

Room for improvement in 2020

Gofore's H2 results came in slightly better than expected. EBITA was at comparison period levels and amounted to EUR 3.0m (Evli EUR 2.8m). The BoD proposes a dividend of EUR 0.23 per share (Evli EUR 0.20). Gofore expects revenue and the comparable adj. EBITA to grow compared to 2019. We retain our HOLD-rating with a TP of EUR 8.2 (8.0).

H2 EBITA slightly above our estimate at EUR 3.0m

Gofore's H2 results were slightly better than expected. Revenue amounted to EUR 30.6m (pre-announced), with growth of 18.2% y/y, while EBITA remained at comparison period levels and amounted to EUR 3.0m (Evli EUR 2.8m). The BoD proposes a dividend of EUR 0.23 per share (Evli EUR 0.20). Full year relative profitability declined slightly, driven by a 5% increase in average wages and a 1 %-point decrease in billing rates, while customer prices increased 2.3%.

Continued revenue and EBITA growth

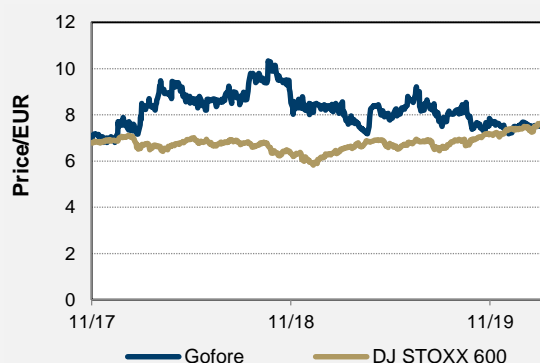
Gofore expects revenue and the comparable adj. EBITA in 2020 to grow compared to 2019. Organic growth in H2 was according to our estimates clearly in the single-digits, affected by the drop in demand among certain larger customers in Q3. We expect organic growth to pick-up in 2020. Currently, the impact of inorganic growth in 2020 will be clearly smaller and we expect a decline in sales growth to 9.7% in 2020. Gofore is however sitting on a formidable cash position and continued M&A activity is not unlikely. Profitability in 2020 will be affected by one-offs relating to the divestment of the UK business but cost-savings will bring the impact to a net positive. We expect an improvement in adj. EBITA-margins to 13.6% in 2020.

HOLD with a target price of EUR 8.2 (8.0)

Gofore's performance has slightly faltered, with slower organic growth and minor margin declines, but we still see performance and thus valuation at above peers. We value Gofore at 16x 2020 P/E (goodwill amortization. adj.) and adjust our target price to EUR 8.2 (8.0) and retain our HOLD-rating.

Rating

HOLD


 Share price, EUR (Last trading day's closing price) **7.66**

 Target price, EUR **8.2**

 Latest change in recommendation **20-Feb-19**

 Latest report on company **17-Feb-20**

 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 **107**

 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 **14-Aug-2020**

 Web site **gofore.com/en/invest**

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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	50.6	6.1	12.0%	5.8	0.36	23.4	2.0	16.3	5.2	0.19
2019	64.1	6.1	9.5%	6.4	0.32	24.2	1.4	15.0	6.0	0.23
2020E	70.3	7.2	10.3%	7.4	0.38	20.4	1.2	12.1	6.9	0.26
2021E	75.9	8.6	11.3%	8.5	0.46	16.7	1.1	9.6	7.9	0.27
2022E	81.2	9.3	11.5%	9.1	0.50	15.2	1.0	8.3	8.5	0.30
Market cap, EURm	107		Gearing 2020E, %	-59.7		CAGR EPS 2019-22, %		16.7		
Net debt 2020E, EURm	-20		Price/book 2020E	3.2		CAGR sales 2019-22, %		8.2		
Enterprise value, EURm	87		Dividend yield 2020E, %	3.4		ROE 2020E, %		16.2		
Total assets 2020E, EURm	52		Tax rate 2020E, %	20.1		ROCE 2020E, %		19.3		
Goodwill 2020E, EURm	16		Equity ratio 2020E, %	64.8		PEG, P/E 20/CAGR		1.5		

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

Gofore	2018	H1/'19	H2/'19	2019	H1/'20E	H2/'20E	2020E	2021E	2022E
Net sales	50.6	33.5	30.6	64.1	36.4	33.9	70.3	75.9	81.2
<i>sales growth %</i>	49.0%	35.5%	18.2%	26.7%	8.7%	10.8%	9.7%	8.0%	7.0%
Other income	0.2	0.0	0.3	0.3	0.1	0.1	0.2	0.2	0.2
Materials and services	-7.9	-4.7	-4.0	-8.7	-4.9	-4.6	-9.5	-10.5	-11.2
Personnel expenses	-27.6	-18.6	-18.1	-36.7	-20.3	-19.5	-39.8	-42.4	-45.4
Other op. expenses	-8.3	-5.2	-5.6	-10.8	-6.0	-5.8	-11.7	-12.4	-13.2
EBITA	6.8	5.0	3.0	8.0	5.2	4.1	9.2	10.6	11.3
<i>EBITA-%</i>	13.4%	14.8%	10.0%	12.5%	14.2%	12.0%	13.1%	14.0%	14.0%
Adj. EBITA				8.0	5.5	4.1	9.6	10.6	11.3
<i>Adj. EBITA-%</i>				12.5%	15.2%	12.0%	13.6%	14.0%	14.0%
EBIT	6.1	4.1	2.0	6.1	4.2	3.1	7.2	8.6	9.3
<i>EBIT-%</i>	12.1%	12.3%	6.5%	9.5%	11.4%	9.1%	10.3%	11.3%	11.5%

GOFORE PEER GROUP	MCAP MEUR	EV/EBITDA			EV/EBIT			P/E		
		19E	20E	21E	19E	20E	21E	19E	20E	21E
TietoEVRY	3271	16.0x	9.1x	8.2x	22.0x	11.9x	10.8x	15.7x	12.6x	11.6x
Sii Solutions	68	8.7x	7.2x		13.0x	9.7x		17.3x	12.6x	10.0x
Vincit	58							22.4x	17.9x	14.0x
Innofactor	32	9.2x	8.1x	7.1x	24.8x	17.6x	11.6x	20.5x	18.0x	11.8x
Solteq	28	7.3x	6.2x	5.5x	13.5x	11.7x	10.2x	15.8x	11.3x	9.7x
HiQ International	268	10.6x	10.0x	9.5x	13.2x	12.0x	11.3x	16.7x	16.0x	15.0x
Knowit	349	9.5x	7.8x	6.9x	11.8x	9.6x	8.3x	15.5x	14.0x	12.8x
Atea	1257	9.2x	8.2x	7.1x	16.7x	14.3x	11.5x	23.5x	19.0x	15.4x
Peer Group Average	666	10.0x	8.1x	7.4x	16.4x	12.4x	10.6x	18.4x	15.2x	12.5x
Peer Group Median	168	9.2x	8.1x	7.1x	13.5x	11.9x	11.1x	17.0x	15.0x	12.3x
Gofore (Evli est.)	106	10.9x	9.2x	7.5x	14.6x	12.0x	9.5x	23.7x	20.2x	16.6x
<i>Gofore prem./disc. to peer median</i>		18%	14%	6%	8%	1%	-14%	39%	34%	35%
Gofore (Evli est. adj.)*	106	10.9x	9.2x	7.5x	11.1x	9.4x	7.7x	16.6x	14.7x	12.6x

Source FactSet, Evli Research *goodwill amortization adj.

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1E	2020Q2E	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	0.0	33.5	0.0	30.6	64.1	0.0	36.4	0.0	33.9	70.3	75.9	81.2
EBITDA	0.0	5.1	0.0	3.2	8.2	0.0	5.3	0.0	4.2	9.4	10.8	11.6
<i>EBITDA margin (%)</i>	<i>0.0</i>	<i>15.1</i>	<i>0.0</i>	<i>10.3</i>	<i>12.8</i>	<i>0.0</i>	<i>14.5</i>	<i>0.0</i>	<i>12.3</i>	<i>13.4</i>	<i>14.3</i>	<i>14.3</i>
EBIT	0.0	4.1	0.0	2.0	6.1	0.0	4.2	0.0	3.1	7.2	8.6	9.3
<i>EBIT margin (%)</i>	<i>0.0</i>	<i>12.3</i>	<i>0.0</i>	<i>6.5</i>	<i>9.5</i>	<i>0.0</i>	<i>11.4</i>	<i>0.0</i>	<i>9.1</i>	<i>10.3</i>	<i>11.3</i>	<i>11.5</i>
Net financial items	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0
Pre-tax profit	0.0	4.1	0.0	2.0	6.0	0.0	4.1	0.0	3.0	7.1	8.5	9.3
Tax	0.0	-1.0	0.0	-0.6	-1.6	0.0	-1.0	0.0	-0.8	-1.8	-2.1	-2.3
<i>Tax rate (%)</i>	<i>0.0</i>	<i>20.1</i>	<i>0.0</i>	<i>19.8</i>	<i>20.0</i>	<i>0.0</i>	<i>20.0</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	3.1	0.0	1.4	4.4	0.0	3.1	0.0	2.2	5.3	6.4	7.1
EPS	0.00	0.22	0.00	0.10	0.32	0.00	0.22	0.00	0.16	0.38	0.46	0.50
EPS adjusted (diluted no. of shares)	0.00	0.22	0.00	0.10	0.32	0.00	0.22	0.00	0.16	0.38	0.46	0.50
Dividend per share	0.00	0.00	0.00	0.00	0.23	0.00	0.00	0.00	0.00	0.26	0.27	0.30
SALES, EURm												
Group	0.0	33.5	0.0	30.6	64.1	0.0	36.4	0.0	33.9	70.3	75.9	81.2
Total	0.0	33.5	0.0	30.6	64.1	0.0	36.4	0.0	33.9	70.3	75.9	81.2
SALES GROWTH, Y/Y %												
Group	<i>0.0</i>	<i>35.5</i>	<i>0.0</i>	<i>18.2</i>	<i>26.7</i>	<i>0.0</i>	<i>8.7</i>	<i>0.0</i>	<i>10.8</i>	<i>9.7</i>	<i>8.0</i>	<i>7.0</i>
Total	<i>0.0</i>	<i>35.5</i>	<i>0.0</i>	<i>18.2</i>	<i>26.7</i>	<i>0.0</i>	<i>8.7</i>	<i>0.0</i>	<i>10.8</i>	<i>9.7</i>	<i>8.0</i>	<i>7.0</i>
EBIT, EURm												
Group	0.0	4.1	0.0	2.0	6.1	0.0	4.2	0.0	3.1	7.2	8.6	9.3
Total	0.0	4.1	0.0	2.0	6.1	0.0	4.2	0.0	3.1	7.2	8.6	9.3
EBIT margin, %												
Group	<i>0.0</i>	<i>12.3</i>	<i>0.0</i>	<i>6.5</i>	<i>9.5</i>	<i>0.0</i>	<i>11.4</i>	<i>0.0</i>	<i>9.1</i>	<i>10.3</i>	<i>11.3</i>	<i>11.5</i>
Total	<i>0.0</i>	<i>12.3</i>	<i>0.0</i>	<i>6.5</i>	<i>9.5</i>	<i>0.0</i>	<i>11.4</i>	<i>0.0</i>	<i>9.1</i>	<i>10.3</i>	<i>11.3</i>	<i>11.5</i>

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	12.4	18.6	34.0	50.6	64.1	70.3	75.9	81.2
<i>Sales growth (%)</i>	<i>35.2</i>	<i>49.9</i>	<i>82.4</i>	<i>49.0</i>	<i>26.7</i>	<i>9.7</i>	<i>8.0</i>	<i>7.0</i>
EBITDA	1.6	2.7	5.8	7.0	8.2	9.4	10.8	11.6
<i>EBITDA margin (%)</i>	<i>12.9</i>	<i>14.6</i>	<i>17.1</i>	<i>13.9</i>	<i>12.8</i>	<i>13.4</i>	<i>14.3</i>	<i>14.3</i>
Depreciation	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3
EBITA	1.6	2.6	5.7	6.8	8.0	9.2	10.6	11.3
Goodwill amortization / writedown	0.0	0.0	-0.3	-0.7	-1.9	-2.0	-2.0	-2.0
EBIT	1.6	2.6	5.4	6.1	6.1	7.2	8.6	9.3
<i>EBIT margin (%)</i>	<i>12.5</i>	<i>14.1</i>	<i>15.8</i>	<i>12.0</i>	<i>9.5</i>	<i>10.3</i>	<i>11.3</i>	<i>11.5</i>
Reported EBIT	1.6	2.6	6.5	6.1	6.1	7.2	8.6	9.3
<i>EBIT margin (reported) (%)</i>	<i>12.5</i>	<i>14.1</i>	<i>19.1</i>	<i>12.0</i>	<i>9.5</i>	<i>10.3</i>	<i>11.3</i>	<i>11.5</i>
Net financials	0.0	0.0	-1.2	0.0	-0.1	-0.1	-0.1	0.0
Pre-tax profit	1.5	2.6	4.2	6.1	6.0	7.1	8.5	9.3
Taxes	-0.3	-0.5	-0.9	-1.4	-1.6	-1.8	-2.1	-2.3
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	1.2	2.1	4.5	4.7	4.4	5.3	6.4	7.1
Cash NRIs	0.0	0.0	1.1	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	0	1	1	1	1	1	1	1
Goodwill	0	0	5	9	18	16	14	12
Right of use assets	0	0	0	0	0	0	0	0
Inventory	0	0	0	0	0	0	0	0
Receivables	3	3	10	10	10	11	11	12
Liquid funds	2	4	13	15	22	24	26	30
Total assets	5	8	29	35	50	52	53	56
Liabilities								
Shareholder's equity	3	4	18	22	31	33	36	39
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	5	4	6	4	1	0
Non-interest bearing current liabilities	2	3	7	8	13	14	15	16
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	5	8	29	35	50	52	53	56
CASH FLOW, EURm								
+ EBITDA	2	3	6	7	8	9	11	12
- Net financial items	0	0	-1	0	0	0	0	0
- Taxes	0	0	-1	-2	-2	-2	-2	-2
- Increase in Net Working Capital	0	0	-3	2	4	0	0	0
+/- Other	0	0	0	0	0	0	0	0
= Cash flow from operations	1	2	1	8	11	8	9	10
- Capex	0	0	0	0	0	0	0	0
- Acquisitions	0	0	-5	-2	-4	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	1	2	-5	6	6	7	9	9
+/- New issues/buybacks	0	0	10	1	7	0	0	0
- Paid dividend	0	0	-1	-2	-2	-3	-4	-4
+/- Other	0	0	4	-3	-5	-2	-3	-1
Change in cash	1	1	9	3	6	2	2	4

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	0	91	111	107	107	107	107
Net debt (excl. convertibles)	-4	-8	-11	-16	-20	-25	-30
Enterprise value	-4	83	100	91	87	82	77
Sales	19	34	51	64	70	76	81
EBITDA	3	6	7	8	9	11	12
EBIT	3	5	6	6	7	9	9
Pre-tax	3	4	6	6	7	9	9
Earnings	2	3	5	4	5	6	7
Equity book value (excl. minorities)	4	18	22	31	33	36	39
Valuation multiples							
EV/sales	-0.2	2.4	2.0	1.4	1.2	1.1	1.0
EV/EBITDA	-1.3	14.3	14.2	11.1	9.3	7.6	6.6
EV/EBITA	-1.3	14.6	14.7	11.4	9.5	7.8	6.8
EV/EBIT	-1.3	15.5	16.3	15.0	12.1	9.6	8.3
EV/OCF	-1.6	133.7	12.7	8.6	11.2	9.2	8.0
EV/FCFF	-2.4	123.3	37.0	14.1	11.6	9.6	8.4
P/FCFE	0.0	-20.0	19.1	16.7	14.5	12.6	11.7
P/E	0.0	27.3	23.4	24.2	20.4	16.7	15.2
P/B	0.0	5.1	5.0	3.4	3.2	3.0	2.7
Target EV/EBITDA	0.0	0.0	0.0	0.0	10.1	8.3	7.3
Target EV/EBIT	0.0	0.0	0.0	0.0	13.1	10.5	9.1
Target EV/FCF	0.0	0.0	0.0	0.0	12.8	10.6	9.3
Target P/B	0.0	0.0	0.0	0.0	3.4	3.2	2.9
Target P/E	0.0	0.0	0.0	0.0	21.8	17.9	16.3
Per share measures							
Number of shares	10,560	12,949	13,117	14,013	14,013	14,013	14,013
Number of shares (diluted)	10,560	12,949	13,117	14,013	14,013	14,013	14,013
EPS	0.20	0.26	0.36	0.32	0.38	0.46	0.50
Operating cash flow per share	0.20	0.05	0.60	0.76	0.56	0.64	0.69
Free cash flow per share	0.19	-0.35	0.44	0.46	0.53	0.61	0.65
Book value per share	0.39	1.37	1.68	2.24	2.39	2.59	2.82
Dividend per share	0.05	0.15	0.19	0.23	0.26	0.27	0.30
Dividend payout ratio, %	25.1	58.5	52.7	72.5	69.2	60.0	60.0
Dividend yield, %	0.0	2.1	2.2	3.0	3.4	3.6	3.9
FCF yield, %	0.0	-5.0	5.2	6.0	6.9	7.9	8.5
Efficiency measures							
ROE	63.3	30.2	23.8	16.6	16.2	18.4	18.6
ROCE	76.1	40.0	25.0	19.2	19.3	23.0	24.3
Financial ratios							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	17.8	30.0	19.5	15.0	15.0	15.0	15.0
Non-interest bearing liabilities as % of sales	18.4	19.7	16.4	20.2	20.2	20.2	20.2
NWC/sales, %	-0.6	10.3	3.1	-5.3	-5.3	-5.3	-5.3
Operative CAPEX/sales, %	0.9	1.2	0.4	0.5	0.6	0.6	0.6
CAPEX/sales (incl. acquisitions), %	0.9	-12.7	-3.2	-5.5	0.6	0.6	0.6
FCFF/EBITDA	0.5	0.1	0.4	0.8	0.8	0.8	0.8
Net debt/EBITDA, book-weighted	-1.3	-1.4	-1.6	-1.9	-2.1	-2.3	-2.6
Debt/equity, market-weighted	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Equity ratio, book-weighted	54.3	60.8	63.7	62.4	64.8	68.9	70.6
Gearing, %	-85.0	-44.2	-51.0	-50.4	-59.7	-68.6	-76.4

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	14.362	13.4%
Venola Mika Petteri	1,770,000	13.558	12.6%
Varjus Mika	1,770,000	13.558	12.6%
Lammi Jani Markus	1,570,000	12.026	11.2%
Ilmarinen Mutual Pension Insurance Company	871,801	6.678	6.2%
Karjalainen Mika Juhani	596,484	4.569	4.3%
Evli Finland Small Cap Fund	560,000	4.290	4.0%
Varma Mutual Pension Insurance Company	517,952	3.968	3.7%
Saadetdin Ali	408,936	3.132	2.9%
Nylund Tor Mikael	245,025	1.877	1.7%
Ten largest	10,185,198	78.019	73%
Residual	3,827,604	29.319	27%
Total	14,012,802	107.338	100%

EARNINGS CALENDAR

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

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Investment recommendations are defined as follows:

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

ERP's investment recommendation of the analyzed company is updated at least 2 times per year.

Recommendation	Percentage
Sell	8%
Hold	53%
Buy	39%

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

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