

## Burdened by one-offs

Innofactor's Q2 profitability was weak, although mostly due to one-offs. The profitability guidance currently appears challenging due to Q2, but we continue to expect rather good H2 figures.

### Weak profitability driven by legal expenses

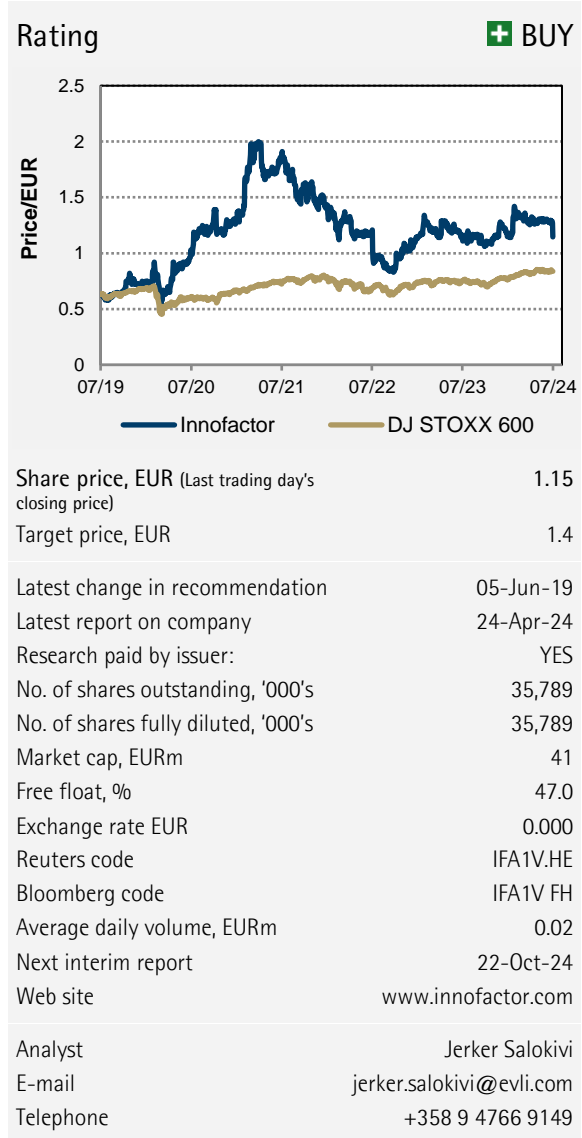
Innofactor reported Q2 results that fell short of our estimates on net sales development and profitability was clearly below expectations. Net sales declined 1.1% to EUR 19.9m (Evli EUR 20.9m), with weak development in Denmark having a clear impact as net sales still grew in Finland and Norway. EBITDA amounted to EUR 0.6m (Evli EUR 2.1m), affected by legal expenses of EUR 0.75m arising from arbitration proceedings relating to the Lumagate acquisition, along with some additional costs relating to reduction of personnel in Sweden. Relative profitability was despite this still on the weaker side. The order backlog declined 8.9% y/y but grew by 2.2% q/q to EUR 70.4m.

### Profitability guidance looking challenging

With the weaker Q2, Innofactor in our view faces an uphill battle to achieve the profitability guidance for 2024, currently lagging behind EUR 1m in EBITDA. Innofactor continues to face headwinds from the market demand situation, with the outlook still fairly cautious. With the limited order backlog growth along with the comparison period figures at rather good levels and the weakness in Denmark, on our revised estimates we expect 2024 EBITDA (Evli EUR 8.3m, prev. 9.8m) to fall short of 2023, although with cost adaptation measures providing some leeway, we expect slight y/y improvement in H2. Excluding the legal expenses our 2024 EBITDA estimate is on par with 2023.

### BUY with a target price of EUR 1.4 (1.6)

On our estimates 2024 P/E (excl. one-offs) is at a rather low 9.5x. The faced challenges justify lower valuation levels, but with the majority of the business still continuing to grow at at least decent profitability levels, as well as the main weakness currently being Denmark (accounting for only 1% of H1/24 net sales), the valuation levels appear overly cautious. On our revised estimates we lower our TP to EUR 1.4 (EUR 1.6), BUY-rating intact.



+ 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
2022	71.1	4.8	6.7%	-0.7	0.09	11.5	0.7	10.6	-1.9	0.06
2023	80.3	5.8	7.3%	6.1	0.09	13.0	0.7	9.2	13.6	0.07
2024E	82.2	5.3	6.4%	3.9	0.10	11.1	0.6	9.2	9.5	0.07
2025E	85.4	6.8	8.0%	5.1	0.14	8.0	0.5	6.7	12.5	0.09
2026E	87.6	7.9	9.0%	6.0	0.17	6.8	0.5	5.5	14.7	0.11
Market cap, EURm	41			Gearing 2024E, %	29.4		CAGR EPS 2023-26, %	21.3		
Net debt 2024E, EURm	8			Price/book 2024E	1.5		CAGR sales 2023-26, %	2.9		
Enterprise value, EURm	49			Dividend yield 2024E, %	5.9		ROE 2024E, %	14.2		
Total assets 2024E, EURm	56			Tax rate 2024E, %	24.1		ROCE 2024E, %	14.9		
Goodwill 2024E, EURm	27			Equity ratio 2024E, %	47.7		PEG, P/E 24/CAGR	0.6		

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

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	1.15 PV of Free Cash Flow	60 Long-term growth, %	2.0 Risk-free interest rate, %	2.25
DCF share value	3.69 PV of Horizon value	84 WACC, %	7.9 Market risk premium, %	5.8
Share price potential, %	221.9 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	2.8
Maximum value	4.1 Marketable securities	0 Minimum WACC, %	7.4 Equity beta coefficient	1.00
Minimum value	3.4 Debt - dividend	-12 Maximum WACC, %	8.4 Target debt ratio, %	30
Horizon value, %	58.5 Value of stock	132 Nr of shares, Mn	35.8 Effective tax rate, %	20

DCF valuation, EURm	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	Horizon
Net sales	80	82	85	88	90	92	94	97	99	102	104	106
<i>Sales growth, %</i>	<i>12.8</i>	<i>2.4</i>	<i>4.0</i>	<i>2.5</i>	<i>2.5</i>	<i>2.5</i>	<i>2.5</i>	<i>2.5</i>	<i>2.5</i>	<i>2.5</i>	<i>2.0</i>	<i>2.0</i>
Operating income (EBIT)	6	5	7	8	8	8	8	9	9	9	9	10
<i>Operating income margin, %</i>	<i>7.3</i>	<i>6.4</i>	<i>8.0</i>	<i>9.0</i>	<i>9.0</i>	<i>9.0</i>	<i>9.0</i>	<i>9.0</i>	<i>9.0</i>	<i>9.0</i>	<i>9.0</i>	<i>9.0</i>
+ Depreciation+amort.	3	3	3	3	3	3	3	3	3	3	3	
<b>EBITDA</b>	9	8	10	11	11	11	12	12	12	12	13	
- Paid taxes	0	-1	-1	-2	-2	-2	-2	-2	-2	-2	-2	
- Change in NWC	-1	0	0	0	0	0	0	0	0	0	0	
<i>NWC / Sales, %</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	
<i>opCAPEX / Sales, %</i>	<i>1.4</i>	<i>3.4</i>	<i>3.4</i>	<i>3.4</i>	<i>3.4</i>	<i>3.4</i>	<i>3.4</i>	<i>3.4</i>	<i>3.4</i>	<i>3.4</i>	<i>3.4</i>	
- Acquisitions	0	0	0	0	0	0	0	0	0	0	0	
+ Divestments	0	0	0	0	0	0	0	0	0	0	0	
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= FCFF	7	6	8	8	9	9	9	9	9	10	10	172
= Discounted FCFF		6	7	7	7	6	6	6	5	5	5	84
= DFCF min WACC		6	7	7	7	6	6	6	5	5	5	96
= DFCF max WACC		6	7	7	7	6	6	5	5	5	5	74

## INTERIM FIGURES

EVLI ESTIMATES, EURm	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024Q1	2024Q2	2024Q3E	2024Q4E	2024E	2025E	2026E
Net sales	20.2	20.1	18.0	21.9	80.3	21.2	19.9	18.3	22.8	82.2	85.4	87.6
EBITDA	2.5	1.8	2.0	2.9	9.1	2.6	0.6	2.0	3.2	8.3	9.8	10.9
<i>EBITDA margin (%)</i>	<i>12.3</i>	<i>8.8</i>	<i>10.9</i>	<i>13.1</i>	<i>11.3</i>	<i>12.3</i>	<i>3.0</i>	<i>10.7</i>	<i>13.8</i>	<i>10.1</i>	<i>11.5</i>	<i>12.4</i>
EBIT	1.7	1.0	1.2	1.9	5.8	1.8	-0.1	1.2	2.4	5.3	6.8	7.9
<i>EBIT margin (%)</i>	<i>8.5</i>	<i>4.9</i>	<i>6.7</i>	<i>8.8</i>	<i>7.3</i>	<i>8.7</i>	<i>-0.7</i>	<i>6.6</i>	<i>10.5</i>	<i>6.4</i>	<i>8.0</i>	<i>9.0</i>
Net financial items	-0.4	-0.2	0.2	-0.3	-0.7	-0.1	-0.1	-0.1	-0.1	-0.4	-0.4	-0.2
Pre-tax profit	1.3	0.8	1.4	1.6	5.2	1.7	-0.2	1.1	2.3	4.9	6.5	7.6
Tax	-0.3	-0.4	-0.4	-0.7	-1.7	-0.4	-0.1	-0.2	-0.5	-1.2	-1.4	-1.6
<i>Tax rate (%)</i>	<i>20.9</i>	<i>43.5</i>	<i>25.4</i>	<i>45.9</i>	<i>33.6</i>	<i>21.0</i>	<i>-69.8</i>	<i>20.0</i>	<i>20.0</i>	<i>24.1</i>	<i>21.0</i>	<i>21.0</i>
Net profit	1.0	0.5	1.1	0.9	3.4	1.4	-0.3	0.9	1.8	3.7	5.1	6.0
EPS	0.03	0.01	0.03	0.02	0.09	0.04	-0.01	0.02	0.05	0.10	0.14	0.17
EPS adjusted (diluted no. of shares)	0.03	0.01	0.03	0.02	0.09	0.04	-0.01	0.02	0.05	0.10	0.14	0.17
Dividend per share	0.00	0.00	0.00	0.00	0.07	0.00	0.00	0.00	0.00	0.07	0.09	0.11
<b>SALES, EURm</b>												
Innofactor	20.2	20.1	18.0	21.9	80.3	21.2	19.9	18.3	22.8	82.2	85.4	87.6
Total	20.2	20.1	18.0	21.9	80.3	21.2	19.9	18.3	22.8	82.2	85.4	87.6
<b>SALES GROWTH, Y/Y %</b>												
Innofactor	19.2	18.6	8.0	6.8	12.8	4.8	-1.1	1.6	4.0	2.4	4.0	2.5
Total	19.2	18.6	8.0	6.8	12.8	4.8	-1.1	1.6	4.0	2.4	4.0	2.5
<b>EBIT, EURm</b>												
Innofactor	1.7	1.0	1.2	1.9	5.8	1.8	-0.1	1.2	2.4	5.3	6.8	7.9
Total	1.7	1.0	1.2	1.9	5.8	1.8	-0.1	1.2	2.4	5.3	6.8	7.9
<b>EBIT margin, %</b>												
Innofactor	8.5	4.9	6.7	8.8	7.3	8.7	-0.7	6.6	10.5	6.4	8.0	9.0
Total	8.5	4.9	6.7	8.8	7.3	8.7	-0.7	6.6	10.5	6.4	8.0	9.0

INCOME STATEMENT, EURm	2019	2020	2021	2022	2023	2024E	2025E	2026E
Sales	64.2	66.2	66.4	71.1	80.3	82.2	85.4	87.6
<i>Sales growth (%)</i>	1.7	3.1	0.3	7.2	12.8	2.4	4.0	2.5
EBITDA	5.1	7.2	10.1	7.8	9.1	8.3	9.8	10.9
<i>EBITDA margin (%)</i>	7.9	10.8	15.2	11.0	11.3	10.1	11.5	12.4
Depreciation	-4.3	-4.7	-3.6	-3.1	-3.3	-3.0	-3.0	-3.0
EBITA	0.8	2.5	6.5	4.8	5.8	5.3	6.8	7.9
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	0.8	2.5	6.5	4.8	5.8	5.3	6.8	7.9
<i>EBIT margin (%)</i>	1.2	3.8	9.8	6.7	7.3	6.4	8.0	9.0
Reported EBIT	0.8	2.5	6.5	4.8	5.8	5.3	6.8	7.9
<i>EBIT margin (reported) (%)</i>	1.2	3.8	9.8	6.7	7.3	6.4	8.0	9.0
Net financials	-0.8	-0.5	-0.8	-0.6	-0.7	-0.4	-0.4	-0.2
Pre-tax profit	0.0	2.1	5.7	4.2	5.2	4.9	6.5	7.6
Taxes	0.4	-0.3	-1.2	-0.9	-1.7	-1.2	-1.4	-1.6
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.4	1.8	4.5	3.3	3.4	3.7	5.1	6.0
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET, EURm</b>								
<b>Assets</b>								
Fixed assets	4	2	1	3	3	3	3	3
Goodwill	26	27	26	27	27	27	27	27
Right of use assets	5	4	3	5	3	3	3	3
Inventory	0	0	0	0	0	0	0	0
Receivables	14	14	14	15	18	19	20	20
Liquid funds	1	3	2	2	0	2	2	2
Total assets	56	57	51	56	54	56	57	57
<b>Liabilities</b>								
Shareholder's equity	22	23	25	25	25	27	29	32
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	5	4	3	5	3	3	3	3
Deferred taxes	1	2	1	2	2	2	2	2
Interest bearing debt	12	11	7	9	6	6	3	1
Non-interest bearing current liabilities	16	16	14	15	18	18	19	19
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	56	57	51	56	54	56	57	57
<b>CASH FLOW, EURm</b>								
+ EBITDA	5	7	10	8	9	8	10	11
- Net financial items	-1	0	-1	-1	-1	0	0	0
- Taxes	0	0	0	0	0	-1	-1	-2
- Increase in Net Working Capital	2	-1	-1	-1	-1	0	0	0
+/- Other	0	-1	0	0	0	0	0	0
= Cash flow from operations	6	5	9	7	7	7	8	9
- Capex	-2	-1	-2	-5	-1	-3	-3	-3
- Acquisitions	0	0	0	-3	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	4	4	7	-1	6	4	5	6
+/- New issues/buybacks	0	0	-1	-1	-1	0	0	0
- Paid dividend	0	0	-1	-3	-2	-3	-2	-3
+/- Other	-4	-1	-6	5	-5	0	-3	-3
Change in cash	1	2	-1	0	-2	1	0	0

KEY FIGURES	2020	2021	2022	2023	2024E	2025E	2026E
M-cap	48	59	38	45	41	41	41
Net debt (excl. convertibles)	12	8	12	9	8	5	2
Enterprise value	60	67	50	54	49	46	43
Sales	66	66	71	80	82	85	88
EBITDA	7	10	8	9	8	10	11
EBIT	3	7	5	6	5	7	8
Pre-tax	2	6	4	5	5	6	8
Earnings	2	5	3	3	4	5	6
Equity book value (excl. minorities)	23	25	25	25	27	29	32
<b>Valuation multiples</b>							
EV/sales	0.9	1.0	0.7	0.7	0.6	0.5	0.5
EV/EBITDA	8.4	6.7	6.5	5.9	5.9	4.7	4.0
EV/EBITA	24.1	10.3	10.6	9.2	9.2	6.7	5.5
EV/EBIT	24.1	10.3	10.6	9.2	9.2	6.7	5.5
EV/OCF	12.0	7.6	7.5	7.5	7.3	5.7	4.8
EV/FCFF	11.3	7.6	14.1	7.5	7.8	6.1	5.1
P/FCFE	13.5	8.3	-53.1	7.4	10.5	8.0	6.8
P/E	21.4	13.2	11.5	13.0	11.1	8.0	6.8
P/B	2.0	2.3	1.5	1.8	1.5	1.4	1.3
Target EV/EBITDA	0.0	0.0	0.0	0.0	7.0	5.6	4.8
Target EV/EBIT	0.0	0.0	0.0	0.0	10.9	8.1	6.7
Target EV/FCF	0.0	0.0	0.0	0.0	14.9	10.8	8.7
Target P/B	0.0	0.0	0.0	0.0	1.9	1.7	1.6
Target P/E	0.0	0.0	0.0	0.0	13.5	9.8	8.3
<b>Per share measures</b>							
Number of shares	37,388	37,388	36,223	36,344	35,789	35,789	35,789
Number of shares (diluted)	37,388	37,388	36,223	36,344	35,789	35,789	35,789
EPS	0.05	0.12	0.09	0.09	0.10	0.14	0.17
Operating cash flow per share	0.13	0.24	0.19	0.20	0.19	0.23	0.25
Free cash flow per share	0.09	0.19	-0.02	0.17	0.11	0.14	0.17
Book value per share	0.63	0.68	0.68	0.70	0.74	0.82	0.90
Dividend per share	0.04	0.08	0.06	0.07	0.07	0.09	0.11
Dividend payout ratio, %	84.9	66.4	65.5	74.0	65.0	65.0	65.0
Dividend yield, %	3.1	5.0	5.7	5.7	5.9	8.1	9.6
FCF yield, %	7.4	12.1	-1.9	13.6	9.5	12.5	14.7
<b>Efficiency measures</b>							
ROE	7.7	18.4	13.2	13.7	14.2	18.3	19.7
ROCE	6.4	17.6	12.8	15.7	14.9	18.9	21.8
<b>Financial ratios</b>							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	21.4	20.4	20.5	23.0	23.0	23.0	23.0
Non-interest bearing liabilities as % of sales	24.1	21.6	20.8	21.9	21.9	21.9	21.9
NWC/sales, %	-2.7	-1.2	-0.3	1.1	1.1	1.1	1.1
Operative CAPEX/sales, %	2.2	2.5	6.5	1.4	3.4	3.4	3.4
CAPEX/sales (incl. acquisitions), %	2.2	2.5	2.5	1.4	3.4	3.4	3.4
FCFF/EBITDA	0.7	0.9	0.5	0.8	0.8	0.8	0.8
Net debt/EBITDA, book-weighted	1.7	0.8	1.6	1.0	0.9	0.5	0.2
Debt/equity, market-weighted	0.2	0.1	0.2	0.1	0.2	0.1	0.0
Equity ratio, book-weighted	41.4	49.8	44.4	46.8	47.7	51.8	56.1
Gearing, %	52.6	30.9	50.0	36.1	29.4	17.5	7.6

**COMPANY DESCRIPTION:** InnoFactor provides software products and solutions to commercial, public sector, and membership-based organizations in the Nordic countries. It specializes in Microsoft-based cloud solutions and digital transformation. InnoFactor has operations in Finland, Sweden, Denmark, and Norway.

**INVESTMENT CASE:** InnoFactor has been showing promising performance after a history of a few years of subpar performance, caused primarily by integration issues relating to its pan-Nordic platform. Focus in the near-term should still remain on actions to improve margins and sorting out challenges and capitalizing on its good order backlog. Good traction for Microsoft's enterprise solutions supports growth outlook going forward.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Ensio Sami	7,936,804	9.088	22.2%
Ilmarinen Mutual Pension Insurance Company	1,800,000	2.061	5.0%
Linturi Kaija and Risto	1,256,411	1.439	3.5%
InnoFactor Oyj	554,372	0.635	1.5%
Hellen Stefan Andreas	486,000	0.556	1.4%
Mäki Antti Jussi	459,236	0.526	1.3%
Ingman Finance Oy Ab	450,000	0.515	1.3%
Muukkonen Teemu Heikki	387,511	0.444	1.1%
Mandatum Life Insurance Company	376,377	0.431	1.1%
Laiho Rami Tapani	230,480	0.264	0.6%
Ten largest	13,937,191	15.958	39%
Residual	21,852,130	25.021	61%
Total	35,789,321	40.979	100%

#### EARNINGS CALENDAR

October 22, 2024

Q3 report

#### OTHER EVENTS

#### COMPANY MISCELLANEOUS

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## DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year

<p>ROE, %</p> $\frac{\text{Profit before extraordinary items and taxes – income taxes}}{\text{Shareholder's equity + minority interest + taxed provisions (average)}}$	
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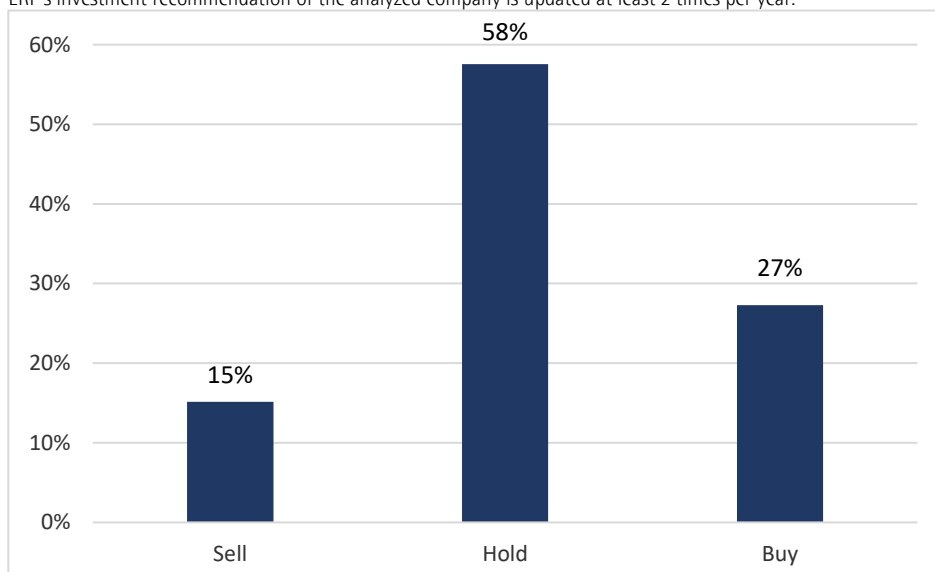
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Investment recommendations are defined as follows:

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

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

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