

Starting to show earnings stability

Innofactor's Q2 results did not present any surprises and both net sales (Act./Evli EUR 16.7m/16.8m) and EBITDA (Act./Evli EUR 1.1m/1.0m) were well in line with our estimates. With a sales decline during H1/19 Innofactor will need to deliver a pick up in sales during H2/19, which should be made possible by the solid order backlog and new recruitments and actions to turn the sales growth in Denmark and Sweden back on track. We retain our BUY-rating with a target price of EUR 0.80.

Q2 results well in line with our expectations

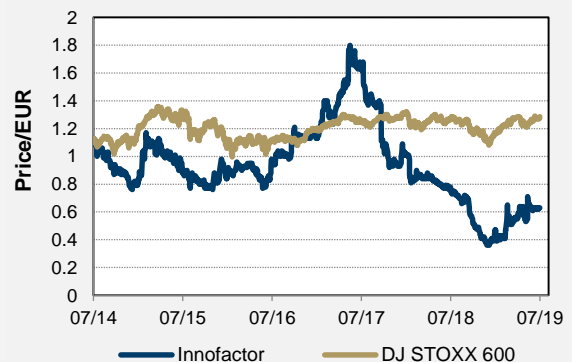
Innofactor's Q2 results did not present any surprises and were well in line with our estimates. Revenue declined 2.1% y/y to EUR 16.7m (Evli EUR 16.8m) while EBITDA improved to EUR 1.1m (Evli EUR 1.0m). Profitability continues to be aided by the actions taken during H2/18, as the revenue per employee increased by some 8%. The improved profitability also saw the operating cash flow increasing to EUR 2.1m in H1/19 (H1/18: EUR 0.4m).

Sales growth uplift needed during H2/19

Our estimates remain unchanged post-Q2, expecting net sales of EUR 64.0m and an EBITDA of EUR 4.7m in 2019. Innofactor has estimated for its net sales in 2019 to increase from 2018 and EBITDA to amount to EUR 4.0-6.0m. We expect net sales in 2019 to increase on slightly, by 1.3% from 2018. With net sales in H1/19 2.0% below H1/18 a pick-up in sales growth is required during H2/19. According to management sales growth is supported by the order backlog and recent larger new recruitments. Denmark and Sweden are expected to show growth in sales by Q4.

BUY with a target price of EUR 0.80

On our estimates Innofactor trades at a discount to peers, namely on EV/EBITDA and purchase price amortization adjusted multiples. With our estimates and views on Innofactor unchanged post-Q2 we retain our BUY-rating and target price of EUR 0.80.

 Rating BUY

 Share price, EUR (Last trading day's closing price) 0.63

 Target price, EUR 0.8

 Latest change in recommendation 05-Jun-19

 Latest report on company 05-Jun-19

 Research paid by issuer: YES

 No. of shares outstanding, '000's 37,388

 No. of shares fully diluted, '000's 37,388

 Market cap, EURm 24

 Free float, % 54.0

 Exchange rate EUR 0.000

 Reuters code IFA1V.HE

 Bloomberg code IFA1V FH

 Average daily volume, EURm 0.03

 Next interim report 29-Oct-19

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+ BUY □ HOLD - SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2017	66	-1	-2.2%	-2	-0.03	-26.9	0.7	8.2	-32.4	0.00
2018	63	-4	-6.1%	-4	-0.09	-4.1	0.5	-23.7	-8.7	0.00
2019E	64	1	1.5%	0	0.01	54.0	0.6	3.2	39.9	0.00
2020E	66	2	2.7%	1	0.03	23.6	0.5	4.5	19.9	0.00
2021E	67	3	5.0%	3	0.06	10.3	0.5	4.5	9.9	0.00
Market cap, EURm	24		BV per share 2019E, EUR		0.6		CAGR EPS 2018-21, %		0.0	
Net debt 2019E, EURm	15		Price/book 2019E		1.1		CAGR sales 2018-21, %		2.1	
Enterprise value, EURm	38		Dividend yield 2019E, %		0.0		ROE 2019E, %		2.0	
Total assets 2019E, EURm	57		Tax rate 2019E, %		-21.3		ROCE 2019E, %		2.4	
Goodwill 2019E, EURm	26		Equity ratio 2019E, %		39.4		PEG, P/E 19/CAGR		0.7	

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

Innofactor	2017	Q1/'18	Q2/'18	Q3/'18	Q4/'18	2018	Q1/'19	Q2/'19	Q3/'19E	Q4/'19E	2019E	2020E	2021E
Net sales	65.7	16.5	17.0	13.8	15.9	63.1	16.1	16.7	14.1	17.1	64.0	65.6	67.2
sales growth %	10.1%	-4.5%	-0.8%	-2.5%	-7.3%	-3.8%	-2.0%	-2.1%	2.2%	7.6%	1.3%	2.5%	2.5%
EBITDA	1.3	0.3	0.0	-0.5	-0.9	-1.0	0.9	1.1	0.7	2.0	4.7	5.5	5.9
EBITDA margin	2.0%	2.1%	0.2%	-3.6%	-5.7%	-1.6%	5.4%	6.8%	5.0%	11.8%	7.4%	8.4%	8.7%
Acquisition related depreciation	-2.0	-0.5	-0.5	-0.5	-0.5	-2.0	-0.5	-0.5	-0.5	-0.5	-2.0	-2.0	-0.7
EBIT	-1.5	-0.4	-0.6	-1.2	-1.7	-3.9	-0.1	0.2	-0.2	1.1	1.0	1.8	3.4
EBIT margin	1.4%	-2.2%	-3.7%	-8.6%	-10.7%	-6.1%	-0.6%	0.9%	-1.4%	6.4%	1.5%	2.7%	5.0%
Adj. EBIT (excl. acquisition depr.)	0.6	0.1	-0.1	-0.7	-1.2	-1.8	0.4	0.7	0.3	1.6	3.0	3.8	4.1
Adj. EBIT margin	0.9%	0.9%	-0.7%	-4.9%	-7.5%	-2.9%	2.6%	4.0%	2.2%	9.4%	4.7%	5.8%	6.0%

Source: Innofactor, Evli Research estimates

INNOFACTOR PEER GROUP	MCAP MEUR	EV/EBIT			EV/EBITDA			P/E		
		19E	20E	21E	19E	20E	21E	19E	20E	21E
Tieto	1733	11.9x	11.2x	10.7x	8.5x	8.1x	7.9x	12.8x	12.0x	11.5x
Atea	1306	15.5x	12.7x	11.2x	9.3x	8.2x	7.5x	20.2x	15.9x	14.0x
Knowit	346	11.3x	10.5x	9.7x	9.2x	8.6x	8.0x	14.3x	13.1x	12.1x
HiQ	283	13.0x	12.9x	12.2x	11.0x	10.9x	10.4x	17.4x	16.5x	15.6x
Bouvet	324	13.6x	12.7x	11.8x	10.8x	10.1x	9.5x	17.4x	16.2x	15.2x
Enea	279	15.0x	13.7x	12.3x	11.7x	11.4x	10.6x	18.6x	16.8x	14.5x
Gofore	121	11.7x	11.2x	9.8x	10.5x	10.0x	8.9x	16.6x	14.6x	13.0x
Digia	89	11.0x	9.5x	8.7x	7.7x	6.6x	6.1x	12.7x	10.6x	9.7x
SiiI Solutions	62	10.7x	8.4x	7.3x	8.4x	6.9x	6.2x	13.1x	10.2x	9.0x
Solteq	28	12.5x	12.2x	10.8x	6.6x	6.4x	5.9x	7.4x	6.6x	5.8x
Peer Group Average	457	12.6x	11.5x	10.5x	9.4x	8.7x	8.1x	15.0x	13.3x	12.0x
Peer Group Median	281	12.2x	11.7x	10.8x	9.3x	8.4x	8.0x	15.5x	13.9x	12.6x

Innofactor (Evli est.)	23	40.0x	20.0x	9.9x	8.2x	6.5x	5.7x	52.3x	23.4x	10.0x
Innofactor prem./disc. to peer median		>100%	71%	-8%	-12%	-23%	-28%	>100%	69%	-20%
Innofactor adj.* (Evli est.)	23	12.9x	9.5x	8.2x	8.2x	6.5x	5.7x	11.1x	8.9x	8.1x
Innofactor prem./disc. to peer median		5%	-19%	-24%	-12%	-23%	-28%	-28%	-36%	-36%

Source Bloomberg, Evli Research. *Excl. Purchase price amortizations

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	0.63 PV of Free Cash Flow	24 Long-term growth, %	2.0 Risk-free interest rate, %	2.25
DCF share value	0.80 PV of Horizon value	26 WACC, %	8.4 Market risk premium, %	5.8
Share price potential, %	26.5 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	2.8
Maximum value	0.9 Marketable securities	0 Minimum WACC, %	7.9 Equity beta coefficient	1.00
Minimum value	0.7 Debt - dividend	-21 Maximum WACC, %	8.9 Target debt ratio, %	20
Horizon value, %	52.2 Value of stock	30 Nr of shares, Mn	37.4 Effective tax rate, %	20

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	63	64	66	67	69	71	72	74	76	78	80	81
<i>Sales growth, %</i>	-3.8	1.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.0	2.0
Operating income (EBIT)	-4	1	2	3	4	4	4	4	4	4	4	4
<i>EBIT margin, %</i>	-6.1	1.5	2.7	5.0	5.3	5.5	5.5	5.5	5.5	5.5	5.5	5.5
+ Depreciation+amort.	3	4	4	2	2	2	2	2	2	3	3	
- Income taxes	0	0	0	-1	-1	-1	-1	-1	-1	-1	-1	
- Change in NWC	0	2	0	0	0	0	0	0	0	0	0	
<i>NWC / Sales, %</i>	-1.2	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-6	-2	-2	-2	-2	-2	-2	-3	-3	-3	-3	-3
<i>Investments / Sales, %</i>	9.7	2.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	-7	6	3	3	3	3	3	3	3	3	4	56
= Discounted FCF (DFCF)		6	3	2	2	2	2	2	2	2	2	26
= DFCF min WACC		6	3	2	2	2	2	2	2	2	2	30
= DFCF max WACC		6	3	2	2	2	2	2	2	2	2	23

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	16	17	14	16	63	16	17	14	17	64	66	67
EBITDA	0	0	0	-1	-1	1	1	1	2	5	6	6
<i>EBITDA margin (%)</i>	<i>2.1</i>	<i>0.2</i>	<i>-3.6</i>	<i>-5.7</i>	<i>-1.6</i>	<i>5.4</i>	<i>6.8</i>	<i>5.0</i>	<i>11.8</i>	<i>7.4</i>	<i>8.4</i>	<i>8.7</i>
EBIT	0	-1	-1	-2	-4	0	0	0	1	1	2	3
<i>EBIT margin (%)</i>	<i>-2.2</i>	<i>-3.7</i>	<i>-8.6</i>	<i>-10.7</i>	<i>-6.1</i>	<i>-0.6</i>	<i>0.9</i>	<i>-1.4</i>	<i>6.4</i>	<i>1.5</i>	<i>2.7</i>	<i>5.0</i>
Net financial items	0	0	0	0	0	0	0	0	0	-1	-1	0
Pre-tax profit	0	-1	-1	-1	-4	0	0	0	1	0	1	3
Tax	0	0	0	0	1	0	0	0	0	0	0	-1
<i>Tax rate (%)</i>	<i>19.9</i>	<i>20.1</i>	<i>20.0</i>	<i>9.7</i>	<i>16.4</i>	<i>55.3</i>	<i>102.9</i>	<i>21.0</i>	<i>21.0</i>	<i>-21.3</i>	<i>21.0</i>	<i>21.0</i>
Net profit	0	-1	-1	-1	-3	0	0	0	1	0	1	2
EPS	-0.01	-0.02	-0.03	-0.03	-0.09	0.00	0.00	-0.01	0.02	0.01	0.03	0.06
EPS adjusted (diluted no. of shares)	-0.01	-0.02	-0.03	-0.03	-0.09	0.00	0.00	-0.01	0.02	0.01	0.03	0.06
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SALES, EURm												
Innofactor	16	17	14	16	63	16	17	14	17	64	66	67
Total	16	17	14	16	63	16	17	14	17	64	66	67
SALES GROWTH, Y/Y %												
<i>Innofactor</i>	<i>-4.5</i>	<i>-0.8</i>	<i>-2.5</i>	<i>-7.3</i>	<i>-3.8</i>	<i>-2.0</i>	<i>-2.1</i>	<i>2.2</i>	<i>7.6</i>	<i>1.3</i>	<i>2.5</i>	<i>2.5</i>
<i>Total</i>	<i>-4.5</i>	<i>-0.8</i>	<i>-2.5</i>	<i>-7.3</i>	<i>-3.8</i>	<i>-2.0</i>	<i>-2.1</i>	<i>2.2</i>	<i>7.6</i>	<i>1.3</i>	<i>2.5</i>	<i>2.5</i>
EBIT, EURm												
Innofactor	0	-1	-1	-2	-4	0	0	0	1	1	2	3
Total	0	-1	-1	-2	-4	0	0	0	1	1	2	3
EBIT margin, %												
<i>Innofactor</i>	<i>-2.2</i>	<i>-3.7</i>	<i>-8.6</i>	<i>-10.7</i>	<i>-6.1</i>	<i>-0.6</i>	<i>0.9</i>	<i>-1.4</i>	<i>6.4</i>	<i>1.5</i>	<i>2.7</i>	<i>5.0</i>
<i>Total</i>	<i>-2.2</i>	<i>-3.7</i>	<i>-8.6</i>	<i>-10.7</i>	<i>-6.1</i>	<i>-0.6</i>	<i>0.9</i>	<i>-1.4</i>	<i>6.4</i>	<i>1.5</i>	<i>2.7</i>	<i>5.0</i>

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	44	44	60	66	63	64	66	67
<i>Sales growth (%)</i>	<i>34.1</i>	<i>1.4</i>	<i>34.1</i>	<i>10.1</i>	<i>-3.8</i>	<i>1.3</i>	<i>2.5</i>	<i>2.5</i>
Costs	-40	-41	-55	-64	-64	-59	-60	-61
Reported EBITDA	4	4	5	1	-1	5	6	6
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	<i>8.7</i>	<i>8.3</i>	<i>8.1</i>	<i>2.0</i>	<i>-1.6</i>	<i>7.4</i>	<i>8.4</i>	<i>8.7</i>
Depreciation	-1	-1	-2	-3	-3	-4	-4	-2
EBITA	2	3	2	-1	-4	1	2	3
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	2	3	2	-1	-4	1	2	3
<i>EBIT margin (%)</i>	<i>5.5</i>	<i>5.7</i>	<i>3.9</i>	<i>-2.2</i>	<i>-6.1</i>	<i>1.5</i>	<i>2.7</i>	<i>5.0</i>
Net financials	0	-1	0	0	0	-1	-1	0
Pre-tax profit	2	2	2	-2	-4	0	1	3
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	0	0	0	0	1	0	0	-1
Minority shares	0	0	0	0	0	0	0	0
Net profit	1	1	1	-1	-3	0	1	2
BALANCE SHEET, EURm								
Assets								
Fixed assets	4	4	10	8	12	10	9	8
<i>% of sales</i>	<i>9</i>	<i>8</i>	<i>16</i>	<i>13</i>	<i>19</i>	<i>16</i>	<i>13</i>	<i>13</i>
Goodwill	20	20	28	26	26	26	26	26
<i>% of sales</i>	<i>45</i>	<i>44</i>	<i>46</i>	<i>40</i>	<i>41</i>	<i>41</i>	<i>40</i>	<i>39</i>
Inventory	0	0	0	0	0	0	0	0
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Receivables	16	13	19	17	13	13	14	14
<i>% of sales</i>	<i>36</i>	<i>30</i>	<i>33</i>	<i>26</i>	<i>21</i>	<i>21</i>	<i>21</i>	<i>21</i>
Liquid funds	1	1	1	1	0	2	2	2
<i>% of sales</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>1</i>	<i>0</i>	<i>3</i>	<i>3</i>	<i>3</i>
Total assets	48	44	64	58	57	57	56	56
Liabilities								
Equity	20	21	23	25	21	22	23	26
<i>% of sales</i>	<i>45</i>	<i>48</i>	<i>38</i>	<i>38</i>	<i>34</i>	<i>35</i>	<i>36</i>	<i>38</i>
Deferred taxes	1	1	2	2	1	1	1	1
<i>% of sales</i>	<i>2</i>	<i>2</i>	<i>4</i>	<i>3</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>2</i>
Interest bearing debt	14	12	17	14	21	16	14	12
<i>% of sales</i>	<i>32</i>	<i>28</i>	<i>28</i>	<i>22</i>	<i>33</i>	<i>26</i>	<i>22</i>	<i>18</i>
Non-interest bearing current liabilities	13	9	22	17	14	17	17	17
<i>% of sales</i>	<i>31</i>	<i>21</i>	<i>37</i>	<i>27</i>	<i>22</i>	<i>26</i>	<i>26</i>	<i>26</i>
Other interest free debt	0	0	0	0	0	0	0	0
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Total liabilities	48	44	64	58	57	57	56	56
CASH FLOW, EURm								
+ EBITDA	4	4	5	1	-1	5	6	6
- Net financial items	0	-1	0	0	0	-1	-1	0
- Taxes	0	0	2	0	0	0	0	-1
- Increase in Net Working Capital	-1	1	-1	2	0	2	0	0
+/- Other	0	0	-2	1	0	0	0	0
= Cash flow from operations	2	4	3	4	-1	7	5	5
- Capex	-1	0	-1	-2	-6	-2	-2	-2
- Acquisitions	0	-2	-6	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	2	2	-4	2	-6	5	3	3
+/- Change in interest-bearing debt	-1	-1	4	-2	7	-4	-2	-3
+/- New issues/buybacks	2	1	0	4	0	1	0	0
- Paid dividend	0	0	0	0	0	0	0	0
+/- Change in loan receivables	0	0	1	2	0	0	0	0
Change in cash	2	1	1	5	0	1	0	0

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	33	38	34	13	24	24	24
Net debt	12	16	13	21	15	12	10
Enterprise value	44	54	47	34	38	36	33
Sales	44	60	66	63	64	66	67
EBITDA	4	5	1	-1	5	6	6
EBIT	3	2	-1	-4	1	2	3
Pre-tax	2	2	-2	-4	0	1	3
Earnings	1	1	-1	-3	0	1	2
Book value	21	23	25	21	22	23	26
Valuation multiples							
EV/sales	1.0	0.9	0.7	0.5	0.6	0.5	0.5
EV/EBITDA	12.0	11.2	36.2	-32.6	8.1	6.5	5.7
EV/EBITA	17.4	23.3	-32.4	-8.7	39.9	19.9	9.9
EV/EBIT	17.4	23.3	-32.4	-8.7	39.9	19.9	9.9
EV/operating cash flow	11.3	15.8	11.4	-61.1	5.2	6.8	6.4
EV/cash earnings	14.0	8.5	39.8	-36.7	9.2	7.6	7.0
P/E	26.0	25.8	-26.9	-4.1	54.0	23.6	10.3
P/E excl. goodwill	26.0	25.8	-26.9	-4.1	54.0	23.6	10.3
P/B	1.5	1.7	1.4	0.6	1.1	1.0	0.9
P/sales	0.7	0.6	0.5	0.2	0.4	0.4	0.4
P/CF	8.3	11.2	8.2	-23.7	3.2	4.5	4.5
Target EV/EBIT	0.0	0.0	0.0	0.0	46.5	23.5	11.8
Target P/E	0.0	0.0	0.0	0.0	68.6	30.0	13.0
Target P/B	0.0	0.0	0.0	0.0	1.3	1.3	1.2
Per share measures							
Number of shares	33,454	33,454	36,188	36,188	37,388	37,388	37,388
Number of shares (diluted)	33,454	33,454	36,188	36,188	37,388	37,388	37,388
EPS	0.04	0.04	-0.03	-0.09	0.01	0.03	0.06
EPS excl. goodwill	0.04	0.04	-0.03	-0.09	0.01	0.03	0.06
Cash EPS	0.10	0.19	0.03	-0.03	0.11	0.13	0.13
Operating cash flow per share	0.12	0.10	0.12	-0.02	0.20	0.14	0.14
Capital employed per share	0.98	1.14	1.05	1.16	1.00	0.95	0.95
Book value per share	0.64	0.67	0.68	0.59	0.60	0.62	0.69
Book value excl. goodwill	0.05	-0.16	-0.05	-0.13	-0.10	-0.07	-0.01
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend payout ratio, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Efficiency measures							
ROE	6.2	6.8	-5.3	-13.8	2.0	4.4	9.4
ROCE	7.6	6.4	-3.7	-9.5	2.4	4.7	9.0
Financial ratios							
Capex/sales, %	4.9	12.3	2.6	9.7	2.5	3.4	3.4
Capex/depreciation excl. goodwill,%	185.9	-31.5	107.6	225.9	47.9	60.3	92.8
Net debt/EBITDA, book-weighted	3.1	3.3	10.2	-20.0	3.2	2.2	1.7
Debt/equity, market-weighted	0.4	0.4	0.4	1.6	0.7	0.6	0.5
Equity ratio, book-weighted	48.5	35.4	42.5	37.2	39.4	41.8	45.7
Gearing	0.54	0.70	0.54	0.97	0.67	0.53	0.38
Number of employees, average	409	591	601	550	550	550	550
Sales per employee, EUR	108,685	100,873	109,261	114,807	116,323	119,231	122,211
EBIT per employee, EUR	6,218	3,946	-2,431	-7,040	1,751	3,273	6,111

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.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Ensio Sami	7,880,237	4.965	21.1%
Ilmarinen Mutual Pension Insurance Company	1,800,000	1.134	4.8%
Jyrki Hallikainen	1,471,009	0.927	3.9%
Tilman Tuomo Tapani	1,265,437	0.797	3.4%
Laiho Rami Tapani	1,265,159	0.797	3.4%
Linturi Kaija and Risto	1,256,411	0.792	3.4%
Ärje Matias Juhanpoika	882,065	0.556	2.4%
Mäki Antti Jussi	877,192	0.553	2.3%
Muukkonen Teemu Heikki	522,230	0.329	1.4%
Ingman Finance Oy Ab	500,000	0.315	1.3%
Ten largest	17,719,740	11.163	47%
Residual	19,668,485	12.391	53%
Total	37,388,225	23.555	100%

EARNINGS CALENDAR

October 29, 2019

Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

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Keilaranta 9, FI-02150 Espoo

CFO: Markku Puolanne

Tel: +358 (0)10 272 9000

IR:

DEFINITIONS

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

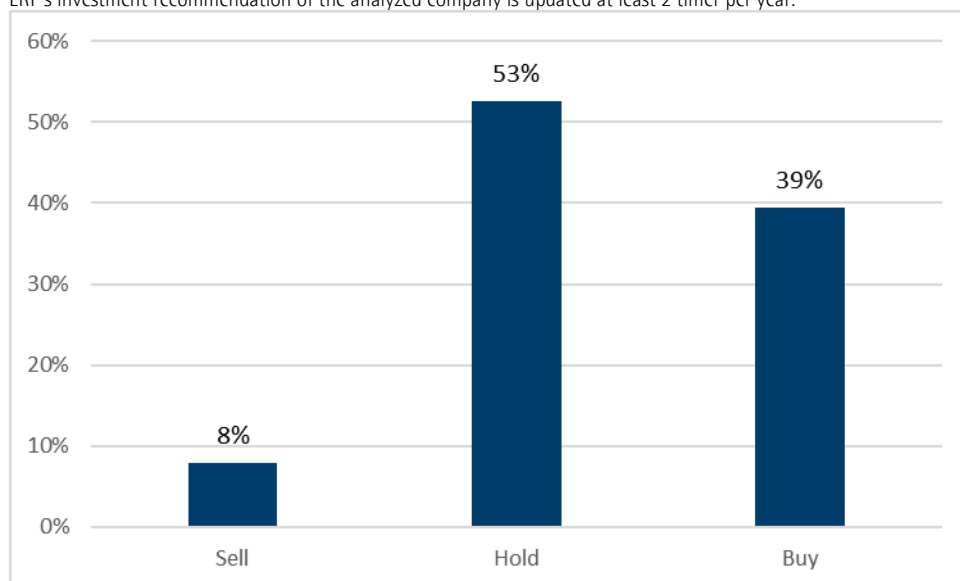
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Investment recommendations are defined as follows:

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

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

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

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