

Initiating coverage with HOLD

Loihde has strong long-term growth prospects and with scalability starting to kick in, we see the company as quite interesting as an investment. We initiate the coverage of Loihde with a HOLD rating and target price of EUR 16.0.

Security and digital IT services from under the same roof

The company is currently under a large turnaround after massive organizational changes made during 2017-2021. The current business consists of two separate but complementary businesses of security and IT services. EBITDA has already seen positive development during 2021-22, but the company has still work to be done until reaching its target of a 10% EBITDA margin. We see the growth prospects as good with strong underlying megatrends supporting the market growth. In addition, Loihde has lots of up- and cross-sales opportunities within the company which consists of multiple subsidiaries which originally have been formed from acquired companies.

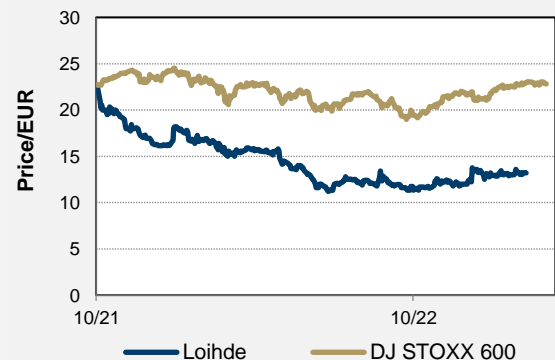
Comprehensive offering as a competitive factor

In our view, the company stands out from its competitors with its unique offering in which the company can utilize industry-overlapping capabilities to deliver next-gen solutions. For example, the company has delivered to Finnish Customs physical security surveillance service which is highly enforced by intelligence. Moreover, with the One Security concept, the company provides both physical and digital security services in which the data collected from physical devices is enriched by analytics to provide either stronger security or to support business decisions.

Valuation not challenging, but further evidence is needed

We view the current valuation of Loihde as not challenging, but with a sustainable profitability level still unproven, we justify multiples below the peer group median. We value Loihde with 23E EV/EBITDA and EV/EBIT multiples of 6.4x and 9.6x respectively. The near future includes some uncertainty with slowing demand for DiDe. We initiate the coverage of Loihde with a HOLD rating and TP of EUR 16.0.

Rating 🟡 HOLD



Share price, EUR (Last trading day's closing price)	14.95
Target price, EUR	16.0

Latest change in recommendation	-
Latest report on company	-
Research paid by issuer:	YES
No. of shares	5,628
No. of shares fully	5,628
Market cap, EURm	84
Free float, %	0.0
Exchange rate	0.000
Reuters code	LOIHDE.HE
Bloomberg code	LOIHDE FH
Average daily volume,	0.0
Next interim report	28-Apr-23
Web site	https://www.loihde.com/en/for-
Analyst	Arttu Heikura
E-mail	arttu.heikura@evli.com
Telephone	

🟢 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
2021	104.4	-0.9	-0.8%	-4.2	0.08	45.1	0.6	-70.3	-4.3	0.55
2022	123.0	6.4	5.2%	-6.3	0.54	-4,353.4	0.4	7.9	-8.5	0.80
2023E	140.2	5.1	3.6%	4.8	0.69	21.4	0.4	11.6	5.6	0.35
2024E	151.5	7.0	4.6%	4.1	0.96	15.4	0.4	8.2	4.9	0.38
2025E	159.3	9.3	5.9%	5.4	1.08	13.8	0.3	5.8	6.4	0.43
Market cap, EURm			85	Gearing 2023E, %		-22.3	CAGR EPS 2022-25, %			811
Net debt 2023E, EURm			-25	Price/book 2023E		0.8	CAGR sales 2022-25, %			9.0
Enterprise value, EURm			59	Dividend yield 2023E, %		2.3	ROE 2023E, %			3.5
Total assets 2023E, EURm			158	Tax rate 2023E, %		20.0	ROCE 2023E, %			4.2
Goodwill 2023E, EURm			63	Equity ratio 2023E, %		70.7	PEG, P/E 23/CAGR			1.0

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

Investment summary

Two focus areas;
digitalization and security

Loihde is a service company focusing on IT services and comprehensive security solutions. In IT services, Loihde focuses on agile digital services, such as software development, analytics, and AI. Meanwhile, in security solutions, the company focuses on both physical and digital security services. In addition, the company provides cloud services that can be utilized in both its main service areas. Loihde engages both in project sales and continuing services by offering consulting, design, development, installation, and maintenance services.

Loihde operates in Finland
and Sweden

Loihde has a colorful history, while the current business was formed during 2017-19 when redundant businesses were divested, and digital business was established through multiple acquisitions. The progress of restructuring has developed far, but to fully capture profitability potential, some process integration is still to be done. The company mainly operates in Finland, but it has small growth ambitions in Sweden with two offices. Overall, Loihde employs over 800 people. With its nationwide office coverage, the company is able to efficiently manage larger customers that might operate in multiple locations nationwide.

Strong net cash position
provides inorganic growth
opportunities

Loihde has an asset-light business model where investment needs are low in general. Growth although tie somewhat working capital. Hefty net cash position and liquid securities allow the company to constantly seek alternative sources of growth, namely via acquisitions. So far, the company has indeed executed several acquisitions, for example, the digital IT service business was founded through the acquisitions of Aureolis and BitFactor.

Simple strategy aims for
growth and profitability

In its strategy, the company emphasizes growth from both businesses and improving profitability. In addition, the company seeks to capture topline synergies by cross- and up-sales and cost synergies by integrating subsidiaries and enhancing internal efficiency. As said, a hefty cash position enables the company to execute M&A as a part of its strategy. In the end, Loihde intends to take care of its most important asset, namely personnel. During its strategy period of 2021-24, the company targets annual revenue growth of over 10% and adj. EBITDA margin of over 10%.

Annual growth track at 8%

By considering the most comparable years, the company has grown at a CAGR of 8% during 2019-22. The growth is supported by multiple acquisitions, but the divested businesses have negatively affected the growth. The net effect is hard to determine. During the past two years, the company has improved its profitability notably. During 2019-20, the company's adj. EBITDA has been quite flat, while from the level of 2020, adj. EBITDA has improved by 67% to date. In 2022, adj. EBITDA margin accounted for 8.4%.

Expecting clear margin
expansion

We foresee the company's growth to continue by expecting 23E net sales amounting to EUR 140.2m, reflecting y/y growth of 14%. Growth is supported by both businesses; we expect SeSo to grow by 14.7% and DiDe somewhat moderately by 12.1% respectively. The growth is significantly supported by the acquisitions made in 2022. In 2024, we expect group net sales to grow by 8.1% to EUR 151.5m driven by both businesses. With strong topline growth and scalability improving, we expect relative profitability to develop positively. In 2023, we expect adj. EBITDA margin to amount to 8.6% while in 2024, with efficiency further improving, we expect adj. EBITDA margin to rise to 9.2%.

Valuation not challenging

We value Loihde with EV-based multiples due to its strong net cash position. Although we expect clear margin expansion during 2023-25, we yet justify multiples below the peer group median due to still unproven and below the peer group profitability level. By valuing Loihde with an EV/EBITDA of 6x, our target price sets to EUR 16.0. We initiate the coverage of Loihde with HOLD rating.

Company overview

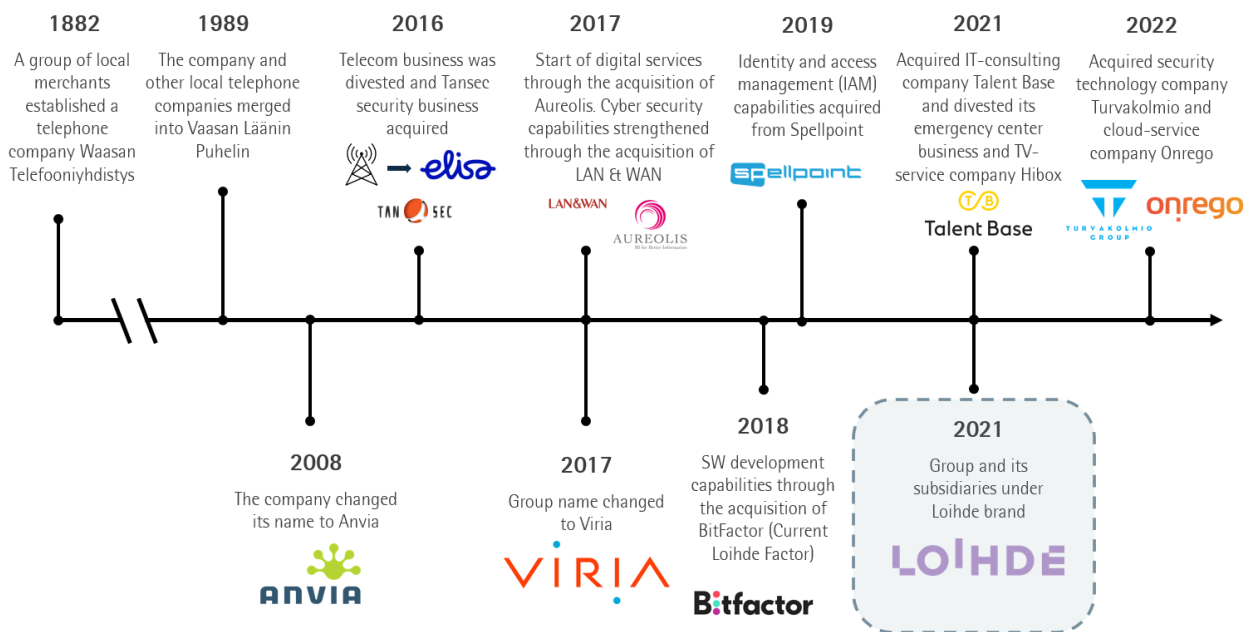
Growth company focusing on digital and security services

Loihde is a growing technology service company that provides both comprehensive security service and digital development solutions for its B2B customers. Loihde mostly operates in Finland, and it has two small offices in Sweden. The company's purpose is to provide continuity for its customers in order them to enhance their competitiveness or remain as competitive as well as protect from external threats. Loihde focuses mostly on services and thus it's not currently engaging in product development. In this way, the exposure to technology risks is minimized, but the potential for scalability is on the other hand somewhat limited.

The company has quite long and colorful history

Previously known as Viria, Loihde was initially founded in 1882 to provide telephone and communication solutions. After years of divestments and acquisitions, the current business model came together between 2016-2020. In our view, the former Viria was rather a holding company, in which the integration rate was minimal. With a new management team and strategy, Loihde intends to rebuild and integrate the company under a single brand in order to achieve both topline and cost synergies. While the company has divested several redundant businesses that were not seen to fit the current strategy, the company's management has indirectly indicated that further divestments will not be made in the near term. Now, the company will primarily focus on organic growth, with an option to speed up the growth with acquisitions, and also profitability improvement.

Figure 1: Loihde's history



Source: Loihde

Network of several subsidiaries

The group is operated as a network of subsidiaries. The Security Solutions business unit (SeSo) is currently operated as a uniform unit, but it previously consisted of 4 different subsidiaries: Loihde Trust, Loihde Trust Spellpoint, and Loihde Trust Tansec as well as previously acquired Turvakolmio Group. The Digital Development business unit (DiDe) consists of three units: Loihde Advance (previously Loihde Analytics and Loihde Advisory), Loihde Factor, and Loihde Cloudon (acquired cloud-service business Onrego). Subsidiaries frequently combine their forces together across unit boundaries to offer comprehensive value-adding solutions for customers. According to the company's management, the power of the network model relies on cultural factors, such as providing a tool for targeted recruitment as well as providing different salary models and interesting customer assignments. In addition, M&A related risks potentially reduce with network model allowing acquired companies not to be fully integrated rather left as an "independent", but cooperating unit, such as Loihde Factor currently is. Cost synergies are obtained through the integration of administration and other back-office functions even though an acquired company is left as an independent operating unit. In our view, some extra cost saving can however be acquired by simplifying the governance structure since the group has some overlapping positions between its subsidiaries. However, the company's management sees more pros than cons in operating the group with a network model which enjoy some popularity among, for example IT service companies.

Employing over 800 personnel

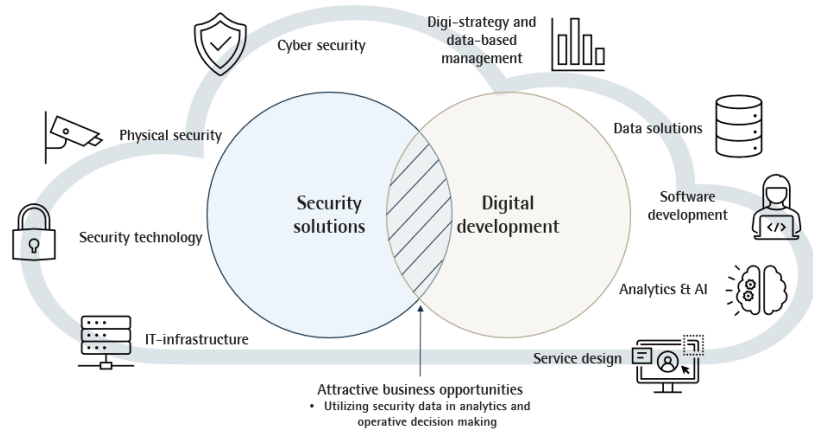
In 2022, the company employed 812 persons on average. ~55% of them were in service of SeSo, while ~41% worked for DiDe. The rest of the employees engaged in administrative functions. Large jump in the number of personnel is partly explained by the acquisition of Turvakolmio Group. Personnel is a crucial, if not the most crucial resource for Loihde. In addition, we see that Loihde must manage its employee satisfaction solidly in order to prevent excessive turnover among personnel. Succeeding in recruitment enables the company to accelerate its growth ambitions. Currently, the recruitment markets are tough due to the shortage of talented software developers and other experts. However, the situation started to ease in late 2022 with market demand slowing.

Integration into a single group still underway

Although the company's organizational structure has changed notably, we see still some restructuring needed in order to fully capture the profitability potential. According to the company's management, in the coming years, several functions will be integrated. For example, in SeSo, internal processes and systems are planned to integrate more tightly. The same kinds of principles are also applied in the DiDe. Moreover, the company intends to further enhance its internal efficiency. With integration processes succeeding, some cost synergies are expected to kick in over time, given topline continuing in a trend of growth.

Business model

Figure 3: Loihde's businesses



Source: Loihde, Evli Research

An asset light business model enabling growth

Loihde has an asset-light business model with a hefty cash position, which allows the company to continue executing value-adding acquisitions. Even though the investment needs are low in Loihde's operating model, its balance sheet ties some business-unrelated assets, such as buildings. The company's management has indicated that such assets will be divested over time. In our view, the released capital from asset sales can be utilized in more value-adding and growth-enabling functions, such as investments or acquisitions.

Focusing on strongly growing and agile digital services

DiDe's offering covers a wide range of the IT services' value chain. The company focuses purely on new digital services and offers no solutions for traditional IT services. Traditional IT services consist of, for instance, back-end system development and supportive hardware services. In addition, the market of traditional IT services is expected to grow much slower than digital services. While traditional IT services enable and enhance companies' operations, new digital services increase overall efficiency and generate new business models and revenue sources. The company's presence starts from the initial steps of digitalization, such as consultation of digitalization strategy, and reaches to project development and execution and eventually to maintenance services. Loihde is especially known for its strong capabilities in digital services, design, data analytics, and artificial intelligence (AI). In addition, Loihde helps its customers to develop, utilize and manage cloud systems.

Comprehensive security services as a competitive factor

The company provides comprehensive solutions both for physical and cyber security. One of the spearhead services in its physical security solutions is camera surveillance applications, which nowadays can be enforced with intelligent applications. In cyber security, the company has strong abilities in around the clock cyber monitoring centers (CSOC) and infrastructure security solutions. Loihde also provides identity and access management (IAM) services that improve the overall corporate security more prominently. A combination of two businesses provides an attractive mid-land area where digital services can be utilized as a part of security solutions to drive business-critical decisions better, even not from a security perspective.

Continuing services 1/4 of business

Loihde is mostly a service company, i.e., it utilizes third-party technology in developing its solutions. In this way, technology risks can be minimized. However, services require a large share of human resources, which can be seen in limited scalability. With the service model, the project risk is indirectly transferred to the customer. However, cutting-edge solutions must be delivered in order to gain recurring customers and continuing services.

Approx. 75% of the company's revenue originates from individual projects, such as application development, while the other 25% is based on continuing services. Most of the continuing revenue is generated by SeSo. Even though the project-based customer relationships have continued long, we see the growth from continuing services providing more attractive pricing points and predictability. Should the security businesses increase their share of continuing services, the EBITDA margin will likely see some improvements. Moreover, with continuing or managed services, the company can increase its efficiency in resource allocation. A significant part of IT services is investment-driven projects, which results in a limited share of continuing net sales in DiDe.

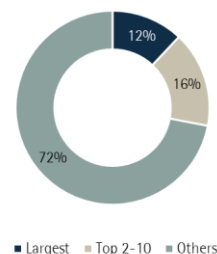
Long-lasting and diversified customer portfolio provides protection

The company has a wide and quite diversified customer portfolio. During previous years, the company has had over 4,000 customers annually. According to the company's management, it holds a solid position in industries such as finance, retail, industrials, and public healthcare. In 2021, Loihde's largest customer generated 12% of the company's net sales. To our understanding, the customer concerned has been present for a long time, and Loihde is a strategic partner for the customer. In total, the top 10 customers yielded 28% of the company's total revenue in 2022. We note that due to the nature of the company's project-based services, the largest customer share might vary over time.

Private sector customers over-represented

To our understanding, the company's net sales mostly originate from private customers. Meanwhile, the proportion of public customers has been in a trend of growth and the company has both delivered and closed several large-scale public sector deals. Traditionally, public sector projects tend to be larger, meaning that the projects generate cash flow for longer. In addition, public sector projects, especially in digital services, are typically necessity-based rather than developing in line with the economic cycle. In our view, a larger share in the public sector could provide Loihde protection against possible macroeconomic headwinds.

Figure 4: Revenue split by customer size in 2022



Source: Loihde

Flexibility and niche competencies obtained through partner network

Like other digital IT service companies, Loihde also utilizes a partner network in recruiting an outsourced labor force. Outsourced resources provide flexibility during tough recruiting markets, but also during uncertain macroeconomic times. Moreover, for unconventional projects, IT service companies usually lease niche capabilities through their partner networks. In our view, excess usage of partner networks in customer projects will likely press margins and might endanger the company's control of customer satisfaction. Furthermore, there always exists a risk that a customer shifts to buying services directly from the company's partner. To our understanding, the company currently acquires approx. 5% of its workforce from partner networks.

A group of specialized subsidiaries

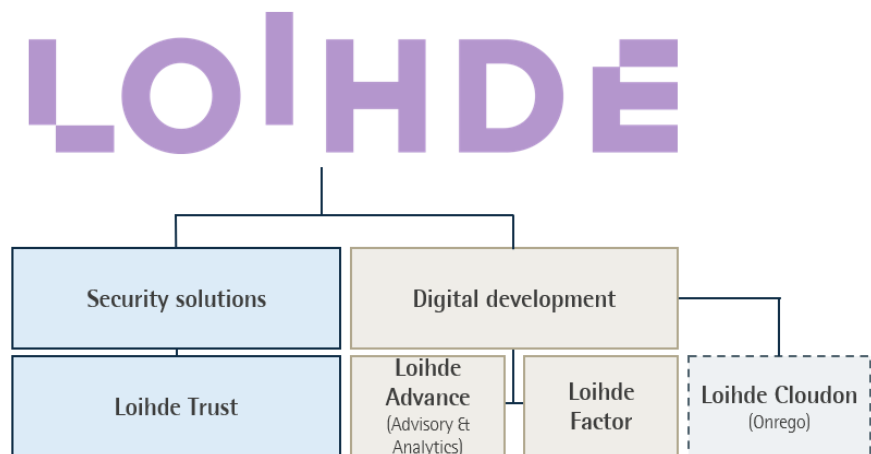
The company's governance structure differs from a conventional one to some extent. The group consists of several subsidiaries, which each have their own specialty fields. The digital business area consists of Loihde Advance, which focuses on digital service advisory, data analytics, and AI, and Loihde Factor, which focuses on software development and design. A supporting idea behind the operation under several brands is its impact on Loihde's position in recruitment markets. Such governance structure also

provides each subsidiary a clear positioning in the markets (versus IT generalists). Since employees have quite a strong position in recruitment markets, they seem to seek companies they can relate to. In other words, they would like to work in certain fields, such as software development, avoid large corporate structures and participate in interesting projects. Meanwhile, the security businesses are integrated under a single brand of Loihde Trust. To our understanding, this type of governance structure is inherited from the Viria era when the group was managed rather as a holding company. Loihde under its current management has tweaked the group to a more scalable form, but intends to continue with the network model.

Heavy governance structure limits profitability for now

We see the current governance structure affecting some extra costs. Each subsidiary has its own management team which then yields some overlapping positions within Loihde Group. The combination of Loihde Advance (Analytics + Advisory) indicates the company's ambitions to continue integrating its coming subsidiaries. Thus, some margin expansion can be expected given the organization's integrations succeeding. The latest acquisition of Onrego, which is branded as Loihde Cloudon, will be serving both business units, although is reported as a part of DiDe.

Figure 5: Group structure



Source: Loihde

Focusing on growing market segments and acquisitions

The market, in which Loihde is engaging grows at a high single-digit rate. In addition, both the digital service and security markets are strongly under the trend of consolidation. Previously Loihde has been both a consolidator and divestor. Essentially, DiDe was established through acquisitions. Moreover, the company has further strengthened SeSo by consolidating other smaller players. Judging from history, Loihde's M&A strategy strongly focuses on finding new technologies and capabilities to strengthen its service portfolio. In the digital services, companies also seek talented personnel through acquisitions as direct recruitment has become harder due to a shortage of workforce. We see the acquisitions as a crucial tool for the company's business model given its track of acquired businesses and strategic cornerstones.

Megatrends

Digitalization as a main growth driver

Loihde's target market's growth is supported by several megatrends. Firstly, the demand for IT services practically runs with a power of digitalization megatrend. Customers enhance their digital abilities in order to increase their efficiency and respond to rapid changes in the operative environment. Digitalization provides new platforms and business opportunities, which can be seen in a strong demand for new digital services. For example, lately, companies have started to utilize external or internal data in order to run their business more efficiently and wisely. The usage of AI – a tool that boosts automation and helps in decision-making – is also a field that is growing at high rates.

Cyber attacks have become even professional

Meanwhile, the risks concerning external cyber security threats have been gradually growing since the internet was invented. Increased remote working and the war in Ukraine further increased the need for gapless information security. Moreover, cyber criminality has become more professional, and cyber criminals' skills and technologies have developed notably. With companies increasing their rate of digitalization, the exposure to cyber security threats grows in line. Thus, digitalization also drives the growth of cyber security markets. Moreover, companies also need to protect their physical assets from misuse.

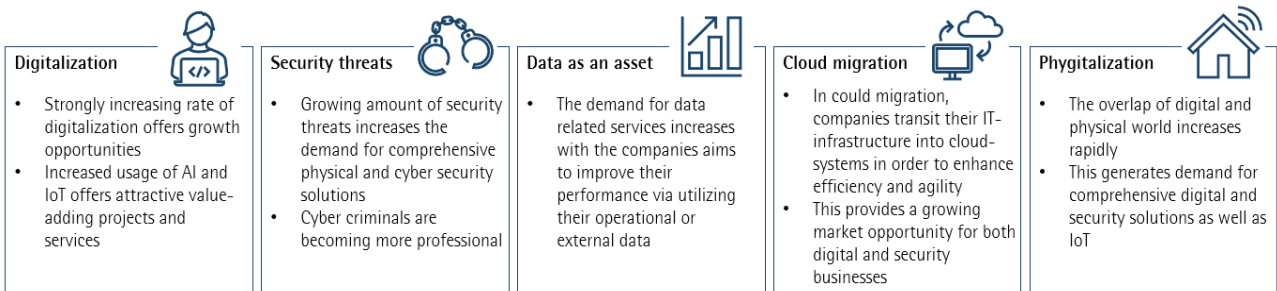
Companies invest heavily in cloud migration

In searching for ways to improve efficiency, companies have increased their share of cloud systems in IT-infrastructure. Cloud infrastructure has several benefits over on-premise infrastructure. In addition to direct cost efficiency, cloud migration also brings indirect benefits, such as improved operational performance and further scalability. IT service companies are crucial partners in cloud migrations, in which companies are currently investing.

Physical and digital worlds combine

Physical items, such as machines, are increasingly empowered with digital development. The Internet of Things (IoT) is a common example of the physical world's integration with the internet and AI. Loihde also utilizes its digital abilities in increasing its physical devices' intelligence.

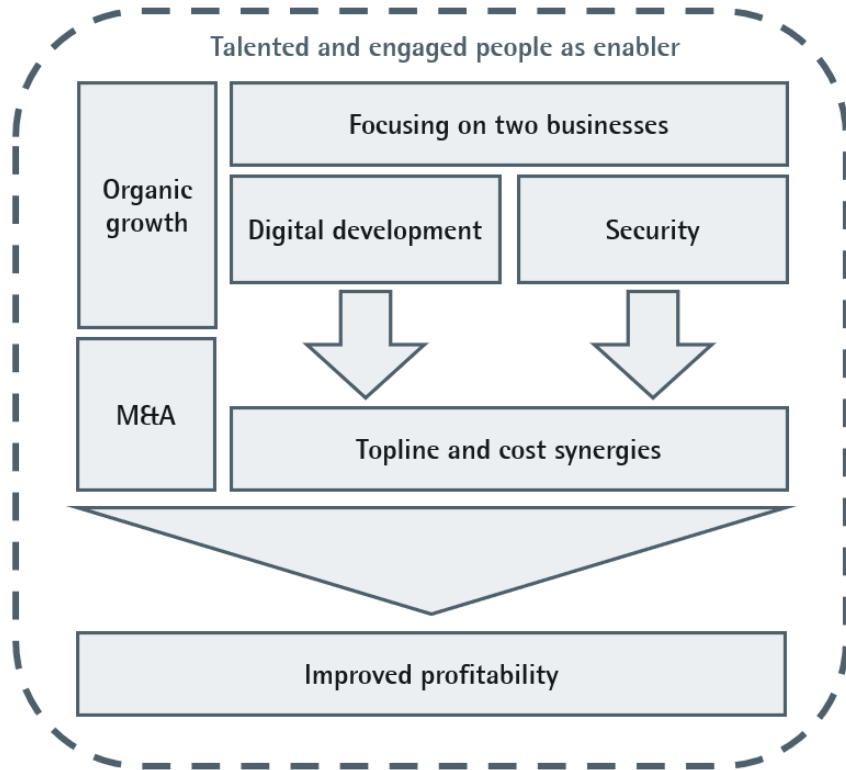
Figure 6: Megatrends



Source: Evli Research

Strategy and financial targets for 2021-24

Figure 7: Loihde's strategy



Source: Loihde, Evli Research

Focusing both on growth and profitability

Since the organizational restructuring, Loihde has started to focus on organic growth. In addition, Loihde's strategy relies on operative improvement, which is expected to materialize from internal cost synergies. Loihde's organic growth is supported by strong underlying demand as well as up and cross-sales opportunities within the group. To speed up the growth, Loihde has executed value-adding acquisitions during recent years and it's aiming to continue on the same track. Loihde's strong financial position enables painless inorganic revenue expansion.

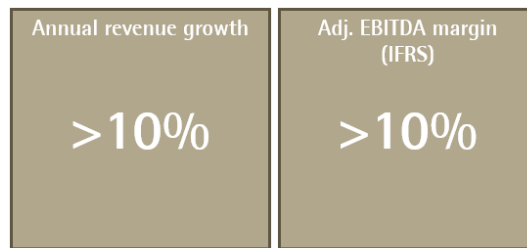
Combination of two different segments provides overlapping cross-sale opportunities

The company operates in two different, but partly overlapping markets: IT services and comprehensive security services. In digital services, Loihde strives to focus on growing service areas, namely new digital services, and cloud-related services. Meanwhile, in SeSo, Loihde focuses on physical and cyber security services. In addition, Loihde provides combined solutions, in which competencies from both businesses have been utilized to produce value-adding solutions. In this way, Loihde taps into more attractive pricing points, and services can be priced based on the value-add given instead of hourly-based billing. Moreover, having two separate businesses enables attractive cross-selling opportunities internally. In addition, the company targets to gain cost synergies from business integration. Eventually, with higher sales volumes and enhanced operative processes, profitability has the potential to improve.

Personnel enables the company's success

At the end of the day, the people in Loihde largely determine the company's direction. Successful recruitments and orthodox investments in personnel are essential for delivering successful results. Due to expert shortages, personnel in IT service markets have quite a strong negotiation power. However, the salary isn't the only factor that drives recruitment in our view. Loihde must be an attractive employer firstly to induce new persons and secondly to keep retention high. The company strives to be an attractive employer with a culture of low organizational hierarchy, self-guided and dedicated units, and interesting projects.

Figure 8: Financial targets for 2021-24



Source: Loihde

Over 10%/10% growth/EBITDA-% as a long-term target

During the current strategy period, Loihde aims to achieve annual revenue growth of over 10% on average. In addition, the company strives to improve its profitability to over 10% adj. EBITDA margin. According to our estimations, DiDe has the potential to generate an EBITDA margin of over 10%, but we believe that the EBITDA margin in physical security is likely bounded at or under 10%. We also foresee that cyber security has the potential to generate at or over 10% EBITDA margin in the long-term. Should the company manage in lightening its governance structure and obtaining other cost savings through synergies, we find the profitability target to be well within a reach.

Competitive factors

Sustainable competitive advantage is hard to accomplish

Both IT and security services are fields, in which sustainable competitive advantage is hard to accomplish. Since service companies rely on third-party technology, advantage from a technology perspective is tough to gain. Thus, competitiveness must be achieved from a different point of view.

Local but nationwide reach is welcomed by Finnish customers

We find Loihde's nationwide reach in Finland as a supportive competitive factor for the company. Customers, especially in SeSo, prefer local service providers. With a wide office coverage, Loihde is able to take care of customers nationwide, which enables larger volumes and increases Loihde's attractiveness among large customers. By this, we see the company having some edge over some of its competitors.

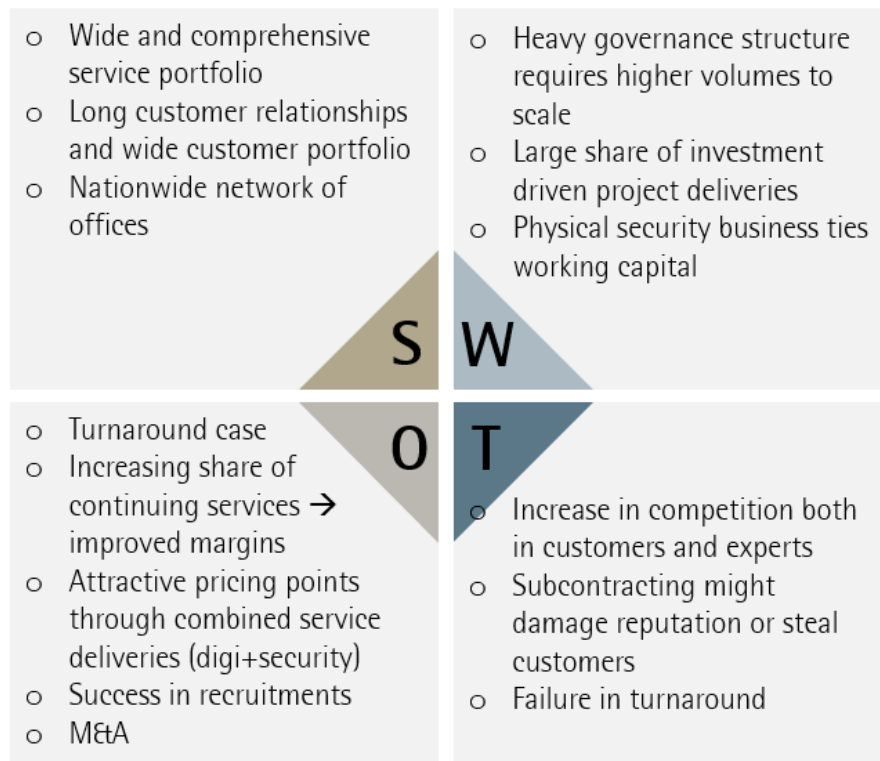
Wide and unique service portfolio supports Loihde in tenders

With its unique offering, Loihde is able to utilize the crossing point of DiDe and SeSo to provide service solutions that its competitors are not capable to offer. Traditionally such services will be delivered by several counterparties while with Loihde's offering, a customer can choose a single partner to deliver the entire project. This enables seamless project delivery, and the customer does not have to act as a project leader. At the same time, Loihde itself taps into larger volumes and more attractive margins. Moreover, Loihde having a track record of delivering combined projects or services enhances its position in bids and tenders.

Strong balance sheet brings protection

Loihde's strong financial position allows the company to continue M&A activities. In addition, the cash position brings protection for uncertain times, enabling the company to continue value-adding investments despite yet moderate free cash flow.

Figure 9: SWOT analysis



Source: Evli Research

M&A

Loihde is formed through several acquisitions

Transactions are a significant part of Loihde's strategy and business model. The company's current form started to get together in 2016 when Loihde sold its telecom business to a Finnish teleoperator Elisa. The transaction included the transfer of a security technology company Tansec Oy shares to Loihde. With the acquisition of Nordic LAN & WAN, Loihde tapped into cyber security markets and IT-network capabilities. The first step into the digital services Loihde took by purchasing the minority shares of analytics company Aureolis. Later in 2019, Loihde acquired the majority of Aureolis shares and from 2020 on, Aureolis has been fully owned by Loihde. Software development capabilities the company acquired from BitFactor, which currently operates under name of Loihde Factor. The company gained identity and access management (IAM) with the acquisition of Spellpoint. In 2021, Loihde took over consulting and digitalization services from Talent Base and divested its TV-service business of Hibox Systems and the emergency center business. In 2022, the company divested its minor fibre optic network business. In addition, the company enhanced its physical security business with the acquisition of Turvakolmio Group. Moreover, in late 2022, Loihde expanded its cloud competencies with the acquisition of Onrego.

Divestments are over, now focusing purely on acquisitions

Market consolidation both in IT and security services drives companies to either being an acquirer or a target of acquisition. Loihde has chosen to be the former and has accordingly executed small bolt- and add-on acquisitions. Although Loihde has quite an extensive service offering, there are still areas into which the company could tap via acquisitions. For example, in digital services, the company could be interested in expanding its consulting business into cloud-based systems, such as CRM. Artificial intelligence is a large concept, and to our understanding, there are segments, in which the company isn't currently engaging or has only small ambitions. Thus, investments in the AI segment could be made via acquisitions. Moreover, expansion into foreign countries could be made through acquisitions. Currently, Loihde is enhancing its digital service forces in Sweden organically and an additional acquisition might speed Loihde's expansion up into Finland's neighboring country.

Table 1: Recent transactions

Transaction	Year	Company	Business	Net sales	EBITDA	Transaction value	EV/S	EV/EBITDA	Personnel
Divestment	2016	Anvia Telecom	Telecom business	-	-	-	-	-	-
Acquisition	2016	Tansec Oy	Security technologies	-	-	-	-	-	-
Acquisition	2017	Nordic LAN & WAN	Cyber security and information network	-	-	-	-	-	-
Acquisition	2017*	Aureolis Oy	Data and AI	7.0m	-	-	-	-	100
Divestment	2017	Viria Link Oy	Telecom maintenance	-	-	-	-	-	-
Acquisition	2018	Proteco-Turvatekniikka Oy	Security technologies	-	-	-	-	-	-
Acquisition	2018	Ymon Oy	Cyber security and information network	-	-	-	-	-	20
Acquisition	2018	BitFactor Oy	Software development	14.0m	-	-	-	-	150
Divestment	2018	AB Sappa	TV business	-	-	-	-	-	-
Acquisition	2019	Spellpoint Oy	Identity and access management	-	-	-	-	-	26
Acquisition	2021	Talent Base Oy	Digital development	7.4m	1.1m	10.0m	1.4x	9.0x	-
Divestment	2021	Hibox Systems	TV-services	5.4m	-	6.6m	1.2x	-	36
Divestment	2021	-	Emergency center business	-	-	-	-	-	15
Divestment	2022	-	Fibre optic network business	0.7m	-	4.7m	6.4x	-	0
Acquisition	2022	Turvakolmio Group	Locking and security technology	14.4m	0.6m	6.9m	0.5x	11.4x	98
Acquisition	2022	Onrego Oy	Cloud technology services	7.1m	0.5m	4.3m	0.6x	8.6x	30

Source: Loihde

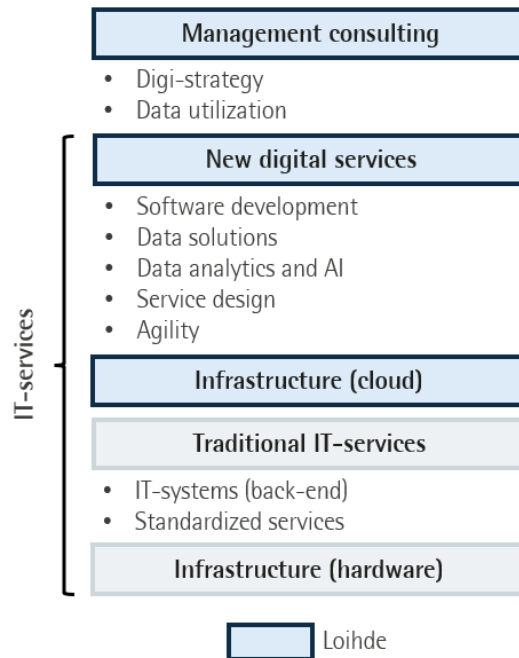
* In 2017 Loihde acquired a minority share of Aureolis. The majority of Aureolis shares acquired in 2019. In 2020, Aureolis was fully acquired and integrated into Loihde Group.

Digital Development

Focusing on value-adding digital services

The company's digital service offering, namely Digital Development (DiDe) business unit, covers a wide range of IT service value chain. DiDe helps its customers to develop digital capabilities and utilize data in order to run their business more efficiently as well as enhance their competitiveness. Loihde's digital service portfolio also enables its customers' new ways to do business. The company develops personalized digital solutions, such as apps, websites, and internal tools, based on the extensive experience gained through numerous customer projects. Instead of traditional IT services, DiDe focuses on new digital services, which are growing in popularity compared to traditional IT services. In our view, the strategic selection to focus on digital services is beneficial for the company as the traditional IT service industry has developed quite moderately during the last decade. In comparison, the new digital service market is estimated to grow high-single-digit or low-double-digit figures in the coming years.

Figure 10: Loihde's position in the IT service ecosystem



Source: Loihde, Evli Research

Analytics, AI and comprehensive digital development as core competencies

Loihde provides consulting services for digital transformation and strategy as well as solutions for data utilization, analytics, AI, service design, cloud, and software development and design. DiDe's core competencies lie in analytics and AI as well as comprehensive digital service development and cloud know-how. The company has approx. 200 persons working in data analytics and AI, and according to the company's management, the team is one of the strongest in Finland. In addition, the company provides solutions for cloud migration and certain agility practices. Even though DiDe's service portfolio is already exhaustive, robotics and automation are notable service areas, in which the company is not currently engaging. To our understanding, the company is likely to focus on agile DevOps operations to tap into continuing services instead of expanding into more one-off projects of robotics and automation.

Majority of net sales originates from private sector

DiDe has a wide customer base that consists of long-term customer relationships. The majority of the revenue emerges from the private sector while public sector customers represent a fraction of DiDe's income. However, the company's management has indicated that revenue growth from public sector customers has been strong within the past few years. A growing share of the public sector could bring some continuity and protect against economic headwinds. We foresee that public sector spending on digital capabilities might not be as dependent on economic fluctuation as in the private sector. However, we consider a large increase in Loihde's share in the public sector to be unlikely, given several competitors that are strongly engaged in the public sector and enjoy a strong position within.

Strong presence in certain industries

According to the company's management, DiDe is well-positioned in industries such as finance, retail, industrials, and healthcare. To our understanding, finance represents a distinguishable share of DiDe's revenue in terms of a sector. According to the company's management, DiDe serves almost all major players in the Finnish financial sector, i.e., banks and insurance companies. Moreover, finance is an industry that has heavily invested in digital transformation, and it's expected to continue as the companies intend to improve efficiency with digital competencies. Moreover, data utilization among banks and retail companies is relatively high due to the massive amount of generated data.

Figure 11: Customer references



Source: Loihde

Recruitments as well as personnel and customer satisfaction are the most crucial issues to manage

Loihde is still a young and relatively small player in the Finnish IT service markets. Thus, several issues must be successfully managed in order to compete with larger and more established players. Firstly, we see successful recruitment as a key factor. The recruitment market for IT experts has over the past few years been very tight. The tight labor market has complicated IT service companies' recruitments and talented experts have had a strong negotiation power. That has resulted in salary inflation among IT experts, such as software developers. However, salary isn't the only factor that determines a good employer. To attract talented personnel and minimize personnel turnover, Loihde offers differentiated salary models, involves personnel in decision-making, has a low-hierarchy structure, and intends to provide interesting and challenging projects that developers are keen to. In addition, the company must understand its customers' businesses and their needs comprehensively in order to keep the share of recurring customers high. According to the company's management, DiDe has long-term customerships that have generated precious value for the company. On one hand, the company carries a minor amount of technology risks due to its service emphasis. On the other hand, delivering successful services always requires the best technologies available. Thus, Loihde must ensure that its third-party software portfolio remains relevant.

Security Solutions

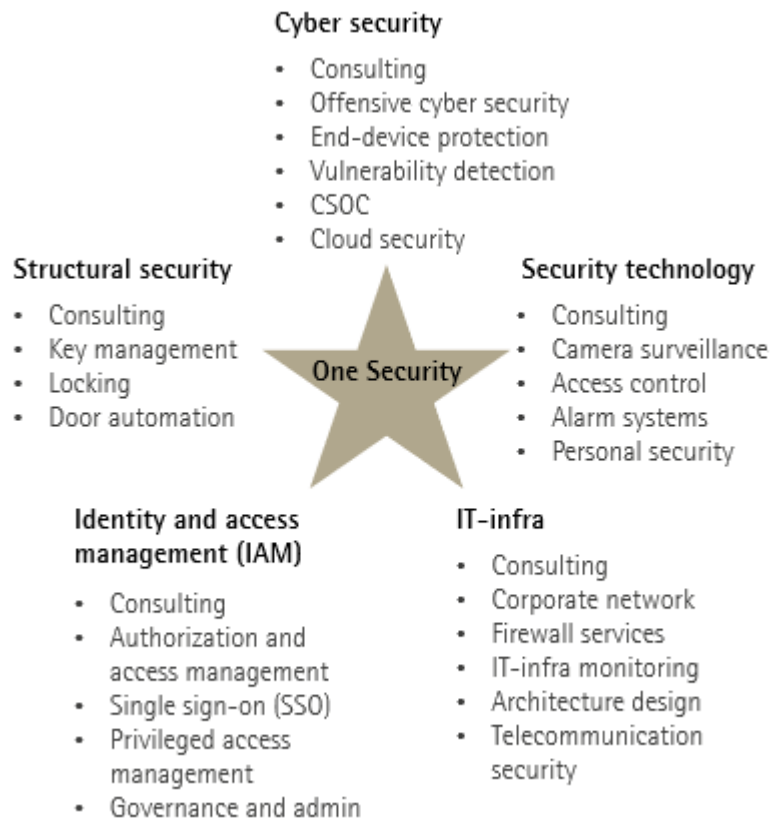
The largest service provider in comprehensive security solutions in Finland

Loihde is one of the largest comprehensive security service providers in Finland by focusing on two separate security branches: cyber and physical security. Loihde's security business, namely the Security Solutions business unit's (SeSo) service offering consists of cyber, IT-infrastructure, and structural security as well as identity and access management and other security technologies. SeSo's service portfolio is designed such that each service can be delivered as a single module, but the supplementation of the service entirety with other modules is made easy and comfortable for the customer.

Focusing on cyber and physical security services

The services can be roughly divided into two groups, namely 1) cyber and 2) physical security. Physical security services mainly consist of key and access management, camera surveillance, fire detection, personal safety, and other security solutions. Loihde's cyber security business focuses on, for instance, security consulting, network and end-point protection, identity and access management, and secure IT-infrastructure.

Figure 12: Security services



Source: Loihde

Continuing services are more valuable for the company

SeSo provides both project-based consulting and continuing services. We however see the continuing services as more valuable for the company since they usually offer more attractive pricing points. Thereby SeSo's solutions can be priced according to produced value-add rather than hourly-based invoicing. For instance, maybe the most visible and understandable continuing service is the cyber security monitoring service. In addition, SeSo delivers solutions as a service, in which the company accounts for the project delivery and maintenance of security technology. The company delivers continuing services with two different models. In the first model, the customer outsources the

service fully for SeSo and pays a sum of monthly payments. In addition to a service fee, the company obtains a "retail margin" from the third-party systems and hardware delivered. This model increases the company's P&L depreciations since security devices are activated in Loihde's balance sheet.¹ In the alternative model, the customer acquires the hardware, but Loihde provides intelligence and maintenance as a continuing service. 25% of the company's revenue originates from continuing services. Most of the continuing revenue is brought by SeSo.

Covering wide range of B2B security services

As a combination, SeSo covers a wide range of corporate security services. In its service deliveries, the company focuses on more advanced technology. To provide comprehensive security services, the company also delivers less advanced security technologies to speak to a wider customer space. A good example is locking, in which margins are somewhat thinner than in more advanced technologies. Recently in 2021, Loihde divested its alarm-center services, which were not seen as a suitable part of SeSo's comprehensive service portfolio. Moreover, security guarding is a service area, in which Loihde is not engaging. The technology contribution to security guarding is quite negligible in our view, and SeSo's current offering somewhat subsidizes the work of security guarding.

Figure 13: Security customer references



Source: Loihde

Strong focus on both public and private sector customers

Wide offerings and comprehensive security services have enabled SeSo a wide customer base. SeSo has a relatively large base of public sector customers, with approx. half of its revenue generated from the public sector. However, to our understanding, projects delivered for the public sector are large in scale and timing of completions might add some seasonality to Loihde's revenue. According to the company's management, its customer relationships have lasted long, which provides further continuity.

Physical security services

Physical security protects people, assets and properties

SeSo designs and delivers physical security solutions for protecting people, assets, and properties. Physical security services mostly consist of security technology solutions, such as camera surveillance and access management, fire alarm systems, personal security, and nurse-calling-systems, as well as key management, locking, and door automation systems. As a service company, Loihde utilizes third-party technology in designing its services. In addition, the company provides continuing maintenance services for its comprehensive security solutions.

Physical security still above cyber security

In our estimations, physical security represents clearly over 50% of Loihde's security business. However, the boundary between physical and cyber security as well as digital development is hard to determine since all segments might deliver common projects. For example, Loihde is currently providing an intelligent camera surveillance system for

¹ In IFRS accounting standard.

Finnish Customs (Tulli), in which the data gathered from camera surveillance is enriched with analytics developed by DiDe. The project's target is to outsource security guarding with the combination of camera surveillance and analytics. This project might be one of the increasing trends, in which technology and software substitute labor-intensive workloads. Thus, we see Loihde well positioned for future trends in the industry.

Figure 14: Physical security services

Key and access management and locking	Personal safety systems	Camera surveillance	Alarm systems	Time-tracking system
<ul style="list-style-type: none"> Managing and monitoring physical access permissions SaaS based portal 	<ul style="list-style-type: none"> Call and locating systems for healthcare professionals 	<ul style="list-style-type: none"> Comprehensive, turnkey service or lumpsum investment AI enhanced video analytics 	<ul style="list-style-type: none"> Fire detection and alarms Burglary alarms Voice alarm systems Telcont property management 	<ul style="list-style-type: none"> Easily integrative time-tracking system

Consulting, installing, and maintenance

Source: Loihde

Cyber security services

Providing a wide range of customized cyber security services

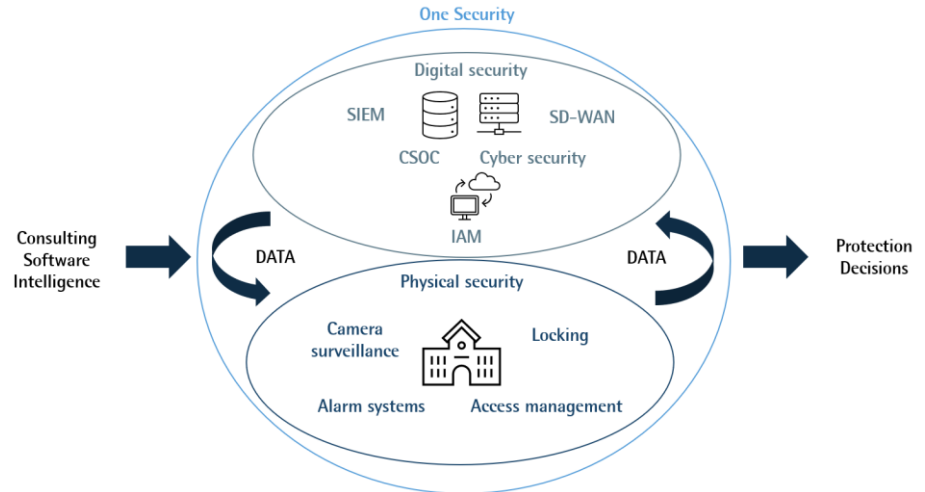
The company provides comprehensive, customized cyber security services, which can be divided into four different groups: 1) defensive, 2) offensive, and 3) strategic cyber security services as well as 4) secure corporate infrastructure.

- 1) *Defensive cyber security services* protect customers' services, systems, and end-devices as well as networks from cyber-attacks and malware. Services include end-device protection, identity and access management (IAM), vulnerability recognition, as well as cyber security event and log management systems (SIEM). Services combine round-the-clock cyber security observation technologies as well as proactively or quickly responding cyber security experts. SeSo's offering includes a 24/7 serving cyber security control center, CSOC, which observes customers' real-time cyber security events, and in the case of abnormality, the system sends alarms and directs the control to Loihde's cyber security expert.
- 2) *Offensive cyber security services* proactively seek weak spots in customers' IT-infrastructure by applying the same principles, technologies, and tools that are used in cyber security attacks. The offering consists of phishing simulation, penetration testing, and a more comprehensive red team -service. Offensive cyber security services can be used as a step to better and more enhanced cyber security protection.
- 3) *Strategic cyber security services* support a customer in building customized cyber security solutions. Strategic services usually cover also physical security and hence provide comprehensive One Security service. Services consist of consultation and architecture design of building a secure information network.
- 4) *Secure corporate infrastructure services* focus on the delivery and operational maintenance of critical information networks and systems. SD-WAN network service combines customer offices and cloud services into a connected and well-secured private corporate network. By Loihde having access to a customer's network, the protection of and recovery from security attacks accelerates notably.

Although cyber security is a smaller proportion of SeSo, we see the segment surpassing the company's physical segment in the coming years given the strong underlying growth of cyber security.

The concept of One Security

Figure 15: One Security dynamics



Source: Loihde, Evli Research

One Security might be valuable asset within the coming years

By combining multiple security services, SeSo provides a comprehensive security solution, namely One Security, in which the company caters several security services as a customized package. One Security concept might vary from initial security consulting and device/software installation to cyber threat protection and system maintenance. In our view, SeSo's notable value creation opportunities rely on the concept of One Security. The modular services enable easy approachable new sales, but also provide additional cross-sales opportunities for the company. To our understanding, the business within One Security is already notable, and the company has tens of large One Security customers. Due to a young market, selling the One Security concept to new customers might be a bit more challenging in our view. Usually, companies don't run security as a comprehensive concept. Cyber security might be controlled by IT-administration and physical security by some other unit. We see that SeSo has an advantage in approaching companies, in which comprehensive security is run by a single team or CISO (chief information security officer). We also believe that the company is currently focusing largely on upselling the concept for its existing customers where the most cost-efficient sales can be found. With the concept of comprehensive security gaining more popularity among customers, we see Loihde well positioned and being one of the first movers within the industry. To our understanding, Loihde is currently in quite unique position, being the only player in Finland in providing One Security services that combine both physical and digital security. This enables better negotiation position for Loihde compared to its traditional security peers in acquisition of security demanding mid and large sized customers.

One Security improves the overall security

The basic idea behind One Security is to combine the forces of digital and physical security services. Companies can benefit from the data obtained from physical and digital security systems. For example, by detecting user locations between IAM and physical access management, misuses, such as external penetration, can be avoided. One Security is to enhance the overall security of a corporate.

Cloud services

Acquisition of Onrego provides more scalable business opportunities

With the acquisition of Onrego, Loihde further enhanced its cloud security offering. Loihde offers consultation for cloud migration and cyber security services specified for cloud environments. The cloud business has grown rapidly and thus we see the acquisition of Onrego as favorable for the company. With Onrego, Loihde taps into scalable continuing cloud management services, in which the growth opportunities are notable. We see the cloud services as suitable addition to Loihde's main offering as it can be utilized in both of its business areas. In our view, this enhances Loihde's position in coming tenders as well as up- and cross-sales.

Shareholders²

The company's management team is indirectly a significant shareholder of Loihde

Loihde's owner base is well-diversified, which stems from its history as a telephone service provider, at which time customers were also shareholders. Approx. 70% of shareholders are private households. Officially, the largest shareholder is a Finnish institutional investor Suomen Teollisuussijoitus Oy (TESI) with 275k shares (4.8% of votes). The second largest shareholder is a private company Bellurum Oy (3.68% of votes), which, to our understanding, is owned by the Managing Director of Loihde Analytics, Katja Ahola. The third and fourth largest shareholders are institutions part of the Finnish insurance company LähiTapiola. Indirectly, LähiTapiola possesses 300k (5.24% of votes) shares and is then the largest shareholder of Loihde. While Bellurum Oy indirectly influences in Loihde management team, the other two, TESI and LähiTapiola are known as passive investors and neither has named any persons to Loihde's Board of Directors. It's worth noting that, indirectly, the Loihde management team is a significant shareholder of the Loihde Group. With 301,429 (5.26% of votes) shares, the company's management team is indirectly the second largest shareholder of Loihde, nearly after LähiTapiola Group. Afterall, we see the management's notable ownership as a positive factor which simultaneously drives the advantage of shareholders.

Listing

Loihde is a freshly listed company

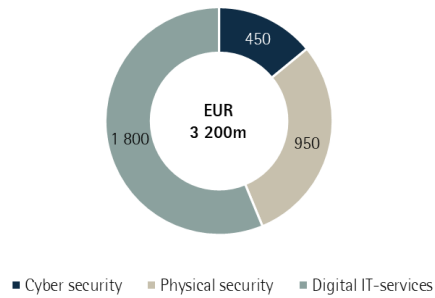
In October 2021, Loihde was listed on Nasdaq First North Helsinki. The listing was purely technical, i.e., it included no share issue or sale. Loihde had a wide base of owners even before the listing, which stems from the company's background from the years of a telecommunication company. One of the company's ambitions behind the technical listing was to improve the liquidity of Loihde's stock and to become a more attractive and known IT-company as an employer. Moreover, the company already had a strong balance sheet, and no further liquid assets were required. In our view, the listing also enables Loihde to use its own shares as a tool in future acquisition.

² *Voting shares as of 28.2.2023*

Industry and markets

Loihde operates in several markets, which all complement each other to some extent. Altogether, Loihde’s target market is estimated to increase approx. 7–8% annually. The addressable market size amounted to EUR 3.2bn in 2020 and it is estimated to account for EUR 3.95bn in 2023.

Figure 16: Loihde’s target market in 2020



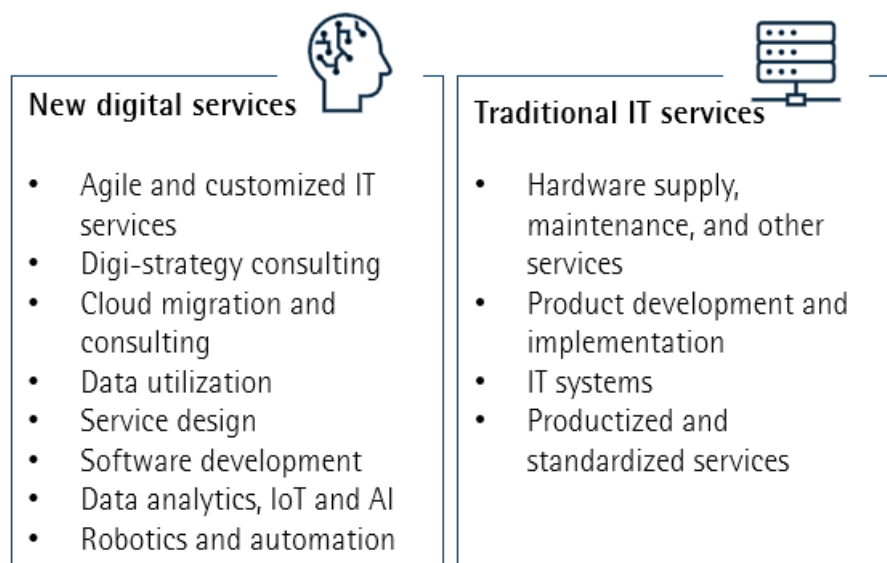
Source: Valor Partners

IT services

IT service market folding in two differently behaving segments

The development of the IT services market is twofold, with traditional IT services estimated to grow slowly and new digital services such as digitalization, cloud services, mobile solutions, and the Internet of Things (IoT) to grow rapidly. The traditional IT services market has been said to account for roughly 50% of the total IT services market in Finland, but with digital services growing faster than traditional hardware and legacy solutions as previously mentioned, the split is growing in favor of IT services. The market is yet somewhat fragmented, but over the past few years, it has experienced a heavy trend of consolidation.

Figure 17: IT services



Source: Evli Research

Digital transformation drives the entire industry

Digital transformation is one of the key long-term 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 internally and how they deliver value to customers.

Public sector is 1/4 of total IT service market in Finland

In the private sector, companies are especially eager to improve the customer experience of their products through digitalization projects. In addition, with digital services companies intend to enhance their capabilities in producing new types of business. Moreover, digitalization offers cost savings as non-productive processes can be replaced with automation and robotics. The margins from public sector services might be below that of the private sector due to the nature of tendering business. On the other hand, public sector projects are usually larger and take longer, and thus provide volume, protection, and continuity. Moreover, the public sector's demand for digital services has been more prominent even during uncertain times while the private sector might react to uncertain times by decreasing investments in digitalization temporarily. We have estimated the share of the public revenue of the total Finnish IT service market to be approx. 25% of the total market size. To our understanding, DiDe's customer base mostly consists of private customers and hence we believe the share of public clients to be below that of the market. However, the company's management has indicated that its growth pace among public sector projects has been strong lately.

Figure 18: Share of public revenue in Finnish IT service markets



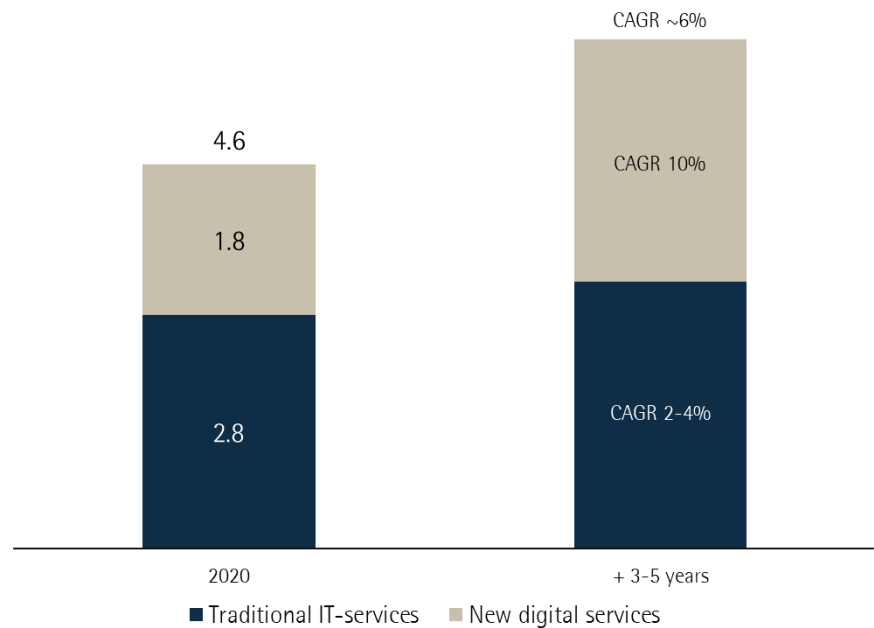
Source: Loihde, Valor Partners, tutkihankintoja.fi, Evli Research

Underlying demand for new digital services is high

Loihde operates mostly in Finland, but it has small growth ambitions in Sweden. We see the Finnish market spacious enough for the company and thus not concentrate on the Swedish market while the revenue originating from Sweden is quite marginal for now. The new digital service (excluding traditional IT services) market size in Finland is estimated to amount roughly to EUR 1.8bn. The growth market faces is strong and it is expected to grow at a CAGR of 10% in the coming 3-5 years. In total, the IT service market size amounted to approx. EUR 4.6bn in 2020 with an annual growth clearly below that of digital services, namely ~6%, due to slowly growing traditional IT services. The global IT service market is estimated to grow at a CAGR of 8% during 2021-26, which is approx. in line with Finnish market expectations.³

³ IndustryARC: IT Services Market

Figure 19: IT service markets in Finland in EURbn



Source: Loihde, Valor Partners

Smaller players focusing on digital services gain 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 fast and recruiting actively, and modern and agile companies have in a few years secured a good foothold in the new digital services market. Large IT generalists (TietoEvy, 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 like Loihde. 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.

Salary inflation still present

The market situation in the Finnish IT services market has been favorable for an extended period, even keeping up quite well during the pandemic. Price competition in the sector is present, but based on IT services profitability development does not appear to be a real issue at the moment. One unfavorable trend currently, which per se has been affecting the market already for a while, is the competition for talented employees. This has in part manifested in salary inflation. Several companies, such as Loihde, have been increasing the usage of subcontracting to keep up with demand, which in part may affect profitability.

Cyber security

Cyber security as a technology has developed notably

While in the past, cyber security was a tool for defensively protecting the border of the company's IT-infrastructure by installing firewalls and antivirus software on end-devices. With technological development, hackers and their tools have become wiser and more effective. Thus, threats cannot be 100% defended and the most talented hackers can get through defensive cyber protection. This has changed the cyber protection methods, tools and markets notably.

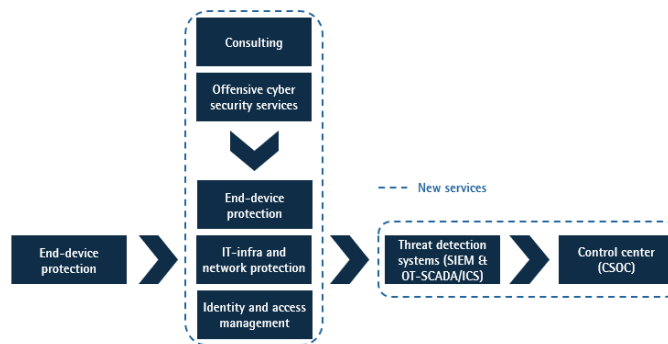
Cyber security is a whole entity of separate functions

Nowadays, cyber security is understood as an entity of different functions in different places. IT-infrastructure is protected from end-device, user, and network perspectives. In addition, monitoring is a way to detect possible abnormalities, which can promptly be addressed to a cyber security expert who reacts, defends, and recovers the systems. Cyber security threats are also attempted to avoid proactively. Service companies offer offensive services, with which possible vulnerabilities can be detected and replaced with more secure protection. Nowadays, outsourced cyber security services are a growing trend, and companies utilize cyber security service companies' abilities due to the complexity of comprehensive security.

A partner in every phase of cyber security

Cyber security service companies usually utilize third-party products as a part of their offering. Service providers integrate cyber security software as a part of the company IT-systems that automatically observe abnormalities and, if necessary, channel alerts for professionals in the 24/7 control center (CSOC). Professionals react to abnormalities and security threats and later recover the systems. Service quality triumph rests on the reaction time in the case of security threats, alongside talented cyber security professionals. From technology and customer service perspective Lohde is well positioned in threat protection and recoveries due to its access to customers' networks in our view. Some other service providers have no access to networks, which prolongs the recovery time.

Figure 20: Development of cyber security industry



Source: Evli Research

The demand for outsourced cyber security partner is increasing

In the era of cloud migration, the ecosystem of companies' IT-infrastructure is widespread. For the company itself, it's more challenging to manage cyber protection and security issues alone. As an outcome, the demand for cyber security services has seen strong growth during the past decade. Service companies are specialized to manage the entire entity of the companies' cyber security, including complex cloud infrastructure.

Figure 21: Cloud infrastructure



Source: Evli Research

Global cyber security spending estimated to reach EUR 460bn in 2025

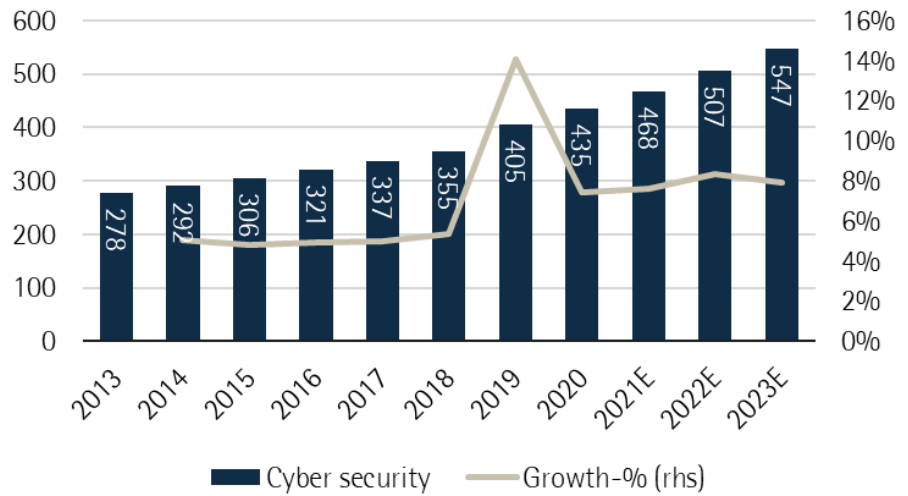
The global cyber security market is enormous, and the estimated growth rate in the coming years is quite hefty. Cybersecurity Ventures estimated that spending on cyber security reached over USD 260bn in 2021 and will reach approx. USD 460bn in 2025. It implies that global spending is expected to grow annually by some low double-digit figures, namely 15%.⁴ As Loihde is a local player mainly serving Finnish customers, the global market size is in this context a secondary matter. However, the global market growth gives some guidance on how the Finnish markets could develop in the coming years. Moreover, in KPMG’s CEO survey, 18% of major global companies’ CEOs think that cyber security risk would be the greatest threat to their organization’s growth over the coming three years. That implies that there’s a significant consensus change prevailing. In the previous report, only 10% of CEOs issued the same concern.

Technology development increases risks

Cyber security markets can be roughly divided into two parts: 1) technology and product development companies and 2) service companies. In addition, cyber security as a technology also requires some devices. In some cases, technology companies also provide services alongside their product development. Technology development companies are considered riskier than service companies due to their exposure to technology risks. However, should the technology proven to be good, the scalability potential is significantly higher than in the service business. Meanwhile, service companies can utilize the best technologies available, but the profitability potential is limited due to low scalability.

⁴ Cybersecurity Ventures 2021

Figure 22: Cyber security markets in Finland (EURm)

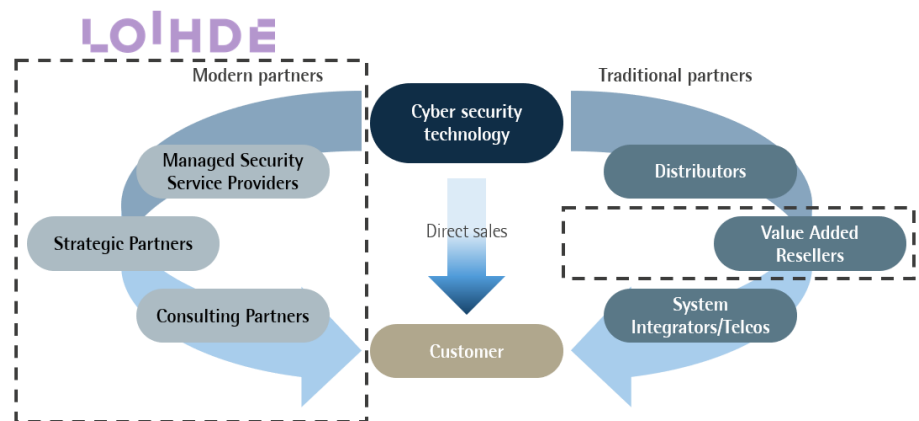


Source: VALOR Partners

Services represents over 50% of total cyber security in Finland

In total, the cyber security market in Finland is estimated to reach EUR 550m in 2023. The market is estimated to grow approx. at a CAGR of 8%. While services represent a bit over 50% and devices one-third of the market, software equates to only approx. 15%. While the business of Finnish service providers tends to be more local, especially cyber security software developers and perhaps device producers to some extent embody the entire world. Driven by the increased amount of cyber security threats, companies are expected to growingly invest in comprehensive cyber security, which is estimated to boost especially the demand for services. Loihde's focus is on services, but it also utilizes third-party devices and software, from which the company usually obtains some retail fees. While considering the market size from Loihde's perspective, the focus should be placed primarily on the services segment.

Figure 23: Cyber security market ecosystem

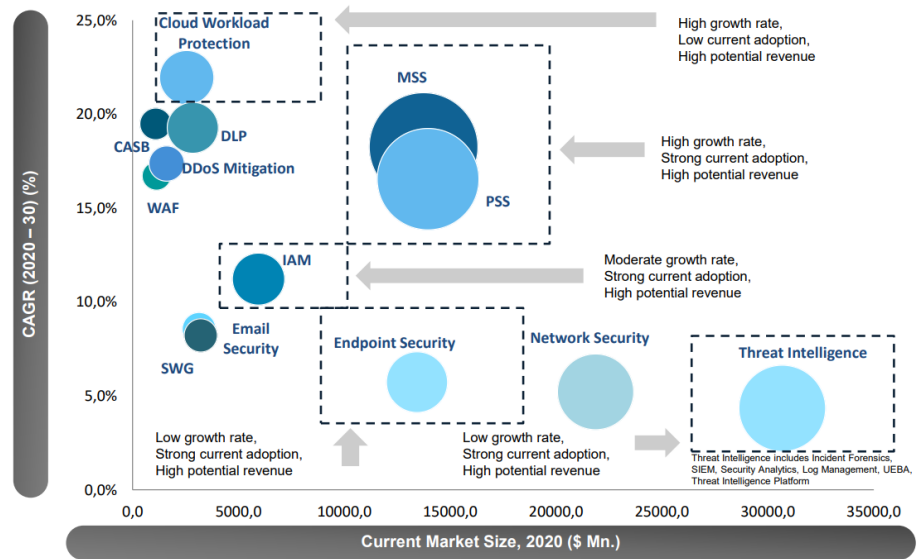


Source: Frost & Sullivan, Evli Research

The industry is supported by several megatrends

The market is strongly driven by several megatrends. With digitalization increasing, the exposure to cyber threats also grows in line. Moreover, with improved technology, also criminals have adopted more powerful tools for hacking. In addition, authorities have reacted to cyber threats and set new regulations that insist companies invest in their security capabilities. For example, new regulation, GDPR was set by the EU in 2018 in order to ensure and enhance personal data usage and protection among companies. Increase in the rate of cloud migration also provides growth for cyber security providers. Finally, security threats are commonly increasing, which encourages companies to reinforce their security tools and protocols. We see digitalization as a continuing driver while regulation might not recur that consistently.

Figure 24: Global cyber security market characteristics in 2020



Source: Frost & Sullivan, Business Finland

Cyber security markets include several growth pockets

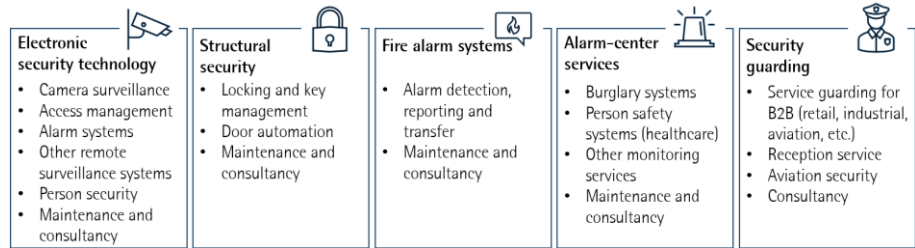
Cyber security markets contain several niche areas that accelerate market growth, such as cloud security, managed and professional security services (MSS & PSS), identity and access management (IAM), end-device security, and threat intelligence. The need for 24/7 cyber security control centers is increasing in line with security threats. Cyber security service companies, such as Loihde, provide managed cyber monitoring services (CSOC) to control, detect, react to and recover from security threats. Cloud security protection is a young and small niche market area. However, increased investments into cloud infrastructure boost the cloud security market growth to over 20%. Identity and access management (IAM) services protect the companies' most valuable intangible assets, i.e., data and systems. IAM services are a crucial part of comprehensive cyber security. COVID-19 boosted the demand for IAM services through a jump in remote working. IAM market is estimated to grow by 10% p.a. The traditional cyber security, i.e., the market of end-device security grows approx. 6% annually. End-device security is still an inevitable part of comprehensive cyber security even though it has been present from the beginning of cyber security. Increased remote working has boosted the demand for end-device security solutions as well. By mastering all the key market areas, one can posture a holistic service portfolio, through which new and cross-sales are better achievable.

Physical security

Loihde focuses on more advanced security technologies

The total physical security service market can be divided into five segments: 1) electronic security technology, 2) structural security, 3) fire alarm systems, 4) alarm-center services, and 5) security guarding. Two latter ones, namely alarm-center services and security guarding are irrelevant for Loihde and thus are not included in the following market estimates. The majority of the services can be provided based on a continuing contract, which deepens the customer relationship and provides further continuity.

Figure 25: Physical security market segments



Source: Evli Research

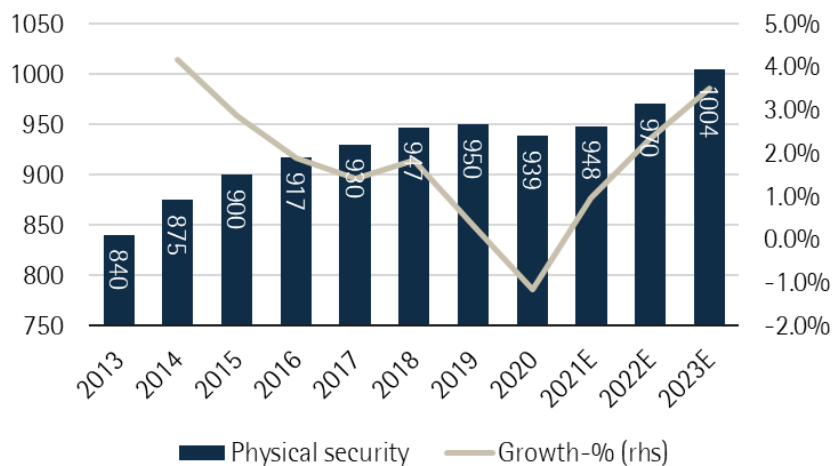
Fragmented market opens the floor for M&A

The Finnish physical security market is quite mature, but also fragmented. The market consists of local smaller service providers, but also nationwide large enterprises. Smaller players typically focus on certain segments or security technologies that offer Loihde a chance to either expand its reach or service portfolio with M&A. On the other hand, larger players' service portfolio is typically extensive.

Addressable market size EUR 1bn

The size of the relevant physical security market is estimated to be worth EUR 1bn in 2023. Market development in Finland has in history been rather stable, following the development of GDP. During 2013-20, the market has grown approx. 1.6% annually. However, the annual growth pace is expected to pick up to 2.3% for 2020-23. Further developed technologies, such as camera surveillance and access control systems are expected to grow more prominently. Digitalization is expected to be one of the main growth drivers contributing physical security markets. For example, locking systems are increasingly migrated to the cloud and AI increases the different use-cases of physical security devices.

Figure 26: Physical security services market development in Finland (EURm)

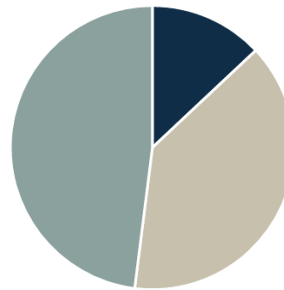


Source: VALOR Partners

Growth pockets enable market share gains

According to market estimates, approx. 50% of the market is dominated by electronic security technologies, such as camera surveillance, access control, and personal safety systems. Structural security represents roughly 40% of the market while fire alarm systems represent ~10% of the market. To our understanding, electronic security technologies face much stronger growth than for example less advanced structural security technologies. However, some growth pockets inside slower-growing segments potentially yield Loihde valuable growth and enable it to gather market share. In addition, the margins tend to be much higher in more advanced security technologies. For example, simple locking services and security guarding are to our understanding quite a low-margin business. On the other hand, cloud-supported locking services generate somewhat higher margins in our view. According to our assessment, locking systems aren't however Loihde's core business, rather supporting the entirety of security services.

Figure 27: Segment division of physical security services market in 2020



■ Fire alarm systems ■ Structural security ■ Electronic security technology

Source: VALOR Partners

Competition

Competitive landscape differs between Loihde's business areas

There is no such player as Loihde in Finland, which delivers comprehensive security services that also can be combined with intelligent digital solutions. Therefore, we can argue that the competition should be considered by the business areas. The competitive landscape of Loihde differs from market to market. The IT service market has both well-established and large operators as well as small and medium-sized businesses focusing on new digital services. The cyber security service market is rather young market due to structural changes in cyber protection. The physical security market is in our view somewhat mature, but also fragmented and consists of both small and large players that operate either locally or nationwide. We foresee that the overall competition that Loihde encounters is above neutral. Loihde's overall competitiveness is supported by a wide service portfolio, which also enables unique cross-technology service offerings.

Talented personnel as a key factor to success

Localness and talented personnel drive the competitive factors in Loihde's target markets. A typical customer prefers a local provider, especially in security solutions. The localness factor might have been reduced in digital services and some projects can be delivered remotely. Nevertheless, there still exists customer assignments that might require onsite presence. In addition, in order to respond to customer demand, a service provider has to have the capacity of talented personnel. The conditions in recruitment markets have somewhat eased, but now the topline growth is restricted by a weaker economic outlook while for example consumer-related companies have reduced or placed on hold their digitalization investments for now. The markets change rapidly, and successful companies have been capable of proactively reacting to new trends. Competitive advantage can be obtained through being able to identify such changing factors and hot topics, and reacting to them on time, preferably upfront.

Digital services

Markets are quite fragmented

The market is somewhat fragmented and consists of large IT generalists and consulting houses as well as smaller and specialized service companies. IT generalists and consulting firms focus both on traditional IT services and new digital services. Meanwhile, smaller players, such as Loihde, focus largely on agile digital services. The market also includes agents that focus on providing add-on services to certain third-party products, such as Microsoft Dynamics CRM or SAP, while other players, such as Loihde, can almost freely utilize the best technologies available.

Smaller players focusing on digital services have been more competitive

The competitive landscape and structure in Finnish IT service markets have changed rapidly over the past few years. Small and medium-sized players, that operate in more agile ways, have grown fast and won market share from large IT generalists. Large IT generalists still hold a strong market position in Finland, approx. 50% of the total market, depending on market research. We also see the growth in demand for digital services supporting smaller and medium-sized companies as they usually focus purely on that kind of service. Thus, it's likely that the share of IT generalists will further decrease.

Winning generalists in agile assignments

We see Loihde competing mostly with the smaller and more agile digital service companies. However, IT generalists and consulting firms also provide services that overlap with Loihde's service portfolio. Typically, generalists are strong in delivering high-volume services and they have exposure to almost all industries. In our view, in such projects, Loihde might have challenges to compete with generalists. Digital service companies have consistently increased their consulting offering. With that, they also have competition with the big four or other consulting houses within management consultancy assignments. We see Loihde and other smaller players well positioned in digital strategy projects, in which customer is willing to partner with a single service provider and purchase digital development in addition to consultancy. Although in

smaller projects, to which Loihde can provide some of its spearhead capabilities, we see the company in a better position and capable to win assignments over generalists and other main competitors. Moreover, smaller players usually win assignments over generalists with their agility and flexibility. The differences between competitors' service portfolios are rather small among digital service companies, and the distinguishable factors arise from organizational structures and cultures, for instance, talented personnel and their satisfaction. The order intake depends largely on the capacity of talented persons.

IT service market has quite low market entry-barriers

We see the market's entry-barriers quite low. Business ties a little amount of capital. Moreover, growing and megatrend-supported demand as well as healthy margins attract both investments and new entrepreneurs into the markets. The service business is difficult to protect with patents that could provide additional competitive advantages. The scalability of service business is limited in a way that economies of scale cannot provide a notable advantage for larger companies. In other words, being a small or medium size business might be favorable. On the other hand, the level of competition tends to restrict market entries somewhat.

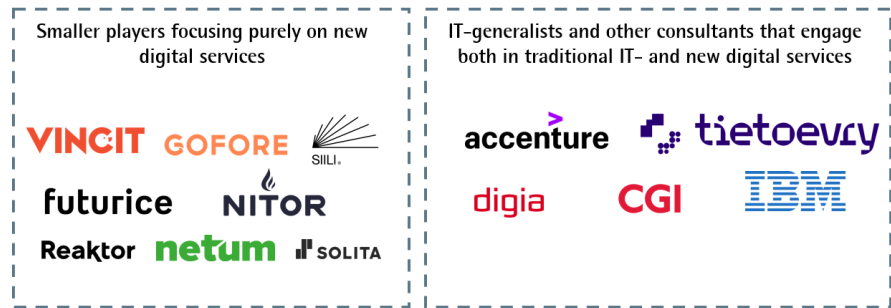
Certain factors improve competitiveness

With low entry-barriers and newcomers coming in consistently, we see the competition elevated. Moreover, sustainable competitive advantages in a service business are hard to accomplish and sustain. In our view, a company can increase its competitiveness by building and acquiring strategic customer relationships by providing business-critical solutions and integrating them into customers' systems and processes deeply. Moreover, successful performance also requires a seamless understanding of technology and customers' business, industry, and needs. Competitive advantage can be obtained by identifying factors that change or shake the industry and by reacting to them proactively. Moreover, being an attractive employer with whom the employees enjoy as well as succeeding in recruitment improves a company's competitive factors. Ultimately, a key component in sustaining advantages lies in the satisfaction of existing customers.

Offshoring might improve competitiveness

Several competitors have offshore functions in countries, from which operations can be executed in a more cost-efficient way. Principally, large IT generalists and some digital service providers have offshore functions outside Finland, in lower-cost-level countries. Players utilizing offshoring either can generate higher project margins or sacrifice price to win assignments. Loihde's digital business is for now so small, that establishing an offshoring destination might not be as beneficial as for a global company and harm its agility.

Figure 28: Local IT service competitors

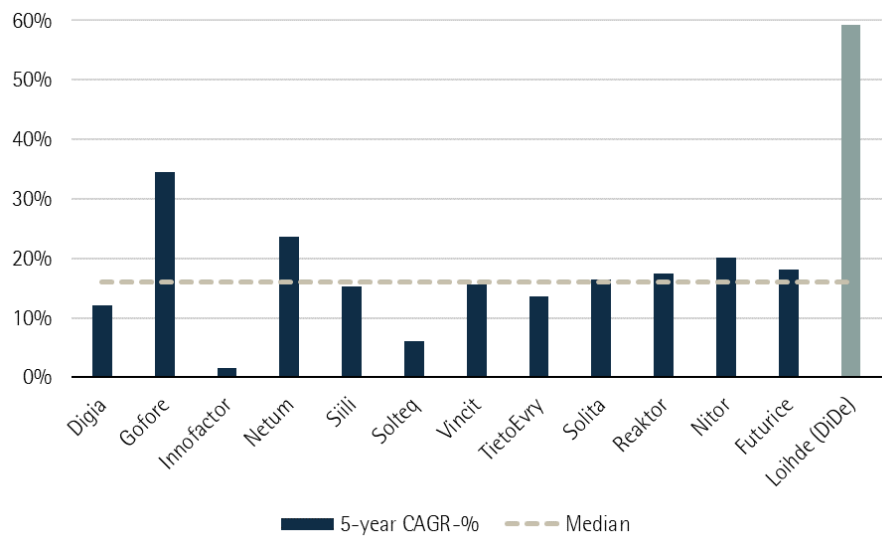


Source: Evli Research

Growth among digital peers has been very strong

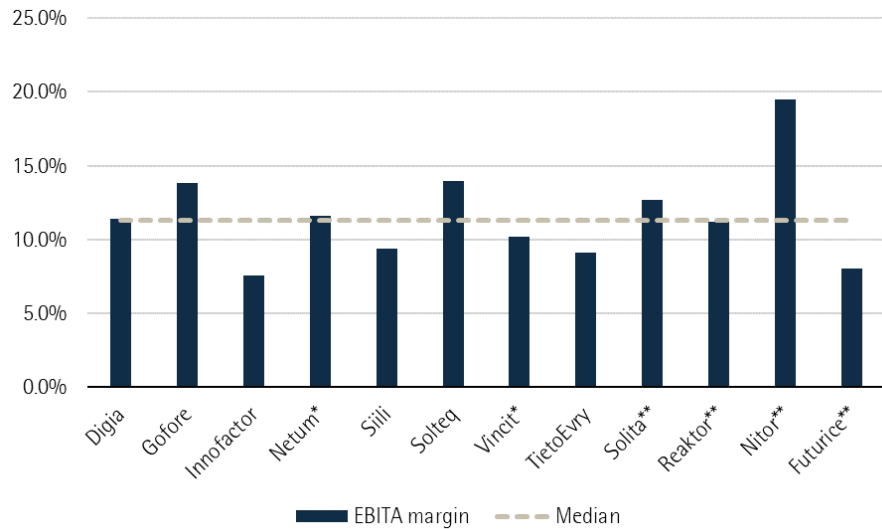
The group of competitors consists of small or medium-sized digital service companies that operate locally, and some that might have operations outside Finland. The group's revenue mostly generates from the service business, but some players might have their own product development to some extent. Loihde's main competitors in digital development have shown quite rapid growth during recent years, clearly outpacing Loihde Group. On the other hand, DiDe has developed more favorably than its peers. However, DiDe has executed several acquisitions, which bias the actualized growth rates.

Figure 29: Competitors' last 5-year CAGR-%



Source: Bloomberg, Asiakastiето, Loihde

Figure 30: Peer EBIT(A) margin during 2020-22 (2019-2021 for Solita, Reaktor, Nitor, and Futurice)



Source: Bloomberg, Asiakastiето, Loihde

* FAS accounting

** FAS accounting and EBIT margin

More established players generate over 10% EBITA margin

In this analysis, we use EBITA margin as our profitability proxy since it adjusts goodwill amortizations, which artificially deteriorates operative profitability. Some of the competitors report according to FAS accounting standards. In FAS, goodwill is forced to be amortized regularly, and thus EBITA partly evens the differences between FAS and IFRS profitability. During 2020-22, the median EBIT(A) margin was 11.3%, which clearly outpaces the level that Loihde as a group has generated. Loihde's profitability is limited by its physical security services, in which EBITDA margins are lower than in digital services in general. Moreover, the company has had restructuring and internal issues that have had an impact on Loihde's profitability.

Cyber security

Young and fragmented market

The cyber security market is quite young and fragmented. The industry has seen a remarkable changes in the recent decade, which possibly has diversified the market and competitive landscape. Outsourced cyber security services have grown in popularity. Nowadays, cyber security is a complex entity and thus some companies have outsourced the function of cyber security to a service partner in order to focus purely on their core competencies.

Teleoperators as Loihde's main competitors

We see that Loihde is currently competing with cyber security service boutiques, such as Nixu, and local teleoperators, such as Elisa and Telia in comprehensive outsourced cyber security. Technology developers provides also cyber security services, but with their main emphasis being on technology development, we see that their capabilities in delivering comprehensive security solutions are somewhat limited. Moreover, some IT service companies also provide cyber security services, but to a lesser extent. In addition, management consulting houses also advise customers in cyber security strategies, but we see that Loihde is better positioned among customers that are likely to engage in comprehensive cyber security projects. Currently, the competition Loihde faces is most severe with teleoperators since they are also able to provide similar network solutions

that Loihde. By having access to the customer's network, cyber security services can be managed better.

Figure 31: Cyber security competitors and peers



Source: Evli Research

Competition exists but not in a huge scale

In our view, the recent growth within the market has tempted new entrepreneurs and investors into the industry. Moreover, the megatrends regarding cyber security seem to further strengthen the level of attraction for the industry in our view. Particularly, cyber security start-ups have gained new investments from venture capitalists. In addition, IT service companies have established new divisions to provide cyber security services. With the number of newcomers increasing, the competition might further increase, which might impact margin levels. We see the current competitive environment as quite mighty. However, providing comprehensive cyber security services and combining them with other digital or security services require muscles in terms of workforce. Thus, we see the direct competition against Loihde is not that powerful.

Physical security

Industry consists of different kind of players

The competition in Finnish physical security markets is mainly local, although large companies might acquire nationwide customers to provide security services across the country. The market includes players of local divisions of large international groups and smaller domestic players. In addition, there are minor service providers that focus on certain service areas and whose revenue is not considerable, but might compete against Loihde in smaller projects. The industry also includes players whose core business does not purely concern security business, but might supplement their comprehensive offering. For example, Caverion offers security services for its real estate customers, which is an area, in which Loihde also operates.

Competitiveness from location and distinct offering

We see Loihde's competitive factors arising from a local, but nationwide office network, with which Loihde can provide comprehensive security solutions for larger nationwide customers. In addition, Loihde is able to utilize its DiDe's competencies to bring additional intelligence to security solutions. To our understanding, Loihde is the only player in Finland that can provide intelligent physical security services under the same roof. Moreover, by combining cyber security, more specifically identity and access management, with physical security, the state of comprehensive corporate security can be significantly improved. For example, by combining the data obtained from IAM and physical access control, misuses can be detected and prevented more efficiently. To our understanding, that's also a service that Loihde's key competitors aren't capable to offer on large scale. Overall, we see Loihde's competitiveness as good. Larger projects and services are typically tendered and with slowly growing underlying demand we see the overall level of competition in the markets somewhat elevated. However, the slowly growing market keeps the number of market entries quite low.

Figure 32: Local physical security competitors

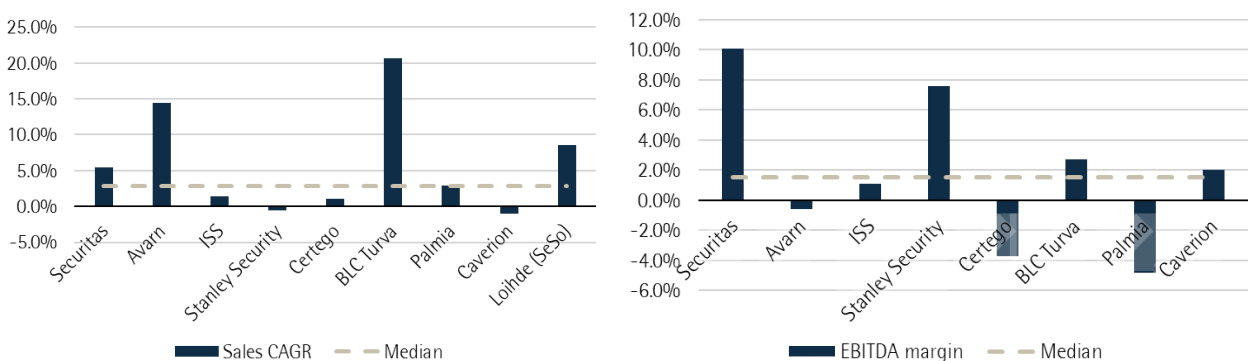


Source: Evli Research

Major competitors are focusing on advanced security technologies

The market has players whose offering includes security guarding services alongside security technology. Such guarding services are provided by Securitas, Avarn Security, and Palmia. Meanwhile, Certego, BLC Turva, and Stanley Security mostly focus on delivering security technology-related services, and thus we see these three as the closest competitors for Lohde Trust. In addition, larger real estate and construction service companies, such as Caverion and ISS, provide security technology services to supplement their comprehensive service portfolio for their customers. As said, we see that Lohde has quite unique position in the markets since it has the capability to provide intelligent security services in-house whereas others don't.

Figure 33: Sales CAGR (3-4-year) and EBITDA margin (latest record)



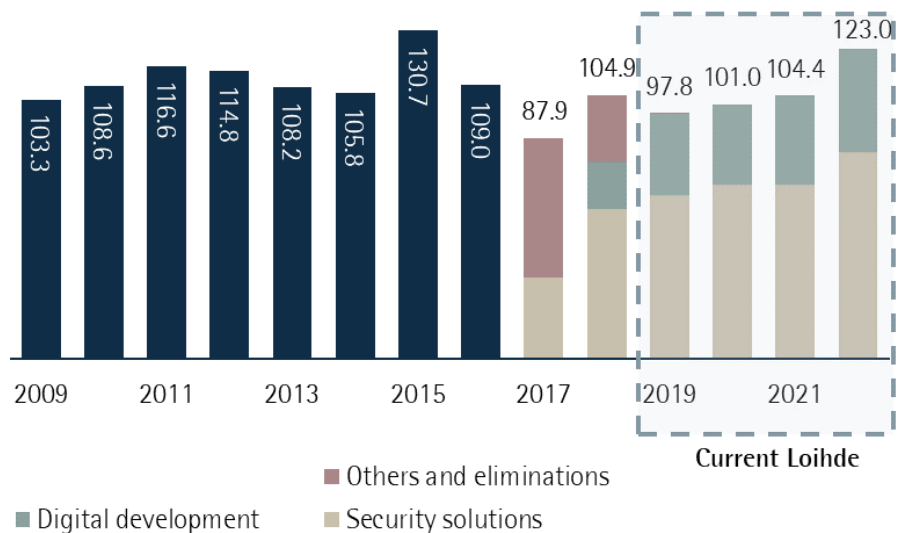
Source: Bloomberg, Asiakastiето, Lohde

Financial development

Due to structural changes made during the past few years, we see the period from 2019 to 2022 to be the most equivalent to the company's business today. In 2016, Loihde divested its telecom business and put more emphasis on security services. Moreover, in 2017, the company tapped into digital service markets through the purchase of a minority share of Aureolis. Since 2019, the company has focused purely on two businesses, namely digital IT and security services. Now, as the redundant businesses have been divested the company has placed its focus on growing its current businesses and also improving its profitability closer to the levels that its IT peers are generating. However, with Loihde having lower-margin physical security services, we see reaching EBIT over 10% unlikely.

Net sales

Figure 34: Net sales from continuing operations



Source: Loihde

* 2021: According to a IFRS accounting standard

Focus is now on business and figure development

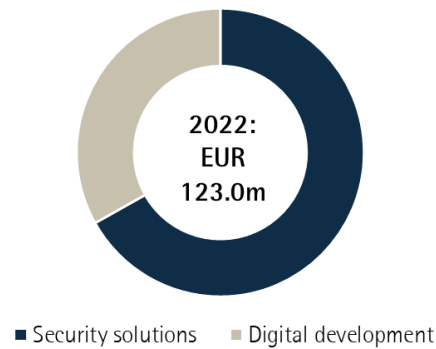
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Loihde positions as a growth company

During 2019-22, the company has grown at a CAGR of 7.9%. By considering the period 2018-22, when the company still had some redundant businesses, and by removing Others and eliminations segment, the company has shown an annual growth rate of 12%. Although, the growth has been strengthened by several acquisitions. The outbreak of COVID-19 decreased the demand in H1'20. That was eventually visible in moderate net sales growth. In continuing operations, the company grew 3.3% (FAS) in 2020 with no M&A activities made within that year. The growth pace picked up in 2021 and accounted for 6.1% (IFRS: 3.4%) y/y. 2021 growth was supported by the acquisition of Talent Base,

which contributed to Loihde figures by 7 months. In 2021, Loihde's net sales from continuing operations amounted to EUR 107.2m. Strong performance continued in 2022. Overall growth was 17.8% (IFRS) driven by both its business units. The growth was however notably supported by the acquisitions of Talent Base (2021), Turvakolmio Group (2022), and Onrego (2022). For the full year of 2023, the company expects both SeSo and DiDe to grow over 10% y/y. The guidance might be somewhat cautious given by the acquisitions of Turvakolmio, which impacts H1, and Onrego, which affects almost the full year. However, with the IFRS transition's new revenue recognition, Onrego's revenue roughly halved.

Figure 35: Net sales from continuing operations split in 2021



Source: Loihde

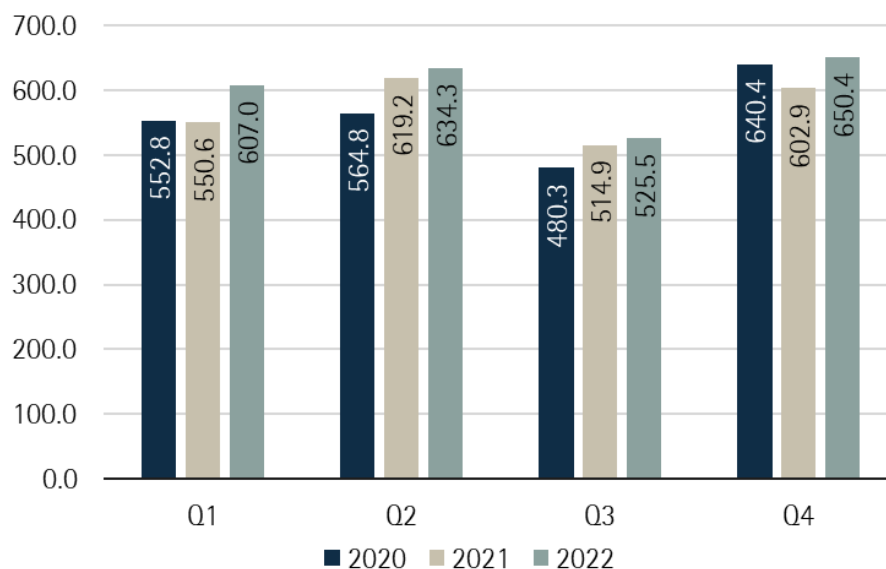
SeSo still larger than DiDe in terms of revenue

Security Solutions represents 2/3 of Loihde's business and physical security is over half of SeSo. In 2022, SeSo's net sales from continuing operations grew by 19% y/y and amounted to EUR 82.5m. In our assessments, the growth was supported by the acquisition of Turvakolmio Group as of 6/2022. DiDe in turn grew by 15% to EUR 40.8m and the growth was supported by two acquisitions. The acquisition of Onrego impacted DiDe's 2022 figures only for a month, but the acquisition of Talent Base in 2021 had a significant impact on H1'22. In total, the company's net sales from continuing operations grew by 17.8%.

Sales/person/working day as an indicator of performance

The company has consistently been growing its net sales (from continuing operations) per person per working day, which we see as an important proxy for the company's performance. The competition within labour markets has shown the first signs of neutralization. Previously, topline growth has been limited due to personnel shortage, but now the growth is rather limited due to slowing demand. In line with its peers, Loihde has recruited more carefully in recent months to prevent the impairment of the utilization rate given demand slowing down.

Figure 36: Sales from cont. operations per person per working day (FTE) in EUR



Source: Loihde

N.B.: Quarterly figures according to FAS accounting standard, except in 2022, Q3 and Q4 are reported according to IFRS standards.

Profitability

Scalability has started

The company's profitability development has been rather stable during 2017-20 or even downward trending, but during 2021-22 adj. EBITDA has seen strong improvements. In our view, the company's investments in scalability have now started to kick in. To our understanding, there exists still some areas to improve, and thus further margin expansion can be expected with revenue continuing in a trend of growth.

2017-20; EBITDA margin from 8% to 6%

During 2017-20, absolute adj. EBITDA has varied around EUR 6m while adj. EBITDA margin has decreased steadily from 8% to 6%. Even though the company's gross margin has significantly improved, personnel costs have increased notably due to a larger emphasis on digital and cyber security services, in which personnel costs represent most of the cost-base. Currently, the company's two businesses differ largely from a cost perspective and thus first comparable row is the EBITDA margin in our view.

EBITDA margin turnaround started in 2021

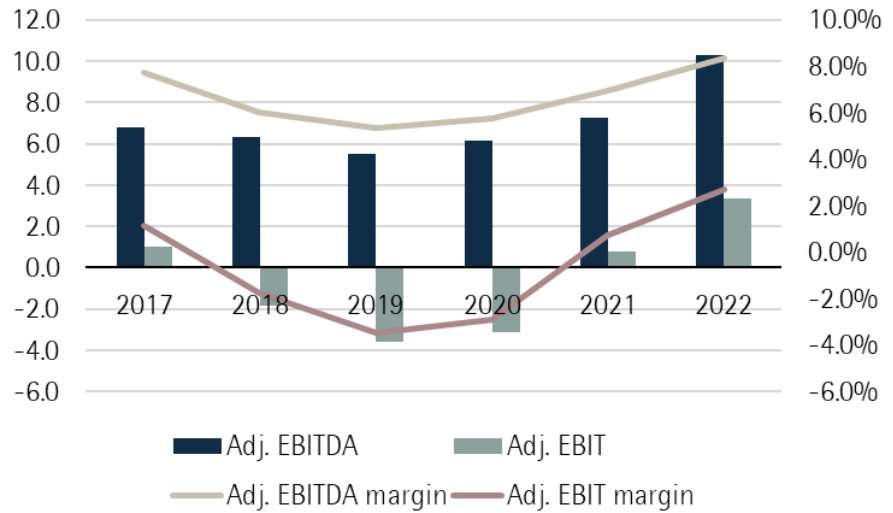
During 2021 and 2022, adj. EBITDA has seen notable improvements. In 2021, adj. EBITDA improved by some 17% to EUR 7.2m, reflecting a margin of 6.9%. Moreover, in 2022, adj. EBITDA amounted to EUR 10.3m, which turns into a margin of 8.4%. Margin expansion in 2022 was driven by high net sales growth but also a more scalable cost structure. The trend of improvement has started, and we expect margin expansion to continue towards the company's target of over 10%.

IFRS accounting transition alters the dynamics of figures

From 2022 onwards, Loihde started to report its financial figures according to the IFRS accounting standards. Major impacts on P&L figures have come through lease costs that are now activated in the balance sheet as well as goodwill amortizations that are likely to diminish. Goodwill amortizations (according to a plan) are now replaced by annual goodwill impairment tests. In other words, goodwill is amortized only in situations when the company sees the goodwill's book value to be impaired. Considering published 2021 IFRS figures, adj. EBITDA margin saw a 3%-p. improvement compared to FAS figures. On

the EBIT side, the impact was more prominent due to diminished goodwill amortizations. With the IFRS transition, adj. EBIT margin improved by over 5%-p. in 2021.

Figure 37: Profitability development

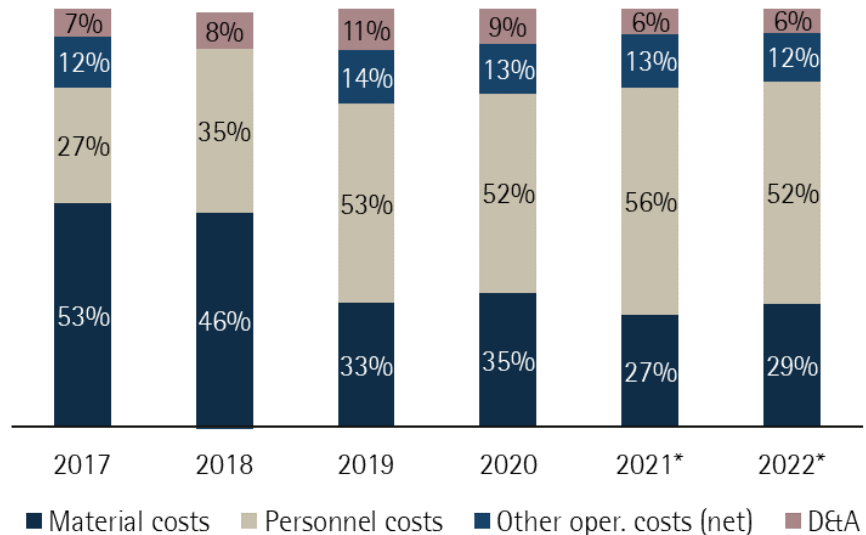


Source: Loihde

N.B.: 2021-2022 figures reported according to IFRS accounting standards.

Cost structure

Figure 38: Cost structure (as a % of net sales)



Source: Loihde

* 2021: According to a IFRS accounting standard

Major change in cost-structure

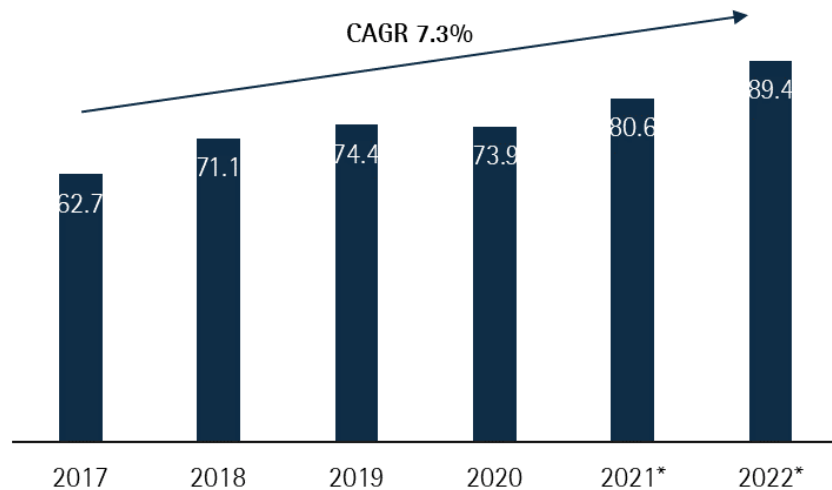
During the recent few years, the company's cost structure has evolved from material-intensive to labor-intensive. In 2017 – a year after the telecom business was divested and the digital development business was established – material costs represented over 50% of net sales. In 2022, material costs amounted to 29% of total net sales. In our

view, this is explained by a higher emphasis on expert services rather than providing masses of hardware. Moreover, with the divestments of AB Sappa (2018) and Hibox systems (2021), Loihde's exposure to hardware deliveries has significantly decreased. However, it's worth noting that Loihde still delivers third-party hardware within its physical security services.

Stable operating costs, between 14-15%

Other operating costs (net) have varied around 10% of net sales over the past few years. The cyclical part of net costs, namely, other operating income consists of lease income, asset capital gains, and other non-business-related income. Other operating incomes have varied between 0-15%, depending on large asset sales or divestments. Other operating costs have been more stable, which in our view indicates of them consisting of fixed elements, such as marketing and other business-supportive costs. Other operating costs have varied between 13-15% during 2017-22.

Figure 39: Group personnel costs per employee



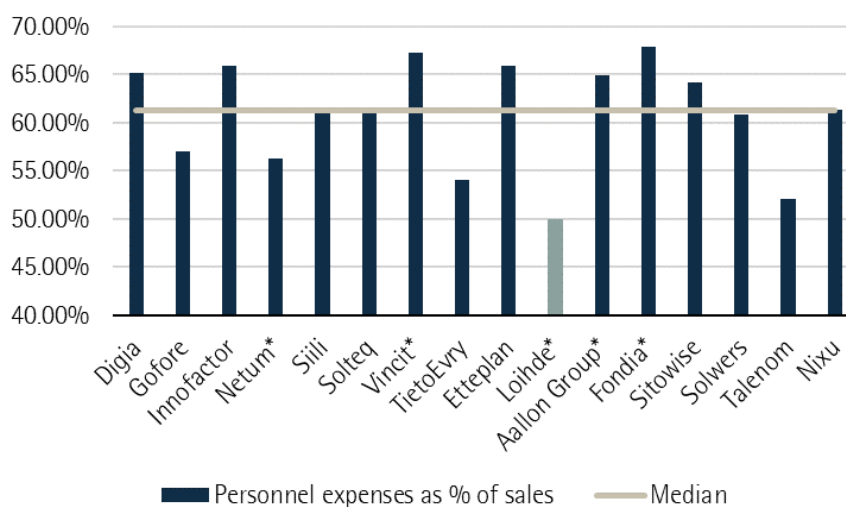
Source: Loihde

*According to a IFRS accounting standards.

Salary inflation distresses companies in the industry

Today, as a consultant of IT and security services, Loihde's personnel costs represent over 50% of total net sales. Personnel is, indeed, one of the most crucial resources for Loihde. Fierce competition over talented IT experts has increased IT companies' exposure to salary inflation. Companies in the IT service industry have approximated their salary inflation to vary between 2-5%. Considering Loihde, its implied salary inflation amounted roughly to 7.3% during 2017-22. Business restructurings and transactions made in the past few years have had an impact on personnel expenses and thus in our view, 7% might exaggerate materialized salary inflation. This figure is impacted also by other personnel expense-related items, such as bonus systems, etc.

Figure 40: Personnel costs as a % of sales among selected companies in Helsinki Stock Exchange (2017-21 median)



Source: Bloomberg

* FAS accounting

N.B.: The selected companies include small- and mid-sized publicly traded IT, engineering and cyber security service companies as well as other consulting companies.

Relative personnel costs below peer median

In relative terms, Lohde's personnel expenses as a percentage of sales are moderate compared to our selection of fairly comparable companies trading on the Helsinki Stock Exchange. While Lohde's personnel expenses represent approx. 50% of sales, the corresponding figure for our selection is over 60% (2017-21 median). We see this to be a product of its combined businesses. In our estimations, the cost structure in Lohde's security business deviates largely from the traditional IT service cost base. Should the cyber security and digital services increase in relative terms, we see the company's cost structure altering towards its IT service peers.

D&A dropped by some EUR 3m with the accounting transition

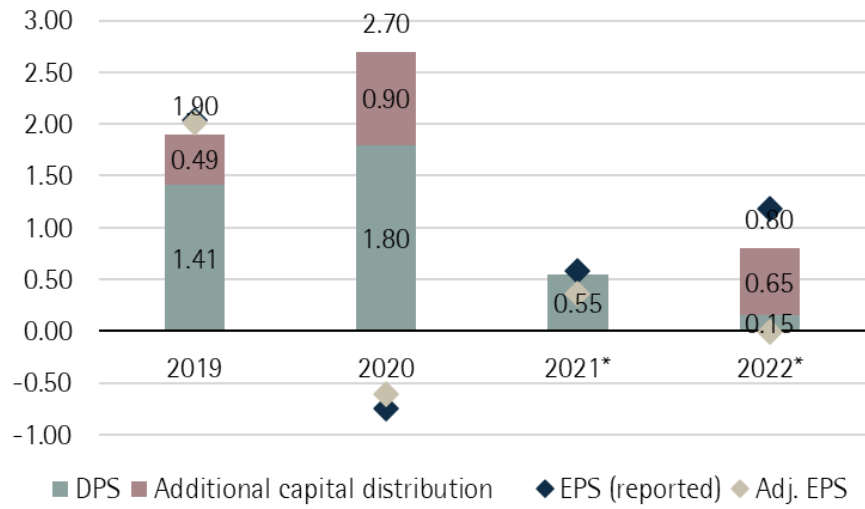
During 2017-20, depreciations and amortizations (D&A) varied between 7-11%. With the IFRS transition, 2021 total D&A declined by some EUR 3m. This is largely explained by diminished goodwill amortizations. However, according to IFRS 16 standard, rights-of-use assets will be activated into the balance sheet and are be depreciated accordingly. Thus, depreciations saw approx. EUR 4.5m increase, 2021 depreciations translating from EUR 2m to 6.5m.

EPS and dividends

Aims to distribute 30% of profits

With the organizational restructuring and front-loaded investments, Lohde's EPS (earnings per share) has been in a trend of decline. In addition, goodwill amortizations have cut Lohde's reported earnings. In 2021, Lohde's reported EPS accounted for EUR 0.58 (IFRS) while in 2022 reported EPS rose to EUR 1.18 (IFRS). 2021 DPS (dividend per share) amounted to EUR 0.55 while for 2022 the BoD proposes a DPS of EUR 0.15 and an additional capital distribution of EUR 0.65 (due to divestments). Lohde aims to distribute dividends annually in an amount representing at least 30% of the group's profit for the financial period. However, during the past few years, the payout ratio has neared 100%. The company will assess the conditions for the distribution of dividends annually, considering the company's financial position, the achievement of growth and development targets, and the investments necessary for that purpose as well as other material factors influencing the distribution of dividends.

Figure 41: EPS and DPS in EUR



Source: Loihde

* 2021: According to a IFRS accounting standard

Financial position

Strong and asset light balance sheet

Loihde has a strong and asset-light balance sheet. The balance sheet's structure is quite conservative with a ~80% equity ratio. Moreover, the company holds a sizable net cash position. The balance sheet amounted to EUR 150.9m at the end of 2022.

Goodwill might also include risks

With several acquisitions implemented over the past few years, the company's goodwill has increased to EUR 62.8m. That represents the majority of the company's intangible assets worth EUR 65.7m. With a high share of goodwill, the company's balance sheet might contain some risk for write-downs. According to the FAS accounting standards, Loihde's goodwill has been amortized regularly over the years, but the accounting transition to IFRS standards likely stops the goodwill amortizations.⁵

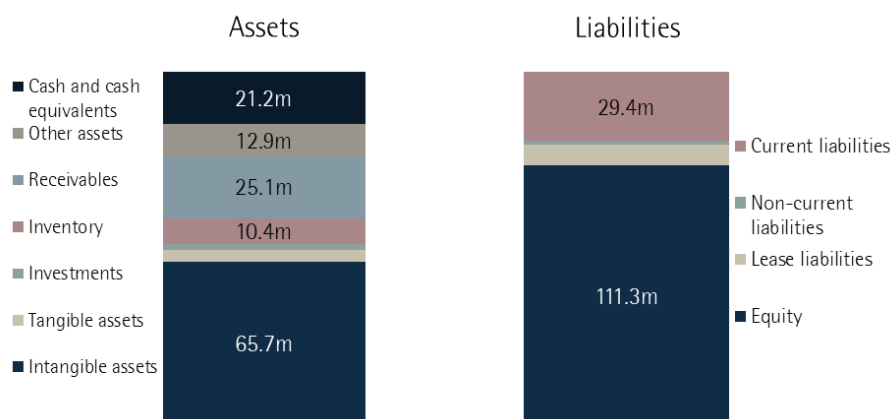
Investment properties and financial securities support for a large cash position

At the end of 2022, tangible assets amounted to EUR 4.6m, which mainly consist of owner-occupied lands and properties as well as machinery. According to the company's management, irrelevant assets will be eventually divested, which releases capital for business-relevant investments. Investment properties amounted to EUR 2.5m at the end of 2022. To our understanding, the company will divest most of its properties over time. Perhaps the most relevant line in Loihde's balance sheet is receivables, amounting to 20% of total net sales. The company had financial securities and other liquid assets worth EUR 11.2m at the end of 2022. The securities consist of publicly traded equities, funds, and bonds, and will be reported at fair value.

Strong net cash position and other assets back the future acquisitions up

The company has a marginal share of interest-bearing debt, less than EUR 0.1m. Current liabilities mostly consist of non-interest-bearing debt, such as trade payables, accrued expenses, and other liabilities. The company's net cash amounted to EUR 24.3m at the end of 2022. By adding liquid securities that Loihde possesses, net liquid assets amounted to EUR 35.5m at the end of 2022. We see a strong net cash position as an enabler for further acquisitions. In addition, the company has communicated on the disposal of redundant properties, which also generates such cash flow that can be utilized in M&A transactions.

Figure 42: Balance sheet in EURm (2022, IFRS)



Source: Loihde

⁵ According to IFRS: Goodwill amortization will be decided based on a yearly testing (not regularly as in FAS).

Estimates

Table 2: Estimates

	FAS	FAS	IFRS			IFRS					IFRS	IFRS
ESTIMATES	2019	2020	2021	H1'22	H2'22	2022	Q1'23E	Q2'23E	Q3'23E	Q4'23E	2023E	2024E
Net sales	97.8	101.0	104.4	57.4	65.6	123.0	33.7	35.6	31.8	39.0	140.2	151.5
Security Solutions	65.1	69.1	69.3	35.9	46.6	82.5	21.7	24.2	21.9	26.8	94.6	101.3
Digital Development	32.3	32.0	35.5	21.7	19.1	40.8	12.1	11.5	10.0	12.3	45.8	50.3
Adj. EBITDA	5.5	6.2	7.2	4.7	5.6	10.3	2.1	2.7	3.1	4.1	12.1	14.0
Adj. EBIT	-3.6	-3.1	0.8	1.4	1.9	3.3	0.5	1.0	1.4	2.3	5.1	7.1
Net sales growth	-6.8%	3.3%	-	-	-	17.8%	18.6%	17.0%	7.8%	8.2%	14.0%	8.1%
Security Solutions	9.3%	6.2%	-	-	-	19.0%	27.0%	22.0%	4.0%	5.0%	14.7%	7.1%
Digital Development	69.2%	-0.9%	-	-	-	15.0%	5.0%	7.0%	17.0%	16.0%	12.1%	9.8%
Adj. EBITDA margin	5.3%	5.8%	6.9%	8.2%	8.5%	8.4%	6.4%	7.7%	9.8%	10.5%	8.6%	9.2%
Adj. EBIT margin	-3.5%	-2.9%	0.7%	2.5%	2.9%	2.7%	1.4%	2.8%	4.5%	5.8%	3.7%	4.7%

Source: Loihde, Evli Research

N.B.: IFRS figures per quarter for 2022 not available

We see the growth prospects as good

In our view, Loihde is well-positioned for its future growth. The growth is supported by strong market growth as well as Loihde's internal capabilities, such as wide offering and up- and cross-sales opportunities. Currently, a slowing economy might cause some short-term fluctuation for each market segment, which is now visible only in DiDe. To our understanding, the underlying demand for security solutions is currently strong. This is partly supported by the late revision of Loihde's growth 2022 guidance in which the company expected SeSo to grow stronger than of previously estimated.

Expecting operational excellence to bring cost-savings

In our estimates, with revenue growth and operational cost-savings, Loihde is facing clear margin improvements supported by increased scalability. In 2022, Loihde has integrated some of its businesses and further enhancement of internal efficiency will be continued. For example, Loihde Advisory and Loihde Analytics were tied together into Loihde Advance, and acquired Turvakolmio and other three subsidiaries were integrated into a single Loihde Trust. Moreover, the company has multiple sources to find additional cost savings, for instance, integrating back-office functions more prominently. We foresee the margin improvement already started during 2021 but continuing more deeply during 2023-24.

2023 estimates

Slowing demand for digital services creates some uncertainties

Loihde guides over 10% revenue growth and improved absolute adj. EBITDA for the fiscal year of 2023. More closely, the company expects both of its businesses to grow over 10% during 2023. In our view, the guidance is somewhat cautious with the inorganic growth supporting revenue development. However, the company saw the demand for DiDe slowing down in H2'22 with a few consumer-related customers halting their digital development investments. To our understanding, the trend is common in the industry based on the comments of other IT peers. Loihde expects DiDe's H1 to be soft but anticipates it seeing some improvement in H2. Contrary to DiDe, the growth prospects for SeSo remain strong with the acquisition of Turvakolmio Group supporting growth for 5 months and market demand continuing strong. One Security sales has been strong and we expect that to generate new growth in 2023.

Double-digit growth for 2023

We expect SeSo to grow by 14.7% and DiDe by 12.1% y/y. In total, the group growth translates into 14.0% with 23E net sales amounting to EUR 140.2m. In our view, the SeSo will see high-single-digit organic growth while we expect DiDe to develop organically by low-single-digits. Thus, inorganic growth will have a significant impact in our growth estimates. In our view, 23 organic growth is supported by good development

of cross-sales and One Security concept.

Moderate margin improvement in 2023

Due to the soft H1 of DiDe, the utilization rate might not be optimal, and we expect adj. EBITDA margin improving only by a 0.2%-p. in 2023. In our view, softer start of the year will have an impact on margin development with adj. EBITDA margin accounting for 7% in H1'23. However, with DiDe's revenue growth improving in H2, we expect Loihde to score top margins by exceeding its long-term target of 10%. In our estimates, H2 adj. EBITDA margin amounts to 10.2%. In total, we expect 23E EBITDA to amount to EUR 12.1m, which reflects an EBITDA margin of 8.6%. Our 2023 adj. EBIT estimate amounts to EUR 5.1m (3.7% margin).

2024 estimates

Up- and cross-sales supports growth

We expect growth to continue also in 2024, with 24E net sales amounting to EUR 151.5m. The y/y growth of 8.1% is driven by both businesses. In our estimations, 24E growth will be purely organic since we include no further acquisitions in our estimates. We however foresee the demand for SeSo continuing strong with the investments in comprehensive security increasing as well as successful up- and cross-sales. After soft 2023, we expect the organic growth of DiDe to improve notably. Growth estimates for SeSo and DiDe amount to 7.1% and 9.8% respectively.

Margin expansion to continue in 2024

With investments in internal efficiency starting to kick in, profitability sees a clear leap in 2024 in our estimates. We expect Loihde's scalability profile to improve during 2024, with a higher share of continuing services and OneSecurity customers. We expect customer margins to see notable improvements during 2024. With strong topline growth and scalability continuing, we foresee adj. EBITDA improving to EUR 14.0m (9.2% margin), and adj. EBIT amounting to EUR 7.1m (4.7% margin).

Valuation

Interesting investment case with turnaround succeeding

In our view, as an investment, Loihde has lots of value-creation opportunities. Earnings turnaround is currently occurring, however, it's yet a question mark to which extent it materializes. The company operates in high-growing markets, in which M&A activities can offer additional market share. Loihde has a notable net cash position, and the company has indirectly commented on it utilizing the cash in acquisitions. With the network model, the company has the capabilities to both reduce M&A risks and obtain cost synergies through the integrations of back-office functions. In its security markets, the company holds quite a unique position with its comprehensive digital and physical security service portfolio. In addition, cloud offering provides more scalable growth ambitions.

Large net cash should be considered in valuation

In valuing Loihde, we emphasize EV-based multiples, since the company has a notable net cash position which represents approx. 30% of the company's market cap. We count Loihde's financial instruments into net cash due to their liquid nature. Net cash then amounts to EUR 36m. In addition, Loihde's small and unstable EPS bias P/E-based valuation which also neglects possibly value-adding net cash position.

Potential to trade in line with peers

Our justified multiples for Loihde are below that of the selected peer group. In our view, Loihde should trade below its peers with yet unproved margin profile. Even though we expect the company to improve its margins during 2023-25, we still need further evidence on the real profitability development before accepting EV multiples in line with the peer group median. Considering valuation with our 23E figures, we value Loihde with EV/EBITDA (adj.) and EV/EBIT (adj.) multiples of 6x and 10x, which both reflect ~20% discount to peer group median.

Some room for an upside

Based on a weighted average of EV/EBITDA and EV/EBIT valuation multiples, we initiate the coverage of Loihde with a target price of EUR 16.0. Our target price reflects an ~8% premium to Loihde's current share price. By considering the upside potential in the valuation, coming EBIT growth, and ~2% dividend yield, we see lots of potential in the investment case. However, with the still uncertain near future, we set our rating to HOLD.

Table 3: Implied valuation

23E implied valuation			
Adj. EBITDA	12.1m	Adj. EBIT	5.1m
EV/EBITDA	6.4x	EV/EBIT	9.6x
Enterprise value	77.5m	Enterprise value	49.4m
Net debt	-23.6m	Net debt	-23.6m
Market cap	101.1m	Market cap	73m
(per share)	18.0	(per share)	13.0

Source: Evli Research

Scenario analysis

Scenario analysis based on three different outcomes

Our scenario analysis attempts to give some guidance for price development in different outcomes. We have demonstrated three possible future outcomes for Loihde, through pessimistic, optimistic, and base case scenarios. The base case demonstrates our original estimates for the company.

Share price might reach even EUR 23 during 2023-24

Based on our scenario analysis, during the next two years, Loihde's share price may vary between EUR 12-23, based on different outcomes. The upside from our base case is significant since we apply valuation multiples in line with the peer group in the optimistic case. Since the valuation multiples are currently quite moderate, we don't see significant room for a downside in the multiples and hence the drop in valuation in pessimistic case is somewhat limited with 23-24E share value amounting to EUR 12.5.

Table 4: Scenarios

		2023E	2024E
Pessimistic	Net sales (€t y/y growth-%)	133.0 (8.1%)	140.4 (5.5%)
	EBITDA margin	7.8%	8.2%
	EV/EBITDA (adj.)	5.6x	4.9x
	Share price	12.5	12.6
Base Case	Net sales (€t y/y growth-%)	140.2 (14%)	151.5 (8.1%)
	Adj. EBITDA margin	8.6%	9.2%
	EV/EBITDA (adj.)	6.4x	5.6x
	Share price	16.0	16.8
Optimistic	Net sales (€t y/y growth-%)	145.1 (18.0%)	160.9 (10.9%)
	EBITDA margin	9.3%	10.1%
	EV/EBITDA (adj.)	8.0x	7.0x
	Share price	21.3	23.3

Source: Evli Research

Pessimistic: We foresee that worsening economic uncertainty affects Loihde's both businesses in 2023. In our pessimistic estimates for 2023, growth is mainly supported by the acquisitions made in 2022 while organic development is soft. On a group level, Loihde grows by 8.1% y/y to EUR 133.0m. We estimate the economic conditions remaining uncertain which has an impact also on 2024 figures. We expect Loihde to grow by 5.5%, fully organically, in 2024. With modest revenue growth, the margin expansion comes in under expectations. We expect Loihde's 23-24 EBITDA margin to land at 7.8% and 7.1% respectively. Due to moderate performance, we value Loihde clearly under our peer group median. We foresee 23-24E EV/EBITDA multiples of 5.6-4.9x to be justified for our pessimistic case estimates, which reflect EUR 12.5 share value.

Optimistic: With our optimistic estimates, the company's comments on the slowing DiDe market see a quick pivot with the market starting to show strong growth in Q2'23. In line with our base case estimates, we expect SeSo to continue the strong performance, however, a bit above that of the base case. We expect Loihde Group to grow 18% y/y in

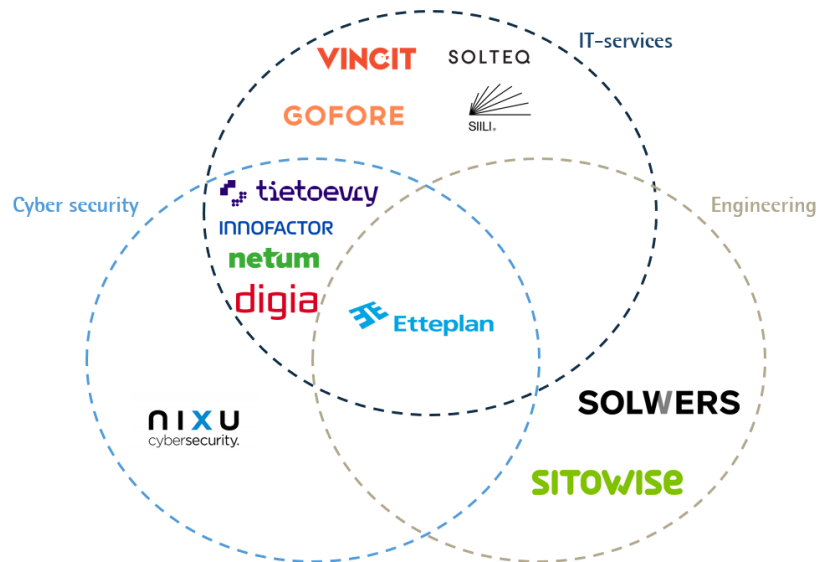
2023. The growth is supported by the acquisitions made in 2022, but we also expect both businesses to show strong organic growth. In our estimates, strong performance continues also in 2024 and both businesses to show solid growth. On a group level, we expect Loihde to grow by 10.9% in 2024. With strong topline growth and scalability, we expect margins to significantly improve. We expect Loihde to achieve an EBITDA margin of 9.3% in 2023, and 10.1% in 2024. With strong performance, we also allow Loihde to trade approx. in line with our peer group. In our optimistic case, we value Loihde with 23-24E EV/EBITDA multiples of 8-7x which converts into a EUR 21 share price.

Peer group

Peer group consist of similar type of companies

Our peer group for Loihde consists of Finnish IT service, cyber security and consultancy service companies. Such companies have been selected into Loihde's peer group with their similarity of revenue sources, cost-structure, asset-intensity and investment targets. In addition, most of the peers conduct M&A activities as a part of their strategy.

Figure 43: Peer group's industry distribution



Source: Evli Research

Etteplan is a global engineering consulting company that has a sharp focus on digital engineering solutions. Etteplan offers both traditional resource services and managed services. The company primarily serves industrial companies.

Gofore operates within new digital IT services by having a similar type of offering as Loihde. Gofore is well-positioned within the Finnish public sector. Gofore has offices also in Baltics as well as Southern and Central Europe.

Innofactor provides IT services and specializes in Microsoft-based cloud solutions and digital transformation. Innofactor has operations in Finland, Sweden, Denmark, and Norway.

Netum is a Finland-based IT service company providing digital service development, continuity services, integration services, cyber security solutions, and IT management consulting. In addition, the company develops SaaS software solutions.

Nixu is a Finnish-based, globally operating cyber security service company, engaging in individual project sales as well as continuing services. We consider Nixu as the closest exchange trading peer for Loihde's security business.

Siili Solutions is a Finnish software integrator and digital service provider. Siili operates in multiple European countries, with Finland representing ~80% of 2021 net sales.

Sitowise is a global infrastructure and construction consultancy company. The company offers the design and planning of projects as well as digital services.

Solteq develops business information systems and offers consulting and digital services. Solteq is strong in serving commerce clients. The company has operations around Europe.

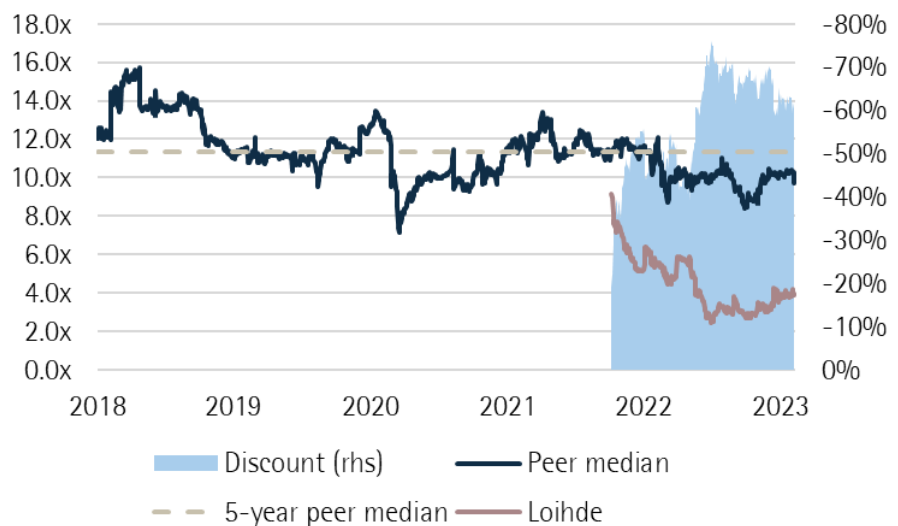
Solwers is a Finnish-based, European engineering company. Solwers specializes in providing architecture, technical consulting, environmental monitoring, project management, circular economy, and digital solutions.

TietoEVRY is one of the largest software and IT service providers in the Nordics. We consider TietoEVRY as an IT generalist with its widespread service portfolio. TietoEVRY serves customers worldwide.

Vincit engages in agile digital services as well as software product development, providing web services, information systems, applications, embedded systems, and service design. Vincit has operations both in Europe and the USA.

Securitas is a Swedish-based, global security service provider. Securitas engages in lower-margin physical security services, such as guarding, security technology, alarm systems, and related consultancy. 75% of Securitas' net sales are generated by guarding services.

Figure 44: EV/EBITDA (TTM) peer group valuation as of 2018



Source: Bloomberg

Loihde trades with a clear discount compared to its peers

Our peer group for Loihde has traded at an EV/EBITDA multiple of ~11x on average. However, during 2022-23, the multiple has sunk below 10x. Meanwhile, during its trading period, Loihde has been valued clearly lower than its peers, with approx. a 50% discount. In addition, the distance between peer median and Loihde has even increased which might be explained by markets re-valuing Loihde after its listing. In our view, the discount is explained by Loihde's yet unproved profitability level. In addition, high share of physical security business might also have an impact on justified multiples. Physical security is known for its lower margins compared for example to IT services. In addition, the market growth in physical security is moderate, approx. 2% annually. At the moment, we find a discount justified, but foresee some room for the discount to contract should Loihde grows the share of its digital security and IT services. In other words, we see the growth in cyber security and digital services being more valuable for the company.

Figure 45: Peer group valuation



Source: FactSet, Evli Research

Table 5: Peer group valuation

LOIHDE PEER GROUP	MCAP MEUR	EV/Sales			EV/EBITDA			EV/EBIT		
		23	24	25	23	24	25	23	24	25
Digia	156	0.9x	0.9x	0.8x	7.3x	6.9x	6.4x	10.9x	9.8x	9.0x
Etteplan	364	1.1x	1.1x	0.9x	8.5x	8.0x	7.6x	14.2x	13.1x	12.0x
Gofore	405	2.0x	1.7x	1.5x	13.3x	11.6x	10.2x	17.1x	14.4x	12.4x
Innofactor	44	0.7x	0.7x	0.6x	6.2x	5.8x	5.4x	9.4x	8.7x	7.8x
Netum Group	42	1.2x	1.0x	0.8x	9.8x	7.9x	6.8x	13.7x	10.4x	8.6x
Nixu	95	1.4x	1.3x	1.1x	20.5x	16.2x	13.5x	29.0x	21.7x	17.3x
Silli Solutions	131	0.9x	0.8x		6.5x	5.8x	5.5x	8.7x	7.5x	6.7x
Sitowise Group	164	1.1x	1.0x	0.9x	8.6x	7.7x	7.3x	13.8x	11.6x	10.6x
Solteq	24	0.8x	0.7x	0.6x	8.4x	6.1x	4.7x	69.7x	13.3x	7.2x
Solwers	52	0.9x	0.8x		3.5x	3.5x	3.4x	5.8x	5.7x	5.5x
TietoEVERY	3443	1.3x	1.2x	1.2x	8.3x	7.9x	7.9x	11.6x	10.9x	10.1x
Vincit	79				6.6x	5.4x	4.5x	11.3x	8.3x	6.4x
Securitas	4476	0.6x	0.6x	0.5x	7.4x	6.8x	6.5x	10.9x	9.6x	9.0x
Peer Group Average	680	1.1x	1.0x	0.9x	8.8x	7.6x	6.9x	17.4x	11.2x	9.4x
Peer Group Median	113	1.0x	0.9x	0.9x	8.3x	6.9x	6.5x	11.6x	10.4x	9.0x
Loihde (Evli est.)	84	0.4x	0.4x	0.3x	4.2x	4.2x	2.9x	9.8x	8.3x	5.8x

Loihde prem./disc. to peer median

-59% -59% -58% -50% -38% -55% -15% -20% -36%

Source FactSet, Evli Research

LOIHDE PEER GROUP	Sales	Sales gr.			EBIT-%			Div. yield		
		22	23	24	25	23	24	25	23	24
Digia	171	5.1%	4.2%	4.1%	8.8 %	9.4 %	9.7 %	3.1 %	3.5 %	3.9 %
Etteplan	350	5.5%	5.1%	4.6%	8.3 %	8.6 %	9.0 %	3.0 %	3.3 %	3.7 %
Gofore	150	23.9%	12.2%	11.1%	11.9 %	12.6 %	13.2 %	1.7 %	2.1 %	2.4 %
Innofactor	71	8.0%	4.3%	3.7%	7.8 %	8.1 %	8.7 %	6.4 %	7.2 %	7.9 %
Netum Group	29	22.9%	11.9%	8.9%	8.4 %	9.9 %	10.9 %	3.9 %	4.7 %	5.4 %
Nixu	60	11.6%	9.7%	9.2%	5.1 %	6.2 %	7.1 %	0.2 %	0.4 %	1.4 %
Silli Solutions	118	13.1%	7.0%	4.2%	9.4 %	10.2 %	11.0 %	1.9 %	2.7 %	2.8 %
Sitowise Group	204	4.3%	4.4%	3.6%	8.5 %	9.7 %	10.2 %	2.5 %	3.0 %	3.5 %
Solteq	68	0.5%	7.4%	8.1%	1.2 %	5.7 %	9.8 %	2.0 %	3.2 %	7.6 %
Solwers	63	3.2%	2.3%	2.4%	7.9 %	7.8 %	8.0 %	1.7 %	1.9 %	2.3 %
TietoEVERY	2928	2.4%	3.8%	4.0%	12.1 %	12.4 %	12.8 %	5.2 %	5.4 %	5.6 %
Vincit	85	24.5%	6.6%	5.8%	5.1 %	6.6 %	8.0 %	3.5 %	4.2 %	4.6 %
Securitas	11729	14.8%	3.6%	3.6%	5.7 %	6.2 %	6.5 %	4.4 %	4.9 %	5.5 %
Peer Group Average	128	10.7%	6.3%	5.6%	7.7 %	8.7 %	9.6 %	3.0 %	3.6 %	4.4 %
Peer Group Median	95	8.0%	5.1%	4.2%	8.3 %	8.6 %	9.7 %	3.0 %	3.3 %	3.9 %
Loihde (Evli est.)	123	14.0%	8.1%	5.2%	3.6 %	4.6 %	5.9 %	2.3 %	2.6 %	2.9 %

Source: FactSet, Evli Research

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	13.25 PV of Free Cash Flow	93 Long-term growth, %	1.5 Risk-free interest rate, %	2.50
DCF share value	38.28 PV of Horizon value	99 WACC, %	9.1 Market risk premium, %	6.3
Share price potential, %	188.9 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	4.5
Maximum value	40.8 Marketable securities	32 Minimum WACC, %	8.6 Equity beta coefficient	1.15
Minimum value	36.1 Debt - dividend	-9 Maximum WACC, %	9.6 Target debt ratio, %	15
Horizon value, %	51.6 Value of stock	215 Nr of shares, Mn	5.6 Effective tax rate, %	20

DCF valuation, EURm	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	Horizon
Net sales	123	140	152	159	166	173	178	183	189	193	196	199
<i>Sales growth, %</i>	<i>17.8</i>	<i>14.0</i>	<i>8.1</i>	<i>5.2</i>	<i>4.4</i>	<i>4.0</i>	<i>3.0</i>	<i>3.0</i>	<i>3.0</i>	<i>2.0</i>	<i>1.5</i>	<i>1.5</i>
Operating income (EBIT)	6	5	7	9	10	11	11	12	12	12	12	13
<i>Operating income margin, %</i>	<i>5.2</i>	<i>3.6</i>	<i>4.6</i>	<i>5.9</i>	<i>6.3</i>	<i>6.3</i>	<i>6.3</i>	<i>6.3</i>	<i>6.3</i>	<i>6.3</i>	<i>6.3</i>	<i>6.3</i>
+ Depreciation+amort.	7	7	8	9	10	10	11	11	11	12	12	
EBITDA	13	12	15	19	21	21	22	23	23	24	24	
- Paid taxes	-1	0	-1	-2	-2	-2	-2	-2	-2	-2	-2	
- Change in NWC	-4	3	1	1	0	0	0	0	0	0	0	
<i>NWC / Sales, %</i>	<i>4.9</i>	<i>1.9</i>	<i>1.1</i>	<i>0.3</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	
+ Change in other liabs	5	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	4	-4	-4	-4	-3	-4	-4	-4	-5	-5	-5	
<i>opCAPEX / Sales, %</i>	<i>1.3</i>	<i>7.2</i>	<i>6.9</i>	<i>7.0</i>	<i>5.9</i>	<i>6.6</i>	<i>6.5</i>	<i>6.5</i>	<i>6.5</i>	<i>6.4</i>	<i>6.4</i>	
- Acquisitions	-11	0	0	0	0	0	0	0	0	0	0	
+ Divestments	1	0	0	0	0	0	0	0	0	0	0	
- Other items	-1	0	0	0	0	0	0	0	0	0	0	
= FCFF	6	11	11	14	16	15	15	16	16	17	17	232
= Discounted FCFF		10	9	11	11	10	9	9	8	8	7	99
= DFCF min WACC		10	9	11	11	10	10	9	9	8	8	111
= DFCF max WACC		10	9	11	11	10	9	9	8	8	7	89

INTERIM FIGURES

EVLI ESTIMATES, EURm	2022H1	2022H2	2022	2023Q1E	2023Q2E	2023Q3E	2023Q4E	2023E	2024E	2025E
Net sales	57.4	65.6	123.0	33.7	35.6	31.8	39.0	140.2	151.5	159.3
EBITDA	8.3	5.0	13.3	2.2	2.7	3.1	4.1	12.1	15.2	18.6
<i>EBITDA margin (%)</i>	<i>14.4</i>	<i>7.7</i>	<i>10.8</i>	<i>6.7</i>	<i>7.6</i>	<i>9.6</i>	<i>10.4</i>	<i>8.6</i>	<i>10.0</i>	<i>11.7</i>
EBIT	5.0	1.4	6.4	0.6	1.0	1.4	2.2	5.1	7.0	9.3
<i>EBIT margin (%)</i>	<i>8.7</i>	<i>2.1</i>	<i>5.2</i>	<i>1.6</i>	<i>2.7</i>	<i>4.3</i>	<i>5.7</i>	<i>3.6</i>	<i>4.6</i>	<i>5.9</i>
Net financial items	-2.1	-0.2	-2.3	0.0	0.0	0.0	-0.2	-0.2	-0.3	-1.7
Pre-tax profit	2.9	1.2	4.1	0.5	1.0	1.4	2.0	4.9	6.7	7.6
Tax	-1.0	0.0	-1.1	-0.1	-0.2	-0.3	-0.4	-1.0	-1.3	-1.5
<i>Tax rate (%)</i>	<i>33.9</i>	<i>3.8</i>	<i>26.4</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>
Net profit	1.9	1.1	3.0	0.4	0.8	1.1	1.6	3.9	5.4	6.1
EPS	0.34	0.20	0.54	0.07	0.14	0.19	0.29	0.69	0.96	1.08
EPS adjusted (diluted no. of shares)	-0.29	0.29	0.00	0.06	0.14	0.20	0.30	0.70	0.96	1.08
Dividend per share	0.00	0.00	0.80	0.00	0.00	0.00	0.00	0.35	0.38	0.43
SALES, EURm										
Security Solutions	35.9	46.6	82.5	21.7	24.2	21.9	26.8	94.6	101.3	105.3
Digital Development	21.7	19.1	40.8	12.1	11.5	10.0	12.3	45.8	50.3	54.0
Others	-0.2	-0.1	-0.3	0.0	0.0	0.0	0.0	-0.1	0.0	0.0
Total	57.4	65.6	123.0	33.7	35.6	31.8	39.0	140.2	151.5	159.3
SALES GROWTH, Y/Y %										
Security Solutions			19.0					14.7	7.1	4.0
Digital Development			15.0					12.1	9.8	7.5
Others			-20.6					-61.5	-100.3	0.0
Total			17.8					14.0	8.1	5.2
EBIT, EURm										
Security Solutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.2
Digital Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.1
Group	5.0	1.4	6.4	0.6	1.0	1.4	2.2	5.1	7.0	0.0
Total	5.0	1.4	6.4	0.6	1.0	1.4	2.2	5.1	7.0	9.3
EBIT margin, %										
Security Solutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0
Digital Development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.5
Total	8.7	2.1	5.2	1.6	2.7	4.3	5.7	3.6	4.6	5.9

INCOME STATEMENT, EURm	2018	2019	2020	2021	2022	2023E	2024E	2025E
Sales	104.9	103.1	106.8	104.4	123.0	140.2	151.5	159.3
<i>Sales growth (%)</i>	<i>19.4</i>	<i>-1.7</i>	<i>3.6</i>	<i>-2.3</i>	<i>17.8</i>	<i>14.0</i>	<i>8.1</i>	<i>5.2</i>
EBITDA	21.2	5.6	5.6	5.6	13.3	12.1	15.2	18.6
<i>EBITDA margin (%)</i>	<i>20.2</i>	<i>5.4</i>	<i>5.2</i>	<i>5.4</i>	<i>10.8</i>	<i>8.6</i>	<i>10.0</i>	<i>11.7</i>
Depreciation	-8.2	-10.8	-9.4	-6.5	-6.9	-7.0	-8.2	-9.3
EBITA	13.1	-5.2	-3.8	-0.9	6.4	5.1	7.0	9.3
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	13.1	-5.2	-3.8	-0.9	6.4	5.1	7.0	9.3
<i>EBIT margin (%)</i>	<i>12.4</i>	<i>-5.0</i>	<i>-3.6</i>	<i>-0.8</i>	<i>5.2</i>	<i>3.6</i>	<i>4.6</i>	<i>5.9</i>
Reported EBIT	13.1	-5.2	-3.8	5.6	6.7	5.1	7.0	9.3
<i>EBIT margin (reported) (%)</i>	<i>12.4</i>	<i>-5.0</i>	<i>-3.6</i>	<i>5.3</i>	<i>5.4</i>	<i>3.6</i>	<i>4.6</i>	<i>5.9</i>
Net financials	26.7	20.8	0.8	1.1	-2.3	-0.2	-0.3	-1.7
Pre-tax profit	39.8	15.6	-3.1	0.2	4.1	4.9	6.7	7.6
Taxes	-7.6	-4.5	-0.9	0.2	-1.1	-1.0	-1.3	-1.5
Minority shares	-0.1	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0
Net profit	32.1	10.9	-4.2	6.9	3.3	3.9	5.4	6.1
Cash NRIs	0.0	0.0	0.0	6.4	0.3	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	22	11	11	11	10	13	14	15
Goodwill	37	48	45	53	63	63	63	63
Right of use assets	0	0	7	8	8	9	10	11
Inventory	6	6	7	7	10	11	12	11
Receivables	46	37	28	23	25	26	28	29
Liquid funds	50	52	48	42	32	35	38	42
Total assets	161	153	146	146	151	158	167	173
Liabilities								
Shareholder's equity	116	118	111	110	111	112	115	119
Minority interest	0	1	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	7	8	9	10	11	12
Deferred taxes	0	0	0	1	0	1	1	1
Interest bearing debt	19	6	0	0	0	0	0	0
Non-interest bearing current liabilities	26	27	26	26	29	34	38	40
Other interest-free debt	0	0	2	1	1	2	2	2
Total liabilities	161	153	146	146	151	158	167	173
CASH FLOW, EURm								
+ EBITDA	21	6	6	6	13	12	15	19
- Net financial items	28	-9	-16	-7	-3	0	0	-2
- Taxes	-5	-4	-4	0	-1	0	-1	-2
- Increase in Net Working Capital	-1	3	0	1	-4	3	1	1
+/- Other	-17	29	16	7	0	0	0	0
= Cash flow from operations	27	25	2	7	5	15	15	17
- Capex	-2	-2	-2	-6	-2	-10	-10	-11
- Acquisitions	0	0	0	-10	-11	0	0	0
+ Divestments	0	0	0	6	1	0	0	0
= Free cash flow	25	23	0	-4	-6	5	4	5
+/- New issues/buybacks	17	2	6	7	2	1	0	0
- Paid dividend	-6	-10	-10	-15	-3	-5	-2	-2
+/- Other	0	-14	0	7	-2	1	1	1
Change in cash	36	2	-4	-5	-10	3	3	4

KEY FIGURES	2019	2020	2021	2022	2023E	2024E	2025E
M-cap	0	0	96	74	75	75	75
Net debt (excl. convertibles)	-46	-41	-34	-24	-25	-27	-30
Enterprise value	-46	-41	62	50	50	47	44
Sales	103	107	104	123	140	152	159
EBITDA	6	6	6	13	12	15	19
EBIT	-5	-4	-1	6	5	7	9
Pre-tax	16	-3	0	4	5	7	8
Earnings	11	-4	0	3	4	5	6
Equity book value (excl. minorities)	118	111	110	111	112	115	119
Valuation multiples							
EV/sales	-0.4	-0.4	0.6	0.4	0.4	0.3	0.3
EV/EBITDA	-8.3	-7.3	11.1	3.8	4.1	3.1	2.4
EV/EBITA	8.9	10.7	-70.3	7.9	9.7	6.8	4.7
EV/EBIT	8.9	10.7	-70.3	7.9	9.7	6.8	4.7
EV/OCF	-1.9	-25.1	9.3	10.0	3.3	3.3	2.7
EV/FCFF	12.3	25.1	8.7	8.8	4.5	4.4	3.2
P/FCFE	0.0	0.0	-23.1	-11.7	15.7	18.2	13.9
P/E	0.0	0.0	45.1	-4,353.4	19.0	13.9	12.2
P/B	0.0	0.0	0.9	0.7	0.7	0.6	0.6
Target EV/EBITDA	0.0	0.0	0.0	0.0	5.4	4.1	3.2
Target EV/EBIT	0.0	0.0	0.0	0.0	12.8	9.0	6.4
Target EV/FCF	0.0	0.0	0.0	0.0	13.7	15.3	11.1
Target P/B	0.0	0.0	0.0	0.0	0.8	0.8	0.8
Target P/E	0.0	0.0	0.0	0.0	22.9	16.8	14.8
Per share measures							
Number of shares	5,387	5,684	5,930	5,628	5,628	5,628	5,628
Number of shares (diluted)	5,387	5,684	5,930	5,628	5,628	5,628	5,628
EPS	2.02	-0.73	0.08	0.54	0.69	0.96	1.08
Operating cash flow per share	4.56	0.29	1.12	0.90	2.64	2.59	2.95
Free cash flow per share	4.27	-0.05	-0.70	-1.12	0.84	0.73	0.95
Book value per share	21.98	19.46	18.48	19.78	19.87	20.48	21.18
Dividend per share	1.90	2.70	0.55	0.80	0.35	0.38	0.43
Dividend payout ratio, %	94.2	-369.0	675.2	149.5	50.8	40.0	40.0
Dividend yield, %	0.0	0.0	3.4	6.0	2.6	2.9	3.3
FCF yield, %	0.0	0.0	-4.3	-8.5	6.4	5.5	7.2
Efficiency measures							
ROE	9.3	-3.6	0.4	2.7	3.5	4.7	5.2
ROCE	-4.0	-3.2	-0.7	5.4	4.2	5.6	7.3
Financial ratios							
Inventories as % of sales	5.4	6.2	7.0	8.4	7.8	8.0	7.2
Receivables as % of sales	35.5	25.9	22.1	20.4	18.4	18.4	18.4
Non-interest bearing liabilities as % of sales	26.4	24.4	25.2	23.9	24.0	25.0	25.0
NWC/sales, %	14.5	6.8	3.8	4.9	1.9	1.1	0.3
Operative CAPEX/sales, %	1.5	1.8	6.1	1.3	7.2	6.9	7.0
CAPEX/sales (incl. acquisitions), %	1.5	1.8	-3.6	-7.5	7.2	6.9	7.0
FCFF/EBITDA	-0.7	-0.3	1.3	0.4	0.9	0.7	0.7
Net debt/EBITDA, book-weighted	-8.3	-7.3	-6.1	-1.8	-2.1	-1.8	-1.6
Debt/equity, market-weighted	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity ratio, book-weighted	78.3	75.8	74.9	73.8	70.7	69.2	68.7
Gearing, %	-38.8	-37.1	-31.1	-21.2	-22.3	-23.5	-25.4

COMPANY DESCRIPTION: Loihde is a service provider, specializing in comprehensive security and IT services. The company engages in agile digital IT-services, such as digital strategy consultancy, data solutions and analytics, AI, software development and service design. Loihde focuses on high-tier security technologies both in its physical and digital security services. The company employs over 800 persons in Finland and Sweden.

INVESTMENT CASE: Loihde has gone through notable organizational changes and has now placed its focus on growing its topline and improving its profitability. With further integrating its back-office and administrative function, additional cost savings are likely to materialize. Margins should also see further expansion with the increased share of digital security and IT-services. Loihde's large net cash position enables the company to further speed up its growth with M&A activities. The company operates in prolific markets with the underlying markets grow at high-single-digit figures by several megatrends supporting the underlying market development.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Suomen Teollisuussijoitus Oy	275,000	3.644	4.9%
Bellurum Oy	210,576	2.790	3.7%
LähiTapiola Keskinäinen Henkivakuutusyhtiö	150,000	1.987	2.7%
LähiTapiola Keskinäinen Vakuutusyhtiö	150,000	1.987	2.7%
Lakiasiaintoimisto Asiakasturva Oy	126,655	1.678	2.3%
Sr VISIO Allocator	100,000	1.325	1.8%
Vaasan kaupunki	70,400	0.933	1.3%
Pelkonen Antti	68,480	0.907	1.2%
Hotcom Oy	61,000	0.808	1.1%
Heikkilä Kimmo	58,255	0.772	1.0%
Ten largest	1,270,366	16.832	23%
Residual	4,357,817	57.741	77%
Total	5,628,183	74.573	100%

EARNINGS CALENDAR	
April 28, 2023	Q1 report
August 31, 2023	Q2 report
November 01, 2023	Q3 report
OTHER EVENTS	
May 04, 2023	AGM

COMPANY MISCELLANEOUS	
CEO: Samu Konttinen	Silmukkatie 6, 65100 Vaasa
CFO: Pirjo Suhonen	Tel: +358 10 273 2300
IR: Tiina Nieminen	

DEFINITIONS

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

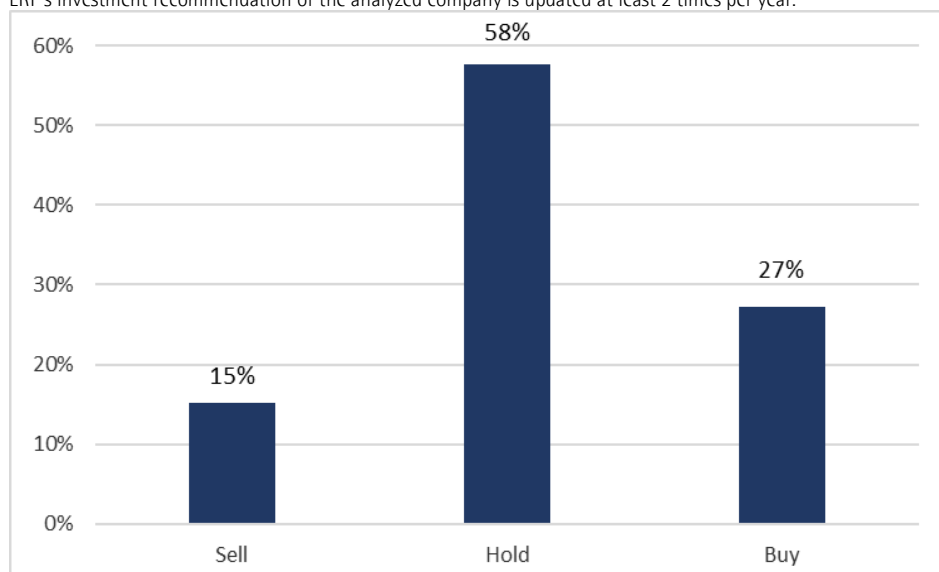
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Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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

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Contact information**SALES, TRADING AND RESEARCH****Equity, ETF and Derivatives Sales**

Joachim Dannberg +358 9 4766 9123
Ari Laine +358 9 4766 9115
Kimmo Lilja +358 9 4766 9130

Trading

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

Structured Investments

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

Equity Research

Arttu Heikura +358 40 082 8098
Joonas Ilvonen +358 44 430 9071
Jerker Salokivi +358 9 4766 9149

Evli Investment Solutions

Johannes Asuja +358 9 4766 9205



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

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