

Gofore

Company report

2/21/2024



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✓ Inderes corporate customer

This report is a summary translation of the report “Ensiluokkaista kannattavuuden hallintaa” published on 2/21/2024 at 8:30 am EET.

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First-class profitability management

We reiterate our Accumulate recommendation and EUR 26.0 target price for Gofore. Gofore's revenue growth slowed organically in Q4, as expected, but profitability was well ahead of our expectations. Overall, Gofore's strong performance in a challenging year demonstrates the company's ability to adapt quickly to change and manage critical billing rates and profitability. We expect the company to continue to grow faster and more profitably than the sector in the coming years, even if the weak economy slows things down somewhat. The valuation picture (2024e adj. EV/EBIT 12x and expected return ~20%) is attractive.

Organic growth slowed in Q4

Revenue was already known for Q4 and increased by 13% to 51.7 MEUR. Of this growth, 9 percentage points was organic and the rest inorganic growth from eMundo and Creanex acquisitions. Growth was slowed by one fewer working day (an impact of just under 2%). Geographically, international revenue grew 19%, driven by eMundo, and organically, we calculate that it grew 5%, which is significantly slower than in previous quarters. The company managed to keep customer price developments and wage inflation relatively well balanced.

Earnings exceeded expectations and the company demonstrated mastery of profitability management

Gofore's adjusted EBITA increased by 10% to 8.3 MEUR, well above our forecast of 6.7 MEUR and more than double the industry average. Gofore once again demonstrated its excellence in managing billing rates. Based on Gofore's comments, there is still room for improvement in billing rates compared to Q4, which also reflects a structurally efficient organization and up to 20% EBITA margin potential in individual quarters. The reported EPS thus increased to EUR 0.43 in Q4 (Q4'22: EUR 0.27) and totaled EUR 1.15 in 2023. The company's board proposed a dividend of EUR 0.47 per share for 2023, slightly above our forecast of EUR 0.44, leaving plenty of cash for acquisitions.

Near-term growth outlook uncertain, but medium- and long-term story unchanged

As usual, Gofore does not provide guidance for the current year, which makes it difficult to forecast in the current market environment, although business has been stable and predictable. However, the company is expecting a weak Q1 due to slower demand at the turn of the year. Throughout the year, the focus will be on profitability, which the company has managed excellently for years in the face of headwinds. Based on the report and comments, we made some revisions to the estimates for the coming years. We now forecast organic growth of 3%, 10% and 12% between 2024 and 2026, still outperforming the market. Should the downturn in the Finnish and German economies remain short-lived and interest rates turn lower, we would see room for upside in our near-term forecasts as talent is readily available. We also forecast the EBITA margin to decline slightly to 13.8% in 2024, driven by rising depreciation, and then gradually increase to 14.5% in 2026, supported by billing rates. The main risks relate to international growth, profitability, and a prolongation and deepening of the current weak cycle in the IT services sector.

Valuation and expected return support a positive view on the stock

In terms of growth and profitability, Gofore is clearly among the best in its industry, especially compared to its Finnish peers. The valuation of the stock at 2024 EV/EBITA and P/E multiples of 12x and 17x, respectively, is almost 15% below the peer group and attractive in our view. The expected return, consisting of earnings growth (14%), dividend yield (2%) and upside to multiples, is well above the required return on equity. Our DFC model indicates a value of EUR 28 per share, which also supports a positive view on the stock. We also assign a positive option value to the execution of acquisitions due to a strong acquisition history, which we factor into the acceptable valuation level.

Recommendation

Accumulate

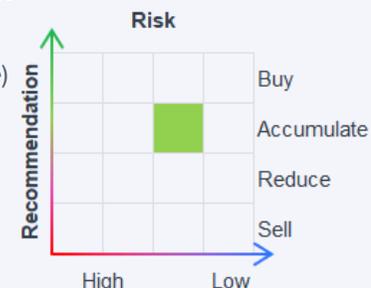
(previous Accumulate)

EUR 26.00

(previous EUR 26.00)

Share price:

23.20



Key figures

	2023	2024e	2025e	2026e
Revenue	189	199	218	244
growth-%	26%	5%	10%	12%
EBIT adj.	26.7	27.3	31.3	35.4
EBIT-% adj.	14.1 %	13.8 %	14.3 %	14.5 %
Net Income	18.3	17.8	21.4	25.1
EPS (adj.)	1.40	1.41	1.65	1.88

P/E (adj.)	16.0	16.5	14.1	12.3
P/B	3.8	3.5	3.1	2.7
Dividend yield-%	2.1 %	2.2 %	2.5 %	2.8 %
EV/EBIT (adj.)	12.7	12.4	10.3	8.5
EV/EBITDA	11.2	10.8	9.1	7.6
EV/S	1.8	1.7	1.5	1.2

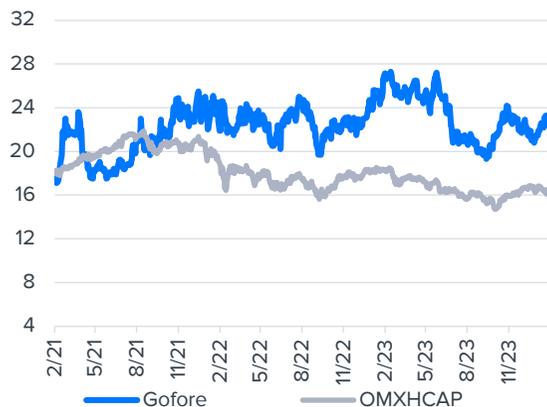
Source: Inderes

Guidance

(New guidance)

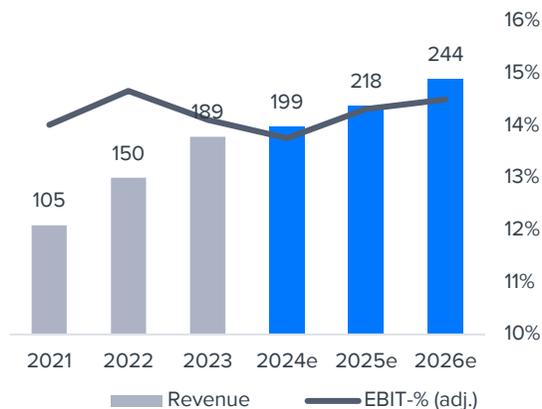
No guidance for 2024. The company publishes a monthly business review, which describes the development of revenue and indicates the evolution of billing rates, which drives profitability. The company also comments on Q1 growth and earnings drivers.

Share price



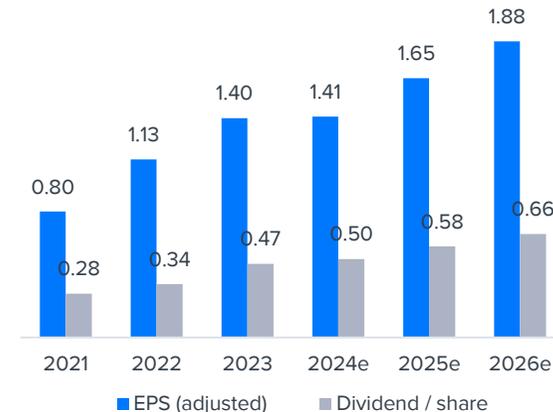
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Replicating the successes achieved in the wider market, and in particular more strongly in the private sector
- Internationalization
- Strongly growing market
- Positioned in growing service areas
- Value creation through strong organic growth and acquisitions
- Organizational model and culture as competitive advantages



Risk factors

- Wage inflation, employee turnover and high recruitment costs
- Ability to manage growth
- Market turnaround
- Dependence on large customers and the Finnish public sector
- Preserving culture and employer image
- M&A and internationalization
- Geopolitical situation

Valuation	2024e	2025e	2026e
Share price	23.2	23.2	23.2
Number of shares, millions	15.7	15.7	15.7
Market cap	363	363	363
EV	340	321	300
P/E (adj.)	16.5	14.1	12.3
P/E	20.5	16.9	14.5
P/B	3.5	3.1	2.7
P/S	1.8	1.7	1.5
EV/Sales	1.7	1.5	1.2
EV/EBITDA	10.8	9.1	7.6
EV/EBIT (adj.)	12.4	10.3	8.5
Payout ratio (%)	44.1 %	42.4 %	41.1 %
Dividend yield-%	2.2 %	2.5 %	2.8 %

Source: Inderes

Masterfully managing billing rates, profitability well ahead of expectations

Growth slowed but was good in the context of the sector in Q4

Q4 revenue was already known and increased by 13% in Q4 to 51.7 MEUR. Of this, 9% was organic and the rest inorganic growth from eMundo and Creanex acquisitions. Growth was slowed by one fewer working day in Q4 (an impact of just under 2%).

Revenue growth in the private sector remained strong (21%), although we estimate a slight slowdown in organic terms (Inderes estimate +10%). The public sector also grew well in Q4 (8%). Geographically, international revenue continued to grow, driven by eMundo (+19%). In organic terms, we estimate that revenue also grew by a good 5%, although at a much slower pace than in previous quarters.

The number of employees increased by 5 in Q4. In Q3, the company said it would recruit directly to customer demand and at a more moderate pace. Due to the demand situation, the company focused on recruiting experienced professionals, which raised the average salary level.

The company managed to keep customer price developments and wage inflation relatively well balanced, with customer prices rising by 2.7% compared to an average wage development of 3.2%. As a result, the increase in customer prices slowed down slightly in Q4 (2023: 3.5%), but wage inflation also slowed in Q4 (3.6% in 2023). In our view, the development and level of customer prices are partly explained by strong growth in the private sector and good price increases and price levels for long-term contracts in the public sector.

Master of managing billing rates, profitability clearly above forecasts

Gofore's adjusted EBITA increased by 10% to 8.3 MEUR, well above our forecast of 6.7 MEUR. This corresponds to a strong EBITA margin of 16.0% and is more than double the industry average. Adjusted for working days, the adjusted EBITA margin was 17.3%. Gofore has once again proven itself to be first class in managing billing rates. The company also invested in organizational cost efficiency last year and other operating expenses fell to 10% of revenue (11.6% in

2022). Based on Gofore's comments, there is still room for improvement in billing rates, which also reflects a structurally efficient organization (as Q4 already showed really good profitability). It also reflects the potential of the company (EBITA margin in practice closer to 20% in a pure consulting business).

As mentioned above, customer prices and wage inflation are relatively well balanced. Employee turnover decreased to 9.3% in 2023 (from 12% in 2022), which supports profitability. In addition, the share of subcontracting fell in relative terms throughout the year compared to the previous year. However, according to our understanding, the cover structure of subcontracting at Gofore is not much different from that of its own personnel. Thus, the decline in the relative share of subcontracting does not have a major impact on profitability, but still provides good labor flexibility.

(Continued on next page)

Estimates	Q4'22	Q4'23	Q4'23e	Q4'23e	Consensus		Difference (%)	2023
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. Inderes	Actualized
Revenue	45.7	51.7	51.7				0%	189
Organic growth-%	29%	9%	9%				0%	22%
EBITA (adj.)	7.6	8.3	6.7				23%	26.7
EBIT	5.5	8.0	5.7				40%	23.0
EPS (adj.)	0.40	0.45	0.42				8%	1.40
EPS (reported)	0.27	0.43	0.35				23%	1.15
DPS	0.34	0.47	0.44				7%	0.47
Revenue growth-%	46.4 %	13.1 %	13.1 %				0 pp	26.2 %
EBITA-% (adj.)	16.6 %	16.0 %	13.0 %				3 pp	14.1 %

Source: Inderes

Some caution in the market and focus on profitability in 2024

In the other earnings lines, actually above EBITA, amortizations tangible assets increased by 0.2 MEUR to 1 MEUR, driven by new leases. In the bottom rows, a large cash position and a relatively smaller and largely hedged (over 70%) loan portfolio resulted in positive net financial expenses. Net financial expenses also included the impact of the change in the eMundo contingent consideration. Reported EPS thus rose to EUR 0.43 in Q4 (Q4'22: EUR 0.27) and totaled EUR 1.15 in 2023. The company's board proposed a dividend of EUR 0.47 per share for 2023, slightly above our forecast of EUR 0.44.

Revenue for January missed our expectations

Revenue for January increased by 7% to 16.9 MEUR, missing our forecast of 18.3 MEUR relatively clearly. Growth was supported by one additional business day versus the prior year and the acquisition of Creanex. Thus, we estimate the calendar-adjusted organic development to be around the level of the comparison period. The company commented that at the turn of the year, more projects were completed

than normal and capacity was freed up for the "bench". New projects started during January, but at a slower pace than the company expected. The billing rate in January was substantially below the company's expectations.

Caution in the market, but also an indication of recovery

Gofore's comments suggest that the uncertainty of the 2024 economy has been reflected in the budgets in the form of shorter planning horizons. On the other hand, economic growth forecasts that are higher than last year foresee a pick-up in investment. In addition, technological developments continue to evolve and require constant input from customers. As a result, the company was cautiously confident about the current year.

However, growth this year will be significantly slower than in previous years and Q1 will be weak for the company. The company said in the Q4 interview that the focus in 2024 will be more on managing billing

rates and profitability. The company's strong track record of managing billing rates improves confidence in the sustainability of profitability.

The fact that only one of the company's public sector contracts, and a relatively small one at that, is up for re-tender in 2024, is a positive factor in the current highly competitive environment, especially for public sector tenders.

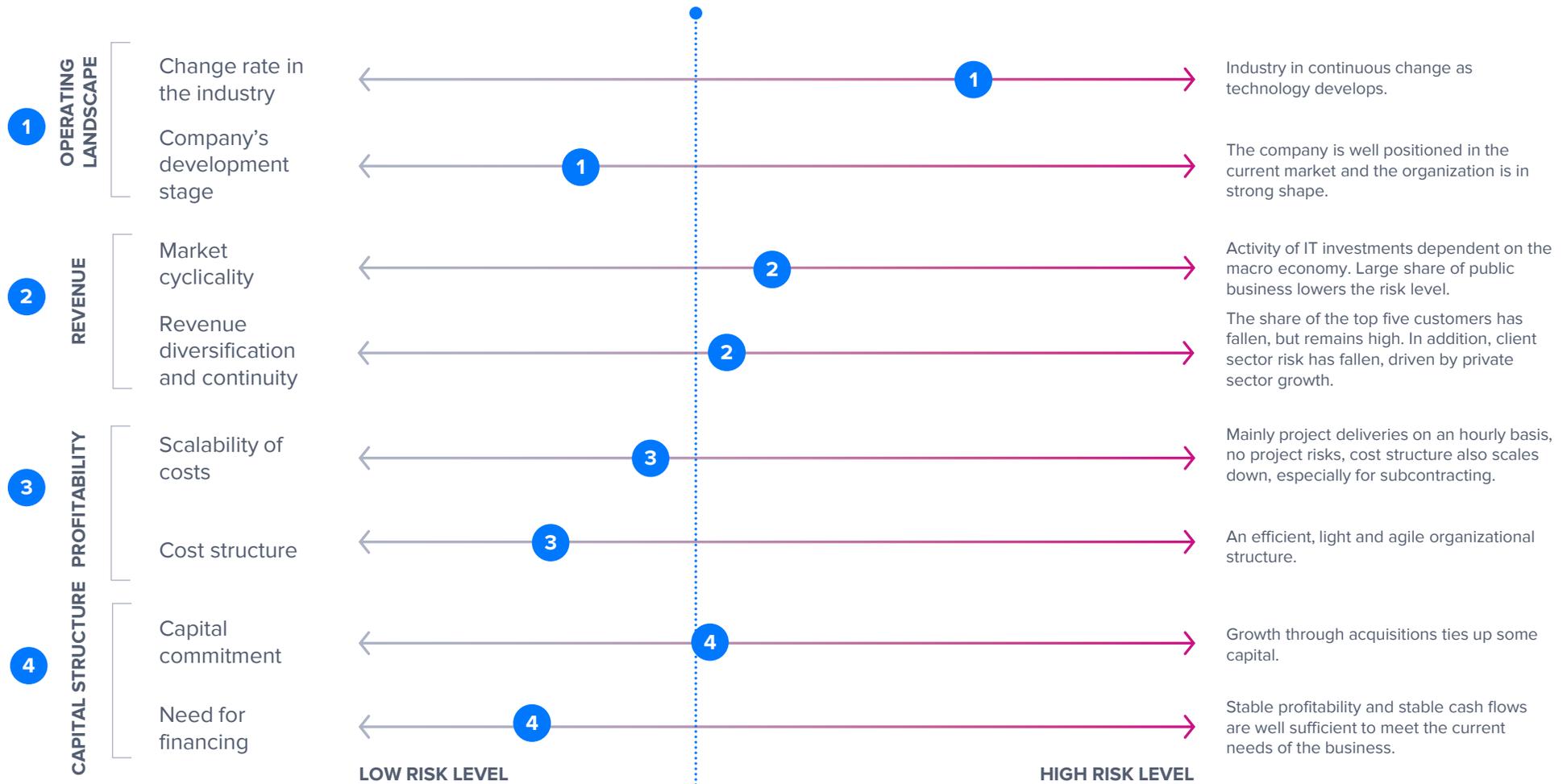
In the medium term, Gofore sees the demand outlook remaining very positive in both the private and public sectors. The company estimates that the current/potential savings will create investment backlog for organizations and the need for investment will not disappear. We find it easy to agree with this, as it would be naive to think that the trend of digitalization has stopped. However, we believe that many players over-invested in digitalization projects during the COVID years. We expect digital investment growth to be modest compared to these years, but we believe the upward trend will continue in the medium to long term.

Estimates MEUR / EUR	Q4'22	Q4'23	Q4'23e	Q4'23e	Consensus		Difference (%)	2023
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. Inderes	Actualized
Revenue	45.7	51.7	51.7				0%	189
Organic growth-%	29%	9%	9%				0%	22%
EBITA (adj.)	7.6	8.3	6.7				23%	26.7
EBIT	5.5	8.0	5.7				40%	23.0
EPS (adj.)	0.40	0.45	0.42				8%	1.40
EPS (reported)	0.27	0.43	0.35				23%	1.15
DPS	0.34	0.47	0.44				7%	0.47
Revenue growth-%	46.4 %	13.1 %	13.1 %				0 pp	26.2 %
EBITA-% (adj.)	16.6 %	16.0 %	13.0 %				3 pp	14.1 %

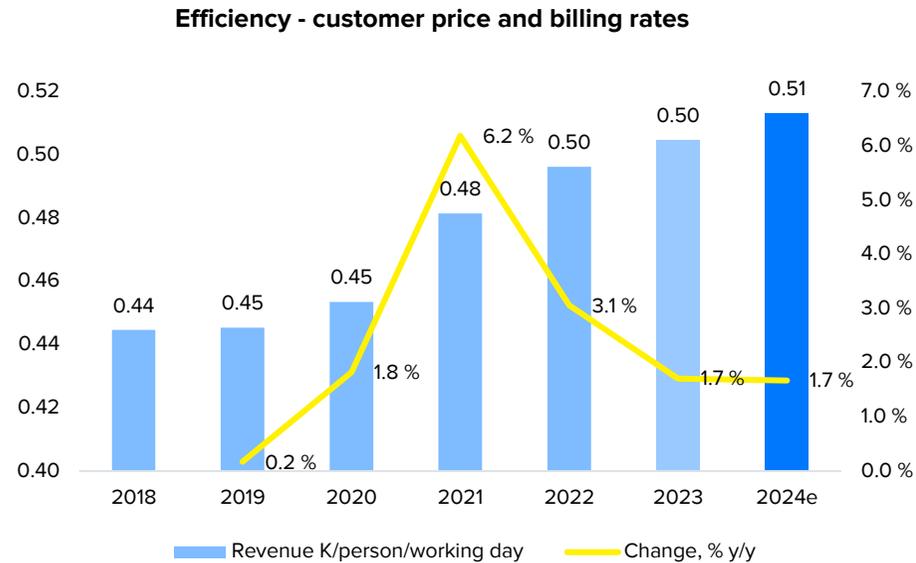
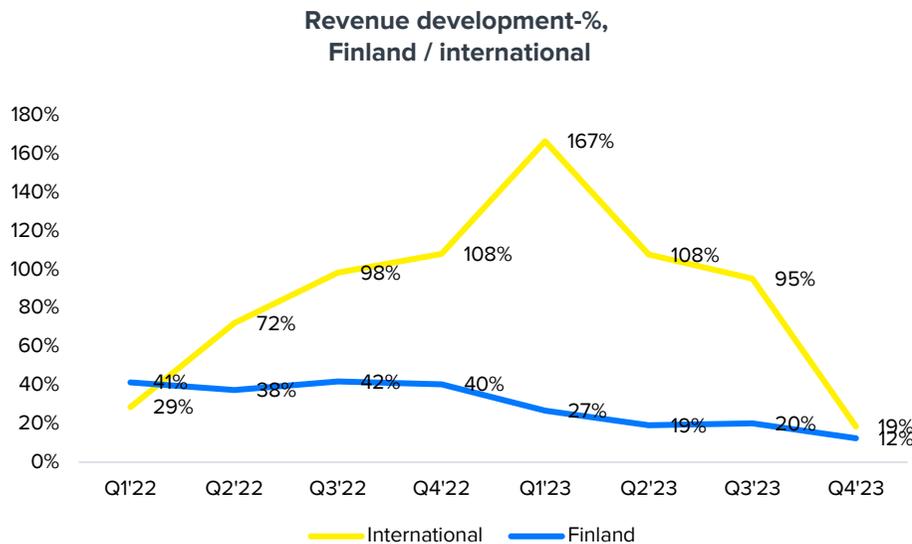
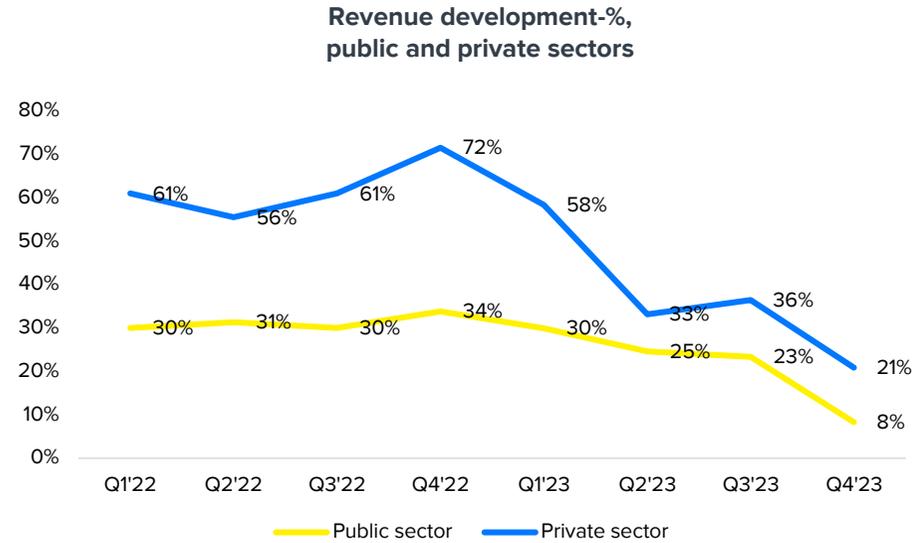
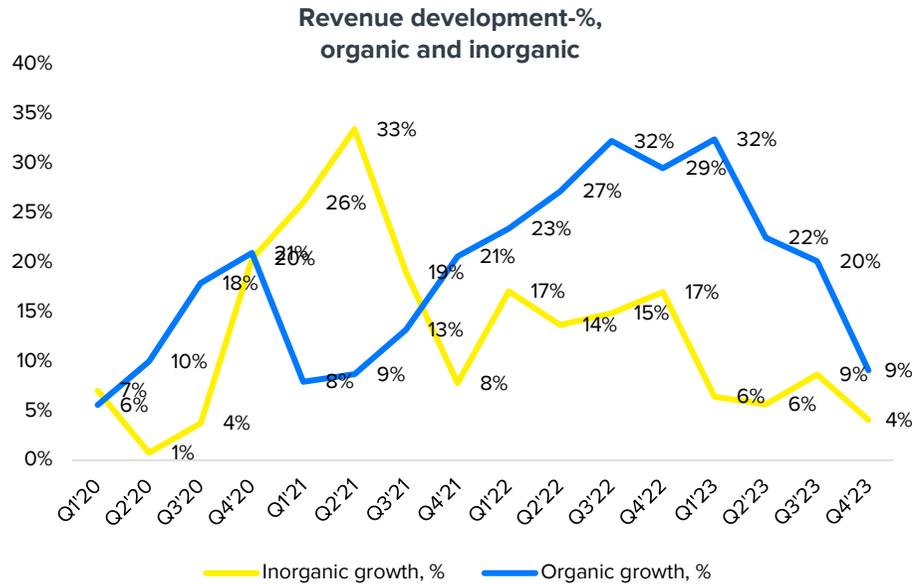
Source: Inderes

Risk profile of the business model

Assessment of Gofore's overall business risk

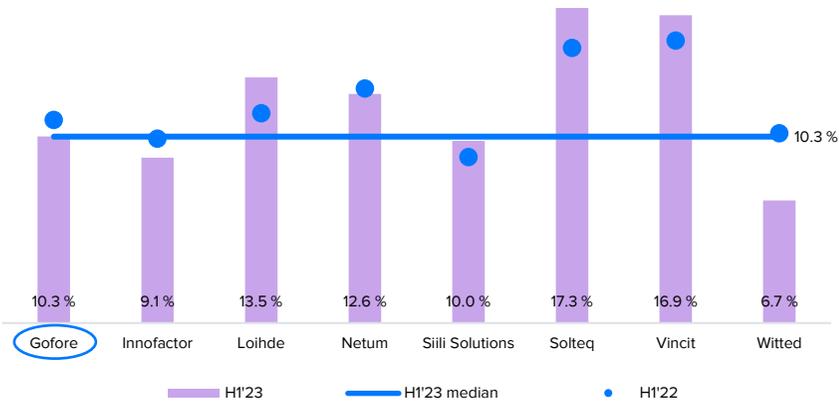


Gofore's key figures

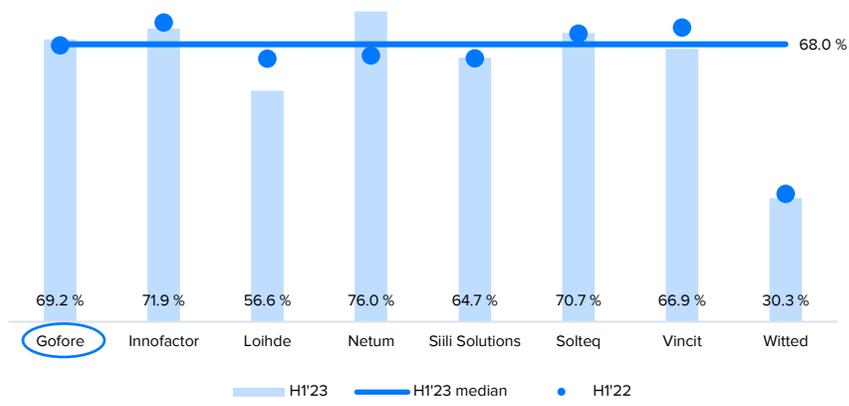


Relevant reported indicators for the sector 1/2

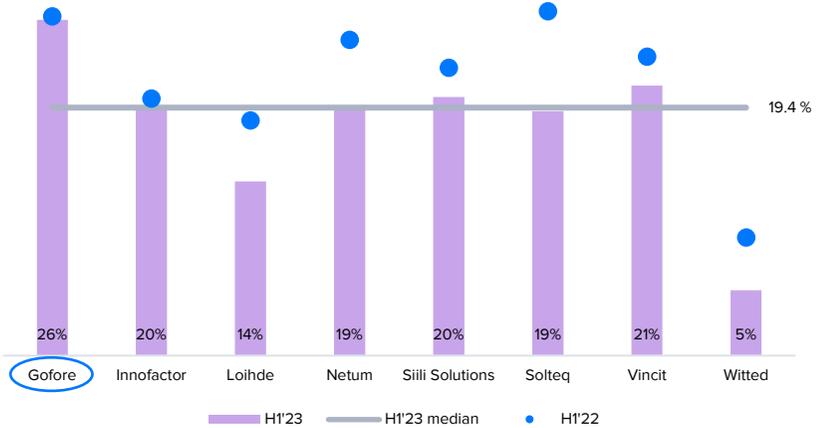
Other costs relative to revenue (%)



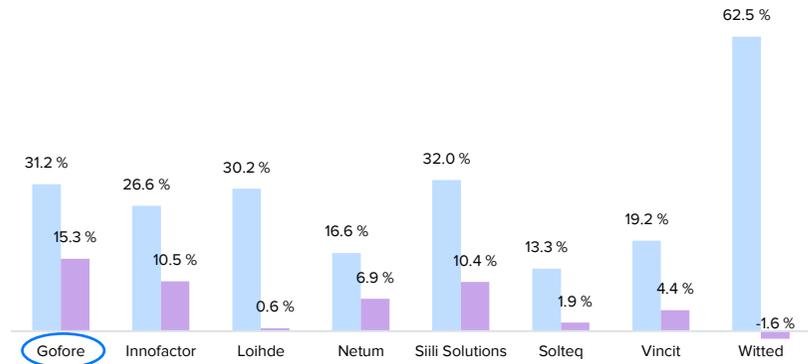
Personnel costs as a percentage of total operational costs (%)



Revenue margin after materials and services and personnel costs (%)



Margin after personnel and other costs and EBITDA margin (H1'23, %)



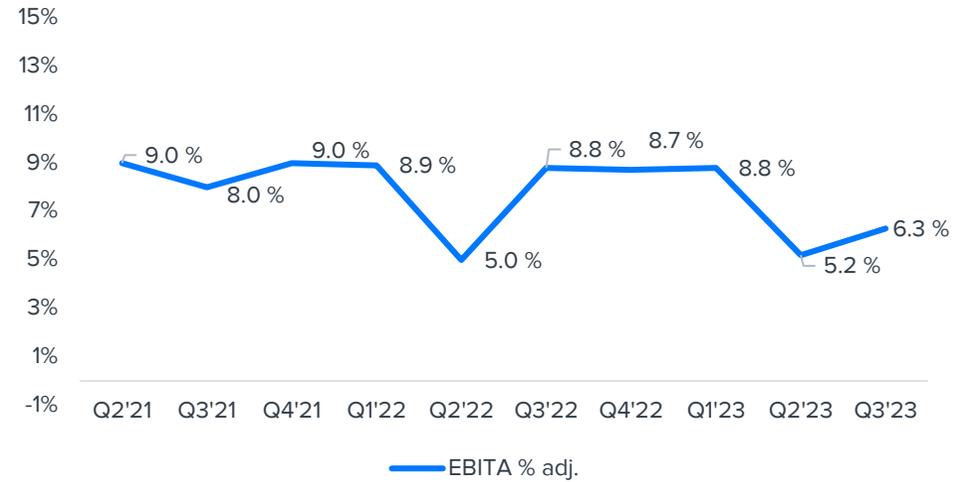
Source: Companies and Inderes

Relevant reported indicators for the sector before Q4 reports 2/2

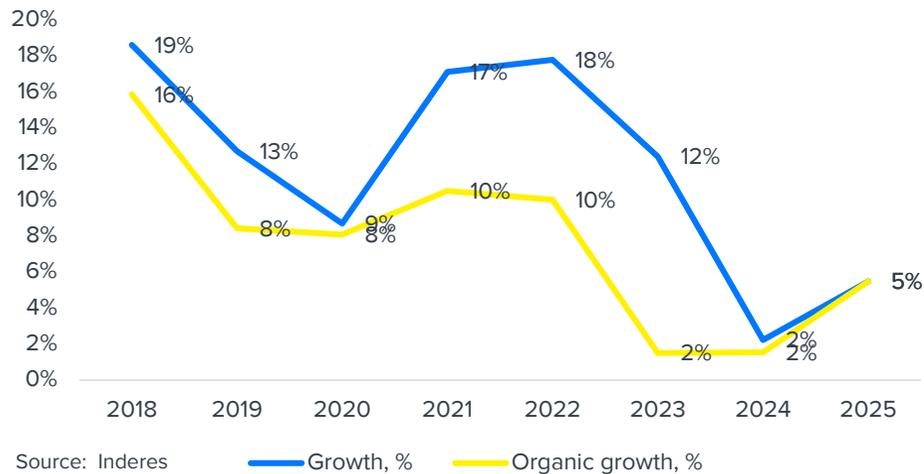
Listed IT services sector in Finland, revenue



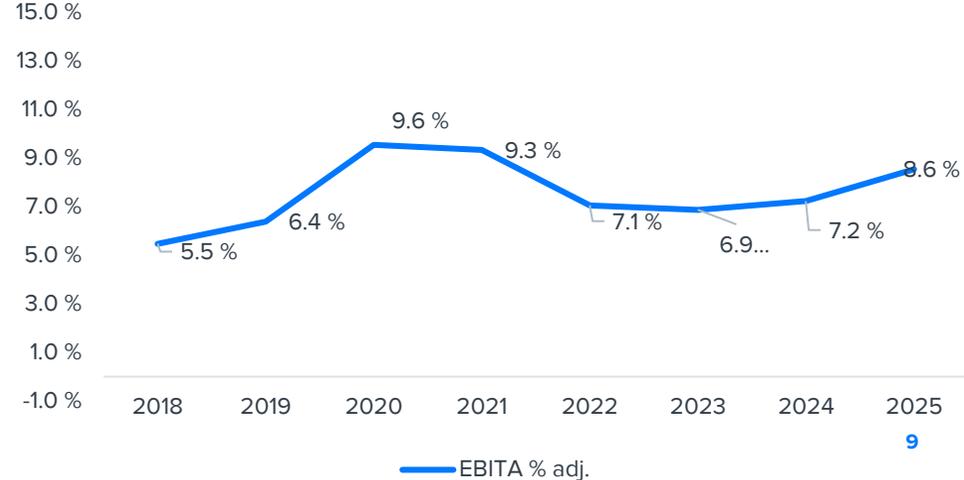
Listed IT services sector in Finland, profitability



Listed IT services sector in Finland, revenue



Listed IT services sector in Finland, profitability



We made minor changes to our forecasts for the coming years

Estimate revisions 2024e–2026e

- We slightly lowered growth expectations for the coming years.
- We increased our operational profitability forecast as a result of billing rates and organizational efficiency. The company's focus in 2024 will be on profitability, which it has managed very well over the last 5 years, despite strong growth and market challenges.
- We increased depreciation levels driven by new leases.

Estimates 2024e-2026e

- We forecast Gofore's revenue to grow by 5% to 199 MEUR in 2024, driven by organic growth (3%) and supported by acquisitions (2%). In addition, we estimate the EBITA margin to be close to the comparison period's level at just under 14%. Profitability is slightly supported by billing rates but weighed down by higher depreciation levels.
- Should the downturn in the Finnish and German economies remain short-lived and interest rates turn lower, we see upside potential in our forecasts as talent is readily available.
- In the coming years, we expect growth to accelerate to just over 10% as market conditions improve, but below the 20%+ organic growth level in 2022-23. In addition, we expect the EBITA margin to gradually improve, mainly through billing and improved organizational efficiency, to 14.5% in 2026.

Long term estimates

- Gofore targets annual revenue growth of more than 25%
 - The company targets at least 15% organic growth
 - Through acquisitions, the company aims for 10% annual growth
- The profitability target is an adjusted EBITA margin of 15%.

Operational earnings drivers 2024-2026e:

Revenue

- General economic uncertainty is also reflected in the IT services market, especially in the private sector
- Organic growth in the private sector, especially in DACH
- Continued organic growth in the public sector
- Acquisitions
- Customer price developments (2.7% in Q4 and 3.5% in 2023) and long-term contracts support development
- Billing rates (still room for improvement)

Profitability

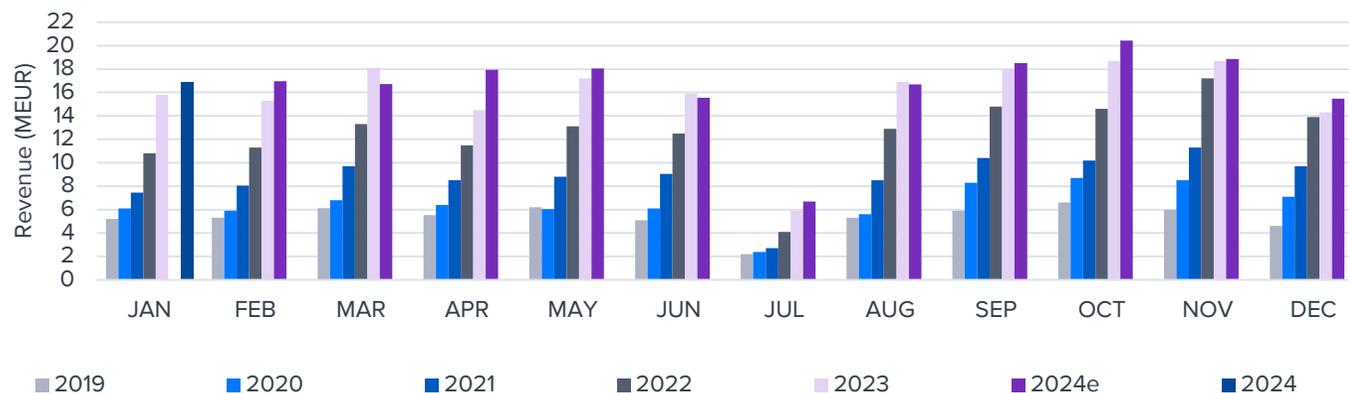
- Billing rates (still room for improvement, potential for almost 20% EBITA levels)
- Organizational efficiency improved and scaled with growth
- Developments in customer prices counter wage inflation
- Wage inflation continues to create headwinds (3.2% in Q4 and 3.6% in 2023)
- Employee turnover Lower turnover (9.3% in 2023 and 12% in 2022) supports profitability

Estimate revisions	2023	2023	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	189.2	189.2	0%	203	199	-2%	233	218	-6%
EBITDA	27.6	30.4	10%	28.9	31.6	9%	35.0	35.4	1%
EBITA (oik.)	25.1	26.7	6%	26.4	27.3	4%	32.5	31.3	-4%
EBIT	20.7	23.0	11%	22.4	23.1	3%	28.9	26.9	-7%
PTP	20.4	22.9	12%	22.2	23.1	4%	28.4	27.6	-3%
EPS (adj.)	1.28	1.40	9%	1.35	1.41	4%	1.64	1.65	1%
DPS	0.44	0.47	7%	0.50	0.50	0%	0.58	0.58	0%

January revenue and monthly forecasts

	Act. 2023	Act. 1/24	Fcast 2/24	Fcast 3/24	Fcast 4/24	Fcast 5/24	Fcast 6/24	Fcast 7/24	Fcast 8/24	Fcast 9/24	Fcast 10/24	Fcast 11/24	Fcast 12/24	Fcast 2024
Revenue	189.3	16.9	17.0	16.7	17.9	18.0	15.5	6.7	16.7	18.5	20.4	18.9	15.5	198.8
Change %	26%	7%	11%	-8%	24%	5%	-2%	14%	-1%	3%	9%	1%	8%	5%
Headcount	1411	1463	1463	1463	1466	1473	1480	1480	1489	1499	1509	1519	1529	1486
Total capacity, FTE2	1322	1372	1372	1372	1375	1382	1389	1389	1398	1408	1418	1428	1438	1395
Subcontracting, FTE3	172	147	148	149	149	149	129	59	139	149	159	169	154	142
Working days	251	22	21	20	21	21	19	23	22	21	23	21	18	252
Change %		5%	5%	-13%	17%	0%	-10%	10%	-4%	0%	5%	-5%	0%	
Revenue per FTE, months		11.1	11.2	11.0	11.8	11.8	10.2	4.6	10.9	11.9	12.9	11.8	9.7	
Revenue K/person/working day, month	0.50	0.51	0.53	0.55	0.56	0.56	0.54	0.20	0.49	0.57	0.56	0.56	0.54	0.51
Change, % y/y	1.7%	-5.2%	0.0%	2.0%	3.0%	3.0%	6.0%	2.0%	2.0%	3.0%	3.0%	3.0%	4.0%	1.7%
% change month/month		-3%	5%	3%	2%	0%	-4%	-63%	145%	15%	-1%	0%	-4%	
Staff growth, month	168	-2	0	0	3	7	7	0	9	10	10	10	10	64
Own capacity + subcontracting, growth month	161	-11	1	1	3	7	-13	-70	89	20	20	20	-5	62
Total FTE, growth month	162	0	0	0	3	7	7	0	9	10	10	10	10	66
Subcontracting FTE, growth month	-1	-11	1	1	0	0	-20	-70	80	10	10	10	-15	-4
Subcontracting in addition to total capacity (%)		10%	9.7%	9.8%	9.8%	9.7%	8%	4.1%	9%	9.6%	10.1%	10.6%	9.7%	
Source: Gofore and Inderes														

Gofore's monthly revenue



Investment profile

- 1. Internationalization and expansion into the private sector**
- 2. The ability to constantly grow and renew with the market**
- 3. A distinctive approach to the market**
- 4. Growth and profitability above sector average**
- 5. Low capital needs and good cash flow**

Source: Inderes

Potential



- Replicating a successful model in the private sector and internationally
- Market outlook for Gofore's service areas strong in the long term
- Strong employer brand and service offering enables above-market organic growth
- Dedicated ERP system supports management and provides competitive advantage
- High valuation and good track record of M&A activity provide good opportunities for value creation through acquisitions

Risks



- Ability to manage growth and profitability
- Deterioration of the market situation
- Preserving culture and employer image
- Employee turnover and wage inflation
- Strong emphasis on the public sector and a few large customers
- Failure to expand to the private sector and internationalize
- M&A

Valuation 1/4

Investment view - strong organic and inorganic growth driving the stock

In terms of growth and profitability, Gofore is clearly among the best in its industry, especially compared to its Finnish peers. The company's growth is based on in-house recruitment, subcontracting, rising customer prices and successful acquisitions. In our view, Gofore's share value creation will mainly be driven by earnings growth from organic and inorganic revenue growth over the longer term. A relatively large portion of Gofore's revenue comes from consulting services, which differentiates the company from other, more pure software development houses. The newly acquired small product business is interesting, but also slightly raises the risk level. The company has made nine acquisitions in the last five years, all of which have been successful in the big picture. Even after the acquisitions, the company's balance sheet remains very strong. The company will continue to pursue active consolidation in the sector.

In our view, the following factors **support Gofore's valuation**:

- The company's historical record of consistent above-sector growth and profitability without major bumps in the road adds to confidence in continued good performance.
- Strong longer-term market demand fundamentals in Gofore's areas of expertise and Gofore's current comparative advantage in the sector's talent competition.
- The company's profile as an IT house for digital transformation and the value chain position that

its areas of expertise (such as consulting, service design, digital transformation) bring, which differentiates Gofore from many of its competitors. The company also offers specialized expertise and product solutions for industrial customers.

- A strong position in the defensive public sector and a profile as a public sector IT innovator. Long-term contracts on the public side bring predictability to recruitment needs and continuity to business.
- The company has good early signs of expansion into the private sector and internationally, which is critical for continued longer-term growth.
- The company has made successful acquisitions not only to support growth, but also to strengthen its competitiveness and position in the value chain. In addition, a valuation level that is clearly higher than that of the sector (albeit justifiably, in our view) enables value creation relatively better.
- A low self-governing organizational structure, an efficient ERP system and a stable portfolio of key customers.
- Exceptionally high staff and key management ownership as an incentive for staff and a risk-reducer for the investor.
- A low-risk business model where the company does not bear any customer risk (hourly billing).
- The company's commitment to transparent, continuous and open reporting and communication to investors (including monthly reporting of revenue).

Similarly, in our view, **the key risks and factors negatively affecting the valuation of Gofore** from an investor's perspective are:

- The company remains moderately dependent on its largest customers, although it is better diversified now than it was several years ago.
- Maintaining staff and a strong employee image and recruitment speed.
- High wage inflation and turnover in the skills market.
- Risks related to the integration of acquisitions internationalization, which were partly realized in the Solinor transaction through churn and the weak performance of the UK business.
- The scalability of the company's staff-intensive business model is limited, which limits the acceptable relative valuation of the share.
- The company's earnings growth and value creation will rely on revenue growth or acquisitions, as profitability is already very strong and well above the sector average.
- Combining product and service businesses has been challenging for many peers, which also raises the level of risk for Gofore. However, the share and role of the product business at Gofore is still very small.
- In the short term, the absence of guidance will also increase uncertainty at Gofore, as the market remains exceptionally uncertain and the private sector is more cyclical and an increasingly important part of the company's development.

Valuation 2/4

Peer group

We use IT service companies listed in Finland and the Nordic countries as Gofore's peer group. In our view, Gofore's competitive differentiators lie in service areas such as consulting services, client base and size, and business and delivery models. With the acquisition, the new product business is also a differentiator, although it is still relatively small.

In our view, comparing the company to international digital era peers is already starting to be justified by the growth in Gofore's share of international business (2023: 16% vs. Q2'22: 10%). In the peer group, we have used Inderes' estimates for the companies we cover, which takes into account goodwill amortization and improves comparability between Finnish IT service companies.

In the sector, we generally favor adjusted EV/EBIT ratios due to good comparability and strong balance sheets. We have adjusted goodwill and PPA depreciation from EBIT. The comparability of EV/EBITDA ratios between peers is hampered by the mentioned goodwill and PPA depreciation as well as other differences in IFRS and FAS accounting rules, and thus the information value of the ratio may be weak. However, with a chilly M&A market, getting strong balance sheets into productive work has become more challenging. As a result, we now also place a stronger emphasis on the P/E ratio alongside the EV/EBIT ratio in our valuation multiples.

In general, we still find IT service companies to be an attractive sector to own due to the strong demand

fundamentals in the industry in the long term. There is still variation in the differences between companies, but now more due to differences in the impact of market conditions.

Gofore is valued at around 5% below its peer group and just over 30% below its international peers at 2024-2025 multiples. This valuation is an attractive level given the growth and profitability outlook, even very attractive compared to international peers. Gofore is valued at a ~30% premium to its Finnish peers. We believe that the premium is justified from the perspective of roughly twice the growth and profitability of the sector in general.

Peer group valuation Company	EV/EBIT		P/E	
	2024e	2025e	2024e	2025e
Digia*	8.4	7.1	10.6	9.1
Digital Workforce*	20.7	7.0	42.3	16.7
Loihde*	13.5	9.8	19.0	14.9
Innofactor*	7.7	6.2	9.6	7.9
Netum Group*	11.1	9.4	11.1	9.7
Siili Solutions*	8.2	7.1	12.2	10.8
Solteq*	13.1	10.0	37.6	13.0
Tietoevry*	9.6	8.8	10.1	9.4
Vincit*	6.9	4.5	12.1	8.3
Witted Megacorp*	12.1	5.7	19.2	11.2
Bouvet	15.3	13.4	18.4	16.4
CombinedX	7.6	6.9	10.7	9.7
Avensia AB	10.0	7.5	11.7	8.7
Knowit	15.2	11.3	17.0	12.0
Netcompany Group	22.0	17.9	26.2	20.5
Epam Systems Inc	22.0	18.4	30.5	25.9
Endava PLC	26.4	18.6	32.8	23.8
Kainos Group PLC	18.0	15.8	24.6	21.9
Globant SA	26.6	21.7	33.9	28.1
Accenture PLC	23.4	21.4	30.0	27.3
Atos SE	7.5	7.7	1.0	0.7
IBM	18.5	17.3	18.6	17.6
CGI Inc	15.6	14.7	20.2	18.4
Wipro Ltd	19.1	17.2	25.7	22.8
Gofore (Inderes)	12.4	10.3	16.5	14.1
Average (all)	14.9	11.9	20.0	15.1
Median (all)	14.6	10.0	18.6	13.6
Diff-% to median (all)	-15%	3%	-11%	3%
Median (international)	18.3	16.5	22.4	19.4
Diff-% to median (international)	-32%	-38%	-26%	-28%
Median (Finland)	11.1	7.1	12.2	10.8
Diff-% to median (Finland)	12%	44%	36%	30%

Source: Refinitiv and *adjusted Inderes forecasts / Inderes. NB: The market value used by Inderes does not take into account treasury shares held by the company.

Valuation 3/4

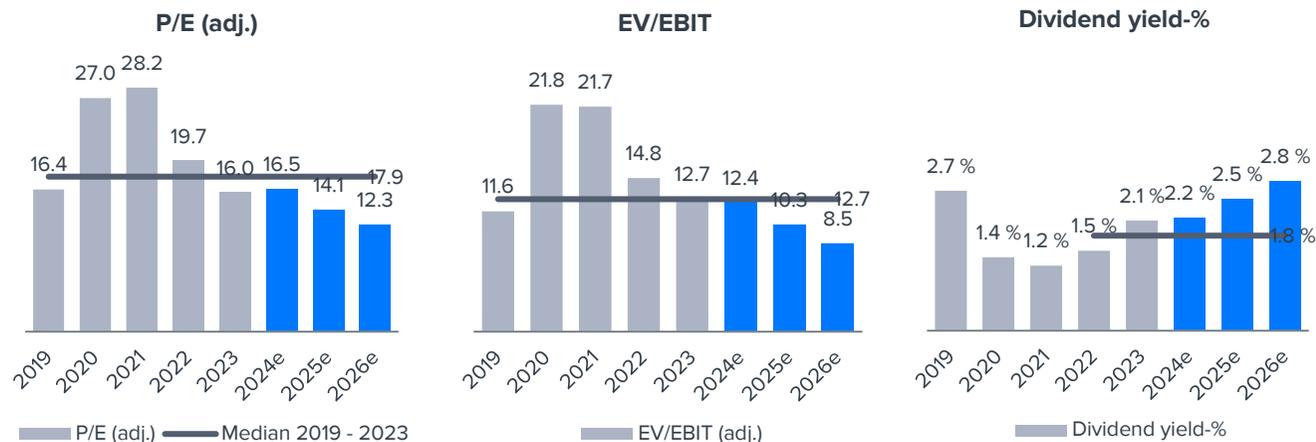
Multiple-based valuation

Gofore can currently be monitored well through all performance growth indicators. Given the company's strong balance sheet, we prefer the EV/EBIT ratio, but the P/E ratio is also a good checkpoint, especially in a market situation where M&A is more challenging. For comparability purposes, we adjust the result for goodwill amortization and PPA depreciation (EBITA).

With Gofore's strong performance, valuation multiples have been very high between 2018 and 2022 (EV/EBIT 12x-22x and 17x on average). However, in our view, valuations of growth companies were partly in a bubble in 2020-2021, supported by zero interest rates. After a couple of years in which the share price was practically flat, the valuation has fallen as the company's strong earnings growth has continued. The EV/EBIT and P/E multiples for 2023 are 13x and 16x, respectively. For 2024e, the corresponding multiples are 12x and 17x. In absolute terms, given the company's track record, solid business, strong return on capital and growth prospects, we believe the valuation multiples are easily attractive.

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	7.50	17.2	22.6	22.4	22.4	23.2	23.2	23.2	23.2
Number of shares, millions	13.6	14.0	15.1	15.5	15.7	15.7	15.7	15.7	15.7
Market cap	105	241	341	347	351	363	363	363	363
EV	89	235	317	325	340	340	321	300	276
P/E (adj.)	16.4	27.0	28.2	19.7	16.0	16.5	14.1	12.3	10.7
P/E	20.0	34.9	37.5	28.4	19.2	20.5	16.9	14.5	12.3
P/B	3.2	6.7	5.6	4.4	3.8	3.5	3.1	2.7	2.4
P/S	1.6	3.1	3.3	2.3	1.9	1.8	1.7	1.5	1.3
EV/Sales	1.4	3.0	3.0	2.2	1.8	1.7	1.5	1.2	1.0
EV/EBITDA	9.7	19.1	18.6	14.3	11.2	10.8	9.1	7.6	6.2
EV/EBIT (adj.)	11.6	21.8	21.7	14.8	12.7	12.4	10.3	8.5	6.9
Payout ratio (%)	55.0 %	48.8 %	46.5 %	43.1 %	40.3 %	44.1 %	42.4 %	41.1 %	39.3 %
Dividend yield-%	2.7 %	1.4 %	1.2 %	1.5 %	2.1 %	2.2 %	2.5 %	2.8 %	3.2 %

Source: Inderes



Valuation 4/4

DCF reflects clear undervaluation and longer-term potential

Our DCF model indicates a value of EUR 28.4 per share. We forecast growth of 5-12% in 2024-30 (6-year historical organic average 26%) and terminal growth of 2.0% (previously 2.5%). In addition, we assume an average EBITA margin of 14% between 2024 and 2027 (2018-2023 average 14% and then gradually decreasing to 12% in the term. We have used a WACC of 8.8%, with a return on equity of 10%. A relatively "normal" portion of the value is in the terminal (55%) and the steady solid history provides better support for the DCF going forward. The DCF also shows that the stock is very attractively priced in the long term.

Components of the expected return for the share

We look at the expected return on the Gofore share in terms of earnings growth, dividend yield and accepted valuation multiples. We estimate that the company has the potential for annual earnings growth of around 14% in the coming years (compared to the 2024e level), mainly driven by revenue growth. We also expect the company's growth outlook for 2026 onwards to remain bright. With our conservative dividend forecasts at the lower end of the guidance range (at least 40% of earnings), the dividend yield is around 2%. The company's strong cash flow bodes well for a relatively high dividend payout, but we expect the company to continue to pursue inorganic growth and therefore our dividend forecasts are low. In our view, the valuation level of the stock is also very attractive relative to its long-

term value creation potential and historical evidence. Thus, the expected annual return, consisting of expected earnings growth, dividend and upside multiples, is around 20%. This is a much higher level than the return on equity we use, which supports a positive view, perhaps even a stronger one. The IT services sector is still facing a challenging market situation, which curbs the strongest willingness to buy.

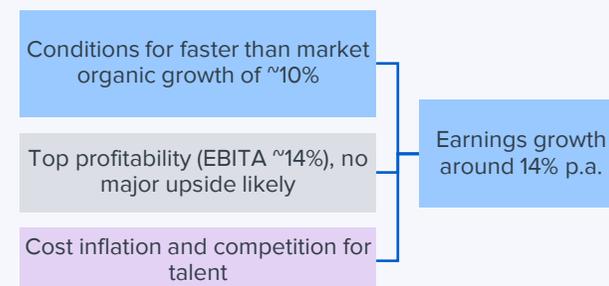
Positive option for acquisitions

Gofore has made several successful acquisitions in recent years. The integration of the acquisitions has gone well and the new entity has continued to show good organic growth and profitability after the acquisitions. We believe the company is well placed to create shareholder value through acquisitions, given its high valuation relative to its sector and excellent acquisition history. We do not include future acquisitions in our forecasts due to the high level of uncertainty in modeling them. However, we see the M&A option as a positive driver for the company's valuation.

TSR drivers 2024-2026

■ Positive ■ Neutral ■ Negative

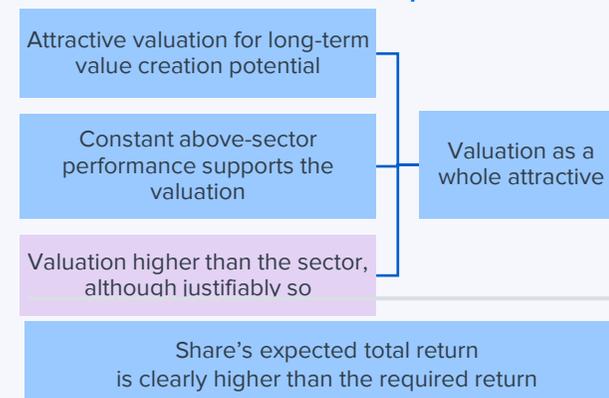
Performance



Dividend yield



Valuation multiples



Peer group valuation

Peer group valuation Company	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%	
			2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e
Digia*	144	158	8.4	7.1	7.0	5.9	0.78	0.69	10.6	9.1	3.5	3.9
Digital Workforce*	36	20	20.7	7.0	17.1	6.5	0.78	0.62	42.3	16.7		
Loihde*	75	61	13.5	9.8	5.3	4.4	0.47	0.43	19.0	14.9	2.4	2.6
Innofactor*	48	53	7.7	6.2	5.3	4.5	0.63	0.55	9.6	7.9	6.0	6.8
Netum Group*	33	42	11.1	9.4	9.8	8.4	0.88	0.80	11.1	9.7	4.6	5.4
Siili Solutions*	76	74	8.2	7.1	5.9	5.2	0.59	0.53	12.2	10.8	3.2	3.8
Solteq*	14	38	13.1	10.0	7.5	6.7	0.68	0.62	37.6	13.0		
Tietoevry*	2593	3472	9.6	8.8	8.1	7.6	1.20	1.14	10.1	9.4	6.9	7.1
Vincit*	48	36	6.9	4.5	5.9	4.0	0.38	0.33	12.1	8.3	5.1	6.9
Witted Megacorp*	26	18	12.1	5.7	12.4	5.6	0.32	0.25	19.2	11.2		
Bouvet	556	590	15.3	13.4	12.3	11.0	1.68	1.52	18.4	16.4	5.0	5.8
CombinedX	63	60	7.6	6.9	5.5	5.1	0.82	0.78	10.7	9.7		
Avensia AB	25	27	10.0	7.5	6.4	5.4	0.72	0.68	11.7	8.7	4.0	6.7
Knowit	369	457	15.2	11.3	7.5	6.5	0.73	0.69	17.0	12.0	3.8	4.8
Netcompany Group	2040	2331	22.0	17.9	15.8	13.4	2.64	2.39	26.2	20.5		
Epam Systems Inc	16744	14821	22.0	18.4	19.6	16.5	3.30	2.89	30.5	25.9		
Endava PLC	3720	3607	26.4	18.6	21.7	15.4	3.88	3.34	32.8	23.8		
Kainos Group PLC	1646	1519	18.0	15.8	16.6	14.8	3.22	2.95	24.6	21.9	2.2	2.5
Globant SA	8830	8825	26.6	21.7	18.8	16.1	3.88	3.28	33.9	28.1		
Accenture PLC	228822	223028	23.4	21.4	19.3	17.6	3.63	3.37	30.0	27.3	1.3	1.5
Atos SE	262	3613	7.5	7.7	3.8	3.2	0.34	0.34	1.0	0.7		
IBM	159127	199214	18.5	17.3	13.4	12.9	3.36	3.22	18.6	17.6	3.6	3.7
CGI Inc	24804	26059	15.6	14.7	12.7	12.0	2.55	2.44	20.2	18.4		
Wipro Ltd	31290	28996	19.1	17.2	15.5	14.2	2.88	2.75	25.7	22.8	1.1	1.8
Gofore (Inderes)	363	340	12.4	10.3	10.8	9.1	1.71	1.47	16.5	14.1	2.2	2.5
Average (all)			14.9	11.9	11.4	9.3	1.68	1.52	20.0	15.1	3.7	4.4
Median (all)			14.6	10.0	11.2	7.6	0.88	0.80	18.6	13.6	3.6	3.9
Diff-% to median (all)			-15%	3%	-4%	20%	94%	84%	-11%	3%	-41%	-36%
Median (international)			18.3	16.5	14.5	13.2	2.8	2.6	22.4	19.4	2.2	2.5
Diff-% to median (international)			-32%	-38%	-26%	-31%	-38%	-43%	-26%	-28%	-4%	0%
Median (Finland)			11.1	7.1	7.5	5.9	0.68	0.62	12.2	10.8	4.1	4.7
Diff-% to median (Finland)			12%	44%	44%	53%	151%	137%	36%	30%	-47%	-46%

Income statement

Income statement	2021	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	105	150	49.2	47.6	40.8	51.7	189	50.6	51.5	41.9	54.8	199	218	244	274
EBITDA	17.1	22.7	8.8	6.2	5.3	10.1	30.4	7.2	8.1	7.0	9.3	31.6	35.4	39.6	44.2
Depreciation	-4.9	-6.1	-1.7	-1.7	-1.9	-2.1	-7.4	-2.1	-2.1	-2.1	-2.1	-8.5	-8.5	-8.6	-8.6
EBITA (adj.)	14.6	22.0	8.3	5.4	4.7	8.3	26.7	6.1	7.0	5.9	8.3	27.3	31.3	35.4	40.0
EBIT	12.2	16.6	7.1	4.5	3.4	8.0	23.0	5.1	5.9	4.9	7.2	23.1	26.9	31.0	35.6
Net financial items	-0.9	-0.8	-0.2	0.0	-0.1	0.2	-0.1	0.1	0.0	0.0	-0.1	0.0	0.8	1.2	1.7
PTP	11.3	15.9	7.0	4.4	3.3	8.2	22.9	5.2	5.9	4.9	7.1	23.1	27.6	32.2	37.3
Taxes	-2.3	-3.7	-1.5	-1.0	-0.8	-1.3	-4.6	-1.2	-1.4	-1.1	-1.6	-5.3	-6.2	-7.1	-7.8
Net earnings	9.1	12.2	5.4	3.4	2.5	6.8	18.3	4.0	4.6	3.8	5.5	17.8	21.4	25.1	29.5
EPS (adj.)	0.80	1.13	0.42	0.28	0.24	0.45	1.40	0.32	0.36	0.31	0.42	1.41	1.65	1.88	2.16
EPS (rep.)	0.60	0.79	0.35	0.22	0.16	0.44	1.17	0.25	0.29	0.24	0.35	1.13	1.37	1.60	1.88

Key figures	2021	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	34.1 %	43.5 %	38.8 %	28.1 %	28.8 %	13.1 %	26.2 %	2.9 %	8.4 %	2.6 %	5.9 %	5.0 %	9.9 %	11.9 %	12.0 %
Adjusted EBIT growth-%		50.1 %	62.4 %	-3.7 %	28.5 %	9.1 %	21.5 %	-26.2 %	29.7 %	25.8 %	-0.1 %	2.4 %	14.4 %	13.3 %	12.8 %
EBITDA-%	16.3 %	15.2 %	17.9 %	13.0 %	13.0 %	19.6 %	16.1 %	14.2 %	15.6 %	16.7 %	17.0 %	15.9 %	16.2 %	16.2 %	16.1 %
Adjusted EBIT-%	14.0 %	14.7 %	16.9 %	11.4 %	11.6 %	16.0 %	14.1 %	12.1 %	13.6 %	14.2 %	15.1 %	13.8 %	14.3 %	14.5 %	14.6 %
Net earnings-%	8.7 %	8.2 %	11.1 %	7.2 %	6.2 %	13.2 %	9.7 %	7.8 %	8.9 %	9.0 %	10.0 %	8.9 %	9.8 %	10.3 %	10.8 %

Source: Inderes. 2020 and 2021 figures adjusted to IFRS.

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	75.7	87.1	82.9	79.0	75.1
Goodwill	47.7	49.1	49.1	49.1	49.1
Intangible assets	22.5	21.7	17.7	13.6	9.5
Tangible assets	4.3	15.5	15.5	15.6	15.8
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	0.9	0.7	0.7	0.7	0.7
Deferred tax assets	0.3	0.2	0.0	0.0	0.0
Current assets	72.8	79.9	89.1	98.6	124
Inventories	0.0	0.5	0.0	0.0	0.0
Other current assets	3.3	3.6	3.6	3.6	3.6
Receivables	24.2	36.7	35.8	39.3	44.0
Cash and equivalents	45.2	39.2	49.7	55.6	76.7
Balance sheet total	148	167	172	178	199

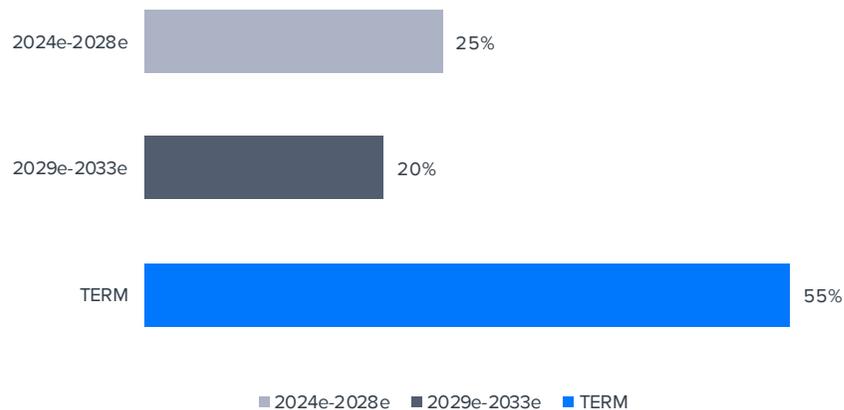
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Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	79.8	93.5	104	118	134
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	28.8	39.2	49.6	63.2	79.2
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	50.4	53.8	53.8	53.8	53.8
Minorities	0.5	0.5	0.5	0.5	0.5
Non-current liabilities	24.0	25.9	14.6	10.0	10.0
Deferred tax liabilities	5.9	5.3	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	14.9	19.8	14.6	10.0	10.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	3.2	0.9	0.0	0.0	0.0
Current liabilities	44.7	47.6	53.6	50.1	55.8
Interest bearing debt	6.7	7.2	9.8	2.0	2.0
Payables	37.9	40.5	43.7	48.1	53.8
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	148	167	172	178	199

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	26.2 %	5.0 %	9.9 %	11.9 %	12.0 %	8.0 %	6.0 %	6.0 %	5.0 %	5.0 %	2.0 %	2.0 %
EBIT-%	12.2 %	11.6 %	12.3 %	12.7 %	13.0 %	12.5 %	12.0 %	12.0 %	12.0 %	12.0 %	12.0 %	12.0 %
EBIT (operating profit)	23.0	23.1	26.9	31.0	35.6	37.0	37.6	39.9	41.9	43.9	44.8	
+ Depreciation	7.4	8.5	8.5	8.6	8.6	7.0	5.3	5.1	5.1	5.0	5.0	
- Paid taxes	-5.1	-10.4	-6.2	-7.1	-7.8	-7.7	-8.0	-8.5	-9.0	-9.5	-9.7	
- Tax, financial expenses	0.0	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	
+ Tax, financial income	0.0	0.3	0.3	0.4	0.5	0.4	0.5	0.6	0.7	0.8	0.9	
- Change in working capital	-10.7	4.6	0.8	1.0	1.2	0.9	0.7	0.8	0.7	0.7	0.3	
Operating cash flow	14.6	25.8	30.1	33.8	37.9	37.5	36.1	37.8	39.2	40.9	41.2	
+ Change in other long-term liabilities	-2.3	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-19.0	-4.5	-4.6	-4.6	-4.7	-4.8	-4.9	-4.9	-5.0	-5.0	-5.3	
Free operating cash flow	-6.7	20.4	25.6	29.2	33.1	32.6	31.2	32.8	34.2	35.9	35.8	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-6.7	20.4	25.6	29.2	33.1	32.6	31.2	32.8	34.2	35.9	35.8	542
Discounted FCFF		19.0	21.9	23.0	24.0	21.7	19.1	18.5	17.7	17.1	15.7	237
Sum of FCFF present value		434	415	394	371	347	325	306	287	270	253	237
Enterprise value DCF		434										
- Interest bearing debt		-27.0										
+ Cash and cash equivalents		39.2										
-Minorities		-1.8										
-Dividend/capital return		0.0										
Equity value DCF		445										
Equity value DCF per share		28.4										

Cash flow distribution

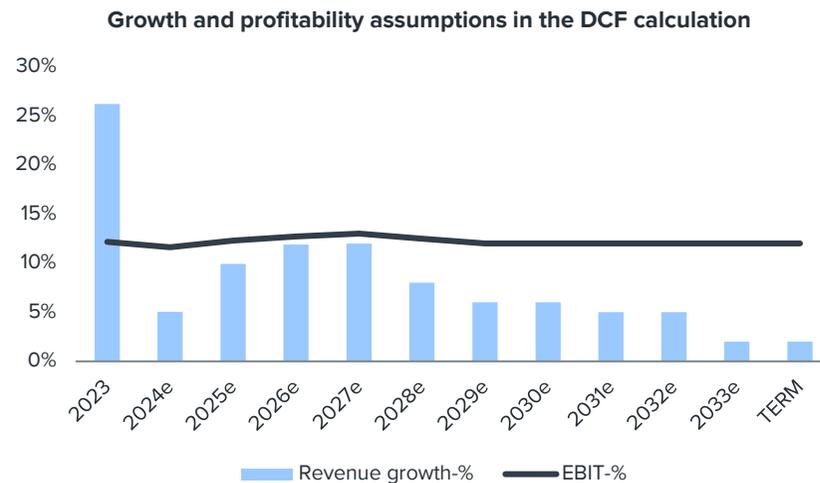
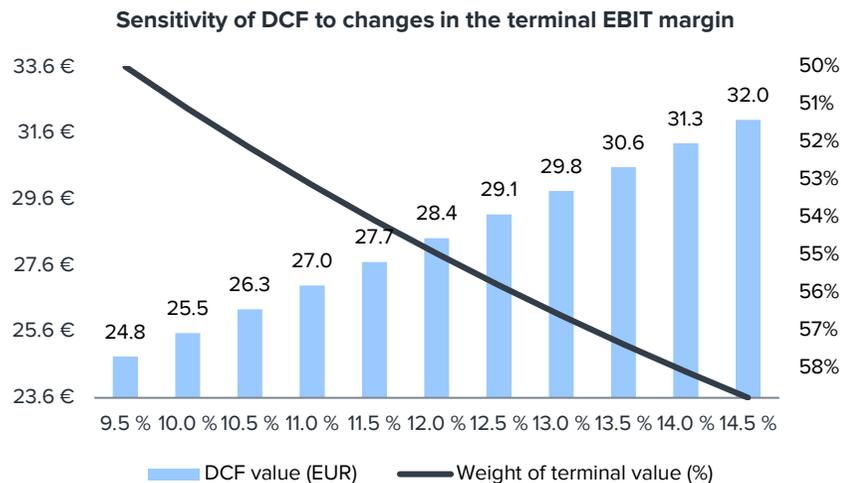
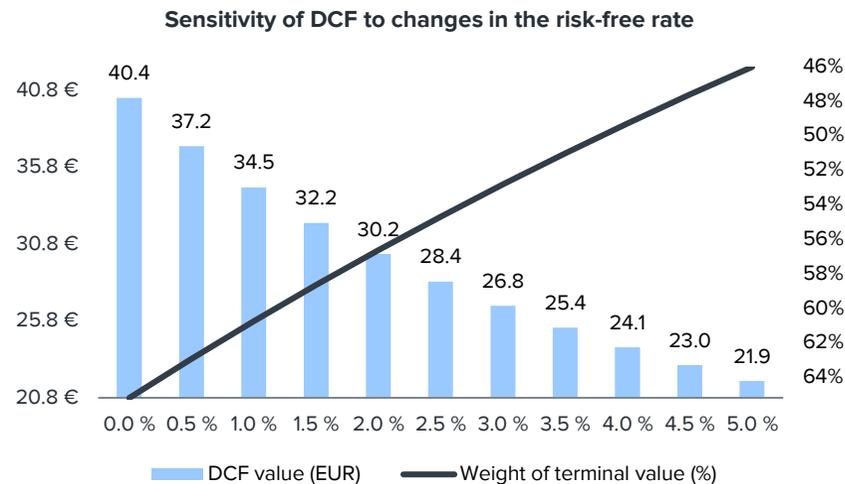
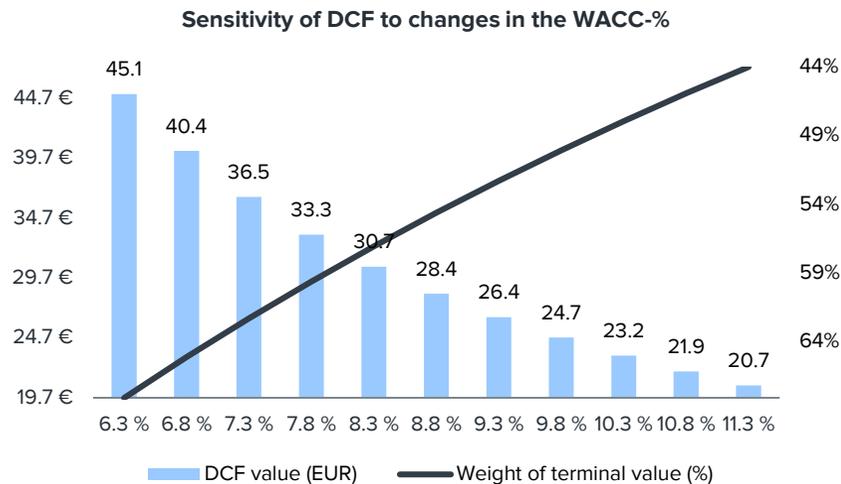


WACC

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	5.0 %
Equity Beta	1.25
Market risk premium	4.75%
Liquidity premium	1.50%
Risk free interest rate	2.5 %
Cost of equity	9.9 %
Weighted average cost of capital (WACC)	8.8 %

Source: Inderes

DCF sensitivity calculations and key assumptions in graphs



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	104.5	149.9	189.2	198.8	218.5	EPS (reported)	0.60	0.79	1.17	1.13	1.37
EBITDA	17.1	22.7	30.4	31.6	35.4	EPS (adj.)	0.80	1.13	1.40	1.41	1.65
EBIT	12.2	16.6	23.0	23.1	26.9	OCF / share	0.72	1.81	0.93	1.65	1.92
PTP	11.3	15.9	22.9	23.1	27.6	FCF / share	0.28	-0.47	-0.43	1.30	1.63
Net Income	9.1	12.2	18.3	17.8	21.4	Book value / share	4.05	5.11	5.94	6.60	7.47
Extraordinary items	-2.4	-5.4	-3.7	-4.3	-4.4	Dividend / share	0.28	0.34	0.47	0.50	0.58
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	101.9	148.4	167.1	172.0	177.6	Revenue growth-%	34%	43%	26%	5%	10%
Equity capital	61.3	79.8	93.5	103.9	117.5	EBITDA growth-%	38%	33%	34%	4%	12%
Goodwill	26.9	47.7	49.1	49.1	49.1	EBIT (adj.) growth-%	36%	50%	21%	2%	14%
Net debt	-25.2	-23.6	-12.3	-25.3	-43.6	EPS (adj.) growth-%	26%	41%	23%	1%	17%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	16.3 %	15.2 %	16.1 %	15.9 %	16.2 %
EBITDA	17.1	22.7	30.4	31.6	35.4	EBIT (adj.)-%	14.0 %	14.7 %	14.1 %	13.8 %	14.3 %
Change in working capital	-4.1	6.1	-10.7	4.6	0.8	EBIT-%	11.7 %	11.1 %	12.2 %	11.6 %	12.3 %
Operating cash flow	10.9	28.0	14.6	25.8	30.1	ROE-%	18.7 %	17.4 %	21.2 %	18.1 %	19.5 %
CAPEX	-6.0	-38.5	-19.0	-4.5	-4.6	ROI-%	19.0 %	18.8 %	20.8 %	19.4 %	21.9 %
Free cash flow	4.2	-7.3	-6.7	20.4	25.6	Equity ratio	60.2 %	53.7 %	56.0 %	60.4 %	66.2 %
Valuation multiples	2021	2022	2023	2024e	2025e	Gearing	-41.1 %	-29.5 %	-13.1 %	-24.4 %	-37.1 %
EV/S	3.0	2.2	1.8	1.7	1.5						
EV/EBITDA (adj.)	18.6	14.3	11.2	10.8	9.1						
EV/EBIT (adj.)	21.7	14.8	12.7	12.4	10.3						
P/E (adj.)	28.2	19.7	16.0	16.5	14.1						
P/B	5.6	4.4	3.8	3.5	3.1						
Dividend-%	1.2 %	1.5 %	2.1 %	2.2 %	2.5 %						

Source: Inderes

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

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
10/14/2019	Reduce	7.80 €	7.72 €
2/20/2020	Accumulate	8.50 €	7.66 €
4/14/2020	Accumulate	8.00 €	7.04 €
6/8/2020	Accumulate	9.00 €	8.36 €
8/17/2020	Buy	10.0 €	8.5 €
9/4/2020	Buy	11.0 €	9.1 €
10/14/2020	Accumulate	13.5 €	12.4 €
11/23/2020	Accumulate	14.5 €	13.8 €
11/23/2020	Reduce	14.5 €	17.4 €
1/15/2021	Reduce	15.5 €	19.1 €
3/4/2021	Accumulate	19.0 €	17.7 €
3/8/2021	Accumulate	20.0 €	18.6 €
4/20/2021	Reduce	19.0 €	22.6 €
8/16/2021	Reduce	18.0 €	20.6 €
10/15/2021	Reduce	20.0 €	22.9 €
2/23/2022	Reduce	21.0 €	22.6 €
3/1/2022	Reduce	23.0 €	24.6 €
3/25/2022	Accumulate	23.0 €	21.5 €
4/21/2022	Accumulate	25.0 €	23.3 €
8/16/2022	Reduce	25.5 €	25.0 €
10/19/2022	Accumulate	25.0 €	22.0 €
9.11.10.2022	Accumulate	26.0 €	21.9 €
2/20/2023	Accumulate	30.0 €	26.6 €
4/26/2023	Accumulate	31.0 €	26.2 €
5/11/2023	Buy	31.0 €	25.0 €
7/18/2023	Buy	29.0 €	22.4 €
9/12/2023	Buy	27.5 €	20.9 €
10/19/2023	Buy	26.5 €	21.4 €
12/15/2023	Accumulate	26.0 €	22.0 €
2/21/2024	Accumulate	26.0 €	23.2 €



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