EVLI

GOFORE

IT Services/Finland, November 16, 2020
Company update

Continued profitable growth

Gofore has a proven track-record of profitable growth, having grown and seeking to grow faster than its target market. Supported by M&A activity and high public sector exposure, growth is in our view set to continue in the double-digits, with margins not looking to be under any major threat. We adjust our target price to EUR 12.1 (8.6) and retain our HOLD-rating.

Seeking above target market growth

Gofore is one of the fastest-growing yet profitable public IT-services companies in Finland, seeking to profile itself more towards a digitalization consultancy company. Gofore aims to grow faster than the target market, new digitalization services, while at the same time seeking to generate an EBITA-margin of 15%. Gofore has a solid track-record, having achieved a net sales CAGR of 47.5% between 2014-2019, while adj. EBITA-margins have remained well in double-digit figures. Relative organic growth has slowed down from recent peak years, but M&A activity supports continued double-digit growth.

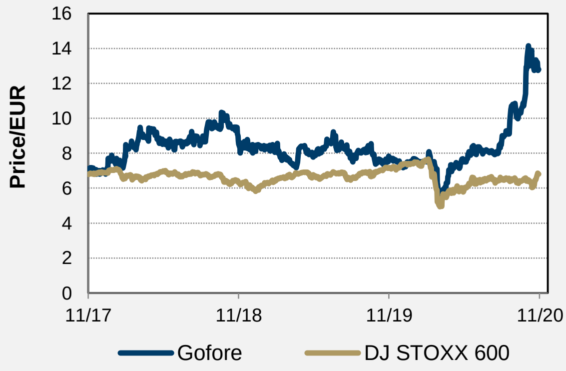
Continued good growth and profitability outlook

Aided by the acquisition of Qentinel Finland we expect Gofore to grow 14.5% in 2021. The uncertainty brought by the coronavirus pandemic poses some risks to customer activity, but the high share of revenue from public sector clients has so far mitigated a lot of the potential impact, as private sector demand has during the year been more affected. Apart from a potential impact of the recent increased share of subcontracting, we do not see significant risks to margins going forward and expect a 13.8% average adj. EBITA-margin during 2020E-2022E, slightly below the target 15%.

HOLD with a target price of EUR 12.1 (8.6)

We value Gofore at 17.5x 2021 adj. P/E (excludes goodwill amortization), implying a 26% premium to our peer group and a 34% premium to the finnish peers. We adjust our target price to EUR 12.1 (8.6) and retain our HOLD-rating.

Rating: HOLD



Share price, EUR (Last trading day's closing price)	12.80
Target price, EUR	12.1
Latest change in recommendation	19-Feb-19
Latest report on company	17-Aug-20
Research paid by issuer:	YES
No. of shares outstanding, '000's	14,036
No. of shares fully diluted, '000's	14,036
Market cap, EURm	179
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	
Web site	gofore.com/en/invest

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2018	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	23.7	1.4	14.6	6.1	0.23
2020E	76.6	6.9	9.1%	-1.6	0.34	38.1	2.2	24.1	-0.9	0.25
2021E	87.7	8.3	9.5%	9.0	0.42	30.6	1.8	19.5	5.0	0.28
2022E	96.5	9.7	10.0%	6.0	0.50	25.7	1.7	16.5	3.3	0.31

Market cap, EURm	179	Gearing 2020E, %	-36.6	CAGR EPS 2019-22, %	16.3
Net debt 2020E, EURm	-12	Price/book 2020E	5.4	CAGR sales 2019-22, %	14.6
Enterprise value, EURm	167	Dividend yield 2020E, %	2.0	ROE 2020E, %	14.6
Total assets 2020E, EURm	55	Tax rate 2020E, %	22.4	ROCE 2020E, %	18.7
Goodwill 2020E, EURm	25	Equity ratio 2020E, %	60.4	PEG, P/E 20/CAGR	2.4

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

Investment summary

Strong track record – rapid growth while maintaining good profitability

Gofore is one of the fastest-growing yet profitable public IT-services companies in Finland focusing on digital design, services and consulting as well as software development. The net sales CAGR between 2014-2019 was 47.5% and during the same time period EBITA-margins have been clearly above the 10% mark. Gofore has a consultative and labor-intensive operating model with limited scalability, for which the cornerstones are: competent personnel, strong company culture, and an agile organizational structure. The company had 718 employees in October 2020.

High exposure to the public sector

Although Gofore overall should be categorized as an IT services company, the company is to a greater extent also seeking to profile itself as a digitalization consultancy company. The company has found success in leading its customers' digital transformation and has established a solid position within the public sector, accounting for 74% of net sales (1-9/2020). The company has also sought to expand its international presence, currently accounting for 11% of net sales (1-9/2020).

Targeting above target market growth

Gofore's target market, the new digitalization services in Finland, is expected to grow notably faster than the Finnish IT market overall. Gofore is seeking to grow faster than its Finnish target market, with management estimating annual growth of the target market at a maximum of 10%. Although the early digitalisation hype and peak growth years may be behind, as companies have become more diligent with investments, the digitalisation trend still provides ample growth opportunities.

We estimate 2020E net sales of EUR 76.6m, co's guidance EUR 70-76m

In 2020, Gofore expects its net sales to be in the range of EUR 70-76 and adj. EBITA to grow compared to 2019 (EUR 8.0m). Based on published monthly reviews net sales during 1-10/2020 have amounted to around 62.3m. Growth accelerated considerably in September, as the acquisition of the in software testing automation specialized Qentinel Finland brought some 100 new employees to Gofore. We estimate 2020 net sales of EUR 76.6m based on the inorganic growth boost, slightly above the guidance range, noting that the second wave of the coronavirus pandemic still creates some uncertainty. The rapid growth in 2020 (Evli est. 19.6%) is poised to see continuation in 2021 given the inorganic growth, with our estimate at 14.5%. Gofore has been actively acquiring companies to aid its growth ever since its IPO in 2017 and continued activity is in our view highly likely.

Our profitability estimates slightly below co's 15% EBITA-margin target

Gofore's financial target for profitability is an EBITA-margin of 15%. The adj. EBITA-margin (excludes expenses related to the divestment of its UK business) during 1-9/2020 amounted to 14.2%, driven by solid profitability in the first quarter. We expect a 2020 adj. EBITA margin of 13.5%, anticipating that a higher share of subcontracting will burden margins slightly in the last quarter but nonetheless to remain at healthy levels. We estimate only slight margin improvement for the coming years. We do not see significant risks to margins in coming years as demand outlook remains favourable and the salary pressure in previous years appears to have cooled off slightly. Our main concern is the share of subcontracting, which rose notably during September-October 2020, but expect to see Gofore seek to maintain a lower share in the future.

HOLD with a target price of EUR 12.1 (8.6)

We value Gofore at 17.5x 2021 adj. P/E (excludes goodwill amortization), implying a 26% premium to our peer group and a 34% premium to the finnish peers. The premium is in our view still justifiable given Gofore's proven track record of growth and profitability, which we see will continue in the coming years. Gofore's attractive cash flow profile and cash position provides the means for continued inorganic growth and dividend distributions. We adjust our target price to EUR 12.1 (8.6) and retain our HOLD-rating.

Company in brief

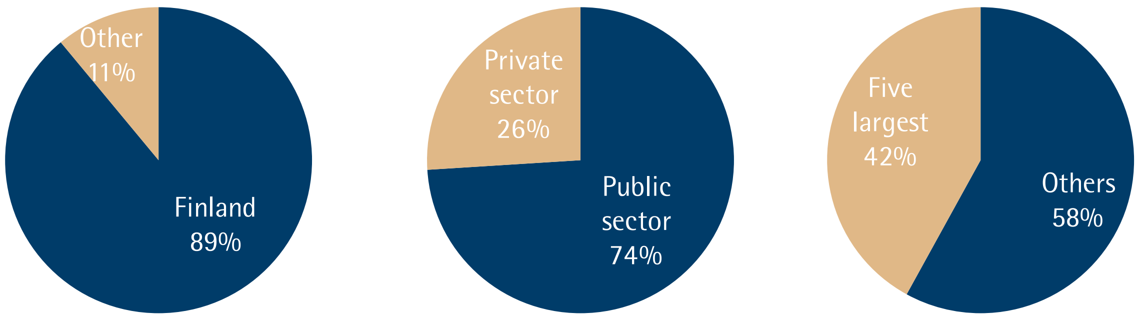
Rapidly growing digitalization consulting and IT-services company

Gofore, founded in 2001, is a Finland-based growth-seeking digitalization consulting and IT-services company. The company's main market area is Finland but through acquisitions and organic growth Gofore has also expanded to Germany, Spain and Estonia. The company had ten offices and 718 employees by the end of October 2020. The company's services include the leading of digitalization changes in customer companies & public entities, design of user-oriented digital services, and building digital services and service architecture as well as maintenance. Gofore is listed on the Nasdaq First North Helsinki exchange since 2017.

Rapid growth has been coupled with high margins

Gofore has grown rapidly in the past years, with an impressive net sales CAGR of 47.5% between 2014-2019, while having achieved double-digit EBITA-margins on average. Gofore takes pride in its unique company culture and the company's attractiveness as an employer has enabled the rapid growth as the recruitment of new, skilled employees has been a lesser issue. This, along with supportive markets conditions, has enabled good organic growth. Activity on the M&A front has also picked up since the company's IPO and a healthy balance sheet provides potential for capitalizing on future opportunities.

Figure 1: Net sales distribution by location, sector and clientele (1-9/2020)



Source: Gofore, Evli Research

Broad service offering covering digitalization consultancy and service design and implementation

Although Gofore overall should be categorized as an IT services company, the company's profile has increasingly adjusted towards becoming a digitalization consultancy company as closer to a third of employees, roughly speaking, are involved in advisory services. Gofore offers design, planning, building, implementing and maintenance of customers digital services and service architecture. Gofore helps organisations to keep up in the ever-changing environment and to capitalize on new business opportunities through digitalization. Gofore currently has over 350 customers, both domestic and international. The customer distribution leans heavily toward public sector clients, where Gofore has been able to build up a good reputation and a base of repeat customers.

Low-hierarchy organizational model and employees' key factors

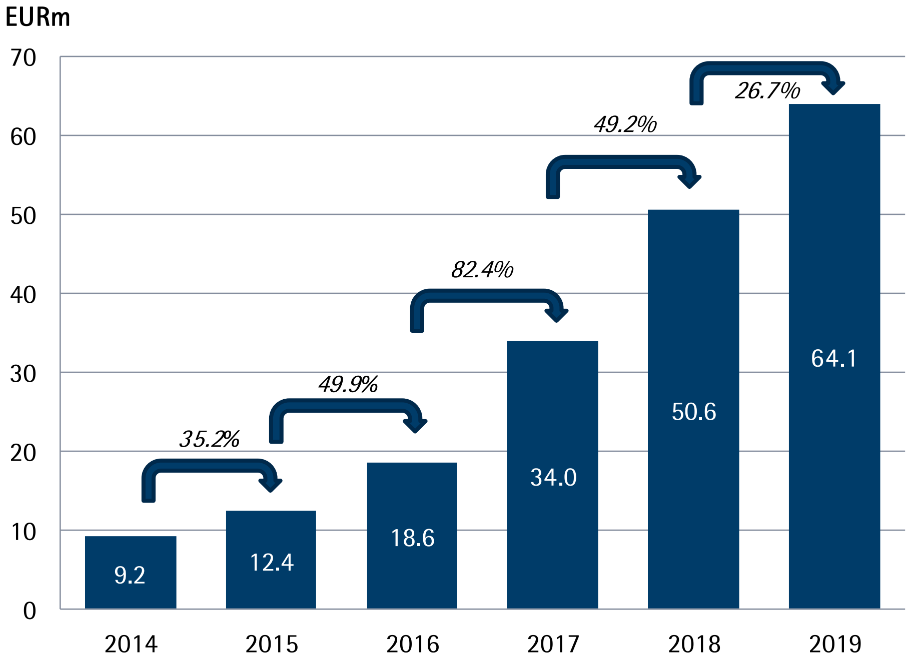
Gofore focuses on a subarea of the overall IT-sector, new digital services, which has experienced rapid growth in past years, which Gofore and its peers have been able to capitalize upon. A key factor for Gofore, as well as some peers, have been the use of a low-hierarchy organizational model and self-contained teams to better be able to adapt to needs and enhance innovativeness. A key ingredient for such a model of operations lies in the ability to recruit and retain the right people, which Gofore has succeeded well in, as evidenced by previous excellent performance in the Great Place to Work study and a low employee turnover.

Financial performance – strong track record

2014-2019 sales CAGR 47.4%

Gofore has been able to grow rapidly while maintaining good profitability. Due to a labour-intensive and consultative nature of the business model, the revenue development has closely followed the growth in personnel. Net sales have increased from EUR 9.2m in 2014 to EUR 64.1m in 2019, with impressive annual growth rates. The net sales CAGR in between 2014-2019 was 47.5%. Since 2014 time the number of employees has grown from 78 to 716 in September 2020. According to the guidance for 2020, Gofore's net sales are expected to be EUR 70-76m and adj. EBITA is expected to grow compared with 2019.

Figure 2: Gofore's net sales development 2014-2019



Source: Gofore, Evli Research

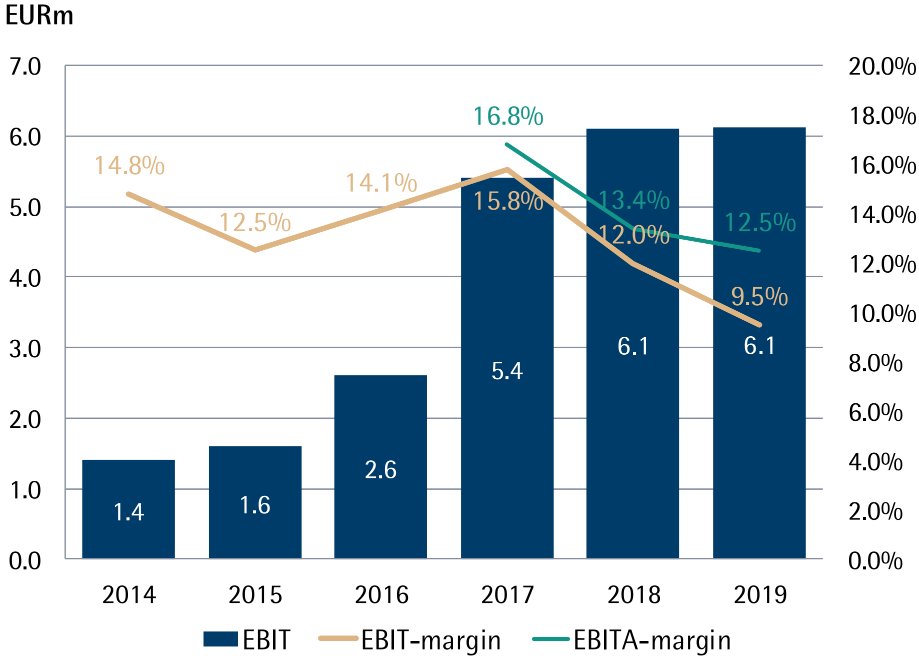
History of healthy margins and high ROE

Historically, the company's profitability has developed favourably. Despite the strong sales growth, Gofore has also been able to maintain relatively steady margins. This has been mainly due to good cost discipline and high billing rates along with an ability to raise customer prices. The average EBIT-margin between 2014 and 2019 has been 13.1%, which in our view represents a solid profitability level in comparison to other companies in the IT-services industry. Gofore's Return on Equity (ROE) has similarly been at good levels (2019: 16.6%) although having decreased since the company's IPO.

Growth 26.7% in 2019 supported by acquisitions

Gofore's net sales in 2019 amounted to EUR 64.1m, with a growth of 26.7% compared with 2018. Gofore has not given information on the split of organic and inorganic growth but according to our estimates a slightly larger part of the growth was inorganic, supported in particular by the acquisition of Helsinki-based digital consulting company Solinor and the Digital transformation consulting company Silver Planet. Organic growth did not develop as well as expected, as evidenced by the two sales guidance downgrades during the year for the fiscal year 2019. The growth was affected by a reduction of orders by several large customers during mid-2019 as well as the forming of the new government in Finland, which temporarily affected public sector spending.

Figure 3: Gofore's profitability development 2014-2019



Source: Gofore, Evli Research

Maintained healthy margins but slight challenges in 2019

The company's EBITA and EBIT-margins in 2019 amounted to 12.5% and 9.5% respectively. Gofore reports financials in accordance with the Finnish Accounting Standards, where company goodwill is amortized periodically on a straight-line basis, and the EBITA metric is as such more comparable with the IFRS accounting standard EBIT. The margins declined in 2019 compared with 2018, as the company saw a few major customers reducing their orders during mid-2019 and the temporary impact on public sector spending from the forming of a new government, which affected sales growth and in turn profitability. In simplified terms, the profitability decreased as an increase in customer prices (+2.3%) was insufficient to compensate for an increase in wages (+5%) and a decrease in billing rates (-1pp).

Guidance for 2020

In 2020, Gofore expects its net sales to be EUR 70-76m and adjusted EBITA is expected to grow compared to 2019. The adjusted EBITA refers to EBITA excluding non-recurring items. Net sales in 2019 were 64.1m and EBITA EUR 8.0m. Gofore booked some EUR 0.8m in non-recurring fees during Q1 due to the divestment of its UK operations.

Cost structure – focus on personnel expenses

Personnel expenses majority of the cost base

The IT-services sector is a labour-intensive industry with personnel being a key asset. The majority of companies' costs in the sector relate to personnel expenses. In 2018 and 2019, personnel expenses represented 61.7% and 63.0% of the total cost base respectively. The competitiveness of Gofore's personnel cost base is slightly improved by having offices in the Finnish cities of Turku, Tampere and Jyväskylä, where the company employs around half of its total personnel. Wage levels are slightly lower in these cities compared to the capital city of Helsinki. In 2019 the share of personnel expenses to the total cost base increased slightly, partly due to the acquisition of Silver Planet, where wage levels have been proportionately higher. The sector growth has also affected wages. Gofore's average wages reportedly grew 5% in 2019.

Other OPEX 18.5% of the total cost base in 2019

Materials and services represented 17.7% and 14.9% of the cost base in 2018 and 2019 respectively. Material and services expenses consist mainly of services that Gofore purchases from other companies in order to successfully complete customer projects.

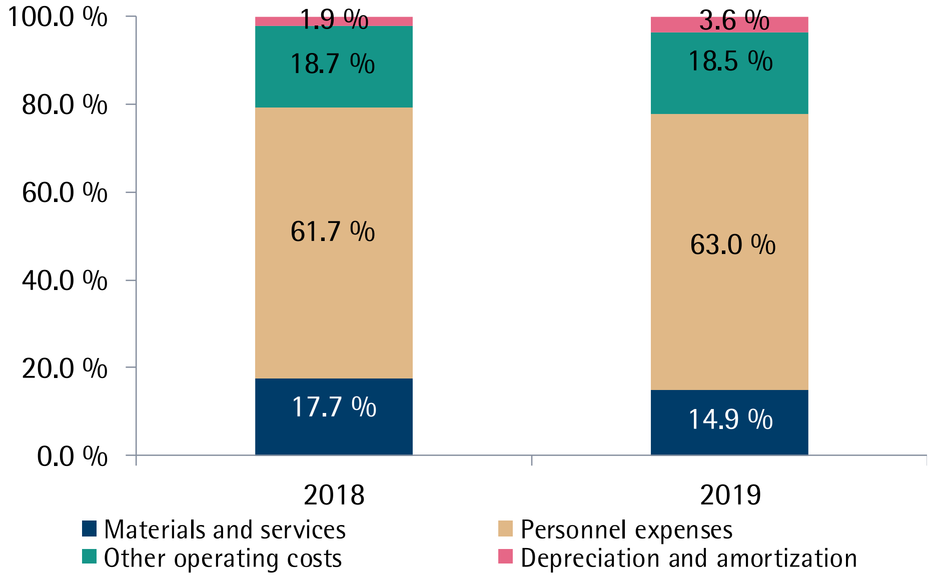
Other operating expenses were 18.7% and 18.5% of the cost base in 2018 and 2019 respectively. Other operating expenses consist mainly of SG&A expenses and expenses from business premises. Under the Finnish Accounting Standard, in contrast to IFRS, leases are recognized as expenses instead of depreciation of right-of-use assets.

Depreciation and amortization in 2018 and 2019 amounted to 1.9% and 3.6% of the total cost base respectively. The majority of the D&A relates to goodwill depreciation, as under the Finnish Accounting Standard goodwill created from the acquisition of other companies is depreciated on a straight-line basis over 10 years. Roughly 90% of D&A expenses in 2019 related to goodwill depreciation.

A good cost control historically

As a staff-reliant IT-services provider with no sale of own products, the personnel expenses will naturally account for a large part of total costs also in the future. Changes in personnel costs will have an impact on margins. Historically, Gofore has been able to maintain a good cost control. According to management, the light hierarchy and a self-steering work culture have played a significant role in the management of personnel expenses.

Figure 4: Gofore's cost base



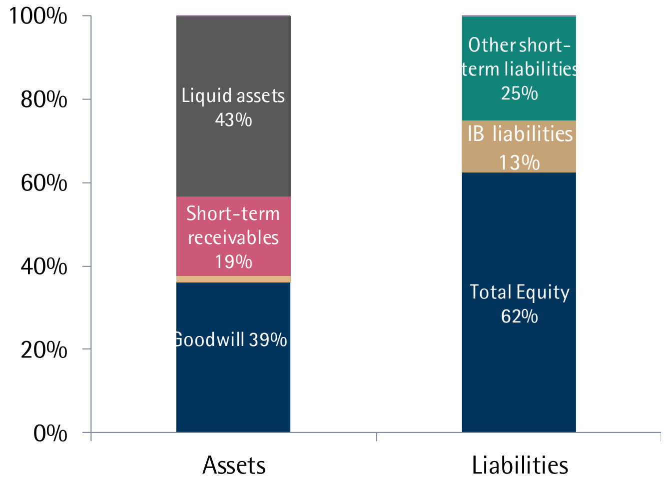
Source: Gofore, Evli Research

An asset-light balance sheet

Low debt and sizeable cash position

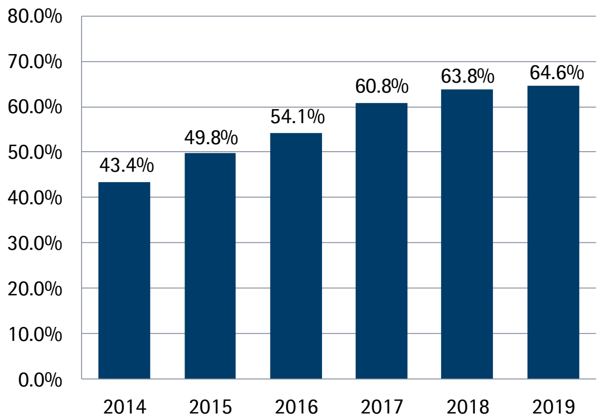
Gofore's balance sheet is asset light and Gofore has enjoyed a strong financial position in the past. The company's equity ratio in 2018 and 2019 amounted to 63.8% and 64.6% respectively. The company has been able to accumulate a sizeable cash position since the IPO in 2017, with liquid cash assets of EUR 21.9m at the end of 2019 (2018: EUR 15.4m). The interest-bearing debt amounted to EUR 6.3m at the end of 2019, consisting mainly of bank debt that was raised in connection with the acquisition of Silver Planet.

Figure 5: Balance sheet at the end of 2019



Source: Gofore, Evli Research

Figure 6: Equity ratio development



Source: Gofore, Evli Research

Goodwill the main risk in the balance sheet

We consider the main risk in the balance sheet, if any, the relatively high goodwill. As a result of acquisitions, the company's goodwill has increased to EUR 18.2m, which represents 58% of the total equity. Due to Gofore's strong growth, the company's working capital has been at relatively high levels over the past couple of years. Gofore does not receive any significant advances in its projects. Since 2014, Gofore has leased all its fixed assets.

Personnel – active recruitment needed to maintain sales growth

Personnel the main "asset"

To attract, retain and train employees is crucial in order to succeed in the labour-intensive IT-services sector. Competent personnel can be seen as one of the key strengths of Gofore, along with its non-hierarchical business model. The company also sees the strong company culture as one of the cornerstones of its operations.

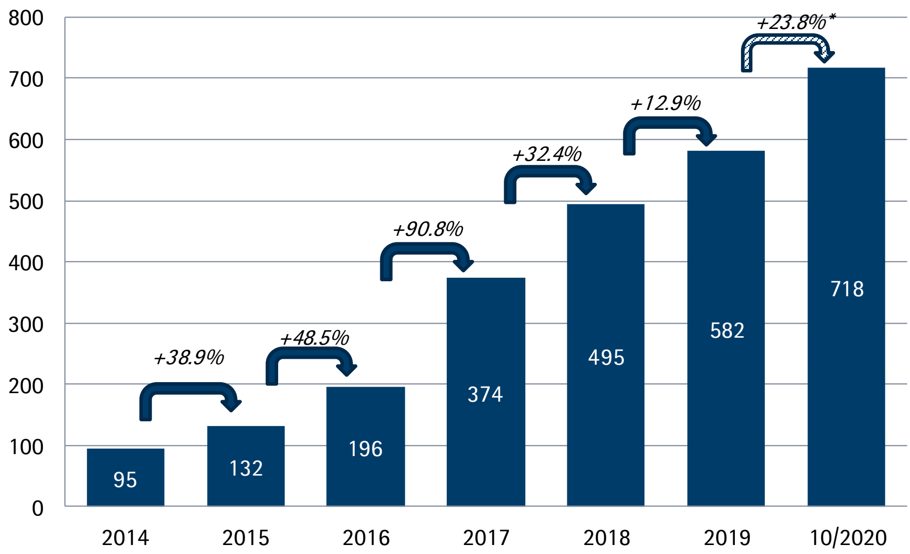
Just over 700 employees

At the end of October 2020, Gofore had 718 employees in ten offices. Excluding personnel within group functions, roughly one third of the employees were within advisory services and roughly two thirds within functions related to service design and development. Gofore has not set a target for growth in the number of employees but is seeking to maintain a growth in the number of employees to keep the revenue growing.

Respected employer in Finland and Europe

Gofore has performed extremely well in the Great Place to Work study. In 2017, Gofore was chosen as the best workplace in Finland in the category of medium sized companies. The company was also ranked as the second-best company in the category for small and medium sized companies in Europe. Gofore has since opted to not participate in the study, in our view likely due to the possible benefits outweighed by the investment. Gofore further ranked fifth in the Young Professional Attraction index 2020.

Figure 7: Personnel development



Source: Gofore, Evli Research. *compared with 10/2019

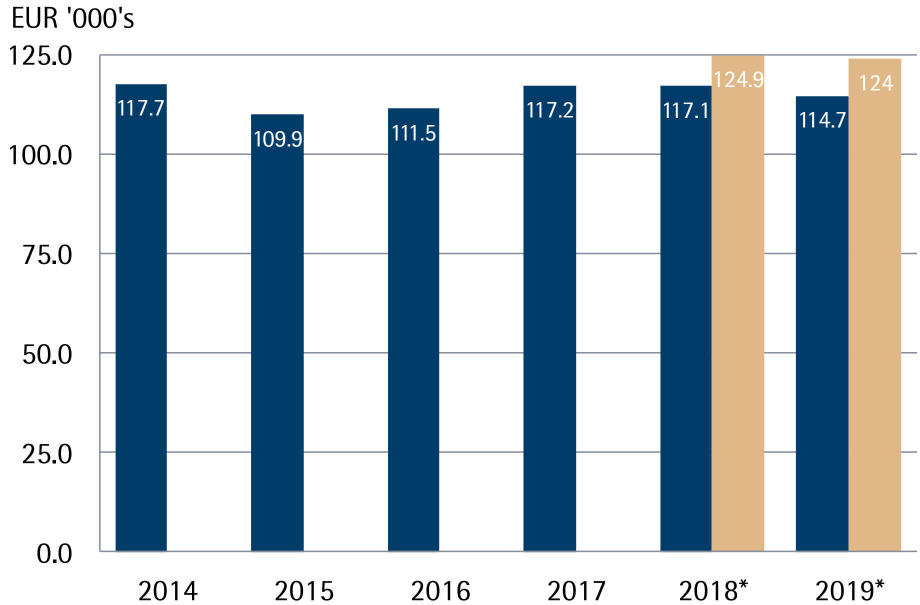
Almost 93% of the personnel in Finland

The majority of personnel is located in four offices (Tampere, Helsinki, Turku and Jyväskylä) in Finland. 580 of 610 (95.1%) employees were working in Finland at the end of H1/2020. The number of employees outside of Finland, although still only a small share, had doubled by the end of 2019 compared with 2017. The offices abroad are located in Munich and Brunswick (Germany), Madrid (Spain) and Tallinn (Estonia). Gofore formerly had offices in the UK, which were divested in January 2020 due to a weak market outlook and unprofitable business operations. The number of employees outside of Finland has as a result of that decreased to 30 persons compared with 42 at the end of 2019.

Some employee turnover challenges faced during H2/2019

2019 was in some respects a more challenging year for Gofore. The number of employees at the end of 2019 grew to 582 compared with 495 at the end of 2018, slowing down clearly compared to the previous year but still a clear increase of 12.9%. Gofore has during previous years enjoyed a relatively low employee turnover, but during the second half of the year the turnover increased clearly and the number of employees excluding acquisitions grew only slightly. This could in our view partly indicate that the competitive situation in the sector's labour market, with wage-driven competition for skilled employees, has started to show. The challenges faced in customer order values during the year did however have an impact on new recruiting. The development so far during 2020 has been more favourable and the growth in the number of employees, taking into account the divestment of UK operations as well as the acquisition of Qentinel Finland, has picked up again. We conclude that Gofore in our view continues to retain its position as an attractive employer, but market conditions may continue to pose potential challenges in the future.

Figure 8: Net sales per employee

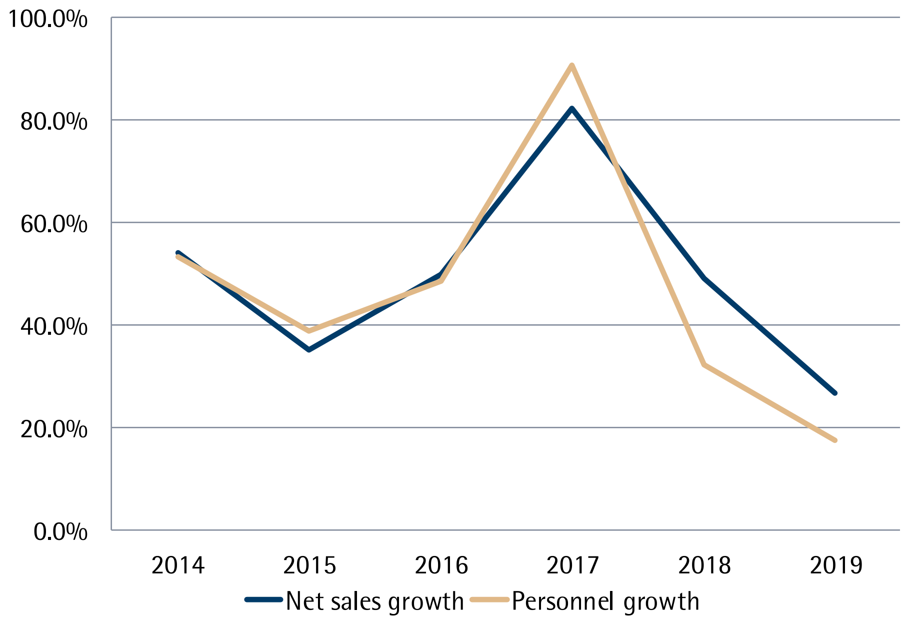


Source: Gofore, Evli Research. *Overall capacity of Group's personnel as a full-time equivalent (FTE) figure as well as average number of employees

High correlation between sales and personnel growth

In 2019, Gofore's net sales/employee (average) ratio amounted to 114.7k, corresponding to the 2014-2019 average of 114.7k. Since 2018 Gofore has begun reporting its full-time equivalent (FTE) figure for all of the Group's personnel, which converts the overall capacity into a comparable value corresponding to the number of full-time employees. The net sales to FTE ratio remained relatively unchanged in 2019, at 124k compared with 124.9k in 2018. As a services oriented company with no own products the fluctuations in the ratios should remain minor and potential for scaling up the numbers is limited. The correlation between sales growth and growth in the number of employees is apparent, as seen in figure 9.

Figure 9: Sales and personnel growth (%)



Source: Gofore, Evli Research

Personnel expenses grew slightly faster than sales in 2019

Personnel expenses amounted to EUR 36.7 million or 57% of net sales in 2019. Expenses grew slightly more than sales, up by 33%, while sales growth was at 27%. According to Gofore and our estimates, the average wage growth in recent years has increased and been at elevated levels compared to earlier years. The growth in wages has been an increasing issue in recruiting and partly also employee retention, which has had some impact on the development of personnel numbers on shorter timeframes, but on an annual basis Gofore has still managed to maintain growth in personnel. In our view, one of the company's strengths is successful and diverse recruiting as well as rapid familiarization of new employees into the organisation along with an attractive company culture. Gofore in our view belongs to the group of more attractive employers in the sector.

Gofore also employs subcontractors quite extensively within certain non-core service areas and has in the past years sought to slightly increase the relative share of subcontracting to net sales. The average overall FTE capacity of subcontracting amounted to 54 in 2019 compared with the average overall FTE capacity of 517.

Customers – public sector the largest customer segment

High share of public sector clients

Gofore has a high exposure to the public sector. Based on the 1-9/2020 net sales distribution, the public sector customers accounted for 74% of the net sales and the private sector represented 26% of the net sales. The share of public sector customers has been growing, as the sales CAGR of public sector customer during 2017-2019 was 45% while the respective figure for private sector customers was 24%. In the public sector, Gofore has developed digital services for example for YLE (National public service broadcasting company), Trafi (Finnish Transport Safety Agency), Työterveyslaitos (Finnish Institute of Occupational Health) and Kela (the Social Insurance Institution of Finland). According to management, the current government sourcing legislation is more flexible than before, enabling also small and medium sized companies to more easily participate in bidding processes. The organizational growth has also enabled Gofore to participate in bidding processes for larger scope projects and for instance was selected by the Finnish Patent and Registration Office as a system maintenance, support and development services provider, for an estimated agreement value of EUR 12m.

Services provided mainly on time and material basis

Gofore mainly provides services on a time and material basis (93% of 1-8/2020 revenue), where payment is dependent upon the time and materials used in the project. For Gofore the payment is mainly dictated by the hours of its consultants and experts. On the other end of the spectrum would be fixed price projects, which for the customer should be more attractive when considering only the determinant of the costs, as in such cases the total costs are typically known in advance. For service providers fixed price projects should typically be less attractive due to the risk of cost exceedings and weak profitability on projects. The flip side of the coin is that in time and material projects the service provider must be able to deliver a superior customer experience to warrant the possibly higher expenses and flexibility. An important factor in Gofore's success has been the customer satisfaction, which to a certain degree has been demonstrated by repeat customers. In the latest annual customer satisfaction survey Gofore's clients rated their collaboration with an overall grade of 8.5 (1 to 10 scale).

Targeting to expand international customer base

With the acquisition of Mangodesign, Gofore completed its first direct overseas acquisition. As Gofore is targeting also international growth, the acquisition is in line with Gofore's strategy. The customer portfolio broadened to include more industrial customers in the German market. Gofore's internationalization is still in the early stages and during 1-9/2020, 89% of net sales came from Finland while the rest of the world represented only 11%.

Figure 10: Customer split

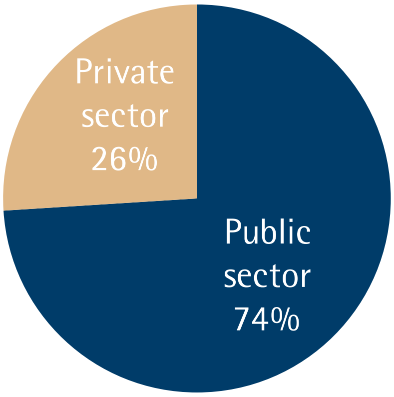
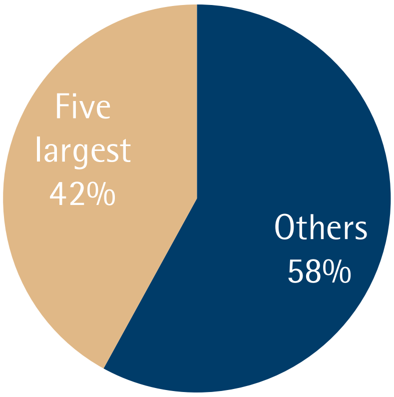


Figure 11: Net sales by customers



Source: Gofore, Evli Research. Figures for the period 1-9/2020

Diverse customer base but reliant upon a few large customers

During 1-9/2020, the five largest customers represented 42% of the net sales. Other customers' share of net sales was 58%. Gofore currently has over 350 customers. According to management the customer split is seen as favourable, as the customer base is relatively well spread while still having some key repeat customers. The fact that the five largest customers stood for near 50% of revenue is in our view still a slight risk. The customer risk was somewhat visible during 2019, as several larger customers rather simultaneously decreased volumes, which was visible in billing rates and profitability. Partly this can also be attributed to the form of services provided, as Gofore's recurring revenue, when comparing for instance with certain software product providers, is clearly lower.

Business model – labour-intensive, lower risk model

Competitiveness based on skilled personnel

Gofore's business operations are based on delivery of digital solutions, services and consultancy for customers in the public and private sector. Employees are the key to maintaining the competitiveness in the fast-growing IT-services sector. Gofore has a strong company culture, which helps to maintain key personnel and attract new skilled employees. The business model is labour-intensive, which highlights the importance of company culture.

Hourly based invoicing and price increases

The majority of the invoicing is based on time and material type invoicing (1-8/2020: 93% of sales), which lowers the operative risk compared to fixed price models. Historically, Gofore has on average been able to raise customer prices as fast or faster than its personnel costs have increased. Gofore has been able to maintain a high invoicing rate, although the most recent years have brought minor challenges. Gofore is also able to familiarize new personnel quickly into its organisation, which supports the invoicing rate. The company also uses automation in its bidding processes to improve operational efficiency.

Share of fixed priced projects relatively low

The company also offers projects with fixed price and scheduled delivery. Often these projects are executed for the public sector clients. Fixed price projects carry more risk but can offer accelerated growth. The share of the fixed price project business is currently low.

Teams key to success

Self-contained teams execute services and projects for customers. Typically, a team consist of 3-5 employees but for example in large projects for the public sector, teams can have some 20-30 employees from several offices. Gofore's versatile teams can offer service design, software development and planning, building, implementing as well as maintenance of customers digital services and service architecture. We see Gofore as well-positioned to adapt to the changing needs of its customers.

Low-hierarchy organizational model

Gofore is able to recruit and familiarize new personnel quickly into its organisation. Historically, personnel growth has translated into sales growth relatively rapidly. We see the organization as agile and the less hierarchical structure offers a competitive edge against especially the large IT-generalists. Decision-making is also quicker than in larger organisations. In our view, Gofore has a strong company culture, which has resulted in a lower employee turnover and given the company a better competitive position.

Large part of employees located outside the Capital region

In our view, the competitiveness of Gofore's cost structure in the Finnish IT-services sector is aided by its offices outside of the Capital region. The company has offices in Tampere, Jyväskylä and Turku, where roughly half of the total personnel is located. Personnel expenses in these cities are somewhat lower compared to Helsinki, which supports Gofore's cost competitiveness against large IT-generalists as well as small and medium sized players.

Focus on the rapidly growing new digital services market

Gofore focuses on the new digital services market, where growth rates are clearly above the traditional IT-services market growth according to Gartner. However, there are several small and medium sized Finnish peers that are competing for the same market shares. Gofore operates mainly in the public sector market, where it has developed into a strong player. Gofore does not focus on a specific technology (e.g. Microsoft), which provides flexibility in operations.

Limited scalability, sales growth requires peronnel recruitments

The share of recurring revenue (e.g. maintenance) is low, which lowers visibility of the top line. Due to the labour-intensive business model, scalability of the business is rather limited. In order to continue sales growth, Gofore needs to recruit new personnel as it is difficult to raise the sales per employee (average) ratio. It is key to find new talents and attract experienced professionals as competition for personnel is relatively tough in the IT-services sector.

Figure 11: Swot-analysis

Strengths	Weaknesses
• Competent personnel and ability to recruit new talents • Agile and lean organization structure • Offices outside Helsinki supporting cost structure • Ability to raise customer prices	• Limited scalability potential due to labor-intensive business model • Few large customers account for large share of sales • International operations track-record
Opportunities	**Threats**
• Strong growth of Finnish digitalization market • Expansion in Europe • New project possibilities through growth in size	• Personnel costs increases/growth slowdowns due to competition for skilled employees • Government's IT-budget constraints • Unsuccessful expansion outside Finland

Source: Evli Research

Competitor analysis – several fast-growing peers in Finland

Large IT-generalists losing market share

The past years have seen the market structure of the Finnish IT-services sector changing rapidly. Small and medium sized players are growing rapidly and recruiting actively and modern and agile companies in the like of Gofore have in a few years secured a good foothold in the new digital services market. Large IT-generalists (Tieto, Accenture & CGI) still hold strong market positions in Finland but they are not as agile and innovative as the growing small and medium sized players. Hence, large IT-generalists have lost market share in the Finnish market. Some large and medium sized Nordic IT-services players are also present in the market but with low market shares.

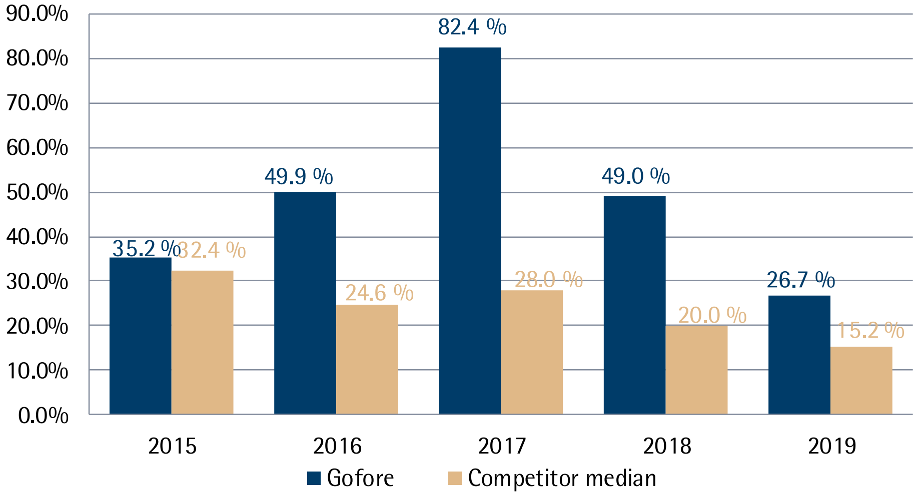
Main competitors agile small and medium sized players

We have compared Gofore's financial performance against the company's main competitors (inc. listed and non-listed companies) in Finland. The main competitors include small & medium sized IT-services players Vincit, Nitor, Siili, Reaktor, Futurice and Solita. These players have overall also grown relatively aggressively in the Finnish IT-market. Solita can be seen as probably the closest peer to Gofore due to a similar service focus and especially the larger exposure to advisory related services. Through the advisory services competitors also include large consulting companies such as Accenture.

Strong organic sales growth - Gofore has gained market share in the IT-services market

During the past five years, Gofore has every year grown faster than the median growth among its competitors. Gofore's net sales CAGR growth between 2014-2019 was 47.5%. Growth among small and medium sized IT-players has been fast – all main competitors have on average seen double-digit growth rates during the past five years. A large share of the growth has been organic. Gofore's focus on IT-services related to digitalization has been the main contributor to growth. Gofore's organic growth, like several of the other fastest growing competitors, have been complemented by inorganic growth. Gofore has in the past few years completed a couple of acquisitions: Leadin in May 2017, Solinor in August 2018, Silver Planet in February 2019, Mangodesign in July 2019 and Qentinel Finland in August 2020.

Figure 12: Gofore's sales growth (%) against competitors



Included competitors: Vincit, Siili, Solita, Reaktor, Futurice and Nitor
Source: Asiakastieto, Gofore, company websites, Evli Research

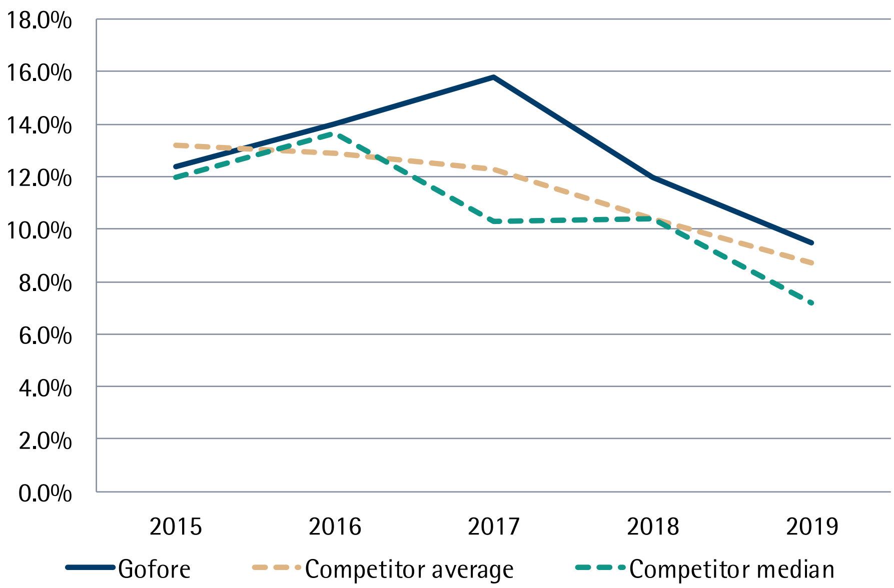
Good margins compared with competitors

Profitability in the IT-services sector has been at a fairly high level in recent years. Gofore's historical profitability has been relatively stable and at slightly higher levels than its competitors but has seen a similar falling trend in the past two years as the competitors. Nitor and Reaktor have on average enjoyed the highest EBIT-margins of the included companies in the comparison between 2014-2019. Nitor and Reaktor have high focus on the Helsinki region, where customer prices have also been higher.

Five-year average EBIT-margin 12.7%

The average EBIT-margin for the competitors in the past five years has been 10.7%, while Gofore has been able to produce an average EBIT-margin of 12.7% during the same time period. In our view, Gofore's good profitability has been based on continued sales growth, which has translated into high utilization rates, along with good cost efficiency and effective service/project execution. Gofore has also been able to raise customer prices due to favourable demand in the IT-services sector.

Figure 13: Gofore's EBIT-margin (%) against competitors



Included competitors: Vincit, Siili, Solita, Reaktor, Futurice and Nitor
Source: Asiakastieto, Gofore, company wesbites, Evli Research

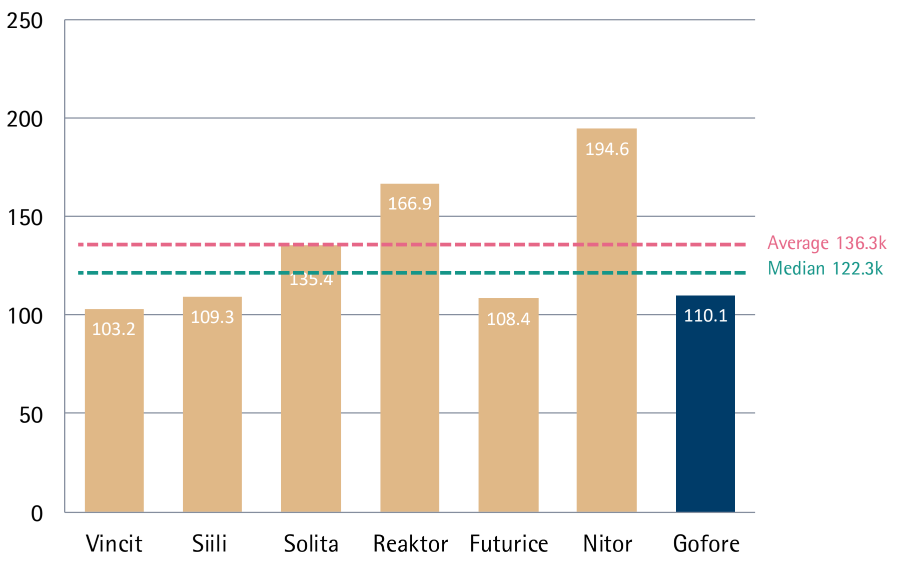
Sales per employee below the sector average

We also compared the net sales/employee ratio in the Finnish IT-services sector. Gofore's net sales/employee ratio amounted to 110.1k in 2019, which was below the sector average of 136.3k. Nitor and Reaktor have the highest net sales/employee ratios in the sector, at least in parts likely due to the high focus on Helsinki. The service offering and employee experience will also impact on the differences between competitors.

Gofore's personnel expenses below the competitor average

Personnel expenses constitute the vast majority of the costs among the IT-services players. Data on personnel expenses is unavailable for some of the private competitors. Based on available data, on average, more than half of all costs are related to personnel expenses. Personnel expenses/net sales ratio also correlate quite well with personnel expenses/net sales ratios. Gofore's personnel expenses/employee (average) ratio was at 65.6k in 2019 and like the net sales/employee ratio appears to be below that of the competitor average. Personnel expenses vary between also due to subcontracting, as subcontracting costs are usually not included in personnel expenses.

Figure 14: Net sales/employee

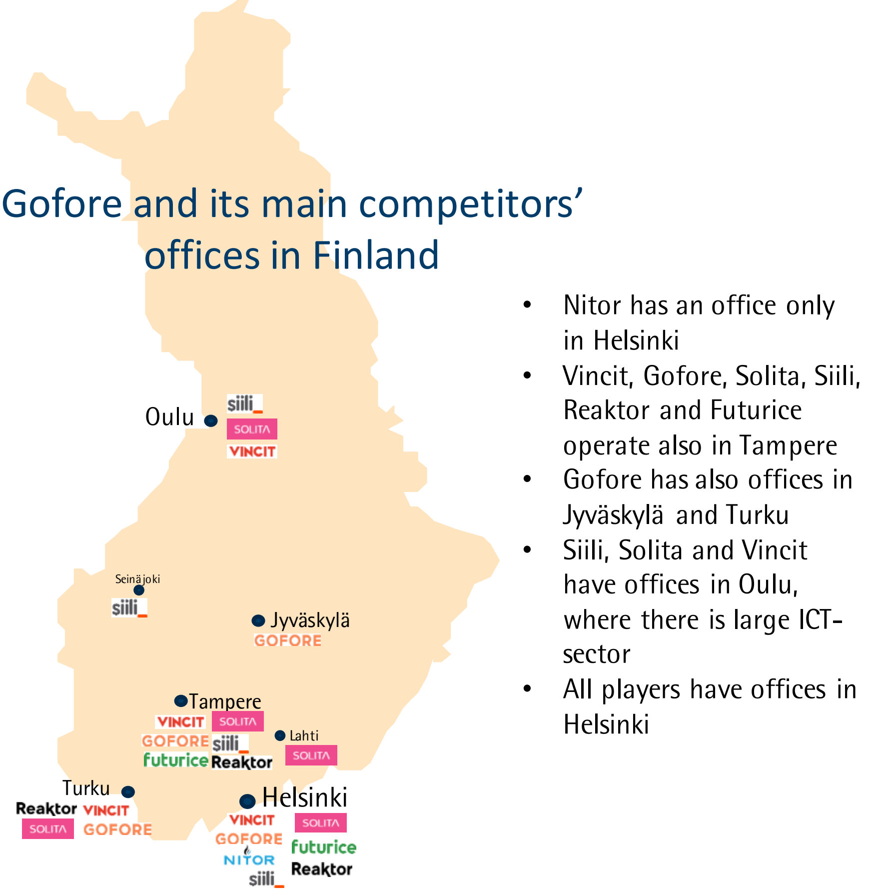


Source: Asiakastieto, company reports, Gofore, Evli Research

Shortage of skilled employees affects the sector

During the recent years, several small and medium sized players in the sector have been growing and seeking to grow the number of personnel due to strong demand in the Finnish IT-services market. Companies are especially interested in recruiting experienced IT-professionals, automation specialists and robotics professionals. Due to a shortage of skilled employees in the market, the risk of further inflated personnel expenses in the coming years is present, if the market growth continues.

Figure 15: Gofore's and its main competitors' offices in Finland



Significant presence outside the Capital region

In our view, Gofore's cost competitiveness is slightly improved by having offices in Turku, Tampere and Jyväskylä. Of the total employees roughly around half have been employed outside Helsinki. Although the difference is likely not substantial in wages, office expenses should be clearly lower. Furthermore, employee turnover is also lower outside Helsinki, where competition for skilled personnel remains tough. The local presence also provides attractivity as an employer and benefits to acquiring new customers in the areas. Gofore also has relatively lean organization structure, which supports cost competitiveness against especially the large IT-services players (Tieto, CGI etc.), that on the other hand may enjoy some economies of scale benefits.

Table 1: Competitor summary

	Solita	Siili	Reaktor	Vincit	Futurice	Nitor	Gofore
Net sales '19 (MEUR) (CAGR '15-'19)	103.7 (20.1%)	80.5 (17.8%)	91.8 (20.7%)	48.2 (30.1%)	65.5 (24.1%)	29.0 (30.5%)	64.1 (50.7%)
Profitability, EBIT-margin '19	9.8%	4.6%	11.2%	3.9%	3.5%	18.8%	9.5%
Personnel '19	766	737	550	467	604	149	582
Geographical presence	Finland, Estonia, Sweden, Belgium Germany & Denmark	Finland, Germany, Poland & USA	Finland, USA, Netherlands, Japan, Sweden, Germany & UAE	Finland, Switzerland & USA	Finland, Sweden, Germany, Norway & UK	Finland & Sweden	Finland, Germany, Estonia & Spain
M&A activity 2018-2019	Acquired Sparks Ab in 5/'19, Ferrologic AB in 11/'19	Acquired 60% of VALA Group in 8/'18	-	Acquired LeanCraft Innovations 1/'19	-	-	Acquired Solinor in 8/'18, Silver Planet in 2/'19, Mangodesign in 7/'19
Private or Listed	Private	Listed on Nasdaq Helsinki	Private	Listed on Nasdaq First North Helsinki	Private	Private	Listed on Nasdaq First North Helsinki

Source: Asiakastieto, company reports, Gofore, Evli Research

Market overview – new digital services market growing rapidly

IT-services market accounts for app. half of the total IT-market

The size of the total Finnish IT-market has been estimated at slightly over EUR 7.0bn, with annual growth rates having been in the range of 3-5%. The IT-services market accounts for roughly 50% of the total IT-market in Finland. The development of the IT-services market is twofold, with traditional IT-services estimated to grow slowly or even decline and new services such as digitalization, cloud services, mobile solutions and Internet of Things (IoT) to grow rapidly.

Gofore's target market new digital services

The Finnish IT-services market can be crudely split into 1) Traditional IT-services and 2) development of new digital services. Gofore focuses on the latter. Gofore has estimated a ~10% annual market growth for the target market[1]. In the near term the Coronavirus pandemic will in our view affect the sector. Given the impact the pandemic is having on the economy, companies will have to consider investments into digitalization from different perspectives. Some entities have deferred investments due to cash flow and financing uncertainty while others may seek to invest in new services that are more compatible with the regulations that have been in place regarding for instance traveling and changes in habits caused by social distancing. In our view the impact of the pandemic on the IT-sector should be lesser than on the economy in general.

Digitalization the main growth driver

The digital transformation is one of the key drivers in the Finnish IT-services market. Digital transformation means the integration of digital technology into all areas of public or private services. This results in fundamental changes to how companies operate and how they deliver value to customers. Digitalization offers customers the possibility to renew their services in order to grow and/or reduce costs by improved efficiency. Digitalization of services can also mean cost savings.

Cost savings and improved productivity

According to a digitalization survey conducted by PwC, public sector entities are mainly looking for cost savings and improved productivity through digitalization projects. Approximately 70% of companies and public entities use digitalization to improve efficiency of their core operations.

[1] Based on Statista total Finnish IT services market growth of 4.3% for 2020-2025 (excluding COVID-19 impact)

Improving customer experience through digitalization

In the private sector, companies are especially eager to improve customer experience of their products through digitalization projects. According to the PwC survey, digitalization of products typically includes expansion of existing products, e.g. by adding smart sensors or communication devices that can be used with data analytics tools, as well as the creation of new digitalized products, which focus on completely integrated solutions. PwC also highlights that leading industrial companies expand their offering by providing disruptive digital solutions such as complete, data-driven services and integrated platform solutions.

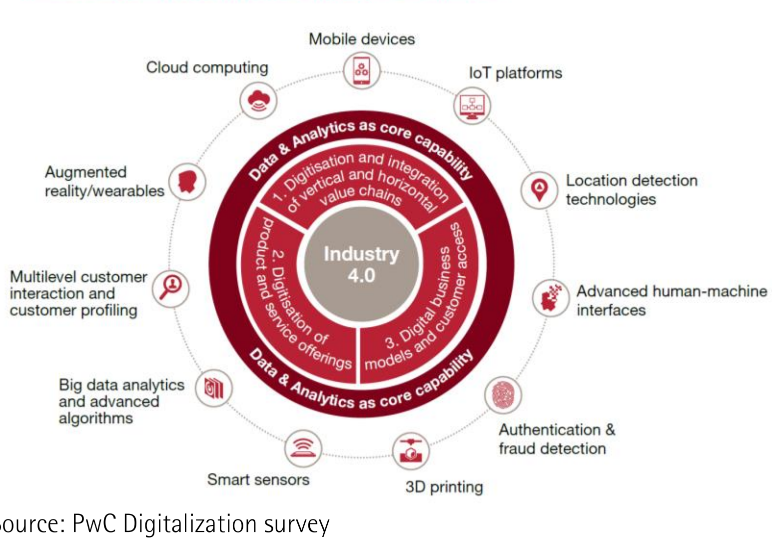
Several drivers in the industry sector

Predictive maintenance, automation, monitoring and customer experience management are the main digitalization drivers in the industrial sector. Industrial companies are eager to develop their mobile apps, e-commerce channels, customer service systems and other support systems. Digitalization of order processes and customer service has become increasingly important when industrial companies look to improve their competitiveness. In addition, smart manufacturing initiatives often provide cost savings. Industrial companies are moving towards integrated planning and scheduling for manufacturing by combining data from sensors to ERP systems according to PwC. Real-time data offers the possibility to manufacture personalised products and react more quickly.

Focus also on people and culture

Often the biggest challenge in a digitalization project isn't the right technology but the lack of digital culture and skills in the customer organisation, according to PwC. While investing in right technologies is important, success is based on people-focused factors. Companies and public entities need to develop a digital culture and ensure that change is led effectively. Often a challenge is to find the right employees to put digitalization into place, which supports demand in the IT-services sector.

Industry 4.0 framework and contributing digital technologies



Source: PwC Digitalization survey

Favorable market conditions at some risk of being set back due to COVID-19

The market situation in the Finnish IT-services market has been favorable during the recent years. Although the market is still growing quite rapidly, growth has been slowing down in the past few years. Price competition in the sector is still moderate. The digitalization market is growing faster than the overall IT-market, which supports Gofore's long-term outlook. In addition, the Finnish Government has an on-going development programme in order to facilitate digitalization in the public sector. During 2019, economic growth continued to slow down in Finland and GDP grew 1.1% according to the European Commission. In 2020 GDP is expected to decline by 6.3% as a result of the coronavirus pandemic. Based on monthly revenue figures Gofore has faired well so far but the full implications of the crisis remain to be seen.

Strategy and financial targets

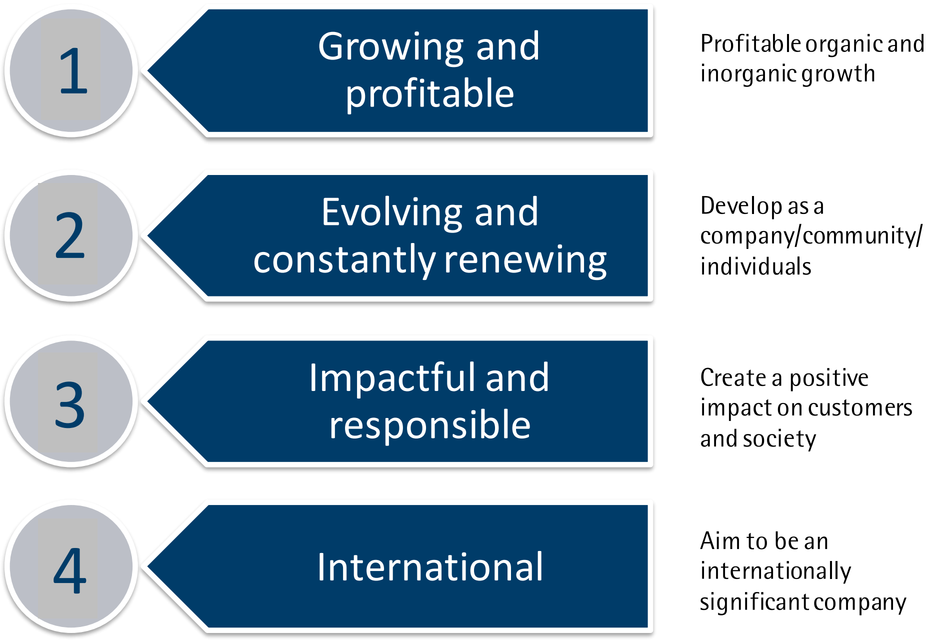
Targeting above market growth without compromising profitability

Gofore is targeting to grow both organically and inorganically. The target market, new digitalization services, is expected to grow faster than the overall economy and ICT service sector in the next few years but not expected to exceed a growth of 10% according to management. Gofore is pursuing growth exceeding that of the target market. The company has also sought to increase its international business by expanding the customer base in selected countries. Gofore has in the recent years been rather active on the M&A front and inorganic growth has also been loosely incorporated in its strategy. We expect Gofore to continue making acquisitions in cases where shareholder value can be created. Following the recent year rapid growth and having reached a clearly larger size we also expect Gofore to seek to enter bidding processes for larger and more complex projects and seek to compete more with some of the large IT-generalists. A core part of the growth strategy is to remain profitable and this will no doubt influence Gofore's decisions regarding inorganic growth and internationalization.

Gofore has set the following long-term financial targets:

- Growth: Gofore aims to grow faster than the target market, which is expected to grow max 10% per year
- Profitability: EBITA-margin of 15%
- Dividend policy: aim to distribute at least 40% of the net profit as dividends annually. Following factors may have an impact on the dividend payment: Company's financial results and standing, future growth investments, cash flow from operations, the amount of net debt, the need for debt servicing and other factors considered relevant by the Board of Directors.

Figure 16: Gofore's strategy in brief



Source: Gofore, Evli Research

M&A activity

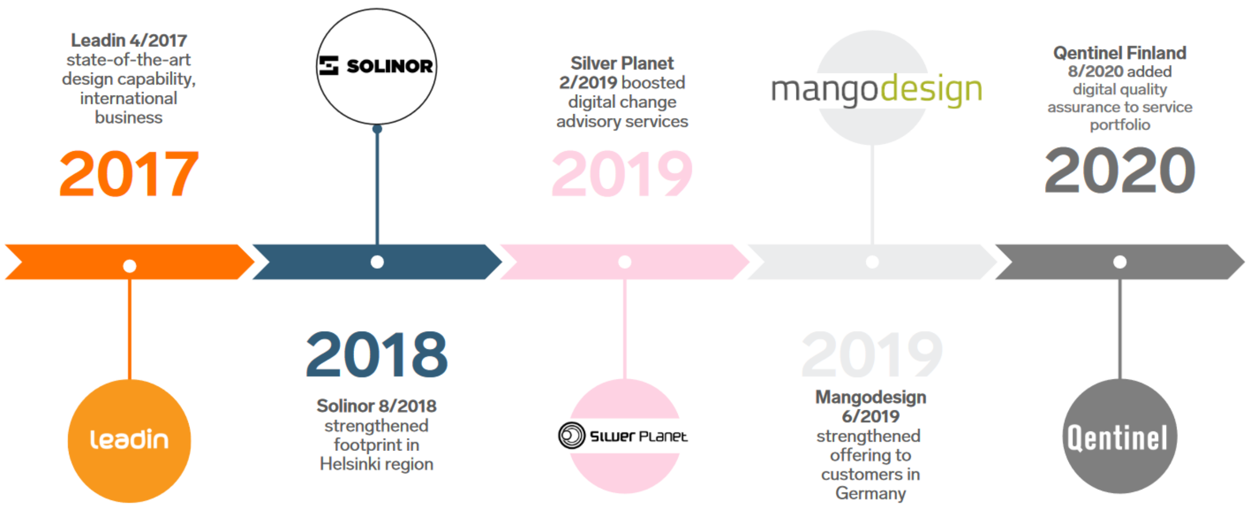
Leadin – Gofore's first acquisition and expansion abroad

Gofore's first acquisition was a service design company Leadin in May 2017. Through the acquisition Gofore expanded its operations abroad for the first time. Gofore acquired all shares in Leadin from the major shareholder, BCM Consulting, and all other shares were exchanged for shares in Gofore. The acquisition price was not disclosed. Leadin's design competence, international business operations and complementary customer portfolio were the main reasons behind the acquisition.

Acquisition of Solinor strengthened local presence in the capital city

The digital consulting company Solinor Oy was acquired in August 2018. The acquisition supported Gofore's growth strategy. Solinor operates in Helsinki and thereby, it strengthens Gofore's market position in Helsinki Metropolitan Area, where Gofore had relatively speaking had a weaker presence. Solinor employed 50 experts and the net sales amounted to EUR 4.0m in 2017, with an EBITDA-margin of 13%. The purchase price of the acquisition was EUR 4.0m.

Figure 17: Gofore's M&A timeline



Source: Gofore

Silver Planet – a solid performer with high public sector exposure

In February 2019, Gofore announced that the company had acquired the entire share capital of a digital transformation consulting company, Silver Planet Oy. The purpose of the acquisition is to boost Gofore's position in advisory services of digital change. Silver Planet's net sales were EUR 7.2m and EBIT was EUR 1.8m (25% of net sales) in 2018. The company employs 40 experts in Helsinki and the purchase price amounted to EUR 14.3m.

Design agency Mangodesign acquired to bolster growth in Germany

Gofore acquired the German design agency Mangodesign in July 2019. With the acquisition, Gofore complements its service offering in Germany and strengthens its capability to serve industrial segment to transform their business to digital services. Mangodesign employs 12 design professionals in Brunswick. The net sales of the company were EUR 544k in 2018 and the purchase price was approximately EUR 800k.

Qentinel Finland – large increase to Gofore's capacity

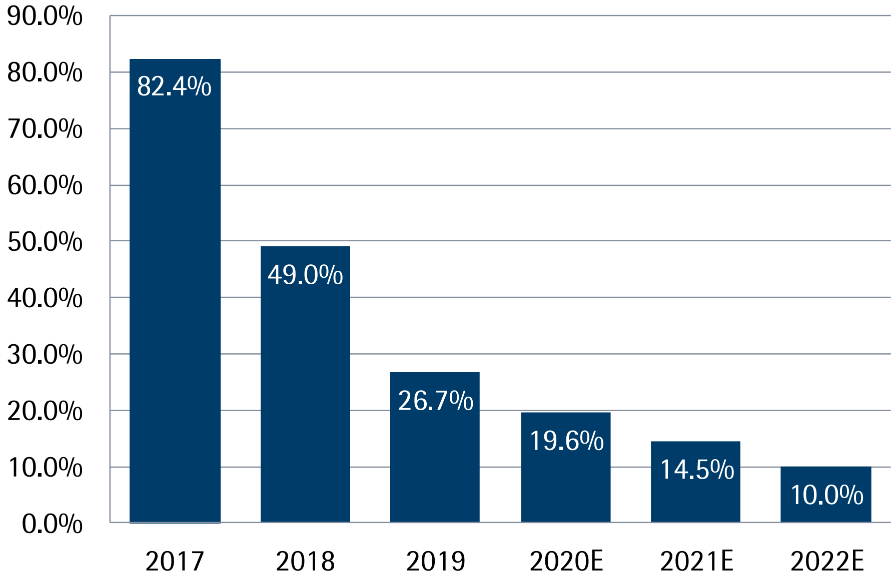
The most recent acquisition is that of Qentinel Finland, a professional IT services provider specialising in software quality assurance and testing automation. The acquisition complements Gofore's service offering with digital quality assurance services. The company had around 100 employees and 2019 net sales and EBIT of EUR 12.0m and EUR 1.7m respectively, with the customer clientele consisting mainly of major private sector organisations and public sector clients. The debt-free purchase price was EUR 8.9m, with and expected additional purchase price of EUR 1-2m.

Estimates

We expect 2020 sales of EUR 76.5m, slightly above the current guidance range

Gofore's Q1-Q3/2020 net sales amounted to EUR 53.7m, with a growth of 14.7% y/y. Growth accelerated in the third quarter (22.1% y/y) as Qentinel Finland has been reported as a part of Gofore since the first of September 2020. The impact of the acquisition on full year net sales figures was estimated at EUR 4m and the company has estimated 2020 group net sales to amount to EUR 70-76m. With the inorganic growth added by the Qentinel Finland acquisition, a good organic sales development despite some uncertainty due to the pandemic during the year, as well as fewer working day holidays we expect full-year sales of EUR 76.6m, slightly above the top of the guidance range. We see a quite high likelihood that Gofore will adjust its net sales guidance range upwards towards the end of the year, although the escalation of the Coronavirus pandemic and the increased uncertainty caused by the second wave could still affect growth figures during the last months of the year.

Figure 18: Gofore's net sales growth 2017-2022E



Source: Gofore, Evli Research

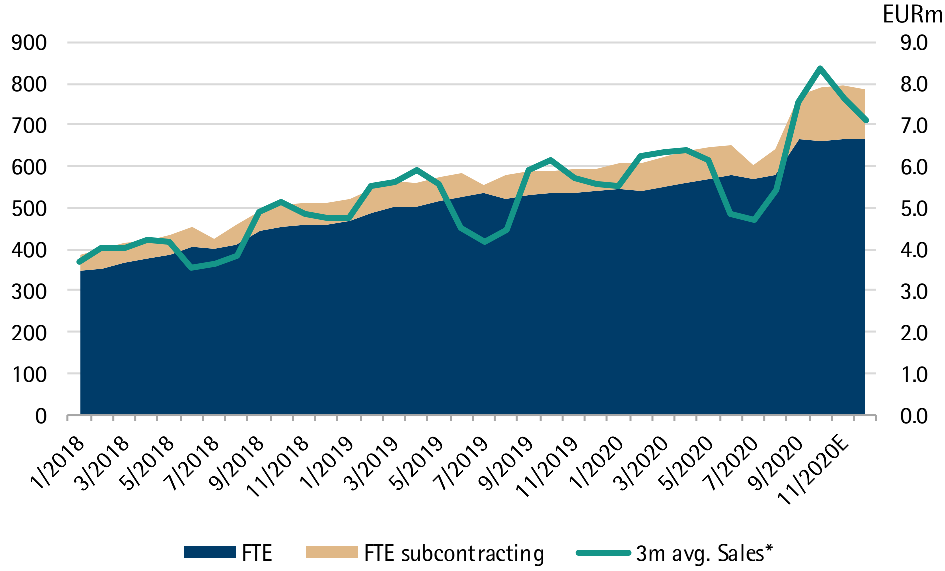
Our 2020E adj. EBITA estimate at EUR 10.3m

The adj. EBITA during 1-9/2020 amounted to EUR 7.6m, at a margin of 14.2%. Gofore has estimated that its adj. EBITA in 2020 will grow compared with 2019 (EUR 8.0m). We estimate a full-year adj. EBITA of EUR 10.3m, at a margin of 13.4%. Our estimate is based on our assumptions for Gofore's cost base following the Qentinel Finland acquisition. With the potential for higher net sales than we have assumed based on the guidance for 2020, we also see potential for higher margins. We do not assign significant weight to single quarter figures but signs of a consistent margin shift closer to the 15% target would be clearly relevant.

Estimates for 2021-2022E

Gofore's FTE capacity and subcontracting FTE in October 2020 amounted to 663 and 127 respectively, for a combined FTE number of near 800. Looking at the past years the correlation between FTE and sales has been rather clear, with one FTE corresponding to approx. 10k sales. It should be noted that Group FTE also includes non-billable functions and assuming that around 75% of FTE would correspond to the billable functions the average would be around 12k. Aside from the seasonal variations during summer and christmas this figure has been relatively accurate when looking at historical figures.

Figure 19: Full Time Equivalent capacity from own employees and subcontracting



Source: Gofore, Evli Research. *Average of the actual, preceding and following month

Continued rapid growth expected in 2021E supported by inorganic growth

The acquisition of Qentinel Finland provides a solid foundation for continued healthy growth figures in 2021. We estimate that the acquisition alone could provide inorganic growth of near 10%. Gofore has in the past years made acquisitions each year and we would not be surprised to see the trend continue in 2021. The acquisition of Qentinel Finland however was comparatively large, which could limit M&A activity to one or possibly even two smaller directed acquisitions. For now, we have not included any new acquisitions in our 2021E estimates. We estimate a sales growth of 14.5% in 2021 for net sales of EUR 87.7m, which in our view should be well within the range of annual growth that Gofore would be looking to achieve given the growth target of above market growth, with the market growth estimated at max 10%. The coronavirus pandemic still poses a risk to near-term growth but the high exposure to the public sector has so far alleviated the situation for Gofore and we still expect modest organic growth along with the inorganic growth from the Qentinel Finland acquisition.

We estimate continued good growth also in 2022E

We estimate a sales growth of 10% in 2022E. We expect Gofore to continue to seek to growth both organically and inorganically but keeping up the relative growth pace will become more challenging as the organisation grows. Gofore has also had some challenges in growing its international business, which would be an avenue for increasing growth in the long-term. Future acquisitions are of course hard to predict but we model our growth estimate by including a more fixed inorganic component along with the estimated organic growth potential.

Gofore targets an EBITA-margin of 15%

Gofore targets an EBITA-margin of 15%. Gofore has not quite been able to reach these profitability levels since 2017, when it achieved an EBITA-margin of 16.8%. As the company does not have software of its own, scalability is rather limited, and profitability mainly comes down to billing rates and price hikes. The more recent larger acquisitions at least on paper have not significantly affected profitability as they have already had high profitability on a stand-alone basis. Qentinel Finland has only been part of since September 2020 and has so far mostly been visible in sales and employee figures. The company has been expected to be more affected by the coronavirus pandemic than Gofore, which could have a very minor impact on relative profitability. The increased relative share of subcontractors during September-October 2020 could also give rise to minor margin pressure if the trend continues. Gofore uses subcontractors to manage growth and has been knowingly increasing the relative share but the most recent trends are to our understanding at least partly driven by some recruiting challenges due to uncertainty created by the pandemic.

2021E and 2022E EBITA estimates 12.1m and 13.5m respectively

We estimate an EBITA for 2021 and 2022 of EUR 12.1m and 13.5m respectively, corresponding to an EBITA-margin of 13.8% and 14.0% respectively. We note that EBITA is our preferred metric for profitability due to differing accounting standards, as Gofore reports financials in accordance with the Finnish Accounting Standards as opposed to IFRS. The FAS EBITA is comparable with the IFRS EBIT, as under FAS goodwill is amortized periodically and EBITA excludes said amortizations.

Figure 20: Personnel expenses (EURm) and share of net sales

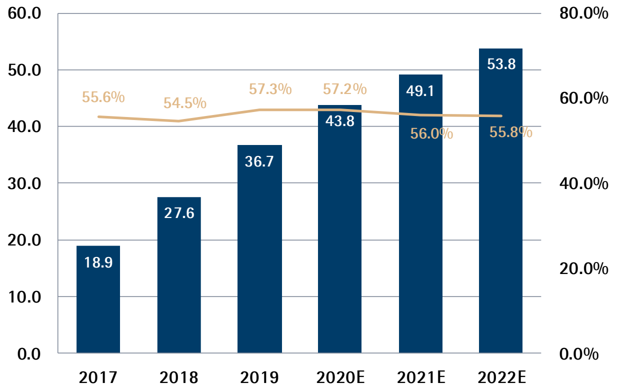
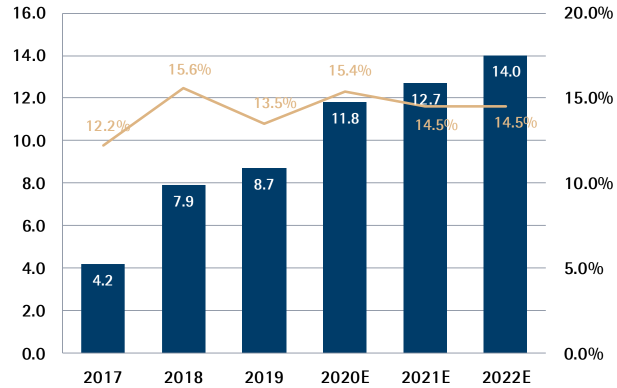


Figure 21: Materials & services (EURm) and share of net sales



Source: Gofore, Evli Research

We estimate little margin improvement in coming years

We have not estimated any clear increases in the EBITA-margins, given that our estimate for 2020E (adj. figures due to UK business divestment) is 13.5%. In our view margins remain supported by a good demand situation despite the pandemic and the impact of the rapid market growth on salaries in recent year having cooled off since peak times. The uncertainty brought by the pandemic is undoubtedly still present but unless the situation would turn to the worse, we still see that Gofore will be able to manage well mainly due to the high public sector exposure. The relative share of subcontracting is something that we will be following closely, and currently do not expect to see quite as high levels as in September-October 2020.

Figure 22: EBITA (EURm) and EBITA-margin

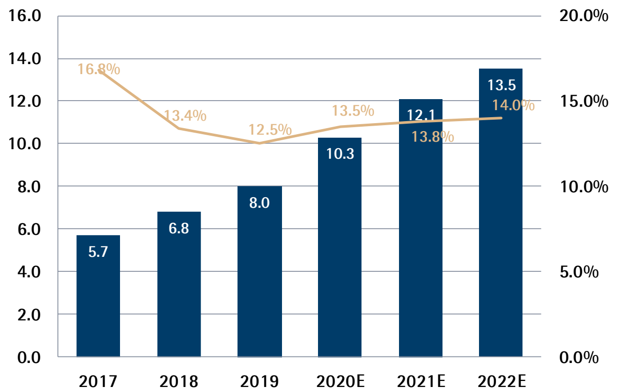
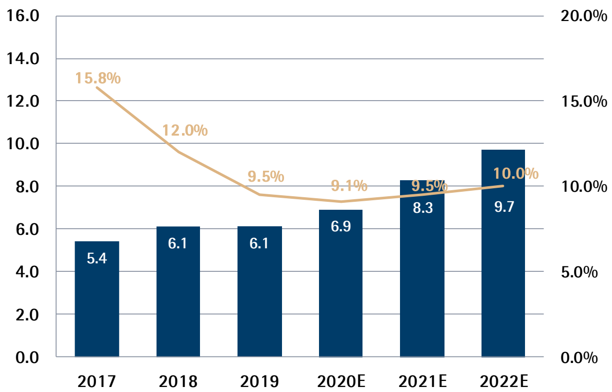


Figure 23: EBIT (EURm) and EBIT-margin



Source: Gofore, Evli Research

Table 2: Estimates summary

Gofore	2018	H1/'19	H2/'19	2019	H1/'20	H2/'20E	2020E	2021E	2022E
Net sales	**50.6**	**33.5**	**30.6**	**64.1**	**37.4**	**39.2**	**76.6**	**87.7**	**96.5**
sales growth %	*49.0%*	*35.5%*	*18.2%*	*26.7%*	*11.8%*	*28.1%*	*19.6%*	*14.5%*	*10.0%*
Other income	0.2	0.0	0.3	0.3	0.6	0.2	0.9	0.5	0.5
Materials and services	-7.9	-4.7	-4.0	-8.7	-5.3	-6.5	-11.8	-12.7	-14.0
Personnel expenses	-27.6	-18.6	-18.1	-36.7	-21.5	-22.3	-43.8	-49.1	-53.8
Other op. expenses	-8.3	-5.2	-5.6	-10.8	-6.0	-6.0	-11.9	-14.0	-15.4
EBITA	**6.8**	**5.0**	**3.0**	**8.0**	**5.1**	**4.5**	**9.7**	**12.1**	**13.5**
EBITA-%	*13.4%*	*14.8%*	*10.0%*	*12.5%*	*13.7%*	*11.4%*	*12.7%*	*13.8%*	*14.0%*
Adj. EBITA				**8.0**	5.8	**4.5**	**10.3**	**12.1**	**13.5**
Adj. EBITA-%				*12.5%*	*15.6%*	*11.4%*	*13.5%*	*13.8%*	*14.0%*
EBIT	**6.1**	**4.1**	**2.0**	**6.1**	**4.0**	**2.9**	**7.0**	**8.3**	**9.7**
EBIT-%	*12.1%*	*12.3%*	*6.5%*	*9.5%*	*10.8%*	*7.4%*	*9.2%*	*9.5%*	*10.0%*

Source: Gofore, Evli Research

Valuation

HOLD with a target price of EUR 12.1 (8.6)

We value Gofore at 17.5x 2021 adj. P/E (excludes goodwill amortization), implying a 26% premium to our peer group and a 34% premium to the finnish peers. The premium is in our view still justifiable given Gofore's proven track record of growth and profitability, which we see will continue in the coming years. Gofore's attractive cash flow profile and cash position provides the means for continued inorganic growth and dividend distributions. We adjust our target price to EUR 12.1 (8.6) and retain our HOLD-rating.

Our Nordic peer group for Gofore

In valuing Gofore we rely mainly on peer multiples. Our peer group for Gofore consists of Nordic public IT-services oriented companies. Finnish companies include TietoEvry, Vincit, Innofactor, Siili Solutions, Solteq and Bilot. Other Nordic companies include Netcompany (DK), Knowit (SWE) and Atea (NO). We have for Gofore included both multiples using unadjusted figures and multiples that have been adjusted for the Finnish Accounting Standards goodwill amortizations for comparability. We note that peer multiples have not been adjusted and may as such be inflated when comparing with the adjusted figures for Gofore.

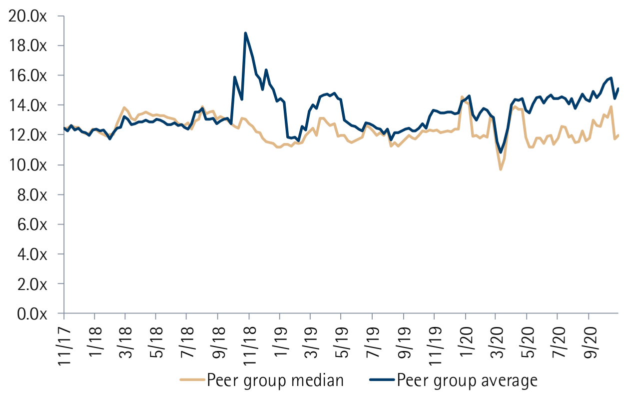
Gofore trades at a premium to peers…

Gofore's share price has rallied significantly in the past months, having risen some 60% in the past three months. When looking at peers, valuation has recovered well from the coronavirus pandemic driven declines in March, having risen to a higher level than seen before the pandemic but since remained relatively stable. The forward 12-month average/median EV/EBIT and P/E multiples have in the past few months been at around 14.5x/12.5x and 18.0x/14.0x respectively. On our estimates and the current share price the similar figures for Gofore's EV/EBIT and P/E on unadjusted and adjusted basis would be 20.9x/14.3x and 31.2x/19.5x respectively. Gofore as such overall trades on a slight premium to peers on the preferred adjusted figures.

…which in our view is justifiable

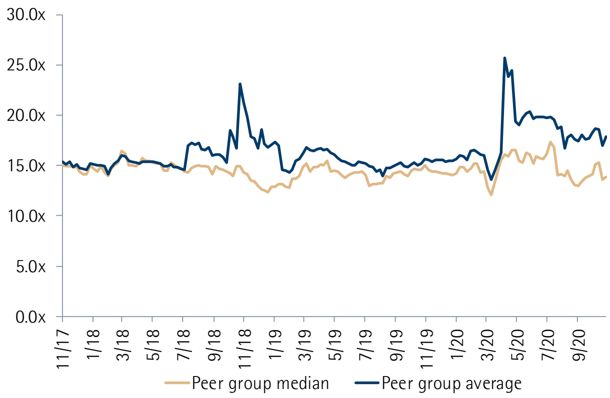
In our view Gofore continues to merit a premium to peers. Gofore has been able to achieve more rapid growth while maintaining a healthy profitability. The company's cash flow profile is also rather attractive, with the high profitability and the labour intensive and thus low capex profile providing means for inorganic growth and dividend distribution. Gofore also has very limited interest-bearing debt and sits on a sizable cash position. The continued good sales development in recent months despite fears of the impact of the second wave of the pandemic also alleviate some concerns regarding near-term performance. We value Gofore at 17.5x adj. P/E (28.9x unadj.) and adjust our target price to EUR 13.1 and retain our HOLD-rating.

Figure 24: Peers' 12m fwd. EV/EBIT



Source: Factset, Evli Research

Figure 25: Peers' 12m fwd. P/E



Source: Factset, Evli Research

Table 3: Selected peer group table

GOFORE PEER GROUP	MCAP MEUR	EV/EBITDA 20	EV/EBITDA 21	EV/EBITDA 22	EV/EBIT 20	EV/EBIT 21	EV/EBIT 22	P/E 20	P/E 21	P/E 22
TietoEVRY	2870	8.0x	7.1x	6.8x	10.6x	9.7x	9.3x	11.3x	10.9x	10.1x
Siili Solutions	84	8.9x	7.5x	6.3x	16.3x	12.0x	8.5x	18.5x	13.9x	11.0x
Vincit	78							14.0x	12.8x	11.9x
Innofactor	44	7.5x	7.0x	6.7x	14.7x	10.7x	9.5x	15.1x	11.6x	10.1x
Solteq	34	6.0x	5.5x	5.2x	12.3x	10.9x	9.9x	13.9x	11.1x	9.4x
Netcompany Group	3462	33.2x	28.2x	23.1x	39.0x	32.2x	25.9x	47.8x	38.6x	31.0x
Knowit	502	12.4x	10.8x	9.8x	15.9x	13.4x	12.3x	20.4x	17.7x	16.8x
Atea	1146	9.4x	8.2x	7.6x	16.7x	13.6x	12.1x	22.0x	17.5x	15.3x
BILOT								36.8x	18.1x	15.0x
Peer Group Average	1027	**12.2x**	**10.6x**	**9.4x**	**17.9x**	**14.6x**	**12.5x**	**22.2x**	**16.9x**	**14.5x**
Peer Group Median	293	**8.9x**	**7.5x**	**6.8x**	**15.9x**	**12.0x**	**9.9x**	**18.5x**	**13.9x**	**11.9x**
Gofore (Evli est.)	**182**	**17.3x**	**13.3x**	**11.4x**	**24.5x**	**19.8x**	**16.3x**	**38.7x**	**31.1x**	**26.1x**
Gofore prem./disc. to peer median		*94%*	*78%*	*68%*	*54%*	*65%*	*64%*	*109%*	*124%*	*119%*
Gofore (Evli est. adj.)*	**182**	**17.3x**	**13.3x**	**11.4x**	**17.7x**	**13.6x**	**11.7x**	**24.7x**	**18.9x**	**16.9x**
Gofore prem./disc. to peer median		*94%*	*78%*	*68%*	*11%*	*13%*	*18%*	*33%*	*36%*	*42%*

*Source FactSet, Evli Research. *FAS goodwill amortization adj.*

GOFORE PEER GROUP	Sales 19	Sales gr. 20	Sales gr. 21	Sales gr. 22	EBIT-% 20	EBIT-% 21	EBIT-% 22	Div. yield 20	Div. yield 21	Div. yield 22
TietoEVRY	1734	62.4%	2.4%	2.8%	12.3 %	13.0 %	13.3 %	4.8 %	5.6 %	6.1 %
Siili Solutions	81	4.1%	5.3%	8.1%	5.5 %	7.1 %	9.3 %	3.0 %	3.9 %	4.4 %
Vincit	48	7.5%	8.9%	8.5%	14.5 %	14.2 %	14.2 %	2.2 %	2.3 %	2.6 %
Innofactor	64	2.0%	4.1%	3.0%	6.0 %	7.8 %	8.5 %	2.5 %	3.7 %	4.5 %
Solteq	58	3.0%	4.5%	4.8%	8.3 %	9.0 %	9.4 %	2.6 %	3.5 %	4.3 %
Netcompany Group	328	16.8%	17.7%	18.7%	23.8 %	24.5 %	25.7 %	0.3 %	0.7 %	0.9 %
Knowit	315	4.9%	16.6%	5.8%	9.3 %	9.5 %	9.8 %	1.9 %	2.3 %	2.5 %
Atea	3614	-0.5%	5.8%	3.7%	2.1 %	2.5 %	2.7 %	4.5 %	5.3 %	5.6 %
BILOT	19	-3.1%	36.1%	8.0%	4.5 %	8.7 %	9.9 %	1.2 %	2.0 %	2.3 %
Peer Group Average	**780**	**10.8%**	**11.3%**	**7.0%**	**9.6 %**	**10.7 %**	**11.4 %**	**2.5 %**	**3.2 %**	**3.7 %**
Peer Group Median	**198**	**4.1%**	**5.8%**	**5.8%**	**8.3 %**	**9.0 %**	**9.8 %**	**2.5 %**	**3.5 %**	**4.3 %**
Gofore (Evli est.)*	**64**	**19.6%**	**14.5%**	**10.0%**	**13.5 %**	**13.8 %**	**14.0 %**	**1.9 %**	**2.2 %**	**2.4 %**

*Source FactSet, Evli Research. *EBITA used for Gofore*

Risk factors

Main risks to investment case

The main risks to our investment case are:
1) **Failing to maintain key personnel and attract new skilled professionals.** Competition for skilled employees has beens increasing in the IT-services sector. Especially experienced IT-professionals, automation specialists and robotic professionals are on the recruiting list of many companies. Some IT-services players have acquired small companies to get new employees as it has become more difficult to find right employees.
2) **Increased competition dampening price level**. Due to strong growth expectations in the new digitalization market, competition is likely to intensify. The current price level is healthy but when market growth decelerates, price competition may increase in the sector. Typically price competition is tougher in the public sector, which is Gofore's main market.
3) **Unsuccessful internationalization**. We expect Gofore to seek to grow in Europe. However, although the company has been able to grow outside of Finland progress has not been as good as expected and challenges have been met. Unsuccessful growth outside Finland is in our view a small risk.
4) **Higher personnel costs due to wage inflation.** Wage inflation has been a reality in the market in recent years and a lack of experienced employees may potentially continue to increase wage competition in the IT-services market.
5) **Customer risk.** Gofore's five largest customers have accounted for some 42% of the company's net sales, which we consider a risk.

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	12.80	PV of Free Cash Flow	64	Long-term growth, %	2.5	Risk-free interest rate, %	2.25
DCF share value	11.99	PV of Horizon value	91	WACC, %	8.4	Market risk premium, %	5.8
Share price potential, %	-6.3	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	2.8
Maximum value	13.0	Marketable securities	22	Minimum WACC, %	7.9	Equity beta coefficient	1.00
Minimum value	11.1	Debt - dividend	-9	Maximum WACC, %	8.9	Target debt ratio, %	20
Horizon value, %	58.8	Value of stock	168	Nr of shares, Mn	14.0	Effective tax rate, %	20

DCF valuation, EURm	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Horizon
Net sales	64	77	88	96	101	104	107	111	114	117	120	123
Sales growth, %	*26.7*	*19.6*	*14.5*	*10.0*	*5.0*	*3.0*	*3.0*	*3.0*	*3.0*	*3.0*	*2.5*	*2.5*
Operating income (EBIT)	6	7	8	10	10	11	14	14	15	15	16	16
Operating income margin, %	*9.5*	*9.1*	*9.5*	*10.0*	*10.0*	*11.0*	*13.0*	*13.0*	*13.0*	*13.0*	*13.0*	*13.0*
+ Depreciation+amort.	2	3	4	4	4	2	2	2	2	2	1	
EBITDA	8	10	12	14	14	14	16	17	17	17	16	
- Paid taxes	-2	-2	-2	-3	-3	-3	-3	-3	-3	-3	-3	
- Change in NWC	4	2	0	0	0	0	0	0	0	0	0	
NWC / Sales, %	*-5.3*	*-6.5*	*-5.2*	*-5.2*	*-5.2*	*-5.2*	*-5.2*	*-5.2*	*-5.2*	*-5.2*	*-5.2*	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	0	0	-1	-1	-1	-1	-1	-1	-1	-1	-2	
opCAPEX / Sales, %	*0.5*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*1.8*	
- Acquisitions	-4	-9	0	-5	0	0	0	0	0	0	0	
+ Divestments	0	0	0	0	0	0	0	0	0	0	0	
- Other items	0	-1	0	0	0	0	0	0	0	0	0	
= FCFF	6	-1	9	6	11	11	13	13	13	13	11	191
= Discounted FCFF		-1	8	5	9	8	8	8	7	7	5	91
= DFCF min WACC		-1	8	5	9	8	9	8	8	7	5	104
= DFCF max WACC		-1	8	5	9	8	8	8	7	7	5	81

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	0.0	33.5	0.0	30.6	64.1	0.0	37.4	0.0	39.2	76.6	87.7	96.5
EBITDA	0.0	5.1	0.0	3.2	8.2	0.0	5.2	0.0	4.6	9.8	12.4	13.8
EBITDA margin (%)	*0.0*	*15.1*	*0.0*	*10.3*	*12.8*	*0.0*	*14.0*	*0.0*	*11.7*	*12.8*	*14.1*	*14.3*
EBIT	0.0	4.1	0.0	2.0	6.1	0.0	4.1	0.0	2.9	6.9	8.3	9.7
EBIT margin (%)	*0.0*	*12.3*	*0.0*	*6.5*	*9.5*	*0.0*	*10.9*	*0.0*	*7.4*	*9.1*	*9.5*	*10.0*
Net financial items	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0
Pre-tax profit	0.0	4.1	0.0	2.0	6.0	0.0	4.0	0.0	2.8	6.8	8.3	9.7
Tax	0.0	-1.0	0.0	-0.6	-1.6	0.0	-1.2	0.0	-0.9	-2.1	-2.4	-2.7
Tax rate (%)	*0.0*	*20.1*	*0.0*	*19.8*	*20.0*	*0.0*	*24.3*	*0.0*	*20.0*	*22.4*	*20.0*	*20.0*
Net profit	0.0	3.1	0.0	1.4	4.4	0.0	2.8	0.0	1.9	4.7	5.9	7.0
EPS	0.00	0.22	0.00	0.10	0.32	0.00	0.20	0.00	0.14	0.34	0.42	0.50
EPS adjusted (diluted no. of shares)	0.00	0.22	0.00	0.10	0.32	0.00	0.20	0.00	0.14	0.34	0.42	0.50
Dividend per share	0.00	0.00	0.00	0.00	0.23	0.00	0.00	0.00	0.00	0.25	0.28	0.31
SALES, EURm												
Group	0.0	33.5	0.0	30.6	64.1	0.0	37.4	0.0	39.2	76.6	87.7	96.5
Total	0.0	33.5	0.0	30.6	64.1	0.0	37.4	0.0	39.2	76.6	87.7	96.5
SALES GROWTH, Y/Y %												
Group	*0.0*	*35.5*	*0.0*	*18.2*	*26.7*	*0.0*	*11.8*	*0.0*	*28.1*	*19.6*	*14.5*	*10.0*
Total	*0.0*	*35.5*	*0.0*	*18.2*	*26.7*	*0.0*	*11.8*	*0.0*	*28.1*	*19.6*	*14.5*	*10.0*
EBIT, EURm												
Group	0.0	4.1	0.0	2.0	6.1	0.0	4.1	0.0	2.9	6.9	8.3	9.7
Total	0.0	4.1	0.0	2.0	6.1	0.0	4.1	0.0	2.9	6.9	8.3	9.7
EBIT margin, %												
Group	*0.0*	*12.3*	*0.0*	*6.5*	*9.5*	*0.0*	*10.9*	*0.0*	*7.4*	*9.1*	*9.5*	*10.0*
Total	*0.0*	*12.3*	*0.0*	*6.5*	*9.5*	*0.0*	*10.9*	*0.0*	*7.4*	*9.1*	*9.5*	*10.0*

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	12.4	18.6	34.0	50.6	64.1	76.6	87.7	96.5
Sales growth (%)	*35.2*	*49.9*	*82.4*	*49.0*	*26.7*	*19.6*	*14.5*	*10.0*
EBITDA	1.6	2.7	5.8	7.0	8.2	9.8	12.4	13.8
EBITDA margin (%)	*12.9*	*14.6*	*17.1*	*13.9*	*12.8*	*12.8*	*14.1*	*14.3*
Depreciation	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3
EBITA	1.6	2.6	5.7	6.8	8.0	9.6	12.1	13.5
Goodwill amortization / writedown	0.0	0.0	-0.3	-0.7	-1.9	-2.7	-3.8	-3.8
EBIT	1.6	2.6	5.4	6.1	6.1	6.9	8.3	9.7
EBIT margin (%)	*12.5*	*14.1*	*15.8*	*12.0*	*9.5*	*9.1*	*9.5*	*10.0*
Reported EBIT	1.6	2.6	6.5	6.1	6.1	6.9	8.3	9.7
EBIT margin (reported) (%)	*12.5*	*14.1*	*19.1*	*12.0*	*9.5*	*9.1*	*9.5*	*10.0*
Net financials	0.0	0.0	-1.2	0.0	-0.1	-0.1	0.0	0.0
Pre-tax profit	1.5	2.6	4.2	6.1	6.0	6.8	8.3	9.7
Taxes	-0.3	-0.5	-0.9	-1.4	-1.6	-2.1	-2.4	-2.7
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	4.7	5.9	7.0
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	25	21	22
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	13	13	14
Liquid funds	2	4	13	15	22	16	18	20
Total assets	5	8	29	35	50	55	53	58
Liabilities								
Shareholder's equity	3	4	18	22	31	33	35	38
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	0	0
Non-interest bearing current liabilities	2	3	7	8	13	18	18	19
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	5	8	29	35	50	55	53	58
CASH FLOW, EURm								
+ EBITDA	2	3	6	7	8	10	12	14
- Net financial items	0	0	-1	0	0	0	0	0
- Taxes	0	0	-1	-2	-2	-2	-2	-3
- Increase in Net Working Capital	0	0	-3	2	4	2	0	0
+/- Other	0	0	0	0	0	-1	0	0
= Cash flow from operations	1	2	1	8	11	8	10	12
- Capex	0	0	0	0	0	0	-1	-1
- Acquisitions	0	0	-5	-2	-4	-9	0	-5
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	1	2	-5	6	6	-2	9	6
+/- 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	-1	-4	0
Change in cash	1	1	9	3	6	-6	1	2

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	0	91	111	105	179	179	179
Net debt (excl. convertibles)	-4	-8	-11	-16	-12	-18	-20
Enterprise value	-4	83	100	89	167	162	160
Sales	19	34	51	64	77	88	96
EBITDA	3	6	7	8	10	12	14
EBIT	3	5	6	6	7	8	10
Pre-tax	3	4	6	6	7	8	10
Earnings	2	3	5	4	5	6	7
Equity book value (excl. minorities)	4	18	22	31	33	35	38
Valuation multiples							
EV/sales	-0.2	2.4	2.0	1.4	2.2	1.8	1.7
EV/EBITDA	-1.3	14.3	14.2	10.9	17.0	13.1	11.6
EV/EBITA	-1.3	14.6	14.7	11.1	17.4	13.4	11.8
EV/EBIT	-1.3	15.5	16.3	14.6	24.1	19.5	16.5
EV/OCF	-1.6	133.7	12.7	8.4	20.4	17.0	13.8
EV/FCFF	-2.4	123.3	37.0	13.7	-113.5	17.9	26.6
P/FCFE	0.0	-20.0	19.1	16.4	-115.6	19.9	29.9
P/E	0.0	27.3	23.4	23.7	38.1	30.6	25.7
P/B	0.0	5.1	5.0	3.3	5.4	5.1	4.7
Target EV/EBITDA	*0.0*	*0.0*	*0.0*	*0.0*	*16.0*	*12.3*	*10.9*
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*22.7*	*18.3*	*15.5*
Target EV/FCF	*0.0*	*0.0*	*0.0*	*0.0*	*-101.5*	*16.9*	*25.0*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*5.1*	*4.8*	*4.4*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*36.0*	*29.0*	*24.3*
Per share measures							
Number of shares	10,560	12,949	13,117	14,013	14,036	14,036	14,036
Number of shares (diluted)	10,560	12,949	13,117	14,013	14,036	14,036	14,036
EPS	0.20	0.26	0.36	0.32	0.34	0.42	0.50
Operating cash flow per share	0.20	0.05	0.60	0.76	0.58	0.68	0.83
Free cash flow per share	0.19	-0.35	0.44	0.46	-0.11	0.64	0.43
Book value per share	0.39	1.37	1.68	2.24	2.35	2.52	2.74
Dividend per share	0.05	0.15	0.19	0.23	0.25	0.28	0.31
Dividend payout ratio, %	25.1	58.5	52.7	72.5	74.3	67.0	62.1
Dividend yield, %	0.0	2.1	2.2	3.1	2.0	2.2	2.4
FCF yield, %	0.0	-5.0	5.2	6.1	-0.9	5.0	3.3
Efficiency measures							
ROE	63.3	30.2	23.8	16.6	14.6	17.2	19.0
ROCE	76.1	40.0	25.0	19.2	18.7	23.0	26.3
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	16.5	15.0	15.0
Non-interest bearing liabilities as % of sales	18.4	19.7	16.4	20.2	23.0	20.2	20.2
NWC/sales, %	-0.6	10.3	3.1	-5.3	-6.5	-5.2	-5.2
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	-11.6	0.6	-4.6
FCFF/EBITDA	0.5	0.1	0.4	0.8	-0.2	0.7	0.4
Net debt/EBITDA, book-weighted	-1.3	-1.4	-1.6	-1.9	-1.2	-1.4	-1.4
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	60.4	66.6	66.3
Gearing, %	-85.0	-44.2	-51.0	-50.4	-36.6	-49.8	-51.2

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 2001.

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. A large share of public sector clients mitigates a bulk of the impact of the coronavirus pandemic on the demand situation.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Kärki Timur Juhana	1,875,000	24.000	13.4%
Venola Mika Petteri	1,770,000	22.656	12.6%
Varjus Mika	1,770,000	22.656	12.6%
Lammi Jani Markus	1,570,000	20.096	11.2%
Ilmarinen Mutual Pension Insurance Company	871,801	11.159	6.2%
Karjalainen Mika Juhani	597,262	7.645	4.3%
Evli Finland Small Cap Fund	585,000	7.488	4.2%
Varma Mutual Pension Insurance Company	517,952	6.630	3.7%
Saadetdin Ali	298,137	3.816	2.1%
Nylund Tor Mikael	245,025	3.136	1.7%
Ten largest	10,100,177	129.282	72%
Residual	3,912,625	50.082	28%
Total	14,012,802	179.364	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS	
CEO: Mikael Nylund	Kalevantie 2, 33100 Tampere
CFO: Teppo Talvinko	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 $\frac{\text{Price per share}}{\text{Shareholders' equity + taxed provisions per share}}$	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, % $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity + minority interest + taxed provisions}}$
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, % $\frac{\text{Shareholders' equity + minority interest + taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, % $\frac{\text{Profit before extraordinary items + interest expenses+ other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, % Cumulative annual growth rate = Average growth per year
ROE, % $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity + minority interest + taxed provisions (average)}}$	

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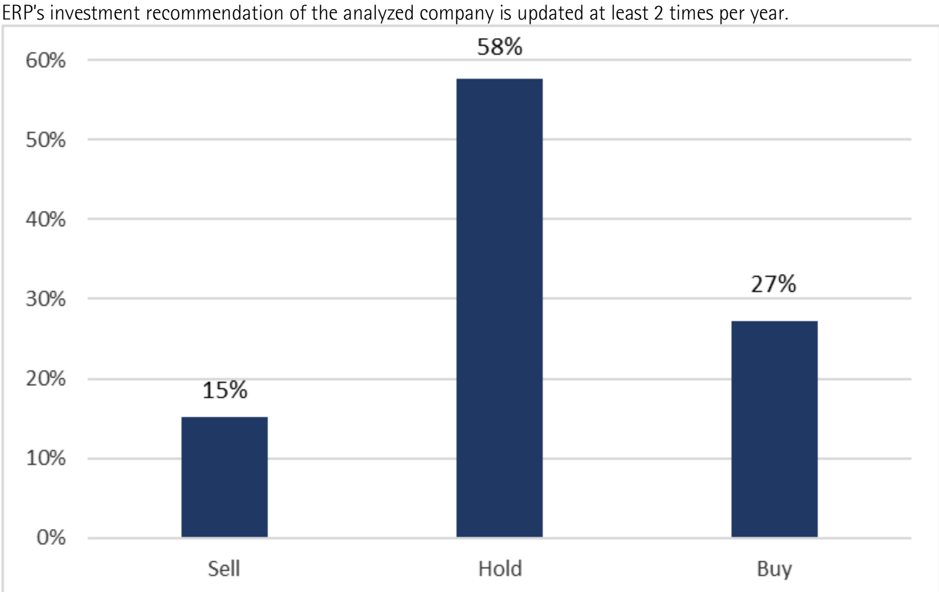
Evli Research Partners Plc ("ERP") uses 12-month target prices. Target prices are defined by utilizing analytical techniques based on financial theory including (but not limited to) discounted cash flow analysis and comparative valuation. The selection of valuation methods depends on different circumstances. Target prices may be altered on the basis of new information coming to light in the underlying company or changes in interest rates, changes in foreign exchange rates, other securities prices or market indices or outlook for the aforementioned factors or other factors that may change the conditions of financial markets. Recommendations and changes by analysts are available at Analysts' recommendations and ratings revisions.

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.



The graph above shows the distribution of ERP's recommendations of companies under coverage in 11th of May 2020. If recommendation is not given, it is not mentioned here.

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

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