

Initiating coverage with HOLD

Solteq has during the past years sought to shift its focus towards own cloud-based software products and services from a more IT-services oriented past. The strategic approach coupled with an increased focus on expansion internationally and new product development investments offer growth opportunities and margin improvement potential but the early stages of Solteq's transition warrants caution. We initiate coverage of Solteq with a HOLD-rating and a target price of EUR 1.40.

Shifting focus towards own products and related services

Solteq is striving to transition from its more IT-services oriented past towards a company focused on own software products and related services, with strengths within commerce related solutions. Growth is sought from expansion internationally and product development investments such as autonomous service robotics solutions, while actions taken to enhance operational efficiency have and continue to aid margins.

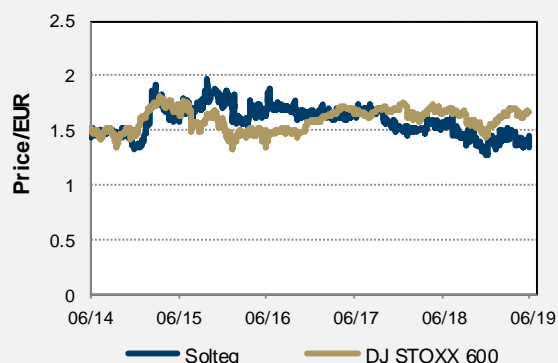
Expect margin improvement and moderate growth

We expect a sales CAGR of near 3.5% between 2018-2021E, not including likely acquisitions, which have been elemental in achieving an average growth rate of over 10% p.a. since 2010. Operating profit margin development has been aided by actions to enhance operational efficiency and we expect further improvement to 6.8% in 2019E (2018: 4.3%).

Initiating coverage with HOLD and TP of EUR 1.40

We initiate coverage of Solteq with a HOLD-rating and a target price of EUR 1.40. Our valuation relies mainly on public Nordic IT-services oriented peer multiples. Based on our estimates and current valuation the 2019E and 2020E EV/EBIT and P/E multiples do not imply any notable upside, with the multiples generally in line with peers. Main drivers for valuation upside would in our view be faster revenue growth and margin improvement through a more rapid shift in the product mix and growth internationally. Investments into autonomous service robotics solutions are also a yet unproven but potentially very lucrative bet.

Rating



Share price, EUR (Last trading day's closing price) 1.45

Target price, EUR 1.4

Latest change in recommendation 27-Jun-19

Latest report on company -

Research paid by issuer: YES

No. of shares outstanding, '000's 19,307

No. of shares fully diluted, '000's 19,307

Market cap, EURm 28

Free float, % 43.0

Exchange rate -

Reuters code SOLTEQ.HE

Bloomberg code SOLTEQ FH

Average daily volume, EURm -

Next interim report 13-Aug-19

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2017	51	0	0.6%	-1	-0.08	-18.3	1.0	-239.0	168.7	0.00
2018	57	2	4.3%	1	0.02	69.9	1.0	2.6	22.0	0.00
2019E	58	4	6.8%	2	0.09	17.0	1.0	4.1	14.1	0.03
2020E	61	5	7.5%	3	0.12	12.4	0.9	3.7	11.8	0.04
2021E	63	5	7.8%	3	0.13	10.8	0.8	3.5	10.7	0.04
Market cap, EURm	28		BV per share 2019E, EUR		1.2		CAGR EPS 2018-21, %		93.3	
Net debt 2019E, EURm	28		Price/book 2019E		1.2		CAGR sales 2018-21, %		3.4	
Enterprise value, EURm	56		Dividend yield 2019E, %		1.8		ROE 2019E, %		7.3	
Total assets 2019E, EURm	74		Tax rate 2019E, %		21.9		ROCE 2019E, %		7.0	
Goodwill 2019E, EURm	40		Equity ratio 2019E, %		31.6		PEG, P/E 19/CAGR		0.8	

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

Investment Summary

Nordic software and IT-services provider, strength in commerce related solutions

Solteq is a Nordic software and IT-services provider specializing in digital business solutions. Solteq's strength has been in commerce related solutions with a focus on selected sectors, namely the retail and wholesale, industry, energy, and services sectors. Solteq operates in six countries: Finland, Sweden, Norway, Denmark, the UK and Poland (resource center) and has close to 600 employees.

Shifting focus towards own software and related services

Solteq's offering has in the past to a large extent emphasized different IT-services solutions. The company has during the past years sought to shift its focus towards own cloud-based software products and services and has increased its product development investments within for instance autonomous service robotics solutions. Solteq has been developing an inventory management robot that it is currently piloting with a retail operator in Finland.

Adjusted average revenue growth > 10% p.a. between 2010-2018, driven by acquisitions

Solteq has been growing steadily in the past years with an adjusted annual revenue growth of over 10% during 2010-2018. Acquisitions have played a significant role in growth, with eight acquisitions having been made since 2012, both in Finland and the Nordics. Solteq's revenue in 2018 amounted to EUR 56.9m and with growth of 12.1% y/y.

Actions to improve operational profitability aided margin development in 2018

Profitability, as measured through the adjusted operating margin, has during the past five years on average remained quite steadily at around 5%, although seeing a slightly declining trend up until 2018. Solteq's operations had not been developing as desired and actions taken to improve operational efficiency through rearrangements and cost cutting in recent years contributed to the adjusted operating margin increasing to 5.5% in 2018 (2017: 4.1%).

Sales CAGR estimate for 2018-2021E close to 3.5% excluding likely acquisitions

We expect a sales CAGR between 2018-2021E of nearly 3.5%. Our estimates do not include any inorganic growth apart from that of already completed transaction in 2018, although the likelihood of further acquisitions in the coming years in our view is very high given Solteq's history of acquisitions. We expect growth to rely on expansion outside of Finland, where growth opportunities are significant. Further development and commercialization of the Point-of-Commerce -concepts will in our view aid in boosting the revenue growth pace going into 2020.

Expect operating profit margins to improve to near 8% by 2021E

We expect an operating profit margin of 6.8% in 2019E, followed by gradual improvement to near 8.0% in 2021E. Our estimates rely on margin improvement from the actions already taken to improve profitability and also to a smaller degree a shift in the product mix towards own software and services. In our view Solteq presents potential for larger margin improvements given a more rapid increase in the share of own software products and continuous services, to which we however still remain cautious with Solteq in our view still being in the earlier stages of its transition towards becoming a software company.

Initiate coverage with HOLD and target price of EUR 1.40

We initiate coverage of Solteq with a HOLD rating and a target price of EUR 1.40. Our valuation relies mainly on public Nordic IT-services oriented peer multiples. Based on our estimates and current valuation the 2019E and 2020E EV/EBIT and P/E multiples do not imply any notable upside, with the multiples generally in line with peers. Main drivers for valuation upside would in our view be faster revenue growth and margin improvement through a more rapid shift in the product mix and growth internationally. The autonomous service robotics solutions are also a bet that could prove to be very lucrative, but we remain rather conservative in our estimates given the yet lacking proof of success

Company overview

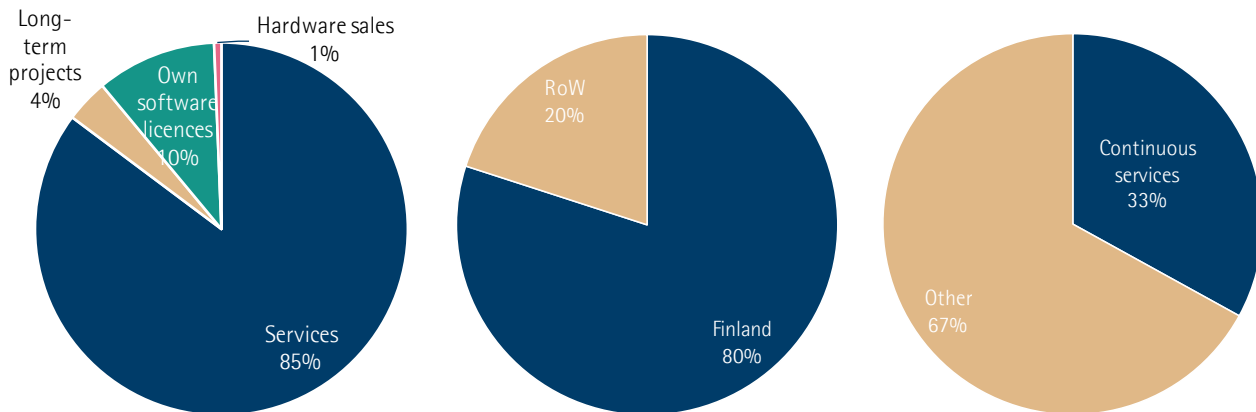
Nordic software and IT-services provider

Solteq is a Nordic software and IT-services provider specializing in digital business solutions. Solteq's services and solutions range from digital business development consulting and service design to implementation and maintenance. Solteq both develops own software and uses several technology partners. Solteq's offering has in the past to a large extent emphasized different IT-services solutions. The company has during the past years sought to shift its focus towards own cloud-based software products and services and has invested in for instance autonomous service robotics solutions.

Nearly 600 employees in six countries

The company was formed in 1982 and listed in 1999 in OMX Helsinki. Solteq operates in six countries: Finland, Sweden, Norway, Denmark, the UK and Poland (resource center). The company employs close to 600 IT professionals in 14 offices. Solteq's strengths have been in the sectors of retail and wholesale, industry, energy, and services. Typical customers for Solteq are Finnish and Western European wholesale businesses, retail chains, restaurant businesses and the energy sector customers.

Figure 1: Solteq's revenue split by operation, geography and share of continuous services (2018)



Source: Solteq, Evli Research

Finland main revenue source

Solteq operates in the Nordic IT-service market, with business expertise in the retail and wholesale, logistics, hospitality sector, manufacturing industry and energy sectors. Solteq's relative strength lies in commerce related products and services. Geographically the main source of revenue for the company is Finland. In 2018, one fifth of the Solteq Group's revenue originated from outside of Finland and the share has been growing. Continuous services accounted for one third of the whole Group's revenue.

Solteq is actively seeking to transform itself more towards a software company from mainly having been an IT-services provider. The technology choices the company has made are based on growing market trends such as cloud services, Software-as-a-service (SaaS), artificial intelligence and analytics and robotics. Solteq has made significant investments in developing cloud-based solutions and products that combine AI and autonomous service robotics.

2010-2018 adj. average annual growth over 10%¹, mainly through acquisitions

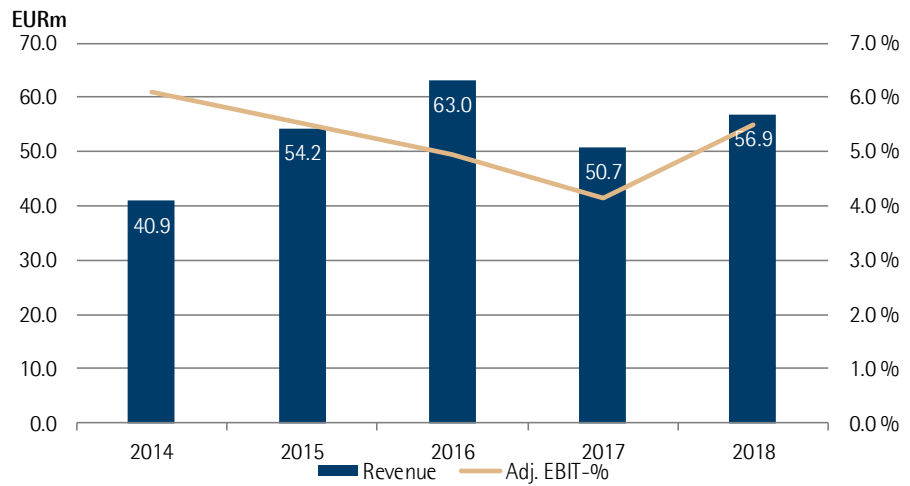
Solteq has been growing steadily in the past years, through both organic growth and M&A, with an adjusted annual revenue growth of over 10%. Since 2012, the company has been active on the acquisitions front, acquiring eight businesses, both in Finland and in Northern Europe. Through acquisitions Solteq has expanded into new industries and markets outside Finland, broadening its offering and customer base.

¹ Comparability issues in historical revenue due to adoption of IFRS 15

Increased operational efficiency aided margin development in 2018

Solteq's profitability, as measured through the adjusted operating margin, has been declining up until 2018. Solteq's operations were not developing as desired and actions taken to improve operational efficiency through rearrangements and cost cutting in recent years contributed to margins increasing in 2018. Solteq expects its operating profit in 2019 to grow clearly compared to 2018.

Figure 2: Solteq's revenue and adj. EBIT-%

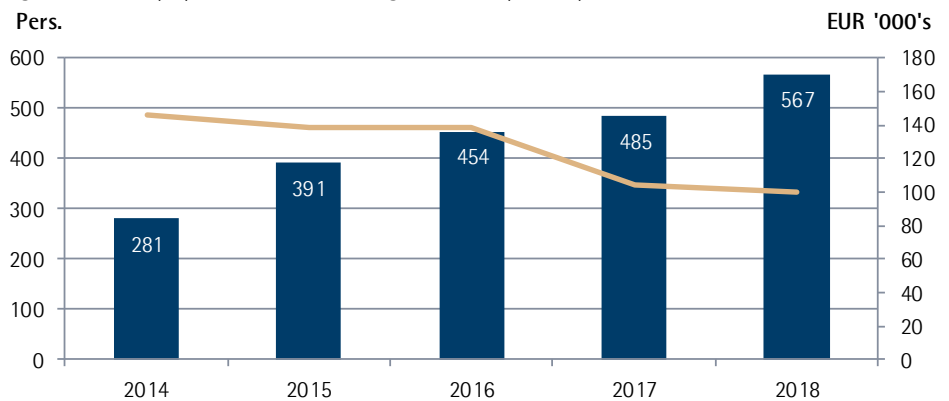


Source: Solteq, Evli Research

Number of employees doubled since 2014

Solteq's personnel has been growing significantly in recent years, mostly because of the activity on the acquisitions front. The number of employees has doubled from 281 in 2014 to 567 employees in 2018. The average revenue per employee has been declining slightly, with the larger change between 2016-2017 due to IFRS 15 changes. The increased investments in R&D have also played a role, with for instance investments in autonomous service robotics yet to show in revenue. Solteq has not disclosed its personnel composition and as such for instance not the size of its sales force.

Figure 3: Solteq's personnel and average revenue per employee



Source: Solteq, Evli Research

Private equity firm Sentica biggest shareholder

At the end of Q1/2019, Solteq had a total of 2.168 (2.237) shareholders. Solteq's 10 largest shareholders owned 68.7 % of the company's shares and votes. The biggest shareholder is private equity company Sentica with a around 25 % ownership through its Sentica Buyout III and Sentica Buyout III Co-Investment funds. Sentica invested in the company in 2009. Sentica has not made any larger share divestments in the past years.

Business model

Solteq operates as a software and IT-services provider specializing in digital business solutions. The company employs nearly 600 IT professionals. The focus of the service and solutions offering has in recent years shifted towards own cloud-based software products and services and investments have been made in for instance autonomous service robotics solutions.



Operations in Finland, Sweden, Denmark, Norway, and the UK. Resource center in Poland.

Expansion to Denmark and Norway through the acquisition of TM United A/S in 2018.

First UK office opened in London in 2018. First customer is major multinational retailer Marks & Spencer.

Finland still main source of revenue, around 80% during 2018.

Focusing on retail and wholesale, energy, industrials and services sectors

Whereas many other IT-companies, in particular the large IT generalists such as Finnish Tieto, target a larger portion of the IT market as a whole, Solteq has sought to focus on certain sectors where the company has established a solid presence and can provide competitive products. A key sector for Solteq has been retail and wholesale, where the service offering covers the needs of customers ranging from single store payment solutions to large store chains' IT processes. Other sectors of strength include energy, industrials, and services.

With a majority of revenue stemming Finland, Solteq's customers are mainly Finnish companies ranging from small private companies to the larger public companies. Solteq doesn't report any of the customers but for example on retail side almost all large players incl. Kesko, S-Group and Tokmanni in Finland are Solteq's clients. Solteq has also mentioned Assa Abloy and Konecranes as references. No single client accounts for more than 10% of revenue.

Solteq's core strength product-wise lies in commerce related solutions

Solteq's offering includes a range of sector-oriented solutions and services. Solteq's relative strength lies in commerce related solutions. As such, Solteq has within the retail and wholesale sector in Finland enjoyed a formidable position, with a vast number of stores and retailing chains using its solutions. This is however also reflected in the offering within its other key sectors, with solutions mainly in the realm of for instance invoicing, customer data management, cash register, and supply chain management. An integral part of Solteq's solutions in the past have been on-premise Point of Sale (POS) systems, such as cash register software Tekso, and on-premise ERP solutions, such as the already during the 80's developed Profix.

Offerings focus shifting towards own software and related services and SaaS delivery models

Solteq has sought to increase the share of its own software and related services, which accounted for a third of revenue in Q1/19. Solteq strives to offer the products as cloud-based products delivered as a Software as a Service-model (SaaS), where customers after implementation of the product pay an on-going subscription fee for the right of use of the product. In general, for software products offered in this manner, implementation of a new product for smaller customers requires little to no modification work while larger customers may require substantial resource efforts, possibly spanning up to a year, to adapt a solution to the customers other processes and systems. While the SaaS subscription fees are recurring revenue, the development work will typically only create a large amount of revenue in the early stages of the product lifecycle. Solteq has not disclosed the share of recurring revenue of the software and related services revenue. Parts of the revenue to our understanding also relate to older products under different delivery models. The company tracks its ARR (Annual Recurring Revenue) but has not published the figures due to insufficient comparison period data according to management.

The cloud-based SaaS delivery model has in recent years been growing rapidly and is particularly attractive due to difference in revenue recognition compared to more traditional perpetual license model, which we have illustrated in figures 3 and 4. While the more traditional delivery models typically involve large upfront costs the revenue in future years would be limited to minor maintenance income and software upgrades. With the SaaS model the upfront revenue is smaller and dependent on a need for product modification, while cash flows over time are larger due to the on-going subscription fees and future need for additional licenses.

Figure 4: Revenue streams SaaS vs. perpetual license deal

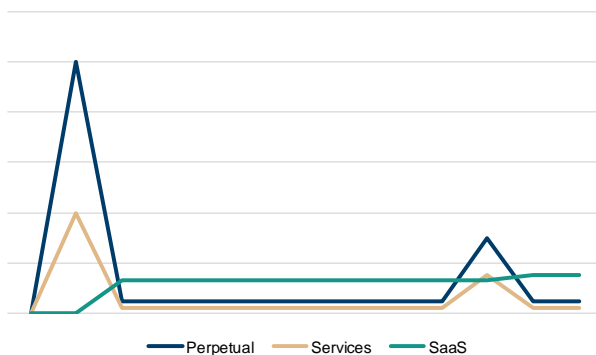
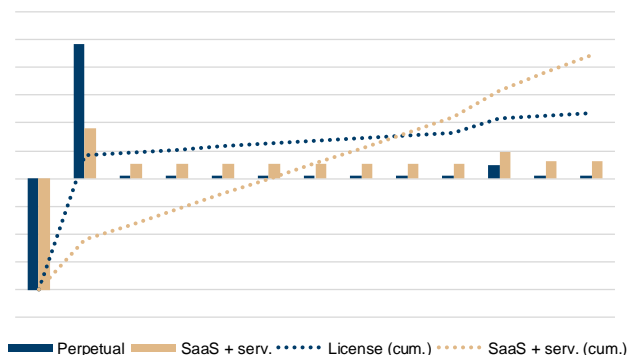


Figure 5: Cash flows SaaS vs. perpetual license deal



Source: Evli Research. Simplified, for illustrative purposes only

Solteq's own software and solutions can be divided into horizontal solutions, vertical solutions, and vertical commercial concepts (Point-of-Commerce). The own software-based horizontal solutions are within the fields of data & analytics, robotics and integration while the vertical solutions are focused on several niche areas such as automotive, healthcare, restaurants, retail & wholesale and utilities. The vertical commercial concepts include Smart Retail, Smart Restaurant and Smart Utilities. Solteq Smart Retail is a framework, offered as a service with a monthly fee model, that ties multiple solutions together for retailers to drive highly profitable business and excellent customer experience. The solutions based on own software and services accounted for roughly a third of Solteq's revenue in 2018. Furthermore, Solteq's Digital Services offering consists of solutions that utilize third-party software and solutions. The offering consists of solutions and services related to data and analytics (BI and IoT), digital business solutions (incl. for instance eCommerce, PIM, and order management), ERP, store and hospital services (NAV and SAP, LS Retail and LS Hospital, and POS) and other services (incl. for instance cloud infra and software integration services, and consultative and support services).

POS-systems remain important, seeking to further develop offering

Following further digitalization of businesses and the emergence of cloud services Solteq has also sought to expand its offering. POS-systems still remain of importance, but the offering is being developed to facilitate in particular the usage of cloud-based services. One of the more interesting solutions under development is Solteq's Point-of-Commerce -concept, which essentially would serve as a cloud-based POS integration solution offering solid potential for scalability and horizontal and cross-border expansion. The solutions are designed in particular for the retailing and wholesale sector. Solteq has also sought to further develop its analytics knowledge and offering. For instance, with the acquisition of TM United, Solteq acquired the Deep Vision service, a tool for analysing customer behaviour to optimize user online experiences.



Solteq's retail robot

Robotics investments – commercial success yet to be proven

Solteq has also made investments into robotics solutions. Aside from already having developed robotics software, Solteq has been developing an inventory management robot that in a retail environment would be capable of autonomously scanning through shelves and identifying and counting products. The data could be utilized in matching the accounts and doing inventory. The robot is based on Solteq's own IPR and hardware production has been done in collaboration with a partner. A typical grocery store from 500 sqm upwards would be a potential customer, which would offer significant market potential. The service can be integrated with Point of Sale, product information management and ERP systems. The solutions are to be offered as a robotics-as-a-service business model. The platform is generic and can be customized according to the client's need. The pricing could be an initial investment plus cloud data or the fixed monthly fee. Solteq is currently piloting the robot with a retail operator in Finland in the Capital Region. Further potential is also seen in for instance the hospital industry and Solteq has successfully participated in a tender offer for the development of a robot for transporting hospital small volume waste, yet subject to final approvals.

Solteq uses several well-known technology partners when serving its customers. These include market leaders such as Microsoft, IBM, SAP. According to the management Microsoft has proven the Azure service and has a positive approach to partner activity and that's why Azure has been chosen. Microsoft and Oracle further announced an intention to team up on cloud services, in an attempt to challenge the cloud services market leader Amazon, which could likely improve Microsoft's position.

Figure 6: Solteq's technology partners



Source: Solteq, Evli Research

Strategy

International growth key part of strategy

Solteq announced its strategy for the years 2016-2019 in May 2016, with a focus on strong growth with an emphasis on international digital commerce and improvement of customer experience. Solteq has refined its strategy and emphasized the internationalization aspect together with investments in development of own software. The company aims to position itself as a Nordic industry-independent IT provider and software house that specialises in digital business solutions. The company aims to serve those industries whose traditional operating models are being shaken by the digital revolution. Business opportunities are expanding as more industries recognise the need for optimised digital customer engagement solutions.

The growth strategy focuses on international ecommerce and improving the customer experience. In the core of Solteq's strategy are: growth, internationalization, competitive advantage, mergers & acquisitions and people. The other corner stone of Solteq's strategy is investments in research and development of existing own software and development of new software.

Acquisitions and opening of new markets in 2018

Internationalization is an essential aspect of Solteq's growth strategy. The company has been active in the M&A field, with eight acquisitions since 2012. During 2018, Solteq integrated the acquisitions made during 2017 into the Solteq Group. The acquisitions enabled Solteq to expand into Denmark and Norway. In addition to these, Solteq opened a new office in London at the end of 2018. In our view internationalization should be considered a crucial part in the success of the company's growth ambitions, as the sector focus limits the growth potential and Solteq is experiencing growth caps in the retail and wholesale sector in Finland.

Accelerated investments into new solutions areas such as robotics

Solteq is expecting strong growth in cloud services in the future and is making investments accordingly. In 2018 Solteq made significant investments in the development of its own cloud-based solutions as well as products that combine automation, AI and robotics. Simultaneously Solteq continued the development of its existing products. The aim of these investments was to accelerate the service-based business. The Group's total investments in product development in 2018 totalled €2.3m, or 4 % of revenue. Solteq has further established an Incubator business unit, with the goal to develop and commercialize the possibilities offered by new technology, active especially in the fields of artificial intelligence, machine learning and robotics.

Long-term targets

Performance still lagging behind the long-term targets

Solteq has defined long-term targets for its 2016-2019 strategy. The annual growth in revenue is targeted to be above 20%. For the operating profit margin, the company is aiming to achieve a margin of 8% while the target for the financial position is to keep the net debt / EBITDA ratio below 3.5. As for dividend policy, Solteq strives to pay out approximately 30% of its net earnings. Solteq has been struggling to reach the targets and of the growth and profitability targets only the latter has been reached once. Solteq's long-term targets have not yet been updated to encompass the new strategic approach.

Solteq plans to achieve the targeted growth rate through organic growth both in Finland and abroad, while a majority of the growth is expected to realize through acquisitions. The most significant factor affecting the operating profit margin is operational improvements and cost reductions undertaken in the company. According to Solteq, the effects of rapid growth are taken into consideration when estimating a realistic target operating profit margin. The debt ratio is intended to be kept at moderate levels, to enable operational development and efficient use of capital. Solteq has defined a dividend policy under which it intends to pay out approximately 30% of the net earnings

to owners. Solteq has not paid a dividend since fiscal year 2016. Solteq's ability to pay dividends has been hindered by loan covenants, namely the net IB debt / EBITDA ratio.

Figure 7: Solteq's long-term targets

Metric	Revenue growth	Operating profit %	Net debt / EBITDA	Payout of earnings
Target	>20% p.a.	8%	< 3.5	~30%
2018	12.1%	4.3%	4.7	-

Source: Solteq, Evli Research

Financial guidance

Operating profit in 2019 expected to grow clearly compared to 2018

Throughout the years 2016-2018 Solteq has been consistent in its profit guidance; the company has guided that the group's operating profit will grow compared to the previous financial year. As of the latest guidance from Q1/2019, Solteq expects its operating profit in 2019 to grow clearly compared to the financial year of 2018 (EUR 2.5m).

Acquisitions

Eight acquisitions since 2012, Descom (2015) clearly largest

Part of Solteq's strategy has been growth through acquisitions and since 2012 the company has made eight acquisitions, of which the most significant acquisition by size have been the acquisition of Descom in 2015 and Aldata Solution in 2012. Descom was a provider of IT and digital marketing services, whereas Aldata Solution develops software for the wholesale / retail sector.

Table 1: Solteq's acquisitions 2012-2018

Year	Target/Seller	Location(s)	Target industry	Deal value (EURm)	Employees
2012	Aldata Solution Finland Oy	Finland	Packaged software	8.3	74
2015	Descom Group Oy	Finland	Packaged software	23.0	~220
2016	Aponsa AB	Sweden	Information Technology Services	1.1	~15
2016	Pardco Group Oy	Finland	Internet Software / Services	n/a	8
2017	Analyteq Oy (51% share)	Finland	Internet Software / Services	n/a	n/a
2017	inPulse Works Oy	Finland	Packaged Software	3.5	60
2018	TM United A/S	Denmark	Information Technology Services	3.5	35
2018	LS Retail and Dynamics / ProInfo	Denmark	Packaged Software	n/a	n/a

Source: Solteq, Factset, Evli research

Solteq acquired Aldata Solutions Finland Oy in 2012. Aldata's offering consists of self-developed software and third-party products like Microsoft's ERP systems and supply chain management solutions owned by Aldata. The acquisition strengthened Solteq's position as a service provider to the wholesale/retail sector in Finland, widened Solteq's client base and product offering and cleared the way to expansion to the hotel and catering industry. Aldata's revenue in 2011 was approximately EUR 13.3m and operating profit EUR 1.2m.

In July 2015 Solteq finalized the company's so far most significant acquisition by purchasing the entire share capital of Descom Group. Descom's core business is in building sales, marketing and customer service solutions. Descom Data Center Solutions was not included in the sale. In 2014, Descom's turnover without the Data Center Solutions business was € 27.4m and pro forma EBITDA was EUR 3.3m. Solteq purchased Descom's entire share capital for about EUR 11.2m and capital loans for about EUR 11.9m. Of the purchase price, EUR 6.6m was paid in cash and the rest EUR 4.6m in Solteq shares through a directed share issue. Solteq funded the acquisition by issuing a EUR 27m unsecured bond on July 1st 2015.

To strengthen the offering in BI and analytics services especially for the electricity, heating and water companies, Solteq acquired inPulse Works in 2017. During the same year, Solteq also acquired a 51% stake of Analyteq, that produces services for supply chain management. Tuko logistics owns the remaining 49% of Analyteq.

During 2018 Solteq made two acquisitions: TM United and LS Retail and Dynamics NAV competence from ProInfo. With the acquisition of TM United, Solteq expanded its Nordic presence by entering the Danish market and opening up an office in Norway. TM United focuses on the optimization of the online customer experience. In 2018 Solteq also acquired certain LS Retail and Dynamics NAV competence and clientele from the Danish company ProInfo. Through the acquisition Solteq broadened its customer base and experience especially in the retail and Horeca industries.

Market overview

Nordic IT-market ~EUR 50bn, growth expected at 3.6% in coming years

The Nordic IT-market is expected to surpass EUR 50bn in 2019 and exhibit annual growth of 3.6% through to 2022. In the Nordics the spending on cloud infrastructure is expected to surpass traditional infrastructure spending in 2019 and by 2022 70% of infrastructure spending is expected to be in cloud infrastructure. AI adoption in Nordic enterprises is still low but expected to grow rapidly by some 35% annually, from EUR 300m in 2018 to over EUR 1bn in 2022. As a consequence of the rapid market growth the availability of ICT skills is becoming scarcer. By 2022 the shortage of ICT skills is expected to reach 4% of the total ICT workforce. By 2020 this will have resulted in an over EUR 7bn loss in revenue and efficiency by 2020. (IDC)

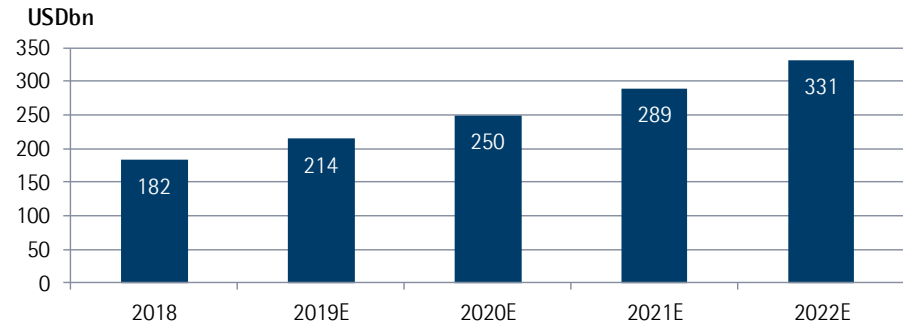
Finnish IT-market 2019E EUR 7.2bn, growth expected at above 4%

The size of the Finnish IT-market overall, including services and hardware, has been estimated to grow by 3.9% to EUR 7.2bn in 2019 (Gartner, Marketvisio). Growth in the market has been estimated at 4.0% and 4.2% per year in 2020 and 2021 respectively. The Finnish IT-market has been following the general nordic trends of increasing spending on application services while spending on more traditional IT infrastructure has been reduced. Due to the sector focus the for Solteq relevant market is more limited and its size hard to estimate. Although the markets are not insignificant, at least within the retail and wholesale sectors growth has become an issue as a larger share of Finnish retail chains and stores are already Solteq's customers. Also due to the sector specialization competition is more limited, as Solteq does not actively participate in for instance municipal IT-services outsourcing projects, where a larger number of both smaller and larger firms are present. Barriers to entry within Solteq's focus areas are also higher in instances when deliveries require the development of specialized software, for instance POS-software. Solteq also enjoys a comfortable position among for instance the larger retailing customers, as development and implementation of the solutions has required considerable amounts of implementation and adaption efforts and the costs of switching systems to another provider would be high. According to management competition is typically faced from the larger IT generalists such as Tieto and CGI, that have a broad service offering and also have a presence across the Nordics.

Cloud services growth clearly above general market growth

Gartner estimates that the global cloud services market will grow 17.5 % from USD 182bn in 2018 to reach USD 214bn in 2019. For 2018-2022 Gartner projects that the market will grow with a CAGR of around 16 % and reach USD 331bn in 2022. According to Gartner, more than a third of organizations see cloud investment as a top three investing priority, which supports the growth of the cloud service market. Gartner expects that by the end of 2019, more than 30 % of technology providers' new software investments will shift from cloud-first to cloud-only. This means that on-premise based software consumption will further shrink, while SaaS and subscription-based cloud consumption models continue their rise. According to Canalys, by the end of Q4/2018 the market leaders in cloud services were Amazon Web Services (AWS) with a 32.3 % market share and Microsoft Azure with a 16.5 % market share. Other top five vendors are Google Cloud (9.5 %), Alibaba Cloud (4.2 %) and IBM Cloud (3.6 %).

Figure 8: Worldwide public cloud service revenue forecast 2018-2022



Source: Gartner, Evli Research

Business Wire anticipated in their Global Software-as-a-Service market report for 2018-2023 that the SaaS market is expected to have a CAGR of 21.2 %. According to Gartner the Cloud Application Services market will be worth USB 143bn by 2022.

Robotics still a smaller market but 2017-2022 CAGR estimate at 28.1%

Robotics is still a small but rapidly growing area of the IT market. Markets and Markets has estimated that the cloud robotics market will grow from USD 2.2bn in 2017 to USD 7.5bn in 2022, at a CAGR of 28.1 %. Growth is being driven by increased adoption of IoT and advancements in AI and machine learning technology. Robotics currently plays a significant role in Solteq's product development investments, with the Solteq Retail Robot being the key investment object. Solteq is not the first to develop robots for retail purposes, as for instance US based Bossa Nova already has robots deployed in 50 stores around the US. Another company Locus has also been developing robots for retail and logistics use. As the market is still in an early stage there is still considerable growth potential and room to expand the purposes of use of the robots.

Financial performance

2014-2018 adj. revenue
CAGR over 10%

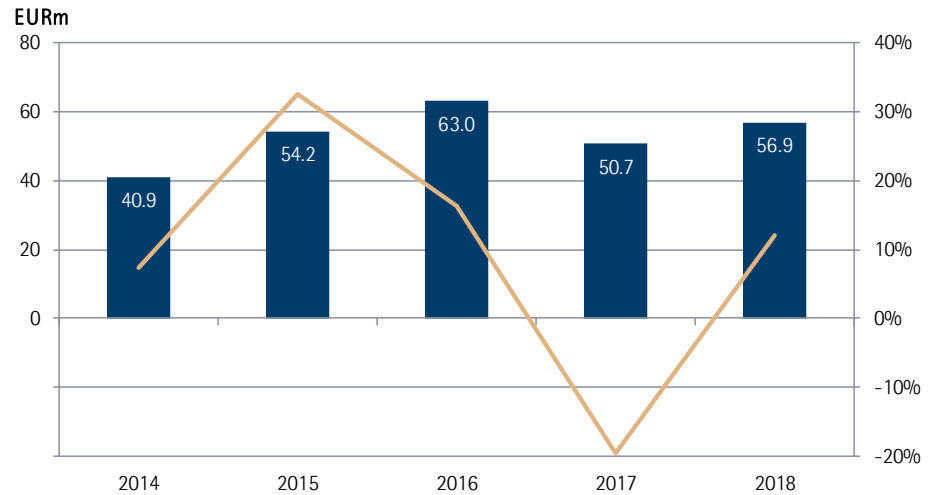
Solteq has been growing steadily, strongly driven by acquisitions. The sales CAGR between 2014-2018 has been around 8.6%, although the figures are affected by implementation of the IFRS 15 standard, and the adjusted CAGR would be well above 10%. Solteq has taken the standard into use on 1 January 2018 retroactively and only the figures for 2017 have been adjusted. This transition had a negative approx. EUR 10 million impact on revenue for the year 2017, which was mostly reflected as a similar decrease of material and service costs. IFRS 15 implementation had an impact on the reported revenue and materials and services. The impact derives from 3rd party licenses and their maintenance and media sales.

2018 revenue EUR 56.9m,
growth 12.1%

Solteq's revenue in 2018 amounted to EUR 56.9 million. Growth in sales compared to 2017 amounted to 12.1%. The growth was primarily driven by the acquisitions made in 2017 and increasing demand for digital services. Solteq's sales for Q1/2019 were EUR 14.9 million, at a similar level to the comparison period. Of the Q1/2019 sales one fifth originated from outside of Finland.

During 2018 two company acquisitions were made, TM United and LS retail and Dynamics NAV competencies from ProInfo. TM United was consolidated to Solteq Group as of January 1st, 2018 and the services acquisition of ProInfo as of June 1st, 2018. The revenue of the acquired companies from acquisition date to the end of 2018 is included in the Group's income statement and amounted to EUR 5.5m.

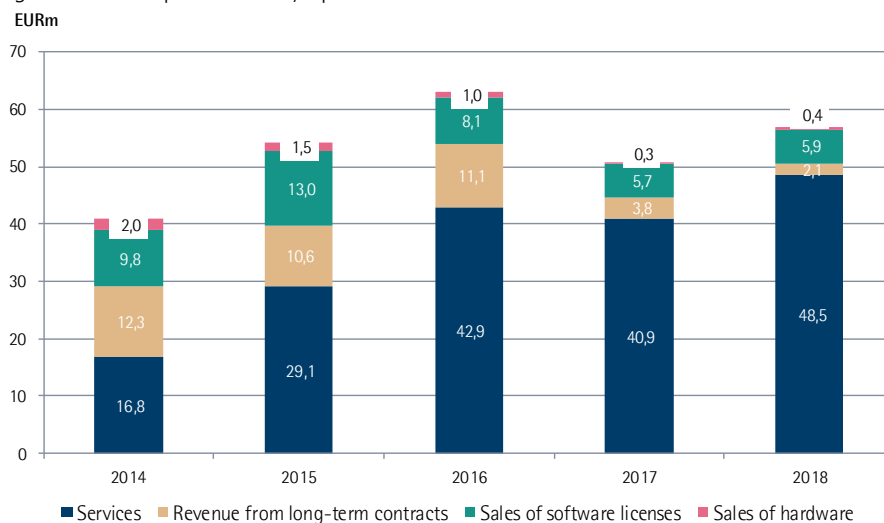
Figure 9: Solteq's revenue and revenue growth-%



Source: Solteq, Evli Research

Solteq reports the company's sales as divided per operation: services, revenue from long-term contracts, sales of software license and hardware sales. In 2018 services accounted for 85% of revenue, long-term contracts for 4%, software licenses for 10% and hardware sales for 1%. The shift in revenue composition between 2016-2017 is mainly due to adoption of the IFRS 15 standard.

Figure 10: Solteq's revenue by operations



Source: Solteq, Evli Research

2018 adj. EBIT EUR 3.1m, at a margin of 5.5%

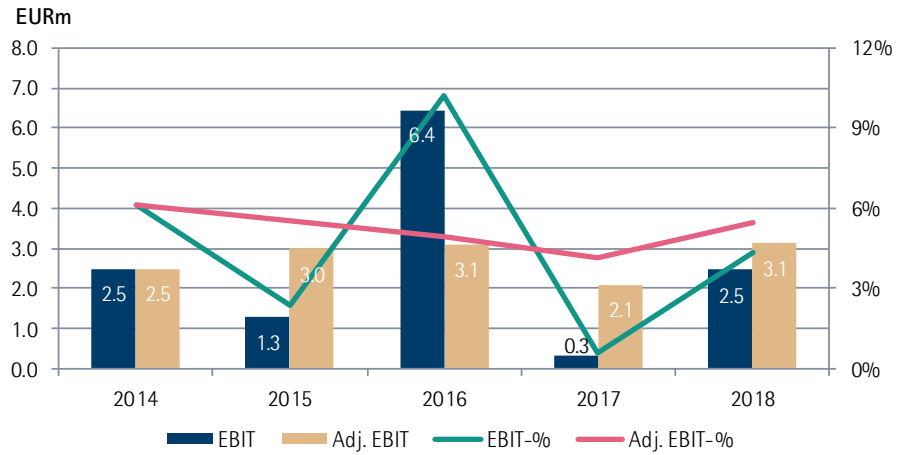
Solteq's adjusted EBIT for 2018 was EUR 3.1m, a 48% year-on-year increase, and the adjusted EBIT-margin stood at 5.5%. The adjusted EBIT-margin has stayed relatively stable between 4-6%. The average adjusted EBIT for 2014-2018 has been EUR 2.8m and the adjusted EBIT-margin on average 5.2%. Solteq has been enhancing its operational efficiency through rearrangements and cost cutting, which contributed to margins increasing in 2018. Solteq expects the actions taken to have a positive effect on the results of the coming fiscal years.

In Q1/2019 Solteq's adjusted EBIT was EUR 1.5m (1.3m) and adjusted EBIT-margin 10.3% (8.7%). EBITDA amounted to EUR 2.5m (1.9m), at a margin of 16.4% (12.9%). Adoption of the IFRS 16 standard (as of Jan 1st, 2019, prior periods not restated) had a positive effect on EBITDA of EUR 0.46m.

Solteq's reported EBIT for years 2014-2018 has ranged between EUR 0.3m to EUR 6.4m. The reported EBIT-margin has ranged between 0.3% and 10.2%. The average reported EBIT has been approximately EUR 2.6m, while the average EBIT-margin has been 4.7%.

The major adjustment items during the years vary. In 2018 adjusted items totalled EUR 0.7m, mostly constituting of changes in fair value of conditional consideration, non-recurring severance packages and damages from completed customer projects. For 2017 the total adjusted amount was EUR 1.8m, made of non-recurring severance packages, acquisitions and reconciliation agreement. In 2016 the adjustments totalled EUR 3.3m, constituting the divestment of MainIoT Software, IFRS 2 changes and a discontinued company acquisition.

Figure 11: Solteq's reported and adjusted EBIT and EBIT-%

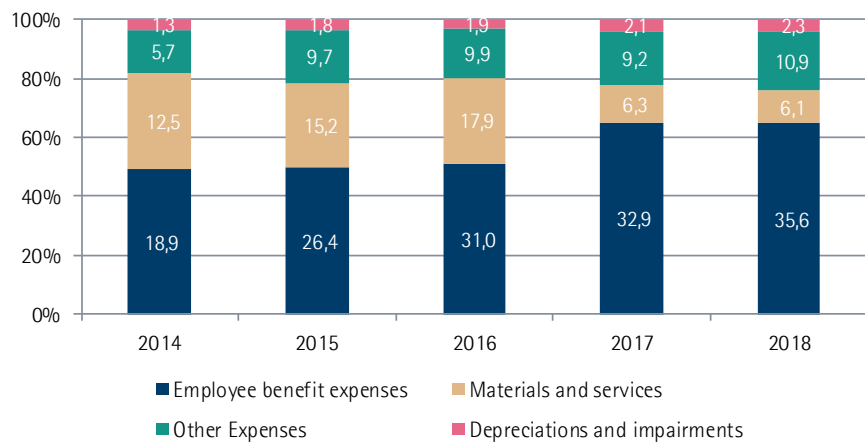


Source: Solteq, Evli Research

Personnel main source of expenses at some 65% of revenue

Solteq's main cost drivers are employee benefit expenses, materials and services, other expenses and depreciations and impairments. From 2014 to 2016 the distribution stayed relatively stable; employee benefit expenses accounting for around 50% of the total costs, materials and services accounting around 30%, other expenses 17% and depreciations and amortization 3%. With the retrospective adoption of the IFRS 15 standard in 2018 the share of personnel expenses saw an increase to some 65% and materials and services to some 12% due to certain third-party services no longer being booked as revenue and costs.

Figure 12: Solteq's expenses composition



Source: Solteq, Evli Research

Balance sheet

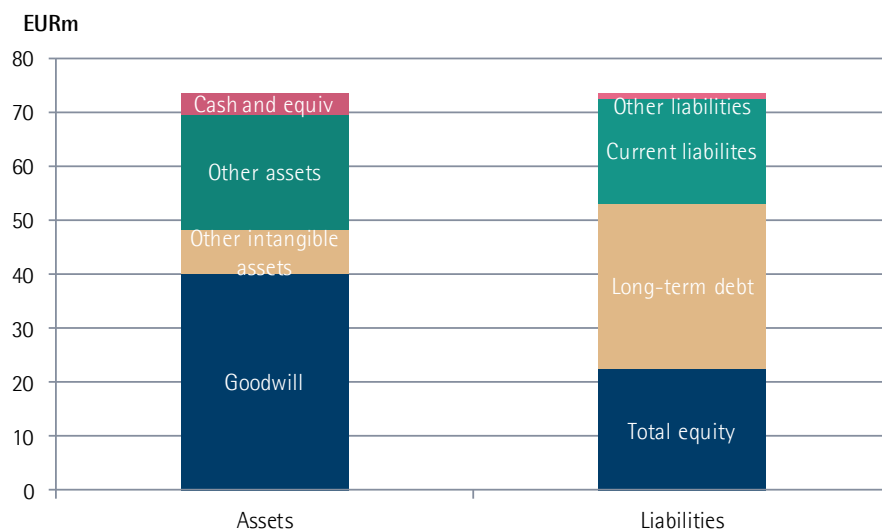
Large goodwill from acquisitions on balance sheet, 55% of assets in 2018

EUR 24.5m of the in 2015 issued 6% coupon bond remaining, maturity in 2020

Solteq's total assets at the end of Q1/2019 amounted to EUR 73.5m (67.5m). Goodwill from acquisitions made in the past years accounted for EUR 40.4m, corresponding to a 55% share of the assets and 179% of total equity. In 2015 Solteq acquired Descom with a purchase price EUR 23m and wrote up EUR 22.5m of goodwill of the acquisition. On the balance sheet the other intangible assets amounted to EUR 7.8m, of which the majority relates to intangible rights, and R&D capitalization has been minor in recent years. The tangible assets amounted to EUR 8.5m, of which the majority relates to IFRS 16 imposed right-of-use assets. Solteq's cash position amounted to EUR 3.8m. The company has a standby credit limit of EUR 4m and a bank account credit limit of EUR 2m. As per 31.3.2019 both were unused.

Of the liabilities, long-term financial liabilities amounted to EUR 30.7m or 41.8% of total assets. Solteq has a fixed rate bond with an original value of EUR 27m, at a 6% coupon rate, maturing mid-2020. Solteq repurchased and cancelled a share of EUR 2.5m, nearly 10% of the total value of the issued bond, during the financial year 2016. Solteq was granted a Business Finland product development loan for EUR 0.8m during the Q1/2019 period. Total equity amounted to EUR 22.6m and the equity ratio to 31.1%. The net debt, including EUR 6.4m in lease liabilities, amounted to approx. EUR 30m. Solteq's gearing ratio as per 31.3.2019 amounted to 131% (123.5%) and for FY 2018 to 101.9%. Q1/2019 Gearing excluding lease liabilities stood at 104.3%.

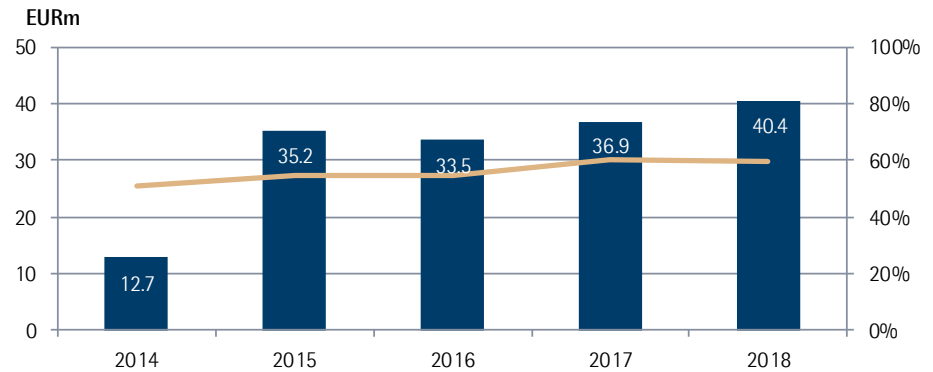
Figure 13: Solteq's balance sheet composition as per 31.3.2019



Source: Solteq, Evli Research

Solteq's goodwill has over tripled from EUR 12.7m (51% of total assets) in 2014 to EUR 40.4m (60% of total assets) in 2018. The company has been active on the M&A front and acquired several companies. In 2015 the company's goodwill increased by EUR 22.5m due to the acquisition of Descom Group. In 2016 Solteq acquired Aponsa AB and Pardco Group and divested MainIoT software, which all are reflected on the goodwill decreasing. Solteq has acquired four more companies during 2017 and 2018, which has further increased the company's goodwill.

Figure 14: Solteq's goodwill and % of total assets



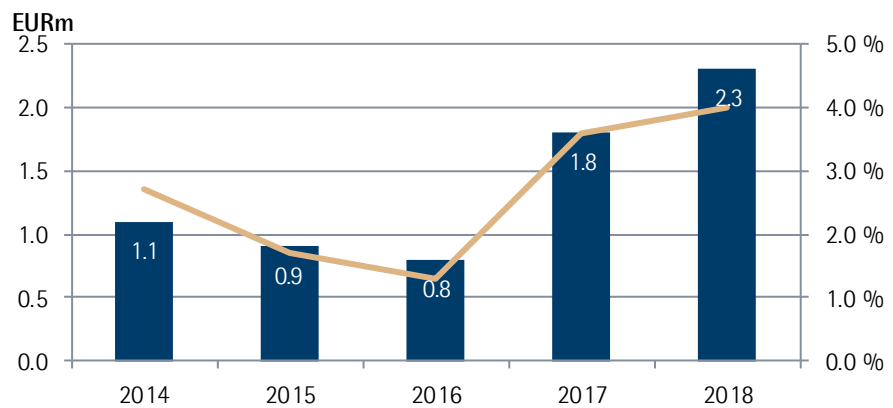
Source: Solteq, Evli Research

Research and development

Significant increases to R&D expenditure in recent years

Solteq's research and development costs have been growing heavily in the past few years and have doubled from EUR 1.1m in 2014 to EUR 2.3m in 2018. According to the company, the research and development costs for 2019 are estimated to be EUR 3.5m, implying an increase of over 50% from 2018. In Q1/2019 EUR 1m of the net investments were capitalized development costs relating to further development of the existing software product and the development of new software products. The net investments in 2018 were EUR 8.3m, of which EUR 4.5m were company acquisitions. According to management the larger share of investments is allocated to autonomous robotics services related R&D, with the Point-of-Commerce -concept also a big focus area.

Figure 15: Solteq's research and development costs and % of revenue



Source: Solteq, Evli Research

Estimates

Growth has predominantly been inorganic

Solteq has on an estimated adjusted basis (IFRS 15 comparability issues) seen an average growth of over 10% annually since 2014. Acquisitions have played a significant part in the growth and for instance in 2018, when acquisitions had an EUR 5.5m impact on group revenue, the implied organic growth was barely positive while the total growth amounted to 12.1%.

Our sales CAGR estimate for 2018-2021E at close to 3.5%, excl. likely acquisitions

We expect a sales CAGR between 2018-2021E of nearly 3.5%. Our estimates do not include any inorganic growth apart from that of already completed transaction in 2018. Given that Solteq in recent years has made acquisitions every year the likelihood of further acquisitions in the coming years in our view is very high, but we have not included estimates for such due to the uncertainty. We expect growth to rely on expansion outside of Finland, where growth opportunities are significant. Further development and commercialization of the Point-of-Commerce -concepts will in our view aid in boosting the revenue growth pace going into 2020. We also do not expect Solteq's autonomous robotics services solutions to have any material impact on revenue in 2019.

Operating profit margins expected to improve to near 8% by 2021E

Solteq's adjusted operating profitability saw a declining trend up until 2018, when cost savings and efforts to enhance operational efficiency started to show. Solteq expects the action taken to continue to have an impact in 2019 and has in its guidance stated that the operating profit in 2019 is expected to grow clearly from 2018. We expect an operating profit margin of 6.8% in 2019, followed by gradual improvement to near 8.0% in 2021E. Our estimates rely on margin improvement from the actions already taken to improve profitability and also to a smaller degree a shift in the product mix towards own software and services. In our view Solteq has the potential to improve operating profit margins notably above our estimates based on margins achieved by companies with a larger share of own software in the sales mix. This would require a more rapid increase in the share of own software products and continuous services than we have expected. We see that Solteq is however still in the earlier stages of its transition towards becoming a software company and therefore still remain somewhat cautious to the speed of the transition.

We expect a dividend of EUR 0.03 per shares for FY 2019

Solteq's ability to pay dividends has in recent years been limited by loan covenants, namely the net IB debt / EBITDA ratio (below 3.50:1). As stated in the company's dividend policy, Solteq strives to distribute approximately 30% of net earnings. Based on our estimates Solteq should be able to achieve the requirements for distribution of funds, as defined by the loan covenants. We expect a dividend for FY2019 of EUR 0.03 per share.

Table 2: Estimates summary

Solteq	2017	Q1/'18	Q2/'18	Q3/'18	Q4/'18	2018	Q1/'19	Q2/'19E	Q3/'19E	Q4/'19E	2019E	2020E	2021E
Net sales	50.7	14.9	14.2	12.8	14.9	56.9	14.9	14.4	13.4	15.6	58.3	60.8	62.9
sales growth %	-19.6%	13.8%	5.7%	10.3%	19.2%	12.1%	0.2%	1.2%	4.4%	4.5%	2.5%	4.2%	3.5%
Other income	0.1	0.0	0.0	0.0	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Materials and services	-6.3	-2.1	-1.7	-1.2	-1.1	-6.1	-0.9	-1.2	-1.0	-1.2	-4.3	-4.5	-4.7
Personnel expenses	-32.9	-8.8	-9.8	-8.6	-8.3	-35.6	-9.3	-9.6	-8.9	-9.6	-37.4	-38.4	-39.5
Other expenses	-9.2	-2.0	-2.0	-2.0	-4.9	-10.9	-2.2	-2.2	-2.0	-2.5	-8.9	-9.2	-9.5
EBITDA	2.4	1.9	0.6	1.1	1.1	4.8	2.5	1.4	1.5	2.3	7.7	8.7	9.2
D&A	-2.1	-0.6	-0.6	-0.6	-0.5	-2.3	-0.9	-0.9	-0.9	-0.9	-3.7	-4.1	-4.3
EBIT	0.3	1.3	0.0	0.5	0.6	2.5	1.5	0.5	0.6	1.4	4.0	4.6	4.9
EBIT margin	0.6 %	8.8 %	0.2 %	3.8 %	4.3 %	4.3 %	10.2 %	3.3 %	4.3 %	8.8 %	6.8 %	7.5 %	7.8 %
Adjustment items	1.8	0.0	0.1	0.1	0.5	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted EBIT	2.1	1.3	0.2	0.6	1.1	3.1	1.5	0.5	0.6	1.4	4.0	4.6	4.9
Adj. EBIT margin	4.1 %	8.7 %	1.1 %	4.3 %	7.5 %	5.5 %	10.3 %	3.3 %	4.3 %	8.8 %	6.8 %	7.5 %	7.8 %

Source: Solteq, Evli Research estimates

Valuation

Initiate coverage with
HOLD and target price of
EUR 1.40

We initiate coverage of Solteq with a HOLD rating and a target price of EUR 1.40. Our valuation relies mainly on public Nordic IT-services oriented peer multiples. Solteq's ambition is to transition its business towards becoming a company focused more on own software and related services, after to a larger extent having been an IT-services provider in the past. Although the margin potential and continuity in revenue brought by own software products would warrant higher multiples, Solteq is still in the earlier stages of the transition and as such we consider the selected peer group a more reasonable comparison object than for instance the Nordic software companies. Furthermore, Solteq has increased its product development investments, on our estimates expected to correspond to 6% of 2019E revenue, with a larger share of that into innovative but yet largely unproven autonomous service robotics solutions. Although the potential of such solutions appears significant, the high uncertainty in the scope of revenue realisation is worth noting.

Based on our estimates the 2019E and 2020E EV/EBIT and P/E multiples do not imply any notable valuation upside, with the multiples generally in line with peers. Our operating profit estimates for 2019E assume an increase of roughly 60% from 2018 to a margin of 6.8%, driven largely by previous actions to enhance operational efficiency, after which we expect a 1pp increase in margins by 2021E. Solteq has in its guidance for 2019E stated that its operating profit is expected to grow clearly compared to 2018. Main drivers for valuation upside would in our view be faster revenue growth and margin improvement through a more rapid shift in the product mix and growth internationally. The autonomous service robotics solutions are also a bet that could prove to be lucrative, but we remain rather conservative in our estimates given the yet lacking proof of success. We also note that Solteq operates on a relatively leveraged but in our view not concerning balance sheet. The remainder of the company's bond (6% coupon) will mature in mid-2020, which may offer possibilities for refinancing at more favourable terms, thus easing the interest expenses and enhancing earnings, which we have not included in our estimates.

VALUATION	
	Implied value
DCF	1.6
Peer EV/EBIT '19	1.1-1.3
Peer P/E '19	1.4-1.7
Target price (EUR)	1.4

Source: Evli Research

Table 3: Nordic IT-services company peer group

SOLTEQ PEER GROUP	MCAP MEUR	EV/EBITDA			EV/EBIT			P/E		
		19E	20E	21E	19E	20E	21E	19E	20E	21E
Tieto	1897	8.1x	7.8x	7.6x	12.3x	11.3x	10.9x	14.1x	13.1x	12.6x
Atea	1337	9.6x	8.6x	7.8x	15.6x	13.1x	11.6x	18.9x	15.8x	13.9x
Knowit	390	10.6x	9.9x	9.4x	12.4x	11.4x	10.8x	15.7x	14.5x	13.7x
HiQ	273	10.1x	9.5x	9.0x	11.8x	11.0x	10.4x	16.9x	15.5x	14.6x
Bouvet	319	10.6x	9.9x	9.3x	13.4x	12.5x	11.6x	17.1x	15.9x	14.9x
Enea	259	11.3x	10.7x	9.9x	14.2x	13.2x	12.1x	17.1x	15.5x	13.4x
Gofore	121	10.5x	9.2x	8.7x	11.8x	10.2x	9.6x	16.5x	14.2x	12.6x
Digia	83	7.3x	6.3x	5.8x	10.5x	9.1x	8.3x	12.0x	10.0x	9.1x
Silli Solutions	62	8.4x	6.9x	6.2x	10.7x	8.4x	7.3x	13.1x	10.3x	9.0x
Vincit	58	8.2x	6.9x	6.2x	9.1x	7.4x	6.4x	13.8x	10.5x	9.1x
Innofactor	23	8.8x	7.9x	7.8x	23.0x	17.6x	17.0x	17.8x	13.8x	10.4x
Peer Group Average	438	9.4x	8.5x	8.0x	13.2x	11.4x	10.5x	15.7x	13.6x	12.1x
Peer Group Median	259	9.6x	8.6x	7.8x	12.3x	11.3x	10.8x	16.5x	14.2x	12.6x
Solteq (Evli est.)	28	7.3x	6.5x	5.9x	14.1x	11.8x	10.7x	17.0x	12.4x	10.8x

Solteq prem./disc. to peer median

-24% -24% -25% 14% 4% -1% 3% -13% -14%

Source Bloomberg, Evli Research

SOLTEQ PEER GROUP	Sales 18A	Sales gr.		EBIT-%			Div. yield		
		19E	20E	19E	20E	21E	19E	20E	21E
Tieto	1600	3%	3%	9.9 %	10.5 %	10.6 %	5.8 %	5.9 %	6.1 %
Atea	3614	7%	5%	2.5 %	2.8 %	3.0 %	5.7 %	6.1 %	6.5 %
Knowit	301	8%	5%	10.0 %	10.3 %	10.4 %	2.9 %	3.3 %	3.9 %
HiQ	181	0%	5%	11.6 %	11.9 %	11.9 %	6.8 %	7.0 %	7.2 %
Bouvet	192	12%	7%	10.9 %	10.9 %	11.0 %	4.3 %	5.2 %	5.7 %
Enea	82	16%	8%	22.6 %	22.5 %	23.2 %			2.2 %
Gofore	51	40%	16%	13.0 %	13.0 %	13.1 %	2.7 %	3.2 %	3.5 %
Digia	112	12%	5%	7.3 %	8.0 %	8.4 %	3.1 %	4.0 %	5.0 %
Silli Solutions	70	16%	7%	7.5 %	9.0 %	9.8 %	3.8 %	5.4 %	6.2 %
Vincit	43	15%	8%	11.6 %	13.2 %	14.1 %	3.7 %	4.6 %	5.0 %
Innofactor	63	1%	2%	2.8 %	3.6 %	3.7 %	0.0 %	0.0 %	
Peer Group Average	574	12%	6%	10.0 %	10.5 %	10.8 %	3.9 %	4.5 %	5.1 %
Peer Group Median	112	12%	5%	10.0 %	10.5 %	10.6 %	3.8 %	4.9 %	5.3 %
Solteq (Evli est.)	57	3%	4%	6.8 %	7.5 %	7.8 %	1.8 %	2.4 %	2.8 %

Solteq prem./disc. to peer median
Source Bloomberg, Evli Research

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	1.45 PV of Free Cash Flow	27 Long-term growth, %	2.0 Risk-free interest rate, %	2.25
DCF share value	1.56 PV of Horizon value	33 WACC, %	8.9 Market risk premium, %	5.8
Share price potential, %	7.7 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	2.8
Maximum value	1.8 Marketable securities	5 Minimum WACC, %	8.4 Equity beta coefficient	1.10
Minimum value	1.3 Debt - dividend	-35 Maximum WACC, %	9.4 Target debt ratio, %	20
Horizon value, %	54.8 Value of stock	30 Nr of shares, Mn	19.3 Effective tax rate, %	20

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	57	58	61	63	65	67	70	72	75	77	79	80
<i>Sales growth, %</i>	<i>12.1</i>	<i>2.6</i>	<i>4.2</i>	<i>3.5</i>	<i>3.5</i>	<i>3.5</i>	<i>3.5</i>	<i>3.5</i>	<i>3.5</i>	<i>3.5</i>	<i>2.0</i>	<i>2.0</i>
Operating income (EBIT)	2	4	5	5	5	5	6	6	6	6	6	6
<i>EBIT margin, %</i>	<i>4.3</i>	<i>6.8</i>	<i>7.5</i>	<i>7.8</i>	<i>8.2</i>	<i>8.0</i>	<i>8.0</i>	<i>8.0</i>	<i>8.0</i>	<i>8.0</i>	<i>8.0</i>	<i>8.0</i>
+ Depreciation+amort.	2	4	4	4	4	4	4	5	5	5	5	
- Income taxes	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	
- Change in NWC	6	0	0	0	0	0	0	0	0	0	0	
<i>NWC / Sales, %</i>	<i>-7.9</i>	<i>-7.9</i>	<i>-7.9</i>	<i>-7.9</i>	<i>-7.9</i>	<i>-7.9</i>	<i>-7.9</i>	<i>-7.9</i>	<i>-7.9</i>	<i>-7.9</i>	<i>-7.9</i>	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-14	-4	-4	-4	-4	-5	-5	-5	-5	-5	-5	-5
<i>Investments / Sales, %</i>	<i>24.7</i>	<i>6.8</i>	<i>6.9</i>	<i>6.8</i>	<i>6.8</i>	<i>6.8</i>	<i>6.8</i>	<i>6.8</i>	<i>6.8</i>	<i>6.8</i>	<i>6.7</i>	<i>6.7</i>
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	-5	3	3	4	4	4	4	4	5	5	5	73
= Discounted FCF (DFCF)		3	3	3	3	3	3	3	2	2	2	33
= DFCF min WACC		3	3	3	3	3	3	3	2	2	2	37
= DFCF max WACC		3	3	3	3	3	3	2	2	2	2	29

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2E	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	15	14	13	15	57	15	14	13	16	58	61	63
EBITDA	2	1	1	1	5	2	1	2	2	8	8	9
<i>EBITDA margin (%)</i>	<i>12.9</i>	<i>4.4</i>	<i>8.3</i>	<i>7.7</i>	<i>8.4</i>	<i>16.4</i>	<i>9.7</i>	<i>11.2</i>	<i>14.7</i>	<i>13.1</i>	<i>13.8</i>	<i>14.1</i>
EBIT	1	0	0	1	2	2	0	1	1	4	5	5
<i>EBIT margin (%)</i>	<i>8.8</i>	<i>0.2</i>	<i>3.8</i>	<i>4.3</i>	<i>4.3</i>	<i>10.2</i>	<i>3.3</i>	<i>4.3</i>	<i>8.8</i>	<i>6.8</i>	<i>7.5</i>	<i>7.8</i>
Net financial items	0	0	0	-1	-2	0	0	0	0	-2	-2	-2
Pre-tax profit	1	0	0	0	1	1	0	0	1	2	3	3
Tax	0	0	0	0	0	0	0	0	0	0	-1	-1
<i>Tax rate (%)</i>	<i>26.6</i>	<i>9.5</i>	<i>312.0</i>	<i>-233.3</i>	<i>44.5</i>	<i>23.7</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>21.9</i>	<i>20.0</i>	<i>20.0</i>
Net profit	1	0	0	0	0	1	0	0	1	2	2	3
EPS	0.03	-0.02	-0.01	0.01	0.02	0.04	0.00	0.00	0.04	0.09	0.12	0.13
EPS adjusted (diluted no. of shares)	0.03	-0.02	-0.01	0.01	0.02	0.04	0.00	0.00	0.04	0.09	0.12	0.13
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.04	0.04
SALES, EURm												
Solteq	15	14	13	15	57	15	14	13	16	58	61	63
Total	15	14	13	15	57	15	14	13	16	58	61	63
SALES GROWTH, Y/Y %												
Solteq	13.6	5.7	10.3	19.2	12.1	0.4	1.2	4.4	4.5	2.6	4.2	3.5
Total	13.6	5.7	10.3	19.2	12.1	0.4	1.2	4.4	4.5	2.6	4.2	3.5
EBIT, EURm												
Solteq	1	0	0	1	2	2	0	1	1	4	5	5
Total	1	0	0	1	2	2	0	1	1	4	5	5
EBIT margin, %												
Solteq	8.8	0.2	3.8	4.3	4.3	10.2	3.3	4.3	8.8	6.8	7.5	7.8
Total	8.8	0.2	3.8	4.3	4.3	10.2	3.3	4.3	8.8	6.8	7.5	7.8

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	41	54	63	51	57	58	61	63
<i>Sales growth (%)</i>	<i>7.4</i>	<i>32.6</i>	<i>16.3</i>	<i>-19.6</i>	<i>12.1</i>	<i>2.6</i>	<i>4.2</i>	<i>3.5</i>
Costs	-37	-51	-55	-48	-52	-51	-52	-54
Reported EBITDA	4	3	8	2	5	8	8	9
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	<i>9.3</i>	<i>5.7</i>	<i>13.3</i>	<i>4.7</i>	<i>8.4</i>	<i>13.1</i>	<i>13.8</i>	<i>14.1</i>
Depreciation	-1	-2	-2	-2	-2	-4	-4	-4
EBITA	3	1	7	0	2	4	5	5
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	3	1	6	0	2	4	5	5
<i>EBIT margin (%)</i>	<i>6.1</i>	<i>2.4</i>	<i>10.2</i>	<i>0.6</i>	<i>4.3</i>	<i>6.8</i>	<i>7.5</i>	<i>7.8</i>
Net financials	0	-1	-2	-2	-2	-2	-2	-2
Pre-tax profit	2	0	5	-1	1	2	3	3
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	0	0	0	0	0	0	-1	-1
Minority shares	0	0	0	0	0	0	0	0
Net profit	2	0	5	-2	0	2	2	3
BALANCE SHEET, EURm								
Assets								
Fixed assets	4	8	7	8	16	17	17	17
<i>% of sales</i>	<i>11</i>	<i>15</i>	<i>11</i>	<i>16</i>	<i>29</i>	<i>29</i>	<i>28</i>	<i>28</i>
Goodwill	13	35	34	37	40	40	40	40
<i>% of sales</i>	<i>31</i>	<i>65</i>	<i>53</i>	<i>73</i>	<i>71</i>	<i>69</i>	<i>67</i>	<i>64</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	5	18	12	15	12	12	13	13
<i>% of sales</i>	<i>13</i>	<i>34</i>	<i>19</i>	<i>29</i>	<i>21</i>	<i>21</i>	<i>21</i>	<i>21</i>
Liquid funds	3	3	8	2	5	5	5	5
<i>% of sales</i>	<i>6</i>	<i>5</i>	<i>13</i>	<i>3</i>	<i>9</i>	<i>8</i>	<i>8</i>	<i>8</i>
Total assets	25	64	61	61	74	74	75	76
Liabilities								
Equity								
Equity	12	15	20	20	22	23	25	27
<i>% of sales</i>	<i>29</i>	<i>28</i>	<i>32</i>	<i>40</i>	<i>38</i>	<i>40</i>	<i>41</i>	<i>43</i>
Deferred taxes	1	1	1	1	1	1	1	1
<i>% of sales</i>	<i>1</i>	<i>2</i>	<i>1</i>	<i>2</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>
Interest bearing debt	4	28	26	26	35	32	31	30
<i>% of sales</i>	<i>11</i>	<i>52</i>	<i>41</i>	<i>51</i>	<i>61</i>	<i>56</i>	<i>51</i>	<i>47</i>
Non-interest bearing current liabilities	8	18	14	14	17	17	18	18
<i>% of sales</i>	<i>20</i>	<i>34</i>	<i>22</i>	<i>27</i>	<i>29</i>	<i>29</i>	<i>29</i>	<i>29</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	25	64	61	61	74	74	75	76
CASH FLOW, EURm								
+ EBITDA	4	3	8	2	5	8	8	9
- Net financial items	0	-1	-2	-2	-2	-2	-2	-2
- Taxes	0	0	0	0	0	0	-1	-1
- Increase in Net Working Capital	3	-3	2	-3	6	0	0	0
+/- Other	0	0	0	0	0	0	0	0
= Cash flow from operations	6	-1	8	-2	8	5	6	7
- Capex	-18	-28	1	-6	-14	-4	-4	-4
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	-12	-29	9	-9	-6	2	2	2
+/- Change in interest-bearing debt	4	24	-3	0	9	-2	-1	-2
+/- New issues/buybacks	10	4	0	3	1	0	0	0
- Paid dividend	0	0	0	-1	0	0	0	-1
+/- Change in loan receivables	0	1	0	0	0	0	0	0
Change in cash	2	0	6	-7	4	-1	0	0

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	30	28	28	25	28	28	28
Net debt	26	17	24	29	28	26	24
Enterprise value	56	45	52	54	56	54	52
Sales	54	63	51	57	58	61	63
EBITDA	3	8	2	5	8	8	9
EBIT	1	6	0	2	4	5	5
Pre-tax	0	5	-1	1	2	3	3
Earnings	0	5	-2	0	2	2	3
Book value	15	20	20	22	23	25	27
Valuation multiples							
EV/sales	1.0	0.7	1.0	1.0	1.0	0.9	0.8
EV/EBITDA	18.2	5.4	21.8	11.4	7.3	6.5	5.9
EV/EBITA	43.4	7.0	168.7	22.0	14.1	11.8	10.7
EV/EBIT	43.4	7.1	168.7	22.0	14.1	11.8	10.7
EV/operating cash flow	283.7	4.8	-449.0	5.7	8.1	7.1	6.5
EV/cash earnings	23.4	7.2	71.3	21.9	10.4	8.9	8.0
P/E	298.5	6.1	-18.3	69.9	17.0	12.4	10.8
P/E excl. goodwill	298.5	6.0	-18.3	69.9	17.0	12.4	10.8
P/B	2.0	1.4	1.4	1.1	1.2	1.1	1.0
P/sales	0.6	0.4	0.5	0.4	0.5	0.5	0.4
P/CF	152.9	3.0	-239.0	2.6	4.1	3.7	3.5
Target EV/EBIT	0.0	0.0	0.0	0.0	13.9	11.6	10.5
Target P/E	0.0	0.0	0.0	0.0	16.4	11.9	10.4
Target P/B	0.0	0.0	0.0	0.0	1.2	1.1	1.0
Per share measures							
Number of shares	16,937	17,639	18,197	19,202	19,307	19,307	19,307
Number of shares (diluted)	16,937	17,639	18,197	19,202	19,307	19,307	19,307
EPS	0.01	0.26	-0.08	0.02	0.09	0.12	0.13
EPS excl. goodwill	0.01	0.26	-0.08	0.02	0.09	0.12	0.13
Cash EPS	0.14	0.36	0.04	0.13	0.28	0.31	0.34
Operating cash flow per share	0.01	0.54	-0.01	0.50	0.36	0.40	0.42
Capital employed per share	2.43	2.13	2.46	2.66	2.65	2.66	2.67
Book value per share	0.91	1.15	1.13	1.14	1.21	1.31	1.41
Book value excl. goodwill	-1.17	-0.75	-0.90	-0.97	-0.88	-0.79	-0.69
Dividend per share	0.00	0.05	0.00	0.00	0.03	0.04	0.04
Dividend payout ratio, %	0.0	19.1	0.0	0.0	30.0	30.0	30.0
Dividend yield, %	0.0	3.1	0.0	0.0	1.8	2.4	2.8
Efficiency measures							
ROE	0.7	25.8	-7.4	1.7	7.3	9.3	9.9
ROCE	4.3	14.3	0.7	4.8	7.0	8.2	8.7
Financial ratios							
Capex/sales, %	51.7	-1.1	12.6	24.7	6.8	6.9	6.8
Capex/depreciation excl. goodwill,%	309.3	50.1	145.6	457.9	106.5	110.6	108.8
Net debt/EBITDA, book-weighted	8.4	2.1	10.2	6.2	3.6	3.1	2.8
Debt/equity, market-weighted	0.9	0.9	0.9	1.4	1.2	1.1	1.1
Equity ratio, book-weighted	24.0	33.2	33.3	29.3	31.6	33.5	35.6
Gearing	1.67	0.85	1.19	1.34	1.19	1.04	0.90
Number of employees, average	0	0	0	0	0	0	0
Sales per employee, EUR	0	0	0	0	0	0	0
EBIT per employee, EUR	0	0	0	0	0	0	0

COMPANY DESCRIPTION: Solteq is a Nordic software and IT-services provider specializing in digital business solutions. Solteq's strength has been in commerce related solutions with a focus on selected sectors, namely the retail and wholesale, industry, energy, and services sectors.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Sentica Buyout III Ky	4,621,244	6.701	23.9%
Profiz Business Solution Oyj	2,048,435	2.970	10.6%
Elo Mutual Pension Insurance Company	2,000,000	2.900	10.4%
Saadetdin Ali	1,403,165	2.035	7.3%
Varma Mutual Pension Insurance Company	1,245,597	1.806	6.5%
Aalto Seppo Tapio	700,000	1.015	3.6%
Roininen Matti Juhani	450,000	0.653	2.3%
Väätäinen Olli Pekka	400,000	0.580	2.1%
Lamy Oy	225,000	0.326	1.2%
Sentica Buyout III Co-Investment Ky	180,049	0.261	0.9%
Ten largest	13,273,490	19.247	69%
Residual	6,033,037	8.748	31%
Total	19,306,527	27.994	100%

EARNINGS CALENDAR

August 13, 2019

Q2 report

October 29, 2019

Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Olli Väätäinen

Karhumäentie 3, FI-01350

CFO: Martti Nurminen

Tel:

IR:

DEFINITIONS

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

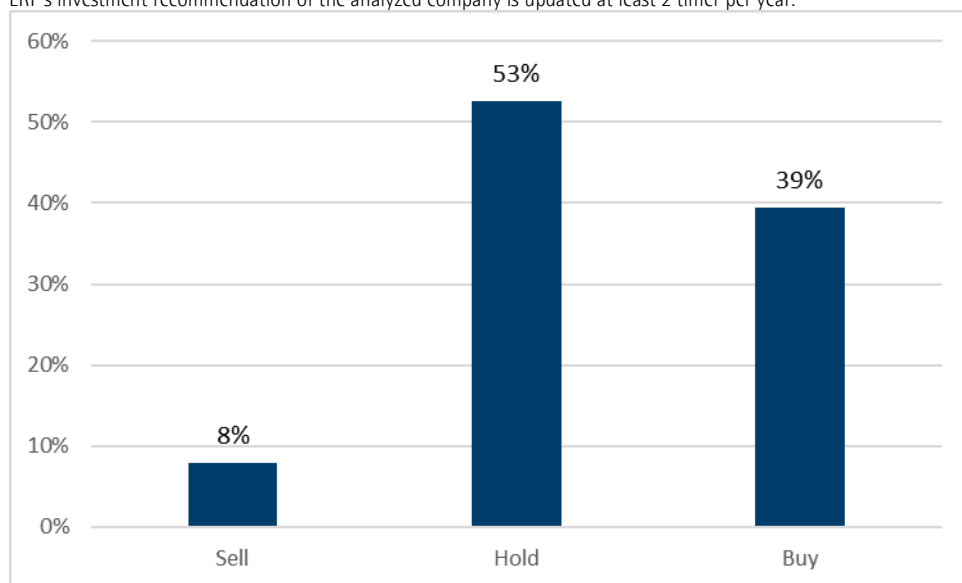
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Investment recommendations are defined as follows:

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

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The graph above shows the distribution of ERP's recommendations of companies under coverage in 1st of February 2019. If recommendation is not given, it is not mentioned here.

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

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