

Tietoevry

Company report

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This report is a summary translation of the report “Hyvä lopetus vuodelle ja jatko näyttää lupaavalta” published on 02/16/2023 at 07:55 am.

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Strong finish to the year, future looks promising

We raise Tietoevry's target price to EUR 33.0 (was 29.0), reflecting estimates changes, the positive outlook and the continued good execution of the strategy. Overall, the Q4 report was positive and above market expectations. The company's guidance indicates earnings growth of 5-17% in 2023, which is a strong level for Tietoevry's size. The company's good performance last year and outlook boosted confidence that the positive development will continue in the coming years. The valuation picture for the stock remains attractive from several perspectives (2023e adj. P/E 12x, DCF 37.0 and SOTP 36.0) and the divestments provide drivers to unwind the undervaluation.

Revenue continued strong organic growth and earnings clearly exceeded expectations

In Q4 Revenue grew by 3.5% to EUR 768 million, in line with our and consensus expectations. Organically, revenue grew by 9%. Tietoevry's EBITA% was 15.4% in Q4, just under 1 percentage point above our and the market's forecasts. Thus, the adjusted EBITA for Q4 was EUR 118 million (estimates 112-113 MEUR). Reported EPS were EUR 0.63 for Q4 and EUR 1.59 for the full year 2022. The board proposed a dividend of EUR 1.45 per share for 2022, which corresponds to a dividend yield of just over 5%. Overall, the year of continued good growth is very positive, as earnings growth is now on a healthier footing.

Revenue drivers in 2023

In 2023, revenue will be supported by a good order backlog (+6% y/y) and price increases. In terms of wage inflation, the company expects the headwinds to continue at 4-5% in 2023 (2022: 4%), driven by India and off-shore. Profitability continues to be supported by the efficiency programs launched last year and we expect the company to launch new ones this year as well. The company expects non-recurring costs to be around 1% of revenue in 2023 (estimate 1.2%) excluding costs related to strategic assessments, which is lower than last year (2022: 2%).

Guidance indicates good earnings growth in 2023

Tietoevry expects the company's organic growth to be 5-7% (2022: 6%). The company expects the full-year adjusted EBITA margin to be between 13.0% and 13.5% (2022: 13.0%). With the strong performance and a good outlook, we raised our earnings forecasts by around 5% for the coming years and consensus expectations are also under upward pressure. We expect the company to grow organically by 5.3% and achieve an EBITA margin of 13.3% in 2023. In 2024-25, we forecast growth to remain at 5% and profitability to rise to 13.8%, below our targets (growth of 8-10% and EBITA-% of 15-16% by 2025).

The valuation picture remains attractive

With strong demand fundamentals for Tietoevry and the sector, the company's prospects are good in the short and medium term. The risk profile of the business is still lower than many Nordic peers. With our estimates, Tietoevry's P/E and EV/EBIT ratios for 2023 are 12x and 10x or > 30% below peers. We feel that the absolute and relative valuation of the share is attractive. The expected return on the share also rises to an attractive level of >10% on the back of 7% earnings growth and a 5% dividend yield alone. In addition, the sum-of-the-parts calculation (EUR 36) clearly indicates a higher than current value and is a relevant way to look at valuation when the company is to be split into three parts. The DCF calculation (EUR 37.0) also indicates a clear upside. We believe the company has been chronically undervalued, but now we see stronger drivers for this to dissolve with a strengthened growth outlook and the separation of new businesses.

Recommendation

Accumulate

(previous Accumulate)

EUR 33.00

(previous EUR 29.00)

Share price:

29.58



Key figures

	2022	2023e	2024e	2025e
Revenue	2928	3082	3229	3384
growth-%	4%	5%	5%	5%
EBIT adj.	379	411	436	468
EBIT-% adj.	13.0 %	13.3 %	13.5 %	13.8 %
Net Income	189	236	253	281
EPS (adj.)	2.35	2.57	2.75	3.00

P/E (adj.)	11.3	11.5	10.8	9.9
P/B	1.8	2.0	1.9	1.8
Dividend yield-%	5.5 %	5.1 %	5.2 %	5.4 %
EV/EBIT (adj.)	10.2	9.9	9.1	8.2
EV/EBITDA	9.0	8.5	7.9	7.2
EV/S	1.3	1.3	1.2	1.1

Source: Inderes

Guidance

(New guidance)

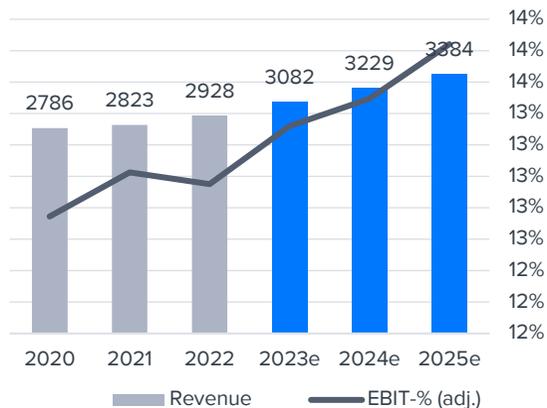
Tietoevry expects organic growth of 5-7% and an adjusted EBITA margin of 13.0-13.5% in 2023.

Share price



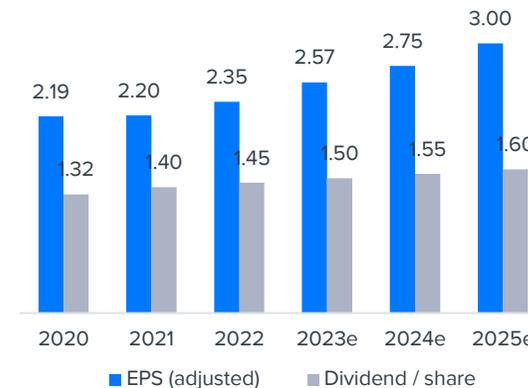
Source: Millstream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Strengthened growth outlook
- Increase in the share of highly profitable software product business
- Growing share of new modern IT services
- New synergies from the Tietoevry integration
- Acquisitions and divestments of non-strategic businesses
- Business separation



Risk factors

- Decline in competitive position among large customers
- Continuous transformation creates a constant need for restructuring
- Tietoevry's massive integration failing/dragging on
- Accelerating wage inflation, high employee turnover and a failure in talent competition

Valuation	2023e	2024e	2025e
Share price	29.6	29.6	29.6
Number of shares, millions	118.4	118.4	118.4
Market cap	3503	3503	3503
EV	4084	3962	3819
P/E (adj.)	11.5	10.8	9.9
P/E	14.8	13.8	12.5
P/FCF	9.7	11.0	10.3
P/B	2.0	1.9	1.8
P/S	1.1	1.1	1.0
EV/Sales	1.3	1.2	1.1
EV/EBITDA	8.5	7.9	7.2
EV/EBIT (adj.)	9.9	9.1	8.2
Payout ratio (%)	75.3 %	72.6 %	67.4 %
Dividend yield-%	5.1 %	5.2 %	5.4 %

Source: Inderes

Strong organic revenue growth and better-than-expected profitability in Q4

Revenue continued strong organic growth

Tietoenvy's Q4 revenue grew by 3.5% to EUR 768 million and was broadly in line with our and consensus expectations. Organically, revenue grew by 9%. Exchange rates had a negative impact of EUR 32 million and business sales had a negative impact of EUR 5 million. Growth was driven by strong performance in cloud computing and software products, especially in Tietoenvy Create (12%) and Tietoenvy Banking (10%). Growth was again slowed by Tietoenvy Transform and Connect (+1% and -3%). Overall, the growth is very positive, as historically Tietoenvy has had challenges to grow organically and earnings growth has relied more heavily on efficiencies, which isn't sustainable. Thus, through stronger growth, the business is on a healthier footing.

Q4 profitability was above our and the market's expectations

In Q4, Tietoenvy's EBITA margin was 15.4%, above our and market estimates of 14.6%-14.7%. EBITA adjusted for one-off items amounted to EUR 118 million in Q4 (Q4'21: 103 MEUR) and was above our and market estimates (112-113 MEUR). The result was still constrained by high inflation (not just wage inflation). In Q4, efficiency measures bore fruit in the Transform and Connect areas. Depreciation and one-off items were slightly below our estimates. This resulted in EPS adjusted for one-off items of EUR 0.73 in Q4, above our (0.72) and market expectations (0.68). Reported EPS were EUR 0.63 for Q4 and EUR 1.59 for the full year 2022. The board proposed a dividend of EUR 1.45 per share for 2022, which corresponds to a dividend yield of just over 5%.

Estimates MEUR / EUR	Q4'21	Q4'22	Q4'22e	Q4'22e	Consensus		Difference (%)	2022
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Toteutunut
Revenue	742	768	777	760	739	804	-1%	2928
EBIT (adj.)	103	118	113	112	96	123	4%	379
EBIT	113	103	91	94	84	109	14%	267
PTP	107	96	85	86	74	101	13%	243
EPS (adj.)	0.64	0.73	0.72	0.68	0.45	0.85	2%	2.35
EPS (reported)	0.75	0.63	0.56	0.57	0.49	0.66	12%	1.59
DPS	1.40	1.45	1.45	1.45	1.40	1.48	0%	1.45
Revenue growth-%	4.2 %	3.5 %	4.7 %	2.5 %	-0.5 %	8.3 %	-1.2 pp	3.7 %
EBIT-% (adj.)	13.9 %	15.4 %	14.6 %	14.7 %	13.0 %	15.3 %	0,8 pp	13.0 %

Source: Inderes & Vara Research (consensus)



Watch the video of the Q4 earnings webcast here:



Financial targets and business spin-offs

Tietoevry's targets are ambitious and higher than the current level

Tietoevry is targeting a growth rate of 8-10% and an adjusted EBITA of 15-16% by 2025. The targets are clearly higher than the current performance level, as for 2022 the company estimates organic growth to be 5-7% and adjusted EBITA to be 13.0-13.5%. In addition, the company aims to maintain the net debt/EBITDA ratio at 1-2x and continue increasing dividends annually.

Tietoevry's growth and profitability targets are based on consolidated business objectives. The company has set long-term financial targets for each area. True to its tradition, the company explains well and in detail the objectives of its different businesses and sets out the 2025 targets for each of them.

Industry-specific software solutions and global data-driven development and consulting services (combined): 12-14% annual growth rate and annual adjusted EBITA of 17-19% by 2025. By business, the targets are:

- Tietoevry Create growth 14-16% and EBITA-% 14-16%
- Tietoevry Banking growth 10-12% and EBITA-% 16-18%
- Tietoevry Care growth 12-14% and EBITA-% 28-30%
- Tietoevry Industry growth 8-10% and EBITA-% 20-22%

Managed services and transformation (combined): 1-3% annual growth rate and annual adjusted EBITA of 9-11% by 2025. By business, the targets are:

- Tietoevry Transform growth 2-4% and EBITA-% 10-12%
- Tietoevry Connect growth 1-3% and EBITA-% 8-10%

In our view the objectives are ambitious and well above our and market expectations.

Banking business spin-off

In connection with its Q2 report, Tietoevry also announced that it has decided to initiate a strategic review of Tietoevry Banking, including a process to study the potential separation into an independent company that would be listed on a stock exchange. The aim is to accelerate the growth and profitability of Tietoevry Banking and enhance its strategic and financial flexibility.

We already considered separation as one driver for dissolving the undervaluation. Thus, the news was very welcome. If the listing review proceeds favorably, Tietoevry will seek to list the Banking business on a stock exchange in the second half of 2023. The company feels that as an independent company the business has greater opportunities to grow and improve profitability.

Transform and Connect business spin-off

Tietoevry announced in November that it will also spin off its business areas that focus on continuous services and transformation (Tietoevry Transform and Tietoevry Connect). These activities are concentrated in slower growing or declining areas of the IT services market. We believe that with the separation the company wants to showcase its other more quickly growing businesses that focus on software solutions with better profitability and data-driven development and consulting services (Tietoevry Create, Tietoevry

Banking, Tietoevry Care and Tietoevry Industry). We feel the separation is in line with the company's strategy and a "new" driver to dissolve the undervaluation of the share.

Combined Tietoevry Transform and Tietoevry Connect would be a competitive player focusing on Nordic managed services and customer transformation, serving over 1,000 Nordic companies and public sector customers. The combined annual revenue of the businesses is around EUR 1.2 billion and they employ some 8,700 professionals worldwide. As part of the process, the businesses are combined and the whole is managed by a team that focuses on implementing a common strategy using the best expertise from both businesses.

At the beginning of the year, the company has appointed new managers for both entities to be separated. In the Q4'22 report, the company reported that strategic assessments are progressing as planned. The strategic review of the Banking business is still expected to be completed in H2'23 and the Transform and Connect businesses are expected to be completed in H1'24.

The planned measures accelerate the strategy execution of the remaining Tietoevry and positions the company as a player focusing on industry-specific software solutions and global data-driven development and consulting services. The combined annual revenue of these Tietoevry businesses is currently around EUR 1.7 billion and they have some 16,000 employees worldwide. The separation allows the businesses to become more competitive in the market and to accelerate value creation.

We slightly raised our estimates

Estimate revisions 2023e-2024e

- We kept our revenue estimates almost unchanged. We estimate that consensus estimates are under upward pressure in 2023, with expectations of 2% and guidance of 5-7%.
- We raised our profitability estimates driven by a stronger-than-expected Q4

Estimates

- We forecast Tietoevry to grow by around 5% annually in the coming years, which is below the company's financial targets of 8-10%.
- We expect the EBITA margin to rise gradually to 13.8% for the year, below the company's 15-16% target.

Operational result drivers 2023e:

- Good order backlog (Q4'22: 2023 amount to be invoiced +6% y/y)
- Price increases support development
- Efficiency programs continue to support development
- Tietoevry estimates wage inflation to average 4-5% in 2023 (2022: 4%)
- The company expects non-recurring costs to be around 1% of revenue in 2023, excluding costs related to strategic assessments.

Financial objectives

- Tietoevry is targeting a growth rate of 8-10%
- In terms of profitability, the company is targeting an adjusted EBITA margin of 15-16% by 2025
- In terms of solvency, the company aims to maintain a net debt/EBITDA ratio between 1-2x
- For the dividend, the objective is to continue to increase each year

Estimate revisions MEUR / EUR	2022	2022	Change	2023e	2023e	Change	2024e	2024e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	2946	2928	-1%	3092	3082	0%	3237	3229	0%
EBITDA	420	429	2%	470	481	2%	503	503	0%
EBIT (exc. NRIs)	376	379	1%	398	411	3%	419	436	4%
EBIT	255	267	4%	306	325	6%	327	344	5%
PTP	233	243	4%	281	299	6%	307	320	4%
EPS (excl. NRIs)	2.35	2.35	0%	2.49	2.57	3%	2.66	2.75	3%
DPS	1.45	1.45	0%	1.50	1.50	0%	1.55	1.55	0%

Source: Inderes

Valuation 1/2

Peer group

Demand fundamentals for Tietoevry and the sector have strengthened, and the company's outlook has improved over the past good 12 months. We have used Finnish, Nordic and global peers in Tietoevry's peer group. We consider the median of this peer group to be a good yardstick for Tietoevry's valuation level. We base the relative valuation on the company's size, competitive position, and scalability, continuity and know-how of the expert portfolio, as well as geographical diversification and predictable business. We have also considered the 'constant' restructuring costs, which are higher for Tietoevry than its peers. Tietoevry expects restructuring costs to be 1% of revenue in 2023 (2022: ~ 2.0%), representing a good 5% of the operating result. As the company shows strengthening economies of scale and competitive advantages, a slight premium can be accepted for the share compared to the sector valuation.

Valuation multiples

With our estimates, Tietoevry's P/E and EV/EBIT ratios for 2023 are 12x and 10x or > 30% below peers. We feel that the absolute and relative valuation of the share is still attractive. The company adjusts good 5% more costs from its result than its Finnish peers and considering this the share is still attractively priced. In addition, dividend yield (5%) provides a good baseline return.

In our view, dismantling the long-standing undervaluation can be triggered by the continuation of organic growth, which in history has been challenging and the current 4-9% level can be considered good for Tietoevry, which also reflects how healthy the business is. In addition, the new

strategy and segment structure allow new and higher efficiency as the segments have their own stronger focus. Thirdly, the planned separation of the business would clarify the structure and give the new business entities better growth and profitability. The company has been communicating for some time that it's active on the M&A front, which may involve acquisitions and smaller divestments in addition to the current spin-offs. This could further strengthen (acquisitions) or clarify the structure (divestments) and reduce the undervaluation. In our view, the drivers to unwind the undervaluation have only strengthened and business spin-offs are moments that support this.

Components of the expected return for the share

We examine the expected return for Tietoevry's share based on earnings growth, dividend yield and the accepted valuation level. We estimate that the company is positioned for ~7% annual earnings growth in 2024-25 (relative to 2023 levels), mainly driven by revenue growth. With our growing dividend estimates and average 70% payout ratio the dividend yield is above 5%. A strong cash flow continuously strengthens the balance sheet and provides a good basis for even higher profit distribution and/or inorganic growth.

In our view, there is also room for upside in the valuation multiples of the stock at the moment. Thus, the expected return on the stock, consisting solely of dividend yield and earnings growth, is >10%. This is an attractive level, especially given the company's low risk profile.

Valuation	2023e	2024e	2025e
Share price	29.6	29.6	29.6
Number of shares, millions	118.4	118.4	118.4
Market cap	3503	3503	3503
EV	4084	3962	3819
P/E (adj.)	11.5	10.8	9.9
P/E	14.8	13.8	12.5
P/FCF	9.7	11.0	10.3
P/B	2.0	1.9	1.8
P/S	1.1	1.1	1.0
EV/Sales	1.3	1.2	1.1
EV/EBITDA	8.5	7.9	7.2
EV/EBIT (adj.)	9.9	9.1	8.2
Payout ratio (%)	75.3 %	72.6 %	67.4 %
Dividend yield-%	5.1 %	5.2 %	5.4 %

Source: Inderes

Valuation 2/2

Sum of the parts

With Tietoevry's strategy and especially the business separations, it's very natural to look at the valuation of the share also from the perspective of the sum of the parts. Tietoevry has announced that it will spin off its Banking business separately and its Transform and Connect businesses together. Thus, three new entities would be created in total. The separation of the Banking business will probably proceed first (with H2'23) and Transform and Connect in early 2024.

The Banking business is currently growing well, and profitability is at a good level. The business has good international growth potential. In particular, the business has the potential to further improve profitability through the share of software and ongoing business and scalable growth.

The very mature phase of the Transform and

Connect businesses has put pressure on Tietoevry's development. Businesses have developed very moderately in terms of revenue and profitability is under constant pressure from fierce price competition.

In our view, the EV/EBITA multiples we use reflect growth and profitability profiles, peers and business continuity. We have used our 2023 projections for the businesses.

If the businesses reach their targets in 2025, there is still considerable upside potential in the sum of the parts.

However, the valuation at the time of separation depends to a large extent on the current development of the business (growth and profitability), the market situation, the potential, the share of software and the share of recurring revenue.

With the multiples we applied, we arrive at an unleveraged value of EUR 4.9 billion for Tietoevry, which corresponds to a year-end net debt value of EUR 36.1 per share. Thus, there is a clear upside in the stock through the sum of the parts.

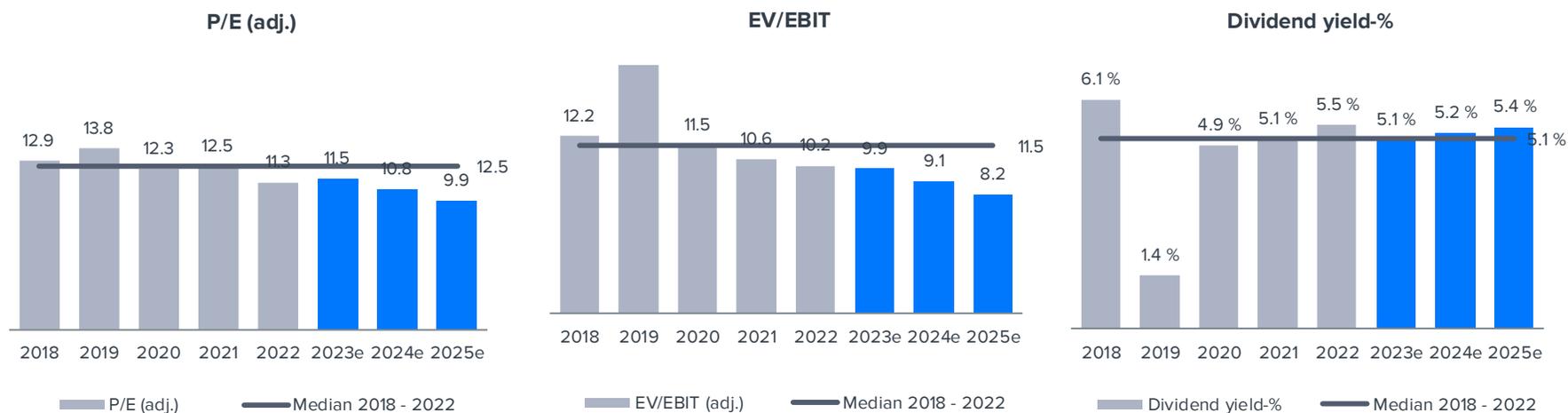
Sum of the parts calculation

Segments	Revenue growth 2023	EBITA-% 2023	EBITA	EV/EBITA multiple	EV	Revenue growth target	EBITA-% target 2025
Tietoevry Create	8%	14%	132	14x	1,846	14-16%	14-16%
Tietoevry Banking	11%	14%	83	13x	1,082	10-12%	16-18%
Tietoevry Care	9%	30%	77	13x	1,000	12-14%	28-30%
Tietoevry Industry	2%	17%	48	11x	528	8-10%	20-22%
Tietoevry Transform	1%	8%	38	7x	267	2-4%	10-12%
Tietoevry Connect	-1%	6%	56	7x	395	1-3%	8-10%
Other			-24	10,8x	-260		
Group total	5.3%	13.3%	411	11,8x	4,858		
Net debt					581		
Market cap					4,277		
Share price					36.1		

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	23.6	27.7	26.9	27.5	26.5	29.6	29.6	29.6	29.6
Number of shares, millions	73.8	67.9	118.4	118.4	118.4	118.4	118.4	118.4	118.4
Market cap	1741	3283	3181	3254	3140	3503	3503	3503	3503
EV	2045	4067	4097	3900	3851	4084	3962	3819	3652
P/E (adj.)	12.9	13.8	12.3	12.5	11.3	11.5	10.8	9.9	9.1
P/E	14.1	23.8	33.7	11.2	16.7	14.8	13.8	12.5	11.3
P/FCF	neg.	neg.	82.9	8.4	13.0	9.7	11.0	10.3	9.5
P/B	3.6	1.9	2.0	1.8	1.8	2.0	1.9	1.8	1.7
P/S	1.1	1.9	1.1	1.2	1.1	1.1	1.1	1.0	1.0
EV/Sales	1.3	2.3	1.5	1.4	1.3	1.3	1.2	1.1	1.0
EV/EBITDA	9.8	17.7	12.7	7.1	9.0	8.5	7.9	7.2	6.4
EV/EBIT (adj.)	12.2	20.7	11.5	10.6	10.2	9.9	9.1	8.2	7.3
Payout ratio (%)	86.9 %	59.5 %	165.4 %	56.9 %	91.0 %	75.3 %	72.6 %	67.4 %	63.0 %
Dividend yield-%	6.1 %	1.4 %	4.9 %	5.1 %	5.5 %	5.1 %	5.2 %	5.4 %	5.6 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
			2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e
Digia*	162	175	9.3	8.2	7.6	6.8	1.0	0.9	11.4	10.4	3.1	3.3
Digital Workforce*	48	34		25.9		21.6	1.2	0.9		42.5		
Gofore*	388	362	13.9	11.8	12.8	10.7	1.9	1.7	18.1	16.4	1.6	1.8
Loihde*	75	42	14.3	7.5	9.0	5.5	0.3	0.3	27.8	16.4	1.7	2.4
Innofactor*	48	58	9.9	8.6	6.7	5.9	0.7	0.7	11.5	10.4	5.2	6.0
Netum Group*	44	45	12.6	10.1	11.7	9.6	1.3	1.2	15.3	12.9	3.8	4.1
Nixu*	58	59	15.4	11.0	11.5	9.0	0.9	0.8	21.6	15.5		
Silli Solutions*	135	122	8.9	7.6	7.4	6.2	0.9	0.8	13.3	11.9	1.8	2.1
Solteq*	30	58	15.7	10.3	6.3	5.6	0.8	0.7	20.7	10.8	3.2	5.1
Vincit*	74	60	7.1	5.5	6.5	5.1	0.6	0.5	10.9	8.9	5.3	5.8
Witted Megacorp*	56	46	29.3	8.9	28.5	8.7	0.6	0.5	36.7	14.2		
Bouvet	590	611	15.5	14.3	13.0	12.2	1.9	1.8	19.5	18.0	4.7	4.9
Enea	193	225	21.2	18.1	8.4	8.0	2.6	2.5	25.9	22.1		
Knowit	546	646	16.6	13.5	9.3	8.9	1.0	0.9	17.9	15.0	3.4	3.6
Netcompany Group	1840	2089	18.3	15.5	14.5	12.4	2.6	2.3	21.3	17.8	0.6	1.0
Wipro	25007	22789	14.7	12.7	11.9	10.6	2.2	2.0	19.4	16.9	2.0	2.3
Tata Consultancy	144384	138858	22.3	19.8	20.5	18.2	5.5	5.0	30.2	26.6	2.6	2.6
Atos SE	1323	4248	11.5	10.5	5.0	4.0	0.4	0.4	6.6	3.8		
Capgemini SE	32104	36977	13.5	12.4	10.3	9.5	1.6	1.5	16.0	14.5	1.7	1.9
IBM	114732	154091	14.9	14.0	10.6	10.4	2.6	2.5	14.3	13.5	4.7	5.0
Accenture	175061	170241	18.4	16.9	15.4	14.2	2.8	2.6	24.8	22.6	1.5	1.7
Tietoenvy (Inderes)	3503	4084	9.9	9.1	8.5	7.9	1.3	1.2	11.5	10.8	5.1	5.2
Average			15.2	12.5	11.3	9.7	1.6	1.4	19.2	16.2	2.9	3.3
Median (all)			14.8	11.8	10.4	9.0	1.2	0.9	18.8	15.0	2.9	2.9
<i>Diff-% to median</i>			-33%	-23%	-19%	-12%	15%	31%	-39%	-28%	76%	78%
Median Finnish companies			12.6	9.3	7.6	6.5	0.9	0.8	15.3	12.4	3.2	3.7
<i>Diff-% to median</i>			-21%	-2%	12%	21%	47%	58%	-24%	-13%	60%	42%
Median international companies			16.6	14.0	11.9	10.4	2.2	2.0	19.5	16.9	2.3	2.4
<i>Diff-% to median</i>			-40%	-35%	-29%	-24%	-41%	-40%	-41%	-36%	121%	114%

Source: Refinitiv / *Inderes' adjusted estimate. NB: The market cap Inderes uses does not consider own shares held by the company.

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	2823	731	739	690	768	2928	761	775	728	817	3082	3229	3384	3535
Tietoevry Create	756	188	188	172	207	851	233	227	222	241	923	997	1067	1131
Tietoevry Banking	476	114	120	112	130	525	139	146	136	160	580	623	667	714
Tietoevry Care	222	54.4	61.5	48.9	57.1	232	61.7	63.5	58.4	68.7	252	272	294	314
Tietoevry Industry	303	82.9	78.5	67.4	74.6	273	69.6	70.3	66.7	73.2	280	294	308	324
Tietoevry Transform	468	121	119	105	122	471	121	120	108	128	477	482	489	496
Eliminations	-309.5	-76	-77	-73	-83	-304	-85	-79	-69	-71	-304	-313	-324	-335
EBITDA	552	88.3	81.3	118	142	429	111	108	120	141	481	503	533	567
Depreciation	-170.0	-42	-42	-40	-39	-162	-39	-39	-39	-39	-156	-159	-159	-161
EBIT (excl. NRI)	368	85	79	98	118	379	93	91	102	124	411	436	468	500
EBIT	382	46	40	78	103	267	72	69	81	102	325	344	374	406
Net financial items	-28.2	-4	-9	-2	-8	-24	-7	-7	-7	-7	-26	-23	-19	-13
PTP	354	42	31	75	95	243	65	63	75	96	299	320	356	393
Taxes	-62.2	-9	-9	-16	-21	-54	-14	-13	-16	-20	-63	-67	-75	-82
Net earnings	292	33	22	59	75	189	52	50	59	76	236	253	281	310
EPS (adj.)	2.20	0.54	0.45	0.63	0.73	2.35	0.58	0.56	0.64	0.79	2.57	2.75	3.00	3.25
EPS (rep.)	2.46	0.28	0.18	0.50	0.63	1.59	0.44	0.42	0.50	0.64	1.99	2.14	2.37	2.62
Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	1.3 %	2.7 %	2.4 %	6.5 %	3.5 %	3.7 %	4.2 %	4.9 %	5.5 %	6.4 %	5.3 %	4.8 %	4.8 %	4.5 %
Adjusted EBIT growth-%	3.6 %	3.0 %	-10.5 %	4.0 %	14.1 %	3.1 %	10.1 %	15.1 %	4.4 %	5.6 %	8.3 %	6.1 %	7.5 %	6.8 %
EBITDA-%	19.6 %	12.1 %	11.0 %	17.0 %	18.4 %	14.6 %	14.6 %	14.0 %	16.5 %	17.3 %	15.6 %	15.6 %	15.8 %	16.0 %
Adjusted EBIT-%	13.0 %	11.6 %	10.7 %	14.2 %	15.3 %	13.0 %	12.2 %	11.7 %	14.0 %	15.2 %	13.3 %	13.5 %	13.8 %	14.1 %
Net earnings-%	10.3 %	4.5 %	3.0 %	8.6 %	9.7 %	6.4 %	6.8 %	6.4 %	8.1 %	9.3 %	7.7 %	7.8 %	8.3 %	8.8 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	2713	2565	2520	2479	2440
Goodwill	1944	1847	1847	1847	1847
Intangible assets	388	337	288	240	191
Tangible assets	280	299	309	317	326
Associated companies	16.7	14.2	14.2	14.2	14.2
Other investments	17.0	16.2	10.0	10.0	10.0
Other non-current assets	38.1	20.6	20.6	20.6	20.6
Deferred tax assets	29.9	31.4	31.4	31.4	31.4
Current assets	874	829	798	799	836
Inventories	7.2	5.6	0.0	0.0	0.0
Other current assets	23.3	23.6	23.6	23.6	23.6
Receivables	520	550	586	613	643
Cash and equivalents	324	250	189	161	169
Balance sheet total	3587	3394	3318	3278	3276

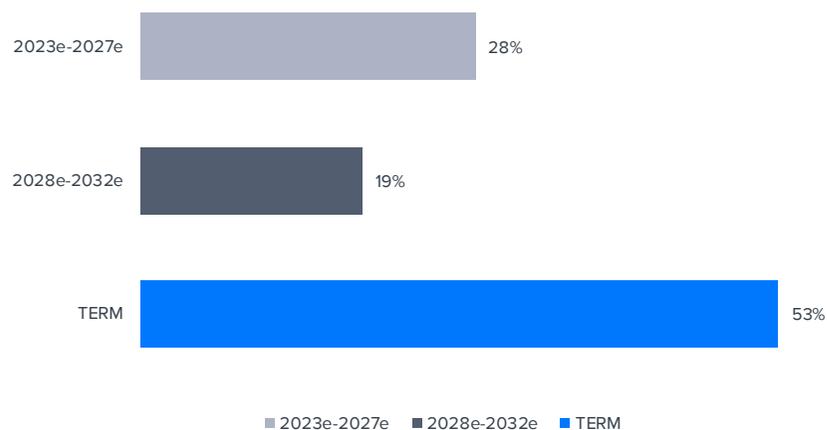
Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	1821	1719	1744	1819	1916
Share capital	118	116	75.8	75.8	75.8
Retained earnings	500	400	464	540	637
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	1204	1204	1204	1204	1204
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	999	891	806	544	436
Deferred tax liabilities	27.6	24.6	24.6	24.6	24.6
Provisions	22.4	21.7	21.7	21.7	21.7
Long term debt	876	795	710	449	341
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	73.4	49.4	49.4	49.4	49.4
Current liabilities	767	783	769	915	923
Short term debt	94.0	165	60.0	172	145
Payables	673	619	709	743	778
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	3587	3394	3318	3278	3276

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	3.7 %	5.3 %	4.8 %	4.8 %	4.5 %	4.0 %	3.0 %	3.0 %	2.5 %	2.5 %	1.5 %	1.5 %
EBIT-%	9.1 %	10.5 %	10.6 %	11.1 %	11.5 %	11.0 %	11.0 %	11.0 %	10.0 %	10.0 %	10.0 %	10.0 %
EBIT (operating profit)	267	325	344	374	406	404	417	429	400	410	416	
+ Depreciation	162	156	159	159	161	161	133	125	125	125	126	
- Paid taxes	-58.7	-62.7	-67.2	-74.7	-82.5	-83.3	-86.8	-90.1	-84.2	-86.4	-87.8	
- Tax, financial expenses	-5.6	-5.7	-5.1	-4.1	-3.0	-1.8	-0.9	-0.3	0.0	0.0	0.0	
+ Tax, financial income	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4	
- Change in working capital	-83.4	60.4	5.9	6.2	6.1	5.7	4.4	4.5	3.9	4.0	2.5	
Operating cash flow	281	473	436	461	488	486	467	469	445	453	457	
+ Change in other long-term liabilities	-24.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-14.8	-111.1	-118.6	-119.9	-121.1	-122.4	-123.7	-125.0	-126.4	-127.7	-129.9	
Free operating cash flow	242	362	318	341	367	364	343	344	318	325	327	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	242	362	318	341	367	364	343	344	318	325	327	5545
Discounted FCFF		340	278	277	277	256	225	209	180	171	160	2718
Sum of FCFF present value		5092	4752	4475	4197	3920	3664	3440	3230	3050	2879	2718
Enterprise value DCF		5092										
- Interesting bearing debt		-960.0										
+ Cash and cash equivalents		250										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		4382										
Equity value DCF per share		37.0										

Cash flow distribution



Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	15.0 %
Cost of debt	6.0 %
Equity Beta	1.15
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	8.0 %
Weighted average cost of capital (WACC)	7.5 %

Source: Inderes

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	2786.4	2823.3	2928.1	3082.4	3228.8	EPS (reported)	0.80	2.46	1.59	1.99	2.14
EBITDA	322.5	552.0	428.7	480.7	502.7	EPS (adj.)	2.19	2.20	2.35	2.57	2.75
EBIT	146.7	382.0	266.5	324.7	343.7	OCF / share	1.93	4.42	2.38	3.99	3.69
PTP	122.4	353.8	242.8	298.7	320.2	FCF / share	0.32	3.27	2.04	3.06	2.68
Net Income	94.5	291.6	188.6	236.0	253.0	Book value / share	13.73	15.38	14.52	14.72	15.36
Extraordinary items	-208.4	14.3	-112.7	-85.8	-92.0	Dividend / share	1.32	1.40	1.45	1.50	1.55
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	3604.8	3587.3	3393.8	3318.2	3278.0	Revenue growth-%	61%	1%	4%	5%	5%
Equity capital	1626.2	1821.1	1719.3	1743.5	1818.9	EBITDA growth-%	40%	71%	-22%	12%	5%
Goodwill	1974.4	1943.7	1846.5	1846.5	1846.5	EBIT (adj.) growth-%	81%	4%	3%	8%	6%
Net debt	916.3	645.8	710.3	580.9	459.3	EPS (adj.) growth-%	9%	1%	7%	9%	7%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	11.6 %	19.6 %	14.6 %	15.6 %	15.6 %
EBITDA	322.5	552.0	428.7	480.7	502.7	EBIT (adj.)-%	12.7 %	13.0 %	13.0 %	13.3 %	13.5 %
Change in working capital	-67.0	19.2	-83.4	60.4	5.9	EBIT-%	5.3 %	13.5 %	9.1 %	10.5 %	10.6 %
Operating cash flow	228.7	523.4	281.3	472.9	436.4	ROE-%	5.7 %	16.9 %	10.7 %	13.6 %	14.2 %
CAPEX	14.0	-110.5	-14.8	-111.1	-118.6	ROI-%	5.4 %	13.7 %	9.8 %	12.5 %	13.9 %
Free cash flow	38.4	387.4	241.8	361.8	317.8	Equity ratio	45.1 %	50.8 %	50.7 %	52.5 %	55.5 %
Valuation multiples	2020	2021	2022	2023e	2024e	Gearing	56.3 %	35.5 %	41.3 %	33.3 %	25.3 %
EV/S	1.5	1.4	1.3	1.3	1.2						
EV/EBITDA (adj.)	12.7	7.1	9.0	8.5	7.9						
EV/EBIT (adj.)	11.5	10.6	10.2	9.9	9.1						
P/E (adj.)	12.3	12.5	11.3	11.5	10.8						
P/E	2.0	1.8	1.8	2.0	1.9						
Dividend-%	4.9 %	5.1 %	5.5 %	5.1 %	5.2 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
4/26/2018	Reduce	29.00 €	29.86 €
7/23/2018	Accumulate	28.00 €	25.96 €
10/25/2018	Reduce	27.00 €	26.30 €
11/29/2018	Reduce	27.00 €	25.70 €
2/7/2019	Reduce	27.00 €	26.70 €
4/26/2019	Reduce	27.00 €	27.50 €
7/22/2019	Accumulate	26.00 €	23.10 €
10/25/2019	Reduce	26.00 €	25.92 €
12/11/2019	Reduce	27.00 €	26.86 €
2/17/2020	Reduce	29.00 €	30.30 €
3/30/2020	Accumulate	21.00 €	18.69 €
4/29/2020	Accumulate	25.00 €	21.94 €
7/27/2020	Accumulate	28.00 €	26.24 €
10/21/2020	Buy	30.00 €	25.90 €
10/28/2020	Buy	30.00 €	22.66 €
2/18/2021	Buy	30.00 €	26.34 €
4/30/2021	Buy	34.00 €	28.98 €
7/21/2021	Buy	34.00 €	28.36 €
10/27/2021	Buy	34.00 €	26.94 €
2/18/2022	Buy	32.00 €	25.70 €
5/6/2022	Buy	31.00 €	22.72 €
7/25/2022	Buy	31.00 €	26.14 €
10/28/2022	Accumulate	28.00 €	24.34 €
12/1/2022	Accumulate	29.00 €	25.92 €
2/16/2023	Accumulate	33.00 €	29.58 €



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