

Actions taken yielding results

Solteq reported clearly better than expected profitability figures following cost reductions, with comp. EBIT at EUR 1.5m (Evli 0.5m). Possible demand thinness remains a concern but with the lower cost base we raise our 2021–22 comp. EBIT estimates by some 30% on average. We adjust our TP to EUR 1.65 (1.15) and our rating to BUY (HOLD).

Profitability clearly beat our estimates

Solteq reported solid Q2 results and profitability was clearly better than we had expected. Revenue grew 7.8% in comparable terms to EUR 15.1m (Evli EUR 14.6m) with both segments contributing nearly equally. The comp. EBIT amounted to EUR 1.5m, clearly above our estimates (Evli EUR 0.5m). The earnings improvement was attributable to previously taken streamlining actions and to some extent reduced travel expenses due to COVID-19. Solteq also reinstated a guidance for 2020, expecting comp. EBIT to grow significantly. The operating cash flow was also strong, at EUR 5.3m in H1 (2019: EUR 4.1m).

Coming year profitability estimates up by quite a bit

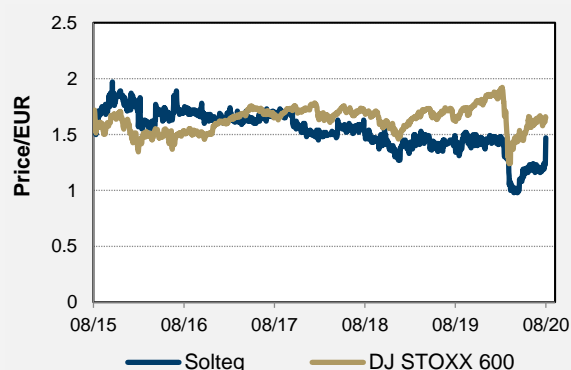
We have made larger estimates revisions post Q2, now expecting 2020 revenue of EUR 60.2m (prev 58.9m) and comp. EBIT of EUR 4.8m (prev. 2.4m). We have also raised our 2021–2022 comp. EBIT estimates by some 30% on average. The impact of the coronavirus has so far been limited and sales growth has been good during H1 following good earlier order intake. Our main concerns going forward relate to possible thinness in demand and as such expect lower relative growth figures. Solteq has seen good demand in for instance the energy sector, while areas more affected by the pandemic, such as the travel, restaurant and maritime sectors, saw lower sales in Q2.

BUY (HOLD) with a TP of EUR 1.65 (1.15)

Solteq has been burdened by high leverage and as such low earnings, which to a large extent will be reversed by the improved profitability and improved cash flows will reduce financial risk. With our revised estimates we adjust our TP to EUR 1.65 (1.15), implying a 2020e P/E of 16.5x. We adjust our rating to BUY (HOLD).

Rating

BUY



Share price, EUR (Last trading day's closing price) 1.47

Target price, EUR 1.65

Latest change in recommendation 14-Aug-20

Latest report on company 04-May-20

Research paid by issuer: YES

No. of shares outstanding, '000's 19,307

No. of shares fully diluted, '000's 19,307

Market cap, EURm 28

Free float, % 43.0

Exchange rate 0.000

Reuters code SOLTEQ.HE

Bloomberg code SOLTEQ.FH

Average daily volume, EURm 0.01

Next interim report 29-Oct-20

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2018	56.9	2.5	4.3%	4.7	0.02	69.9	1.0	22.0	18.8	0.00
2019	58.3	5.7	9.8%	-3.2	0.15	27.1	1.0	10.6	-11.0	0.00
2020E	60.2	4.6	7.6%	1.4	0.10	14.7	1.0	12.7	4.8	0.05
2021E	62.0	4.4	7.1%	2.1	0.10	15.2	0.9	13.0	7.5	0.05
2022E	63.9	4.9	7.7%	3.2	0.12	12.1	0.9	11.3	11.1	0.06
Market cap, EURm			28	Gearing 2020E, %		113.9	CAGR EPS 2019-22, %			30.1
Net debt 2020E, EURm			30	Price/book 2020E		1.1	CAGR sales 2019-22, %			3.1
Enterprise value, EURm			59	Dividend yield 2020E, %		3.4	ROE 2020E, %			7.6
Total assets 2020E, EURm			79	Tax rate 2020E, %		22.6	ROCE 2020E, %			7.6
Goodwill 2020E, EURm			39	Equity ratio 2020E, %		33.4	PEG, P/E 20/CAGR			3.2

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

Solteq	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20	Q2/'20	Q3/'20E	Q4/'20E	2020E	2021E	2022E
Net sales	56.9	14.9	14.7	13.0	15.7	58.3	15.7	15.1	13.0	16.4	60.2	62.0	63.9
<i>sales growth %</i>	12.1%	0.2%	3.0%	1.2%	5.2%	2.5%	5.0%	2.9%	0.1%	4.5%	3.2%	3.1%	3.1%
<i>comparable growth %</i>							11.6%	7.8%	5.2%	10.2%	8.8%		
Other income	0.5	0.0	0.0	0.0	2.6	2.6	0.0	0.1	0.0	0.0	0.1	0.0	0.0
Materials and services	-6.1	-0.9	-1.4	-1.4	-1.7	-5.4	-1.7	-1.4	-1.3	-1.6	-5.9	-6.0	-6.1
Personnel expenses	-35.6	-9.3	-9.4	-8.1	-9.9	-36.8	-9.5	-9.5	-8.3	-10.0	-37.2	-38.3	-39.3
Other expenses	-10.9	-2.2	-2.3	-2.2	-2.3	-9.0	-2.6	-1.6	-1.5	-1.8	-7.5	-8.0	-8.2
EBITDA	4.8	2.5	1.5	1.3	4.4	9.7	1.9	2.7	1.9	3.0	9.5	9.7	10.3
Adj. EBITDA		2.5	1.6	1.3	2.1	7.5	2.0	2.7	2.0	3.0	9.8	9.7	10.3
D&A	-2.3	-0.9	-1.0	-1.0	-1.1	-4.0	-1.2	-1.2	-1.2	-1.3	-4.9	-5.3	-5.4
EBIT	2.5	1.5	0.6	0.3	3.3	5.7	0.7	1.5	0.7	1.7	4.6	4.4	4.9
<i>EBIT-%</i>	4.3%	10.2%	3.9%	2.2%	21.1%	9.8%	4.6%	9.8%	5.4%	10.4%	7.6%	7.1%	7.7%
Adjustment items	0.7	0.0	0.1	0.0	-2.2	-2.2	0.2	0.0	0.0	0.0	0.2	0.0	0.0
Adj. EBIT	3.1	1.5	0.6	0.3	1.1	3.5	0.9	1.5	0.7	1.7	4.8	4.4	4.9
<i>Adj. EBIT-%</i>	5.5%	10.3%	4.3%	2.2%	6.9%	6.1%	5.6%	10.0%	5.4%	10.4%	8.0%	7.1%	7.7%
Solteq Digital	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20	Q2/'20	Q3/'20E	Q4/'20E	2020E	2021E	2022E
Net sales		10.7	10.4	9.3	10.9	41.2	11.3	10.5	9.2	11.3	42.3	43.4	44.0
<i>sales growth %</i>		-	-	-	-	-	6.0%	1.5%	-0.6%	3.8%	2.8%	2.5%	1.4%
Adj. EBITDA		1.5	1.3	0.8	1.2	4.8	1.3	1.8	1.2	1.8	6.1	6.0	6.3
<i>Adj. EBITDA-%</i>		14.4%	12.6%	8.7%	10.9%	11.7%	11.6%	16.9%	13.0%	15.9%	14.4%	13.8%	14.3%
EBIT		0.9	0.6	0.2	2.8	4.4	0.5	1.1	0.5	1.1	3.2	3.2	3.5
<i>EBIT-%</i>		8.2%	5.3%	1.6%	25.9%	10.7%	4.8%	10.3%	5.4%	9.7%	7.6%	7.4%	8.0%
Adj. EBIT		0.9	0.6	0.2	0.5	2.2	0.7	1.1	0.5	1.1	3.4	3.2	3.5
<i>Adj. EBIT-%</i>		8.3%	5.9%	1.6%	4.7%	5.3%	5.8%	10.5%	5.4%	9.7%	7.9%	7.4%	8.0%
Solteq Software	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20	Q2/'20	Q3/'20E	Q4/'20E	2020E	2021E	2022E
Net sales		4.2	4.3	3.7	4.8	17.1	4.3	4.6	3.8	5.1	17.8	18.6	19.9
<i>sales growth %</i>		-	-	-	-	-	2.5%	6.1%	1.7%	5.8%	4.2%	4.4%	7.0%
Adj. EBITDA		0.9	0.3	0.5	1.0	2.7	0.7	1.0	0.8	1.2	3.7	3.7	4.0
<i>Adj. EBITDA-%</i>		21.8%	7.7%	13.3%	19.9%	15.9%	16.7%	21.1%	21.1%	23.5%	20.7%	19.9%	20.1%
EBIT		0.7	0.0	0.1	0.5	1.3	0.2	0.4	0.2	0.6	1.4	1.2	1.4
<i>EBIT-%</i>		15.4%	0.4%	3.5%	10.6%	7.7%	4.1%	8.8%	5.3%	11.8%	7.7%	6.5%	7.0%
Adj. EBIT		0.7	0.0	0.1	0.6	1.4	0.2	0.4	0.2	0.6	1.4	1.2	1.4
<i>Adj. EBIT-%</i>		15.4%	0.4%	3.5%	12.0%	8.1%	5.2%	8.8%	5.3%	11.8%	8.0%	6.5%	7.0%

Source: Solteq, Evli research estimates

NORDIC IT SERVICES	MCAP MEUR	EV/EBITDA			EV/EBIT			P/E		
		20	21	22	20	21	22	20	21	22
TietoEVRY	3005	8.2x	7.0x	7.0x	11.1x	9.7x	9.7x	12.8x	11.4x	11.4x
Atea	1121	8.9x	7.6x	7.6x	16.1x	12.6x	12.6x	21.5x	16.3x	16.3x
Knowit	341	9.2x	7.9x	7.9x	11.3x	9.6x	9.6x	15.6x	13.7x	13.7x
HiQ International	290	11.8x	10.4x	10.4x	14.5x	12.6x	12.6x	20.9x	17.9x	17.9x
Bouvet	512	16.1x	13.4x	13.4x	21.6x	17.1x	17.1x	28.1x	22.4x	22.4x
Gofore	120							18.5x	15.2x	15.2x
Digia	156	9.6x	9.1x	9.1x	13.7x	12.7x	12.7x	16.6x	15.4x	15.4x
Sili Solutions	77	7.5x	6.2x	6.2x	13.0x	9.4x	9.4x	17.4x	11.2x	11.2x
Vincit	57							16.9x	13.1x	13.1x
Innofactor	44	7.5x	7.0x	7.0x	11.3x	13.0x	13.0x	14.3x	11.8x	11.8x
Peer Group Average	690	9.8x	8.6x	8.6x	14.1x	12.1x	12.1x	18.3x	14.8x	14.8x
Peer Group Median	356	9.0x	7.8x	7.8x	13.3x	12.6x	12.6x	17.1x	14.5x	14.5x

Source FactSet, Evli Research

NORDIC SOFTWARE	MCAP EUR	EV/EBITDA			EV/EBIT			P/E		
		20	21	22	20	21	22	20	21	22
Qt Group	830	68.0x	44.4x	44.4x	83.8x	52.2x	52.2x	106.0x	63.8x	63.8x
Vitec Software Group	892							45.7x	42.6x	42.6x
Basware	502	29.8x	23.4x	23.4x	201.1x	65.6x	65.6x			
SimCorp	4159	35.0x	27.7x	27.7x	39.5x	30.5x	30.5x	51.2x	38.1x	38.1x
F-Secure	464	14.7x	14.9x	14.9x	27.6x	28.6x	28.6x	46.3x	40.0x	40.0x
Admicom	372	38.7x	30.0x	30.0x	40.9x	30.2x	30.2x	52.5x	38.8x	38.8x
Efecte	38		56.3x	56.3x		169.0x	169.0x		211.7x	211.7x
Enea	388	13.8x	11.5x	11.5x	19.2x	16.7x	16.7x	22.2x	19.7x	19.7x
Infront	93	10.5x	8.9x	8.9x	32.1x	21.0x	21.0x		25.9x	25.9x
Peer Group Average	860	30.1x	27.1x	27.1x	63.4x	51.7x	51.7x	54.0x	60.1x	60.1x
Peer Group Median	464	29.8x	25.6x	25.6x	39.5x	30.3x	30.3x	48.8x	39.4x	39.4x

Source FactSet, Evli Research

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC
Current share price	1.47 PV of Free Cash Flow	42 Long-term growth, %	2.0 Risk-free interest rate, %
DCF share value	3.13 PV of Horizon value	50 WACC, %	8.9 Market risk premium, %
Share price potential, %	113.1 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %
Maximum value	3.5 Marketable securities	4 Minimum WACC, %	8.4 Equity beta coefficient
Minimum value	2.8 Debt - dividend	-35 Maximum WACC, %	9.4 Target debt ratio, %
Horizon value, %	54.4 Value of stock	60 Nr of shares, Mn	19.3 Effective tax rate, %

DCF valuation, EURm	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Horizon
Net sales	58	60	62	64	66	69	72	75	78	81	82	84
<i>Sales growth, %</i>	<i>2.5</i>	<i>3.2</i>	<i>3.1</i>	<i>3.1</i>	<i>4.0</i>	<i>4.0</i>	<i>4.0</i>	<i>4.0</i>	<i>4.0</i>	<i>4.0</i>	<i>2.0</i>	<i>2.0</i>
Operating income (EBIT)	6	5	4	5	5	5	6	6	6	6	7	7
<i>Operating income margin, %</i>	<i>9.8</i>	<i>7.6</i>	<i>7.1</i>	<i>7.7</i>	<i>7.0</i>	<i>7.0</i>	<i>8.0</i>	<i>8.0</i>	<i>8.0</i>	<i>8.0</i>	<i>8.0</i>	<i>8.0</i>
+ Depreciation+amort.	4	5	5	5	5	5	5	5	5	6	6	
EBITDA	10	9	10	10	10	10	11	11	12	12	12	
- Paid taxes	-2	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	
- Change in NWC	-1	0	0	0	0	0	0	0	0	0	0	
<i>NWC / Sales, %</i>	<i>-1.5</i>	<i>-1.5</i>	<i>-1.5</i>	<i>-1.5</i>	<i>-1.5</i>	<i>-1.5</i>	<i>-1.5</i>	<i>-1.5</i>	<i>-1.5</i>	<i>-1.5</i>	<i>-1.5</i>	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-5	-4	-3	-3	-3	-3	-3	-4	-4	-4	-4	
<i>opCAPEX / Sales, %</i>	<i>12.5</i>	<i>9.1</i>	<i>8.2</i>	<i>7.2</i>	<i>7.9</i>	<i>8.0</i>	<i>8.0</i>	<i>8.0</i>	<i>8.0</i>	<i>8.0</i>	<i>7.6</i>	
- Acquisitions	0	0	0	0	0	0	0	0	0	0	0	
+ Divestments	0	0	0	0	0	0	0	0	0	0	0	
- Other items	-2	0	0	0	0	0	0	0	0	0	0	
= FCFF	1	5	6	7	6	5	6	7	7	7	7	111
= Discounted FCFF		5	5	6	4	4	4	4	4	3	3	50
= DFCF min WACC		5	5	6	5	4	4	4	4	4	4	56
= DFCF max WACC		5	5	5	4	4	4	4	4	3	3	45

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	14.9	14.7	13.0	15.7	58.3	15.7	15.1	13.0	16.4	60.2	62.0	63.9
EBITDA	2.5	1.6	1.3	4.4	9.7	1.9	2.7	1.9	3.0	9.5	9.7	10.3
<i>EBITDA margin (%)</i>	<i>16.4</i>	<i>10.7</i>	<i>10.0</i>	<i>27.9</i>	<i>16.7</i>	<i>12.0</i>	<i>18.0</i>	<i>14.6</i>	<i>18.3</i>	<i>15.8</i>	<i>15.6</i>	<i>16.1</i>
EBIT	1.5	0.6	0.3	3.3	5.7	0.7	1.5	0.7	1.7	4.6	4.4	4.9
<i>EBIT margin (%)</i>	<i>10.2</i>	<i>3.9</i>	<i>2.2</i>	<i>21.2</i>	<i>9.8</i>	<i>4.6</i>	<i>9.8</i>	<i>5.4</i>	<i>10.4</i>	<i>7.6</i>	<i>7.1</i>	<i>7.7</i>
Net financial items	-0.5	-0.5	-0.5	-0.6	-2.0	-0.6	-0.5	-0.5	-0.5	-2.1	-2.1	-2.0
Pre-tax profit	1.1	0.1	-0.2	2.8	3.7	0.1	1.0	0.2	1.2	2.5	2.3	2.9
Tax	-0.3	0.1	0.0	-0.7	-0.9	-0.1	-0.2	0.0	-0.2	-0.6	-0.5	-0.6
<i>Tax rate (%)</i>	<i>23.7</i>	<i>-106.3</i>	<i>16.1</i>	<i>26.2</i>	<i>23.8</i>	<i>63.0</i>	<i>21.8</i>	<i>20.0</i>	<i>20.0</i>	<i>22.6</i>	<i>20.0</i>	<i>20.0</i>
Net profit	0.8	0.1	-0.2	2.0	2.8	0.0	0.8	0.2	1.0	1.9	1.9	2.3
EPS	0.04	0.01	-0.01	0.11	0.15	0.00	0.04	0.01	0.05	0.10	0.10	0.12
EPS adjusted (diluted no. of shares)	0.04	0.01	-0.01	0.02	0.06	0.00	0.04	0.01	0.05	0.10	0.10	0.12
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.05	0.06
SALES, EURm												
Solteq Digital	10.7	10.4	9.3	10.9	41.2	11.3	10.5	9.2	11.3	42.3	43.4	44.0
Solteq Software	4.2	4.3	3.7	4.8	17.1	4.3	4.6	3.8	5.1	17.8	18.6	19.9
Total	14.9	14.7	13.0	15.7	58.3	15.7	15.1	13.0	16.4	60.2	62.0	63.9
SALES GROWTH, Y/Y %												
<i>Solteq</i>	<i>-100.0</i>	<i>-100.0</i>	<i>-100.0</i>	<i>-100.0</i>	<i>-100.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>Solteq Digital</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>6.0</i>	<i>1.5</i>	<i>-0.6</i>	<i>3.7</i>	<i>2.8</i>	<i>2.5</i>	<i>1.4</i>
<i>Solteq Software</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>2.5</i>	<i>6.1</i>	<i>1.7</i>	<i>5.8</i>	<i>4.2</i>	<i>4.4</i>	<i>7.0</i>
<i>Total</i>	<i>0.4</i>	<i>3.0</i>	<i>1.2</i>	<i>5.3</i>	<i>2.5</i>	<i>5.0</i>	<i>2.9</i>	<i>0.1</i>	<i>4.3</i>	<i>3.2</i>	<i>3.1</i>	<i>3.1</i>
EBIT, EURm												
Solteq Digital	0.9	0.6	0.2	2.8	4.4	0.5	1.1	0.5	1.1	3.2	3.2	3.5
Solteq Software	0.7	0.0	0.1	0.5	1.3	0.2	0.4	0.2	0.6	1.4	1.2	1.4
Total	1.5	0.6	0.3	3.3	5.7	0.7	1.5	0.7	1.7	4.6	4.4	4.9
EBIT margin, %												
<i>Solteq Digital</i>	<i>8.2</i>	<i>5.3</i>	<i>1.6</i>	<i>25.8</i>	<i>10.7</i>	<i>4.8</i>	<i>10.3</i>	<i>5.4</i>	<i>9.7</i>	<i>7.6</i>	<i>7.4</i>	<i>8.0</i>
<i>Solteq Software</i>	<i>15.4</i>	<i>0.4</i>	<i>3.5</i>	<i>10.6</i>	<i>7.7</i>	<i>4.1</i>	<i>8.8</i>	<i>5.3</i>	<i>11.8</i>	<i>7.7</i>	<i>6.5</i>	<i>7.0</i>
<i>Total</i>	<i>10.2</i>	<i>3.9</i>	<i>2.2</i>	<i>21.2</i>	<i>9.8</i>	<i>4.6</i>	<i>9.8</i>	<i>5.4</i>	<i>10.4</i>	<i>7.6</i>	<i>7.1</i>	<i>7.7</i>

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	54.2	63.0	50.7	56.9	58.3	60.2	62.0	63.9
<i>Sales growth (%)</i>	<i>32.6</i>	<i>16.3</i>	<i>-19.6</i>	<i>12.1</i>	<i>2.5</i>	<i>3.2</i>	<i>3.1</i>	<i>3.1</i>
EBITDA	3.1	8.4	2.4	4.8	9.7	9.5	9.7	10.3
<i>EBITDA margin (%)</i>	<i>5.7</i>	<i>13.3</i>	<i>4.7</i>	<i>8.4</i>	<i>16.7</i>	<i>15.8</i>	<i>15.6</i>	<i>16.1</i>
Depreciation	-1.8	-1.9	-2.1	-2.3	-4.0	-4.9	-5.3	-5.4
EBITA	1.3	6.5	0.3	2.5	5.7	4.6	4.4	4.9
Goodwill amortization / writedown	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	1.3	6.4	0.3	2.5	5.7	4.6	4.4	4.9
<i>EBIT margin (%)</i>	<i>2.4</i>	<i>10.2</i>	<i>0.6</i>	<i>4.3</i>	<i>9.8</i>	<i>7.6</i>	<i>7.1</i>	<i>7.7</i>
Reported EBIT	1.3	6.4	0.3	2.5	5.7	4.6	4.4	4.9
<i>EBIT margin (reported) (%)</i>	<i>2.4</i>	<i>10.2</i>	<i>0.6</i>	<i>4.3</i>	<i>9.8</i>	<i>7.6</i>	<i>7.1</i>	<i>7.7</i>
Net financials	-1.0	-1.7	-1.8	-1.8	-2.0	-2.1	-2.1	-2.0
Pre-tax profit	0.3	4.7	-1.5	0.6	3.7	2.5	2.3	2.9
Taxes	-0.2	-0.1	-0.1	-0.3	-0.9	-0.6	-0.5	-0.6
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.1	4.6	-1.5	0.4	2.8	1.9	1.9	2.3
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	8	7	8	10	11	12	11	10
Goodwill	35	34	37	40	39	39	39	39
Right of use assets	0	0	0	6	7	8	8	8
Inventory	0	0	0	0	0	0	0	0
Receivables	18	12	15	12	16	16	17	17
Liquid funds	3	8	2	5	4	5	5	5
Total assets	64	61	61	74	77	79	80	80
Liabilities								
Shareholder's equity	15	20	20	22	25	26	27	29
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	6	8	8	8	8
Deferred taxes	1	1	1	1	1	1	1	1
Interest bearing debt	28	26	26	28	28	27	26	24
Non-interest bearing current liabilities	18	14	14	17	17	17	18	18
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	64	61	61	74	77	79	80	80
CASH FLOW, EURm								
+ EBITDA	3	8	2	5	10	9	10	10
- Net financial items	-1	-2	-2	-2	-2	-2	-2	-2
- Taxes	0	0	0	0	-1	-1	0	-1
- Increase in Net Working Capital	-3	3	-1	6	-1	0	0	0
+/- Other	0	-5	-2	0	-2	0	0	0
= Cash flow from operations	-1	4	-2	8	4	7	7	8
- Capex	-28	-1	-1	-3	-7	-5	-5	-5
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-29	3	-3	5	-3	1	2	3
+/- New issues/buybacks	4	0	3	1	0	0	0	0
- Paid dividend	0	0	-1	0	0	0	-1	-1
+/- Other	25	3	-5	-2	2	0	-1	-2
Change in cash	0	6	-7	4	-2	1	0	0

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	28	28	25	29	28	28	28
Net debt (excl. convertibles)	17	24	29	32	30	29	27
Enterprise value	45	52	54	60	59	57	55
Sales	63	51	57	58	60	62	64
EBITDA	8	2	5	10	9	10	10
EBIT	6	0	2	6	5	4	5
Pre-tax	5	-1	1	4	2	2	3
Earnings	5	-2	0	3	2	2	2
Equity book value (excl. minorities)	20	20	22	25	26	27	29
Valuation multiples							
EV/sales	0.7	1.0	1.0	1.0	1.0	0.9	0.9
EV/EBITDA	5.4	21.8	11.4	6.2	6.2	5.9	5.4
EV/EBITA	7.0	168.7	22.0	10.6	12.7	13.0	11.3
EV/EBIT	7.1	168.7	22.0	10.6	12.7	13.0	11.3
EV/OCF	11.6	-25.1	6.8	14.6	8.5	8.0	7.1
EV/FCFF	4.2	-14.0	14.0	59.8	11.8	9.9	8.1
P/FCFE	9.3	-8.8	5.3	-9.1	20.7	13.3	9.0
P/E	6.1	-18.3	69.9	27.1	14.7	15.2	12.1
P/B	1.4	1.4	1.1	1.2	1.1	1.0	1.0
Target EV/EBITDA	0.0	0.0	0.0	0.0	6.5	6.3	5.7
Target EV/EBIT	0.0	0.0	0.0	0.0	13.5	13.8	12.0
Target EV/FCF	0.0	0.0	0.0	0.0	45.2	28.5	18.6
Target P/B	0.0	0.0	0.0	0.0	1.2	1.2	1.1
Target P/E	0.0	0.0	0.0	0.0	16.5	17.1	13.6
Per share measures							
Number of shares	17,639	18,197	19,202	19,307	19,307	19,307	19,307
Number of shares (diluted)	17,639	18,197	19,202	19,307	19,307	19,307	19,307
EPS	0.26	-0.08	0.02	0.15	0.10	0.10	0.12
Operating cash flow per share	0.22	-0.11	0.42	0.21	0.35	0.37	0.40
Free cash flow per share	0.17	-0.17	0.24	-0.16	0.07	0.11	0.16
Book value per share	1.15	1.13	1.14	1.27	1.37	1.42	1.49
Dividend per share	0.05	0.00	0.00	0.00	0.05	0.05	0.06
Dividend payout ratio, %	19.1	0.0	0.0	0.0	50.0	50.0	50.0
Dividend yield, %	3.1	0.0	0.0	0.0	3.4	3.3	4.1
FCF yield, %	10.8	-11.4	18.8	-11.0	4.8	7.5	11.1
Efficiency measures							
ROE	25.8	-7.4	1.7	12.1	7.6	6.9	8.3
ROCE	14.3	0.7	4.8	9.8	7.6	7.2	8.0
Financial ratios							
Inventories as % of sales	0.1	0.3	0.2	0.3	0.3	0.3	0.3
Receivables as % of sales	18.9	28.9	21.1	26.8	26.8	26.8	26.8
Non-interest bearing liabilities as % of sales	21.5	27.0	29.2	28.6	28.6	28.6	28.6
NWC/sales, %	-2.5	2.2	-7.9	-1.5	-1.5	-1.5	-1.5
Operative CAPEX/sales, %	1.4	2.1	5.8	12.5	9.1	8.2	7.2
CAPEX/sales (incl. acquisitions), %	1.4	2.1	5.8	12.5	9.1	8.2	7.2
FCFF/EBITDA	1.3	-1.6	0.8	0.1	0.5	0.6	0.7
Net debt/EBITDA, book-weighted	2.1	10.2	6.2	3.2	3.2	3.0	2.6
Debt/equity, market-weighted	0.9	0.9	1.1	1.0	1.0	0.9	0.8
Equity ratio, book-weighted	33.2	33.3	29.3	31.9	33.4	34.4	36.2
Gearing, %	85.0	118.7	134.5	128.5	113.9	105.9	93.0

COMPANY DESCRIPTION: Solteq is a Nordic software and IT-services provider specializing in digital business solutions. Solteq's strength has been in commerce related solutions with a focus on selected sectors, namely the retail and wholesale, industry, energy, and services sectors. Recent product development investments have focused on autonomous service robotics.

INVESTMENT CASE: Solteq's investment case revolves around the success of executing its strategy of shifting from its IT-services oriented past towards becoming a software house. Implied margin upside potential is considerable, with segment targets putting margins clearly in the double digits. Growth will need to be sought from abroad, as domestic growth potential is more restricted.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Sentica Buyout III Ky	4,621,244	6.793	23.9%
Profiz Business Solution Oyj	2,060,769	3.029	10.7%
Elo Mutual Pension Insurance Company	2,000,000	2.940	10.4%
Saadetdin Ali	1,403,165	2.063	7.3%
Varma Mutual Pension Insurance Company	1,245,597	1.831	6.5%
Aalto Seppo Tapio	730,000	1.073	3.8%
Roininen Matti Juhani	450,000	0.662	2.3%
Väätäinen Olli Pekka	400,000	0.588	2.1%
Lamy Oy	225,000	0.331	1.2%
Sentica Buyout III Co-Investment Ky	180,049	0.265	0.9%
Ten largest	13,315,824	19.574	69%
Residual	5,990,703	8.806	31%
Total	19,306,527	28.381	100%

EARNINGS CALENDAR

October 29, 2020

Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Olli Väätäinen

Karhumäentie 3, FI-01350

CFO: Kari Lehtosalo

Tel:

IR:

DEFINITIONS

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

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Investment recommendations are defined as follows:

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

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

Recommendation	Percentage
Sell	15%
Hold	58%
Buy	27%

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

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

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