

## Return to slight sales growth

Innofactor's Q3 saw a return to net sales growth and better than expected profitability. The continued solid order backlog development remains a clearly supportive factor. With order backlog conversion visibility being challenging due to longer duration of signed contracts, we continue to expect only minor growth in the near-term, however noting the advantages of the added sales stability. We retain our BUY-rating with a TP of EUR 0.85 (0.80).

### Profitability above estimates, solid order backlog growth

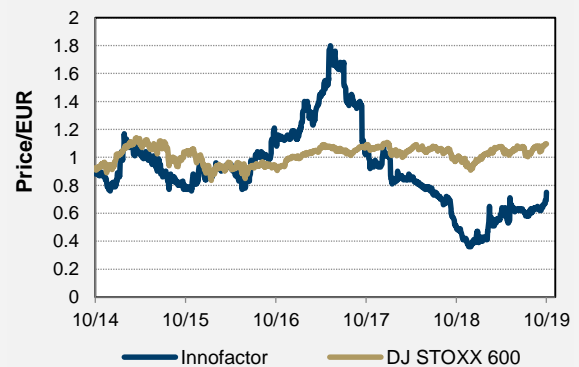
Innofactor's Q3 results were better than our expectations. Net sales were in line with our estimates at EUR 14.0m (Evli 14.1m), showing slight growth of 1.4%, for the first time since Q3/2017. EBITDA and EBIT beat our estimates at EUR 1.5m (Evli 0.7m) and EUR 0.3m (-0.2m) respectively. Q3 EBIT was slightly burdened by depreciation adjustments attributable to the period 1-9/2019. Profitability improved compared with the previous year due to the measures taken to improve profitability at the end of 2018 and the sales per employee improved 12% from the previous year. The order backlog further grew by 107% y/y to EUR 53.2m.

### Continuing to show signs of improvement

Innofactor's Q3 results in our view continued to show signs of good progress and also saw the recurring components of the net sales mix increase to just slightly over 50%. Interpreting the speed of translation of the order backlog to sales remains challenging due to the increased share of long-term projects, which on the other hand provides added stability in net sales going forward. We have made minor revisions to our estimates post-Q3, expecting revenue growth of 3% during 2020-2021. Our 2020-2021 EBITDA estimates are up by around 5%, expecting profitability to continue to improve.

### BUY with a target price of EUR 0.85 (0.80)

Having made minor upwards revisions to our estimates we adjust our target price to EUR 0.85 (EUR 0.80). On our estimates valuation on purchase price excluded basis still remains fairly attractive and we retain our BUY-rating.

**Rating** BUY

 Share price, EUR (Last trading day's closing price) 0.75

 Target price, EUR 0.85

 Latest change in recommendation 05-Jun-19

 Latest report on company 24-Jul-19

 Research paid by issuer: YES

 No. of shares outstanding, '000's 37,388

 No. of shares fully diluted, '000's 37,388

 Market cap, EURm 28

 Free float, % 53.0

 Exchange rate EUR 0.000

 Reuters code IFA1V.HE

 Bloomberg code IFA1V.FH

 Average daily volume, EURm 0.02

 Next interim report 25-Feb-20

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+ BUY □ HOLD - SELL

## KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2017	65.7	-1.5	-2.2%	2.4	-0.03	-26.9	0.7	-32.4	7.0	0.00
2018	63.1	-3.9	-6.1%	-1.2	-0.09	-4.1	0.5	-8.7	-9.0	0.00
2019E	63.8	1.3	2.1%	3.0	0.02	41.4	0.7	34.1	10.9	0.00
2020E	65.7	1.9	2.9%	2.3	0.03	27.5	0.6	22.4	8.2	0.00
2021E	67.7	3.4	5.0%	2.4	0.06	12.5	0.6	11.9	8.5	0.00
Market cap, EURm	28		Gearing 2019E, %	74.5		CAGR EPS 2018-21, %		0.0		
Net debt 2019E, EURm	17		Price/book 2019E	1.2		CAGR sales 2018-21, %		2.3		
Enterprise value, EURm	45		Dividend yield 2019E, %	0.0		ROE 2019E, %		3.1		
Total assets 2019E, EURm	56		Tax rate 2019E, %	-25.3		ROCE 2019E, %		3.2		
Goodwill 2019E, EURm	26		Equity ratio 2019E, %	40.1		PEG, P/E 19/CAGR		0.7		

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

Innofactor	2017	Q1/'18	Q2/'18	Q3/'18	Q4/'18	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19E	2019E	2020E	2021E
Net sales	65.7	16.5	17.0	13.8	15.9	63.1	16.1	16.7	14.0	17.0	63.8	65.7	67.7
<i>sales growth %</i>	10.1%	-4.5%	-0.8%	-2.5%	-7.3%	-3.8%	-2.0%	-2.1%	1.4%	7.0%	1.0%	3.0%	3.0%
EBITDA	1.3	0.3	0.0	-0.5	-0.9	-1.1	0.9	1.1	1.5	2.0	5.5	5.8	6.2
<i>EBITDA margin</i>	2.0%	1.9%	0.2%	-3.7%	-5.9%	-1.7%	5.4%	6.8%	11.0%	11.7%	8.7%	8.8%	9.1%
Acquisition related depreciation	-2.0	-0.5	-0.5	-0.5	-0.5	-2.0	-0.5	-0.5	-0.5	-0.5	-2.0	-2.0	-0.7
EBIT	-1.5	-0.4	-0.6	-1.2	-1.7	-3.9	-0.1	0.2	0.3	1.0	1.3	1.9	3.4
<i>EBIT margin</i>	1.4%	-2.2%	-3.7%	-8.6%	-10.7%	-6.1%	-0.6%	0.9%	1.8%	5.9%	2.1%	2.9%	5.0%
Adj. EBIT (excl. acquisition depr.)	0.6	0.1	-0.1	-0.7	-1.2	-1.8	0.4	0.7	0.8	1.5	3.3	3.9	4.1
<i>Adj. EBIT margin</i>	0.9%	0.9%	-0.7%	-4.9%	-7.5%	-2.9%	2.6%	4.0%	5.4%	8.9%	5.2%	5.9%	6.0%

INNOFACTOR PEER GROUP	MCAP MEUR	EV/EBITDA			EV/EBIT			P/E		
		19	20	21	19	20	21	19	20	21
Tieto	1900	9.0x	7.9x	7.6x	14.0x	12.3x	11.6x	14.0x	13.4x	12.9x
Atea	1264	10.2x	8.8x	8.1x	17.4x	13.7x	12.2x	21.5x	16.7x	14.7x
Knowit	329	9.0x	8.4x	7.8x	11.1x	10.2x	9.4x	14.6x	13.3x	12.2x
HiQ International	250	9.7x	9.7x	9.1x	11.8x	11.6x	10.8x	16.0x	15.1x	14.0x
Bouvet	298	10.9x	10.0x	9.4x	13.8x	12.6x	11.6x	16.9x	15.5x	14.5x
Enea	337	11.5x	11.3x	10.4x	14.7x	15.1x	13.5x	21.5x	17.5x	16.1x
Gofore	104	11.2x	9.3x	8.2x	12.9x	10.6x	9.2x	18.1x	14.4x	12.5x
Digia	104	7.9x	7.0x	6.7x	12.0x	10.1x	9.4x	13.6x	11.7x	10.7x
Silli Solutions	56	8.0x	6.8x	6.0x	10.4x	8.2x	7.1x	12.1x	9.3x	8.1x
Solteq	27	6.4x	5.7x	5.4x	11.6x	10.3x	9.6x	12.8x	10.4x	8.8x
Peer Group Average	467	9.4x	8.5x	7.9x	13.0x	11.5x	10.4x	16.1x	13.7x	12.4x
Peer Group Median	274	9.4x	8.6x	8.0x	12.4x	11.1x	10.2x	15.3x	13.9x	12.7x
Innofactor (Evli est.)	28	8.1x	7.4x	6.5x	34.1x	22.4x	11.9x	41.4x	27.5x	12.5x
<i>Innofactor prem./disc. to peer median</i>		-13%	-14%	-18%	174%	102%	17%	171%	98%	-2%
Innofactor adj.* (Evli est.)	28	8.1x	7.4x	6.5x	13.4x	10.9x	9.8x	12.2x	10.7x	10.0x
<i>Innofactor prem./disc. to peer median</i>		-13%	-14%	-18%	8%	-1%	-3%	-20%	-23%	-21%

Source Bloomberg, Evli Research

## INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3	2019Q4E	2019E	2020E	2021E
Net sales	16.5	17.0	13.8	15.9	63.1	16.1	16.7	14.0	17.0	63.8	65.7	67.7
EBITDA	0.3	0.0	-0.5	-0.9	-1.1	0.9	1.1	1.5	2.0	5.5	5.8	6.2
<i>EBITDA margin (%)</i>	<i>1.9</i>	<i>0.2</i>	<i>-3.7</i>	<i>-5.9</i>	<i>-1.7</i>	<i>5.4</i>	<i>6.8</i>	<i>11.0</i>	<i>11.7</i>	<i>8.7</i>	<i>8.8</i>	<i>9.1</i>
EBIT	-0.4	-0.6	-1.2	-1.7	-3.9	-0.1	0.2	0.3	1.0	1.3	1.9	3.4
<i>EBIT margin (%)</i>	<i>-2.2</i>	<i>-3.7</i>	<i>-8.6</i>	<i>-10.7</i>	<i>-6.1</i>	<i>-0.6</i>	<i>0.9</i>	<i>1.8</i>	<i>5.9</i>	<i>2.1</i>	<i>2.9</i>	<i>5.0</i>
Net financial items	-0.1	-0.2	0.0	0.4	0.1	-0.1	-0.3	-0.2	-0.2	-0.8	-0.6	-0.5
Pre-tax profit	-0.5	-0.8	-1.2	-1.3	-3.8	-0.2	-0.1	0.0	0.8	0.5	1.3	2.8
Tax	0.1	0.2	0.2	0.1	0.6	0.1	0.1	0.1	-0.2	0.1	-0.3	-0.6
<i>Tax rate (%)</i>	<i>19.9</i>	<i>20.1</i>	<i>20.0</i>	<i>9.7</i>	<i>16.4</i>	<i>55.3</i>	<i>102.9</i>	<i>-219.5</i>	<i>21.0</i>	<i>-25.3</i>	<i>21.0</i>	<i>21.0</i>
Net profit	-0.4	-0.6	-1.0	-1.2	-3.2	-0.1	0.0	0.1	0.6	0.7	1.0	2.2
EPS	-0.01	-0.02	-0.03	-0.03	-0.09	0.00	0.00	0.00	0.02	0.02	0.03	0.06
EPS adjusted (diluted no. of shares)	-0.01	-0.02	-0.03	-0.03	-0.09	0.00	0.00	0.00	0.02	0.02	0.03	0.06
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
<b>SALES, EURm</b>												
Innofactor	16.5	17.0	13.8	15.9	63.1	16.1	16.7	14.0	17.0	63.8	65.7	67.7
Total	16.5	17.0	13.8	15.9	63.1	16.1	16.7	14.0	17.0	63.8	65.7	67.7
<b>SALES GROWTH, Y/Y %</b>												
Innofactor	-4.5	-0.8	-2.5	-7.3	-3.8	-2.0	-2.1	1.4	7.0	1.0	3.0	3.0
Total	-4.5	-0.8	-2.5	-7.3	-3.8	-2.0	-2.1	1.4	7.0	1.0	3.0	3.0
<b>EBIT, EURm</b>												
Innofactor	-0.4	-0.6	-1.2	-1.7	-3.9	-0.1	0.2	0.3	1.0	1.3	1.9	3.4
Total	-0.4	-0.6	-1.2	-1.7	-3.9	-0.1	0.2	0.3	1.0	1.3	1.9	3.4
<b>EBIT margin, %</b>												
Innofactor	-2.2	-3.7	-8.6	-10.7	-6.1	-0.6	0.9	1.8	5.9	2.1	2.9	5.0
Total	-2.2	-3.7	-8.6	-10.7	-6.1	-0.6	0.9	1.8	5.9	2.1	2.9	5.0

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	43.8	44.5	59.6	65.7	63.1	63.8	65.7	67.7
<i>Sales growth (%)</i>	<i>34.1</i>	<i>1.4</i>	<i>34.1</i>	<i>10.1</i>	<i>-3.8</i>	<i>1.0</i>	<i>3.0</i>	<i>3.0</i>
EBITDA	3.8	3.7	4.8	1.3	-1.1	5.5	5.8	6.2
<i>EBITDA margin (%)</i>	<i>8.7</i>	<i>8.3</i>	<i>8.1</i>	<i>2.0</i>	<i>-1.7</i>	<i>8.7</i>	<i>8.8</i>	<i>9.1</i>
Depreciation	-1.4	-1.2	-2.5	-2.8	-2.8	-2.6	-2.3	-1.2
EBITA	2.4	2.5	2.3	-1.5	-3.9	1.3	1.9	3.4
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	2.4	2.5	2.3	-1.5	-3.9	1.3	1.9	3.4
<i>EBIT margin (%)</i>	<i>5.5</i>	<i>5.7</i>	<i>3.9</i>	<i>-2.2</i>	<i>-6.1</i>	<i>2.1</i>	<i>2.9</i>	<i>5.0</i>
Reported EBIT	2.4	2.5	2.3	-1.5	-3.9	1.3	1.9	3.4
<i>EBIT margin (reported) (%)</i>	<i>5.5</i>	<i>5.7</i>	<i>3.9</i>	<i>-2.2</i>	<i>-6.1</i>	<i>2.1</i>	<i>2.9</i>	<i>5.0</i>
Net financials	-0.5	-0.6	-0.4	-0.1	0.1	-0.8	-0.6	-0.5
Pre-tax profit	1.9	1.9	1.9	-1.6	-3.8	0.5	1.3	2.8
Taxes	-0.5	-0.4	-0.4	0.3	0.6	0.1	-0.3	-0.6
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	1.2	1.3	1.5	-1.3	-3.2	0.7	1.0	2.2
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET, EURm</b>								
Assets								
Fixed assets	4	4	10	8	7	5	3	3
Goodwill	20	20	28	26	26	26	26	26
Right of use assets	0	0	0	0	5	5	5	5
Inventory	0	0	0	0	0	0	0	0
Receivables	16	13	19	17	13	13	14	14
Liquid funds	1	1	1	1	0	2	2	2
Total assets	48	44	64	58	57	56	56	56
Liabilities								
Shareholder's equity	20	21	23	25	21	23	24	26
Minority interest	0	0	0	0	0	0	0	0
Convertibles	3	3	0	0	0	0	0	0
Lease liabilities	0	0	0	0	5	5	5	5
Deferred taxes	1	1	2	2	1	1	1	1
Interest bearing debt	11	9	17	14	15	13	11	9
Non-interest bearing current liabilities	13	9	22	17	14	14	15	15
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	48	44	64	58	57	56	56	56
<b>CASH FLOW, EURm</b>								
+ EBITDA	4	4	5	1	-1	6	6	6
- Net financial items	0	0	0	0	0	-1	-1	-1
- Taxes	0	0	2	0	0	0	0	-1
- Increase in Net Working Capital	-1	1	-1	2	0	0	0	0
+/- Other	0	-1	-3	1	0	0	0	0
= Cash flow from operations	2	3	3	4	0	5	5	5
- Capex	-1	0	-1	-2	-1	-2	-3	-3
- Acquisitions	0	-2	-6	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	1	1	-4	2	-1	3	2	2
+/- New issues/buybacks	2	1	0	4	0	1	0	0
- Paid dividend	0	0	0	0	0	0	0	0
+/- Other	-3	-2	5	-6	1	-2	-2	-2
Change in cash	0	0	0	0	-1	1	0	0

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	33	38	34	13	28	28	28
Net debt (excl. convertibles)	8	16	13	20	17	15	12
Enterprise value	44	54	47	33	45	43	40
Sales	44	60	66	63	64	66	68
EBITDA	4	5	1	-1	6	6	6
EBIT	3	2	-1	-4	1	2	3
Pre-tax	2	2	-2	-4	1	1	3
Earnings	1	1	-1	-3	1	1	2
Equity book value (excl. minorities)	21	23	25	21	23	24	26
<b>Valuation multiples</b>							
EV/sales	1.0	0.9	0.7	0.5	0.7	0.6	0.6
EV/EBITDA	12.0	11.2	36.2	-30.4	8.1	7.4	6.5
EV/EBITA	17.4	23.3	-32.4	-8.7	34.1	22.4	11.9
EV/EBIT	17.4	23.3	-32.4	-8.7	34.1	22.4	11.9
EV/OCF	12.8	17.4	11.6	-67.0	9.2	8.6	7.9
EV/FCFF	22.5	-17.6	11.5	-27.3	8.3	9.5	8.8
P/FCFE	25.3	-9.1	14.3	-11.1	9.2	12.2	11.8
P/E	26.0	25.8	-26.9	-4.1	41.4	27.5	12.5
P/B	1.5	1.7	1.4	0.6	1.2	1.2	1.1
Target EV/EBITDA	0.0	0.0	0.0	0.0	8.8	8.0	7.1
Target EV/EBIT	0.0	0.0	0.0	0.0	37.0	24.4	13.0
Target EV/FCF	0.0	0.0	0.0	0.0	16.0	20.2	18.5
Target P/B	0.0	0.0	0.0	0.0	1.4	1.3	1.2
Target P/E	0.0	0.0	0.0	0.0	46.9	31.2	14.1
<b>Per share measures</b>							
Number of shares	33,454	33,454	36,188	36,188	37,388	37,388	37,388
Number of shares (diluted)	33,454	33,454	36,188	36,188	37,388	37,388	37,388
EPS	0.04	0.04	-0.03	-0.09	0.02	0.03	0.06
Operating cash flow per share	0.10	0.09	0.11	-0.01	0.13	0.13	0.14
Free cash flow per share	0.04	-0.13	0.07	-0.03	0.08	0.06	0.06
Book value per share	0.64	0.67	0.68	0.59	0.60	0.63	0.69
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
FCF yield, %	4.0	-10.9	7.0	-9.0	10.9	8.2	8.5
<b>Efficiency measures</b>							
ROE	6.2	6.8	-5.3	-13.8	3.1	4.4	9.1
ROCE	7.6	6.4	-3.7	-9.6	3.2	4.7	8.4
<b>Financial ratios</b>							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	30.0	32.5	25.6	20.9	20.9	20.9	20.9
Non-interest bearing liabilities as % of sales	21.1	37.2	26.6	22.1	22.1	22.1	22.1
NWC/sales, %	8.8	-4.6	-1.0	-1.2	-1.2	-1.2	-1.2
Operative CAPEX/sales, %	1.1	1.4	2.6	1.1	2.9	4.0	4.0
CAPEX/sales (incl. acquisitions), %	-2.7	-9.4	2.6	1.1	2.9	4.0	4.0
FCFF/EBITDA	0.5	-0.6	3.1	1.1	1.0	0.8	0.7
Net debt/EBITDA, book-weighted	2.3	3.3	10.2	-18.6	3.0	2.5	2.0
Debt/equity, market-weighted	0.3	0.4	0.4	1.2	0.5	0.4	0.3
Equity ratio, book-weighted	55.8	35.4	42.5	37.3	40.1	42.3	46.0
Gearing, %	34.1	70.2	53.8	96.1	74.5	61.6	47.0

**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	7,880,237	5.910	21.1%
Ilmarinen Mutual Pension Insurance Company	1,800,000	1.350	4.8%
Jyrki Hallikainen	1,471,009	1.103	3.9%
Tilman Tuomo Tapani	1,265,437	0.949	3.4%
Laiho Rami Tapani	1,265,159	0.949	3.4%
Linturi Kaija and Risto	1,256,411	0.942	3.4%
Ärje Matias Juhanpoika	882,065	0.662	2.4%
Mäki Antti Jussi	877,192	0.658	2.3%
Saarelainen Mika Pekka	678,649	0.509	1.8%
Muukkonen Teemu Heikki	522,230	0.392	1.4%
Ten largest	17,898,389	13.424	48%
Residual	19,489,836	14.617	52%
Total	37,388,225	28.041	100%

**EARNINGS CALENDAR**

February 25, 2020	FY 2019 Results
May 05, 2020	Q1 report
July 28, 2020	Q2 report
October 27, 2020	Q3 report

**OTHER EVENTS**

**COMPANY MISCELLANEOUS**

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## DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

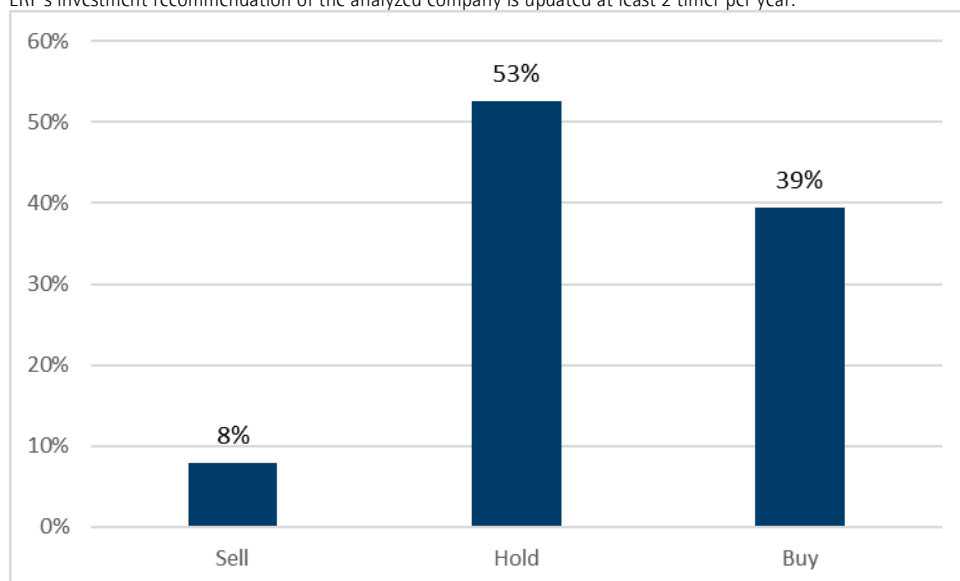
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Investment recommendations are defined as follows:

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

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

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