

Tietoevry

Company report

05/05/2023



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This report is a summary translation of the report “Hyvältä näyttää edelleen” published on 05/05/2023 at 8:45 am.

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Still looking good

We reiterate our Accumulate recommendation for Tietoevry and revise our target price to EUR 31.0 (was EUR 33.0), reflecting estimate revisions. In the big picture, the Q1 report was largely in line with our and market expectations. Revenue grew strongly organically and profitability improved year-on-year. As expected, the company reiterated its guidance for earnings growth, which is a strong level for Tietoevry as a whole. The company's continued good performance increases confidence that the positive development will continue in the coming years. The valuation picture of the share is still attractive from several angles (2023e adj. P/E 11x, DCF 35 and SOTP 35) and the business areas to be separated provide drivers to unwind the undervaluation.

Organic revenue continued to grow strongly, earnings a tiny bit below our expectations

In Q1, Tietoevry's revenue increased by 2% to EUR 744 million, which was broadly in line with expectations. Organically, revenue grew by 8% (Q4: 9%), but exchange rates had a large negative impact of EUR 46 million. EBITA adjusted for one-off items increased by 9% to EUR 92 million in Q1 and was broadly in line with our and market estimates (90-93 MEUR, EBITA-%: 12.3%). The result was still constrained by high inflation. We estimate that efficiency measures continued to bear fruit in Transform and Connect in Q1.

Revenue drivers in 2023

In 2023, revenue will be supported by continued strong demand and price increases in several businesses, although there is also some uncertainty about customer demand. 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. Staff turnover is reported to be returning to normal (13.5% in Q1 and 16.5% in the previous 12 months), which is natural in the current market, where companies are fighting over customers rather than talent. Profitability continues to be supported by the efficiency programs initiated last year and new ones announced in Q1 in Tietoevry Tech Service (prev. Tietoevry Connect and Transform). In addition, the company expects non-recurring costs to be around 1.5% of revenue in 2023, which includes costs for strategic assessments. The level is lower than last year (2022: 2%).

As expected, Tietoevry reiterated its guidance on earnings growth

Tietoevry still 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%). We lowered our estimates slightly (~2%) following the Q1 report and outlook comments. We expect the company to grow 3% (organically by 6.6%) 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 13.9%, below our targets (growth of 8-10% and EBITA-% of 15-16% by 2025).

Share valuation is attractive from many perspectives

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 11x and 10x or almost 40% 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 6% dividend yield alone. In addition, the sum-of-the-parts calculation (EUR 35) 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 35) also indicates a clear upside. The company remains chronically undervalued in our view, but we now see stronger drivers for dissolving the undervaluation.

Recommendation

Accumulate

(previous Accumulate)

31.00 EUR

(previous EUR 33.00)

Share price:

26.56



Key figures

	2022	2023e	2024e	2025e
Revenue	2928	3018	3161	3312
growth-%	4%	3%	5%	5%
EBIT adj.	379	402	426	459
EBIT-% adj.	13.0 %	13.3 %	13.5 %	13.9 %
Net Income	189	227	245	273
EPS (adj.)	2.35	2.50	2.68	2.94

P/E (adj.)	11.3	10.6	9.9	9.0
P/B	1.8	1.8	1.7	1.7
Dividend yield-%	5.5 %	5.6 %	5.8 %	6.0 %
EV/EBIT (adj.)	10.2	9.3	8.5	7.6
EV/EBITDA	9.0	8.0	7.4	6.7
EV/S	1.3	1.2	1.1	1.1

Source: Inderes

Guidance

(Unchanged)

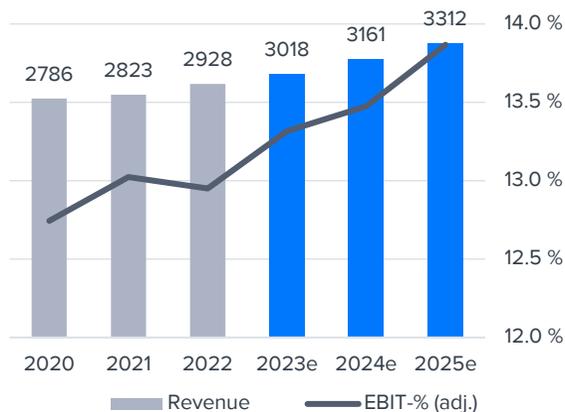
Tietoevry expects organic growth of 5-7% and an adjusted EBITA margin of 13.0-13.5% in 2023.

Share price



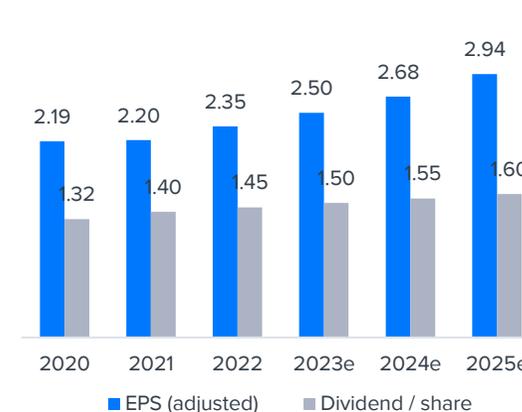
Source: Millistream Market Data AB

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
- Accelerating wage inflation, high employee turnover and a failure in talent competition

Valuation	2023e	2024e	2025e
Share price	26.6	26.6	26.6
Number of shares, millions	118.4	118.4	118.4
Market cap	3145	3145	3145
EV	3738	3625	3490
P/E (adj.)	10.6	9.9	9.0
P/E	13.9	12.8	11.5
P/FCF	9.0	10.1	9.4
P/B	1.8	1.7	1.7
P/S	1.0	1.0	0.9
EV/Sales	1.2	1.1	1.1
EV/EBITDA	8.0	7.4	6.7
EV/EBIT (adj.)	9.3	8.5	7.6
Payout ratio (%)	78.3 %	74.9 %	69.3 %
Dividend yield-%	5.6 %	5.8 %	6.0 %

Source: Inderes

Figures were a tiny bit below our estimates, but slightly above those of the market

Organic revenue growth remains strong

Tietoevry's Q1 revenue grew by 2% to EUR 744 million – broadly in line with our and consensus expectations. Organically, revenue grew by 8% (Q4: 9%). Exchange rates had a sizable negative impact of EUR 46 million and business sales had a negative impact of EUR 2 million. Operational growth was driven by Tietoevry Create (9%), Tietoevry Care (15%) and Tietoevry Banking (15%). Growth was again slowed by Tietoevry Transform and Connect (6% and 0%). Overall, organic growth was still very positive, as Tietoevry has historically faced challenges in growing organically. With this stronger growth, business and earnings growth are on a healthier footing. Tietoevry commented that it expects cost inflation to remain high and thus the company will continue to focus on pricing and operational efficiency. In particular, price hikes may prove challenging if the demand

environment remains uncertain or weakens further.

The adjusted result was in line with expectations, but one-off items were slightly higher than expected

Tietoevry's EBITA margin was 12.3% in Q1, slightly above our and market estimates of 12.1-12.2%. EBITA adjusted for one-off items amounted to EUR 92 million in Q1 (Q1'22: 85 MEUR) and was in line with our and market estimates (90-93 MEUR) in the big picture. The result was still constrained by high inflation (not just wage inflation). We estimate that efficiency measures continued to bear fruit in Transform and Connect in Q1. Depreciation and one-off items were slightly above our estimates. This resulted in EPS of EUR 0.41 in Q1, below our expectations and those of the market (0.42-0.44).

Estimates MEUR / EUR	Q1'22	Q1'23	Q1'23e	Q1'23e	Consensus		Difference (%)	2023e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	731	744	761	748	725	- 768	-2%	3018
EBIT (adj.)	85	92	93	90	88	- 93	-1%	402
EBIT	46	69	72	71	67	- 78	-4%	314
PTP	42	62	65	64	59	- 76	-5%	288
EPS (adj.)	0.54	0.57	0.58	0.56	0.46	- 0.77	-1%	2.50
EPS (reported)	0.28	0.41	0.44	0.42	0.39	- 0.49	-6%	1.92
Revenue growth-%	2.7 %	1.9 %	4.2 %	2.3 %	-0.8 %	- 5.1 %	-2.3 pp	3.1 %
EBIT-% (adj.)	11.6 %	12.3 %	12.2 %	12.1 %	12.1 %	- 12.1 %	0,1 %-yks.	13.3 %

Source: Inderes & Vara Research, 8-10 estimates (consensus)



Watch the video of the Q1 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.

Separation of the banking business

In connection with its Q2'22 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. The business has developed well over the past year, which supports a good price when separated.

Separation of Transform and Connect business

Tietoevry announced in November that it will also separate 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 8,000 professionals worldwide. In Q1'23, Tietoevry merged the businesses into Tech Services, which will focus on executing the joint strategy by leveraging the best expertise from both businesses.

Earlier this year, the company appointed new leaders for the two entities to be separated (Banking and Tech Services). In the Q1'23 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 lowered our estimates

Estimate revisions 2023e-2024e

- We lowered our estimates slightly (~2%) following the Q1 report and outlook comments.

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 13.9% for the year, below the company's 15-16% target..

Operational result drivers 2023e:

- Price increases support development
- Efficiency programs started in 2022 and Q1'2023 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 1.5% of revenue in 2023, including 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	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
	Old	New	%	Old	New	%	Old	New	%
Revenue	3082	3018	-2%	3229	3161	-2%	3384	3312	-2%
EBITDA	481	470	-2%	503	493	-2%	533	524	-2%
EBIT (exc. NRIs)	411	402	-2%	436	426	-2%	468	459	-2%
EBIT	325	314	-3%	344	334	-3%	374	365	-2%
PTP	299	288	-4%	320	310	-3%	356	346	-3%
EPS (excl. NRIs)	2.57	2.50	-2%	2.75	2.68	-2%	3.00	2.94	-2%
DPS	1.50	1.50	0%	1.55	1.55	0%	1.60	1.60	0%

Source: Inderes

Valuation 1/2

Peer group

Demand fundamentals for Tietoevry and the sector are good, and the company's outlook has improved over the past year. 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 1.5% of revenue in 2023 (2022: ~ 2.0%), representing a good 10% 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 11x and 10x or almost 40% below peers. In our view, the valuation of the stock remains attractive in absolute and relative terms. The company adjusts good 10% more costs from its result than its Finnish peers and considering this the share is still attractively priced. In addition, dividend yield (6%) 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, there's the planned separation of the business, which would clarify the structure and give new business units better conditions for 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 separation of the units already seems relatively certain.

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 has the potential for ~7% annual earnings growth in 2024-2025 (compared to 2023 level), driven by growth and profitability. With our growing dividend estimates and average 70% payout ratio the dividend yield is around ~6%. 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	26.6	26.6	26.6
Number of shares, millions	118.4	118.4	118.4
Market cap	3145	3145	3145
EV	3738	3625	3490
P/E (adj.)	10.6	9.9	9.0
P/E	13.9	12.8	11.5
P/FCF	9.0	10.1	9.4
P/B	1.8	1.7	1.7
P/S	1.0	1.0	0.9
EV/Sales	1.2	1.1	1.1
EV/EBITDA	8.0	7.4	6.7
EV/EBIT (adj.)	9.3	8.5	7.6
Payout ratio (%)	78.3 %	74.9 %	69.3 %
Dividend yield-%	5.6 %	5.8 %	6.0 %

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 4.8 billion for Tietoevry, which corresponds to a year-end net debt value of EUR 35.2 per share. Thus, there is a clear upside in the stock through the sum of the parts.

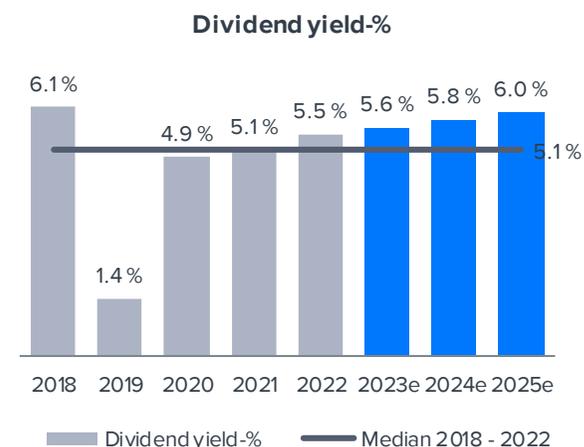
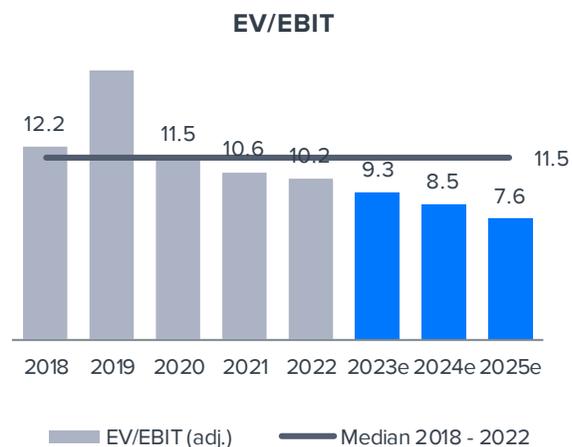
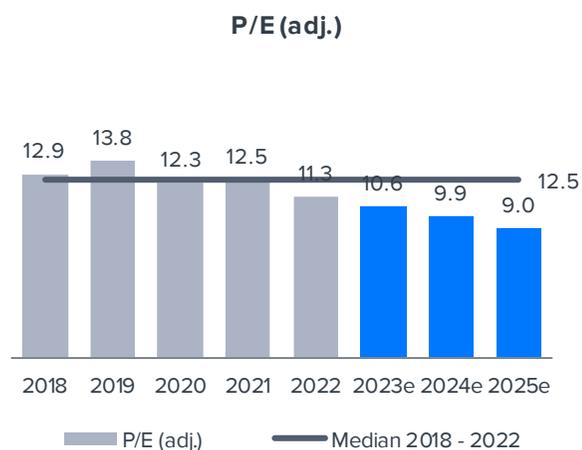
Sum-of-the-parts calculation

Segments	Revenue growth 2023	EBITA-% 2023	EBITA	EV/EBITA multiple	EV	Revenue growth target
Tietoevry Create	5%	14%	129	14x	1806	14-16%
Tietoevry Banking	6%	14%	80	13x	1044	10-12%
Tietoevry Care	8%	32%	79	13x	1027	12-14%
Tietoevry Industry	2%	17%	48	11x	527	8-10%
Tietoevry Transform	1%	8%	36	7x	252	2-4%
Tietoevry Connect	-4%	7%	57	7x	397	1-3%
Other			-27	10.8x	-293	
Group total	3.1%	13.3%	402	11.8x	4760	
Net debt					593	
Market cap					4167	
Share price					35.2	

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	23.6	27.7	26.9	27.5	26.5	26.6	26.6	26.6	26.6
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	3145	3145	3145	3145
EV	2045	4067	4097	3900	3851	3738	3625	3490	3333
P/E (adj.)	12.9	13.8	12.3	12.5	11.3	10.6	9.9	9.0	8.4
P/E	14.1	23.8	33.7	11.2	16.7	13.9	12.8	11.5	10.5
P/FCF	neg.	neg.	82.9	8.4	13.0	9.0	10.1	9.4	8.8
P/B	3.6	1.9	2.0	1.8	1.8	1.8	1.7	1.7	1.6
P/S	1.1	1.9	1.1	1.2	1.1	1.0	1.0	0.9	0.9
EV/Sales	1.3	2.3	1.5	1.4	1.3	1.2	1.1	1.1	1.0
EV/EBITDA	9.8	17.7	12.7	7.1	9.0	8.0	7.4	6.7	6.0
EV/EBIT (adj.)	12.2	20.7	11.5	10.6	10.2	9.3	8.5	7.6	6.8
Payout ratio (%)	86.9 %	59.5 %	165.4 %	56.9 %	91.0 %	78.3 %	74.9 %	69.3 %	65.0 %
Dividend yield-%	6.1 %	1.4 %	4.9 %	5.1 %	5.5 %	5.6 %	5.8 %	6.0 %	6.2 %

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*	145	158	8.4	7.3	6.9	6.1	0.9	0.8	10.2	9.3	3.5	3.7
Digital Workforce*	54	38	45.9	15.2	32.8	13.3	1.3	1.0	77.9	25.5		
Gofore*	399	370	12.9	11.2	11.9	10.3	1.9	1.6	17.4	16.1	2.0	2.3
Loihde*	94	75	28.4	11.5	8.5	5.4	0.5	0.5	44.9	18.1	1.8	2.0
Innofactor*	45	54	8.9	7.8	6.1	5.4	0.7	0.6	10.3	9.3	5.6	6.4
Netum Group*	45	47	12.6	10.7	11.7	10.0	1.3	1.2	15.4	13.6	3.7	4.0
Nixu*	95	96	24.9	18.2	18.6	14.9	1.4	1.3	35.3	25.3		
Silli Solutions*	126	116	8.7	7.1	6.9	5.8	0.9	0.8	13.2	11.3	1.9	2.4
Solteq*	24	45		19.5	3.3	6.4	0.7	0.8		65.1	9.7	2.4
Vincit*	79	66	7.4	5.8	6.8	5.4	0.6	0.5	11.5	9.6	3.5	4.2
Witted Megacorp*	54	45	62.9	9.8	58.7	9.7	0.6	0.5	74.1	15.3		
Bouvet	585	569	15.7	14.5	13.2	12.4	2.0	1.8	21.3	19.6	4.1	4.5
Enea	122	178	19.7	20.8	6.5	7.2	2.1	2.1	14.5	15.1		
Knowit	537	636	15.8	13.0	9.1	8.5	1.0	0.9	19.0	15.3	3.3	3.6
Netcompany Group	1736	1986	17.8	14.7	13.9	12.0	2.4	2.2	19.8	16.3	0.6	1.1
Wipro	23324	20706	13.6	12.4	11.1	10.2	2.1	2.0	18.5	16.7	2.2	2.4
Tata Consultancy	128641	124134	20.3	18.2	18.6	16.8	5.0	4.6	27.4	24.6	2.9	2.9
Atos SE	1395	3928	11.0	8.2	4.1	3.7	0.4	0.4	5.9	4.0		1.2
Capgemini SE	28858	32135	11.6	10.6	9.1	8.4	1.4	1.3	14.5	13.1	2.1	2.2
IBM	101418	138694	13.8	12.9	10.0	9.6	2.5	2.4	13.1	12.3	5.2	5.4
Accenture	157312	152352	17.4	16.1	14.4	13.2	2.6	2.5	23.7	21.9	1.6	1.7
Tietoenvy (Inderes)	3145	3738	9.3	8.5	8.0	7.4	1.2	1.1	10.6	9.9	5.6	5.8
Average			18.9	12.6	13.4	9.3	1.5	1.4	24.4	18.0	3.3	3.1
Median (all)			14.8	12.4	10.0	9.6	1.3	1.2	17.9	15.3	3.1	2.4
<i>Diff-% to median</i>			-37%	-31%	-20%	-23%	-5%	-2%	-41%	-35%	84%	140%
Median (Finnish companies)			12.6	10.9	7.7	6.2	0.9	0.8	15.4	14.9	3.5	3.1
<i>Diff-% to median</i>			-26%	-22%	4%	18%	42%	49%	-31%	-33%	61%	91%
Median (international companies)			15.8	13.0	11.1	9.7	2.1	2.0	19.0	15.3	2.5	2.4
<i>Diff-% to median</i>			-41%	-35%	-28%	-24%	-40%	-41%	-44%	-35%	124%	140%

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	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	2823	731	739	690	768	2928	744	764	709	800	3018	3161	3312	3460
Tietoevry Create	756	188	188	172	207	851	223	219	214	239	894	965	1033	1095
Tietoevry Banking	476	114	120	112	130	525	131	142	131	154	557	599	641	686
Tietoevry Care	222	54.4	61.5	48.9	57.1	232	62.8	63.5	56.8	66.8	250	269	291	311
Tietoevry Industry	303	82.9	78.5	67.4	74.6	273	68.7	70.3	66.7	73.2	279	293	307	323
Tietoevry Transform	468	121	119	105	122	471	123	120	106	126	474	479	486	493
Eliminations	-309.5	-76	-77	-73	-83	-304	-72	-72	-69	-71	-283	-292	-302	-313
EBITDA	552	88.3	81.3	118	142	429	107	105	118	140	470	493	524	556
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	92	88	99	122	402	426	459	489
EBIT	382	46	40	78	103	267	69	66	79	101	314	334	365	395
Net financial items	-28.2	-4	-9	-2	-8	-24	-6	-7	-7	-7	-26	-24	-19	-14
PTP	354	42	31	75	95	243	62	59	72	94	288	310	346	381
Taxes	-62.2	-9	-9	-16	-21	-54	-14	-12	-15	-20	-61	-65	-73	-80
Net earnings	292	33	22	59	75	189	49	47	57	74	227	245	273	301
EPS (adj.)	2.20	0.54	0.45	0.63	0.73	2.35	0.56	0.54	0.62	0.77	2.50	2.68	2.94	3.17
EPS (rep.)	2.46	0.28	0.18	0.50	0.63	1.59	0.41	0.40	0.48	0.63	1.92	2.07	2.31	2.54

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	1.3 %	2.7 %	2.4 %	6.5 %	3.5 %	3.7 %	1.8 %	3.3 %	2.8 %	4.3 %	3.1 %	4.7 %	4.8 %	4.5 %
Adjusted EBIT growth-%	3.6 %	3.0 %	-10.5 %	4.0 %	14.1 %	3.1 %	8.6 %	11.6 %	1.6 %	4.0 %	6.0 %	6.0 %	7.8 %	6.5 %
EBITDA-%	19.6 %	12.1 %	11.0 %	17.0 %	18.4 %	14.6 %	14.4 %	13.7 %	16.6 %	17.4 %	15.6 %	15.6 %	15.8 %	16.1 %
Adjusted EBIT-%	13.0 %	11.6 %	10.7 %	14.2 %	15.3 %	13.0 %	12.3 %	11.5 %	14.0 %	15.3 %	13.3 %	13.5 %	13.9 %	14.1 %
Net earnings-%	10.3 %	4.5 %	3.0 %	8.6 %	9.7 %	6.4 %	6.5 %	6.1 %	8.0 %	9.3 %	7.5 %	7.8 %	8.3 %	8.7 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	2713	2565	2520	2480	2441
Goodwill	1944	1847	1847	1847	1847
Intangible assets	388	337	289	240	192
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	774	782	818
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	573	601	629
Cash and equivalents	324	250	177	158	166
Balance sheet total	3587	3394	3294	3262	3259

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	1821	1719	1734	1802	1891
Share capital	118	116	75.8	75.8	75.8
Retained earnings	500	400	455	522	612
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	558	456
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	462	360
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	754	902	912
Short term debt	94.0	165	60.0	175	150
Payables	673	619	694	727	762
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	3587	3394	3294	3262	3259

DCF calculation

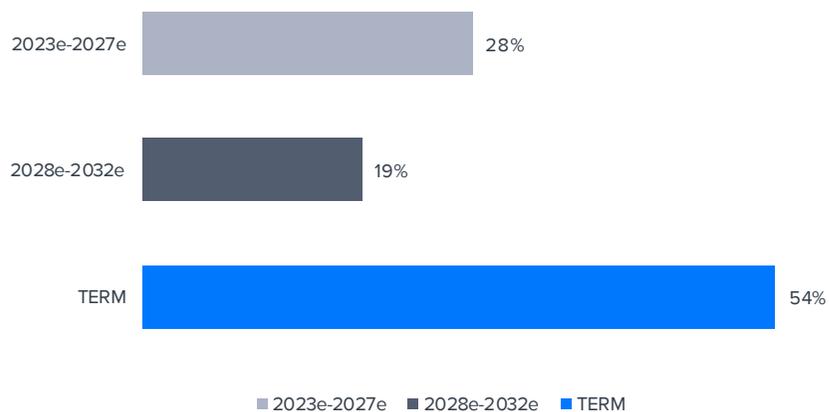
DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	3.7 %	3.1 %	4.7 %	4.8 %	4.5 %	4.0 %	3.0 %	3.0 %	2.5 %	2.5 %	1.5 %	1.5 %
EBIT-%	9.1 %	10.4 %	10.6 %	11.0 %	11.4 %	11.0 %	11.0 %	11.0 %	10.0 %	10.0 %	10.0 %	10.0 %
EBIT (operating profit)	267	314	334	365	395	396	408	420	391	401	407	
+ Depreciation	162	156	159	159	161	161	134	125	125	125	126	
- Paid taxes	-58.7	-61.2	-65.1	-72.7	-79.9	-81.2	-84.6	-87.9	-82.3	-84.5	-85.9	
- Tax, financial expenses	-5.6	-5.7	-5.2	-4.2	-3.2	-2.1	-1.2	-0.5	-0.1	0.0	0.0	
+ Tax, financial income	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.4	
- Change in working capital	-83.4	57.8	5.7	6.0	5.9	5.5	4.3	4.4	3.8	3.9	2.4	
Operating cash flow	281	461	429	454	479	479	460	461	438	446	450	
+ 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	-128.6	
Free operating cash flow	242	350	310	334	358	357	336	336	312	318	321	
+/- 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	350	310	334	358	357	336	336	312	318	321	5446
Discounted FCFF		333	275	275	275	255	223	208	179	170	160	2711
Sum of FCFF present value		5065	4732	4457	4182	3907	3652	3429	3221	3041	2871	2711
Enterprise value DCF		5065										
- Interesting bearing debt		-960.0										
+ Cash and cash equivalents		250										
-Minorities		0.0										
-Dividend/capital return		-171.7										
Equity value DCF		4183										
Equity value DCF per share		35.3										

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

Cash flow distribution



Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	2786.4	2823.3	2928.1	3017.9	3160.6	EPS (reported)	0.80	2.46	1.59	1.92	2.07
EBITDA	322.5	552.0	428.7	469.5	492.9	EPS (adj.)	2.19	2.20	2.35	2.50	2.68
EBIT	146.7	382.0	266.5	313.8	333.9	OCF / share	1.93	4.42	2.38	3.89	3.62
PTP	122.4	353.8	242.8	287.9	310.1	FCF / share	0.32	3.27	2.04	2.95	2.62
Net Income	94.5	291.6	188.6	226.8	245.0	Book value / share	13.73	15.38	14.52	14.65	15.21
Extraordinary items	-208.4	14.3	-112.7	-88.1	-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	3294.1	3261.9	Revenue growth-%	61%	1%	4%	3%	5%
Equity capital	1626.2	1821.1	1719.3	1734.3	1801.6	EBITDA growth-%	40%	71%	-22%	10%	5%
Goodwill	1974.4	1943.7	1846.5	1846.5	1846.5	EBIT (adj.) growth-%	81%	4%	3%	6%	6%
Net debt	916.3	645.8	710.3	593.1	479.6	EPS (adj.) growth-%	9%	1%	7%	6%	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	469.5	492.9	EBIT (adj.)-%	12.7 %	13.0 %	13.0 %	13.3 %	13.5 %
Change in working capital	-67.0	19.2	-83.4	57.8	5.7	EBIT-%	5.3 %	13.5 %	9.1 %	10.4 %	10.6 %
Operating cash flow	228.7	523.4	281.3	460.7	428.5	ROE-%	5.7 %	16.9 %	10.7 %	13.1 %	13.9 %
CAPEX	14.0	-110.5	-14.8	-111.1	-118.6	ROI-%	5.4 %	13.7 %	9.8 %	12.1 %	13.5 %
Free cash flow	38.4	387.4	241.8	349.5	309.9	Equity ratio	45.1 %	50.8 %	50.7 %	52.6 %	55.2 %
Valuation multiples	2020	2021	2022	2023e	2024e	Gearing	56.3 %	35.5 %	41.3 %	34.2 %	26.6 %
EV/S	1.5	1.4	1.3	1.2	1.1						
EV/EBITDA (adj.)	12.7	7.1	9.0	8.0	7.4						
EV/EBIT (adj.)	11.5	10.6	10.2	9.3	8.5						
P/E (adj.)	12.3	12.5	11.3	10.6	9.9						
P/B	2.0	1.8	1.8	1.8	1.7						
Dividend-%	4.9 %	5.1 %	5.5 %	5.6 %	5.8 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target	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 €
5/5/2023	Accumulate	31.00 €	26.56 €



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