INNOFACTOR

Software/Finland, December 11, 2018

Company report

Waiting for signs of a turnaround

Innofactor has in the near past seen sales growth declines and profitability being burdened by internal problems. Actions to decrease organizational levels and improve decision-making are being taken and we expect profitability to see some recovery in 2019, while signs of accelerated sales growth remain to be seen. We retain our HOLD rating with a target price of EUR 0.40 (0.55).

Sales growth uncertainty

Innofactor has seen sales declining in the near past due to weaker sales activity, with the organizational structure having had an effect. Actions have been taken to decrease the organizational levels and improve decision-making, but we remain wary to sales growth being remedied in 2019 and expect flat sales growth.

Market outlook remains supportive

The Nordic IT-services market has seen healthy growth in recent years and is expected to continue in the coming years. Furthermore, Microsoft has shown solid performance within enterprise solutions, expected to grow at a double-digit pace.

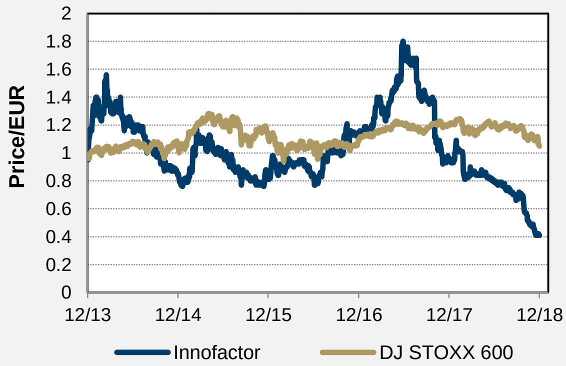
Expect to see margin improvement

The weaker sales in the near past along with other factors have had a negative effect on profitability. Organizational actions being taken are expected to have both a direct and indirect positive effect on profitability from 2019 onward and we expect to see margin improvement in the coming years.

HOLD with a target price of EUR 0.40 (0.55)

On our estimates valuation is quite in line with peers on 2019E EV/EBITDA while on 2020E multiples valuation appears more attractive. As profitability has been an issue in the near past and evidence of significant margin improvements are still lacking we emphasize the 2019E peer EV/EBITDA multiple and value Innofactor at 8.6x 2019E EV/EBITDA, giving a target price of EUR 0.40 and HOLD-rating.

Rating — HOLD



Share price, EUR (Last trading day's closing price)	0.41
Target price, EUR	0.4
Latest change in recommendation	09-Oct-18
Latest report on company	11-Dec-18
Research paid by issuer:	YES
No. of shares outstanding, '000's	36,188
No. of shares fully diluted, '000's	36,188
Market cap, EURm	15
Free float, %	45.0
Exchange rate EUR	0.000
Reuters code	IFA1V.HE
Bloomberg code	IFA1V FH
Average daily volume, EURm	0.03
Next interim report	05-Mar-19
Web site	www.innofactor.fi

Analyst	Jerker Salokivi
E-mail	jerker.salokivi@evli.com
Telephone	+358 9 4766 9149

BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2016	60	2	3.9%	2	0.04	25.8	0.9	11.2	23.3	0.00
2017	66	-1	-2.2%	-2	-0.03	-26.9	0.7	8.2	-32.4	0.00
2018E	65	-2	-3.7%	-3	-0.06	-6.7	0.5	262.9	-12.4	0.00
2019E	65	0	0.5%	0	0.00	-113.9	0.4	3.2	84.2	0.00
2020E	66	2	3.3%	2	0.04	10.3	0.3	3.3	10.3	0.00

Market cap, EURm	15	BV per share 2018E, EUR	0.6	CAGR EPS 2017-20, %	0.0
Net debt 2018E, EURm	15	Price/book 2018E	0.6	CAGR sales 2017-20, %	0.3
Enterprise value, EURm	29	Dividend yield 2018E, %	0.0	ROE 2018E, %	-9.3
Total assets 2018E, EURm	56	Tax rate 2018E, %	20.1	ROCE 2018E, %	-6.1
Goodwill 2018E, EURm	26	Equity ratio 2018E, %	41.2	PEG, P/E 18/CAGR	0.0

All the important disclosures can be found on the last pages of this report.

Investment summary

Leading Nordic Microsoft solutions provider

Innofactor is a provider of digitalization and cloud solutions in the Nordics. The company's core business revolves around Microsoft based solutions and the company has a leading position in the Nordic countries within its focus area. Innofactor also develops and sells own software products and solutions. Customers include commercial, public sector, and membership-based organizations in the Nordic countries. Innofactor employs around 600 people and has offices in Finland, Sweden, Denmark, and Norway.

Market outlook remains healthy

The Nordic IT-services market has seen a healthy growth pace in recent years. Innofactor has estimated growth at 3-5 % in 2017 and 2018. Growth in the for Innofactor most relevant market, the Finnish IT-market, is expected to continue, with Gartner estimating growth during 2018-2020 at 3.8 % p.a. (Marketvisio). Growth within specific subsegments of the IT-market, such as cloud and application services, are expected to grow at a faster pace, while more traditional areas such as hardware maintenance and legacy systems services have seen declines.

Microsoft's enterprise solutions growing, especially cloud services

Microsoft's solid position in enterprise solutions in combination with a growing fragmented multibillion market provides a good opportunity for Innofactor. Microsoft's sales in global enterprise solutions are estimated to grow at double-digit pace. Microsoft is also at the forefront of developing A.I., machine learning and advanced analytics capabilities into its solutions, which provides a tailwind to service providers like Innofactor.

Acquisition and sales related challenges hampered development in 2017-2018

Innofactor has in the near past been focusing on integrating processes across its pan-Nordic platform after a period of aggressive, acquisition-driven growth, through which a presence in each of the Nordic countries was established. The aim has been to use the Nordic presence to enhance the offering and to seek organic growth margin improvement. The business development during 2017-2018 has however not been rosy, as difficulties relating to sales activity and acquired businesses have hampered sales growth and profitability, with LTM sales growth and EBITDA-margin at -3.2 % and 0.6 %.

Positive market outlook but internal sales problems need solving

We estimate Innofactor to grow at a 1.0 % CAGR during 2018-2020E. Although the outlook for the IT-services market is positive, internal problems have had an adverse impact on sales. Innofactor has been making organizational changes to enhance decision-making efficiency and focusing superior's tasks to enable more time for customer and sales activities. We see the measures as steps being taken into the right direction but expect the effects to take some time to show. Also, after several quarters of negative growth figures proof of a successful turnaround is still warranted.

Margins expected to see improvement

Profitability has similarly to sales seen a negative development during 2017 and 2018 due to weaker sales and certain project difficulties, with the EBITDA margin in 2017 and our 2018 estimate at 2.0 % and 0.5 % respectively, compared to the 2014-2016 average of 8.4 %. The reorganization measures made by Innofactor in late 2018 are expected to have a positive annual effect of EUR 2.4m on EBITDA starting from 2019. We expect an EBITDA margin of 4.5 % in 2019. In the long run a key driver for improving profitability lies in the ability to transition sales from low margin project deliveries to higher margin continuous services and including more own software products and services in the offering.

HOLD with target price of EUR 0.40

On our estimates valuation is quite in line with peers on 2019E EV/EBITDA while on 2020E multiples valuation appears more attractive. As profitability has been an issue in the near past and evidence of significant margin improvements are still lacking we emphasize the 2019E peer EV/EBITDA multiple and value Innofactor at 8.6x 2019E EV/EBITDA, giving a target price of EUR 0.40 and HOLD-rating.

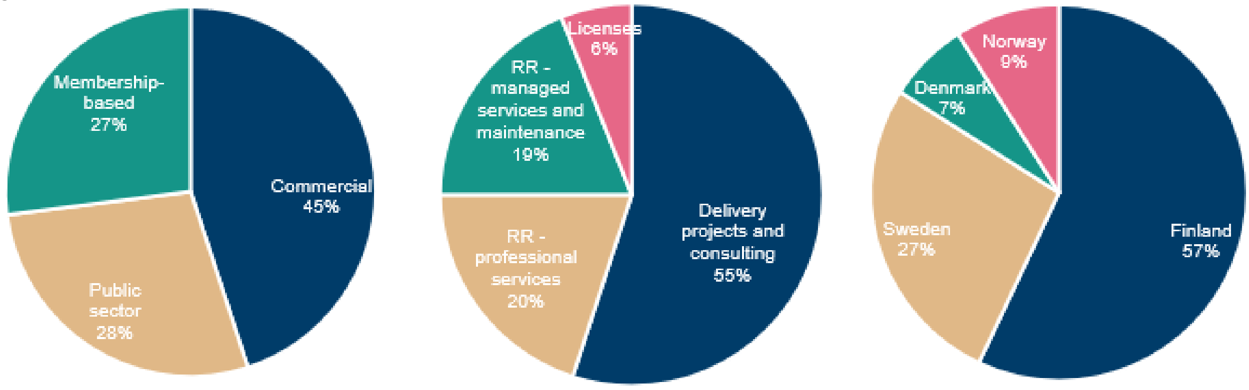
Company in brief

Leading digitalization and cloud solutions provider in the Nordics with Microsoft focus

Innofactor is a provider of digitalization and cloud solutions in the Nordics. The company's core business revolves around Microsoft based solutions and the company has a leading position in the Nordic countries within its focus area. Innofactor also develops and sells own software products and solutions.

Innofactor's customers include over 1,500 commercial, public sector, and membership-based organizations in the Nordic countries. Innofactor has offices in Finland, Sweden, Denmark, and Norway with personnel of around 600 employees.

Figure 1: Revenue by customers, source, and country (Q1-Q3/2018)



Source: Innofactor, (RR: Recurring revenue)

Strong acquisition-based growth met with challenges

Innofactor has since its listing in 2011 seen rapid growth, driven mainly by acquisitions, with a sales CAGR between 2011-2017 of some 25 %. Since 2011 seven acquisitions have been made, both in Finland and in other Nordic countries. During 2017 and 2018 growth and profitability have seen challenges partly due to weaker performance in some acquired operations as well as weakness in sales of new deliveries.

Improved geographical dispersion, Finland 57 % of sales

Innofactor operates in the Nordic IT-services market. While formerly more focused on Finland, in 2015 accounting for 82 % of sales, the acquisitions have broadened Innofactor's service offering in the Nordic countries and Finland only stood for 57 % of sales during Q1-Q3/18. Innofactor strives to become a leading implementer of cloud solutions and digitalization in each of the Nordic countries.

Innofactor SWOT-analysis

Strengths
- Pan-Nordic presence
- Strong offering within Microsoft focus
- Dispersed customer base

Weaknesses
- Scalability historically
- Project dependency
- Risks associated with acquisitions
- Sales activity efficiency
- Profitability challenges

Opportunities
- Increasing share of own products and services
- Scaling up through better sales mix
- Fragmented market
- Digitalization trend
- Cross selling and business optimization

Threats
- Competition for skilled workers
- Increases in personnel costs
- Failing to capture synergies from acquisitions
- Failing to improve sales mix
- Microsoft losing its position

Company and business overview

Software solutions provider and integrator

Innofactor's core business revolves around providing and integrating software solutions. Primary focus is on platforms in the Microsoft ecosystem. Innofactor's business is as such focused around client projects and project deliveries, as well as consulting. A still smaller but important part of Innofactor's business is the company's own products. Figure 2 shows an overview of the solutions areas.

Lower margin project deliveries still main source of revenue

A typical customer delivery could usually consist of a project delivery, which may include the implementation of a Proof of Concept, in the form of a new solution to match the customers' needs. The bulk of Innofactor's revenue stems from these forms of deliveries. These solutions deliveries generally face competition, which significantly impacts on the potential margins.

On-going services provide margin potential and revenue stability

A customer may in conjunction with a delivery also sign an agreement with Innofactor for continuous support services regarding the delivery. This could for instance entail customer support or certain modifications to the solutions. These contracts are generally on-going, longer contracts, as the services could typically run for over 10 years. The services also generally provide better margins. After having developed the solution the provider is typically best positioned to provide further support services and changing to another provider would be costly for the customer, for which reason the solutions providers can afford to increase prices of the services.

Own products offer further scalability

Innofactor further seeks to use its own products and productized services in customer deliveries. The own products act to complement Innofactor's offering and have the potential of offering scalability in the otherwise more personnel-intensive project deliveries lacking significant scalability potential.

Figure 2: Overview of Innofactor's solutions areas

Source: Innofactor

Own software products and services

Own products and services offer potential for improving profitability

Innofactor also develops its own software products on top of Microsoft's solutions. According to the company, their own products complement their Microsoft based offering and function as a competitive advantage for them. The company's product and service development organization employs around 40 experts in cloud technology and architecture. The focus lies on productized cloud solutions that are delivered as part of the solutions in Innofactor's business solution areas.

R&D 5 % of net sales in 2017

In 2017 the company invested 5.0 % of net sales in research and product development. We believe that R&D is an area that Innofactor would seek to focus more on but with current organizational restructuring and profitability issues a higher share of R&D will unlikely materialize in the near-term. Excluding R&D costs, the operating margins of the own products are closer to 100 %, thus offering good potential for enhanced profitability.

Limited distribution through third party networks

Most of Innofactor's own products are sold directly to customers in connection with projects. Some of the more standardized products are sold through third party digital distribution networks, but this represents only a small part of the revenue streams. We see limited potential at the moment for Innofactor to increase its digital distribution of own software, unless it would significantly invest in this area.

Own product examples

Innofactor QualityFirst

- Quality and management solution
- More than 20,000 users globally

Innofactor Membership Management System

- Comprehensive customer relationship and operations management solution
- Used by customer organization's with more than 3.7 million members

Innofactor Innolog

- Solution for monitoring personal data files, log data management and ensuring GDPR compliance

Innofactor Dynasty

- Leading public sector case management solution
- Over 250 local, regional and central government customers

Revenue and business models

Innofactor operates under one business segment and reports revenue for four different sources. Innofactor sources of revenue:

- Delivery projects and consulting
- Recurring revenues – professional services
- Recurring revenues – managed services and maintenance
- Licenses

Projects

55 % of revenue from projects and consulting

Delivery projects and consulting typically includes assignments where Innofactor integrates a systems solution for the customer. 55 % of revenue during Q1-Q3/2018 was created through projects. In obtaining new projects a certain amount of sales activity is generally required, but previous references and customer-specific needs can also lead to direct engagement from the customer. Project pricing is usually based on spent hours or on a fixed price. In fixed price projects there exists a risk that the costs for completing the project are wrongly estimated and projects become unprofitable. In general, the margins in projects are typically quite low partly due to competition in obtaining projects.

Recurring revenues

Recurring revenues increase business stability

Recurring revenues are generated through long-term contracts with customers, often lasting over 10 years, with payments occurring at pre-specified intervals. Typically, the contracts are a result of a project where customers have ordered a product or systems solution and wish to outsource any further development and maintenance needs, as well as support activities, to Innofactor. The continuous contracts decrease the seasonal variation and provide a stability to the business.

Managed services and maintenance; professional services

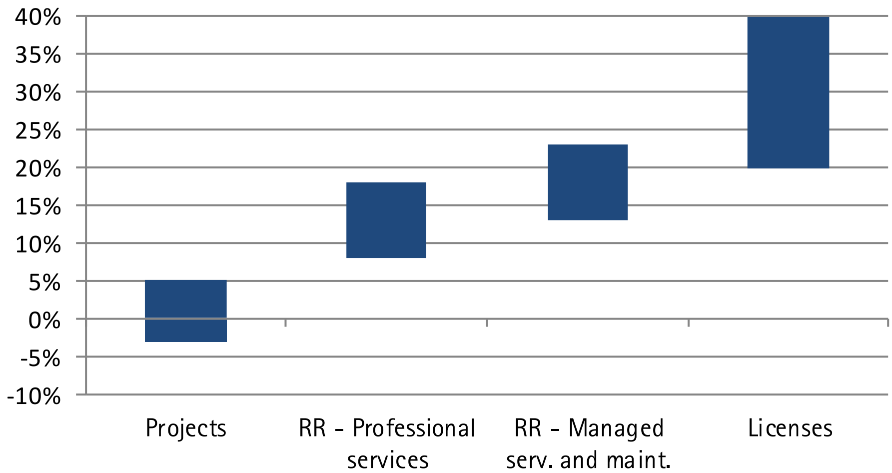
Recurring revenues are divided into managed services and maintenance and professional services. Managed services and maintenance concern continuous services and support, such as SaaS-solutions, support services and customer service. Professional services concern continuous development and modifications and would likely be based on a certain amount of development hours per time unit. The margins in recurring revenues are higher due to the lower need for sales activity as compared to projects, as well as significantly lower cost base. Margins from managed services and maintenance are generally higher as the need for development work and the therefrom arising labour costs from the hours spent are lower.

Licenses

High margin licenses roughly 6 % of revenue in 2017

Revenue is also generated through the sale of licenses, both own and third-party. Approximately 6 % of revenue in 2017 was generated through sales of third-party licenses, where Innofactor receives a share of the revenue. Roughly 2 % was generated from own licenses, where the scalability significantly improves profitability. Excluding R&D costs, the operating margins of the own products sold through licenses are closer to 100 %.

Figure 3: Estimated range for average operating margins per revenue source



Source: Evli estimates

Acquisitions

Acquisitions since 2011 estimated to have added EUR 35-43m to revenue

Innofactor has since 2011 made seven acquisitions, of which the most significant acquisitions by size have been atBusiness, Cinteros, and Lumagate. We estimate that the acquisitions since 2011 have added revenue in the range of EUR 40-50m. With the effect of acquisitions taken into account, we estimate organic growth of between 2-6 % for 2011-2017.

Innofactor nearly doubled its size in 2013 after acquiring Finnish company atBusiness. The company was at the time one of the leading providers of Microsoft-based technology solutions to commercial and public sector clients with over 200 employees. The deal expanded Innofactor's offering in enterprise resource planning and human resource management systems. atBusiness was consolidated into Innofactor June 1st, 2013. The company had revenue of EUR 17.4m in 2012.

In 2015 Innofactor acquired the Swedish company Cinteros, a leading IT services company in Sweden focusing on Microsoft Dynamics CRM-based solutions. The company employed over 100 people in three locations in Sweden. Cinteros was consolidated into Innofactor January 1st, 2016. Cinteros' revenue in 2014 was around EUR 7.9m.

Innofactor acquired Lumagate group in 2016. Lumagate is a leading Nordic Microsoft Azure and infrastructure services provider, with over 70 employees, focusing on cloud-based solutions in the Microsoft ecosystem. Through the acquisition Innofactor expanded its business to Norway and strengthened its position in Sweden and Denmark. Lumagate was consolidated into Innofactor October 1st, 2016. The revenue in 2015 was approximately EUR 8.7m.

Possible future M&A activity likely smaller scale and strategically focused

Company management has indicated that the M&A activity will slow down at least in the near future. Acquisitions may continue, but the scope is expected to be smaller, with focus on strategic acquisitions that enable unification of country-specific offerings. According to company management this could mean acquisition of for instance CRM and ERP business in Denmark and Norway. During 2017 Innofactor saw struggles arising from its acquisition-based growth strategy. The problems to our understanding have been both integration and performance related. Due to the problems we believe that Innofactor will be cautious in acquiring new companies and see acquisitions in the near term as unlikely.

Customers

Over 1500 customers, 10 largest account for 25 % of net sales

Innofactor has a dispersed customer base from the commercial sector, public sector, and membership-based organizations, of which the commercial sector accounts for the largest part. The number of customers is over 1500, of which the ten largest customers accounted for 25 % of net sales in 2017.

Figure 4: Selected Innofactor's customers

Source: Innofactor

Market overview

The size of the Nordic IT-services market is roughly EUR 25 billion (IDC via Innofactor), of which Innofactor has estimated the Microsoft market to be approximately EUR 10 billion. Innofactor estimates the Nordic IT Services market to grow 3-5 % in 2018.

Large and growing markets

In Finland, Innofactor's largest market in the Nordics, the growth in IT spending has been picking up in recent years. Gartner has estimated the growth in the Finnish IT-market as a whole (includes devices) in 2018 to be 3.8 % and the size of the market in 2018 to be EUR 6.9 billion (Marketvisio). The IT-services market can be said to account for approximately half of the total IT-market in Finland. Gartner has estimated growth in the Finnish IT market of 3.8 % in 2019 and 2020 respectively (Marketvisio). The total size of the Swedish IT-market in 2018 is expected to be EUR 15.6 billion (SEK 161 billion), with growth of 2.4 % (Radar).

Market trends favouring IT-Services providers

The market development recently has in general favoured IT-services companies and has translated into growth rates above the IT-market as a whole. A large share of IT budgets has typically been spent on on-premise IT hardware in the form of servers, storage capacity, and networking hardware. With the emergence of cloud environments, the demand for on-premise hardware has been declining while the demand for cloud-focused infrastructure solutions has picked up. This in turn, has further led to demand for solutions revolving around the cloud environment, where solutions providers and integrators like Innofactor are needed. Gartner has estimated the worldwide public cloud services market in 2018 to be USD 186.4bn, with cloud software as a service estimated to reach USD 73.6bn. Gartner estimates the worldwide public cloud revenue to grow at a CAGR of nearly 20 % during 2017-2021.

The IT-market has also benefitted from the pickup of the global economy in recent years. Finland saw GDP pick up at a slight delay but the past few years have materialized in a favourable development. Finland has a history of being well positioned in the technology industry and the information technology sector has been of strategic importance in achieving the position.

Nordic countries well positioned in strive for digitisation

Digitalisation has become an increasingly important phenomena, as organizations on all levels are seeking to use technology to improve business processes. Through digitisation organizations are seeking further efficiency and cost savings and has been a driver for instance for the adoption of cloud environments. A report by Microsoft in 2017 showed that 86 % of the studied organizations in Finland give digital transformation a high strategic importance[1]. The Nordic countries have had good prerequisite to serve these changing needs through high digital readiness, with Denmark, Sweden, and Finland ranking first, second, and third in the European Commission's Digital Economy and Society Index in 2018[2].

Growth in IT-market putting pressure on available resources

The digitalisation trend and growth in the IT-market has had some implications on the IT-services companies. Adopting new digital solutions is not necessarily a straight forward process for customers, which has led to an increase in demand for consultancy in how to properly adopt new processes. The shift towards cloud environments has also altered the demand of solutions, with smaller implementations and add-on solutions gaining ground as opposed to the formerly more dominant larger on-premise systems implementations. The strong market growth has also put pressure on available personnel resources, as developing new digital solutions and processes have to a certain degree required an increased customer proximity along with the overall increased need for IT-professionals. In Finland this has already to some extent materialised in the form competition for professionals and pressure on wages.

[1] Microsoft: How Finland is embracing digital transformation, 2017
[2] European Commission: Digital Economy and Society Index 2018, Country Report Finland

Competitors and competitive landscape

Fragmented market with small niche players and large IT-companies

Due to Innofactor's presence in all of the Nordic countries Innofactor faces competition from various other IT Services companies. The generally fragmented Nordic IT services market includes small niche players in addition to mid-sized and large competitors. Size-wise Innofactor is positioned in between the small niche players and large IT-companies.

The large competitors typically have a presence in all Nordic countries or a global presence. These large players are IT generalists, that offer a vast amount of different IT-services and have large resources and offshoring capabilities at their disposal. They also do not focus strictly on one technology for providing business solutions, but instead provide solutions from multiple competing platforms. Innofactor does not use off-shoring, instead it relies on local skilled professionals. The large competitors include such companies as Accenture, CGI, Fujitsu, and Tieto.

In the mid-sized firms, competitors consist of both firms with a more local geographic focus and firms with a presence in the Nordic markets. Companies with a more local focus tend to have a broader offering than the geographically more dispersed companies and the mid-sized firms in general do not focus on single platforms. Competitors with stronger focus to one or a few Nordic countries include Siili, Solita, Digia, Net-Company, and Precio Fishbone. Competitors with presence in all Nordic markets include Atea, HiQ, Knowit, and EG.

The smaller competitors usually have limited their presence to the home market. Their size also limits their possibilities to offer solutions on multiple platforms and as such the companies are often niche players with a focused offering. Smaller competitors include for instance Sulava and Cloudriven.

Innofactor seeks to compete through flexibility and local presence

Innofactor is positioned between the small and large competitors. Compared to the large competitors, Innofactor seeks to compete by being more flexible and offering local skilled professionals. As a listed company with a long customer reference track record, Innofactor is able to compete against smaller firms.

Microsoft focus provides some competitive advantage

Innofactor's strategic positioning relies heavily on Microsoft-based solutions in addition to a few other complementing platforms. Excelling in the focus area through experience and skilled professionals serves as a competitive advantage when competing for customers oriented towards such solutions. The customers in the IT-services market, however, are not restricted towards solutions based on a given platform and therefore competitors can include a plenitude of providers with solutions based on different platforms.

Significant competition within project deliveries

The delivery model in the IT services commonly exists of an initial implementation of a solution, after which some additional services may be implemented. As the initial delivery may enable more recurring services and longer lasting customer relationships, translating into more predictable revenue, the competition for the deliveries is quite fierce. With multiple providers competing for the same project it may be hard to differentiate just by a superior delivery model and this will likely lead to price competition instead. As such project deliveries are usually necessary to achieve more sustaining revenue at the cost of margins on the initial implementations.

In figure 5 we have illustrated some of the local competitors based on their country of origin. Many of the firms also have operations in one or multiple other Nordic countries. Further included are some of the large IT generalists with operations in the Nordic countries, that apart from Tieto have headquarters outside the Nordics.

Figure 5: Overview of selected competitors/IT services providers

Source: Evli Research

Denmark seen as more challenging market

Competition also varies in between the Nordic countries. To our understanding the competitive environment is especially difficult in Denmark, where Innofactor and the companies Innofactor acquired with operations in Denmark have had challenges in profitability. Based on our comparison of local competitors in the Nordic countries Denmark appears to have many both smaller and larger firms that by offering and platform focus have similarities to Innofactor, such as Abakion and Elbek & Vejrup on the smaller side and Netcompany and Columbus on the larger side.

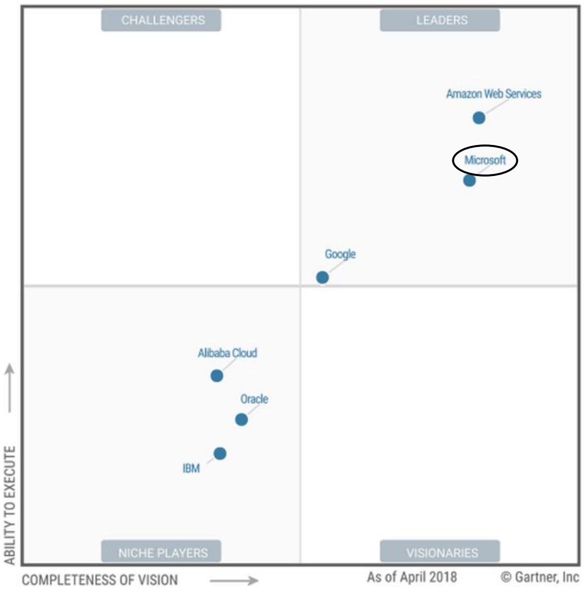
Microsoft Ecosystem

Microsoft leading provider in Innofactor's focus areas

Microsoft's position in the global enterprise solutions space is strong. According to Gartner Microsoft is a leader within cloud infrastructure, analytics and business intelligence, and CRM fields. According to Innofactor, if Microsoft were to lose its leading position in some or all of Innofactor's focus areas, Innofactor could transition to other software partners in these areas.

Figure 6: Microsoft's position as a provider within Innofactor's focus areas

Magic Quadrant for Cloud Infrastructure as a Service



Source: Gartner, April 2018

Magic Quadrant for Analytics and Business Intelligence plat.

Source: Gartner, February 2018

Magic Quadrant for the CRM Customer Engagement Center

Source: Garner, April 2018

Microsoft seen successful development; cloud and AI in focus

While Microsoft's strategy during several years saw shifting focus toward the cloud and mobile, following a declining role of PC's and PC related products, the strategy more recently has increasingly shifted towards being more cloud-first and AI-first oriented. The shift in strategic seems to follow a diminishing role of individual devices as devices have become more and more inter-connected and the importance of solutions spanning the whole set of devices have increased. Microsoft has seen reorganizations in the past years and the launches of several significant solutions, which have been beneficial in achieving sales growth in recent years. In figure 7 we have collected the consensus growth estimates for Microsoft's segments, with Microsoft's Productivity and Business Processes and Intelligent Cloud units being the most relevant for Innofactor. Consensus expects MS enterprise solutions to grow at a strong pace, which will be supportive for Innofactor.

Figure 7: Microsoft sales estimates per segment

USDm	FY17	FY18	FY19E	FY20E
Microsoft	96 700	110 360	124 548	137 527
Growth	5%	14%	13%	10%
Segments				
Productivity and Business Processes	30 444	35 865	40 893	45 603
Growth	15%	18%	14%	12%
Intelligent Cloud	27 440	32 219	38 252	44 360
Growth	10%	17%	19%	16%
More Personal Computing	38 773	42 276	45 040	46 975
Growth	-4%	9%	7%	4%

Source: Factset

Strategy and targets

Microsoft focus

Innofactor's strategic focus revolves around the Microsoft ecosystem. A large part of the solutions are Microsoft-based and the company uses other platforms mainly in areas where the Microsoft ecosystem provides limited solutions. By focusing heavily on the Microsoft ecosystem, Innofactor strives to improve its competitive positioning by creating a strong base of know-how and obtaining better deals through the increasing partnership with Microsoft.

Strategy updated on October 7th, 2018

Innofactor updated its' strategy on October 7th, 2018. The strategy and long term financial goals were largely left unchanged from the previous strategy. Innofactor's new mission is "Driving the #ModernDigitalOrganization". The focus of the strategy will to a larger extent revolve around the companies five solution areas and selected industries. The group's Nordic Products and Services unit will focus more on products and services to be sold in the Nordic market while targeted solutions will be the responsibility of each country unit.

Vision: Leading provider of organizations' digital transformation in the Nordics

Innofactor's vision is to be the leading provider of organizations' digital transformation in each of the Nordic countries (Finland, Sweden, Denmark, and Norway). Innofactor's strategy to achieve the vision revolves around having skilled professionals in the Microsoft ecosystem and being able to deliver a highly productized cloud offering and managed services through a proactive, value-adding, and flexible delivery model and creating innovation with leading customers in selected industries.

Innofactor has set the following financial goals to be achieved by the year 2020:

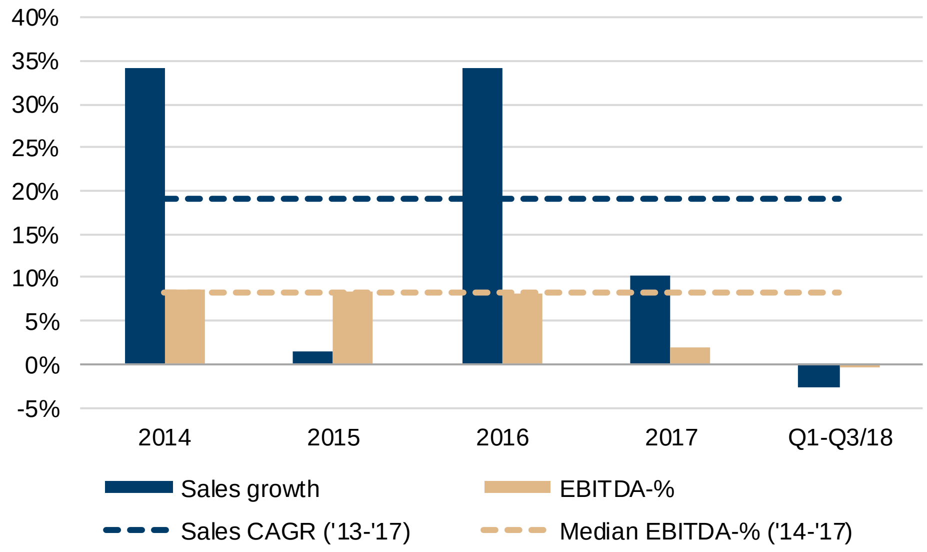
- Annual growth of around 20 percent, mainly organic
- 20 percent EBITDA in relation to net sales
- Keeping a positive cash flow and securing a solid financial standing in all situations

Actions to achieve long term financial goals

The main actions for reaching the long-term goals revolve around focusing on industries and solutions areas that provide the highest growth opportunities and possibilities for scalability and utilizing cross sales to increase sales among existing customers. Focus will further be on improving sales results through improving modern digital marketing and sales skills and on competence management and resource optimization.

Actions to improve profitability revolve around improving the sales mix, by shifting revenues from projects and professional services towards higher margin managed services and by improving the offering to increase prices. Further actions on the organizational level focus on developing a less hierarchical system based on self-organized teams and improved flexibility.

Figure 8: Sales growth and EBITDA margin



Source: Innofactor

Evidence of ability to achieve long-terms goals still lacking

Considering the recent development Innofactor is still far off its long-term goals. Innofactor has not defined a time period for when the goals are to be achieved. The sales growth goals have during the last four years been achieved during individual years, largely due to inorganic growth, while the EBITDA-margin has not surpassed the 10 % level. The profitability goals in particular are in our view optimistic, as peer median EBITDA-margins have revolved at around or slightly above 10 %.

Seeking to improve organizational efficiency

A central goal of Innofactor's updated strategy lies in the streamlining the organization. Innofactor will strive to implement self-organized teams and decrease organizational levels. Innofactor is seeking to centralize superiors' tasks by moving from around 50 supervisors, most functioning as supervisors in addition to their primary tasks, to approximately 16 superiors and line managers, increasing the time of current superiors to perform sales and customer work related tasks.

As part of the streamlining process Innofactor initiated co-operation negotiations in its Finnish companies, targeted mainly at superiors in the SI Finland delivery unit. The goal is to achieve an annual positive effect on EBITDA of EUR 2.4 million starting from 2019. Due to the reorganization and the related costs in the last quarter of 2018 Innofactor lowered its 2018 guidance

Guidance for 2018

Net sales around 2017 levels, EBITDA to decrease but remain positive

Innofactor updated its guidance on October 7th, 2018. Innofactor estimates that the net sales in 2018 will remain on approximately the same level as 2017 (EUR 65.7m). EBITDA is expected to be weaker than in 2017 (EUR 1.3m) but to remain positive.

Aims to distribute dividends from part of EBITDA-% exceeding 10 %

Innofactor has previously not paid dividends, largely due to the focus on growth in the previous strategy. The company has defined a dividend distribution policy in which it aims to distribute the maximum dividend allowed from the part of the operating margin that exceeds 10 %.

Financial performance

Strong growth driven by acquisitions

Innofactor has been able to grow rapidly, driven by larger acquisitions. The sales CAGR between 2013-2017 amounted to around 19 %. Revenue growth in 2013-2014 was driven by the acquisition of atBusiness and in 2016-2017 by the acquisitions of Cinteros and Lumagate. Innofactor's revenue has not been impacted by acquisitions after Q3/17.

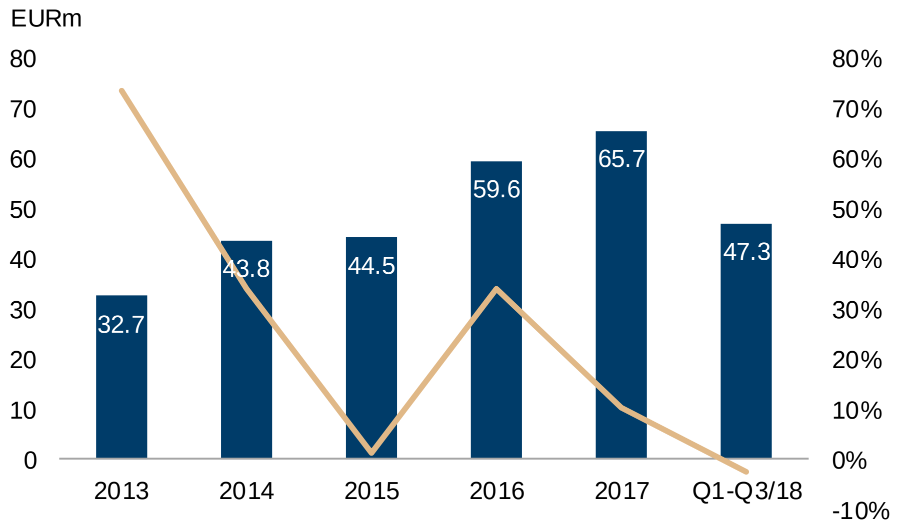
Revenue growth seen slight declines

Revenue in 2017 amounted to EUR 65.7 million. Sales growth compared to 2016 amounted to 10.9 %. Innofactor has not disclosed organic growth figures but growth was mainly inorganic due to the Lumagate acquisition. Sales during the second half of the year were affected by weakness in sales of new customer projects. During Q1-Q3/2018 sales amounted to EUR 47.3m, declining 2.5 % y/y.

Order backlog improving, several significant contracts signed during mid 2018

Innofactor has had some struggles in customer sales during the latter half of 2017 and early 2018. Innofactor has during mid 2018 received several significant orders. These orders include agreements with the Swedish trade union Kommunal (approx. EUR 2.8-5.2m), The Funding Centre for Social Welfare and Health Organizations (approx. EUR 2m), a private Finnish healthcare company (approx. EUR 0.5m), and Kuntien Tiera (approx. EUR 2m). A further order was received in late 2018 from 13 municipalities in the Pohjois-Karjala region (approx. EUR 0.5m). The order backlog is not reported but has according to Innofactor seen improvements.

Figure 9: Revenue and sales growth (EUR)



Source: Innofactor

Profitability fallen significantly from 2013-2017 levels

Innofactor has during 2013-2016 been able to achieve reasonably sound margins, with EBITDA margins in the range of 8-10 %. 2017 manifested in significantly reduced margins partly due to project reassessments in Denmark and Sweden, along with weaker sales. Profitability was particularly weak in the third quarter of 2017, as EBITDA was negative for the first time in several years.

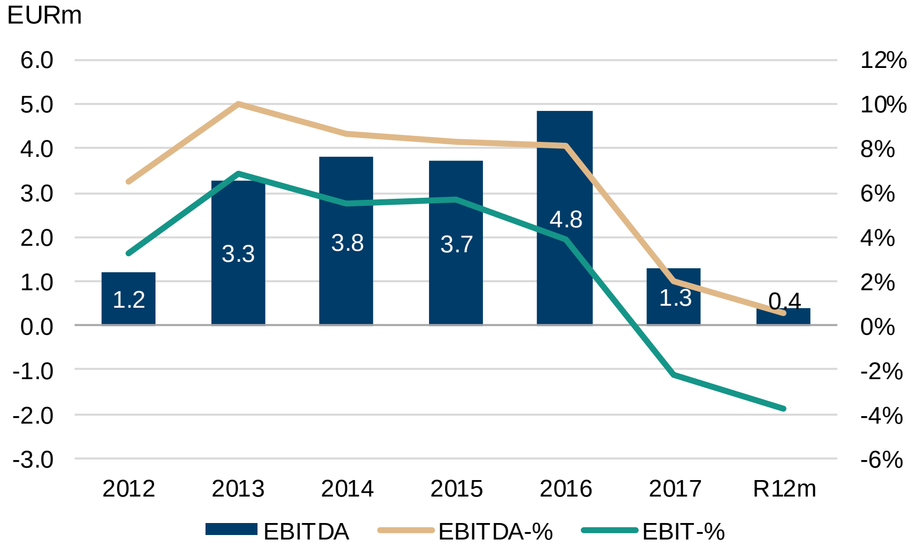
Corrective actions to improve profitability have been taken

Profitability continued to remain weak during Q1-Q3/2018, with EBITDA just barely negative at EUR -0.1m and EBIT at EUR -2.2m. A contributing factor to the continued lower profitability has been a weakness in sales of new projects, leading to a higher share of non-billable hours. Innofactor made corrective actions during the first half of the year to improve profitability, which also had some effect on profitability.

Amortizations of intangibles from acquisitions at approx. EUR 2m

EBIT has since 2013 been affected by amortizations of intangibles relating to acquisitions, which were approximately EUR 2 million in 2017. Depending on the acquisition intangibles are amortized over a period of 5-9 years, and with our estimate for an amortization period closer to five years the amortization of intangibles relating to the previously acquired businesses will decrease in steps from 2018 onwards.

Figure 10: Innofactor's profitability measures



Source: Innofactor, Evli est.

Innofactor has some rough times behind, as sales have stalled, and profitability has seen significant declines. The IT-market recently has been favourable for Innofactor and its peers, albeit with some new recruitment and wage pressure, but Innofactor has not been able to benefit from the growth mainly in our view due to internal reasons. The main factors that in our view have affected Innofactor's development revolve around the following:

Integration of acquired companies

Innofactor's growth has revolved around acquisitions and although earlier acquisitions proved seemingly successful, we see that the continued international expansion has not been completely painless, and some parts of the acquired companies have not performed according to expectations. The acquired companies have had organizational hierarchies and functions of their own, which to some extent have overlapped with Innofactor's need on a group level. We see that support functions and management are such areas. Innofactor has to our understanding sought to centralize some of the support functions and also to focus management based on country levels. Turnover in country level management implies that the transition has not in all countries gone according to plans.

Internal control functions

Innofactor has to our understanding been struggling in establishing sufficient control functions in between countries and the group level. Project reassessments were made in Denmark and Sweden during Q3/17, which had a significant negative impact on profitability. The implementation of a group level ERP system is now close to completion, which will alleviate the issues. We see that the internal control risks are diminishing but still present.

Organizational structure

To our understanding Innofactor's organizational structure is still rather complex, which we believe is partly due to the acquisition driven strategy but also due to slowness in adapting. We see that focus has revolved more than necessary on separate product areas, while the companies that have succeeded well recently have relied more on self-organized teams and fewer levels of organizational hierarchy. In the recently updated strategy Innofactor is seeking to move more towards this direction and focus supervisor duties.

Sales functions

Innofactor has not disclosed organic growth figures in recent years but according to our estimates has still been able to achieve some organic growth. Organic growth has according to our estimates during most of 2017 and 2018 so far been negative, which has mainly had to do with new project delivery sales. We see that this has had to do with the organizational structure, with sales functions spread out and supervisors performing multiple tasks, but also due to competition and changes in the environment. Innofactor has been doing corrective measures and a new manager responsible for improving group sales in 2017.

Balance sheet

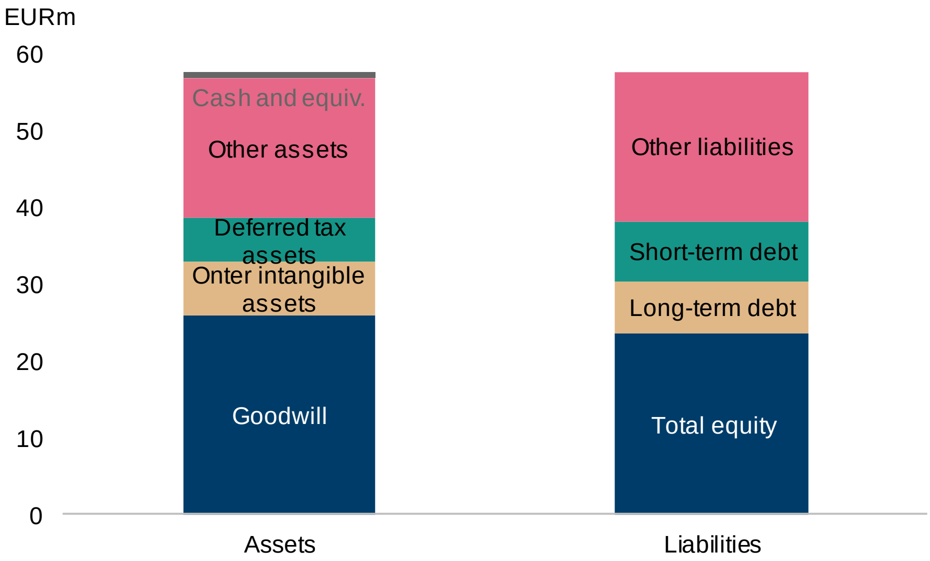
Large goodwill in assets

Goodwill and other intangible assets make up over half of Innofactor's balance sheet. The intangibles have mainly been obtained from acquisitions and consist of customer relationships and technology. Goodwill is the largest item in the assets stemming from the acquisition driven strategy. Goodwill in 2017 stood for 45 % of the balance sheet assets.

Debt in shape, additional purchase price from acquisitions

Innofactor has been able to keep the debt at decent levels and the total debt to financial institutions decreased in 2017, with loans having been taken to finance the acquisitions. Net gearing was 53.1 % in 2017 and the equity ratio stood at 43.8 %. The non-interest bearing liabilities contain some liabilities for the additional purchase price of the acquisition of Lumagate, as the final payment of the additional purchase price for Cinteros was carried out in Q2/18. The preliminary acquisition cost calculation for the remaining Lumagate conditional compensation was approx. EUR 1m at the end of 2017, which will be paid in cash or Innofactor's shares.

Figure 11: Innofactor's balance sheet composition (2017)



Source: Innofactor

Estimates

We expect limited near-term growth

Innofactor has estimated a growth rate for the Nordic IT-services market of 3-5 % in 2018. Growth in the Finnish IT-market has been estimated to be closer to four percent in the coming few years (Gartner via Marketvisio). Growth within areas in the IT-market have varied in recent years, with areas such as the cloud, mobility, and analytics seeing stronger growth while more traditional IT infrastructure has seen declines. Innofactor has during the past year been struggling with growing sales despite the favourable market conditions. During the latter half of 2018 Innofactor has been implementing organizational changes, striving to focus superior's activities to increase time available for sales and customer activities, decreasing organizational levels, and implementing self-organized teams. This is seen to among other things enhance decision-making, which could translate into improved sales activity and sales growth. Following the challenges Innofactor has faced in the past year we remain conservative to significant near-term sales growth and expect sales growth to remain flat in 2019E. We estimate modest sales growth also in 2020E, with our estimate at 2.0 %. We see that the organizational changes being made, especially relating to reducing organizational levels and improving decision-making, give prerequisites for more rapid sales growth than we have estimated. However, the effect of the changes is yet to be seen and would likely have a larger impact towards the end of 2019 and onwards.

Expect margins to improve but to remain below historical averages

Profitability has been challenged during the past twelve months, largely affected by the lower sales. The number of personnel has been decreasing, from average active personnel of 623 in Q3/17 to 591 in Q3/18, to correspond more with the achieved level of sales. We see that the share of non-billable hours still remains a problem, which the organizational changes should to some extent alleviate. With the co-operation negotiations in late 2018 Innofactor expects a positive effect on EBITDA of EUR 1.4m from 2019 onwards. Reorganizations of tasks is further expected to contribute EUR 1.0m. The key driver for improving profitability in our view however, lies in the ability to transition sales from low margin project deliveries to higher margin continuous services and to a greater extent being able to include own software products and services in the offering. We expect the organizational changes that are being implemented, along with the downsizing of the organization during 2018, to improve margins in 2019. We do not see that the levels of profitability seen during 2013-2016, with EBITDA margins of around 8 %, will be achieved in 2019.

Figure 12: Estimates summary

Innofactor	2016	Q1/'17	Q2/'17	Q3/'17	Q4/'17	2017	Q1/'18	Q2/'18	Q3/'18	Q4/'18E	2018E	2019E	2020E
Net sales	**59.6**	**17.3**	**17.1**	**14.1**	**17.1**	**65.7**	**16.5**	**17.0**	**13.8**	17.8	65.1	65.1	66.4
sales growth %	*34.1%*	*18.2%*	*12.6%*	*19.7%*	*-4.7%*	*10.1%*	*-4.5%*	*-0.8%*	*-2.5%*	*3.9%*	*-0.9%*	*0.0%*	*2.0%*
EBITDA	**4.8**	**0.9**	**0.6**	**-0.7**	**0.5**	**1.3**	**0.3**	**0.0**	**-0.5**	0.5	0.3	2.9	4.6
EBITDA margin	8.1%	5.2%	3.3%	-4.8%	3.1%	2.0%	1.9%	0.3%	-3.7%	2.7%	0.5%	4.5%	7.0%
EBIT	**2.3**	**0.2**	**-0.1**	**-1.3**	**-0.2**	**-1.5**	**-0.4**	**-0.6**	**-1.2**	-0.2	-2.4	0.3	2.2
EBIT margin	*3.9%*	*1.3%*	*-0.6%*	*-9.5%*	*-1.4%*	*1.4%*	*-2.2%*	*-3.7%*	*-8.6%*	*-1.1%*	*-3.7%*	*0.5%*	*3.3%*

Source: Innofactor, Evli estimates

Valuation

HOLD with a target price of EUR 0.40

Our DCF-model is based on a terminal EBIT-margin of 5 %, corresponding to levels that Innofactor has been able to achieve historically, implying a fair value of EUR 0.82. As profitability has been challenged in the near past and we have not estimated such levels to be reached during 2018E-2020E we rely primarily on peer multiples in our valuation approach. Due to the amortization of acquisition related intangibles we emphasize EV/EBITDA multiples. On our estimates valuation is quite in line with peers on 2019E EV/EBITDA while on 2020E multiples valuation appears more attractive. As profitability has been an issue in the near past and evidence of significant margin improvements are still lacking we emphasize the 2019E peer EV/EBITDA multiple and value Innofactor at 8.6x 2019E EV/EBITDA, giving a target price of EUR 0.40 and HOLD-rating.

Figure 13: Innofactor's peer group

	MCAP	EV/EBITDA			EV/EBIT			P/E		
INNOFACTOR PEER GROUP	MEUR	18E	19E	20E	18E	19E	20E	18E	19E	20E
Tieto	1731	9.1x	8.9x	8.6x	12.0x	11.5x	11.0x	13.3x	12.8x	12.3x
Atea	1256	12.7x	10.4x	9.3x	19.8x	14.4x	12.3x	23.4x	16.6x	13.9x
Knowit	273	8.6x	7.9x	7.5x	9.1x	8.2x	7.8x	11.9x	10.8x	10.1x
HiQ	260	11.9x	10.5x	9.8x	12.8x	11.2x	10.3x	17.0x	14.9x	13.8x
Bouvet	223	9.8x	9.0x	8.6x	11.0x	10.0x	9.6x	13.9x	12.5x	12.0x
Enea	183	12.9x	10.7x	9.2x	13.0x	11.5x	10.2x	14.6x	13.8x	11.6x
Gofore	108	12.7x	9.8x	8.3x	14.0x	10.7x	8.7x	17.7x	13.8x	11.5x
Digia	74	8.9x	7.5x	6.6x	11.8x	10.0x	8.4x	13.5x	11.3x	9.2x
Siili Solutions	58	12.8x	7.1x	6.1x	15.8x	7.8x	6.6x	22.9x	11.4x	9.6x
Solteq	26	8.9x	7.0x	6.6x	14.9x	11.1x	10.1x	22.8x	12.5x	10.5x
Peer Group Average	419	**10.8x**	**8.9x**	**8.1x**	**13.4x**	**10.6x**	**9.5x**	**17.1x**	**13.0x**	**11.4x**
Peer Group Median	203	**10.8x**	**8.9x**	**8.4x**	**12.9x**	**10.9x**	**9.9x**	**15.8x**	**12.6x**	**11.5x**
Innofactor (Evli est.)	**15**	**83.4x**	**8.7x**	**4.9x**	**Neg.**	**84.2x**	**10.3x**	**Neg.**	**Neg.**	**10.3x**
Innofactor prem./disc. to peer median		*>100%*	*-3%*	*-42%*	*-*	*>100%*	*4%*	*-*	*-*	*-10%*

Source Bloomberg, Evli Research

	Sales	Sales gr.		EBIT-%			Div. yield		
INNOFACTOR PEER GROUP	17A	18E	19E	18E	19E	20E	18E	19E	20E
Tieto	1543	4%	3%	10.0 %	10.2 %	10.3 %	6.1 %	6.3 %	6.5 %
Atea	3478	3%	4%	2.1 %	2.7 %	3.0 %	5.8 %	6.1 %	6.5 %
Knowit	284	5%	8%	10.2 %	10.4 %	10.5 %	4.7 %	5.3 %	5.7 %
HiQ	186	-3%	6%	10.9 %	11.7 %	12.0 %	6.8 %	7.3 %	7.6 %
Bouvet	172	10%	7%	10.5 %	10.8 %	10.7 %	4.0 %	5.0 %	6.7 %
Enea	61	29%	11%	21.2 %	21.6 %	22.8 %	0.0 %	2.3 %	2.6 %
Gofore	34	51%	31%	14.3 %	14.3 %	14.8 %	2.3 %	3.0 %	3.5 %
Digia	96	16%	6%	6.6 %	7.4 %	8.5 %	2.1 %	2.8 %	4.0 %
Siili Solutions	58	21%	21%	4.9 %	8.2 %	9.0 %	4.5 %	5.8 %	7.0 %
Solteq	62	-7%	8%	5.7 %	7.1 %	7.5 %	0.7 %	2.2 %	2.9 %
Peer Group Average	**597**	**13%**	**10%**	**9.6 %**	**10.4 %**	**10.9 %**	**3.7 %**	**4.6 %**	**5.3 %**
Peer Group Median	**134**	**8%**	**7%**	**10.1 %**	**10.3 %**	**10.4 %**	**4.2 %**	**5.1 %**	**6.1 %**
Innofactor (Evli est.)	**66**	**-1%**	**0%**	**-3.7 %**	**0.5 %**	**3.3 %**	**0.0 %**	**0.0 %**	**0.0 %**

Source Bloomberg, Evli Research

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	0.41	PV of Free Cash Flow	20	Long-term growth, %	2.0	Risk-free interest rate, %	2.25
DCF share value	0.82	PV of Horizon value	23	WACC, %	8.4	Market risk premium, %	5.8
Share price potential, %	100.7	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	2.8
Maximum value	0.9	Marketable securities	1	Minimum WACC, %	7.9	Equity beta coefficient	1.00
Minimum value	0.7	Debt - dividend	-14	Maximum WACC, %	8.9	Target debt ratio, %	20
Horizon value, %	54.1	Value of stock	30	Nr of shares, Mn	36.2	Effective tax rate, %	20

DCF valuation, EURm	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Horizon
Net sales	66	65	65	66	68	70	71	73	75	77	78	80
Sales growth, %	*10.1*	*-0.9*	*0.0*	*2.0*	*2.5*	*2.5*	*2.5*	*2.5*	*2.5*	*2.5*	*2.0*	*2.0*
Operating income (EBIT)	-1	-2	0	2	3	3	4	4	4	4	4	4
EBIT margin, %	*-2.2*	*-3.7*	*0.5*	*3.3*	*5.0*	*5.0*	*5.0*	*5.0*	*5.0*	*5.0*	*5.0*	*5.0*
+ Depreciation+amort.	3	3	3	2	1	1	1	1	1	1	1	
- Income taxes	0	1	0	0	0	0	0	-1	-1	-1	-1	
- Change in NWC	2	-2	1	0	0	0	0	0	0	0	0	
NWC / Sales, %	*-0.4*	*2.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	
+ Change in other liabs	2	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-2	-1	-1	-2	-1	0	-1	-1	-1	-1	-1	-1
Investments / Sales, %	*2.6*	*1.4*	*2.0*	*2.3*	*0.9*	*0.7*	*1.2*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*
- Other items	1	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	4	-1	3	3	4	4	4	3	3	3	3	48
= Discounted FCF (DFCF)		-1	3	3	3	3	2	2	2	2	1	23

= DFCF min WACC		-1	3	3	3	3	2	2	2	2	2	26
= DFCF max WACC		-1	3	2	3	3	2	2	2	1	1	21

INTERIM FIGURES

EVLI ESTIMATES, EURm	2017Q1	2017Q2	2017Q3	2017Q4	2017	2018Q1	2018Q2	2018Q3	2018Q4E	2018E	2019E	2020E
Net sales	17	17	14	17	66	16	17	14	18	65	65	66
EBITDA	1	1	-1	1	1	0	0	0	0	0	3	5
EBITDA margin (%)	*5.2*	*3.3*	*-4.8*	*3.1*	*2.0*	*2.1*	*0.2*	*-3.6*	*2.7*	*0.5*	*4.5*	*7.0*
EBIT	0	0	-1	0	-1	0	-1	-1	0	-2	0	2
EBIT margin (%)	*1.3*	*-0.6*	*-9.5*	*-1.4*	*-2.2*	*-2.2*	*-3.7*	*-8.6*	*-1.1*	*-3.7*	*0.5*	*3.3*
Net financial items	0	0	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	0	0	-1	0	-2	0	-1	-1	0	-3	0	2
Tax	0	0	0	0	0	0	0	0	0	1	0	0
Tax rate (%)	*19.8*	*19.9*	*20.0*	*25.0*	*20.0*	*19.9*	*20.1*	*20.0*	*21.0*	*20.1*	*21.0*	*21.0*
Net profit	0	0	-1	0	-1	0	-1	-1	0	-2	0	1
EPS	0.00	-0.01	-0.03	0.00	-0.03	-0.01	-0.02	-0.03	-0.01	-0.06	0.00	0.04
EPS adjusted (diluted no. of shares)	0.00	-0.01	-0.03	0.00	-0.03	-0.01	-0.02	-0.03	-0.01	-0.06	0.00	0.04
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SALES, EURm												
Innofactor	17	17	14	17	66	16	17	14	18	65	65	66
Total	17	17	14	17	66	16	17	14	18	65	65	66
SALES GROWTH, Y/Y %												
Innofactor	*18.2*	*12.6*	*19.7*	*-4.7*	*10.1*	*-4.5*	*-0.8*	*-2.5*	*3.9*	*-0.9*	*0.0*	*2.0*
Total	*18.2*	*12.6*	*19.7*	*-4.7*	*10.1*	*-4.5*	*-0.8*	*-2.5*	*3.9*	*-0.9*	*0.0*	*2.0*
EBIT, EURm												
Innofactor	0	0	-1	0	-1	0	-1	-1	0	-2	0	2
Total	0	0	-1	0	-1	0	-1	-1	0	-2	0	2
EBIT margin, %												
Innofactor	*1.3*	*-0.6*	*-9.5*	*-1.4*	*-2.2*	*-2.2*	*-3.7*	*-8.6*	*-1.1*	*-3.7*	*0.5*	*3.3*
Total	*1.3*	*-0.6*	*-9.5*	*-1.4*	*-2.2*	*-2.2*	*-3.7*	*-8.6*	*-1.1*	*-3.7*	*0.5*	*3.3*

INCOME STATEMENT, EURm	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	33	44	44	60	66	65	65	66
Sales growth (%)	*73.7*	*34.1*	*1.4*	*34.1*	*10.1*	*-0.9*	*0.0*	*2.0*
Costs	-29	-40	-41	-55	-64	-65	-62	-62
Reported EBITDA	3	4	4	5	1	0	3	5
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*10.0*	*8.7*	*8.3*	*8.1*	*2.0*	*0.5*	*4.5*	*7.0*
Depreciation	-1	-1	-1	-2	-3	-3	-3	-2
EBITA	2	2	3	2	-1	-2	0	2
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	2	2	3	2	-1	-2	0	2
EBIT margin (%)	*6.9*	*5.5*	*5.7*	*3.9*	*-2.2*	*-3.7*	*0.5*	*3.3*
Net financials	0	0	-1	0	0	0	0	0
Pre-tax profit	2	2	2	2	-2	-3	0	2
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	0	0	0	0	0	1	0	0
Minority shares	0	0	0	0	0	0	0	0
Net profit	1	1	1	1	-1	-2	0	1
BALANCE SHEET, EURm								
Assets								
Fixed assets	5	4	4	10	8	7	5	5
% of sales	*15*	*9*	*8*	*16*	*13*	*10*	*8*	*7*
Goodwill	19	20	20	28	26	26	26	26
% of sales	*59*	*45*	*44*	*46*	*40*	*41*	*41*	*40*
Inventory	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Receivables	14	16	13	19	17	17	17	17
% of sales	*43*	*36*	*30*	*33*	*26*	*26*	*26*	*26*
Liquid funds	1	1	1	1	1	1	2	2
% of sales	*3*	*2*	*2*	*2*	*1*	*1*	*3*	*3*
Total assets	47	48	44	64	59	56	54	54
Liabilities								
Equity	16	20	21	23	25	23	24	25
% of sales	*50*	*45*	*48*	*38*	*38*	*35*	*37*	*38*
Deferred taxes	1	1	1	2	2	2	2	1
% of sales	*3*	*2*	*2*	*4*	*3*	*3*	*2*	*2*
Interest bearing debt	15	14	12	17	14	15	12	10
% of sales	*46*	*32*	*28*	*28*	*22*	*24*	*19*	*15*
Non-interest bearing current liabilities	14	13	9	22	17	16	17	17
% of sales	*43*	*31*	*21*	*37*	*27*	*24*	*26*	*26*
Other interest free debt	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total liabilities	47	48	44	64	59	56	54	54
CASH FLOW, EURm								
+ EBITDA	3	4	4	5	1	0	3	5
- Net financial items	0	0	-1	0	0	0	0	0
- Taxes	0	0	0	2	0	1	0	0
- Increase in Net Working Capital	-1	-1	1	-1	2	-2	1	0
+/- Other	-1	0	0	-2	1	0	0	0
= Cash flow from operations	1	2	4	3	4	-1	4	4
- Capex	0	-1	0	-1	-2	-1	-1	-2
- Acquisitions	-2	0	-2	-6	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	-1	2	2	-4	2	-2	2	2
+/- Change in interest-bearing debt	14	-1	-1	4	-2	1	-3	-2
+/- New issues/buybacks	1	2	1	0	4	0	1	0
- Paid dividend	0	0	0	0	0	0	0	0
+/- Change in loan receivables	0	0	0	1	2	0	0	0
Change in cash	14	2	1	1	5	-1	0	0

KEY FIGURES	2014	2015	2016	2017	2018E	2019E	2020E
M-cap	25	33	38	34	15	15	15
Net debt	13	12	16	13	15	10	8
Enterprise value	38	44	54	47	29	25	23
Sales	44	44	60	66	65	65	66
EBITDA	4	4	5	1	0	3	5
EBIT	2	3	2	-1	-2	0	2
Pre-tax	2	2	2	-2	-3	0	2
Earnings	1	1	1	-1	-2	0	1
Book value	20	21	23	25	23	24	25
Valuation multiples							
EV/sales	0.9	1.0	0.9	0.7	0.5	0.4	0.3
EV/EBITDA	9.9	12.0	11.2	36.2	83.4	8.7	4.9
EV/EBITA	15.6	17.4	23.3	-32.4	-12.4	84.2	10.3
EV/EBIT	15.6	17.4	23.3	-32.4	-12.4	84.2	10.3
EV/operating cash flow	16.3	11.3	15.8	11.4	520.5	5.5	5.0
EV/cash earnings	11.5	14.0	8.5	37.1	20.8	8.7	5.4
P/E	21.9	26.0	25.8	-26.9	-6.7	-113.9	10.3
P/E excl. goodwill	21.9	26.0	25.8	-26.9	-6.7	-113.9	10.3
P/B	1.3	1.5	1.7	1.4	0.6	0.6	0.6
P/sales	0.6	0.7	0.6	0.5	0.2	0.2	0.2
P/CF	10.8	8.3	11.2	8.2	262.9	3.2	3.3
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*-12.2*	*83.0*	*10.1*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*-6.5*	*-111.1*	*10.1*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*0.6*	*0.6*	*0.6*
Per share measures							
Number of shares	32,154	33,454	33,454	36,188	36,188	36,188	36,188
Number of shares (diluted)	32,154	33,454	33,454	36,188	36,188	36,188	36,188
EPS	0.04	0.04	0.04	-0.03	-0.06	0.00	0.04
EPS excl. goodwill	0.04	0.04	0.04	-0.03	-0.06	0.00	0.04
Cash EPS	0.10	0.10	0.19	0.04	0.04	0.08	0.12
Operating cash flow per share	0.07	0.12	0.10	0.12	0.00	0.13	0.12
Capital employed per share	1.01	0.98	1.14	1.06	1.03	0.95	0.91
Book value per share	0.61	0.64	0.67	0.69	0.63	0.66	0.70
Book value excl. goodwill	0.00	0.05	-0.16	-0.04	-0.10	-0.07	-0.03
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend payout ratio, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Efficiency measures							
ROE	6.7	6.2	6.8	-5.3	-9.3	-0.6	5.8
ROCE	7.4	7.6	6.4	-3.7	-6.1	0.8	6.2
Financial ratios							
Capex/sales, %	1.6	4.9	12.3	2.6	1.4	2.0	2.3
Capex/depreciation excl. goodwill,%	31.8	185.9	-31.5	107.6	34.0	49.9	63.3
Net debt/EBITDA, book-weighted	3.4	3.1	3.3	10.2	41.3	3.6	1.7
Debt/equity, market-weighted	0.6	0.4	0.4	0.4	1.0	0.8	0.7
Equity ratio, book-weighted	41.0	48.5	35.4	42.8	41.2	44.0	47.3
Gearing	0.66	0.54	0.70	0.53	0.64	0.44	0.31
Number of employees, average	421	409	591	601	615	630	649
Sales per employee, EUR	104,119	108,685	100,873	109,261	105,777	103,259	102,256
EBIT per employee, EUR	5,717	6,218	3,946	-2,431	-3,865	476	3,390

COMPANY DESCRIPTION: Innofactor provides software products and solutions to commercial, public sector, and membership-based organizations in the Nordic countries. It specializes in Microsoft-based cloud solutions and digital transformation.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Ensio Sami	7,716,173	3.164	21.3%
Ilmarinen Mutual Pension Insurance Company	1,800,000	0.738	5.0%
Svalroma Invest AB	1,547,509	0.634	4.3%
Tilman Tuomo Tapani	1,465,437	0.601	4.0%
Linturi Kaija and Risto	1,256,411	0.515	3.5%
Laiho Rami Tapani	1,255,159	0.515	3.5%
□rje Matias Juhanpoika	882,065	0.362	2.4%
M□ki Antti Jussi	877,192	0.360	2.4%
Muukkonen Teemu Heikki	522,230	0.214	1.4%
Ingman Finance Oy Ab	500,000	0.205	1.4%
Ten largest	17,822,176	7.307	49%
Residual	18,366,049	7.530	51%
Total	36,188,225	14.837	100%

EARNINGS CALENDAR	
March 05, 2019	FY 2018 Results
May 14, 2019	Q1 report
July 23, 2019	Q2 report
October 29, 2019	Q3 report
OTHER EVENTS	
April 02, 2019	AGM

COMPANY MISCELLANEOUS	
CEO: Sami Ensio	Keilaranta 9, FI-02150 Espoo
CFO: Marko Lehtonen	Tel: +358 (0)10 272 9000
IR:	

DEFINITIONS

P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales $\frac{\text{Market cap}}{\text{Sales}}$	DPS Dividend for the financial period per share
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	CEPS $\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF $\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share $\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value) Market cap + net debt + minority interest at market value – share of associated companies at market value	Sales/Share $\frac{\text{Sales}}{\text{Number of shares}}$
Net debt Interest bearing debt – financial assets	EBITDA/Share $\frac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Number of shares}}$
EV/Sales $\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share $\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortisation}}$	EAFI/Share $\frac{\text{Pretax profit}}{\text{Number of shares}}$
EV/EBIT $\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share $\frac{\text{Total assets} - \text{non interest bearing debt}}{\text{Number of shares}}$
Div yield, % $\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets Balance sheet total
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Interest coverage (x) $\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share $\frac{\text{Financial assets} - \text{interest bearing debt}}{\text{Number of shares}}$	Asset turnover (x) $\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, % $\frac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balance sheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, % $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, % $\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{noninterest bearing debt (average)}}$	Equity ratio, % $\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest free loans}}$
ROE, % $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions (average)}}$	CAGR, % Cumulative annual growth rate = Average growth per year

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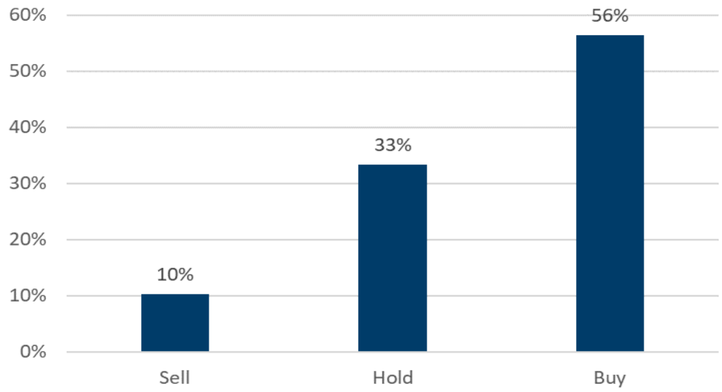
Detailed information about the valuation or methodology and the underlying assumptions is accessible via ERP: http://research.evli.com
Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

ERP's investment recommendation of the analyzed company is in general updated 2 – 4 per year.



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Name(s) of the analyst(s): Salokivi

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Contact information

SALES AND TRADING HELSINKI

Equity Sales

Ari Laine	+358 9 4766 9115
Lauri Ahokanto	+358 9 4766 9117
Niclas Henelius	+358 9 4766 9116

Structured Investments

Heikki Savijoki	+358 9 4766 9726
Aki Lakkisto	+358 9 4766 9123

Evli Investment Solutions

Johannes Asuja	+358 9 4766 9205
Markku Reinikainen	+358 9 4766 9669

Trading

Lauri Vehkaluoto (Head)	+358 9 4766 9130
Pasi Väisänen	+358 9 4766 9120
Antti Kässi	+358 9 4766 9120

Corporate Bonds sales and trading

Jukka Hyvönen	+46 8 407 8138
Thomas Kaukonen	+358 9 4766 9542

ETFs and Derivatives

Tobias Björk (Head)	+358 9 4766 9130
Joachim Dannberg	+358 9 4766 9123
Kimmo Lilja	+358 9 4766 9130

Derivatives Trading

Sami Järvinen	+358 9 4766 9110

SALES AND TRADING STOCKHOLM

Urban Lawesson (Head)	+46 8 407 8021
Thomas Kåhrström	+46 8 407 8018

EQUITY RESEARCH

Joonas Häyhä	+358 9 4766 9662
Jonas Forslund	+358 9 4766 9314
Olli Pöyhönen	+358 9 4766 9643
Jerker Salokivi	+358 9 4766 9149

EVLI BANK PLC

Aleksanterinkatu 19 A
P.O. Box 1081
FIN-00101 Helsinki, FINLAND
Phone +358 9 476 690
Fax +358 9 634 382
Internet www.evli.com
E-mail
firstname.lastname@evli.com

EVLI BANK PLC,
STOCKHOLMSFILIAL
Kungsgatan 27, P.O. Box 16354
SE-111 56 Stockholm
Sverige
stockholm@evli.com
Tel +46 (0)8 407 8000
Fax +46 (0)8 407 8001