

Innofactor

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report “Maltillisesti eteenpäin vastatuulista huolimatta” published on 2/18/2022 at 7:55 am

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Calmly forward despite headwinds

We reiterate our Accumulate recommendation for Innofactor but lower our target price to EUR 1.5 (previously 1.8) reflecting our estimate cuts. Although the company's result still grew, it was below our estimates. The order backlog and improved cost structure still support earnings growth, which the company's guidance also expects as usual. However, the tight expert market and Swedish business continue to restrict development. With good cash flow and a strengthened balance sheet, the company's risk profile has improved. With our estimates the share's valuation image is still attractive in our view (2022e EV/EBIT 9x).

Q4 fell short of expectations

Q4 net sales decreased by 4% to EUR 17.5 million and were slightly below our estimates. Organic net sales were at the level of the comparison period. Geographically, Finland's net sales were depressed by reorganization in connection with the strategy update. Q4 EBIT grew by 5% to EUR 1.7 million representing 10% of net sales. Due to one-off reasons depreciation was higher than we expected, and EPS was thus EUR 0.02 which was below our EUR 0.03 estimate. EPS for the full year was EUR 0.12 and the Board of Directors proposed that the company distribute EUR 0.08 per share as repayment of capital for 2021. The company may also distribute an additional dividend of EUR 0.08 at a later date.

Updated strategy from fall seeks faster growth in 2022

Innofactor announced in August that it had decided to update its strategy to support growth more effectively. In the same context, the company also decided to change the Finnish organization to match the growth areas of the new strategy. The aim is to recruit a significant number of new experts to the new business units to be established and to support growth. The challenge is the extremely tight expert market and wage inflation pressure.

As usual, Innofactor's guidance indicates net sales and EBITDA growth

Innofactor estimates that 2022 net sales and adjusted EBITDA will increase from 2021. With a slightly softer Q4 report and a tight expert market, we lowered our earnings estimates by an average of 10% for 2022-23. We expect that Innofactor's net sales will grow by 4% to EUR 69 million in 2022 and adjusted EBITDA will increase to EUR 8.0 million (11.7% of net sales) from EUR 7.5 million in 2021. We expect net sales to grow at a 3-4% rate and EBITDA % to rise to 12.5% in 2023-2024. In addition, the company has better opportunities for acquisitions or new high dividends considering its balance sheet.

Valuation is attractive from many angles

In our view, the positioning of Innofactor's valuation is climbing out of the turnaround company category and establishing as an earnings grower. With our estimates, Innofactor's adjusted P/E and EV/EBIT ratios for 2022 are 13x and 9x or 20% below domestic peers. The corresponding ratios for 2023 are 11x and 8x or 16% below the peers. With 2022 multiples, the valuation is not high in absolute or relative terms and if the company reaches our estimates, the annual expected return will rise to an attractive 15% level. However, external and internal uncertainties associated with the earnings improvement result in a relatively cautious view on our part.

Recommendation

Accumulate
(previous Accumulate)

EUR 1.50
(previous EUR 1.80)

Share price:
1.33



Key figures

	2021	2022e	2023e	2024e
Revenue	66	69	72	74
growth-%	0%	4%	4%	3%
Käyttökate	10.1	8.0	8.8	9.2
Käyttökate-%	15.2 %	11.7 %	12.3 %	12.5 %
Net Income	4.5	3.8	4.6	5.0
EPS (adj.)	0.06	0.11	0.13	0.14

P/E (adj.)	24.3	12.5	10.5	9.7
P/B	2.2	1.8	1.7	1.6
Dividend yield-%	5.3 %	4.5 %	5.3 %	6.0 %
EV/EBIT (adj.)	13.9	9.2	7.8	6.6
EV/EBITDA	6.1	6.2	5.2	4.6
EV/S	0.9	0.7	0.6	0.6

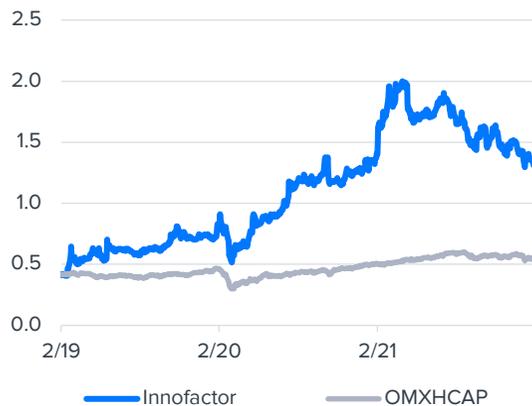
Source: Inderes

Guidance

(New guidance)

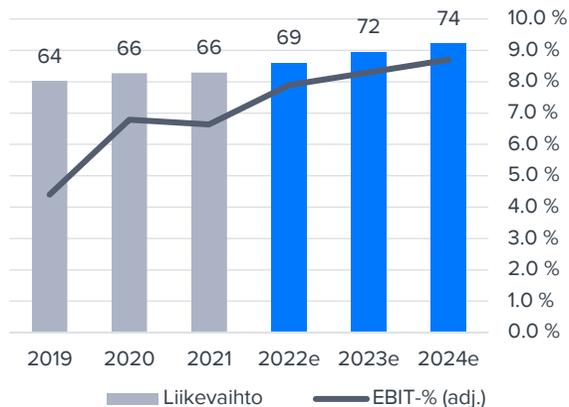
Innofactor's net sales and adjusted operating margin (EBITDA) in 2022 are estimated to increase from the year before (2021: 66.4 MEUR and 7.5 MEUR).

Share price



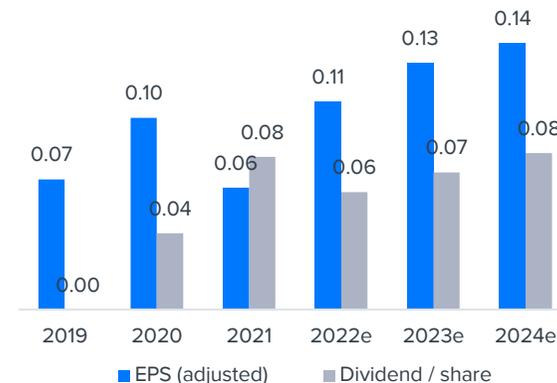
Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Growth and profitability improvement in Sweden, Norway and Denmark
- Turnaround continuing and strengthening
- Returning investor confidence
- Organic and acquisition-driven growth
- Increasing share of continuous business and own product business



Risk factors

- Failure in strengthening international business
- Delay in building a Nordic organization
- Internationalization and acquisitions raise the risk level
- Weakening of Microsoft's position

Valuation	2022e	2023e	2024e
Share price	1.33	1.33	1.33
Number of shares, millions	36.6	36.6	36.6
Market cap	49	49	49
EV	50	46	42
P/E (adj.)	12.5	10.5	9.7
P/E	12.9	10.5	9.7
P/FCF	7.5	7.8	7.3
P/B	1.8	1.7	1.6
P/S	0.7	0.7	0.7
EV/Sales	0.7	0.6	0.6
EV/EBITDA	6.2	5.2	4.6
EV/EBIT (adj.)	9.2	7.8	6.6
Payout ratio (%)	58.2 %	55.7 %	58.8 %
Dividend yield-%	4.5 %	5.3 %	6.0 %

Source: Inderes

Estimates

Estimates	Q4'20	Q4'21	Q4'21e	Q4'21e	Consensus		Difference (%)	2021
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Actualized
Revenue	18.3	17.5	18.3				-4%	66.4
EBITDA	1.6	1.7	2.0				-14%	10.1
EBIT (adj.)	1.0	0.6	1.3				-55%	4.4
EBIT	0.4	0.5	1.2				-58%	6.5
EPS (adj.)	0.02	0.01	0.03				-65%	0.06
EPS (reported)	0.01	0.01	0.02				-67%	0.12
DPS	0.04	0.08	0.06				33%	0.08
Revenue growth-%	4.7 %	-4.1 %	0.0 %				-4.2 pp	0.3 %
EBITDA	8.7 %	9.7 %	10.9 %				-1.2 pp	15.2 %

Source: Inderes

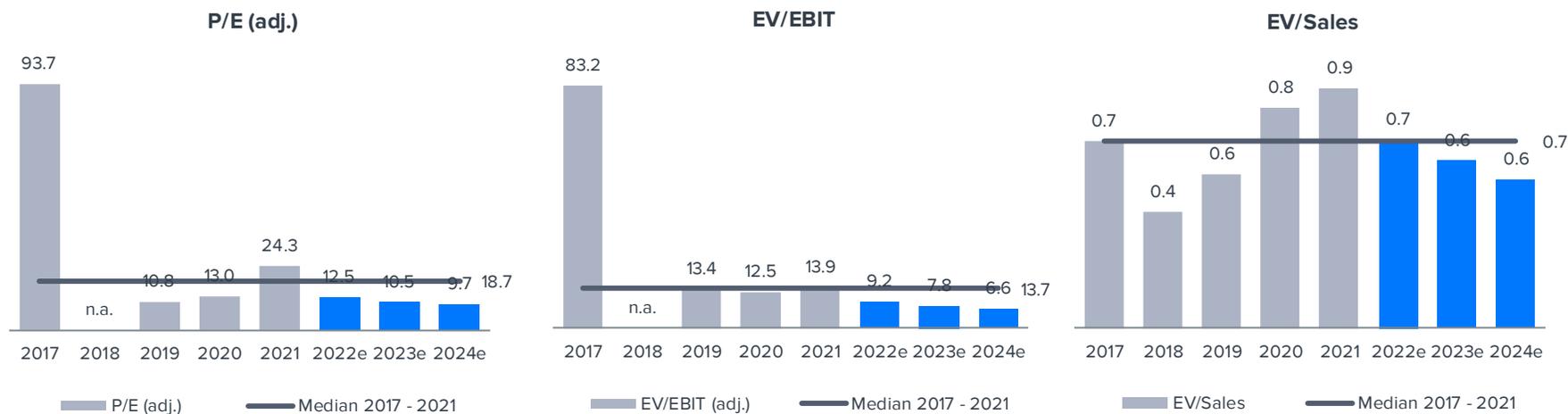
Estimate revisions	2021	2021	Change	2022e	2022e	Change	2023e	2023e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	67.1	66.4	-1%	69.8	68.9	-1%	72.6	71.6	-1%
EBITDA	10.4	10.1	-3%	9.0	8.0	-10%	9.7	8.8	-9%
EBIT (exc. NRIs)	5.1	4.4	-14%	6.3	5.4	-13%	6.7	5.9	-11%
EBIT	7.2	6.5	-9%	5.9	5.3	-10%	6.7	5.9	-11%
PTP	6.5	5.7	-12%	5.7	4.7	-17%	6.5	5.8	-12%
EPS (excl. NRIs)	0.08	0.06	-24%	0.13	0.11	-20%	0.14	0.13	-10%
DPS	0.06	0.08	33%	0.07	0.06	-14%	0.07	0.07	0%

Source: Inderes

Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	0.94	0.36	0.72	1.28	1.52	1.33	1.33	1.33	1.33
Number of shares, millions	37.2	37.2	36.8	38.4	38.4	36.6	36.6	36.6	36.6
Market cap	34	13	27	48	57	49	49	49	49
EV	47	28	38	56	61	50	46	42	38
P/E (adj.)	93.7	n.a.	10.8	13.0	24.3	12.5	10.5	9.7	9.1
P/E	neg.	neg.	63.3	27.8	12.9	12.9	10.5	9.7	9.1
P/FCF	neg.	neg.	2.7	13.7	8.2	7.5	7.8	7.3	7.0
P/B	1.3	0.6	1.2	2.0	2.2	1.8	1.7	1.6	1.4
P/S	0.5	0.2	0.4	0.7	0.9	0.7	0.7	0.7	0.6
EV/Sales	0.7	0.4	0.6	0.8	0.9	0.7	0.6	0.6	0.5
EV/EBITDA	36.1	neg.	7.4	7.8	6.1	6.2	5.2	4.6	4.0
EV/EBIT (adj.)	83.2	n.a.	13.4	12.5	13.9	9.2	7.8	6.6	5.6
Payout ratio (%)	0.0 %	0.0 %	0.0 %	84.9 %	66.4 %	58.2 %	55.7 %	58.8 %	50.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	3.1%	5.3 %	4.5 %	5.3 %	6.0 %	5.5 %

Source: Inderes



Peer group valuation

Company	Share price	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
				2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e
Bilot*	5.30	31	22	18.6	11.5	9.5	6.7	0.7	0.6	14.9	11.6	1.9	2.5
Digia*	7.18	198	215	11.0	9.6	9.0	7.9	1.2	1.1	13.0	12.1	2.8	3.2
Gofore*	23.90	368	351	23.4	20.3	17.6	16.3	2.9	2.6	28.3	25.5	1.5	1.7
Loihde*	16.65	100	57	10.2	8.0	7.4	6.1	0.4	0.4	20.4	17.8	1.7	1.9
Nixu*	5.86	44	47	80.9	18.4	22.8	12.0	0.9	0.8	334.2	23.9		
Siili*	13.16	94	97	12.4	10.4	8.3	7.2	1.0	0.9	11.8	10.3	3.0	3.8
Solteq*	3.92	76	94	12.2	9.0	7.1	5.8	1.2	1.1	16.3	11.3	3.8	4.6
Vincit*	6.14	80	76	10.5	8.1	7.5	6.1	0.9	0.8	12.0	10.0	3.6	3.9
Netum*	4.33	50	48	10.8	9.2	10.7	8.9	1.7	1.5	14.8	13.3	1.8	2.1
Bouvet	69.00	720	702	18.2	15.9	15.3	13.6	2.3	2.0	24.2	21.2	4.1	4.7
ENEA	203.00	427	481	16.6	14.8	11.0	10.0	4.5	4.3	20.5	18.0		
KnowIT	318.50	846	852	19.3	16.3	12.0	10.8	1.5	1.4	22.4	19.3	2.3	2.4
Innofactor (Inderes)	1.33	49	50	9.2	7.8	6.2	5.2	0.7	0.6	12.5	10.5	4.5	5.3
Average				20.3	12.6	11.5	9.3	1.6	1.5	44.4	16.2	2.6	3.1
Median Nordic companies				14.5	11.0	10.1	8.4	1.2	1.1	18.4	15.6	2.5	2.9
<i>Diff.-% to median</i>				-37%	-29%	-38%	-38%	-40%	-40%	-32%	-32%	79%	85%
Median Finnish companies				12.2	9.6	9.0	7.2	1.0	0.9	14.9	12.1	2.4	2.9
<i>Diff.-% to median</i>				-24%	-19%	-31%	-27%	-29%	-28%	-16%	-13%	93%	85%

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

Income statement

Income statement	2019	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	64.2	66.2	17.8	17.3	13.7	17.6	66.4	18.1	17.9	14.4	18.5	68.9	71.6	73.8	76.0
EBITDA	5.1	7.2	4.7	2.1	1.7	1.7	10.1	2.0	2.0	1.8	2.3	8.0	8.8	9.2	9.6
Depreciation	-4.3	-4.7	-0.8	-0.8	-0.8	-1.1	-3.6	-0.7	-0.7	-0.7	-0.7	-2.7	-2.9	-2.8	-2.7
EBIT (excl. NRI)	2.8	4.5	1.3	1.4	1.1	0.6	4.4	1.3	1.4	1.1	1.6	5.4	5.9	6.4	6.8
EBIT	0.8	2.5	3.8	1.3	0.9	0.5	6.5	1.3	1.3	1.1	1.6	5.3	5.9	6.4	6.8
Net financial items	-0.8	-0.5	-0.5	0.0	-0.2	-0.2	-0.8	-0.2	-0.2	-0.2	-0.2	-0.6	-0.2	-0.2	-0.1
PTP	0.0	2.1	3.4	1.3	0.8	0.3	5.7	1.1	1.2	1.0	1.5	4.7	5.8	6.3	6.7
Taxes	0.4	-0.3	-0.7	-0.3	-0.2	0.0	-1.2	-0.2	-0.2	-0.2	-0.3	-0.9	-1.2	-1.3	-1.4
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	0.4	1.8	2.6	1.0	0.6	0.3	4.5	0.9	0.9	0.8	1.2	3.8	4.6	5.0	5.3
EPS (adj.)	0.07	0.10	0.00	0.03	0.02	0.01	0.06	0.03	0.03	0.02	0.03	0.11	0.13	0.14	0.15
EPS (rep.)	0.01	0.05	0.07	0.03	0.02	0.01	0.12	0.02	0.03	0.02	0.03	0.10	0.13	0.14	0.15
Key figures	2019	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22e	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	1.7 %	3.1 %	3.8 %	3.2 %	-2.2 %	-3.8 %	0.3 %	1.6 %	3.3 %	5.0 %	5.5 %	3.8 %	4.0 %	3.0 %	3.0 %
Adjusted EBIT growth-%		59.2 %	3%	6%	21%	-39%	-2%	-1%	-3%	5%	176%	24%	9%	8.0 %	6.6 %
EBITDA-%	7.9 %	10.8 %	26.2 %	12.1 %	12.4 %	9.4 %	15.2 %	11.0 %	11.3 %	12.2 %	12.3 %	11.7 %	12.3 %	12.5 %	12.6 %
Adjusted EBIT-%	4.4 %	6.8 %	7.6 %	8.2 %	7.7 %	3.4 %	6.6 %	7.4 %	7.7 %	7.7 %	8.8 %	7.9 %	8.3 %	8.7 %	9.0 %
Net earnings-%	0.6 %	2.7 %	14.8 %	5.7 %	4.3 %	1.7 %	6.8 %	5.0 %	5.2 %	5.3 %	6.4 %	5.5 %	6.4 %	6.8 %	7.0 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	39.6	35.7	34.6	33.1	31.7
Goodwill	26.5	26.4	26.4	26.4	26.4
Intangible assets	2.1	0.6	0.5	0.3	0.2
Tangible assets	4.3	3.7	3.6	3.6	3.6
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.2	0.1	0.1	0.1	0.1
Deferred tax assets	6.4	4.8	3.9	2.7	1.5
Current assets	17.0	15.4	20.0	24.5	28.8
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	13.9	13.4	14.5	15.0	15.5
Cash and equivalents	3.1	2.0	5.5	9.4	13.4
Balance sheet total	56.6	51.1	54.5	57.6	60.5

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	23.4	25.5	26.3	28.7	31.1
Share capital	2.1	2.1	2.1	2.1	2.1
Retained earnings	0.4	3.1	3.9	6.3	8.7
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.1	0.1	0.1	0.1	0.1
Other equity	20.9	20.2	20.2	20.2	20.2
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	12.9	7.8	8.6	8.6	8.6
Deferred tax liabilities	1.8	1.5	1.5	1.5	1.5
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	8.9	4.7	5.5	5.5	5.5
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	2.2	1.7	1.7	1.7	1.7
Current liabilities	20.2	17.8	19.6	20.3	20.8
Short term debt	2.5	1.9	1.5	1.5	1.5
Payables	16.0	14.3	16.5	17.2	17.7
Other current liabilities	1.7	1.6	1.6	1.6	1.6
Balance sheet total	56.6	51.1	54.5	57.6	60.5

DCF calculation

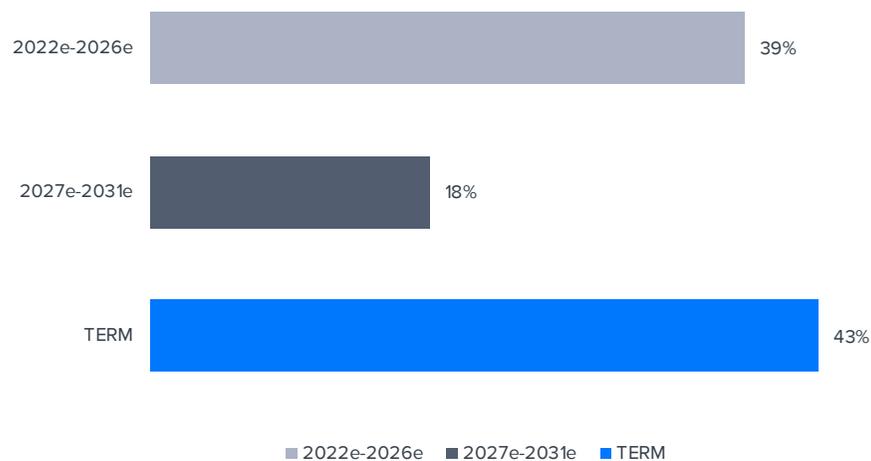
DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	6.5	5.3	5.9	6.4	6.8	6.6	6.4	5.7	5.9	6.0	6.1	
+ Depreciation	3.6	2.7	2.9	2.8	2.7	2.7	2.8	2.8	2.8	2.8	2.9	
- Paid taxes	0.0	0.0	0.0	0.0	0.0	0.0	-1.3	-1.2	-1.2	-1.3	-1.3	
- Tax, financial expenses	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	
- Change in working capital	-1.2	1.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	
Operating cash flow	8.7	9.0	8.9	9.3	9.6	9.4	7.9	7.4	7.5	7.6	7.8	
+ Change in other long-term liabilities	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-1.3	-2.5	-2.6	-2.6	-2.7	-2.8	-2.8	-2.9	-2.9	-2.9	-3.3	
Free operating cash flow	6.9	6.5	6.3	6.6	6.9	6.7	5.1	4.5	4.6	4.7	4.5	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	6.9	6.5	6.3	6.6	6.9	6.7	5.1	4.5	4.6	4.7	4.5	66.8
Discounted FCFF		6.0	5.4	5.2	5.0	4.4	3.1	2.5	2.4	2.2	2.0	29.3
Sum of FCFF present value		67.6	61.5	56.2	51.0	46.0	41.5	38.4	35.9	33.5	31.3	29.3
Enterprise value DCF		67.6										
- Interesting bearing debt		-6.6										
+ Cash and cash equivalents		2.0										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		63.0										
Equity value DCF per share		1.72										

Wacc

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	6.0 %
Equity Beta	1.40
Market risk premium	4.75%
Liquidity premium	0.50%
Risk free interest rate	2.0 %
Cost of equity	9.2 %
Weighted average cost of capital (WACC)	8.7 %

Source: Inderes

Cash flow distribution



Summary

Income statement	2019	2020	2021	2022e	2023e	Per share data	2019	2020	2021	2022e	2023e
Revenue	64.2	66.2	66.4	68.9	71.6	EPS (reported)	0.01	0.05	0.12	0.10	0.13
EBITDA	5.1	7.2	10.1	8.0	8.8	EPS (adj.)	0.07	0.10	0.06	0.11	0.13
EBIT	0.8	2.5	6.5	5.3	5.9	OCF / share	0.22	0.17	0.23	0.25	0.24
PTP	0.0	2.1	5.7	4.7	5.8	FCF / share	0.27	0.09	0.18	0.18	0.17
Net Income	0.4	1.8	4.5	3.8	4.6	Book value / share	0.60	0.61	0.66	0.72	0.78
Extraordinary items	-2.0	-2.0	2.1	-0.1	0.0	Dividend / share	0.00	0.04	0.08	0.06	0.07
Balance sheet	2019	2020	2021	2022e	2023e	Growth and profitability	2019	2020	2021	2022e	2023e
Balance sheet total	55.7	56.6	51.1	54.5	57.6	Revenue growth-%	2%	3%	0%	4%	4%
Equity capital	22.1	23.4	25.5	26.3	28.7	EBITDA growth-%	n.a.	n.a.	41%	-20%	10%
Goodwill	26.0	26.5	26.4	26.4	26.4	EBIT (adj.) growth-%	n.a.	n.a.	-2%	24%	9%
Net debt	11.1	8.4	4.6	1.5	-2.4	EPS (adj.) growth-%	n.a.	n.a.	-36%	71%	18%
Cash flow	2019	2020	2021	2022e	2023e	EBITDA-%	7.9 %	10.8 %	15.2 %	11.7 %	12.3 %
EBITDA	5.1	7.2	10.1	8.0	8.8	EBIT (adj.)-%	4.4 %	6.8 %	6.6 %	7.9 %	8.3 %
Change in working capital	3.2	-0.3	-1.2	1.1	0.1	EBIT-%	1.2 %	3.8 %	9.8 %	7.7 %	8.3 %
Operating cash flow	8.1	6.7	8.7	9.0	8.9	ROE-%	1.9 %	7.7 %	18.4 %	14.6 %	16.8 %
CAPEX	-7.0	-2.2	-1.3	-2.5	-2.6	ROI-%	2.3 %	7.3 %	19.6 %	16.4 %	17.5 %
Free cash flow	9.8	3.5	6.9	6.5	6.3	Equity ratio	39.7 %	41.4 %	49.9 %	48.2 %	49.8 %
						Gearing	49.9 %	35.7 %	18.0 %	5.7 %	-8.4 %
Valuation multiples	2019	2020	2021	2022e	2023e						
EV/S	0.6	0.8	0.9	0.7	0.6						
EV/EBITDA (adj.)	7.4	7.8	6.1	6.2	5.2						
EV/EBIT (adj.)	13.4	12.5	13.9	9.2	7.8						
P/E (adj.)	10.8	13.0	24.3	12.5	10.5						
P/E	1.2	2.0	2.2	1.8	1.7						
Dividend-%	0.0 %	3.1 %	5.3 %	4.5 %	5.3 %						

Source: Inderes

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Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
15-06-18	Reduce	0.80 €	0.79 €
25-07-18	Reduce	0.77 €	0.76 €
09-10-18	Reduce	0.63 €	0.63 €
31-10-18	Reduce	0.52 €	0.50 €
28-01-19	Sell	0.35 €	0.40 €
06-03-19	Reduce	0.45 €	0.47 €
15-05-19	Reduce	0.58 €	0.60 €
05-06-19	Reduce	0.68 €	0.71 €
24-07-19	Accumulate	0.68 €	0.63 €
30-10-19	Accumulate	0.80 €	0.75 €
26-02-20	Accumulate	0.90 €	0.78 €
01-04-20	Reduce	0.68 €	0.66 €
05-05-20	Accumulate	0.90 €	0.84 €
23-06-20	Accumulate	0.95 €	0.90 €
24-06-20	Accumulate	1.30 €	1.19 €
28-10-20	Accumulate	1.40 €	1.28 €
19-02-21	Buy	1.80 €	1.43 €
28-04-21	Reduce	2.00 €	1.97 €
10-06-21	Accumulate	2.00 €	1.72 €
23-07-21	Accumulate	2.00 €	1.86 €
27-10-21	Accumulate	1.80 €	1.59 €
18-02-22	Accumulate	1.50 €	1.33 €



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