerate growth and improve scalability
- Increasing the revenue share of Continuous Services with better margins drives earnings growth and makes the investor profile more attractive
- Improving scalability
- Acquisitions

Risk factors

- Success of the growth strategy especially in the US
- Successful commercialization of the Outsmart platform
- Productivity of investments
- Developing large RPA technologies and their expansion to maintenance
- Reacting to market and technological changes
- Development of the employee image and success in recruitment
- Wage inflation and managing attrition
- Acquisitions

Valuation	2024e	2025e	2026e
Share price	2.85	2.85	2.85
Number of shares, millions	11.3	11.3	11.3
Market cap	32	32	32
EV	18	16	13
P/E (adj.)	47.0	19.7	9.7
P/E	47.0	21.6	10.3
P/FCF	18.7	23.3	10.1
P/B	2.1	1.9	1.6
P/S	1.3	1.2	1.0
EV/Sales	0.7	0.6	0.4
EV/EBITDA	24.0	8.9	3.3
EV/EBIT (adj.)	32.3	10.0	3.5
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Contents

Digital workforce in brief

Digital Workforce is a business automation platform company that utilizes robotics to a great extent. The company's solutions create automation benefits for the customer base, especially in healthcare, banking and insurance, in the Nordic countries and internationally.

2015
Year of establishment

2021
IPO

25 MEUR **(+2 % vs. 2022)**
revenue 2023

61% share & 2% growth **(2022: 59% and 29%).**
Share and growth of strategic Continuous Services in 2023

0.0 MEUR **(0 % of revenue)**
Adjusted EBIT 2023

186 (191)
Personnel on average in 2023

Offices in 5 countries
Finland, Poland, Sweden, the UK and the US

2015-2019

- Established in 2015
- Operations in Sweden started in 2016
- External investors start financing growth in 2016
- Activities in Denmark, Poland and Norway in 2017
- Operations in the US, the UK and Germany started in 2019
- Growth is strong and investments keep profitability clearly in the red
- New functionalities: 2016 Robot-as-a-Service platform service, 2018 Run Management automation maintenance service

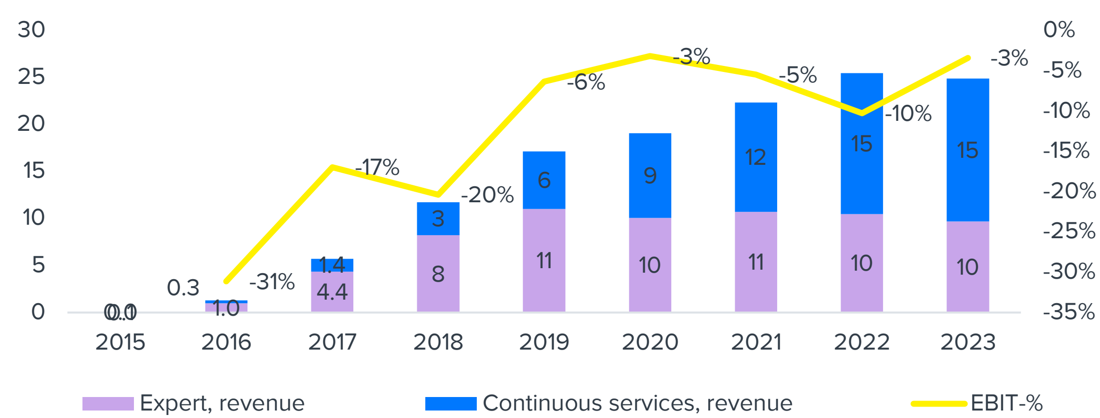
2020-2021

- The US and the UK markets progressed well, but there were challenges in Germany
- Growth investments continue and profitability is negative
- IPO in 2021 to accelerate growth
- New functionalities: 2020 Roboshore (customer pays based on use) and expansion of the technology portfolio

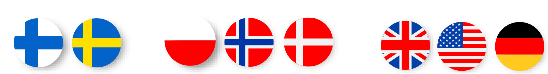
2022-

- Strategy update and development and commercialization of Scabfil's own Outsmart platform
- Investments in the US and the UK
- Focus on banking and insurance and especially on healthcare customers
- The focus has shifted from growth to profitability
- Revenue from Continuous Services is key

Revenue and EBIT %



Source: Digital Workforce / Inderes



Company description and business model 1/7

A pioneer in automation utilizing robotics

Digital Workforce is a business automation platform company that utilizes robotics to a great extent. The company was founded in 2015 to originally help healthcare organizations automate knowledge work. Now, the service offering covers the entire lifecycle of automation: Design and consulting, development and introduction, cloud-based platform, support, and maintenance, as well as further development.

The company was listed in 2021 and at the same time, it raised funds to accelerate growth investments. After the listing, the company accelerated its investments in internationalization, but as the market situation deteriorated, growth investments were curbed and the focus shifted more toward profitability at the end of 2022. However, the company continues to invest but focuses more on developing its own Outsmart platform and growth in the US, the UK and Ireland.

The offices are located in Finland, Sweden, the UK, Ireland, Germany, Poland and the US. The largest offices measured by personnel are in Poland and Finland. In 2023, the average number of employees was 186.

Revenue is highly continuous

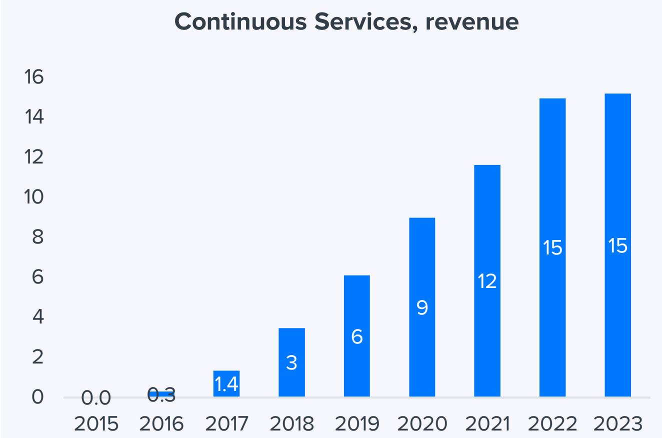
Digital Workforce's revenue structure consists of Professional Services and Continuous Services. The company's goal is to further increase the share of continuously billed services, which was 61% of revenue in 2023 (2020: 47%). Thus, the structure can be described as very continuous, which improves predictability for investors.

We believe about 75% of customers are currently also buying continuous services. In the US, use is still the lowest, due to the pure expert work use of one large customer. The company expects that the billing ratio of Continuous Services in the US will improve as the size of the business grows.

The purpose of the business model is to increase scalable continuous services

The company's typical customer relationship begins with Professional Services advisory and introduction services and continues with platform services and automation maintenance services. Professional Services are hourly charged services of human employees. Continuous services are, on the other hand, mainly billed by volume, minute or patient on the company's own automation platform and a small (~1/3) part is billing based on automation optimization and monitoring by a human employee. The purpose of the business model is to increase the absolute and relative share of higher-margin continuous services of revenue This means that the growth and success of advisory and Professional Services are critical for the growth of continuous services.

Professional services include advisory services (consulting) and automation implementation and introduction services. Professional Services are mainly invoiced on hourly charges, and thus the billing rates are critical in terms of profitability. The company has some fixed-price projects. We estimate that the "normal" profitability (~5% EBITA) clearly reflects the positive profitability that is below the typical profitability of the IT service sector.



Source: Digital Workforce / Inderes

Company description and business model 2/7

Geographically, Advisory services are carried out very locally, and implementation projects are then largely carried out in Poland, which generates price competitiveness with low cost levels. The company is currently building a second implementation unit in Ireland to serve customers in the US as well. Margins of the expert business are better in the US than in Europe, and especially as the company starts to make deliveries from Europe, the margin structure improves. In the long run, when strong growth in the US materializes, the company will continue to pursue a similar low-cost delivery unit in the same time zones.

In general, the mapping, building and implementation of Professional Services takes from a few days to a few weeks, after which it moves to the maintenance phase. The company started to use subcontracting last year, and even though it is still small it brings nice flexibility.

Continuous Services mainly include the services of the company's cloud-based Outsmart automation platform, but also some physical work. The services of the automation platform are very scalable. We believe the customer churn of Continuous services is very low. There are three pricing models: 1) monthly, i.e. resource-based, 2) minute-based, and the new 3) 'per patient' throughout the treatment process.

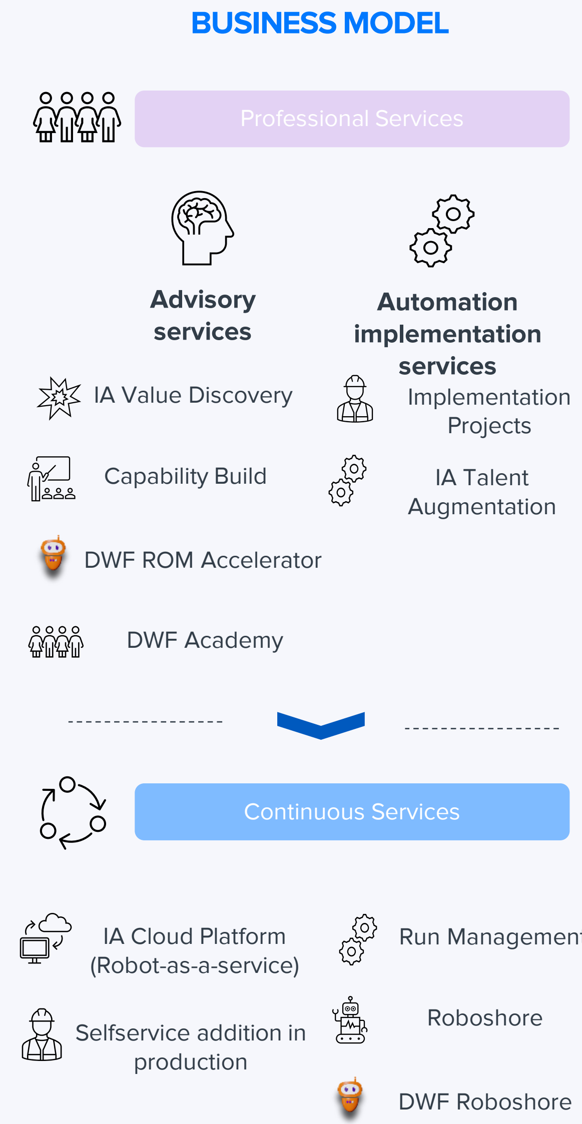
There are several different profitability structures withinContinuous Services, and reselling licenses, which we estimate is currently ~50% of the business' revenue has low margins. 30% is the work of own personnel and corresponds to the profitability level of an expert (~5%). The remaining 20% is based on the own platform, which is very profitable because it only requires orchestration and development costs. At the moment,Continuous Services are also concentrated mainly in Poland, which, due to the low level of personnel and automation costs, provides some price competitiveness. As a whole, the business should be able to reach approximately 20% EBITA levels. Digital Workforce's competitive advantage is based on Continuous Services and its own cloud-based automation platform.

The Outsmart platform is a competitive advantage

Digital Workforce's competitive advantage is strongly based on the company's own automation platform Outsmart, which utilizes robotics and AI. Outsmart has three different levels Go/Scale/Enterprise depending on the extent of the need. Go is the lightest and robotics-oriented, while Enterprise includes full lifecycle services. The platform is cloud-based, which enables more flexible development and updating of the platform. The company uses Microsoft Azure as the cloud technology. In its technology choices, the company is not committed to one technology but is ready to apply the best option, which reduces the risk associated with the technology.

The foundation of the technology platform consists of "digital workers". Digital workers are software robots based on software robotics, AI and cloud services that manage business processes together with human colleagues. Digital workers bring automation capabilities and are the source of customer benefits. Information workflows are modeled for digital workers. The goal is for digital workers to learn to do the same things as humans, but faster and more cost-efficient.

The platform utilizes several technologies, which improves applicability and reduces the risk associated with the technology. The key robotics technologies



Source: Digital Workforce / Inderes

Company description and business model 3/7

are UiPath and Blueprism. In addition, last year, the company started cooperating with Robocorp's open-source solution and Microsoft's powerplatform. Customers use different technologies for different solutions, and thus mastering several technologies is a competitive advantage for the supplier/company. For orchestration, the company has partnered with Flowable AG, which has proven to be a good solution for managing the patient's entire life cycle. In addition, the company applies its own technologies, e.g., in document processing.

The second layer of the technology and platform is Run Management, i.e. continuity services for operations. Digital workers are monitored and maintained 24/7, using methods developed by the company, depending on the customer's requirements. The company will benefit from growing the customer's business or increasing the degree of automation when more scalable digital workers are introduced.

The third layer is formed by the company's extensive experience, which enables the company to replicate past experiences and enable rapid introduction. The fourth layer consists of commercial adaptability. Customers can test Digital Workforce's solutions with a small initial investment and flexibly scale up services (digital workers) based on their needs.

Digital Workforce's competitive advantage is strongly based on its flexible platform and the entire lifecycle offering. The company has been a pioneer in its field and has developed the platform for 8 years, which reflects the lead compared to those wanting to enter the market. In addition, few competitors of the same size class can offer a full lifecycle, especially with the same long experience. The third difference compared to competitors is license management. The company buys the cloud and robotics licenses and offers them to the customer as a service. This allows the company to optimize the licenses and obtain bulk discounts.

For the efficiency of the platform and the customer, it is also critical that the introduction does not require customization of the customer's systems. This speeds up introduction and lowers the threshold for testing and taking Digital Workforce's platform into use. Thus, a direct interface without customization improves growth and profitability opportunities. The only customization related to teaching the digital worker to use a specific target system.

The Outsmart platform was only launched at the end of 2022 in its new form. All old continuous service contracts have been changed to Outsmart, but the pricing logic was not forced from old (minute/volume) to new (per patient) invoicing. The commercialization of the Outsmart platform proceeded a lot at the end of last year. There are still less than 10 extensive Enterprise customers in full operation, but several are starting. In addition, the platform has a good sales pipeline. The number of deals in itself is not the only critical factor but also the customer size. The company's target customers in the growth market are up to tenfold larger than the largest customer in Finland.

The risks of the own platform relate to the prices of technology licenses and new competition. There has been upward pressure on license prices, but we believe the company has been able to transfer this to customers. The lead in platform development brings a competitive advantage to the company (8 years of development). On the other hand, Digital Workforce is still relatively small and investment funds are limited compared to large technology suppliers.

The benefits of an own platform

- Multi-technology – the best and flexible technologies in use
- Customers can easily and flexibly add digital workers and scale them as needed
- Cloud-based – agile updates and maintenance
- Long experience with customers in multiple industries and technology enables fast and efficient introduction to new customers
- The self-service feature introduced at the end of the year enables the customer's own introduction
- Does not require customization to the customer's information systems

Technologies

Flowable

UiPath

blueprism

Microsoft Power Platform

Power Automate

Source: Digital Workforce / Inderes

Company description and business model 4/7

Geographically Finland is the largest, but growth focus is in the US and UK

Geographically, Finland's share of revenue is still by far the largest (43% of revenue in 2023) although its share has fallen as expected in recent years (51% in 2021). The second largest market area in terms of revenue is markets outside the EU (19% in 2023), which in practice includes the growth areas of the UK, Ireland and the US. Poland's operations are mainly near-shore supply capacity to other countries. Sweden accounted for 17% of revenue and the rest of the EU accounted for 9%, which in practice is the German market. The markets that have grown strongest in recent years are countries outside the EU and the rest of the EU, but their growth slowed to around 30% last year.

In Finland, the market seemed to be in a mature phase before the strategy review and a stronger customer focus. Now, however, the growth outlook is good according to the company, driven by health care and public administration. There is a shortage of Finnish-speaking experts within the company's offering and BluePrism technology in particular. In addition, Finland has a solid and good customer base in the banking and insurance sector. In Finland, investment needs are in sales and delivery capacity.

Last year was a disappointment in Scandinavia, especially in Sweden. The offices in Denmark and Norway were closed last summer and these markets will now be managed from Sweden. This indicates that the Norwegian and Danish markets have fallen on the list of priorities. In our view, it is sensible to focus investments on markets with higher potential.

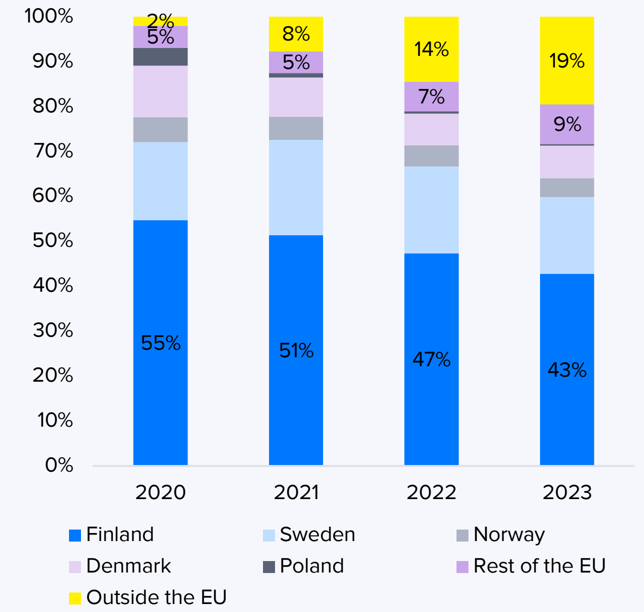
However, the company expects moderate growth in the next few years in Scandinavia and based on the company's comments, there are good growth opportunities, especially in Sweden.

Poland remains a pure center of excellence and a global supply unit. Poland has about 70 employees. We believe, the utilization rates are good and delivery capacity will be increased as needed.

The US is one of the growth markets, and we believe the most important for the time being. Last year was a good year for the US business, and the number of employees there doubled. Based on the company's comments, the growth outlook is good, especially in healthcare customers. Finland's HUS (The Hospital District of Helsinki and Uusimaa) customer relationship was initially a good reference and now the company also has local successes in the customer field. The US private sector is an "easier" customer as a buyer than, e.g., Finland and the UK. US healthcare customers are usually institutions, which facilitates expansion. In the US, the business has been strongly expert-driven, but we believe that almost all new contracts include continuous services, which is positive for continuity and margin structure. In addition, the company aims to carry out part of the customer work for the US in Europe in the future, which supports profitability with cheaper production costs. We believe the company's investment needs in the US are mainly sales-related (e.g., possibly recruiting a local manager).

The UK and Ireland operations were merged last year. The Irish operations became more prominent in 2022 with an acquisition. This market area is the company's second growth market.

Revenue by geographic area



Geographical growth %	2021	2022	2023
Finland	10%	5%	-12%
Sweden	43%	4%	-13%
Norway	8%	5%	-12%
Denmark	-10%	-8%	0%
Poland	-71%	-49%	-11%
Rest of EU (Germany)	16%	56%	29%
Outside the EU (UK, USA)	352%	115%	32%

Source: Digital Workforce / Inderes

Company description and business model 5/7

The additional purchase price for the Eclair acquisition was not paid and management changed in this market area. Thus, there is a slight discontinuity in the region, but the company still pursues strong growth in the region over the longer term. The company is building a second delivery center in Ireland (in addition to Poland) that could serve not only European but also US customers more easily than Poland due to the time difference. In addition, the company plans to continue recruiting healthcare expertise in the UK to continue its growth. In Ireland, the company is also examining the banking and insurance industry more closely to learn what work the company can do elsewhere and locally.

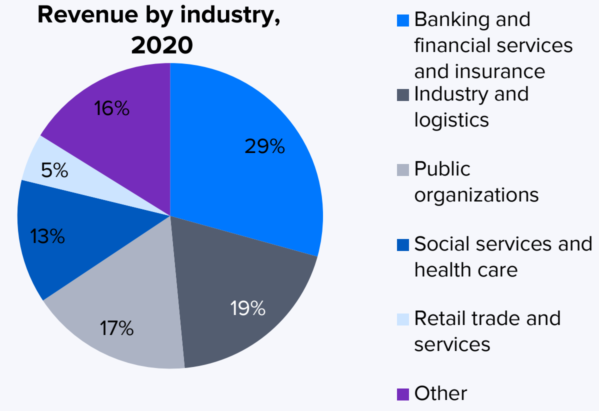
Selected industry verticals

In 2020, Digital Workforce's customer base was relatively fragmented. We estimate that it is still relatively fragmented, but that the share of healthcare has increased. The company has not previously had a specific industry focus, but as the company grew, it noticed a competitive advantage in healthcare, banking and insurance customers through its strong expertise. From 2023 onwards, the company thus focused on these customer verticals. Focus improves and sharpens the company's expertise in customer verticals and thus strengthens the competitive advantage. For example, in healthcare in Finland, Scandinavia and the US, where the same patient information system is used for the most part. This will also make it much easier to utilize expertise across borders.

Low customer dependency and good customer retention

The most potential customers for automation solutions and Digital Workforce are large and medium-sized organizations in information-intensive industries, such as banking, insurance and healthcare. In the Nordic countries, the company also targets the 100 largest companies in each country, the 20 largest municipalities, healthcare and public administration. In the US and the UK, the company focuses on the medium-sized business segment. However, the company's current customers include a large number of actors outside these criteria, but new customer acquisition focuses on the above criteria.

Digital Workforce's customer dependency was relatively small, with the 20 largest customers accounting for 58% of revenue in 2020. We estimate that dependency has remained relatively low. This also distinguishes the company from pure IT service companies, which have a clearly more concentrated customer portfolio. The average customer is EUR 100k/year. The average customer size should increase as new sales focus on clearly larger customers in the Nordic countries and especially internationally. Individual healthcare customers in the US are several tens of times larger than those in Finland, but once an agreement is won, the ramp-up ofContinuous Services is gradual and increasing the higher billable share will usually take longer. As the customer size grows, scalability also improves. We believe that customer satisfaction has also continued at a very good level (~4.2 on a scale of 0-5 in 2019-2021).



Source: Digital Workforce / Inderes

Company description and business model 6/7

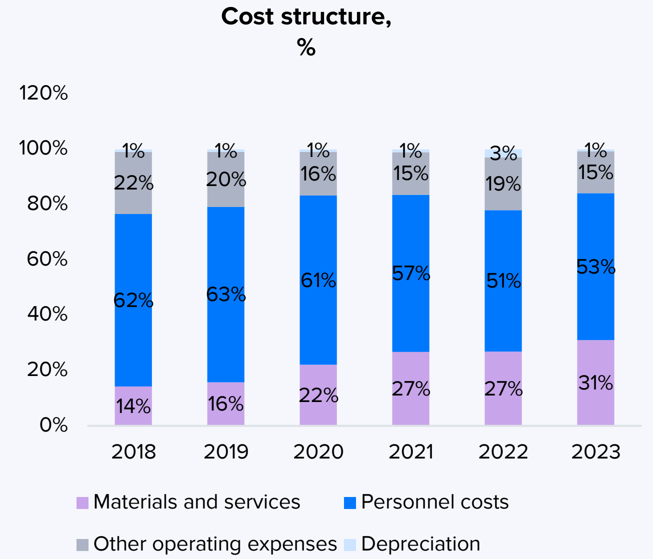
Customers have given positive feedback, especially on the company's expertise related to business process automation capabilities, continuous offering, flexible customer service and high quality of services. As a result, we believe customer churn has been very small over the years. Low churn is also supported by the fact that competition inContinuous Services in automation solutions is small, switching is difficult and benefits are small.

Organization and sales

The organizational structure is low. Country organizations have autonomous positions and sales and earnings responsibilities. Countries are the same as market areas. In addition, customer verticals are included in the structure and go through the country organizations. Group functions include finance, HR and marketing. With the organizational model, we believe it is relatively easy for the company to open up new markets because in practice it only requires sellers. On the other hand, we do not believe new markets are topical, as the company is investing in the current growth markets.

The sales organization includes about thirty employees, 3-5 per market and customer vertical. In addition, the company also uses partners, but market and industry-specifically. The partner model works especially in segments where sales cycles would be long and local industry expertise is needed. In the UK, for example, the company works a lot through partners in the healthcare sector. Generally, the sales time varies a lot depending on the customer and is on average 3-6 months. We believe the company wants to develop sales in a more holistic direction, which requires more industry expertise in addition to Digital Workforce's technical platform. This is critical as current buyers are higher in the customer organization and require a deeper understanding of the customer's business.

The most recent organizational changes are from the summer of 2023 when the UK and Ireland were merged. Thus, the company tightened its organization and job descriptions. At the same time, the company made the bank and insurance industry a separate customer vertical. The delivery organization, i.e. Poland and local experts, were also combined. At the end of the year, Denmark and Norway were transferred under Sweden, which also increased operational efficiency. Administratively, the company has carried out a lot of consolidation over the past year in accounting firms, reporting, etc., which improved management and brought efficiency. To sum up, there were relatively many changes and consolidations in the organization last year, which should make management easier.



Source: Digital Workforce / Inderes

Company description and business model 7/7

Costs and the potential for scalability consist mainly of Continuous Services

In terms of costs and scalability, Digital Workforce's business model is a hybrid between Professional Services and software business. Professional Services are highly personnel intensive and do not scale much. The profitability of Professional Services is highly dependent on billing rates. Continuous Services are largely based on the own platform and to a lesser extent on personnel work. Thus, Continuous Services scale nicely. As the company's revenue and number of customers grow to a certain level the unit costs of most cost items in practice start decreasing relative to revenue.

At the moment, the company prioritizes profitability, ahead of growth. Thus, the profitability improvement in the short term will come more from other cost efficiency and the scaling will only emerge more strongly in a stronger growth phase. In the mature phase after the strategy period, we believe the company should be able to sustainably achieve EBITDA levels of closer to 20% (Q4'22 14%).

A significant portion of Digital Workforce's costs consists of personnel expenses (2023: 53% of costs) and other operating expenses partly dependent on personnel (15%). Other operating expenses include, e.g., office, administrative and marketing expenses. Materials and services accounted for 31% of expenses in 2023 and mainly include licensing and subcontracting costs, but now also subcontracting as the company has started using it. Depreciation accounted for 1% of expenses and mainly relate to capitalized development expenditure. In recent years, the focus of the cost structure has shifted more strongly toward materials and services, as personnel costs have fallen relatively. The shift in focus has been driven by the relative growth in revenue from Continuous Services, which includes a large part of licenses and is also reflected in costs under materials and services. As the growth of Continuous Services continues faster than Professional Services in line with the strategy, the same trend will continue.

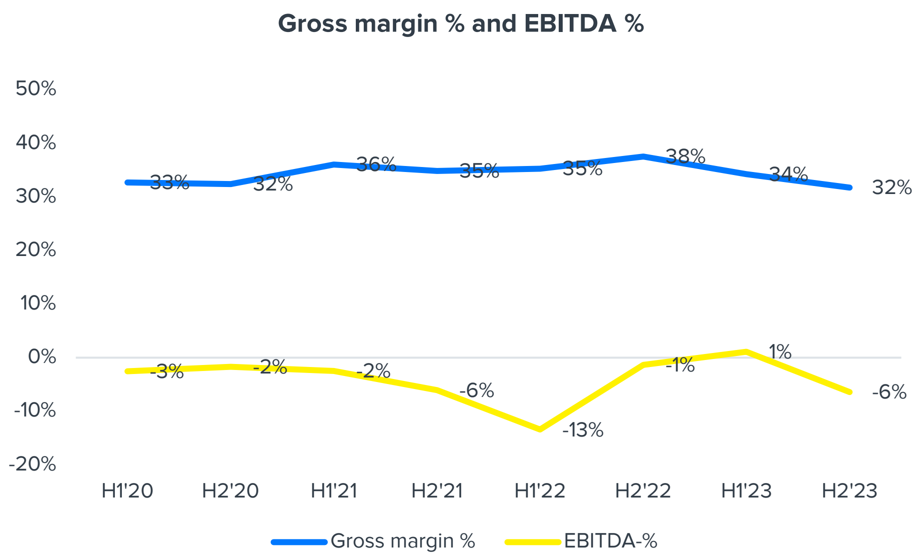
The cost structure differs from IT service companies in that most materials and services are hosting and license fees related to cloud services and only a small part is subcontracting, whereas in an IT service company this item is mainly subcontracting. Digital Workforce did not use much subcontracting in the past, but increased it in 2023.

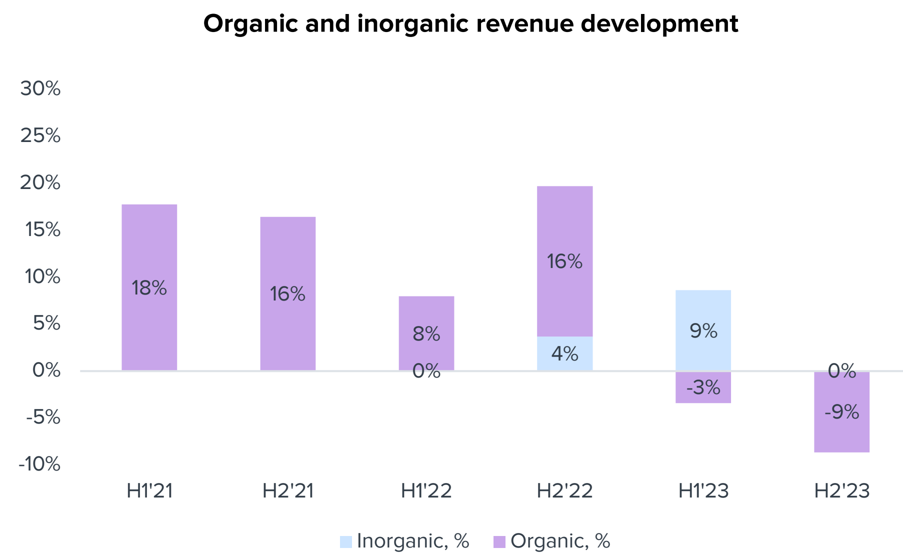
Key investments and risks

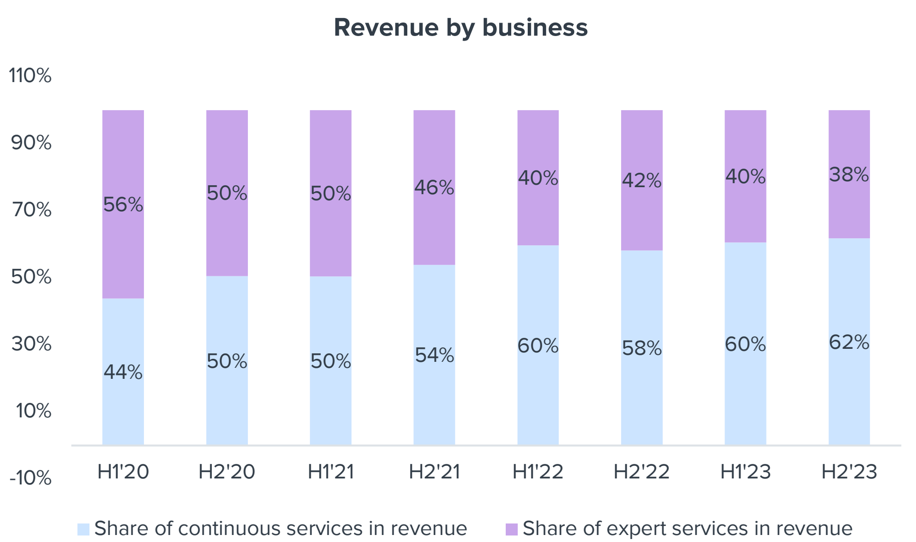
In the past couple of years, the company has curbed investments and implemented them carefully. We believe the key investments are in sales and industry expertise in the growth markets and in Finland. We suspect that the investments in the own platform are largely over but like the product business, it requires continuous small further development. As the company seeks profitable growth in the short term and does not capitalize costs, there is clear leeway in the balance sheet for inorganic growth. Naturally, acquisitions also involve different risks.

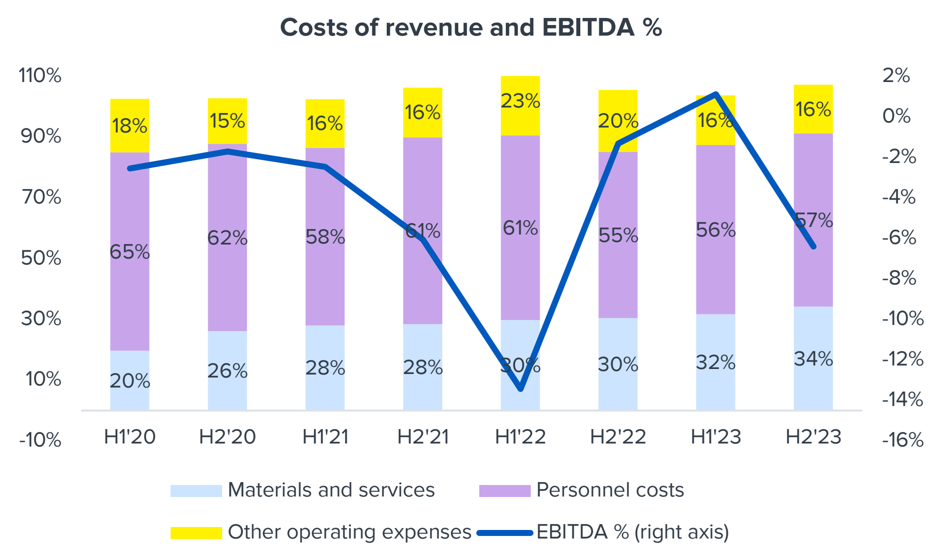
The key operational risks are related to maintaining/improving the competitiveness of the own platform, wage inflation, the availability of experts, scalability materializing and, in particular, the success of growth investments. The main price risk is related to price competition between service providers, which is mitigated by the added value of the service and security of supply. In addition, a few fixed-price projects naturally involve project risks, but they are relatively limited.

Digital Workforce's key figures



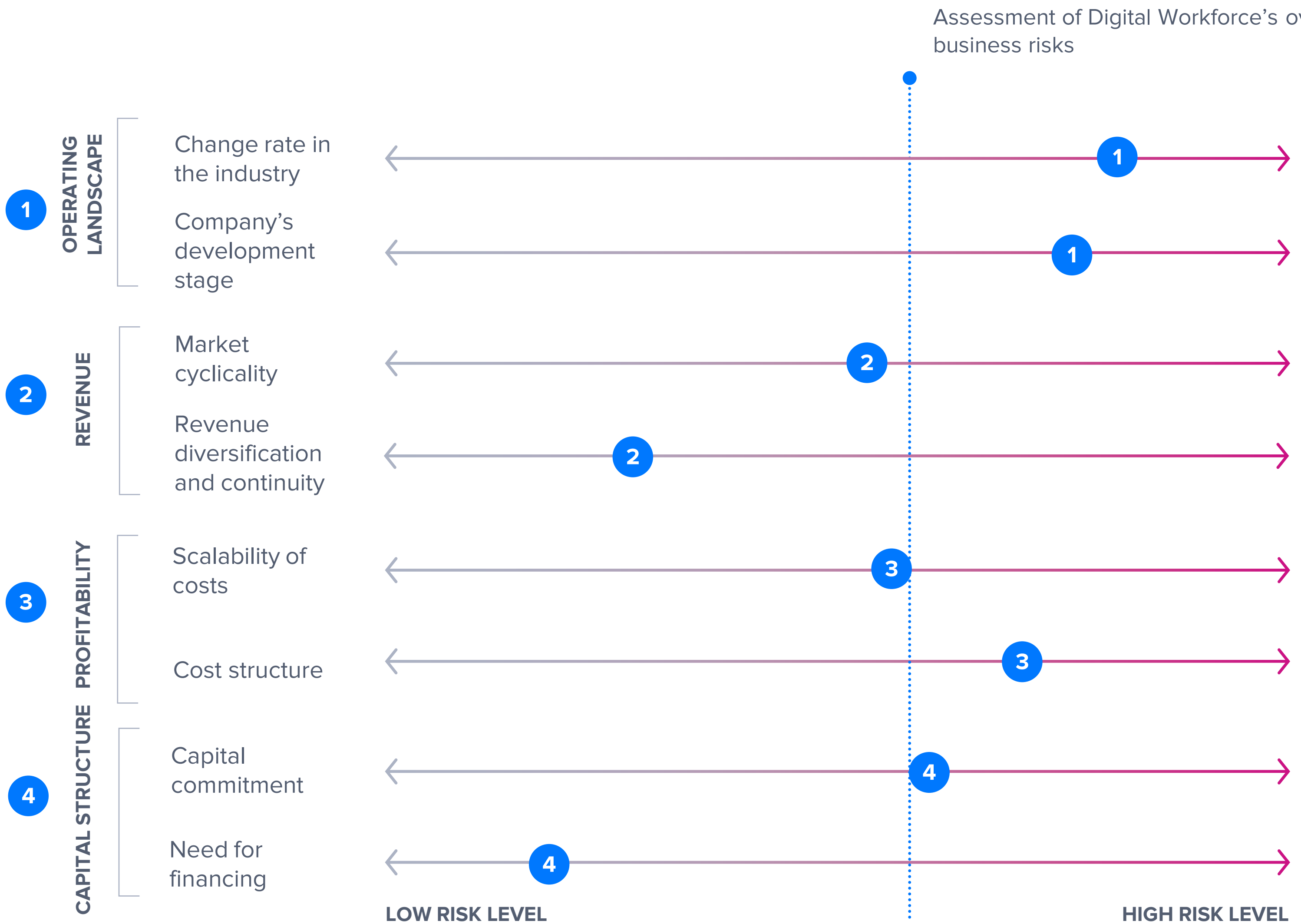






Source: Digital Workforce, Inderes

Risk profile of the business model



The industry is in constant and rapid change as technology develops.

Digital Workforce's refined strategy and newish Outsmart platform are still in the commercialization phase. Growth markets have provided the first proof of growth, but it must accelerate clearly in absolute terms.

The market has strong demand drivers, but customers' readiness is still partly a bottleneck.

Diversified customer base Continuous Services already form the majority of the business.

The cost structure is mainly fixed, but as the strategy progresses, scalability becomes stronger.

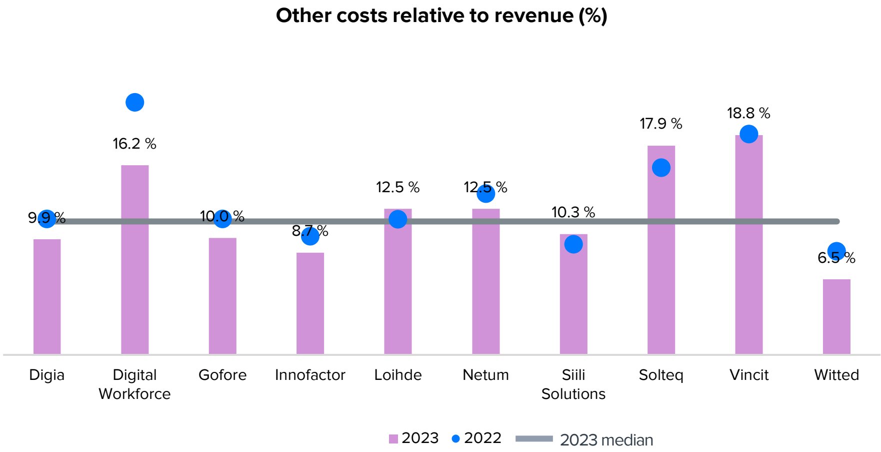
The focus of the strategy has changed from growth to profitability, but there is not much flexibility in the cost structure. The low use of subcontracting brings some flexibility.

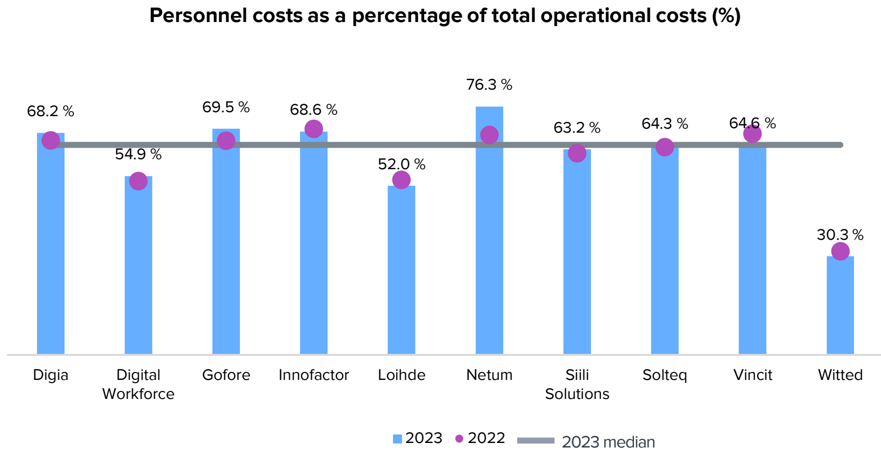
In the mature stage, operations tie little capital and working capital is negative. Acquisitions and accelerating investment in the medium term will tie up capital.

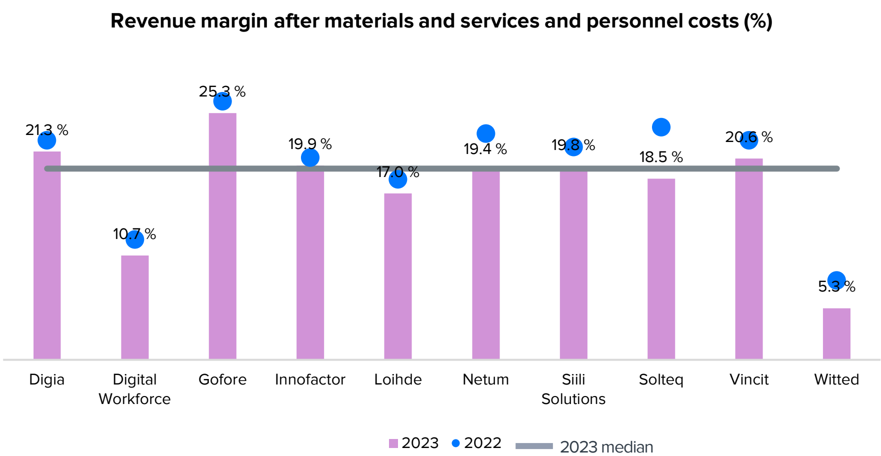
The strong cash position collected in the IPO provides a buffer and the expected positive profitability continues to accumulate it further. This means that there is enough capital for operational investments and acquisitions.

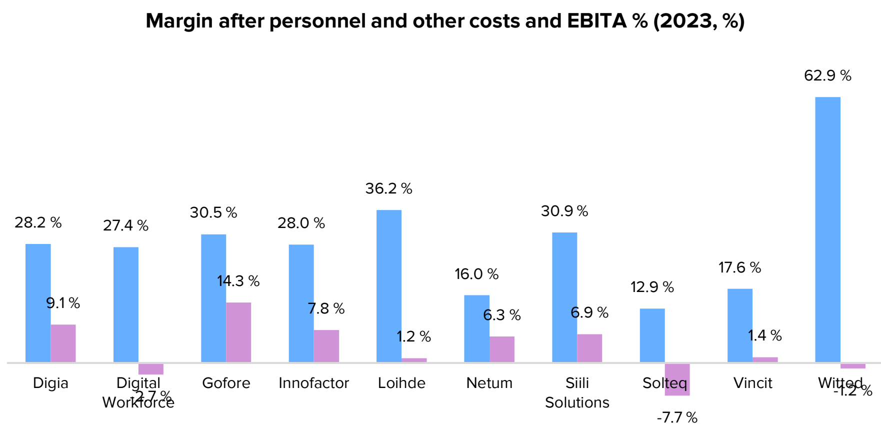
Source: Inderes

Relevant reported indicators for the sector





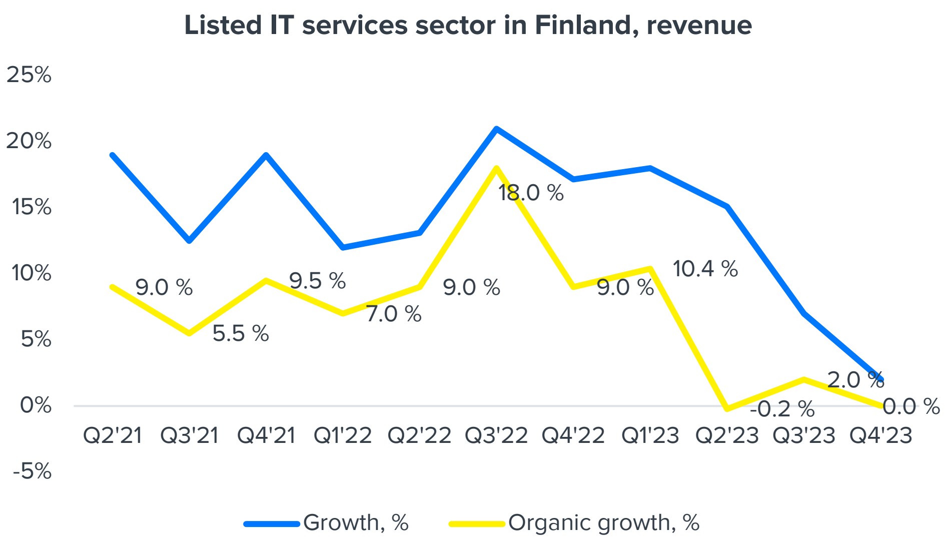


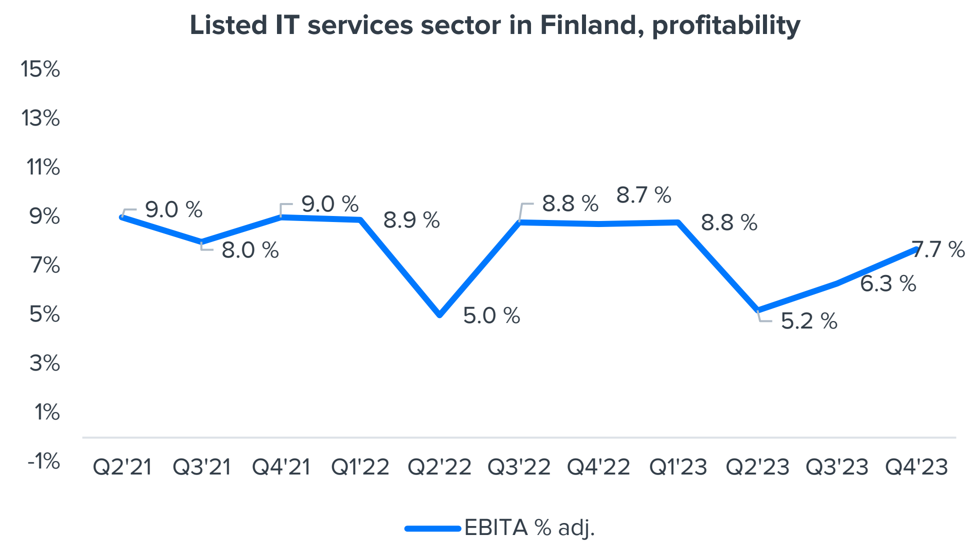


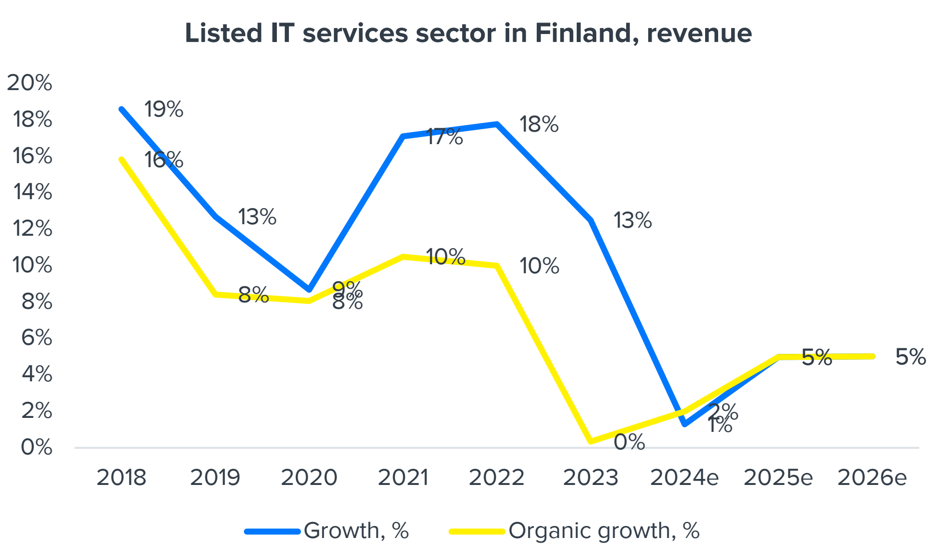
Source: Inderes, companies

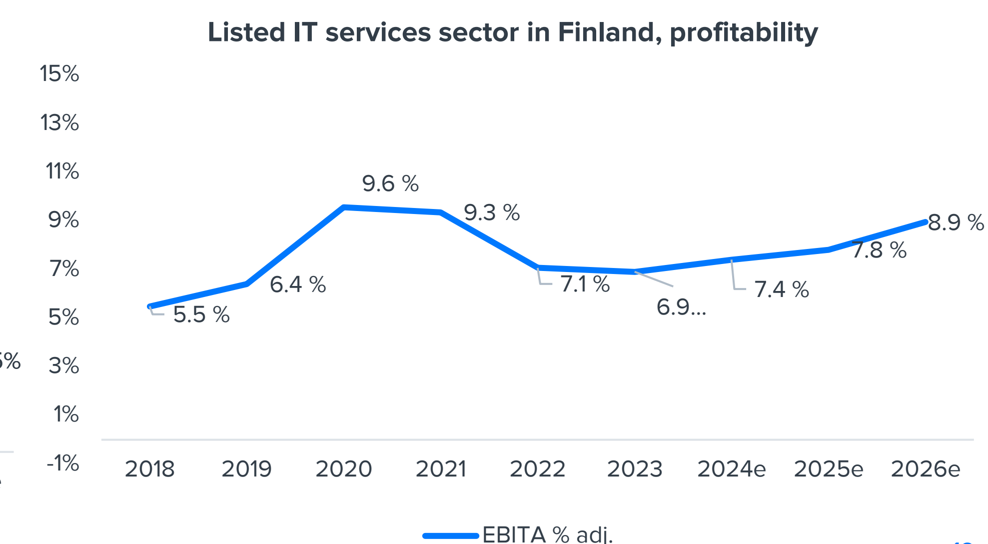
EBITA= Operating profit + intangible depreciation of acquisitions/goodwill amortization + non-recurring write-downs.

Relevant reported indicators for the sector 2/2









Source: Inderes

Partners

Technology suppliers and communities

Sales and expert partners

Operations

Sales and marketing

Continuous Services

Professional Services

Customer verticals

Healthcare

Banking and financial services and insurance

Business idea

Digital Workforce's business has been created around its automation platform and Continuous Services, which the company aims to grow.

DIGITAL WORKFORCE™

- A business automation platform company that utilizes robotics to a great extent is at the core of the competitive advanatge.
  - Multi-technology
  - Cloud
- The company's solutions create automation benefits for a broad customer base in selected industries and internationally.
- In addition to Continuous Services, the offering includes Professional Services
- Strong industry expertise in selected customer verticals

Targets

- Revenue target 50 MEUR by the end of 2026.
- Over 10% adjusted EBITDA margin by the end of 2026.

Customer references

Healthcare

HUS; NHS University Hospitals of North Midlands NHS Trust

Banking and financial services and insurance

if; skandia; Nasdaq; Toyota Financial Services

Industry and logistics

Valmet; Norsk Stål

Retail trade and services

elior

Public organizations

Oslo; Helsinki; Puolustusvoimat The Finnish Defence Forces; Vero Skatt

Cost structure (2023)

177 employees (2023)
29 MEUR (2023)

Personnel costs
(51% of costs)

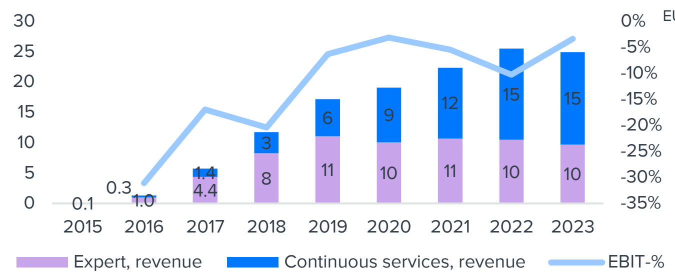
Materials and services
(27%)

Other operating expenses
(19%)

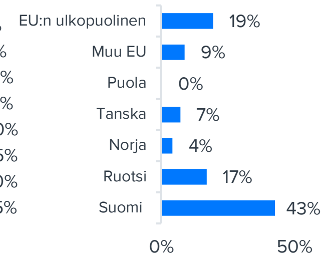
Depreciation and amortization
(3%)

Source: Inderes

Income flows (2023)



Revenue 25 MEUR



Software robotics market and competitive landscape 1/3

Software robotics is an interesting part of the IT service market

The research organization Forrester estimates the global service market for software robotics to be 14.4 BNUSD and software to 3.6 BNUSD in 2022. In Forrester's report, the research company expects the market to grow to 22 billion (16+6) by 2025 (service growth averaging 4% per year and software growth of 22%). According to Forrester's report, Robotic Process Automation (RPA) services are further divided into implementation (60%), consulting (25%) and support (15%). Digital Workforce operates in all service areas, but strategically the most important is support and maintenance.

Geographically, North America has used > 40% of RPA services and Europe about 20%. Thus, Digital Workforce's strategic choice to invest in the US is well-founded. We point out, however, that expansion is still in the early stages, even though there is positive evidence. However, the expansion of the US still requires proof, especially in healthcare customers.

According to Forrester, a large proportion of customers utilize only a small part of their automation potential. According to Forrester, robotics and automation will completely change up to 80% of current jobs by 2030. These estimates precede the strong development of AI (or more specifically generative AI) in the last year or so and it may well further accelerate the development and growth of the RPA market.

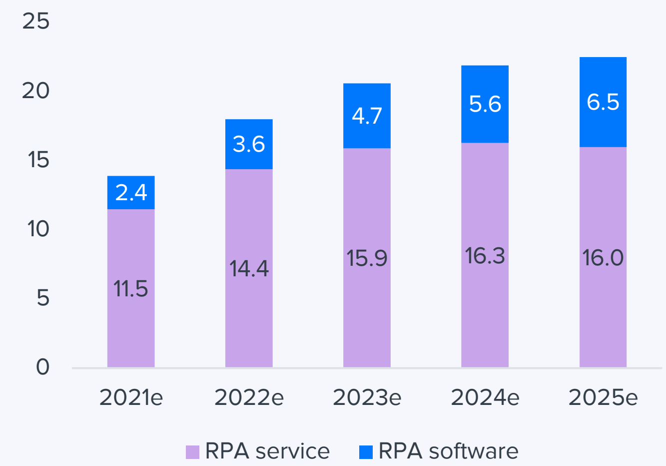
The COVID pandemic accelerated companies' automation investments. In addition, beyond the cost savings of companies and labor productivity, accelerating digitalization, increasing revenue, improving customer experience and competitiveness have become the most important goals. Forrester states that the market is changing from the automation of tasks enabled by individual technologies to the so-called automation fabric market for comprehensive business processes. According to Forrester, such a comprehensive offer is currently not available on the market. At the end of 2022, Digital Workforce launched a commercial platform to meet the need. As the market is changing rapidly, Digital Workforce must also be able to continuously develop its business and apply the best technologies.

Thus, Digital Workforce's market potential is big. In the Nordic countries, the company has proven the maturity and competitiveness of the product. Next, it is critical for the company to successfully expand also in the US and the UK, as well as Ireland to achieve its strategy and targets.

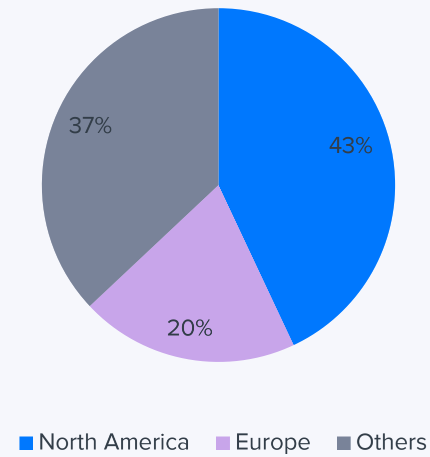
Robotic software drives growth

The projected growth of the services market was expected to be 10% in 2022, but to slow down to under 5% in the coming years. Software growth was expected to continue as strong (on average over 20%) in 2023-2025. The purpose of Digital Workforce's business model is to drive the growth of Continuous Services, which extensively utilizes robotics technologies.

RPA market, BNUSD



The RPA market geographically



Source: Forrester

Software robotics market and competitive landscape 2/3

The growth of the robotics market is driven by the benefits of introduction such as 1) accelerating digitalization, 2) improving customer productivity and profitability, 3) freeing up the working time of human workers, 4) offering flexibility and scalability, and 5) improving quality and customer experience. In addition, growth is driven by the wider adoption of robotics, as many customers have not yet adopted robotics at all or have many unautomated processes.

The competitive landscape is fragmented, but no larger direct competitors

Digital Workforce does not compete with large automation software technology suppliers but uses different software to deliver its services. Competitors include large consulting houses (CGI and Accenture), IT consulting houses and other similar specialists focusing on implementation, operation and maintenance. The company has competitive advantages over the above competitor categories, especially due to its focused offering and extensive capabilities within it. Large IT consultants are more generalists and operate with different business models and interests. Small agile competitors mainly sell expert work and licenses, but they lack maintenance capability and life cycle supply. Smaller competitors are Roboyo and Reveal Group (see Forrester competitive landscape on page 21). For IT service companies, continuous service is usually the tail end of the project, whereas for Digital Workforce this is a strategic goal. Thus, the company has very little direct competition that delivers the entire life cycle offering in an agile manner. However, there is competition at different stages. We expect consolidation in the market when companies want to expand their offering and customer base.

In our view, one option that is still valid is to partner more closely with pure expert suppliers and utilize the company's automation platform. The company is already using this model, e.g., with healthcare customer in the UK.

Forrester's analysis puts Digital Workforce at the top in terms of offering and almost in the "leaders" box. In Forrester's study, the company received a full score for 1) software offering and proprietary patents, 2) strategy vision, 3) innovation, 4) pricing flexibility and transparency, and 5) customer numbers. In the study, an effective expert strategy was mentioned as a development area, as delivery currently requires local introduction, which is partly a bottleneck for growth. In addition, expert churn has been high, which creates challenges for the introduction.

Geographically, Digital Workforce has demonstrated its competitiveness in a wide range of customer verticals in the Nordic countries. Internationally, the company continues to build its reputation and aims to utilize references from Finland and international projects delivered thus far. The strong expertise of the industries chosen in this way will serve as a competitive advantage internationally. In addition, most of the market organizations are in their infancy when it comes to robotics.

Customer benefits from software robotics

- Accelerating digitalisation
- Improving productivity and profitability
- Freeing up working time for workers
- Offering flexibility and scalability
- Improving quality and customer experience

Market growth drivers

- Most organizations have not yet implemented robotics
- About 90% of companies using software robotics utilize only a small part of their automation potential
- Technological development enables the automation of new and more complex processes

Source: Digital Workforce and Forrester

Competitive landscape for software robotics

Competitive landscape

BUSINESS APPLICATIONS	AUTOMATION SOFTWARE	IMPLEMENTATION	OPERATION AND MAINTENANCE
SAP, ORACLE, Zendesk, salesforce, Bill.com	UiPath, blueprism, Power Automate	DIGITAL WORKFORCE; Deloitte., accenture, EY, KPMG	DIGITAL WORKFORCE; reveal group, ROBOYO, Agilify, ISG, AVO Automation, Capgemini, Coforge, IBM
Many other similar applications	OFFERS AUTOMATION SOFTWARE	DESIGNS AND IMPLEMENTS AUTOMATION	OPERATES AND MAINTAINS AUTOMATION

Competitive landscape for RPA technologies and services

Gartner: Magic Quadrant for Robotic Process Automation (RPA technology)

Source: Gartner (July 2023)

Forrester Wave: Robotic Process Automation Services (RPA services)

Source: Forrester (Q4'23)

Software robotics market and competitive landscape 3/3

In Finland, Siili has similar operations in the Skaler unit, and Digia acquired MOST Digital, a software robotics and automation services provider in 2022. The clear strategic difference in MOST Digital's solution is the application of open source code. In addition, MOST Digital and Skaler are clearly smaller and geographically more focused software robotics providers than Digital Workforce. Finland is also home to a small robotics expert, Sisua Digital, offering continuous services, but competing in different geographic areas and customer sizes.

In the big picture, there have been no major changes in the competitive landscape but smaller competitors will grow to challenge the company in the future. Digital Workforce's competitive advantages are strongly based on the company's own extensive Outsmart platform and strong expertise in selected customer verticals.

The own platform is a key competitive advantage

The competitive advantage of Digital Workforce is based on the lifecycle offering and especially on its own Outsmart automation platform. The platform is not dependent on robotics or cloud technology but is applied with the best technologies and based on customer's needs. The multi-technology platform increases flexibility, reduces technology risk and distinguishes the company from suppliers that use only one technology.

The company is also cost-effective as a large part of the work is carried out at the near-shore unit in Poland. However, there is no greater price competition on the market. In addition, the company can use its own platform and digital workers to manage maintenance in a very cost-effective and scalable manner.

Software robotics is part of the big IT service market and has the same drivers

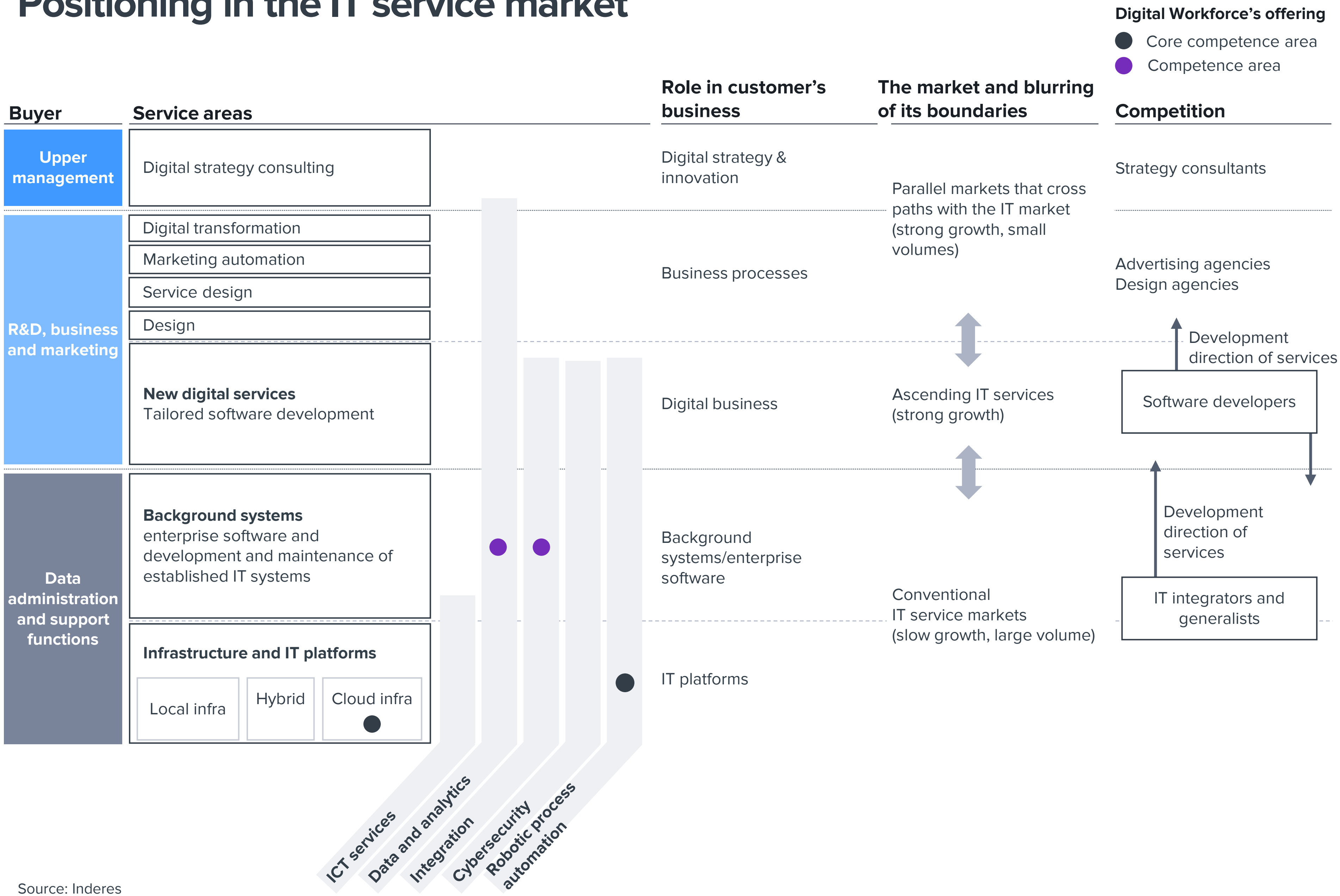
At the end of the report, we have also added the market and competitive landscape section of the IT service sector. This section is relevant as Digital Workforce operates within this large market in software robotics and automation, which has many of the same drivers and themes. The same drivers include, e.g., digitalization and the maturity of companies (even though robotics is still in the early stages). In addition, the same themes are found in customer demand, technology development and its utilization, as well as in talent competition. We believe the difference in the competitive landscape arises from the smaller relative competition in software robotics compared to IT services in general. The IT service market and the competitive landscape section can be found on pages 42-56..

Digital Workforce's competitive factors

- \+ **Own Outsmart platform**, commercialization is still in the early stages
  - \+ Multi-technology
  - \+ Cloud service
  - \+ Very little competition in Continuous Services
- \+ **Strong industry expertise**
- \+ High benefits and low total costs for the customer
- \+ Flexible and fast delivery models and cloud maintenance
- – Tough competition in the expert and licensing model
- – Clearly smaller resources than technology suppliers if they were to expand into Digital Workforce's business
- – Weak competitiveness and supply capacity in the US

Source: Digital Workforce, Inderes' estimate

Positioning in the IT service market



Source: Inderes

Strategy and financial targets 1/3

Own automation platform at the core of the strategy

Digital Workforce's entire strategy has been created around its own automation platform and Continuous Services. The company wants to increase its Continuous Services in particular. As the market situation deteriorated and own competitive advantages clarified, the company updated its strategy in April 2022. The company's strategy emphasizes the change in the business model from expert-oriented services to a platform-based model. At the end of 2022, the company introduced the self-service Digital Workforce Outsmart platform to the core of its service offering, where the company builds significant additional capabilities to automate processes. For example, it is essential to ensure seamless cooperation between humans and software robots.

The automation platform was initially intended to be taken over by the customer as self-service. However, the company quickly realized that it still required the help of its own experts in the introduction. Thus, the current delivery model is still built from the expert's introduction project to the continuously charged own Outsmart platform. The Outsmart platform is suitable for companies of all sizes, depending on the extent of automation. However, in the customer field, the company only targets large customers.

In the summer of 2023, the company shifted the focus of its strategy more to selected customer industries. The company mainly targets healthcare customers, as well as banking and insurance customers. The company also has other country-specific industry strengths but is internationally pursuing the two above-mentioned ones, where a competitive advantage has been observed.

Cornerstones of Digital Workforce's strategy are:

1) Strong growth in the US, UK and Ireland, focusing on selected customer industries. Digital Workforce's goal is to continue strong growth/accelerate growth in these large market. In its international expansion, the company utilizes its expertise developed in the Nordic countries and invests in the sales organization and delivery capabilities (Irish delivery unit). In addition, growth can be supported with acquisitions. Internationally sought-after customers are clearly larger than those in the Nordic countries and thus scale better.

2) Strengthening scalability. The key is the productization of the Outsmart service offering into process automation solutions that can be replicated from one customer and geography to another. At the same time, the Outsmart platform supports scalable multi-technology solutions. Further development of the platform is still key. The company's goal is also to build a second delivery unit in Ireland that can support US customer introduction and continuous services more easily. Last year, the company implemented several administrative efficiency and consolidation measures that should support profitability and scalability.

3) Further growth of the business in the Nordic countries. In the Nordic market, the company aims to achieve high organic growth and profitability in its current customers, as well as new customer acquisition, especially in Finland and Sweden. In the Nordic countries, the company has a broader customer base than the strategic focus suggests due to its history, including industrial customers and the public sector. A bottleneck in growth is the recruitment of own experts, especially in Finland

Cornerstones of the strategy:

Further growth of the business in the Nordic countries

Accelerating growth in the US and the UK, focusing on selected industries

Enhance scalability

Digital Workforce's growth drivers:

- Growth and utilization of automation potential in customers
- Geographical growth, especially in the US, the UK and Ireland (new customer acquisition)
- Growth in existing customers in the Nordic countries
- Increasing customer size enables better growth and scalability
- Digital Workforce only has a limited number of experts in its market areas, Digital Workforce's own Outsmart platform solves bottlenecks and is scalable
- Acquisitions

Source: Forrester

Strategy and financial targets 2/3

In our view, the most critical part of the strategy is expansion to the US, where the market potential represents more than 40% of the world's RPA services. If the expansion to the US is successful, it opens up a completely different level of growth potential. In the Nordic countries, the company has already demonstrated the competitiveness of its offering.

There have been several minor changes in the strategy over the past couple of years, and now the company seems to have better illustrated its competitive advantages. In particular, the focus on healthcare customers and the banking and insurance sector seems a natural choice due to its strong expertise. In addition, a tighter focus is good, as the company still has relatively limited resources to compete in large markets in all industries. With a stronger focus than today, we estimate that the company has a better chance of succeeding in its strategy. The technical offering seems to be very competitive and industry expertise is good, as Forrester's research and the track record in the Nordic countries have shown.

Growth target cut clearly but it is still ambitious

In connection with the financial statements, Digital Workforce shifted its financial targets one year forward and the target is now revenue of 50 MEUR by the end of 2026 (the target during listing was 100 MEUR in 2026 and at the end of 2022 it was 50 MEUR by 2025). Translated, this means an annual revenue growth of just under 30%. The growth target is ambitious, but possible as the general economic situation improves. Geographically, it requires accelerated growth in Finland and in the growth markets. In addition, we believe the target requires putting the funds raised in the listing to work either through operational investments or an acquisition. Before COVID, the company was able to reach the targeted pace but the size class was also smaller. Now expert shortage and customer caution limit growth.

Focus has shifted from growth to profitability

In terms of profitability, the company's target is an adjusted EBITDA of over 10% by the end of 2026 (was by 2025). Even though the profitability target was postponed for one year, it is still higher than the target level stated in the listing. In the medium term, the company's focus has shifted from strong growth to slightly slower growth, but better profitability. In the past, the company aimed for over 20% adjusted EBITDA, which we consider challenging even if the strategy progresses as intended. We believe the EBITDA of the expert business should at best be close to 10% and the EBITDA for Continuous Services should be good 20%. We feel the profitability of Professional Services can be reflected in the lower profitability of the IT services sector. Continuous Services can, on the other hand, clearly reflect better, which, however, largely depends on the share and structure of continuous revenue over the longer term.

Digital Workforce does not have a confirmed dividend policy. We find it unlikely that the company will distribute dividends during the current strategy period. However, the company decided to repurchase its shares, which indicates that the company relies on improved growth and profitability and does not need all the existing capital for investments. The purpose of the buyback program is to use the acquired shares in acquisitions, company incentive schemes or to cancel the shares.

Digital Workforce's financial targets for the strategy period 2023-2026

	2021	2022	2023	2024	2025	2026->
Revenue	22 MEUR +17%	↗	↘	↗	↗	50 MEUR
EBITDA %	-4%	↘	↗	↗	↗	over 10%
Financing of growth	Cash flow	Funds collected in the IPO	Funds collected in the IPO	Funds collected in the IPO	Funds collected in the IPO	Cash flow

Source: Digital Workforce

Strategy and financial targets 3/3

Cash from IPO to acquisitions

In connection with the listing, the company carried out a share issue to implement the growth strategy, in which it collected net assets of over 20 MEUR mainly for organic investments. 13 MEUR of the funds are left. The focus of investment needs has shifted from organic to inorganic, at least in the short term. Organically, the company is currently recruiting only for targeted needs, which is a change from the previous growth phase and frontloaded recruitment. However, as the market situation improves and the company detects stronger demand for the Outsmart platform or in growth markets, the company can quickly start accelerating organic investments as well. In addition to the cash, the company naturally also has a debt option available, which we estimate could be close to 10 MEUR if profitability would improve closer to the target levels (10% EBITDA).

However, the regional and relative distribution of investments remains unchanged. The company's investments will continue to be primarily aimed at accelerating growth, especially in the US, the UK and Ireland. Around 70% of the funds are earmarked for these investments. The company has still reserved approximately 15% of the funds for integrating new technologies to its platform. The continuous development of the competitiveness of the Outsmart platform is critical for continued growth and acceleration. For business scalability and production resources, the company has reserved the remaining approximately 15% of the funds, including the Irish delivery unit. In our view, the investment distribution still sounds very natural in the big picture.

M&A transactions

Digital Workforce continues to pursue long-term growth mainly organically, but related investment needs are now lower. As a result, there is more cash for inorganic growth and the willingness for acquisitions has also increased. The company carried out a small acquisition in Ireland in 2022, which was strategically logical but did not quite go as hoped when the management had to be modified. The company seeks acquisitions mainly in growth markets or to strengthen growth in selected industries. For several years, the company has been assessing acquisition opportunities, especially in the US market, which makes it easier to find a target and the transaction to be successful. The acquisition target should also master one of the key technologies used by Digital Workforce. The ideal target would have ~50 employees.

We believe that potential acquisitions will be integrated into the Digital Workforce's platform and global delivery. Sales would remain local. Thus, the main synergies would come from cross-selling of Continuous Services and utilizing the scalability of the supply capacity.

We see high valuations of the acquisition targets, cultural integration and finding common incentives as risks in M&A transactions. International acquisitions naturally increase the risk level. The company has experience in one small M&A transaction, but we believe the management and the Board of Directors have extensive experience in acquisitions and their integration, which lowers the associated risk level. In addition, key personnel are committed with additional purchase prices that are linked to growth.

Investment targets

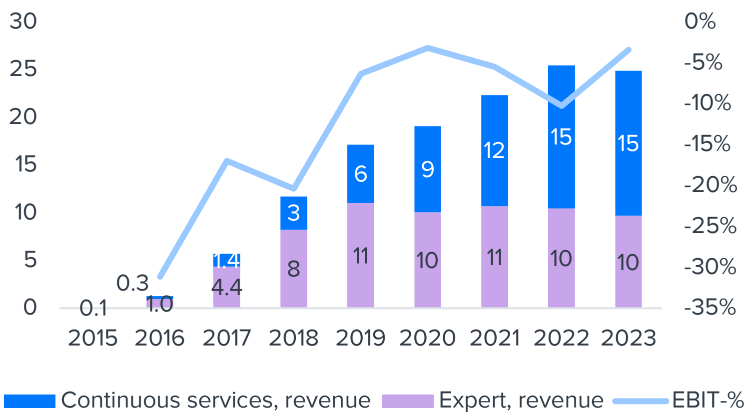
~70 %	New sales and delivery resources, especially in the US and the UK
~15 %	The introduction of new technologies on the own platform to develop the service offering
~15 %	To strengthen production resources and scalability.

Source: Digital Workforce, Inderes' estimate

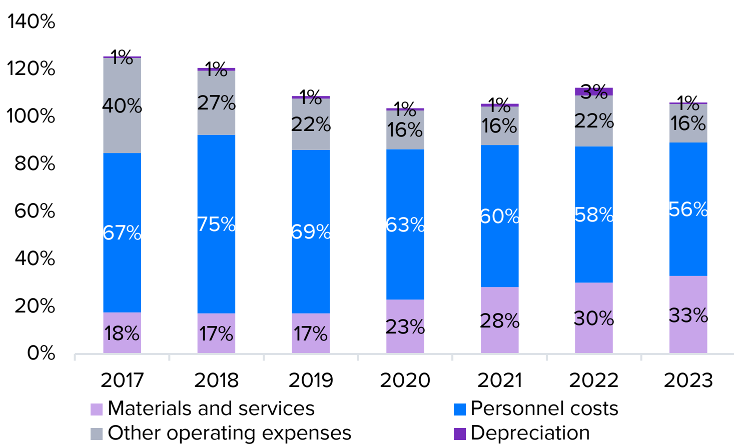
Financial position 1/2

Strong historical growth, profitability became the focus in 2022

Revenue (MEUR) and EBIT %, 2015-2023



Cost structure, 2017-2023, % of revenue



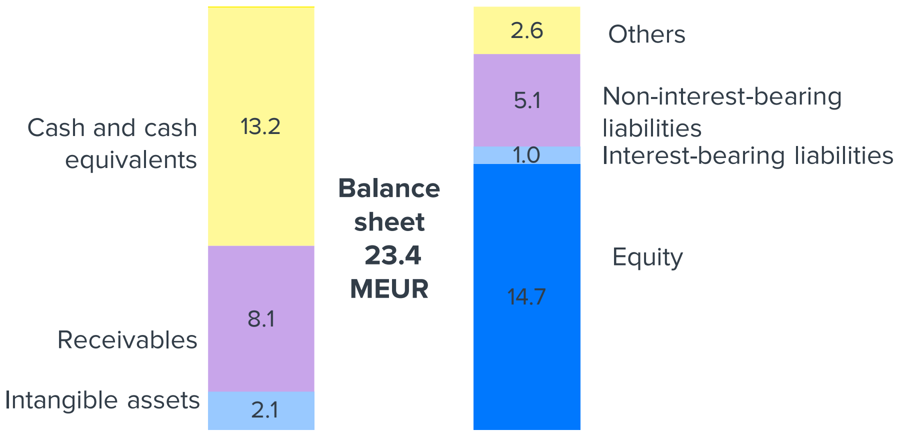
Source: Digital Workforce, Inderes

- Digital Workforce's annual revenue growth (CAGR) was 77% and average profitability (EBIT %) was -14% in 2016-2021. After the focus shifted from growth to profitability the corresponding figures in 2022-23 were +6% and -4% respectively.
- In practice, Continuous Services, which are at the core of the strategy, have driven growth from 2018 onwards, growing on average by ~35% per year, while Professional Services have grown by 3% per year At the same time, the share of revenue has increased to over 60% in 2023 (2018: 30 %).
- The growth markets, the US, the UK and Ireland account for ~20% of revenue. These markets have grown strongly in recent years, although growth slowed down to ~30% in 2023. In addition, the rest of the EU, which is mainly the German market, has grown by >30% in recent years and accounts for ~10% of revenue. The revenue of the largest market (43% of revenue), the Finnish market, decreased by more than 10% in 2023.
- We estimate that in the mature phase, the profitability profile of Professional Services is at the low end of IT service profitability (EBITDA <10%) and Continuous Services around ~20%.
- The development in 2023 was slowed down by one large customer deciding to take over the automation solution themselves, otherwise exit has been very small. In addition, the company carried out several measures to improve efficiency, clarify the direction of the strategy (industry focus) and further shift the focus of the strategy to the growth market.
- The largest items in Digital Workforce's cost structure are personnel costs and materials and services (2023: 56% & 33% of revenue). Personnel costs are mainly related to Professional Services and materials and services almost entirely to Continuous Services and its license fees, but also partly related to subcontracting from 2023 onwards. The relative growth of Continuous Services is thus strongly reflected in material and service costs.
- We believe that there is no greater potential in employee billing rates when the company has improved the efficiency of its processes in some countries and wants to recruit in others.
- Through Continuous Services, there is scalability in the cost structure.
- The cost structure is slightly flexible through subcontracting, and the cost base has been improved in 2023, which should support profitability in 2024.
- The strongest investment phase is over, at least momentarily. We believe operational investments are mainly carried out through the income statement and the need for capitalization is very low.

Financial position 2/2

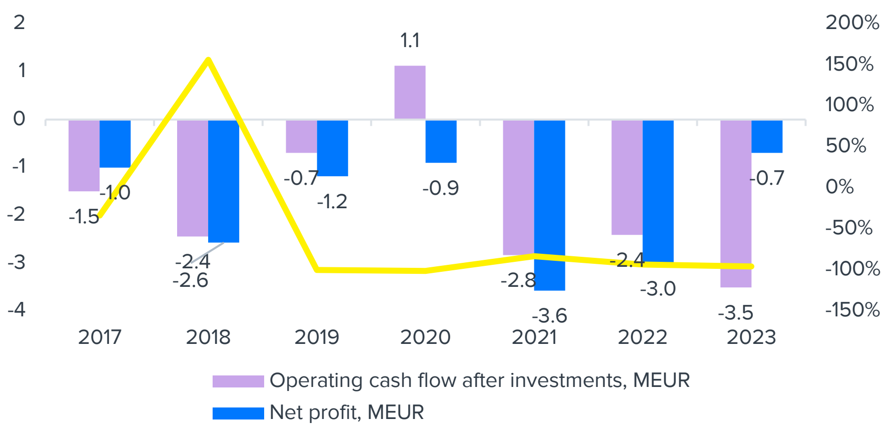
The funds raised in the listing allow for larger investments

Balance sheet structure, December 31, 2021



- Digital Workforce's balance sheet is very light and, thanks to the funds raised in the listing, very strong.
- Cash equivalents amounted to 13 MEUR at the end of 2023 and provide leeway for organic investments and acquisitions.
- Intangible assets are based on acquisitions and capitalized R&D expenses.
- The company operates with negative working capital, as licenses are usually paid at the beginning of the 12-month period. This means that normal organic growth does not tie up capital. The company continues to invest in growth, even though at a much more moderate rate than before, resulting in better profitability, and will not eat up cash and equity in the same way as before.
- Potential acquisitions tie up capital and create goodwill. Digital Workforce is in FAS accounting and thus amortizes goodwill if it is generated in the balance sheet.

Operational cash flow after investments, net result, and net gearing (%)



- In 2016, the company carried out a financing round to implement growth investments and a listing in 2021.
- More working capital than usual was committed at the end of 2023, when the last working day was a weekend and thus the cash flow was clearly weaker than the result. However, most of this was released early in the year.
- According to the company, the current funds are sufficient to implement the strategy. In the short term, we do not expect organic investment to devour much cash.
- We estimate that profitability will be positive in the next few years and will accumulate cash. This gives the company plenty of leeway for acquisitions.

Source: Digital Workforce, Inderes

Estimates 1/3

Estimate model

In the forecasts, we especially monitor the growth of continuous revenue in line with the targets of the company's strategy. Expert revenue is also important because it serves as an input to continuous revenue. The accumulation of expert revenue is highly dependent on the development of personnel numbers and changes in billing rates. The revenue of Continuous Services is supported by the development of Professional Services. However, the correlation between these businesses is relatively weak because customers of Continuous Services scale up digital workers.

Personnel costs are driven not only by the development of personnel numbers but also by wage inflation and more expensive recruitment in the US market. We model direct and fixed personnel costs separately.

Material and service costs will increase as Continuous Services grow, but these license costs are expected to scale clearly in the mature phase.

We have not included acquisitions in our forecasts, but we consider small or medium-sized acquisitions likely in the coming years.

As the company uses FAS accounting, third-party licenses are recognized as revenue but in IFRS accounting only the profit would be recognized. It is good to keep this accounting technical issue in mind, especially when the share of licenses is relatively high (2023e close on 50% of continuous revenue and ~30% of the Group's revenue).

The economic environment remains uncertain and interest rates high. This slows down companies' ability to invest in new digital services.

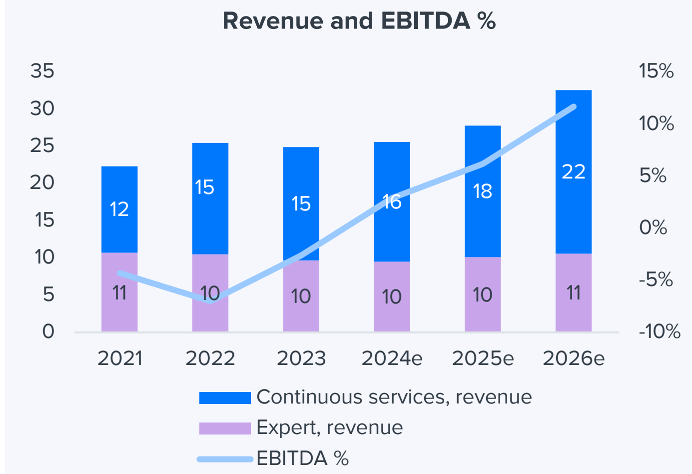
Estimates for 2024

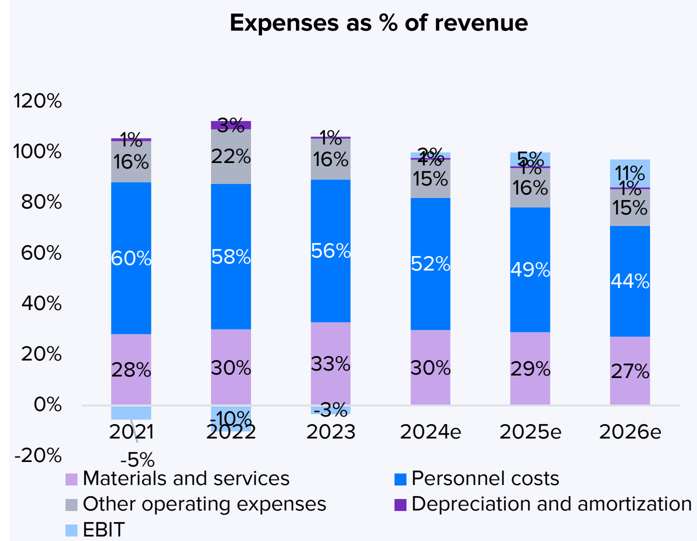
Digital Workforce guidance is that full-year revenue in 2024 will be higher and adjusted EBITDA will be positive and improve compared to 2023. We feel the forecasts for this year are subject to more uncertainty than usual due to the weak overall economic situation and Digital Workforce's strategic phase, where the new Outsmart platform is still in the ramp-up phase.

We expect that the company's revenue will grow by 3% to 25.6 MEUR driven by growth in Continuous Services. The forecasts include a relatively strong trend change from H2'23 (revenue -9%). Growth is entirely organic. We made small adjustments of up to 0.1 MEUR to our forecasts.

We predict that Continuous Services will drive the Group's growth (6%) as the use by existing customers increases. The revenue of Professional Services is expected to decrease (2%) as new customer acquisition is still challenging due to the market situation. The company is aiming for a 70% share of continuous revenue already in 2024 (2023: 61%), but we expect it to increase more slowly and reach 63% of revenue in 2024.

Geographically, growth markets are already beginning to be an important part of the whole. Thus, continued strong growth will gradually begin to be better reflected in the Group's figures. In addition, the larger customer size sought by the company supports growth.





Estimates 2/3

The company is confident in new customer acquisition, especially in the US, where the company expects the strongest growth in 2024. The UK and Ireland had a change of management at the beginning of the year, and we estimate that the current year will go to building the foundation before a stronger growth phase. In connection with H2’23, the company commented that demand on the more mature markets among Finnish public administration and especially healthcare had been lively in late 2023 but that project contract finalization and starts were delayed. Thus, we also monitor project contracts and their starts in Finland. In Finland, there is also a bottleneck in the availability of experts, which is somewhat strange in the current market situation but reflects the need for experts with a specific profile.

We expect the gross margin to increase to 38%, driven by scalable growth in Continuous Services, focusing on Azure cloud services and decreasing personnel numbers and thus improved billing rates (2023: 33 %). In other income lines, profitability is supported by the offices in Denmark and Norway that were closed at the end of last year and by efficiency measures in administration. The company will carry out a few targeted recruitments this year, which will raise the number of personnel slightly as the year progresses. We forecast EBITDA to be 0.7 MEUR or 3% of revenue in 2024 (2023: adj. 0.2 MEUR or 1 %). We do not expect any major changes in other income lines. Thus, we expect EPS to be EUR 0.06 (2023: adj. 0.01). With the capital required by the growth strategy and still low earnings level, we do not expect the company to pay dividends for 2024.

Forecasts for the strategy period in 2025-2026

In the final years of the strategy period, we forecast that growth will accelerate, driven by growth markets. From a structural point of view, we expect the growth of Continuous Services to drive the group’s revenue growth as expert service projects move to Continuous Services and existing continuous services continue to ramp up. We estimate that the company will grow by 9% and 14% in 2025-2026. Thus, our revenue estimate of 32 MEUR in 2026 is clearly below the target level (50 MEUR or ~25% y/y growth) partly held back by the continued challenging market. Therefore, reaching the target level requires one or more acquisitions. In addition, based on our calculations, the target level also requires an acceleration of organic growth above our forecast. A stronger growth forecast requires proof of the commercialization of the Outsmart platform progressing and acquisition of new customers in the growth market.

We forecast EBITDA to reach 7% in 2025 and 12% in 2026. The profitability improvement is driven by the growth of scalable Continuous Services and slightly better billing rates in the expert business. We also note that profitability forecasts in particular are subject to greater uncertainty in the medium term due to the slope of revenue growth and especially its scalability to profitability. We have listed several Digital Workforce growth and profitability drivers on the right-hand side.

We do not expect the company to distribute dividends during the current strategy period. We expect the company to invest all of its assets in growth, which we consider natural as growth accelerates and scalability realizes.

Growth drivers

+ The growth of the Outsmart platform, where success is critical in terms of long-term potential
+ Growth in Professional Services (market pressure in the short term)
+ Growth of new Continuous Services and increased use by existing customers (scalable)
+ Improved penetration rate of robotics
+ Subcontracting increases business flexibility

Profitability drivers

+ Better management of the licensing portfolio that streamlines the cost structure of materials and services
+ Greater scalability for Continuous Services
+ Making US deliveries from Europe
+ Relative decrease in direct personnel costs driven by the increase in revenue from Continuous Services
+ Relative decrease in fixed personnel costs due to revenue growth and increased billing rates
+ Relative decrease in other operating expenses driven by revenue growth
+ Improved billing rates in the expert business
– Wage inflation and churn in Professional Services
– Recruiting in the expensive US and UK markets
– Failure of investments

Estimates 3/3

Long-term estimates

Long-term forecasts are highly dependent on the success of the strategy and the market situation. In the long term, we expect that growth will gradually slow down and be 7-14% in 2027-2032 and 2.0% in the terminal. We forecast EBIT % to be over 10%, which reflects high IT service profitability. At present, however, the long-term forecasts are subject to considerable uncertainty, as the new strategy is in its early stages. The company still lacks proof of stronger growth and, in particular, profitability with the new strategy and structure.

Strong balance sheet allows for M&A transactions

The company had 13 MEUR in cash assets at the end of 2023. In addition, operational cash flow will also begin to strengthen the balance sheet and thus enable acquisitions to accelerate growth. We also suspect the company can finance inorganic growth with a loan of just under 10 MEUR, which, however, includes the assumption that profitability improves closer to the company's target EBITDA level of 10%.

Income statement	2021	2022	H1'23	H2'23	2023	H1'24e	H2'24e	2024e	2025e	2026e	2027
Revenue	**22.4**	**25.5**	**12.6**	**12.3**	**24.9**	**12.4**	**13.2**	**25.6**	**27.8**	**31.7**	**36.1**
Professional Services	10.7	10.5	5.0	4.7	9.7	4.6	4.9	9.5	10.1	11.1	12.7
Continuous Services	11.7	15.0	7.6	7.6	15.2	7.8	8.3	16.1	17.7	20.5	23.4
EBITDA	**-1.0**	**-1.7**	**0.1**	**-0.8**	**-0.6**	**0.3**	**0.4**	**0.7**	**1.8**	**3.9**	**5.3**
Depreciation	-0.3	-0.9	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2	-0.4	-0.4	-0.4
EBIT (excl. NRI)	**-0.8**	**-1.3**	**0.1**	**-0.2**	**0.0**	**0.2**	**0.3**	**0.6**	**1.6**	**3.7**	**4.9**
EBIT	**-1.2**	**-2.6**	**0.0**	**-0.9**	**-0.8**	**0.2**	**0.3**	**0.6**	**1.4**	**3.5**	**4.9**
Net financial items	-2.3	-0.4	0.2	0.0	0.1	0.2	0.2	0.3	0.3	0.2	0.2
PTP	**-3.5**	**-3.0**	**0.2**	**-0.9**	**-0.7**	**0.4**	**0.5**	**0.9**	**1.7**	**3.7**	**5.1**
Taxes	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.3	-0.6	-0.9
Net earnings	**-3.6**	**-3.0**	**0.2**	**-0.9**	**-0.7**	**0.3**	**0.4**	**0.7**	**1.5**	**3.1**	**4.2**
EPS (adj.)	**-0.25**	**-0.15**	**0.03**	**-0.02**	**0.01**	**0.03**	**0.03**	**0.06**	**0.14**	**0.29**	**0.38**
EPS (rep.)	**-0.62**	**-0.27**	**0.02**	**-0.08**	**-0.06**	**0.03**	**0.03**	**0.06**	**0.13**	**0.28**	**0.38**

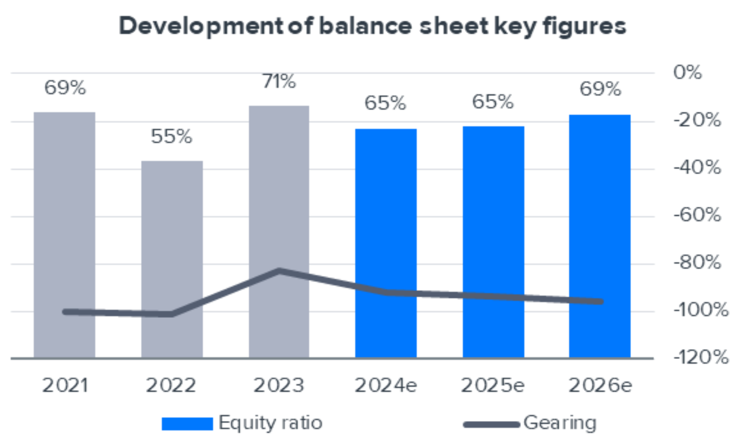
Key figures	2021	2022	H1'23	H2'23	2023	H1'24e	H2'24e	2024e	2025e	2026e	2027
Revenue growth-%	17.1 %	13.9 %	5.2 %	-8.7 %	-2.2 %	-1.5 %	7.3 %	2.9 %	8.5 %	13.8 %	14.0 %
EBITDA-%	-4.3 %	-6.7 %	1.1 %	-6.4 %	-2.6 %	2.5 %	3.2 %	2.9 %	6.6 %	12.5 %	14.7 %
Adjusted EBIT-%	-3.8 %	-5.0 %	1.0 %	-1.4 %	-0.2 %	1.8 %	2.5 %	2.2 %	5.8 %	11.7 %	13.5 %
Net earnings-%	-16.0 %	-11.8 %	1.5 %	-7.2 %	-2.8 %	2.4 %	2.9 %	2.7 %	5.3 %	9.8 %	11.7 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**1.6**	**2.1**	**2.3**	**2.2**	**2.1**
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	1.5	2.1	2.1	2.1	2.0
Tangible assets	0.0	0.0	0.1	0.1	0.1
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	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Current assets	**26.3**	**21.3**	**21.6**	**23.8**	**27.1**
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	8.2	8.1	6.4	7.0	7.9
Cash and equivalents	18.1	13.2	15.2	16.8	19.2
Balance sheet total	**27.9**	**23.4**	**23.9**	**26.0**	**29.2**

Source: Inderes



Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**15.4**	**14.7**	**15.4**	**16.9**	**20.0**
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	-12.7	-13.3	-12.6	-11.2	-8.0
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	28.0	28.0	28.0	28.0	28.0
Other equity	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**2.3**	**0.8**	**1.0**	**1.0**	**0.0**
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	2.3	0.8	1.0	1.0	0.0
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	**10.2**	**7.9**	**7.4**	**8.1**	**9.2**
Interest bearing debt	0.2	0.2	0.0	0.0	0.0
Payables	10.0	5.1	7.4	8.1	9.2
Other current liabilities	0.0	2.6	0.0	0.0	0.0
Balance sheet total	**27.9**	**23.4**	**23.9**	**26.0**	**29.2**

Valuation 1/4

The investment profile of a turnaround company

Digital Workforce's investment profile is, in a way, that of a turnaround company. The company's investment story is attractive in the longer term, considering its growth and profitability potential. In the short term, shifting the focus from growth to better profitability requires more evidence in terms of profitability. Historically, the company has a strong track record of growth in the Nordic countries and preliminary proof of growth in growth markets.

We feel the company's business operations reflect the characteristics of a hybrid product and IT service company. Unlike product companies, Digital Workforce does not have its own IPR portfolios and an equally strong profitability profile, but it has clearly better scalability and especially continuity than a service company. Expert work, on the other hand, is strategically 'input' to recurring revenue and we estimate it has lower margins than average IT service work. Increasing the share of recurring revenue with better margins drives earnings growth and makes the investor profile more attractive.

At the end of the strategy period in 2026, the company should be clearly more mature in terms of growth markets and profitability should be clearly better. If the company succeeds in the growth market and scalability is realized, higher valuation multiples can be gradually accepted for the company.

A key risk is failure of the growth strategy, which would result in no track record of growth in recurring revenue and its scalability. In this case, the value of the continuing business would probably not be reflected in the company's valuation multiples and, in the worst case scenario, the company would be profiled as an IT service company against its will.

Valuation model

We examine the value of Digital Workforce from several angles. Conventionally, we apply absolute valuation multiples, peer analysis, a range for the expected return, and a DCF calculation. In addition, since the company has two very different business profiles, we also apply the sum of the parts calculation. We have also outlined the valuation through different scenarios, which are discounted to the present value.

In terms of valuation multiples, we have previously mainly used revenue ratios. The comparability of the revenue ratio is slightly weakened by the fact that the company applies FAS accounting and also records license sales in revenue. IFRS accounting would only record the margin, which would clearly lower revenue but improve profitability. With the profitability focus, earnings-based multipliers will also start to support the valuation next year, but this requires the earnings turn to be successful. At present, valuation is limited by the company's small size, weakened growth image and limited evidence of improved profitability.

Peer group

No clear peer group that operates with a similar business model is available for Digital Workforce as compared to expert companies, the company has significantly more recurring business with better margins. Compared to Nordic product companies, and especially software companies, Digital Workforce's margin profile is lower than for companies in a mature stage.

Value drivers and opportunities

- Success in growth markets (the US, the UK and Ireland) and acceleration of growth
- Increasing the revenue share of Continuous Services with better margins drives earnings growth and makes the investor profile more attractive
- Good scalability of the Outsmart platform
- Industry focus improves efficiency and therefore profitability
- Increasing relative share of recurring revenue
- Acquisitions

Risks and threats

- How the growth strategy progeresses
- Failure in commercializing the Outsmart platform
- Productivity of investments
- Developing large RPA technologies and their expansion to maintenance
- Customers taking over their activities (inhouse)
- Reacting to market and technological changes
- Development of the employee image and success in recruitment
- Wage inflation and managing attrition
- Acquisitions

Investment profile

1. **Attractive growth market, where first evidence of growth has been provided**

2. **Improved focus on competitive advantages in selected industries (esp. healthcare)**

3. **Scalable business model based on recurring invoicing**

4. **Strong balance sheet and negative net working capital**

5. **Investment profile of a turnaround company, but potentially a hybrid product and service company**

Potential

- Strong demand outlook on the market
- Success in new markets (the US, the UK and Ireland)
- Strengthening competitive advantage with the Outsmart platform
- Improving scalability
- Further improvement in continuity
- Acquisitions

Risks

- Success of the growth strategy
- Maintaining and developing the competitiveness of the Outsmart platform
- Developing large RPA technologies and their expansion to maintenance
- Reacting to market and technological changes
- Development of the employee image and success in recruitment
- Wage inflation and managing attrition
- Acquisitions

Source: Inderes

Peer group

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**
Admicom*	218	207	17.7	15.4	17.5	15.2	6.0	5.4	22.7	20.4	1.5	1.7	6.2
Efecte*	97	96	91.2	35.7	49.6	27.7	3.5	3.1	106.2	40.9			17.6
Leaddesk*	42	45	30.0	19.6	10.5	8.4	1.4	1.3	51.2	22.4			3.0
Qt Group*	1907	1839	25.7	19.9	24.7	19.2	8.3	6.5	32.8	26.5			8.1
Lime Technologies AB	423	435	35.8	30.1	23.4	20.4	7.1	6.2	47.2	38.9	1.0	1.2	15.1
Upsales Technology AB	58	54	19.9	18.2	14.4	13.4	3.8	3.2	26.5	24.9	3.8	3.8	22.2
Carasent ASA	69	41		14.7	32.6	10.7	1.8	1.5	185.0	41.1			0.8
FormPipe Software AB	137	135	20.8	14.2	11.2	8.9	2.8	2.6	25.9	17.7	2.4	3.5	3.1
Digia*	142	157	8.4	7.0	6.9	5.9	0.8	0.7	10.5	9.0	3.6	4.0	1.6
Gofore*	353	329	12.7	10.0	10.9	8.8	1.7	1.4	16.9	13.7	2.2	2.6	3.1
Loihde*	83	78	17.3	11.5	6.9	5.5	0.6	0.5	21.1	14.9	3.4	4.3	0.8
Innofactor*	46	52	7.6	6.0	5.2	4.4	0.6	0.5	9.3	7.7	6.2	6.9	1.5
Netum Group*	35	40	9.2	8.5	8.7	8.1	0.9	0.8	12.2	10.2	5.1	5.8	3.3
Siili Solutions*	75	75	8.3	7.0	5.8	5.1	0.6	0.6	11.8	10.1	3.2	3.8	1.5
Solteq*	14	38	13.0	10.0	7.5	6.7	0.7	0.6	37.3	12.9			0.7
Tietoevry*	2297	3176	8.8	8.0	7.4	6.9	1.1	1.0	9.0	8.3	7.7	8.0	1.4
Vincit*	45	33	7.7	5.1	6.3	4.6	0.4	0.3	14.4	9.4	5.6	6.3	1.3
Witted Megacorp*	30	22	14.8	7.1	15.2	7.0	0.4	0.3	22.1	12.8			1.8
Bouvet	544	565	15.8	13.7	12.5	11.1	1.7	1.5	19.0	16.6	4.7	6.1	12.8
CombinedX	86	83	10.1	8.1	6.9	6.1	1.0	0.9	13.1	10.6			
Avensia AB	28	32	12.4	9.3	7.9	6.6	0.9	0.8	13.8	10.2	3.4	5.7	6.8
Knowit	370	456	15.3	11.6	7.7	6.7	0.8	0.7	17.1	12.3	3.7	4.6	1.0
Netcompany Group	1922	2213	20.9	17.0	15.0	12.8	2.5	2.3	24.8	19.3			3.5
Digital Workforce (Inderes)	**32**	**18**	32.3	**10.0**	24.0	8.9	**0.7**	**0.6**	47.0	19.7	0.0	0.0	2.1
Average			19.2	13.4	13.7	10.0	**2.1**	**1.9**	32.6	17.9	3.8	4.5	5.3
Median (all)			15.1	11.5	10.5	8.1	**1.1**	**1.0**	21.1	13.7	3.6	4.3	3.0
Diff-% to median			*n.a.*	***-13%***	*n.a.*	***9%***	***-37%***	***-44%***	*n.a.*	***44%***	*n.a.*	*n.a.*	*-31%*
Median (software companies)			20.8	16.8	15.9	12.0	**3.2**	**2.8**	29.7	23.6	2.3	3.0	4.6
Diff-% to median			*n.a.*	***-40%***	*n.a.*	***-26%***	***-78%***	***-79%***	*n.a.*	***-17%***	*n.a.*	*n.a.*	*-55%*
Median (IT service companies)			12.4	8.5	7.5	6.7	**0.8**	**0.7**	14.4	10.6	4.7	5.8	1.5
Diff-% to median			*n.a.*	*18%*	*n.a.*	*33%*	*-7%*	*-18%*	*n.a.*	*86%*	*n.a.*	*n.a.*	*37%*

Source: Refinitiv and *adjusted Inderes' estimate / Inderes. NB! The market cap used by Inderes does include own shares held by the company.

Valuation 2/4

The median EV/S multiples of the peer group for 2024-2025 are around 1.1x-1.0x. The corresponding multiples for IT service companies are 0.8x-0.7x and 3.2x-2.8x for software companies. The valuation of the peer group has decreased clearly in just over a year, which has also affected the valuation of Digital Workforce.

We have considered the median of IT service companies to be the bottom for the valuation, but now the company's growth and profitability profile is even weaker in the short term than for the average IT service company, which weakens this support point. If the company's growth accelerates back closer to its target level of 25% and the profitability turn progresses well, we feel the top level of IT service companies (~1.5x), i.e. roughly double the current level can be accepted for the company However, we do not see any justification for examining the company's valuation relative to software companies. However, we include software companies, because if the company reaches its potential, these will also provide support points for the valuation. Due to the recognition policy of license income, even some 30% lower revenue-based multiples can be accepted for the company.

In our view, the valuation of Digital Workforce is cautiously attractive with the EV/S ratio. Relative analysis of earnings multiples (2025e-26e) and taking a stronger view at this stage is challenging because there are several variables. We deal with the earnings multiples in more absolute terms.

Valuation multiples

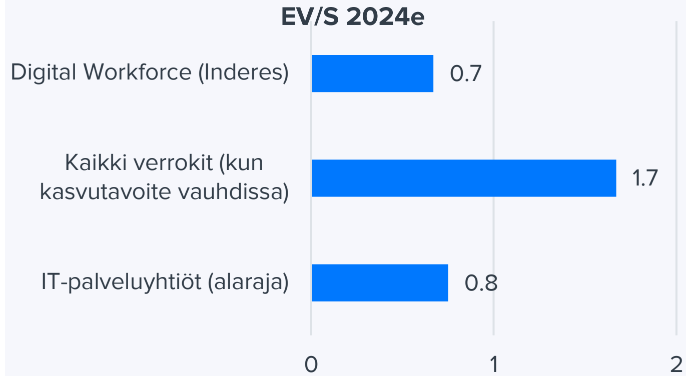
Digital Workforce's 2024-2025 EV/S ratios are 0.7-0.6x. With the price drop, the valuation has turned cautiously attractive. Relative to the potential (growth >10% and EBITA >10%) after the investment phase, we still find the valuation very moderate. However, the current challenging market situation curbs the biggest enthusiasm about the share.

Thanks to the profitability focus, earnings-based multiples will start to support valuation in the next few years. With 2025-2026 estimates (EBITDA: 7% and 12%) the valuation with EV/EBIT ratios is 10x and 4x. Earnings multiples are very low, although the earnings turn is in its initial stages, which elevates the risk level. However, as the company's focus is on profitability, the overall risk related to the earnings turn and low valuation multiples turns attractive.

Sum of the parts

We also examine Digital Workforce's valuation through a sum of the parts calculation due to the different business profiles. The usefulness of the calculation is, however, limited by the fact that the businesses cannot and will not be separated. The calculation is still a good valuation method among others.

We apply the lower end of the EV/S range 0.4x of IT service companies for professional services. The low ratio reflects the weaker growth and profitability profile of professional services. However, for recurring revenue, we apply the higher end of IT service companies' valuation or the entire peer group's median 1.4x. The valuation levels of the sector have decreased clearly over the past year or so.



Peer group valuation Company	EV/EBIT 2024e	EV/S 2024e
Admicom*	16.3	5.5
Efecte*	91.5	3.5
LeadDesk*	29.4	1.4
Qt Group*	24.7	8.0
Lime Technologies AB	36.0	7.2
Upsales Technology AB	21.5	4.1
Carasent ASA		1.7
FormPipe Software AB	20.6	2.8
Digia*	8.2	0.8
Gofore*	12.6	1.7
Loihde*	16.9	0.6
Innofactor*	7.5	0.6
Netum Group*	8.7	0.8
Siili Solutions*	8.4	0.6
Solteq*	13.1	0.7
Tietoevry*	8.8	1.1
Vincit*	8.0	0.4
Witted Megacorp*	14.5	0.4
Bouvet	16.0	1.7
CombinedX	8.9	0.9
Avensia AB	11.9	0.9
Knowit	15.1	0.8
Netcompany Group	21.3	2.6
Digital Workforce (Inderes)	31.1	**0.7**
Average	19.1	**2.1**
Median (all)	14.8	**1.1**
Diff-% to median	*n.a.*	***-39 %***
Median (software companies)	21.5	**3.2**
Diff-% to median	*n.a.*	***-79 %***
Median (IT service companies)	11.9	**0.8**
Diff-% to median	*n.a.*	*-11 %*

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

Valuation 3/4

If the profitability potential of the business begins to materialize, a higher valuation level can be accepted for recurring revenue.

Using Digital Workforce's 2024 revenue and the above multiples, the total debt-free value is 26 MEUR. With strong net cash the market cap is 41 MEUR or the value per share EUR 3.6. The sum of the parts almost depicts our target price and indicates a moderate upside.

Scenarios of the strategy period

We illustrate the return potential of Digital Workforce's stock during the strategy period in three different scenarios based on different assumptions of the company's growth rate and acceptable valuation levels during the strategy period until 2026. Digital Workforce's updated strategy is still in its early stages, and it is too early to rely on the end of the strategy period, but the scenarios reflect significant potential and why the investment story is very interesting if successful. They can be relied on more strongly when concrete proof of a turn in growth and profitability is available.

Scenario calculations describe well how the expected return of a stock is particularly sensitive to the growth of Continuous Services and the acceptable valuation. If Digital Workforce's growth is at the levels we expect, we believe that the stock offers a good expected return in the neutral scenario. If the company succeeds in strong organic growth (excluding acquisitions) in line with the strategy, we believe that the stock offers an excellent expected return in the optimistic scenario. In the negative scenario, where growth would remain weak, the expected return would be below our required return.

In the neutral scenario based on our current forecasts, we expect the revenue of Professional Services to grow at an average annual rate of 3% until 2026. With an assumed revenue ratio of 0.6x, the value of Professional Services would be 6.4 MEUR. In turn, we estimate that Continuous Services will grow at an average rate of 13% and revenue will be 22 MEUR in 2026. With Continuous Services' stronger growth and profitability profile, we assume the acceptable revenue ratio is 1.6x. Thus, the value of Continuous Services is 35 MEUR. With these assumptions, the value of Digital Workforce's stock in 2026 would be EUR 5.4 per share, which would mean an annual expected return of 27% compared to the current price. The neutral scenario at the end of the strategy period differs from the sum of the parts of 2024, mainly due to the operationally improved performance in 2025-26e and partly normalized multiples.

In the optimistic scenario, we assume average annual growth of 13% for Professional Services and 23% for Continuous Services. We assume that Professional Services will then be priced with 0.8x and Continuous Services with 1.8x revenue ratios. With these assumptions, the value of Digital Workforce's stock would be EUR 8.1 in 2026, which would mean an excellent 48% annual expected return.

Sum of the parts	2024e
Revenue from professional services	9.5
Revenue from Continuous Services	16.1

Valuation, EV/S	2024e
Professional Services, 0.4x	3.8
Continuous Services, 1.4x	22.5
EV	**26.4**
Net debt	-14.2
Market cap	40.6
per share	**3.6**

2026	Pessimistic	Baseline	Optimistic
Professional Services			
Growth (CAGR 23-26)	*-2%*	*3%*	*13%*
Revenue	9.0	10.6	14.0
X valuation multiple	0.4x	0.6x	0.8x
EV	**3.6**	**6.4**	**11.2**
Continuous Services			
Growth (CAGR 22-26)	*6%*	*13%*	*23%*
Revenue	18.0	22.0	28.0
X valuation multiple	1.4x	1.6x	1.8x
EV	**25.2**	**35.1**	**50.4**
Total			
EV	28.8	41.5	61.6
Net cash	-10	-19	-30
Value of entire stock	**38.8**	**60.7**	**91.6**
Per share	*3.4*	*5.4*	*8.1*
Return	*24%*	*93%*	*192%*
Annual return	*8%*	*27%*	*48%*

Valuation and recommendation 4/4

In the pessimistic scenario, we assume that the growth of expert and Continuous Services will be on average -2% and +6% p.a. The acceptable multiples would naturally also be under pressure (corresponding to 0.4x and 1.4x). With these assumptions, the value of Digital Workforce's stock would be EUR 3.4 in 2026, which would mean an annual expected return of 8% .

Cash flow model (DCF)

We have set the growth expectation for the terminal period (2031-) to 2.0% and the EBIT margin (2031-) to 11%, which reflects the better profitability than for the IT service sector. However, we point out that our long-term growth and profitability estimates still involve uncertainty, which in part limits the usefulness of the model. The weight of terminal cash flows (46%) is more modest with the profitability turn.

The per share value of our cash flow calculation for Digital Workforce is EUR 4.5 which indicates a clear upside for the share. We still use a high WACC of 11.4%. The required return is raised by the company's small size and uncertainty related to growth and profitability. If Digital Workforce shows that its profitable growth strategy is moving in the right direction in the coming years, there is a downside in the required return as the company's risk profile decreases. As the growth strategy is still in its early stages, the profitability and scalability potential remains to be proven, we are not prepared to rely solely on the DCF as of yet. However, the DCF reflects the attractive potential of the share.

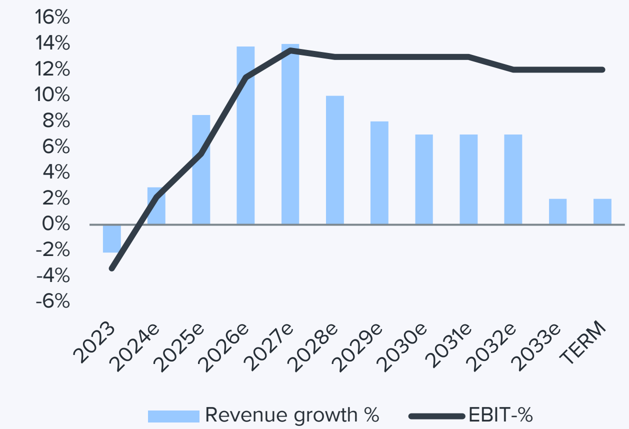
The risk-adjusted expected return is in black

Based on our forecasts and the valuation multiples we accept for the company for the next few years, the sum of the parts, the scenarios and the DCF, we now estimate that the fair value of Digital Workforce's share is around EUR 3.0-4.5 per share. In the current situation, with market uncertainty still high and the company's new strategy in its early stages, we believe it is justified that the company's valuation is at the bottom of the range. As the company shows stronger growth and profitability in line with our forecasts, the valuation is justified to be at the top of the range. If the strategy progresses at the pace targeted by the company, we believe there is a justified upside in the fair value range.

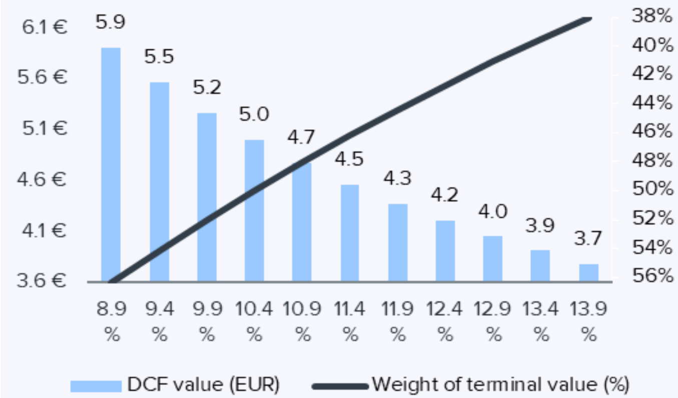
We feel the risk-adjusted expected return for Digital Workforce's stock rises from the current share price level higher than the required return on a 12-month perspective, even though part of the earnings growth will be digested by the earnings-based valuation.

We believe the key short-term risks are related to forecasts and the expected return could fall short of our expectations if the company's profitability turnaround does not materialize. In the medium term, the key risk in forecasts is related to the acceleration of growth, which requires success in selected growth markets.

Growth and profitability estimates of the DCF calculation



Sensitivity of DCF to changes in the WACC-%



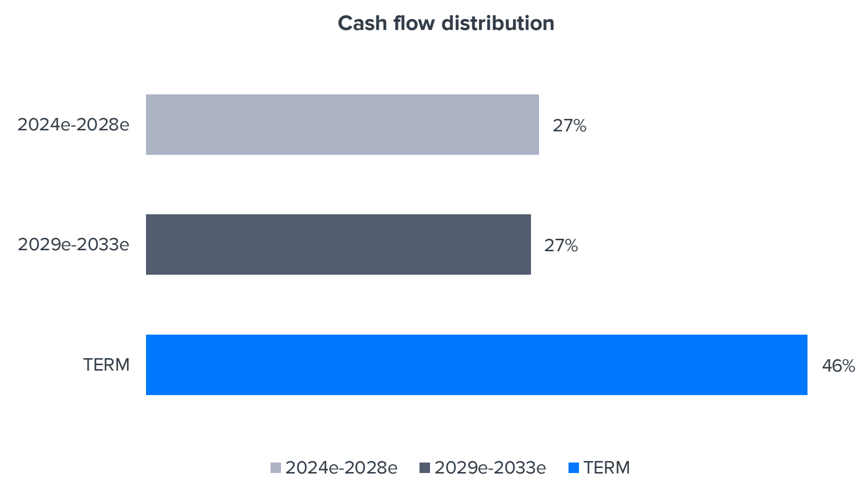
Source: Inderes

DCF calculation

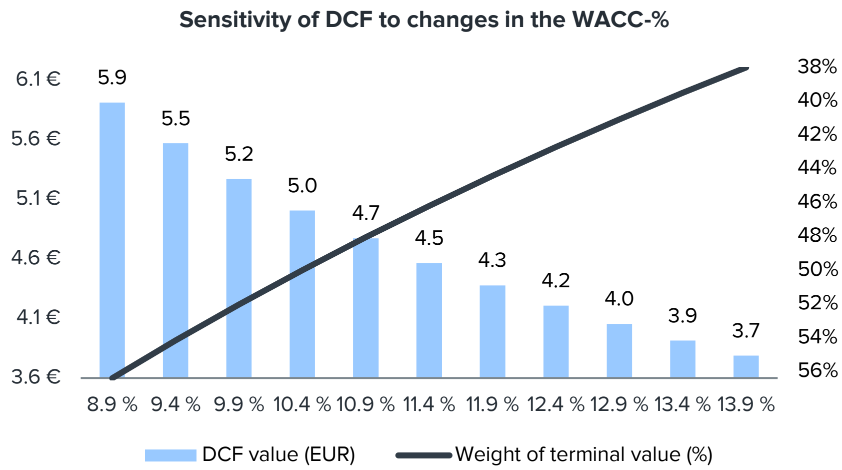
DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-2.2 %	2.9 %	8.5 %	13.8 %	14.0 %	10.0 %	8.0 %	7.0 %	7.0 %	7.0 %	2.0 %	2.0 %
EBIT-%	-3.4 %	2.2 %	5.2 %	11.2 %	13.5 %	13.0 %	13.0 %	12.0 %	12.0 %	11.0 %	11.0 %	11.0 %
EBIT (operating profit)	**-0.8**	**0.6**	**1.4**	**3.5**	**4.9**	**5.2**	**5.6**	**5.5**	**5.9**	**5.8**	**5.9**	
+ Depreciation	0.2	0.2	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	
- Paid taxes	0.0	-0.2	-0.3	-0.6	-0.9	-1.1	-1.2	-1.2	-1.2	-1.2	-1.3	
- Tax, financial expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
+ Tax, financial income	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	
- Change in working capital	-2.1	1.4	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0	
Operating cash flow	**-2.7**	**2.0**	**1.7**	**3.5**	**4.7**	**4.7**	**5.1**	**5.1**	**5.4**	**5.3**	**5.3**	
+ 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	-0.8	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.6	
Free operating cash flow	**-3.5**	**1.7**	**1.4**	**3.2**	**4.3**	**4.3**	**4.6**	**4.6**	**4.9**	**4.7**	**4.7**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-3.5	1.7	1.4	3.2	4.3	4.3	4.6	4.6	4.9	4.7	4.7	50.7
Discounted FCFF		**1.6**	**1.1**	**2.4**	**2.9**	**2.6**	**2.5**	**2.2**	**2.1**	**1.9**	**1.6**	**17.8**
Sum of FCFF present value		38.7	37.1	36.0	33.6	30.7	28.1	25.6	23.4	21.3	19.4	17.8
Enterprise value DCF		**38.7**										
- Interest bearing debt		-1.0										
+ Cash and cash equivalents		13.2										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		**50.9**										
Equity value DCF per share		**4.5**										

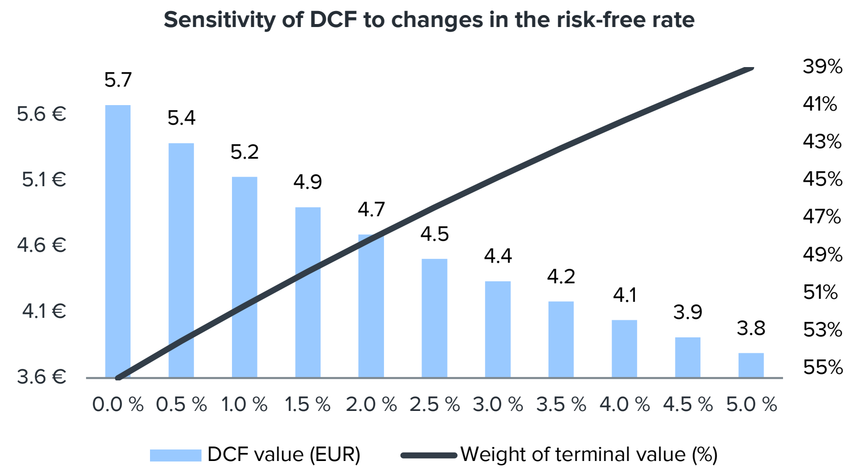
WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	10.0 %
Cost of debt	6.0 %
Equity Beta	1.60
Market risk premium	4.75%
Liquidity premium	2.00%
Risk free interest rate	2.5 %
Cost of equity	**12.1 %**
Weighted average cost of capital (WACC)	**11.4 %**

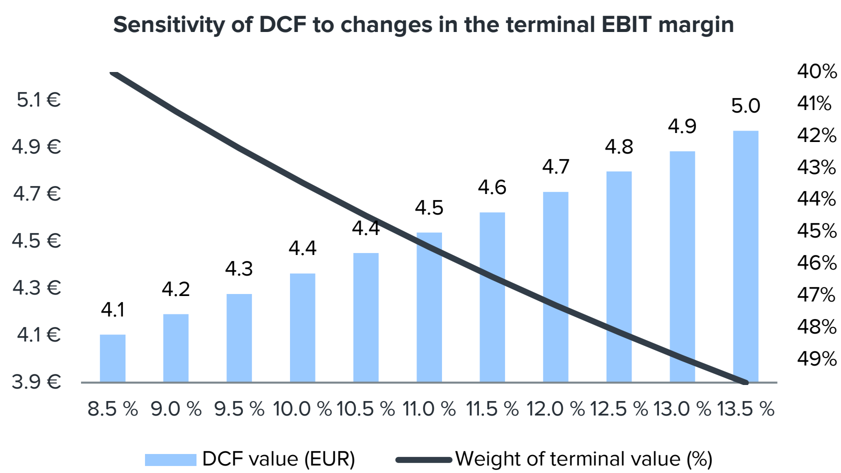
Source: Inderes

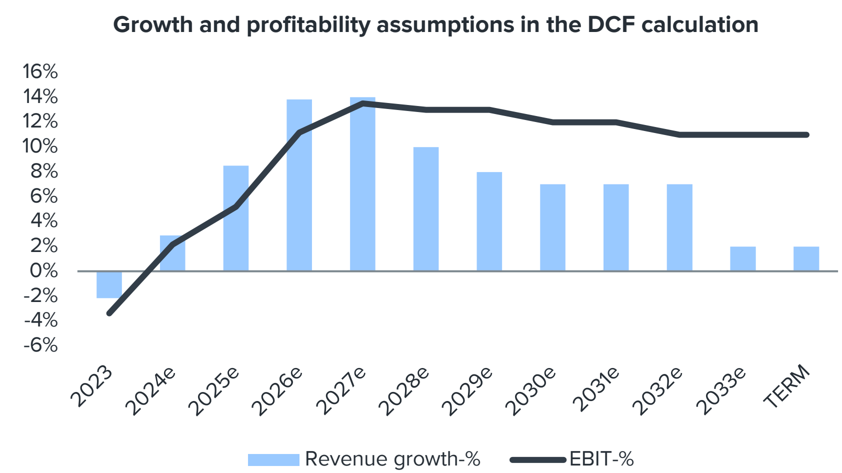


DCF sensitivity calculations and key assumptions in graphs









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

Summary

Income statement	2021	2022	2023	2024e	2025e
Revenue	22.4	25.5	24.9	**25.6**	**27.8**
EBITDA	-1.0	-1.7	-0.6	**0.7**	**1.8**
EBIT	-1.2	-2.6	-0.8	**0.6**	**1.4**
PTP	-3.5	-3.0	-0.7	**0.9**	**1.7**
Net Income	-3.6	-3.0	-0.7	**0.7**	**1.5**
Extraordinary items	-0.4	-1.3	-0.8	**0.0**	**-0.2**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	26.5	27.9	23.4	**23.9**	**26.0**
Equity capital	18.3	15.4	14.7	**15.4**	**16.9**
Goodwill	0.0	0.0	0.0	**0.0**	**0.0**
Net debt	-18.3	-15.6	-12.2	**-14.2**	**-15.8**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	-1.0	-1.7	-0.6	**0.7**	**1.8**
Change in working capital	-1.5	1.0	-2.1	**1.4**	**0.1**
Operating cash flow	-2.4	-0.7	-2.7	**2.0**	**1.7**
CAPEX	0.0	-1.7	-0.8	**-0.3**	**-0.3**
Free cash flow	-2.8	-2.4	-3.5	**1.7**	**1.4**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	2.4	1.1	0.9	**0.7**	**0.6**
EV/EBITDA (adj.)	neg.	neg.	neg.	**24.0**	**8.9**
EV/EBIT (adj.)	neg.	neg.	neg.	**32.3**	**10.0**
P/E (adj.)	neg.	neg.	>100	**47.0**	**19.7**
P/B	4.0	2.9	2.3	**2.1**	**1.9**
Dividend-%	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**

Source: Inderes

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	-0.62	-0.27	-0.06	**0.06**	**0.13**
EPS (adj.)	-0.25	-0.15	0.01	**0.06**	**0.14**
OCF / share	-0.43	-0.07	-0.24	**0.18**	**0.15**
FCF / share	-0.49	-0.22	-0.31	**0.15**	**0.12**
Book value / share	3.18	1.38	1.31	**1.37**	**1.50**
Dividend / share	0.00	0.00	0.00	**0.00**	**0.00**

Growth and profitability	2021	2022	2023	2024e	2025e
Revenue growth-%	17%	14%	-2%	**3%**	**9%**
EBITDA growth-%	136%	79%	-62%	**-215%**	**146%**
EBIT (adj.) growth-%	42%	50%	-97%	**-1483%**	**193%**
EPS (adj.) growth-%	-86%	-41%	-105%	**654%**	**138%**
EBITDA-%	-4.3 %	-6.7 %	-2.6 %	**2.9 %**	**6.6 %**
EBIT (adj.)-%	-3.8 %	-5.0 %	-0.2 %	**2.2 %**	**5.8 %**
EBIT-%	-5.5 %	-10.2 %	-3.4 %	**2.2 %**	**5.2 %**
ROE-%	-40.5 %	-17.8 %	-4.6 %	**4.5 %**	**9.2 %**
ROI-%	-11.5 %	-13.8 %	-5.0 %	**5.2 %**	**10.3 %**
Equity ratio	69.0 %	55.4 %	70.8 %	**64.6 %**	**65.1 %**
Gearing	-100.0 %	-101.2 %	-83.1 %	**-92.1 %**	**-93.6 %**

IT service market 1/8

A large overall market in the Nordic countries and Finland

According to Radar, the size of the Nordic (Sweden, Norway, Finland, Denmark) IT service market was 28 BNUSD in 2022. Radar has estimated the Finnish IT market to be close to 7 billion. The IT service market accounts for 4.4 billion of this, divided into 2.3 billion in consulting, 0.3 billion in management consulting, 0.5 billion in cloud solutions, and 1.4 billion in outsourcing. By customer, we estimate that this is still approximately 75% to the private sector and 25% to the public sector. We do not believe the market size limits the growth opportunities of the companies we follow in the big picture.

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. 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

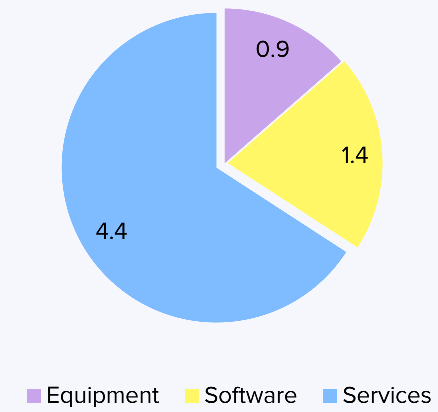
According to various estimates, the conventional service areas are expected to grow by an average of 1-4% p.a. New digital services are expected to grow by 5-10% depending on the sub-area, although their demand is more cyclical, which has once again been seen in the drop in demand in 2023. Market growth is slowed down by decreasing demand for conventional infra and older generation software solutions. In addition, conventional IT systems are modernized, creating a rapidly growing area between the two.

According to Radar, the Finnish IT market as a whole will grow by 1.6% in 2024 and services by 2.4%. Within the IT service market, growth is driven by cloud solutions (on average 2021-24e 10%) and supported by consulting (4%), while outsourcing services grow more slowly (0.2%). It should also be noted that according to Radar, consulting decreased by about 15% in 2020, while the IT service companies listed on Nasdaq Helsinki grew organically by 8% in 2020 (2021-22 10%), indicating that the companies have positioned themselves in faster growing service areas and have a more critical role as a supplier than the average company.

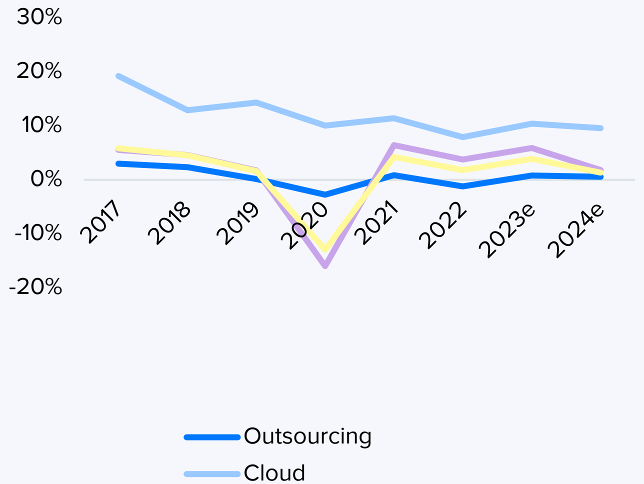
By service area, according to our research, the areas growing faster than the market are cloud services, transformation management, data & analytics, and cybersecurity. Cybersecurity services have been a hot growth area in recent years, but many players face challenges in making their businesses profitable.

Tietoevry expects cloud services to grow by 15%, data & analytics by 15%, core software by 10%, and automation and DevOps by 20% in 2020-2023. 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. Digital Workforce operates in the automation service area. By customer sector, Tietoevry has reported that it expects the healthcare 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%.

Distribution of the Finnish IT market in 2022

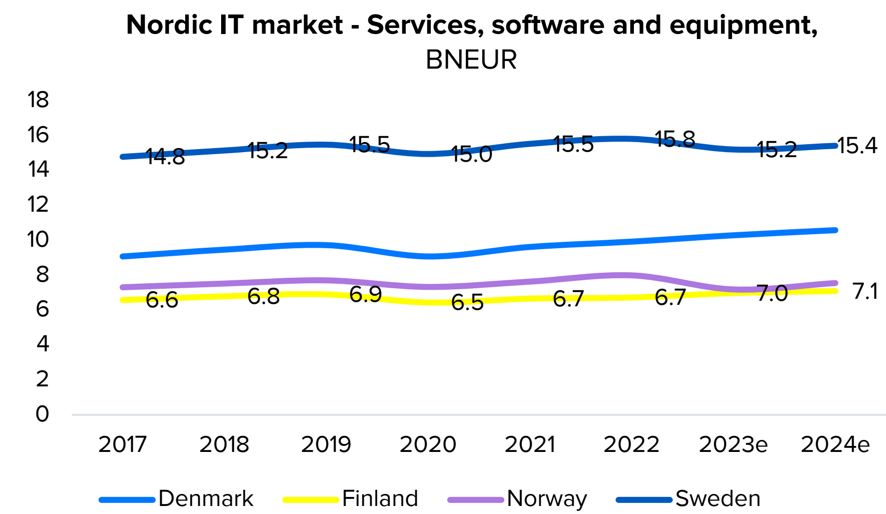


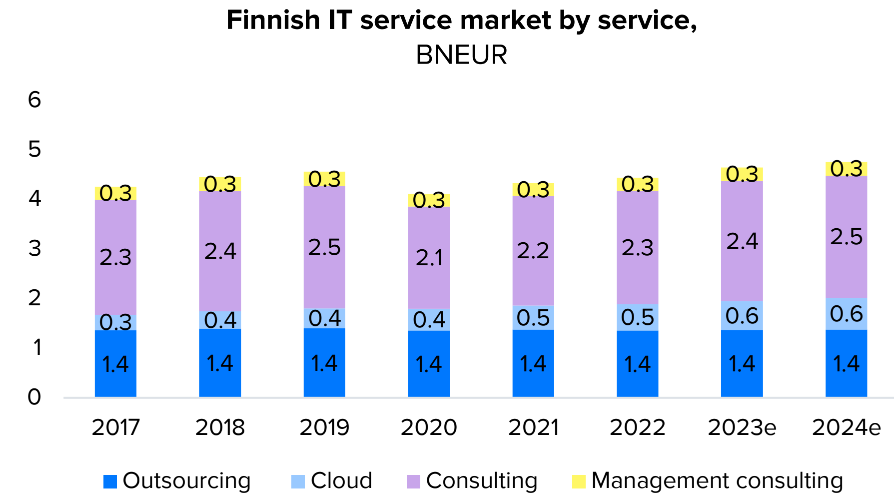
The Finnish IT services market, change % by service

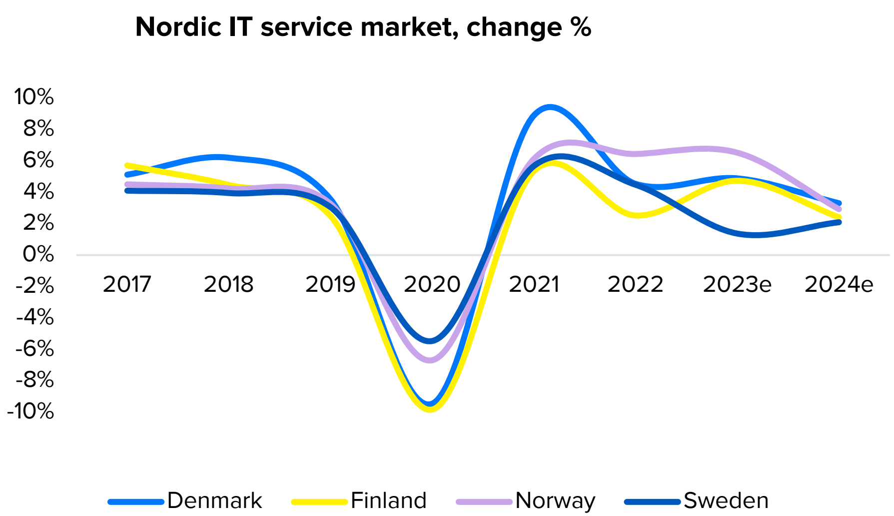


Source: Radar Nordic Outlook 2023 (9/23) and Inderes

Nordic IT market data and the German market







Source: : Radar Nordic Outlook 2023 (9/23)

IT service market 2/8

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 macroeconomy in the long term. However, the market is cyclical, and the volume of IT services that companies buy externally can also decline and price competition intensify, as in the weaker economic situation in 2022-23.

Changing nature of IT investments divide the market

The continuously strengthening digitalization revolution launched a new era in the IT markets in the 2010s, which has redivided the market and generated new ways to operate on the market. Rapid market change requires IT companies to be able to continuously adjust their offering.

The shift in the market towards IT investments that create new business and differentiating factors that began in the 2010s continues as the quest for cost efficiency is no longer enough in the competition. This means that the IT buyer is often a business unit or product development, not data administration or support function.

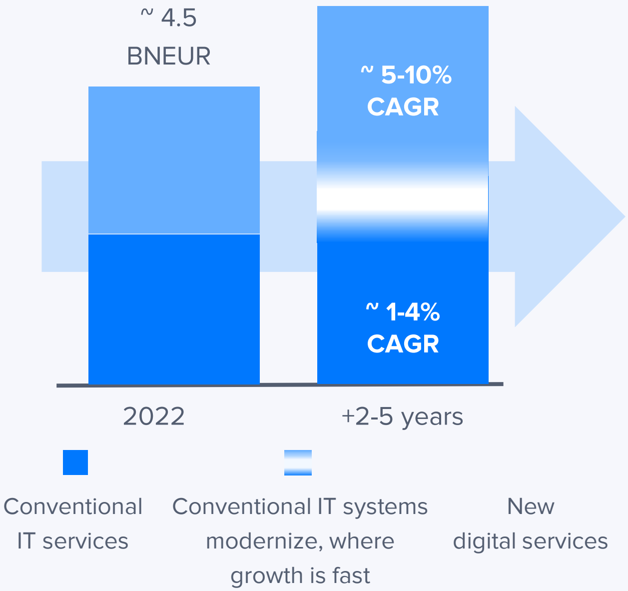
The desired expertise areas are increasingly linked to new digital services and less to background systems. The market revolution created strong growth potential for many original players of the new era (e.g. Futurice, Solita, Reaktor, Siili, Gofore and Vincit), that are profiled as developers of new digital services. Conventional players were initially slow to adapt their offerings and culture to better correspond with the changing purchasing behavior and demand for service areas.

The change in 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.

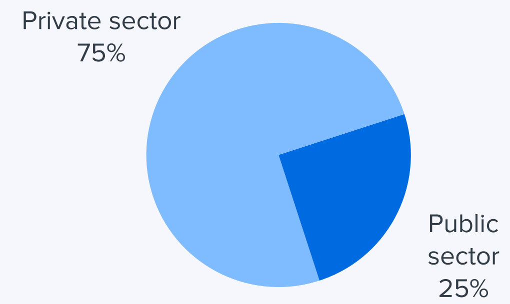
A clear trend on the market has in recent years been that IT purchases become more serious as the customer organizations have realized that you cannot get a shortcut to digitalization by buying digital applications bypassing data administration. Organizations' established data systems will not disappear,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

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.

Finnish IT service market and growth outlook



Market distribution by buyer group,
Inderes' rough estimate



Source: Radar Nordic Outlook 2023 (9/23) and Inderes

IT service market 3/8

Thus, we believe that the ability of the companies in the sector to react and change will become increasingly important.

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 market that was practically born only in 2010s. 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. The market is characterized by a low entry barrier.

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, Vincit (after Bilot merger) , and in particular IT generalists like Tietoevry and CGI. Market growth has been slow in this area and a high threshold to enter the market is typical. However, modernization of old systems has also created rapidly growing pockets in the market.

Market for IT platforms, that mainly cover 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, cybersecurity 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 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. When the market shows weakness, companies with the strongest customer relationships typically perform best, as in the weaker market environment of 2022-24.

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 in 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 an increasing need to modernize their background systems because an old ERP system may act as a break for the development of digitalization solutions. Thus, the nature of the ERP market that has suffered from slow growth for a long time will change, and the market is clearly picking up. The importance of integration and data expertise also becomes emphasized.

IT service market 4/8

In background systems and maintenance, the competitive landscape is much more stable, the entry barrier is higher and customer relationships are long lasting. It is also difficult to build the capabilities required for background systems. This trend towards a life cycle approach is a challenge for pure digital service developers in 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 is one of the hottest trends on the market. Data is becoming a strategic competitive factor in several industries and the precondition for AI solutions. Many players have put it at 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.

Cybersecurity is still a relatively small share of IT service suppliers' offerings but like data it is becoming an increasingly strong competition factor. AI development also provides tailwind for cybersecurity demand. 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 investing in their security capabilities.

Automation and robotic process automation are also becoming more important as service areas. Automation enables increased productivity, flexibility, scalability, and improved quality, as well as a customer experience without large and expensive system projects. Several companies in the sector have developed or acquired this expertise (e.g. Digital Workforce is an industry pioneer).

The market for **artificial intelligence (AI)** has been growing rapidly in recent years and is no longer just a buzzword. Recently, the market has taken quick leaps, e.g., in the field of technologies like ChatGPT and almost all actors are trying to exploit AI.

Building **subcontractor networks** is one of the clear trends of recent years. Companies partly patch-up their recruitment needs this way and increase flexibility. Digital Workforce began to use subcontracting in 2023.

Building **nearshore** capabilities has been a clear trend in recent years. With COVID, telecommuting has enabled this more widely. However, the cost level (wages) in nearshore countries has also increased but is still lagging behind the Nordic countries and this is one way to solve the lack of experts.

The in-house trend has continued to grow as companies' digital maturity increases. Digitally capable customers want to lead and keep the development of business-critical IT systems for their value creation under their own control.

Very few direct effects **from the war in Ukraine** have been seen on companies' business, only for Tietoevry. The virtual elimination of capacity from Russia and Belarus and the reduction in Ukrainian capacity has increased demand for other European countries. Large organizations have also begun to weigh their purchasing decisions outside Europe more closely. Indirect effects have been visible everywhere.

User orientation and the customer experience continue growing. Important 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. Creative, design-centered players have been the winners.

The IT market still does least of what is talked about most. The volume of services related to the most visible terms (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.

Low-code and No-Code software development has become increasingly common in recent years. The development can be seen as partly disrupting conventional "easier" software development when software development can be done with a low number of or without any codes. It contributes to technological development, which companies have to adapt to and learn to utilize, which enables spending time on developing more challenging and better solutions.

The cloud transformation divides the market, even though the biggest transition is almost over. Customers' IT operations are still moved to the cloud due to benefits, and because it is often a precondition for new digital business models. Players with strong cloud technology expertise are the winners. The losers are players in conventional local IT infrastructure. The biggest cloud transformation is almost over in the Nordic countries and now we are moving to continuous cloud service/maintenance.

IT service market 5/8

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 diminishes as it is hard to generate new digital services reliably, fast enough and cost efficiently with offshore resources. Software robotics and AI weaken the competitive advantage based on low-cost labor. In addition, the price advantage of off-shore and especially near-shore has decreased with higher wage inflation. Players whose competitive edge has been based on off-shore cost efficiency are the losers. Players who can combine local presence with sufficient cost efficiency by utilizing nearshore resources are the winners. Digital Workforce applies both software robotics and utilizes near-shore capabilities.

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

Buying IT as large projects decreases further and moves towards smaller, iterating processes and continuous development. Slowly reacting project organizations are the losers. Players that have expertise in agile 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 services with technological know-how, expertise in background systems and business savvy are the winners.

Ownership of customers' IT budgets becomes blurred and moves from a CIO role more towards the role of business directors and marketing. Players that understand the customer's business and industry are the winners.

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

According to our view the chronic lack of experts and stronger wage inflation than customer price increases is one of the key medium- and long-term challenges for the sector. It becomes increasingly difficult over time to solve this equation through continuously improving efficiency. In particular, at senior level, companies must be able to distinguish themselves with other factors than pay-related ones. We believe these factors include, e.g., interesting customer projects and a good work environment for career development. Companies must also be able to retain employees and minimize attrition. In recent years, the sector has tried to solve the lack of experts by increasing and building outsourcing networks.

Based on discussions we have had with various companies, wage inflation has been between 2% and 6% in 2020-2023 depending on emphasized skills. In 2024, Tietoevry expects average wage inflation to be 4-5% (2023 5%), but it is driven by higher wage inflation in off-shore countries and is thus lower in the Nordic countries. Gofore's wage inflation was 3.6% in 2023 (2022: 2.9% and 2021: 6.1%). In the IT services sector, Gofore, Siili and Innofactor have their own collective agreements, which partly curb wage inflation. Correspondingly, Gofore's customer prices increased by 3.5% in 2023, well compensating for the increase in costs (2022: 3.5%). In the shorter term, wage inflation is curbed by the slower demand situation, as in a weak economic environment attrition typically decreases, but at the same time high inflation creates additional pressure on pay raises. This is partly controlled by using geographically cheaper workforce, which is not, however, a sustainable solution for the problem in the long run.

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

IT service market 6/8

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

Features we expect from future market winners

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

Companies capable of continuous renewal. The IT service market is sort of in a constant transformation. Reacting to 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 in the sector 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).

Owners **of strong customer relationships** with a strategic partner role among customers, a strong sales machine and 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 mainly focused on talent competition more than on customers are weak when the economic cycle 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

- Today, strong sales and customer service capabilities are particularly important, as competition has shifted strongly from talent to customers
- Continuous ability to renew
- Ability to recruit in the medium and long term
- Life cycle offering
- Hot expert areas:
    - Transformation ability
    - Data utilization
    - Cybersecurity
- Agility and speed
- Experts' abilities (CV)

Added value in the market

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

Source: Inderes

IT service market 7/8

Acquisitions and consolidation continue in the sector

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

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

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

We believe using leverage in acquisitions remains a good option, even though interest rate levels have risen considering the strong balance sheets and companies' strong cash flow. A moderate leverage would also improve equity efficiency.

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

As the market for digital service development is becoming more mature and the various areas of the IT market become integrated, a broader consolidation is likely as was seen in the Tieto and EVRY, and the KnowIT and Cybercom mergers. An interesting scenario could be to combine two players in the mid-market to better challenge large generalists like the merger of Bilot and Vincit. In our view, a merger should have clear revenue synergies and factors that strengthen competitive advantages. We believe there are unlisted players on the Finnish market whose expert focus, geographical presence and customer portfolio would fit in well with listed players.

Clear expert areas that in recent years have been acquired to strengthen the offering include consulting, transformation management, data and analytics, and automation expertise utilizing robotics. Cybersecurity expertise is on the wish list, but we suspect that the valuations of the acquisition targets limit transactions. For example, DNV acquired Nixu at about 1.5-1.6x EV/S, which is a high level in the current weakened market and with prevailing interest rates. Transactions have also been carried out for delivery capacity, but especially at the moment, in an easier recruitment market, companies are more cautious about making arrangements simply based on capacity.

For Digital Workforce achieving financial targets requires an acquisition or acquisitions which are enabled by the balance sheet. The company's management and Board of Directors have M&A expertise.

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

1=lowest, 5=highest.

Source: Inderes' estimates

IT service market 8/8

Comments based on latest earnings periods

Uncertainty in customer demand was realized more widely in Q2'23, but development was even more mixed than before. In Q3, the situation improved slightly from the difficult Q2 as the companies reacted to the situation, but demand was still well below the level of last year. Companies with tailored software development and high weight in the private sector suffer more in relative terms. After the difficult Q2, expectations for the rest of the year had been pushed down, and revenues were in line with our expectations in the big picture, while many companies' results exceeded our low expectations in Q3. In Q4, expectations were exceptionally close to the companies' outcomes. We predict that the duality will continue to some degree in 2024, but the demand outlook will remain subdued as a whole in the private sector, while public sector demand is expected to remain at a satisfactory level.

Company-specific Q4 figures for the IT services sector are seen in the table on the right. Key comments about the sector in the latest quarter are:

- Organic growth decelerated clearly in Q2'23 and was 0%, 2% in Q3 and 0% in Q4 (2022: 10 %). In Q4, development was slowed down by one working day less than in the comparison period just like in Q2 and Q3.
- Profitability decreased only slightly in Q4, as the cost structures had already been slightly adjusted during Q2-Q3 and the greater impacts are expected from the beginning of 2024.
- In the summer and fall, driven by a weak market, there have been several change negotiations (up to 2 per company) and profit warnings.
- The expectations of the IT service sector for 2024 can be found here. You can read our IT service sector Q4'23 summary here, Q3'23 summary here, Q2'23 summary here and the Q1'23 summary here.

Short-term outlook for the sector

Company-specific 2024 estimates for the IT services sector are seen in the table on the right. Key findings on the short-term outlook:

- In the short term, there is clear uncertainty in the market, which has already materialized in the sector as declining demand and price competition. In Q4, several companies that had previously stayed out of price competition said they had entered it.
- Companies with more recurring revenue (longer order books), deep and strategic customer relationships, that operate in the public sector, have long contracts, ERP business, and generally those who make business-critical solutions for customers are faring best. Companies with a high emphasis on the private sector and software development are faring the weakest.
- In the big picture, it can still be said that competition has shifted from experts to customers for the first time in several years.
- Declining attrition and uncertainty in customer demand are likely to curb the strongest wage inflation.
- Several companies' cost-saving programs support profitability in 2024.
- AI has also been a hot topic, and it is particularly interesting in this market situation because it can generate cost savings for the customer and also make the work of suppliers more efficient. As a whole, AI still plays a small role for the time being. In the coming years, however, it will open up new opportunities for growth. We suspect that it is difficult for IT service companies in the big picture to seek a competitive advantage from AI compared to each other.

Q4'23	Growth, %	Organic growth, %	EBITA % adj. Q4'23	EBITA % adj. Q4'22
Digia	9%	3%	9.6%	10.5%
Digital Workforce*	-9%	-9%	-1.4%	11.8%
Gofore	13%	9%	16.0%	16.6%
Innofactor	7%	7%	8.9%	9.1%
Loihde	3%	-1%	5.3%	4.6%
Netum*	46%	18%	7.7%	5.8%
Siili	-7%	-7%	8.1%	8.7%
Solteq	-16%	0%	-7.0%	-7.1%
Tietoevry	2%	1%	14.4%	15.3%
Vincit	-10%	-10%	-0.3%	2.3%
Witted	-3%	-9%	2.7%	1.4%
Finnish average	3%	0.2%	5.8%	7.2%
Finnish median	2%	0.0%	7.7%	8.7%

Source: Companies and Inderes. *H2

	2024e (in connection with Q4 report)			2023
	Growth, %	Organic growth, %	EBIT % adj.	EBIT % adj.
Digia	6%	2%	9.2%	*8.7%*
Digital Workforce	3%	3%	2.1%	*-0.2%*
Gofore*	4%	2%	13.2%	*14.1%*
Innofactor	5%	5%	8.1%	*7.5%*
Loihde	0%	0%	3.4%	*0.5%*
Netum	24%	7%	9.4%	*7.4%*
Siili	-1%	-1%	7.4%	*6.9%*
Solteq	-4%	2%	5.2%	*-6.4%*
Tietoevry	1%	1%	12.5%	*12.6%*
Vincit	-4%	-4%	4.6%	*3.4%*
Witted*	-12%	-13%	2.6%	*-0.3%*
Average	2.1%	0%	7.1%	*4.9%*
Median	1.3%	2%	7.4%	*6.9%*

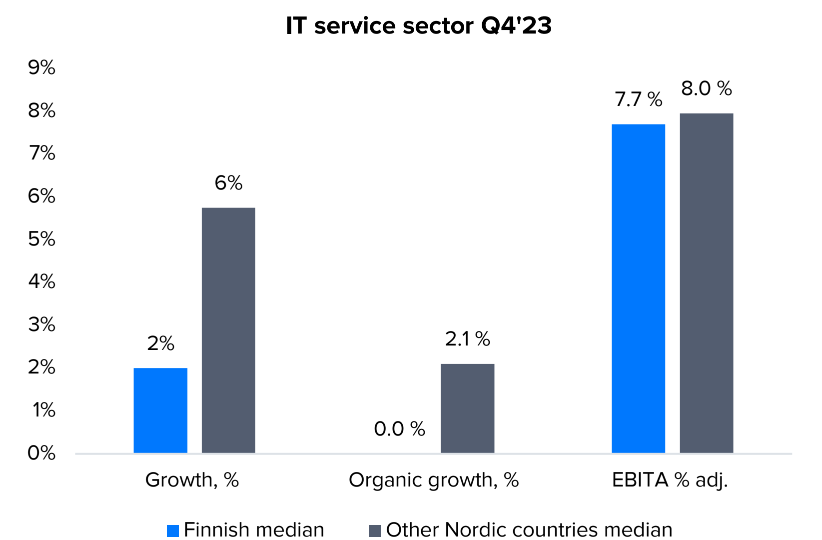
Source: Inderes, *updated after the Q4 report

Nordic IT service market in Q4

Q4'23	Growth, %	Q4'23 Organic growth, %	EBITA % adj. Q4'23	EBITA % adj. Q4'22
Digia	9%	3%	9.6%	10.5%
Digital Workforce*	-9%	-9%	-1.4%	11.8%
Gofore	13%	9%	16.0%	16.6%
Innofactor	7%	7%	8.9%	9.1%
Loihde	3%	-1%	5.3%	4.6%
Netum*	46%	18%	7.7%	5.8%
Siili	-7%	-7%	8.1%	8.7%
Solteq	-16%	0%	-7.0%	-7.1%
Tietoevry	2%	1%	14.4%	15.3%
Vincit	-10%	-10%	-0.3%	2.3%
Witted	-3%	-9%	2.7%	1.4%
Avensia	-3%	-3%	2.1%	-19.7%
Addnode	16%	-2%	9.7%	11.2%
Bouvet	14%	14%	11.7%	13.9%
B3 Consulting	-12%	-12%	4.7%	12.1%
Columbus	13%	16%	7.5%	5.5%
CombinedX	5%	-1%	13.8%	11.5%
Exsitec	12%	10%	7.8%	3.9%
Knowit	-8%	-8%	8.1%	9.1%
Netcompany	4%	5%	12.6%	20.3%
NNIT	11%	11%	10.0%	6.1%
Proact Group	-6%	-7%	6.7%	7.1%
Webstep	6%	6%	3.2%	4.8%
Finnish average	3%	0.2%	5.8%	7.2%
Finnish median	2%	0.0%	7.7%	8.7%
Other Nordic countries average	4%	2.6%	8.1%	7.2%
Other Nordic countries median	6%	2.1%	8.0%	8.1%
Whole Nordic region average	4%	1.4%	7.0%	7.2%
Whole Nordic region median	4%	0.0%	7.8%	8.7%

Source: Companies and Inderes. *H2

Q4'23	Revenue vs. expectations	EBITA % vs. expectations	EBITA % vs. expectations
Digia	In line	In line	-0.8 pp
Digital Workforce*	Above	Below	-2.4 pp
Gofore	In line	Above	+3.0 pp
Innofactor	In line	Above	+1.1 pp
Loihde	In line	In line	-0.8 pp
Netum*	In line	Below	-3.6 pp
Siili	Below	Above	+1.1 pp
Solteq	In line	Below	-4.0 pp
Tietoevry	In line	In line	-0.2 pp
Vincit	In line	In line	-0.7 pp
Witted	In line	In line	+0.6 pp



Guidances for Nordic IT service market

Guidance for 2024	Revenue	EBITA/earnings guidance
Digia	Grows	EBITA grows
Digital Workforce	Grows	EBITDA is positive and grows
Gofore	No guidance	No guidance
Innofactor	Growing	EBITDA grows
Loihde	At previous year's level or grow	Adj. EBITDA grows
Netum	4-13% (incl. (organic)	8-11%
Siili	-2%-+14%	6.3%-8.8%
Solteq	Grows organically	Positive EBIT
Tietoevry	0-3%	12-13%
Vincit	Decreases	EBITA% improves
Witted	No guidance	No guidance
Avensia	No guidance	
Addnode	Financial targets	
Bouvet	No guidance	
B3 Consulting	Financial targets	
Columbus	8-10%	9-10%
CombinedX	Financial targets	
Exsitec	Financial targets	
Knowit	Financial targets	
Netcompany	7-10%	15-18%
NNIT	10%	8-9%
Proact Group	Financial targets	
Time People Group	No guidance	
Triona	No guidance	
Webstep	Financial targets	

Source: Companies and Inderes

Sector acquisitions in the Nordic countries

Date	Buyer	Target	Revenue MEUR	EBITDA MEUR	EBITDA %	Personnel	EV MEUR	EV/Sales	EV/EBITDA
09/23	Digia	Top of Minds	10.0	1.4	14%	63			
08/23	Witted	Loihde Advisory Ab	1.9	-0.1	~-4%	10			
07/23	Netum	Buutti Oy	9.3	1.1	12%	110	10.0	1.1x	9.1x
04/23	Azets	Solteq's Microsoft and Retail businesses	11.2	1.5	~13%	60	15-20	1.3x-1.8x	10x-13x
02/23	DNV Group	Nixu	60.2	2.4	4%	393	98.0	1.6x	41x
01/23	Netum	Studyo	1.3	0.1		14			
01/23	Investcorp International	Eficode Oy	150.0			600			
11/22	Solteq	S2B Energia Oy				10			
11/22	Loihde	Onrego	7.1	0.5	7%	30	4.3	0.6x	~9x
11/22	Gofore	eMundo	~8	0.8	9%	96	8.0	~1x	~8x
10/22	Digia	Avalon	2.4	0.4	15%	24			
10/22	Siili	Haallas	5.8	0.9	~15%	>50	3.75-9.0	0.6x-1.6x	4x-10x
09/22	Witted	Nexec Oy	12.8	0.7	5.8%	80	8.3-12	0.7x-0.9x	11x-16x
07/22	Vincit	Bilot (merger)	30.5	0.6	2.1%	195			
06/22	Digia	Productivity Leap Oy	5.5	1.2	22%	35			
06/22	Innofactor	Invenco Oy	6.3	0.4		50	3-7	0.5x-1.1x	8x-19x
06/22	Knowit	Marketing Clinic Oy	10.5			60	8.5-10	1.0x	
05/22	Pinja	Oiwa	2.1			25			
04/22	Digia	MOST Digital	3.0	0.0	0%	34			
01/22	Gofore	Devecto	10.7	2.0	19%	130	21-26	2.0x-2.4x	10x-13x
01/22	Solteq	Enerity Solutions Oy	2.2	0.3	~15%	>20	4.5	2x	15x
11/21	Norvestor	Pinja	40.0			450			
11/21	HiQ	Lamia	8.3	2.7	33%	90			
10/21	NetCompany	Intrasoft International S.A.	197.0	18.0	9%	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				1,200			
05/21	eCraft (Fellowind)	Project-IT	12.0			30			
05/21	Eficode	Beecom (SUI)	10.0	1.5	15%	58	10	1.0x	6.7x
05/21	Loihde	Talent Base Oy	7.4	1.1	15%	58	10	1.4x	9x
05/21	HiQ	Scandio (GER)				100			
05/21	Knowit	Cybercom				1,200			13x
04/21	Vincit	Bonsky Digital	2.7	0.2	7%	30	2.7-3.0	1.0x-1.1x	13x-15x
03/21	TSS	Innofactor's Prime business	>2			15			
02/21	Aucerna	TietoEVRY's oil and gas business	~50			430	155	3.2x	
02/21	Solteq	Partiture Oy	2.4	1.0	40%	16		1x	2x-3x
02/21	Gofore	CCEA and Celkee Oy	5.6	1.2	21%	50		1.1x	5.1x
12/20	IBM	Nordcloud	80.0			490			
12/20	Digia	Climber (SE, FI, DK, NED)	13.8	0.7	5%	77	8-14	0.6x-1.0x	12X to 20x
12/20	Siili	Supercharge (Hungary)	9.0	2.1	23%	115	17	~1.8x	~8x
08/20	Triton	Hiq	~180	~25	14%	1,500	~340	1.9x	13.6x
08/20	Bilot	CastorIT	7.3	0.9	12%	60	8.8	1.2x	10x
08/20	Gofore	Qentinel	12.0	1.7	14%	100	8.9-10.9	~0.9x	~6.4x
08/20	Pinja (Protacon)	PiiMega							

Source: Inderes and the companies

Competitive landscape 1/4

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 who according to different market sources hold a market share of close on 50%. Such global giants include, e.g., Tietoevry, CGI, Fujitsu, Accenture and CapGemini. The second layer is suppliers with revenue of around 20-200 MEUR 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.

Various ways to combat the scale of big players

We feel the clearest strengths of large IT generalists are extensive resources and offerings, which are often strengthened with cost-efficient offshore production.

The customer and industry portfolios of these players are typically extensive. Customer and industry understanding is also often deeper than for smaller players. Strong background system expertise lies at the core of IT generalists' genetic ancestry.

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

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

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

Digital Workforce does not compete directly with pure IT service companies, as the company is strongly specialized in automation that applies software robotics. In addition, the company has built a competitive advantage from its own automation platform. More information about Digital Workforce's competitive landscape can be found on pages 18-23.

Competitive advantages are constantly being built

Due to the good long-term 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.

Competitive landscape 2/4

Growth and profitability of the peer group

The figure on the next page 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 average growth of the peer group has been around 22 % in 2018-2022, which is explained by market growth, the fast organic growth of many players and acquisitions. The companies that have grown most strongly have expanded both through acquisitions and organically. Strong organic growers have been, e.g., Luoto, Gofore, Sulava, Siili, Vincit, Witted, Futurice, Netum, Reaktor, Eficode, Bouvet Netcompany. Growth has been slowest for the largest players that have suffered from the market revolution (like Tietoevry, Enfo and CGI).

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 into a relatively larger size class and maintaining the growth rate is becoming more challenging, which was visible as slowing organic growth for some companies in 2019-2021. A company that stands our clearly is the Danish Netcompany that despite its nearly 5,000 experts (now 7700) was able to grow organically in its service business by ~20% p.a. and generate an EBITDA margin of over 25%.

In terms of profitability, the average for the peer group is 11% measured by EBITDA % at an annual level in 2018-2022 (2017-2021: 12%). 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. The stars include Finnish companies Gofore, Solita, Sofigate and Netum, as well as Danish Netcompany, Kainos from Great Britain, Norwegian Bouvet, and Globant, Endava and Epam from the US.

Growth drivers

Long-term

- Digitalization will accelerate and grow the market
- AI creates new growth opportunities
- IT will become more of a key area of companies' business and strategy
- Increasing customer prices
- The definition of the IT service market becomes broader
- Internationalization and increasing nearshore
- Acquisitions

Short-term

- Efficient sales function
- Decrease in customer prices
- Recruitment - employee image, low attrition
- Improving efficiency through billable utilization and/or process efficiency
- Increasing subcontracting
- Acquisitions

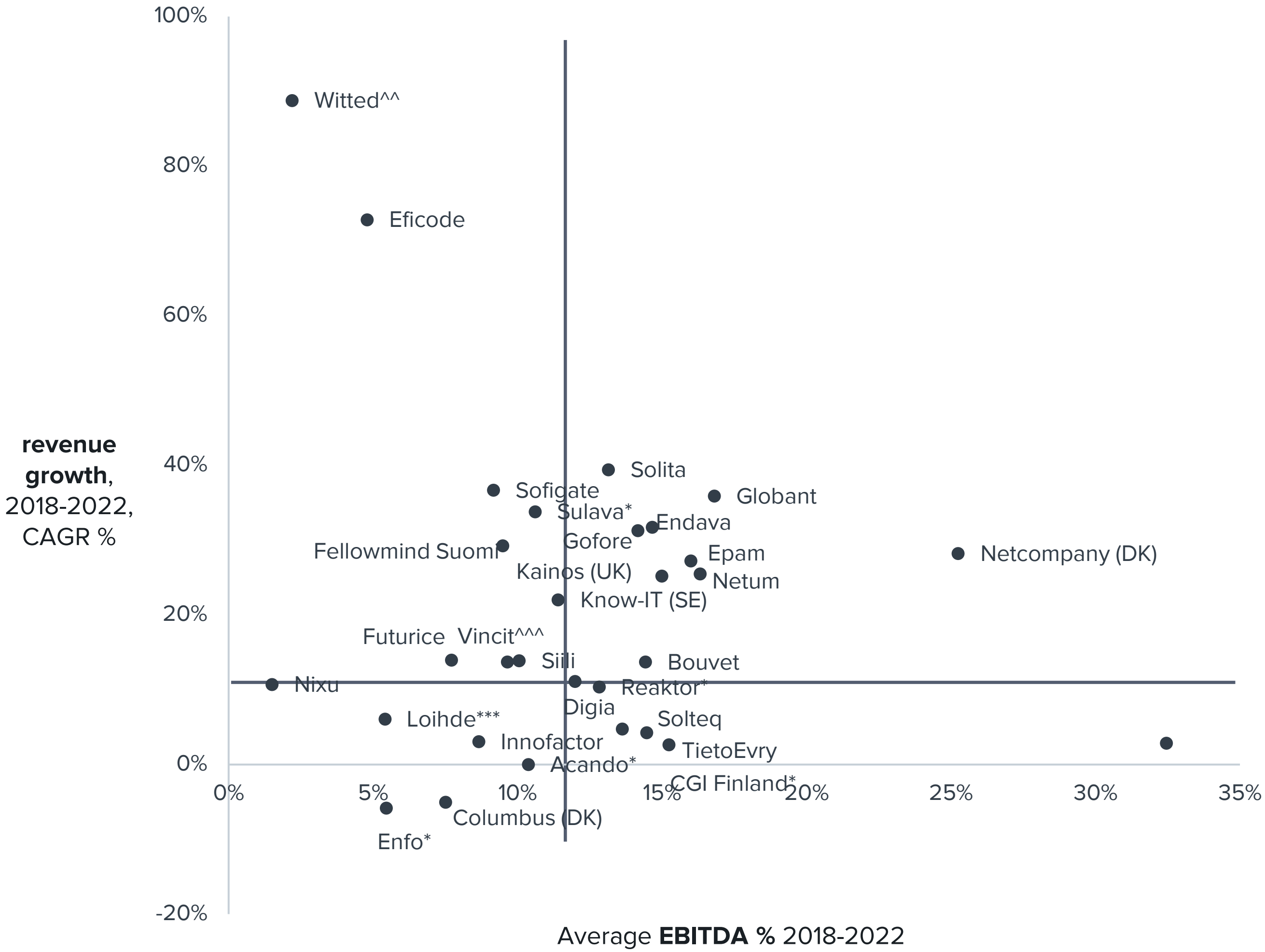
Profitability drivers

Short-term

- Pressure in customer prices
- Billable utilization
- Attrition management
- Controlling wage inflation
- Improving efficiency

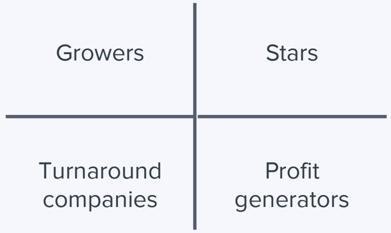
Competitive landscape 3/4

Competitors' financial development 5 years



Source: Inderes, companies. Figures include the IFRS 16 amendment starting from 2019, for some
*2017-2021
**Contains independent figures of Tieto and Evry first for 2017-2020
***2019-2022; revenue development for digital development and Group EBITDA used for Loihde
^EBITDA % -10.7%;^^^Vincit's and Bilot's consolidated figures

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

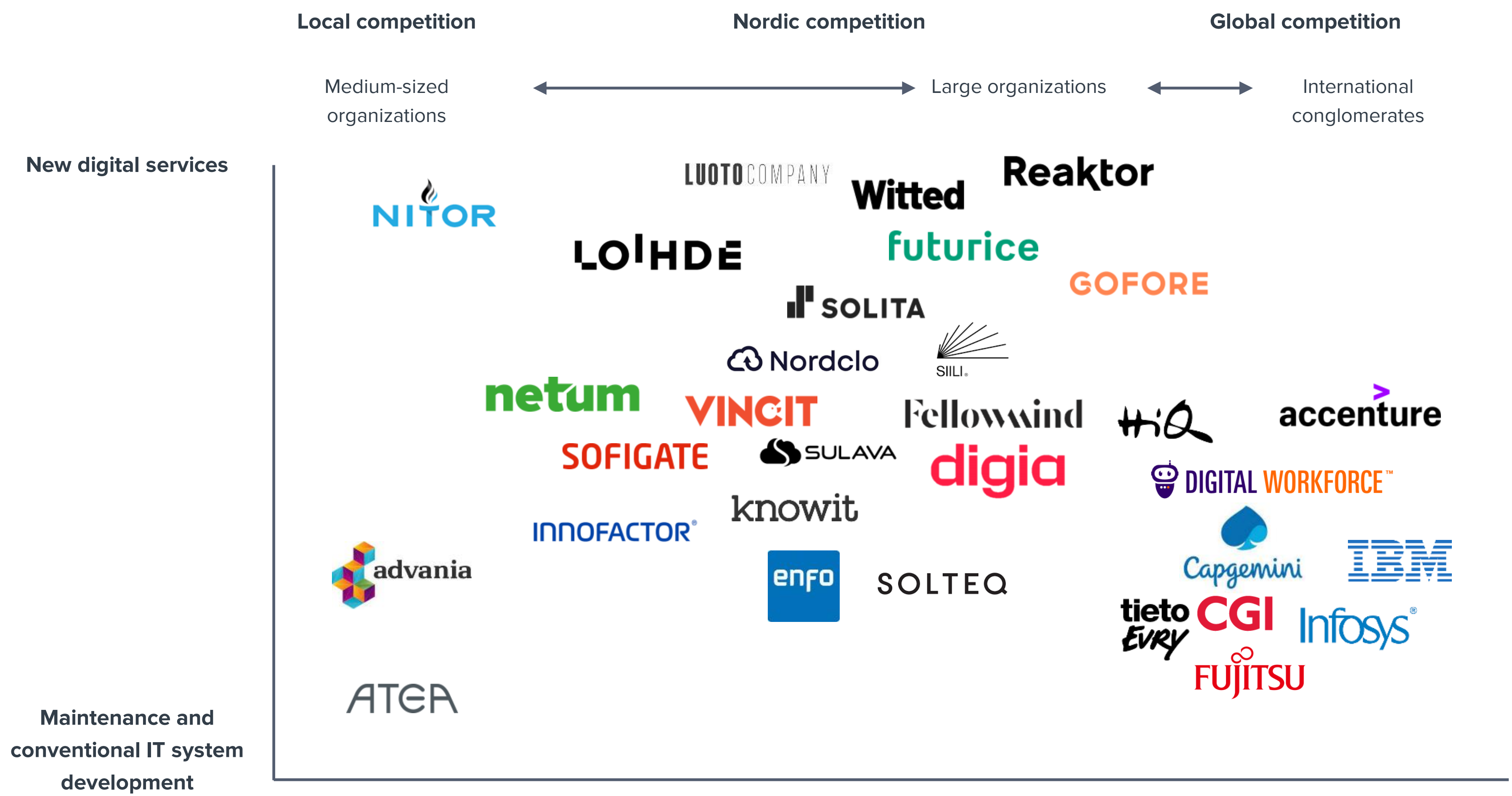
- Companies whose customers have high costs of changing supplier, for example due to tailored software solutions
- Profitability partially optimized at the expense of growth

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 4/4

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



Source: Companies, 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	Share price
5/14/2022	Accumulate	4.50 €	3.85 €
8/19/2022	Accumulate	4.50 €	4.03 €
11/4/2022	Buy	4.50 €	2.95 €
3/1/2023	Buy	5.50 €	4.26 €
8/18/2023	Accumulate	5.50 €	4.75 €
8/24/2023	Accumulate	5.00 €	4.35 €
11/27/2023	Accumulate	3.80 €	3.20 €
2/29/2024	Reduce	3.40 €	3.16 €
4/11/2024	Accumulate	3.40 €	2.85 €

Inderes democratizes investor information by connecting investors and listed companies.

We help over 400 listed companies better serve investors. Our investor community is home to over 70,000 active members.

We build solutions for listed companies that enable frictionless and effective investor relations. For listed companies, we offer Commissioned Research, IR Events, AGMs, and IR Software.

Inderes is listed on the Nasdaq First North growth market and operates in Finland, Sweden, Norway, and Denmark.

Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

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

STARMINE ANALYST AWARDS FROM REFINITIV

THOMSON REUTERS ANALYST AWARDS

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

Connecting investors and listed companies.