

Expect slightly lower margins in H2

Gofore will report H2 results on February 19th. Revenue in H2 amounted to EUR 30.6m based on reported monthly figures. We expect margin decreases compared to H1/19, driven by the weak development of Gofore's UK operations and lower revenue, and expect an EBITA-margin of 9.0%. We expect a dividend proposal of EUR 0.20 per share. Growth will in our view slow down clearly in 2020 with a lower impact of inorganic growth and a weaker market outlook. We retain our HOLD-rating and TP of EUR 8.0.

Expecting weaker margins in H2 due to lower revenue

Gofore will report H2 results on February 19th. Revenue in H2 has based on monthly figures been EUR 30.6m, with a y/y growth of 18.4%, of which a majority will have been inorganic growth from the Silver Planet acquisition. Revenue development during H2 has been sub-par, affected partly by a weak development of Gofore's UK operations, which were divested in early 2020. We expect the revenue development to have had a negative impact on margins and expect the EBITA-margin to decrease to 9.0% (H1/19: 15.1%). Our dividend proposal estimate is EUR 0.20 per share (2019: EUR 0.19).

Relative growth pace seen to slow down

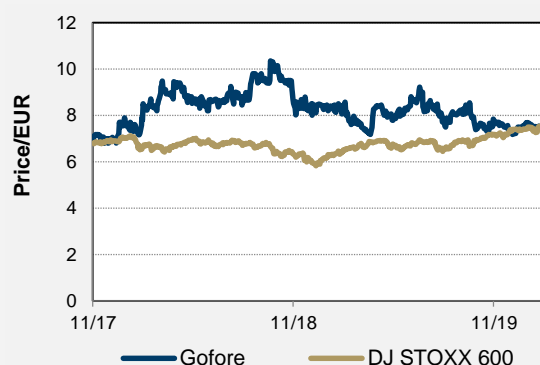
Gofore revised its long-term financial target for growth in December 2019. Growth is still seen to be faster than the target market, but the market growth estimate was lowered from 15-25% to above the general ICT service sector growth but below 10%. Our growth estimate for 2020 is 10.8%, of which some 9% organic (not including possible new M&A activity). Cost savings from divesting the UK operations will have a slight net positive effect on profitability in 2020 and we expect an EBITA-margin of 13.5%.

HOLD with a target price of EUR 8.0

We have not made any notable changes to our estimates pre-H2 apart from adjustments based on monthly revenue figures. We retain our HOLD-rating and target price of EUR 8.0 ahead of the H2 results.

Rating

HOLD



Share price, EUR (Last trading day's closing price) 7.56

Target price, EUR 8.0

Latest change in recommendation 20-Feb-19

Latest report on company 14-Oct-19

Research paid by issuer: YES

No. of shares outstanding, '000's 14,013

No. of shares fully diluted, '000's 14,013

Market cap, EURm 106

Free float, % 0.0

Exchange rate EUR 1.000

Reuters code GOFORE.HE

Bloomberg code GOFORE FH

Average daily volume, EURm 0.04

Next interim report 19-Oct-2020

 Web site gofore.com/en/invest

Analyst Jerker Salokivi

 E-mail jerker.salokivi@evli.com

Telephone +358 9 4766 9149

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	34.0	5.4	15.8%	-4.5	0.26	27.3	2.4	15.5	-5.0	0.15
2018	50.6	6.1	12.0%	5.8	0.36	23.4	2.0	16.3	5.2	0.19
2019E	64.1	5.9	9.1%	-6.8	0.30	25.1	1.5	16.6	-6.5	0.20
2020E	71.0	7.6	10.7%	7.2	0.40	18.9	1.3	12.2	6.8	0.21
2021E	76.7	8.5	11.0%	8.1	0.45	16.7	1.1	10.3	7.6	0.23
Market cap, EURm			106	Gearing 2019E, %		-29.3	CAGR EPS 2018-21, %			7.9
Net debt 2019E, EURm			-9	Price/book 2019E		3.4	CAGR sales 2018-21, %			14.9
Enterprise value, EURm			97	Dividend yield 2019E, %		2.6	ROE 2019E, %			16.0
Total assets 2019E, EURm			48	Tax rate 2019E, %		20.1	ROCE 2019E, %			18.5
Goodwill 2019E, EURm			19	Equity ratio 2019E, %		64.7	PEG, P/E 19/CAGR			1.2

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

Gofore	2017	H1/'18	H2/'18	2018	H1/'19	H2/'19E	2019E	2020E	2021E
Net sales	34.0	24.7	25.9	50.6	33.5	30.6	64.1	71.0	76.7
<i>sales growth %</i>	82.4%	71.8%	32.2%	49.0%	35.5%	18.4%	26.7%	10.8%	8.0%
Other income	0.3	0.2	0.0	0.2	0.0	0.1	0.1	0.1	0.1
Materials and services	-4.2	-3.8	-4.1	-7.9	-4.7	-4.2	-8.8	-9.9	-10.7
Personnel expenses	-18.9	-13.3	-14.2	-27.6	-18.6	-18.7	-37.3	-39.8	-42.9
Other op. expenses	-5.4	-3.9	-4.5	-8.3	-5.2	-5.0	-10.2	-11.6	-12.5
EBITDA	5.8	3.9	3.1	7.0	5.0	2.9	7.9	9.8	10.7
<i>EBITDA-%</i>	17.1%	15.9%	11.8%	13.8%	15.1%	9.3%	12.3%	13.8%	14.0%
EBITA	5.7	3.8	3.0	6.8	5.0	2.8	7.7	9.6	10.5
<i>EBITA-%</i>	16.8%	15.5%	11.5%	13.4%	14.8%	9.0%	12.1%	13.5%	13.7%
EBIT	5.4	3.5	2.6	6.1	4.1	1.7	5.8	7.6	8.5
<i>EBIT-%</i>	15.8%	14.3%	9.9%	12.1%	12.3%	5.6%	9.1%	10.7%	11.0%

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	0.0	24.7	0.0	25.9	50.6	0.0	33.5	0.0	30.6	64.1	71.0	76.7
EBITDA	0.0	4.0	0.0	3.1	7.0	0.0	5.1	0.0	2.9	7.9	9.8	10.7
<i>EBITDA margin (%)</i>	<i>0.0</i>	<i>16.0</i>	<i>0.0</i>	<i>11.9</i>	<i>13.9</i>	<i>0.0</i>	<i>15.1</i>	<i>0.0</i>	<i>9.3</i>	<i>12.4</i>	<i>13.8</i>	<i>14.0</i>
EBIT	0.0	3.5	0.0	2.6	6.1	0.0	4.1	0.0	1.7	5.9	7.6	8.5
<i>EBIT margin (%)</i>	<i>0.0</i>	<i>14.3</i>	<i>0.0</i>	<i>9.9</i>	<i>12.0</i>	<i>0.0</i>	<i>12.3</i>	<i>0.0</i>	<i>5.6</i>	<i>9.1</i>	<i>10.7</i>	<i>11.0</i>
Net financial items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0
Pre-tax profit	0.0	3.5	0.0	2.5	6.1	0.0	4.1	0.0	1.7	5.8	7.5	8.4
Tax	0.0	-0.8	0.0	-0.6	-1.4	0.0	-1.0	0.0	-0.5	-1.5	-1.9	-2.1
<i>Tax rate (%)</i>	<i>0.0</i>	<i>20.7</i>	<i>0.0</i>	<i>18.8</i>	<i>19.9</i>	<i>0.0</i>	<i>20.1</i>	<i>0.0</i>	<i>20.0</i>	<i>20.1</i>	<i>20.0</i>	<i>20.0</i>
Net profit	0.0	2.8	0.0	2.0	4.7	0.0	3.1	0.0	1.2	4.2	5.6	6.4
EPS	0.00	0.21	0.00	0.15	0.36	0.00	0.22	0.00	0.08	0.30	0.40	0.45
EPS adjusted (diluted no. of shares)	0.00	0.21	0.00	0.15	0.36	0.00	0.22	0.00	0.08	0.30	0.40	0.45
Dividend per share	0.00	0.00	0.00	0.00	0.19	0.00	0.00	0.00	0.00	0.20	0.21	0.23
SALES, EURm												
Group	0.0	24.7	0.0	25.9	50.6	0.0	33.5	0.0	30.6	64.1	71.0	76.7
Total	0.0	24.7	0.0	25.9	50.6	0.0	33.5	0.0	30.6	64.1	71.0	76.7
SALES GROWTH, Y/Y %												
Group	<i>0.0</i>	<i>71.8</i>	<i>0.0</i>	<i>32.2</i>	<i>49.0</i>	<i>0.0</i>	<i>35.5</i>	<i>0.0</i>	<i>18.4</i>	<i>26.7</i>	<i>10.8</i>	<i>8.0</i>
Total	<i>0.0</i>	<i>71.8</i>	<i>0.0</i>	<i>32.2</i>	<i>49.0</i>	<i>0.0</i>	<i>35.5</i>	<i>0.0</i>	<i>18.4</i>	<i>26.7</i>	<i>10.8</i>	<i>8.0</i>
EBIT, EURm												
Group	0.0	3.5	0.0	2.6	6.1	0.0	4.1	0.0	1.7	5.9	7.6	8.5
Total	0.0	3.5	0.0	2.6	6.1	0.0	4.1	0.0	1.7	5.9	7.6	8.5
EBIT margin, %												
Group	<i>0.0</i>	<i>14.3</i>	<i>0.0</i>	<i>9.9</i>	<i>12.0</i>	<i>0.0</i>	<i>12.3</i>	<i>0.0</i>	<i>5.6</i>	<i>9.1</i>	<i>10.7</i>	<i>11.0</i>
Total	<i>0.0</i>	<i>14.3</i>	<i>0.0</i>	<i>9.9</i>	<i>12.0</i>	<i>0.0</i>	<i>12.3</i>	<i>0.0</i>	<i>5.6</i>	<i>9.1</i>	<i>10.7</i>	<i>11.0</i>

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	9.2	12.4	18.6	34.0	50.6	64.1	71.0	76.7
<i>Sales growth (%)</i>	<i>54.0</i>	<i>35.2</i>	<i>49.9</i>	<i>82.4</i>	<i>49.0</i>	<i>26.7</i>	<i>10.8</i>	<i>8.0</i>
EBITDA	1.4	1.6	2.7	5.8	7.0	7.9	9.8	10.7
<i>EBITDA margin (%)</i>	<i>15.5</i>	<i>12.9</i>	<i>14.6</i>	<i>17.1</i>	<i>13.9</i>	<i>12.4</i>	<i>13.8</i>	<i>14.0</i>
Depreciation	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
EBITA	1.4	1.6	2.6	5.7	6.8	7.7	9.6	10.5
Goodwill amortization / writedown	0.0	0.0	0.0	-0.3	-0.7	-1.9	-2.0	-2.0
EBIT	1.4	1.6	2.6	5.4	6.1	5.9	7.6	8.5
<i>EBIT margin (%)</i>	<i>14.9</i>	<i>12.5</i>	<i>14.1</i>	<i>15.8</i>	<i>12.0</i>	<i>9.1</i>	<i>10.7</i>	<i>11.0</i>
Reported EBIT	1.4	1.6	2.6	6.5	6.1	5.9	7.6	8.5
<i>EBIT margin (reported) (%)</i>	<i>14.9</i>	<i>12.5</i>	<i>14.1</i>	<i>19.1</i>	<i>12.0</i>	<i>9.1</i>	<i>10.7</i>	<i>11.0</i>
Net financials	0.0	0.0	0.0	-1.2	0.0	-0.1	-0.1	0.0
Pre-tax profit	1.4	1.5	2.6	4.2	6.1	5.8	7.5	8.4
Taxes	-0.3	-0.3	-0.5	-0.9	-1.4	-1.5	-1.9	-2.1
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	1.1	1.2	2.1	4.5	4.7	4.2	5.6	6.4
Cash NRIs	0.0	0.0	0.0	1.1	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	0	0	1	1	1	1	1	1
Goodwill	0	0	0	5	9	19	17	15
Right of use assets	0	0	0	0	0	0	0	0
Inventory	0	0	0	0	0	0	0	0
Receivables	2	3	3	10	10	13	14	15
Liquid funds	2	2	4	13	15	15	17	19
Total assets	4	5	8	29	35	48	49	50
Liabilities								
Shareholder's equity	2	3	4	18	22	31	34	37
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0	0	0
Interest bearing debt	0	0	0	5	4	6	4	0
Non-interest bearing current liabilities	2	2	3	7	8	11	12	13
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	4	5	8	29	35	48	49	50
CASH FLOW, EURm								
+ EBITDA	1	2	3	6	7	8	10	11
- Net financial items	0	0	0	-1	0	0	0	0
- Taxes	0	0	0	-1	-2	-2	-2	-2
- Increase in Net Working Capital	0	0	0	-3	2	0	0	0
+/- Other	0	0	0	0	0	0	0	0
= Cash flow from operations	1	1	2	1	8	6	8	8
- Capex	0	0	0	0	0	-1	0	0
- Acquisitions	0	0	0	-5	-2	-11	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	1	1	2	-5	6	-7	7	8
+/- New issues/buybacks	1	0	0	10	1	7	0	0
- Paid dividend	0	0	0	-1	-2	-2	-3	-3
+/- Other	0	0	0	4	-3	2	-3	-4
Change in cash	2	1	1	9	3	0	2	2

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	0	0	91	111	106	106	106
Net debt (excl. convertibles)	-2	-4	-8	-11	-9	-13	-19
Enterprise value	-2	-4	83	100	97	92	87
Sales	12	19	34	51	64	71	77
EBITDA	2	3	6	7	8	10	11
EBIT	2	3	5	6	6	8	8
Pre-tax	2	3	4	6	6	7	8
Earnings	1	2	3	5	4	6	6
Equity book value (excl. minorities)	3	4	18	22	31	34	37
Valuation multiples							
EV/sales	-0.2	-0.2	2.4	2.0	1.5	1.3	1.1
EV/EBITDA	-1.4	-1.3	14.3	14.2	12.2	9.4	8.1
EV/EBITA	-1.5	-1.3	14.6	14.7	12.5	9.6	8.3
EV/EBIT	-1.5	-1.3	15.5	16.3	16.6	12.2	10.3
EV/OCF	-2.2	-1.6	133.7	12.7	16.5	12.2	10.4
EV/FCFF	-2.2	-2.4	123.3	37.0	-14.3	12.6	10.8
P/FCFE	0.0	0.0	-20.0	19.1	-15.5	14.6	13.2
P/E	0.0	0.0	27.3	23.4	25.1	18.9	16.7
P/B	0.0	0.0	5.1	5.0	3.4	3.1	2.9
Target EV/EBITDA	0.0	0.0	0.0	0.0	13.0	10.1	8.7
Target EV/EBIT	0.0	0.0	0.0	0.0	17.6	13.0	11.0
Target EV/FCF	0.0	0.0	0.0	0.0	-15.1	13.6	11.6
Target P/B	0.0	0.0	0.0	0.0	3.6	3.3	3.0
Target P/E	0.0	0.0	0.0	0.0	26.5	20.0	17.6
Per share measures							
Number of shares	10,560	10,560	12,949	13,117	14,013	14,013	14,013
Number of shares (diluted)	10,560	10,560	12,949	13,117	14,013	14,013	14,013
EPS	0.12	0.20	0.26	0.36	0.30	0.40	0.45
Operating cash flow per share	0.10	0.20	0.05	0.60	0.42	0.54	0.60
Free cash flow per share	0.10	0.19	-0.35	0.44	-0.49	0.52	0.57
Book value per share	0.24	0.39	1.37	1.68	2.20	2.40	2.65
Dividend per share	0.04	0.05	0.15	0.19	0.20	0.21	0.23
Dividend payout ratio, %	34.4	25.1	58.5	52.7	66.4	52.6	50.0
Dividend yield, %	0.0	0.0	2.1	2.2	2.6	2.8	3.0
FCF yield, %	0.0	0.0	-5.0	5.2	-6.5	6.8	7.6
Efficiency measures							
ROE	57.7	63.3	30.2	23.8	16.0	17.3	17.9
ROCE	66.9	76.1	40.0	25.0	18.5	20.4	22.8
Financial ratios							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	20.6	17.8	30.0	19.5	19.5	19.5	19.5
Non-interest bearing liabilities as % of sales	19.9	18.4	19.7	16.4	16.4	16.4	16.4
NWC/sales, %	0.6	-0.6	10.3	3.1	3.1	3.1	3.1
Operative CAPEX/sales, %	0.2	0.9	1.2	0.4	1.9	0.5	0.5
CAPEX/sales (incl. acquisitions), %	0.2	0.9	-12.7	-3.2	-16.1	0.5	0.5
FCFF/EBITDA	0.7	0.5	0.1	0.4	-0.9	0.7	0.8
Net debt/EBITDA, book-weighted	-1.4	-1.3	-1.4	-1.6	-1.1	-1.4	-1.7
Debt/equity, market-weighted	0.0	0.0	0.1	0.0	0.1	0.0	0.0
Equity ratio, book-weighted	49.3	54.3	60.8	63.7	64.7	68.8	74.6
Gearing, %	-90.6	-85.0	-44.2	-51.0	-29.3	-40.0	-50.1

COMPANY DESCRIPTION: Gofore is an international growth-seeking digitalisation services company. The company helps customers to succeed at all stages of digital development. Gofore offers design, planning, building, implementing and maintenance of customers digital services and service architecture. Gofore was founded in 2002.

INVESTMENT CASE: Gofore achieved fifteen consecutive years of profitable growth in 2019. The prospects for continued growth remains good following a good domestic demand situation and recent M&A activity as well as potential for picking up growth internationally. A continued good demand situation should in turn translate into higher billing rates and healthy Group margins.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Kärki Timur Juhana	1,875,000	14.175	13.4%
Venola Mika Petteri	1,770,000	13.381	12.6%
Varjus Mika	1,770,000	13.381	12.6%
Lammi Jani Markus	1,570,000	11.869	11.2%
Ilmarinen Mutual Pension Insurance Company	871,801	6.591	6.2%
Karjalainen Mika Juhani	596,484	4.509	4.3%
Evli Finland Small Cap Fund	560,000	4.234	4.0%
Varma Mutual Pension Insurance Company	517,952	3.916	3.7%
Saadetdin Ali	408,936	3.092	2.9%
Nylund Tor Mikael	245,025	1.852	1.7%
Ten largest	10,185,198	77.000	73%
Residual	3,827,604	28.937	27%
Total	14,012,802	105.937	100%

EARNINGS CALENDAR

February 19, 2020

FY 2019 Results

August 14, 2020

Q2 report

OTHER EVENTS

April 08, 2020

AGM

COMPANY MISCELLANEOUS

CEO: Mikael Nylund

Kalevantie 2, 33100 Tampere

CFO: Petteri Venola

Tel:

IR:

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

Important Disclosures

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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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Recommendation	Percentage
Sell	8%
Hold	53%
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Name(s) of the analyst(s): Salokivi

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Contact information**SALES, TRADING AND RESEARCH****Equity Sales**

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

Trading

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

ETFs and Derivatives

Joachim Dannberg +358 9 4766 9123
Kimmo Lijja +358 9 4766 9130

Structured Investments

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

Equity Research

Jonas Forslund +358 9 4766 9314
Joonas Ilvonen +358 44 430 9071
Jerker Salokivi +358 9 4766 9149
Anna-Liisa Rissanen +358 40 157 9919

Evli Investment Solutions

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



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

**EVLI BANK PLC,
STOCKHOLMSFILIAL**
Regeringsgatan 67 P.O. Box 16354
SE-103 26 Stockholm
Sverige
stockholm@evli.com
Tel +46 (0)8 407 8000
Fax +46 (0)8 407 8001