

Innofactor

Result Comment – 19 July 2016



SHARE

Company	Innofactor
Price	0,93
Price as of	19.7.2016
High/Low 12m	0.98 / 0.76

COMPANY DATA

Market Cap. Current	36
EV current	47
No. of shares (out)	32,9
No. of shares (dil)	38,6

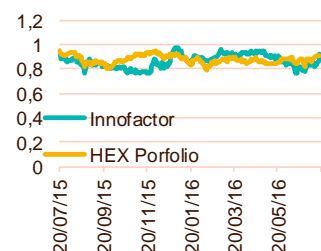
SHAREHOLDERS

Ensio Sami	23 %
Tilman Tuomo	8 %
Laiho Rami	4 %
Linturi Kaija and Risto	4 %
Freefloat	100 %

STOCK DATA

Bloomberg	IFA1V FH
CALENDAR	
Next report date	25.10.2016
AGM	29.3.2016

SHARE PRICE



ANALYST

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Good improvement from difficult Q2 last year

Second quarter was record strong Q2 and was a significant improvement from last year. Organic growth picked up faster than we estimated and that resulted in positive profitability surprise measured by EBITDA, our preferred metric after Cinteros acquisition.

- Sales growth in Q2 was very strong 34,1% YoY resulting mainly from Cinteros acquisition. However, organic growth was also at very healthy level close to 10%YoY accelerating steadily from good Q1 and somewhat lackluster late half of 2015. According to the management, IT-market investment activity has been picking up in Finland after very dismal growth during last few years. Profitability exceeded our estimate of €0,9 million by €0,2 million mainly due to better than expected organic growth rate.
- Innofactor sales split was very stable in H1. The sales split between sectors was 41% from commercial customers, 33% from public sector customers and 26% from membership-based customers in H1/16. Sales split between Finland, Sweden and Denmark was 66%, 25% and 9% implying a significant slowdown in the Danish operations from last year but stable performance from Q1. Sales split between delivery and consulting, recurring professional services, recurring managed services & maintenance and licenses was 62%, 15%, 18% and 5%.
- Danish operations have had difficult time since the removal of former country manager in Q2/15 in relation to suspected misconduct. Innofactor has been making progress in stabilizing the business and has been prioritizing profitability. This has resulted in lower sales but the business outlook seems relatively stable for H2.
- Cinteros integration will take some time, but we expect the balance sheet to be ready for larger acquisition during 2017. Meanwhile, we expect only minor acquisitions.
- Cinteros acquisition has resulted in higher Purchase Price Allocation related intangible amortizations. High amortizations result in low comparability with peers and therefore we emphasize EBITDA multiples in valuation comparisons.
- Innofactor share is trading at €0,93 per share. Considering the expected dilution from Cinteros acquisition (maximum purchase price) valuation is at discount with the Nordic peer group as we prefer to use EV/EBITDA multiples due to high PPA amortizations. Furthermore, Innofactor has a significant tax asset of €6,4 million (€0,17 per share) that is not reflected in the market multiples. Therefore, Innofactor share has a possibility to overperform.

Figures in €m	2012	2013	2014	2015	2016e	2017e	2018e
Sales	18,8	32,7	43,8	44,5	59,5	63,1	66,2
Sales growth	9,4 %	73,7 %	34,1 %	1,4 %	33,9 %	6,0 %	5,0 %
EBITDA	1,2	3,9	3,7	3,7	5,4	6,3	6,6
EBITDA margin	6,5 %	12,1 %	8,5 %	8,3 %	9,1 %	9,9 %	9,9 %
EBIT	0,6	2,9	2,3	2,5	3,0	3,8	4,0
EBIT margin	3,3 %	8,9 %	5,3 %	5,7 %	5,0 %	6,0 %	6,0 %
PTP	0,6	2,7	1,7	1,9	2,6	3,5	3,8
EPS	0,02	0,07	0,04	0,05	0,05	0,07	0,08
DPS	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Yield	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
P/E	31,8	19,2	18,4	21,2	17,6	13,0	12,0
EV/EBIT	24,2	18,8	16,1	17,4	15,9	11,1	9,4
EV/EBITDA	12,4	13,9	10,1	12,0	8,7	6,8	5,7
EV/Sales	0,8	1,7	0,9	1,0	0,8	0,7	0,6
P/B	1,0	2,2	1,1	1,3	1,3	1,1	0,9
ROE	3 %	14 %	6 %	7 %	9 %	11 %	10 %
ROCE	4 %	12 %	7 %	8 %	9 %	10 %	10 %
Net Gearing	5 %	56 %	57 %	47 %	48 %	23 %	4 %
FCF/share	0,00	0,09	-0,01	-0,02	0,15	0,00	0,13

Source: Bloomberg, S-Bank (FIM)

Note: S-Bank has made an agreement with the company this study concerns according to which it receives compensation for the research service provided. S-Bank does not provide any investment recommendation for the share.

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Deviation table

Deviation	2Q16	2Q16e	Actual vs.	2016e	2016
	Actual	FIM	FIMe	FIM	Guidance
Sales	15,2	14,8	3 %	59,5	>44,5
EBITDA (adj.)	1,1	0,9	22 %	5,4	>3,7
EBITDA-%	7,0 %	5,9 %	1,1ppt	9,1 %	
EBIT (adj.)	0,4	0,3	69 %	3,0	
EBIT-%	2,9 %	1,8 %	64,7 %	5,0 %	
PTP	0,4	0,1	172 %	2,6	
EPS	0,01	0,00	175 %	0,05	
DPS	0,00	0,00	na	0,00	

Sales was above our estimate and EBITDA exceeded our estimate by € 0.2m.

Source: S-Pankki (FIM) Estimates

Estimate changes after the 1Q1'6 report

Estimate revisions m€	2016e		Chg. %	2017e		Chg. %
	Old	New		Old	New	
Sales	59,1	59,5	1 %	62,1	63,1	2 %
EBITDA (adjusted)	5,2	5,4	4 %	6,1	6,3	2 %
EBITDA-%	8,9 %	9,1 %	0,3 pp	9,9 %	9,9 %	0,0 pp
EBIT (adjusted)	2,8	3,0	6 %	3,7	3,8	3 %
EBIT-%	4,7 %	5,0 %	0,2 pp	6,0 %	6,0 %	0,1 pp
PTP (adjusted)	2,3	2,6	13 %	3,1	3,5	12 %
EPS (adjusted)	0,05	0,05	13 %	0,06	0,07	12 %

We have revised our 2016 and 2017 sales and EBITDA estimates upward.

Source: S-Pankki (FIM) Estimates

Guidance for 2016

Guidance for 2016 offers limited information due to Cinteros acquisition boosting net sales and EBITDA. However, it is inline with our estimates

Innofactor's net sales and operating margin (EBITDA) in 2016 are estimated to increase significantly from 2015, during which the net sales were EUR 44.5 million and operating margin (EBITDA) was EUR 3.7 million.

Source: Bloomberg, S-Bank (FIM)

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GROUP (EURm)	2014	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16	3Q16e	4Q16e	2016e	2017e
Net sales	43,8	11,2	11,4	9,3	12,6	44,5	14,6	15,2	13,0	16,7	59,5	63,1
Grow th, y/y	34,1 %	4,4 %	1,1 %	-3,5 %	2,9 %	1,4 %	30,5 %	34,1 %	39,5 %	32,6 %	33,9 %	6,0 %
Grow th, q/q	0,0 %	-8,5 %	1,5 %	-17,9 %	35,1 %	0,0 %	15,9 %	4,3 %	-14,6 %	28,5 %	0,0 %	0,0 %
Depreciation	-1,4	-0,4	-0,3	-0,2	-0,3	-1,2	-0,6	-0,6	-0,6	-0,6	-2,5	-2,4
EBIT Adjusted	2,3	0,4	0,1	0,6	1,5	2,5	0,3	0,4	0,5	1,7	3,0	3,8
EBIT margin	5,3 %	3,3 %	1,2 %	6,0 %	11,7 %	5,7 %	2,1 %	2,9 %	3,6 %	10,4 %	5,0 %	6,0 %
Net financials	-0,6	-0,1	-0,3	-0,1	-0,1	-0,6	-0,1	-0,1	-0,1	-0,1	-0,4	-0,3
Associates profit	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
PTP	1,7	0,3	-0,2	0,5	1,4	1,9	0,2	0,4	0,4	1,6	2,6	3,5
Taxes	-0,4	-0,1	0,0	-0,1	-0,3	-0,4	0,0	-0,1	-0,1	-0,3	-0,5	-0,7
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 profit	1,3	0,2	-0,2	0,4	1,1	1,5	0,1	0,3	0,3	1,3	2,0	2,8
EPS Adjusted	0,04	0,01	0,00	0,01	0,03	0,05	0,00	0,01	0,01	0,03	0,05	0,07
BALANCE SHEET (EURm)												
Intangibles	3,4	3,3	3,2	3,1	2,9	2,9	9,2	8,8	8,3	7,9	7,9	5,9
Goodwill	19,6	19,6	19,6	19,6	19,6	19,6	22,2	22,2	22,2	22,2	22,2	22,2
Tangibles	0,7	0,6	0,6	0,6	0,5	0,5	0,6	0,5	0,5	0,4	0,4	0,4
Inventory	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Receivables	15,5	13,0	13,8	14,0	12,7	12,7	14,4	16,8	15,5	15,0	15,0	15,9
Cash	1,0	3,6	1,1	0,5	0,8	0,8	1,2	1,3	1,7	1,4	1,4	3,0
Assets	47,4	47,2	45,5	44,8	44,0	44,0	54,9	56,7	55,2	53,6	53,6	53,4
Equity	22,5	22,7	23,0	24,0	24,5	24,5	21,3	21,6	21,9	23,2	23,2	27,9
Pension 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
Long non-ib debt	0,8	0,9	0,9	0,9	0,8	0,8	2,3	2,2	2,2	2,2	2,2	2,2
Long ib debt	7,7	6,8	6,2	5,5	4,8	4,8	7,5	6,8	8,8	6,8	6,8	3,8
Short ib debt	2,9	2,8	3,1	4,2	4,4	4,4	4,2	5,7	5,7	5,7	5,7	5,7
Short non-ib debt	13,5	14,1	12,3	10,3	9,4	9,4	19,5	20,3	16,6	15,7	15,7	13,7
Advances received	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Equity and liabilities	47,4	47,2	45,5	44,8	44,0	44,0	54,9	56,7	55,2	53,6	53,6	53,4
Equity Ratio	47,4 %	48,0 %	50,7 %	53,5 %	55,8 %	55,8 %	38,8 %	38,1 %	39,6 %	43,2 %	43,2 %	52,3 %
Net Gearing	57,2 %	40,7 %	49,0 %	51,7 %	47,2 %	47,2 %	49,6 %	52,2 %	58,9 %	48,1 %	48,1 %	23,4 %
Net debt	12,8	9,2	11,3	12,4	11,6	11,6	10,6	11,3	12,9	11,1	11,1	6,5
ROE	6,4 %					6,6 %					8,5 %	10,8 %
ROCE	7,2 %					7,6 %					8,5 %	10,4 %

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Peer group valuation

Peer	EV/EBITDA				Peer	EV/EBIT				Peer	P/E				Peer	EV/Sales	P/B
	2015	2016e	2017e	2018e		2015	2016e	2017e	2018e		2015	2016e	2017e	2018e		2016e	Latest
Affecto Oyj	7,2 x	5,6 x	5,1 x	n/a	Affecto Oyj	8,3 x	6,3 x	5,7 x	n/a	Affecto Oyj	10,9 x	29,4 x	10,8 x	n/a	Affecto Oyj	0,5 x	0,9 x
Digia	7,0 x	10,1 x	7,5 x	6,8 x	Digia	9,1 x	13,8 x	10,0 x	8,4 x	Digia	13,6 x	15,3 x	13,1 x	10,6 x	Digia	0,8 x	1,8 x
Nixu Oyj	13,6 x	11,3 x	9,0 x	7,1 x	Nixu Oyj	23,6 x	11,7 x	9,3 x	7,4 x	Nixu Oyj	45,6 x	31,4 x	23,9 x	14,9 x	Nixu Oyj	1,4 x	3,9 x
Tieto Oyj	8,4 x	9,4 x	8,8 x	8,5 x	Tieto Oyj	11,3 x	12,4 x	11,7 x	11,2 x	Tieto Oyj	20,9 x	16,1 x	15,1 x	14,4 x	Tieto Oyj	1,2 x	4,7 x
Siili Solutions	12,4 x	9,7 x	8,3 x	7,7 x	Siili Solutions	14,2 x	10,6 x	9,0 x	8,3 x	Siili Solutions	20,6 x	13,8 x	11,6 x	10,6 x	Siili Solutions	1,0 x	4,5 x
Know It Ab	11,0 x	7,9 x	7,5 x	7,7 x	Know It Ab	15,5 x	8,9 x	8,2 x	8,2 x	Know It Ab	15,6 x	11,6 x	10,8 x	10,6 x	Know It Ab	0,6 x	1,7 x
Hiq Intl Ab	13,5 x	11,9 x	11,2 x	10,1 x	Hiq Intl Ab	14,2 x	12,5 x	11,7 x	10,5 x	Hiq Intl Ab	19,8 x	17,5 x	16,4 x	14,8 x	Hiq Intl Ab	1,6 x	4,7 x
Upper quartile	12,9 x	10,7 x	8,9 x	8,3 x	Upper quartile	14,8 x	12,5 x	10,8 x	10,0 x	Upper quartile	20,8 x	23,5 x	15,7 x	14,7 x	Upper quartile	1,3 x	4,6 x
Median	11,0 x	9,7 x	8,3 x	7,7 x	Median	14,2 x	11,7 x	9,3 x	8,3 x	Median	19,8 x	16,1 x	13,1 x	12,5 x	Median	1,0 x	3,9 x
Lower quartile	7,8 x	8,6 x	7,5 x	7,3 x	Lower quartile	10,2 x	9,7 x	8,6 x	8,2 x	Lower quartile	14,6 x	14,5 x	11,2 x	10,6 x	Lower quartile	0,7 x	1,7 x
Innofactor	12,0 x	8,7 x	6,8 x	5,7 x	Innofactor	17,4 x	15,9 x	11,1 x	9,4 x	Innofactor	21,2 x	17,6 x	13,0 x	12,0 x	Innofactor	0,8 x	1,3 x
% to med.	9 %	-11 %	-18 %	-26 %	% to med.	23 %	36 %	20 %	12 %	% to med.	7 %	10 %	-1 %	-4 %	% to med.	-20 %	-67 %

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