

Efecte

Company report

3/10/2019

Successful internationalisation is the decisive factor

We reiterate accumulate recommendation and target price of EUR 5.2 for Efecte. After the IPO, Efecte's progress has remained weaker than expected as the acceleration of the growth of international operations has taken more time than estimated and the benefits from the considerable growth investments have not been at the expected level. However, with the new management and clarified strategy, the company's development is stabilising, and our opinion is that the valuation of the share is moderate considering the strong growth outlook of the SaaS business.

Efecte's software solutions are used to develop and digitalise the services of organisations

Efecte's software solutions help organisations manage, measure, develop and automate, for example, enterprise services provided by IT, finance and HR. In the 2010s, the company has successfully transformed to adopt the SaaS business model and it has commercialised and verified the functioning of its technology to good effect in the market for large and medium-sized companies in Finland, all of which is reflected in its leading market position in Finland and a 20% average growth of revenue since 2012. With the IPO that took place towards the end of 2017, the company entered a new strategic phase, the objective of which is to increase the company's business significantly in the Central Europe and Scandinavian markets and to utilise the value creation potential of the scalable SaaS model.

SaaS revolution, digitalisation and the servicification of business models as the drivers for market growth

The increasing use of cloud services in business software, digitalisation and the servicification of business models have provided Efecte and other companies specialising in the SaaS model with significant growth opportunities, and the competitive landscape is being reshaped. Compared to the size of the company, Efecte's target market is extremely large, and the SaaS transformation means that there is strong market growth. The annual total growth of the target market is expected to be more than 15%, but the market growth in Efecte's focus area – medium-sized European organisations – is more than 20% on an annual basis. Efecte's competitive advantages include a SaaS solution that is flexible both in terms of its features and delivery model, low total cost of ownership and the fact that it is a European company, which differentiates it especially from its large US competitors.

The first metres of the strategy period have been challenging, but operative trends have taken a positive turn

The first metres of Efecte's strategy, which is based on strong international growth, have been more challenging than expected, as the new business in Germany did not accelerate until towards the end of 2018, the growth in Scandinavia waned and the heavy, front-loaded investments reduced the company's effectiveness. With the new management and clarified strategy, the company is now focusing more clearly on scalability and the growth of SaaS revenue, which has improved the growth of international business that plays a key role in the valuation of the company and resulted in a positive turn in the profitability trend.

Considering the growth outlook for the SaaS business, the share is moderately priced

In the next few years, we expect the growth in SaaS to be approximately 22–24%, the total revenue to increase by approximately 15%, with profitability gradually turning positive (EBIT-% 2019e -9%, 2021e 0%). Based on our estimates, Efecte's EV/Revenue multiple is approximately at the level of 1.7x, which is very moderate compared to Nordic software companies with multiples of approximately 3.4x and the valuation levels indicated by the cash flow statement (EV/S 2.6x) and the sum of parts (EV/S, 2.0x). In our opinion, the main risks related to the share are the possible slowing of the ramping up of international business and slower growth of SaaS.

Analysts



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Recommendation and target price

Accumulate

(previously Accumulate)



EUR 5.20

(previously EUR 5.20)

Share price (3.10.2019): EUR 4.56

Key figures

	2018	2019e	2020e	2021e
Revenue	12.2	14.0	16.3	19.2
growth %	15%	14%	16%	18%
SaaS revenue	5.8	7.0	8.5	10.6
growth %	24%	22%	22%	24%
EBIT adj.	-2.1	-1.6	-1.1	-0.1
EBIT % adj.	-17.4%	-11.6%	-6.5%	-0.4%
Net income	-2.4	-1.6	-1.1	-0.1
EPS (adj.)	-0.37	-0.27	-0.17	-0.01

P/E (adj.)	neg.	neg.	neg.	neg.
P/B	6.6	14.1	32.2	35.6
Dividend yield, %	0.0%	0.0%	0.0%	0.0%
EV/EBIT (adj.)	neg.	neg.	neg.	neg.
EV/EBITDA	neg.	neg.	neg.	83.4
EV/Revenue	1.5	1.7	1.6	1.4

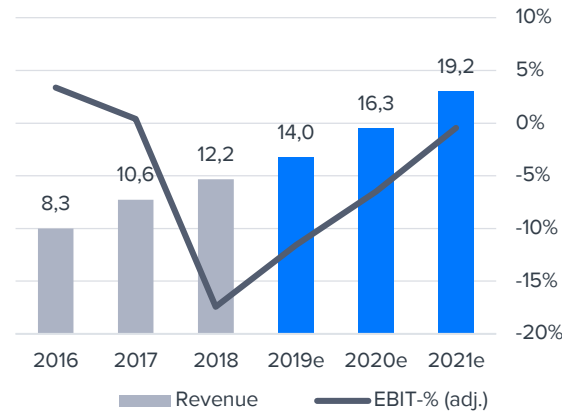
Source: Inderes

Share price graph



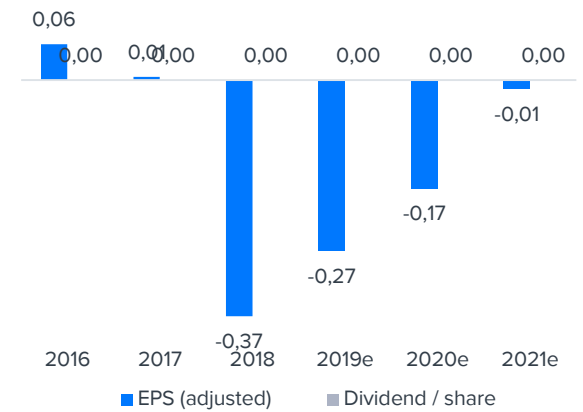
Source: Thomson Reuters

Revenue and EBIT-%



Source: Inderes

EPS and dividends



Source: Inderes



Value drivers

- Efecte has a technologically mature and commercially proven solution
- Highly scalable business model
- Strong value proposal in SMB segment
- Huge and growing addressable market
- International expansion and growth in existing customer base



Risk factors

- Growth investments and international expansion might fail
- Changes in competition or market position
- Technological and IT-security risks
- Growth investments push cash flows negative in coming years, which means if turnaround in profitability fails companies cash position will be low at the end of strategy period



Valuation

- Slower than expected growth has lead to decreasing estimates (estimate risks high)
- EV/S-based valuation is sensitive to the changes in expected growth or growth company valuations in general
- From a longer term perspective company's valuation looks attractive (etc. DCF)

MCAP
27
MEUR

EV
24
MEUR

EV/S
1,7
2019e

EV/S
1,6
2020e

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Efecte in short

Efecte offers cloud-based (Software as a Service, SaaS) service and identity management solutions, supported by professional services. They streamline and simplify management of services, IT systems and infrastructure in organizations. The company has offices in Finland, Sweden, and Germany.

1998

Established

2017

IPO

14,0 MEUR (+14 % vs. 2018)

Revenue 2019e

18 % 2013-2019e

Average annual revenue growth

-1,3 MEUR (-9 % lv:sta)

EBITDA, 2019e

7,0 MEUR

SaaS ARR 6/2019

59 %

Recurring revenue of total revenues, rolling 12m, 6/2019

2012-2014

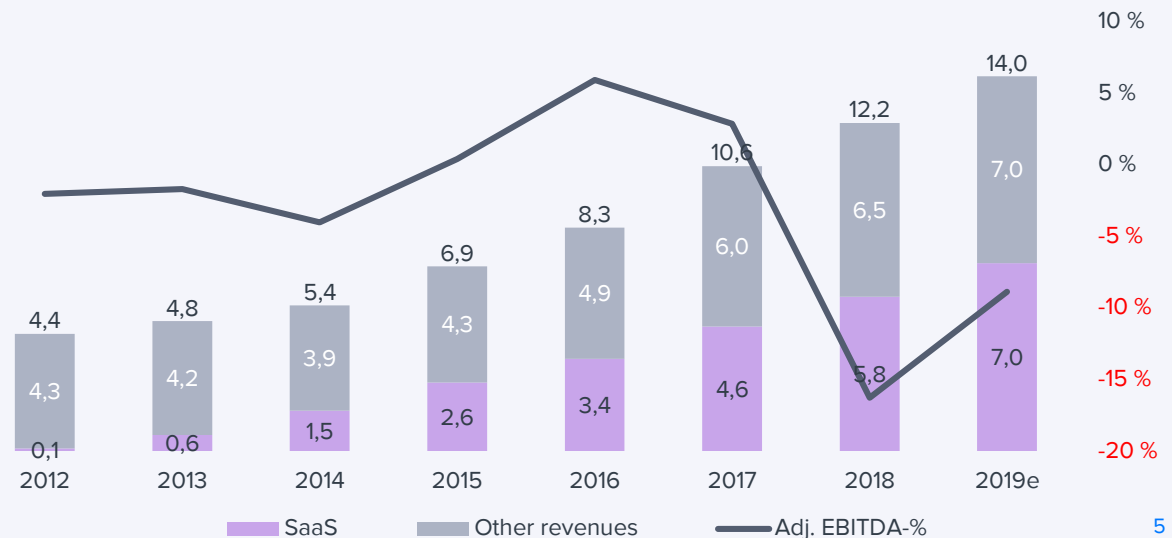
- Transformation of business model from license-based to SaaS begins
- Building own sales and service organisation
- Bolt-on acquisition to enhance technical capabilities in identity and access managements

2015-2017

- Transformation of maintenance customers to SaaS, strong new sales and expansion within existing customers accelerates SaaS-revenue growth
- International operations and organisation strenghtened significantly at the end of the period
- IPO at the end of 2017

2018-

- Strong expansion investments to German market
- CEO change at the end of 2018
- Strategy updated with stronger focus on SaaS growth
- Clearly negative operating results due to the growth investments



Efecte's business model 1/5

SaaS software for service management

Efecte is a Finnish software company offering SaaS (Software-as-a-Service) and it specialises in cloud-based software solutions for the service management of companies and to identity and access management. In addition, the company provides services supporting the deployment, integration and development of its software.

Efecte, which was established in 1998, listed in the First North marketplace in 2017 with the objective of implementing a strategy involving growth and internationalisation especially in the German market.

With Efecte's software solutions, organisations can manage all internal and external services, such as IT (ITSM), HR and financial services, other enterprise services (ESM) and access rights (IAM).

Efecte specialises in service provision to medium-sized and large European companies and public administration and parties offering local and regional outsourcing services. Efecte is one of the leading software suppliers in its field of specialisation in Finland. Geographically, approximately 85% of the Group's business in 2018 was generated in Finland, with approximately 12% generated in the other Nordic countries and the remaining 3% in other markets (mainly in Germany).

At the end of the first half of 2019, the company had 106 employees of which 80% work in Finland, 8% in Sweden and 12% in Germany. Function-wise, 40% of the employees work in service and training, 20% in sales and 17% with products (including R&D), 13% in cloud operations and support functions and 8% in administrative duties.

SaaS revenue and the supporting services are the core of the business

Efecte's transition to cloud-based SaaS business model with continuous invoicing, which started in 2013, has been implemented in practice. Over 80% of the company's revenue is generated by SaaS and the related services, whereas revenue based on the diminishing single licence model has decreased and is now less than 20%.

Efecte's revenue stream is divided into four parts: 1) SaaS, 2) Services, 3) Licences and 4) Support and maintenance. Of these, there is strong growth in SaaS and Services, both of which belong to the core business in the company's strategy, whereas revenues from Licences and Support and maintenance are waning as existing and new customers are adopting the SaaS model. The share of recurring revenue (SaaS and Support and maintenance) is 60% of Efecte's revenue.

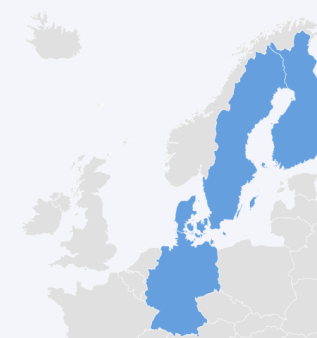
In 2018, the company's revenue amounted to EUR 12.2 million (growth +15% year-on-year). In 2018, SaaS revenue totalled EUR 5.8 million (+24% year-on-year), which amounted to 48% of Efecte's revenue (last 12 months 49%). Service revenue totalled EUR 4.7 million (+20% year-on-year), which amounted to 39% of revenue (last 12 months 39%). Revenue from support and maintenance was EUR 1.3 million (-11 year-on-year), which amounted to 11% of revenue. In 2018, revenue from licence sales decreased to EUR 0.5 million (-21% year-on-year), which is now only 4% of revenue.

In 2018, Efecte's operating income was EUR -2.4 million (19.5% of revenue), with the heavy investments in growth and organisational development, which were made in order to increase international operations, being some of the main reasons for the negative result.

Efecte's business model, 2018

Efecte Plc

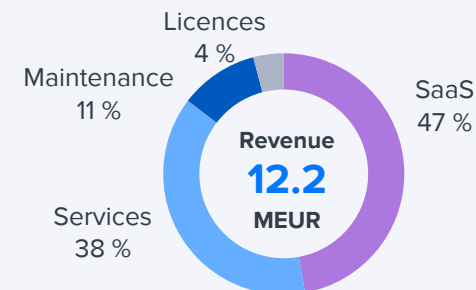
Revenue EUR 12.2 million, operating income EUR -2.4 million



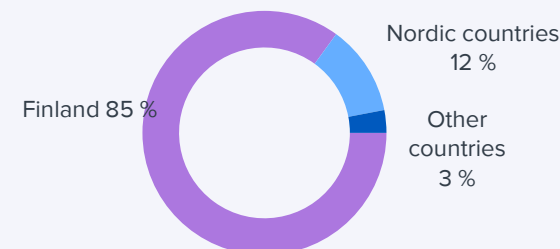
Countries of operation (number of employees)

Finland (85 employees)
Sweden (9 employees)
Denmark (- employees)
Germany (13 employees)

Revenue per area, 2018



Revenue per geographical area, 2018



Partners



ultimate.ai

Ecosystem partners
(integrations, AI)



Resale and consulting
partners

Functions

Products and R&D
(n. 17 % *)



Services & training
(n. 40 % *)



Cloud operations
and support
(n. 15 % *)



Sales
(n. 20 % *)



Admin
(n. 8 % *)

* Share of personnel 6/2019

Solutions

ITSM

IT services management

ESM

Enterprise service management

IAM

Identity and access management

**Implementation and
integration services**

Training services

Business idea

**Efecte offers cloud-based (Software
as a Service, SaaS) service and
identity management solutions,
supported by professional services.**

**They streamline and simplify
management of services, IT systems
and infrastructure in organizations.**

efecte

Sales channels



Own sales force in Finland,
Germany and Scandinavia

Resalers and partners ↗ ↘

Competition

ITSM
/ESM

servicenow

zendesk

ivanti

cherwell

bmc

IAM

Microsoft

okta

NetIQ
Part of Micro Focus

Quest

Client segments

3 main markets

Finland
Scandinavia
DACH

**Around 300
customers**



Mid and large size
corporations



Public organisations

Enterprise service providers

Cost structure



Personnel
(64 %)



Materials and services
(8 %)

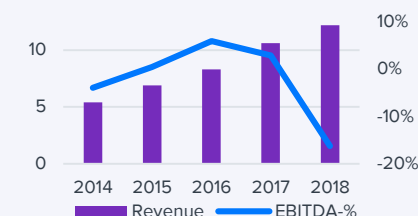
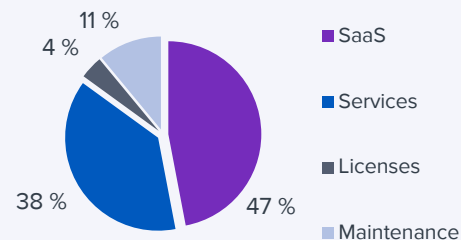


Other costs
(25 %)

Depreciation
(3 %)

Revenue streams

**Liikevaihto 12,2 m€
EBITDA -2,0 m€ (2018)**



Efecte's business model 2/5

SaaS business model

The core of Efecte's business is the SaaS business model, which differs significantly (e.g. growth, risk, cash flows) from the single licence model that has traditionally been used in software sales. The share of SaaS has grown strongly in all software segments in the recent years, and Efecte's field of specialisation makes no exception. For example, Gartner has estimated that the market for SaaS enterprise software is currently growing at the annual rate of 16%, amounting to USD 85 billion at an annual level. The share of SaaS software of the global enterprise software market is only approximately 20%, so the SaaS software market is expected to grow strongly for a long time. The growth of the SaaS market is driven by the increasing use of cloud services, increase in the supply and the benefits that the SaaS model offers to customers and software suppliers.

Benefits of the SaaS model from the customer's point of view

- Compared to conventional software solutions, typically lower threshold and cost of deployment, as the software can be deployed using a browser without major start-up investments and integration projects.
- More stable, foreseeable costs of using the software, flexible based on business volume.
- Continuous development and maintenance: SaaS software is maintained and updated centrally by the software provider, which decreases the customer's costs relating to system maintenance and support. The software is always up to date and updated.

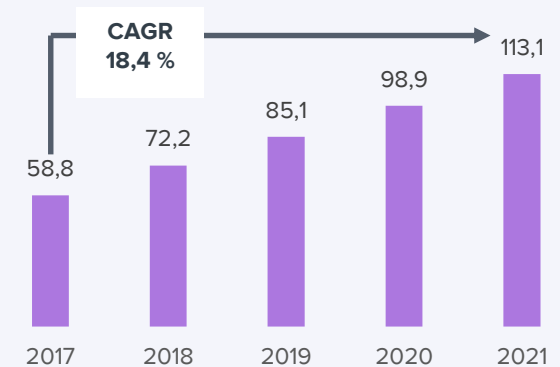
Benefits of the SaaS model to the software provider

- The higher share of the value chain of the software solution and auxiliary services typically increases the life cycle value of the customer account higher than with a conventional software solution.
- In terms of revenue and cash flow, long customer relationships and recurring revenue provide continuity and predictability.
- The cost structure scales with the increase in the value of customer accounts and number of customers.
- Possibility to sell new functionalities to the existing customer base cost-efficiently.
- Product development cycles and software production are accelerated and more efficient, decreasing the risk of customer attrition, as a change in the software generation does not result in a point of discontinuity in the customer account.

SaaS model from the investor's point of view

- High growth potential arising from the transformation of the software market to the SaaS model and expansion of customer accounts over time.
- The profitability potential of SaaS companies is high due to the strong scalability.
- Recurring revenues and good predictability lower the risk profile of cash flows.
- Heavily front-loaded costs compared to revenue accumulated gradually over time impair the profitability and cash flow of SaaS companies in the phase of strong growth.

Growth outlook for SaaS enterprise software markets



Drivers of the popularity of the SaaS model

Customer

- Service that is always up to date and scalable based on use
- Low total cost of ownership (TCO)

Software company

- Recurring and foreseeable earnings and cash flow
- High lifecycle value of the customer account and scalability

Software company

- High growth potential as software transitions to the cloud
- Recurring and foreseeable cash flows
- Scalability

Efecte's business model 3/5

Products and services

Efecte's main product is Efecte Platform, a cloud-based software platform for IT service management, enterprise service management and identity management. The platform is comprised of several independent software solutions, of which the most important ones are:

Efecte ITSM software solution for IT service management (ITSM), which enables IT service management, service-level monitoring (SLA), process automation, IT asset management and the provision of help desk services and self-services.

Efecte ESM, an enterprise service management solution, which enables, for example, the management, control and development of HR, finance, legal and facility services.

Efecte IAM for identity and access management, which provides solutions for areas such as user authentication, service-specific access right management and personal data approval and automation of information security incident workflows.

In addition, Efecte provides services, such as:

Professional services providing deployment project and integration services for Efecte's software solutions.

Support services providing continuous or one-time support, product guidance and maintenance services for Efecte's solutions.

Training and consulting services providing services that support the use and development of Efecte's software solutions.

Sales organisation and process

Efecte sells its solutions mainly through its own sales

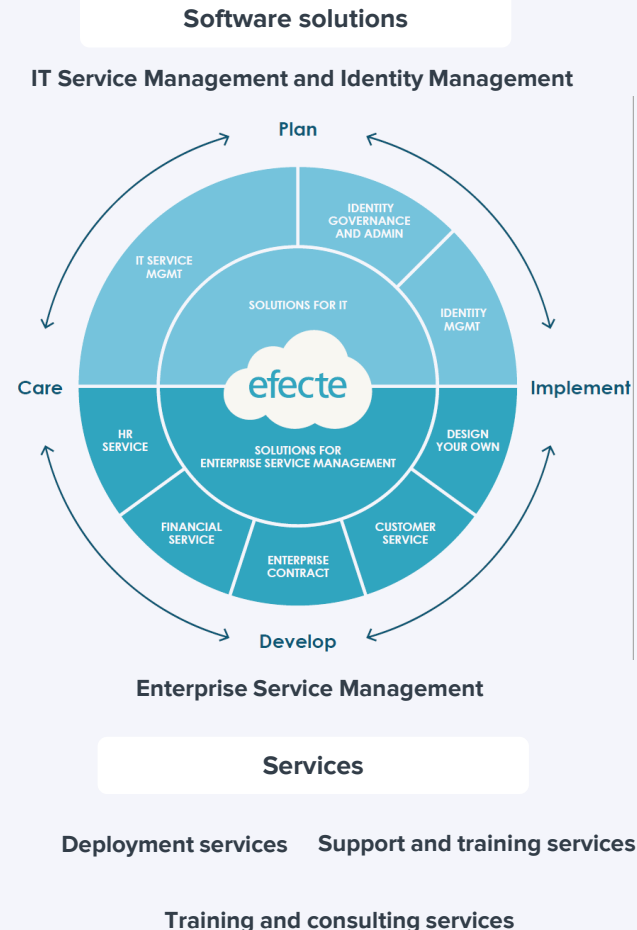
channel, which consists of more than 20 sales persons in Finland, Germany and Sweden. In addition, Efecte has established partnerships in which IT service companies and consultants, such as Bechtle Hamburg in Germany, offer Efecte's solutions as part of their own services.

The sales cycles for Efecte's new solution customers are typically long (more than 6 months), as the mapping of customer needs typically takes 4–6 meetings and involves the replacing of previous generation solutions. Usually, customers first purchase a solution that covers one area (often ITSM) and then later expand the use to other solutions provided by Efecte (such as HR).

The typical duration of the first agreement period for new Efecte customers is three years, with the value being approximately EUR 120,000–150,000, of which approximately 25% is service revenue and 75% SaaS revenue. For ITSM and ESM solutions, the amount of the SaaS charge is determined based on the number of "admin" users managing the processes, while for IAM solutions it is determined based on the number of end user accounts. Usually, customers have a few dozen admin users, with the number being rather static over time, which means that within a customer account, growth is mainly the result of expanding use to other Efecte solutions.

Licence fees are typically charged in advance on an annual basis for the entire year, whereas the majority of service revenue is generated in connection with deployment. For this reason, in the early stages of the customer account life cycle, Efecte's revenue mostly comes from one-off services, but as the customer relationship matures, revenue transforms into recurring revenue (SaaS).

Efecte's solution



Efecte's business model 4/5

Customer base

The customer base for Efecte's solution mainly consists of large and medium-sized companies and public organisations. Within the customer organisations, the information management function is a typical Efecte customer, but support organisations (HR, legal) and business functions are gradually increasing their importance as customers.

Efecte's customers include over 300 organisations in Finland and abroad. The company's reference customers in Finland include, for example, Musti Group, Valmet Automotive, Tikkurila and Istekki, with Hotelplan Group and Bechtle Hamburg being some of the reference customers abroad. Efecte's solution is based on standards and methods that have been widely adopted in IT and enterprise services, which means that the company's customers are not from any specific industry and represent a wide variety of different sectors. However, companies offering outsourcing of enterprise services form one distinct customer sector, with Efecte's solution playing a business-critical role for these companies.

The ten largest customers have brought approximately 30% of Efecte's revenue in the previous years, and in terms of the company's revenue, no single large customer has exceeded 10% in the recent years. We estimate that approximately 30% of revenue comes from customers operating in the public sector.

Geographically, Efecte focuses on catering for European customers, as the features and service level of the company's solution best fit the needs of organisations operating locally in Europe.

Product development

The development work for Efecte's current solution based on cloud technology (SaaS) started after

2010, when it began to be evident that customer organisations will transfer to cloud-based solutions. However, the development of the next generation product did not start from scratch, as Efecte already had developed strong technology competence and customer understanding especially in ITSM software solutions based on the previous software generation for which single licences were still used.

Efecte's product development investments have amounted to approximately 15–18% of revenue for the past few years. Over the last few years, the share of R&D investments of revenue has slightly decreased as the SaaS product has matured. In the medium term, we estimate that R&D costs will increase roughly in line with the growth of revenue as the company is required to continuously develop new service features, modify the system's features so that more agile development is possible and renew the user experience for the service. However, expanding to new geographical markets, for instance, does not require significant product development investments from Efecte.

Efecte mainly uses own personnel for product development, but the company does use external services to some extent in order to have access to specific expertise. The company recognised approximately 50% of the R&D expenses as an asset in the balance sheet in 2013 due to the development of the SaaS platform, but over the last few years, recognition has remained approximately at the level of the depreciation of capitalised R&D expenses, which has been approximately EUR 0.2–0.3 million at an annual level, amounting to approximately 2–3% of revenue.

The company holds no patents related to its products or technology, which is typical of the industry. The company's product has no components for the use of which the company

would be required to pay royalties. Therefore, the product has been protected mainly through copyrights and agreements so that no external parties can utilise Efecte's intellectual property rights.

Visibility to earnings

One of the key advantages of Efecte's business model is good visibility to earnings and cash flows, which is based on 1) recurring earnings accounting for a high share of revenue, 2) long agreement periods and 3) the typically high costs for replacing software solutions.

Efecte's earnings from continuous software services (SaaS) account for approximately 50% of revenue, which provides visibility to the revenue and cash flows related to existing customers for at least one year. In addition, earnings from the support and maintenance of previously sold single licences is very predictable business, but the share of such revenue forms an increasingly smaller share of Efecte's revenue and is being converted mainly to SaaS revenue.

With new customers, Efecte primarily concludes agreements with a duration of 36 months, which ensures in practice that the company gains back at least the costs of sales and marketing. In addition, the company has better possibilities to obtain additional sales as the customer relationship lasts longer.

Even though ITSM and IAM solutions are not usually business critical to Efecte's customers, replacement costs are often so high that the cycles for any system changes are often long.

Efecte's product's functionalities



Change Control »

Maximize successful changes by assessing risks, reviewing approvals and managing the schedule.



Demand Management »

Create a dialog and promote co-creation with end-users through suggestions and improvements.



Event Management »

Reduce repetitive actions and monitoring through automations and notifications.



Feedback Management »

Develop and improve services by requesting, reporting and reviewing service feedback.



Incident Management »

Decrease downtime by simplifying incident reporting and processing.



Information Security Management »

Automate responses to security incidents to reduce reaction times and improve compliance.



Knowledge Management »

Provide known solutions to issues promoting self-help.



Problem Management »

Standardize the processing of complex issues requiring workarounds through links, analytics, and reports.



Release Management »

Reduce the introduction of issues or problems with proper planning, testing, and contingencies.



Service Catalogue Management »

Manage services and their usage improving availability, processing, and reporting.



Service Configuration Management (CMDB) »

Centralize, categorize, monitor and report Configuration Items (CIs), assets and more.



Service Level Management »

Improve efficiencies by tracking SLA's, reviewing reports, and receiving notifications if they are exceeded.



Service Request Management »

Simplify making requests, approvals, and delivery by centralizing offerings.



Supplier Management »

Record, report and integrate supplier details and performances to gain insight into your service providers.

Efecte's business model 5/5

Business predictability and scalability

Efecte's business model is fundamentally easily scalable, but due to the high, front-loaded costs (international expansion, R&D) incurred as a result of the company's developmental phase and the revenue mix with significant emphasis on non-scalable business (high share of services), the scalability of business is not yet positively reflected in the financial results (2019e EBITDA % -10%). Recurring revenue accounts for approximately 60% of the company's revenue, with strongly scalable SaaS revenue accounting for approximately 50% of revenue.

As per cost items, the biggest scaling potential of most SaaS companies (and Efecte as well) is typically related to sales and marketing expenses and R&D expenditure, but there is also significant potential in the scaling of support, maintenance and administrative expenses. In our opinion, the greatest scaling potential for Efecte can be found in sales and marketing expenses, which have been increased in the past few years especially in the international operations.

Efecte's materials and services cost item has been very small in recent years, at the level of approximately 10% of revenue (gross profit of 90%), so we do not see that the company would have any significant scaling potential in this respect.

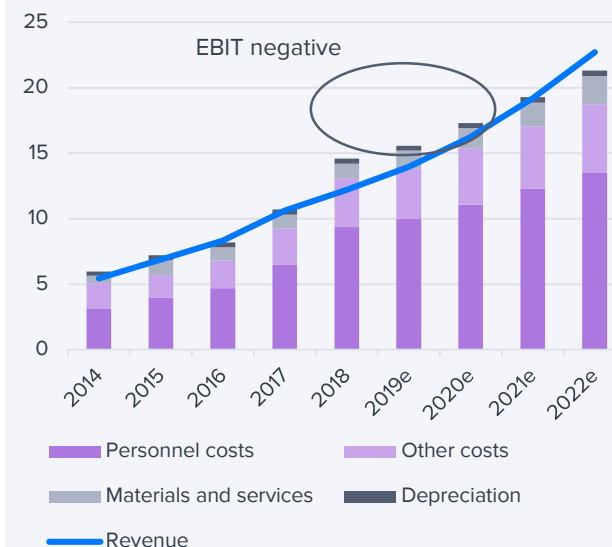
As is typical of software companies, Efecte's most significant cost item is personnel expenses (approximately 70% of revenue), which can be roughly divided into four parts: 1) R&D personnel expenses, 2) sales and marketing personnel expenses, 3) support and service personnel expenses, and 4) administrative personnel expenses. Efecte's head count and personnel expenses have increased in recent years at a clearly

faster rate than the growth in revenue, and the company's personnel expenses per employee have remained at a relatively high level (Efecte's product requires high-level experts). Our view is that the weak scalability of personnel expenses is explained by the following facts: 1) there has been a strong, front-loaded increase in personnel in both sales and marketing and support functions in accordance with the company's growth strategy, 2) with the increased number of deployments related to new customers, the production resources for services with poor scalability have been increased, 3) the company has suffered from high employee attrition and 4) the company's administrative organisation has required additional resources due to the IPO and company expansion. In the long term, we expect that the company will be able to scale these expenses to approximately 50–60% of revenue.

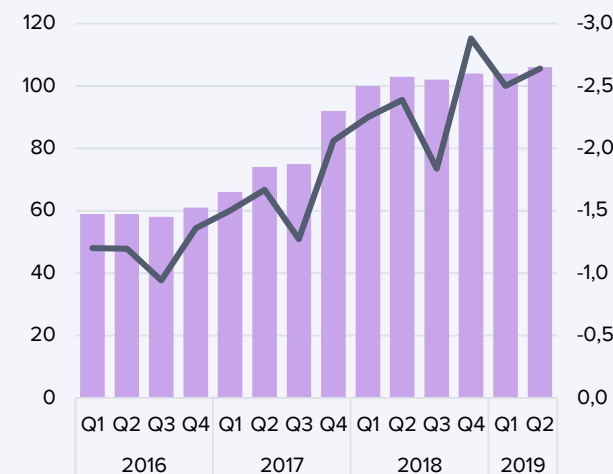
Efecte's other operating expenses (direct marketing expenses, rents on premises, auditing, administration) have also increased in the past few years in relation to revenue (approximately 30%). In addition, our view is that there is clear scaling potential in other operating expenses from the current level in the long term (20–25% of revenue).

At present, Efecte recognises most of its R&D costs as expenses, and the R&D cost capitalisation is approximately at the level of depreciation and amortisation. Therefore, we expect Efecte's depreciation and amortisation to remain in absolute terms more or less at the current level (EUR 0.4 million) and their share in relation to revenue will decrease in the long term to approximately 1% of revenue (currently around 3%).

Cost structure and scalability



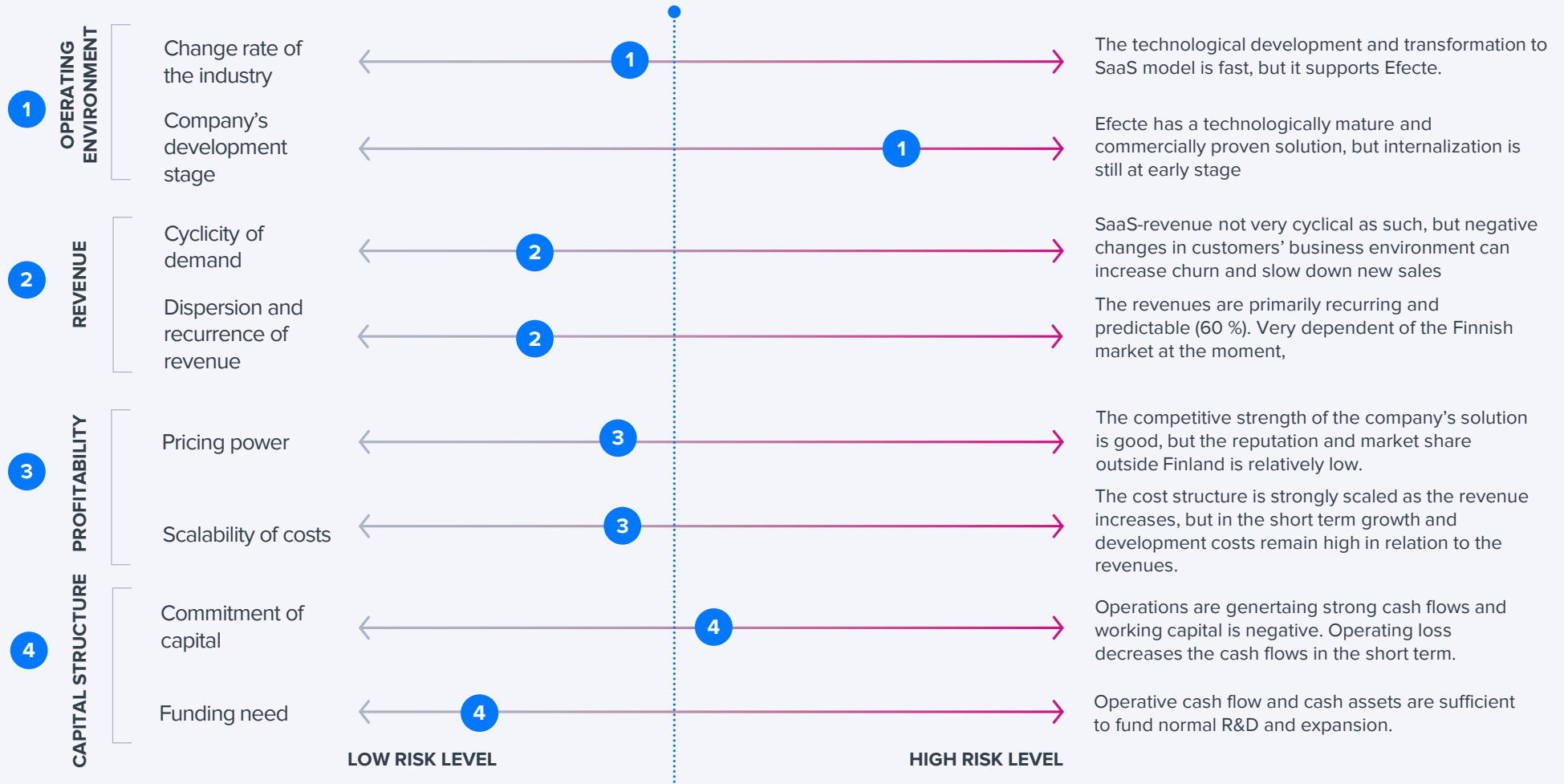
Number of employees and expenses



Source: Inderes

Risk profile of the business model

Estimate of the overall risk level of Efecte's business operations



Efecte's strategy 1/2

Growth strategy based on internationalisation and the SaaS revolution in the software industry

The core of Efecte's strategy clarified in early 2019 is the utilisation of the SaaS revolution taking place in the software market for service management and the considerable growth opportunities provided by the servitisation of the business models of companies. The cornerstones of the company's strategy can be summarised with four points:

1. Providing agile, cloud-based service management software with excellent user experience and low total cost of ownership, which helps customers perfect any services they offer.
2. Focusing on medium-sized customers and local outsourcing service providers
3. Expansion in Europe, with product development and service centre model that meet the needs of European customers
4. Focusing on making customers successful and increasing SaaS revenue

In our view, Efecte's strategy is first and foremost a growth strategy, with the company aiming to grow through geographical expansion and the market changes. On the other hand, Efecte's strategic aim is to differentiate especially from its large US competitors and competitors that do not offer "full-blooded" cloud service software and to focus on market segments in which the company has the strongest competitive position.

Financial targets for 2019–2022

In addition to the strategy that was clarified in early 2019, the company fine-tuned its financial targets. Currently, Efecte's key financial target is an annual average organic growth of SaaS revenue of more than 20% (previously over 20% growth in total

revenue) for the period 2019–2022.

The company's profitability targets remain the same. Heavy investments in internationalisation and product development lower the company's EBIT in the next few years, but the company is still aiming at a two-figure EBIT margin.

Strategic focus areas are logical considering the company's value creation

In our view, focusing on medium-sized, European customers is sensible from Efecte's perspective, as this enables the company to optimise its growth potential (according to estimates, market growth is strongest in the SME sector) and competitiveness (in European SME companies, decisions are typically made at the local level and global delivery capability is not a crucial factor). In addition, focusing on medium-sized companies is an effective way to spread customer risks. The disadvantage of the smaller size of customers is higher sales costs per customer, but we do not consider this to be a critical factor in the SaaS model, as new customers result in hardly any increase in the production, support and maintenance costs. In addition, Efecte's major competitors currently seem to focus on the largest customers.

Efecte's software solution covers various enterprise services flexibly and comprehensively, which provides the company significant growth opportunities through the expansion of existing customer accounts and with service provider customers and new ESM customers. A significant part of Efecte's past growth has been based on additional sales related to existing customers. In addition, the expansion of existing customer accounts deepens the customer relationship and raises the threshold for changing the service supplier.

The most important strategic focus area in terms of Efecte's value creation is the expansion of international business, as the growth opportunities provided by the Finnish markets are limited. Internationalisation was also one major reason for Efecte's IPO, as significant growth investments are required in the early stages of strong international growth.

In our opinion, focusing on the increasing of SaaS revenue instead of total revenue is also logical because, in the long term, SaaS revenue provides the best scaling possibilities and supports business continuity. Previously, services had a significantly more prominent role in Efecte's strategy in terms of the growth of total revenue, but now the role of services is to support the growth of SaaS revenue. The role of traditional single licences and the related maintenance in Efecte's business is decreasing and is, therefore, not included in the primary objectives.

Cornerstones of Efecte's strategy

1. Providing cloud-based service management software solutions that help customers perfect any service they offer

- Better agility
- Outstanding user experience
- Lower total cost of ownership (TCO)

Mission: At Efecte, we love services and our mission is to perfect them.



2. Focusing on medium-sized customers and local outsourcing service providers

- Differentiation from major competitors
- A more critical partner for service provider customers

Vision: By 2022, Efecte will have industry-leading employee and customer satisfaction. Efecte also wants to be the fastest growing European service management company, ranked by analysts as the number one European cloud solution in its field.

3. Expansion in Europe as a European company

- European product development and service centres are they key differentiating factor from the customers' perspective
- Major competitors are from the US

4. Focusing on making customers successful and increasing SaaS revenue

- Cloud service providers are the main competitors
- Satisfied SaaS service customers are the key in terms of continuity, scalability and growth
- Consulting services support the business

Efecte's strategy 2/2

Challenges in strategy implementation

In practice, Efecte has been implementing its current strategy since 2017, when the company decided to go through with an IPO and start stronger international expansion. Due to efficiency problems created by the slower-than-expected acquisition of new customers in Germany, weaker revenue growth in Scandinavia and the efficiency problems stemming from the strong organisational growth, Efecte's strategy implementation in 2018 was significantly weaker than expected in terms of the total growth and profitability of the company. The growth of the company's 2018 revenue remained 5 percentage points below the previous strategic target, and profitability measured with the EBIT margin was as low as -19.5%.

The company responded to the challenges by replacing its CEO and the country manager for Sweden at the end of 2018, through focus area changes (SaaS as the key area) and by curbing the growth of expenses. Towards the end of 2018, the company was able to gain more foothold in Germany, which has helped the company maintain SaaS revenue, which was selected as the key area in the strategy that was clarified in 2019, above the targeted growth of 20% and resulted in a positive turn in the revenue trend (1H2019 EBIT margin -14.3 %).

Financial targets are realistic provided that internationalisation is successful

In our view, Efecte's growth target is realistic, as it is well in line with the growth estimates for the market and, historically, the company has been able to increase SaaS revenue clearly faster than the target level. However, achieving the growth targets requires that the company is successful in its internationalisation efforts and achieves in its field of

specialisation a considerable market position especially in the German market. Because Efecte's market position is already so strong in Finland and the market has reached a relatively mature phase in terms of the SaaS revolution, it is difficult for the company to grow its annual domestic SaaS revenue above 20% in the future, which increases the importance of international growth. We estimate that Finland's current share of Efecte's SaaS revenue is approximately 90%, which means that the SaaS growth in international business must exceed 50% in the next few years. For example, during H1/2019, SaaS revenue from Efecte's international business operations grew by +57%, with the total growth of SaaS revenue being +25%. In addition, maintaining customer churn at a low level (below 5%) for the next few years is a prerequisite for meeting the growth target.

Furthermore, meeting the profitability target (two-digit EBIT % by the end of 2022) is, in our opinion, strongly linked to the growth of international business and SaaS revenue. According to our estimates, Efecte's losses are currently fully explained in practice by the front-loaded investments in internationalisation, and the business operations in Finland are already profitable when measured by the EBITDA margin. Furthermore, we estimate that achieving a break-even result in terms of EBITDA requires doubling the revenue from international operation from the 2018 level (2018: EUR 1.8 million).

Financing the strategy


The implementation of Efecte's strategy requires significant front-loaded investments especially in relation to the expansion to Germany and Central Europe, and the company's operative cash flow from the operations in Finland would not yet have been sufficient for this in the upcoming years. In addition, it

is characteristic of the SaaS business model that in the phase of accelerating/quick growth, the company's cash flows plunge and are negative, as there is usually a long delay of even several years before SaaS revenues will be realised.

The growth investments made in 2017–2018 and the cash flow profile that is typical of the SaaS model result in a gap in Efecte's cash flows in 2018–2020, and the company had to finance the gap with the IPO that exceeded EUR 5 million and was carried out at the end of 2017. However, the company's operative cash flow for 2021 is expected to turn positive again in accordance with the strategic objectives.

Efecte's strategy

Strategy period in figures

	2016	2017	2018	2019e	2020e	2021e	2022e
Revenue growth %							
SaaS growth % (objective 2019–)	+21% (+35%)	+28% (+35%)	+15% (+24%)	(+14%*) +22% * 			SaaS growth >20% CAGR 2019–2022
Profitability (EBIT %)	+1.6%	-1.0%	-19.5%	-11.6% 			Two-digit EBIT %
Financing the strategy	Cash flow financing	Cash flow financing	IPO 2017	IPO 2017	IPO 2017	Cash flow financing	Cash flow financing
Comment *	Strong and profitable growth with Finland as the driver	Strong and profitable growth with Finland as the driver	The previous growth target was not achieved. Costs related to growth weakened the result significantly.	The new growth target will be slightly exceeded. Growth of international business operations will strengthen.	Growth of international business operations must strengthen.	Key driver for international operations.	Realistic growth target, challenging profitability target
							

Period of strong growth investments

- Accelerated growth in Finland and Scandinavia
- Converting maintenance customers to SaaS model
- Updated growth strategy, with the objective of revenue growth exceeding 20% in 2018–2022 and a two-digit EBIT % by the end of the strategy period.
- An IPO at the end of 2017 to ensure financing for the strategy period 2018–2022
- Significant growth investments in international operations (Germany) and in support and R&D resources.
- New CEO at the end of 2018

Strengthening SaaS and international growth

- Clarifying the strategy and stronger focus on SaaS growth.
- New growth target: SaaS revenue growth exceeding 20% in 2019–2022. Profitability target remains unchanged.
- Business operations in Finland in a stable development phase
- Major reference customers in Germany and accelerating growth. Reorganisation of Scandinavian operations and stronger growth.
- Forming a separate IAM solutions unit.
- Profitability clearly negative due to growth investments.

Continuous growth and scalability of profitability

- International operations are increasingly important in terms of achieving the financial growth targets
- Scalability of profitability
- Operative cash flows will start to finance growth
- Clarifying new directions for expansion
- Vision 2022: Efecte will have industry-leading employee and customer satisfaction. The company also wants to be the fastest growing European service management company, ranked by analysts as the number one European cloud solution in its field.

Market and competition 1/2

Efecte's target markets are large

Efecte's target markets are extremely large in relation to the size of the company, so the size of the market will not, in our opinion, restrict the company's growth potential. For example, according to the research company MarketsAndMarkets, the value of the global, cloud-based ITSM software market was approximately USD 4.4 billion in 2016 and, correspondingly, the value of the IAM market was approximately USD 1.8 billion. In Efecte's geographical target market in Europe, the value of the cloud-based ITSM market was approximately USD 1.2 billion in 2016 and the value of the cloud-based IAM market was approximately USD 0.5 billion.

When classifying customer companies based on size, large companies (>1,000 employees) accounted for approximately 75% of the European cloud-based ITSM market, with SMEs accounting for approximately 25%. In the European cloud-based ITSM market in 2016, the share of software was approximately USD 0.9 billion, while for services the figure was USD 0.3 billion. When estimating the size of the market, it must also be taken into account that Efecte operates not only in the ITSM and IAM markets but also in the market for enterprise service software, such as software for self-service, HR, finance and service management. There is no detailed information available concerning the size of these markets, but we estimate that they increase the scope of Efecte's potential market so that it is even larger than what was stated hereinabove.

When looking at Efecte's current market areas (Finland, Sweden, Denmark and Germany), Germany is by far the market with the highest value, and it is also Europe's largest ITSM market. According to the company's management, Efecte's target market in

Germany is over ten times the size of the Finnish market.

Market changes and strong growth for the next generation software

According to Efecte's estimate, the current ITSM markets mainly comprises of a replacement market practically nearly all large and medium-sized organisations are using an IT service management software of the previous generation. As for the IAM market, which is less matured, customers are still usually delivered their very first identity and access management software solution.

The software solutions currently provided by Efecte represent the so-called fourth generation of ITSM software, for which demand started to increase strongly with the use and supply of cloud services becoming more common in early 2000s. Compared to the previous generation, the key difference in the next generation software is that it is cloud-based software (SaaS model), whereas third generation software was still mainly based on single licences and installed locally on servers. Therefore, ITSM and IAM markets are undergoing major changes, with a strong increase in the demand for SaaS-based software and decreasing demand for locally-installed software. Efecte's migration from the third generation products and technology to the fourth generation has been successful, whereas for many competitors it has been very difficult.

According to an estimate of the research company MarketsAndMarkets, the global, cloud-based ITSM market is expected to grow annually by approximately 15% by the end of 2021, with the corresponding figure for the global IAM market being 24%. In Efecte's European target market, the cloud-based ITSM market is expected to grow annually by approximately 16% by 2021, with the corresponding

estimate for the cloud-based IAM market being approximately 22%.

When looking at the size of the customer companies, the average annual growth in major customer accounts in the ITSM market is expected to be approximately 14%, with the average annual growth for SMEs being approximately 21% by the end of 2021.

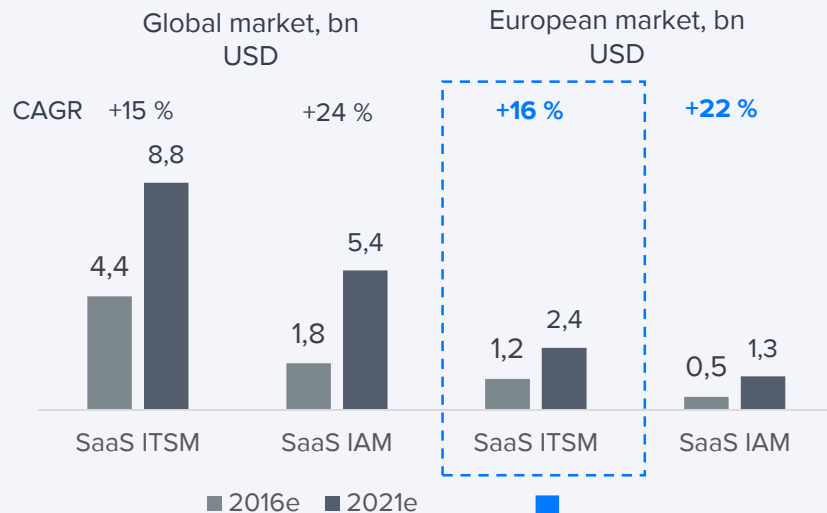
Efecte's target market growth quicker than on average

In terms of the target market, the growth of Efecte's market potential clearly exceeds the total growth of the cloud-based ITSM market, as the company's operations focus on medium-sized companies in Europe, with IAM solutions also playing a major role.

In our opinion, the growth outlook for Efecte's current main market in Finland is somewhat weaker, as the market is already rather mature in terms of the fourth generation ITSM software products, and Efecte already has a high market share in Finland. On the other hand, in the largest European ITSM software market in Germany, the penetration rate of next generation software is still low, in addition to which the share of medium-sized companies of the customer base is relatively higher than in other markets, which increases Efecte's growth potential. In addition, we estimate that Efecte has significant growth potential in other Nordic countries.

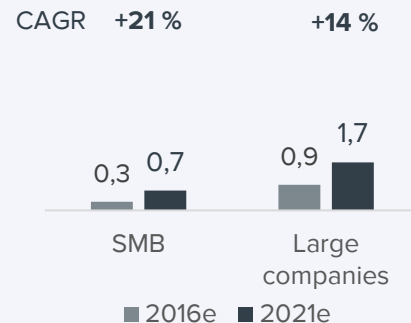
Industry outlook

ITSM and IAM market growth 2016e-2021e

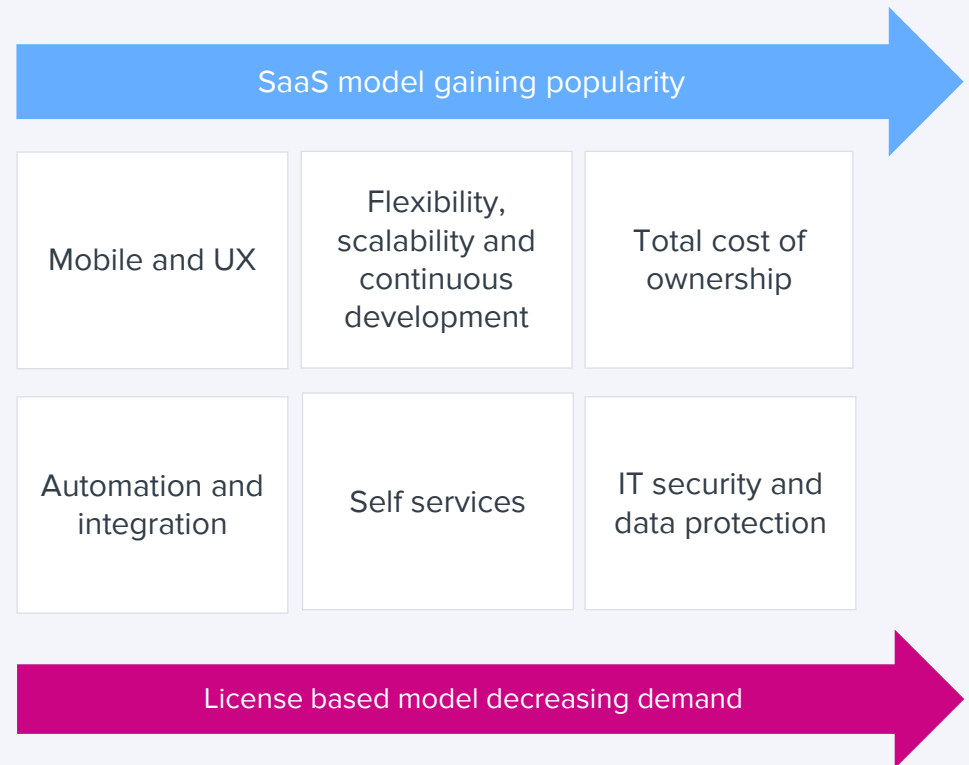


Global ITSM-market is huge compared to Efecte's current revenues. Efecte is focused however on smaller market segments that are in general growing faster than the market as a whole.

European market by company size



ITSM and IAM market trends



Market and competition 2/2

Competitors

In the ITSM market for large companies, Efecte's competitors mainly come from the USA, with such companies including, for example, ServiceNow, BMC and Ivanti. In addition, several other companies compete with Efecte for medium-sized companies and in more narrow solution and market areas. Such companies include, for example, USU, Cherwell, Matrix42, TopDesk, Zendesk, Atlassian and many local software companies. In the IAM field, the main competitors are large US companies, such as Microsoft, Okta, Microfocus and Quest. Efecte is one of the few European companies in the IAM market.

Efecte's closest competitor is ServiceNow, which is by far the largest operator in the global ITSM market and Efecte's strongest competitor in Finland. However, ServiceNow is concentrating mainly on the largest customers through its partner network, and the company's market position is not as strong with medium-sized customers.

Efecte's market position

In terms of revenue, Efecte is globally a very small player in both the ITSM and IAM market. However, in the domestic market in Finland, the company is the market leader in its target group in the ITSM market and is mainly competing with ServiceNow. According to our estimate, Efecte is reasonably well known in the other Nordic countries, but the company's total market share is small. In Central Europe (Germany), Efecte has so far acquired only a few customers, so the company's market share is small. However, the analysts in the sector have noted Efecte in Germany as well, so it can be said that Efecte is already reasonably well known in Germany despite the small size of the company.

Efecte's reference customers in Finland and the

Nordic countries include, for example, the publicly listed companies SSAB, Konecranes, BillerudKorsnäs, DNA, Valmet, Bonava and Tikkurila. In addition, medium-sized companies that are widely using Efecte's solutions include, for example, Musti Group, Istek and Air Navigation Service Finland. In Germany and the nearby areas, the company's most significant references are the IT service company Bechtle Hamburg, Hotelplan Group from Switzerland and the telecom service provider mobilcom-debitel.

Competitive advantages

In our view, Efecte's key competitive advantages stem from 1) the SaaS model, 2) low total cost of ownership, 3) the flexibility of the software solution and delivery model and 4) the company's European origin.

Due to the turmoil of the industry, many suppliers of previous-generation products have not been able to successfully adopt the SaaS model, which has created a significant competitive edge for a SaaS companies such as Efecte and ServiceNow. According to Efecte, the total cost of ownership for the company's software solution is clearly lower than that of its greatest rivals because its deployment and configuration costs are significantly lower than those of its competitors. In terms of features and scope, Efecte's software is very comprehensive and it can be used flexibly with all terminal devices and for nearly all service management needs. One of Efecte's most significant competitive factors with regard to the US competitors is the company's flexible delivery model, that is, Efecte can deliver its services from both public and private clouds in Europe. In addition, the company's product development and support services take into account the requirements of the European customers in particular.

Competitive disadvantages

We consider Efecte's key competitive disadvantage to be the relatively poor international awareness of the company, resources that are significantly smaller than those of its major competitors and competitiveness in the biggest customer accounts in particular, caused by the small size and market position of the company.

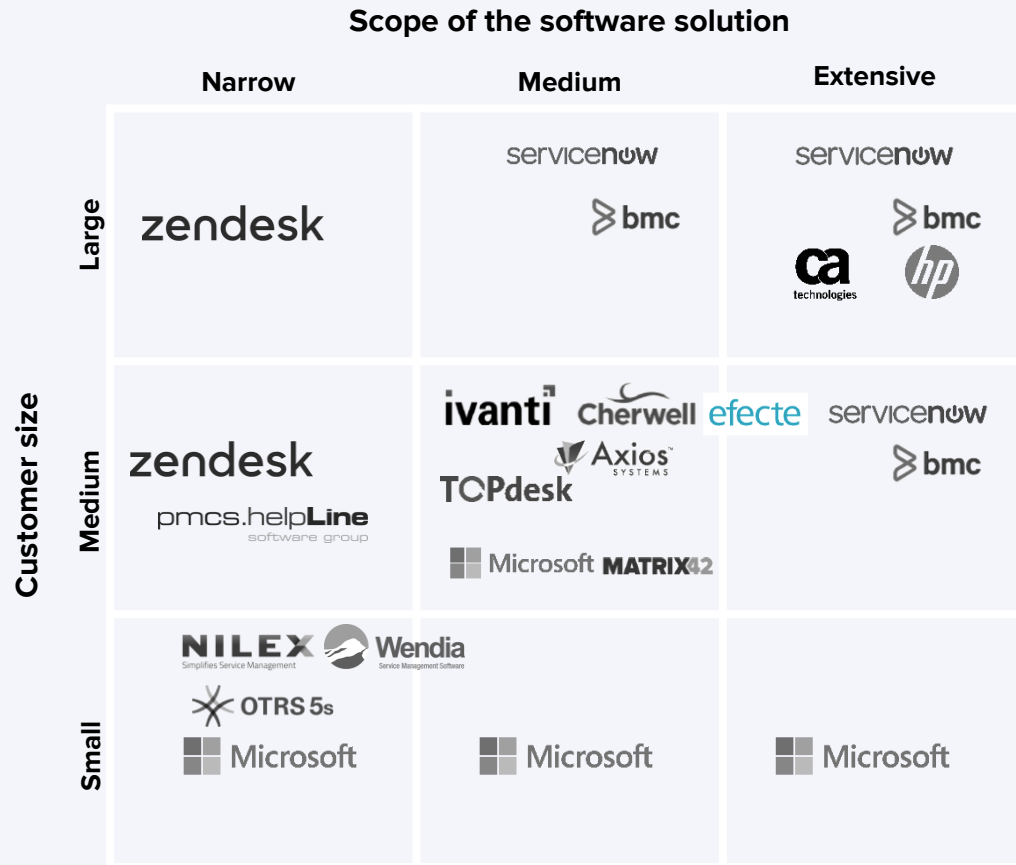
Due to its small size, Efecte's products have not yet been classified, for example, in Gartner's analyses, although the company has been mentioned in a report concerning the ITSM market as "a software supplier worth mentioning". However, compared to the international market, Efecte has a stronger position in Finland due to greater awareness and its numerous reference customer accounts. Poor international awareness hinders the development of an international distribution channel. In this sector, a strong and comprehensive sales network is also important because customers' threshold for changing software is high, and thereby the company that first succeeds in creating a customer relationship usually obtains long-term benefits in terms of market share.

Because of the smaller volume of operations, Efecte also cannot invest in product development, sales and marketing in the same way as its biggest competitors, which can lead to a relative weakening of the competitiveness of Efecte's technology and products and to a decline in market share.

The company strives to minimise the competitive disadvantages by focusing on customer segments that are not in the focus of its major competitors and that value local suppliers when selecting their software solutions.

Efecte's competition

Efecte's competition in the ITSM market



Source: Efecte, Inderes

Efecte's competitive factors

- + Software based on the SaaS model
- + Low total cost of ownership (TCO)
- + Flexible delivery models
- + Comprehensive solution
- + Own consulting, deployment and support services
- Small R&D, sales and marketing resources compared to major competitors
- Weaker competitiveness and delivery capability in the largest and global customer accounts
- Weak awareness outside Finland

Financial position

Performance 2013–2018

Efecte's revenue has increased strongly since the adoption of the SaaS business model in 2013. The company's revenue grew from EUR 4.4 million in 2012 to EUR 12.2 million in 2018, with the average annual revenue growth being approximately 19% in the period in question. The drivers for the strong growth were the robust growth of SaaS revenue (CAGR 2013–2018 90%) and the increased service sales stemming from the increased deployment volumes (CAGR 2013–2018 37%). However, the total revenue growth was weakened by the decrease in revenue from the sales of single licences, which was in line with the company's strategy, and the decrease in the related support and maintenance revenue. In terms of geography, the majority of Efecte's growth in 2013–2018 was still generated in Finland. In 2018, sales outside Finland amounted to approximately 15% of revenue.

There has been strong variation in the profitability of the company in 2013–2018, with operating profit varying between -19% and +2% and EBITDA varying between -16% and +6%. The variation in profitability has been mainly affected by the heavy product development and growth investments that took place towards the end of the period and that have increased expenses at a significantly quicker rate than revenue.

Cost structure

Efecte sells and provides its services using mainly in-house personnel, so the company's materials and services cost item has been quite low in recent years, at about 10% of revenue.

The majority (2018: 64% of expenses) of Efecte's cost structure comprises of personnel expenses. Approximately 20% of employees work in sales, approximately 40% in services and training, 17%

work with products (including R&D), approximately 15% are maintenance staff for support and cloud capacity and 8% work in administrative duties. In 2018, personnel expenses amounted to EUR 9.4 million, representing approximately 77% of revenue. The company's personnel count has increased strongly in recent years, especially due to the expansion of international operations, and at the end of 2018, the company had 104 employees (2017: 96 employees). For R&D, we assume that Efecte will increase its personnel approximately in line with its revenue. Efecte's technology has reached a rather mature phase, so there are no major investments on the horizon.

Other operating expenses are Efecte's second-biggest cost item (2018: 25% of expenses and 30% of revenue). In the last few years, other operating expenses have increased especially due to costs related to the IPO and administration, the increase in the number of employees and an increase in travel costs and marketing investments. However, we expect that other operating expenses will scale to some extent as the volume of business grows.

Efecte's depreciation and amortisation primarily comprise the amortisation of product development costs capitalized in previous years and the amortisation of goodwill from an acquisition. Depreciation and amortisation amounted to approximately EUR 0.4 million in 2018, which corresponds to approximately 3% of revenue.

Balance sheet and financial position

Efecte's balance sheet structure is very simple and lightweight. At the end of Q4/2018, the balance sheet total was approximately EUR 7.6 million. The assets on the balance sheet were mainly comprised of receivables (EUR 2.3 million), cash (EUR 4.2 million) and intangible assets resulting from

capitalised R&D expenditure (EUR 1 million). With regard to liabilities, the company's shareholders' equity primarily comprises retained losses and the reserve for invested non-restricted equity. As their sum, the company's shareholders' equity was EUR 3.4 million. At the end of Q4/2018, the company had no financial debt, but due to the relatively high advance payments, trade payables and accrued liabilities, the company's non-interest-bearing liabilities stood at approximately EUR 3.5 million, rendering the company's net working capital negative (approximately EUR -1.2 million). The company's equity ratio was 59% at the end of Q4/2018 and net gearing was -123%.

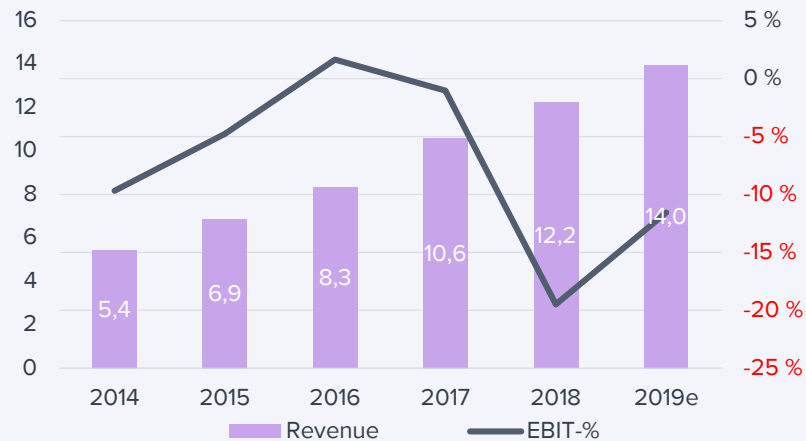
Cash flows

Efecte's cash flow development has historically been stronger than the company's revenue development, which is explained by the advance payments enabled by the company's business model. Efecte's customers typically pay their SaaS licence fees on an annual basis at the start of the agreement period, and the company's maintenance revenue and revenue from the single license sales are also front-end-weighted. For example, at the end of H1/2019, Efecte's net cash reserves decreased by only around 12% year-on-year, amounting to EUR 5 million (H1/2018: EUR 5.7 million), even though the company's EBITDA for the past 12-month period was approximately EUR -1.9 million.

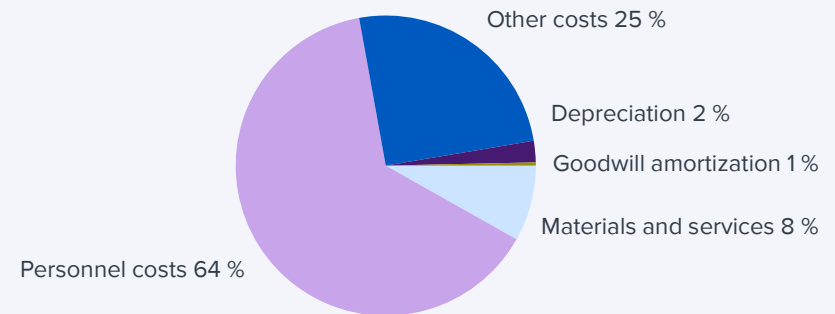
Due to the strong operative cash flow, Efecte's growth is partly self-financing, and despite the significant growth investments, we estimate that the company's net cash reserves are sufficient until the end of the strategy period (2022), at which point the company's operative income should be clearly positive.

Financial position

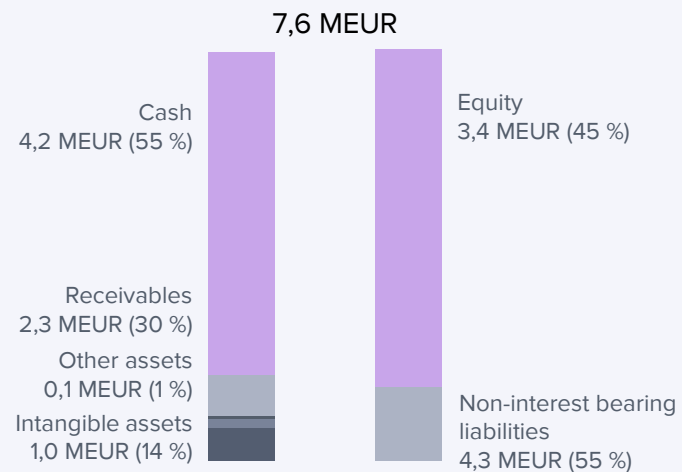
Revenue and EBIT-%



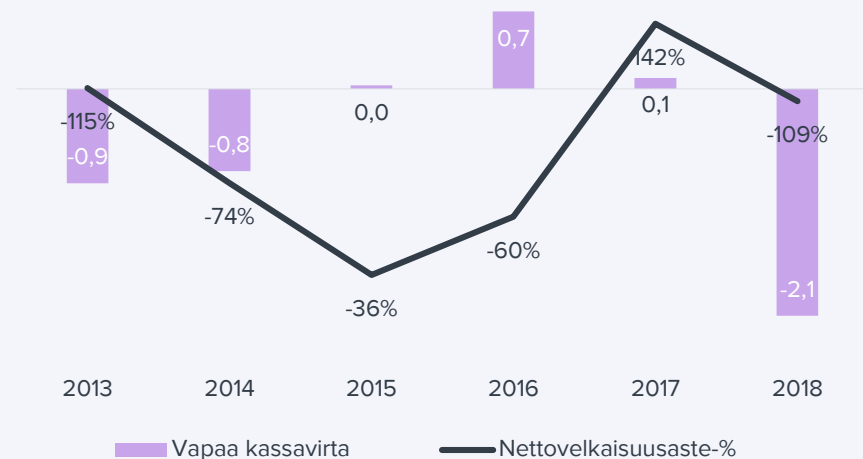
Cost structure 2018



Balance sheet, Q4'2018



Free cash flow and gearing-%, 2012-2018



Estimates 1/3

Estimates

Starting points of the forecast model

We estimate Efecte's revenue development primarily based on two core revenue items:

- SaaS
- Services

Due to Efecte's business model that concentrates on the SaaS business model, we assume that for the revenue items not included in the company's strategy, that is, Licences and Support and Maintenance (2018: in total, approximately 15% of revenue), income will gradually decrease towards zero in the strategy period.

Drivers for revenue growth

In our forecast model, we assume that the growth of Efecte's revenue is mainly driven by the development of SaaS revenue, as the growth of Services is very much tied to the growth of SaaS software solution sales to new customers.

We estimate the development of SaaS revenue mainly through Annual Recurring Revenue (ARR) for SaaS, which is driven in our model by 1) growth of sales personnel, 2) growth of average revenue per salesperson (average size of new customer accounts, expansion of existing accounts and price changes) and 3) estimated customer churn.

In our forecast model, we assume that growth in the number of Efecte's sales personnel is, due to the need for inducting new employees and relatively long sales cycles, reflected in the development of SaaS revenue with a delay of approximately 3–4 quarters, with the typical delay in the development of Services revenue being 2–3 quarters.

Overall short-term visibility to Efecte's revenue levels is

good, as the company's revenue mainly comprises highly foreseeable recurring revenue. Foreseeing the growth rate of revenue is, on the other hand, more challenging to model, as it is very dependent on the growth investments made by the company, the timing of agreements and the development of the efficiency of sales. According to our view, the strong growth in demand in the industry, the company's solid track record of growth and the progress of international expansion lay down a good foundation for continued strong growth of SaaS revenue in the next few years.

We do not provide separate estimates concerning the development of Efecte's revenue from operations in Finland and abroad, but our model is, in practice, based on the assumption that Efecte's relative growth will be increasingly based on international operations, and the relative annual growth in Finland will decelerate so that it will be close to the level of 10% towards the end of the strategy period. Roughly, this means that Efecte's international operations will grow towards the end of the strategy period (in 2022) to approximately EUR 6 million, that is, approximately 35% on average in 2019–2022.

Scalability of profitability

In practice, Efecte's profitability and profit growth are defined in our model by the development of the gross profit percentage and fixed costs in relation to revenue.

In our model, we estimate that going forward, Efecte will still be able to maintain its gross profit margin at the level of approximately 90%, which has been achieved in the past few years. According to our estimate, the changes in Efecte's gross profit margin level are closely related to the degree to which the company uses external services to generate revenue from Services. In any case, we assume that the gross profit margin for SaaS software revenue remains high

(over 90%) and that it will increase slightly over time with the scaling of infrastructure expenses.

We model the development of fixed costs (personnel costs and other operating expenses) based on the estimated increase in the number of employees and the increase in the average personnel costs and other operating expenses per employee.

In our model, we estimate that going forward, Efecte's personnel costs will scale considerably from the current level (2018: 77% of revenue vs. 2027e 50%). However, we expect Efecte to still make considerable investments in sales, marketing and R&D personnel in the medium-term, which together with the increase in the headcount for service and support staff will decelerate the scalability of personnel costs.

We expect that other operating expenses will gradually scale down from the 2018 level of approximately 30% to approximately 20% in 2027.

Therefore, our overall expectation in our forecast model is that Efecte's profitability will scale considerably from the current level and that in the medium-term (in 2021), the company will first reach a positive EBITDA margin and in the long term (2026–), EBITDA and EBIT margin levels of approximately 18–20%.

Estimates 2/3

Year 2019

Efecte's guidance for 2019 is that SaaS revenue increases by more than 20% and profitability improves. In the H1/2019, the company's SaaS revenue grew by 25% and operating profit margin improved to -14.3% (H1/2018: -20.7%).

We estimate that in 2019, Efecte's total revenue will increase by 14% and SaaS revenue by 22% and that the EBIT margin will be approximately 8 percentage points higher than in the comparison period (2019e: -11.6% vs. 2018: -19.5%).

In our estimate, the growth of Efecte's SaaS revenue wanes in the second half and remains slightly under the company's growth target (over 20%), as in the H1 report, Efecte reported on the loss of two customer accounts, which has a considerable effect on the growth of SaaS revenue in the short term. At a monthly level, the customers leaving the company accounted for approximately 3% of the SaaS revenue for the end of H1/2019 and for a total of approximately EUR 0.24 million (4%) of SaaS revenue for the last 12 months. Therefore, the loss of customers will significantly decelerate the growth of SaaS in Q3/2019–Q2/2020. However, based on the company's comments, we do not take the customer churn as a sign that Efecte's competitiveness is weakening because it took place as a result of corporate transactions and a technology decision that was made by one customer already years ago.

In 2019, we expect Services revenue to increase by approximately 16% year-on-year (2018: 20%), as the company continues to transform the role of its service business so that it provides stronger support for the SaaS business. We predict a continuing decrease (-14%) in revenue from single licences and maintenance, which are non-strategic and gradually becoming obsolete.

The strong, front-end-weighted growth investments that the company made in 2017–2018 are still weighing Efecte's EBIT down so that it is negative (2019e: EBIT EUR -1.6 million), but the profitability trend will turn clearly positive once the growth rate of fixed costs in relation to revenue will slow down.

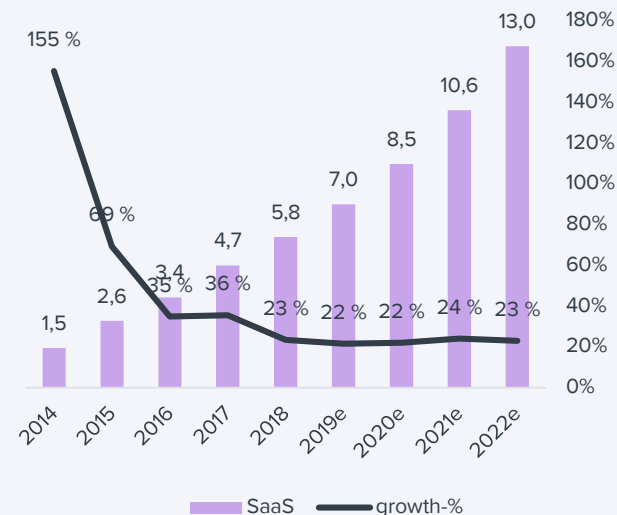
Years 2020–2022

With the steady growth of operations in Finland, the increasing growth in Germany and the positive signs regarding business in Sweden, we expect that the SaaS business operations that play a key role in terms of value creation will grow in accordance with the company's targets (+23%/year on average). In addition, we expect that revenue from Services will increase strongly as a result of growth in SaaS sales to new customers (19%/year on average). However, the growth of total revenue (18%/year on average) will be weakened further in 2020–2022 by the decline in revenue from the non-strategic single licence business model.

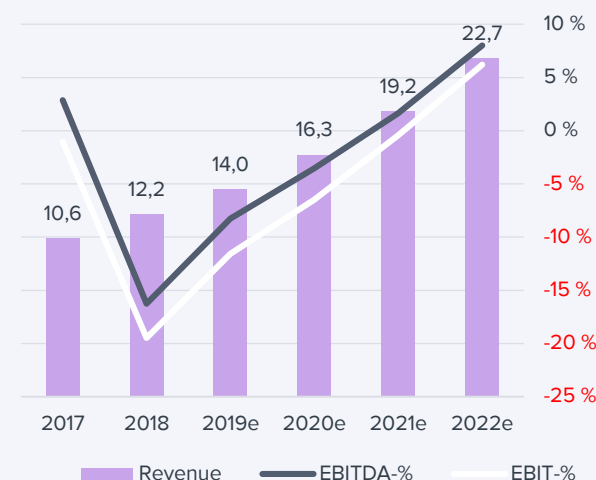
We expect that Efecte's profitability trend will remain clearly positive in 2020–2022 due to an increase in the scalability and efficiency of continuous business and that the company's financial results will improve so that EBITDA will be slightly positive in 2021 (EBITDA % 2%) and EBIT in 2022 (EBIT % 6%).

In our estimate, the company's SaaS revenue in 2022 will amount to EUR 13 million and total revenue to EUR 22.7 million. We estimate an EBITDA of EUR 1.8 million in 2022 (EBITDA % 8.0%) and an EBIT of EUR 1.4 million (EBIT % 6.2%). Regarding profitability, we therefore estimate that the company remains still slightly below its financial targets in 2022 (target EBIT >10% by 2022).

SaaS revenue and growth %



Revenue, EBITDA % and EBIT %



Estimates 3/3

Long-term profit estimates

In our forecast model, revenue growth will slow down gradually after 2022 to approximately 12% on average in 2023–2029, with perpetual growth amounting to 2% starting from 2030. In our estimate, growth slows down due to the slowing down of growth in sales to new customers especially in Finland, the tightening competition and customer turnover that will presumably increase over time.

According to our estimate, the EBIT margin will settle at approximately 20% starting from 2028. In our estimate, profitability increases due to the scaling of fixed expenses, the decreasing growth investments and the decreasing proportional share of depreciation and amortisation. We expect the EBITDA margin to remain steady at approximately 90% in the long term.

Balance sheet and cash flow estimates

Efecte's balance sheet is still relatively strong as a result of the IPO that took place in 2017, and the company's net cash reserves amounted to approximately EUR 5.0 million at the end of H1/2019, with the company's equity ratio being 49%. According to our estimates, Efecte's net cash reserves should be sufficient to carry the company over the negative period of 2019–2021, where the losses are the result of the company's growth investments.

The melting of the company's net cash reserves is slowed down by the strongly negative net working capital that is the result of the high advance payments enabled by the SaaS business model, with the negative net working capital financing a significant part of the company's growth investments. For example, at the end of H1/2019, the company's net cash reserves decreased by approximately EUR

0.7 million from the previous year's level, even though the company's EBITDA for the past 12-month period was approximately EUR -1.9 million.

Number of shares and option schemes

Efecte's number of shares increased to 5.51 million shares as a result of the IPO at the end of 2017, with the share subscriptions under option schemes and the shares related to the annual compensation of the members of the Board further increasing the number of shares to approximately 5.94 shares at the end of H1/2019.

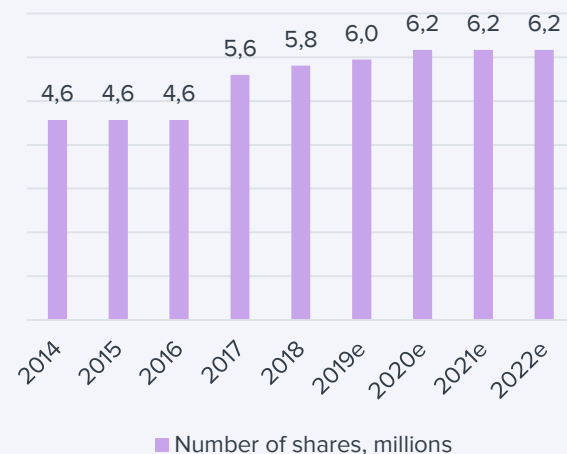
The company has several ongoing option schemes to ensure the commitment of key persons (2011, 2015, 2018), with the participants being entitled to subscribe for approximately 0.94 shares in total (of which approximately 0.45 shares have already been subscribed for) at the subscription price of EUR 0.58–5.75, provided that the option schemes' criteria are met. The option schemes have been presented in detail on page 38 of the report.

In our forecast model and valuation, the number of shares takes into account the full dilution effect in so far as we estimate that the criteria of the option scheme will be met and the share subscription price will be lower than the current share price (EUR 4.65). According to our current estimate, the subscriptions under the existing option schemes (2011, 2015 A-C and 2018 B) will increase Efecte's number of shares by 0.3 million shares (by approximately 6%) from the end of H1/2019 to the end of 2023, with the share capital being increased by approximately EUR 0.7 million (average subscription price approximately EUR 2.3/share) by the end of 2020.

Development of net cash reserves and free cash flow



Change in the number of shares



Source: Inderes, Efecte

Estimates

Income statement	H1'17	H2'17	2017	H1'18	H2'18	2018	H1'19	H2'19e	2019e	2020e	2021e	2022e
Revenue	5,0	5,6	10,6	6,0	6,2	12,2	6,9	7,1	14,0	16,3	19,2	22,7
SaaS	2,2	2,5	4,6	2,7	3,0	5,8	3,4	3,6	7,0	8,5	10,6	13,0
License	0,2	0,4	0,6	0,3	0,2	0,5	0,1	0,1	0,3	0,2	0,1	0,0
Maintanance	0,7	0,7	1,5	0,6	0,6	1,3	0,6	0,6	1,3	1,1	0,8	0,6
Services	1,9	2,0	3,9	2,3	2,4	4,7	2,7	2,7	5,4	6,5	7,7	9,1
EBITDA	0,1	0,2	0,3	-1,1	-0,9	-2,0	-0,7	-0,4	-1,2	-0,6	0,3	1,8
Depreciation	-0,2	-0,2	-0,4	-0,2	-0,2	-0,4	-0,3	-0,2	-0,5	-0,5	-0,4	-0,4
EBIT (excl. NRI)	0,0	0,1	0,0	-1,2	-0,9	-2,1	-1,0	-0,6	-1,6	-1,1	-0,1	1,4
EBIT	-0,1	0,0	-0,1	-1,2	-1,1	-2,4	-1,0	-0,6	-1,6	-1,1	-0,1	1,4
Net financial items	0,0	-0,7	-0,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
PTP	-0,1	-0,7	-0,8	-1,3	-1,2	-2,4	-1,0	-0,6	-1,6	-1,1	-0,1	1,4
Taxes	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
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
Net earnings	-0,1	-0,7	-0,8	-1,3	-1,2	-2,4	-1,0	-0,6	-1,6	-1,1	-0,1	1,4
EPS (adj.)	-0,01	0,01	0,01	-0,21	-0,17	-0,37	-0,16	-0,11	-0,27	-0,17	-0,01	0,23
EPS (rep.)	-0,02	-0,13	-0,15	-0,22	-0,20	-0,42	-0,16	-0,11	-0,27	-0,17	-0,01	0,23

Key figures	H1'17	H2'17	2017	H1'18	H2'18	2018	H1'19	H2'19e	2019e	2020e	2021e	2022e
Revenue growth-%	212,4 %	205,1 %	27,5 %	18,8 %	11,9 %	15,2 %	15,1 %	13,4 %	14 %	16 %	18 %	18 %
SaaS-revenue growth-%			35,0 %	24,6 %	23,2 %	23,9 %	24,8 %	18,7 %	21,6 %	22,0 %	24,0 %	23,0 %
Adjusted EBIT growth-%	-165,7 %	-68,3 %	-85,4 %	3543,1 %	-1389,8 %	-5300,0 %	-16,9 %	-33,5 %	-24,3 %	-34,7 %	-91,9 %	-1749,9 %
EBITDA-%	1,8 %	3,8 %	2,9 %	-17,9 %	-14,6 %	-16,3 %	-10,2 %	-6,4 %	-8,3 %	-3,5 %	1,6 %	8,0 %
Adjusted EBIT-%	-0,6 %	1,3 %	0,4 %	-19,8 %	-15,2 %	-17,4 %	-14,3 %	-8,9 %	-11,6 %	-6,5 %	-0,4 %	6,2 %
Net earnings-%	-2,1 %	-13,2 %	-7,9 %	-21,0 %	-18,6 %	-19,8 %	-13,9 %	-8,9 %	-11,4 %	-6,5 %	-0,4 %	6,2 %

Source: Inderes

Investment profile

Full-blooded growth share

As an investment target, the positive market trends, international expansion and the company's development phase profile Efecte as an almost full-blooded growth share, the valuation of which is driven in the current development phase mostly by the growth rate of SaaS revenue instead of the financial performance.

From the perspective of investors, the risk level of the company's investment profile is still higher than average due to the limited visibility to the implementation of the company's strategic objectives and the limited value creation capability and because the company is still making losses, the scale of the company is relatively small and the liquidity of the share is low. However, the risk profile is lowered by financing that has been secured for several years through the successful IPO, the predictability provided by recurring revenue and the completed, competitive software solution the commercial functioning of which has been already verified in the Finnish market and through several foreign reference customers.

Potential acquisition target in the long term

In our view, Efecte may be an acquisition target in the long term for larger companies or software companies aiming to expand to cloud-based software solutions for service management. However, we see that a prerequisite for this is that the company succeeds in its strategy and achieves a significant market position in the market comprising medium-sized European companies.

Positive value drivers

According to our estimate, the positive value drivers for Efecte are:

Large and growing target market: Efecte's target markets are expected to grow strongly in the next few years (annual growth of more than 20%) as a result of several trends supporting demand, and the value of the target markets is expected to increase to approximately USD 2.4 billion by the end of 2021. The size of the German market alone is approximately ten times the size of the Nordic markets, so market size will not hinder Efecte's growth.

Scalability: Efecte's business that is based on the SaaS model is fundamentally extremely scalable, and there is considerable growth potential in the company's profitability in the long-term.

Continuity and predictability: With the growth of SaaS revenue, the continuity and predictability of Efecte's revenue and cash flows will improve, which lowers the company's risk profile.

Negative net working capital: Efecte receives licence payments in advance, so the company's net working capital is typically clearly negative. For this reason, revenue growth finances itself in the long term. However, the sales and marketing expenses that are front-loaded compared to the recurring licence revenues consume the operative cash flow heavily in the growth phase.

Negative value drivers and risks

Risks related to internationalisation and the growth strategy: Efecte's value creation is strongly based on the success of the company's growth strategy, which enables business scalability and revenue growth. In the upcoming years, the company must acquire a significant number of new customers outside Finland in order to achieve its growth targets and to obtain sufficient scale and market position.

Changes in competitive dynamics: From the

customer's point of view, there are several alternatives to Efecte's solution, even though we see that Efecte currently provides a very competitive solution for small and medium-sized customers. Efecte is a small company compared to its major competitors, which sets constraints for the company when competing for the largest customer accounts and in terms of investment capability. In addition, the largest competitors may expand more strongly into Efecte's target markets in the future.

Technology and information security risks: Among other things, artificial intelligence and software robotics will inevitably change enterprise services in the next ten years, which may result in significant increases in Efecte's R&D investment needs compared to the current level. Furthermore, there are major information breach and system performance risks related to cloud services.

Valuation and liquidity risks: The market pricing of the expected growth of SaaS companies plays a key role in Efecte's share value development. Going forward, changes in the pricing of the growth of SaaS companies may cause considerable fluctuation in Efecte's valuation level as well. For Efecte, the valuation risk is emphasised because its share valuation is not supported by profit multiples and share liquidity.

Investment profile

1. Large target market with strong growth

2. Scalable SaaS business model providing recurring revenue

3. Strong operating cash flow finances a part of the significant growth investments

4. The company's development phase and relatively small size increase the risk profile

5. The expected returns for Efecte's shares lean strongly on growth expectations and the share liquidity is low

Source: Inderes

Potential



- Existing, scalable technology
- Verified SaaS business model that is strongly based on recurring revenue
- Clear competitive advantages in terms of medium-sized companies
- Significant market potential and strongly increasing demand
- International expansion and additional sales to existing customers

Risks



- Success in growth investments and international expansion
- Changes in the competitive landscape and position
- Changes in technology
- Information security risks
- The growth strategy renders the cash flow negative, which weakens the company's financing situation considerably by the end of the strategy period if the predicted change in profit performance does not take place

Valuation 1/2

Value creation

Efecte's valuation remains challenging due to the company's development phase and the revenue logic of the SaaS business model, due to which a significant part of the value is based on growth expectations, and the company's financial results do not support valuation until the end of the strategy period. In addition, Efecte's valuation is affected, for the time being, by the current relatively small scale of operations. In our opinion, Efecte's market value can be seen to consist of the following three components:

- **SaaS business value:** SaaS, which is the company's core business with strong growth, recurring revenue and easy scalability, is the most important component and growth driver in Efecte's valuation.
- **Service business value:** The main purpose of Efecte's service business is to support the growth of the SaaS business, but it is also a major and growing source of income for the company. The scalability of services is poor and they offer non-recurring revenue, so their role in share value creation is significantly smaller than that of the SaaS business.
- **Value of licence sales and maintenance revenue:** According to Efecte's strategy, the company no longer actively sells its software under single licences, so our default assumption is that revenue from single licences will dry up during the strategy period. At the same time, the related support and maintenance revenues will decrease and/or convert gradually into SaaS revenue. However, we predict that single licences and support and maintenance revenues will still contribute to the cash flow for many years to come, which forms a small share of

Efecte's value.

Valuation of the SaaS business

We determine the value of Efecte's SaaS business through the valuation of a large benchmark group consisting of 90 companies using the SaaS business model (see the following page).

When valuing Efecte's SaaS business, we use a valuation based on the correlation of the combination of predicted revenue growth and operational profitability of the benchmark group (2019e revenue growth % + 2019e EBITDA %) and forward-looking EV/S ratio for the next 12 months. In addition, we apply a 40% discount on the resulting multiple to take into account Efecte's scale that is significantly smaller than that of the benchmark companies, the lower share liquidity and the early development phase of the company's internationalisation strategy.

In the valuation of the SaaS business, we emphasise a valuation method combining growth and profitability, as we consider it to take the differences in the scaling phase and growth efficiency of the companies into account better than a purely growth-based comparison.

In our calculation, we assume that the growth parameter for Efecte's SaaS business is the estimated growth rate of the company's SaaS revenue (2019e +22%), whereas for profitability, our estimate for the company's overall EBITDA margin (2019: -9%) was used. Based on the combined average growth and profitability figure for the SaaS benchmark companies and based on the forward-looking average EV/S multiple, an EV/S multiple of approximately 3.3x could be accepted within these assumptions for Efecte's SaaS business, which would yield the SaaS business an enterprise value (EV) of approximately EUR 20 million.

Valuation of the service business

For the service business, we see that Finnish companies offering IT services, such as Siili Solutions, Vincit and Nixu, are good benchmarks for Efecte. In addition, the valuation levels of these companies provide a clear overall minimum limit for Efecte's valuation. The 2019 average EV/Revenue multiple of this group of benchmarks is approximately 1.1x.

We apply a discount of 30% to the multiple of this group as well because the scale of Efecte's service business is clearly smaller than that of the benchmark companies, it is entirely tied to Efecte's own SaaS business and visibility to the profitability of services is weak. Considering these assumptions, we see that an EV/S multiple of approximately 0.8x is acceptable for Efecte's Services business, with the estimated EUR 5.4 million revenue for 2019 resulting in an enterprise value (EV) of approximately EUR 4 million for the Services business.

Present value of the cash flows of non-strategic businesses

We predict that revenue from Efecte's licence sales and maintenance activities will be approximately EUR 4 million in H2/2019–2024. We estimate that the margin for such revenue will be close to 100%, so the revenues for these areas provide a good estimate of cash flows. Discounted to the present value, we estimate that the present value of the cash flows from non-strategic businesses is approximately EUR 3 million.

Sum of the parts summary

Global SaaS-companies' valuation



Sum of the parts

SaaS-revenue 2019e	7,0
x SaaS-peers EV/S-multiple	4,7
Discount to peer group	40 %
SaaS Enterprise value	20

Services revenue 2019e	5,4
x IT-service companies peer group EV/S-valuation	0,8
Services Enterprise value	4,3

Licenses & Maintenance NPV	3,0
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Sum of the parts Enterprise value	27
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Net cash. Q4'18	4,2
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Sum of the parts Market value	31
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Number of shares	5,95
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Sum of the parts per share	5,3
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IT-Services peer group Yhtiö	Share Price	Market Cap MEUR	Enterprise value MEUR	EV/S 2019e	EV/S 2020e
Digia	3,70	99	116	0,9	0,8
Gofore	8,12	114	106	1,6	1,4
Innofactor	0,63	24	42	0,7	0,6
Nixu	11,60	86	94	1,7	1,5
Siili Solutions	8,76	61	60	0,7	0,7
Solteq	1,49	29	55	0,9	0,9
Vincit	4,60			1,1	1,0
Average				1,1	1,0
Median				0,9	0,9

Source: Inderes

Valuation 2/2

Summary of the sum of parts

In our view, the combined value of the company's various business areas is the best benchmark for Efecte's value. We discussed the valuation of the parts in the previous chapter and provide a summary of them in this chapter.

We estimate that the current enterprise value of Efecte's SaaS business is approximately EUR 20 million, which corresponds to the EV/S multiple of 2.8x. We estimate that the value of the Services business is approximately EUR 4.3 million and the current value of the cash flows from non-strategic businesses is approximately EUR 3 million. Thus, the total enterprise value of Efecte's parts is approximately EUR 27 million. Therefore, based on the sum of parts, when calculated using the EUR 4.2 million net cash reserves of Q4/2018, the current market value of Efecte's shares is approximately EUR 31 million, which is approximately EUR 5.3 per share.

Valuation based on a benchmark group consisting of Nordic software companies

We selected mainly Nordic software companies to the benchmark group against which Efecte's total revenue is assessed, as they reflect the growth expectations for European software companies well, and these companies are clearly closer to Efecte in terms of scale and share risk profile than the international SaaS benchmarks. It is difficult to find a direct benchmark for Efecte, but we have added to the benchmark group two listed German companies, the names of which were mentioned in the chapter describing the competitors in the industry (USU Software and Serviceware).

With the EV/Revenue multiples of 1.7x–1.6x, Efecte is valued at approximately 50% below the benchmark

median of 3.4x–2.9x this year and next year. However, the multiples 1.3x and 1.9x of Efecte's German industry benchmarks are quite well in line with Efecte's multiples.

DCF model

According to our DCF model, the enterprise value (EV) for Efecte is EUR 36 million and equity value is EUR 40 million, or EUR 6.7 per share. Our perpetual assumption is that the EBIT % is 19.5% and growth 2%. The weight of the perpetual assumption (terminal) is 51% of the enterprise value.

The cost of capital (WACC) in the DCF model is 12.7%, which reflects the company's small size and the rather high risk profile that is still related to the successful implementation of the growth strategy. The level of the return requirement is in line with the levels we have used in the valuation of other small Finnish SaaS benchmarks (Admicom 11%, Heeros 13%, LeadDesk 12%).

Summary of valuation

Calculated using diverse evaluation methods, the company's value range (EV) is EUR 27–38 million. The value range is extensive, and to our minds, exhaustively reflects the different scenarios of the development of the value of the company.

On average, our valuation methods indicate share valuation of EUR 6.3 for Efecte. Concerning the setting of the target price (EUR 5.20) in the short term, we nevertheless base it on the sum of parts using conservative parameters, which indicates share valuation of EUR 5.3.

Efecte's valuation multiples

Valuation level	2019e	2020e	2021e
Share price	4.56	4.56	4.56
Number of shares, million	5.95	6.17	6.17
Market value	27	28	28
Enterprise value (EV)	24	26	26
P/E (adj.)	neg.	neg.	neg.
P/E	neg.	neg.	neg.
P/Cash flow	neg.	neg.	neg.
P/B	14.1	32.2	35.6
P/S	1.9	1.7	1.5
EV/Revenue	1.7	1.6	1.4
EV/EBITDA (adj.)	neg.	neg.	83.4
EV/EBIT (adj.)	neg.	neg.	neg.
Dividend/earnings (%)	0.0%	0.0%	0.0%
Dividend yield, %	0.0%	0.0%	0.0%

Source: Inderes

Summary of valuation methods

(EUR million)	Weight	EV
Sum of parts	33%	27
Nordic software companies	33%	38
DCF	33%	36
Enterprise value, on average		33
Net cash Q4/2018		4.2
Current value of shares outstanding		37
Current share value		6.3

Peer group valuation (3.10.2019)

Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company		MEUR	MEUR	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e
Admicom Oyj	51,2	249	240	34,2	26,6	34,2	26,6	15,0	11,4	0,4	0,3	0,4	0,4	17,6
Cxense ASA	16,0	35	32					1,9	1,7		0,2			
Basware	21,3	316	358		537,0	110,2	21,1	2,4	2,3	0,0	0,1	0,0	0,1	3,7
FormPipe Software AB	22,3	112	110	22,5	19,0	11,6	10,7	3,0	2,9		0,0	0,3	0,3	
Fortnox AB	164,6	914	889	57,6	44,5	48,6	38,5	18,3	14,8	0,4	0,2	0,4	0,4	35,0
Heeros Oyj	2,2	10	9			9,2	9,2	1,0	0,9	0,1	0,1	0,1	0,1	5,7
LeadDesk	10,3	47	44	44,1	22,0	22,0	14,7	3,4	2,9	0,2	0,2	0,2	0,2	7,5
Lime Technologies AB	117,4	148	156	33,0	25,1	20,5	16,5	5,8	4,9	0,2	0,2	0,3	0,3	25,3
Safeture AB	6,7	14	12			11,0		4,5	3,1	0,5	0,5	0,4		12,6
Talenom Oyj	33,9	237	257	21,4	17,2	13,2	10,7	4,3	3,6	0,2	0,2	0,3	0,3	9,7
Vitec Software Group AB (publ)	142,5	385	423	26,7	24,9	13,6	13,5	3,9	3,8	0,1	0,0	0,3	0,3	5,7
<i>Sinch AB</i>	<i>149,00</i>	<i>763</i>	<i>802</i>	<i>25,8</i>	<i>23,0</i>	<i>17,4</i>	<i>15,0</i>	<i>1,8</i>	<i>1,6</i>	<i>0,2</i>	<i>0,1</i>	<i>0,1</i>	<i>0,1</i>	<i>4,3</i>
Serviceware SE	13,48	141	92	20,7	12,5	11,7	8,0	1,3	1,1		0,2	0,1	0,1	
USU Software AG	18,75	200	192	28,9	18,2	20,4	17,3	1,9	1,7	0,1	0,1	0,1	0,1	
Infront ASA	20,80	91	70	7,3	4,2	6,0	3,5	0,9	0,6	1,7	0,5	0,2	0,2	2,6
F-Secure Oyj	2,94	466	487	60,9	31,5	18,4	15,5	2,2	2,0	0,2	0,1	0,1	0,1	6,5
Qt Group Oyj	14,05	334	329		38,7	109,7	29,9	6,0	4,8	0,2	0,3	0,1	0,2	16,9
Simcorp A/S	627,00	3401	3401	27,2	24,9	24,9	22,9	7,6	6,9	0,2	0,1	0,3	0,3	16,0
SSH Communications Security Oyj	1,39	54	44	44,0	44,0	17,6	14,7	2,6	2,3		0,1	0,1	0,2	34,8
Artificial Solutions International AB	18,60	43	63					10,6	7,5	0,4	0,4			2,8
IAR Systems Group AB	237,00	299	300	26,2	19,7	20,0	14,9	7,4	6,2	0,1	0,2	0,4	0,4	5,5
Efecte (Inderes)	4,56	27	24	neg.	neg.	neg.	neg.	1,7	1,6	neg.	neg.	-	-	14,1
Average				32,0	54,9	28,4	16,8	5,1	4,1	0,3	0,2	0,2	0,2	12,4
Pohjoismaiset ohjelmistoyhtiöt mediaani				27,2	24,9	18,4	15,0	3,4	2,9	0,2	0,2	0,2	0,2	8,6
Diff-% to median								-49 %	-45 %					64 %

Valuation (3.10.2019)

Valuation	2014	2015	2016	2017	2018	2019e	2020e	2021e	2022e
Share price	5,50	5,50	5,50	5,62	3,86	4,56	4,56	4,56	4,56
Number of shares, millions	4,57	4,57	4,57	5,60	5,81	5,95	6,17	6,17	6,17
Market cap	25	25	25	31	22	27	28	28	28
EV	25	25	24	25	18	24	26	26	25
P/E (adj.)	neg.	neg.	96,6	>100	neg.	neg.	neg.	neg.	20,0
P/E	neg.	neg.	>100	neg.	neg.	neg.	neg.	neg.	20,0
P/FCF	neg.	>100	35,1	>100	neg.	neg.	neg.	neg.	19,3
P/B	26,1	38,6	32,8	5,6	6,6	14,1	32,2	35,6	12,8
P/S	4,6	3,6	3,0	3,0	1,8	1,9	1,7	1,5	1,2
EV/Sales	4,6	3,6	2,9	2,4	1,5	1,7	1,6	1,4	1,1
EV/EBITDA	neg.	>100	48,7	83,5	neg.	neg.	neg.	83,4	13,5
EV/EBIT (adj.)	neg.	neg.	85,5	>100	neg.	neg.	neg.	neg.	17,5
Payout ratio (%)	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Dividend yield-%	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %

Source: Inderes

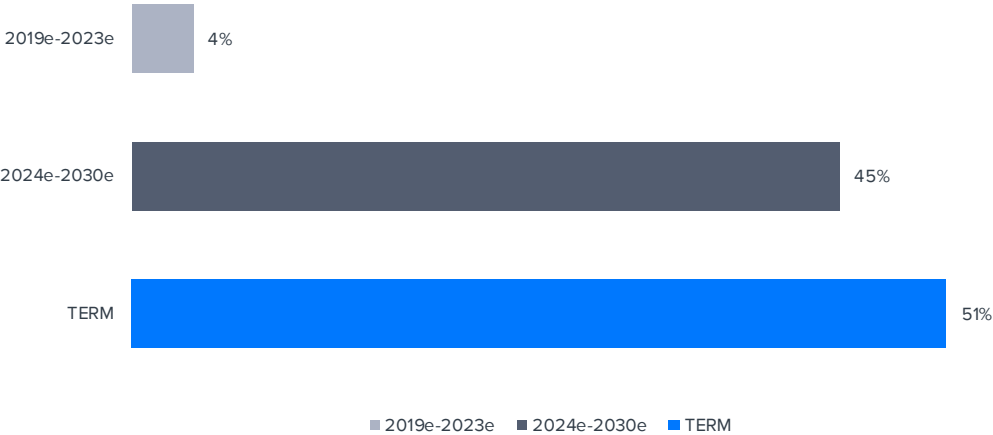
DCF

DCF model	2018	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	-2,4	-1,6	-1,1	-0,1	1,4	2,9	4,5	6,0	7,7	8,4	9,1	9,6	9,8	
+ Depreciation	0,4	0,5	0,5	0,4	0,4	0,4	0,4	0,4	0,4	0,5	0,5	0,5	0,5	
- Paid taxes	0,0	0,1	0,0	0,0	0,0	-0,1	-0,4	-0,9	-1,5	-2,1	-2,3	-2,4	-2,4	
- Tax, financial expenses	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	
+ Tax, financial income	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	
- Change in working capital	0,4	0,2	0,0	0,1	0,1	0,5	0,2	0,1	0,0	-0,2	0,1	0,1	0,1	
Operating cash flow	-1,6	-0,9	-0,6	0,4	1,9	3,7	4,6	5,6	6,6	6,6	7,4	7,8	7,9	
+ Change in other long-term liabilities	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	
- Gross CAPEX	-0,4	-0,4	-0,4	-0,4	-0,4	-0,4	-0,4	-0,4	-0,5	-0,5	-0,5	-0,5	-0,6	
Free operating cash flow	-2,0	-1,3	-1,0	0,0	1,5	3,2	4,2	5,2	6,1	6,1	7,0	7,3	7,3	
+/- Other	0,2	0,1	0,3	0,0	0,0	0,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCFF	-1,8	-1,2	-0,7	0,0	1,5	3,6	4,2	5,2	6,1	6,1	7,0	7,3	7,3	
Discounted FCFF		-1,2	-0,6	0,0	1,0	2,3	2,3	2,5	2,7	2,4	2,4	2,2	2,0	18,9
Sum of FCFF present value		36,7	37,9	38,5	38,5	37,5	35,3	33,0	30,4	27,8	25,4	23,0	20,8	18,9
Enterprise value DCF		36,7												
- Interesting bearing debt		0,0												
+ Cash and cash equivalents		4,2												
-Minorities		0,0												
-Dividend/capital return		0,0												
Equity value DCF		40,9												
Equity value DCF per share		6,9												

Wacc	
Tax-% (WACC)	25,0 %
Target debt ratio (D/(D+E))	0,0 %
Cost of debt	5,0 %
Equity Beta	1,40
Market risk premium	4,75 %
Liquidity premium	3,00 %
Risk free interest rate	3,0 %
Cost of equity	12,7 %
Weighted average cost of capital (WACC)	12,7 %

Source: Inderes

Cash flow distribution



Balance sheet

Assets	2017	2018	2019e	2020e	2021e
Non-current assets	1,1	1,2	1,1	1,0	1,0
Goodwill	0,1	0,1	0,0	-0,1	-0,1
Intangible assets	0,9	1,0	1,0	1,1	1,1
Tangible assets	0,0	0,0	0,1	0,1	0,1
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	0,0	0,0	0,0	0,0	0,0
Deferred tax assets	0,0	0,1	0,0	0,0	0,0
Current assets	8,2	6,5	5,7	5,1	5,6
Inventories	0,1	0,0	0,0	0,0	0,0
Other current assets	0,0	0,0	0,0	0,0	0,0
Receivables	2,0	2,3	2,6	3,0	3,6
Cash and equivalents	6,1	4,2	3,1	2,1	2,1
Balance sheet total	9,3	7,6	6,7	6,1	6,7

Source: Inderes

Liabilities & equity	2017	2018	2019e	2020e	2021e
Equity	5,6	3,4	1,9	0,9	0,8
Share capital	0,1	0,1	0,1	0,1	0,1
Retained earnings	-4,8	-7,2	-8,8	-9,9	-10,0
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	10,4	10,6	10,7	10,7	10,7
Minorities	0,0	0,0	0,0	0,0	0,0
Non-current liabilities	0,0	0,0	0,0	0,0	0,0
Deferred tax liabilities	0,0	0,0	0,0	0,0	0,0
Provisions	0,0	0,0	0,0	0,0	0,0
Long term debt	0,0	0,0	0,0	0,0	0,0
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	0,0	0,0	0,0	0,0	0,0
Current liabilities	3,7	4,3	4,8	5,2	5,9
Short term debt	0,0	0,0	0,0	0,0	0,0
Payables	3,1	3,5	4,0	4,7	5,6
Other current liabilities	0,7	0,8	0,8	0,5	0,3
Balance sheet total	9,3	7,7	6,7	6,1	6,7

Summary

Income statement	2016	2017	2018	2019e	2020e	Per share data	2016	2017	2018	2019e	2020e
Revenue	8,3	10,6	12,2	14,0	16,3	EPS (reported)	0,03	-0,15	-0,42	-0,27	-0,17
EBITDA	0,5	0,3	-2,0	-1,2	-0,6	EPS (adj.)	0,06	0,01	-0,37	-0,27	-0,17
EBIT	0,1	-0,1	-2,4	-1,6	-1,1	OCF / share	0,21	0,10	-0,28	-0,15	-0,09
PTP	0,1	-0,8	-2,4	-1,6	-1,1	FCF / share	0,16	0,01	-0,31	-0,20	-0,11
Net Income	0,1	-0,8	-2,4	-1,6	-1,1	Book value / share	0,17	1,00	0,59	0,33	0,14
Extraordinary items	-0,1	-0,2	-0,3	0,0	0,0	Dividend / share	0,00	0,00	0,00	0,00	0,00
Balance sheet	2016	2017	2018	2019e	2020e	Growth and profitability	2016	2017	2018	2019e	2020e
Balance sheet total	3,6	9,3	7,6	6,7	6,1	Revenue growth-%	21 %	28 %	15 %	14 %	16 %
Equity capital	0,8	5,6	3,4	1,9	0,9	EBITDA growth-%	1661 %	-38 %	-754 %	-42 %	-50 %
Goodwill	0,2	0,1	0,1	0,0	-0,1	EBIT (adj.) growth-%	-253 %	-85 %	-5300 %	-24 %	-35 %
Net debt	-1,1	-6,1	-4,2	-3,1	-2,1	EPS (adj.) growth-%	-241 %	-91 %	-7311 %	-28 %	-37 %
Cash flow	2016	2017	2018	2019e	2020e	EBITDA-%	5,9 %	2,9 %	-16,3 %	-8,3 %	-3,5 %
EBITDA	0,5	0,3	-2,0	-1,2	-0,6	EBIT (adj.)-%	3,4 %	0,4 %	-17,4 %	-11,6 %	-6,5 %
Change in working capital	0,5	0,3	0,4	0,2	0,0	EBIT-%	1,6 %	-1,0 %	-19,5 %	-11,6 %	-6,5 %
Operating cash flow	1,0	0,6	-1,6	-0,9	-0,6	ROE-%	16,2 %	-26,4 %	-53,6 %	-59,4 %	-75,2 %
CAPEX	-0,3	-0,5	-0,4	-0,4	-0,4	ROI-%	13,7 %	-3,4 %	-52,7 %	-60,4 %	-75,2 %
Free cash flow	0,7	0,1	-1,8	-1,2	-0,7	Equity ratio	33,1 %	71,0 %	59,1 %	43,8 %	25,8 %
						Gearing	-141,8 %	-108,6 %	-123,1 %	-159,9 %	-237,5 %
Largest shareholders	% of shares					Valuation multiples	2016	2017	2018	2019e	2020e
First Fellow Oy	17,4 %					EV/S	2,9	2,4	1,5	1,7	1,6
Oy Fincorp Ab	11,8 %					EV/EBITDA (adj.)	48,7	83,5	neg.	neg.	neg.
Stadigh Kari	5,8 %					EV/EBIT (adj.)	85,5	>100	neg.	neg.	neg.
Innovestor Kasvurahastot	5,1 %					P/E (adj.)	96,6	>100	neg.	neg.	neg.
Ilmarinen	5,0 %					P/B	32,8	5,6	6,6	14,1	32,2
Montonen Markku	4,5 %					Dividend-%	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %

Source: Inderes

Option programs

Option program	Option price	Maximum number of options	Options issued	Options vested	Maximum number of new shares issued	Exercised number of shares	Unused vested rights	Subscription period start	Subscription period end
2011	0,58	130000	130000	130000	390000	338895	51105	15.2.2011	31.12.2020
2015	1,61	135000	93000	135000	277500	114500	163000	30.4.2017	31.12.2020
Of which,									
A-options	1,50	45000	25500	25500	76500			30.4.2017	31.12.2020
B-options	1,67	45000	25500	25500	76500			30.4.2018	31.12.2020
C-options	1,67	30000	26500	26500	79500			30.4.2019	31.12.2020
D-options	3,34	15000	15000	0	45000			30.4.2020	31.12.2020
2018									
A-options	5,75	170000	170000	170000	170000	0	170000	2.5.2021	31.5.2022
B-options	4,61	140000	85400	85400	140000	0	85400	2.5.2022	31.5.2023
C-options	Determined on Q1/2020	140000	0	0	0	0	0	2.5.2023	31.5.2024
Total		265000	223000	265000	977500	453395	469505		

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Recommendation	Upside potential*
Buy	> 15 %
Accumulate	5 - 15 %
Reduce	-5 - 5 %
Sell	< -5 %
Potential regarding to 12 month target price	

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
11.12.2017	Buy	7,00 €	5,17 €
12.3.2018	Buy	7,00 €	5,34 €
3.5.2018	Buy	7,00 €	5,80 €
15.8.2018	Accumulate	6,80 €	6,40 €
9.10.2018	Accumulate	6,20 €	6,62 €
8.11.2018	Accumulate	5,60 €	4,95 €
11.3.2019	Accumulate	5,40 €	4,70 €
9.5.2019	Accumulate	5,40 €	5,00 €
23.8.2019	Accumulate	5,20 €	4,90 €



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& estimates



2017
Recommendations



2017
Recommendations



2018
Estimates



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