

Gofore – IPO Research Report

Targeting above market growth rate in the IT-services sector

Gofore aims to grow faster than the company's target IT-services market, new digitalization services, which according to management is expected to grow by 15-25% annually in Finland. Due to a rapid personnel growth, the acquisition of Leadin and strong market demand, we expect sales to grow strongly in 2017E-2018E. Gofore's long-term profitability target is to generate an EBITA-margin of 15%. We expect Gofore to have good possibilities to reach its profitability target during 2017E-2018E mainly supported by price increases and a good cost discipline due to a competitive personnel cost structure. Historically, Gofore has grown faster than its main competitors and profitability has been above the competitor average in 2012-2016.

A consultative and labor-intensive business model with strong position in the public sector

Gofore is one of the fastest-growing IT-services companies in Finland focusing on digital design, services and consulting as well as software development. Gofore has a consultative and labor-intensive operating model for which the cornerstones are competent personnel, a strong company culture and an agile organizational structure. The company's main market area is Finland but through its first acquisition, Leadin, Gofore operates also in Germany and the UK. The public sector is the largest customer sector, where the company has a strong position especially in projects related to digitalization. Gofore is targeting to increase its presence also in the private sector, which offers significant long-term growth potential. Growth is being sought mainly organically but the company may consider also acquisitions especially in the Finnish market.

Valuation multiples in the IT-services sector

Among listed Nordic IT-services companies, average EV/EBITDA and EV/EBIT multiples are at 9.9x and at 12.2x for 2018E, respectively. Multiples in the IT-services sector's recent M&A transactions have been – median EV/EBITDA at 13.2x and EV/EBIT at 14.1x during the last two years.

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	
2015	12	2	12.5%	2	11.61	N/A	N/A	N/A	N/A	4.00	
2016	19	3	14.1%	3	19.96	N/A	N/A	N/A	N/A	5.00	
2017E	34	6	16.8%	4	0.31	N/A	N/A	N/A	N/A	0.09	
2018E	51	9	17.1%	8	0.59	N/A	N/A	N/A	N/A	0.18	
2019E	64	11	17.2%	11	0.77	N/A	N/A	N/A	N/A	0.31	
Market cap, EURm			N/A	BV per share 2017E, EUR			N/A	CAGR EPS 2016-19, %			N/A
Net debt 2017E, EURm			-10	Price/book 2017E			N/A	CAGR sales 2016-19, %			51.1
Enterprise value, EURm			N/A	Dividend yield 2017E, %			N/A	ROE 2017E, %			32.7
Total assets 2017E, EURm			29	Tax rate 2017E, %			19.9	ROCE 2017E, %			41.7
Goodwill 2017E, EURm			5.6	Equity ratio 2017E, %			60.2	PEG, P/E 17/CAGR			N/A

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Rating or target price NOT DISCLOSED

Latest report on company	26-Oct-2017
No. of shares outstanding, '000's	11,339
No. of shares fully diluted, '000's	11,339
Market cap, EURm	N/A
Free float, %	N/A
Exchange rate EUR	1.000
Reuters code	N/A
Bloomberg code	N/A
Average daily volume, EURm	N/A
Next interim report	N/A
Web site	www.gofore.com
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All the important disclosures can be found on the last pages of this report.

Investment summary

Strong track record – rapid growth while maintaining good profitability

Gofore is one of the fastest-growing IT-services companies in Finland focusing on digital design, services and consulting as well as software development. The net sales CAGR between 2012-2016 was 49.7% and during the same time period EBIT-margin improved from 11.5% to 14.0%. Gofore has a consultative and labor-intensive operating model for which cornerstones are: competent personnel, strong company culture and agile organizational structure.

Cost competitiveness supported by offices in Tampere and Jyväskylä

In our view, the company's cost competitiveness is good due to offices in Tampere and Jyväskylä (rep. over 60% of employees), where personnel expenses and competition for employees are lower compared to Helsinki. Gofore also has been successful in recruiting, which is important in the industry where competition for skilled employees is tough. Gofore's organization structure is lean, agile and competitive especially against large IT-generalists.

Leadin acquisition – platform for internationalization

As a result of Leadin acquisition, Gofore now operates also in Germany and the UK. The acquisition improves Gofore's service design competences and strengthens position in the private sector. Previously the company has been somewhat dependent on public sector customers. Gofore's technology competence and consulting skills combined with Leadin's business-oriented planning and user interface expertise will improve the company's competitiveness.

Target market growing rapidly

Gofore's target market, new digitalization services in Finland, is expected to grow by 15-25% annually, according to management. Gofore is targeting to grow faster than its Finnish target market. Gofore has estimated its target market size at approximately EUR 0.8-1.1 billion, representing roughly 15% of the total Finnish IT-market. Digitalization is one of the main market drivers in the IT-services sector. Private and public companies are increasing their investments in digitalization projects to renew services, improve productivity and reduce costs.

Guidance for FY2017: Sales in the range of 32.5-34.5 MEUR

In 2017, Gofore expects its reported net sales to be in the range of EUR 32.5-34.5 million. Reported EBITA is expected to be in the range of EUR 5.2-6.2 million.

Our estimates for FY2017E –strong growth coupled with profit improvement

We expect Gofore to achieve FY2017 net sales of EUR 33.8 (18.6) million (+81.4%), driven by personnel growth, the acquisition of Leadin and rapid market growth in the Finnish IT-services market. We expect FY2017 EBITA to improve to EUR 6.0 (2.6) million, representing an EBITA-margin of 17.9% (14.1%). We estimate profitability improvement to be supported by strong sales growth, price increases and good cost discipline due to a competitive personnel cost structure.

Valuation multiples in the IT-services sector

Valuation multiples in the Nordic IT-services sector have risen during 2017. However, market conditions are favorable and profits in the sector are expected to grow in 2017-2018. Among listed companies, average EV/EBITDA and EV/EBIT multiples are at 9.9x and at 12.2x for 2018E, respectively. Multiples in the IT-sector's recent M&A transactions have been – median EV/EBITDA at 13.2x and EV/EBIT at 14.1x during the last two years.

Main risks to investment case

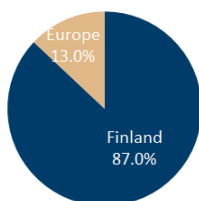
The main risks to our investment case are: 1) failing to maintain key personnel and attract new skilled professionals, 2) increased competition dampening price level, 3) unsuccessful internationalization to Germany and the UK, 4) Higher personnel costs due to wage inflation and 5) Customer risk; five largest customers account 42% of the sales.

Company in brief

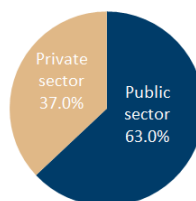
Rapidly growing IT-services company focusing on digitalization

Gofore, founded in 2002, is a Finland-based growth-seeking digitalization consulting and service company. The company's main market area is Finland but through its first acquisition, Leadin, Gofore also operates in Germany and the UK. The company has five offices and over 350 employees. In Finland, Gofore's offices are located in Helsinki, Tampere and Jyväskylä. Outside Finland, the company has offices in Munich and Swansea. The company's services include leading the digitalization changes in customer companies & public entities, design of user-oriented digital services and building digital services and service architecture as well as maintenance.

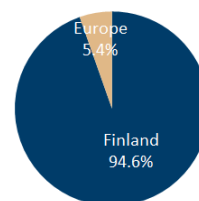
Net sales split



Customer split



Personnel by region



Source: Gofore pro forma 1-9/2017

From design to maintenance service offering

Gofore offers design, planning, building, implementing and maintenance of customers digital services and service architecture. Gofore helps organisations to keep up in the ever-changing environment and to capitalize on new business opportunities through digitalization. Gofore currently has over 150 customers in three countries (Finland, Germany and the UK). Historically, Gofore has focused on public sector clients but as a result of Leadin acquisition in May 2017 the company's customer portfolio is now also much stronger in the private sector.

Gofore helps its customers at all stages of digital development

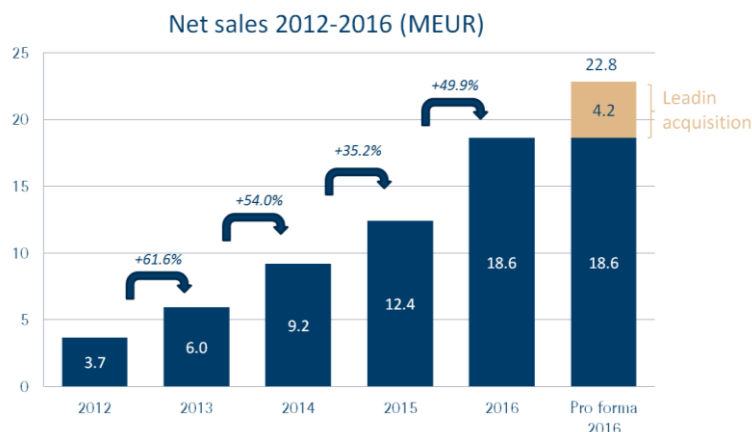
Gofore's services can be divided into four categories:

- 1) Leading digital transformation: Gofore helps its customers to renew their digital business strategies
- 2) Designing of digital services: Gofore offers technical development and design of new/renewed user- and business oriented digital services
- 3) Building phase: Gofore offers top-quality digital services, which include software development, user interface design, architecture consulting and project management
- 4) Cloud infrastructure: Service offering includes user and maintenance service on different cloud platforms, reselling cloud capacity, cloud consulting and training

Financial performance – strong track record

Strong growth coupled with good margins

Gofore has been able to grow rapidly while maintaining good profitability. Due to a labor-intensive and consultative nature of the business model, the revenue development follows closely the personnel growth. Net sales have increased from EUR 3.7 million in 2012 to EUR 18.6 million in 2016, with impressive annual growth rates. The net sales CAGR in between 2012-2016 has been 49.7%. At the same time; the number of personnel grew from 46 to 196. The company is targeting to achieve sales in the range of EUR 32.5-34.5 million in 2017. To maintain the strong growth, Gofore needs to succeed in recruiting new talents, further develop competences of existing employees and maintain the strong corporate culture.



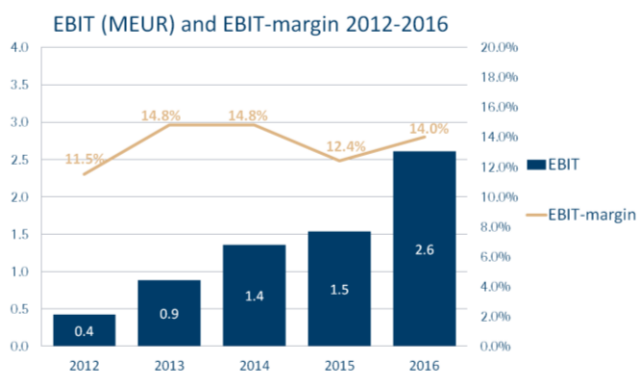
Source: Gofore

Stable margins and high ROI

Historically, the company's profitability has developed favorably. Despite strong sales growth, Gofore has also been able to maintain relatively steady margins. This has been due to good cost discipline and ability to raise customer prices, according to management. The average EBIT-margin between 2012 and 2016 has been 13.5%, which in our view is a good level in the IT-services industry. Gofore's Return on Investment (ROI) has been at high level and improved to 62.5% (53.7%) in 2016. Due to the consultative business model and healthy margins, Gofore is able to generate high returns.

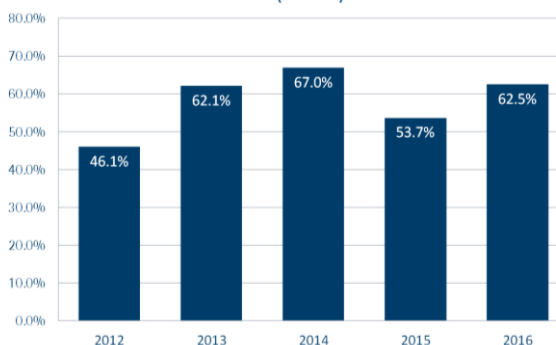
Pro forma figures for 2016

Pro forma net sales 2016 amounted to EUR 22.8 million, including EUR 4.2 sales from Leadin. Pro forma 2016 EBIT-margin was 11.3%, which is lower than reported figures (14.1%) mainly due to higher depreciation & amortization and slightly weaker margins in Leadin.



Source: Gofore

Return on investment (ROI %) 2012-2016



1-9/2017 – Strong growth maintained

Gofore's sales growth continued to be strong in 1-9/2017. Net sales grew by 76.0%, amounting to EUR 22.7 million. EBITA-margin improved to 17.7% (14.4%) and EBIT-margin increased to 16.9% (14.4%) in 1-9/2017. Gofore's pro forma net sales amounted to EUR 26.1 million in 1-9/2017. Pro forma EBITA-margin was 18.4% and pro forma EBIT-margin 16.7%. Profitability was supported by sales growth, price increases and good cost discipline.

Guidance for 2017

In 2017, Gofore expects its reported net sales to be in the range of EUR 32.5-34.5 million. Reported EBITA is estimated to be in the range of EUR 5.2-6.2 million.

Cost structure – focus on personnel expenses

Personnel expenses
majority of the cost base

The IT-services sector is a labor-intensive industry with personnel being a key asset. The majority of the companies' costs in the sector relate to personnel expenses. In 2016, personnel expenses represented 69% of the total cost base of Gofore. However, according to pro forma figures, the acquisition of Leadin has decreased share of personnel expenses to 67% of the total cost base. Gofore's personnel cost base is very competitive due to the offices in Tampere and Jyväskylä, where the company employs over 60% of its total personnel. Wages are lower in these cities compared to Helsinki, where the company has 34% of its employees. In 2016, personnel expenses increased (50.6%) in line with sales growth (49.9%). Several small and medium sized IT-services players have indicated in their press releases that they will increase the number of personnel significantly in 2017. Hence, competition for skilled employees is expected to intensify further.

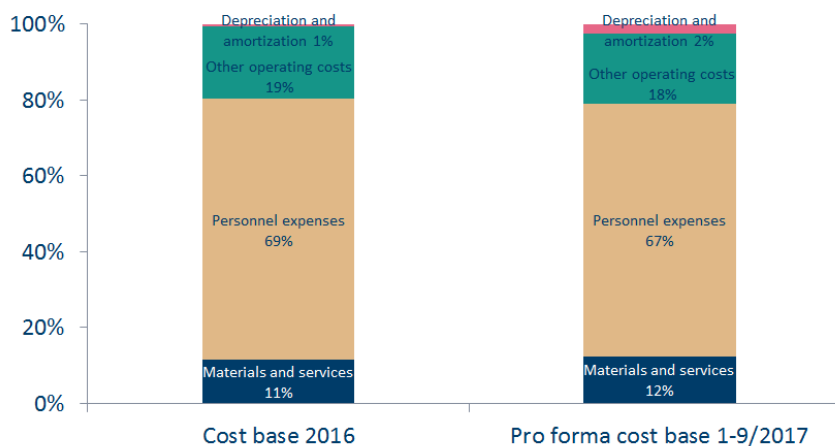
Other OPEX 19% of the
total cost base

Materials and services represented 11% of the cost base in 2016 and 12% of the pro forma cost base 1-9/2017. Material & services expenses are mainly services that Gofore purchases from other companies in order to successfully complete customer projects. Other operating expenses were 19% of the cost base in 2016 but 18% of the pro forma 1-9/2017 cost base. Other operating expenses are mainly rents as the company has leased all of its office space in five locations (Helsinki, Tampere, Jyväskylä, Swansea and Munich).

A good cost control
historically

As a staff-reliant IT-services provider with no sale of own products, the personnel expenses will naturally account for a large part of total costs also in the future. Changes in personnel costs will have a significant impact on margins. Historically, Gofore has been able to maintain a good cost control.

Gofore's cost base



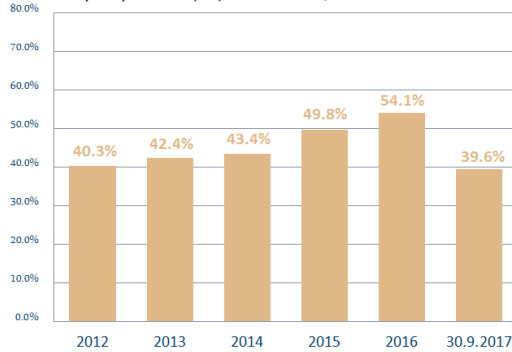
Source: Gofore

An asset-light balance sheet

Lower equity ratio after
Leadin acquisition

Gofore's balance sheet is asset-light but due to acquisition of Leadin, somewhat weaker than earlier. As a result of the acquisition, the equity ratio decreased from 54.1% at the end of the 2016 to 39.6% at the end of 1-9/2017. The company still has a relatively heavy cash position of EUR 3.3 million, representing 17% of the total balance sheet. Before the Leadin acquisition the company was debt free. Gofore now has long-term debt of EUR 3.9 million. However, due to the sizeable cash position net debt is at relatively low level.

Equity ratio (%) 2012-1-9/2017

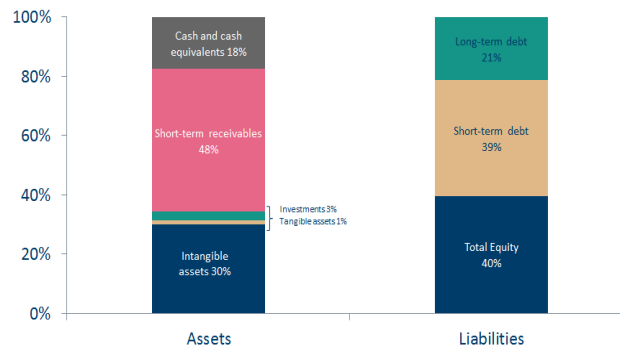


Source: Gofore

Goodwill the main risk in the balance sheet

We consider the main risk in the balance sheet the relatively high goodwill. As a result of Leadin acquisition, the company's goodwill increased to EUR 5.6 million, which represents 76% of the total equity. Due to Gofore's strong growth, the company's working capital has been at relatively high level over the past couple of years. Gofore does not receive any significant advances in its projects. Since 2014, Gofore has leased all its fixed assets.

Balance sheet at the end of 1-9/2017



Personnel – active recruitment needed to maintain sales growth

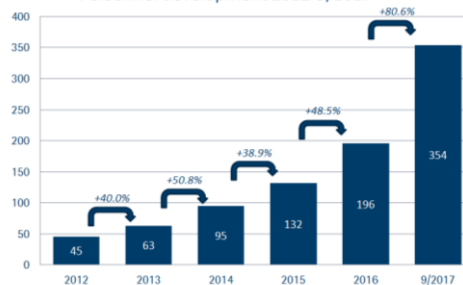
Personnel the main "asset"

To attract, retain and train employees is crucial in order to succeed in the labour-intensive IT-services sector. Competent personnel can be seen as one of the key strengths of Gofore. The company also sees the strong company culture as one of the cornerstones of its operations.

Targeting to grow personnel also in '17

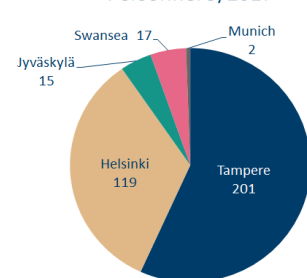
At the end of September 2017, Gofore had 354 employees in five locations. The company had 151 software designers, 61 software architects, 63 UX designers and researchers, 34 other experts and 45 employees in other tasks (data analysts, salespersons and administration). Gofore's target is to increase personnel to 380 employees by the end of 2017. Average age of the personnel is 37 years (excl. Leadin). Gofore has been able to hire management from inside the company, which highlights the strong company culture.

Personnel development 2012-9/2017



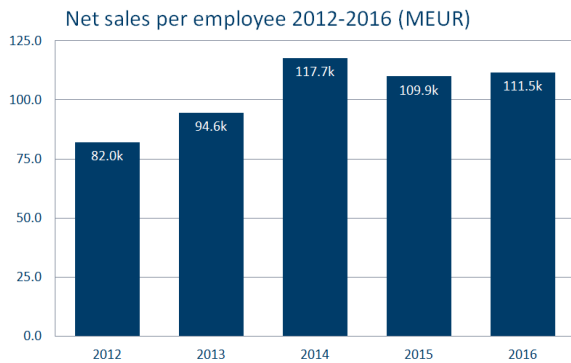
Source: Gofore

Personnel 9/2017



Almost 95% of the personnel in Finland

The majority of personnel is located in three offices (Tampere, Helsinki and Jyväskylä) in Finland. Gofore has 335 employees in Finland and 19 in Germany and the UK. Through the acquisition of Leadin, Gofore's personnel is expected to grow by approximately 100 employees in 2017. Leadin's employees include researchers, business consultants, service and UI/UX designers, system and software architects, front-end developers as well as quality assurance experts. We find the new personnel from Leadin complementary and expect Gofore's new teams to be even more competitive.

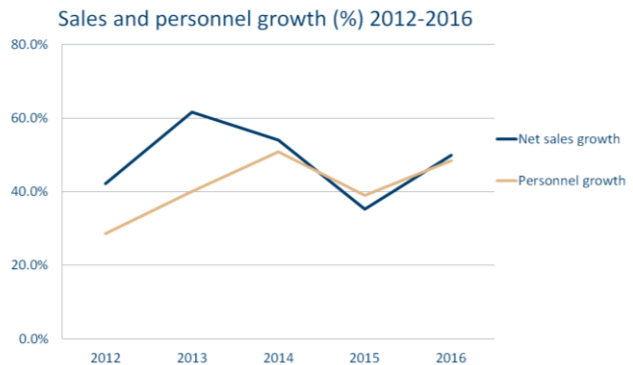


Source: Gofore and Evli Research

High correlation between sales and personnel growth

Personnel expenses grew in line with sales growth in '16

Respected employer in Finland and Europe



Gofore's net sales per employee (average) ratio improved in 2016 compared to the previous year. In 2016, Gofore's net sales/employee (average) ratio amounted to 111.5k, an increase of 1.5% compared to 2015. According to management, Gofore is able to familiarize new personnel rapidly, which supports the company's invoicing rate. There is a high correlation between sales and personnel growth due to Gofore's labour-intensive business model.

Personnel expenses amounted to EUR 11.1 million or 59.4% of net sales in 2016. Expenses grew in line with sales growth, up by 50.6%, while sales growth was 49.9%. According to Gofore, the average wage growth in recent years has been moderate. Wages among experienced professionals have grown but at the same time the company has recruited new employees with below company average wages. In our view, one of the company's strengths is successful and diverse recruiting as well as rapid familiarization of new employees into the organisation.

Gofore has performed extremely well in the Great Place to Work study. In 2017, Gofore was chosen as the best workplace in Finland in the category of medium sized companies. The company was also ranked as the second best company in the category for small & medium sized companies in Europe. The company targets to maintain the best workplace status by empowering and encouraging people to use their talents. With this approach, Gofore targets to ensure that every team is highly motivated to serve customers. The company has even highlighted in its vision that it wants to be recognised for its innovative company culture and as the best possible workplace.

Gofore's rankings in Great Place to Work study

Market area	Company size	2015	2016	2017
Finland	Medium	3.	3.	1.
Europe	Small & medium	26.	6.	2.



Source: Great Place to Work study 2017

Customers – public sector the largest customer segment

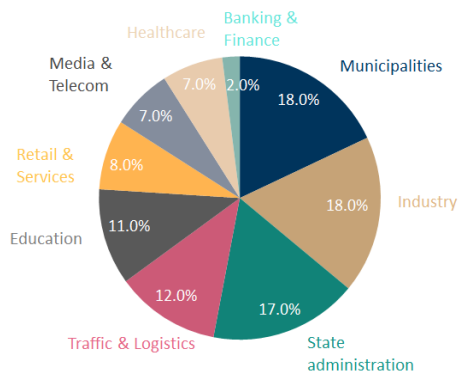
High share of public sector clients

Gofore has specialized in serving the public sector in digital transformation. Based on pro forma 1-9/2017, public sector customers accounted for 63% of the net sales. The private sector represented 37% of the net sales. In the public sector, Gofore has developed digital services for example for YLE (National public service broadcasting company), Trafi (Finnish Transport Safety Agency), Työterveyslaitos (Finnish Institute of Occupational Health) and Väestörekisterikeskus (Population Register Centre). According to management, the current government sourcing legislation is more flexible than before, enabling also small and medium sized companies to more easily participate in bidding processes.

Hit rate almost 60%

Among private customers, the main industry sectors are engineering industry, banking & finance, traffic & logistics, media & telecom and retail & services. Gofore's hit rate (the percentage of successes in sales to the number of attempts) has been almost 60% during first nine months in 2017, according to management.

Net sales by customer sector 1-9/2017



Source: Gofore

Targeting to expand industrial customer base

Through the acquisition of Leadin, Gofore's customer portfolio broadened to include more industrial customers. In Germany, the largest customer is technology company Voith, which is an important customer also on a Group level. According to Gofore, there are good possibilities to grow in Germany, especially in various industrial sectors. In the UK, Gofore operates in Swansea (university campus area), where it has both public and private sector customers. Gofore sees interesting growth opportunities especially in the UK public sector.

Pro forma 1-9'17 customer split

On pro forma basis in 1-9/2017, the five largest customers represented 42% of the net sales. Other customers share of net sales was 58%. Gofore currently has over 150 customers in three countries. In our view, the company's dependency on large customers is a risk.

Customer portfolio



Business model – labor-intensive, low risk model

Competitiveness based on skilled personnel	Gofore's business operations are based on delivery of digital solutions, services and consultancy for customers in the public and private sector. Employees are the key to maintaining the competitiveness in the fast-growing IT-services sector. Gofore has a strong company culture, which helps to maintain key personnel and attract new skilled employees. The business model is labour-intensive, which highlights the importance of HR operations.
Hourly based invoicing and price increases	The majority of the invoicing is based on hourly invoicing, which lowers the operative risk compared to project-driven models. Historically, Gofore has been able to raise customer prices faster than its personnel costs have increased. Gofore has a relatively high invoicing rate as almost all employees work in customer projects. Gofore is also able to familiarize new personnel quickly into its organisation, which supports the invoicing rate. The company also uses automation in its bidding processes to improve operational efficiency.
Teams key to success	Self-contained teams execute services and projects for customers. Typically, a team consist of 3-5 employees but for example in large projects for the public sector, teams can have some 20-30 employees from several offices. Gofore's versatile teams can offer service design, software development and planning, building, implementing as well as maintenance of customers digital services and service architecture. We see Gofore well-positioned to adapt to the changing needs of its customers.
Share of fixed priced projects relatively low	The Company also offers projects with fixed price and scheduled delivery. Often these projects are executed for the public sector clients. Fixed price projects carry more risk but can offer accelerated growth. The share of the fixed price project business is currently very low and the company is not planning to enlarge it due to higher operative risks.
Strong track record in Great Place to Work	Gofore is able to recruit and familiarize new personnel quickly into its organisation. Historically, personnel growth has translated into sales growth relatively rapidly. We see the organization as agile and the less hirarchical structure offers a competitive edge against especially the large IT-generalists. Decision-making is also quicker than in larger organisations. In our view, Gofore has a strong company culture, which lowers employee turnover and gives the company a better competitive position.
Cost competitiveness and price increases	In our view, Gofore's cost structure is very competitive in the Finnish IT-services sector. The company has offices in Tampere and Jyväskylä, where over 60% of the total personnel is located. Personnel expenses in these cities are lower compared to Helsinki, which supports Gofore's cost competitiveness against large IT-generalists as well as small and medium sized players.
Focus on the rapidly growing new digital services market	Gofore focuses on the new digital services market, where growth rates are clearly above the traditional IT-services market growth according to Gartner. However, there are several small and medium sized Finnish peers that are competing for the same market shares. Gofore operates mainly in the public sector market, where it has developed into a strong player. Gofore does not focus on a specific technology (e.g. Microsoft), which provides flexibility in operations.
Limited scalability, sales growth requires personnel recruitments	The share of recurring revenue (e.g. maintenance) is low, which lowers visibility of the top line. Due to the labor-intensive business model, scalability of the business is rather limited. In order to continue sales growth, Gofore needs to recruit new personnel as it is difficult to raise the sales per employee (average) ratio. It is key to find new talents and attract experienced professionals as competition for personnel is relatively tough in the IT-services sector.

Gofore – SWOT analysis

Strengths

- Competent personnel and ability to recruit new talents
- Agile and lean organization structure
- Offices outside Helsinki supporting cost structure
- Ability to raise customer prices

Weaknesses

- High exposure to public sector
- Limited scalability potential due to labor-intensive business model
- Less experienced IT-professionals against main competitors

Opportunities

- Strong growth of Finnish digitalization market
- Expansion to Western Europe
- New customer sectors through acquisition of Leadin

Threats

- Personnel costs increase due to competition for skilled employees
- Government's IT-budget constraints
- Unsuccessful expansion outside Finland

Source: Evli Research

Competitor analysis – several fast-growing peers in Finland

Large IT-generalists losing market share

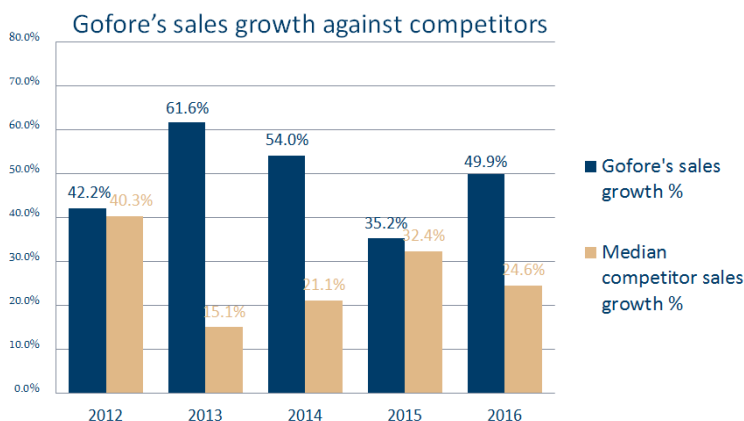
We see that the market structure of the Finnish IT-services sector is changing. Small and medium sized players are growing rapidly and recruiting actively. Large IT-generalists (Tieto, Accenture & CGI) still hold strong market positions in Finland but they are not as agile and innovative as the growing small & medium sized players. Hence, large IT-generalists have lost market share in the Finnish market. Some large and medium sized Nordic IT-services players are also present in the market but with low market shares.

Main competitors agile small and medium sized players

We have compared Gofore's financial performance against the company's main competitors (inc. listed and non-listed companies) in Finland. The main competitors include small & medium sized IT-services players Vincit, Nitor, Siili, Reaktor, Futurice and Solita. These players have grown relatively aggressively in the Finnish IT-market. All competitors operate in the digitalization market and the service offerings are close to each others.

Strong organic sales growth – Gofore has gained market share in the IT-services market

During the past five years, Gofore has every year grown faster than the median growth among its competitors. Gofore's net sales CAGR growth between 2012-2016 was 49.7%. Growth among small and medium sized IT-players has been fast – all main competitors have grown at double-digit rates during the last five years. The majority of the growth has been organic. Gofore's focus on IT-services related to digitalization has been the main contributor to growth. In addition, Gofore has increased its personnel relatively quickly, which has translated into sales growth. Gofore has not completed any acquisitions during 2012-2016.



Competitors: Vincit, Siili, Solita, Reaktor, Futurice and Nitor
Source: Asiakastieto

Good margin development

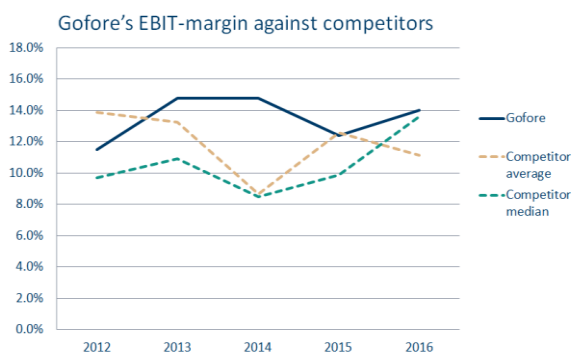
Profitability in the IT-services sector has been at a fairly high level in recent years. Gofore's historical profitability has been relatively stable but also at slightly higher levels than its competitors. Vincit, Nitor and Reaktor have had the highest EBIT-margins in the Finnish IT-services sector between 2012-2016. Especially Nitor and Reaktor have high focus on the Helsinki region, where customer prices are also higher. Only Siili and Solita have reported margins below 10% during recent years.

Profitability in line with sector

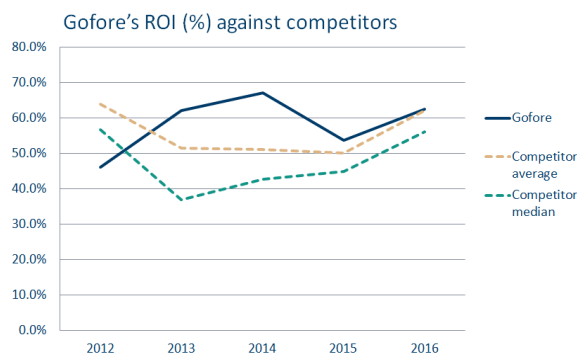
The average EBIT-margin in the sector has been 11.9%, while Gofore has been able to produce an average EBIT-margin of 13.5% during 2012-2016. In our view, Gofore's good profitability has been based on sales growth, good cost efficiency and effective service/project execution. Gofore has also been able to raise customer prices due to favorable demand in the IT-services sector.

Above average returns

Due to the asset-light business models, IT-services sector offers high returns. Average ROI % in the sector has been 55.8% in 2012-2016. Gofore's ROI % has been above the sector average during the last four years. Nitor and Reaktor have reported highest the returns as a result of strong margins.



Competitors: Vincit, Siili, Solita, Reaktor, Futurice and Nitor
Source: Evli Research & Asiakastieto

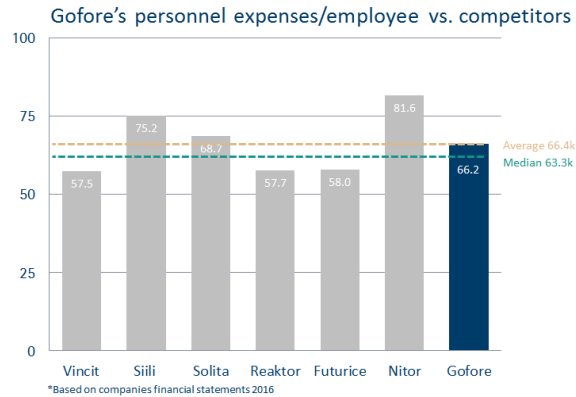
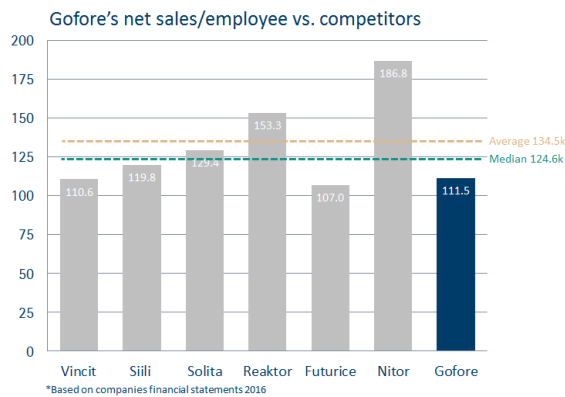


Sales per employee below the sector average

We compared also the net sales/employee (average) and personnel expenses/employee (average) ratios in the Finnish IT-services sector. Gofore's net sales/employee (average) ratio amounted to 111.5k in 2016, which was below the sector average of 134.5k. Historically ('12-'16), Gofore's net sales/employee (average) ratio has been in the range of 80k-120k. The company increased its net sales/employee (average) ratio slightly in 2016. Nitor and Reaktor have the highest net sales/employee (average) ratios in the sector due to high focus on Helsinki and more experienced personnel.

Gofore's personnel expenses in line with competitor average

Personnel expenses constitute the vast majority of the costs among the IT-services players. Approximately half of all costs relate to personnel expenses. Gofore's personnel expenses/employee (average) ratio was slightly below the sector average at 66.2k in 2016. Due to subcontracting, personnel expenses vary between companies as subcontracting costs are usually not included in personnel expenses.



Source: Evli Research & Asiakastiето *Futurice's personnel based on Evli Research estimate

Lack of skilled employees

In 2017, several small and medium sized players in the sector have indicated in their press releases that they will grow the number of personnel due to strong demand in the Finnish IT-services market. Companies are especially interested in recruiting experienced IT-professionals, automation specialists and robotic professionals. Due to a shortage of skilled employees in the market, there is a risk that personnel expenses will increase in the coming years.

Moderate wage growth in the Finnish IT-sector

Historically, wage increases have been moderate in the Finnish IT-sector. According to TIVIA's statistics, men's average annual wage growth was 1.3% and women's 2.9%, respectively, in 2012-2015. According to the Collective Agreement in IT-services sector, wages are expected to remain stable in 2016-2017.

Gofore and its main competitors' offices in Finland



- Nitor and Reaktor have offices only in Helsinki
- Gofore, Solita, Vincit and Futurice employ app. 900 employees in Tampere
- Gofore has also an office in Jyväskylä, Central Finland
- Siili ja Solita have offices in Oulu, where there is large ICT-sector
- All players have an office in Helsinki

Lower personnel expenses outside the capital city region

In our view, Gofore's cost competitiveness is relatively good due to offices in Tampere and Jyväskylä. The company employs 201 employees in Tampere and 15 in Jyväskylä, which together represent over 60% of the total personnel. In our estimate, wages are typically 10-20% lower in these cities compared to for example Helsinki. Furthermore, employee turnover is also lower outside Helsinki, where competition for skilled personnel remains tough. Gofore also has relatively lean organization structure, which supports cost competitiveness against especially the large IT-services players (Tieto, CGI etc.).

Competitor summary	Solita	Siili	Reaktor	Vincit	Futurice	Nitor	Gofore
Net sales '16 (MEUR) (CAGR '12-'16)	58.2 (21.1%)	48.4 (30.6%)	53.2 (24.1%)	32.1 (57.0%)	29.9 (21.2%)	14.2 (20.6%)	18.6 (59.3%)
Profitability, EBIT-margin '16	5.0%	8.6%	14.1%	13.7%	13.6%	19.0%	14.0%
Personnel '16	450	404	347	290	~330	76	167
Geographical presence	Finland, Sweden & Singapore	Finland, Germany, Poland & USA	Finland, USA, Holland & Japan	Finland & USA	Finland, Sweden, Germany & UK	Finland	Finland, Germany and the UK
Software development	✓	✓	✓	✓	✓	✓	✓
Service design	✓	✓	✓	✓	✓	✓	✓
Digitalization services	✓	✓	✓	✓	✓	✓	✓
Management consulting			✓				✓
Recent M&A activity	Acquired service design agency, Palmu (net sales ~7 MEUR) in 3/2017	Has acquired two companies in '17: 1) Storbit (net sales 0.4 MEUR) 2) Omenia (net sales 3 MEUR)	Acquired 30% stake in Motley Agency (net sales 3.4 MEUR) in 2016	Acquired Californian-based digital design company Xtopoly in 6/'17	-	-	Acquisition of service design company, Leadin (net sales 3.8 MEUR) in 4/'17
Private or Listed	Private	Listed on Nasdaq Helsinki	Private	Listed on Nasdaq First North Helsinki	Private	Private	To be listed on Nasdaq First North Helsinki

Source: Evli Research

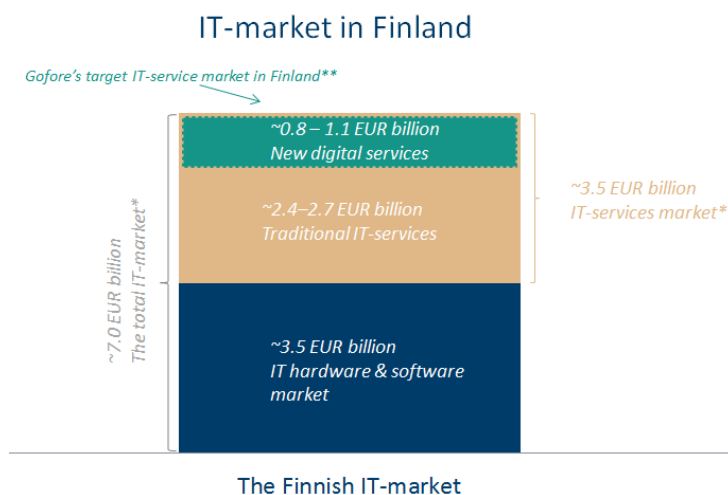
Market overview – new digital services market growing rapidly

IT-services market accounts for app. half of the total IT-market

According to Gartner, the size of the total Finnish IT-market in 2017 is expected to be EUR 7 billion, with a growth of 3.1% (Marketvisio). The IT-services market accounts for roughly 50% of the total IT-market in Finland. According to management, the Finnish IT-services market size is estimated to account for approximately EUR 3.5 billion, growing 4% in 2016. Growth is expected to continue also in 2017 and 2018 (Marketvisio). The development of the IT-services market is twofold, with traditional IT-services estimated to grow slowly or even decline and new services such as digitalization, cloud services, mobile solutions and Internet of Things (IoT) to grow rapidly.

Gofore's target market to grow by 15-25% annually

The Finnish IT-services market can be split into two: 1) Traditional IT-services 2) development of new digital services. Gofore focuses on the latter segment, which according to management is expected to grow by 15-25% annually. The new digital services market accounts for app. EUR 0.8 – 1.1 billion of which Gofore holds approximately a 2-3% share.



Source:*Gartner **Management estimates

Digitalization the main growth driver

The digital transformation is one of the key drivers in the Finnish IT-services market. Digital transformation means the integration of digital technology into all areas of public or private services. This results in fundamental changes to how companies operate and how they deliver value to customers. Digitalization offers customers the possibility to renew their services in order to grow and/or reduce costs by improved efficiency. Digitalization of services can also mean cost savings.

Cost savings and improved productivity

According to a digitalization survey conducted by PwC in 2016, public sector entities are mainly looking for cost savings and improved productivity through digitalization projects. Approximately 70% of companies and public entities use digitalization to improve efficiency of their core operations.

Improving customer experience through digitalization

In the private sector, companies are especially eager to improve customer experience of their products through digitalization projects. According to the PwC survey, digitalization of products typically include expansion of existing products, e.g. by adding smart sensors or communication devices that can be used with data analytics tools, as well as the creation of new digitized products, which focus on completely integrated solutions. PwC also highlights that leading industrial companies expand their offering by providing disruptive digital solutions such as complete, data-driven services and integrated platform solutions.

Several drivers in the industry sector

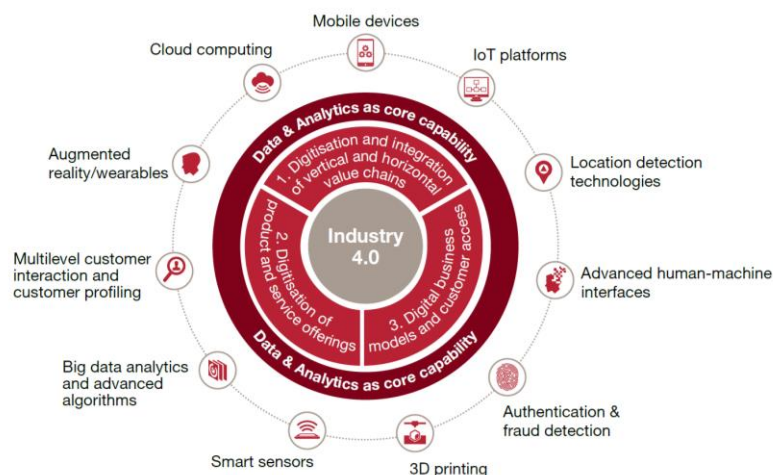
Predictive maintenance, automation, monitoring and customer experience management are the main digitalization drivers in the industrial sector. Industrial companies are eager to develop their mobile apps, e-commerce channels, customer service systems and other support systems. Digitalization of order processes and customer service has become increasingly important when industrial companies are targeting to improve their competitiveness. In addition, smart manufacturing initiatives often provide cost savings. Industrial companies are moving towards integrated planning and scheduling for manufacturing by combining data from sensors to ERP systems according to PwC. Real-time data offers the possibility to manufacture personalised products and react more quickly.

Focus also on people and culture

Often the biggest challenge in a digitalization project isn't the right technology but the lack of digital culture and skills in the customer organisation, according to PwC. While investing in right technologies is important, success is based on people-focused factors.

Companies and public entities need to develop a digital culture and ensure that change is led effectively. Often a challenge is to find the right employees to put digitalization into place, which supports demand in the IT-services sector.

Industry 4.0 framework and contributing digital technologies



Source: PwC Digitalization survey 2016

Favorable market conditions expected to continue

We expect the market situation to remain favorable in the Finnish IT-services market. The market is growing and price competition in the sector is still moderate. The digitalization market is growing clearly faster than the overall IT-market, which supports Gofore's long-term outlook. In addition, Finnish Government has an on-going development programme in order to facilitate digitalization in the public sector. During 2017, economic conditions have improved further in Finland and the economy is expected to grow approximately 3%, according to Aktia. This is expected to accelerate growth also in the IT-services market.

Strategy and financial targets

Targeting rapid, above the market growth

Gofore is targeting to grow rapidly both organically and inorganically. The target market, new digitalization services, is growing app. 15-25% annually according to management. Gofore is targeting to grow faster than the target market. The company also plans to increase its international business (currently Germany and the UK) by expanding the customer base in selected countries. During the strategy period, the company will evaluate possible acquisition targets that can accelerate strategic growth. Acquisitions are being sought mainly from the Finnish market. Gofore also plans to broaden its customer base especially in the private sector.

Ambitious financial targets

Gofore has set the following long-term financial targets:

- Growth: Gofore aims to grow faster than company's target IT-services market, which is expected to grow by 15-25% annually
- Profitability: EBITA-margin of 15%
- Dividend policy: Annual dividend at least 40% of the net profit. Following factors may have an impact on the dividend payment: Company's net profit, financial position, new growth initiatives, operative cash flow, the amount of net debt, necessity of debt reduction and other material factors considered by the Board of Directors.



Source: Gofore and Evli Research

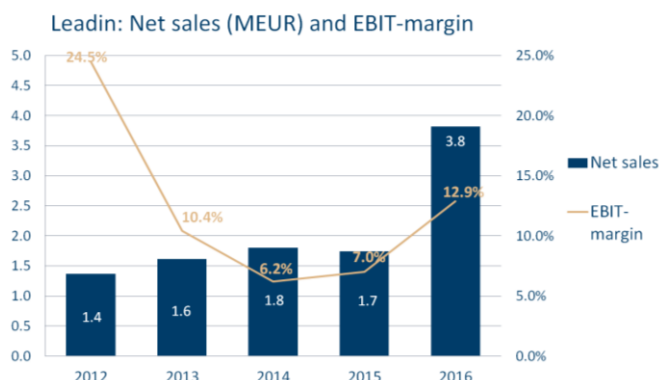
Acquisition of Leadin strengthens Gofore's competitiveness in service design

Acquisition of Leadin supports Gofore's internationalization plans

Gofore acquired service design company Leadin in May 2017. Gofore acquired all shares in Leadin from the major shareholder, BCM Consulting, and all other shares were exchanged for shares in Gofore. The acquisition price was not disclosed. Leadin's design competence, international business operations and complementary customer portfolio were the main reasons behind the acquisition.

Leadin - fast-growing services design expert

Leadin is an international expert in user experience planning and production, and service design. The company is targeting to create added value for its clients based on user insight. Leadin employs approximately 80 experts in Helsinki, Tampere, Jyväskylä, Munich and Swansea. In 2016, the company's net sales amounted to EUR 3.8 million. Finland represented around two-thirds and international markets one-third of the net sales. Leadin's net sales CAGR growth in between 2012-2016 was 29.2%. In 2016, Leadin's sales grew strongly due to good demand in Germany and the UK. Leadin's historical profitability has been somewhat volatile. The average EBIT-margin between 2012-2016 has been 12.2%. In 2016, profitability improved as a result of higher operational efficiency, good execution of projects and services and higher invoicing rates from larger orders.



Source: Leadin Oy, Leadin Helsinki Oy and Leadin Software Oy were merged into Leadin Oy 31.12.2015

Customer base increases especially in the private sector	Through the acquisition, Gofore will have a more comprehensive service offering for both the public and private sector. Leadin's customer portfolio includes customers from engineering, banking, IT, manufacturing, service and public sectors. Gofore's state-of-the-art technology competence and ability to manage and steer large projects combined with Leadin's business-oriented planning and user interface expertise will improve the company's competitiveness.
Expansion into international markets	Leadin has operations in Germany and the UK, which enables Gofore to offer services outside Finland. Before the acquisition, Gofore operated only in Finland. Gofore can now offer complete end-to-end digital transformation from research, concept and design, to consultancy, development and support, for its customers.
Leadin's service production	Leadin's service production includes three stages: 1) Pre-production (users research, business design and concept design) 2) Production (UX design & SW development), and 3) Post-production (deployment, training, life-cycle management). In our view Leadin's business complements well the current offering of Gofore.
Integration costs of Leadin - no material impact on H2/2017	Through the acquisition of Leadin, Gofore has presence outside Finland and we expect that the company will start to expand its operations in Germany and the UK. Leadin's design competence will support Gofore's competitiveness in all market areas. However, Leadin is Gofore's first acquisition and some Leadin employees may find Gofore's organization culture too different from what they are used to. Integration costs of the acquisition are expected to be minimal and costs will not have any material impact on H2/2017 figures. Leadin's personnel has already moved to the same premises in Tampere and expected to move in Helsinki in November 2017. According to Gofore's management, the integration of the Leadin has proceeded according to plan. Leadin has been reported under Gofore as of 1 June 2017.
Strong demand in Germany and the UK	Long-term demand for digitalisation services is expected to be strong in Germany and the UK, according to management. In Germany, Gofore already has one large customer, Voith, and demand especially in the industry sector is expected to be favorable. In the UK, demand is fuelled by public sector projects.

Increased M&A activity in the Finnish IT-services sector

High M&A activity especially among small and medium sized players	Due to strong market growth and challenges in recruitment of skilled employees, several IT-services players have increased their M&A activity in Finland, in our view. M&A activity has been high especially among small and medium sized IT-services companies. Companies are interested in mainly small targets that have specialized in specific IT-segments (for instance digitalization, service design, robotic & automation). Especially small service design companies have become part of medium sized IT-service players. It has also become more challenging to grow organically as it is an increasing challenge to find skilled employees.
IT-services players seek growth also from international markets	Small & medium sized IT-players have also increased their presence through acquisitions outside Finland. Companies have expanded their operations mainly to Sweden, where IT-services market is considerably larger than in Finland. Some companies have also expanded their operations to Western Europe and USA.
Latest transactions in the market	During 2016-2017, Solita, Siili and Reaktor have been the most active in acquisitions. Digital business consultancy and digital services company Solita acquired Palmu, a service design agency, in March 2017. Palmu is Finland's largest and most experienced service design company. Together, the companies are aiming for nearly EUR 80 million in sales in 2017. Siili has acquired two IT-companies in the first half of 2017. In the first acquisition, the company acquired Storbitt, a 3D specialist and virtual solution provider (net sales 0.4 MEUR). The company also made another acquisition in May 2017,

purchasing Omenia, a software automation specialist (net sales 3 MEUR). Reaktor acquired software development company Codematec (net sales 4 MEUR) in June 2017. In 2016, Reaktor also acquired 30% stake in Motley Agency (net sales 3.4 MEUR), a digital services company. In August 2017, Vincit acquired service design company Linja design (1.3 MEUR).

M&A activity expected to continue

We expect market consolidation to continue in the Finnish IT-services sector. We expect that large IT-generalists, that have challenges to grow, become more interested in fast-growing small and medium sized players. We also expect medium sized players to continue their M&A activity to acquire new employees. We do not expect Gofore to be active in acquisitions in the short-term due to the relatively large acquisition of Leadin in 2017.

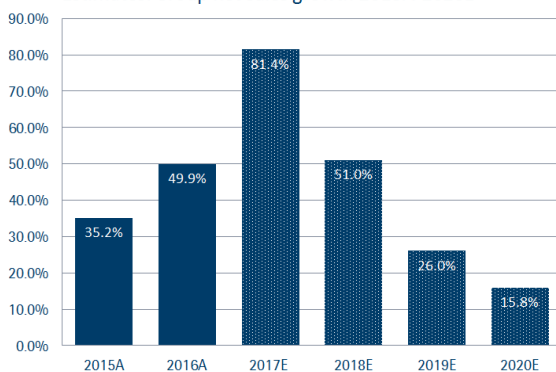
Estimates

Estimates for H2/2017E and FY2017E

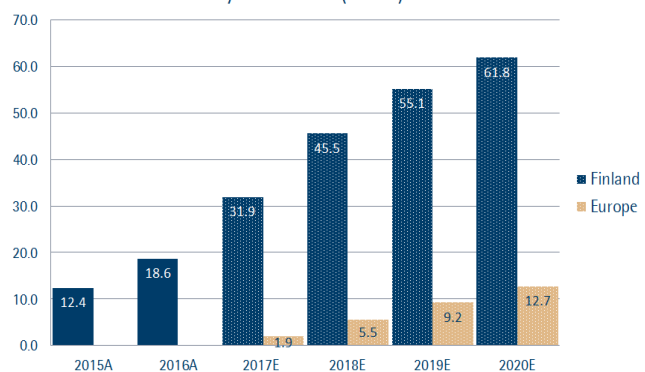
Strong growth expected for 'H2/17

We expect Gofore to grow strongly in the second half of 2017 driven by personnel growth, the acquisition of the Leadin and rapid market growth in the Finnish IT-services market. We expect net sales of EUR 19.4 million and sales growth of 95.3% (organic growth 61.1%) for H2/2017. Organic growth in H1/2017 was 65.5%. We expect H2/2017 EBITA to improve to EUR 3.5 million, representing EBITA-margin of 17.9%. We expect profitability to be supported mainly by price increases and competitive cost structure. Integration costs relating to the acquisition of Leadin are not expected to have any material impact on H2/2017 figures in our view.

Estimates: Group net sales growth 2015A-2020E



Estimates: Net sales by market area (MEUR)



Source: Evli Research

We expect Gofore to beat its FY2017 guidance

Our full-year 2017 net sales estimate is at EUR 33.8 million, while Gofore's guidance is that net sales will be in the range of EUR 32.5-34.5 million in 2017. Full-year 2017 sales growth is expected to be 81.4% (organic growth 63.3%). The organic increase of personnel is expected to be 48.5% in 2017E. We estimate that app. 95% of the net sales will be generated from Finland and app. 5% from Europe (Germany and the UK). In Finland, sales growth is expected to be 71.4% driven mainly by the personnel growth, acquired Leadin and favorable market conditions in the Finnish IT-services sector. We expect Gofore's sales in Europe to be app. EUR 1.9 million in 2017. In 2016, Gofore had no operations outside Finland.

Our FY2017 EBITA estimate at 6.0 MEUR. vs. guidance range of 5.2-6.2 MEUR

We expect FY2017 EBITA to improve to EUR 6.0 million, representing an EBITA-margin of 17.9%. Gofore has guided that the EBITA is expected to be in the range of EUR 5.2-6.2 million in 2017.

Estimates for 2018E-2020E

Rapid sales growth expected to continue in '18E

Personnel growth in 2017E and the acquisition of Leadin will create a strong base for sales growth in 2018E. Gofore also has good possibilities to continue growth in Finland and abroad. In the long-term, we expect slight growth in the sales/employee ratio driven by higher customer prices and growth in the private sector both in Finland and Europe.

Strong personnel growth in '17E drives growth in '18E

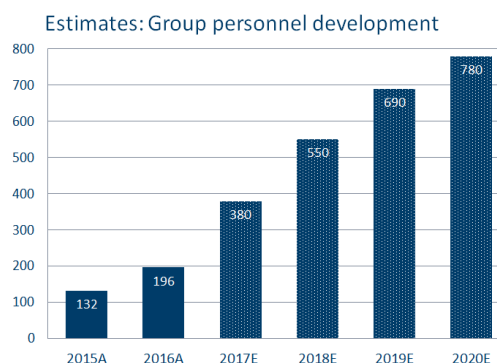
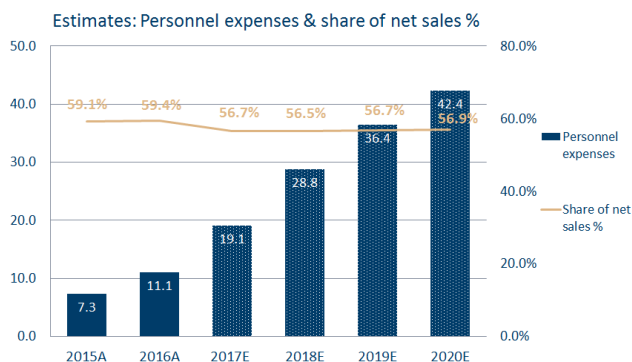
The organic increase of personnel is expected to be 48.5% in 2017E, which will support organic growth in 2018E. Including Leadin personnel, Gofore is expected to have 94% more employees at the end of 2017E than in the previous year. Our Group net sales growth estimate for 2018E is at 51.0% (organic growth 45.0%) or EUR 51.0 million. We expect sales from Finland to generate app. 89% and Europe app. 11% of the sales, respectively.

Slower personnel recruiting in '18E & '19E

We expect the relative growth in personnel to slow down in 2018E-2019E and the company prioritize profitability. This will have an impact on sales growth in following years 2019E-2020E but in the other hand support margin development. We expect a slight increase in sales/employee for 2019E-2020E both in Finland and Europe. Sales growth is also expected to be more in line with the target market growth in Finland. Accelerated growth is estimated to be achieved in Germany and the UK. We also expect that Gofore expands geographically in Western Europe into one or two countries during 2018E-2020E.

Sales growth expected to decelerate in '19 & '20

In our estimates, we expect Gofore's sales to grow by 26.0% and 15.8% in 2019E-2020E, respectively. We expect growth in Finland to be more in line with market growth due to slower recruiting and increasing competition. In Europe, we expect sales to grow strongly in Germany and the UK due to strong demand and personnel growth. According to our estimates the net sales/employee ratio is expected to be slightly higher in European operations compared to Finland as a result of higher prices.



Source: Evli Research

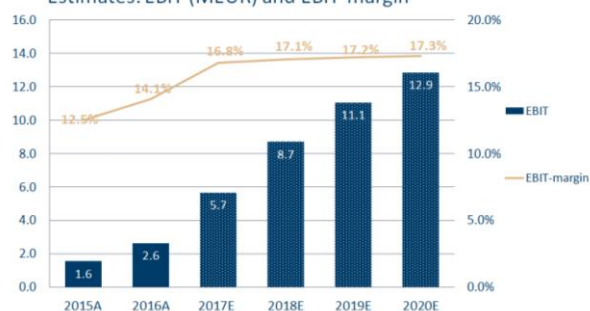
Profitability supported by competitive cost structure

Due to slower top line growth, we expect Gofore to have good possibilities to improve its margins. The company has a competitive cost structure due to offices in Tampere and Jyväskylä, where personnel expenses are lower compared to e.g. Helsinki. We expect Gofore to continue recruitments especially in Tampere, Jyväskylä and Swansea, where personnel expenses are close to Tampere's level. We expect a slight decrease in personnel expenses/net sales for 2019E-2020E compared to the level of 2016-2017, which supports margin development. We also expect slightly lower share of other operating costs (mainly rents) due to synergies from the Leadin acquisition. We estimate that Gofore is able to continue price increases due to favorable demand in the IT-services sector and higher exposure to international markets. Our EBITA-margin estimates for 2018E-2020E are 18.3%, 18.1% and 18.1%, respectively.

Estimates: EBITA (MEUR) & EBITA-margin



Estimates: EBIT (MEUR) and EBIT-margin



Source: Evli Research

Operating model (reported basis)	2014A	2015A	2016A	2017E	2018E	2019E	2020E
Net sales (Group)	9.2	12.4	18.6	33.8	51.0	64.3	74.5
growth %	54.0%	35.2%	49.9%	81.4%	51.0%	26.0%	15.8%
Other income	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Net sales (Finland)	9.2	12.4	18.6	31.9	45.5	55.1	61.8
growth %		35.0%	49.9%	71.4%	42.6%	21.1%	12.2%
of Group net sales %	100.0%	100.0%	100.0%	94.5%	89.2%	85.7%	83.0%
Net sales (Europe)	0.0	0.0	0.0	1.9	5.5	9.2	12.7
growth %	N/A	N/A	N/A	N/A	189.5%	67.3%	37.5%
of Group net sales %				5.6%	10.8%	14.3%	17.0%
Materials and Services	-1.2	-1.4	-1.8	-3.5	-4.8	-6.1	-7.1
of net sales %	12.8%	11.5%	9.9%	10.3%	9.5%	9.5%	9.5%
Personnel expenses	-5.3	-7.3	-11.1	-19.1	-28.8	-36.4	-42.4
growth %		38.0%	50.6%	73.0%	50.6%	26.5%	16.2%
of net sales %	58.0%	59.1%	59.4%	56.7%	56.5%	56.7%	56.9%
Other operating costs	-1.3	-2.1	-3.1	-5.2	-8.1	-10.1	-11.5
of net sales %	14.5%	16.8%	16.6%	15.4%	15.9%	15.7%	15.5%
EBITDA	1.4	1.6	2.7	6.1	9.4	11.8	13.7
EBITDA-margin %	15.5%	12.9%	14.5%	18.2%	18.5%	18.4%	18.4%
Depreciation	0.0	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
Amortization	0.0	0.0	0.0	-0.3	-0.6	-0.6	-0.6
EBITA	1.4	1.6	2.6	6.0	9.3	11.7	13.5
EBITA-margin %	14.9%	12.5%	14.1%	17.9%	18.3%	18.1%	18.1%
EBIT	1.4	1.6	2.6	5.7	8.7	11.1	12.9
EBIT-margin %	14.9%	12.5%	14.1%	16.8%	17.1%	17.2%	17.3%
Personnel	95	132	196	380	550	690	780
Growth in personnel	N/A	38.9%	48.5%	93.9%	44.7%	25.5%	13.0%

Source: Evli Research

Valuation

Peer group valuation multiples in the Nordic countries

Our Nordic peer group for Gofore

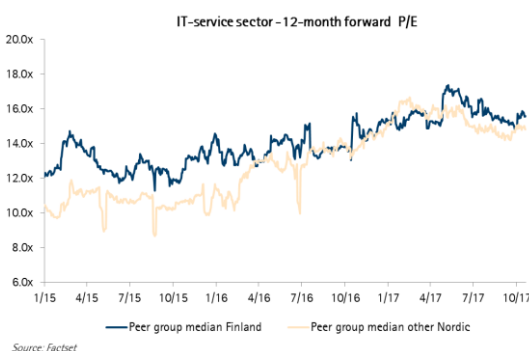
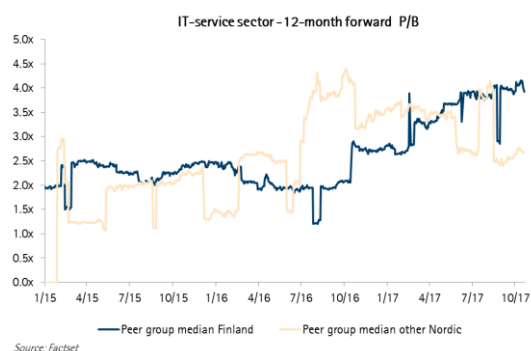
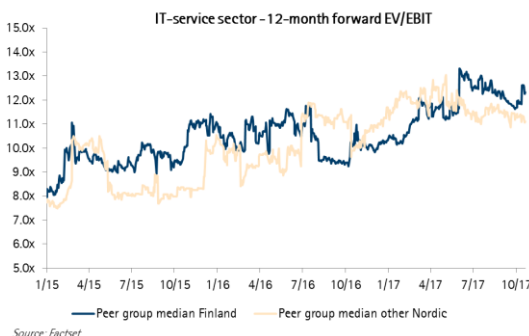
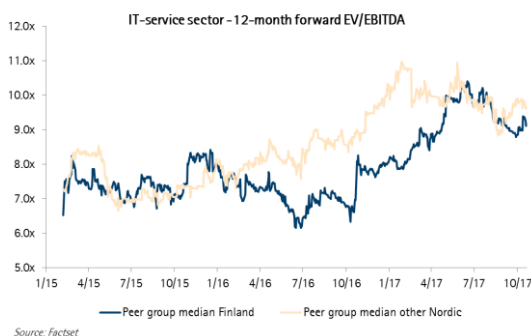
Our peer group for Gofore consists of Nordic public IT-services companies listed in Finland, Sweden and Norway. We have compared the Finnish companies' valuation against Swedish and Norwegian players (other Nordic, in the table). Finnish companies include Tieto, Siili, Vincit, Innofactor and Solteq. Other Nordic companies include HiQ (SWE), Acando (SWE), Bouvet (NO), Knowit (SWE) and Atea (NO).

Finnish companies have traded at a premium against other Nordic players

There is no significant difference in valuation multiples when comparing Finnish companies against Swedish and Norwegian players. On earnings-based multiples, the Finnish companies have higher EV/EBIT and P/E multiples, while other Nordic players have slightly higher EV/EBITDA multiples. Historical EV/EBIT and P/E premium in favor of Finnish companies has been 3.3% and 8.3% in 2015-2017, respectively.

Main multiples still reasonable

The current peer group average EV/EBIT 2017E multiple on Finnish companies is at 12.3x while other Nordic players trade at 11.1x. The valuation difference is slightly lower on P/E multiple (15.6x against 14.7x). Other Nordic players average EV/EBITDA is at 9.6x, while the Finnish companies' multiple is at 9.2x for 2017E. The Finnish players are expected to grow faster than their Nordic peers but profitability level is expected to be lower. The Finnish players' margins and returns are lower compared to other Nordic companies, which makes the Finnish companies slightly overvalued in our view.



Still room for multiple expansion in our view

Valuation multiples in the Nordic IT-services sector have risen during the 2017. However, market conditions are favorable and profits in the sector are expected to grow in 2017-2018. Including all peer group companies, average EV/EBITDA and EV/EBIT multiples are at 9.9x and at 12.2x for 2018E, respectively. EV/Sales multiples are quite reasonable – average at 1.1x for 2018E. Larger IT-services companies offer relatively high dividend

yields (5-6%), while the sector average is at 4.3%. In our view, there is still room for further multiple expansion in the sector.

GOFORE PEER GROUP	MCAP MEUR	EV/EBITDA 17	EV/EBITDA 18	EV/EBITDA 19	EV/EBIT 17	EV/EBIT 18	EV/EBIT 19	EV/Sales 17	EV/Sales 18	EV/Sales 19	P/E 17	P/E 18	Div. yield 17	Div. yield 18
Tieto	1971	10.9x	10.2x	9.8x	14.7x	13.5x	12.8x	1.4x	1.3x	1.3x	16.1x	15.3x	5.1 %	5.3 %
Siili Solutions	79	12.2x	10.0x	8.9x	13.0x	10.7x	9.6x	1.2x	1.0x	0.9x	18.0x	14.6x	3.6 %	4.3 %
Vincit Group	76	12.0x	10.3x	9.6x	17.7x	13.3x	11.8x	2.0x	1.8x	1.6x	27.0x	17.5x	2.3 %	2.8 %
Innofactor	38	15.3x	8.0x	6.8x	77.6x	13.7x	10.2x	0.8x	0.7x	0.7x	53.0x	11.8x		0.0 %
Solteq	32	11.8x	8.2x	7.8x	21.3x	12.1x	11.1x	0.8x	0.7x	0.7x	21.3x	14.2x	3.5 %	4.1 %
HiQ	353	14.1x	13.0x	12.1x	14.6x	13.4x	12.4x	1.8x	1.7x	1.6x	19.8x	18.2x	5.3 %	5.6 %
Acando	309	11.1x	10.3x	9.5x	11.7x	10.9x	10.1x	1.3x	1.2x	1.1x	14.8x	13.8x	4.9 %	5.2 %
Bouvet	167	11.4x	10.4x	9.7x	13.2x	12.0x	11.2x	1.1x	1.0x	1.0x	16.1x	14.7x	4.3 %	4.5 %
Knowit	271	10.1x	9.3x	8.8x	10.9x	9.7x	9.1x	1.0x	1.0x	0.9x	14.4x	12.8x	3.6 %	3.8 %
Atea	1176	10.7x	9.4x	8.5x	16.0x	13.0x	11.3x	0.4x	0.4x	0.4x	19.4x	15.3x	6.3 %	6.5 %
Peer Group Average	447	12.0x	9.9x	9.2x	21.1x	12.2x	11.0x	1.2x	1.1x	1.0x	22.0x	14.8x	4.3 %	4.2 %
Peer Group Median	219	11.6x	10.1x	9.2x	14.6x	12.5x	11.1x	1.2x	1.0x	1.0x	18.7x	14.7x	4.3 %	4.4 %

Source: Factset

GOFORE PEER GROUP	EBIT % 17	EBIT % 18	EBIT % 19	EBITDA % 17	EBITDA % 18	EBITDA % 19	ROE % 17	ROE % 18	ROE % 19
Tieto	10.6	10.8	10.8	13.2	13.7	13.9	25.2	26.1	26.8
Siili Solutions	9.0	10.3	10.4	10.0	10.8	10.8	23.5	25.7	25.2
Vincit Group	11.2	13.3	13.7	16.5	17.2	16.8	23.6	33.1	32.2
Innofactor Plc	2.1	6.5	7.7	4.7	9.0	10.1	2.8	11.9	13.7
Solteq	5.3	6.0	6.3	6.8	8.8	8.9	6.8	10.1	10.5
HiQ	12.5	12.8	13.0	13.1	13.4	13.6	22.0	23.7	25.1
Acando	10.9	11.1	11.3	11.5	11.7	12.0	17.1	16.8	16.3
Bouvet	8.2	8.6	8.8	9.6	9.9	10.2			
Knowit	9.6	9.9	10.0	10.2	10.4	10.5	20.6	19.9	18.7
Atea	2.4	2.9	3.1	3.7	4.0	4.2	16.8	20.6	21.0
Peer Group Average	8.2	9.2	9.5	9.9	10.9	11.1	17.6	20.9	21.1
Peer Group Median	9.3	10.1	10.2	10.1	10.6	10.6	20.6	20.6	21.0

Source: Factset

M&A valuation multiples

Increased M&A activity in the Nordic IT-services sector

M&A activity in the Nordic IT-services market has been fairly active over the last two years. Transactions have mainly focused on Finland and Sweden and the activity has been highest among small and medium sized companies. Among the most active, Siili and Solita, have strengthened their market position by acquiring small IT-specialists in Finland. Some small Finnish IT-players have also expanded their operations to Sweden through acquisition. Large IT-generalists (e.g. Tieto & CGI) have focused on acquiring mainly medium sized players from the Nordic market. However, it seems that acquirors mainly look for special competences or specific technologies to strengthen their offering rather than improving their market shares.

M&A transactions in the Nordic IT-services market

Date	Acquirer	Target	Market	Net sales	EBITDA	EBIT	Enterprise value	EV/Sales	EV/EBITDA	EV/EBIT
Aug-17	CGI	Affecto	Nordics	112.5	7.8	7.0	102.2	0.9x	13.2x	14.6x
Jul-17	Digitalist Group	NodeOne Group	Sweden	3.9	0.3	0.3	4.4	1.1x	15.3x	15.5x
Jun-17	Solteq	InPulse Works	Finland	4.9	0.3	0.2	3.5	0.7x	10.8x	16.3x
May-17	Siili	Stormbit	Finland	0.4	0.0					
May-17	Siili	Omenia	Finland	1.9	0.3	0.3	2.1-3.4	1.1x-1.8x	7.7x-12.5x	7.9x-12.8x
Mar-17	HiQ	Presis AB	Sweden	1.7		neg.	0.9	0.5x		
Mar-17	Solita	Palmu	Finland	7.6		1.3				
Dec-16	Affecto	Bigdatapump	Finland	3.4		0.6	3.5-6.5	1.0x-1.9x		5.6x-10.4x
Oct-16	Innofactor	Lumagate	Nordics	8.7	0.2	0.2	4.7-10.5	0.5x-1.2x	20.0x-44.7x	24.6x-55x
Oct-16	Nixu	Safeside Solutions	Sweden	2.4			2.2	0.9x		
Oct-16	Solteq	Aponsa	Sweden	2.2	0.1	0.1	1.1	0.5x	16.4x	17.9x
Sep-16	Tieto	Emric	Nordics	19.5			31.3	1.6x		
Aug-16	HiQ	Great Apes	Finland	1.3		0.3				
Jun-16	Nixu	Bitsec	Sweden	2.5		0.1	2.3	0.9x		21.6x
Mar-16	IFS	MainioT	Finland	5.0			7.4-8.0	1.5x-1.6x		
Feb-16	Solita	HMV Yhtiöt	Finland	2.0						
Dec-15	Vincit	Javerdel	Finland	12.6		-0.3				
Dec-15	Innofactor	Cinteros	Sweden	11.4	1.0	0.9	2.7-8.0	0.2x-0.7x	2.8x-8.3x	2.8x-8.4x
Dec-15	Tieto	Smilehouse	Finland	10.3	1.1	1.1				
Jul-15	Solteq	Descom Software	Finland	35.2	2.6	2.3	26.0	0.7x	10.0x	11.3x
Jun-15	Tieto	Innovation	Norway	41.0	5.3	5.1	70.2	1.7x	13.2x	13.7x
		average		13.8	1.7	1.3	18.2	1.0x	14.0x	15.9x
		median		4.9	0.3	0.3	5.0	0.9x	13.2x	14.6x

Source: Factset & companies' press releases

M&A valuation multiples –
average EV/EBIT at 10.8x

Due to increased M&A activity and strong growth among especially small and medium sized IT-services players, valuation multiples in the IT-services have increased. Average EV/Sales multiple in transactions between 2015 and 2017 has been 1.0x. Earnings-based M&A multiples are higher compared to valuation multiples of listed IT-services companies. During 2015-2017, median M&A multiples in the sector have been EV/EBITDA at 13.2x and EV/EBIT at 14.1x. In some of the acquisitions, there has been earn-outs where the seller will obtain additional compensation in the future if certain financial targets are achieved. We expect market consolidation to continue in the Nordic countries as large IT-generalists become more interested in fast-growing small and medium sized players. Hence, M&A valuation multiples are likely to increase from current levels.

Risk factors

Main risks to investment case

The main risks to our investment case are:

- 1) Failing to maintain key personnel and attract new skilled professionals. Competition for skilled employees is increasing in the IT-services sector. Especially experienced IT-professionals, automation specialists and robotic professionals are on the recruiting list of many companies. Several small and medium sized companies have indicated that they will increase personnel in 2017 due to strong demand in the market. Some IT-services players have acquired small companies to get new employees as it has become more difficult to find right employees.
- 2) Increased competition dampening price level. Due to strong growth expectations in the new digitalization market, competition is likely to intensify. The current price level is healthy but when market growth decelerates, price competition may increase in the sector. Typically price competition is tougher in the public sector, which is Gofore's main market.
- 3) Unsuccessful internationalization to Germany and the UK. We expect Gofore to grow its personnel aggressively in Europe. However, the ability to recruit in Germany and the UK is somewhat uncertain as the company has previously operated only in Finland. Unsuccessful recruitments outside Finland is in our view a risk.
- 4) Higher personnel costs due to wage inflation. Despite moderate historical wage inflation, we consider strong market growth and a lack of experienced employees may potentially increase wage competition in the IT-services market.
- 5) Customer risk. Gofore's five largest customers account 42% of the company's net sales, which we consider a risk.

Planned Initial Public Offering (IPO)

Expected to be listed on the Nasdaq First North Helsinki

Gofore aims to raise through a planned Initial Public Offering (IPO) gross proceeds of EUR 10 million. After costs related to IPO, the proceeds are expected to be EUR 9.0 million. The funds raised are expected to be used to execute Gofore's growth strategy. The company may also use the proceedings in mergers and acquisitions, to grow the company organically and perform other corporate initiatives. The other objectives of the IPO are to engage personnel and management as well as to increase awareness of Gofore among customers and potential job seekers. Gofore's shares are expected to be listed on the Nasdaq First North Helsinki.

INCOME STATEMENT, EURm	2012	2013	2014	2015	2016	2017E	2018E	2019E
Sales	4	6	9	12	19	34	51	64
<i>Sales growth (%)</i>	<i>42.2</i>	<i>61.6</i>	<i>54.0</i>	<i>35.2</i>	<i>49.9</i>	<i>81.4</i>	<i>51.0</i>	<i>26.0</i>
Costs	-3	-5	-8	-11	-16	-28	-42	-52
Reported EBITDA	0	1	1	2	3	6	9	12
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	<i>12.6</i>	<i>15.5</i>	<i>15.5</i>	<i>12.9</i>	<i>14.6</i>	<i>18.2</i>	<i>18.5</i>	<i>18.5</i>
Depreciation	0	0	0	0	0	0	-1	-1
EBITA	0	1	1	2	3	6	9	11
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	0	1	1	2	3	6	9	11
<i>EBIT margin (%)</i>	<i>11.6</i>	<i>14.8</i>	<i>14.9</i>	<i>12.5</i>	<i>14.1</i>	<i>16.8</i>	<i>17.1</i>	<i>17.2</i>
Net financials	0	0	0	0	0	-1	0	0
Pre-tax profit	0	1	1	2	3	4	8	11
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	0	0	0	0	-1	-1	-2	-2
Minority shares	0	0	0	0	0	0	0	0
Net profit	0	1	1	1	2	4	7	9
BALANCE SHEET, EURm								
Assets								
Fixed and Intangible assets	0	0	0	0	1	6	6	5
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>2</i>	<i>1</i>	<i>4</i>	<i>18</i>	<i>11</i>	<i>8</i>
Goodwill	0	0	0	0	0	(5.6)	(4.9)	(3.9)
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Inventory	0	0	0	0	0	0	0	0
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Receivables	0	0	2	3	3	7	10	12
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>21</i>	<i>21</i>	<i>18</i>	<i>22</i>	<i>19</i>	<i>19</i>
Liquid funds	0	0	2	2	4	16	19	24
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>21</i>	<i>20</i>	<i>19</i>	<i>46</i>	<i>38</i>	<i>37</i>
Total assets	0	0	4	5	8	29	35	41
Liabilities								
Equity	0	0	2	3	4	17	23	30
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>19</i>	<i>20</i>	<i>22</i>	<i>52</i>	<i>45</i>	<i>46</i>
Deferred taxes	0	0	0	0	0	0	0	0
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Interest bearing debt	0	0	0	0	0	6	3	0
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>2</i>	<i>1</i>	<i>0</i>	<i>16</i>	<i>5</i>	<i>0</i>
Non-interest bearing current liabilities	0	0	2	2	3	6	9	11
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>22</i>	<i>20</i>	<i>18</i>	<i>18</i>	<i>18</i>	<i>18</i>
Other interest free debt	0	0	0	0	0	0	0	0
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Total liabilities	0	0	4	5	8	29	35	41
CASH FLOW, EURm								
+ EBITDA	0	1	1	2	3	6	9	12
- Net financial items	0	0	0	0	0	-1	0	0
- Taxes	0	0	0	0	-1	-1	-2	-2
- Increase in Net Working Capital	0	0	0	0	0	-1	1	0
+/- Other	0	0	0	0	0	0	0	0
= Cash flow from operations	0	1	1	1	2	3	8	9
- Capex	0	0	0	0	-1	-6	0	0
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	0	1	1	1	2	-3	8	9
+/- Change in interest-bearing debt	0	0	0	0	0	5	-3	-2
+/- New issues/buybacks	0	0	0	0	0	9	0	0
- Paid dividend	0	0	0	0	0	-1	-1	-2
+/- Change in loan receivables	0	0	0	0	0	0	0	0
Change in cash	0	0	2	1	1	12	4	5

COMPANY DESCRIPTION: Gofore is an international growth-seeking digitalization services company. The company helps customers to succeed at all stages of digital development. Gofore was founded in 2001 and the company started its operations in 2002.

INVESTMENT CASE: Gofore is one of the fastest-growing IT-services companies in Finland focusing on digital design, services and consulting as well as software development. The net sales CAGR between 2012–2016 was 49.7% and during the same time period EBIT-margin improved from 11.5% to 14.0%. Gofore has a consultative and labor-intensive operating model for which cornerstones are: competent personnel, strong company culture and agile organizational structure.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Timur Kärki (CEO)			20.1%
Petteri Venola (CFO)			19.1%
Jani Lammi			19.1%
Mika Varjus			19.1%
Ali U. Saadetdin			4.4%
Muut			18.1%
Ten largest			100%
Residual			
Total			100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Timur Kärki

Kalevantie 2, 33100 Tampere

CFO: Petteri Venola

IR: n/a

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, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non interest bearing debt (average)}}$	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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