

Sustaining successful turnaround

Innofactor's Q4 results were slightly below our expectations, with net sales of EUR 17.4m (Evli 17.0m) and EBITDA of EUR 1.6m (Evli 2.0m). The business development remains favourable through a continued healthy order backlog and revenue mix. With significant improvements in cash generation and a reasonable financial situation M&A activity could again be on the table to supplement the service offering in the Nordics and speed up growth.

Continued healthier profitability

Innofactor's Q4 results were slightly shy of our expectations. Net sales grew 9.7% from the relatively weak comparison period to EUR 17.4m (Evli 17.0m) while EBITDA amounted to EUR 1.6m (Evli EUR 2.0m). Innofactor expects net sales and EBITDA in 2020 to increase from 2019. The order backlog remained at a good level of EUR 49.8m. Q4 saw no new significant orders but several orders have already been received during early 2020. The net sales mix remains favourable through a continued higher level of recurring revenue.

M&A activity could pick up

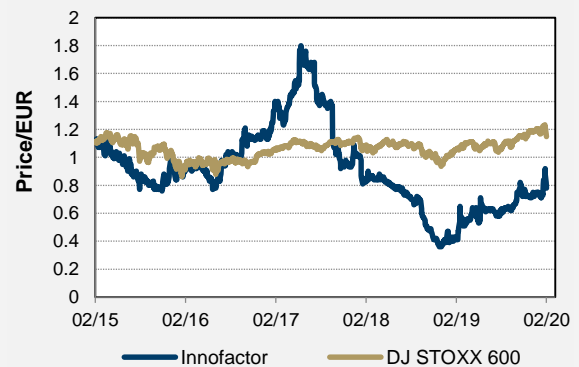
We continue to expect limited near-term growth (2020E: 4%) with the longer duration of the order backlog while expecting some further pick-up in margins (2020E: +1.2%p EBITDA-%). Wage inflation through changes to the Competitiveness Pact may pose a risk while the margin improvement potential remains supported by the to our understanding current suboptimal billing rates. With the improved cash generation and not particularly challenging financial position M&A activity could likely pick up again to supplement the offering of Innofactor's pan-Nordic platform and accelerate growth.

BUY with a target price of EUR 0.90 (0.85)

Innofactor is in our view continuing to show good progress in building up a healthier business. With valuation not overly stretched we retain our BUY-rating and raise our target price to EUR 0.90 (0.85).

Rating

BUY



Share price, EUR (Last trading day's closing price) 0.78

Target price, EUR 0.9

Latest change in recommendation 05-Jun-19

Latest report on company 30-Oct-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 29

Free float, % 47.0

Exchange rate EUR 0.000

Reuters code IFA1V.HE

Bloomberg code IFA1V.FH

Average daily volume, EURm 0.04

Next interim report 05-May-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
2018	63.1	-3.9	-6.1%	-1.7	-0.09	-4.1	0.5	-8.7	-13.2	0.00
2019	64.2	0.8	1.2%	4.4	0.01	64.6	0.7	53.8	16.3	0.00
2020E	66.7	1.7	2.5%	2.6	0.02	36.2	0.6	25.0	8.8	0.00
2021E	68.7	3.1	4.5%	2.7	0.06	14.1	0.6	12.8	9.3	0.00
2022E	70.5	4.4	6.2%	2.7	0.08	9.2	0.5	8.4	9.3	0.00
Market cap, EURm			29	Gearing 2020E, %			58.1	CAGR EPS 2019-22, %		96.7
Net debt 2020E, EURm			13	Price/book 2020E			1.3	CAGR sales 2019-22, %		3.2
Enterprise value, EURm			42	Dividend yield 2020E, %			0.0	ROE 2020E, %		3.6
Total assets 2020E, EURm			55	Tax rate 2020E, %			21.0	ROCE 2020E, %		4.4
Goodwill 2020E, EURm			26	Equity ratio 2020E, %			41.7	PEG, P/E 20/CAGR		0.7

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

Innofactor	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20E	Q2/'20E	Q3/'20E	Q4/'20E	2020E	2021E	2022E
Net sales	63.1	16.1	16.7	14.0	17.4	64.2	16.8	17.3	14.4	18.2	66.7	68.7	70.5
sales growth %	-3.8%	-2.0%	-2.1%	1.4%	9.7%	1.7%	4.0%	3.9%	3.4%	4.4%	4.0%	3.0%	2.5%
EBITDA	-1.1	0.9	1.1	1.5	1.6	5.1	1.2	1.4	1.4	2.1	6.1	6.4	6.7
EBITDA margin	-1.7%	5.4%	6.8%	11.0%	8.9%	7.9%	7.1%	8.1%	9.7%	11.5%	9.1%	9.4%	9.5%
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	-0.7	0.0
EBIT	-3.9	-0.1	0.2	0.3	0.5	0.8	0.1	0.3	0.3	1.0	1.7	3.1	4.4
EBIT margin	-6.1%	-0.6%	0.9%	1.8%	2.8%	1.2%	0.6%	1.7%	2.1%	5.5%	2.5%	4.5%	6.2%
Adj. EBIT (excl. acquisition depr.)	-1.8	0.4	0.7	0.8	1.0	2.8	0.6	0.8	0.8	1.5	3.7	3.8	4.4
Adj. EBIT margin	-2.9%	2.6%	4.0%	5.4%	5.7%	4.4%	3.6%	4.7%	5.6%	8.3%	5.5%	5.5%	6.2%

Source: Innofactor, Evli Research estimates

INNOFACTOR PEER GROUP	MCAP MEUR	EV/EBITDA			EV/EBIT			P/E		
		19	20	21	19	20	21	19	20	21
TietoEVRY	3015	8.8x	6.5x	6.1x	12.1x	8.5x	8.0x	14.5x	11.6x	10.7x
Atea	1190	11.9x	8.4x	7.4x	21.6x	14.6x	12.1x	22.6x	18.2x	14.8x
Knowit	327	10.6x	8.0x	7.4x	13.2x	9.8x	9.0x	14.5x	13.1x	11.9x
HiQ International	254	10.9x	9.7x	9.2x	13.6x	11.6x	10.9x	15.9x	15.2x	14.3x
Bouvet	416	13.2x	12.4x	11.3x	17.7x	16.1x	14.6x	23.3x	20.1x	18.2x
Enea	311	11.3x	10.3x	9.5x	15.6x	14.0x	13.2x	18.2x	15.9x	15.5x
Gofore	105							19.0x	15.8x	13.7x
Digia	120	8.1x	7.7x	7.3x	12.7x	11.4x	10.3x	16.7x	13.2x	12.0x
Sili Solutions	63	8.3x	6.7x		12.4x	10.2x		15.9x	12.9x	
Solteq	27	6.8x	6.6x	6.1x	12.2x	12.6x	11.6x	10.8x	11.7x	10.2x
Peer Group Average	583	10.0x	8.5x	8.0x	14.6x	12.1x	11.2x	17.1x	14.8x	13.5x
Peer Group Median	283	10.6x	8.0x	7.4x	13.2x	11.6x	11.3x	16.3x	14.2x	13.7x
Innofactor (Evli est.)	29	8.4x	7.0x	6.2x	53.8x	25.0x	12.8x	64.6x	36.2x	14.1x
Innofactor prem./disc. to peer median		-21%	-13%	-17%	309%	115%	14%	296%	155%	3%
Innofactor adj.* (Evli est.)	29	8.4x	7.0x	6.2x	15.2x	11.5x	10.5x	13.2x	12.1x	11.1x
Innofactor prem./disc. to peer median		-21%	-13%	-17%	15%	-1%	-7%	-19%	-15%	-19%

Source FactSet, Evli Research

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1E	2020Q2E	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	16.1	16.7	14.0	17.4	64.2	16.8	17.3	14.4	18.2	66.7	68.7	70.5
EBITDA	0.9	1.1	1.5	1.6	5.1	1.2	1.4	1.4	2.1	6.1	6.4	6.7
<i>EBITDA margin (%)</i>	<i>5.4</i>	<i>6.8</i>	<i>11.0</i>	<i>8.9</i>	<i>7.9</i>	<i>7.1</i>	<i>8.1</i>	<i>9.7</i>	<i>11.5</i>	<i>9.1</i>	<i>9.4</i>	<i>9.5</i>
EBIT	-0.1	0.2	0.3	0.5	0.8	0.1	0.3	0.3	1.0	1.7	3.1	4.4
<i>EBIT margin (%)</i>	<i>-0.6</i>	<i>0.9</i>	<i>1.8</i>	<i>2.8</i>	<i>1.2</i>	<i>0.6</i>	<i>1.7</i>	<i>2.1</i>	<i>5.5</i>	<i>2.5</i>	<i>4.5</i>	<i>6.2</i>
Net financial items	-0.1	-0.3	-0.2	-0.2	-0.8	-0.2	-0.2	-0.2	-0.2	-0.7	-0.5	-0.4
Pre-tax profit	-0.2	-0.1	0.0	0.3	0.0	-0.1	0.1	0.1	0.8	1.0	2.6	4.0
Tax	0.1	0.1	0.1	0.1	0.4	0.0	0.0	0.0	-0.2	-0.2	-0.6	-0.8
<i>Tax rate (%)</i>	<i>55.3</i>	<i>102.9</i>	<i>-219.5</i>	<i>-37.4</i>	<i>-3,690.9</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>	<i>21.0</i>
Net profit	-0.1	0.0	0.1	0.4	0.4	-0.1	0.1	0.1	0.7	0.8	2.1	3.2
EPS	0.00	0.00	0.00	0.01	0.01	0.00	0.00	0.00	0.02	0.02	0.06	0.08
EPS adjusted (diluted no. of shares)	0.00	0.00	0.00	0.01	0.01	0.00	0.00	0.00	0.02	0.02	0.06	0.08
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	16.1	16.7	14.0	17.4	64.2	16.8	17.3	14.4	18.2	66.7	68.7	70.5
Total	16.1	16.7	14.0	17.4	64.2	16.8	17.3	14.4	18.2	66.7	68.7	70.5
SALES GROWTH, Y/Y %												
Innofactor	-2.0	-2.1	1.4	9.7	1.7	4.0	3.9	3.4	4.4	4.0	3.0	2.5
Total	-2.0	-2.1	1.4	9.7	1.7	4.0	3.9	3.4	4.4	4.0	3.0	2.5
EBIT, EURm												
Innofactor	-0.1	0.2	0.3	0.5	0.8	0.1	0.3	0.3	1.0	1.7	3.1	4.4
Total	-0.1	0.2	0.3	0.5	0.8	0.1	0.3	0.3	1.0	1.7	3.1	4.4
EBIT margin, %												
Innofactor	-0.6	0.9	1.8	2.8	1.2	0.6	1.7	2.1	5.5	2.5	4.5	6.2
Total	-0.6	0.9	1.8	2.8	1.2	0.6	1.7	2.1	5.5	2.5	4.5	6.2

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	44.5	59.6	65.7	63.1	64.2	66.7	68.7	70.5
<i>Sales growth (%)</i>	<i>1.4</i>	<i>34.1</i>	<i>10.1</i>	<i>-3.8</i>	<i>1.7</i>	<i>4.0</i>	<i>3.0</i>	<i>2.5</i>
EBITDA	3.7	4.8	1.3	-1.1	5.1	6.1	6.4	6.7
<i>EBITDA margin (%)</i>	<i>8.3</i>	<i>8.1</i>	<i>2.0</i>	<i>-1.7</i>	<i>7.9</i>	<i>9.1</i>	<i>9.4</i>	<i>9.5</i>
Depreciation	-1.2	-2.5	-2.8	-2.8	-4.3	-4.4	-3.3	-2.3
EBITA	2.5	2.3	-1.5	-3.9	0.8	1.7	3.1	4.4
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	2.5	2.3	-1.5	-3.9	0.8	1.7	3.1	4.4
<i>EBIT margin (%)</i>	<i>5.7</i>	<i>3.9</i>	<i>-2.2</i>	<i>-6.1</i>	<i>1.2</i>	<i>2.5</i>	<i>4.5</i>	<i>6.2</i>
Reported EBIT	2.5	2.3	-1.5	-3.9	0.8	1.7	3.1	4.4
<i>EBIT margin (reported) (%)</i>	<i>5.7</i>	<i>3.9</i>	<i>-2.2</i>	<i>-6.1</i>	<i>1.2</i>	<i>2.5</i>	<i>4.5</i>	<i>6.2</i>
Net financials	-0.6	-0.4	-0.1	0.1	-0.8	-0.7	-0.5	-0.4
Pre-tax profit	1.9	1.9	-1.6	-3.8	0.0	1.0	2.6	4.0
Taxes	-0.4	-0.4	0.3	0.6	0.4	-0.2	-0.6	-0.8
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	1.3	1.5	-1.3	-3.2	0.4	0.8	2.1	3.2
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
BALANCE SHEET, EURm								
Assets								
Fixed assets	4	10	8	7	4	2	2	2
Goodwill	20	28	26	26	26	26	26	26
Right of use assets	0	0	0	5	5	5	5	5
Inventory	0	0	0	0	0	0	0	0
Receivables	13	19	17	13	14	15	15	15
Liquid funds	1	1	1	0	1	1	2	2
Total assets	44	64	58	57	56	55	55	56
Liabilities								
Shareholder's equity	21	23	25	21	22	23	25	28
Minority interest	0	0	0	0	0	0	0	0
Convertibles	3	0	0	0	0	0	0	0
Lease liabilities	0	0	0	5	5	5	5	5
Deferred taxes	1	2	2	1	1	1	1	1
Interest bearing debt	9	17	14	15	12	10	7	4
Non-interest bearing current liabilities	9	22	17	14	16	17	17	17
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	44	64	58	57	56	55	55	56
CASH FLOW, EURm								
+ EBITDA	4	5	1	-1	5	6	6	7
- Net financial items	0	0	0	0	-1	-1	0	0
- Taxes	0	2	0	0	0	0	-1	-1
- Increase in Net Working Capital	1	-1	2	1	2	0	0	0
+/- Other	-1	-2	1	-1	0	0	0	0
= Cash flow from operations	3	3	4	-1	6	5	5	6
- Capex	0	-1	-2	-1	-2	-3	-3	-3
- Acquisitions	-2	-6	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	1	-4	2	-2	4	3	3	3
+/- New issues/buybacks	1	0	4	0	0	0	0	0
- Paid dividend	0	0	0	0	0	0	0	0
+/- Other	-2	5	-6	1	-4	-2	-2	-3
Change in cash	0	0	0	-1	1	0	0	0

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	38	34	13	27	29	29	29
Net debt (excl. convertibles)	16	13	20	16	13	11	8
Enterprise value	54	47	33	43	42	40	37
Sales	60	66	63	64	67	69	70
EBITDA	5	1	-1	5	6	6	7
EBIT	2	-1	-4	1	2	3	4
Pre-tax	2	-2	-4	0	1	3	4
Earnings	1	-1	-3	0	1	2	3
Equity book value (excl. minorities)	23	25	21	22	23	25	28
Valuation multiples							
EV/sales	0.9	0.7	0.5	0.7	0.6	0.6	0.5
EV/EBITDA	11.2	36.2	-30.4	8.4	7.0	6.2	5.5
EV/EBITA	23.3	-32.4	-8.7	53.8	25.0	12.8	8.4
EV/EBIT	23.3	-32.4	-8.7	53.8	25.0	12.8	8.4
EV/OCF	17.4	11.4	-57.7	6.9	8.1	7.3	6.7
EV/FCFF	-17.6	17.1	-17.9	6.9	8.7	8.1	7.6
P/FCFE	-9.1	13.7	-7.6	6.1	11.4	10.8	10.8
P/E	25.8	-26.9	-4.1	64.6	36.2	14.1	9.2
P/B	1.7	1.4	0.6	1.2	1.3	1.2	1.0
Target EV/EBITDA	0.0	0.0	0.0	0.0	7.7	6.9	6.2
Target EV/EBIT	0.0	0.0	0.0	0.0	27.6	14.3	9.4
Target EV/FCF	0.0	0.0	0.0	0.0	18.4	16.4	15.4
Target P/B	0.0	0.0	0.0	0.0	1.5	1.3	1.2
Target P/E	0.0	0.0	0.0	0.0	41.8	16.2	10.6
Per share measures							
Number of shares	33,454	36,188	36,188	37,388	37,388	37,388	37,388
Number of shares (diluted)	33,454	36,188	36,188	37,388	37,388	37,388	37,388
EPS	0.04	-0.03	-0.09	0.01	0.02	0.06	0.08
Operating cash flow per share	0.09	0.12	-0.02	0.17	0.14	0.15	0.15
Free cash flow per share	-0.13	0.07	-0.05	0.12	0.07	0.07	0.07
Book value per share	0.67	0.68	0.59	0.59	0.61	0.67	0.75
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, %	-10.9	7.3	-13.2	16.3	8.8	9.3	9.3
Efficiency measures							
ROE	6.8	-5.3	-13.8	1.9	3.6	8.7	11.9
ROCE	6.4	-3.7	-9.6	2.0	4.4	8.3	11.7
Financial ratios							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	32.5	25.6	20.9	21.9	21.9	21.9	21.9
Non-interest bearing liabilities as % of sales	37.2	26.6	22.1	24.8	24.8	24.8	24.8
NWC/sales, %	-4.6	-1.0	-1.2	-2.9	-2.9	-2.9	-2.9
Operative CAPEX/sales, %	1.4	2.6	1.8	2.8	4.1	4.0	4.0
CAPEX/sales (incl. acquisitions), %	-9.4	2.6	1.8	2.8	4.1	4.0	4.0
FCFF/EBITDA	-0.6	2.1	1.7	1.2	0.8	0.8	0.7
Net debt/EBITDA, book-weighted	3.3	10.2	-18.6	3.1	2.2	1.7	1.2
Debt/equity, market-weighted	0.4	0.4	1.2	0.4	0.3	0.2	0.2
Equity ratio, book-weighted	35.4	42.5	37.3	39.7	41.7	45.3	50.2
Gearing, %	70.2	53.8	96.1	71.8	58.1	42.5	28.1

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. Innofactor has operations in Finland, Sweden, Denmark, and Norway.

INVESTMENT CASE: Innofactor has been showing recovery from a few years of subpar performance, caused primarily by integration issues relating to its pan-Nordic platform. Focus in the near-term should still remain on actions to improve margins and sorting out challenges relating to international operations. Good traction for Microsoft's enterprise solutions supports growth outlook going forward.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Ensio Sami	7,880,237	6.147	21.1%
Ilmarinen Mutual Pension Insurance Company	1,800,000	1.404	4.8%
Jyrki Hallikainen	1,471,009	1.147	3.9%
Laiho Rami Tapani	1,262,159	0.984	3.4%
Linturi Kaija and Risto	1,256,411	0.980	3.4%
Tilman Tuomo Tapani	1,020,937	0.796	2.7%
Ärje Matias Juhanpoika	882,065	0.688	2.4%
Mäki Antti Jussi	877,192	0.684	2.3%
Saarelainen Mika Pekka	678,649	0.529	1.8%
Muukkonen Teemu Heikki	522,230	0.407	1.4%
Ten largest	17,650,889	13.768	47%
Residual	19,737,336	15.395	53%
Total	37,388,225	29.163	100%

EARNINGS CALENDAR	
May 05, 2020	Q1 report
July 28, 2020	Q2 report
October 27, 2020	Q3 report
OTHER EVENTS	
March 31, 2020	AGM

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, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

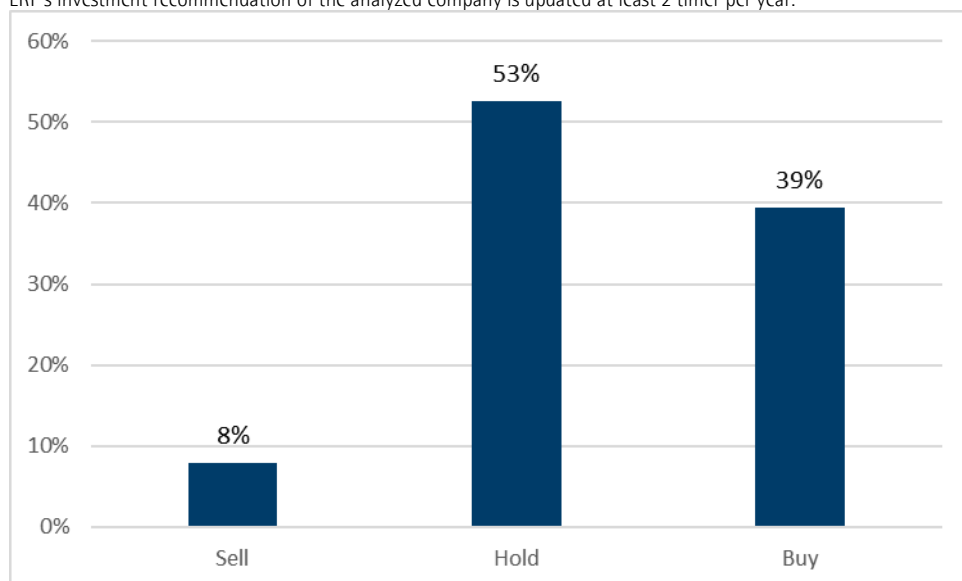
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Investment recommendations are defined as follows:

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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